



Government of the Republic of North Macedonia
Ministry of Labour and Social Policy



NATIONAL EMPLOYMENT STRATEGY 2021-2027

with Employment Action Plan 2021-2023



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Skopje, 2021

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INTRODUCTION

Ensuring decent employment opportunities for all men and women in Republic of North Macedonia is a priority of the Government of the Republic of North Macedonia, even more so during the turbulent times engendered by the Covid-19 pandemic. The current crisis will have lasting effects on the labour market, which the National Employment Strategy 2021-2027 will address through a series of concerted policy actions touching upon education and training, economic and enterprise development and labour market policies.

The policy interventions presented herewith are the results of the formulation work carried out by the Inter-ministerial working group chaired by the Ministry of Labour and Social Policy and comprising representatives of the Ministries of Education and Science, of Economy, of Finance, as well as the Agency for Youth and Sports, the Employment Service Agency of the Republic of North Macedonia, the Fund for Innovation and Technology Development and the North Macedonian Development Bank.

The National Employment Strategy (NES) is aimed at addressing both the short-term labour market consequences of the Covid-19 pandemic, as well as the structural challenges affecting employment growth. The timeframe of the implementation of the National Employment Strategy is from 2021 to 2027 in line with the programming cycle of the Government of the Republic of North Macedonia and of the European Union. Given the high level of uncertainty that currently surrounds economic and labour market recovery projections, the implementation of the Strategy is divided into two phases. The first phase – which will last from 2021 to 2023 – is primarily aimed at mitigating the negative employment consequences of the Covid-19 pandemic and at introducing the necessary reforms to launch the second phase (from 2024 to 2027) of the policy, which is more forward-looking and geared towards convergence with the European Union employment strategy. In 2024, before the launching of the second phase of the Strategy, the Government of the Republic of North Macedonia will take stock of the progress made, with a view to adjust the policy interventions planned, should this be required.

The National Employment Strategy is accompanied by the Youth Guarantee, whose implementation plan will be reformulated in 2022 to take into consideration the progress made, the impact of the pandemic on youth employment and the adjustments introduced by the EU *Youth Support Programme* (or Reinforced Youth Guarantee). This is also reflected in the three-year Action Plan attached to the Strategy.

The National Employment Strategy 2021-2027 - presented henceforth and developed with the technical assistance of the International Labour Office (ILO) – considers the economic and labour market developments the Republic of North Macedonia experienced in the last two decades (2008-2019) to identify the persistent structural challenges to be tackled. The Strategy outlines three strategic objectives to be pursued for the promotion of full, productive and freely chosen employment, namely: (i) improve the quality of education and training outcomes for all; (ii) enhance the role of economic and enterprise development policies in generating decent jobs; and (iii) strengthen the inclusiveness of labour market policies. It is expected that the

pursuing of such policy objectives will contribute to a reduction of the vertical skills mismatch, the increase of the participation of adults in training, the lowering of unemployment among youth and adults, the reduction of the gender employment gap and the lowering of the share of people at risk of poverty and social exclusion.

1. OVERVIEW OF THE ECONOMIC AND SOCIAL CONTEXT

1.1. Macroeconomic developments

In the last three decades Republic of North Macedonia has enjoyed positive economic growth, averaging 3.5 per cent annually in the 2000s and 2.5 per cent in the 2010s. The low employment intensity of growth (averaging 1.7 percentage point increase in employment-to-population ratios in the period 2011-2019 compared to 2.7 per cent output growth) slowed the convergence of the country Gross Domestic Product (GDP) per capita towards the average of European Union (EU) countries. In 2019, the country's GDP per capita was equivalent to 38 per cent of the EU-27(2020), a modest increase from the 30 per cent recorded in 2007.¹ Output and employment growth started to converge only after the 2008 economic crisis (at around 2.5 per cent). However, research shows that the country needs to achieve durable rates of 5 per cent growth per year to close the GDP per capita gap with the EU by 2050.²

In the period 1995-2005, exports and private consumption - fuelled by foreign direct investments (FDI), remittance inflows and credit expansion- were the main drivers of growth. This period was characterised by relative macroeconomic stability and a shift in value added from agriculture and industry towards services. In the following period - and in a context of low inflation - economic growth was sustained by private consumption, driven by increasing wages (in both the private and public sector), pensions and remittance inflows (ranging from 13 to 21 per cent of GDP in the decade 2004-2014).³

The economy experienced a major structural shift in the 2010s. The 2007 *"Invest in Macedonia"* campaign - aimed at creating a friendlier business environment and attracting foreign investment - changed the structure of both export and industry.⁴ After 2009, the pace of industrialization accelerated to around 5 per cent annually (Figure 1, right panel) and the structure of export shifted from metal and textiles towards transport equipment, investment products and industrial purchases (Figure 1, left panel).

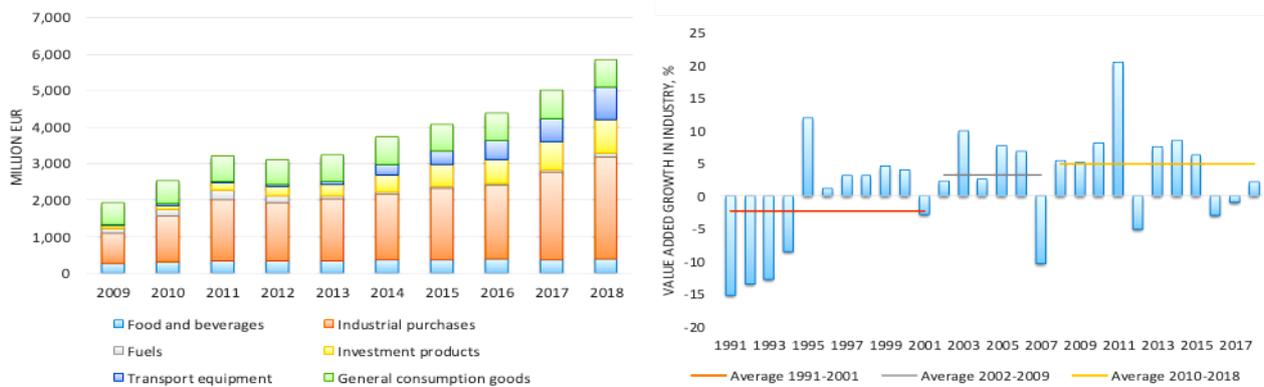
1 The GDP is expressed in purchasing power standards (PPS at 2011 prices). Eurostat: *Purchasing power adjusted GDP per capita*, 2019 [online code: SDG_10_10]

2 B. Jovanovic and R. Kabashi, 2011. "Потенцијален Производ И Производен Јаз За Македонија Според Неколку Методи На Пресметка," Working Papers 2011-04, National Bank of the Republic of North Macedonia.

3 International Monetary Fund (IMF): *Former Yugoslav Republic of Macedonia. Selected issues. Country report 14/232* (IMF, Washington, D.C., 2014)

4 The *Invest in Macedonia* scheme included tax reductions, improved contracts enforcement, and a regulatory guillotine.

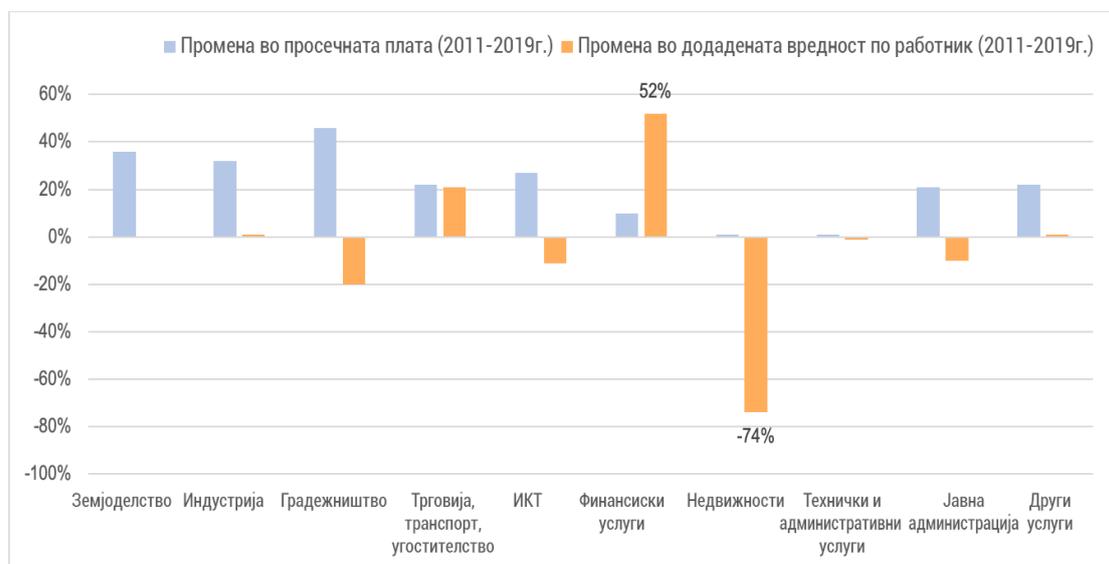
Figure 1—Trends in industry (right panel) and export (left panel), 1991-2018



Source: World Bank: World development indicators, 1991-2018, <https://data.worldbank.org/country/MK>

Such a structural shift is also reflected in the increasing contribution of manufacturing to value added (from 9.9 per cent of GDP in 2010 to 13.3 per cent in 2018) compared to the decline of agriculture (from over 10 per cent to 8.5 per cent of GDP). The overall contribution of services to value added remained substantially unchanged in the 2010-2018 period (with an overall contribution to value added of 55 per cent of GDP), but with increasing shares for the wholesale and retail trade sector (from 15.6 per cent to 19.6 per cent) and declining ones for real estate, public administration and defence.⁵ In the period 2011-2019, the value added per employee - as a measure of sectoral productivity - increased only in the trade and finance sectors, while in all other sectors productivity remained stagnant or even decreased despite raising wages (Figure 2).⁶

Figure 2 – Percentage changes in value added per worker and in average wages, by economic sectors (2011-2019)



Source: State Statistical Office of North Macedonia

5 State Statistical Office of North Macedonia: Gross Domestic Product by production approach, by NKD Rev.2, 2010-2018, http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_BDP_BDPTrimesecni_BDPsporedESS2010

6 Economic and labour market trends are presented, as much as feasible, for the period 2008-2019. The selection of 2019 as last reporting year is due to the erratic dynamics of economic and labour market data in 2020 due to the Covid-19 pandemic. Data for 2020 are presented in paragraph 2.3.7.

In order to mitigate the impact of the global financial crises in 2008-2009 and 2011–2012, the country enacted a countercyclical fiscal policy centred on public investment, higher wages in the public sector and pension increases accompanied by an accommodative monetary policy. The fiscal stimulus supported economic and employment growth but also led to a surge in public debt, which increased from about 23 per cent of GDP in 2007 to around 40 per cent in 2018.⁷ The new Government of the Republic of North Macedonia elected in 2017 adopted a fiscal strategy aimed at containing fiscal risks and reducing the public debt. However, the 2018 decline of the general government deficit was largely due to spending under-execution, foremost in capital investment (Table 1).

The structure of government spending has not changed significantly in the last decade, mainly due to the rigid structure of social spending. In the period 2014-2019, revenues from the Value Added Tax (VAT) and social security contributions amounted to 7.5 per cent and 8.9 per cent of GDP, respectively.

Table 1 - Key macroeconomic indicators and projections (2014-2022)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Projections								
Real GDP growth (% change)	3.6	3.9	2.8	1.1	2.9	3.2	-4.5	4.6	3.7
Private consumption	2.2	4.4	3.9	2.1	3.7	3.5	-5.1	5.0	3.8
Public consumption	3.0	3.9	-4.9	-2.6	2.0	-0.8	10.1	3,6	1,2
Fixed investment (% change)	10.7	8.3	12.5	-2.2	-7.3	9.5	-10.8	5.4	6.8
Export of goods and services (% change)	16.5	8.5	9.1	8.3	15.6	7.2	-10.9	8.0	7.2
Import of goods and services (% change)	14.1	9.9	11.1	5.2	9.1	8.9	-9.9	7.0	6.5
General government balance (% GDP)	-4.2	-3.5	-2.7	-2.7	-1.8	-2.0	-8.1	-3.1	-2.8
Revenue	27.7	28.8	28.5	29.1	28.5	29.6	28.6	29.3	29.4
Expenditure	31.9	32.3	31.2	31.8	30.3	31.5	36.7	32.4	32.2
General government debt (% GDP)	38.1	38.1	39.9	39.4	40.4	40.7	51.2	45.9	46.0
Current account balance (% GDP)	-0.5	-2.0	-2.9	-1.0	-0.1	-3.3	-3.5	-1.3	-1.8
Foreign Direct Investment (% of GDP)	2.4	2.4	3.5	1.8	5.7	3.6	2.2	3.3	3.5

Source: State Statistical Office of North Macedonia: *Gross Domestic Product (various years)*; Ministry of Finance; *International Monetary Fund (IMF): Request for purchase under the rapid financing instrument* (IMF, Washington D.C., Country report No 20/113, 2020); Ministry of Finance: Statistical indicators.

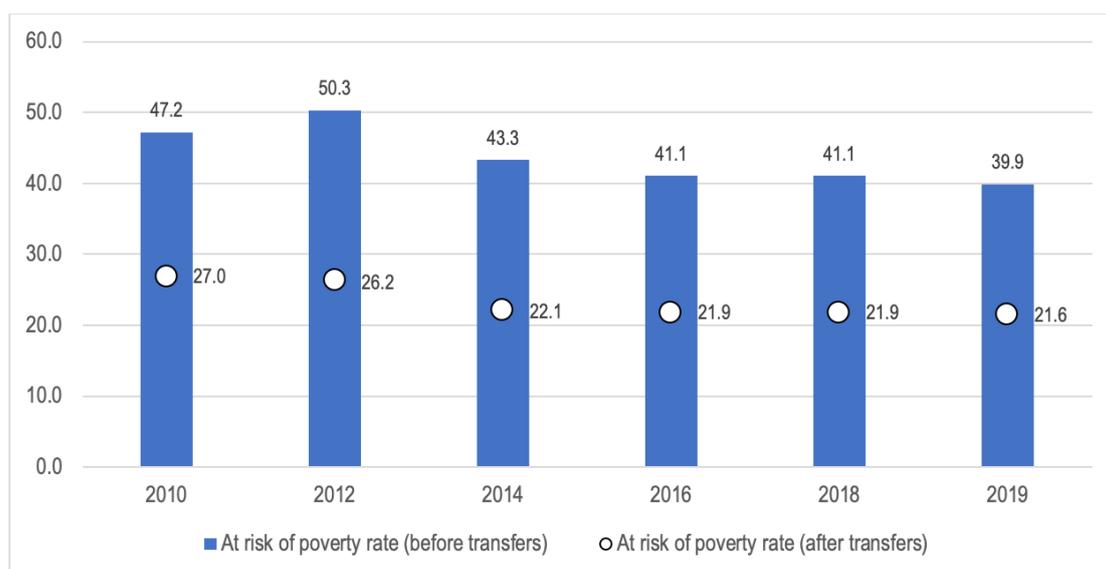
⁷ World Bank: *Country partnership framework for the Republic of North Macedonia 2019-2023* (World Bank, Washington D.C., 2019).

Small and medium-size enterprises (SMEs) represent the near totality of companies in the Republic of North Macedonia (99.7 per cent in 2017) and employ approximately 74 per cent of all workers.⁸ Micro enterprises (firms with less than 10 employees) represent 90 per cent of all firms, they employ approximately 31.6 per cent of all workers, and generate 20.5 per cent of value added. Most enterprises operate in the trade sector (40 per cent of all firms). Annual SME productivity - measured as value added per person employed - is only 9,360 euro, five times lower the average of 43,600 euro achieved by SMEs in the European Union. The two fastest growing SME sectors in the country in the period 2012-2017 were information and communication technology (with 64.4 per cent value added and 66 per cent employment growth), and professional activities (with increases of 40 per cent in value added and 42 per cent in employment).⁹

1.2. Poverty, social inclusion and equality

Positive economic growth accompanied by increasing job opportunities, raising wages and social outlays contributed to the reduction of poverty from 27 per cent in 2010 to 21.5 per cent in 2015.¹⁰ Since 2015, the share of population living in poverty remained stable at around 22 per cent (Figure 3). The groups most at risk of poverty are families with children (45.3 per cent), single parent households (42.8 per cent), and unemployed persons (41.7 per cent). Employed individuals and pensioners have the lowest poverty rates (around 10 per cent), even though working poverty (i.e., the share of workers earning below the poverty line) was around 8.3 per cent in 2019, due the high shares of workers engaged in low-productivity and low-paid jobs.

Figure 3 – At-risk of poverty rate (before and after transfers), 2010-2019



Source: State Statistical Office of North Macedonia

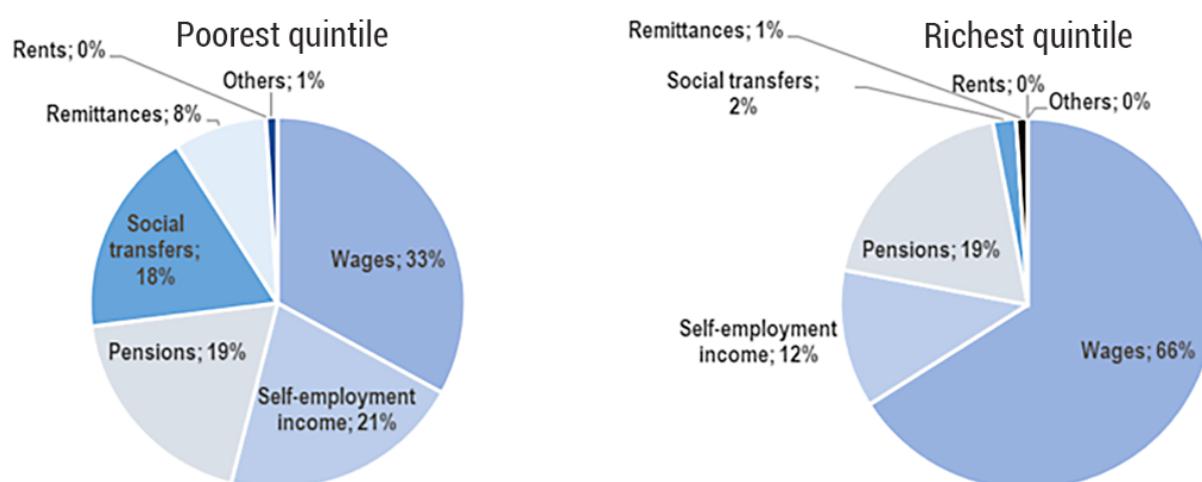
⁸ European Commission: 2019 SBA Factsheet North Macedonia, https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-11/sba-fs-2019_north-macedonia.pdf

⁹ Ibidem.

¹⁰ The poverty rate is calculated as the share of persons living below 60 per cent of the median equivalent income (after transfers).

The slow progress made in reducing poverty in the last few years can be attributed to the low effectiveness of the social assistance system and the low work intensity of poorest households. Whereas social transfers (excluding pensions) reduce the number of individuals at risk of poverty by approximately 32.4 per cent in EU countries, in the Republic of North Macedonia social transfers reduce the poverty risk by only 14.9 per cent.¹¹ The reform of the social protection system enacted in 2019 increased the amount of the benefit and it is expected to improve targeting of those most at risks, as research shows that in 2016 only 34 per cent of the poorest decile households received any type of social assistance.¹²

Figure 4 – Total disposable income of the poorest and richest households, by type of income, 2018



Source: State Statistical Office of North Macedonia: *Survey on Income and Living Conditions 2018*

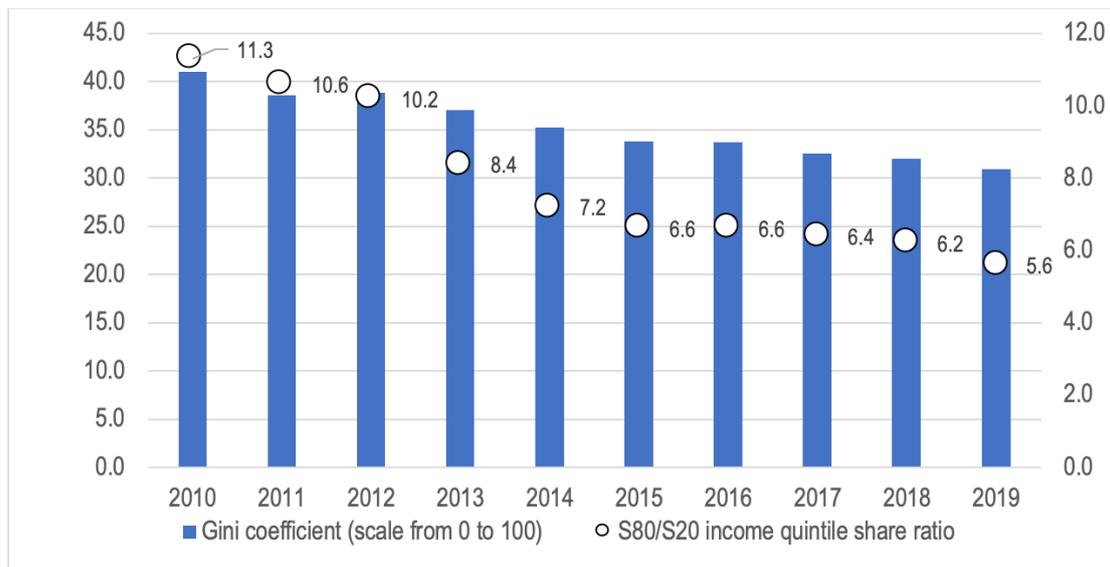
The low work intensity of poor households is shown by the disaggregation of the disposable income by household quintiles (Figure 4). In 2018, the income deriving from wages represented only 33 per cent of the total disposable income of household in the poorest quintile (with another 26 per cent represented by social transfers and remittances), while for the richest quintile income from wages represented over 66 per cent of the total disposable income.

The distribution across income brackets and the Gini coefficient shows the progress made in reducing inequality. In 2019, however, the income shares of the 20 per cent richest segment of the population was still 5.6 times higher than that of the poorest segment of the population (Figure 5).

¹¹ Eurostat: *Impact of social transfers (excluding pensions) on poverty reduction*, various years, (online codes ILC_LI02 , ILC_LI10)

¹² World Bank: FYR Macedonia: Special Focus Note on Social Assistance, 2018 <https://documents1.worldbank.org/curated/en/720171542965871345/pdf/132397-ACS.pdf>

Figure 5 – Inequality and income distribution (2010-2019)



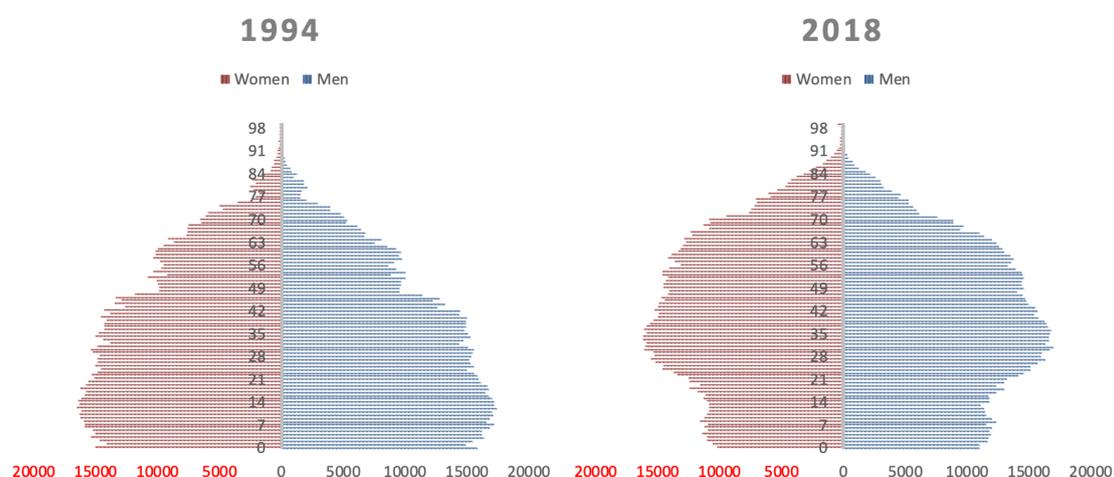
Source: State Statistical Office of North Macedonia: Survey on Income and Living Condition, various years

2. THE LABOUR MARKET¹³

2.1. Demographic trends

According to the population estimates of the State Statistical Office, the Republic of North Macedonia had, at the end of 2018, approximately 2 million inhabitants, one per cent more than in 2010.¹⁴ The share of women and men in the total population is almost equal (49.9 per cent women and 50.1 per cent men). The share of elderly persons (65 years old and over) in the total population has been progressively increasing: it was 11.1 per cent in 2005 and 13.6 per cent in 2018, while the share of children (0-14 years) decreased in the same period from 19.4 per cent to 16.5 per cent (Figure 6). Available population projections show that in the next 30 years the working age population (i.e., persons aged 15-64) will decline by 21 per cent.

Figure 6 – Population pyramid of the Republic of North Macedonia, by age-group, 1994-2018



Source: State Statistical Office of the Republic of North Macedonia: *Population by sex and age, various years*

Available migration data indicate that the stock of individuals of Macedonian nationality living abroad increased by 50 per cent between 1991 and 2019 (from 432 thousand to 650 thousand persons), with a peak in 2009 due to visa liberalization and the possibility for some to gain a Bulgarian passport (which gave holders free movement within the EU countries).

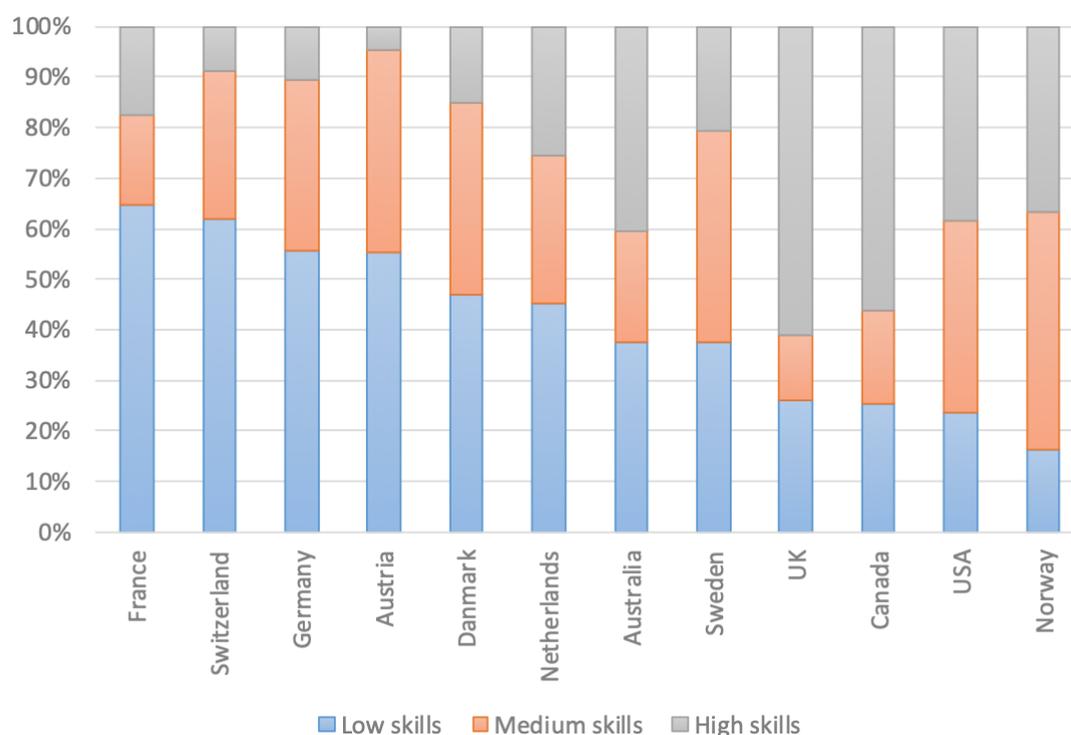
The skills profile of Macedonian migrants (Figure 7) shows that migration in neighbouring countries (for example Switzerland and Germany) is predominantly low-skilled, pointing

¹³ This chapter reviews key labour market indicators for North Macedonia. Unless otherwise stated, all data and information presented are based on the microdata from the Labour Force Survey (2011-2020H1).

¹⁴ The country conducted the last population Census in 2002.

to the wage differentials between the Republic of North Macedonia and EU countries as the main driver of migration to these destination countries. High-skilled persons are more likely to migrate overseas, as they can afford the higher costs associated with this type of migration.

Figure 7 – Percentage of North Macedonian migrants by skills level, selected destination countries



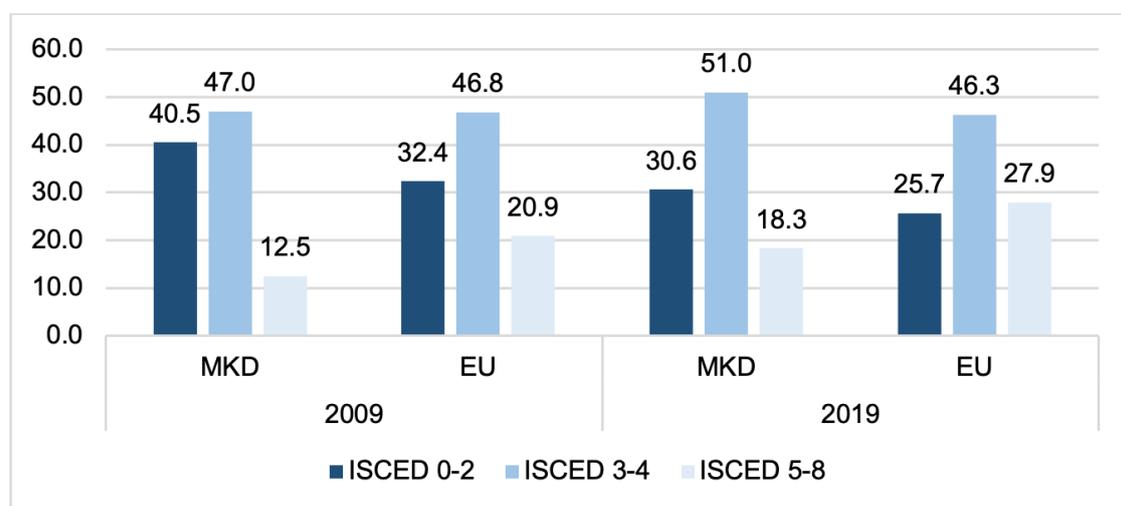
Source: Institute for employment research (IAB): The IAB brain-drain data (1980-2010), <https://www.iab.de/en/daten/iab-brain-drain-data.aspx>

2.2. Trends in education

The education system in the Republic of North Macedonia presents high literacy rates (97.8 per cent for the population aged 15 and over) and nearly universal gross primary education enrolment (98.2 per cent in 2018). The share of children in early childhood education in 2018 remained low (32.8 per cent compared to 86.5 per cent in EU countries), but with sensible increases since 2013, when only 22.5 per cent of 3 years old children were enrolled in early childhood education.¹⁵ The educational attainment of the working age population (15-64 years old) has increased over the last decade (Figure 8), but it is still below the EU average, especially in terms of share of individuals with tertiary educational attainment (18.3 per cent in the Republic of North Macedonia compared to 27.9 per cent in EU countries).

¹⁵ Eurostat: *Pupils in early childhood and primary education by education level and age - as % of corresponding age population* (online code EDUC_UOE_ENRP07).

Figure 8 – Population (15-64) by educational attainment level (%), 2009-2019

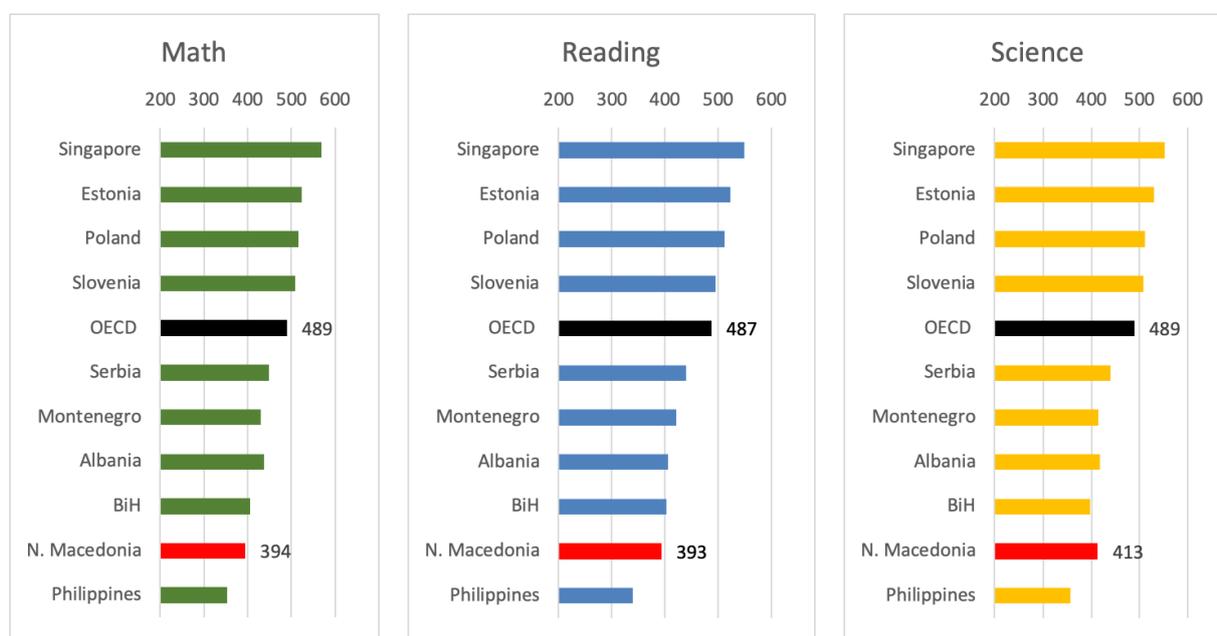


Source: Eurostat: Population by educational attainment level, various years (online code edat_lfse_03)

In 2019, over 57 per cent of men had achieved upper secondary education, (ISCED level 3-4) compared to 44.2 per cent of women. The share of women with completed tertiary education, however, is higher than men (20 per cent and 16.7 per cent, respectively). The offer of university education increased substantially in the last decade, shifting the share of individuals aged 30 to 34 with a university degree from 14.3 per cent in 2009 to 35.7 per cent in 2019. Like it occurs in EU countries, the share of women 30-34 with higher educational attainment increased more than men's, shifting from 16.8 per cent in 2009 to 39.6 per cent in 2019.

Despite improving trends in the educational attainment of the population, the quality of educational outcomes – as measured by the Programme of International Student Assessment (PISA) - is below peer countries (Figure 9), with some progress, however, recorded between 2015 and 2018. The same data show that 7 per cent of variation in pupils' performance is explained by socio-economic background (pupils with disadvantaged background fare worse than their peers). Also, the inclusiveness of education is low, with only 4 per cent of resilient students (i.e., students who displayed high levels of academic achievement despite coming from a disadvantaged background).

Figure 9 – Average score in PISA, Republic of North Macedonia and selected countries (2018)



Source: OECD: PISA 2018 results. Snapshot of students' performance in reading, mathematics, and science, https://www.oecd.org/pisa/PISA-results_ENGLISH.png

The weak performance of North Macedonian students is observable at all levels of the educational structure and is, in part, attributable to the decline of public investment in education, whose share in GDP dropped from 4.5 per cent in 2010 to 3.8 per cent in 2018.¹⁶

Early childhood education is least used by single parents, parents of children with disabilities and unemployed persons. Less than one per cent of children from the poorest quintile attend pre-primary education compared to 56 per cent of children from the richest quintile. First grade pupils receive only 552 hours of teaching and by the time they are 14 years old, they accrue 900 hours less instruction than students in other OECD countries.¹⁷ The upper secondary education system suffers from low completion rates (47.2 per cent), with lowest enrolment rates among students from a lower socio-economic background and in rural areas.¹⁸

In 2019, the participation of adults (18 years old and over) in learning was 8.9 per cent, nearly half the rate recorded at the EU level in the same year (16.8 per cent).¹⁹ Similarly, the share of the population 16-74 with digital skills (one of the 2030 targets set by the EU pillar on social rights) was 32 per cent, compared to an average of 56 per cent in the EU countries.²⁰

16 B. Petreski and M. Petreski: *Analysis of the public spending on education and on social protection of children in the country* (Finance Think - Economic Research and Policy Institute, N.12/2018), https://econpapers.repec.org/paper/ftmpolicy/2018-12_2f20.htm

17 OECD: PISA 2018 results, op.cit.

18 B. Petreski and M. Petreski: *Analysis of the public spending on education and on social protection of children in the country 2018*, op.cit.

19 Eurostat: *Participation rate in education and training (last 4 weeks) by sex and age*, various years [online code: trng_ifs_01].

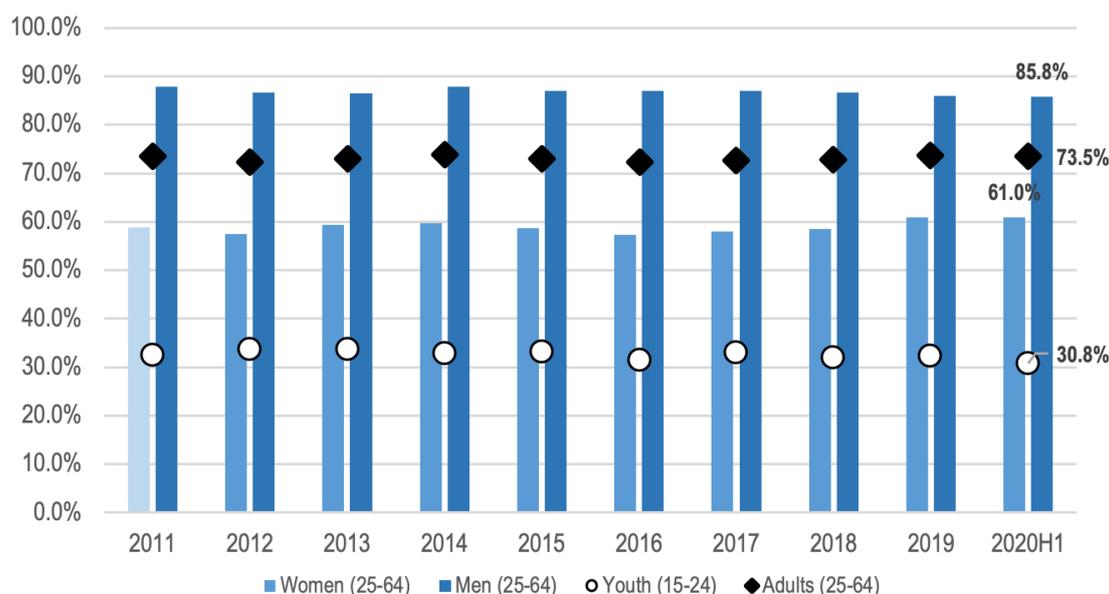
20 Eurostat: *Individuals who have basic or above basic overall digital skills by sex (% of individuals aged 16-74)*, various years, (online data code: TEPSR_SP410)

2.3. Labour market

2.3.1. Labour force participation

In 2019, the labour force participation rate of the working age population (15-64) was 66.4 per cent – 54.7 per cent for women and 77.3 per cent for men - a modest increase since 2011 (64.6 per cent) and well below the EU level for the same age group (74 per cent). Increasing participation rates are due to higher activity rates among women (three percentage point gains in the period 2011-2019), among individuals in the age bracket 35 to 39 (3.5 percentage point increase in the period) and persons 50 to 59 years old (three percentage point increase). Low participation rates are mainly due to the low activity rates of women (Figure 10), young people (15-24) and older workers (50 years old and over).

Figure 10 – Labour force participation youth and adults, by sex, 2011-2020



Source: Elaboration on microdata of the Labour Force Survey, various years

For young people, low activity rates are mostly due to participation in education (six out of ten young persons in the age group 15-24 are students). For adult women (25-64) low participation rates are primarily due to household and care responsibilities, with 67.6 per cent of all inactive women engaged in care duties (compared to 35.6 per cent in the EU).

According to data from the Labour Force Survey by the State Statistical Office for the second quarter of 2021 (15-64), there is only a slight decrease of the activity rate by 0.1 p.p. and it amounts to 65.3 percent when compared to the same period in 2020, and the inactive population is reduced by 1,908 persons.

Labour force participation is positively related to educational attainment: individuals

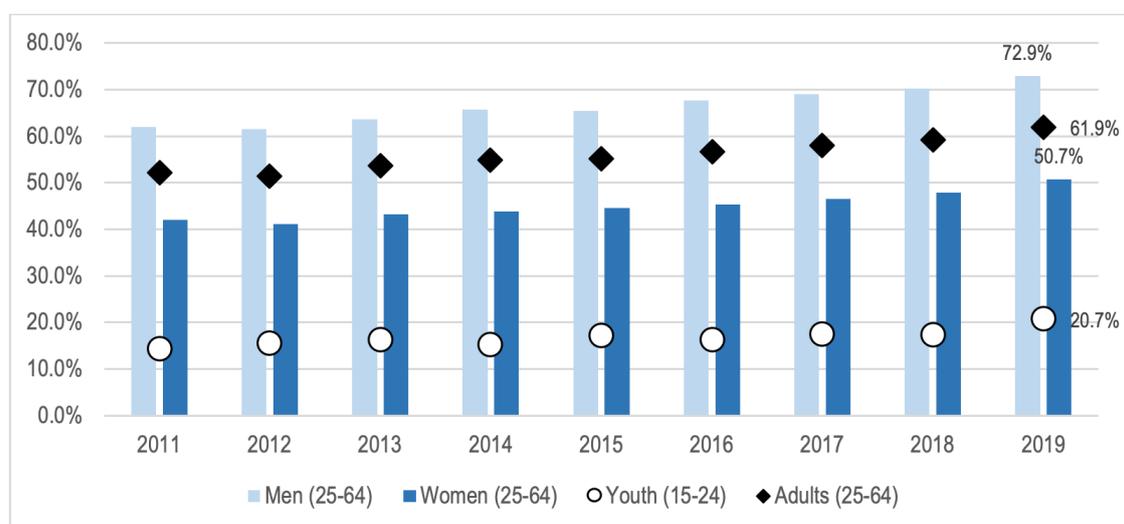
with tertiary education are over twice more active than those with primary education only (90.6 per cent and 40.4 per cent, respectively). For women, this ratio almost doubles, since women with tertiary education are four times more active than women with primary education or less. The difference is also very pronounced for young people, with 83 per cent of tertiary educated youth participating in the labour market compared to only 22.5 per cent of low-skilled ones.

Labour force participation has a spatial dimension. Despite having slightly declined over the past decade, the highest participation rate was found in the Southeast region (77.4 per cent in 2019) and the lowest in the Polog region (57.4 per cent), even though this region experienced substantial activity increases since 2011 (when the activity rate was 48.6 per cent). Individuals living in rural areas remained less active than their urban counterparts (64.8 per cent and 67.6 per cent, respectively), even though activity rates stagnated in urban areas and increased in rural ones.

2.3.2. Employment trends

Employment-to-population ratios in the Republic of North Macedonia have been on a moderately upward path for several years, with an acceleration in 2019 (Figure 11). In that year, the employment-to-population ratio reached 54.7 per cent for the working-age population (15-64), the highest value recorded since 2006, albeit still far from the EU-27 average (68.4 per cent). The employment-to-population ratio is particularly low among young people aged 15-24 (20.7 per cent in 2019, compared to 33.4 per cent in the EU). Men (15-64) are more likely to be employed (64.5 per cent) compared to women (44.7 per cent), with a gender gap in employment of over 20 percentage points, double the gap recorded in EU countries (73 per cent and 63 per cent employment rates for men and women, respectively).

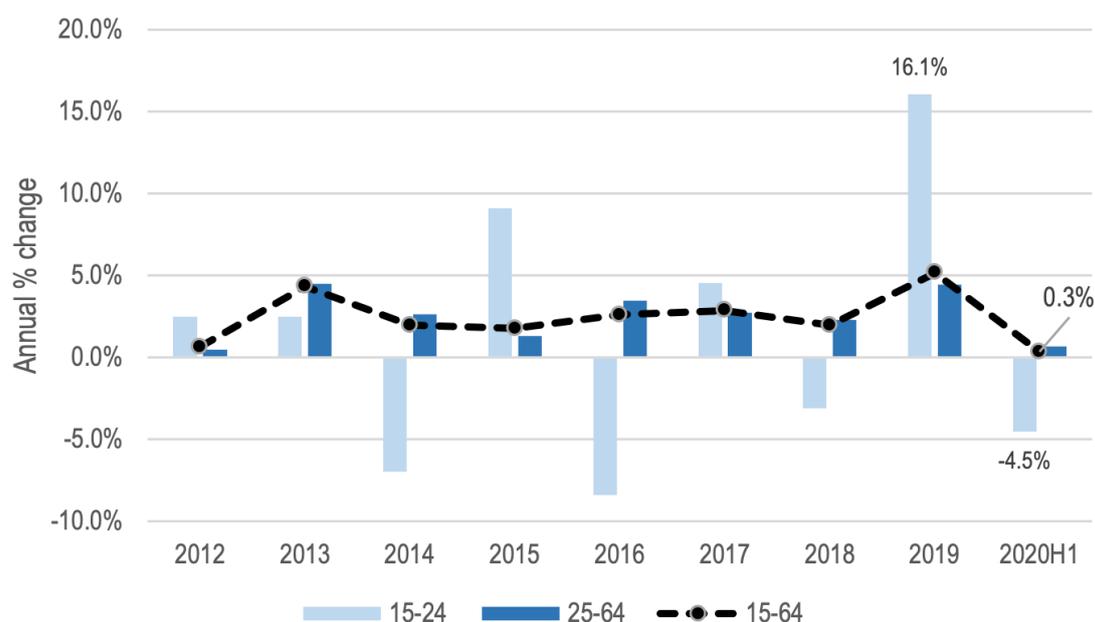
Figure 11 – Employment to population ratios, by sex, 2011-2020



Source: Elaboration on microdata of the Labour Force Survey, various years

In the period 2011-2019 employment levels increased by approximately 23 per cent, with women employment increasing slightly more than men's (25.6 per cent and 22.3 per cent increase, respectively). Employment gains for young people were lower, with a 14.8 per cent employment increase in the same period. Such youth employment increase, however, is mostly due to demographic factors, rather than job creation. In 2019 there were only 6,700 additional young workers compared to 2011, due to the sharp decline of the youth population in the period (19.8 per cent). A notable increase occurred in 2019, potentially driven by the roll-out of the Youth Guarantee in the country, which targets the cohort 15-29 (Figure 12). The employment to population ratio for that age group in 2019 was 34.4 per cent (40.4 per cent for men and 28 per cent for women), well above the rate recorded in 2016 (28.6 per cent).

Figure 12 – Changes in employment, by broad age group, 2012-2020H1



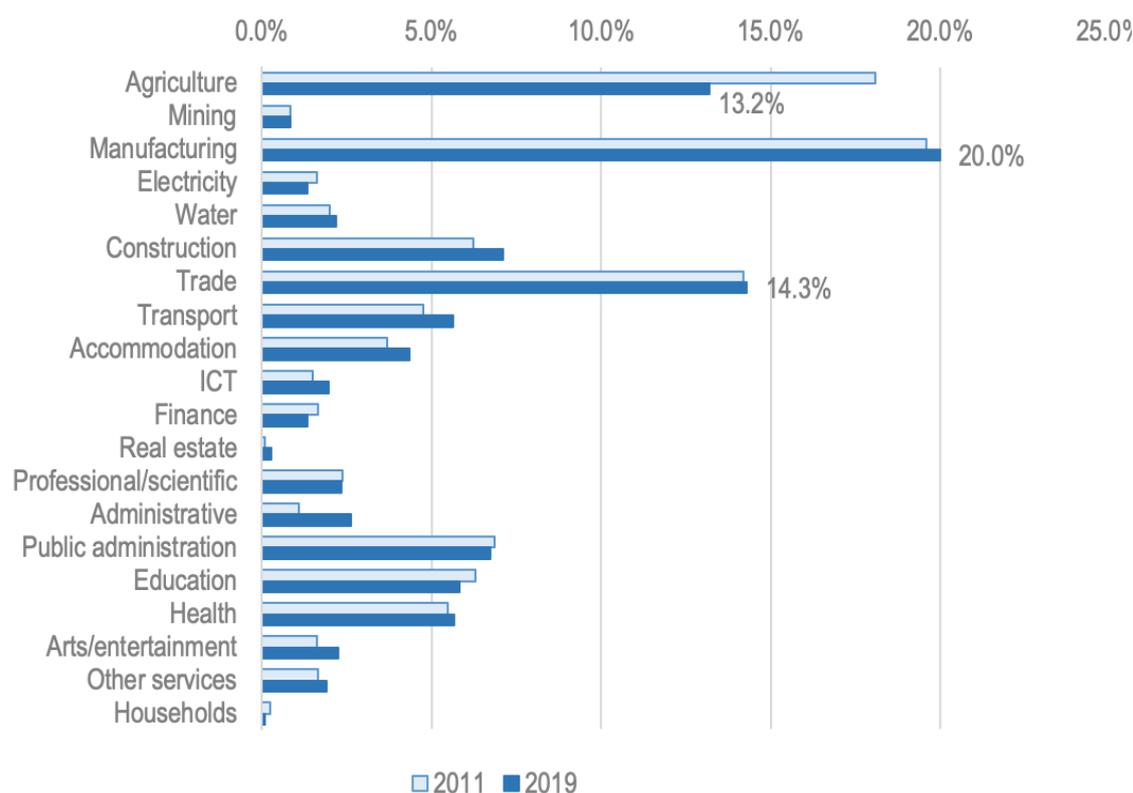
Source: Elaboration on microdata of the Labour Force Survey, various years

The increase in employment has been almost evenly distributed among urban and rural areas, hence maintaining the gap of about four percentage points in favour of urban employment. The Southeast region had the highest employment rate (72.3 per cent) in 2019, while the Polog region the lowest (at 41 per cent), albeit on an increasing trend compared to 2011, when the employment rate was just 33.2 per cent.

Individuals with secondary and tertiary education are, respectively, two and two and a half times more likely to be employed compared to persons with just primary education. In 2019, the employment-to-population ratios of low-educated individuals was 30.7 per cent, compared to 61.1 per cent for persons with secondary education and 77.5 per cent for those with tertiary educational attainment. As it occurs for labour force participation, the gender gap in employment narrows at higher levels of educational attainment. In 2019, the employment gap for low-skilled women (15-64) compared to men was nearly 30

percentage points (47.6 per cent and 17.7 per cent, respectively), while it narrowed to 15 percentage points at upper secondary education levels (67.5 per cent and 52.4 per cent, respectively) and to just 4 percentage points at tertiary level (with women employment rate at 75.7 per cent and men's rate at 79.8 per cent).

Figure 13 – Employment by economic activity, 2011-2019



Source: Elaboration on microdata of the Labour Force Survey, various years

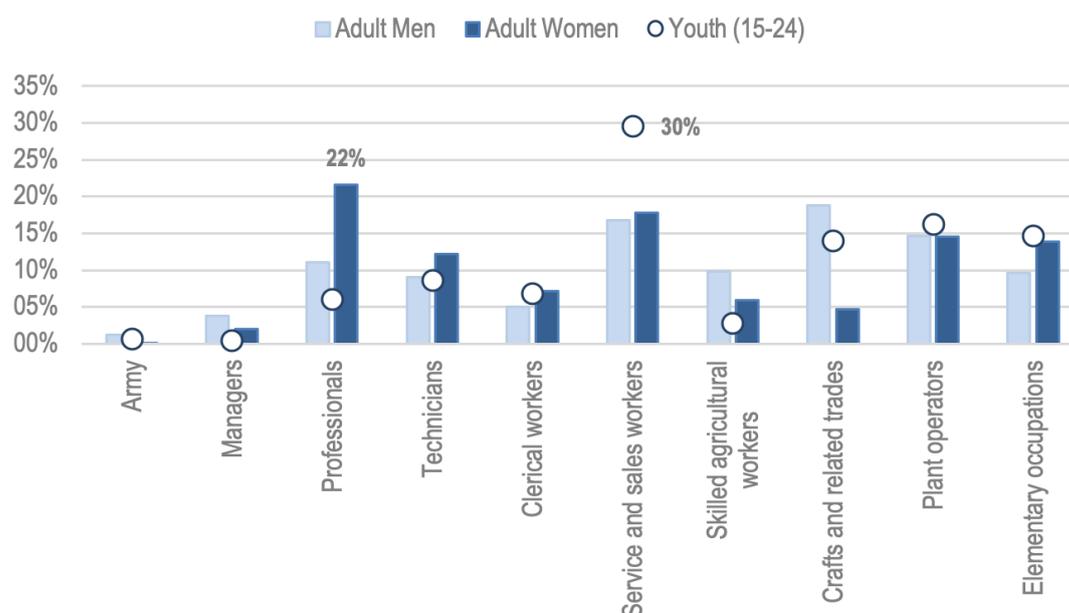
The structure of employment in the last decade followed the structural shift of the economy (Figure 13), with declining share of workers engaged in agriculture, a stable proportion of workers employed in manufacturing and raising shares of workers engaged in services (over 55 per cent of all workers in 2019).

Young workers (15-24) are mostly employed in industry (24.3 per cent of total), agriculture (11.1 per cent, with a strong contraction compared to 2011), wholesale and retail trade (20.5 per cent), the accommodation and food industry (10 per cent) and construction (7.3 per cent). Adult women (25-64) are more likely than adult men to be working in manufacturing (especially in the textile and leather industry); trade; education; health and social work.

The distribution of employment by broad occupational category (Figure 14) shows that in the last decade there has been a shift towards medium- and high-skilled occupations and a decline of low-skilled ones. In 2011, medium-skilled occupations (category 4 to 8 of the International Standard Classification of Occupations, ISCO 2008) comprised 46.6 per

cent of total employment (15-64), while elementary occupations represented 23.2 per cent. By 2019, medium-skilled occupations had increased to 59.9 per cent while elementary occupations had declined to 11.6 per cent.

Figure 14 – Employment by occupation, by age group and sex 2019 (%)



Source: Elaboration on microdata of the Labour Force Survey, various years

Young workers (15-24 years old) are predominantly found in medium skilled occupations (nearly 70 per cent of total youth employment), while the rest of young workers are evenly distributed between high- and low-skilled jobs. Skills polarization is particularly striking among adult women, since employment is concentrated in high-skilled (35.8 per cent of total adult female employment) and low skilled occupations (13.9 per cent). Over 65 per cent of employment among adult men is in medium-skilled occupations.

Whereas the occupational distribution is broadly in line with the educational attainment of the employed population (15-64), vertical skills mismatches increased from roughly 25 per cent of all workers in 2011 to over 30 per cent in 2019. Over-qualification is mostly accounted for by upper-secondary graduates working in elementary occupations, and tertiary graduates working as sales and clerical workers. In both these categories, women are more represented than men (Table 2).

Table 2 - Education and occupation mismatch as a function of ISCO and ISCED (structure)

ISCO-08 Major Groups		ISCED-97 Educational attainment					
		2011			2019		
		Low	Medium	High	Low	Medium	High
High	Managers	0.0%	0.9%	0.1%	0.0%	0.6%	0.1%
	Professionals	0.4%	2.9%	2.5%	0.2%	1.3%	1.5%
	Technicians and associate professionals	0.0%	0.2%	12.7%	0.0%	0.7%	14.0%
Medium	Clerical support workers	0.0%	7.0%	3.1%	0.1%	6.5%	3.5%
	Service and sales workers	0.1%	4.8%	1.9%	0.2%	3.6%	2.1%
	Skilled agricultural workers	2.0%	11.2%	1.8%	1.9%	13.4%	2.5%
	Craft and related trades workers	0.5%	0.3%	0.0%	3.8%	4.1%	0.4%
Low	Plant and machine operators	3.5%	7.7%	0.4%	3.3%	9.1%	0.7%
	Elementary occupations	3.0%	8.8%	0.3%	2.7%	11.2%	0.7%

Source: Elaboration on microdata of the Labour Force Survey, various years

The employment structure in the Republic of North Macedonia differs across sex and age-groups and has changed over time. The share of wage employees in total employment has increased throughout the period, reaching almost 80 per cent in 2019 (Table 3). This, in turn, has generated a reduction of vulnerable employment, particularly with respect to the incidence of contributing family workers, which has benefitted women slightly more than men and own-account workers. Young (15-24) and women contributing family members still constitute a non-negligible share of workers (13 per cent and 7.6 per cent, respectively). Women are more likely than men to be wage employees (83.5 per cent for women and 77 per cent among men in 2019). The share of own account workers among men is still over twice that of women (14.9 per cent and 6.3 per cent, respectively), although declining.

The incidence of part-time work among workers aged 15-64 declined from 6 per cent in 2011 to 4.3 per cent in 2019. Young workers are more likely to work part-time (7.3 per cent in 2019 on a declining trend from the peak of 14.4 per cent recorded in 2012) compared to adults. Gender differences were ironed out by 2019, as the share of men working part-time declined to 4.1 per cent while that of women decreased to 4.3 per cent. However, four out of five men would rather work in full time jobs, if these were offered to them (for women this ratio is one out of two).

Table 3 – Structure of employment (15-64), 2011-2019

	All		Men		Women	
	2011	2019	2011	2019	2011	2019
Status in employment						
Employees	72.4%	79.6%	69.8%	77.0%	76.4%	83.5%
Employers	5.7%	3.9%	7.1%	4.8%	3.6%	2.6%
Own-account workers	12.7%	11.5%	17.2%	14.9%	5.8%	6.3%
Contributing family workers	9.2%	5.0%	5.9%	3.3%	14.2%	7.6%
Type of contract						
Full-time	94.0%	95.9%	94.5%	95.9%	93.3%	95.7%
Part-time	6.0%	4.2%	5.5%	4.1%	6.7%	4.3%
<i>Involuntary part-time</i>	71.5%	66.9%	76.4%	79.9%	65.5%	48.3%
Permanent contract	85.2%	83.3%	83.3%	81.9%	87.7%	85.2%
Fixed-term contract	14.8%	16.7%	16.7%	18.1%	12.3%	14.8%
<i>Involuntary fixed-term contract</i>	95.4%	97.6%	95.6%	97.3%	95.1%	98.2%

Source: Elaboration on microdata of the Labour Force Survey, various years

Temporary work has increased steadily since 2011 for all workers (from 14.8 per cent in 2011 to 16.7 per cent in 2019). Temporary work among young people is twice that of adults: it concerned 35.1 per cent of all young workers aged 15-24 in 2019 and nearly one third of those in the age group 15-29 (29.7 per cent). Temporary work is more common among men compared to women (18.1 per cent and 14.8 per cent, respectively, in 2019), and this applies to all age groups. Since 2011, the trend in temporary work closely followed that of overall employment, with increases in the years when employment was accelerating. For youth 15-24, however, the trend is reversed, with temporary employment increasing when overall youth employment was declining (for example in 2014). This seems to confirm the situation recorded in EU countries, where young workers in temporary work are the first to lose their jobs when economic growth slows down. In most cases, temporary work is not a choice, as over 97 per cent of temporary workers accepted this type of employment because they could not find a permanent job, with an even distribution between men and women.

In 2019, precarious employment – i.e., the share of workers with a job contract with less than three-month duration – accounted for 4.2 per cent of total employment (nearly twice the share recorded at EU level), equally distributed between men and women (4.2 per cent and 4.3 per cent, respectively). Precarious work contracts are most common in agriculture, affecting 9.5 per cent of all employees in the sector.²¹

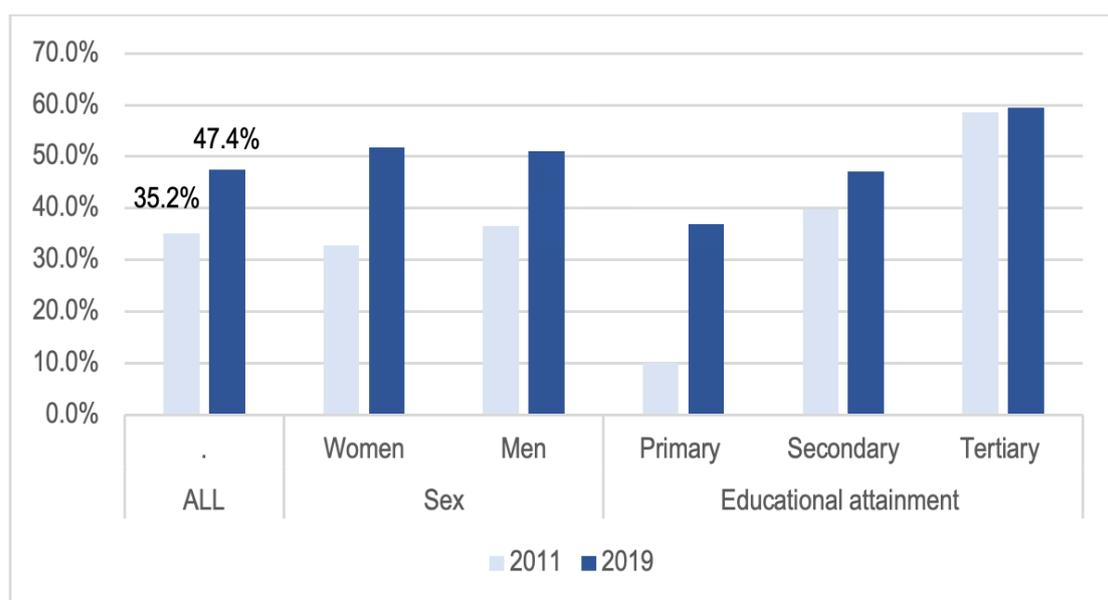
Underemployment – i.e., workers who work less than 35 hours a week but would like to

²¹ Eurostat: *Precarious employment by sex, age group and NACE Rev. 2* (online code: ifsa_qoe_4ax1r2).

work more – is not a concern in the Republic of North Macedonia for the working age population, since the share of workers in this situation was 3.6 per cent in 2011 and 2 per cent in 2019. Underemployment is more common among young people (3.2. per cent in 2019) and low skilled workers. The general reduction of underemployment was sharper for women (from 0.3 per cent in 2011 to 0.1 per cent in 2019) compared to men (0.4 per cent in 2011 and 0.2 per cent in 2019).

Over half of all young workers (15-24) are in jobs with substantial decent work deficits. In 2019 only 47 per cent of all young workers had jobs that were formal, were not low paid, did not involve involuntary temporary or part-time work (used as a proxy for decent work), on an increasing trend compared to 2011 (Figure 15). The groups that benefitted most from decent work inroads were young women and low-skilled youth.

Figure 15 – Share of decent jobs among young workers (15-24), 2011-2019



Source: Elaboration on microdata of the Labour Force Survey, various years

In 2019, nearly 66 per cent of all youth 15-24 had not started their transition to the labour market, as they were still in education. The proportion of youth who completed their transition was 11.9 per cent in 2019 (on an increasing trend compared to the 9.2 per cent recorded in 2011). Tertiary-educated graduates have made remarkable progress in completing their transition, since their share increased from 17.2 per cent in 2011 to 31.5 per cent in 2019, followed by secondary-educated graduates (from 11.8 per cent to 17.4 per cent over the same period), suggesting that education indeed pays off in the Macedonian labour market.

2.3.3. Informal employment

Informal employment in the Republic of North Macedonia declined from 24.3 per cent in

2011 to 15.2 per cent in 2019. Data for the first half of 2020 indicate a further reduction to 13.5 per cent. Such decline was particularly pronounced for young workers, whose informality rate declined from 45.9 per cent of total youth employment in 2011 to 24 per cent in 2019. Informal employment is more widespread among men (17 per cent of total men's employment compared to 12 per cent for women), young people, older workers (65+, possibly due to the need to supplement pension-related incomes), low-skilled individuals and for workers engaged in the agriculture and construction sectors. In agriculture, the rate of informal work was estimated at 55 per cent of total employment in 2019 (in net decline compared to the 84 per cent rate recorded in 2011), while in the construction sector informality has been stable at 36 per cent throughout the period.

2.3.4. Wages and other conditions of work

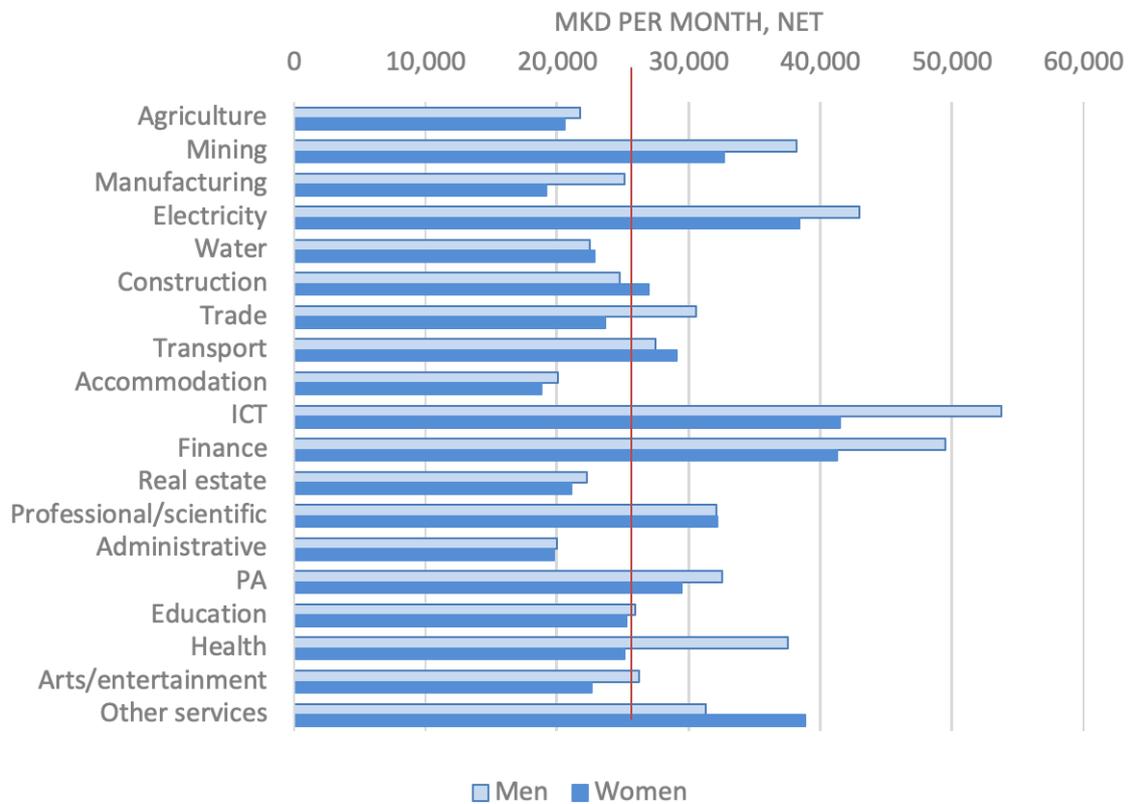
Average wages increased by approximately 29.1 per cent – in nominal terms – in the period 2011-2019. The pace of wage growth accelerated in 2017, due to the raise of the minimum wage (by 19 per cent). The gender pay gap is about 18 per cent, when adjusted for individual and job characteristics.²² Differences in wages between the two sexes are inexistent in some sectors and stark in others. Most notably, women earn significantly less than men in manufacturing, trade and health -sectors that employ larger shares of women – but also in ICT and finance.

The highest average wage in the Republic of North Macedonia is paid in the information and communication technology and the finance sectors, while the lowest is found in the hospitality sector (Figure 16). Other sectors paying above the national average wage are public administration (with research documenting a 10-20 per cent premium for public wages) and real estates.²³ Economic sectors that in 2019 accounted for over 70 per cent of total employment (industry, trade, transport and hospitality) paid less than the average wage.

22 M. Petreski and N. Mojsoska-Blazevski: *The gender and motherhood wage gap in the Former Yugoslav Republic of Macedonia: An econometric analysis* (ILO, Budapest, 2016).

23 World Bank: *Seizing a brighter future for all* (World Bank Systematic Country Diagnostic for FYR Macedonia, Washington DC, 2018).

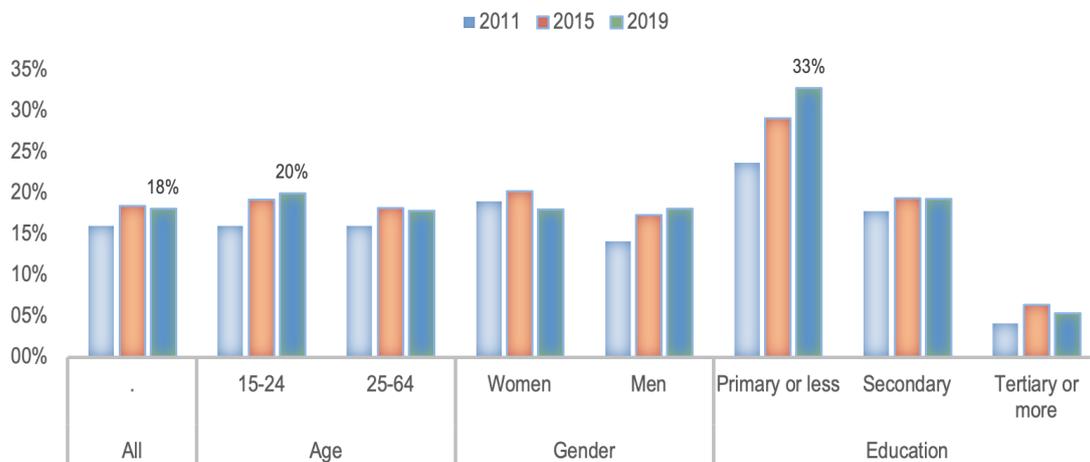
Figure 16 – Average monthly earnings by economic sectors and gender, 2018 (MKD)



Source: Structure of earnings survey, 2018.

The incidence of low-pay work (i.e., share of workers earning below two thirds of the median wage) increased from 16 per cent in 2011 to 18.1 per cent in 2019. The rise has been larger for young workers (15-24), for men and for those with low skills. This resonates with the developments of the minimum wage over the decade. The ad-hoc increase of the minimum wage explains the erratic movements of the low-pay incidence. For example, the increase of the minimum wage in 2017 (from 10.080 MKD to 12.000 MKD) explains the large drop of the low-pay incidence recorded in the biennium 2017-2018. In 2019, minimum wage and other policies resulted in an upward shift of the median wage, which brought upward the portion of low-paid workers.

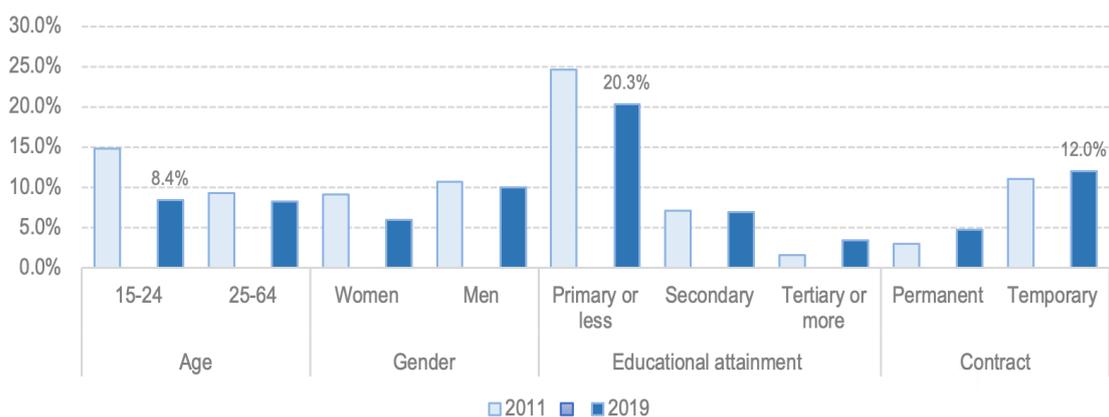
Figure 17 – Low pay incidence by sex, age and educational attainment (2011-2019)



Source: Elaboration on microdata of the Labour Force Survey, various years

Working poverty in the Republic of North Macedonia fell from about 10 per cent in 2011 to 8.3 per cent in 2019 (Figure 18). Working poverty affects young workers more than adults, men more than women, low-skilled workers, workers with temporary contracts and individuals living in the Southeast and Northeast regions, where living standards are lower.

Figure 18 – Working poverty, by sex, age, educational attainment, and type of contract 2011-2019



Source: Elaboration on microdata of the Labour Force Survey, various years

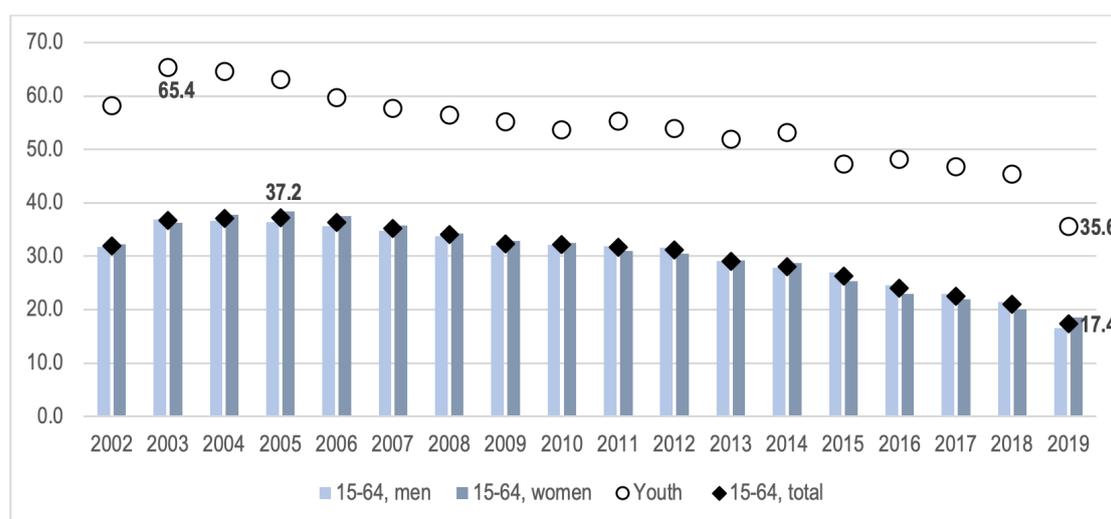
Men and women in the Republic of North Macedonia do not differ much in hours worked (40.8 hours and 41.9 hour weekly, respectively), a difference that has been maintained over time. The share of workers who work excessive hours (48+) was 18.3 per cent in 2019, in sharp decline compared to the 35.4 per cent recorded in 2011. The share of workers engaged during unsocial hours also declined (from over 51.7 per cent in 2011 to 43.7 per cent in 2019), with men more exposed to unsocial hours of work compared to women (47.6

per cent and 37.8 per cent, respectively, in 2019).

2.3.5. Unemployment

The unemployment rate in the Republic of North Macedonia has been on a steady decline since 2005 (Figure 19), when it peaked at 37.3 per cent (38.4 per cent for women and 36.5 per cent for men). By 2019, the unemployment rate had dropped to 17.5 per cent (18.5 per cent for women and 16.6 per cent for men), although remaining three times higher than the EU average (6.8 per cent). For young people (15-24) the unemployment rate peaked in 2003 (at 65.4 per cent) to then decline to 35.8 per cent in 2019 (compared to the 15.1 per cent recorded at EU level), with young women more likely to be unemployed compared to young men (38.9 per cent and 33.4 per cent, respectively). In 2019, the unemployment rate for the age group 15-29 was 30.5 per cent (28.7 per cent for men and 33 per cent for women), also on a declining trend compared to peak years (e.g., 47 per cent in 2013).

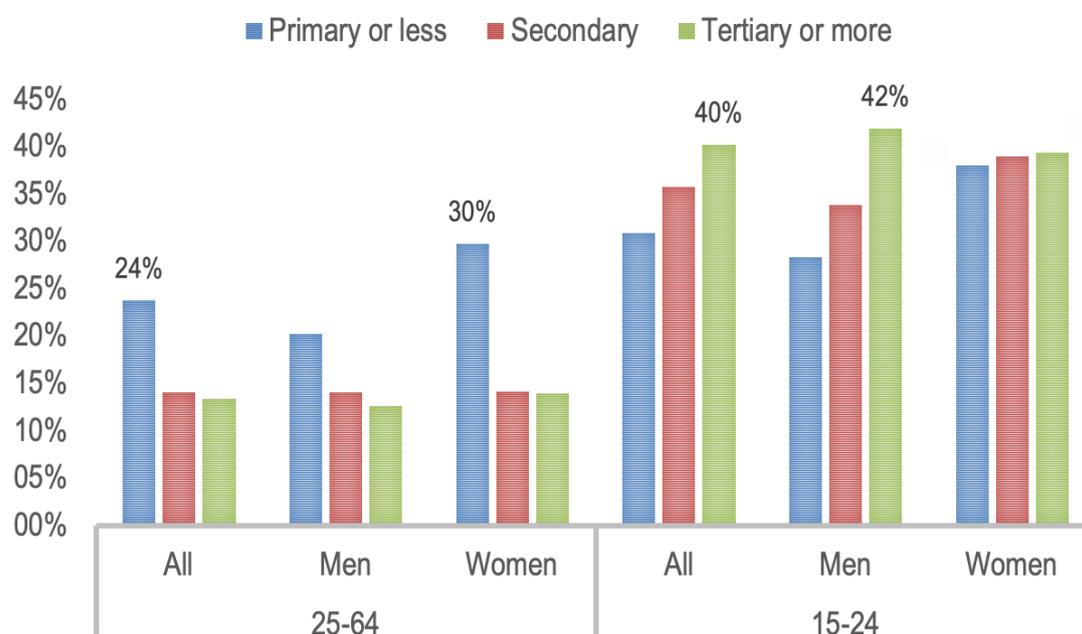
Figure 19 – Unemployment rate, by sex and broad age group (2002-2019)



Source: Elaboration on microdata of the Labour Force Survey, various years

A higher level of educational attainment protects adults from unemployment - since the unemployment rate decreases from 23.8 per cent for those with at most primary education to 13.4 per cent for those with tertiary educational attainment – but not so for young people (Figure 20).

Figure 20 – Unemployment rates, by age, sex and education level, 2019

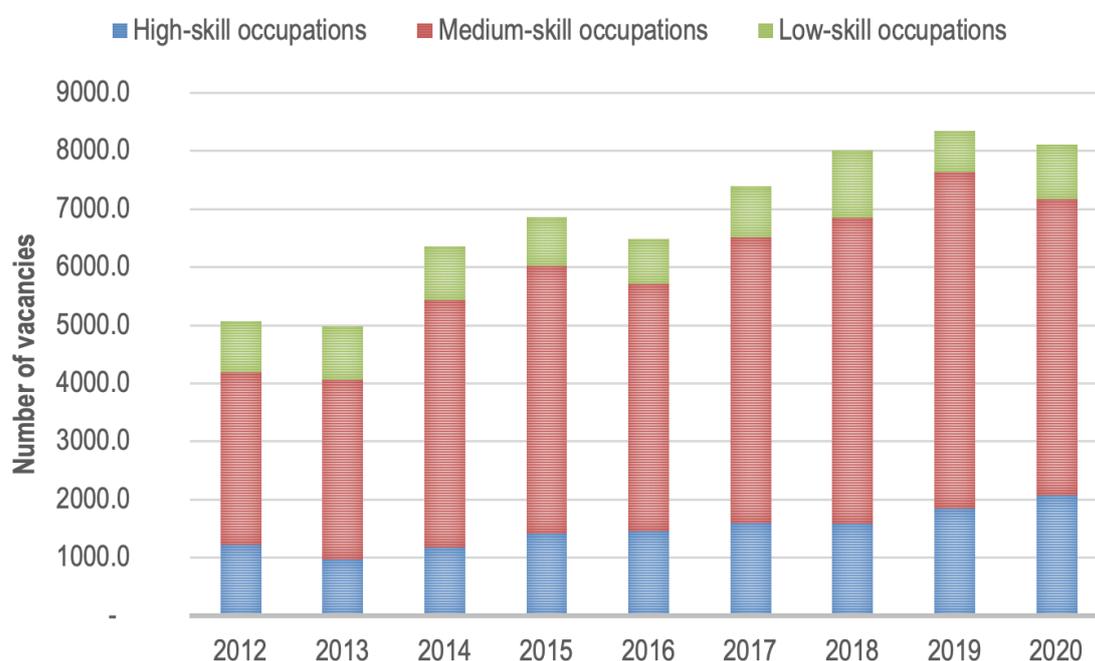


Source: Elaboration on microdata of the Labour Force Survey, various years

For young people, the lowest unemployment rate is found amongst those with primary education or less (30.9 per cent), especially among young men (28.4 per cent) and the highest amongst university graduates (40 per cent). Young, educated men are more likely to be unemployed compared to young women (42 per cent and 39 per cent, respectively), but having a tertiary education does not help young women avoiding unemployment compared to those that have attained only lower secondary education (39.4 per cent 38.1 per cent unemployment rates, respectively).

The reduction of unemployment in the period 2011-2019 was due to job creation, but only for adults. Unemployment levels among adults declined by 43 per cent with slightly raising activity rates (three per cent overall), while for young people (15-24) unemployment levels declined by 48 per cent, but they were accompanied by a 25 per cent reduction of youth labour force participation. The reduction in unemployment levels has been sharper for low-skilled workers (54 per cent) compared to high-skilled ones (24 per cent decrease in unemployment levels). As recorded for employment-to-population ratios, the highest unemployment rate is found in the Northeast region (33.6 per cent) and the lowest in the Southeast region (6.4 per cent). The fact that the drop in unemployment was due to job creation is also confirmed by job vacancy data, which show a doubling of job vacancies in the period 2012-2019, especially in the accommodation, construction, and transport sectors. Over the period (Figure 21), there was five percentage point increase for medium-skills jobs, and a more moderate one for high-skilled jobs (two percentage point increase).

Figure 21 – Number of job vacancies by skill level (2012-2020)



Source: State Statistical Office of North Macedonia: Job vacancy survey, various years

Long-term unemployment (over 12 months) affects adult workers (25-64) more than young people (77 per cent and 64.3 per cent, respectively). Gender differences are more pronounced among young workers, as 69.6 per cent of unemployed young men are long-term unemployed compared to 57.6 per cent of young women. In the country, 20 per cent of unemployed individuals succeed in returning to employment within the first year of unemployment (25 per cent at EU level), but just 14 per cent do so when the unemployment spell lasts longer than one year (11.4 per cent at EU level).²⁴

The data related to labour underutilization (i.e., the sum of the unemployed, the underemployed and those in the potential labour force) show that there are approximately 300 thousand persons who could potentially work (double the number of the unemployed). Labour underutilization – albeit declining from 37.2 per cent in 2011 to 24.4 per cent in 2019 - is higher among adults (49.4 per cent in 2019) and among secondary educated individuals (45.3 per cent).

2.3.6. Inactivity and discouragement

Between 2011 and 2019, the inactivity rate of the working age population declined by less than two percentage points (from 35.4 per cent to 33.6 per cent, respectively), remaining well above the inactivity rate recorded at EU level (26.6 per cent in 2019). High inactivity rates are also due to increasing shares of young people (15-24) attending education and

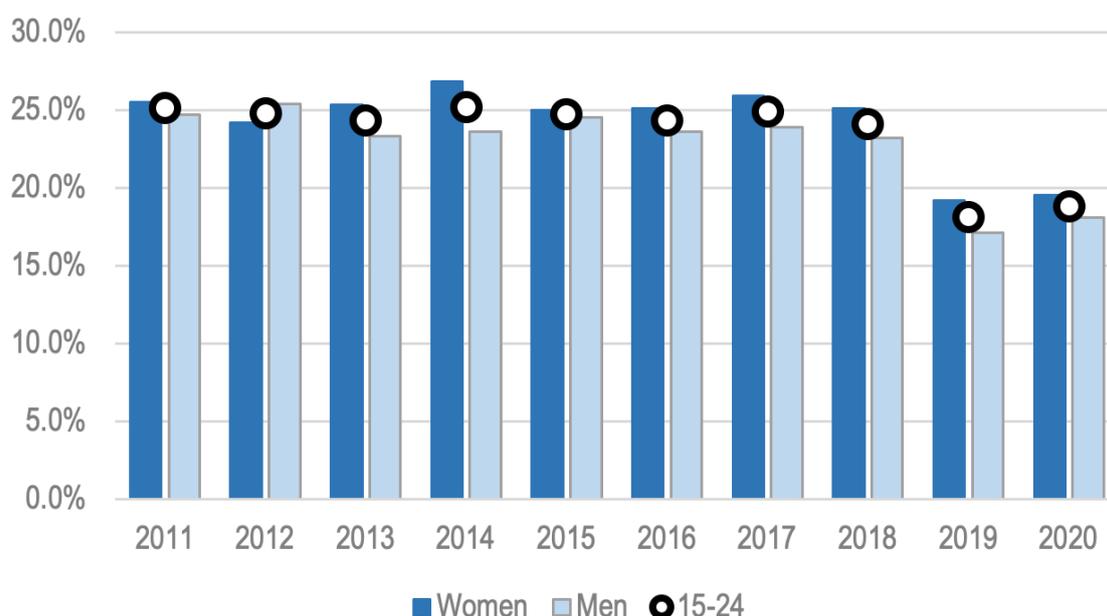
²⁴ Figures are for 2016. See Eurostat: *Transition from unemployment to employment by sex, age and duration of unemployment - annual averages of quarterly transitions, estimated probabilities* (online code: lfsi_long_e01).

training (from 62.3 per cent of the youth population in 2011 to 62.9 per cent in 2019).

Inactivity among women in the working age declined from 48.5 per cent in 2011 to 45.1 per cent in 2019, while for men it remained stable at around 22.5 per cent. The largest drop in inactivity is found among women in the cohort 50 to 59 (from 47.7 per cent in 2011 to 45.8 per cent in 2019) and 60 to 64 years old (from 83.2 per cent to 79.4 per cent, in the same period). As it occurs for labour force participation and employment, education pays, as inactivity declines at higher levels of educational attainment. The main reason for inactivity among adult women (when education and pension are excluded) is household and care responsibilities, with 65.3 per cent of inactive women out of the labour market for this reason in 2019, on a declining trend compared to the 71.7 per cent recorded in 2011. The main reason for inactivity among men is illness or disability, affecting roughly 26 per cent of all inactive men. In 2019 discouraged workers represented 8.7 per cent of all the inactive population, down from 9.9 per cent in 2011. Adults are more likely to be discouraged workers compared to young people (11.4 per cent and 3.7 per cent, respectively). Discouragement is more widespread among men compared to women (14.3 per cent and 5.8 per cent, respectively), and increases with educational attainment.

In 2019, the share of young people (15-24) neither in employment nor in education and training (NEETs) was 18.1 per cent of the total youth population (Figure 22), while for the age group 15-29 the NEET rate was 24.5 per cent (20.9 per cent for men and 28.3 per cent for women).

Figure 22 – Young people (15-24) neither in employment nor in education and training, by sex (2011-2020)

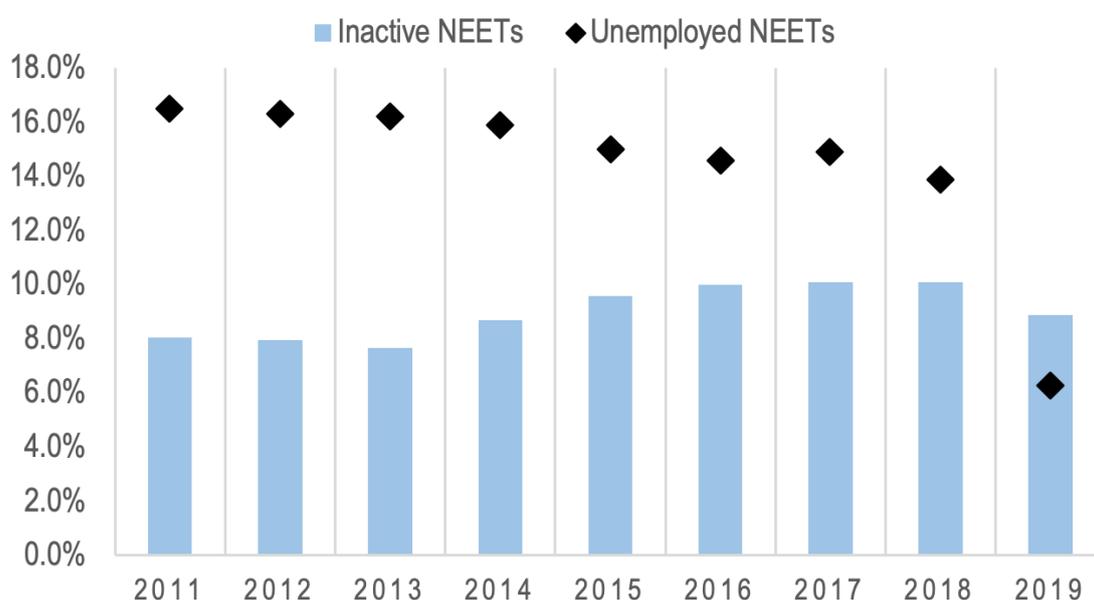


Source: Elaboration on microdata of the Labour Force Survey, various years

Women are more likely than men to be NEET, while university educated youth are four

times more likely to be NEET compared to low skilled ones (42.7 per cent and 10.4 per cent, respectively). In the period 2011-2018, the NEET rate remained stable – at around 24 per cent of the 15-24 population – with a significant drop (six percentage points) recorded in 2019, possibly due to the roll-out of the Youth Guarantee. For the age group 15-29 the drop in the NEET rate was of 5.3 percentage points. If indeed such decrease is due to the implementation of the Youth Guarantee (Figure 23), this policy was effective in reducing unemployment among young people, but not so effective in decreasing labour market detachment.

Figure 23 – Shares of unemployed and inactive NEETs (2011-2019)



Source: Elaboration on microdata of the Labour Force Survey, various years

2.3.7. The impact of the covid 19 pandemic on the labour market

In 2020, the crisis engendered by the novel coronavirus SARS-Cov-2 (Covid-19) disrupted supply chains and dampened demand. Economic growth declined by 4.5 per cent in 2020, with a rebound projected for 2021 (7 per cent of GDP).²⁵ The fiscal position of the country significantly worsened, with the budget deficit exceeding 8 per cent of GDP in 2020, due to declining revenues and increasing expenditures for the health sector and support measures for households, workers and enterprises.²⁶

The pandemic interrupted the positive employment trends experienced by the Republic of North Macedonia in the last two decades. In the first three quarters of 2020, the average working hours losses amounted to 13.8 per cent, or 90,000 full time job equivalents. By the third quarter of 2020, the number of workers had declined by three per cent (approximately

²⁵ Ministry of Finance of North Macedonia: Economic Reform Programme 2021-2023, January 2021

²⁶ Ministry of Finance of the Republic of North Macedonia: Macroeconomic indicators (March 2021), <https://finance.gov.mk/indicators-and-projections/?lang=en>

25,000 jobs), with higher drops (around 4.5 per cent) among young people, confirming the fact that young individuals are the first to lose their job in times of crisis (“last in-first out” effect), and among own account workers.²⁷

The economic sectors that shed most jobs were agriculture, transport and manufacturing. Employment decreases were more pronounced for adult men compared to women (26 per cent and 23 per cent loss from 2019 to the first half of 2020) and for young women compared to young men (30.3 per cent and 27.4 per cent employment losses, respectively). Educational attainment appears to have shielded some workers during the first wave of the Covid-19 crisis. Current data show that the pandemic primarily hit low-educated workers, while employment continued to increase among those with tertiary education.

The effects of the pandemic are not yet visible through the unemployment rate. On the one hand, a significant share of jobs was preserved through the stimulus package deployed by the Government of the Republic of North Macedonia (the employment retention measures enacted may have prevented the loss of about 80,000 jobs during the second quarter of 2020).²⁸ On the other hand, some of those who lost their job left the labour market altogether, as the number of inactive persons increased in 2020 by four per cent (or 19,800 persons).²⁹

2.4. Labour market projections

The labour market projections presented in this section are based on a June 2020 report that uses the Cohort Simulation Model (CSM). Compared to the original, the model presented herewith considers worsening GDP forecasts for 2020 and an economic rebound initiating from 2021.³⁰

The projections for labour force participation rates by sex and age-group show activity to be rather resilient at 66.6 per cent of the working age population (over 78.3 per cent for men and 52.4 per cent for women). The model does consider the higher propensity to migrate of the cohort 15-34, trend that is balanced by higher participation rates of individuals aged 35-64, who have a lower propensity to migrate and will progressively replace the older cohort (affected by stagnant labour force participation).

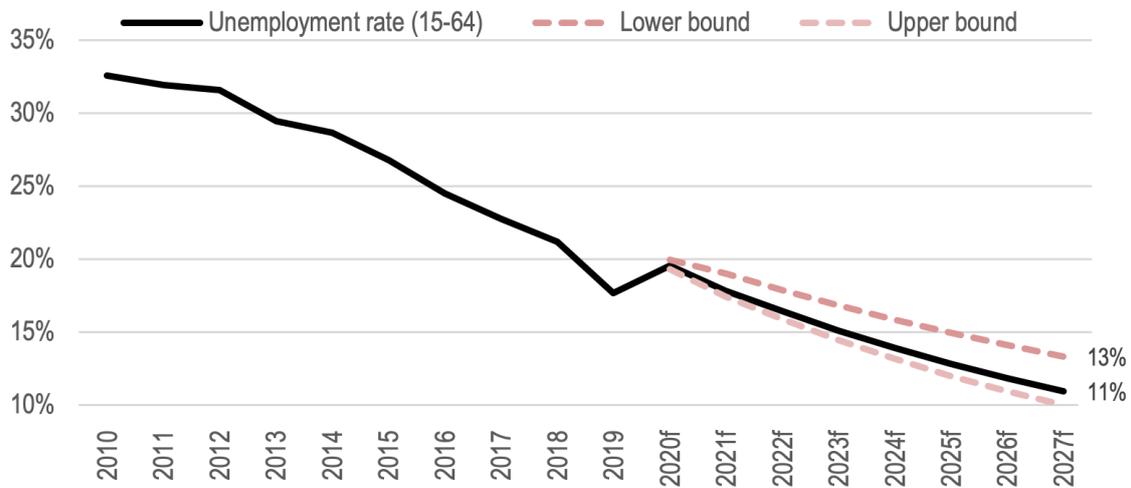
27 ILO/ERBD: *Observatory on Covid19 and the world of work. North Macedonia* (2021)

28 See Chapter 3. The employment retention measure expired in June 2020. However, the job retention criteria demanded the retention of workers for two additional months (until August 2020).

29 State Statistical Office of North Macedonia: *Labour Force Survey*, quarterly data 2020.

30 M. Petreski: *Forecasting labour market and poverty patterns in North Macedonia*. Mimeo2020

Figure 24 – Unemployment rate (15-64) forecasts

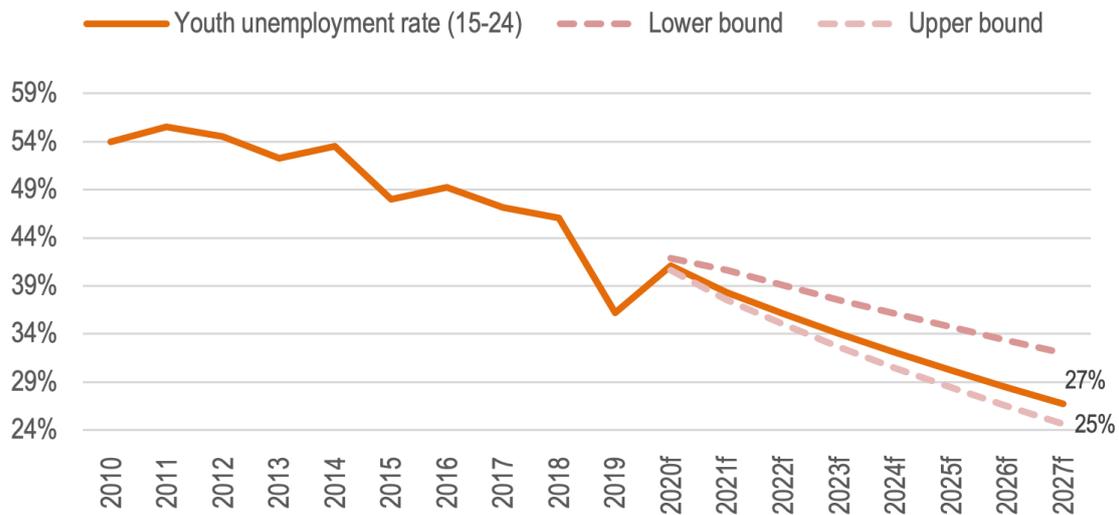


Source: Elaboration based on the Cohort Simulation Model and data from the Labour Force Survey.

Figure 24 presents the forecasts of the unemployment rate, which is expected to increase in 2020 only (an assumption that may need to be revised later) to then decline progressively to 11 per cent in 2027 (baseline scenario). The slow pace of the decline reflects a sluggish return on track of the economy after the Covid-19 crisis and the scant availability of skilled workers lamented by enterprises even before the pandemic. In the pessimistic scenario, the unemployment rate will decline to 13.3 per cent at the end of the forecasting horizon. This suggests that even small changes in GDP could have a sensible impact on unemployment. A faster post-Covid-19 recovery of output, conversely, would bring the unemployment rate below 10 per cent, with a narrowing gender unemployment gap.

The same applies to the youth (15-24) unemployment rate (Figure 25). The projected decline to 26.7 per cent is sizeable, as it means that the country would have halved the youth unemployment rate in a decade, accompanied by reduction of the gender youth unemployment gap. The projections for the cohort 15-29 show a decline in the unemployment rate by 2027 to 23.7 per cent.

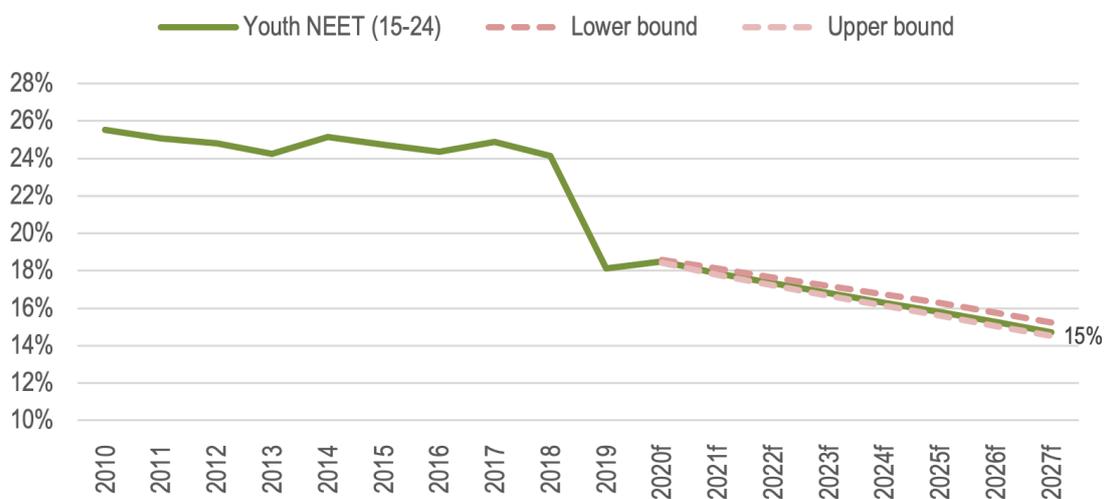
Figure 25 – Youth unemployment rate (15-24) forecasts



Source: Elaboration based on the Cohort Simulation Model and data from the Labour Force Survey.

Based on the projected changes in labour force participation and unemployment, the employment rates are forecasted to range from 58 per cent (lower bound) to just over 60 per cent (upper bound) in 2027. The projected increases in the youth employment rates are even more modest, reaching – in the baseline scenario – 22 per cent in 2027 (half the growth rate forecasted for the 15-64 population). The NEET rates are projected to decline (Figure 26), with similar magnitudes for young men and women (with NEET rates settling at 15 per cent in 2027, 20.9 per cent for the cohort 15-29). The shift generated by the roll-out of the Youth Guarantee in 2019 and its lasting impact are included in the projections. However, any change to the Youth Guarantee policy may accelerate (or slow down if investment is not maintained) the reduction of the youth NEET rates.

Figure 26– Young (15-24) NEET rate forecasts



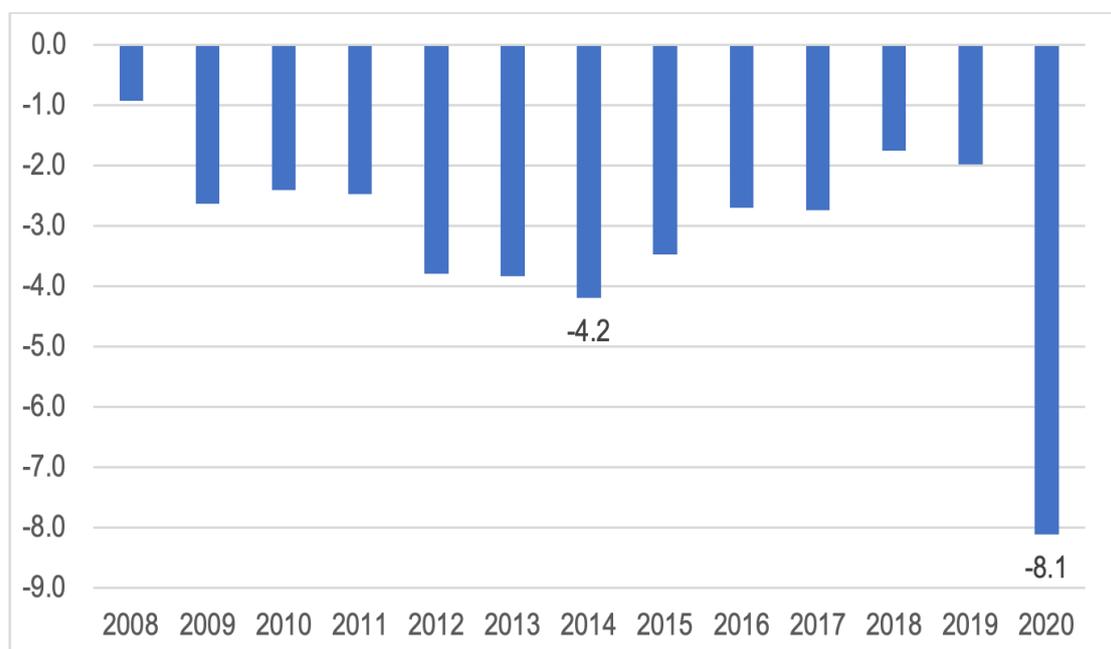
Source: Elaboration based on the Cohort Simulation Model and data from the Labour Force Survey.

3. REVIEW OF POLICIES AND INSTITUTIONS

3.1. Macroeconomic and sectoral policies

Since the 2008 economic and financial crisis, output and employment growth started to converge to similar rates (2.5 per cent), supporting the assumption that economic growth – albeit below potential – contributed to job creation. In the period 2010-2019, the fiscal policy – although moderately expansionary and accompanied by an accommodative monetary policy- remained prudent, with the budget deficit averaging 2.9 per cent. The budget deficit expanded in 2014, when government arrears (especially on VAT refunds to firms) started to be cleared. In 2017, the Government of the Republic of North Macedonia cut unproductive spending and reduced tax leakages, which resulted in a lowering of the deficit to less than two per cent of GDP in 2018 (Figure 27).

Figure 27 – Central government balance (% GDP), 2008-2020



Source: Ministry of Finance of the Republic of North Macedonia: Macroeconomic indicators (March 2021)

In 2007, the Republic of North Macedonia introduced a flat income tax system (at 10 per cent for both personal and profit income), with the goal to attract investment, reduce the tax wedge and promote job creation (zero tax rate on re-invested profits). The overall tax wedge on labour decreased from 32.5 per cent in 2008 to 27.2 per cent in the period 2010-2018 to then raise to 28 per cent in 2019. The tax system in the country presents both

progressive and regressive elements. Regressive elements are due to the minimum base for the payment of social security contributions (50 per cent of the average gross wage) and the maximum threshold for payment (set at wages 20 times the average wage).

Table 4 –Tax wedge on labour at different wage levels (2007-2020)

	2007	2013	2019	2020
33% of the average wage	50.7%	45.1%	46.3%	47.2%
50% of the average wage	37.6%	29.8%	30.6%	31.1%
67% of the average wage	38.3%	31.0%	31.7%	32.2%
100% of the average wage	39.6%	31.8%	32.7%	33.0%
167% of the average wage	39.7%	33.1%	33.6%	34.0%
20-fold the average wage	29.1%	10.2%	31.5%	28.1%

Source: Own calculations. The tax wedge is calculated for a single person as % of total labour costs.

Consequently, a worker earning 33 per cent of the average wage in 2013 had the higher tax wedge (45 per cent), while workers earning 20 times the average wage had a burden of only 10 per cent. In the period until the adoption of the Law on Minimum Wage, the workers earning lower salary than the minimum basis for the calculation of social security contributions, paid higher personal income tax and contributions (2013 – 45.1 per cent) than the workers earning salary higher than the minimum basis (2013 – 29.8 per cent). This issue was settled by increasing the minimum wage, thus, in 2020, the minimum basis for the calculation of social security contributions amounted to MKD 19,160, and the minimum salary amounted to MKD 21,107. The progressive element is represented by the fixed rate of the tax, which implies that it declines as a share of the wage when this latter increases. In 2019, the Government of the Republic of North Macedonia attempted to introduce a more progressive tax system (with rates of 18 per cent for personal incomes above 1,500 euro per month and 15 per cent for earnings from capital). This policy was abandoned (albeit only till 2023) considering the changing behaviour of economic agents, which caused a loss of tax collection in the range of 50 per cent compared to what would have been raised had the tax rates remained unchanged.

The share of indirect taxes – VAT and excises - was 14.7 per cent of GDP in 2019, which positions the Republic of North Macedonia in the middle of European countries' distribution. However, the tax base in the country is low due to the several tax exemptions currently in force, and the extent of the informal economy (estimated at around 38 per cent of GDP in 2016).³¹

The moderately expansionary fiscal policy of this period was accompanied by an accommodative monetary policy, centred on exchange rate anchoring and inflation targeting. Loans to the private sector doubled in a decade (a growth of 96 per cent), though

³¹ IMF: Country report 20/24, IMF, Washington D.C. 2020.

unevenly: loans to households increased by 2.5 times, while to firms by only 55 per cent.

Corporate activity and investment have been supported by the monetary policy of the Central bank, loans expansion, policies to attract foreign direct investments (FDIs) and increasing public investment. FDI inflows have been stable since 2007 at around three per cent of GDP and have been mostly greenfield, thus contributing to employment growth. FDIs also contributed to an increase in demand of medium-skilled workers (particularly those provided by vocational education and training system).³² Skills shortages for certain types of skills, however, are widespread and mainly addressed through on-the-job training funded by the support packages offered to foreign investors by the Government of the Republic of North Macedonia.

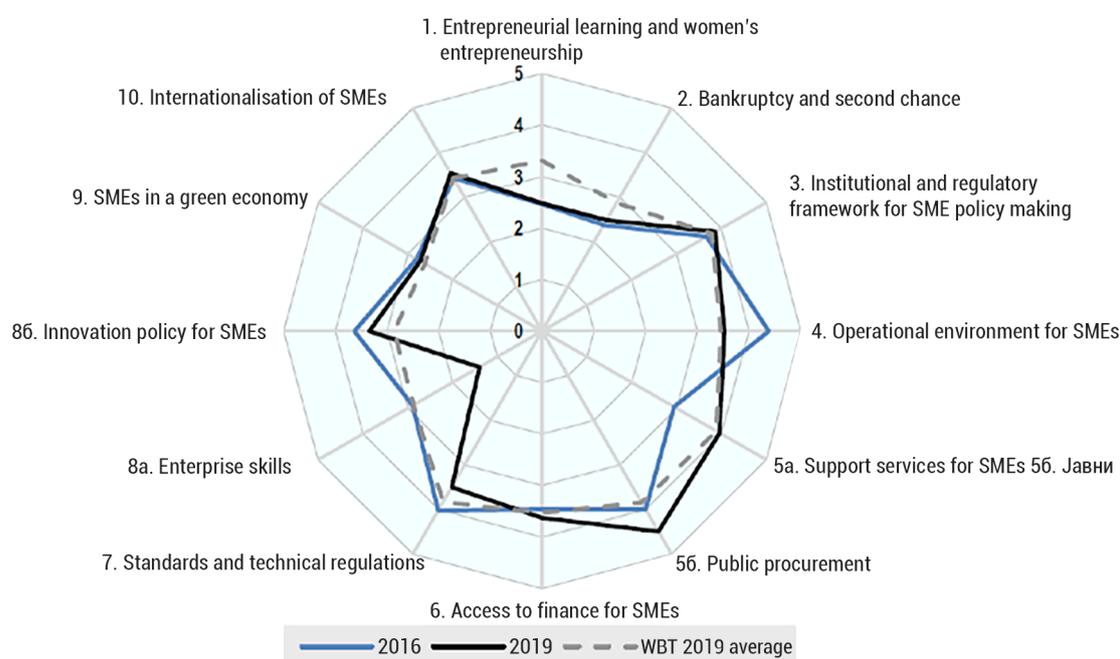
The above-mentioned macroeconomic policy package was accompanied by increasing public investment (and especially in infrastructure development since 2010). Gross capital formation as a percentage of GDP increased from 24.5 per cent of GDP in 2010 to 34.5 per cent in 2019, even though annual capital spending is often subject to under-execution.

The Republic of North Macedonia enacted in 2018 a strategy aimed at promoting small and medium-sized enterprises (SMEs) focused on the ten principles of the EU Small Business Act. Available data show that in the period 2016-2019, the Republic of North Macedonia lagged behind peer countries in standards and technical regulation, bankruptcy procedures and entrepreneurial learning and skills, while advancements were made in support services, public procurement and especially innovation policy (Figure 28). This latter inroad was supported by the establishment in 2013 of the Fund for Innovation and Technological Development, whose role and financial envelope expanded in the last couple of years to provide a wide range of financing and services to SMEs and start-ups. A recent evaluation of one of Fund's programmes finds that these grants were crucial for investment in innovation and labour productivity, but not so much for employment growth.³³

32 M. Petreski: *Migration, human capital and the labour market in North Macedonia: How they interact*. Torino: European Training Foundation. 2021

33 M. Petreski and D. Dimitrova: *Measuring the economic effects of State aid granted to private enterprises in North Macedonia: The case of the Government of the Republic of North Macedonia Plan for Economic Growth* (Finance Think Policy Studies 2021-04/34).

Figure 28 – Small Business Act scores for the Republic of North Macedonia



Source: OECD: *SME Policy Index: Western Balkans and Turkey* (OECD, Paris, 2019)

Despite the existence of a generally friendly business environment, there are still several challenges affecting the competitiveness of North Macedonia, namely the effectiveness of the judiciary (contract enforcement and insolvency), the quality of transport infrastructure, skills of the workforce and entrepreneurial culture. In 2019 the country ranked 82nd out of 141 countries in the Global Competitiveness Index, while in 2015 it ranked 60th out of 140 countries, with worsening scores in institutions, infrastructure, and innovation capacity.³⁴

In order to counteract the effect of the Covid 19 pandemic on households, workers and firms, the Government of the Republic of North Macedonia deployed a fiscal package amounting to approximately 10 per cent of GDP. The package included: (i) employment-retention measures; (ii) measures for direct support of individual and household income; (iii) deferrals of tax, rent, penalty and loan obligations; and (iv) loans at favourable terms to support the operations of companies. Estimates suggest that the measures saved 80,000 of the jobs projected to be lost (approximately 10 per cent of total employment in 2019). At the beginning of 2021, the VAT rate on food and beverages was reduced from 18 per cent to 10 per cent, also with the aim of reducing the informal economy, lower prices for citizens, as well as provide liquidity for the restaurant sector, one of compartments hardest hit by the crisis.³⁵

The policies of the Republic of North Macedonia for the promotion of competitiveness and

³⁴ World Economic Forum: *Global competitiveness report 2015 and 2019*.

³⁵ Ministry of Finance: *Economic Reform Programme 2021-2023* (February 2021); Finance Think: *Was it necessary to provide financial support to companies to retain jobs during the Covid-19 crisis?* (Finance Think Policy Brief 41/2020).

growth in the next programming period are embedded in the Economic Reform Programme 2021-2023. This strategic document focuses on three pillars, namely: (i) smart growth for recovery and sustainable development, (ii) fiscal consolidation and (iii) public investment. The first pillar of the strategy focuses on rendering public finance more effective and transparent. The second pillar comprises fiscal consolidation to narrow the deficit to two per cent of GDP by 2025, by improving revenue collection and increasing the tax base. The third pillar is aimed at increasing capital investment to bridge the infrastructure gap of the country, improving energy efficiency and at improving the health, education, and social protection systems.

3.2. Education and training policy

Since 2003, the Republic of North Macedonia has improved the access to education, with educational enrolment in schools and universities now near the levels of EU countries. In 2008 compulsory education was prolonged to the end of upper secondary education, thus increasing the rate of educational attainment for the younger cohort. Enrolment in early childhood education for children three years old increased from 21.8 per cent in 2007 to 32.8 per cent in 2018, but it is still well below the EU average (86.5 per cent in the same year).

In accordance with the Law on Secondary Education, students may enroll in gymnasium education, vocational educations, secondary art education and secondary education for students with special educational needs. The enrollment in the municipal secondary schools, and the secondary schools on the territory of the City of Skopje, is conducted via competition published by the Ministry of Education and science in the media by 31st March, at latest, upon previously submitted proposals from the municipalities and the City of Skopje. The enrollment in public schools is conducted via competition published by the Ministry of Education and Science in the media by 31st March, at latest. When they enroll in the first year of their studies, students select a certain educational plan and program in accordance with the terms and conditions set forth in the competition. Graduates from gymnasiums and four-year VET schools can take the national examination, required to enrol in tertiary education. VET students, in alternative, can opt for a final exam that gives access to the labour market. Vocational graduates often pursue higher education, due to the limited offer of technical education at the post-secondary level and the low status of secondary vocational qualifications.

The higher education system has expanded rapidly in the last two decades, both in terms of higher education institutions (from five in 2004 to 22 in 2017) and gross enrolment rates (from 15 per cent in 1991 to 40 per cent in 2019).³⁶ Rapid increases in the quantity of tertiary education, however, has not been accompanied by quality. Entry into higher education programmes is not selective, given the large size of the quotas for the Government of

³⁶ State Statistical Office of North Macedonia: *Enrolled students in undergraduate studies, 2019/2020*, https://www.stat.gov.mk/PrikaziPoslednaPublikacija_en.aspx?id=38

the Republic of North Macedonia -funded posts and the university funding mechanism, based on students enrolled. The accreditation process for private providers – where most of the increase of tertiary education offer occurred - has been rather loose. This means that the expansion of higher education in a period when the performance in international assessment has remained low, has resulted in many students entering higher education with major gaps in basic knowledge and skills, due to the loose assessment criteria. Weak selection also contributes to high dropout rates at this level of education (with completion rates at just 45 per cent), high unemployment rates among university graduates (15.2 per cent for the cohort 30-34 in 2019 compared to 4.6 per cent in the EU), and employers' claims about the lack of key skills in graduates.³⁷

The funding for education has declined from 4.6 per cent of GDP in 2011 to 3.7 per cent in 2018 pointing to a low priority for education among national policies. The country spends more on secondary and tertiary education (0.8 per cent of GDP in 2019) and less on early childhood education (0.29 per cent of GDP). Conversely, ensuring adequate investment in early years would be of the essence to tackle poverty, reduce inequality and lower the need of remedial education.³⁸

Some advancement has been made in the reform of the VET system, focusing on qualifications, work-based learning (WBL) and the validation of prior knowledge and skills. A tracer study of VET and higher-education graduates conducted in 2016 revealed that about two-thirds of the graduates were able to find a job fairly swiftly, even though the vast majority complained about either skills mismatches or long waiting periods to find a job, during which any career guidance offered by their schools proved unsatisfactory.³⁹ The Strategy for Vocational Education and Training in the Context of Lifelong Learning (2013–2020) and its Action Plan (*Better Skills for a Better Tomorrow*) are aimed at improving VET quality assurance, including alignment with the European Quality Assurance in VET (EQAVET) framework.

In order to reduce skills mismatch and skills shortages, the Ministry of Education and Science established a Skills Observatory, in partnership with the Ministry of Labour and Social Policy (MLSP) and the Employment Service Agency (ESA). The Observatory collects, analyses and disseminates information on higher education offers, curricula and skills development, education and training costs, job placement of graduates, and forecasting of labour demand. At present, a limit of the Observatory is the lack of access to university level data. In addition, it is unclear to what extent the information produced by the Observatory is used for policy making.

The ongoing policy developments in the area of education and training relates to: (i)

37 OECD: *The educational system in the Republic of North Macedonia* (OECD, Paris, 2019) <https://www.oecd-ilibrary.org/doc-server/9b99696c-en.pdf?expires=1618496318&id=id&accname=guest&checksum=67C505358BE3614862CA071F5CC1FB41>

38 Ibidem. A recent research shows that guaranteeing quality universal childhood education would had a positive impact on job creation (57,000 jobs) and on aggregate demand (with GDP approximately 6 per cent higher). UN Women: *Investing in free, universal childcare in the Republic of North Macedonia* (UN Women, 2019).

39 N. Mojsoska-Blazevski: *Tracing secondary vocational and tertiary education graduates in the former Yugoslav Republic of Macedonia: 2016 tracer study results* (European Training Foundation, 2017).

expanding the coverage of early childhood education (construction of new facilities, new funding mechanisms to make education accessible to children at risk, and teachers' training); (ii) reforming the primary and secondary education system, as set out in the Comprehensive Education Strategy for 2018-25; and (iii) increasing adult education and training offers and expanding recognition of prior learning services (through the adoption of a new Adult Education Law). The Government of the Republic of North Macedonia's *Comprehensive Education Strategy for 2018-25* and associated Action Plan for 2020 set out key actions to be undertaken in the coming years to improve teaching and learning. Priorities include developing student-centred instruction, measuring learning in terms of outcomes (rather than focusing solely on knowledge acquisition), introducing a national assessment, improving teachers' performance and promoting the inclusion of children at risk of poverty and social exclusion. The Government of the Republic of North Macedonia also aims to reform VET curricula to make learning more relevant to labour market demands. However, this strategic document did not establish targets on learning outcomes and did not set a monitoring and evaluation system to track policy implementation. The Law on adult education is centred on the organization and delivery of adult education and recognition of prior learning (RPL). The accreditation procedure for RPL providers is assigned to the Adult Education Centre, also responsible for ensuring quality of education delivery and monitoring of adult education offers.

Despite progress in increasing the quantity of education in North Macedonia, quality is still a concern and improving only marginally. Key reforms – such as the roll-out of the National Qualification Framework (NQF); the development of new education standards; the expansion of work-based learning; the use of the skills forecasting system to inform career choices and programme design; and development of adult training standards for workers – need to be accelerated and accompanied by improved policy coherence and coordination (at the central and local level) and a robust monitoring and evaluation mechanism to verify progress.

3.3. Labour market policies and institutions

In the period 2016-2020, the employment policy of the Republic of North Macedonia has been guided by the principles set forth by the National Employment Strategy (NES), centred on three strategic objectives: (i) increasing the efficiency and effectiveness of the employment policy, especially for groups at risk of labour market exclusion; (ii) improving the job creation capacity of private sector firms, and (iii) aligning educational outcomes to the requirements of the labour market.

The increase in efficiency and effectiveness of the employment policy rested around three broad policy reforms. The first reform related to the structure, organization, and service delivery model of Employment Service Agency (ESA) of North Macedonia. These reforms recognized that – in order to increase the quantity and quality of service delivery to groups at risk of exclusion, like long-term unemployed, young people, women, persons with

disabilities and national minorities – the Agency had to be provided with additional human and financial resources as well as new tools to manage the workflow, introduce activation strategies, and implement, monitor and evaluate new active labour market measures. The second reform envisaged the strengthening of the labour market information system to forecast labour demand needs, steer policy and programme design and guide the career choices of young people and adults alike. The third set of reforms focused on policy actions to address the double pronged objective to address informal employment in the domestic work and care sectors and promote women’s participation to the labour market. Finally, the strengthening of the Labour Inspectorate and the promotion of adult training in enterprises was considered instrumental to the reduction of informality and the increase of labour productivity.

For the improvement of the job creation capacity of firms, the NES (2016-2020) envisaged a further lowering of the administrative burden on enterprises, dedicated services for SMEs, investment in innovation and infrastructural development (given their potential on the improvement of employment quantity and quality); and support to firms in sectors with high value added.

In terms of alignment of educational outcomes to labour market requirements, the NES (2016-2020) encompassed the acceleration of the roll-out of the National Qualification Framework, the improvement of education quality at all levels, and especially in the VET system, the further development of vocational standards, the expansion of work-based learning and an increased offer of adult education and training.

It is not possible to measure exactly the progress made in each policy outcomes as expressed in the Strategy, given the absence of measurable performance indicators. However, the analysis of labour market indicators and the review of policies for employment indicate the persistency of specific challenges.

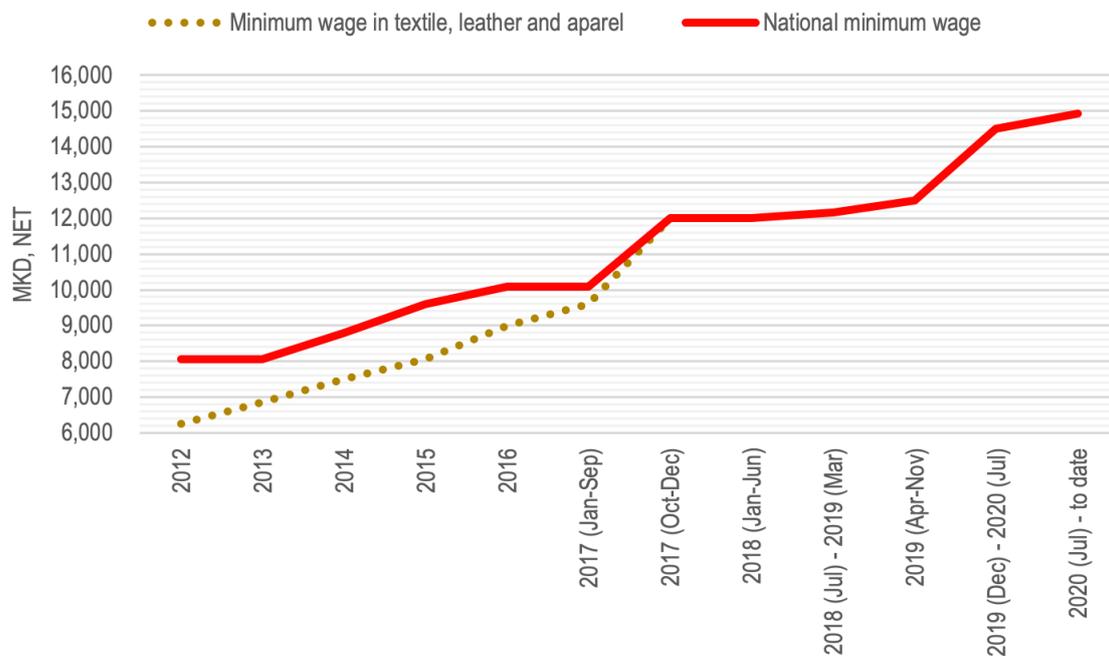
- First – and despite the improvement of performance indicators related to the delivery of employment services and programmes and the targeting of groups at risk of exclusion – the much-needed policy reforms of the structure, organization and workflow of ESA have been largely neglected. More specifically, the ESA has been required in the last five years to manage efficiently the additional funds provided by the EU as well as increase the pace of delivery of employment services and active measures, with an unchanged level of human resources.
- Second, the combination of several public policies (macroeconomic, sectoral, employment and SME policies) contributed to expand the private sector and to increase quantity of jobs, albeit only for certain groups of individuals (mainly adults). The quality of jobs, however, did not improve at the same pace, with temporary, precarious and low-paid jobs as well as informality remaining high.
- Third, there has been slow progress in aligning educational outcomes to labour

market needs. Skills mismatches are on the increase, the employment rate of recent university graduates remains the lowest recorded at EU level (55.3 per cent in 2019) and enterprises need to provide additional skills when recruiting newly graduate workers.

3.3.1. Wage policy

In 2012, the Government of the Republic of North Macedonia enacted a nation-wide statutory minimum wage in concertation with the social partners. For the initial three years, a lower minimum wage was envisaged for low-paying sectors (i.e., textiles and leather). In 2017, the minimum wage increased (by 19 per cent) and the sub-minimum for low-paying sectors was levelled out. Additional adjustments followed up to July 2020 when the minimum wage reached MKD 14,932 (Figure 29).

Figure 29–National minimum wage trends (2012-2020)



Source: Government of the Republic of North Macedonia of North Macedonia, Minimum wage legislation.

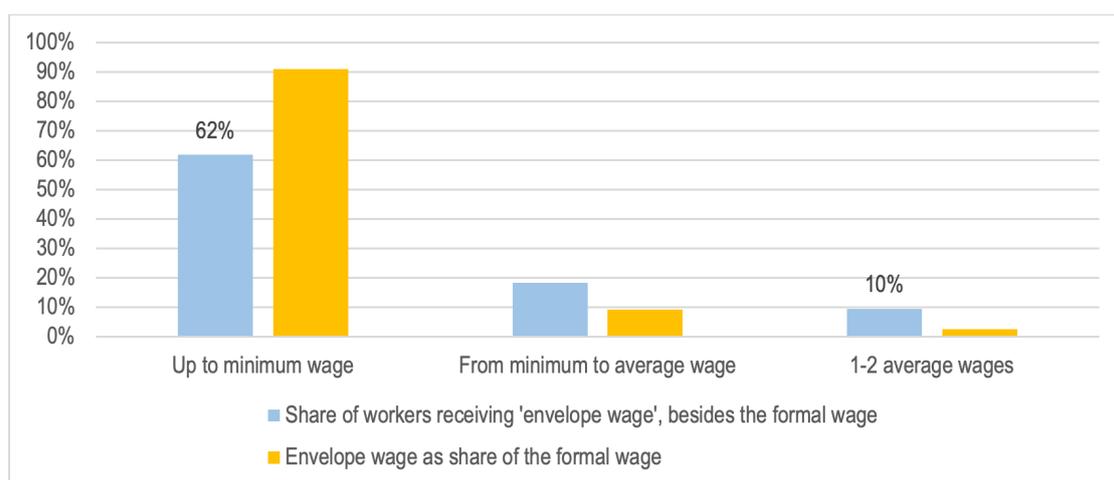
The Government of the Republic of North Macedonia expected the increase of the minimum wage to open a ‘wage spiral’ leading – assuming stable prices – to higher living standards and declining “envelope wage” practices. The wage spiral effect, however, was limited. In 2018, year following the first large increase in the minimum wage level, there was an increase of the share of workers earning MKD 12,000 -16,000. In 2019, research documented wage equalization in earnings in the bracket MKD 12.000-25.000, less so above it. This may be due to the limited application by employers of the pay scales set in collective agreements.⁴⁰ The 2017 minimum wage increase was accompanied by a

⁴⁰ M. Petreski and A. Ristovski: *Country review on the setting of wages through collective bargaining in North Macedonia* (ILO, Geneva, 2021).

government subsidy to support employers to close the gap between workers' prior wages and the new level of the minimum wage. The uptake of these subsidies, however, was low, as only 30 per cent of the funds allocated were claimed.

The Government of the Republic of North Macedonia also expected that minimum wage increases would reduce "envelope wage" practices, since the phenomenon is more pervasive among minimum wage workers and disappears at higher wage levels (Figure 30). Confronted with limited 'wage spiral' effects, the Government of the Republic of North Macedonia introduced a subsidy programme in November 2019 to waive social contribution payments for any wage increase ranging from MKD 600 to MKD 6.000 for three years, thus providing a strong incentive to formalize envelope wages. This policy initiative, however, was superseded by the employment retention measures introduced by the Government of the Republic of North Macedonia amid the Covid-19 crisis.

Figure 30 – Envelope wage practices for workers at different wage levels (2017)



Source: Finance Think: "Envelope wages" in Quality of Life in Macedonia no.1 (Skopje, Finance Think, 2017)

Box 1: Employment-retention measures during the Covid-19 pandemic

The Government of the Republic of North Macedonia introduced two measures to subsidize wages as a vehicle to rescue jobs after the outbreak of the Covid-19 pandemic. The first measure, introduced at the end of March 2020, envisaged the waive of 50 per cent of social security contributions for all workers earning at the average wage (from April to June 2020).

As the crisis intensified, the Government of the Republic of North Macedonia deployed in April 2020 a subsidy in the amount of 14.500 MKD (equivalent to the minimum wage) for each worker (excluding managerial posts) in firms that in March and April 2020 experienced a drop of turnover of at least 30 per cent compared to 2019 but had not dismissed workers. The initial coverage (April-May) was extended to June 2020. Two other subsidy rounds followed in (October-December 2020 and February-March 2021).

Available data show that the first round (April-June 2020) covered over 122 thousand workers per month for a cost of 85 million euro, while the second (October-December 2020) covered 71 thousand workers monthly with overall cost amounting to 70 million euro. The estimates suggest that this measure directly saved about 80,000 jobs.

Source: Information provided by the Government of the Republic of North Macedonia

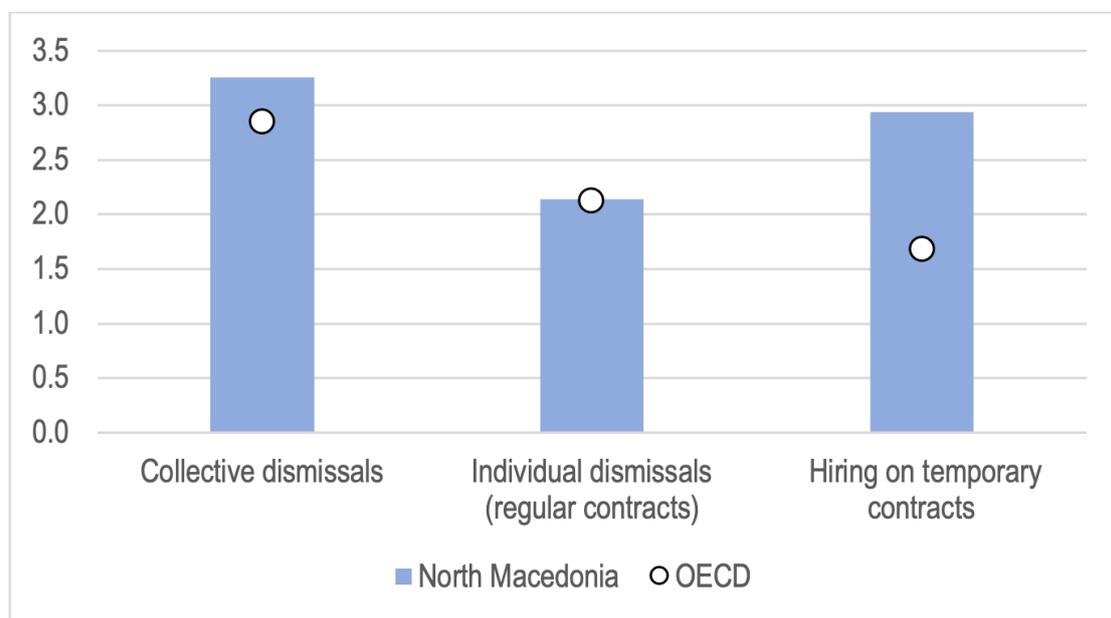
3.3.2. Employment protection legislation

Employment protection legislation (EPL) consists of labour law provisions governing the recruitment and dismissal of workers, and particularly regulations on temporary and regular contracts and collective dismissals. The impact of EPL on employment is a matter of diverging interpretations. On the one hand, it is argued that stricter EPL increases dismissal costs and reduces the flexibility of enterprises to adjust to the economic cycle. This would negatively affect employment in general - and youth employment in particular - by favouring those who are already employed to the detriment of those seeking employment (the “insider-outsider” effect). On the other hand, EPL is thought to ensure basic security, increase incentives for employers to invest in human capital and encourage cooperative labour relations, which should all lead to improvements in productivity and competitiveness.⁴¹

The overall EPL index measures the degree of strictness of employment protection legislation on a scale from 0 (very liberal) to 6 (very restrictive). Compared to the average of OECD countries, the Republic of North Macedonia has a similar level of EPL strictness for individual dismissals (regular contracts), while the index on collective dismissals and the hiring of workers on temporary contracts is stricter (Figure 31).

⁴¹ ILO: *Improving prospects for young women and men in the world of work: A guide to youth employment* (ILO Geneva, 2004).

Figure 31 – Employment protection legislation (EPL), Republic of North Macedonia and OECD average



Sources: OECD, Employment Protection Legislation database, last available year for the Republic of North Macedonia, <https://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm>

The maximum duration of temporary contracts in the Republic of North Macedonia is now five years, after several extensions of the threshold over the years to increase labour market flexibility. After the five years limit, the contract should be converted into indefinite-duration/permanent contract. In practice, however, this provision is often evaded by employers by slightly changing the duties of the worker. This practice has increased the share of workers with temporary work from 14.8 per cent of the total in 2011 to 16.7 per cent in 2019, with young workers over twice more likely to hold a temporary contract (35.1 per cent in 2019) compared to adults.

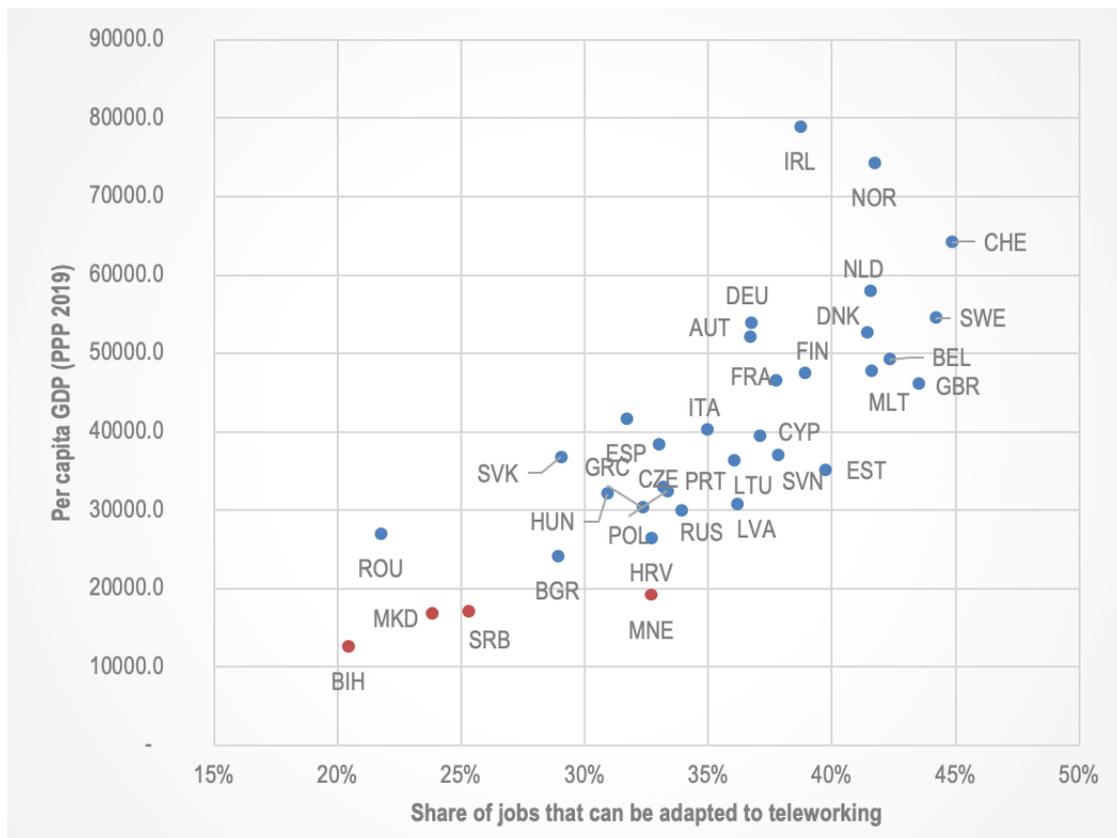
Labour regulations provide a flexible framework for the termination of contracts for both employers and employees, with several enforcement gaps. Notice periods are one month (two months for the dismissal of over 150 workers or five per cent of the total workforce). For seasonal workers, the notice period is seven working days. Notice period may be waived if parties mutually agree. Severance pay is rather low (ranging from one average wage for job tenure of 1-5 years to seven average wages for tenure of 25 years and longer) and it applies only for dismissal due to business reasons. No severance is due if the dismissal is at the request of the worker, or it is due to the under-performance of the worker or to a breach of discipline.

The Labour Code of the Republic of North Macedonia prescribes a written employment contract between the employer and the worker, which should comprise the job title, short job description, information about any job-related risks, hours of work, basic salary, holidays and annual leave as well as other allowances. The enforcement of the Labour

Code, however, remains a challenge. Research shows that the most common violations of labour rights relate to overtime payments (with 30 per cent of respondent workers claiming not to be paid overtime work), “envelope wages” (20 per cent of workers) and holiday days (20 per cent). Workers earning at the minimum wage are more exposed to violations compared to other workers.⁴²

Part-time and home-based contracts are not common in the country. Both need to be notified to the State Labour Inspectorate, with employers fearing exposure to inspections when issuing these types of contracts. Often, in order to reduce the tax wedge, employers conclude fictitious part-time employment contract, but workers work full time. Conversely, there is anecdotal evidence on an increasing use of new forms of flexible, home-based and online jobs, which goes undetected. Figure 32 below shows the share of jobs that could be adapted to teleworking in Europe compared to level of GDP per capita. Western Balkan countries have the lowest share of jobs that could be performed from home. This is due to the various structure of the economies, and in these countries, agriculture and processing industries are still predominant, where home-based contracts are not applicable, unlike the developed European countries where service delivery is predominant, which is easily adaptable to teleworking.

Figure 32 - Feasibility of tele-working and per capita GDP, Europe



Source: J. Dingel and B. Neiman: *How many jobs can be done at home?* NBER Working Paper No. 26948, Cambridge, National Bureau of Economic Research, 2020
 (*) Data are from 2019 or latest available data. Data in orange refer to the Western Balkan countries; data for Kosovo and Albania were not available.

42 Online survey of Finance Think on workers' experiences relating to the provision of the Labour Code, May 2018

In North Macedonia, 23.8 per cent of jobs could be done from home, half of those in Northern Europe and in the United Kingdom. While the legislative framework certainly plays a role in determining the share of jobs that can be teleworked, the type of occupation and the job tasks also represent a significant limiting factor. In North Macedonia, for example, most of absences from work during the Covid-19 pandemic were found in the manufacturing, trade and accommodation sectors, among older (50-64) and low-skilled workers, contributing to the unfeasibility of working from home for a large share of workers.

3.3.3. Active labour market policies

3.3.3.1. Public employment service (PES)

The main objective of the Employment Service Agency (ESA) of the Republic of North Macedonia is to ease the matching of unemployed individuals with job vacancies in enterprises. The ESA was developed based on the organizational principles laid down in the ILO's Employment Service Convention and it implements all core functions of a modern Public Employment Service (collection of labour market information, job matching, delivery of active labour market programmes and administration of the unemployment benefits to eligible unemployed).⁴³

Since 2010, the ESA considerably expanded employment service and programme delivery, accompanied by the introduction of new tools to manage the workflow (individual employment planning and profiling), the deployment of a robust performance monitoring system for the implementation of active labour market programmes and the establishment of an articulated organizational structure, at least the central level.

The reviews carried out over the past years on the functional organization of the ESA consistently report challenges related to human resource levels (high staff-to-client ratios); reliance on donors' funding for staff training; limited funding allocation for the implementation of active labour market programmes (and increasing reliance on EU funding allocation); and limited investment in infrastructure (refurbishing/re-construction of employment centres, ICT equipment and software solutions).⁴⁴ The staff-to-unemployed ratios (1: 226) in 2019 was over twice the benchmark used at the international level to signal quality service delivery.⁴⁵ More specifically, the ESA is affected by a chronic lack of psychologists, who are of the essence for the delivery of career guidance services and psychological support to groups at risk of exclusion.⁴⁶

⁴³ The Employment Service Convention, 1948 (No 88) was ratified by North Macedonia in 1991.

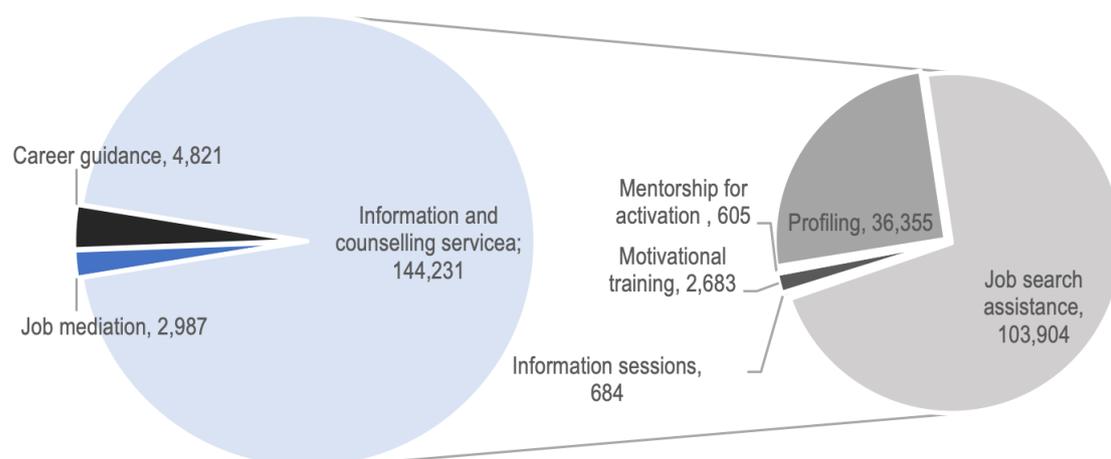
⁴⁴ ILO: *Assessment of delivery of employment services and programmes for youth by the Employment Service Agency of the former Yugoslav Republic of Macedonia* (ILO, Budapest 2015); KPMG-UNDP: *Functional analysis of the Employment Service Agency of North Macedonia* (2019).

⁴⁵ In 2019 the ESA had over 101 thousand persons registered as unemployed (other jobseekers are excluded), and 449 staff operating at the local level (all considered front staff). See KPMG-UNDP: *Functional analysis of the Employment Service Agency of North Macedonia* (2019).

⁴⁶ Ibidem.

The portfolio of employment services includes: (i) delivery of labour market information; (ii) employment counselling, including profiling, job search assistance, motivational training, individual employment planning; (iii) career guidance services; and (iv) job mediation (matching between unemployed and enterprises offering job vacancies). In 2019, approximately 95 per cent of the total number of persons registered with the ESA received labour market information and counselling services (over 144,000 unemployed and jobseekers), of whom nearly three fourths were referred to job search assistance services (of which 53 per cent were women, and 37 per cent were young people aged 15-29). Career guidance was provided to three per cent of the total number of registered unemployed, mostly young people aged 15-29, and job mediation to two per cent (Figure 32). The low share of unemployed attending job mediation services is because this service triggers at the request of the employer. The online web platform of the ESA, however, allow individuals and enterprises to freely search for job vacancies and personal CVs. The relative low share of career guidance services, by contrast, is due to the limited number of psychologists available in ESA local employment centres.

Figure 33 – Delivery of employment services in 2019



Source: Employment Service Agency of Republic of North Macedonia (ESA): Annual Report 2019.

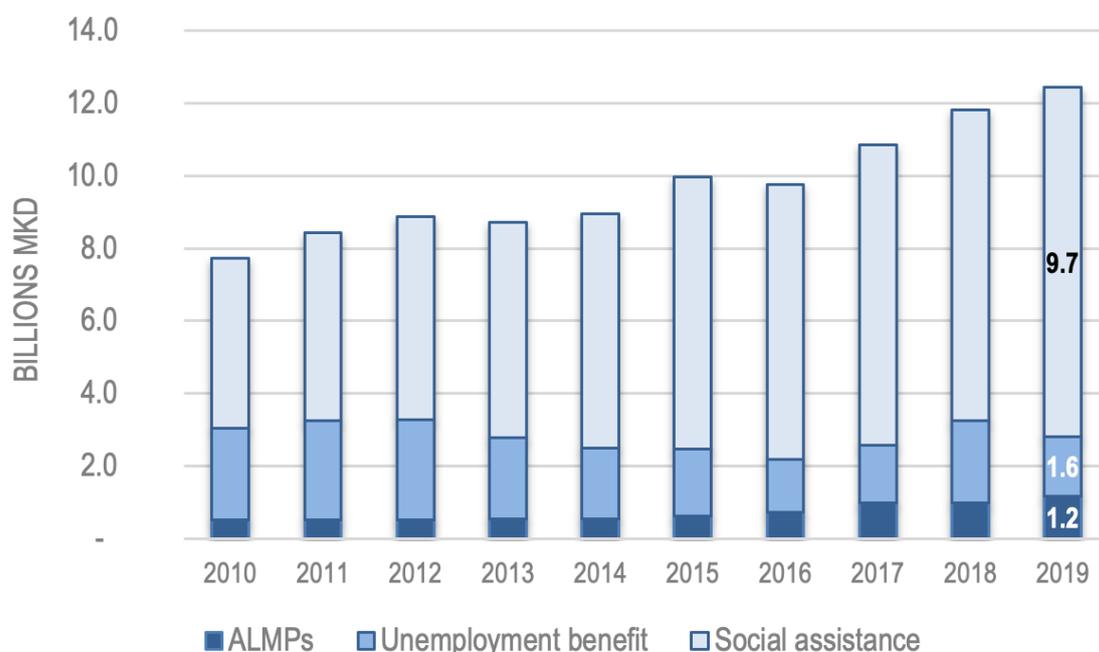
3.3.3.2. Labour market integration programmes

The Republic of North Macedonia's spending on active labour market policies (ALMPs) is low, with little coverage of unemployed individuals. In 2019, the country spent about 0.17 per cent of GDP on ALMPs (Figure 34), with active measures covering approximately 6.2 per cent of the total number of registered unemployed. Proportionally the country spends more on passive measures, and especially on social assistance.

The funds allocated to active labour market policies (ALMPs) started to increase in 2014 and surged in 2020, when the allocation increased by 45 per cent (from 20 to 29 million euro, or 0.28 of GDP) due to the anti-crisis policy package deployed by the Government of

the Republic of North Macedonia, with a planned coverage rate of 8.3 per cent of registered unemployed.

Figure 34 – Spending on active and passive labour market policies, 2010-2019



Source: Employment Service Agency and Government of the Republic of North Macedonia budget, 2010-2019

The ESA has a quite developed portfolio of active measures, which include adult vocational training, job subsidies, public works, vocational rehabilitation, and inclusion of persons with disabilities, as well as start-up grants (Box 2 and Figure 35). In 2019, the employment rate at follow-up for participants to active measures was 58.2 per cent, while 29.1 per cent were unemployed and 12.6 per cent were in an unknown destination.⁴⁷

Box 2 Active labour market measures in the Republic of North Macedonia

Training: The ESA has a good training offer, which comprise on- and off-the-job training targeted to the requirements of employers, occupations in demands, basic and advanced IT skills. All programmes lead to a recognised qualification. In 2019, approximately 8 per cent of the total budget available for ALMPs was earmarked for training, with training measures covering 23 per cent of the total number of unemployed enrolled in ALMPs.

Traineeship: The internship programme (targeting young people up to 34) organized by the ESA as a part of ALMPs is in line with the traineeship programmes implemented in the EU and with the European Quality Framework, in terms of design, compensation levels, duration and social protection entitlements. In 2019 the country adopted a Law on Traineeship, whereby employers can provide traineeship ranging from 3 to 6 months, with

⁴⁷ "Unknown destination" means that the person could not be traced as employed or unemployed through administrative data.

a traineeship allowance set at 42-74 per cent of the minimum wage for internship up to three months, and to the level of the minimum wage for the duration beyond. In 2019 the share of ALMP expenditure for traineeship amounted to three per cent of the total, while interns represented 20 per cent of ALMP participants.

Job subsidies: The ESA provides a direct grant to employers recruiting unemployed persons, with higher amounts granted for the recruitment of young people (up to 29 years old). The grant obliges employers to maintain the job for one year after the end of the subsidy. In 2019 this programme commanded 32 per cent of ALMP resources and covered 24 per cent of ALMP participants.

Public works: organized at municipal level, are aimed at providing unemployed persons with temporary work opportunities, while providing much needed infrastructure at the local level. The programme targets individuals with no or low skills, including social assistance beneficiaries. In 2019, public works were allocated 3 per cent of the overall ALMP envelope for 11 per cent of total ALMP participants.

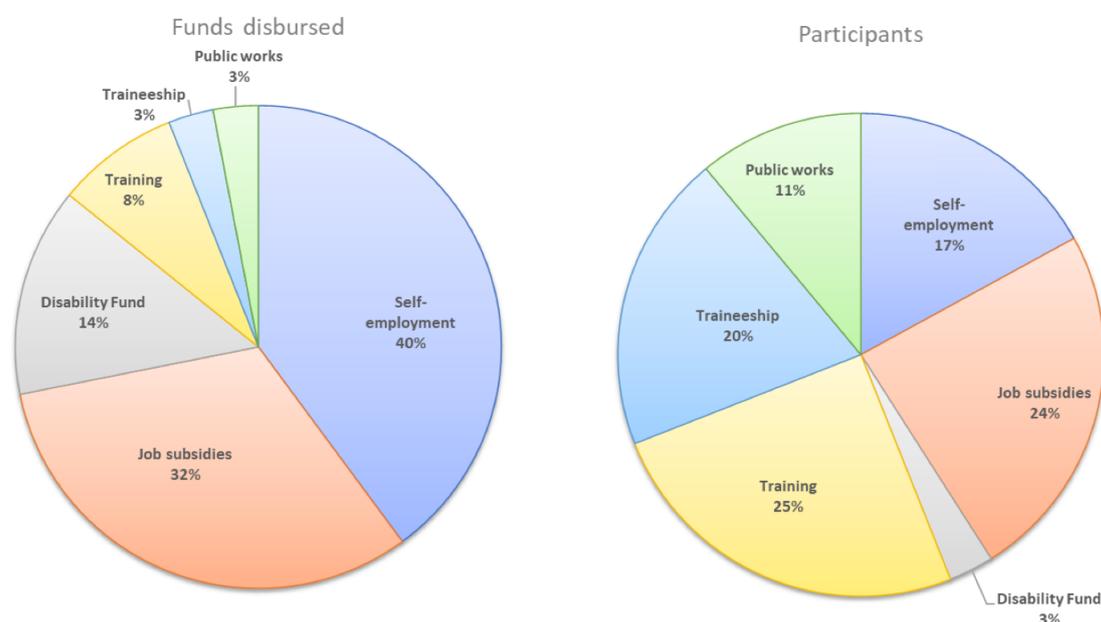
Vocational rehabilitation and employment of persons with disabilities: Programmes include vocational rehabilitation services for persons with disabilities, employment subsidies, adaptation of the working space and recruitment of work assistants. The funding for these services and programme is sources by a dedicated Disability Fund. In 2019, approximately 14 per cent of the total ALMP spending was invested in these programmes, targeting three per cent of the total ALMP beneficiaries.

Self-employment assistance: This package includes information, business skills training, support to develop a business plan and access to a non-refundable grant ranging from 5,000 to 10,000 euro, as well as a loan facility at favourable interest rates. In 2019, this service line accounted for 40 per cent of total ALMP spending and targeted 17 per cent of total ALMP beneficiaries.

Source: Employment service Agency (ESA): Annual report 2019

The most cost-effective programmes – calculated as total costs per participant – are traineeship and public works (392 euro and 554 euro per participant), while the least cost effective are vocational rehabilitation and the self-employment programmes (at 11,900 euro and 5,330 euro per participant on average).

Figure 35 – Active labour market measure, disbursements, and participants (2019)



Source: Employment service Agency (ESA): Annual report 2019
 (*) The disbursement for self-employment loans and participants is not available.

In 2018 the Government of the Republic of North Macedonia introduced the Youth Guarantee (YG), modelled on the EU one, on a pilot basis in three local employment centres. The YG in the Republic of North Macedonia targeted young people (15-29) neither in employment or in education and training (NEET), with the aim of providing them with a quality offer of employment, continued education or training or a traineeship within four months from leaving school or becoming unemployed. The YG implementation plan also envisaged the piloting of outreach activities, in partnership with the Ministry of Youth and Sports, and early intervention measures, in partnership with the Ministry of Education and Science.

In terms of labour market integration measures and the delivery of employment, education and training, and traineeship offers within four months, the 2018 figures of the North Macedonian YG were mostly in line with the average found in EU countries, as approximately 41.9 per cent of the over 5,200 young persons registered in the YG received an offer within four months. Over 36 per cent received an employment offer, while 3.1 per cent received a traineeship and 2.2 per cent a training offer. Over 23 per cent of young beneficiaries were in an unknown destination at the end of the reporting period.⁴⁸

Based on these promising results, the YG scheme was extended to the whole country in 2019, when over 20 thousand young persons registered to receive support. As the numbers scaled up, however, results started to decline, with just 35 per cent receiving an offer within the four-month timeframe. The same occurred in 2020, when the YG recorded over 25,000 young people registering in the YG, of whom just 34 per cent received an offer

⁴⁸ See European Commission: *Data collection for monitoring of the Youth Guarantee 2017* (Brussels, 2018)

within four months.

The worsening performance of ESA in relation to the YG offers is due to several factors. First, the roll-out of the YG would have required an extensive reform of the Employment Service Agency, in terms of human and financial resources, workflow, staff training and innovative tools to ease service delivery to clients. Second, the roll-out of the YG in the whole country skewed participants' composition towards low-skilled persons, more difficult to place and requiring intensive assistance prior to their transition to the labour market. Finally, the Government of the Republic of North Macedonia adopted in May 2019 the Social Protection Law that envisages a minimum guarantee income targeting poor households.⁴⁹ This new benefit is conditioned to (i) registration with the Employment Service Agency; (ii) active job search and acceptance of suitable job offers (i.e. aligned to the person's professional qualification, knowledge and capabilities); and (iii) compliance with the provisions of the Individual Activation Plan, jointly compiled by the caseworker of the ESA, the caseworkers of the Social Work Centre and the beneficiary. This reform represented a major overhaul of the social assistance system in the country and completely overturned the system of incentives that make work attractive and accessible. The introduction of activation strategies and of the YG put the ESA service delivery system under stress. These two policies placed an additional burden on ESA staff in terms of having to deal with a new typology of clients in need of tailor-made assistance and close monitoring to be successfully activated. In EU countries, for example, the PES staff dealing with individuals at risk (especially long-term unemployed and social assistance beneficiaries) normally have a staff-client workload ranging from 1:50 to maximum 1: 80.

3.3.4. Passive labour market policies

The social protection system in the Republic of North Macedonia consists of several schemes, the most important of which are the unemployment benefit and the Guaranteed Minimum Assistance (GMA).

The unemployment benefit amounts to 50 per cent of the person's average salary in the last 24 months of employment, up to maximum 80 per cent of the national average salary in the previous month. The benefit duration depends on job tenure and ranges from one month payment for tenure up to 9 months up to one year for workers with tenure of over 25 years. At the end of 2019, less than three per cent of registered unemployed were entitled to the unemployment benefit, with an annual disbursement equal to 26 million euro. In the period 2012-2019 the number unemployed entitled to the unemployment benefit declined five times (from over 21,000 individuals to less than 5,000 in 2019), due to improving labour market conditions, the strictness of unemployment benefit legislation and the practice of employers to dismiss workers by using the formula of "termination of contract by mutual consent", thus making workers ineligible for the benefit. The ESA reports that at the onset of the Covid-19 crisis only 16.2 per cent of newly registered unemployed were entitled to the benefit, clearly demonstrating the ineffectiveness of this labour market

⁴⁹ Information provided by the Ministry of Labour and Social Protection.

institution to protect workers during a downturn. Against this backdrop, the Government of the Republic of North Macedonia relaxed the eligibility criteria for the unemployment benefit, extending the benefit to all those workers that had terminated their contract “by mutual consent” between March and April 2020, for maximum two months.

In 2019, the country introduced a comprehensive reform of the social protection system, which now comprises a guaranteed minimum assistance (GMA); child allowance; education allowance; disability benefit and care-giver benefit; social pension for elderly (65+); permanent financial assistance (for individuals who are not able to work); and one-time allowances for specific circumstances.⁵⁰ The objective of the reform was to reduce poverty and to increase the effectiveness and efficiency of social transfers. The reform also introduced activation strategies for social assistance beneficiaries, to be delivered jointly by the Centres of Social Work (CSW) and the ESA employment centres.

The cornerstone of the reform has been the introduction of the means-tested Guaranteed Minimum Assistance targeting individuals living in households with an income below MKD 4,000 per month. The benefit is payable to the individual that holds the right to the assistance, and for each next adult and child member of the household based on a system of coefficients. The benefit does not decline over time, but with the requirement for unemployed beneficiaries to register with the ESA, sign an individual employment plan and actively search for work. At the beginning of 2020, about 28 thousand households were recipients of GMA, with an annual spending of about EUR 40 million, amount that is expected to decline once the relaxation of eligibility criteria due to the Covid-19 pandemic is discontinued.

Two other key elements of the reform were the introduction of the child allowance (CA) and educational allowance (EA). The entitlement to these allowances is for households with children in regular education up to 18 years of age and with income below MKD 6,000 per month. The maximum amount of child allowance that a household can receive is MKD 2,415, while the amount of the education allowance is 700 MKD per month for a pupil in primary education and 1,000 MKD per month for a pupil in secondary education. At the beginning of 2020, nearly 20 thousand households were beneficiary of the child allowance, and 12,000 households benefitted for the education allowance. The annual spending for both allowances mounted to EUR 5.4 and EUR 2.2 million, respectively.

The estimates on the impact of the social protection reform show that poverty should have been reduced to 18.7 per cent by 2019.⁵¹ Conversely, the figures on poverty show that this remained substantially unchanged (at around 22 per cent), although there are signs that the introduction of the child allowance and of the social pension for elderly persons reduced the poverty rate for the respective groups. Among children, poverty declined from 29.3 per cent in 2018 to 27.8 per cent in 2019, while for single-person elderly (65+) households from 6.1 per cent to 3.1 per cent over the same period. Total spending on

⁵⁰ Information provided by the Ministry of Labour and Social Protection.

⁵¹ M. Gerovska: *Tackling child poverty through reformed child support in the Former Yugoslav Republic of Macedonia*. European Social Policy Network (ESPN) Flash Report 2018/43.

social assistance increased from 1.3 per cent to 1.4 per cent of GDP.

During the Covid-19 crisis the eligibility criteria of the GMA were relaxed to protect individuals from falling into poverty. The new criteria envisaged: (i) means-testing based on the prior month income (rather than the prior three months); and (ii) allowing beneficiaries to own the house/apartment of residence and one small vehicle. The estimates show that this measure had positive effects on the income of the poorest segment of the population, with additional government spending of 4.7 million euro. The Government of the Republic of North Macedonia also provided one-off financial support in July 2020 (targeting GMA beneficiaries, registered unemployed, low-paid workers and young people registered in public education institutions) and in December 2020 (registered unemployed and jobseekers, pensioners with low income, single parents and youth left out from the July support). The total amount invested totalled 50 million euro.

3.3.5. Social dialogue

Tripartite social dialogue in the Republic of North Macedonia is grounded on the 2010 agreement between the Government of the Republic of North Macedonia and the social partners to establish the Economic and Social Council (ESC) at the national level as well as Local Economic and Social Councils at the local level. The ESC has a broad mandate, covering economic and social policies. However, the opinion of the ESC is mandatory only for policies related to labour relations, employment, pension and disability insurance and occupational health and safety. In practice, the scope of the ESC interventions has been limited to the area of labour and social affairs linked to the mandate of the Ministry of Labour and Social Policy. At the local level, despite some progress in raising awareness on the benefits of social dialogue, the utilization of the Local Economic and Social Councils as an effective tool for self-governance is still limited. The ESC works like a forum bringing the social partners to discuss socio-economic issues and has no research or analytical capacities. Central to the social dialogue is collective bargaining (CB), organized at national, branch and enterprise level. The wage setting mechanism is governed by a specific collective agreement, one for the private sector and one for the public administration. The main deficiency of the wage setting mechanism in the private sector is its low coverage (32.5 per cent) due to the prevalence of micro and small firms, apart from the fact that the general collective agreement for the private sector applies to all employers and employees in the private sector.

In the course of 2020, upon the COVID-19 outbreak, a task force to tackle COVID-19 and the world of work was established. Based on the “Rapid Assessment of the impact of COVID-19 on employment and the labour market in North Macedonia” developed by the ILO and EBRD, the ESC proposed a set of coronavirus emergency measures to ease the crisis. The Government of the Republic of North Macedonia consulted the Economic and Social Council about the second, fourth and fifth package of economic measures in 2020-2021, which resulted in acceptance of the proposals to expand the unemployment benefits measure, to expand the minimum wage subsidies, as well as the requirements and criteria to be met in order to be eligible to utilize the appropriate support.

4. PRIORITY POLICIES FOR EMPLOYMENT (2021-2027)

4.1. Problem Identification

There has been progress in the economic and labour market situation of the Republic of North Macedonia in the years since the adoption of the 2016 National Employment Strategy. Economic growth has proven resilient, albeit at a lower average rate compared to the period before the global economic and financial crisis. Labour market trends for the working age population have also turned positive, with increasing activity rates, improving employment-to-population ratios and declining unemployment rates. These inroads have been slightly more pronounced for adult men (25-64) compared to women, thus determining an increase in the gender employment gaps (from 20 to 22 percentage points). Improvements in the youth (15-24) labour market have been more subdued with declining unemployment rates and raising employment mostly due to demographic factors rather than job creation. Youth employment continues to remain a pressing challenge, given the low employment (20.7 per cent for the cohort 15-24) and high unemployment rates (35.8 per cent).

The analysis of the labour market situation points to the following persisting challenges:

- Education and training pays a premium in the labour market and has a positive impact on participation, employment and unemployment for adults, but it does not protect against skills mismatches and does not shield young people from unemployment. Higher education achievements are positively related to labour market outcomes, as individuals with primary education only are more likely to be unemployed than individuals with secondary and tertiary education. The fact that the unemployment rate of tertiary educated youth is higher than for young people with secondary education reflects a misalignment of higher educational outcomes with the requirements of an economic system characterized by micro (often family-owned) and small enterprises unable to absorb increasing cohorts of young high-skilled individuals. Labour demand has shifted towards medium-skilled workers, but the vocational education and training system remains unable to provide individuals with the skills required by employers, leading to skills mismatches on the one hand, and skills shortages, on the other. An additional issue is the very low interest of pupils who completed primary education to enroll in vocational secondary schools. The training capacity of enterprises remains limited and reliant on Government support, with the share of adults (25-64) attending adult learning three times lower than the EU average (12.7 and 43.7 per cent, respectively). Only recently early childhood education has been receiving the policy attention it deserves, as a tool to improve learning outcomes,

ensure the inclusion of groups at risk of poverty and increase women's participation in the labour market.

- The late structural transformation experienced by the country, the limited output performance of the last five years, coupled with a low responsiveness of employment to economic growth has slowed the upward trend in employment. Most firms are micro-enterprises (less than 10 workers): this affects their capacity to innovate and absorb new technology. The unfair competition exerted by firms in the informal economy, the enforcement of the rule of law and the capacity to innovate remain the most problematic areas still to be addressed for private sector development. Employment in the informal economy remains high with higher incidence among young people, low skilled workers and within certain sectors of the economy, such as agriculture, construction and food and accommodation services. The policies of the Government of the Republic of North Macedonia intended to improve the business environment and support SMEs in innovation and technology development have been successful, but their effectiveness could be further maximized by addressing institutional and taxation bottlenecks (contract enforcement, para-fiscal charges, coherence and predictability of policies).
- Notwithstanding the effectiveness of the employment services deployed by the ESA to help the unemployed back to work, the Government investment in active labour market policies remains well below the EU average (0.17 per cent and one per cent of GDP, respectively). Therefore, it is necessary to increase the funds allocated to active labour market policies, as well as to strengthen the capacities of the Employment Service Agency. ESA functions are constrained by lack of human resources, poorly developed physical and IT infrastructure – especially in smaller employment offices – which results in an uneven service delivery throughout the country. The introduction of the Youth Guarantee in 2018 and of mandatory activation strategies for GMA beneficiaries in 2019 further complicated service delivery, as shown by lowering return rates of service and programme implementation.

The economic policies adopted so far have been effective in creating a favourable environment for economic growth and succeeded - to an extent - in promoting employment growth. The enterprise development strategies enacted to improve the legal framework and access to financial and non-financial services had a positive impact on the business climate. However, enterprises still face a number of constraints to productivity, both endogenous (i.e., management capacities, technology and innovation; investment and skills base of the workforce) and exogenous (i.e., effective state institutions and predictable regulatory environment). Strategies to address informality focus on the regulatory and business environment and the effectiveness of the deterrence system. Policy initiatives aimed at making the regulatory environment more predictable and user-friendly, streamline para-fiscal charges and improve the efficiency of the inspection system, should be prioritized.

The most recent reforms of the education and training policy are focused on inclusiveness

and on increasing the quality of educational outcomes at all levels. The achievement of these goals, however, requires higher public investment, a restructuring of education spending, improved policy coherence and coordination and a robust policy monitoring and evaluation system to ensure that every acquired diploma guarantees a minimum level of knowledge and skills.

The Covid-19 pandemic is likely to have long-lasting effects on the Macedonian economy and the labour market. The measures of the Government of the Republic of North Macedonia have succeeded – to a large extent - in avoiding job losses, enterprise closures and poverty increases. The size of the economic rebound forecasted from 2021 onward, however, will be crucial for the enactment of the fiscal policies (expanding the tax base, reducing the deficit, and increasing public investment) required to support employment and protect the most vulnerable population groups.

Box 3: Main employment determinants	
Macro-economic framework	<ul style="list-style-type: none"> • Low employment intensity of growth, requiring at least 5 per cent GDP growth rates to accelerate convergence of GDP per capita to EU levels; capital spending too limited to boost employment and limited job multiplier of capital spending for young workers; low effectiveness of social transfer in reducing poverty compared to the EU. • The Covid-19 pandemic will affect the labour market for many years if the economic rebound is lower than projected and fiscal policies enter a consolidation stance too soon.
Education and training	<ul style="list-style-type: none"> • Insufficient quality of education outcomes; lack of relevance of education outcomes to labour market needs; still limited linkages with industry and the world of work. • Low level (quantity and quality) of adult training provision; few lifelong learning opportunities for those who missed out; qualification and certification system as well as recognition of prior learning still lagging. • Low public investment in education, with education spending skewed towards secondary and tertiary education. Early childhood education still insufficient to ensure inclusiveness and promote women's participation to the labour market. • The shift of demand towards middle-skilled workers has not been accompanied by the strengthening of post-secondary, non-tertiary VET provision.

Enterprise development	<ul style="list-style-type: none"> • Endogenous and exogenous productivity constraints to enterprise development; still low innovation capacity of firms, due to a structure skewed towards micro and small enterprises; difficulties in entering global supply chains. • Scant investment in human resource development; still limited access to quality business development services, especially for small enterprises; poor institutional coordination and policy coherence; institutional factors still hampering development (judicial proceedings, para-fiscal charges, unpredictable policy changes). • Informal economy still large and undermining revenues of the Government of the Republic of North Macedonia revenues, which could be invested in infrastructure, skills and innovation.
Labour market	<ul style="list-style-type: none"> • Low participation of women and young people in the labour market, slow increase in youth and women employment rates and high percentage of long term unemployed. • High rates of temporary and casual employment; higher incidence of informality among young people, the low-skilled and certain economic sectors (agriculture, construction, accommodation and food services). • Inadequate national investment in employment services and programmes, despite relatively good performance. • The Employment Service Agency (ESA) lacks human resources and has a poorly developed physical and IT infrastructure, which results in uneven service delivery. The introduction of two major policy reforms (the Youth Guarantee and the mandatory activation of GMA beneficiaries) is negatively affecting service delivery capacity.

4.2. Policy priorities

The guiding scenario for the identification of employment policy options for the period 2021-2027 is provided by: (i) the Economic Reform Programme 2021-2023; (ii) the policy priorities established by the Government of the Republic of North Macedonia in the field of education and training, private sector development and social protection; and (iii) available macroeconomic and employment projections.

The macroeconomic and fiscal policies to be pursued by the Government of the Republic of North Macedonia the medium term will focus on promoting economic recovery, increasing private sector competitiveness, supporting job creation, and raising living standards. In the period 2021-2025, the economy is projected to grow at a rate of 5.1 per cent on average, fuelled by increases in investments, consumption, and external demand. Major infrastructure projects will improve the transportation network, energy efficient infrastructure, as well as the education, social and health systems. The main risks

to the North Macedonian economy are a protracted Covid-19 crisis, a possible delay of the recovery in the EU countries (the main trading partner), and the need to maintain high public spending to support the economy, household and workers till the pandemic is over.

If the economy rebounds as expected, this will have a positive effect on labour market trends up to 2027. According to available employment projections, the employment-to-population ratio will increase to 60 per cent, while the unemployment rate will decline to 11 per cent for the working age population. The youth (15-24) labour market will also improve, with employment-to-population ratios increasing to 22 per cent by 2027 and the youth unemployment rate declining to 26 per cent. The pre-condition for the achievement of the above-mentioned economic growth rate is the maintenance of a fiscal stance conducive to employment creation, with fiscal consolidation measures adequately timed and focused on increasing the tax base and reducing inefficiencies in capital spending.

Given the available policy space, the priorities to improve overall employment touch upon education and training, private sector development and labour market policies. Their interaction with macroeconomic, investment, and social protection policies is expected to improve both the quantity and quality of employment. The medium-term effect of the combination of these policy options on employment is presented in the following paragraphs. For each policy area, the analysis and appraisal of options builds upon the existing policy context and elaborates on expansions and adjustments that are necessary to maximize the outcomes in terms of employment growth.

The reform of the education and training system implemented in the last few years was instrumental to provide access to basic education for all, increase educational attainment rates and reduce early school leaving. The general increase in the quantity of education, however, was not accompanied by an increase in its quality and relevance for the labour market. This is evidenced by the mismatch between workers' skills and those demanded by enterprises (approximately 30 per cent of all workers have skills that do not match the job they hold).

Redressing this situation requires a strong acceleration of ongoing educational reforms and improved coordination among the institutions responsible for education and training, labour market and enterprise development policies. The policy options for education and training build on:

- The reform of the whole education and training system – from childhood education to university - to increase the quality of educational outcomes and promote inclusiveness. This will be supported by an increase of annual public investment and the restructuring of the funding mechanisms across education levels.
- The acceleration of the reform of the VET system (as set forth in the *Strategy for Vocational Education and Training 2013-2020, Better Skills for a Better Tomorrow*) and the strengthening of VET post-secondary, non-tertiary programmes to equip individuals

with the skills required by the labour market.

- The expansion of adult learning provision – including digital skills - and the full roll-out of recognition of prior learning mechanisms to improve the skill base of the workforce.
- The strengthening of the Education Management of Information System (EMIS) to monitor progress in educational outcomes and the maximization of available information tools (Skills Observatory, Occupational Outlook) for guiding the formulation of education and training policies and programmes.

The Republic of North Macedonia faces an infrastructure gap of 53 per cent compared to the European Union.⁵² The opportunity to advance in this area is provided by the public investment programme 2021-2025, whereby approximately 3.2 billion euro will be allocated to capital projects. Such large investment is expected to contribute to the creation of approximately 100,000 new jobs (direct, indirect and induced).⁵³ Measures to further improve the business environment and address the key constraints to enterprise growth are already in the pipeline. The business environment is expected to improve through, among others, more funding allocated to the Republic of North Macedonia's Development Bank, the further easing of the administrative burden for business development, higher government guarantees for credit lines to the private sector, and the investment in enterprise promotion, to be carried out by the Agency for Entrepreneurship and the Innovation and Technology Development Fund. Several initiatives are already planned in the Strategy for the formalization of the informal economy, including awareness raising on the risk of informality, new deterrence instruments and the introduction of a progressive tax system. The funding envelope to be put at disposition of the Innovation and Technology Development Fund and the Republic of North Macedonia's Development Bank will be of crucial importance in the next few years to ease access to credit and improve the innovation capacity of enterprises. The combined effect of all the above-mentioned policy actions (improvement of the investment climate, promotion of innovation and increase access to financing opportunities) is expected to have a measurable result in terms of improving the country competitiveness (as measured by the *World Competitiveness Index*).

Against this backdrop, the most feasible policy option to improve job opportunities leverages on existing initiatives and centres on maximizing the employment returns by:

- Expanding business development services to increase the capacity of enterprises to access available funding opportunities.
- Increase the capacity of the Innovation and Technology Development Fund and other funding sources to foster output growth, promote firms' competitiveness and improve employment growth.

⁵² IMF: *Public Infrastructure in the Western Balkans: Opportunities and challenges* (IMF, Washington D.C, 2018)

⁵³ For examples of employment multipliers of infrastructure projects see International Finance Corporation (IFC), *Jobs study: Assessing private sector contributions to job creation and poverty reduction*, Washington D.C. 2013.

- Accelerate the implementation of measures to reduce informal employment - as planned in the Strategy for the formalization of the informal economy – especially among workers at the low end of the salary scale.

Whereas the acceleration of the education and training reforms will help tackle skills mismatches and the improvement of the investment climate will support the job creation capacity of enterprises, the availability of effective labour market policies and institutions will ensure that no one is left behind. These policies will provide, in the short term, adequate protection to individuals who lost their job during the Covid-19 pandemic; and – in the long-term – be focused on expanding the investment in active labour market policies, improving the capacity of the ESA to deliver effective services and programmes; and supporting the enforcement role of the State Labour Inspectorate, especially as regards the violation of labour contract rules, wage regulations and gender equality principles. The needs of groups at risk in the labour market (young people, women workers, persons with disabilities, low-skilled individuals, national minorities, refugees and asylum seekers) will be addressed through the deployment of the reinforced Youth Guarantee, the implementation of training programmes and job subsidy schemes targeting low-skilled individuals and the expansion of childcare for attracting women towards the labour market. Against this backdrop, the policy interventions planned in the period 2021-2027 will focus on:

- Maintaining the current relaxation of eligibility criteria to access passive labour market policies to protect individuals from poverty and enacting a job subsidy scheme targeting unemployed at risk of labour market disengagement.
- Roll-out of the progressive tax system (2023).
- Providing the ESA with the means to expand the quantity and quality of employment services and programmes – including the recruitment of additional front-office and specialized staff, the upgrading of physical infrastructure and of the IT system, and the allocation of additional financial resources for the implementation of labour market integration programmes.
- Increasing the capacity of the Labour Inspectorate to enforce labour legislation and equality principles with a view to decrease informality and promote the inclusiveness of the labour market.
- Enhancing service and programme lines targeted to the needs of groups at risk in the labour market (youth, women, low-skilled individuals, long-term unemployed, persons with disabilities, national minorities, refugees and asylum seekers), and
- Strengthen social dialogue as a means to bridge the social policy gap with the European Union.

4.3. Specific employment objectives and targets

The overarching goal of the *National Employment Strategy 2027* (NES) is to promote more and better jobs for all.

The Government of the Republic of North Macedonia is pursuing the policy actions planned in the Economic Reform Programme 2021-2023, which focuses on promoting economic recovery after the Covid-19 pandemic, increase the competitiveness of the economy, support job creation and raise the living standards of the population. In order to ensure that the outcomes of economic and fiscal policies reach out to all segments of the population of North Macedonia, it is necessary to address the quality of the education and training system to reduce skills mismatches and align individuals' competences to labour market needs; improve the capacity of the private sector to generate quality jobs – and especially for the population groups most at risk in the labour market; and ensure the inclusiveness of active and passive labour market policies.

The first employment policy objectives of the National Employment Strategy, therefore, is to:

1. Improve the quality of education and training outcomes for all.

This policy objective has three targets, namely a decrease of 5 percentage points of the vertical skills mismatch for the population aged 15-64; an increase in the average score of North Macedonian students in the PISA 2025 assessment; and an increase to 30 per cent of the share of adults (25-64) in training.

Better educational outcomes, however, require competitive enterprises able to maximise the competence of the workforce and exploit the returns of technology and innovation advancement for job creation. The second policy objective of the NES 2027, therefore, is to:

2. Enhance the role of economic and enterprise development policies in generating decent jobs.

This policy objective has three targets, namely an improvement of the ranking of the Republic of North Macedonia in the competitiveness index; an increase of the employment-to-population ratio (15-64) to 60 per cent; and a decrease in youth unemployment (15-24) to 27 per cent and 23 per cent for the cohort 15-29.

Equity concerns demands that public policies be geared towards those population groups who are most at risk of poverty and social exclusion. To this end, the third and final objective of the Strategy is to:

3. Strengthen the inclusiveness of labour market policies.

The achievement of this objective will be measured through a decline of the gender employment gap to 15 percentage points; a decline of long-term unemployment by 10 percentage points; and a reduction of the share of people at risk of poverty and social exclusion to 18 per cent.

4.4. Key policy outcomes and indicators

Given the uncertainties currently surrounding the projections for economic and labour market recovery after the Covid-19 pandemic, the National Employment Strategy 2027 focuses on both short-term policy outcomes – aimed at protecting individuals from poverty and social exclusion – as well as medium-term policy initiatives aimed at creating more and better jobs and enhance the capacity of public institutions to minimize labour market distortions.

4.4.1. Improve the quality of education and training outcomes for all.

The achievement of this employment objective builds on five interlinked policy outcomes: (i) the reform of the education and training system improves learning outcomes, provides pupils and students with the skills required to continue to higher education or enter the labour market, and reduces skills mismatches; (ii) the vocational education and training (VET) offer at post-secondary non-tertiary level is widened to provide individuals with the competencies needed by enterprises, also through work-based learning; (iii) a better offer of adult learning opportunities, including for digital skills, and the possibility for individuals to have their prior learning recognized increases the skills of the workforce; (iv) the increase of public investment and the revision of the education funding mechanisms increases the equity and inclusiveness of the education and training system; and (v) the Education management of information system (EMIS) is strengthened and provides reliable information for the monitoring and evaluation of education and training outcomes at all levels.

Outcome 1.1. The reform of the education and training system improves learning outcomes, provides pupils and students with the skills required to continue to higher education or enter the labour market, and reduces skills mismatches.

By 2027, the share of young people (15-29) who are neither in employment nor in education or training is lower than 20 per cent.

By 2026, the average PISA score for North Macedonian students increases by at least ten points (to 410).

The vertical skills mismatch in North Macedonian for individuals aged 15 to 64 decreases to 25 per cent by 2027.

Baseline: In 2019, the share of young NEETs (15-29) was 24.5 per cent, twice the rate

recorded at EU level. In the 2018 PISA assessment, North Macedonian students scored an average of 400 points (393 in reading, 394 in mathematics and 413 in science), placing the country at the bottom end of the ranking scale among OECD countries. In 2019, the vertical skills mismatch affected 30 per cent of the working age population (15-64), mostly due to upper-secondary graduates working in elementary occupations, and tertiary graduates working as sales and clerical workers.

Policy guidance: The goal of a systemic education and training reform – touching upon all levels of the education and training system – is to increase learning outcomes and ensure that pupils and students are equipped with the competences required to progress to upper education levels or to the labour market. Better learning outcomes and a higher responsiveness of the education system to individual, labour market, and society requirements will have a measurable effect on completion rates, the transition from school to work and, therefore, on the share of young people who are NEETs. The most effective means to measure the improvement of students' learning outcomes, as well as the inclusiveness of the education and training system of the country, is the PISA assessment. The Republic of North Macedonia will participate to the 2022 and 2025 round of assessment to gauge whether the ongoing reforms are achieving the expected results.

The planned reforms of the primary and secondary education system - including the introduction of an apprenticeship system starting from 2021, the expansion of career education services and the introduction of digital skills learning - is expected to have a measurable effect on the alignment of individuals' competences to labour market requirements, and therefore, contribute to a progressive decline of the vertical skills mismatch for the working age population. Policy design, monitoring and evaluation will be supported by available information tools (e.g., Skills Observatory, Occupational outlooks) and by a strengthening of the Education management of information system (see policy outcome 1.5).

Outcome 1.2. The vocational education and training offer at post-secondary non-tertiary level is widened to provide individuals with the competencies needed by enterprises, also through work-based learning.

By 2027, the share of young people (15-29) who are neither in employment nor in education or training is lower than 20 per cent

The vertical skills mismatch in North Macedonian for individuals aged 15 to 64 decreases to 25 per cent by 2027

By 2027, at least 5 per cent of all workers (20-39) with ISCED level 3-4 will have completed a VET post-secondary, non-tertiary course.

Baseline: In 2019, the share of young NEETs (15-29) was 24.5 per cent, twice the rate recorded at EU level. In 2019, the vertical skills mismatch affected 30 per cent of the working age population (15-64) and only 1.2 per cent of workers (20-39) with ISCED 3-4 educational attainment level had completed a VET post-secondary, non-tertiary course.

Policy guidance: A more comprehensive offer of post-secondary, non-tertiary VET courses - developed in partnership with enterprises - will provide secondary education students with skills that are in-demand in the labour market and offer immediate employment opportunities. This will have the double-pronged effect to reduce non-completion rates at university levels (since students will be provided with a rewarding alternative to academic education) and offer enterprises a qualified workforce immediately employable. The possibility of a robust alternative to university level education is expected to have a measure impact on the NEET rate and on vertical skills mismatch.

Outcome 1.3. A better offer of adult learning opportunities, including for digital skills, and the possibility for individuals to have their prior learning recognized, increases the skills of the workforce.

By 2027, the participation rate of adults (25-64) in training on an annual basis will reach 16 per cent.

In 2027 the share of persons (16-74) with digital skills in the Republic of North Macedonia will be 45 per cent.

By 2027, the share of the working age population with medium and high skills will be over 75 per cent.

Baseline: In 2016 (latest available year) the share of adult in training for the Republic of North Macedonia was 12.7 per cent, 3.5 times lower than the rate recorded at EU level. In 2019 the share of persons 16-74 with digital skills amounted to 32 per cent compared to 56 per cent at EU level. In 2019, the share of the working age population with medium and high-level skills amounted to 69 per cent.

Policy guidance: The offer of adult education and training expanded in the Republic of North Macedonia in the last few years thanks to the establishment of the Adult Training Centre, the progress made in the development of the national Qualification Framework and of the accreditation system. In the context of economic recovery, increasing adult participation in training is paramount to improve employability, boost innovation, ensure social fairness and close the digital skills gap. To this end, the offer of adult training will be further expanded - by delivering more adult training courses for unemployed individuals and by providing enterprises with tax and other incentives to train their workforce. The adult training offer will also include digital skills - to close the gap with the European Union - and will benefit from the assignment to the Adult Training centre of the role of recognition of prior learning authority.

Outcome 1.4. The increase of public investment and the revision of the education funding mechanism increases the equity and inclusiveness of the education and training system.

By 2027, the Republic of North Macedonia spends 4.2 per cent of GDP annually on education.

The share of funding allocated to early childhood education increases to 0.6 per cent of GDP by 2027.

By 2027 early childhood education reaches at least 50 per cent of 4 years old.

By 2027, the rate of completion at university level increases to 55 per cent. The unemployment rate of university graduates aged 30-34 declines to less than 10 per cent.

Baseline: In 2018, the Republic of North Macedonia invested 3.7 per cent of GDP in education and training, while the amount allocated to early childhood education was only 0.29 per cent of GDP, compared to the average of 0.6 per cent of GDP in EU countries. In 2018 the share of 4 years old enrolled in childhood education was 39 per cent (compared to 93 per cent in the EU).⁵⁴ In 2019, the rate of completion at university level was only 45 per cent.

Policy guidance: The investment in education is and will be of crucial importance to improve employability, boost innovation and reduce inequalities. North Macedonia's investment in education will progressively be aligned to the EU average (4.4 per cent of GDP in 2019) and will reach 4.2 per cent of GDP by 2027. The funding mechanism will also be reviewed to: (i) expand early childhood education, – which is widely acknowledged as providing the foundations for lifelong learning and development – to reach half of the population of children aged 4; (ii) invest more resources in pre-primary, primary and secondary education (at least 70 per cent of all resources available) to sustain reforms and increase learning outcomes; and (iii) strengthen selection at university level to increase completion rates and reduce the unemployment rate of graduates (which was 15.2 per cent for the cohort 30-34 in 2019 compared to 4.6 per cent in the EU). Higher investment in early childhood education – under the direct responsibility of the Ministry of Labour and Social Policy - is expected to have a measurable impact on employment and especially for women. The pursuing of this policy outcome, therefore, will also be instrumental to the decline of the gender employment gap (from the current 19.7 percentage points to 15 percentage points).⁵⁵

Outcome 1.5. The Education Management of Information system (EMIS) is strengthened and provides reliable information for the monitoring and evaluation of education and training outcomes at all levels.

By 2027, the formulation of education and training policies is accompanied by measurable indicators and targets, whose data is mined from the EMIS. The EMIS collects and manages information about the educational pathways of individuals and the information generated – pooled with other information sources – provides reliable data for the design, monitoring and evaluation of policies and programmes.

Baseline: The most recent policy documents on education and training do not offer quantitative and qualitative indicators to measure the progress of planned policy initiatives.

⁵⁴ Eurostat online data code [educ_uoe_enrp07]

⁵⁵ A recent publication offers policy guidance of the costs and benefits of expanding early childhood education. See UN Wom-

The information collected by the EMIS is not exploited for policy design, monitoring and evaluation, nor it is linked with other administrative data.

Policy guidance: One of the key shortcomings of the education and training policy documents developed to date is the consistent lack of measurable targets and indicators, which makes the monitoring of progress in the short-term unfeasible. The content of the recent education reforms appears to be in line with the needs of individuals, the labour market and society. The delivery on the policy objectives of these strategies, however, is often delayed, poorly coordinated, and somewhat fragmented. The improvement of the delivery of education and training policy reforms requires a robust monitoring and evaluation system able to collect and aggregate a large set of data, as well as analytical capacity to inform policymaking. To this end the EMIS will be strengthened and linked with available information gathering tools (Skills Observatory and Occupational Outlook) as well as other administrative databases (e.g., Employment Service Agency register of unemployed persons, records on employment, database of beneficiaries of the Guarantee Minimum Assistance) to measure learning outcomes, trace individual pathways from education to work and provide information for policy design and adjustment.

4.4.2. Enhance the role of economic and enterprise development policies in generating decent jobs.

The achievement of this policy objective is grounded on the planned economic and fiscal policies of the Government of the Republic of North Macedonia (as stated in the Economic Reform Programme 2021-2023) as well as the policy priorities established for the formalization of the informal economy and for ensuring a fairer tax system. More specifically, the policy outcomes envisaged under this objective of the NES 2027 assume the following: (i) the maintenance of a fiscal stance conducive to output growth and employment creation; (ii) the focus on capital spending and the avoidance of spending under-execution; (iii) the introduction of a progressive tax system from 2023 onward, accompanied by measures to increase the tax base; and (iii) the strengthening of institutional capacity to manage tax compliance. Against this backdrop, three policy outcomes are deemed necessary to ensure that economic and enterprise development policies contributed to more and better jobs, namely: (i) the national business development policy effectively support enterprises to innovate, expand their productive capacity and create jobs; (ii) the measures implemented by the Innovation and Technology Development Fund as well as other funding institutions foster output growth, promote firms' competitiveness and improve employment growth; and (iii) the policy initiatives implemented by the Government of the Republic of North Macedonia (tax system reform and formalization of the informal economy) reduce informal employment among workers at the low end of the salary scale and improve women's participation in the labour market.

en: *Investing in free, universal childcare in the Republic of North Macedonia* (UN Women, 2019).

Outcome 2.1. The national business development policy effectively supports enterprises to innovate, expand their productive capacity and create more and better jobs for all.

By 2027, the ranking of the Republic of North Macedonia in the competitiveness index will have improved.

In 2027 the employment to population ratio for the working age population (15-64) will be at least 60 per cent.

The youth unemployment rate (15-24) in 2027 will be at most 27 per cent and 23 per cent for the cohort 15-29.

In 2027 the gender employment gap will be lower than 15 percentage points.

The share of temporary work over total employment will have been stabilized at 16 per cent for adults and 25 per cent for young people (15-24) and the share of low-paid workers will have decreased to 15 per cent by 2027.

Baseline: In 2019, the Republic of North Macedonia ranked 82nd out of 141 countries in the Global Competitiveness Index (World Economic Forum). In the same year, the employment-to-population ratio was 44.7 per cent, with a gender employment gap of 19.7 percentage points. The youth (15-24) unemployment rate was 37.7 per cent, while for the cohort 15-29 it was 30.8 per cent. In 2019, the share of temporary work was 16.7 per cent overall and 35.1 per cent for young (15-24) workers. In the same year just over 18 per cent of all workers were in a low-paid job.

Policy guidance: The reforms introduced over the years have substantially improved the business environment and have supported the sectoral shift from agriculture to industry and services. There are, however, several factors that slow enterprise development, such as the lack of transparency in applying para-fiscal charges, difficulties in contract enforcement, an uneven enforcement of business-related regulations at different government levels and slow progress in digital transformation. The streamlining of para-fiscal charges; the introduction of a support grant scheme for start-ups, SMEs and high value-added business initiatives - accompanied by additional investments in innovation (see also policy outcome 2.2); a robust enforcement of the rule of law, and enhanced cooperation with international finance institutions (IFIs) is expected to improve enterprises' access to finance and accelerate competitiveness gains, which in turn will lead to additional job creation (with improvement of the employment rate and a decline of the youth unemployment rate) and increased productivity. These measures –accompanied by supportive fiscal and labour market policies – will have a measurable effect on the quality of employment (measured in terms of share of workers in temporary works and low-paid employment) and on women's employment (thus reducing the gender employment gap).

Outcome 2.2. The measures implemented by the Innovation and Technology Development Fund as well as other funding institutions foster output growth, promote firms' competitiveness and improve employment growth.

By 2027, the ranking of the Republic of North Macedonia in the competitiveness index will have improved compared to 2019.

In 2027 the employment to population ratio for the working age population (15-64) will be at least 60 per cent.

The youth unemployment rate (15-24) in 2027 will be at most 27 per cent, while for youth 15-29 will be 23 per cent.

In 2027 the gender employment gap will be lower than 15 percentage points.

Baseline: In 2019, the Republic of North Macedonia ranked 82nd out of 141 countries in the Global Competitiveness Index (World Economic Forum). In the same year, the employment-to-population ratio was 44.7 per cent, with a gender employment gap of 19.7 percentage points. The youth (15-24) unemployment rate was 37.7 per cent, while for the cohort 15-29 it was 30.8 per cent.

Policy guidance: The impact of grants and other financial instruments on the capacity of micro and small enterprises to increase turnover, improve productivity and generate employment is well documented.⁵⁶ Research shows that both grants and financial instruments (loans with reduced interest rates, credit guarantees and support for research and development) are effective, but that subsidies should be allocated to the initially less productive small firms in the less developed regions, while financial instruments have more direct relevance to advanced productivity and - due to their revolving nature - they generate more positive impacts on the economy as a whole. These results call for: (i) increasing the overall funding envelope available to micro, small and medium-size enterprise through existing mechanisms (primarily the Innovation and Technology Development Fund and the Development Bank of North Macedonia); (ii) a better allocation of grants and financial instruments according to the policy objective to be pursued (grants to micro and small firms that are less productive and located in less developed regions and availability of other financial instruments for other enterprises), and (iii) establishing a robust ex-ante and ex-post monitoring system to appraise the impact of these instruments on innovation, employment and competitiveness. Focus will be placed on the social returns of the investment on young people, women and population groups at risk of exclusion by establishing a robust link between financial support and labour market policies.

Outcome 2.3. The policy initiatives implemented by the Government of the Republic of North Macedonia (tax system reform, formalization of the informal economy, enhanced compliance mechanisms) reduce informal employment among workers at the low end of the salary

⁵⁶ See for all G. Nyikos: *Micro-economic effects of public funds on enterprises in Hungary*, in *Regional Studies*, Volume 7, 2020 - Issue 1, <https://www.tandfonline.com/doi/full/10.1080/21681376.2020.1805351>

scale and promote women's participation in the labour market.

By 2027, the share of workers engaged informally will have declined to 10 per cent.

In 2027 the tax wedge for workers at the low end of the salary scale will have decreased by at least 10 percentage points.

By 2027 the gender employment gap will be lower than 15 percentage points.

Baseline: In 2019, informal employment affected 16.1 per cent of total employment (15+) and the tax wedge for workers earning 33 per cent of the average wage amounted to 46.3 per cent. In the same year, the gender employment gap was 19.7 percentage points.

Policy guidance: Evidence shows that the practice of 'envelope wages' is higher for workers at the bottom of the earning scale (see Figure 30). The higher tax wedge for workers earning up to 33 per cent of the average wage stimulated the employees to pay 'envelope wage', and by doing so, they avoided paying the tax wedge for such workers (see Table 4). The introduction of a progressive tax rate system as of 2023 – including the elimination of exemptions, deductions and other preferential treatments – is expected to reduce the tax wedge at low earnings and, therefore, create disincentives for the above-mentioned practice. This, accompanied by increases in labour productivity (generated by better educational and training outcomes and public capital investment) and improved compliance mechanisms (based on easy-to-verify parameters) will have a measurable effect on informality. The tax reform will also re-examine the tax rate for second earners, since women's labour market participation is known to be responsive to fiscal (dis)incentives. Since labour supply elasticity is higher for low-income earners, in particular women with children, a lower tax-burden on secondary workers may have a proportionally higher effect on their employment outcomes and therefore reduce the labour market gender gap.⁵⁷

4.4.3. Strengthen the inclusiveness of labour market policies.

In the short term, labour market policies will have the role of mitigating the consequences of the Covid-19 crisis on employment as well as on poverty and social exclusion (outcome 3.1), while in the medium term their focus will be shifted towards the establishment of an effective system of employment and social inclusion services, the enforcement of employment protection legislation and the design, monitoring and evaluation of policy initiatives focused on the inclusion of at-risk population groups. Against this backdrop, the following policy outcomes are considered key to achieve the employment objective: (i) relaxed eligibility criteria for accessing passive labour market measures till the end of the Covid-19 pandemic protect individuals and household from poverty, while the deployment of active labour market measures reduce workers' disengagement; (ii) a generalized waive of social security contributions for workers earning at the official minimum wage – applied till the enactment of the tax policy reform of 2023 – creates disincentives to

⁵⁷ O. Rastrigina, A. Verashchagina: *Secondary earners and fiscal policies in Europe*, European Commission 2015, https://ec.europa.eu/info/sites/default/files/150511_secondary_earners_en.pdf

informality; (iii) the Employment Service Agency (ESA) is provided with the human, financial and technological means to expand service and programme delivery, implement effective activation strategies and contribute to the achievement of employment and social inclusion policy objectives; (iv) the capacity of the State Labour Inspectorate to enforce employment protection legislation and equality in the labour market is enhanced and effectively contributes to the reduction of informal employment, gender inequality and decent work deficits; (v) the implementation of dedicated employment service and programme lines contribute to the social inclusion of groups at risk in the labour market (youth, women, long-term unemployed, social assistance beneficiaries, low-skilled individuals, refugees and asylum seekers); and (vi) the role of central and local-level social dialogue institutions is strengthened and informs employment policy design, monitoring and evaluation.

Outcome 3.1. Relaxed eligibility criteria for accessing passive labour market measures till the end of the Covid-19 pandemic protect individuals and household from poverty, while the deployment of active labour market measures reduces workers' disengagement.

By 2027, the share of people at-risk of poverty will have declined to 18 per cent.

The share of workers engaged informally will have declined to 10 per cent by 2027.

In 2027 the tax wedge for workers at the low end of the salary scale will have decreased by at least 10 percentage points.

Baseline: In 2019, informal employment affected 15.2 per cent of total employment and the tax wedge for workers earning 33 per cent of the average wage amounted to 46.3 per cent. In the same year, the share of people at risk of poverty was roughly 22 per cent.

Policy guidance: The first phase of the National Employment Strategy will have to deal with the negative effects of the Covid-19 pandemic on the labour market. To protect individuals and households from these negative effects, the Government of the Republic of North Macedonia will maintain the emergency measures enacted to date in terms of relaxed eligibility criteria for accessing the unemployment benefit and the Guaranteed Minimum Assistance (GMA). In addition, the job subsidy scheme (MKD 14.500 per worker) will be extended to individuals who lost their job during the Covid-19 pandemic to avoid labour market disengagement and inactivity, especially among older and low-skilled workers. Albeit of a short duration, these measures are likely to contribute to the medium-term objective to reduce poverty and social exclusion and reduce the tax wedge for workers at the lower end of the salary scale, which, in turn is a driver of informality. The relaxation of eligibility criteria for passive labour market measures will also be of the essence to bridge the timespan necessary for economic rebound, which is - in turn - key for the effectiveness of active labour market programmes.

Outcome 3.2. The Employment Service Agency (ESA) of the Republic of Macedonia is provided with the human, financial and technological means to expand service and programme delivery, implement effective activation strategies and contribute to the achievement of employment policy objectives.

By 2027 the national investment in active labour market policies (ALMPs) will be 0.4 per cent of GDP.

In 2027 the ESA staff-to-unemployed ratio will have halved.

By 2027 the percentage of registered unemployed participating to ALMPs will have increased to 18 per cent.

In 2027, the Youth Guarantee will provide an offer within four months to at least 40 per cent of total youth registering on an annual basis.

By 2027 the share of long-term unemployment over total unemployment will be less than 65 per cent.

Baseline: In 2019, the national investment in ALMPs amounted to 0.17 per cent of GDP, with a coverage rate of registered unemployed of 6.2 per cent.⁵⁸ In the same year the ESA staff-to-unemployed ratio was 1: 226, while the share of long-term unemployment was 71.8 per cent. The proportion of young people registered in the Youth Guarantee who received an offer within four months was 35 per cent in 2019.

Policy guidance: The Employment Service Agency (ESA) requirements for the effective implementation of its core mandate (labour market intermediation and administration of ALMPs to ease the transition to employment) has long been neglected. The negative effects of this neglect started to emerge prominently during the implementation of two major policy reforms, namely the Youth Guarantee and the activation strategies targeting GMA beneficiaries (see paragraph 3.3.3.2.). The policy initiatives required to strengthen the capacity of the ESA to deliver on employment policy objectives are already highlighted in the Youth Guarantee implementation plan, namely recruitment of specialized human resources, implementation of an in-service training programme to professionalize the delivery of employment services; remodelling/refurbishing of ESA local offices and upgrading of the ICT system (hardware and software); introduction of statistical profiling approaches; deployment of online tools to ease registration and basic service delivery; the establishment of a new system to collect and publish job vacancies; the introduction of a more efficient workflow in local employment offices and the re-shaping of basic employment services. The strengthening of ESA capacity will be accompanied by increased funding for ALMPs - which is of the essence to address the needs of long-term unemployed, low-skilled individuals, disengaged young people, women re-entering the labour market and other groups at risk of poverty and social exclusion – and by amendments to the Law on employment and insurance against unemployment. The participation of women in the labour market will also be promoted by the expansion of childcare education as envisaged by policy outcome 1.4 above.

⁵⁸ In 2020, due the additional funding provided to mitigate the effects of the Covid-19 pandemic, the ALMP allocation in-

Outcome 3.3. The capacity of the State Labour Inspectorate to enforce employment protection legislation and equality in the labour market is enhanced and effectively contributes to the reduction of informal employment, inequality and decent work deficits.

The share of workers engaged informally will have declined to 10 per cent by 2027.

The share of temporary work over total employment will have been stabilized at 16 per cent for adults and 25 per cent for young people and the share of low-paid workers will have decreased to 15 per cent by 2027. By 2027 the number of inspections will have increased by 30 per cent.

Baseline: In 2019, informal employment affected 15.2 per cent of total employment. In 2019, the share of temporary work was 16.7 per cent overall and 35.1 per cent for young (15-24) workers. In the same year just over 18 per cent of all workers were in low-paid employment. In 2019, the State Labour Inspectorate carried out over 14,000 inspections (a decline of 41 per cent compared to 2015).

Policy guidance: The protection of workers rests – among others – on the capacity of institutions to adequately enforce the employment protection legislation. The number of annual inspections carried out by the Labour Inspectorate, together with the coverage rate of active enterprises and employed workers – is a key indicator of the effectiveness of this service to adequately enforce the rule of law and to act as deterrent for labour law violations. In order to equip the State Labour Inspectorate with the resources, tools and procedures to adequately fulfil its mandate, the Government of the Republic of North Macedonia will accelerate the implementation of the measures already envisaged under the Strategy to formalize the informal economy, as well as carry out a functional and organizational assessment of the Inspectorate, including its relationship with other enforcement authorities – to plan the policy reforms required to make the Inspectorate an efficient enforcement institution.

Outcome 3.4. The implementation of dedicated employment service and programme lines contribute to the social inclusion of groups at risk in the labour market (youth, women, long-term unemployed, social assistance beneficiaries, persons with disabilities, low-skilled individuals).

By 2027 the gender employment gap will be lower than 15 percentage points.

By 2027 the percentage of registered unemployed participating to ALMPs will have increased to 18 per cent.

In 2027, the Youth Guarantee will provide an offer within four months to at least 40 per cent of total youth registering on an annual basis.

By 2027 the share of long-term unemployment over total unemployment will be less than 65 per cent.

creased to 0.28 per cent of GDP and the coverage rate to 8.3 per cent.

By 2027, the share of people at-risk of poverty and social exclusion will have declined to 18 per cent.

Baseline: In 2019, the ALMP coverage of registered unemployed was 6.2 per cent, while the share of long-term unemployment was 71.8 per cent. The proportion of young people registered in the Youth Guarantee who received an offer within four months was 35 per cent in 2019. In the same year, long-term unemployment affected 71.8 per cent of all unemployed and the share of people at risk of poverty was roughly 22 per cent.

Policy guidance: A adequately endowed Employment Service Agency of the Republic of North Macedonia will enable the implementation of dedicated employment service and programme lines targeted to population groups most at risk in the labour market. Guidance in this sense is provided by the European Union flagship programmes on young people (Youth Support Service or reinforced Youth Guarantee) and long-term unemployed (Council Recommendation on the integration of the long-term unemployed into the labour market, 2016). These two policy documents emphasize the importance of activation strategies, individualized delivery modes, case management and the availability of a wide spectrum of active labour market programmes to ease the transition to the labour market. The availability of a robust monitoring and evaluation system, in addition, provides the possibility of adjusting service and programme delivery to the needs of individuals and enterprises. These new service lines will pay particular attention to the returns of adult training programmes and job subsidies for supporting low-skilled individuals, the long-term unemployed, social welfare beneficiaries and other individuals at risk of social exclusion back into the labour market. The Government of the Republic of North Macedonia will also appraise the feasibility to introduce in-work benefits - to address the disincentives to labour market participation posed by the social protection system - and research the rationale for the low impact of social assistance on the poverty risk of adult persons.

Outcome 3.5. The role of central and local-level social dialogue institutions is strengthened and informs employment policy design, monitoring and evaluation.

By 2027, collective bargaining is the primary instrument for the setting of wages and other conditions of work.

In 2027, the Economic and Social Council appraises at least 60 per cent of Government of the Republic of North Macedonia policies prior to their approval.

By 2027, Local Economic and Social Councils are the main policy advisors at the local level.

Baseline: In 2019, collective bargaining was not widespread at sectoral and enterprise level, in part due to the low Trade Union density level (22 per cent) and employers' organizations membership (22 per cent). Although the capacity of the ESC has improved since 2014, its advisory role is mainly deployed in the formulation of labour market policies, but not so much for other policies. This weakness spreads also at the local level, with a limited

number of Local Economic and Social Council being operational and providing advisory services to local policymaking.

Policy guidance: Social dialogue plays a crucial role in promoting competitiveness, advancing equality and enhancing economic prosperity. As such, social dialogue is an essential element of the European social model. The strengthening of social dialogue and of the Economic and Social Council will remain a priority for the Ministry of Labour and Social Policy. More specifically, the MLSP – with the assistance of the International Organization (ILO) – will continue to work on the analytical and policy appraisal capacity of the members of the ESC and on the promotion of LESC as a tool for local economic development. In parallel, the social partners will be supported in increasing the awareness about the value added of collective bargaining at the sectoral and enterprise level.

4.5. Resources

The financial resources estimated to be available for the implementation of the Employment Strategy amount to approximately 135 million euro.⁵⁹ The exact financial envelope to be put at disposition for the policy interventions envisaged by the National Employment Strategy will be established by the three-year Action Plans accompanying the Strategy.

4.6. Implementation and coordination mechanism

The relevant line Ministries and government institutions will be responsible for the implementation of the policy outcomes set forth in the National Employment Strategy 2027, as detailed in the two-year Action Plans. The group of experts of the various line Ministries and the social partners who develop the Strategy will act as Advisory Group to the Labour Market Unit of the Ministry of Labour and Social Policy (MLSP) during implementation and will participate to the formulation of three-year Action Plans.

The staff of the Labour Market Unit at the MLSP will be tasked to coordinate overall implementation and to present regular progress reports to the Government of the Republic of North Macedonia. This Unit will work closely with the mechanisms that coordinate donors' and technical assistance programmes and liaise with the Ministries involved in implementation of Strategy and the social partners.

1. The general responsibilities of key Ministries, agencies and the social partners in the implementation of the Strategy are provided in the three-year Employment Action Plan 2021-2023 appended as Annex, while the main functions of the coordination mechanism are described in Box 4.

⁵⁹ See *Economic Reform Programme 2021-2023*, pp.111-112

Box 4: Coordination mechanism for the National Employment Strategy 2027

The **Labour Market Unit** of the MLSP will provide overall coordination for the implementation of the Strategy. Specifically, it will

- Provide technical support, advice and guidance to partner Ministries and agencies in all aspects related to implementation of Strategy. The Unit will prepare periodical progress and monitoring reports and it will assist in the preparation of evaluation reports;
- Facilitate the exchange of information and good practices among government agencies and between the Government of the Republic of North Macedonia , the social partners and civil society;
- Keep the expert group that developed the Strategy informed of implementation progress.

The **Advisory Group** will:

- Review the progress and monitoring reports prepared by the Labour Market Unit prior to their dispatch to the Government of the Republic of North Macedonia ;
- Advise on emerging concerns in the area of employment that need to be addressed in the timeframe of the Strategy;
- Reformulate, on the basis of the findings of the evaluation reports, the specific objectives, targets and policy outcomes, as necessary.

4.7. Monitoring and evaluation

The monitoring of the National Employment Strategy 2021-2027 will comprise the regular examination of the outcomes of policy interventions. It will be based on a system of information gathering and analysis of performance indicators. The Labour Market Unit of the MLSP will have the responsibility to systematize the monitoring information generated by line Ministries and partner agencies for presentation to the Government of the Republic of North Macedonia . The evaluation system will be integrated into the policy/programme cycle and will comprise two evaluation exercises, one following the completion of the first phase of the Strategy (2021-2023) and one at its completion (2027). The Labour Market Unit shall be responsible for coordinating both mid-term and final evaluations.

The first evaluation exercise will analyse the results of policy interventions, financial management, the quality of the monitoring and of its implementation. By comparison with the baseline situation, it will highlight changes in the general context and judge whether the objectives remain relevant prior to the launching of the second phase of the Strategy (2024-2027). This evaluation will also examine whether the evolution of national priorities and policies poses a problem of coherence. The interim evaluation will rely on information drawn from the monitoring system and from the overall context and its evolution into feedback into the management of action planning.

The summative evaluation, to be carried out in 2027, will judge the entire Strategy's performance. It will report on the effectiveness and efficiency of interventions and the extent to which expected outcomes were achieved. The primary evaluative and research questions will revolve around:

- **Relevance:** the extent to which the employment policy objectives responded to national needs and priorities;
- **Effectiveness:** the extent to which the objectives were achieved; whether the interventions and means used had the expected results; and whether more could have been obtained by using different means;
- **Efficiency:** whether the objectives were achieved at the lowest possible cost; and
- **Sustainability:** the extent to which the results, including institutional changes, are durable over time.

ANNEX
EMPLOYMENT
ACTION PLAN (2021-2023)

Employment Action Plan (2021-2023)

Objective 1: Improve the quality of education and training outcomes for all
Targets:

- 5 percentage points decrease of the vertical skills mismatch for the population aged 15-64
- Increase in the average score of North Macedonian students in the PISA 2025 assessment
- 30 per cent increase of the share of adults (25-64) in training

POLICY OUTCOMES	INDICATORS	RESPONSIBLE UNIT	FINANCES	TIMEFRAME	
				Start	End
<p>Outcome 1.1 The reform of the education and training system improves learning outcomes, provides pupils and students with the skills required to continue to higher education or enter the labour market, and reduces skills mismatches.</p> <p>Policy actions:</p> <p>1.1.1. Conclude the procurement process for the upgrading of basic primary school infrastructure (classrooms, Information and Communication Technology and equipment)</p> <p>1.1.2. Design and pilot-test new learning and teaching material, including on jobs and careers for primary education</p> <p>1.1.3. Design of the key components of the National Assessment Programme (NAP) for primary education</p> <p>1.1.4. Further develop competence-based professional standards for primary education teachers, including on career education and pilot-test in-service professional development programmes</p> <p>1.1.5. Monitor the performance of the first cohort of students in the dual apprenticeship system to adjust curricula, learning resources and teaching methods</p> <p>1.1.6. Expand work-based learning methods to all VET students and monitor performance through the VET tracer system</p> <p>1.1.7. Develop a concept for the introduction of digital skills learning in primary and secondary education</p> <p>1.1.8. Develop capacity of Ministry of Education and Science staff to analyse available labour market information (Skills Observatory, Occupational Outlook) to inform education policy design</p>	<ul style="list-style-type: none"> • By 2027, the share of young persons aged 15-29 not in education, employment, or training (NEETs) is lower than 20 per cent. • By 2026, the average PISA score for students from the Republic of North Macedonia increases by at least ten points (to 410). • The vertical skills mismatch for individuals aged 15 to 64 decreases to 25 per cent by 2027. 	<p>Ministry of Education and Science (MoES) Bureau for the Development of Vocational education and training Centre State examination centre</p>	<p>MKD 16.120.000 €260,000 (tracer system)</p>	2021	2023

<p>Outcome 1.2. The vocational education and training offer at post-secondary non-tertiary level is widened to provide individuals with the competencies needed by enterprises, also through work-based learning.</p> <p>Policy actions</p> <p>1.2.1. Develop a concept for the expansion of VET post-secondary non-tertiary courses</p> <p>1.2.2. Review available labour market information to identify in-demand technical skills</p> <p>1.2.3. Organize a policy dialogue with social partners to validate labour market needs and ensure availability of work-based learning places</p> <p>1.2.4. Design curricula, learning and teaching material for three additional post-secondary non-tertiary VET courses</p>	<ul style="list-style-type: none"> • By 2027, the share of young persons aged 15-29 not in education, employment, or training (NEETs) is lower than 20 per cent • The vertical skills mismatch decreases to 25 per cent by 2027 • By 2027, at least 5 per cent of all workers (20-39) with International Standard Classification of Education ISCED level 3-4 will have completed a VET post-secondary, non-tertiary course 	<p>Ministry of Education and Science (MoES) Social partners (Employers' organizations and trade unions)</p>	<p>/</p>	<p>2021</p>	<p>2023</p>
<p>Outcome 1.3. A better offer of adult learning opportunities, including for digital skills, and the possibility for individuals to have their prior learning recognized, increases the skills of the workforce.</p> <p>Policy actions</p> <p>1.3.1. Develop a concept for the expansion of the adult training offer, including for digital skills</p> <p>1.3.2. Prepare and pilot-test learning modules on digital skills to be delivered during all adult training courses</p> <p>1.3.3. Formulate standards, curricula and accreditation for at least six additional adult training courses, based on employers' needs</p> <p>1.3.4. Research incentive mechanisms for private enterprises to provide training to their workforce (MLSP)</p> <p>1.3.5. Pilot-test recognition of prior learning (RPL) mechanisms in at least six occupations and roll-out the mechanism country-wide</p> <p>1.3.6. Offer unemployed individuals registered with the Employment Service Agency of the Republic of North Macedonia (ESA) the possibility to access recognition of prior learning mechanisms to achieve a recognized qualification</p> <p>1.3.7. Improve human resource capacity of Regional VET Centres</p>	<ul style="list-style-type: none"> • By 2027, the participation rate of adults (25-64) in training would reach 16 per cent. • In 2027 the share of persons (16-74) with digital skills would be 45 per cent. • By 2027, the share of the working age population with medium and high skills would be over 75 per cent. 	<p>Ministry of Education and Science (MoES) Ministry of Labour and Social Policy (MLSP) Employment Service Agency of the Republic of North Macedonia (ESA) Social partners (Employers' organizations and trade unions) Centre for Adult Education</p>	<p>MKD 539,400,000 (8,700,000€)</p> <p>(budgetary and extra-budgetary funding) of which</p> <p>MKD 122,760,000 (1,980,000€) (6 VET qualifications, European Union Youth Programme)</p> <p>MKD 17,360,000 (280,000€) (RPL, European Union Youth Programme)</p> <p>MKD 35,340,000 (570,000€) (Human Resources development, European Union Youth Programme)</p> <p>11,780,000 per year</p>	<p>2021</p>	<p>2023</p>

<p>Outcome 1.4. The increase of public investment and the revision of the education funding mechanism increases the equity and inclusiveness of the education and training system.</p> <p>Policy actions</p> <p>1.4.1. Increase spending on education by 0.1 per cent of Gross Domestic Product (GDP) on an annual basis</p> <p>1.4.2. Conduct research on the adequacy of the current primary, secondary and tertiary education funding formulas</p> <p>1.4.3. Develop proposals for alternative funding formulas that support the achievement of policy objectives</p> <p>1.4.4. Formulate a concept for increasing selection at university level</p> <p>1.4.5. Develop a proposal for revising the accreditation criteria of (public and private) university-level courses to ensure the alignment of higher skills to needs of society and the labour market</p> <p>1.4.6. Finalize the procurement process for building new child education facilities in selected areas of the country – Ministry of Labour and Social Policy (MLSP)</p> <p>1.4.7. Prepare an evidence-based medium-term plan for increasing participation in childhood education – Ministry of Labour and Social Policy (MLSP¹)</p> <p>1.4.8. Roll-out of the plan for increasing participation in early childhood education</p>	<ul style="list-style-type: none"> • By 2027, the Republic of North Macedonia spends 4.2 per cent of Gross Domestic Product (GDP) on education. • The share of funding allocated to early childhood education increases to 0.6 per cent of GDP by 2027. • By 2027 early childhood education reaches at least 50 per cent of 4-6 years old. • By 2027, the rate of completion at university level increases to 55 per cent. • The unemployment rate of university graduates (30-34) declines to less than 10 per cent. 	<p>Ministry of Education and Science (MoES) Ministry of Labour and Social Policy (MLSP)</p>	<p>MKD 744,000,000 (12,000,000€) (Child education facilities)</p> <p>MKD 62,000,000 (1,000,000€) (Professional development pre-school staff) Total= MKD 806,000,000</p>	<p>2021</p>	<p>2023</p>
<p>Outcome 1.5. The Education Management of Information system (EMIS) is strengthened and provides reliable information for the monitoring and evaluation of education and training outcomes at all levels.</p> <p>Policy actions</p> <p>1.5.1. Develop a concept for modernising the Education Management of Information System (EMIS), including interoperability with other data sources and methods to trace individuals' pathways in the education and training system</p> <p>1.5.2. Review current monitoring methods and formulate proposals for the introduction of a robust monitoring and evaluation system for education policy</p> <p>1.5.3. Pilot test the education monitoring and evaluation system</p>	<ul style="list-style-type: none"> • By 2027, the formulation of education policies is accompanied by measurable indicators and targets • The Education Management of Information System (EMIS) collects and manages information about educational pathways and the data generated informs the design, monitoring and evaluation of policies and programmes. 	<p>Ministry of Education and Science (MoES)</p>	<p>MKD 9,300,000 (150,000€) (Education Management of Information System (EMIS), Instrument for Pre-Accession Assistance IPA 2021)</p> <p>MKD 3,100,000 (50,000€) (Capacity building monitoring, Instrument for Pre-Accession Assistance IPA) Total=MKD 12,400,000</p>	<p>2021</p>	<p>2023</p>

1 UN Women: Investing in free, universal childcare in the Republic of North Macedonia, 2019

Objective 2: Enhance the role of economic and enterprise development policies in generating decent jobs.
Targets:

- North Macedonia improves its ranking in the global competitiveness index;
- The employment-to-population ratio (15-64) increases to 60 per cent
- Decrease in youth unemployment (15-24) to 27 per cent and to 23 per cent for the cohort 15-29

POLICY OUTCOMES	INDICATORS	RESPONSIBLE UNIT	FINANCES	TIMEFRAME	
				Start	End
<p>Outcome 2.1. The national business development policy effectively supports enterprises to innovate, expand their productive capacity and create more and better jobs for all.</p> <p>Policy actions</p> <p>2.1.1. Develop a methodology to map and appraise para-fiscal charges at central and local level</p> <p>2.1.2. Design a rationalization and digitalization plan for para-fiscal charges</p> <p>2.1.3. Develop and implement a financial support grant scheme for high value added business initiatives (start-ups and established firms), including mentorship</p> <p>2.1.4. Map collaboration avenues with International Finance Institutions (IFIs) to raise additional resources for enterprise promotion</p> <p>2.1.5. Run a performance monitoring exercise on the effect of grant scheme</p>	<ul style="list-style-type: none"> • By 2027, the ranking of the Republic of North Macedonia in the competitiveness index will have improved • In 2027 the employment rate (15-64) would be at least 60 per cent. • The youth unemployment rate (15-24) in 2027 would be at most 27 per cent and 23 per cent for the cohort 15-29 • In 2027 the gender employment gap would be lower than 15 p.p. • The share of temporary work will have stabilized at 16 per cent for adults and 25 per cent for youth (15-24) and the share of low-paid workers will have decreased to 15 per cent 	<p>Ministry of Economy (ME) Office of the Deputy Prime Minister for economic affairs Fund for Innovation and Technological Development (FITD)</p>	<p>MKD 574,430,000 (9,265,000€)</p> <p>(budgetary and extra-budgetary funding)</p>	2021	2023

<p>Outcome 2.2. The measures implemented by the Innovation and Technology Development Fund as well as other funding institutions foster output growth, promote firms' competitiveness and improve employment growth.</p> <p>Policy actions</p> <p>2.2.1. Research the impact of grants and other financial instruments on micro, small and medium size enterprises (turnover, productivity and employment) to guide policy design and implementation</p> <p>2.2.2. Based on the evidence collected, establish a medium-term strategy for enterprise financing</p> <p>2.2.3. Set a robust coordination mechanism among financial institutions to maximize available financial resources</p> <p>2.2.4. Design a shared ex-ante and ex-post monitoring mechanism to appraise the impact of financial support on enterprise development (turnover, productivity, employment, innovation, global value chains)</p> <p>2.2.5. Run a monitoring exercise to verify effect of grant schemes and financial instruments on firms' productivity, employment and innovation</p>	<ul style="list-style-type: none"> • By 2027, the ranking of the Republic of North Macedonia in the competitiveness index will have improved • In 2027 the employment rate (15-64) would be at least 60 per cent. • The youth unemployment rate (15-24) in 2027 would be at most 27 per cent and 23 per cent for the cohort 15-29 • In 2027 the gender employment gap would be lower than 15 p.p. 	<p>North Macedonia Development Bank (DBNM) Fund for Innovation and Technology Development (FITD) Ministry of Economy (ME)</p>	<p>/</p>	<p>2021</p>	<p>2023</p>
<p>Outcome 2.3. The policy initiatives implemented by the Government (tax system reform, formalization of the informal economy, enhanced compliance mechanisms) reduce informal employment among workers at the low end of the salary scale and promote women's participation in the labour market.</p> <p>Policy actions</p> <p>2.3.1. Develop mechanisms to promote formal employment in sectors with a high incidence of informality</p> <p>2.3.2. Design and pilot-test initiatives for registration and regulation of seasonal work in sectors affected by high levels of informal employment</p> <p>2.3.3. Develop a proposal to strengthen the enforcement of rules on online trading activities to lower the extent of the informal economy and informal work</p> <p>2.3.4. Carry out an ex-ante appraisal of the personal income tax reform on second earners and on tax wedge at low levels of earnings</p> <p>2.3.5. Based on the evidence collected, develop and implement a communication plan on the personal income tax reform for the public</p> <p>2.4.6. Roll out the personal income tax reform to increase progressivity and expand the tax base</p>	<ul style="list-style-type: none"> • By 2027, the share of workers engaged informally will have declined to 10 per cent. • In 2027 the tax wedge for workers at the low end of the salary scale will have decreased by at least 10 percentage points. • By 2027 the gender employment gap would be lower than 15 percentage points. 	<p>Ministry of Finance (MF) Ministry of Labour and Social Policy State Labour Inspectorate Social partners (Employers' organizations and trade unions) and Ministry of Finance (MF)</p>	<p>/</p>	<p>2021</p>	<p>2023</p>

Objective 3: Strengthen the inclusiveness of labour market policies.
Targets:

- *The gender employment gap declines to 15 percentage points*
- *Long-term unemployment declines by 10 percentage points*
- *The share of people at risk of poverty decreases to 18 per cent*

POLICY OUTCOMES	INDICATORS	RESPONSIBLE UNIT	FINANCES	TIMEFRAME	
				Start	End
<p>Outcome 3.1. Relaxed eligibility criteria for accessing passive labour market measures till the end of the Covid-19 pandemic protect individuals and household from poverty, while the deployment of active labour market measures reduce workers' disengagement.</p> <p>Policy actions</p> <p>3.1.1. Maintain the relaxation of eligibility criteria for the Guaranteed Minimum Assistance (GMA) till the end of the state of emergency</p> <p>3.1.2. Extend the national job subsidy scheme (MKD 14,500 per worker) to individuals who are at risk of losing their job throughout 2021</p> <p>3.1.3. Design and implement training programmes, subsidy schemes and support to social enterprises targeting low-skilled individuals, long-term unemployed and beneficiaries of guaranteed minimum assistance (see also policy outcome 3.5).</p>	<ul style="list-style-type: none"> • By 2027, the share of people at-risk of poverty will have declined to 18 per cent. • The share of workers engaged informally will have declined to 10 per cent. • In 2027 the tax wedge for workers at the low end of the salary scale will have decreased by at least 10 p.p. 	<p>Ministry of Labour and Social Policy Ministry of Finance Employment Service Agency Social partners (Employers' organizations and trade unions)</p>	<p>MKD 620.000.000 (10,000,000€) (Guaranteed Minimal Assistance relaxed criteria) MKD 93,000,000 (1,500,000€) (Support to social enterprises, European Union Instrument for Pre-Accession Assistance IPA)</p>	2021	2022
<p>Outcome 3.2. The Employment Service Agency (ESA) is provided with the human, financial and technological means to expand service and programme delivery, implement effective activation strategies and contribute to the achievement of employment policy objectives.</p> <p>Policy actions</p> <p>3.2.1. Increase spending on Active Labour Market Policies to 0.3 per cent of Gross Domestic Product</p> <p>3.2.2. Amend the Law on employment and insurance against unemployed to ease operations of the Employment Service Agency of the Republic of North Macedonia</p> <p>3.2.3. Develop and implement a plan for the recruitment of specialized human resources to be assigned to local employment offices</p> <p>3.2.4. Research and pilot-test a statistical profiling method to be applied at registration</p> <p>3.2.5. Expand the use of online tools to ease registration of jobseekers and job vacancies as well as the delivery of basic employment services (labour market information, basic employment counselling, career guidance)</p> <p>3.2.6. Develop a plan for the remodelling and refurbishing of six local employment offices</p> <p>3.2.7. Carry out a cost-benefit analysis for the introduction of a new Information and Communication Technology system</p> <p>3.2.8. Design and implement an in-service training programme for at least 90 employees in the Employment Service Agency of the Republic of North Macedonia</p> <p>3.2.9. Develop a medium-term plan for the upgrading of service workflow</p>	<ul style="list-style-type: none"> • By 2027 the national investment in ALMPs will be 0.4 per cent of GDP. • In 2027 the Employment Service Agency of the Republic of North Macedonia staff-to-unemployed ratio will have halved. • By 2027 the percentage of unemployed participating to Active labour market policies will have increased to 18 per cent. • In 2027, the Youth Guarantee will provide an offer within four months to at least 40 per cent of registered youth. • By 2027 the share of long-term unemployment will be less than 65 per cent. 	<p>Employment Service Agency of the Republic of North Macedonia Ministry of Labour and Social Policy Ministry of Finance Social partners (Employers' organizations and trade unions)</p>	<p>(Employment Service Agency of the Republic of North Macedonia staff training, EU Instrument for Pre-Accession Assistance IPA)</p> <p>MKD 4,960,000,000 (80,000,000€) (funds allocated to Active Labour Market Policies by different sources) Total = MKD 5,061,420,000</p>	2021	2023

<p>Outcome 3.3. The capacity of the Labour Inspectorate to enforce employment protection legislation and equality in the labour market is enhanced and effectively contributes to the reduction of informal employment, inequality and decent work deficits.</p> <p>Policy actions</p> <p>3.3.1. Design and implement a functional and organizational assessment of the State Labour Inspectorate</p> <p>3.3.2. Based on the findings of the assessment, develop a strategy for addressing the key challenges (legal framework, mandate, tools, resources)</p> <p>3.3.3. Develop and implement a comprehensive capacity building programme on occupational health and safety for labour inspectors.</p>	<ul style="list-style-type: none"> • The share of informal workers will have declined to 10 per cent. • The share of temporary work will have stabilized at 16 per cent for adults and 25 per cent for youth (15-24) • The share of low-paid workers will have decreased to 15 per cent. • By 2027 the number of inspections will have increased by 30 per cent. 	<p>State Labour Inspectorate Ministry of Labour and Social Policy Ministry of Finance Social partners (Employers' organizations and trade unions)</p>	<p>MKD 24,800,000 400,000€ (Capacity building labour inspectors, Instrument for Pre-Accession Assistance)</p>	<p>2021</p>	<p>2023</p>
<p>Outcome 3.4. The implementation of dedicated employment service and programme lines contribute to the social inclusion of groups at risk in the labour market (youth, women, long-term unemployed, social assistance beneficiaries and low-skilled individuals).</p> <p>Policy actions</p> <p>3.4.1. Develop a plan for the introduction of the Youth Support Service (reinforced Youth Guarantee) in three regions, including resources, outreach approaches, activation services and labour market integration programmes</p> <p>3.4.2. Design and pilot-test an approach for the inclusion of long-term unemployed in the labour market (Council Recommendation on the integration of the long-term unemployed, 2016)</p> <p>3.4.3. Design and implement a new service line – which includes training and job subsidies – targeting low-skilled individuals, the long-term unemployed and social welfare beneficiaries</p> <p>3.4.4. Revise the procedures for the implementation of active labour market programmes to allow online, throughout the year application of individuals and companies</p> <p>3.4.5. Run a performance monitoring exercise on new service line to adjust design and implementation modalities</p>	<ul style="list-style-type: none"> • By 2027 the gender employment gap will be lower than 15 p.p. • By 2027 the percentage of registered unemployed participating to ALMPs will have increased to 18 per cent. • In 2027, the YG will provide an offer within four months to at least 40 per cent of total youth registering. • By 2027 the share of long-term unemployment will be less than 65 per cent. • By 2027, the share of people at-risk of poverty will have declined to 18 per cent. 	<p>Employment Service Agency Ministry of Labour and Social Policy (MLSP) Ministry of Finance (MF) Social partners (Employers' organizations and trade unions)</p>	<p>MKD 282,100,000 (4,550,000€) (Reinforced Youth Guarantee, EU Instrument for Pre-Accession Assistance) MKD 248,000,000 (4,000,000€) (Activation for social assistance beneficiaries, EU Instrument for Pre-Accession Assistance) Total = MKD 530,100,000</p>	<p>2021</p>	<p>2023</p>
<p>Outcome 3.5. The role of central and local-level social dialogue institutions is strengthened and informs employment policy design, monitoring and evaluation.</p> <p>Policy actions</p> <p>3.5.1. Implement in-service staff training for the members of the central and local Economic and Social Council on data analysis and policy development</p> <p>3.5.2. Develop and implement a training plan for the members of employers' and workers' organizations on collective bargaining and wage setting mechanisms</p>	<ul style="list-style-type: none"> • By 2027, collective bargaining is the primary instrument for the setting of wages and conditions of work. • In 2027, the Economic and Social Council appraises at least 60 per cent of Government policies • By 2027, Local Economic and Social Councils are the main policy advisors at the local level. 	<p>Ministry of Labour and Social Policy (MLSP) Social partners (Employers' organizations and trade unions)</p>	<p>MKD 15,500,000 (250,000€) International Labour Organization (ILO)</p>	<p>2021</p>	<p>2023</p>

