

Employment Policy Review

“The former Yugoslav Republic of Macedonia”

International
Labour
Organization



Employment Policy Review

“The former Yugoslav Republic of Macedonia”

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The opinions expressed in this work are the responsibility of the authors and do not necessarily reflect the official policy of the Council of Europe.

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Foreword

The period of political turbulence and restructuring that they went through presented the countries of South-East Europe with significant challenges. They needed to restructure their national economies and get them back onto a path of sustainable growth, revive demand for labour and raise employment, as well as fight unemployment, underemployment, increasing gender inequalities and the social exclusion of vulnerable groups.

The South-East European Ministerial Conference on Employment held in Bucharest on 30 and 31 October 2003 acknowledged the serious employment challenges faced by the Stability Pact countries. The Bucharest Declaration adopted at the Conference called for regional co-operation in addressing these challenges, so as to bring about major improvements in national employment policies. The International Labour Organization and the Council of Europe were asked to give guidance and support to this effort by reviewing national employment policies, in close co-operation with the social partners and labour market institutions, and by providing policy recommendations and assisting with their implementation. This joint remit is being fulfilled under the auspices of the Initiative for Social Cohesion of the Stability Pact for South-Eastern Europe. The Ministers of Labour of the Stability Pact countries approve and update the objectives of this co-operation, and the activities are designed and supervised by a Permanent High-Level Committee comprising Directors General of Employment and representatives of National Employment Services.

Meanwhile, the “Bucharest Process” has become a significant reference point for employment policy development in South-East Europe. The Sofia Conclusions adopted at the 2nd Ministerial Conference, held in Sofia on 21 October 2005, endorsed the process and placed even more emphasis on policy coherency and social dialogue.

This series of Country Reviews of Employment Policy (CREP) is the major outcome of this process. Each review is based on a national report produced by the relevant Ministry of Labour in co-operation with the National Employment Service. They are adopted at National Tripartite Conferences organised by the ILO, the promotion of social dialogue being a key component of the process.

These country reviews can be used to strengthen labour market institutions and to make employment and labour market policies in the countries concerned more coherent and effective within the framework of an integrated policy approach. Particular emphasis is placed on gender equality issues, and especially on developing strategies designed to mainstream gender in employment policies and to promote gender equality in follow-up activities.

The review process is intended to help to promote decent and productive employment for women and men in Stability Pact countries, while converging with the guidelines of the European Employment Strategy and strengthening stability and social cohesion in the region.

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Introduction

Objectives

This Country Review of Employment Policy focusing on “the former Yugoslav Republic of Macedonia” serves various purposes:

- It highlights the main labour market and employment challenges facing “the former Yugoslav Republic of Macedonia” and provides a number of recommendations about addressing them.
- It contributes to the implementation of international labour standards and principles relating to employment¹ in “the former Yugoslav Republic of Macedonia”, and in particular **ILO Employment Policy Convention (No. 122)**, 1964, requiring governments of ratifying countries, in close collaboration with the social partners, to formulate and implement an active policy promoting full, productive and freely chosen employment. The general principles of an active employment policy are set out in greater detail in the **ILO Employment Policy Recommendation (No. 122)**, 1964. The review also seeks to support the implementation of the provisions of the **ILO’s Global Employment Agenda (GEA)** that places decent employment at the heart of economic and social policies. Consistent with the Millennium Development Goals, the GEA seeks, through the creation of productive employment, to improve the lives of the millions of people who are either unemployed or whose remuneration from work is inadequate to allow them and their families to escape poverty. The fundamental role played by employment in fighting poverty and social exclusion was also a conclusion of both the World Summit on Social Development in 1995 and the 24th Special Session of the United Nations General Assembly in 2000, which called upon the ILO to develop a coherent and co-ordinated international strategy for the promotion of freely chosen and productive employment.
- The review is also intended to make operational the standards on employment and labour market policy that are defined by the **European Social Charter** and the core elements of the **Revised Strategy for Social Cohesion of the Council of Europe** (2004). The latter states that access to employment for all and the promotion of decent employment are key elements of social cohesion and that “*investment in human resources is one of the most crucial areas of investment for future economic growth*”. The Council of Europe has also drawn up a number of guidelines and recommendations on improving access to employment, especially for the most vulnerable groups.
- This Employment Policy Review is a contribution to the preparation of “the former Yugoslav Republic of Macedonia” for its future membership of the European Union by converging with the **Guidelines of the European Employment Strategy (EES)**. For this purpose, the present report has been drafted on the model of the Joint Assessment Papers on Employment Policies formulated by the European Commission and the countries preparing for accession.

1. See Appendices I and II for a list of international instruments ratified by “the former Yugoslav Republic of Macedonia”.

Background

“The former Yugoslav Republic of Macedonia” was the fifth country after Albania, Croatia, Serbia and Moldova, to have its employment policies assessed by the Council of Europe and the International Labour Office, in compliance with the commitments made by the Ministers participating in the South-East European Ministerial Conference held in Bucharest on 30-31 October 2003.² The “Bucharest Declaration”³ mandated the ILO and the Council of Europe to assess the employment situation of the Stability Pact countries involved in the process of regional co-operation on employment, and draw up recommendations in a Country Review of Employment Policy (CREP).

On the basis of an outline for national background reports, jointly prepared by the ILO and the Council of Europe, “the former Yugoslav Republic of Macedonia” agreed to draw up a detailed report on its labour market and employment policies. In order to obtain a comprehensive overview of the employment situation in the country, the ILO and Council of Europe team in charge of the elaboration of the Employment Policy Review visited Skopje in April 2006. The aim was to collect additional information and examine more thoroughly specific labour market issues. This Review was subsequently submitted for discussion within the Macedonian Ministry of Labour and Social Policy before its presentation at the 5th Session of the Permanent High-Level Committee of the “Bucharest Process” that took place in Skopje in December 2006. The review was also discussed at a National Tripartite Conference organised in Skopje on 27 April 2007. This event provided an opportunity for the social partners to discuss and assess the findings of the Review.

Both the ILO and the Council of Europe are very grateful to the Macedonian authorities for their active support, guidance and efficient co-operation and, in particular, to the Ministry of Labour and Social Policy and the Employment Service Agency.

2. Forthcoming CREP: Montenegro and Bosnia and Herzegovina.

3. See Appendix III to this report.

1. Economic situation

During the second half of the 1990s, “the former Yugoslav Republic of Macedonia” made significant progress in macroeconomic stabilisation and structural reforms. The government tightened monetary and fiscal policy, and inflation was reduced from 122% in 1994 to 1% in 1998, with the fiscal deficit kept below 2%.⁴ Economic growth remained modest until the end of the decade, as domestic demand grew slowly and foreign investment and financial assistance were unpredictable. The economy picked up by the late 1990s, and GDP grew by 4.3% in 1999 and 4.5% in 2000, the fastest growth rates since independence. Industry and services (especially trade, transport and telecommunications) were the main sources of economic growth.⁵

However, the war in Kosovo and the internal security crisis of 2001 led to a sharp economic slowdown. Defence spending rose, tax receipts collapsed, and the general government balance swung from a surplus of 1.8% of GDP in 2000 to a deficit of 7.2% of GDP in 2001. Inflation rose to around 6% in 2000-2001, with the introduction of VAT in April 2000 and the increased government spending triggered by the 2001 security crisis. Real GDP shrank by 4.5% that year, and GDP per capita plummeted. Industrial output and exports only started to recover in late 2002, and the economy expanded by a meagre 0.9%. From this low base, real GDP growth reached 2.8% in 2003, helped in part by the resumption of operations in the metallurgical industries. In 2004 real GDP grew by 4.1%. During that year, strong growth in agriculture, construction and services outweighed a slight decline in industrial production.⁶

In 2005, GDP increased by 3.8%. This growth was attributed to the growth of all economic sectors (with the exception of construction), and especially industrial activity, which registered an increase of 7%. Annual consumer price inflation was just 0.5% in 2005. Since 2002, inflation has been kept low or negative. This low inflation rate has been the result of the continuous liberalisation of imports and a reduction in customs rates, in accordance with WTO membership,⁷ the nominal stability of the denar against the euro and tight monetary and fiscal policies.⁸

These positive economic trends were expected to continue for the next few years. In 2006 GDP was expected to grow by 4%, and by 4.5% in 2007-2008. The industrial sector, and especially construction, as well as key service sectors such as transport, telecommunications, trade and the financial sector, were expected to grow rapidly. In 2006-2007 small public sector deficits of around 0.6% were anticipated.

4. European Commission. Labour Market Review of Macedonia, 9 February 2005. www.delmkd.cec.eu.int/en/whatsnew/2005/06%20Labour%20market%20review%20feb%202005.pdf.

5. Macedonia, Country Profile, 2005, Economist Intelligence Unit.

6. Macedonia, Country Profiles, 2005 and 2006, and Macedonia Country Report, 2005-2006, Economist Intelligence Unit.

7. “The former Yugoslav Republic of Macedonia” became a member of the World Trade Organization on 4 April 2003.

8. Macedonia National Report on Employment Policy, 10 May 2006.

Table 1: Main macroeconomic indicators

	1999	2000	2001	2002	2003	2004	2005	III 2005	VI 2005	IX 2005	XII 2005
Total (US\$ m) At current prices	3.340	3.588	3.706	3.872	4.119	4.298	4.519				-
GDP (Den m) At current prices	209.010	236.389	233.841	243.970	251.486	265.257	284.226	-	-	-	-
Real change (%)	4.3	4.5	-4.5	0.9	2.8	4.1	3.8	-	-	-	-
GDP per head % change	5.3	6.9	2.8	5.3	6.0	4.0	5.0	-	-	-	-
Inflation (%) Consumer price index	-	-	5.5	1.8	1.2	-0.4	0.5				0.4
Foreign debt (million US\$)	-	-	1.444	1.548	1.77	1.957		1.962	1.946	1.981	1.96
Trade deficit (million US\$)	-	-	-527	-804	-852	-1.113		-189.5	-510.8	-766	-943.2
FDI inflows (million US\$)	38	152	449	78	81	140		36	69.8	88.3	-

Source: Data 1999-2004 from Economist Intelligence Unit (Country Profiles 2005, 2006) and data for 2005 from National Report on Employment Policy in “the former Yugoslav Republic of Macedonia”, Ministry of Labour and Social Policy, May 2006

Table 2: Gross added value by sectors (in million denars)

	2000	2001	2002	2003	2004	2005
Agriculture, forestry and fisheries	23,770	22,957	24,557	29,727	29,652	31,097
% of total	12.0	11.8	12.4	13.7	13.2	13.0
Industry	66,524	62,741	59,924	65,955	62,286	70,394
% of total	33.7	32.1	30.2	30.4	27.8	29.3
Services	107,229	109,528	114,130	121,255	131,952	138,658
% of total	54.3	56.1	57.5	55.9	58.9	57.7

Source: State Statistical Office of “the former Yugoslav Republic of Macedonia”

Table 3: Gross added value by economic activity (in million denars)

	1999	2000	2001	2002	2003	2004	2005 (1)
Agriculture, forestry and fisheries							
Agriculture, hunting and forestry	23,094	23,756	22,933	24,509	28,672	30,073	31,062
Fishing	29	14	24	48	27	21	25
Industry							
Mining and quarrying	1,620	1,856	1,312	960	989	1,042	1,400
Manufacturing	36,764	40,926	39,587	37,925	39,651	39,663	44,280
Electricity, gas and water supply	9,203	10,381	10,041	9,146	11,778	11,080	10,162
Construction	10,880	13,361	11,801	11,893	13,537	14,736	14,552
Services							
Wholesale and retail trade	22,383	25,402	26,076	27,438	28,282	36,000	38,049
Hotels and restaurants	3,984	3,463	3,410	4,088	4,653	4,172	4,200
Transport, storage and communication	17,233	21,261	21,694	20,610	21,062	20,642	23,365
Financial intermediation	6,977	7,342	7,420	7,427	6,110	7,510	8,295
Real estate, rentals and business	5,890	7,466	8,304	8,168	8,453	8,853	8,024
Public administration and defence	14,351	14,333	14,445	16,145	16,984	17,874	20,727
Education	8,769	8,266	8,048	8,688	9,436	9,913	10,253
Health and social work	8,592	8,987	8,690	9,361	9,897	9,650	9,747
Community and personal services	4,967	5,217	5,548	5,553	5,503	5,984	6,363
Imputed rents	9,597	10,465	10,631	10,792	13,732	15,662	15,574
Imputed banking services	5,017	5,153	4,738	4,160	3,797	4,720	5,933

Source: State Statistical Office

(1) preliminary data

By the end of 2005 “the former Yugoslav Republic of Macedonia” had attracted inward investment of only US\$1.3 billion, one of the lowest figures of any transition economy. The largest portion of this came in 2001, when the privatisation of the telecommunications operator, Makedonski Telekomunikacii (MakTel), raised US\$310 million. FDI decreased subsequently because of the increased political risk and continuing weaknesses in the business environment. However, the country enjoyed an increase in FDI in 2004. Roughly half of all FDI in 2004 came from a large investment by Greek telecoms company OTE in the country’s second mobile telephone company. In the first three quarters of 2005, inflows of foreign direct investment totalled over US\$88 million. Privatisation remains one of the key levers for attracting FDI into “the former Yugoslav Republic of Macedonia”, and greenfield investments have been few and far between.⁹ According to the latest UNCTAD World Investment Report (2005),¹⁰ the prospects are quite positive for “the former Yugoslav Republic of Macedonia” and other countries in the region. The report notes that FDI flows to the countries of South-East Europe and the Commonwealth of Independent States increased in 2004 for the fourth consecutive year, reaching an all-time high of US\$35 billion, and anticipates that growth is likely to continue in the near future.

Like other republics once part of Yugoslavia, “the former Yugoslav Republic of Macedonia” faced the task of creating a capitalist system and introducing private ownership in place of the system of worker self-management which had given the workforce a large say in decision-making. Because there were few domestic investors able to take over and develop the larger firms, privatisation had to involve foreign buyers. However, “the former Yugoslav Republic

9. Macedonia, Country Profile, 2005, Economist Intelligence Unit.

10. 2005 World Investment Report, “Transnational Corporations and the Internationalisation of R&D”, UNCTAD, <http://www.unctad.org/wir>.

of Macedonia” was unattractive to potential investors because of the political risks, the highly politicised nature of privatisation, and the small size of the market. The privatisation of small-scale enterprises can be considered complete, while the finalisation of large-scale privatisation is part of the current privatisation action plan. Privatisation started in 1993, and in more than a decade 95% of enterprises have been privatised. According to government estimates, some 1,688 state-owned enterprises had been sold by the end of 2004, and 78 of the companies originally identified (in 1993) for privatisation were yet to be sold.¹¹ Many of the privatisations to date have involved sales to management and/or employees. This has led to diversification of ownership, but not to improvements in corporate governance.¹² Lack of new capital, technology and management style has led to a poor performance by the (surviving) privatised enterprises in terms of declining profits and employment; and productivity has fallen despite the shedding of labour. In contrast, start-up businesses (mainly small enterprises) have been the main driving force behind the modest growth during transition and have taken on many laid-off workers and new labour market entrants. Small enterprises’ share of total employment increased from 20% in 1991 (80,320 jobs) to 44% in 2002 (122,277 jobs).¹³

The private sector’s share of the economy in “the former Yugoslav Republic of Macedonia” has been growing steadily in recent years. In 2000, the national telecommunications company was still in the public sector, but in 2001 it was privatised. This is a large and profitable company generating a significant amount of added value. Its privatisation alone has had a discernible positive impact on the private sector’s share. According to data received by the national accounts branch of the State Statistical Office in respect of employees and gross added value for 2004, it is clear that 71.2% of employees work in the private sector, and the private sector’s share of gross added value is 74.6%.

Table 4: Share of the public and private sectors in the overall economy, 2004

	Public sector share	Private sector share
Employment	28.9%	71.2%
Value added (GDP)	25.4%	74.6%

Source: State Statistical Office

Despite some of the aforementioned positive economic trends, the 2004 National Human Development Report says that one of the burning issues of the country’s economy, with a direct impact on human development, is the shortage of employment opportunities, which will be discussed in section 3 of this report. There is a large informal sector in the economy of “the former Yugoslav Republic of Macedonia”. The World Bank¹⁴ assesses the size of the shadow economy as 40 to 45% of GDP, and informal employment as high as 60% of formal employment. Estimates show a recent tendency for poverty to increase. At the beginning of the transitional period, the Gini index¹⁵ was 22%. In 2001 it stood at 29.93%, significantly higher than the pre-transition level. The increase in the Gini index is, above all, a result of the strengthening of the private sector, where income dispersion is becoming broader than in the

11. Macedonia, Country Profile, 2006, Economist Intelligence Unit.

12. See section on “Difficulties in the privatisation process” in “Privatisation in the Republic of Macedonia”. Macedonian Privatisation Agency <http://faq.macedonia.org/economy/privatisation.pdf>.

13. European Commission. Labour Market Review of Macedonia, 9 February 2005.

14. World Bank. FYR Macedonia, Country Economic Memorandum, Tackling Unemployment. September 2003. Poverty Reduction and Economic Management Unit, Europe and Central Asia Region.

15. The Gini index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. <http://hdr.undp.org/statistics/>.

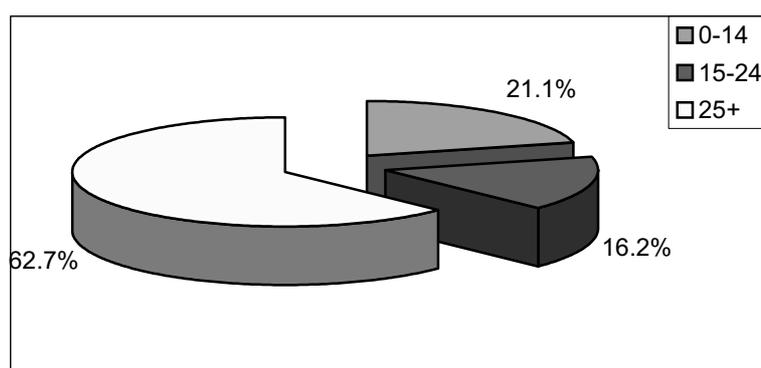
state sector. The tendency towards increasing inequalities is expected to continue unless further private sector development is matched by additional decent employment opportunities.¹⁶

2. Labour market situation

2.1. Population and labour force participation

According to the 2002 census,¹⁷ “the former Yugoslav Republic of Macedonia” had a population of 2,022,547, comprising 1,015,377 males and 1,007,170 females. On average, population increased by around 0.5% per year between 1990 and 2000.¹⁸ However replacement rates are slowing down: whereas the birth rate fell from 13.3 live births per 1,000 inhabitants in 1998 to 11 per 1,000 in 2005, the death rate rose from 8.3 per 1,000 to 9.0 over the same period (State Statistical Office). The UN World Population Prospects indicate a significant deceleration of the population growth rate in “the former Yugoslav Republic of Macedonia”, together with a rapid ageing process. Yet the country still has a fairly young age structure, with about half of its population under the age of 32.

Chart 1: Proportion of children (0-14), young people (15-24) and subsequent generations (25 and over)



Sources: State Statistical Office.

According to the Labour Force Survey, which is the richest source of labour market information,¹⁹ the working-age population (15-64) in 2005 reached 1.417 million, up from 1.337 million in 1999.

The 2002 census suggested that ethnic composition had changed little since the previous census in 1994. It indicated that ethnic (Slavic-speaking) Macedonians made up 64.2% of the

16. 2004 National Human Development Report, Decentralisation for Human Development, UNDP.

17. For further information on the 2002 census see: Final Reports on the 2002 Census. http://www.delmkd.cec.eu.int/en/whatsnew/2004/census2002_final_reports.htm.

18. The 1994 census recorded a population of 1,945,932.

19. LFSs have been conducted since 1996. Other sources are available: the Employment Agency has data on registered unemployed persons (but there is weak enforcement of eligibility criteria, see below). The Pension and Disability Fund has data on contributing employed persons and their employment record (although records are incomplete). The Health Insurance Fund has data on contributing employed persons, but some households are insured more than once. The State Statistical Office collects enterprise report data, but not covering individual farmers. The Household Budget Surveys provide limited labour market information, but the sample is small (World Bank, 2003).

population and ethnic Albanians a further 25.2%. The ethnic Albanian community is concentrated in the western part of the country, a largely agricultural region.

Table 5: Labour force participation rate, by age and gender

Age	2001			2002			2003			2004			2005		
	Total	M	W												
Total	55.5	65.6	45.5	52.6	63.7	41.5	54.5	65.6	43.4	52.2	63.5	40.9	54.1	64.9	43.2
15-19	19.7	21.6	17.6	16.6	18.1	15.0	15.4	16.7	14.1	14.4	16.4	12.3	14.5	16.8	11.9
20-24	60.5	68.0	52.6	55.6	66.5	42.8	55.3	64.5	45.5	51.2	60.9	40.9	50.9	59.1	42.2
25-54	76.6	88.1	64.8	76.2	89.6	62.5	76.4	89.3	63.1	74.1	86.8	61.0	76.2	88.3	63.7
55-64	31.9	47.4	17.7	31.1	46.7	16.4	35.8	51.9	20.7	33.7	51.0	17.5	37.0	53.5	21.5
65 and over	9.0	10.8	7.5	5.9	8.1	3.8	5.3	7.2	3.7	3.7	5.6	2.1	4.8	6.7	3.2

LFP/Activity rate – labour force participation among the total population over 15 years of age

Source: Labour Force Survey, State Statistical Office

According to the labour force survey conducted by the SSO, the labour force numbered 832,281 in 2004. Labour force participation rates²⁰ in “the former Yugoslav Republic of Macedonia” are very low and have not followed any particular pattern in recent years, ranging between 52 and 55%. The rates presented in table 5 are not in line with EUROSTAT figures, being calculated as a percentage of the population over 15 years. In its 2005 report,²¹ the ETF provided comparable figures (i.e. participation as a proportion of the population aged 15-64, rather than 15+): activity rates in 2004 were below the EU-15 level, and even below that of the new EU Member States (NMS): 58.8%, as against 70% (EU-15) and 65.5% (NMS). As indicated in Chart 2 (Activity rates according to gender and level of education), male participation was just under 65% in 2005 (and fairly stable), while the female rate was 43.2% (no clear-cut trend). Thus, female activity was at a much lower level than male activity. Data for 1996 and 2005 show, however, that the gender participation gap narrowed from 24.1% to 21.7% during that decade.

Current differences in activity rates according to gender may be explained by the traditional role played in society by women and men. This seems to be confirmed, in respect of ethnic minorities, by the LFS 2000 labour force survey: the participation rate of women of ethnic Albanian origin was 11.3%, compared with 51.1% for ethnic Macedonians (national report), and with 62.3% for men of ethnic Albanian origin. Other ethnic groups, such as the Roma, display a significant gender gap as well. Data from the 2002 census show major differences in ethnic groups’ participation rates: the Macedonians display the highest rate, of 58%, followed by the Vlachs (54.7%), the Roma (54.2%), the Serbians (47.3%), and the Turks (44.3%). Ethnic Albanians have the lowest participation rate (37.9%), due to the extremely low level of activity among Albanian women, as already highlighted.

20. Defined as the proportion of the population over the age of 15 in the active population (employed and unemployed). Therefore, working age henceforth refers to the 15+ age group. For the age group 15-64 (as used for instance by Eurostat), the activity rate was 62.3% in 2003, as compared to the EU average of 61.3%.

21. Labour market review of “the former Yugoslav Republic of Macedonia”, WP, ETF report, 2005.

There are, however, other factors that influence women's labour force participation rates, and these must be addressed if we are to achieve the goal of gender equality in access to paid work.²²

There are also differences according to age, particularly for the younger and the older age groups. As indicated in Chart 2 (Activity rates according to gender and level of education), the activity rates for workers aged 15-19 (figures for the 20-24 age group are in brackets) decreased from 18.4% (61.6%) in 1999 to 14.5% (50.9%) in 2005; for workers aged 65 and above from 9.0% to 4.8% between 2001 and 2005, while the activity rates for workers between 45 and 64 years of age have increased slightly over the same period. The very low activity rates of young persons aged 15-19 could be considered a positive trend,²³ reflecting greater participation in education; however according to the census data, 34% of young people aged 15-19 were in the so called NEET (Not in education, employment or training) group in 2002.²⁴

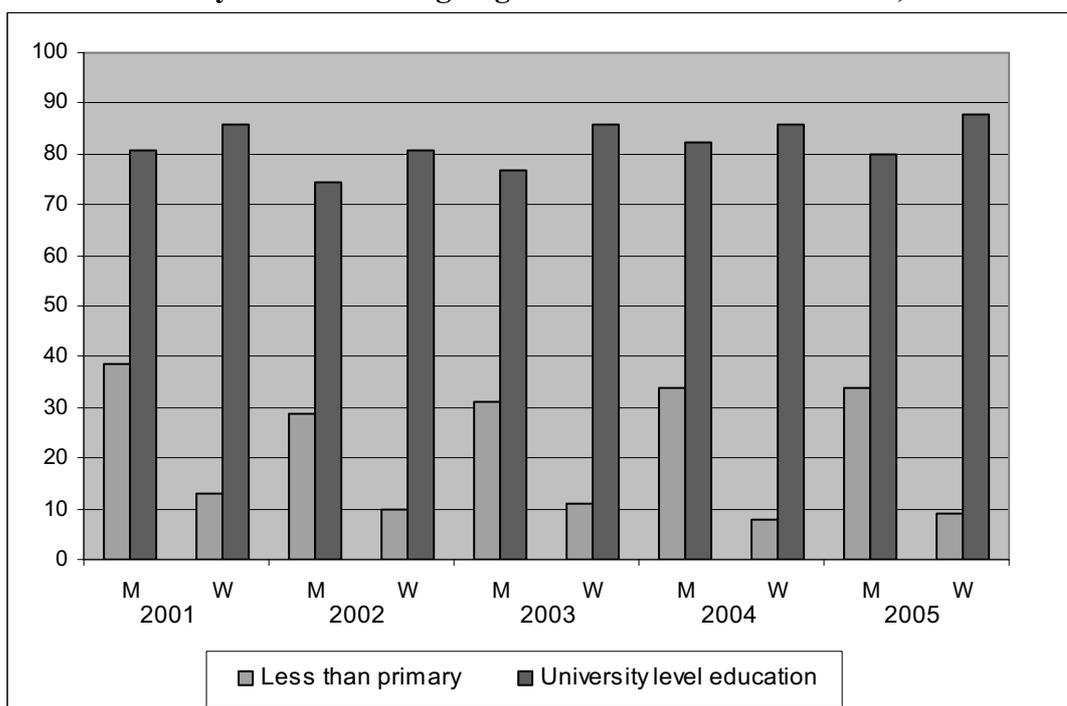
Activity rates according to level of education show that labour force participation increases with level of education: from 14.4% for those without education to 83.7% for those with university education in 2005. Moreover, these disparities have steadily accelerated over time, as reflected in the table showing activity rates according to gender and level of education.

22. Firstly, women, especially certain groups, such as older women or women with young children, may face discrimination in respect of recruitment and dismissal, and even when seeking to use the services of employment agencies. Labour inspections are unlikely to uncover these cases, and legislation is not implemented. Secondly, childcare is not always available, or it is not available in a sufficiently flexible way to help parents (especially women) to participate in the labour force. Flexible and part-time work options are also largely unavailable. Finally, structural factors, such as closures or restructuring in sectors with a predominantly female workforce, may also aggravate women's difficulties in obtaining paid employment.

23. And in line with the European Employment Strategy which set as one of its targets the completion of upper secondary schooling by 85% of 22 year olds by 2010.

24. Labour market flexibility and employment security in the Republic of Macedonia. Blagica Novkovska, ILO, 2006. Unpublished.

Chart 2: Activity rates according to gender and level of education, 2001-2005



Source: Labour Force Survey, State Statistical Office

The above analysis of activity rates according to characteristics suggests that many people are inactive because they lack skills and/or incentives and support to enter or return to the labour market (for example: shortage of childcare facilities, low wages, lack of knowledge about how to find a job, etc). An increase in activity rates will therefore require policies targeting relatively disadvantaged groups in the labour market, such as people with low education levels, some ethnic minorities, people living in rural areas, young people and women.

2.2. Developments in the employment sphere

According to the LFS, “the former Yugoslav Republic of Macedonia” had 545,253 employed inhabitants in 2005, which corresponds to an employment rate of 33.9% of the population aged over 15. Only recently has employment been recovering: the substantial year-on-year upsurge of over 5% reported by the LFS in 2001 partly reflected the seasonal effect of the LFS being carried out in autumn (the harvest period) instead of April, as a result of the 2001 civil war. It also reflected the inclusion of police and army reservists in the employment figures. As this (inappropriate) inclusion was corrected in 2002, employment went down again, and continued falling until 2004. As indicated in table 6, employment rates fell from 38.6% (in 2001) to 32.8% in 2004. These are very low levels of employment compared with most Eastern and South-East European countries (around 56% in the new EU Member States and 64.3% in the EU-15).

Table 6: Employment according to gender, 1996-2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Employment</i>										
Total	537,591	512,301	539,762	545,222	549,846	599,308	561,341	545,108	522,995	545,253
Men	340,579	328,404	341,876	337,994	339,550	357,266	342,779	320,640	326,640	332,179
Women	197,013	183,896	197,886	207,228	210,297	242,042	218,562	217,825	202,355	213,074
<i>Employment rate (%)</i>										
Total	37.4	34.4	35.9	35.9	35.8	38.6	35.8	34.5	32.8	33.9
Male	47.5	44.6	45.4	44.6	44.7	46.3	43.5	41.3	40.2	41.2
Female	27.4	24.4	26.3	27.2	27.1	30.9	28.1	27.7	25.4	26.6

Source: Labour Force Survey, State Statistical Office

Like activity rates, male and female employment rates are very unequal. While the male rate reached 41.2% in 2005, only 26.6% of women of working age were employed, and rates were particularly low for older women. The downward trend in employment has been quite evenly spread across the different age groups, with the exception of workers between 55 and 64 years of age, whose employment rate has remained almost unchanged. Data on employment rates according to level of education show that the lowest rates are found among those having primary education or less, while the highest are for people whose education was of university level. There are significant disparities which have been increasing over time (the total for people without education went down from 13.4% in 2001 to 6.7% in 2005, compared to figures for those with higher education of 58.3% in 2001 and 58.6% in 2005 (LFS)).

Employment rates according to age also show notable differences, with very low rates for young people aged 15-24 (11.5% in 2004), nearly three times lower than the average employment rates. But beyond these disparities, the low employment rates for all categories point to insufficient labour demand and job creation in the country.

2.3. Employment according to sector

As we can see from table 7, sectoral changes in employment were rather modest in comparison to those that occurred in more advanced transition countries. The first period, 1996-2001, was characterised by an increase in agriculture's share of total employment, from 18.6% in 1996 to 24.8% in 2001,²⁵ while all other sectors declined. Even services' share fell slightly, from 44.3% to 42.8%, over the same period. The share of services and construction respectively grew to 50.5% and 6.9% in 2004, while the share of agricultural employment declined to 16.8% in 2004. It remains at a high level, well above the EU-15 (3.8%) and the new EU Member States (20.4%).²⁶ As for services' share of employment, more accurate data would be needed to make a better analysis of its development and size; firstly because job openings in the services sector may span a very wide range of activities (financial, business,

25. As in many other SEE countries, this increase involved subsistence activity, at a time when the number of jobs in the formal economy was very limited (World Bank, 2003).

26. See ETF, Working Paper, 2005. Op. cit.

hotels, cleaning, etc); and secondly because it should be noted that the bulk of the informal economy operates in the services sector, probably leading to an underestimate of its share of GDP and employment.

Table 7: Employment according to sector (% of total employment)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture and forestry	18.6	18.5	19.9	21.2	21.8	24.8	23.9	22.0	16.8	19.5
Mining and industry	29.4	27.8	28.7	28.2	27.5	26.8	27.5	27.3	25.8	25.8
Construction	6.6	6.3	6.6	5.7	6.5	5.6	5.8	6.6	6.9	6.5
Services	45.4	47.4	44.8	44.9	44.2	42.8	42.8	43.7	50.5	48.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: LFS, Novkovska, 2006

In terms of sectoral segregation, women are found in the sectors where they are usually predominant in other countries as well: health and social work, education, and financial mediation. Men are more likely to work in agriculture and some specific areas of the services sector, such as real estate, transport, public administration and defence. Job segregation by sector is a significant contributory factor to the wage gap. Sectors where women tend to work are usually undervalued and underpaid, due to women's lower level of education and skills and their need for flexible working hours.

2.4. Unemployment

Overall trends

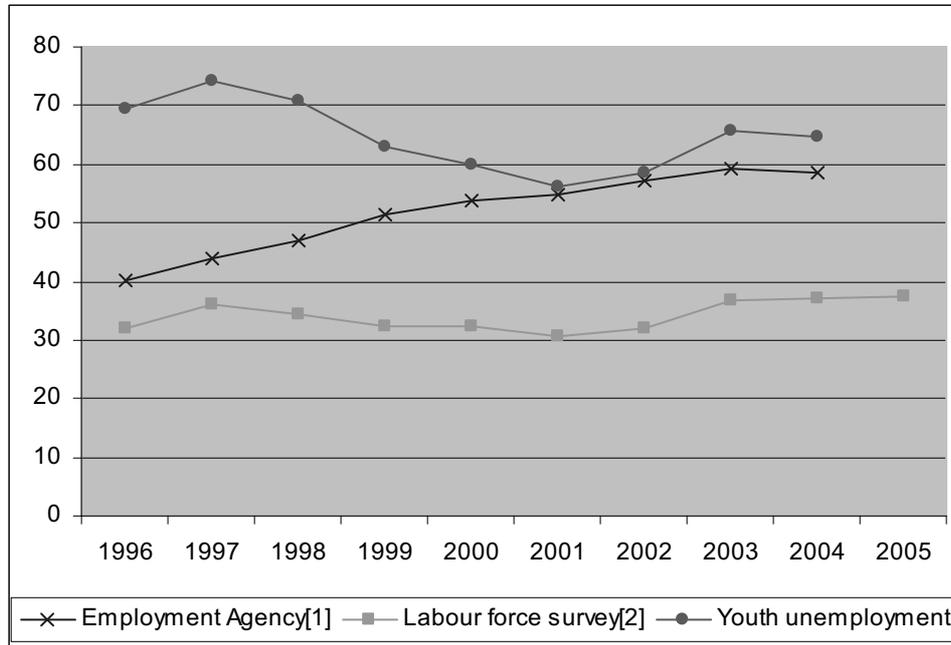
Registered unemployment was not, as it was in other transition economies, a new phenomenon in "the former Yugoslav Republic of Macedonia". As part of Yugoslavia from 1950 to 1989, "the former Yugoslav Republic of Macedonia" underwent several social and economic reform processes within the "self-management" system, which had a tendency to push up both the inflation and the unemployment rates.²⁷ As a matter of fact, registered unemployment was 12.8% in 1960, 20% in 1970 and as high as 24% in 1991, at the time of independence. Registered unemployment continued to rise during transition and has accelerated since the mid-1990s, with rates of over 50% (Chart 3). These extremely high rates are partly due to the incentive of registering in order to qualify for free health insurance; in addition, eligibility criteria are not enforced and many people who are registered as unemployed are actually working in the informal sector.²⁸ Thus a better measurement of unemployment is available from the LFS, according to which unemployment, as defined by the ILO, increased throughout the 1990s (the first LFS was conducted in 1996, so it cannot be used for the period before that year), reaching the alarming level of 36% in 1997. From 1997

27. See Novkovska, 2006. Op. cit.

28. There are two sources of information about unemployment: registered unemployment figures published by the ESA (Employment Agency) and data from the State Statistical Office derived from a quarterly LFS based on a sample of 10,000 households. While in most CEE countries, LFS data show actual unemployment to be higher than registered unemployment, the opposite is the case in "the former Yugoslav Republic of Macedonia", where the registered figures are 30% higher than LFS data.. This can be explained by the strong incentive for some inactive and informal economy workers to register as unemployed in order to qualify for free state-provided health care, if they have no other means of indirect access to entitlement (e.g. as dependents).

onwards, the unemployment rate fell slightly, and was down to 30.5% in 2001. It subsequently rose again to 37.3% in 2005.

Chart 3: Unemployment rates in “the former Yugoslav Republic of Macedonia”, 1996-2004



Source: State Statistical Office

Structural features of unemployment

In 2003, the female unemployment rate stood at 36.3%, very similar to the male rate (37%). More recently, the female rate overtook the male rate, as it had already done back in the nineties. This gender difference holds for female workers aged 25-54 in particular. It should also be mentioned that inactive women are more likely than men to lose heart and not even register as unemployed. This is to some extent related to the unavailability of childcare, leaving mothers with young children unable to start work immediately. Thus, while women’s unemployment rate may be similar to that of men, the incidence of latent unemployment is higher.

Unemployment trends for different age groups are similar to those for unemployment as a whole. There are, however, enormous differences in the level of unemployment rates. As in other countries in the region, young workers (aged 15 to 24) in “the former Yugoslav Republic of Macedonia” are the group most likely to be unemployed. But youth unemployment is a particularly serious problem in “the former Yugoslav Republic of Macedonia”, with a youth unemployment rate 1.7 times higher than the overall unemployment rate in 2005. At the same time, unemployment amongst workers in the prime years of their working lives (25-54) increased from 28.6% in 1998 to 34.6% in 2005, and that of older workers (55-64 years) rose from 13.4% to 29.1%, according to the LFS. In fact, youth unemployment as a proportion of total unemployment decreased from 37.5% to 22.6% for the period 1996-2004. Of particular concern is the demoralisation of young people already referred to (i.e. young people feel discouraged even from looking for a job) pushing them towards the informal economy, emigration (a “brain drain” where the most educated ones are concerned), or illegal – or even criminal – activities.

Data based on education show the positive effects of education on unemployment rates: the higher the level of educational attainment, the lower the unemployment rate, as shown in table 8. There is a relatively low rate for workers who have not completed primary education, as they are less reluctant to accept jobs requiring lower skills levels, mainly in the agricultural sector.

Table 8: Activity rate, employment rate and unemployment rate according to educational levels, 2004

	Activity rate	Employment rate	Unemployment rate
Without education	14.3	7.1	50.1
Unfinished primary education	24.3	14.6	40.2
Primary education	38.6	20.4	47.1
3 years secondary education	68.6	38.9	43.3
4 years secondary education	65.9	42.3	35.9
Higher education	71.5	59	17.4
University level education	83.9	68.2	18.6
Total	52.2	32.8	37.2

Source: Labour Force Survey, State Statistical Office

Another striking feature of the labour market is the very high incidence of long-term unemployment (lasting more than a year). Its share of total unemployment has risen continuously since 1996: throughout the transition, its share has been over 80%, reaching 85.4% in 2004; this is of course well above the Central and East European countries' average of 55.3% and the EU-15 average of 40.2% (in 2002, ETF report). But more alarmingly, the figures indicate a worsening of the problem of (very) long-term unemployment lasting two to three years. This suggests that people, once they become unemployed, increasingly tend to remain out of work. Because of the consequent decline in knowledge, skills and work experience, as well as demotivation and demoralisation, employment and labour market policies should be targeted at the long-term unemployed. Long-term unemployment affects men and women to an almost equal extent.

Unemployment in “the former Yugoslav Republic of Macedonia” also has a strong regional dimension, despite the country’s small size. Unemployment is particularly high in rural areas and in regions affected by restructuring. Another reason for regional disparities is the limited geographical mobility of the population, often due to an inefficient housing market, as well as a lack of information about vacancies in other regions. Even within urban or rural areas, unemployment rates differ widely, with rates between 27 and 59% in urban areas and 24 and 67% in rural areas. Skopje is the largest region and has a fairly low unemployment rate. The extremes are found in the municipality of Dolneni (in the south-eastern part of the country), which has the highest unemployment rate (76%) and the lowest participation rate, and the municipality of Gevgelija (in the south-east, on the border with Greece) with the lowest unemployment rate (23%) and the highest participation rate.

A comparison of the educational attainment of those in work and the unemployed shows that workers with basic education (low skills and education levels) account for a disproportionate share of unemployment: workers educated only to primary level or below suffer very high unemployment rates (around 50%) and the lowest employment rates (around 20%): this indicates that there is an excessive supply of low-skilled labour.

Unemployment situation of specific population groups

Some groups of the population, namely ethnic minorities, suffer both higher unemployment rates than the majority population and difficulties in accessing employment. The National Action Plan for Employment (NAPE) 2004-2005, drawn up on the basis of the 10 Guidelines of the European Employment Strategy, identified ethnic minority groups – especially the Roma population, persons with disabilities and young people – as groups facing particular difficulties on the labour market, and consequently at high risk of social exclusion.

In 2002, according to the latest census, 2.66%, or approximately 54,000, of the country's 2 million citizens were Roma, but unofficial figures put the Roma population at some 135,000.²⁹ Similarly, official data indicate that 71.3% of the Roma population is unemployed, while Roma sources indicate that the true figure is around 95%. Roma are grossly under-represented in both private and public-sector employment, the latter in spite of the Framework Agreement provision on proportional representation of ethnic groups in state institutions at all levels.³⁰

The Government of “the former Yugoslav Republic of Macedonia” adopted a National Strategy for Roma on 31 January 2005, in the context of the EU's Agenda 2000. The government has also signed up to the Decade of Roma Inclusion 2005-2015, committing itself to supporting full participation and involvement of the Roma community in achieving the Decade's objectives. These are spelled out in 4 separate Action Plans, for healthcare, education, housing and employment. The Employment Action Plan was designed with the participation of Roma experts. It recommends action in several areas, some of which are also included in the National Strategy for Roma:

- improving the provision of information to the Roma population about employment matters (e.g. by training employment agency staff to deal with Roma in a tolerant and non-discriminatory manner, and informing them of their rights and obligations, particularly their entitlement to register as unemployed, which qualifies them for health insurance);
- raising the level of education of the Roma community in order to increase its opportunities on the labour market (e.g. by developing programmes for the completion of primary education, establishing regional education centres providing new opportunities to obtain qualifications);
- raising the level of knowledge and skills (establishing business advice centres and teams in municipalities to support unemployed Roma, as well as providing training in how to set up their own businesses);
- creating national programmes and regulations to increase Roma employment and involvement (benefits for employers thanks to a review of the existing legal framework for tax exemptions and the creation of new legal solutions);
- transforming the grey economy into legal forms of working (providing incentives through programmes and projects involving grants for the employment of Roma and for self-

29. UNDP. *Faces of Poverty, Faces of Hope: Vulnerability Profiles for Decade of Roma Inclusion Countries*. Bratislava, 2005.

30. *Ibid.*

employment by Roma; employing one member of the Roma at each local employment agency).

All the Action Plans contain indicators for measuring the level of success in respect of each objective.

Some ministries have already allocated funds from their budget, which are supplemented by resources from international donors and other grants. In the field of education, for example, the Roma Education Fund (supported by the World Bank) has contributed to the setting up of scholarships for academic secondary schools, 2-year pre-school education courses, Roma education centres and support to NGOs which encourage parents to send their children to school.

2.5. Combining family and work commitments

2.5.1. Working hours

Very few people work part-time in “the former Yugoslav Republic of Macedonia”, and flexible, family-friendly work arrangements are also hard to find. This may contribute to women’s low labour force participation, as they are seen as primarily responsible for childcare.

As elsewhere, while women spend a little less time doing paid work, they spend significantly more time on domestic activities. “The former Yugoslav Republic of Macedonia” stands out for having extensive sex-disaggregated data in this field, showing, for example, that employed women spend 4.39 hours a day on domestic work, compared to a mere 1.38 hours for men, who tend to have about an hour more free time each day than women.

2.5.2. Parental leave

Parents in “the former Yugoslav Republic of Macedonia” can take 9 months’ leave after the birth of a child and receive compensation of 100% of their salaries if they have previously paid social security contributions for a set period of time. Otherwise, social benefits of 800 denars per month are paid to parents on such leave. Women on parental leave are guaranteed a return to their jobs. During maternity leave, female employees are entitled to compensation for loss of salary, according to health regulations. If a female employee does not take maternity leave, the child’s father or adoptive parent is entitled to leave with compensation for loss of salary. An employee (who is a father) has the right to paid absence from work of up to seven working days on account of personal or family circumstances (such as the birth of a child). The days of paid absence from work are determined by collective agreement.

Childcare availability is variable, being worse in rural areas than in urban locations. However, capacity is low everywhere, and far from satisfactory. Only 11% of children under 7 years of age have been able to be catered for in existing childcare facilities. Now that recent legislation has allowed the establishment of private childcare facilities, the needs are expected to be better met. Nevertheless, according to the data provided in the draft CREP, the number of children in childcare dropped sharply between 2004 and 2005. This needs to be viewed in the light of changes in birth rates, however.

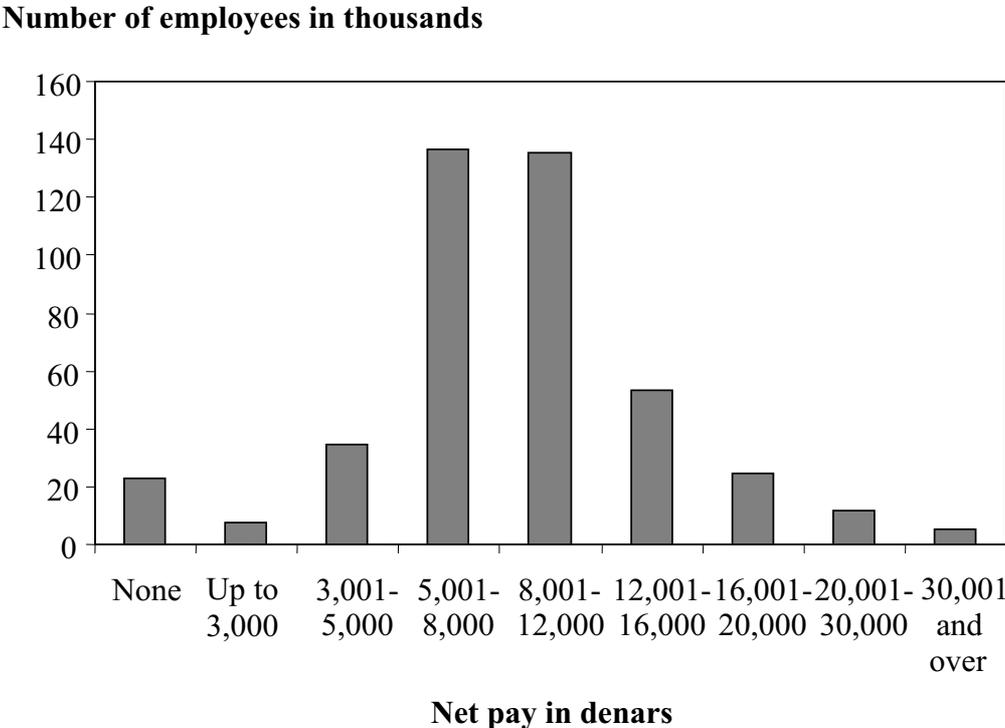
Parental leave is primarily taken by mothers. If fathers participated more in the care of children, even very young children, it would be easier for women to participate in the labour market, and gender inequality in this sphere would be reduced.

2.6. Wage developments

“The former Yugoslav Republic of Macedonia” has seen a steady increase in nominal wages and wage dispersion over the period 1996-2006, primarily as a result of the growing proportion of employment in the private sector and the limitation of wage growth in the public sector imposed by the Law on Wages. In May 2006, the average gross wage was 23,114 denars per month (around €379), which represented an increase of 8.3% in nominal terms and 4.0% in real terms over May 2005. The average net wage for the same period was 13,544 denars (€223) per month, which was 7.5% higher in nominal terms, and 3.3% in real terms.³¹

As already stated, wage dispersion increased during the transition. Chart 4 shows that more than 50% of employed persons had a monthly net wage of 5,000 to 12,000 denars (around €80 to €200), while 5% of employed persons did not receive their wages in 2004. Data on wage arrears are very limited; in 2002, about 8% of those employed outside agriculture did not receive a wage payment in March, according to the April 2002 LFS results. Other sources, such as enterprises’ reports, show that over 25% of employees did not get paid in March, a proportion that has risen steadily in recent years. According to the State Statistical Office, 13.8% of employees in “the former Yugoslav Republic of Macedonia” did not receive any payment in May 2006.

Chart 4: Employed persons in thousands according to net pay in denars, 2004



Sources: Labour Force Survey, State Statistical Office

31. As mentioned in section 1.

“The former Yugoslav Republic of Macedonia” also displays relatively high sectoral and regional differentials, due to the high degree of centralisation of industry and its labour demand. Data on wages from enterprises’ reports also show growing sectoral wage dispersion,³² with the highest wages in services (particularly financial intermediation activities) and the lowest in textiles and construction.

3. Identification of the main priorities for employment policy

3.1. Employment protection legislation and labour market flexibility

One important aspect of the economic and social reforms undertaken in the course of the transition to a market system is the amendment of national legislation to reflect new labour market realities. The objective of these amendments is to enable enterprises to terminate employment for economic reasons, while at the same time protecting workers from unjustified termination, giving them time for look for a job and providing some income security through severance payments. But because the “strictness” of the employment protection legislation (EPL³³) affects both employers’ and employees’ decisions, it gives rise to a number of effects on labour costs, employment and productivity, some favourable and some unfavourable: one example is that EPL makes redundancies a lengthier and more costly process for employers.

It is thus often argued that lack of flexibility and the failure of the labour market institutions to adjust to the new economic environment are to be blamed for poor labour market outcomes, such as high and persistent unemployment levels. Stricter EPL is also expected to increase labour market segmentation, i.e. the gap between the “insiders” -those workers in permanent jobs enjoying high job security – and the “outsiders” – those in non-permanent jobs, such as fixed-term, seasonal or any type of informal employment, as well as unemployed job-seekers, who are outside the scope of EPL. On the other hand, stricter EPL may also contribute towards smoother labour market adjustment, greater social stability, the sharing of adjustment costs between society and the business sector, and faster absorption of new technologies as a result of pressure on enterprises, with positive impacts on productivity.³⁴

By 2003, employment protection legislation was still comparatively strict, by international standards, in “the former Yugoslav Republic of Macedonia”, despite deregulatory reforms during the 1990s, followed by more in 2003. Table 9 illustrates this by presenting summary EPL indices for selected Central and East European countries (CEE) using OECD methodology: these indices cover a whole set of regulations relating to various aspects of the legislation protecting employment, covering both permanent and temporary contracts, as well as collective dismissals.³⁵ The findings in respect of EPL strictness in “the former Yugoslav Republic of Macedonia” are also compared with the EU and OECD averages. The indices

32. Between 1996 and 2001, the variance of the log of average net wages across 11 sectors doubled from 0.030 to 0.070 (WB, 2003).

33. EPL is understood here to refer to regulatory provisions that relate to “hiring and firing”, particularly those governing unfair dismissals, termination of employment for economic reasons, severance payments, minimum notice periods, administrative authorisation for dismissals, and prior consultations with trade union and/or labour authority representatives.

34. For an extensive overview of the theoretical and empirical effects of EPL, see Cazes & Nesporova, 2003.

35. This index is a weighted average of 22 aspects of the strictness of employment protection.

range from 1 to 6: countries with very flexible legislation have a low overall value (close to 0 or 1), while those with very strict legislation have a high value (5 to 6). Scores are quite high, and above average, in the CEE countries. However, the high level of the overall index in “the former Yugoslav Republic of Macedonia” was mostly due to the stringency of the legislation on temporary employment and collective dismissals (with the first sub-index reaching maximum level for “the former Yugoslav Republic of Macedonia”).

Table 9: Strictness of employment protection legislation, late 1990s and early 2000s

Country	Permanent employment	Temporary employment	Collective dismissals	Overall index
Bulgaria	2.3	2.8	4.4	2.8
Croatia	2.8	3.9	5.0	3.6
Czech Republic	3.0	0.5	4.3	2.2
Estonia	2.9	1.3	4.1	2.4
Hungary	2.1	0.8	3.4	1.8
<i>FYR of Macedonia (1)</i>	<i>3.9</i>	<i>5.0</i>	<i>4.2</i>	<i>4.4</i>
<i>FYR of Macedonia (2)</i>	<i>2.1</i>	<i>4.4</i>	<i>4.0</i>	<i>3.2</i>
Poland	2.3	1.0	3.9	2.0
Slovakia	2.6	1.2	4.4	2.3
Slovenia	3.4	2.5	4.8	3.3
EU average	2.4	2.1	3.2	2.4
OECD average	2.0	1.7	2.9	2.0

(1) Before the 2003 legislative amendments; (2) Subsequently.

Sources: Cazes & Nesporova, (2003); Rutkowski (2003); World Bank estimates for Macedonia in Blazevski, 2003.

During the transition, there has been a substantial reduction in the strictness of the legislation relating to permanent employment, which regulates the recruitment and dismissal of permanent workers, notification procedures and severance payments. Thus, after the 2003 legislative amendments, “the former Yugoslav Republic of Macedonia” had less strict legislation on permanent employment than the average Central and East European country. In contrast, as we can see from table 9, changes³⁶ regarding temporary employment³⁷ did not produce a significant decline in the temporary index. Yet, the proportion of fixed-term contracts rose from 13.6% in 1998 to 22.3% in 2004. “The former Yugoslav Republic of Macedonia” thus seems untypical of its region, as temporary employment remains rather low in almost all transition countries (Cazes & Nesporova, 2006). This contrasts even more with the new EU member countries, which have, as just stated, a low proportion of temporary employment, despite having the most liberal legislation on the use and termination of temporary contracts. Surprisingly, “the former Yugoslav Republic of Macedonia” combines a rather rigid legislation on such contracts with a high and increasing proportion of temporary employment. This apparent paradox may be explained by weak enforcement of the legislation. Moreover, the share of fixed-term contracts particularly increased among newly concluded contracts. This trend may point to increasing labour market segmentation. It would thus be very helpful to assess the average duration of these contracts (tendency to increase or decrease) and the extent to which these fixed-term contracts have the capacity for conversion

36. Amendments made in 2003 allowed for greater use of fixed-term contracts (up to three years) without limits on their number or duration; temporary work agencies (TWA) lack a clear legal framework, which could explain the very high level of the temporary employment index.

37. Temporary employment includes workers on fixed-term contracts, agency workers, seasonal workers, as well as those in other forms of non-permanent employment (civil-law contracts).

into permanent ones. The collective dismissals index covers the definition of collective dismissals, additional notification requirements and possible delays. “The former Yugoslav Republic of Macedonia’s” index is among the lowest of the CEE countries, but is still much higher than the EU and OECD averages.

Some inflexibility remains on the labour market in respect of part-time employment: a strong disincentive to its use is created by the particularly high tax wedge at low wage levels, resulting in higher payroll tax for part-timers. In “the former Yugoslav Republic of Macedonia”, 5.3% of workers were in part-time jobs in 2004 (national report), which is a much lower figure than in the EU-25 (around 18%), but comparable with the figures for Hungary and the Czech Republic.

In July 2005, Parliament approved a new Labour Relations Law,³⁸ after lengthy negotiations between the government and social partners. This Law received strong IMF and World Bank backing, and was designed to make “the former Yugoslav Republic of Macedonia’s” labour market more flexible. Its key provisions include a reduction in maximum severance payments (from eight to six months), the clarification and liberalisation of overtime rules, the removal of some restrictions on fixed-term, temporary and part-time contracts, and a reduction in employers’ sick pay obligation from 60 to 21 days. The scope of formal procedures for collective dismissals was also reduced: collective agreements are now binding only on signatories and members of signatory associations and trade unions, and are for a fixed two-year term. This should mean that many smaller firms have no need to enter into industry-wide collective wage agreements.

Box 1

(Extracts) Labour Code, 2005

Notice period (Labour Code, Article 88)
 One month for an individual dismissal, two months in the event of termination of the employment contracts of more than 150 employees, or 5% of the total number of employees

Severance payments (Labour Code, Article 97) for Macedonia

	Severance payment
< 5 years of service	1 month’s salary
5-10 years	2 months’ salary
10-15 years	3 months’ salary
15-20 years	4 months’ salary
20-25 years	5 months’ salary
> 25 years	6 months’ salary

Sources: Decree on Promulgation of the Labour Relations Law, Skopje, 2005

On the whole, these changes have reduced severance costs and have simplified redundancy procedures.³⁹ And the speed of labour adjustment has been increased, another very important

38. Decree on Promulgation of the Labour Relations Law, 22 July 2005, Skopje.
 39. While EPL indices shown in table 9 have not been updated for “the former Yugoslav Republic of Macedonia”, changes introduced to increase flexibility imply a lower level for the overall index.

cost-saver that also encourages structural change. However, the labour market position of some groups of workers may become more vulnerable, depending on their status and employment contract: not all types of work have been defined as employment, so some are not covered by the Labour Code.

Informal economy

The large size of the informal economy also offers an extreme example of labour market flexibility and points to weak law enforcement. According to some estimates, almost one third of the labour force depends on the informal economy, including seasonal work, temporary work and part-time jobs. High unemployment, the desire to avoid (or reduce) high taxes and social security contributions, and institutional failures to curb the phenomenon are among the reasons for the importance of the informal economy in the labour market adjustment process. Informal activities may be of two types: enterprises that fail to register with the authorities and thus avoid paying any taxes and those that under-report the number of workers they employ, the salaries they pay and their level of production in order to reduce tax liabilities. Estimates of the extent of the informal economy in “the former Yugoslav Republic of Macedonia” vary from 25 to 40% of GDP (national report). A recent study of the informal economy in ten transition countries found that the largest in 2003 was that of “the former Yugoslav Republic of Macedonia”, with 41.2% of GDP, followed by Bulgaria (35.9%) and Romania (34.9%).⁴⁰ In his updated study, Schneider (2005) points to growth in the informal economy over the transition period. Public authorities in transition countries had taken different attitudes to the informal economy, with some seeing it as preventing moderate imbalances in the labour market. However, the informal economy undermines the government’s revenue base and creates unfair competition.

Recommendations:

- *There is a need to promote further atypical and flexible forms of employment in the formal economy. This means reviewing and streamlining EPL, in particular where temporary employment is concerned, and giving consideration to compensating workers for any loss of employment, to better income protection during unemployment and to effective assistance with obtaining new employment (see the relevant sections below). And the calculation of part-time employees’ payroll taxes should be revised, to reduce the effective amount of tax.*
- *This review process should be carried out in consultation with the social partners, so as to strike a balance between the interests and constraints of the three parties involved, i.e. maintaining employers’ competitiveness, remaining within the government’s financial constraints and providing decent work for workers.*
- *It is also necessary to reduce the informal economy through appropriate tax policy (a reduction of the tax burden and simplification of tax regimes, see the relevant sections below) and legislative changes.*
- *It would be appropriate to ensure strict law enforcement, through a strengthening of labour courts and the speeding-up of their activities, as well as through a*

40. Schneider, Friedrich, 2005. “Shadow economies around the world: what do we really know?“, IZA Discussion Paper No. 1043.

strengthening of the labour inspection system. Furthermore, labour inspections should detect and prosecute cases of gender discrimination, a task for which labour inspectors should be trained.

- *The country's labour market seems to have three tiers, making it very important to bridge the gap between permanent forms of employment (workers wholly within the formal market, paying both tax and social insurance contributions); those engaged under civil contracts (not regulated by the Labour Code) and those employed informally, paying neither tax nor insurance.*
- *While no relevant data exist, the situation of ethnic minorities, and specifically the Roma, is especially difficult. It is vital to address the problems of Roma women, and to devise programmes to train them and support their engagement in paid work activities.*
- *Childcare should be made a priority: it should be available, accessible and affordable in both rural and urban areas.*

3.2. Employment services

The Employment Service Agency (ESA) was set up in 2004 following a wide-ranging reform of the National Employment Bureau. Reorganisation of the public employment service was part of the National Action Plan for Employment 2004-2005 (NAPE). The main objectives of reorganisation were to improve passive employment policies and the service's active participation in the design and implementation of active labour market policies.

The Agency is governed by a Management Committee comprising nine members, five of whom are appointed by the government, another two representing the Organisation of employers of the Republic of Macedonia, and the remaining two representing the Federation of trade unions of Macedonia.

According to the National Report on Employment Policy, 495 persons currently work for the ESA, 41 at head office, and almost a quarter of the remaining staff (96) at the local centre for the city of Skopje, which is one of a total of 30 local employment centres. As at the end of December 2005, 359,989 persons were registered with the ESA, so there is one member of staff per 727 registered unemployed persons, indicating that the workload is relatively high and the Agency understaffed. Although there are still 53 positions vacant, staffing should be increased to cope with the large numbers of persons registered.

One of the ESA's tasks is to record job vacancies, but in practice few employers notify their vacancies to the Agency, leaving it unable to play its central role in matching labour supply and demand. Working relations with employers need to be developed on a basis of mutual trust. The ESA also has to provide information about the labour market to employers and supply the profiles of the job-seekers available on the labour market. Moreover, the Agency has a duty to inform employers about legislation, new regulations and the possibilities created by labour market policies.

The Agency is also responsible for registering the unemployed. According to ESA figures dating from 2004, 393,238 persons were registered with the Agency, of whom 11.7% were eligible for unemployment benefit, while 64.5% were eligible for health insurance. This

illustrates the low level of entitlement to unemployment benefit. A significant proportion of those who register do so in order to become eligible for health insurance, while in reality they are either not available on the labour market (i.e. they are inactive) or they are already working in the grey economy. According to a survey conducted by the ESA in 2005, out of the 359,989 persons registered at the end of December that year, 19.8% declared that they had registered solely to benefit from health insurance. The unemployment rate as measured by ESA data is therefore automatically higher than the rate measured by the Labour Force Survey, not only because of differences in methodology, but also as a result of the registration of people only wishing to qualify for health insurance.

This not only has an impact on the official unemployment rate, but is also time-consuming for the ESA, which should be devoting more time to labour market-related activities, such as job counselling. As already stated, there are not enough staff in view of the high numbers of registered persons. Reducing those numbers would reduce the staff's workload to a more reasonable level.

Moreover, the figures show that very few registered persons are eligible for unemployment benefit. In 2004, just under 50,000 persons received such benefit, which is a very small proportion of the 393,238 registered that year. In view of the fact that many people had registered just to claim health insurance, the beneficiaries of unemployment benefit were almost the exceptions.

The Agency has been in a much better position to promote active labour market policies since its reform. It is responsible for organising job clubs, training, counselling, vocational guidance and other active measures. That said, the portion of its budget devoted to active measures is still quite low (9.51%). Another of the ESA's tasks is to match supply and demand on the labour market, as it was encouraged to do by the NAPE. However, according to the data collected under the NAPE, most job-seekers try to find work through relatives and friends, rather than through the Agency. It is therefore essential to strengthen the Agency's capacity in this field.

In spite of the fact that most of the population lives in urban areas (more than 60% according to the State Statistical Office), the unemployment rate is considerably higher in rural areas and in those worst affected by the redundancies that occur as the economy is restructured. Programmes such as PRISMA⁴¹ have proven the importance of local efforts to combat regional disparities in unemployment. The lack of information about job opportunities in the regions hampers worker mobility, resulting in a higher unemployment rate, not only in the regions but in the country as a whole.

The Temporary Employment Agencies Law (April 2006) has contributed to labour market reform by laying the foundations for greater flexibility and regulating the operations of the different agencies. There seems to be comparatively little co-operation between the ESA and the private agencies, but the ESA is responsible for disseminating information about their activities.

Whereas data from the Labour Force Survey indicate that the private sector contributes half of GDP, the National Income Statistics show a contribution of two-thirds. At all events, the private sector is growing. The privatisation of large companies has resulted in considerable

41. The USAID-supported PRISMA project (2001-2004) provided support to 30 communities in respect of job creation/retention and enterprise competitiveness.

numbers of redundancies, and it is important for the ESA to collaborate with the Privatisation Agency to anticipate the needs of redundant workers.

Recommendations:

- *The National Report states that the ESA co-operates at central and local levels with the Ministry of Labour and Social Policy, the Ministry of the Economy, the Ministry of Education and Science, the Chamber of Commerce and the centres for local development. It is important both to continue working with these stakeholders and to strengthen co-operation with other key institutions, such as the privatisation agency and the private employment agencies.*
- *Staff training is already in progress, for example through the CARDS programme. Nevertheless, further training is necessary to upgrade staff skills and ensure that their competencies are adapted to the Agency's tasks.*
- *It is crucial to improve the ESA's equipment in order to make staff as efficient as possible. Upgrading the ESA's equipment is also essential to enabling the Agency to fulfil one of the duties already referred to, namely matching supply and demand of labour. Accordingly, its IT system should be improved to facilitate the collection of statistical data.*
- *The Employment Agency should mainstream gender in its operations, with particular emphasis on non-discriminatory job allocation practices.*

3.3. Human resources development and active labour market policies

3.3.1. Human resources development, education and training

Literacy levels are high by international standards and similar to those in other countries of the region. Today, 97% of the population aged over 15 can read and write without difficulty. While it is at low levels, illiteracy is higher among women than men. A particularly worrying aspect is the fact that there are more than three times as many adult illiterate females as males.

Table 10: Male and female literacy rates among the youth (15-24) and adult (15+) populations, 2000-2004

	Total	Male	Female
Adult literacy rate (%)	96.1	98.2	94.1
Adult literacy rate – Regional average (%)	97	98.7	95.5
Adult illiterate population	62,018	14,113	47,905
Youth literacy rate (%)	98.7	99.0	98.5
Youth literacy rate – Regional average (%)	98.6	99.1	98.1
Youth illiterate population	4,164	1,720	2,444

Source: UNESCO Institute for Statistics, April 2006 <http://stats.uis.unesco.org/reportfolders/reportfolders.aspx>

The next box provides an overview of the structure of the education system in “the former Yugoslav Republic of Macedonia”.

Box 2: Structure of the education system in “the former Yugoslav Republic of Macedonia”

- **Basic compulsory education**, extending over 8 years, consists of 4 years of primary education, starting at the age of 7, and 4 years of lower secondary education.
- After completion of compulsory education at the age of 15, those students going on to **upper secondary level** embark on either general secondary or vocational education and training (VET) programmes. Approximately two thirds of these students enrol at VET schools. The duration of studies is three years in vocational or four years in (“gymnasium”-level) technical schools that offer a total of 25 course profiles and more than 100 specialisations.
- **Post-secondary vocational training** lasts from one to three years. Non-university level tertiary education is normally of two or three years’ duration, and is provided within the universities.
- **Higher education** is broadly unified; there is no separate polytechnic sector. The typical course of undergraduate university studies is four years. An intermediate “specialist” degree is awarded for studies extended by one year in certain fields.
- Most of the country’s educational institutions are owned and managed by the state. There were four private VET schools in the 2001/02 academic year. At university level there are two state universities, while SEEU is the principal private institution; alongside these are some smaller graduate programmes and new institutions.

Source: Improving access and opportunity: Higher education in transition in the FYROM. Report of an OECD Review, OECD, 2004 and Thematic review of national policies for education – FYROM. Stability Pact for South Eastern Europe. Task Force on Education, OECD June 2002

As we can see from the next table, since the late 1990s gross enrolment ratios in education⁴² have increased at all levels except for primary education. When compared to the regional average, enrolment ratios are quite low, especially at pre-primary⁴³ and tertiary levels. Overall national data show no significant gender differences in enrolment rates, except at university level, where women’s enrolment rates are higher than men’s.

42. According to UNESCO, the gross enrolment ratio is the total enrolment in a specific level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education in the given school-year. The net enrolment ratio is the enrolment of the official age-group for a given level of education expressed as a percentage of the corresponding population. See: www.uis.unesco.org.

43. Low pre-school participation has brought about significant differences in learning achievement among students in the first years of primary education. Private Sector Development in Education in South East Europe FYRM F. Tsakonas, March 2002. Draft for discussion.

Table 11: Gross enrolment ratios by level of education (%)

Pre-primary education				
	1999	2002	2004	2004 Regional average
Total	28	30	32	58
Male	28	30	32	59
Female	28	30	32	56
Primary education				
	1999	2002	2004	2004 Regional average
Total	101	99	98	102
Male	102	98	98	103
Female	100	99	98	100
Secondary education				
	1999	2002	2004	2004 Regional average
Total	82	84	84	91
Male	83	85	85	93
Female	81	83	83	89
Tertiary education				
	1999	2002	2004	2004 Regional average
Total	22	27	28	54
Male	19	24	23	48
Female	24	30	33	60

Source: UNESCO Institute for Statistics, April 2006 <http://stats.uis.unesco.org/reportfolders/reportfolders.aspx>

In spite of the strong emphasis in legislation and government policies on equal educational opportunities, school attainment varies significantly in the different ethnic groups. While in primary education participation is proportional to the ethnic composition of the population, there are important differences at the higher levels. Macedonian speakers, who make up 67% of the population, comprise 77% of all students in secondary education and 89% in tertiary education. The Albanian community, 23% of the population, accounts for only 17% of secondary and 5% of tertiary students in the public education system. The Roma constitute 2.2% of the population and have a good level of attendance in primary education, but comprise only 0.5% of secondary and 0.3% of higher education students.⁴⁴

As we can see from the next table, ethnic disparities in education are particularly evident in the context of gender. Thus, ethnic Macedonian girls are in equal proportion to ethnic Macedonian boys, but girls from other ethnic groups fare less well. Ethnic Albanian, Turkish or Roma girls are equally present during primary education, but their participation is lower than boys' at secondary level. This not only reflects cultural patterns, but could also be related to economic reasons – the structure of employment opportunities may encourage girls to enter the labour force earlier than boys, who might have greater difficulty in finding employment, particularly in rural areas. Similar socioeconomic reasons determine the high drop-out rate in

44. Improving access and opportunity: Higher education in transition in the Former Yugoslav Republic of Macedonia. Report of an OECD Review, OECD, 2004.

“the former Yugoslav Republic of Macedonia”, which is also very unevenly spread across the country and across ethnic groups.⁴⁵

Table 12: Students at different educational levels according to ethnic affiliation and gender

School year	Macedonians		Albanians		Turks		Roma	
	Total	Proportion of girls	Total	Proportion of girls	Total	Proportion of girls	Total	Proportion of girls
Standard primary and lower secondary schools								
1999/2000	146,558	48.6%	77,442	48.1%	10,760	47.5%	7,757	46.3%
2000/2001	142,116	48.6%	76,225	48.3%	10,453	47.1%	7,970	48.1%
2001/2002	139,267	48.7%	76,891	48.7%	10,220	47.1%	7,868	47.5%
Standard upper secondary schools								
1999/2000	69,844	51.0%	14,823	41.1%	1,545	36.8%	447	9.8%
2000/2001	69,991	50.8%	15,718	42.1%	1,665	38.0%	499	43.3%
2001/2002	69,783	50.7%	16,691	43.8%	1,785	42.3%	569	37.4%

Source: 2004 National Human Development Report, Decentralisation for Human Development, UNDP.

Data relating to the number of successful students are scarce and not disaggregated according to sex. Available data relating to the numbers of students graduating from universities show that completion rates are relatively low, typically about 50% or less.⁴⁶ Available data on drop-out rates show that these are high and very uneven across the country, as well as in the different ethnic groups. The main drop-out points lie between basic and secondary,⁴⁷ and between upper secondary and tertiary education. The question arises of whether the students concerned drop out voluntarily or are rejected by the selection system at transition points.⁴⁸

As we can see from the next table, since the early 1990s education spending as a percentage of GDP has substantially declined, and is currently below the regional average. Furthermore, spending is inefficient, largely due to over-centralisation in the education sector. In terms of spending per student, secondary education spending is also very low and has suffered a steep decline. According to the OECD, salaries make up by far the largest part of education spending, with goods and services (including books) accounting for only a small percentage, and capital investment for even less. This is a familiar scenario in many countries, but chronic under-investment in materials and buildings gives rise to long-term impoverishment of the infrastructure and negatively affects the quality of education.⁴⁹

45. 2004 National Human Development Report, Decentralisation for Human Development, UNDP.

46. Improving access and opportunity: Higher education in transition in the Former Yugoslav Republic of Macedonia. Report of an OECD Review, OECD, 2004.

47. This may be partially due to girls in rural areas dropping out after the 4th year to help in the home, as education is considered less important for them.

48. Thematic review of national policies for education – FYROM. Stability Pact for South Eastern Europe. Task Force on Education, OECD, June 2002, and 2004 National Human Development Report, Decentralisation for Human Development, UNDP.

49. Thematic review of national policies for education – FYROM. Stability Pact for South Eastern Europe. Task Force on Education, OECD June 2002.

Table 13: Public expenditure on education

	1990	1995	2000	2004
Total spending as a percentage of GDP	5.1	4.5	3.5	3.4
Current spending per student (as a percentage of per capita GDP)				
Primary level	..	19.1	23.6	23.6
Secondary level	30.9	23.9	7.7	7.7
Tertiary level	62.5	63.4	23.7	23.7

Source: Summary Education Profile: Macedonia, World Bank <http://www.worldbank.org.mk/>

Note: Numbers in italics refer to the latest data available within two years of the year indicated.

Improving the quality of education seems a major challenge for “the former Yugoslav Republic of Macedonia”. According to the World Bank, gains in productivity and growth rates will demand better quality education for the work force. International assessments show that the quality of primary education in “the former Yugoslav Republic of Macedonia” has declined significantly over recent years, especially due to a growing gap between the worst and best performing schools and regions.⁵⁰

In order to address the challenges it faces in the education sphere, “the former Yugoslav Republic of Macedonia” recently adopted a National Programme for the Development of Education.⁵¹ The National Programme is to focus on: i) promoting equal opportunities; ii) promoting learning and intellectual development; iii) increasing the scope for education and work mobility; iv) increasing the scope for making the country’s society educationally, culturally and economically competitive; v) improving the performance of the Ministry of Education and Science.

Recommendations:

- *Spending on education has been substantially declining and should be increased. According to a recent OECD study, “Education pays off. [...] For every euro invested in attaining high skilled qualifications, tax payers get even more money back through economic growth”.*⁵²
- *Efforts should be made to improve the accessibility, relevance and quality of education. Inequitable access to primary education due to geographical distance in remote regions could, where the construction of additional schools is not feasible, be overcome by establishing satellite schools and learning resource centres.*

50. These findings come from two assessments undertaken by the International Association for the Evaluation of Educational Achievement: (i) the 1999 Trends in International Mathematics and Science Study (undertaken every 4 years since 1995 – the 1999 study assessed 8th year students’ maths and science knowledge in 38 countries), and (ii) the Progress in International Reading Literacy Study (run for the first time in 2001, assessing 4th year students’ reading achievement in 35 countries). World Bank, FYR Macedonia, Country Economic Memorandum, Tackling Unemployment. September 2003. Poverty Reduction and Economic Management Unit, Europe and Central Asia Region. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2003/09/24/000090341_20030924132048/Rendered/PDF/266810MK.pdf

51. “National Programme for the Development of Education 2005-2015” (April, 2006). <http://www.npro.edu.mk/english/index-en.htm>

52. Lisbon Council Policy Brief. The economics of knowledge: Why education is key for Europe’s success. Andreas Schleicher (2006).

- *Special attention should be paid to improving the access of ethnic minorities such as the Roma population to secondary and tertiary education. To this end, curriculum development specialists could be trained in ethnic minority issues and diversity, and teacher training could include topics relating to ethnic and cultural diversity, as well as language instruction.*
- *Access to pre-school education should be improved, especially for rural and ethnic minority children. Wider access to pre-school education can also help to encourage female participation in the labour force. Targeted subsidies, e.g. for free school meals, could provide a strong incentive for parents to send children to school.*
- *Early action needs to be taken to prevent pupils from dropping out of school, especially girls and young women. The reasons for dropping out need to be identified, and mechanisms put in place to address them. These may include parent counselling, raising community awareness and offering encouragement to support a strong and stable school environment.*
- *Closer links need to be fostered between the education system and the world of work. The curriculum should be modernised in order to reflect labour market requirements. Specialisation should be reduced, in order to ensure that students are not locked into specific vocational directions too early. Students should not be overburdened with factual knowledge, and higher-level thinking skills, such as problem-solving and critical thinking, should be included on the curriculum.*
- *Efforts should be made to decentralise the education system.⁵³ Decentralisation in education should not be seen only as a process whose ultimate goal is the redistribution of decision-making powers, but as an instrument which makes it possible to share out between central government and the remaining tiers of governance the responsibilities essential to the proper functioning of the education system.*
- *research is needed into the reasons for differences in educational attainment Further according to area, ethnicity and sex. In this respect, long-term surveys are desirable.*
- *Training should specifically target vulnerable groups of women: older women, Roma, rural women, those with young children, etc. National Employment Service officials should be taught during their training programmes how to mainstream gender.*

Vocational education and training (VET) starts after the completion of primary education and runs parallel to general secondary education. It covers 15 occupational areas corresponding to 111 education profiles, 57 requiring four years of education, 40 three years, and 14 two years. Data on enrolment trends in 2001 show a gradual decrease in VET enrolments over the past 10 years, totalling almost 20%.⁵⁴

53. According to the UNDP 2004 Human Development Report (Chapter 4: The social sector and the challenges of decentralisation), the provision of decentralised education promises to be more efficient, better reflecting local priorities, encouraging participation, and eventually improving coverage and quality.

54. Labour Market – Vocational Education and Training Assessment. Former Yugoslav Republic of Macedonia. Torino, January 2001. European Training Foundation.

The VET system in “the former Yugoslav Republic of Macedonia” faces some important challenges. The Secondary Education Law (1995) treats initial VET as a pathway through the secondary education system, but makes no reference to the essential links between the VET system and the labour market and no provision for dialogue among the players involved. As a result of the limited resources allocated, vocational schools suffer from a lack of adequate equipment, and this affects the quality and effectiveness of the training provided to students. A high degree of centralisation characterises the management and financing of the VET system, as well as the curriculum and teaching/learning aspects. Because of several internal and external constraints, “the former Yugoslav Republic of Macedonia” is finding it difficult to develop a decentralised model of VET provision. Internal factors include (i) limited institutional capacity (in terms of expertise and the availability of institutions) at central level to provide professional support to schools in the implementation of reform, and (ii) the low participation rate of the social partners. External factors include (i) a sub-national public administration system currently being remodelled, and (ii) the limited resources available.⁵⁵

Adult education and training has declined substantially in recent years, with only a tiny number of adults participating. The Workers’ University is the main provider of adult VET. Workers’ University institutions were originally set up by the trade unions under the old regime, but were sidelined during the education system reform of the 1980s. As a result they were forced to continue as quasi-private bodies, funding themselves by selling education and training services. The Workers’ University has survived and has now become a significant provider of language, computer and some other specific skills training to both employed and unemployed persons.

Box 3: The structure of vocational education and training

- **Two-year VET programmes** provide training with a view to immediate employment. These programmes cover general and vocational education and include practical sessions. The range of the practical sessions depends on the type of educational profile. In some profiles 75% of the time is devoted to VET, with an emphasis on practical sessions, and 25% to the study of the student’s mother tongue and public affairs. Practical sessions make up 40% of vocational training courses. After completion of these programmes, which span 14 occupational profiles, students cannot move up within the same structure, so any wishing to advance to a higher level of education enrol for the first year at a three-year VET school.
- **Three-year programmes** cover general and VET and practical work. In some profiles VET takes up 45%, and general education up to 55%, of the time. After completing the three-year programme, spanning 40 educational profiles, students can easily prolong their education for another year in order to complete a four-year course of vocational education.
- **VET lasting four years** is the most attractive option for students. This type of education has two goals: preparation for university study and acquisition of sufficient knowledge for employment in industry, trade, tourism, and other areas chosen by the students. The curriculum covers general education, vocational-theoretical subjects and practical sessions (35-40% of the teaching time is devoted to general education and 60-65% to vocational education and training). Four-year vocational education and training ends with the final exam and offers 57 educational profiles. A diploma awarded on completion of a four-year vocational education and training course entitles the holder to take the entrance examination for an appropriate university faculty.

Source: Labour Market – Vocational Education and Training Assessment. Former Yugoslav Republic of Macedonia. Torino, January 2001. European Training Foundation.

55. “Labour Market Review of Macedonia”, 9 February 2005.
<http://www.delmkd.cec.eu.int/en/whatsnew/2005/06%20Labour%20market%20review%20feb%202005.pdf>.

The Government of “the former Yugoslav Republic of Macedonia” is currently modernising the VET system, and for this purpose a VET development strategy has been adopted for 2000-2010. This strategy recognises the crucial role of human resources for the future economic and social development of the country, and underlines the role that vocational education and training plays in: i) developing knowledge, skills and attitudes relevant to work; ii) making possible the realisation of individual educational aspirations and career plans; and iii) laying the foundations for lifelong learning. The VET strategy identifies inter alia the following benchmarks for the reform process: democracy, high quality, coherency and continuity, labour market relevance and flexibility, social partnership, transparency, integration of general and vocational subjects and lifelong learning. Furthermore a Law on Vocational Education and Training was adopted by Parliament on 30 May 2006,⁵⁶ bringing national legislation into line with key EU measures in the field. More specifically, it promotes vocational education and training; ensures quality curricula and syllabi based upon technological developments; involves the business community and local government as active participants in creating vocational school policy and training (through the establishment of a National Council for Vocational Education and Training); provides knowledge standards; defines a list of occupations, etc. The law also determines the establishment, within six months, of a Centre for Vocational Education and Training, which will co-ordinate the interests of the State with those of the social partners.

The Ministry of Education and Science has recently drafted a “Strategy for Adult Education in the Republic of Macedonia in the context of Lifelong Learning (2006-2015)”,⁵⁷ as one of the programme documents related to the National Programme for the Development of Education. The Strategy, adopted during the parliamentary sitting of 30 May 2006, provides for the development of a system for recognising prior learning; the drafting and adoption of a Law on Adult Education; an increase in the number of adult education specialists; the establishment of a Council for Adult Education; the establishment of municipal centres for human resources development through lifelong learning; and the launch of a public campaign on lifelong learning.

Recommendations:

- *Efforts should continue to be made in order to ensure that education and training keep pace with changing labour market requirements. A mechanism to improve integration between work and learning should be put in place, in co-operation with employment offices, schools, training institutions and the social partners.*
- *The recently adopted Law on Vocational Education and Training is an important step. Effective implementation of such legislation is crucial, and requires the development of policies and programmes translating law into practice.*
- *A more flexible and decentralised provision of vocational education and training, in accordance with local labour market needs, is desirable. Decentralisation of the system would help to improve its efficiency, quality, equity and transparency.*

56. Government of the Republic of Macedonia. Secretariat for European Affairs. Monthly progress brief. European Partnership 2005 Action Plan. No. 5/06. Skopje, May 2006. www.sei.gov.mk.

57. Ibid.

- *Involvement of the social partners in the design and implementation of vocational education and training programmes and policies should be strengthened. Employers' and workers' organisations can help to identify the most appropriate forms of training for the job opportunities available. Greater involvement will also make the social partners stakeholders in the whole process, so they will be committed to its success.*
- *It is crucial to ensure gender-sensitive education and training at all levels and in all learning institutions. Fundamental messages about gender equality, human rights, and female leadership should be conveyed by the curriculum and during teacher training. Gender stereotyping, which encourages young women to train for traditionally female occupations, and prevents them from taking part in training programmes that could enable them to achieve higher earnings in the long term, should be prevented.*
- *It is important that special attention should be given to certain population groups which are at risk of social exclusion (unemployed young people, ethnic minorities, etc). The development of well-targeted programmes tailored to their specific needs is crucial to their integration in the labour market.*
- *Lifelong learning should be a top priority of "the former Yugoslav Republic of Macedonia's" national employment policy. Coherent strategies and practical measures to promote lifelong learning and to make it accessible to all are crucial. In order to establish the essential links between initial and adult education (e.g. Workers' University), it is important to work towards implementation of the recently adopted "Strategy for Adult Education in the Republic of Macedonia in the context of Lifelong Learning (2006-2015)".*

3.3.2. Active labour market policies

Primary responsibility for the delivery of both active and passive labour market policy in "the former Yugoslav Republic of Macedonia" lies with the Employment Service Agency. As described in the previous section, the ESA is responsible for all aspects of employment service provision – registering the unemployed, paying unemployment benefits to entitled persons, giving advice, guidance and counselling to job-seekers, and delivering active labour market programmes, although the last-named play only a limited role in "the former Yugoslav Republic of Macedonia". The ESA is responsible for the delivery of such programmes, but active labour market intervention accounted for only 4% of its budget in 2003.⁵⁸ The small numbers of ALMPs implemented have received support from donors, as government funding has been extremely low in relative terms, particularly when compared to such funding in OECD countries. Between 1996 and 2002, the amount spent on active labour market policies was less than 0.05% of GDP, compared with 0.7% in OECD member states.⁵⁹

Skills training is the active labour market policy measure least used in "the former Yugoslav Republic of Macedonia". The only labour training effort managed through the ESA takes the form of a subsidy to employers for initial on-the-job training of unemployed people recruited from the Bureau's register. The total number of beneficiaries in 2003 was approximately 2,000. Under the Employment Promotion Law, which came into force in April 2003, employment subsidies were made available to employers, in the form of a two-year

58. "Labour Market Review of Macedonia", 9 February 2005.

59. "The failure of the labour market in Macedonia: a labour demand analysis", M. Micevska, and T. Petkovska, University of St. Cyril and Methodius, Macedonia, 2004. www.cerge-ei.cz/pdf/gdn/RRCIII_01_paper_01.pdf.

exemption from payment of social contributions in respect of all new employees recruited from certain categories of the registered unemployed.⁶⁰ The law did not, however, provide for a targeted recruitment subsidy. The social contribution exemption for the new recruits only applied if, at the same time, the total number of employees working for the employer concerned exceeded the total one year before. Claims were made in respect of some 15,000 recruits under the law, but there was little or no impact on the unemployment figures, as the law's entry into force coincided with a temporary upsurge in business restructuring and closures. As in other countries, there were concerns about both the extent of a possible "deadweight" effect (i.e. payments made for recruitment that would have occurred in any case, even without the subsidy) and the escalating cost of the programme. It was discontinued at the end of 2003.⁶¹ Job search assistance for the unemployed is not very effective, as assistance is provided only to registered job-seekers, and available resources do not allow adequate support. Every year, on average, the ESA assists about 1.5-2.5% of registered job-seekers. Public works programmes play a limited role, and the participation of unemployed job-seekers in public works programmes is negligible.⁶²

Some progress has been made in supporting the development of small and medium-sized enterprises (SMEs).⁶³ In parallel to the adoption of the European Charter for Small Enterprises at the Thessaloniki summit (2003), the Government adopted a programme of measures designed to support entrepreneurship and to enhance the competitiveness of SMEs. A National Competitiveness and Entrepreneurship Council and an Agency for Promotion of Entrepreneurship⁶⁴ have been set up. One of the main objectives of the Agency is to offer opportunities for employment to large numbers of unemployed by providing consulting services and offering limited credit lines. Recent surveys have confirmed the need for this kind of agency in Macedonia. 65.5% of all the people interviewed had never thought about starting their own business, while the other 34.5%, who would like to set up in business, referred to several obstacles, such as the difficulty of obtaining a bank loan, the complicated procedures for registering a new enterprise, and the corruption and sluggishness of state bureaucracy. In addition, a strategy has been developed for implementing the principles laid down in the European Charter for Small Enterprises. Educational reform and extracurricular programmes have improved entrepreneurship education in both primary and secondary education. Access to credit facilities remains weak, however, and further improvements to the institutional, legal and fiscal environment of this promising sector will be needed.

Recommendations:

- *Despite budgetary constraints which limit the expansion of active programmes, efforts should be made to allocate further resources to ALMPs. Taking into account the role that ALMPs can play in fighting unemployment, a strategy for activating such policies should be developed.*

60. Long-term unemployed, redundant workers, workers from bankrupt enterprises and social assistance beneficiaries.

61. "Labour Market Review of Macedonia", 9 February 2005.

62. Economic Growth of the Republic of Macedonia: Experiences and Policy Recommendations, by M. Micevska et al., 2002. Prepared for the World Bank Global Research Project: Explaining Growth. http://www.cerge.cuni.cz/pdf/gdn/grp_final_macedonia.pdf.

63. See Stabilisation and Association Report 2004. Commission Staff Working Paper. Former Yugoslav Republic of Macedonia. <http://www.delmkd.cec.eu.int/en/whatsnew/2004/MK%20SAP%202004.pdf>.

64. Agency for Promotion of Entrepreneurship. <http://www.apprm.org.mk>.

- *Given the limited proportion of ESA funds devoted to active labour market policies, some reallocation of resources from passive to active labour market programmes could be considered.*
- *In order to ensure efficient use of resources, ALMPs should be based on a careful analysis of the local employment situation. It is also crucial to put in place an efficient delivery system and to engage in continuous monitoring and evaluation of the programmes implemented with the involvement of the social partners.*
- *ALMPs should be carefully designed and well targeted and should concentrate on preventive and employability-oriented strategies that meet the specific requirements of the intended beneficiaries. When women are targeted, it is important to combine ALMPs with support services for the care of children and other dependent family members.*
- *Public works programmes which are well designed and carefully targeted should be developed. Public works can be used to good effect when the intention is well defined (for example, to improve local infrastructure), and when they are arranged in close collaboration with local authorities (for example, with co-financing arrangements).⁶⁵ Such programmes should be accompanied by other ALMPs which improve participants' employability.*
- *Vocational guidance and the provision of labour market information must be improved. Better knowledge of labour market opportunities is crucial, and vocational guidance is especially important for young people, whose knowledge of and exposure to the world of work is limited. LMI usage by skilled guidance counsellors can help increase the quantity and quality of job matches between employers and job-seekers and reduce the number and length of periods of unemployment.*
- *Active labour market policies should target vulnerable groups of women, and gender should be mainstreamed in the operation of the NES: in the training of counsellors, in the job allocation process, in registration of the unemployed, in training projects, etc.*
- *Special programmes should target rural women and assess their opportunities and training needs.*
- *It is commendable that the Government of "the former Yugoslav Republic of Macedonia" has drawn up a National Strategy for Roma and committed itself to fulfilling the objectives of the Decade for Roma Inclusion. Within this framework, the introduction of employment programmes targeting Roma will be crucial. These must be accompanied by monitoring and evaluation mechanisms with guaranteed resources, and in which Roma men and women participate.*

3.4. Passive labour market policies

Passive labour market policies and measures are mainly defined in the Law on Employment and Unemployment Insurance. Insurance rights under the law include: unemployment

65. Enhancing job opportunities in Central and Eastern Europe and the Former Soviet Union. J. Rutkowski, S. Scarpetta. World Bank, November 2005.

benefits, job training/retraining, free health insurance, pension and disability insurance (for some categories of persons) (national report). The incentive to register with the Employment Agency is thus very strong, as registration provides access to a number of benefits. In addition, all registered unemployed receive health insurance benefits, not only for themselves, but also for their families.

In terms of eligibility, unemployment benefits are payable to insured workers who have lost their jobs⁶⁶ if they had worked for a continuous period of at least nine months or a total of twelve months during the previous eighteen months. Benefits are pay-related and based on the average of the last 24 months' net wages before the job was lost. Since April 2003, benefits have been payable for a duration of a maximum of 14 months – at 50% of previous net earnings during the first 12 months of entitlement, and 40% for a further two months (see table 14).

Table 14: Passive labour market policies (2003)

	Benefit replacement (1)	Maximum duration	Coverage rate (2)
FYR Macedonia	50%	12 months	10
SEE	56%	10 months	22
EU	60%	23 months	-

(1) Benefit replacement rate (Initial benefit level divided by previous income); (2) Coverage rate (Percentage of unemployed persons receiving unemployment insurance benefits).

Source: National report, Novkovksa (2006)

Benefit coverage is quite low, around 10% of the registered unemployed. This may be explained by two factors: firstly a large proportion of new entrants to the labour market who have not yet acquired entitlement to unemployment benefits; secondly a large proportion of long-term unemployed, who are no longer eligible for the benefits (maximum duration of 12 months). As previously stated, health insurance is paid for all registered unemployed persons not otherwise insured. Thus, although unemployment benefits are low and their duration is limited, Employment Agency registration rates are high because many registered unemployed, who are actually working in the informal economy, register in order to receive free health insurance (in practice their only means of obtaining such insurance). In addition to the unemployment benefit scheme, there is a cash benefit for which some older workers are eligible until retirement, and pension contributions are paid for all those receiving the cash benefit – workers who have no more than 5 years until they reach pensionable age and have not completed 15 years of insured work – until they reach a total of 15 years of insured work. Clearly then, unemployment benefit coverage is very limited for the long-term unemployed and for younger workers. Finally, registration as unemployed is also required for access to the social assistance system, administered by another agency of the Ministry of Labour and Social Policy, the Centre for Social Work (CSW): this is a means-tested income support system, providing assistance to people who are unemployed but not entitled to unemployment benefits and to people whose entitlement has expired.

Together these benefits represent about 2.5% of GDP, mostly financed from the national budget (World Bank, 2003). The amount spent on ordinary unemployment benefits is only

66. Unemployed persons who breached their employment contract by choosing to leave, by mutual agreement, etc, are not entitled to unemployment benefits.

15% of the total, or 0.3% of GDP, while almost 60% goes to the early retirement scheme and about 30% finances health insurance for those ineligible for cash benefits (most of whom are working in the informal sector). This percentage seems very low in comparison with a number of new EU member countries, particularly if account is taken of the high level of unemployment, although expenditure on social assistance for the unemployed is not included.

The ESA's role in the provision of unemployment insurance is confusing, and registration procedures are affected by the variety of social programmes. This imposes a heavy administrative burden on Employment Bureau offices, as well as requiring them to deal with inappropriate clients.

Recommendations:

- *The role of the ESA should be clarified: in particular, the health insurance system should be reorganised to remove the incentive for people who are not job-seekers to register as unemployed just to get access to free health insurance. This will also free up resources for proper labour market policies, particularly active labour market programmes.*
- *A review of the unemployment insurance system (registration/compensation) should be conducted with a view to income security for the unemployed, without creating job search disincentives or decreasing job creation. The review should cover the way in which the system interacts with employment protection legislation and with the tax and contributions systems.*
- *In order to prevent workers from becoming dependent on welfare and supplementing their benefits with income from informal work, a premium for taking up a job early could be introduced, while local labour offices should take a stricter line on active job-seeking and tighten up their checks to detect informal work by benefit recipients.*
- *Long-term job-seekers and those ineligible for income support, or whose benefits have expired, should have access to poverty relief measures such as participation in public works and/or temporary work, so as to make sure that they do not lose their work skills, but these measures need to be combined with training to improve their employability and chances of finding new employment. Participation in such training programmes should be made a condition of the payment of income support.*

3.5. Income policy

3.5.1. Wage policy

Although the wage determination process in the region has been decentralised and liberalised during transition, decentralisation has gone much further in Central and Eastern Europe, where the private sector plays a major role, than in South-Eastern Europe, where the “old”⁶⁷ sector still plays a dominant role.⁶⁸ In “the former Yugoslav Republic of Macedonia”, a process of collective bargaining at national, branch and enterprise levels is required by law,⁶⁹

67. The “old” sector includes public and many privatised enterprises.

68. Enhancing job opportunities in Central and Eastern Europe and the Former Soviet Union. J. Rutkowski, S. Scarpetta. World Bank, November 2005.

69. See Chapter XIX, “Collective Agreements”, Article 204 of the FYROM Labour Relations Law, July 2005.

and wage determination seems to be ever more decentralised.⁷⁰ In the public sector and in large private companies, union coverage is extensive, and union power significant, and wages tend to be determined through collective bargaining. In the private sector, however, where unions' presence is weak and competition is intense, wages are mainly determined at enterprise level.

Women are usually employed in less well-paid sectors of the economy, and this contributes to a considerable wage gap between women and men. This is not merely an equity issue, but one that contributes to a higher rate of female poverty and deters women from entering the labour market.

The application of a minimum wage is stipulated by law and in collective agreements.⁷¹ The first minimum wage was set in June 2002, but only for the public sector. The minimum wage is about 45% of the average wage, which is about 5 percentage points above the average for South-Eastern Europe and Central and Eastern Europe.⁷² However, according to the World Bank,⁷³ the minimum wage in "the former Yugoslav Republic of Macedonia" is still so low that it is unlikely to deter employers from taking on staff.

Recommendations:

- *Wage policy in "the former Yugoslav Republic of Macedonia" should keep inflation at its low level and contribute to macroeconomic stability, while promoting job creation. However, decent wages and incomes represent an important economic instrument for boosting demand and increasing workers' motivation and productivity. Better wages can also help shift activities from the informal to the formal economy and help to combat the brain drain motivated by higher wages abroad.*
- *Reform of wage-setting could be considered, in order to improve decentralised bargaining at national, branch and enterprise levels and to ensure better representation of employers' and workers' organisations.*
- *The minimum wage is currently too low to guarantee an adequate standard of living and covers only the public sector. "The former Yugoslav Republic of Macedonia" could consider introducing a minimum wage across all sectors, and adjust this from time to time to take account of changes in the cost of living and other economic conditions, in line with ILO Recommendation No. 135 of 1970. A minimum wage can be an efficient and effective tool for reducing pay inequalities, provided that it is set at*

70. Recent research has claimed that centralised wage bargaining contributes to structural labour market rigidity. Labour Productivity and real exchange rate: The Balassa-Samuelson Disconnect in "the former Yugoslav Republic of Macedonia". Boileau Loko and Anita Tuladhar, IMF June 2005. WP/05/113.

71. See Labour Relations Law, Article 107, July 2005.

72. Minimum wages in the transition countries exhibit a clear divide between CEE and SEE on the one hand, where their average level was close to 40% of the average wage in 2002, and the CIS (except Ukraine) on the other hand, where they are only around 20% (and in several countries less than 10%) of the average wage. See Chapter 6 of "Enhancing job opportunities in Central and Eastern Europe and the Former Soviet Union". Rutkowski and Scarpetta. World Bank, November 2005.

73. World Bank. FYR Macedonia, Country Economic Memorandum, Tackling Unemployment. September 2003. Poverty Reduction and Economic Management Unit Europe and Central Asia Region.

*a sufficiently high level to improve the pay received by women and other disadvantaged groups.*⁷⁴

- *Job evaluation schemes and “comparable value” policies should be considered to ensure that wages are set according to the actual value of jobs, thus contributing to a narrowing of the wage gap between the sexes.*
- *Gender-disaggregated data should be collected in relation to the wage gap and its possible causes, and analysis and information should be made public so as to raise awareness of the issues involved.*

3.5.2. Tax policy

The taxation system in “the former Yugoslav Republic of Macedonia” is still undergoing transformation. The country’s reform of its system is mainly intended to develop a new modern and efficient tax system that will be both more attractive to foreign investors and compatible with the tax system of the EU. The current tax system encompasses: corporate income tax, personal income tax, social contributions, value-added tax (VAT), excise duties and property tax. VAT was introduced in April 2000 and has been designed to be compatible with the European Union’s Sixth VAT Directive.⁷⁵

The fiscal burden (general government expenditure as a proportion of GDP) of “the former Yugoslav Republic of Macedonia” is lower than that of other countries in transition, averaging around 35% of GDP for the last five years.⁷⁶ The country’s tax structure is broadly in line with that of other transition countries, with sales taxes (VAT and excise duties) comprising the major source of revenue. Corporate income tax on profits has been reduced from 30% in the mid 1990s to its current level of 12%. Personal income tax rates, previously set between 23% and 35%, were reduced and streamlined in 2006, leaving the present single rate of 12%.⁷⁷

Social (payroll) contributions are set at 32% of the gross wage and cover pension and disability insurance, health insurance and unemployment benefits.⁷⁸ These levies are lower in “the former Yugoslav Republic of Macedonia” than in other transition countries, ranging from 33% (Estonia) to 50% (Slovakia), while in Western Europe only France, Italy, Spain and Sweden have rates above 30%, and in none of these does the rate exceed 40%.⁷⁹

74. “Pay equity, minimum wage and equality at work: theoretical framework and empirical evidence”, by Jill Rubery; Manchester School of Management, International Labour Office, November 2003.

75. An overview of the framework for VAT is set out in the EU’s Sixth VAT Directive.

76. World Bank. FYR Macedonia, Country Economic Memorandum, Tackling Unemployment. September 2003. Poverty Reduction and Economic Management Unit, Europe and Central Asia Region.

77. Labour Market Review of Macedonia, 9 February 2005.

www.delmkd.cec.eu.int/en/whatsnew/2005/06%20Labour%20market%20review%20feb%202005.pdf.

78. 21.2% for pension and disability insurance, 9.2% for health insurance and 1.6% for employment contributions. International Council of Investors. Economy and Business Environment in Macedonia. Proposals for Improvement of the Investment Climate. Skopje, April 2004.

79. The average payroll tax in the EU is 23.5%, while in the OECD it is 19.5%. See Riboud et al., “Does Eurosclerosis Matter? Institutional Reform and Labor Market Performance in Central and Eastern European Countries in the 1990s”. March 2002. World Bank.

The income tax system in “the former Yugoslav Republic of Macedonia” has a quite complex impact on the tax wedge.⁸⁰ By international standards the tax wedge is high. For a worker earning the average wage in August 2004, tax and social contributions represented just over 40% of the total labour cost to the employers. Furthermore, the system of taxes and social contributions seems to bear relatively more heavily on those in low-paid jobs and on workers with dependents. The situation differs from that in most OECD countries, in that tax/contributions do not vary according to marital status or to whether the taxpayer has adult or child dependents.⁸¹ The tax wedge in “the former Yugoslav Republic of Macedonia” is only slightly reduced at lower income levels, but it still exceeds 39% even for a worker earning only two-thirds of the average wage. By contrast, OECD-wide the wedge reduces more rapidly as earnings fall.⁸² This high tax wedge at low wage levels discourages part-time employment. Overall, the structure of the system represents a major barrier to output growth and employment in the formal sector. In 2006, the Temporary Employment Agencies Law was adopted. Workers employed on a temporary basis are thus entitled to health care, unemployment benefits and pensions.

Recommendations:

- *Low tax rates in “the former Yugoslav Republic of Macedonia” are employment-friendly and should generally be maintained. The efforts of the Government of “the former Yugoslav Republic of Macedonia” to set up a new modern and efficient tax system should be continued, in order to make it more attractive to foreign investors and more compatible with the tax system of the EU, as well as to increase public revenue and to ensure that taxation is fair.*
- *The tax-benefit system should be reviewed to address the high tax wedge on labour in a comprehensive manner, particularly at the lower end of the wage scale. This would also contribute to job creation and combating employment in the informal sector.*
- *Research has shown that a high tax wedge difference between second earners and single individuals has a negative impact on female participation.⁸³ The Government could consider reforming tax allowances for dependent spouses in order to strengthen the financial incentives for second earners to work.*
- *In order to address the disincentives to formal business and employment created by the tax and contribution system, the Government could consider widening the tax base by applying the income tax rules to all forms of income, including earnings in the informal sector and non-labour income.*

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

81. See “Tax wedges on employee earnings rose slightly in OECD countries in 2004”. www.oecd.org/document/35/0,2340,en_2649_201185_34547875_1_1_1_1,00.html.

82. Labour Market Review of Macedonia, 9 February 2005, European Commission. <http://www.delmkd.cec.eu.int/>.

83. Labour force participation of women: Empirical evidence on the role of policy and other determinants in OECD countries. F. Jaumotte, *OECD Economic Studies*, No. 37, 2003/2.

<http://www.oecd.org/dataoecd/12/39/34562935.pdf#search=%22women%20participation%20and%20%22tax%20wedge%22%22>.

3.6. Social dialogue

Not only the ILO, but also the EU, which “the former Yugoslav Republic of Macedonia” seeks to join in the future, have called on their member states to develop a comprehensive employment policy with significant social partner involvement. Both institutions have formulated employment policy instruments that strongly advocate a broad social partnership between public authorities and social partners.

The main ILO instrument is the Employment Policy Convention (No. 122, 1964), ratified by “the former Yugoslav Republic of Macedonia” in 1991, while the EU has its Employment Guidelines. ILO Convention No. 122 pays particular attention to consultation of the social partners by governments at the design stage of employment policies. Article 3 of Convention No. 122 stipulates that: “representatives of the persons affected by the measures to be taken, and in particular representatives of employers and workers, shall be consulted concerning employment policies, with a view to taking fully into account their experience and views”. The important role of the social partners in the formulation and implementation of employment policies is further specified in ILO Recommendation No. 169 on Employment Policy (1964), which stipulates that member states should consult employers’ and workers’ organisations when drawing up and implementing plans and programmes aimed at the promotion of “full, productive and freely chosen employment”.

A number of other ILO instruments call on member states to promote tripartite consultation on employment issues. For example, Tripartite Consultation Recommendation No. 113 (1963) calls on member states to take measures “to promote effective consultation and co-operation [...] between public authorities and employers’ and workers’ organisations” inter alia with a view to the “establishment and functioning of national bodies, such as those responsible for organisation of employment, vocational training and retraining”.

The EU, following the adoption of the Amsterdam Treaty, has developed an important instrument of employment policy in the shape of the Employment Guidelines, which provide guidance to both member states and accession countries about the formulation of their National Action Plans for Employment and Joint Assessment Papers, respectively.

The Employment Guidelines call on member states to co-operate with the social partners with a view to addressing labour market problems via effective labour market policies, increasing labour force mobility and improving labour market systems. Social partnership is one of the main features of the new European Employment Strategy, requiring the creation of an institutional framework for government-social partner co-operation.

The Employment Guidelines assign to the social partners a particular responsibility in the area of labour market policies, including the negotiation of collective agreements encompassing such issues as work organisation and flexibility.

We shall now examine the framework for social dialogue in “the former Yugoslav Republic of Macedonia” to see to what extent this framework has been used to address the huge challenge of unemployment that faces the country, with the level reaching 37.6% in 2005, as described earlier. Then we shall make some recommendations for improving this social dialogue framework.

The framework for social dialogue

“The former Yugoslav Republic of Macedonia” has ratified several international labour conventions which have a direct relevance to social dialogue, including the Freedom of Association Convention, 1948 (No. 87), the Protection of the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), the Workers’ Representatives Convention, 1971 (No. 135) and the Tripartite Consultation Convention (International Labour Standards), 1976 (No. 144). The last-named Convention was ratified in 2005 and was due to come into force in December 2006.

The Labour Relations Law of 2005, which replaced the 1993 law, set the legal framework for the functioning of social dialogue in its bipartite and tripartite forms. On the one hand, the Law lays down the rules for the establishment of workers’ and employers’ organisations and the functioning of collective bargaining and labour relations between both sides of industry. On the other hand, the Law defines the legal basis for the functioning of tripartite social dialogue. In particular, it provides for the establishment of an Economic and Social Council (hereinafter referred to as ESC), which serves as a forum for tripartite consultation between the government and social partners on labour and social issues. As a matter of fact, the latter institution was created by a tripartite agreement concluded by the government, the Chamber of Economy and the Federation of trade unions of Macedonia (hereinafter referred to as: “FTUM”) in 1996. At that time there were no independent associations of employers. The Chamber of Economy was the only player on the employers’ side, in discussion with the FTUM and the government.

Bipartite social dialogue

On the trade unions’ side, according to the majority trade union principle set out in the Labour Relations Law of 1993, FTUM was the sole workers’ organisation participating in tripartite social dialogue with the government and employers, on the one hand, and in collective bargaining with employers, on the other, between 1991 and 2005. Until 2005, FTUM included 17 branch unions in both the public and private sectors.⁸⁴

Early in 2005, three branch unions separated from FTUM. They represented employees working in education and culture (SONK), in the Ministry of Defence and in the financial institutions. These three unions joined the newly established Confederation of free trade unions of Macedonia (CFTUM). The latter was set up in December 2005. For the time being CFTUM is not represented in the ESC, nor does it participate in collective bargaining at branch level.

Alongside FTUM and CFTUM, there are 14 independent trade unions in “the former Yugoslav Republic of Macedonia”, registered with the Ministry of Labour and Social Policy (see page 52). They are organised along branch and occupational lines. Most of them were established after the year 2000. Many of them are small, and are not considered representative by the government, so they do not participate in collective bargaining or benefit from a seat in the ESC.

84. GJUROVSKA, M. “Social dialogue in the Republic of Macedonia: the actual situation”, Skopje, 2006 (not published).

On the employers' side, according to the Ministry of Labour and Social Policy, three employers' associations were registered in 2006 in accordance with the Labour Relations Law. They are as follows:

- The Confederation of employers of the Republic of Macedonia;
- The Organisation of employers of the Republic of Macedonia;
- The Association of employers in traffic and communications.

The first-named was set up in 2001 and registered as a citizens' association. It claims a membership of 152 enterprises, and this number is said to be increasing. It is a member of the South Eastern European Employers' Forum (SEEEF). The second was established in 2004, but only started to function in 2006, while the Association of employers in traffic and communications was set up in 2006.

As a matter of fact, the Chamber of Economy had been representing employers until 2005, both in tripartite social dialogue – for instance in the ESC – and in collective bargaining, although it was not considered to be an independent association of employers according to the ILO's freedom of association principles, because in those days it was not based on voluntary membership. In 2005, the Organisation of employers of the Republic of Macedonia took over from the Chamber of Economy on the social dialogue scene, and also took its place in the ESC. The government considers that the Organisation of employers of the Republic of Macedonia is the only organisation which meets the criteria for representative status set down in the law. For its part, the Confederation of employers of the Republic of Macedonia, which was re-registered in 2005 at the Ministry of Labour and Social Policy, following the entry into force of the Labour Relations Law adopted in July 2005, is not represented in the ESC, because all the members of the present ESC are organisations which signed the agreement on the establishment of the Economic and Social Council. The same seems to be true of the third employers' association. It has to be said that the Confederation of employers of the Republic of Macedonia claims to be representative at national level, but, according to the Ministry of Labour and Social Policy, no decision has been taken yet as to the representative status of this employers' organisation.

The question of regulation of the representative nature of the social partners has been on the social dialogue agenda for a number of years now. The Labour Relations Law of 2005 introduced the principle of participation in collective bargaining and membership of the ESC, alongside the representatives of government, for representative trade unions and employers' associations. The law stipulates that trade unions may play a part in collective bargaining if their membership is equal to, or exceeds, 33% of the total number of employees of a particular enterprise or branch (Art. 212). Similarly, in order to be considered representative, an employers' association must comprise at least 33% of the total number of employers and the total number of employees in the branch of activity for which the collective agreement is concluded (Art. 213). However, according to Article 214 of the Labour Relations Law, if neither the trade unions nor the employers' associations fulfil the conditions for representative status, the trade unions and/or employers' associations may conclude a co-operation agreement for the purposes of participation in collective bargaining and the conclusion of collective agreements.

Some newly established trade unions are not satisfied with the criteria for representative status set down in the law, on the grounds that the requirements stipulated are too high. The Ministry of Labour and Social Policy is preparing a regulation to specify how the procedure

for the registration of trade unions and employers' associations and the granting of representative status, as defined in the Labour Relations Law is to be applied in practice.

In "the former Yugoslav Republic of Macedonia" there are two types of collective agreements: general framework agreements, which cover the whole economy or one part of it (several branches), and special agreements, which are concluded at enterprise level. A general collective agreement covering all branches of the private sector economy was signed in June 2006 between FTUM and the Organisation of employers of the Republic of Macedonia. In the public sector, negotiations between the government and trade unions are under way with a view to the conclusion of a similar collective agreement. At enterprise level there are at present several collective agreements in force, including some in foreign-owned companies,⁸⁵ but their number is unknown, according to the Ministry of Labour and Social Policy. However, it has to be emphasised that there is no legal requirement for the Ministry of Labour and Social Policy to keep records of collective agreements concluded at enterprise level.

According to some sources, both types of agreements address such matters as wages, paid leave, travel allowances; employment-related issues, however, do not attract enough attention from the social partners,⁸⁶ perhaps suggesting that the social partners lack practice and experience in the field of social dialogue and employment.

Tripartite social dialogue

In "the former Yugoslav Republic of Macedonia", as already indicated, tripartite social dialogue between the government and social partners takes place mainly within the ESC, which has 9 members:

- the government is represented by the Minister of Labour and Social Policy, Minister of Finance and the deputy Minister of the Economy;
- workers are represented by FTUM, AGRO Syndicate and the posts and telecommunications trade unions;
- employers are represented by the Organisation of employers of the Republic of Macedonia.

Every member of the ESC has a deputy. The ESC is chaired by the Minister of Labour and Social Policy and is both a consultative and a negotiating body. The Department of Labour within the Ministry of Labour and Social Policy provides the ESC secretariat.

Social dialogue and employment

Until 2002 the ESC played a marginal role in the national debate on economic and social policies, on issues such as tackling the high level of unemployment and reducing the level of poverty in the country. The occasional nature of its meetings implied only a limited role for social dialogue in policy deliberations.

85. GJUROVSKA, M., op. cit.

86. GJUROVSKA, M., op. cit.

Social dialogue improved as of December 2002, with the conclusion of the social agreement, a bipartite agreement, signed by the government and FTUM without any participation by employers' representatives. Although the agreement did address the issue of unemployment, it must be emphasised that it was more of a general framework setting a number of general objectives than a real agreement containing specific economic and social policy commitments. For example, the two parties agreed to combine their efforts inter alia in order to (i) boost economic growth and development by accelerating privatisation and restructuring; (ii) develop business infrastructure and credits for SMEs; (iii) promote employment and reduce unemployment by the adoption of an employment strategy; (iv) fight crime and corruption; (v) ratify international conventions (such as ILO Convention No. 144), (vi) enhance social protection; and (vii) ensure better enforcement of labour law. However, a lack of experience of social dialogue meant that the agreement faced implementation problems.

In March 2003, the ESC was reorganised and started to function more regularly. As a matter of fact, it held 16 meetings between 2003 and 2005. The granting of EU candidate country status to "the former Yugoslav Republic of Macedonia" in 2005 and the assistance received from international institutions such as the ILO have also boosted the functioning of social dialogue in the country, particularly in the employment sphere. For example, the government held consultations with the social partners in 2005 about the formulation of the National Employment Strategy. The drafting of the Labour Relations Law in 2005 also gave rise to consultations with the social partners. However the representatives of FTUM emphasised that, in practice, their proposals were rarely taken into consideration by the government in the final draft submitted to parliament. It appears that the World Bank's monitoring of labour law reform did not facilitate the dialogue between FTUM and the government.

The social partners were actively involved in the working groups that prepared the National Employment Strategy 2010 and National Action Plan for Employment 2006-2008.

There were also consultations between the government and social partners at another meeting of the ESC, which took place on 2 November 2006, during which the three parties examined the government's proposals for the National Employment Strategy 2010 and the National Action Plan for Employment 2006-2008. It is too early to assess the results of these latest consultations and of the role played by the social partners in the shaping of both the National Employment Strategy and the National Action Plan for Employment.

One institutional step taken by the government to strengthen social dialogue was the creation in 2006 of a Unit for Social Partnership, within the Ministry of Labour and Social Policy. It is expected that this unit will provide institutional support to the operation of both bipartite and tripartite social dialogue.

The improvement of tripartite consultation involving the government and the social partners, particularly since 2005, should not hide the fact that, overall, social dialogue still faces a number of constraints in "the former Yugoslav Republic of Macedonia", which need to be addressed if the country is to get closer to the level of social dialogue that exists under ILO standards and in European practice. For instance, bipartite social dialogue is still very weak in terms of both the numbers of collective agreements signed and the content of these agreements. The lack of statistics on collective agreements in force and the number of workers covered is another problem which needs to be addressed. Employment issues also

need to be addressed through bipartite social dialogue at all levels. The social partners need to be mobilised on the subject of employment.

As far as tripartite social dialogue is concerned, there has been a significant improvement since 2003. The ESC now meets more regularly, making possible more frequent contact between the government and social partners on issues of national concern. This step is strengthening social tripartite dialogue and the country's system of governance. However, it has to be said that the ESC's composition does not reflect the new realities of industrial relations in "the former Yugoslav Republic of Macedonia". There are new workers' and employers' organisations which do not take part in the tripartite social dialogue, and cannot therefore contribute to the tripartite debate on social and economic policies. This situation prevails mainly because it is only those organisations which participated in the agreement establishing the ESC which hold seats on it. The problem is expected to be remedied soon, as the Ministry of Labour and Social Policy is planning to formulate a new agreement which would alter the composition of the ESC and thus allow greater pluralism where the social partners are concerned.

Recommendations:

- *Bipartite social dialogue needs to be strengthened in the following ways: a) the government should take measures (legal, institutional, financial) to promote collective bargaining and encourage the social partners to include employment issues in their negotiations at all levels, i.e. at sector, branch and enterprise levels; b) the system of registration and analysis of collective agreements concluded at all levels should be improved; this task can be carried out by the newly established Unit for Social Partnership at the Ministry of Labour and Social Policy; c) the social partners' capacity and negotiating skills for social dialogue and in respect of employment issues should be improved in the light of ILO standards and EU requirements.*
- *The problem of social partners' representative nature should be resolved.*
- *Reform of the ESC should be accelerated by: a) reviewing its composition, strengthening its functioning and increasing its resources; b) considering the creation within the Council of a special commission to deal with the subject of employment. This commission could play a role in the monitoring of implementation of the National Action Plan for Employment and the National Employment Strategy.*
- *Consideration should be given to formulating a social compact on employment, to be negotiated between the government and the social partners.*
- *The number of ESC meetings should be increased and representatives of the Ministries of the Economy and Finance encouraged to participate more actively in the tripartite social dialogue, inter alia on employment issues*
- *Enforcement of labour law should be improved; this could be done through preparation of a users' guide to the Labour Relations Law, designed to facilitate its understanding by the social partners and by all workers and employers in the country.*

Registered trade union organisations in “the former Yugoslav Republic of Macedonia”

- Federation of trade unions of Macedonia (FTUM), 1991;
- Union of independent and autonomous trade unions of Macedonia (1994);
- Trade union of workers employed in the Ministry of Interior (1994);
- Association of trade unions of the Republic of Macedonia (1998);
- Coalition of independent trade unions of Macedonia (2000);
- Federation of independent transport unions (2001);
- Autonomous trade union of workers employed by the Clinical Centre (2001);
- Federation of independent civil engineering & construction trade unions of RM (2002);
- Macedonian diplomatic service trade union;
- Federation of independent trade unions in Macedonian industry (2003);
- Association of RM haulage companies (2003);
- Confederation of trade union organisations of Macedonia (2004);
- Federation of music trade unions of Macedonia (2004);
- Independent trade union of JSP bus drivers;
- Confederation of free trade unions of RM (CFTUM) (2005);
- Federation of transport and communications trade unions (2006).

4. Conclusions

The labour market in “the former Yugoslav Republic of Macedonia” has undergone major changes in recent years: legislative reforms have been introduced, new institutions built and new programmes designed, and social dialogue has been developing. At the same time, following the economic crisis to which the war in Kosovo and the internal security crisis in 2001 gave rise, labour market outcomes are now generally improving, thanks to a positive macroeconomic climate.

However, the labour market is still characterised by a certain inflexibility, segmentation (extremely high long-term unemployment and youth unemployment), lack of mobility of the labour force and considerable regional imbalances. The prospect of starting preparation for accession to the European Union will no doubt help the country overcome these challenges and continue and deepen the current reforms of its employment policy.

The present report was designed as a tool to enable the Government of “the former Yugoslav Republic of Macedonia” to identify priority areas where progress is still needed. It is in line with the priorities set in the National Employment Action Plan for 2006-2008, and it is intended to contribute to the preparations for discussions with the European Union on employment matters.

Bridging the different parts of the labour market through a better balance between flexibility and security

Employment protection legislation (EPL) in “the former Yugoslav Republic of Macedonia” was, until 2003, among the strictest that there was. Changes were made to labour legislation in 2003 and 2005 so as to increase labour market flexibility. These amendments have made EPL quite liberal in respect of permanent employment and collective dismissals. However, some rigidity remains where part-time employment is concerned, making it important for the government to continue to review EPL as a whole (particularly in respect of “atypical” forms of employment), while compensating workers for any loss of employment and/or income protection suffered, by offering better income protection during unemployment and by providing effective assistance with finding new employment. This review process should be carried out in consultation with the social partners, so as to strike a balance between the interests and constraints of the three parties involved, i.e. employers’ need to remain competitive, the financial constraints of the government, and workers’ desire for decent work.

Further EPL reforms should also be designed to reduce the dichotomy between permanent forms of employment, i.e. workers in permanent jobs enjoying high job security, and other atypical forms of work, i.e. workers on fixed-term or civil-law contracts or in any kind of informal employment not covered by EPL.

The country still has a large informal economy, and appropriate tax policy and legislative changes are necessary if this is to be reduced in size. It would also be appropriate to improve enforcement of the law, through a strengthening of labour courts and the speeding-up of their activity, as well as through the strengthening of the labour inspection system.

Investing in human resources

Despite high literacy levels overall, ethnic disparities in education are particularly evident in the context of gender. Improving the accessibility, relevance and quality of education is therefore crucial. In order to achieve this, higher spending on education will be necessary.

The VET system faces some important challenges, and efforts should continue to be made to ensure that education and training respond to labour market requirements and promote gender equality. In this respect, implementation of the new Law on Vocational Education and Training, as well as the Strategy for Adult Education in the Republic of Macedonia in the context of Lifelong Learning (2006-2015), will be essential. Involvement of the social partners in the design and implementation of VET policies and programmes needs to be fostered, as they hold the key to the success of these.

Active labour market policies

Responsibility for the delivery of both active and passive measures lies with the ESA. However, active labour market policies account for a small share of its budget, with the limited number of active labour market programmes implemented having been funded by donors. It is important to continue the efforts to allocate further resources to ALMPs. In this respect, some reallocation of resources from passive to active measures could be envisaged.

ALMPs should be carefully geared to the groups that they are designed to reach. There is evidence that targeted policies and programmes are more effective. It is important to develop ALMPs targeted at ethnic minorities, as well as rural women.

Vocational guidance and job search assistance need to be improved. A better knowledge of labour market opportunities is particularly important for young people, who have limited knowledge of, and exposure to, the labour market.

Improving the performance of the Employment Service Agency

The main objectives of the 2004 reorganisation of the Public Employment Service were to improve both passive employment policies and its active participation in the design and implementation of active labour market policies. The role of the Employment Service Agency (ESA) has been strengthened through this reform. This trend needs to continue, so that the Agency plays a central role in the national labour market.

The workload is relatively high because of the numbers of people who register in order to be eligible for health insurance. The Agency is insufficiently staffed to cope with this, and further training is needed to adapt staff members' skills to the Agency's priorities. Staff training should be complemented by an improvement in ESA equipment. A modern IT system is essential for the collection of statistical data in order to match labour supply and demand. It is also important to continue working with stakeholders and to strengthen co-operation with employers, so that the Agency can play its role as a key labour market institution.

The Agency has improved vastly over the past few years, but it needs to become more efficient if it is to play a successful central role in matching labour supply and demand, provide information about the labour market and co-operate in the design of active labour market policies.

Maximising the impact of passive labour market policies

As explained above, the incentive to register with the ESA is very strong, as registration gives access to a number of benefits. Clarification of the Agency's role is essential, and there is a particular need to separate health insurance from unemployment insurance. In addition, a review of the unemployment insurance system (registration/compensation) should be made, so that income support is provided to the unemployed, preventing them from falling into poverty, but without creating disincentives to work. Income support to job-seekers therefore needs to be increased, and its payment extended to provide a decent income for those who cannot find a job. Long-term job-seekers and unemployed persons ineligible for income support or whose benefits have expired should have access to poverty relief measures, for example through public works and/or temporary work to make sure that they do not lose their occupational skills. These measures, however, need to be combined with training so as to improve the workers' employability and chances of finding new employment. Participation in such training programmes should be made a condition of the payment of income support.

Income policy

A minimum wage is stipulated by law and in collective agreements. However, its level is extremely low. While wage policy should contribute to macroeconomic stability and job creation, the minimum wage is currently too low to guarantee an adequate standard of living.

Better wages can also help to shift activities from the informal to the formal economy. In addition, gender-disaggregated data should be collected and job evaluation schemes should be considered, so as to ensure that wages are set according to the value of the job, thus helping to narrow the wage gap between the sexes.

The tax system is currently in the process of transformation, with the main objective of building an efficient system that is attractive to foreign investors. While tax rates are in general low and employment-friendly, it is important to address the high tax wedge on labour. This is the key to boosting job creation and combating the informal sector.

Social dialogue

As a European Union candidate country, “the former Yugoslav Republic of Macedonia” needs to strengthen its social dialogue framework, both at the bipartite and tripartite levels, in order to draw closer to the European social model. It needs to:

- reform the structure and functioning of the ESC so that the latter becomes an effective and inclusive forum for policy discussions of national economic and social policies in fields such as employment;
- create a supportive environment for the development of bipartite social dialogue and collective bargaining between employers and workers. This can play a role in the promotion of stability and peace at the workplace, creating favourable conditions for the promotion of employment.

All in all, the strengthening of social dialogue will enable the country to improve its system of governance and mobilise all players, particularly employers’ and workers’ organisations, with the objective of boosting employment creation and reducing unemployment.

APPENDIX I

List of relevant Council of Europe instruments ratified by “the former Yugoslav Republic of Macedonia”

Convention	Ratification date	Status
Revised European Social Charter	31.03.2005	Ratified
Framework Convention for the Protection of National Minorities	10.04.1997	Ratified

APPENDIX II

List of ILO Conventions ratified by “the former Yugoslav Republic of Macedonia”

Convention	Ratification date
C2 Unemployment Convention, 1919	17.11.1991
C3 Maternity Protection Convention, 1919	17.11.1991
C8 Unemployment Indemnity (Shipwreck) Convention, 1920	17.11.1991
C9 Placing of Seamen Convention, 1920	17.11.1991
C11 Right of Association (Agriculture) Convention, 1921	17.11.1991
C12 Workmen’s Compensation (Agriculture) Convention, 1921	17.11.1991
C13 White Lead (Painting) Convention, 1921	17.11.1991
C14 Weekly Rest (Industry) Convention, 1921	17.11.1991
C16 Medical Examination of Young Persons (Sea) Convention, 1921	17.11.1991
C17 Workmen’s Compensation (Accidents) Convention, 1925	17.11.1991
C18 Workmen’s Compensation (Occupational Diseases) Convention, 1925	17.11.1991
C19 Equality of Treatment (Accident Compensation) Convention, 1925	17.11.1991
C22 Seamen’s Articles of Agreement Convention, 1926	17.11.1991
C23 Repatriation of Seamen Convention, 1926	17.11.1991
C24 Sickness Insurance (Industry) Convention, 1927	17.11.1991
C25 Sickness Insurance (Agriculture) Convention, 1927	17.11.1991
C27 Marking of Weight (Packages Transported by Vessels) Convention, 1929	17.11.1991
C29 Forced Labour Convention, 1930	17.11.1991
C32 Protection against Accidents (Dockers) Convention (Revised), 1932	17.11.1991
C45 Underground Work (Women) Convention, 1935	17.11.1991
C48 Maintenance of Migrants’ Pension Rights Convention, 1935	17.11.1991
C53 Officers’ Competency Certificates Convention, 1936	17.11.1991
C56 Sickness Insurance (Sea) Convention, 1936	17.11.1991
C69 Certification of Ships’ Cooks Convention 1946	17.11.1991
C73 Medical Examination (Seafarers) Convention, 1946	17.11.1991
C74 Certification of Able Seamen Convention, 1946	17.11.1991
C80 Final Articles Revision Convention, 1946	17.11.1991
C81 Labour Inspection Convention, 1947	17.11.1991
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	17.11.1991
C88 Employment Service Convention, 1948	17.11.1991
C89 Night Work (Women) Convention (Revised), 1948	17.11.1991
C90 Night Work of Young Persons (Industry) Convention (Revised), 1948	17.11.1991
C91 Paid Vacations (Seafarers) Convention (Revised), 1949	17.11.1991
C92 Accommodation of Crews Convention (Revised), 1949	17.11.1991

C97 Migration for Employment Convention (Revised), 1949	17.11.1991
C98 Right to Organise and Collective Bargaining Convention, 1949	17.11.1991
C100 Equal Remuneration Convention, 1951	17.11.1991
C102 Social Security (Minimum Standards) Convention, 1952	17.11.1991
C103 Maternity Protection Convention (Revised), 1952	17.11.1991
C105 Abolition of Forced Labour Convention, 1957	15.07.2003
C106 Weekly Rest (Commerce and Offices) Convention, 1957	17.11.1991
C109 Wages, Hours of Work and Manning (Sea) Convention (Revised), 1958	17.11.1991
C111 Discrimination (Employment and Occupation) Convention, 1958	17.11.1991
C113 Medical Examination (Fishermen) Convention, 1959	17.11.1991
C114 Fishermen's Articles of Agreement Convention, 1959	17.11.1991
C116 Final Articles Revision Convention, 1961	17.11.1991
C119 Guarding of Machinery Convention, 1963	17.11.1991
C121 Employment Injury Benefits Convention, 1964	17.11.1991
C122 Employment Policy Convention, 1964	17.11.1991
C126 Accommodation of Crews (Fishermen) Convention, 1966	17.11.1991
C129 Labour Inspection (Agriculture) Convention, 1969	17.11.1991
C131 Minimum Wage Fixing Convention, 1970	17.11.1991
C132 Holidays with Pay Convention (Revised), 1970	17.11.1991
C135 Workers' Representatives Convention, 1971	17.11.1991
C136 Benzene Convention, 1971	17.11.1991
C138 Minimum Age Convention, 1973	17.11.1991
C139 Occupational Cancer Convention, 1974	17.11.1991
C140 Paid Educational Leave Convention, 1974	17.11.1991
C142 Human Resources Development Convention, 1975	17.11.1991
C143 Migrant Workers (Supplementary Provisions) Convention, 1975	17.11.1991
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	08.12.2005
C148 Working Environment (Air Pollution, Noise and Vibration) Convention, 1977	17.11.1991
C155 Occupational Safety and Health Convention, 1981	17.11.1991
C156 Workers with Family Responsibilities Convention, 1981	17.11.1991
C158 Termination of Employment Convention, 1982	17.11.1991
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983	17.11.1991
C161 Occupational Health Services Convention, 1985	17.11.1991
C162 Asbestos Convention, 1986	17.11.1991
C182 Worst Forms of Child Labour Convention, 1999	30.05.2002

Source: ILOLEX – August 2007

APPENDIX III

The Bucharest Declaration

**South East Europe Conference on Employment (SEE-EC)
Bucharest, 30-31 October 2003**

Improving Employment in South Eastern Europe

The Delegates to the Conference of Bucharest, meeting under the chairmanship of Mrs Elena Dumitru, Minister of Labour, Social Solidarity and Family of Romania, at her invitation and at the invitation of the Council of Europe and of the Belgian Federal Public Service Employment, Labour and Social Dialogue, under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe,

Bearing in mind the expectations with regard to further co-operation with the EU and within the region,

Recalling the Thessaloniki Declaration adopted on the occasion of the EU-Western Balkans Summit on 21 June 2003,

Considering the important preparatory work leading to this Conference,

approved unanimously the following declaration:

We, the Ministers responsible for Employment of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and “the former Yugoslav Republic of Macedonia”, as well as the Head of the Economic Administration of UNMIK,⁸⁷ recognise the common problems we face in the area of employment as a result of the restructuring linked to the transition to market economies, insufficient levels of investment as well as the damaging effects of the conflicts in the region in the 1990s.

We acknowledge:

- the substantial reduction in employment and, despite the reforms and restructuring already under way, the consistently high unemployment and relatively slow pace of job creation, the wide skill mismatches and regional disparities, and their adverse consequences for poverty and social cohesion;
- the need to improve employment policies and employment services, including training;
- the need to further develop specific measures and programmes to improve access to employment of vulnerable groups;

87.. Associated to this process according to Security Council Resolution 1244 on Kosovo.

- the need to promote labour mobility and to remove obstacles preventing it;
- the need to improve social dialogue.

Together and in partnership with relevant national and international institutions, we are convinced that we can better address these common problems, through improvements of our policies, reinforcement of our institutional capacities, pooling of our expertise in employment matters, and improved co-ordination of available international assistance.

We commit ourselves to a process of regional co-operation in the areas of employment, labour markets and training, as described in detail in the Appendix to the present Declaration. The process, intended to better addressing the above-listed problems, is aimed at:

- **preparing our future integration into the European Union** by converging towards the objectives and guidelines of the European Employment Strategy;
- **implementing the Council of Europe standards in employment matters** – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and
- **making operational the core elements of the International Labour Office’s Global Employment Agenda in our countries.**

We are aware that the success of our effort will depend on the creation of a favourable investment climate based on macro-economic stability, full co-operation with social partners, sound legal and regulatory frameworks and governance standards as well as on the development of small and medium enterprises. In this context, we commit ourselves to concentrate our efforts on the following areas:

- promotion of entrepreneurship;
- greater mobility, by:
 - fostering a more flexible labour market but balanced with reasonable employment and income security for workers;
 - examining the possibility of promoting the free movement of workers in the region by means of bilateral agreements;
- incentives for employment creation and training;
- improvement of the performance of the national employment services;
- non-discrimination in access to employment, in remuneration and in working conditions, with particular attention to gender equality;

- handling of the social consequences of privatisations and restructurings;
- improvement of the quality of employment (contracts, remuneration, skills and qualifications, health and safety at work, employment related social protection, etc.);
- specific programmes for vulnerable groups (including access to credit);
- improvement of social dialogue and enhanced involvement of social partners in the formulation and implementation of social and economic policies;
- the transformation of undeclared work into regular work;
- adequate and comprehensive labour market information.

We issue a plea for assistance from international stakeholders to achieve the goals of this Declaration. We acknowledge the important support we have been receiving from international and bilateral institutions. In particular, we acknowledge the important analytical and policy development work of the International Labour Organization, the Council of Europe and the World Bank.

Under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe, we look particularly to the Council of Europe and the International Labour Organization for strategic guidance and support in ensuring an efficient follow-up to our meeting along the lines described in the Appendix.

We commit ourselves to meet again in the Spring of 2005 to assess progress achieved over the next 18 months in implementing the goals set out in this declaration.

Done in Bucharest on 31 October 2003

Valentina LESKAJ
Minister of Labour and Social Affairs
Albania

Safet HALILOVIĆ
Minister of Civil Affairs
Bosnia and Herzegovina

Rumen SIMEONOV
Deputy Minister of Labour and Social Policy
Bulgaria

Davorko VIDOVIĆ
Minister of Labour and Social Welfare
Croatia

Valerian REVENCO
Minister of Labour and Social Protection
Moldova

Elena DUMITRU
Minister of Labour and Social Solidarity
Romania

Dragan MILOVANOVIC
Minister of Labour and Employment
Serbia and Montenegro

Jovan MANASIJEVSKI
Minister of Labour and Social Policy
“The former Yugoslav Republic of
Macedonia”

as well as **Jürgen VOSS**
Associate Head for Economic Reconstruction
United Nations Interim Administration
Mission in Kosovo

We, the representatives of the Stability Pact for South Eastern Europe, the Council of Europe and the International Labour Organization, commit ourselves to ensure the follow-up to this Conference.

Miet SMET
Chair, Initiative for Social Cohesion

Gabriella BATTAINI-DRAGONI
Director General of Social Cohesion

Stability Pact for South Eastern Europe

Council of Europe

Bernard SNOY
Director, Working Table II
Stability Pact for South Eastern Europe

Göran HULTIN
Executive Director – Employment Sector
International Labour Organization

Appendix

Operation of the process of co-operation on employment in South Eastern Europe

1. **The Council of Europe** is in charge of co-ordinating the process of co-operation, in close relation with the **International Labour Office**, under the auspices of the **Social Cohesion Initiative of the Stability Pact for South Eastern Europe**.

2. **The Ministers responsible for employment of the beneficiary countries of the Stability Pact for South Eastern Europe** will approve and regularly update the objectives of the co-operation on employment as well as the programme of activities. They will meet every 18 months. The next meeting will take place in the Spring 2005.

3. **An assessment process of national employment policies will be launched for each country:**

3.1. This assessment process will take into account the key elements of the Global Agenda for Employment of the International Labour Organization, the European Employment Strategy and the relevant Articles of the European Social Charter and of the Revised Charter and relevant Recommendations of the Committee of Ministers of the Council of Europe;

3.2. In the case of Bulgaria and Romania, the assessment process will rely on the Joint Assessment Papers (JAPs), prepared with the European Commission;

3.3. The national social partners will be fully associated in the process;

3.4. The assessment process will be inspired by the methodology applied between the European Commission and candidate countries in their co-operation on employment within the framework of the EU enlargement;

3.5. Employment experts from Belgium and other EU member states will be invited to contribute with their experience in implementing the European Employment Strategy.

4. **A Permanent High-Level Committee (PHLC) composed of the General Directors of Employment** of the beneficiary countries of the Stability Pact for South Eastern Europe will design the programme of activities; set up working groups; mobilise human and financial resources in support of the programme of activities; supervise its implementation and prepare the ministerial meetings.

4.1. The following partners will be able to participate in the meetings of the Permanent High Level Committee, as observers:

4.1.1. the social partners of the countries concerned by the review of national reports;

4.1.2. representatives of international organisations of social partners (IOE, ETUC);

- 4.1.3. representatives of interested international organisations (UNDP, UNECE, OSCE, OECD,...) and international financial institutions (World Bank, CEB, EBRD, EIB,...);
- 4.1.4. representatives of interested donor countries.
- 4.2. The technical contribution of the European Commission will help the process of co-operation.
- 4.3. The Permanent High-Level Committee will meet at least twice in between ministerial meetings. It will meet in Working Groups with experts to examine, in particular, the following questions:
 - 4.3.1. **Review of national employment policies (Working Group I).** The Working Group I will meet under the leadership of the **ILO**;
 - 4.3.2. **Capacity-building, quality of service delivery in employment services and improvement of programmes specifically designed for vulnerable groups (Working Group II).** The Working Group II will meet under the leadership of the **Council of Europe**;
 - 4.3.3. Each Working Group will meet at least once in between ministerial meetings.
- 4.4. The Working Groups will pay particular attention to the identification of projects to be funded by international stakeholders and donors. **The collection and co-ordination of demands and offers for assistance will be monitored by the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe.**

5. **The terms of reference and rules of procedure** of the Working Groups will be set up at the first meeting of the Permanent High-Level Committee, to take place in Brussels on 9 and 10 December 2003, at the invitation of the Belgian Federal Public Service for Employment, Labour and Social Dialogue.

6. **Financing the co-operation process:**

The above-mentioned international organisations and international financial institutions are invited to provide long-term assistance to our process of co-operation on employment.

In particular, we ask for support from the stakeholders of the ISC of the Stability Pact for South Eastern Europe.

7. **Entry into force of the process of co-operation:**

The process of co-operation, as described above, will enter into force on **9 and 10 December 2003**, at the occasion of the first meeting of the Permanent High-Level Committee.

