



*Employment: Progress with EU Approximation
in Macedonia*

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Introduction

Chapter 19: Employment and Social Policy is among the most important areas of approximation of Macedonian with EU standards. There are number of factors which favour these policy areas: primarily, problems with (un)employment are at the top of the public's concerns and government economic priorities; second, employment and social issues are crucial for economic development and catching up with the Lisbon Agenda of the EU for promotion of economic development.

Latest reports and strategic documents from the EU (Annual Progress Report, Accession Partnership) in this area testify to a slow progress. The most important areas for further action that these documents target include:

- lack of institutional capacity to properly implement the adopted legislative and strategic documents in this area;
- unsuccessful measures for increased employment, especially among marginal and vulnerable groups in society;
- weak and ineffective social dialogue among stakeholders (employers, labour unions and government);
- malfunctioning social protection and social inclusion policies, especially as related to specific vulnerable groups (minority, women etc.).

The above problematic areas are all interrelated and success in one relies on successful measures in all other areas. Therefore, a comprehensive approach to solving these problems is necessary, in order to avoid the trap of ineffectiveness and bridging the gap between passing legislation and implementing it.

This report focuses on two aspects of EU approximation in the area of employment: the first section identifies the key reasons behind the problems encountered with approximation to EU standards in this field, while the following section looks into potential measures and policy solutions that can be undertaken in order to achieve greater progress with EU approximation.

The ultimate aim is to get a sense of progress achieved in the area as a case for evaluating the country's achievements in EU approximation. Considering recent debates about Macedonian progress towards EU integration acquired an emotional overtone as the 'name dispute' with Greece became more heated since the beginning of this year. In this light, this is also an effort to bring the debate back to rational and pragmatic terms and assess the effects that government measures have on the lives of ordinary citizens.

Employment

The problem with unemployment in Macedonia is troubling the minds of both economic experts and common people for almost two decades now. The current unemployment rate (first quarter 2008) is 34.8%,¹ similarly high rates of unemployment marked the last two decades of economic transition in Macedonia. Unemployment is the single most important problem for about 80% of the population in Macedonia – far more important than any other issue, and increasingly so, as this percentage was smaller five years ago.² Unemployment is perceived as more important than corruption, poverty and interethnic relations etc.

Being perceived as the most pressing problem in Macedonia, gives unemployment political significance, which can be used to implement the necessary reforms in order to increase the employment rate. Moreover, unemployment is closely linked to a list of other issues related to the overall economic performance of the state - from FDIs, to more political and strategic issues, such as EU integration, as a bulky negotiations chapter is devoted to employment and social issues. Inevitably, unemployment has been mentioned in all election campaigns and it seems that it will remain on top of the new governments' agenda as well. With more than enough reasons to look into the challenges facing those engaged in combating unemployment, below we present the assessment of the current situation and pending challenges relating to unemployment in Macedonia.

Job (Employment) Supply

A complex socio-economic phenomenon, the roots of persistently high levels unemployment are difficult to trace only in one area, and even more difficult to present in a concise form. At a most general level, unemployment can be attributed to three factors on the supply-side:

- low capacity of Macedonian economy to generate jobs
- low flexibility and mobility of job forms
- low law-enforcement capacity of state - allowing blooming grey economy and no control over employers (weak Labour Inspection etc.)

- *Low Capacity for Job Creation*

Despite recent efforts at promoting growth and employment – the levels of economic growth and employment in Macedonia remain at an alarmingly low level. Certain changes in legislation and strategic documents have been undertaken in order to address this issue. A list of strategic documents have been adopted only in the last several years, starting from the National Employment Strategy 2010 and the National Action Plan for Employment to the Active Measures for Employment and Operational Plan for the active employment measures. These strategic documents, however, need to be accompanied by an appropriate legislative framework aligned with the EU standards and requirements in the area.

The Labour Law from 2005 is not completely in accordance with the EU directives in the area. Currently, there is a twinning project implemented by Slovak Republic aimed at harmonizing this law to acquis provisions. Once the necessary legal corrections are

¹ Indicators. State Statistical Office of Macedonia. July 2008. <http://www.stat.gov.mk/glavna.asp>

² See: UNDP. *People Centred Analyses*. March 2008, and UNDP. *Early Warning Report 2007*. June 2007.

finished, new institutions will need to be established to ensure the proper implementation of the laws (for example Insolvency Fund – taking over the obligations of insolvent companies). Therefore, the **institutional aspect of employment policy needs a further boost and capacity-building – to establish the necessary new bodies and improve the independence and effectiveness of the existing institutions.**

While good legal and strategic framework is a requirement for successful employment measures, it unfortunately is not sufficient. Increased employment is related to economic growth and the quality of the available labour force in a society. Economic growth in Macedonia is low, as both domestic and foreign investments are among the lowest in the region, and the economy has low capacity to produce new jobs.³ Labour in Macedonia is among the most expensive in the region, more expensive than labour in neighbouring EU member Bulgaria.⁴ This justifies well the announcements of the **government to cut the taxes on salaries, and thus make labour cheaper for foreign investors** and hiring illegal workers less attractive for domestic employers. Such measures need to be also **accompanied with relaxing the employment rules and legislation.** Among the states in the region, Macedonia has the highest labour rigidity index - hiring and firing of workers are most difficult. While this makes employment safer for the few who have jobs, such rigidity makes the labour market less responsive to measures for increasing employment. The above mix of tax cut and relaxation of employment legislation could bring about fertile soil for active employment measures promised by the government.

There is no simple solution that could increase the rate of growth and enable the economy to generate new jobs. At a more strategic and long-term level, several other policies can be undertaken in order to promote higher employment. These measures, if adapted properly to the Macedonian context, could yield positive results, even if their effect would not be immediate:

- a) **Strategic restructuring of the enterprises and their adaptation to current economic trends** – Macedonian enterprises work with obsolete technology, skills and management patterns. Therefore, they are barely able to cope with foreign competition.
- b) **Stronger SMEs** – while Macedonia has a slightly greater concentration of SMEs as compared to the other states in the region, they mostly work with low-value-added and low-skilled sectors, thus hardly promoting growth and employment.
- c) **Regional development** – often used as a remedy to high unemployment, measures aimed at a more even development will likely reduce the unemployment rates in those regions in Macedonia suffering most from unemployment and economic hardship.

- *Low Flexibility of Job Forms*

When employment related legislation moves away from over-regulation of the labour market, that is still not enough to produce labour market flexibility if employers have no incentives to undertake respective supply-side measures for job flexibility. Macedonia

³ In 2007 FDIs amounted to less than 350 mn USD, which was the sum of FDIs in 2006. FDI. State Statistics Office.

⁴ World Bank. “Western Balkans Integration and EU: An Agenda for Trade and Growth.” Ed. Sanjay Kathuria. 2008.

rigidity of employment index is among the highest in the region and much higher than that of the Central and East European or OECD states. In particular, the high rigidity of employment and difficulty of hiring indices contribute to a rather inflexible labour forms in Macedonia.⁵

In this respect, **both employers and potential employees need to be encouraged to move away from traditional rigid job types and embrace more flexible forms of work.** Employees need to know that working flexible hours, part-time or tele-work does not mean that they do not have a proper job or that they are first to be dismissed if the company hits difficult times. Employers need to know that employing workers under flexible conditions will not have adverse effect on the quality of the work of those workers nor on the loyalty of these workers to their company. Once these psychological obstacles are overcome, the economy can benefit from family- and gender-friendly jobs which can provide employment for and attract to the labour market many unemployed women and single parents. Moreover, part-time and tele-work jobs will provide employment for young people and those engaged in education, formal or vocational, who can not be committed to a full-time job.

- *Weak Law-Enforcement Capacity*

The State Labour Inspection is the main state body responsible for sanctioning all firms and institutions found in breach of the Labour Law, whether regarding the legal status of the workers or regarding the respect of safety regulations on the workplace. In a context of blooming grey economy and illegal work in Macedonia, this body needs substantial authority and powers in order to be able to cope with the challenges posed by the large grey sector.

In the last couple of years, the media brought the issue of health and safety at the workplace to public attention after several cases of workers experiencing health problems while working in under dangerous conditions. Some of those employers even had permissions granted from the Labour Inspection for satisfying the safety criteria. Such cases indicate that: **first, the law must be clear about the standards of health and safety at the workplace that must be respected by all, and second, the Labour Inspection needs to have sufficient capacity to ensure that all provisions are properly implemented.** If necessary, new bodies or teams can be established to assist the Labour Inspection in its work especially on-the-ground activities. Finally, the judicial system needs to be able to swiftly and effectively punish those who disrespect the law in order to dissuade others from doing the same.

In the area of illegal work and grey economy, numerous efforts have been undertaken in order to curb the wave of illegal and unregistered work. One of the recent government measures to this end provides for cutting the social benefit contributions paid by the employers, which currently amount to 67% of the average net wage in Macedonia, and are one of the highest such in the region. Cutting these contributions is expected to motivate the employers to register their employees as the related costs would be lower. Whether these cuts in benefits would produce the expected results is yet to be established, for the motives for not registering workers are not solely and always financial. On the other hand, cutting these contributions will certainly cause a decrease in the budget funds for respective social services: health and pensions. **An in-depth cost-benefit analysis is necessary before proceeding with cutting the health and**

⁵ World Bank. "Doing Business in 2006", 2006 and European Training Foundation. "Labour Markets in the Western Balkans: Challenges for the Future", 2007.

pension contributions for employers, otherwise the number of newly registered workers and the budget revenues thus collected may well be outweighed by the decrease in budget funds caused by the cut.

Job (Employment) Demand

The supply-side of the unemployment story usually receives most attention, from politicians and policy-makers to the media, and therefore, most measures aimed at increasing employment are targeting supply-side factors. However, employment demand factors are just as important, and the nature and quality of the labour force in Macedonia need to be considered when tailoring employment measures. Below we discuss two more factors on the demand-side of employment, which account for the high rates of unemployment: inadequate educational system and the structure of the workforce.

- *Inadequate educational system*

The educational system in Macedonia is barely responsive and adjusted to the needs of the labour market and the economy in general. Since 1990, there were several initiatives to reform the old educational system, but most of them were half-hearted and none amounted to anything but cosmetic changes on the surface. Therefore, even today education in Macedonia reflects remnants from the former communist planned economy rather than adapting to the needs and demands of the market economy. The lack of meaningful educational reforms is reflected in the educational structure of the Macedonian workforce and the overall quality of the human potential and thus also on the employment rates. In 2007, in Macedonia, 47.7% of the population had completed primary education or lower and additional 40% had a secondary school diploma.⁶ It is not surprising that the majority of these people can not find employment, as the present economy requires skills that these people do not possess. A more worrying fact is that these people have left the educational system and therefore have almost no opportunities for gaining additional education. This situation is further reflected on the labour market where the returns to high-skilled and management work are the highest in the region,⁷ which reflects the scarcity of high-skilled and management human resources in Macedonia.

One of the measures undertaken at a larger European level aiming at reducing the skills gap between the quickly changing demands of the developing economies and the existing skills of the labour force is vocational education training (VET) and life-long learning programmes for adults. The EU and each of the member states have developed their own strategies for VET and life-long learning with the support of EU-funded programmes such as Leonardo da Vinci and Grundtvig, (vocational and continuing education) and the support of other European associations (EVTA, EAEA etc.).

Similar efforts are made in Macedonia and the region to introduce these new methods of education and assist the labour force adaptation to the needs of the economy. By gaining an EU candidate status, Macedonia became a member of the European Training Foundation and initial steps at establishing a national VET centre were taken. The Macedonian VET centre was established in 2007 and in the last year worked with

⁶ UNDP. People Centered Analysis.

⁷ According to World Bank report “Western Balkans Integration and EU” returns to management work in Macedonia are amazing 544%.

minimal capacity (human and institutional) and very limited impact, even though the necessary legal and secondary documents are adopted. The VET centre should be responsible for curricula development and accreditation of vocational training programmes, it should work closely with the schools and potential employers to coordinate the skills needs and demands of employers with the programmes' curricula. **The VET centre needs immediate capacity-building measures, improved human and institutional resources, sufficient budgetary funds and authority to exercise their competency.** The National Strategy for Human Potential Development from 2007 maps the national priorities related to IPA component IV (human potential) - which could assist VET education and similar initiatives in Macedonia.

Recent research shows that compared with the EU average (36%) in Macedonia higher percentage of the secondary school students attend vocational schools (60%).⁸ This does not point to a developed vocational training, however, is only an indicator of the high percentage of student attending old-style "professional" schools which transfer obsolete skills almost useless in the market. The majority of the students graduating from such schools face severe difficulties with finding a job. However, with **a thorough reform of the secondary education system, these obsolete programmes can be replaced with new vocational training programmes sensitive to the labour market demand for skills at national and local level**, thus providing the predominant part of the youth that attend those schools competitive skills and knowledge. Related to this, additional efforts are required to make higher-education more available, as matriculation rates of Macedonian students are about 50% - much below the European average, and globally Macedonia becomes less competitive in exporting low-skilled products.

- *Structure of the work force*

The bulk of the unemployed are with low qualifications and have been unemployed for a long period of time. This makes the unemployment problem more worrying as it is more difficult for persons who have not worked for a long period to join the work force again. They lose pace and competitiveness as compared to those who are working and their skills and experience become outdated. The low-skilled and continuously unemployed need to undergo re-training to provide them with skills necessary for joining the labour market. While such **(re-)training programmes** exist and are provided by the state Employment Agency and other government bodies (free computer courses), they **need to be more accessible to the most vulnerable groups: inhabitants of rural and distant areas as well as members of some ethnic groups, who require these trainings most, often have limited access.**

Moreover, these recently adopted educational programmes for re-training the unemployed, have not proved very successful. The low- or un-qualified unemployed have little desire for the vocational training and respective low-paid jobs they can find through this programme, preferring to work illegally for slightly higher salaries. This perpetuates the reinforcing cycle of grey economy and large unemployment. The trainings offered need to equip the unemployed with transferable and competitive skills (ex. Computer skills, foreign languages, etc.) not reinforcing their disadvantaged position on the labour market, otherwise the unemployed will lack the incentives to attend the trainings and will prefer to work illegally.

⁸ ETF. "Labour Markets in Western Balkans".

Conclusions

Starting from the priority position unemployment has among the Macedonian public, this brief investigates the current situation in Macedonia with (un-)employment from the perspective of progress towards EU integration and fulfilment of EU standards in this area. We looked at the levels of legislative approximation with EU legislation concerning employment to note considerable progress and several areas where immediate steps are necessary (Labour Law alignment with *acquis* provisions).

More complicated is the situation with the implementation of legislative provision and especially with measuring the success of active measures aimed at curbing persistently high levels of unemployment. Aiming at an inclusive and integral approach to the problem, we looked at both sides of unemployment: employment demand and employment supply. Factors pertaining to both sides condition low employment and require urgent measures. On the supply-side we identified: low capacity of Macedonian economy to generate jobs, low flexibility and mobility of job forms, low law-enforcement capacity of state - allowing blooming grey economy and no control over employers. On the demand-site requiring additional attention are the educational system and its link to the labour market dynamics, and the structure of the labour force indicating need for retraining and re-integration in the labour market for the majority of unemployed in Macedonia.