

Decent Work Country Report - The FYR Macedonia*

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Decent Work

1. Introduction

Although worsening labour market situation was common characteristic in all transition economies, Macedonia still stands as an outlier among these countries with 36% unemployment rate in 2006 and only third (39.6%) of working age population being employed¹. Basic macroeconomic data for the Republic of Macedonia for the period 1995-2006 are presented in Table A1 in the Annex.

High informal and low-productivity employment coupled with the extremely high unemployment point to a low job security and protection in Macedonia. The country faces an economic, social and political challenge of ensuring decent work conditions and income growth prospects for a large number of inactive, unemployed or informally employed workers. In other words, Macedonia needs to simultaneously lower unemployment and create good, high-productivity jobs. This would be somewhat difficult task given that though job creation have picked up from 2006 onwards, it have been concentrated in agriculture that served as a subsistence strategy during whole transition process, in informal activities and in self-employment which is mainly disguised wage employment, all of which represent low productivity activities (World Bank, 2007).

High unemployment focuses attention on the quantity rather than the quality of employment; it distracts attention from other labour market failures such as low activity and prevalence of low quality jobs. In order to fill this gap in the analysis, present report will examine characteristics of employment, i.e. whether employed persons have decent jobs, decent job being defined as the opportunities for women and men to obtain productive work in conditions of freedom, equity, security and human dignity. However, the report also looks at the job creation issues.

In the environment of moderate growth, high unemployment, and relatively low living standard (GDP per capita is one-tenth of the EU25 average), the Decent Work is not just a cost from a government point of view, but can also be a powerful development tool. In particular, while the debate is along the lines of unit labour costs and their effect on competitiveness, that is how to boost exports, the main contributor to the growth (from expenditure side) is private consumption. For example, in Macedonia, private consumption's share in GDP in 2006 was 78%, and the share of exports 40%. Hence, policies to promote (productive) employment and higher wages are more relevant for the growth than policies to promote exports, though there is no strict line between the two. Moreover, greater employment and higher wages increase government revenues (from payroll taxes) expanding the room, *inter alia*, for greater social protection.

2. The economic and social context

The centrally planned system, practised in the Central and Eastern European Countries (CEECs) with its main characteristics of centrally set wages, prices and output, zero

¹ Labour market data presented in this report are from the Labour Force Survey (LFS) conducted by the State Statistical Office of the Republic of Macedonia. The Survey was first conducted in 1996 and from 2004 has a quarterly frequency, hence data for 1995 are authors' calculations. Data are mainly for the working-age population defined as population aged 15-64, but for some data we cannot separate this age group and hence we provide data for population aged 15-80, which will be clearly stated.

official unemployment, centralised foreign trade and highly egalitarian income distribution, proved to be both unsustainable and inefficient. The process of transition to a market economy that started in early 1990s caused significant structural changes towards fostering efficiency in the allocation of resources (Cazes and Nesporova, 2001) and, initially, brought large decreases in real GDP, falls in employment and a rapid rise of inflation.

Different initial conditions, coupled with unique economic and political developments during first years of transition, led to specific outcomes of the transition process in the Republic of Macedonia. In particular, the system of worker self-management found in the Republic of Macedonia (and across whole ex-Yugoslavia) for instance had unique features. One of the most important of these was social rather than the state ownership which influenced the model and pace of privatisation. In particular, Macedonia implemented the "management/employee buyouts (MEBOs)" form of privatisation, which had in turn negative consequences for future growth and labour market developments (Zalduendo, 2003). Another important feature of the Macedonian communist system was that it allowed open unemployment so that the unemployment rates had been over 20% since 1980s.

Moreover, a very complex social and political context characterised Macedonian transition. Together with gaining independence, Macedonia faced disruption to its payment system and business transactions with the former Yugoslav Republics. Furthermore, in 1992 the United Nations introduced trade sanctions against Serbia and Montenegro, thus blocking access to their markets. They were the main export markets of Macedonian companies accounting for 60% of total Macedonian exports prior to the disintegration of ex-Yugoslavia. Moreover, the whole structure of the Macedonian economy at the onset of transition was highly dependent on the import/export of production materials and goods from/to the other Yugoslav Republics, in particular Serbia. Additionally, Greece imposed a trade embargo upon Macedonia as a means of pressure in the political dispute over the name of the country, which blocked access to Greece's market and to the port of Thessalonica. All of the above developments affected a sharp decline in the GDP. Once the growth restored, the Kosovo war from 1999 and domestic civil war in 2001 again negatively affected the economy.

The Republic of Macedonia has been unsuccessful in attracting. By end 2006 it had attracted only 2.1 billion EUR, one of the lowest figures of any transition economy. In addition, FDI inflows were mainly related to the privatisation (in telecommunications and electricity sector) with very low greenfield investments, hence their impact on the growth has been so far negligible. In 2007, the Government started an intensive campaign for attracting greenfield investments, which are seen as an important development tool that should intensify growth and exports and ease the labour market situation. This campaign or policy includes promotion of Macedonia as a tax heaven in foreign newspapers (with reduced and flat corporate and personal income tax rates of 10%), promotion of free technological-industrial economic zones, appointed economic agents in several foreign countries, two appointed ministers for attracting FDIs, etc.

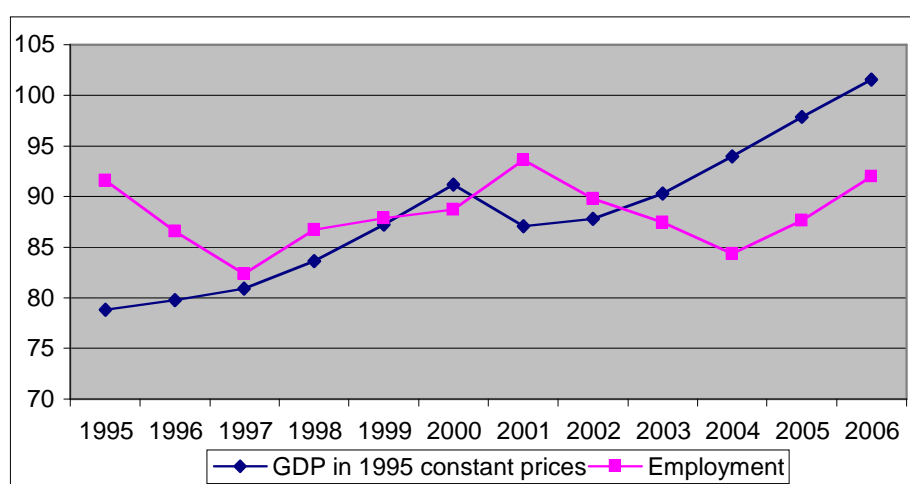
2.1. GDP and productivity trends

In addition to the above peculiarities of Macedonian transition, both economic and political, there are further specific conditions and developments that influenced the initial GDP decline at the onset of transition and slow recovery afterwards. Macedonia started transition as one of the poorest regions of former Yugoslavia with a significant external debt and an old-fashioned economic structure with the dominance of the primary production sector (Domadenik et al., 2003). On declaring independence in 1991, Macedonia inherited high inflation that reached 86% in April 1992. A macroeconomic stabilisation programme was introduced in 1993 based on restrictive monetary and fiscal

policies, a policy of managed floating exchange rate and wage control. Winkler (2000) points that Macedonia was a leader among transition economies in terms of monetary stabilisation but suffered in the rankings of economic growth achieved during transition.

In the period 1990-1994, real GDP declined by 5.5% in Macedonia, compared to the CEECs average of 3.1%, whereas employment declined by 1.3%, below the average CEECs decline of 4% (Nesporova, 2002), pointing to a more severe recession in Macedonia but low employment response. Real GDP in Macedonia reached its floor in 1995 (80% of the 1990' level) with positive, though modest, growth rates afterwards. Macedonian GDP grew on average by 2.3% annually in the period 1995-2000, whereas employment further declined by 1.4%, average annual. As measured by the real GDP (GDP in constant prices), Macedonia completed the transition process only in 2006 when real GDP reached the level from 1990, though, broadly in line with other transition economies, employment significantly lag behind output adjustment (Boeri, 2001). Figure 1 shows real GDP and employment developments in the Macedonian economy in the period 1995-2006.

Figure 1 Real GDP and employment index (1990=100)



Source: Author's own calculations based on LFS and national accounts.

Comparing GDP and employment developments from Figure 1, productivity in the Macedonian economy has been growing since 1995, notwithstanding the 1998 and 2001 when employment lagged in adjustment to the decline in GDP caused by the civil war. The overall productivity gains of 10% during period 1990-2006 are rather modest, whereas in the analysed period, 1995-2006, productivity growth has been much higher, 28%. According to the World Bank (2007), productivity growth in Macedonia was not accompanied with the employment growth, except in 1999 and 2000, implying that productivity gains were achieved mainly by destruction of unproductive jobs rather than by creation of productive jobs. In other words, the (modest) growth in Macedonia did not 'produce' quality jobs, but low quality jobs in the informal economy or agriculture, with low productivity, uncovered with the social security, that is non-decent jobs both from individual and societal standpoint.

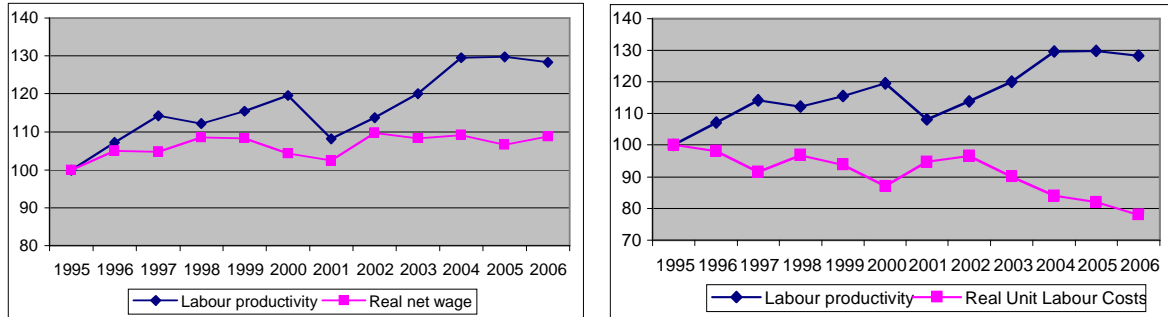
According to Zalduendo (2003), comparisons of overall productivity data miss an important issue: the difference in performance between surviving companies (state owned companies that undergo restructuring) and emerging, new firms. On the one hand, restructuring of surviving companies did not fully solve the problem of labour hoarding so that productivity improvement was weak and hence further restructuring and shedding labour came up latter on and more is expected in the years to come. In particular, most of the privatisation agreements restricted layoffs for a certain period of time (usually 2 years). On the other hand, emerging firms generated an increase in

labour productivity that was mirrored in increased nominal wages by 38% between 1997 and 2000 – three times higher than the rise in surviving firms.

Figure 2 Labour productivity, real wages and unit labour costs

a) Productivity and wage

b) Productivity and unit labour costs



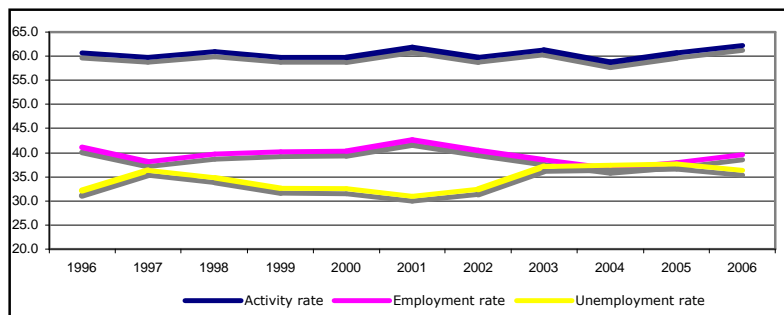
Source: Author's own calculations based on LFS and national accounts.

Furthermore, data on productivity and real net wage presented in Figure 2(a) show that there is no close relation between these two indicators, which can be expected given the structural changes occurring, especially concerning the non-wage benefits. The difference in the patterns is significant from 2002 onwards, when productivity increase was not followed by a real net wage increase leading to declining unit labour costs (Figure 2(b)). The productivity increase stabilised in 2004 and even slightly declined, with a further decline in unit labour costs. In 2006, unit labour costs were only 78% from the 1995 level, though about 8% above the 1990 level.

As Figure 3 shows, a characteristic of the Macedonian labour market is its stagnant nature and low-magnitude changes during transition. Such labour market patterns suggest a static economic structure in production where there is little evidence of economic restructuring in employment over time.

The spike in employment and decline in unemployment in 2001 was due to the security crisis, when employment related to internal affairs and defence increased. Besides this significant change, only in recent years there is some improvement in the labour market as seen by increasing participation and employment and declining unemployment, though it is too early to judge about the trend. There is much room for improvement and establishment of a functional labour market as a segment of the functional market economy, part of the Copenhagen criteria for an EU accession.

Figure 3 Labour market developments during transition



Source: LFS, various years.

2.2. Labour Force Participation

Declining participation rates in transition economies were also evident in Macedonia. In Blanchard (1997) labour adjustment during transition is presented by following formula:

$$\Delta P = \Delta N + \Delta U + \Delta O,$$

where P is the population of working-age, N is employment, U is unemployment, O is non-participation and Δ denotes the difference between the values of the variable in 1994 (also over the period 1995-2006 in Macedonia) and the year pre-transition (1989 or 1990, 1991 for Macedonia). The value of 1 for the ratio $\chi = \Delta U / (\Delta P - \Delta N)$ then indicates that the entire adjustment was through participation rather than unemployment and the value of 0 the other extreme. Table 1 presents the values of the χ ratio for some CEECs and Macedonia.

Table 1 Comparison of the adjustment ratios in some CEECs (age 15-64)

	Czech Rep. 1994	Slovakia 1994	Poland 1994	Hungary 1994	Bulgaria 1994	Macedonia 1994	Macedonia 1995-2006
χ	0.27	0.66	0.85	0.41	0.75	0.46	0.66

Source: Blanchard, 1997; own calculations for Macedonia based on LFS data.

The table shows that the falling employment in the first years of Macedonian transition was mainly adjusted by lower participation rather than by higher unemployment, similar to Hungary. In Poland and Bulgaria adjustment in the first years of transition was primarily achieved through unemployment. After 1995 a rise in the unemployment absorbed a greater proportion of the employment losses in Macedonia. Hence, the average χ ratio in the period 1995-2006 of 0.66 suggests that the large decline in employment in Macedonia has translated into stronger increase of unemployment while participation varied over a more limited range. Though, we have to point out some limitations of this calculation: changes in size of informal sector and emigration equated with non-participation. Indeed, Gjipali (2003) reports a χ ratio higher than 1 for Albania for 1994 explaining it by the very high emigration in the initial transition.

The relatively low participation rate in Macedonia, 62.2% for population aged 15-64 in 2006, reflects the very low number of employed in the country which is only partially compensated by a high incidence of unemployment. Participation rate in Macedonia was quite stable during transition mainly reflecting high and increasing unemployment. While participation rates in other transition economies declined during transition, at least in the first years of transition, due to voluntary quits, semi-voluntary quits, forced withdrawals or discouraged workers effect, there are no available data for Macedonia for that period since the LFS data go back to 1996. In the period 1996-2006, overall participation rate increased by 2.6%, which mainly reflects increased unemployment.

Female participation in Macedonia is relatively low due to the traditional role of women in the society, particularly among females from ethnic minorities such as Albanians and Roma. According to the LFS 2000 (the latest LFS that published data by ethnicity), the participation rates of females from Albanian and Roma speaking language were 11% and 36%, respectively, compared to 51% for Macedonian speaking females.

In 2006, females' participation rate equalled 49.2%, that is 25.7 percentage points (p.p.) lower than that of males, which is a relatively high gender gap. In the period 1996-2006, both males' and females' participation rates increased, by 2% and 3% respectively (Table A2 in Annex).

Young workers (aged 15-24) experienced a large fall in participation (17%) in Macedonia as in other CEECs. In particular, many young people decided to extend their studies

because returns to education increased in the course of transition (see Mojsoska, 2005) and for the increasing difficulty of school-to-work transition. In addition to insufficient job creation, employers in Macedonia became unwilling to bear the costs of on-the-job training of inexperienced youth given the existence of experienced unemployed applicants. Nesporova (2002) explains that educational reforms in CEECs were often lagging behind changing labour demand, so that the entrants often lacked the new competences required in labour market.

Participation rates among prime-age group (25-54) increased slightly by 2% in the period 1996-2006, as a net effect of discouraged workers' effect and reduced living standard pushing more people into the labour market.

Despite the widely offered early retirement schemes, participation rates for the 55-64 age group increased significantly during whole period 1996-2006 (by 44%). The rise in participation rate for this age group was translated both into higher unemployment and employment. The rising participation of older workers suggests that early retirement had only a temporary effect on the intended reduction in labour supply, since the increasing activity of workers that retired under that scheme cannot easily be explained by a reduction in real pensions and/or by deterioration in the living standards of Macedonian families.

According to the World Bank (2007), inactive are mostly female, and mostly above 50 years of age, as well as young. The single largest group of inactive persons consists of females in the categories "housewife" or "family responsibilities", with virtually no males in these categories, which is another "evidence" of non-balanced division of responsibilities between genders in the family. On the other hand, there are more male than female pensioners among the inactive. Along the rural/urban dimension, persons with family responsibilities (including housewives) make up the largest group of inactive persons in rural areas, while in urban areas the largest group consists of pensioners. The World Bank also indicates that there is a big "reservoir" of active population in discouraged workers. Indeed, fluctuations in active population from year to year are mainly attributable to housewives and health categories which are likely to be discouraged workers, although the survey instrument may not adequately be capturing this.

In the period 1996-2006, participation rates for individuals with primary education or less declined by 7.5%, of individuals with secondary education by 4.5%, and for individuals with tertiary education stayed almost the same.

2.3. High and persistent unemployment

While a key feature of the planned economies was a zero open unemployment, an equally distinguishing feature of transition has been a quick emergence of double-digit unemployment rates accompanied by long unemployment spells (Svejnar, 1999). Part of this rapid rise in unemployment in all CEECs was due to hidden unemployment in former communist regime, which was not the case in ex-Yugoslavia, which had open unemployment. In most CEECs unemployment accelerated in the first 2-3 years of economic reforms, then stabilised with the economic recovery, and only later showed a modest decline with the exception of Croatia, Macedonia and Poland.

Unemployment in Macedonia was high already at the onset of the transition, estimated at 20%, but further increased during transition, the trend which stopped in 2006. The rise in unemployment was due to employment loses as well as the modest rise in participation rate. In 2006, unemployment rate of population aged 15-64 equalled 36.3%, a 12.7% increase from 1996 (Table A3 in Annex).

Registered unemployment in Macedonia is generally higher than the LFS measure of unemployment partly because some inactive persons and informal economy workers have an incentive to register as unemployed to gain entitlement to free health care if they do not have other means of entitlement such as an employed spouse, employed parents, being a pensioner, etc. Since registered unemployment depends on the incentives shaped by the (benefit) system, LFS is a better measure of unemployment and comparable across countries, hence the latter is in the focus of this report.

The rise of unemployment during transition in Macedonia suggests that the emergence and development of the new private sector was insufficient to absorb the decrease in employment caused by the restructuring of state companies, notwithstanding the effect or pressure of rising working-age population (Zalduendo, 2003). Zalduendo finds that while between 1994-2000 firms with more than 20 employees reduced their workforce on a net basis, small firms showed a net gain in employment that was not enough to offset the net dismissals by larger firms.

Table A3 shows unemployment rates by different individual characteristics in 1996 (when the LFS was first conducted) and in 2006. Whereas female participation and employment rates are much lower than those of males, unemployment rates are similar, with a small gender gap of 1.9 p.p. This may reflect the relatively high willingness of women to take up low-paid, secure public sector jobs, jobs in unprofitable firms or in newly created small private firms (Munich et al., 2004), since they are usually (by tradition) second-income family earners.

Both female and male unemployment rates increased during the period 1996-2006. In 2006, the female unemployment rate equalled 37.5%, which is small increase of 2.6% from 1996. Though male unemployment rate is lower, it increased by 21% from 1996 to 2006. As in other CEECs, unemployment rates for both genders are highest for the young labour force aged 15-24: unemployment rates decrease gradually with the age.

Table 2 Unemployment rates by categories in selected CEECs, 2006

Country	Youth, 15-24	Women	Unskilled ¹	National average
Bulgaria	19.5	9.3	20.5	9.0
Czech Republic	17.5	8.8	24.8	7.1
Hungary	19.1	7.8	16.7	7.5
Poland	29.8	14.9	23.7	13.8
Slovakia	26.6	14.7	48.6	13.4
Slovenia	13.9	7.2	8.4	6.0
Macedonia	59.8	37.5	40.3	36.3

1) ISCED (International Standard Classification of Education) 0-2.

Source: Author's own calculations; epp.eurostat.ec.eu.int; LFS data for Macedonia.

As elsewhere, young workers are more likely to be unemployed: their unemployment rate was 1.6 times higher than the national average in 2006, but this is still lower proportion than in other CEECs (see Table 2). Between 1996 and 2006, the youth unemployment declined by 15.7% whereas unemployment rate of the prime age workers increased by 16.3%. Though older workers (55-64) have relatively low unemployment rate (21.8% of the national average), it more than doubled in the analysed period. This may point to lower returns to experience during mid-transition in terms of finding and/or retaining job as firms begin to favour younger workers with higher education that is more compatible with the new production and information technologies. Rising unemployment of older workers is also due to their increased participation in the labour market (by 44%) after the period of generous early retirement scheme.

Another important feature of the labour market in Macedonia is the incidence of long-term unemployment (LTU), that is unemployment for more than a year. The depreciation of knowledge, skills and working experience gives rise to negative duration dependence

in that the longer people are unemployed, the lower are their chances of leaving unemployment for employment. Consequently, the long-term unemployed are in a worse position compared to workers with shorter unemployment spells because they are not only without a job but they are also continuously less likely to find one. Data clearly illustrate that LTU is a serious problem in the Macedonian labour market. During whole transition period, LTU was above 80% (86.3% in 2006) of total unemployment which is well above the CEECs and EU-15 averages of 55.3% and 40.2% in 2002, respectively. This indicates the stagnant nature of the Macedonian labour market where (virtually all) unemployed face difficulty in finding a job.

Unemployment in all transition economies hits disproportionately the unskilled, low-educated workers (Commander and Kollo, 2004). In other words, the probability of unemployment incidence declines with the educational level.

Similarly, Table A3 shows that in Macedonia persons with only primary education also have a higher probability of being unemployed than those with secondary education and especially compared to those with tertiary attainment. The World Bank (2003) explains the relatively low unemployment probability of workers without completed primary education in Macedonia by a high reservation wage of workers with completed primary or secondary level education have prior to their job search which makes them more reluctant to accept low-qualified jobs, without providing evidence for that. This explanation seems an implausible given the reality of high unemployment mainly characterised as LTU and low coverage and level of unemployment benefits. Alternatively, the relatively low unemployment probability of low-educated workers may suggest that they are more likely to turn to agriculture as a survival strategy and work as unpaid family workers.

Roma are most affected by unemployment² and their unemployment rate in 2002 was more than twice as high as the national average of 38.1%. Unemployment rates for Albanians and Turks were also very high equalling 61.2% and 58.2% respectively. Highest unemployment rates were found in Polog region, East and North-East region. Pelagonia, Skopje and South-East region (out of total of 8 regions) had lower unemployment rates than the average in the country.

A change in the structure of unemployment occurred regarding whether individuals have or have not previously worked. The proportion of unemployed without work experience decreased from 74.2% in 1995 to 41.8% in 2003 reflecting an increase in the number of those with previous service of more than 5 years (from 16.6% to 44.8%). Namely, the proportion of unemployed that have been in work previously increased as workers lost their jobs during enterprise restructuring and because recruitment strategies of the new private (and privatised) firms appear to be biased against older unemployed workers.

Possible reasons for the high and persistent unemployment

Although unemployment in Macedonia was high even before transition, it was initially expected that the introduction of the market economy would cause a more efficient reallocation of resources (including labour) and reduce previous structural imbalances. However as we have recorded, unemployment in Macedonia increased during transition and is currently the highest among CEECs (see Table 2). Mojsoska (2005) explains following possible reasons for the high and persistent unemployment:

- International economic and political factors - The disruption to Macedonian payment system and business transactions with the former Yugoslav Republics, trade embargos which blocked access to Greece's market and to the port of Thessalonica and to the

² Regarding ethnical and regional labour market characteristics, there are no available data from the LFS. Data can be obtained from the 2002 Census of Population which, regarding the economic activity of the population, used LFS definitions. This is the source of data presented in this paragraph.

main prior export markets, Serbia and Montenegro, considerably deteriorated the business environment for Macedonian companies. Hence the production declined causing a fall in employment and a rise in unemployment.

- Privatisation method - The process of privatisation in Macedonia was initiated in 1989 but accelerated after gaining independence (1992). The chosen model for privatisation was MEBOs, that is a sale to insiders along with generous payment terms. In particular, managers bought the most profitable or potentially profitable enterprises often with undervalued asset valuations, paying only 10% of the purchase price and the remainder in 10-year instalments (Domadenik et al., 2003) while weaker enterprises with inflated asset valuations were often sold to employees. MEBOs did not create an improvement in corporate governance because new managers were old directors and only seldom brought with them the new finance and/or trade partners required for modernisation and expansion of production. Moreover, the sale to insiders led to a bias towards policies that supported the short-term, often unsustainable, goals of employees such as preserving their jobs instead of long-term profit maximisation (Zalduendo, 2003). Hence, wage concessions increased substantially and reached 25% of all paid wages, though reduced to 13% in 2006. Employees' strong position allowed them to oppose layoffs and thus blocked the adjustment of the size and skill composition of the workforce to the new demands of the open market economy.

- Labour market flows - Many authors find low rates of job creation, rather than high job destruction as a main reason for rising unemployment rates in CEECs during transition. Azam and Rutkowski (1998) and Nikoloski (2003) find extremely low outflows from unemployment to employment and inactivity in Macedonia, whereas inflows are moderate. The relative size of inflows and outflows in Macedonia therefore is one of the main causes of the high and raising unemployment. Similarly, Micevska et al. (2004) find that whereas job destruction rates in Macedonia in the period 1992-1999 were comparable with other transition economies, job creation rates were much lower. For example, Macedonian firms in 1999 created less than half as many jobs (relative to total employment) as firms in Bulgaria and Poland. The vacancy-to-unemployment ratio in Macedonia of about 0.2 in 2006 is extremely low when compared to other CEECs.

- High non-wage labour costs and the informal economy - Relative to productivity, high labour costs including labour taxes, social security contributions and non-wage costs affect unemployment mainly through two channels. Firstly, they drive companies into the informal economy which exhibits lower output and employment growth than the regular economy. Secondly, high wage and non-wage labour costs relative to productivity increase total production costs restraining labour demand. According to EBRD (1999) it is the new private firms that are responsible for output and employment growth in transition economies where the dynamism and efficiency of this part of the enterprise sector depends on the size of the entry barriers (taxes, social contributions, corruption, etc.) which, if high, may force new firms to operate in the informal economy. Winkler (2000) argues that transition economies with higher shares of informal economy in GDP (Macedonia belongs to this group) tended to display lower growth rates during 1990s, but the causality may also be reversed.

The World Bank (2003) argues that high taxes and social charges and rigid labour legislation that often still relate to the old Yugoslavian regulations, drive many firms in Macedonia into informal activity and constrain (formal) job creation. Though, some improvement has been achieved with the 2005 Labour Code that eased firing and hiring of workers. In addition, many formal economy firms understate the number of their employees and value added and misreport the amount of the paid wages in order to avoid the full burden of taxes and social insurance contributions (ETF, 2005).

Payroll taxes are the most important factors that negatively affect the demand for labour. Macedonia was among those countries with a low share of social contributions in the

gross wage and the personal income tax rates of 15%, 18% and 24% of the gross wage, but these are paid only by employers. In 2007, a flat personal income tax rate was introduced of 12%, and 10% from 2008. However, the system of income tax and social contributions in Macedonia is quite complicated in its impact on the tax wedge given the different basis for their calculation explained in section 3.1 and, by international standards, creates a sizeable gap between the labour cost as perceived by employers, on one hand, and the received wage as perceived by workers, on the other hand (ETF, 2005). Reduced tax rate influenced the tax wedge, but it is still higher for low-wage, low-paid workers, constraining labour demand.

- Demographic pressures - The high continuing demographic pressure on the labour market can be illustrated by the ratio of the potential labour market entrants over the next five years (proxied by the population aged 10-14) and the working-age population. According to the 2002 Census of Population (State Statistical Office, 2004), this ratio equalled 12% whereas the equivalent ratio for the EU-15 was less than 9%. More strikingly, the number of potential entrants over the next 5 years in 2002 was equivalent to 30% of the 2003 LFS employment level in Macedonia while the EU-15 ratio was less than 14%. This implies a large inflow of fresh labour force into the labour market and the need for significantly greater job creation.

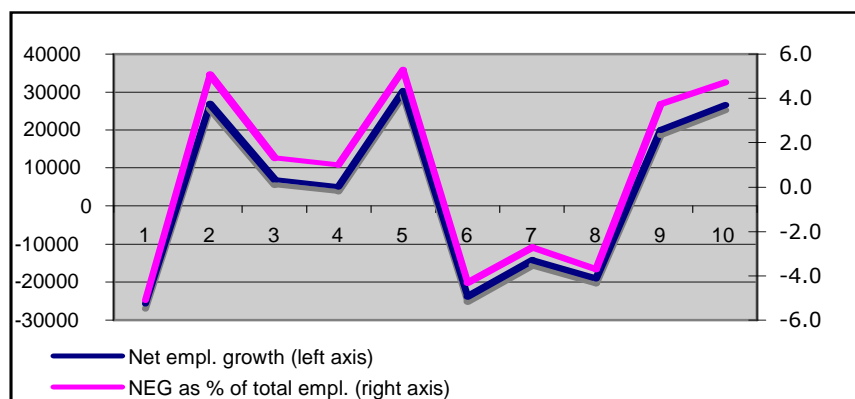
3. Trends in working and employment conditions

3.1. Overall employment

About 562,938 persons were employed in Macedonia in 2006 with an employment rate of 39.6%. As Figure 3 shows, employment rate has been rather stagnant during transition, with a small standard deviation of 1.65. In the period 1996-2006, only 33,213 new jobs were created that is 6% of total employment in 2006. Figure 4 shows year-to-year net employment growth.

While overall employment rate declined by 3.7% in the period 1996-2006, employment rate of males decreased by 6.8% and the females' employment rate slightly increased by 1.3%. Hence, the employment gender gap in Macedonia is decreasing over time (Table A2) and is comparable to the average gap in the EU-25 and in candidate countries. While at the lower end of the age scale men and women are equally affected by the difficult transition from school to working life, certain factors (a lower statutory retirement age, traditional positions in society) playing a same role in communism and in transition cause the earlier exit of women from employment so that there is a sizeable employment gender gap in the upper age groups. The difference in employment rates between genders decreases with education so that higher-educated females had greater employment rates than males in 2006.

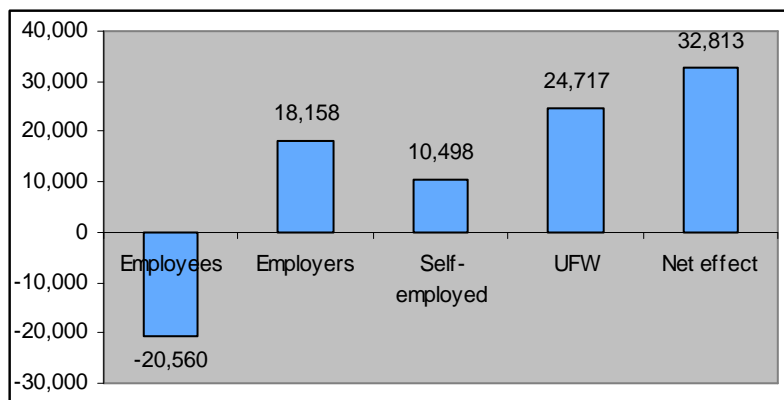
Figure 4 Net employment growth 1996-2006



Source: Author's own calculations based on LFS, various years.

Overall employment rates increase with education level, from 21.4% in 2006 for persons with completed primary education or less, to 43.7% for individuals with secondary education to a high of 64.9% for tertiary educated individuals. Moreover, the decline in employment from 1996 to 2006 disproportionately hurt lower educated persons. In particular, while employment rates of persons with primary and secondary education declined by about 13%, this decline was 7.7% for persons with tertiary education. This implies that acquiring higher education is a good strategy for finding (and keeping) employment. Indeed, Mojsoska (2005) finds high returns to education in Macedonia both in terms of probability of being employed and wage rate.

Figure 5 Net employment growth by economic status, 1996-2006*



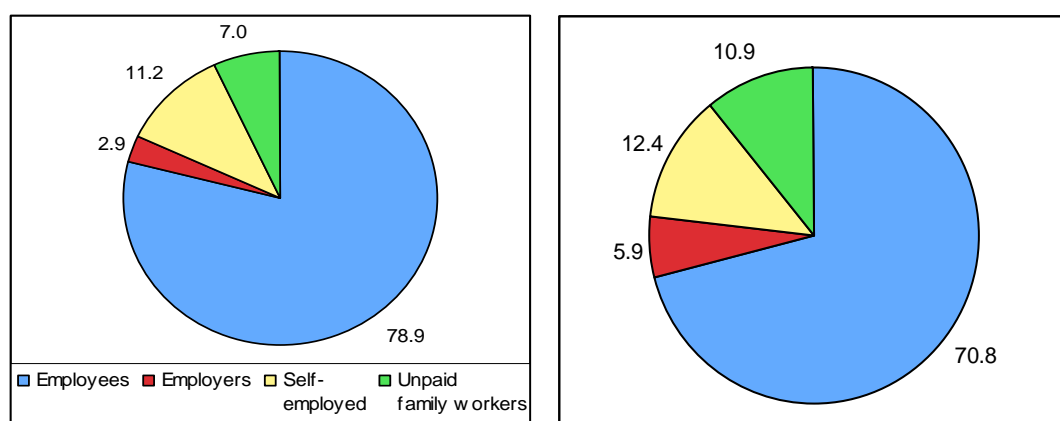
Source: LFS, various years.

* Working age population defined as 15-80.

Much of the decline in employment happened in the first 5 years of transition when the majority of the restructuring of the big state enterprises took place. Workers from bankrupt enterprises were laid-off and some workers in privatised companies were made redundant or offered an early retirement. Some of them left the labour market whilst others became unemployed which was reflected in the reduction in participation (though, latter participation recovered) and rise in unemployment discussed above. However, some redundant workers also entered informal sector employment officially declaring non-participation or unemployment. For these reasons, the employment rate of the prime-age group, population aged 25-54 years, decreased during transition by 8.7% (see Table A2). In the ten-year age groups below and above the central age group, approximately only 14 out of 100 youths were working in 2006 (compared to 13 in 1996) and 28 persons out of 100 workers aged 55-64 (25 in 1996). Similar to the declining participation rate, the very low employment rate among youths in Macedonia, a quarter of overall employment rate, can be attributed to a delayed entry into employment due to difficulties in finding a first job.

Figure 5 shows that the overall rise in number of jobs held is mainly driven by increased number of unpaid family workers, employers and self-employed, whereas the number of employees declined. The number of employers more than doubled between 1996 and 2006, and the number of self-employed and unpaid family workers increased by 17 and 66%, respectively. A comparison of the structure of employment by economic status in 1996 and 2006 is presented in Figure 6.

Figure 6 Structure of employment by economic status, 1996 and 2006



Source: LFS, various years.

We are particularly interested in the incidence of self-employment due to its potential effectiveness in reducing unemployment in an environment of a low job creation, like Macedonia is. The share of self-employment in total employment of 10.9% in 2006 is higher than that in Estonia, Slovenia and Bulgaria but much below the share in Croatia, Poland and Romania (epp.eurostat.cec.eu.int). Moreover, the rise in the share of employers and self-employment in total employment can be considered as a positive structural change during transition, if these new jobs are highly productive. However, analyses of self-employment by economic sectors, reveals that it is mainly disguised wage-employment rather than entrepreneurship with high-productivity activity. Moreover, during downturns, these low-productivity self-employment or disguised wage employment jobs are most likely to be destructed, so that we observe declining GDP and rising productivity simultaneously (World Bank, 2007).

In addition, the share of informal self-employment in total employment in 2005 was 8.9%, increasing from 5.3% in 2003 (World Bank, 2007). World Bank also shows that most of those working without a written contract or in unregistered firms (mainly employees and self-employed) are men in working prime age, between 25 and 55, though usually younger than those in the formal sector as well as less educated than the formally employed. This again suggests that self-employment acts as a last alternative employment and, to the extent it is concentrated in the informal sector, does not provide social security.

The substantial rise in the share of unpaid family workers mainly working in agriculture suggests that this sector served as a social buffer during transition, rather than a decent job opportunity.

Regarding ownership, there was a rise in the number of workers in private firms relative to other types of ownership from 35.6% of employed in 1996 to 66.1% in 2006, which is partly due to the privatisation of state owned companies and partly to the emergence of the new private sector.

The need for employers to smoothly adjust their production and costs to changing demand during transition produced new and diverse types of working contracts, mainly flexible contracts such as fixed- and short-term contracts, temporary agency work, part-time employment, multiple-job holdings and 'civil' law contracts³ (Cazes and Nesporova,

³ As in other CEECs, civil law contracts in Macedonia are regulated under the national Law on Obligations and Acts hence payments (i.e. wages) are subject only to personal income tax. In the essence, they are not working contracts. While the use of such contracts increased during transition in Macedonia, there are no available data to prove it. Though, they were widely used

2003). The low level of real wages Macedonia, measured as a share of a typical consumer basket in the average wage which equals 70-75%, may make workers reluctant to search for or accept part-time job offers.

A net increase in part-time jobs itself generates additional employment opportunities for workers, predominantly young and female. In Macedonia, 6.6% of workers in 2006 were working under such arrangements which is in the middle of the shares of part-time employment found in other transition economies, though low by EU-15 standards. Since there is no statutory minimum wage in the economy, the Labour Code sets a floor for payment of the employers' social contributions⁴ (so-called minimum reference wage) in order to provide some safety net for workers in terms of pension rights, but this requirement increases firms' labour costs above those implied by the wage bill and creates disincentives for job creation and for employing part-time workers. In addition, up till now, this minimum reference wage for payment of health insurance contribution was prescribed monthly rather than hourly further constraining creation of part-time jobs. As EC 2007 Progress Report notes, the current system of calculating social contributions does not yet take into account the new introduced concept of part time work, which create disincentive of registering low wage or part time employment. Pressured by high and persistent unemployment, the new Government that came into power in 2006 started reforms in the social security system which are explained in section 8.

Whereas at the beginning of transition, part-time employment was more usual for males than females indicating that it mainly served as a second job, in 2006 women's share in part-time was greater than that of males. In particular, 7.6% of total female employment in 2006 was part-time employment compared to 5.9% of male employment. About 12.4% of youth worked under part-time arrangement in 2006.

Table 3 Voluntary and involuntary part-time employment

	Macedonia			EU-12	EU-15
	2003	2004	2005		
Could not find full-time employment	39.3	41.9	36.1	31.0	17.1
Voluntary	60.7	58.2	63.9	69.0	82.9
Type of work	35.7	39.9	39.7		
Family duties	8.9	4.6	7.1		
Other	16.1	13.7	17.1		

Source: Taken from the World Bank (2007).

Table 3 shows that more than one in three part-time employees do accept part-time working contract because they cannot find full-time employment, which is higher than corresponding figures for the new EU members and EU-15. Of those that voluntary work part-time, more than half do so because of the type of the work, 7% (probably, mainly females) choose to work part-time in order to combine their family duties and work.

Fixed-term employment acts as a precautionary measure for employers in unfavourable economic conditions, while it implies a certain degree of insecurity for employees. A relatively high share of employees with temporary contracts was a characteristic of Macedonia. This rate was in a range between 10% and 13% after 1996 and increased to 17.7% in 2003, the latest published data. During the period of transition, fixed-term contracts were initially most commonly used for men, with a change in 2001 when it grew by more for women. Considering age groups, such employment is more frequent for

even within the public administration because of limited opportunity to employ workers with regular working contracts.

⁴ Payroll taxes are a direct cost to employers.

young workers, revealing a further disadvantage both in terms of access to permanent/full time jobs and to on-the-job training and promotion prospects.

The private sector accounts for 60 percent of non-agricultural employment. Sectors like transport and communications, electricity, finance and—of course—public administration, health and education are dominated by other forms of ownership, including state and mixed ownership.

Table 4 Employment by sectors¹, 2001-2006

Sector	2001	2002	2003	2004	2005	2006
Agriculture, forestry, fishing	24.9	23.9	22.1	16.8	19.5	20.1
Mining, industry and electricity, gas and water supply	29.2	27.5	27.3	25.8	25.8	25.0
Construction	5.9	5.8	6.6	7.0	6.5	7.6
Services	39.9	42.8	44.0	50.4	48.2	47.3

1) Working age population 15-80.

Source: Labour Force Survey, various years.

Due to changes in the classification of production sectors in 2002 to comply with the National Classification of Activities, we can analyse employment by economic sector only from 2001 onwards. While employment in agriculture and manufacturing declined in the period 2001-2006 (see Table 4), employment in the service sector, including construction, increased. Despite economic restructuring, in 2006, agricultural sector still absorbed about one-fifth of total employment, the productivity level of which reached less than half of that of the industrial sector and one third of that of the services sector (World Bank, 2007). This suggests that the agricultural sector in FYR Macedonia is lagging behind in terms of restructuring.

Industry (including mining and electricity, gas and water supply) absorbs 25% of total employment, though there was a 4.2 p.p. reduction in manufacturing employment from 2001 to 2006. Main “employer” is service sector which employed 47.3% of all workers in 2006, where employment increased by 7.4 p.p. from 2001. The share of employment in construction is 7.6% of total employment, with a relatively high increase in employment from 2005 to 2006.

Nevertheless, we have to keep in mind that most of the informal economy operates in the service sector, in particular trade, which implies that in the official figures these sector is underestimated in terms of its share in value added and employment. Rutkowski (2001) suggests that the new jobs in services in Macedonia are likely to be of low-quality in terms of stability, remuneration and working conditions (in personal and household services) rather than a high-quality service sector jobs. Overall, by comparing data on sectoral changes in employment in Macedonia with those of other transition economies, we can conclude that the magnitude of the former has been relatively low, probably due to a lower rate of labour reallocation in Macedonia.

The share of workers with secondary job (multiple job holdings) in total employment in 2006 equalled only 3.3%, down from 4.6% in 1996. Still, this share is very low and mainly (82%) concentrated in agriculture. About half of the additional work is in a form of unpaid family worker and about two-thirds is seasonal work.

About 7% of employed look for other job, the main reason (in 60% of cases) being better employment conditions, then wage and transportation, followed by the seasonal character of present job.

In order to increase labour market flexibility⁵, the new Labour Code (Official Gazette No. 62/2005) reduced restrictions on fixed-term employment. In particular, fixed-term

⁵ Though, large grey economy might be viewed as an extreme flexibilisation (ILO and Council of Europe, 2006).

employment is defined as work that by its nature lasts limited time, with or without interruption for up to 4 years (previously, the maximum duration was 3 years). Unfortunately, there are no available data to analyse the effect of this policy change on the use of fixed-term employment. According to the Law, seasonal work has the same treatment as fixed-term employment giving employees all statutory rights as full-time employees. The same holds for the part-time employment that is also regulated by the Labour Code. Fixed-term employees have lower statutory annual rest (about half that of full-time employees).

Besides changes in the area of fixed-term employment, the new Labour Code reduced the maximum severance payments, clarified and liberalized overtime rules, reduced employers' obligation on sick pay from 60 to 21 days, etc. In addition, the Law prescribes that collective agreements are binding only for signatories and members of signatory associations and trade unions, which should exempt many smaller firms from having to enter into collective wage agreements reached at industry level.

The Labour Code, *inter alia*, defines employer's rights and obligations in case of firing due to business reasons. In particular, when employers fire workers due to technological, economic, organisational and similar changes, they can offer employees: direct employment with other employer, vocational training or pre-qualification, or new employment contract. In addition, workers are entitled to severance pay which ranges between one wage (average wage for the last six months of employment) and six wages. In the first years of transition, the severance pay was more generous, one wage for each 2 years of work experience (equal to the wage received in the last month of employment) but up to 12 average wages, which was believed to limit restructuring and labour reallocation and hence was reduced. If production process stop, the employer is obliged to pay 70% of the wage to the employee up to 3 months per year.

Employers are also obliged to pay to workers costs related to the job position, such as cost of food (in money terms), transportation costs, costs for business trip, if worker lives separated from the family, in case of death of the worker or a family member. Hence, actual labour costs are in excess of gross wage.

The Labour Code introduced work from home (with certain limitations), household assistants, and managerial contracts, that were not previously regulated. There is no distinction between different types of working contracts when determining workers' rights.

In 2006, the Government introduced agency work as an additional source of flexibility in the labour market, with the Law on Temporary Work Agencies-TWAs (Official Gazette No. 49/2006). The law defines the procedures and terms for establishment of TWAs, defines temporary work, and cases in which workers can be temporary employed. Temporary work can be used for replacement of temporary absent worker, temporary increased workload, seasonal work, project work, specific non-continuous work that is not part of the main firm activity, unexpected short-term activities in the main area of activity. Agency contracts can last a maximum of 1 year, with or without breaks.

Temporary workers have same rights as full-time employees, i.e. in addition to the wage, they enjoy pension, health and employment insurance while assigned with a firm, and all statutory health and safety measures apply to agency worker. Their wage cannot be lower than the wage of a full-time worker in the firm, with similar job tasks. Hence, these workers are not in a discriminatory position relative to the regular workers, though, they are unlikely to receive any training other than the specific one for the firm.

The TWAs should get license and be registered with the MLSP. At end 2006, these agencies reported slightly above 5000 registered contracts for assigning agency workers (less than 1% of total employment). There are several constraints to the higher use of agency work. First, firms-users of this service have to pay some fee to TWAs, which, they argue, is rather high. Second, since this is treated as a service, employers have to pay

value added tax (18%) to the amount they are giving to the agency, increasing their costs for workers. Third, civil law contracts are still in much use, because they are relatively cheap and rather easy to use.

3.2. Informal economy

Schneider (2007) estimates that the share of the shadow economy in GDP in Macedonia in 2004/05 was standing at high 36.9%, slightly increasing from 34.1% in 1999/00. It is comparable with the estimates for the other countries in the region. However, Schneider (2002) finds that the share of the informal labour force in 2000/01 was 35.1% of working-age population, which is far above its size in other CEECs. The World Bank (2007) estimates informal employment at 32.9% of total employment, based on the LFS data.

The large size of the informal (economy) employment in Macedonia is one of the indicators of insufficient job creation, as well as low availability of good, decent jobs (World Bank, 2007). It can be seen both as a form of extreme labour market flexibilisation (pointing to the weak law enforcement), and as a consequence of the strict employment regulation. Informal employment is a constraint to growth of formal businesses because it creates unfair competition for firms by evading taxes, though at the same time it grows under potential for the credit and marketing constraints, the need to stay smaller in order not to be visible, etc.

During transition, informal sector accounted for most net job destruction and job creation. These trends have been coupled with increases in self-employment and job creation in low productivity activities.

Data from the LFS 2005 show that men are slightly overrepresented among the informally employed, i.e. their share in informal jobs is 64%, but 60% in formal jobs (see Table 5). Moreover, there is a difference in the type of informal work performed by women and men: informal sector women are mainly working as unpaid family workers, whereas informally employed men work as employers and self-employed in unregistered firms.

According to the World Bank (2007) study, informality also affects working conditions, including working hours. For informally employed men, the number of hours worked tend to be slightly higher than in the formal sector, meaning that informal workers are disadvantaged not just because they are not covered by the social security, but they also face worse working conditions. The opposite holds for women, which is an expected outcome given the combination of female unpaid household activities with family responsibilities. Workers without contracts or who work in unregistered firms have the longest working weeks of all, at 48 hours on average for men.

Table 5 Informal employment by gender and working hours in 2005

	Male/female share		% of total informal		Average hours worked ¹	
	Male	Female	Male	Female	Male	Female
Informal sector	64	36	100	100	--	--
Unpaid family workers	38	62	21	65	42.1	41.5
Employees: without written contract, or unregistered	68	32	29	24	48.2	42.5
Employers or self-employed in unregistered firms	89	11	50	11	43.4	38.7
Formal sector	60	40	--	--	44	41.9

Source: Taken from World Bank 2007: Estimates based on LFS 2005.

1) Main job only.

Informal sector work (excluding unpaid family work) seems to be the point of entry to employment for persons who previously have been inactive or unemployed. About 17% of those who worked informally in formal or informal firms did not hold a job one year ago, compared to 6% of unpaid family workers and 5% of formal sector employees.

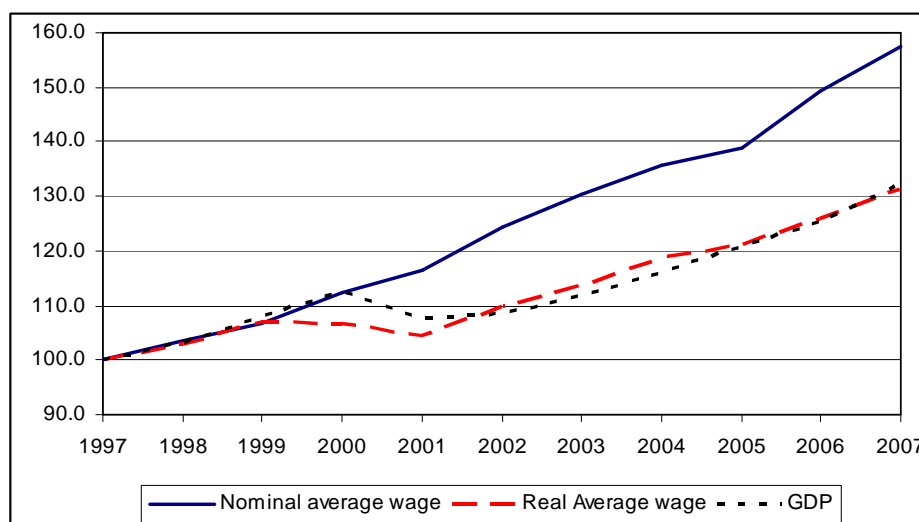
The access to (formal) job and earned income is one of the factors determining poverty. Working in a regular job is a strong safeguard against poverty, whereas informal economy workers and their households are more likely to be poor due to the likely low income as well as high average number of dependent persons per one working member of these households. Sources of income change with household average wealth: poorer households have relatively less income from non-agricultural employment or self-employment, and their dependence on income from informal employment is higher than for richer households.

Employment rates are substantially lower for poor than for non-poor people, both because poor people are less active in the market (only two-thirds) and that they have lower probability of finding a job, once they search for a job. The share of people with access only to occasional jobs is much higher among poor than among non-poor.

4. Wages

As Figure 7 shows, nominal average wages in the Macedonian economy grew at an average or around 4.5% during the last decade (1998-2007⁶). Given relatively stable prices over this period, this translated into an average real wage increase of 2.8% over the same period, suggesting little catching up with more developed economies of the EU over the last 10 years.

Figure 7 Nominal and Real average wage and GDP growth, 1997-2007



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

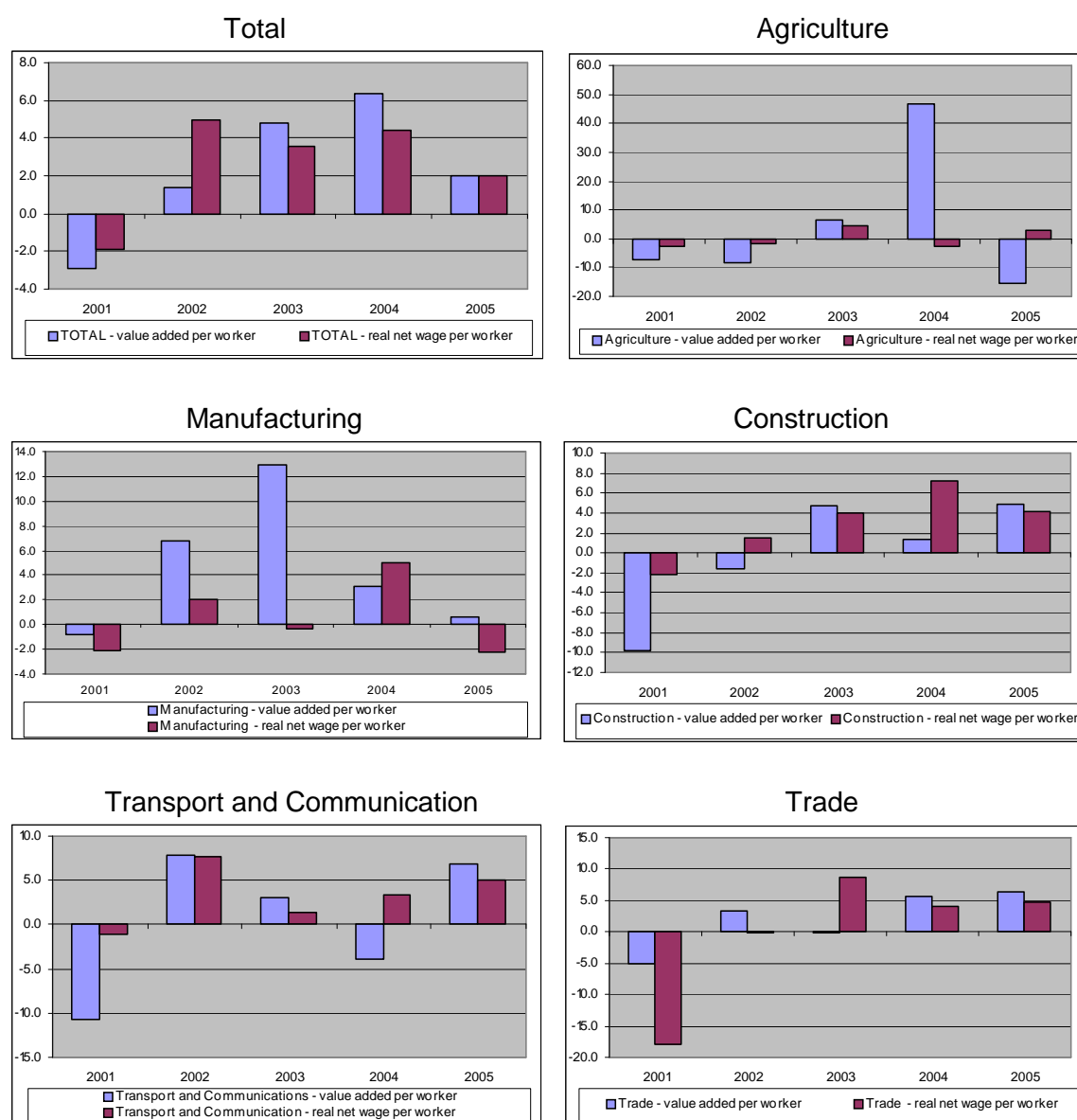
There is a link between the level of wages in a specific sector and respective productivity: wages are higher in sectors with higher productivity. The correlation coefficient between the average sector wage and the value added per worker in the respective sector in the period since 2000 is around 0.84. High unemployment made a room for lower wage growth than the productivity growth. In particular, in the period 2002-2005, the Total Factor Productivity (TFP) has been a major source of growth with labour and capital

⁶ Refers to data up to September, 2007.

lagging behind. Most recently, the TFP contribution to growth has fallen significantly whereas job creation increased together with a stronger wage growth.

Figure 8 shows that there has been a difference across sectors and time on the link between the productivity and wage growth.

Figure 8 Productivity and real net wage by sectors, 2001-2005



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

Construction workers are paid lowest wages (around 72% of the national average), followed by workers employed in agriculture and fisheries (closer to around 80% of the national wage). On the other hand, workers in the financial intermediation sector are paid significantly above the national average (almost double the national average).

With the exception of wages in sectors dominated by the public sector/ownership, in the rest of the economy, during the 2003-2006 period, wage growth was largely in line with productivity increases. Since 2000⁷, most of the growth in wages has been driven by

⁷ Due to changes in sectoral presentation, sector-specific data on wages before and after 2000 are not comparable.

developments in mining and quarrying, electricity, gas and water supply, financial intermediation and public sector dominated services (public administration and education).

Given the static labour market over the last decade, there have been no major changes in the number of wage-earners in Macedonian households. According to the SSO's Household Budget Survey (HBS), the average number of employed persons in the average Macedonian households was 0.96 in 2006, statistically insignificant from the 0.97 observed in 1997. At the same time, the estimated number of households and average size of households remained also largely unchanged, confirming that there have been very few new jobs being created over this period.

Foreign investors tend to pay higher wages in most sectors, except agriculture, financial intermediation and real estate and business activities. Even in these sectors, the difference seems to be narrowing. A probable explanation may be that foreign investors pay the same wages when they enter the market and start offering more competitive wages once they consolidate operations.

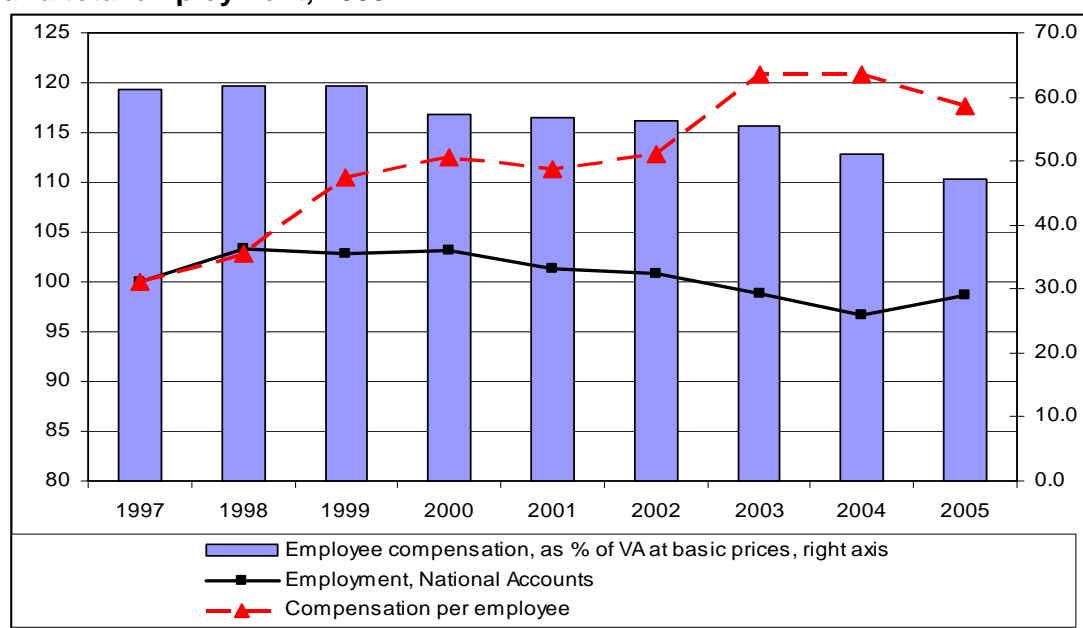
Private/public comparison is difficult with the available data. Sectors in which the public sector dominates (public administration, education, health) seem to be closely clustered around the national average, with private sector dominated sectors mostly on the both ends of the distribution. A recent study comparing wages in the public and private sector found that the public sector wages are higher compared to the private sector at entry level but significantly lag behind the private sector wages at the upper management level.

Though declining, wage arrears continue to represent a problem in the Macedonian economy. In 2006, 13% of all employed (according to ILO definition) did not receive wages. High unemployment rate and difficulty of finding a new job prevent workers from quitting a job even if they are not paid for some time. An additional factor is the tolerance of soft-budget constraints by state institutions (Pension and Health Insurance Funds, etc.) as well as finally the inability of institutions to enforce the Labor Code (the labor inspectorate, the courts etc.). Though, recently the Government improved the administration of social contributions. For example, each employee now has a personal account in the pension fund which can be easily accessed to check whether employer paid contributions.

Almost half of the workers in agriculture had wage arrears in 2006. Manufacturing is another sector affected strongly by wage arrears with 17% of the employed having not received wages.

Employee compensation accounted for 47.3% of value added at basic prices in the Macedonian economy in 2005 (see Figure 9). This ratio has been continuously falling during the last decade and compared to 1997, employee compensation in 2005 was lower by close to 14 percentage points of GDP. During the period 1997-2005, total employee compensation grew at an average nominal rate of around 2% a year, much slower compared to the average nominal growth rate of value-added of around 5.3%.

Figure 9 Employee compensation as % of GDP, average employee compensation and total employment, 2005



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

As expected, the agricultural sector has the lowest employee compensation as percent of value-added, due to the prevalence of unpaid family workers in the employment structure of this sector. Employee compensation in services sectors that are largely liberalized is close to the national average, with the exception of the retail and wholesale trade where it is much lower. Total employee compensation in most of the manufacturing sector is slightly above the national average. On the other hand, sectors dominated by public services have the highest employee compensation ratios.

The trend of falling employee compensation as percent of value-added is visible in most sectors with the exception of electricity, gas and water supply, financial intermediation and real estate services. As expected, the reduction is the smallest in sectors dominated by public services, due to stronger unions and periods of across-the board increases in public sector wages (see Table A4 in Annex).

The only sector that saw a more substantial increase of the employee compensation as percent of value-added is the financial intermediation. The ratio was stable in the late 1990's but deteriorated significantly in the early 2000's reflecting the inability of the sector to adjust employment levels to the worsening business environment of 2001-2002 and the consolidation of the largest bank (despite worsening balances, the Bank's strategic investor was bound not to layoff staff in the initial years of its operation). The sector was still consolidating in 2003. The ratio has fallen significantly in the last two years as the financial sector performance continued to improve.

There is no national definition of low wages hence our analysis is based on the LFS data on earnings brackets of employed persons where low wage incidence is regarded as net wage below MKD 8,000 per month, or around 60% of the national average. Around 29% of the employed in 2006 received wages below MKD 8,000. However, additional 3% of all employed did not receive wages and additional 11% were unpaid family workers. This brings the total of workers affected by "low wages - broadly defined" to around 43% of all employed, which is a rather high percent with a large consequences on the social security system both from the aspect of workers (insufficient security and low living standard) and of the government (high outstanding obligations for financing of the system).

Indeed, the World Bank Poverty Assessment for Macedonia for 2002-2003 found that around 20% of the poor people in the country are working poor (a ratio that appears to have been stable since). This percentage is higher in secondary urban and rural parts of the country (around 25%) and slightly lower in Skopje (15%). The main determinants of low pay seem to be poor educational attainment and employment in low productivity sectors.

Most of the low wage earners, or around 36% of the total, are employed in the manufacturing sector. Additional 16% work in the retail and wholesale trade sector and an equal percentage in agriculture. As expected, 91% of unpaid family workers are employed in agriculture.

Analysis of the sectoral composition of employment in 2006 suggests that about half of the workers in the manufacturing sector are low wage earners, followed by the trade (40% of workers receive low wages) and hotels and restaurants sector (39%). As expected, financial intermediation is the sector with the lowest ratio of low wage earners (5%).

According to the occupational structure of low wage earners, workers with elementary skills, typically workers with completed only primary education or 2,3- year Vocational Education and Training (VET), are the most affected by low wages and account for 28% of all low wage earners. Additional 21% are machine operators (typically secondary VET background) and 18% are workers providing trade and other similar services. Wage arrears and employment as unpaid family work are also most typical for workers with elementary skills.

Labor legislation in the area of wage setting is broadly in line with international experience but implementation is lagging. Collective agreements allow for setting of wage levels including minimum wages and wage grids. There are two national (general) collective agreements, one for the public and one for the private sector as well as a number of sector-specific collective agreements. Moreover, wages and wage grids for certain employment sectors can be determined by specific laws such civil servants, army etc. Following the adoption of the new Labor Code in 2005, all collective agreement had to be re-negotiated in order to be in line with the Law. General Collective Agreement for the private sector was signed in mid-2006 while the one for the public sector was agreed upon only in early 2008. Around 30 additional sector-specific collective agreements have already been signed. Social dialogue including the process of collective bargaining is in detail explained in section 9.1, but protects small firms (1-10 employees) from undertaking responsibilities defined in the industry specific collective agreements.

As already explained, provisions of collective agreements are applicable only to parties of the agreement, meaning that even if stipulated, minimum wages and wage grids are not necessarily binding to the entire economy. This largely limits the effectiveness of collective bargaining in the private sector.

The minimum net wage for the public sector was set in 2006 at a rate of MKD 5,040 (or around EUR 85) per month which was most recently (with the newly signed General Collective Agreement for the public sector) increased by 10% and currently stands at about EUR 90. At the time of introduction, the minimum wage in the public sector was set at 37% of the average net wage in the economy and currently equals around 36% of the average net wage. There are no provisions for automatic adjustment of the minimum wage in response to price or market developments. Given that the absolute poverty line per capita in 2006 was around MKD 37,000 per year, that is about MKD 12,400 monthly households expenditures, and taking into account that an average Macedonian household consists of 4 members of which 1 is employed, the minimum public sector wage is insufficient to protect household of poverty.

Though, there is no statutory minimum wage for the private sector, the minimum wage can also be negotiated as part of a separate settlement between employers' and union representatives. There has been a little progress in the establishment of the minimum wage for the private sector. Union representatives pushed for setting of a minimum wage for the entire private sector in the collective agreement. In contrast, employers' organization had a view that the minimum wage should be defined by sectors arguing that a high minimum wage on a national level might increase production costs and reduce the competitiveness of the low-pay sectors, whereas if set on a low level, it would be meaningful for high-pay sectors. The view of the employers' organization prevailed so that the signed General Collective Agreement for the private sector did not include a reference to a minimum wage for the entire private sector. As a result, minimum wages should be set a sector levels. However, so far, only the minimum wage for few sectors has been established. In the construction sector it has been set at MKD 5,200 or around 50% of the average wage in construction, while in the textiles it has been set at MKD 4,500 or around 65% of the average wage in this sector. There is no evidence that setting a minimum wage has resulted in a greater increase in wages compared to sectors with no minimum wage. For example, the average wage in construction increased by around 1.3% in 2006 and 5.5% in the first ten months of 2007, well below the national average of 7.3% in 2006 and 7.2% in January-October 2007. It is too early to evaluate the effect of defined minimum wage in the textiles sector.

Inequality has risen over the last decades. Overall, productivity and income increases have been modest over the last decade, though differentiation among sectors increased in favour of sectors with higher productivity. As a result, the Gini coefficient of average household expenditures increased to close to 0.4 in 2006, from 0.32 in 1997. The HBS data does not suggest major regional differences in the Gini coefficient.

The table below shows that inequality has increased over the last decade, though numbers should be interpreted with caution since they are not provided by one source for the entire period. The basis for the calculation of the Gini coefficient is the HBS.

Table 6 Gini coefficient in the Republic of Macedonia, 1997-2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gini coefficient	0.316	0.331	0.325	0.347	N/A	0.375	0.380	0.384	0.381	0.393

Source: Data up to 2000 from National Poverty Reduction Strategy and afterwards from the unofficial World Bank estimates.

Evidence suggesting existence of gender wage discrimination in the Macedonian economy is largely anecdotal. Female workers tend to earn less than males on average but this can be attributed also to other factors (education, experience, job profile) rather than discrimination. The 2002-2003 World Bank Poverty Assessment found that there is no major difference in poverty incidence level between male and female-headed households. There is no data on the wage gap between foreign/domestic firms, workers under work contract/self-employed. Based on the information from the 2006 Private/public salary survey, the wage gap between the public and the private sector is relatively narrow. However, a sub-set of the private sector (private commercial covering multinationals and representative offices) does provide substantially higher wages compared to both the public and the rest of the private sector – by as much as 3 times. Transport and food allowance are typically provided by most employers and in similar amounts. Additional payments to related to shift or night work are much more frequent in the public sector suggesting that private sector employers do not provide these benefits to their employees even though these are stipulated in the Labor Code and collective agreements. Use of non-monetary benefits is not frequent and is mainly in a form of clothes and uniforms (46%), training (26% of employees), subscriptions (9%), mobile phones (7%) and cars and recreation (6% each).

There are no data on wage disparity in Macedonia. As a proxy, one could use wage earnings data from the HBS. According to the 2006 HBS, employed persons in the highest decile earned 3.8 times more compared to employed persons in the lowest decile (according to available resources). This ratio was 4.2 in 1998. The narrowing gap is a result of higher % increase of monthly income of employed persons in the lowest decile compared to the highest decile over the last decade (82% for the employed persons from lowest decile compared to 64% for the employed in the highest decile). However, in absolute terms, the increase in average wages of employed persons in the highest decile was three times higher compared to the wages of employed in the lowest wage decile.

Though men are over-represented among low wage earners (around 54% of all low wage earners and 82% of the workers that did not receive wages are male), only 28% of male workers receive low wage. This percentage is greater for females, 36%.

The composition of wages in Macedonia can be analysed by the bi-annual SSO Labour Costs Survey and the 2006 Private/Public salary survey. According to the 2004 Labour Costs Survey (latest available), 47.3% of total labour costs are the basic net-wage. The next largest item are payroll taxes with 33.7% share in total labour costs: 27.2% are costs for social contributions (health, pension and employment contributions) and 6.5% of the personal income tax. Food and transport allowance together accounted for 11% of total labour costs. These findings are in line with the 2006 Public/Private salary survey. Legal framework also allows for wage supplements for over time, shift-work, night shift work and work on official holidays, as well as supplements related to poor working conditions (accelerated work history accumulation, higher per-hour fees etc.). Performance-based bonus payments are on average only 0.5% of total labour costs. There are only few sectors in which payment of bonuses has been reported and in only half a dozen do they exceed 2% of total labour costs. According to the Public/Private sector salary survey, only multinational organisations and newly established representative offices use performance-based bonuses.

While the Law on Civil Service includes provisions for performance-based determination of part of the wages, its implementation has been postponed several times, with a possibility to introduce it in 2008.

5. Working time and work organisation

According to the ILO (2007), decent working time is also a productive working time⁸. In developed economies, firms are increasingly recognizing that promoting a healthy work-life-balance for their workers is not just the "right thing" to do, but it is also a powerful tool for raising competitiveness through increased productivity, reduced absenteeism and turnover, and improved attitude and moral of workers. Unfortunately, this culture is far from developed in Macedonia.

In addition to the working hours, working time arrangements (or flexible work schedules) can be mutually beneficial for workers and firms, as they increase workers' job satisfaction while allowing employers to cope with workload fluctuations and reducing overtime costs.

Regarding the duration of a working week, the Labour Code seems to be strict about the 40 hours (5/7 days) being regular working week (article 116), but then it defines several situations in which working week can last more or less than that. In particular, while the law states that the duration of a working week can be less than 40 hours, which can be set in the collective agreement, it cannot be shorter than 36 hours. The law states that other laws, by-laws or collective agreements can set the working week to last less than

⁸ Since there are no available data in the Republic of Macedonia on working rhythms and stress at work, qualitative information on this area is included in this section.

36 hour for jobs with health and safety issues. A novelty in the law was that employers with 25+ employees are now obliged to have an electronic time counting which should capture working time including overtime, in order to prevent employers exploiting workers. The law strictly defines what can be considered as overtime work, though also calls in the collective agreement, and that it can last up to 10 hours a week and 190 hours per year, otherwise the employer should either hire new employees or introduce shift work. In specific circumstances the government, by a decision, can allow a firm to have its employees working longer than that.

Employers are obliged to pay the workers for the overtime and, in a case when the overtime is more than 150 hours per year, and if the employee was absent from work for less than 21 hours during a year, to pay a bonus in addition to the overtime pay.

The overtime work is prohibited for:

- work that can be performed in shifts;
- female workers in case of pregnancy, birth and motherhood;
- female workers with child up to 3 years of age and single parent with child up to 6 years, except in a case that a worker gives statement that is willing to accept the overtime work;
- older workers;
- workers up to 18 years of age;
- different categories of workers with health problems or a treat of low health and safety at work.

In reality, workers can sign statements of willingness to work overtime under the pressure of employers, fearing they might lose their job, etc.

The law regulates the possibility of employers to use flexible working time (so called temporal flexibility), which in 6 months, will be averaged at a 40 hours working week.

For the first time, the Labour Code defines the night work as a work between 22.00p.m. and 6.00a.m., whereas a worker is said to work night shift is s/he works continuous eight hours between 22.00p.m. and 7.00a.m. The law prescribes special safety for workers working at least 3 hours of their daily work as a night work, or one-third of their annual working time. Workers with health problems cannot work at night. Employees working at night have benefits in terms of longer break, better food and regular medical exams. There are other constrains to the night work, its total duration per week, per month, etc. According to the law, the employer should consult the union organisation at the firm level or workers' representative for the time of work, work organisation, safety at work, social protection, etc., before introducing the night work. The Labour Code also regulates night work of female workers in industry and construction, requiring a minimum rest of 7 hours between 22.00p.m. and 5.00a.m., except in special conditions.

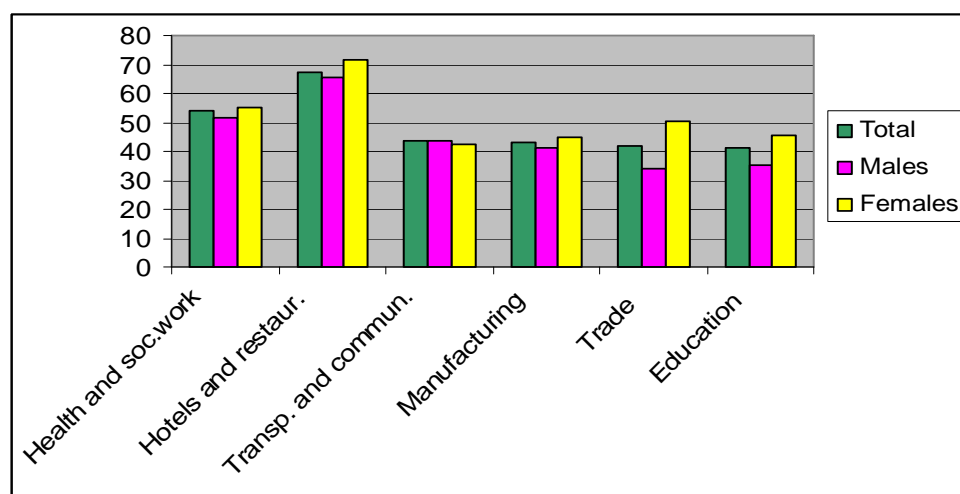
Besides the regulation in the area of working time, night shifts, etc, what is more important for our analysis of whether workers in Macedonia have a decent work, is the implementation of the Law. As we already mentioned, though the 2005 Labour Code is improved and more in line with the acquis, there are still not clearly defined concepts and rights which creates problems in implementation. There are two further problems that hamper the decent work concept. First, the capacity of Macedonian institutions (mainly the Labour Inspectorate) to oversee the implementation of the law is rather limited. Second, because of the high unemployment and low probability of finding employment, workers themselves do not report misconduct of employers and even agree on non-decent work conditions. While the Labour Code will be soon improved (with the new CARDS 3 project and a twinning project for further harmonisation of national legislation with the acquis, both starting in 2008) and the capacity of Labour Inspectorate increased (the Government just allowed the Inspectorate to hire new staff), it will take time for the awareness of workers for their rights to rise.

The Labour Code also regulates a minimum of 12 hours rest between two working days/shifts, and a minimum of 24 hours, continuously, during a week. The rest day is by default Sunday, though for some objective, technical or organisational reasons, the rest day can be some other day. Workers have a right to a half hour paid break during the working day, hence working day in Macedonia lasts 8 hours in total.

Unfortunately, there are no readily available data in Macedonia on shift work. The 2004 LFS used an additional questionnaire on shift work, and hence here we present main findings from that survey, but we cannot analyse the trend in the use of shift work.

Data show that, on average, 34.8% of all employed workers work in shifts. As usual, shift work is mainly concentrated in hotels and restaurants (67.3% of workers in this sector work in shifts), health and social work (54.1%), transport and communications (43.4%), manufacturing (43.2%), trade (41.6%) and education (41.2%). Whereas the share of male and female workers working in shifts is almost the same, 34.7% and 34.9% respectively, there is a difference in the sectoral distribution of shift work.

Figure 10 Shift work by gender and sectors in 2004

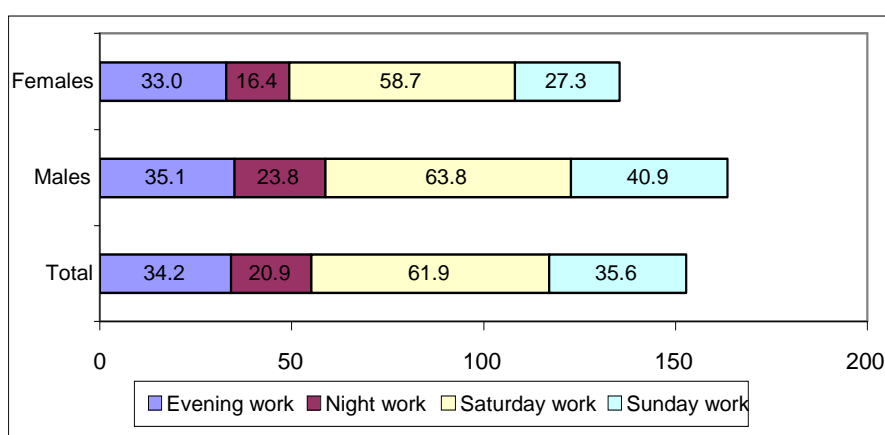


Source: LFS 2005 (data are from 2004 LFS questionnaire, published in the 2005 LFS).

As Figure 10 shows, females that are employed in hotels and restaurants' sector, health and social work and trade are most likely to work in shifts. The share of females working in shifts is greater than that of males, in the following sectors: trade (by 16.5 p.p.), education (10.3 p.p.), hotels and restaurants (6.2 p.p.) and health and social work and manufacturing by 3.8 p.p., all of which are usual female-dominated sectors, with the exception of manufacturing sector. High share of female employment, as well as shift work in manufacturing is due to the developed textile industry which employs little over 40.000 (predominantly) female workers. This sector is under strong competitive pressures from main international producers, China and Pakistan, which is probably reflected in the working time and organisation, overtime, night work, shift work and weekend work. Workers in this sector are paid low (official) wages, from 40-80% of average monthly net wage, though they are most likely to receive additional, off-the-record wages. By paying low official wages, employers make savings on payroll taxes, which will result in low pensions and social security of textile workers in future.

The high share of females working in shifts (the same as males) might indicate that, given the lack of job opportunities and declining living standard during transition, females cannot reject any job offer, even if they might face difficulty in performing their family roles and working.

Figure 11 Incidence of specific working time, gender dimension



Source: Author's calculations based on the LFS 2005.

Note: The categories are not exclusive one from another.

Regarding the unsocial working hours, again, data are available only for 2004. Figure 11 shows that 34.2% of all employed workers in 2004 were likely to work at evening, 20.9% worked at night, 61.9% were likely to work at Saturday and 35.6% on Sunday.

Data show that despite that there is a slight gender difference in the probability to work with specific working time, females are disproportionately hurt by such work rhythms given that they bare the bulk of the child raring and home work.

In particular, 33% of females work at evening, and as much as 16.4% at night, whereas 58.7% work on Saturday. These high percentages might reflect high female employment in textile industry, along with our discussion above.

It is also important whether specific working hours do happen regularly, or occasionally, say in high pick season, or similar. About 46% of all reported evening work is usual evening work (the rest is occasional evening work), 39% of night work happens regularly, the same holds for 61% of Saturday work and 40% of Sunday work. Unfortunately, there are no cross-cutting data on the sector of employment and specific working time.

According to the LFS, 25% of all workers⁹ in 2004 had flexible working hours, defined as flexible starting and ending time of the working day. Flexible working hours are mainly used in agriculture and fishery, but we are more interested in the possibility to work flexible hours in "regular" jobs. Here, flexible working hours are most common for hotels and restaurants (25% of all workers employed in this sector can use possibility for flexible starting and finishing time), construction (23.5%), transport and communications (22.9%), culture and personal services (21%) and trade (20%).

Females that work in agriculture, manufacturing and hotels and restaurants are more likely to have flexible working time than males in respective sectors, whereas the highest share of flexible working hours have males employed in fishery, agriculture, utilities, culture and personal services, transport and communications, etc.

Though transition process have been painful and stressful to many workers, mainly those that lost their jobs, in recent years, a new categories of workers at risk emerged. These include white-collar workers, or managers in successful Macedonian firms and international firms operating in Macedonia, who have high pay but also long working hours, weekend work, permanent stress, and difficulty in balancing work and family. Public sector employees also felt increasing stress at work during transition due to increased workload, long hours, even weekend work, an opposite situation to a 8 hours/5

⁹ Workers with status of employee and unpaid family worker.

days a week work, with long breaks, low workload and low responsibility, characteristic for a "communist" public administration.

The public debate about the working time was initiated by the employees and trade unions in this area when, after a period of decline, the apparel industry in Macedonia started to grow, old production capacities were re-started and new ones emerged. This debate, that is still ongoing, but largely limited to the apparel industry, concerns informal employment, regular working time and overtime, including night, weekend and public holidays' work, and wages. Hence, the annual work programme of the Labour Inspectorate includes inspection on labour relation issues in all registered production capacities in the apparel industry. Their findings are then presented to the Economic-Social Council and to the Government. The 2007 findings from the inspections show relatively low number of informal workers (2.7% of total employment), but there are still unresolved issues like overtime, its registration and payment, wage arrears, annual holiday, etc. About 10% of inspected firms, do not respect regulated working time in terms of weekly prescribed rest, rest between two working days and use of annual holiday. In addition, some employers do not respect the collective agreement for 50% higher wage in case of public holiday work. As part of this debate, in 2005, the Labour Code was amended and, *inter alia*, employers got obligation to electronically register regular working time and overtime.

While Labour Inspectorate and trade unions argue for greater protection of workers, reduction of overtime, night, weekend and holiday work, employers organisations call for greater flexibility in determining working time, since they are already penalised with statutory higher wages during public holidays¹⁰. Their arguments are that situation has been much improved over time in terms of informality, that they are facing increased international competition with much cheaper labour, and that there is a insufficient labour supply meaning that employers cannot exploit workers and retain them at the same time. They also argue that the cost of labour increased for the high leave for health reasons (13% of total employees in some factories), absenteeism, increased costs for older women for who the statutory retirement age increased according to the Law on Pension and Disability Insurance, and employers should pay 20% higher wages for the work experience. However, latter arguments show that they are not aware for the link between the working conditions, including working time and wage, and workers' health and motivation to work hard (the well-known efficiency wage theory).

There was a debate or opposition by the public administration trade union when the government changed the working time from 8.00-4.00p.m. to 8.30a.m.-4.00p.m., with an argument that we need to gradually adopt to the EC working time in order to ease communication between the institutions. However, the government backed up under the pressure from trade unions to further extend the starting working time to 9.00a.m.

In general, the debate has several sides that are the need for more free time, better balancing of work and family life and greater international competitiveness. These influences both labour demand, working arrangements and types of working contracts, as well as labour supply. In addition, there is an issue or obligation of harmonisation of labour legislation with the EU acquis. Once the strength and capacity of social partners increase and social dialogue improves, more issues regarding working time and organisation would emerge in the public debate.

¹⁰ Information on overtime work in apparel industry submitted by the Labour Inspectorate to the Economic-Social Council, November 2007.

6. Safety and health

Occupational Safety and Health¹¹ (OSH) is a constitutional category, with status of a basic right, which is in the group of constitutionally guaranteed economic, social, cultural and humanitarian rights. In particular, Article 32 of the Constitution states that every citizen of Republic of Macedonia have "...right to work, free employment opportunity, occupational safety and health (protection at work) and material security during the time of temporary unemployment."

The OSH regulation in Macedonia exists for more than 40 years, from ex-Yugoslavia. After a period of status quo in this area, in recent years there has been a progress. In particular, in December 2004, the anachronous and inadequate legislation in the domain of occupational diseases was updated according to the EU (Commission recommendation of 19/09/2003 concerning the European schedule of occupational diseases) and ILO documents. This List of Occupational Diseases with new methodology and open approach was endorsed by the MLSP and published in the Official Gazette No. 88/2004.

In addition, in 2007 a new Law on Health and Safety at work replaced the 1998 Law on Occupational Safety and Health. The law was prepared by the MLSP and the Labour Inspectorate, and was discussed at the Economic-Social Council. The new Law, fully transposes the European Directive 89/391/EEC, and regulates formation of consultative OSH body, establishing legal framework to implement the National Strategy for Development of the OSH.

According to the Law, the OSH is considered as an elementary part of the work organisation and work process, hence it is applicable to every employee (male or female) and to every working process regardless the type and complexity of the work. The OSH is obligation of the employer, who is also responsible to provide safe working conditions in his/her working environment. With this Law, an employer is obligated to:

- plan and manage OSH in the working environment;
- organise OSH;
- provide professional training to all employees for safe and independent work;
- examine and test: working tools, biological, chemical and physical hazards and microclimate in the working environment;
- contact accredited occupational health institution for preventive health surveillance, medical services for occupational diseases, first aid, risk assessment, education and training of employees, consultations for employers etc.

According to the new Law on Health and Safety at work, the Ministry of Health and MLSP delegated a responsibility for preparation of a methodology for health screening and health surveillance of workers from the experts' team of the Institute of Occupational Health, WHO (World Health Organization) Collaborating Centre. The methodology should focus on the specific workplace health demands and specific occupational risks in order to better align work responsibilities and workers' physical and mental health.

For the first time in the Republic of Macedonia, the Law introduced a new institution, workers' OSH representative, elected by the workers, who can be in the same time a Union representative.

The OSH issues are also regulated in other specific laws, such as the Labour Code, the Labour Inspection Law, Law on Pension and Disability Insurance, Regulation(s) on insurance and/or compensation for occupational accidents and diseases, etc.

¹¹ The analysis of the OSH regulation, implementation and data presented in this study is based on the findings from the National Occupational Safety and Health profile report in the Republic of Macedonia, 2007, prepared by Mr. Milan Petkovski, at the request of the International Labour Organisation, Budapest Office (ILO-CEET). The author has benefited from very useful comments and updates of Prof. Jovanka Karadzinska-Bislimovska, Institute of Occupational Health - WHO Collaborating Centre.

In May 2006, The Government of the Republic of Macedonia adopted a national OSH policy document "Strategy for health, healthy environment and safety at work in the Republic of Macedonia" prepared by the Ministry of Health, revised and supported from all key stakeholders in OSH domain (relevant ministries and governmental agencies, inspection services, health and industry sector, experts in OSH, employers and employees representatives, Macedonian Academy of Science and Art, University and relevant NGOs). This Strategy is the first official policy document concerning OSH issues in the Republic of Macedonia giving common approach of all key partners in this area: intersectional cooperation, partnership and multidisciplinary work. The Strategy explains current OSH situation as a reflection of the economic situation in the Republic of Macedonia, that is the dominance of old technologies, use of old equipment and machinery, inappropriate safety measures on the working place.

The basic principles of the Strategy are related to:

- Primary prevention and safe technology;
- Innovation and harmonisation of legislation and standards in OSH;
- Optimisation of work conditions;
- Integration of all measurers and activities in OSH;
- Tripartite system (Government, employees, employers);
- Cooperation between employees and employers;
- Right of workers to be informed on OSH issues and to participate in the decision making in this area;
- Permanent follow up and promotion of the protection and safety of the health at work with development of an informational system.

The objectives of the Strategy should be implemented through the stakeholders' partnership, new mechanisms for efficient social dialogue, tripartite system, voluntary initiatives, agreements and strengthening governmental stewardship function.

There are several problems in real implementation of OSH regulation:

- administrative capacity, including that of the Labour Inspectorate, is insufficient (in terms of staff, equipment) to ensure proper implementation;
- there are still some ILO conventions in this area that are not yet ratified by the Republic of Macedonia;
- the related acquis has not been yet fully implemented;
- insufficient knowledge and awareness of both trade unions and employers' organisations on OSH issues, legislation, rights and obligations;
- lack of accurate data probably due to the inadequate reporting system despite the recent improvement in this area;
- high informal employment where OSH standards are by default not respected.

The 2007 Progress Report welcomed the adoption of the new Law on Health and Safety at work, noticing that the degree of alignment with the acquis remains to be confirmed. In addition, the EC notes that the implementation depends on the administrative capacity of institutions, including that of the Labour Inspectorate, which has to be improved.

Regarding incorporation of international OSH standards, many ILO conventions have been ratified by the Social Federative Republic of Yugoslavia, and Republic of Macedonia as a successor undertook obligation that these Conventions to be ratified into national legislation (see Table A5). However much of the Conventions still need to be ratified and no specific plan exist for their ratification, mainly because there is no real pressure for doing so from trade unions.

Regarding the EU Directives, the situation is quite the same but there is a significant pressure coming from the EU to implement relevant directives. However, the capacity of the MLSP for transposing the legislation is low and there is no separate body within the

Ministry which will deal with these issues. This obligation is left to the Labour Inspectorate, which should implement the OSH regulation rather than endorse it.

State Labour Inspectorate is the main implementing body of the OSH standards. It performs inspection in terms of detection of an infringement of law or a regulation in all industries, except in mining, where the supervision is carried out by the mining inspection. Table 7 presents basic facts about the Labour Inspectorate.

The coordination between the state Labour Inspectorate and other inspectorates which have common competencies regarding safety at work is carried out as a joint inspections, though there is no common coordination procedure.

According to the current legislation in Macedonia, besides the health and disability insurance contribution, employers pay additional insurance for occupational health for their employees which is 0.5% of the gross salary. These funds should cover medical expenses for employee who suffered injury at work or occupational disease and are transferred to the medical institution for medical treatment and rehabilitation concerning injury at work or occupational disease.

Table 7 Facts about the Labour Inspectorate

Total number of staff in labour inspection services	109
Number of inspectors	101
HQ versus total staff (%)	8%
OSH versus employment inspections (e.g. 100:0, 50:50, 45:55...)	34 OSH: 67 LI
Percentage of economically active population covered by labour inspection services	65%
Inspectors/1,000 enterprises	0,7
Inspectors per 1,000 employees	0,19
Inspections/1,000 workers/year	57,36
Visits by one inspector per year	297
Inspectors per computer	2
Internet access?	Only in HQ
Inspectors per office car	2
Own car used?	No
Own car use remunerated?	No
Inspector salary versus minimum wage (number of time more than minimum wage)	1:1.7
Inspector salary versus private sector salary (worse, same, better?)	Same
Average age of inspectors	45
Annual report produced for public (yes/no)	Yes

Source: Macedonian National Occupational Safety and Health profile report, 2007.

There are also cases in which trade unions in the companies, or the company itself buys so-called collective insurance from Macedonian insurance companies, which covers:

- financial compensation in case of death as result of an injury;
- financial compensation in case of disability;
- financial compensation in case of death as a result to an illness;
- expenses related to the medical treatment or for the daily stay in the hospital (optional).

Specific occupational health activities are performed by the Institute of Occupational Health, WHO Collaborating Centre and Occupational Health Services (public and private). The Institute of Occupational Health, a WHO Collaborating Centre, as a main national institution in the area of occupational health plays an important and leading role in educational, scientific and specific health care issues in the Republic of Macedonia. The Institute is a member of the Global Network of WHO Collaborating Centres in Occupational Health and is responsible for implementation of specific WHO program activities at national and international level.

The Occupational Health Services from primary care facilities - Health Centres are more oriented towards curative than preventive specific occupational health care, more occupational medicine than modern OSH. Macedonian Society of Occupational Health and the Institute of Occupational Health have made strong efforts in the last few years to give positive input to the OSH reform activities and to establish the basis for a new OSH model. They have been supported by the Ministry of Health, MLSP and WHO/EURO.

Several associations exist in the area of OSH Macedonia but very few are active. At the moment the most active in the fields of OSH is Macedonian Occupational Safety and Health Association, Association of OSH engineers and OSH Specialist and Macedonian Society of Occupational Health. Their main activities are focused on promotion of OSH and raising awareness of the general population. This is achieved through various approaches among which are campaigns, direct OSH projects in Macedonian companies for improvement of the working conditions, public appearance, seminars and workshops, lobbying by international organizations. For example, starting from 2004, Macedonian Occupational Safety and Health Association has delivered two separate sessions to the managers from the Garment industries, mainly describing benefits of conducting OSH measures and standards. The training was provided to 20 employers.

So far, none of the employer's organisations (currently existing three) does not focus on the OSH issues. Hence, they do not have specially designated personnel who will work on the OSH issues, or promotion of the OSH as a social and economical benefit to firms and the country.

The Association of Trade Unions, that is the (at least thought to be) representative trade union, has its own Centre for Education responsible for organizing and delivering trainings to its members. One of these training sessions, related to OSH, was delivered with the cooperation of Macedonian Occupational Safety and Health Association when more than 300 workers-OSH representatives were trained on the OSH basics, their roles, rights and responsibilities according to the OSH Law.

An inadequate activity of trade unions in the area of OSH is probably result of the relatively poor economic situation in the country and high informal employment, where rising the issue of OSH or implementation of OSH standards would increase costs for workers and might further depress labour demand or cause firings. The interviews with the employees from different industries showed that there is very little knowledge on OSH rights and obligations both on employees' and employers' side.

Started operations of well-established international companies who are perceiving OSH as a very important segment of a successful and profitable working, might improve awareness and implementation of the regulation, though the unionisation of workers in these companies is low.

On a national level, OSH issues are discussed at the Economic-Social Council. Collective agreements cover several rights and responsibilities not covered by the Labour Code or other relevant laws, such as:

- employer, within the collective agreement signed at the employer's level, has to provide needed OSH conditions, define working positions where increased danger from injury exists, and conditions that workers has to meet in order to work in such positions, as well as to insure such employees according to the existing laws and regulations;
- employer is obligated to provide employees with medical examinations for diagnosing professional and other diseases and their effective treatment related to the working conditions and health conditions of the worker;
- each worker is responsible during work to use all personal protective equipment and to follow the OSH rules and instructions;
- trade union has a right and obligation to participate in the process of conducting OSH measurements, and give employer an opinion regarding the planning and

promotion of the working conditions when new technology is implemented into the working process; continuously to be informed about the OSH conditions in the working environment and in cases of their violation to report it to the OSH inspectorate.

Reporting system and available data - According to the Law, employer has obligation to report within 24 hours every serious accident, every collective accident (where many people are injured) and every death as a consequence to a work related injury to the Labour Inspectorate. Occupational medicine specialists diagnose occupational diseases according to the List of occupational diseases and refer the patients to the Institute of Occupational Health for expertise. The Institute of Occupational Health registers occupational diseases. In certain cases, the Labour Inspectorate receives information on serious injuries and cases of death at work from the Ministry of Interior. When a worker is injured at work, 8 identical samples of the Form for declaring work related injuries are filled in by the company and the doctor that made the examination (1 for the patient, 1 for the enterprise, 6 for the Health Insurance Fund which further distributes forms to: the State Statistical Office, Institute of Occupational Health and National Institute for Health Protection).

Incentive for improvement of reporting system and capacity building in this area is due to the ESAW (European Statistics for Accidents at Work) project. It aimed at implementation of the methodology and recommendations of the EUROSTAT in the area of accidents at work. The State Statistical Office together with the National Institute for Health Protection, Health Insurance Fund and the Institute of Occupational Health implemented a statistical research on accidents at work in 2004 and 2005. The results reflected the current situation of registering, reporting and evidence of accidents at work in the Republic of Macedonia and defined critical points. The report on the statistical evaluation offered conclusions valuable from different aspects in promotion and implementation of ESAW methodology of EUROSTAT for accidents at work in the country.

Minor work-related injuries, when there is no need for absence from work, are not declared.

Company has itself an obligation to keep records of every injury at work, disease and accidents. However, experience shows that many of the companies do not have these logs and many of the non-fatal injuries at work are not reported to the authorities by the firm. As we already explained, because of high unemployment and fear to be fired, employees and trade unions do not rise this issue. In addition, high grey economy leads to further underreporting of injuries and occupational diseases. Hence, underreporting is a major issue.

Table 8 shows high decline in the number of reported injuries between 1995-2005, in all sectors, though these are limited data to judge for the improved OSH conditions: some methodological or organizational changes might influence such large decline.

Table 8 Reported injuries for the purpose of disability insurance

	1995	2005	% change
Total	4251	1957	-54
Industry and mining	2491	975	-61
Agriculture	306	24	-92
Forestry	120	44	-63
Construction	534	223	-58
Transport and communications	199	158	-21
Trade and services	93	38	-59
Craft	37	14	-62
Other	471	481	2

Source: State Statistical Office, Annual Report.

Currently, there are further ongoing activities in the area of OSH. In particular, there is a change in the methodology for monitoring of occupational diseases: their verification (new national criteria), enlisting, evidence and registration of occupational diseases, as well as coordination with the EU in this domain (implementation of the EODS - European Occupational Diseases Statistics - methodology. Furthermore, a new design of the Register for Occupational Diseases is under preparation by the Institute of Occupational Health. In addition, each occupational disease has to be recognized and registered by the Institute of Occupational Health in order to be compensated by the Commission for work ability assessment in the Pension Insurance Fund. The Institute of Occupational Health has a record of all medical data for the recognized occupational diseases.

7. Access to training

An important component of the decent work is the (right to and opportunity of) access to training. From an employee point of view, training and life-long learning improve quality of employment (the consumption component of education and training), improve employment security since the worker become more valuable to the firm, and to the extent it increases worker's productivity, increase wages. On the other hand, training increases knowledge and productivity of workers, leading to higher profits for firms.

The reform of the education system in Macedonia, including vocational education and training (VET), started somewhat later than in other CEECs. Moreover, reforms were partial and non-coordinated, often shaped by the donors or international community views. The education system is still over-centralised, inflexible to changing labour market needs and suffers under-investments in materials and buildings. Hence, it faces important challenges.

Initial vocational education and training (VET) in Macedonia starts after primary education, i.e. parallel with general secondary education and may last two, three or four years. Two-year VET programmes are usually organised according to the labour market situation, however, with the introduction of PHARE VET reform, they began to be phased out in favour of three- and four-year VET programmes. Three-year VET programmes exist in most vocational schools. After completing this type of education and fulfilling the conditions prescribed by the curriculum in the appropriate vocation, students may enrol in the four-year programme. Four-year VET programmes are the most attractive for vocational education and training. Students complete secondary education (general secondary education and four-year VET programmes) with the Matura examination, qualifying for entrance to higher education institutions.

Part of the reforms was revision of VET profiles and curriculum, to improve their alignment to the changed economic structure and demand. In particular, though in the communist period an emphasis was put on VET, restructuring of the economy led to a high skill mismatch between acquired skills and demanded ones. The share of enrolment in VET in total secondary education enrolment steadily declined from 80% in 1990/91 to about 60% in recent years. Currently, the VET system covers 25 occupational clusters corresponding to 238 educational profiles, of which 42 (downsized from 80) require four years' education, 90 three years and 50 two years.

The relation between initial VET and continuous VET (CVET) is still very weak and there is hardly any provision for post-secondary VET and CVET. Both three- and four-year VET courses fall at level 3 of the International Standard Classification of Education (ISCED). There is almost no VET provision at ISCED level 4 and the ISCED 5b system (applied higher education). The four-year VET courses should prove continuity to post-secondary VET courses, rather than to higher education. Besides the needed reforms in the VET, much more attention needs to be paid to adult learning, as the latter shows the

biggest gap in the education system. However, the Law on Adult Education has been adopted just recently.

In 2006, the Government adopted the Law on VET (Official Gazette No. 71/2006). The Law regulates organization, structure and management of the VET system in the Republic of Macedonia. The Law, for the first time, defines specific terms and structures of the VET. The Law defines following responsibilities of the Ministry of Education and Science:

- to determine the institutional VET network;
- to inspect VET institutions;
- accreditation of institutions that will train VET staff;
- design national standards and programmes;
- inspect employers for the compliance with required conditions for the practical training;
- defines the list of occupational standards for VET, etc.

The Law also defines the responsibilities of the MLSP for active participation in setting the national VET policy, carrying labour market analyses to see whether there is a need for certain specific types of vocational education, for participation in determination of the list of qualifications, etc.

The Law prescribes establishment of an advisory body called VET Council, with a Government decision. The Council consists of 11 members, 3 from the Ministry of Education and Science (one has to be from the Bureau for Development of Education), by one representative from the two chambers of commerce, by one member from the MLSP, Ministry of Economy, Ministry of Finance, the representative trade union, Organisation of the local self-governments and the Employment Service Agency (ESA). Given this structure, the Council has a potential to improve integration between labour market and education system and ensure that education and training keep pace with changing economic environment.

Despite recent improvements in the area of curriculum design and involvement of all relevant parties in the policy design, there is a poor implementation record. In particular, almost one and a half year after the adoption of the Law on VET, the VET centre is not operational yet, though is established and equipped with the staff, and the VET Council is not yet established. In addition, further reforms are needed in terms of ensuring greater flexibility and decentralisation in the provision of the VET to meet local needs of labour market (ILO and Council of Europe, 2006). Development of continuous CVET and adult education is also lagging behind, a national system of qualifications needs to be established and the private market for provision of non-formal education (including VET) should be regulated.

It is difficult to assess the access to and availability of training, sources of funding, etc. in Macedonia since there is no specific information in this area. There are some previous studies by the European Training Foundation (ETF) and, starting from 2005, there is a LFS module on life-long learning. The module does not provide all the necessary information, for example, who pays for the training, the use of training by industry, etc. and we cannot analyse development during transition. Hence, part of the analysis presented in this section is based on indirect indications and experience.

The ETF (2003) found that the participation of adults (aged 25–64) in education and training is comparatively low at only 1.9%. The study explains such low participation in training by the lack of a mechanism for motivating employers to invest in training and their low awareness that training has a direct influence on productivity and output. As a result, only a small number of enterprises, usually foreign owned, train staff regularly. The private training market is underdeveloped (since there is insufficient demand from firms) and represented by a few consultant companies offering language and IT courses.

Then Labour Code does not regulate employees' rights when it comes to training, except a possibility for employer to offer training or pre-qualification to worker(s) to be fired. An employee cannot initiate activity for additional training; all is left to the employer's will to invest in staff training.

Data from the 2006 LFS, give similar picture (see Table 9). About 1.9% of employed participate in the formal education system, whereas 1.7% in non-formal education (courses, seminars, conferences and other educational activities). Along the gender lines, females are more likely to undertake education, both formal and non-formal. Job related reasons for participation in non-formal education dominate for both genders.

Besides the reasons explained in the ETF study, the very low participation of employed in training and other non-formal educational activities is due to the large grey economy, about 35% of employed. That implies that about 200,000 employed do not have access to training (as well as to social security system). But even for the rest of the workers, participation in non-formal education would be 2.6%. One might expect that once the structures and regulations are established (and well-known international firms start operating in Macedonia), the supply and demand for training would increase.

Table 9 Participation of workers in formal and non-formal education, 2006

	Total	Men	Women	Total	Men	Women
Employed	570,404	351,974	218,431	in %		
Formal education	10,888	5,793	5,095	1.9	1.6	2.3
Non-formal education, of which:	9,584	4,691	4,893	1.7	1.3	2.2
Job related reasons	6,463	3,286	3,177	67.4	70.0	64.9
Private reasons	3,041	1,404	1,637	31.7	29.9	33.5
Employment programme for unemployed	80	0	80	0.8	0.0	1.6

Source: LFS, 2006.

In addition to the informal employees, temporary, part-time and fixed-term workers are likely to exhibit limited access to training. Given that young and female workers are over-represented in such flexible work contracts, this might reveal their further disadvantage because lack of training will reduce their promotion prospects relative to other, full-time employees.

The training for unemployed individuals is provided by the ESA and consists of vocational training and general education in IT skills and foreign languages. Vocational training is solely a demand-driven, i.e. known-employer-training. Applicant companies are obliged to submit a training programme and contracts of employment for the trainees along with the application on the basis of which the ESA decides on the necessity of the training. Employers are obliged to employ a minimum of 90 percent of all trainees on indefinite time and not to lower the total number of workers on indefinite time for a year after the completion of the training. All training is delivered either by the employer directly or by training contractors, public or private educational organisations, with a certain control from the ESA local employment office. In most of the cases training is provided by the employer as on-the-job training, hence it is not certificated meaning that it has one-time value for the trainees and little market value.

Training may last up to 3 months (1 month for training in the vocation that the worker is already holding) with possible extension in certain cases and, while on the training programme, trainees receive 4,000 denars (about a quarter of the average wage) and are entitled to health insurance and insurance in case of injury at the working place. Employers receive a fix amount of 2,000 denars per worker as participation of the ESA in the training costs and bear the costs for transport and food for trainees.

However, besides the immediate effect, there is no monitoring and follow-up evaluation of training. This training is of small scale: in 2007, 2942 unemployed persons participated in such training (0.8% of registered unemployed), of which 60% were afterwards employed (87% of those that completed the training). In addition, within the Job Clubs, 2763 registered unemployed were trained in foreign languages and IT skills in 2007 (0.76% of all unemployed). Hence, in total, about 1.6% of unemployed have an access to training, which is rather low.

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

Currently, the ESA does not deliver training to meet future employment needs (except languages and IT) probably because given the labour market environment and relatively low demand, completing a training course may not successfully improve the employment perspectives of the trainees. In 2006, it started to implement a skill-needs analysis, which should guide in which areas training is needed in order to reduce the possible skill constraint to the growth. Fortunately, the structures in the VET system are currently being established, and the ESA will participate in the VET Council where they will provide results from their skill-needs analysis, influencing VET programmes.

8. Social protection coverage

The social protection policy in Macedonia comprises two levels: social insurance and social assistance. The former covers: a) pension and disability insurance; b) health insurance; and c) unemployment insurance, all financed through respective contribution-based revenues. The other level of social protection is social assistance funded from general taxes.

The volume of social expenditure might be a good indicator showing the attitude of the state towards its citizens and especially towards disadvantaged people. Social transfers in Macedonia in 2006 accounted for about 45% of total general government expenditures, and about 15.4% of GDP, with expenditures for pension being the major social expenditure accounting for 24% of government expenditures and 8.2% of GDP.

Table 10 Social expenditures by type as % of General Government Expenditures

	1996	2000	2006
Old-age and survivors (pensions)	24.5	24.5	24.0
Employment and unemployment ¹	3.1	2.3	2.2
Health	15.4	15.0	15.0
- health (including disability)	15.7	15.2	15.2
Social assistance (benefits)	4.1	4.3	3.5
- family benefits and measures	n.a.	n.a.	2.7
- other social benefits	n.a.	n.a.	0.8
Total social expenditures in % of GGR	47.4	46.3	44.9
Total social expenditures in % of GDP	17.6	15.8	15.4

1) Including administrative costs of the Employment Service Agency.

Note: There are no available data for 1995 by this methodology.

Source: Ministry of Finance.

As table shows, there has been a modest decline in the share of social expenditures in total general government expenditures in the period 1996-2006, mainly as a result of reduced expenditures on employment and unemployment programmes. Reduction of the number of unemployment cash benefit recipients led to lower expenditures on passive labour market policies.

The contribution rate for the pension and disability insurance is set at 21.2% of gross wages¹², lower than in all New Member States (average about 28%), with an annual contribution ceiling of 300 percent of average wages. The minimum contribution period for pension entitlement is 15 years of service, full-time equivalent, whereas the statutory retirement age gradually (annually) increased from 63 years for men and 62 years for women in 2000 to 64 and 62 years, respectively¹³. However, due to the early retirement schemes widely offered from 1995 onwards in the privatised and restructured companies, the actual retirement age is quite lower.

Low formal employment and high unemployment in FYR Macedonia has resulted in very low pension coverage. The number of contributors in 2005 amounted to 405,542, slightly less than $\frac{3}{4}$ of LFS employed individuals (15-64) and less than $\frac{1}{2}$ of economically active population. This creates the risk that a significant part of the population will reach retirement age with a short pension insurance record and will, thus, be entitled only to very low pension benefits. The replacement rate is about 55% of average wage. Starting from 2008 pensions will be indexed to nominal wage growth (50%) and inflation (50%), according to the amendments to the Law on Pension and Disability Insurance (Official Gazette No. 153/2007). This Law also allows for a discretionary decision of the Government to increase pensions, which can be implemented only until end 2009. Indeed, in January 2008, the Government announced a one-off increase in pensions by 10-20% depending on the level of pension. In the past, indexation formula was changed several times and used mainly (politically) as a way to reduce budget transfers (and hence budget deficit) to the Pension and Disability Fund (PDF) for covering the deficit of the Fund.

In particular, from 1993 (Official Gazette No. 80/1993), when inflation was relatively high, pensions were fully indexed with the average wage growth. Then, from 2000 (Official Gazette No. 24/2000), when stable and moderate inflation was achieved, indexation formula was changed to 20% adjustment with wages and 80% with inflation¹⁴. The adjustment is done twice a year: beginning of the year, with the sum of the increase in wages and inflation in the second semester of the previous year, and mid year, with the sum of the increase in wages and inflation in the first half of the year.

The financial situation of the Macedonian pension system worsened dramatically during the 1990s due primarily to the significant decline in the contribution base on the back of reduced formal employment. This, coupled with the rising demographic challenges (ageing population), early retirement, pervasive evasion and a large informalisation, pressured the Government to initiate pension reforms in order to assure adequate pension incomes for both current and future generations of pensioners. The authorities have begun addressing some of these issues, but further progress is needed to help ensure the long-term sustainability of the pension system (World Bank, 2008).

With the so-far reforms, the pension system consists of two mandatory components. The first, a PAYG pillar, offers defined-benefit pensions based on lifetime earnings history with pre-defined accrual rate. The second, a fully-funded pillar based on the principle of defined contributions, came operational in 2006 (the Law on Mandatory Capitally-Financed Pension Insurance was published in the Official Gazette No. 29/2002 and amended few times afterwards, the latest change being at the beginning of 2008, Official

¹² Pension and unemployment insurance contributions are paid on the contracted gross wage, whereas health insurance contribution on the actual (paid) gross wage.

¹³ According to the report "The 10 Health Questions in the Republic of Macedonia" (www.who.int), the healthy life expectancy (HALE) for males at age of 60 equals 12 years and 14 years for females.

¹⁴ Under the pressure of the IMF to reduce transfers to the Pension and Disability Fund, and hence reduce budget deficit, from 2003 till now, a rather strange indexation formula was used. The amendments to the Law on Pension and Disability Insurance from 2003 (Official Gazette No. 85/2003) defines that pensions are indexed with half of 80% of inflation and 20% with wages. This provision was into force till the newest amendments to the Law with the new indexation formula of 50%:50%.

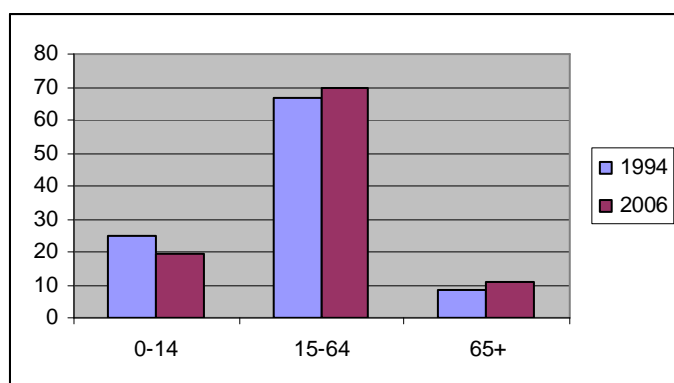
Gazette No. 07/2008. The funded pillar is mandatory for new entrants into the labour market after January 1, 2003 and optional for the rest of the working population. In December 2007, the Government adopted the Law on Voluntary Capitally-Financed Pension Insurance, allowing employed persons to increase contributions and hence future pensions. The Law also allows employers to organise professional pension schemes for all or part of the employees.

The PDF retains the full contribution for individuals who have not joined the second pillar. For those who have joined a second-pillar fund, the PDF retains the equivalent of 13.78% of gross wages and transfers the equivalent of 7.4% to the funded pillar. This causes a “transitory” deficit in the PDF, which is covered by the state budget. In general, contributions account for about 60% of pension fund revenues, with transfers from the budgetary and the extra-budgetary employment fund accounting for almost all of the remainder.

A comparative analysis of the system dependency, that is the number of pensioners per 100 contributing workers, and demographic dependency, the number of people older than the statutory retirement age to 100 people in working age (15-64), show that Macedonian pension system still faces structural problems and that there is a need for further reforms (see World Bank, 2008).

The large number of beneficiaries reflects the relatively young age of exit from the labour market despite (regulatory) increases in the retirement age under the parametric reforms introduced earlier in the decade. During transition, the statutory retirement age was comparatively low, though increased gradually in recent years. Furthermore, the ratio of the employed (in the formal sector) to those in working age is lower than all other countries in the region, almost one-half the 70% target under the EU Lisbon strategy and the 68% average among the EU15 countries. Falling fertility rates¹⁵ and population ageing, the relatively young current structure of the population notwithstanding (see Figure 12), are signals to the authorities to implement further pension reforms to assure the viability of the pension system.

Figure 12 Share of population of certain age group in total population



Source: State Statistical Office, Census of Population in 1994 and Annual Report 2007.

The right of citizens to a health protection is guaranteed under the Constitution of the Republic of Macedonia and is regulated with the Law on Health Insurance (from 2000, amended several times, most recently in 2007, Official Gazette No. 36/2007).

The contribution rate is 9.2% of the gross wage. There are several categories of persons covered with the health insurance, with the aim to ensure full coverage of citizens. These categories include: employed persons, state officials, self-employed, individuals performing agricultural activity, unemployed persons that receive cash benefits,

¹⁵ According to data from the Annual Report of the State Statistical Office, national fertility rate, calculated as children born per 1000 woman, declined from 63.4 in 1995 to 42.8 in 2006.

unemployed persons register in the ESA, if no other basis, foreigners employed in Macedonia, pensioners, etc. In case one of the family members is insured on any basis, all family members (children up to 28 years of age and spouses) can use the insurance.

Despite the ultimate goal of full coverage, in 2006, the coverage rate, calculated as the share of the health benefit insurers in the estimated total population at the end of 2006, was 95.8%. This might be result of “grey” or unregistered emigration, so that part of the (estimated) population lives abroad, but is present in national statistics. Hence the Government is currently considering a reform in health insurance in terms of introduction of basic health benefit package available to all Macedonian citizens, based on the Macedonian citizenship (the ID card), and not connected with their employment, pension and unemployment status. This is believed to ensure universal coverage. In addition, the health insurance will be financed from general taxes, instead of insurance-based. This should reduce the tax wedge, stimulate employment and reduce grey economy, though the idea is still in an infant phase.

The legal basis for the unemployment insurance is the Law on Employment and Insurance in Case of Unemployment (Official Gazette No. 37/1997, with the most recent change in Official Gazette No. 29/2007). Unemployment insurance is provided through the ESA, financed by an unemployment insurance contribution of 1.6% of the gross wage (and by the state budget). At end 2006, about 366,551 people were registered with the ESA with 8.3% (30,572) receiving unemployment insurance cash benefit. These are mainly redundant workers (65% of total) and persons from bankrupt enterprises (20%), for whom, most probably, eligibility will cease only in case of new employment or when they become entitled to a pension. The ESA also pays pension and disability insurance to the PDF for all cash benefit recipients. In terms of health insurance, 248,564 (77.6%) of all unemployed persons were also beneficiaries of health insurance through the ESA.

The rather low proportion of registered unemployed with access to unemployment benefit is due to the strict entitlement conditions that restrict benefits to people who have a sufficient record (minimum 9 months continuous work or 12 months with breaks in the last 18 months) of contributions from work. Hence, labour market entrants and long-term unemployed have no access to the cash benefit. Benefit duration ranges between 3 and 12 months, though maximum benefit duration has been adjusted downwards few times, from 18 months, to 14 months and 12 months from 2006. It depends on work experience prior to becoming unemployed, with a possibility for indefinite duration (till retirement) which, until 2006, was opened to unemployed aged 55⁺ and at least 15 years of experience. In 2006, the criteria became stricter, applying to persons 5 years younger than the statutory retirement age without at least 15 years of service, until reaching 15 years of experience which will entitle them to an old-age pension. The replacement rate (the ratio of unemployment benefit to the average net monthly pay of the worker in the last 12 months) equals 50%.

In recent years, there has been a policy switch from passive to active labour market measures, though expenditures on active measures are still on a comparatively very low level (0.09% of general government expenditures). These active measures include(d) subsidised employment for certain categories of workers (long-term unemployed, labour market entrants), public works, self-employment, especially for single parents, training and prequalification of unemployed¹⁶. Currently, the Government is deciding whether to transfer administration of health insurance for registered unemployed who are actually inactive or grey economy workers to the Health Insurance Fund, until the universal provision of health insurance is achieved. The aim is to substantially reduce the workload of the ESA staff and, thus, allow their greater involvement in active measures.

¹⁶ Operational Plan for Active Policies 2007, MLSP (www.mtsp.gov.mk).

The analyses above shows that, though labour and social insurance laws provide full coverage of workers with the social insurance, high grey employment leaves substantial numbers of employees without social security. The lack of administrative capacity makes room for employers to pay some contributions when paying the wage, and evade others, if they have liquidity problems. In practice, it usually happens that employers (actually employees) prefer to have health insurance paid instead of pension insurance (when they are forced to choose) because workers have to use the former frequently, even monthly, whereas the latter draws future entitlement. Hence, there is a 7-10% difference in the number of contributors to the Health Insurance Fund and the PDF. Unfortunately, such behaviour will negatively influence living standard of workers as they approach retirement.

In order to overcome existing problems, the Government started a reform in the system of social contributions aimed at cutting payroll taxes, fighting the informal economy, enhancing the business environment and reducing unemployment. Reforms should provide full harmonisation of the system of social contributions which is currently rather complicated for businesses because of different basis for calculation of different contributions, creates administrative burden for businesses, is difficult to monitor, and leads to a high tax wedge. In this regard, the Government, assisted by the International Monetary Fund, in 2007 prepared two related strategies, a Strategy for harmonization of social contributions and Strategy for labour taxes reform (actually, payroll taxes), with following goals:

- all contributions will be collected by the PDF because of its relatively good capacity, which will ease control on contributors and likely increase compliance. Latter on, the Public Revenue Office will collect contributions along with the personal income tax;
- calculate contributions on per-hour basis instead per full-time employment: part-time workers pay full-time health contributions, as if they have worked regular 40 hours working week, whereas they pay pension insurance is calculated per hour worked;
- harmonise basis for payment of social contributions: health care contributions are paid on actual wage, whereas pension and unemployment contributions on contracted wage. These will ease calculation and hence reduce administrative burden on firms, but will also ease control over the calculation and payment of the contributions once the PDF collects all contributions;
- harmonise the minimum bases for social contributions, now at 65% of minimum wage, with plans to gradually abolish it;
- introduce a cap on health and unemployment contributions for high earners, which already is in place for the PDF contributions, in order to ensure financial sustainability of the funds and future entitlements.

The system of social assistance in the Republic of Macedonia is regulated by the Law on Social Assistance (Official Gazette, No. 50/1997, amended several times afterwards). The Law defines institutions and organisation of the social assistance system. Social assistance is defined as organised activity from the state for prevention and mitigation of basic social risks to an individual, family or group of citizens (called beneficiaries).

Social assistance in Macedonia comprises of about 30 different programs, such as financial assistance; continuous financial assistance; social financial assistance; financial reimbursement for assistance and care; reimbursement of salary for shortened working hours due to a disabled child care; one-off financial assistance or in-kind assistance; the right to housing; child allowance; and civil' and war veterans' disability benefit. In 2006, expenditures on social assistance equalled 3.5% of total general government expenditures, mainly related to the family benefits and measures.

In 2007 the Government, supported by the World Bank, will consider conditioning of certain social cash transfers (most likely the child allowance and other family cash transfers) on enrolment of children in education. This would probably increase

participation in education of children from socially excluded families and groups and improve their future employment and life prospects and might reduce child labour among Roma population.

According to the MLSP, main medium-term priorities in the area of social assistance are: extending decentralisation, de-institutionalisation, pro-active approach in the area of social inclusion and pluralism in social assistance. Recently, day care centres, kindergartens and elderly homes were decentralised. In addition, municipalities are allowed to design and implement specific social protection measures tailor-made to the needs of their citizens, ensuring the legislation is respected. The effects of decentralisation will provide a guide for the possibility to decentralise additional social services.

Non-institutional social assistance consists of home care and day care centres mainly for elderly, persons with mental disabilities and orphans, as well as elderly clubs. First practical steps towards de-institutionalisation of the Macedonian social system were made in cooperation with the international community, mainly the World Bank and UNICEF.

The legislation introduces possibility for pluralism in provision of social assistance services, that is inclusion of other carriers of social protection than the state, such as private legal entities, individuals and NGOs. This reform should improve accessibility, force competition and raise quality. However, all these reforms are recently being implemented or are currently in implementation hence is too early to assess their effect.

9. Social dialogue

9.1. Legal framework

Social dialogue in the Republic of Macedonia is established on tripartite and bipartite level. The system of social dialogue is based on the International Labour Organisation (ILO) Convention on Freedom of Association and Protection of the Right to Organise No. 87, the ILO Convention on the Right to Organise and Collective Bargaining No. 98, the ILO Convention on International Labour Standards No. 144, and the ILO Recommendation No. 152 on International Labour Standards, the Constitution, Labour Code, other related laws and collective agreements.

Legal context in the area of social dialogue, such as the freedom of association and the right to collective bargaining is determined in the Labour Code (Official Gazette No. 62/2005, with a few minor changes afterwards). The Law regulates the right of employees and employers of association, and the independence of their organizations. These organizations can exist on a firm' and industry' level, which can make a union on a higher level, where the MLSP keeps a register of trade unions and employers' organisations.

The Labour Code protects unionised workers, i.e. it guarantees them same rights as other workers and does not allow their firing in case of strike.

The law defines two types of general collective agreements, for the economy (private sector) and for the public sector. The former is signed between the representative trade union and employers' organisation where representativeness is defined in terms of membership (at least 33% of all workers/all employers in the industry). Public sector collective agreement is signed between the founder of the public institution(s) and the trade union. If there are more representative organisations, they are obliged to form a committee for negotiation. Collective agreements are obligatory for the signed parties and their members (even for non-unionised workers), and they regulate rights and obligations of the parties, but cannot reduce the rights defined in the Labour Code itself.

However, till now, the rather loose definition for representativeness has created problems in the area of social dialogue.

Collective agreement can be signed on a period up to 2 years, and it can also be extended. If the agreement expires and is not extended, it will still be in power until a new agreement has been reached. In case of a dispute, the parties should peacefully find a solution, or ask for an arbitration. New collective agreements and changes should be reported to the MLSP. General and industry' collective agreements are published in the Official Gazette, whereas firm level agreements should be make public.

9.2. Organisation and parties within the social dialogue

Tripartite dialogue - In order to ensure active participation of social partners in the policy design, employees' and employers' organisations participate in different bodies, steering committees, managing boards (for example in the ESA, PDF, Health Fund, the VET Council), etc. In addition, the National Action Plan(s) for Employment (NAPE) has(ve) been prepared within the framework of the social partnership which also holds for the implementation of the NAPE(s). Moreover, the Government and the Association of Trade Unions have signed a social agreement which determines the economic and social issues in the country, priorities and obligations, as well as the course and dynamics of realisation. In addition, social partners participate in ratification of international (mainly International Labour Organisation-ILO) conventions.

In 1996, a permanent tripartite body was formed, the Economic-Social Council, with an agreement signed between the government, trade union and employers' organisation.

Pursuant to the Agreement on Establishment of Economic and Social Council, tripartite consultations are made on economic policy issues and on measures for stable economic development in the following fields:

- economic policy and measures for economic and social stability and development;
- policy of pricing and salaries;
- labour and social security;
- collective bargaining and collective agreements;
- standard of living;
- employment;
- working conditions and safety at work;
- health protection;
- education, culture and vocational training;
- financial/credit and taxation policy;
- pension and disability insurance;
- social and children care.

Besides the above mentioned, the Council shall:

- encourage peaceful resolution of collective labour disputes;
- participate in coordination of work of the social partners collaborating with the International Labour Organisation and other international European institutions dealing with the tripartite dialogue on the national level and the implementation of the international labour conventions;
- develop the mechanisms of tripartite cooperation between the Government, employees' and employers' organisations when dealing with economic and social issues and problems.

The Council has 9 members, 3 representatives from each social partner. The minister of labour and social policy is by default the president of the Council. Decisions are made by consensus, though at a request from the members, decisions can be voted. The public and government are informed about the decisions, opinions and recommendations of the

Council and adopted documents are sent to the government, respective institution and the Parliament. The strength and activity of the Economic-Social Council varied substantially in the period 1998-2006, depending on the strength and leadership of the president, economic and social situation in the country, etc. Indeed, the EC wrote the following in the 2007 Progress Report, Chapter 4.19.:

“There has been no progress in the field of social dialogue which remains very formal owing to the weaknesses of the social partners. The Economic and Social Council met only once during 2006, when the national strategy for employment was discussed. In the first half of 2007 the ESC met three times. The composition of the members of the ESC was not completely in accordance with the labour law provisions, since the representativeness criteria of the trade union representatives have still to be clarified... This has also a very negative impact on bipartite social dialogue... The definition of representativeness criteria therefore currently hinders the development of social dialogue structures.”

The tripartite dialogue on a local level (or decentralised collective bargaining) is still underdeveloped, though it is regulated by the law. Here, the tripartite body should include local representatives, and its main role is to stimulate the local development and to serve as a service to local employers, employees and unemployed persons.

Bipartite dialogue - The bipartite dialogue functions on a firm level, industry level and on a national level between employees' and employers' organization, for the private sector, and between the government and the trade union of public sector employees, for the public sector. Currently, within the bipartite dialogue, two general collective agreements, 31 industry collective agreements, and collective agreements on employer's level have been signed. At the beginning of 2008, after four years of negotiation, the Government finally signed the collective agreement with the trade union of the public sector employees, opening a possibility for increase of travel and food allowances and increasing the public sector minimum wage by 10%.

9.3. Current situation

Whereas in the communist period, there existed only one trade union and employers' organisation, at a national level, during transition this area has been “liberalised”. In 2006, the major trade union is the Association of Trade Unions that was established in 1994 and consist of about 17 industry' trade unions, mainly established in the period 1994-1998. The Association consists of 31 regional trade unions, without a status of a legal entity, covering interests of the industry trade unions. In addition, 12 more national trade unions are registered in the MLSP.

Until recently, there was a general misunderstanding about social partners in that chambers of commerce were considered as employers' organisations. With an ILO support and training, this problem was overcome and new employers' organisations were formed, mainly from representatives of the chambers of commerce. Currently, there are three employers' organisations registered in the MLSP. Representatives from two of these employers' organisations currently participate in the Economic-Social Council, Macedonian Organisation of Employers and Confederation of Employers.

Currently, social partners, together, supported by a USAID project for social dialogue and local economic development, are developing criteria for representativeness based on the experience of other countries (in particular, Croatia and France) which will lead to a new Agreement being signed between the representative social partners likely leading to more effective social dialogue. Though, in a country where about 40% of total employment is in firms with up to 10 employees, and the rest is concentrated in small companies with up to 50 employees, the strength of the social dialogue has limitation.

In 2008, a Twining project will start for a further harmonisation of Macedonian labour legislation with the *acquis*. One of the priorities of this harmonisation would be establishment of a legal basis for alternative forms of workers' representatives, i.e. work councils, as part of the process of harmonisation of Macedonian legislation with the EU information and consultation Directive.

10. Work and family

Women in Macedonia have low average participation rate which in 2006 equalled 49.2%, about 26 p.p. lower than the participation rate of men. Moreover, their employment rate is 17.5 p.p. lower than the average employment rate of males. During transition, 1996-2006, female participation rate increased by 1.5 p.p., whereas employment rate increased by moderate 0.4 p.p. Relatively low participation and employment rates of females can partly be explained by the traditional (housekeeping) role of Macedonian women, though with a high ethnic difference.

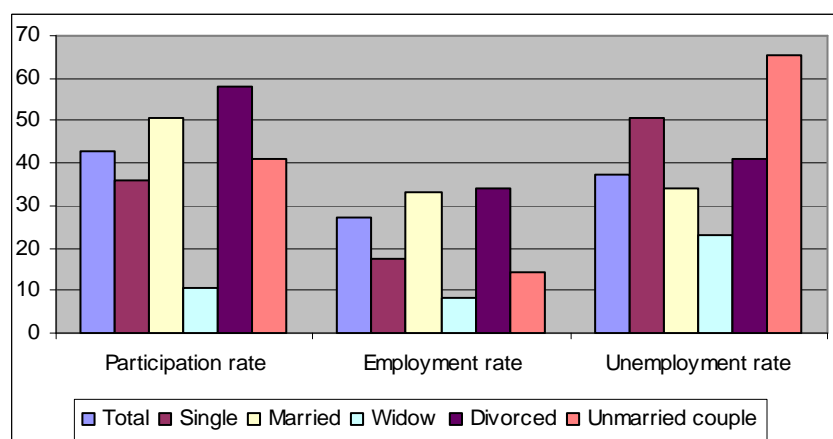
The Labour Code gives special treatment of female workers in a case of overtime and night work (discussed in section 3.1), as well as in a case of pregnancy and parenthood. In addition, the law states that employers are obliged to support employees in balancing work and family life, but it does not stipulate the forms of this support.

According to the Labour Code, during pregnancy and until children is under age of 1, females cannot perform activities which might hurt her health or health of her child. In addition, females cannot work overtime or night work in that time period. The duration of maternity leave is 270 days, and 1 year in case of twins, and the job is guaranteed to a women while on maternity leave. Maternity leave can start 45 days before the due birth at earliest, and mandatory 28 days before the birth, and is paid by the Health Insurance Fund. The replacement rate is 100% of the previous wage. If the female employee does not use the maternity leave, the child's father or the adoptive parent is entitled to a leave with salary compensation. As reported by the Health Insurance Fund, maternity leave is almost entirely taken by mothers. The Labour Code also prescribes that a mother can take a one and ½ hour (paid) break per working day for breastfeeding the child, up until 1 year of age of child.

This special treatment of women should help women to better balance work and family. Though, the latter depends on other issues as well. For example, in Macedonia, females still bear the bulk of housekeeping, which is particularly true for females from Albanian ethnicity. The effect is low participation in education and low labour market activity of females from Albanian ethnicity. On the other hand, balancing work and family is rather difficult for females from Macedonian ethnicity who has to work in order to support family, even longer and unsocial hours, take care of dependents (children and elderly) and do all household chores.

Females participation rate varies with the marital status (see Figure 13). Highest participation rates have married and divorced females, which might suggest that these females have to work in order to support their families. Since there are no available data from the LFS on the number and age of children in a family, the status of married or divorced can approximate the presence of children within the respective family. Hence, we can say that females with children need to be active and employed to ensure higher living standard for their children.

Figure 13 Labour market characteristics by marital status



Source: Labour Force Survey, 2006.

Similarly, married and divorced females (approximately those with children) have above the average employment rates which might indicate their privileged position in the labour market, that is employers discriminate in favour of females with children. The other possible explanation is that females with children, from poorer households, cannot allow themselves to reject a job offer, so that they accept any job regardless the offered wage, type of working contract, employment conditions, etc.

Big changes, both economic and social, that occurred during transition, have or will have in the future their influence on the participation of females in the labour market and their ability to combine work and family. In particular, while big State Owned Enterprises in the communist period had their own kindergartens (and health organisations), now parents use public kindergartens, which is less convenient for them since there is difference in working time, in the place of work and the location of kindergartens, etc. The kindergartens and nurseries' network, so far, have not been a major determinant (or constraint) of females activity, since working mothers, traditionally, have been able to count on help from non-working women relatives, usually wife's or husband's mother. However, this traditional family support is becoming less available with urbanisation, increased labour force participation, and rural-urban migration. Though, it is likely to decline further with the increased statutory retirement age for females.

While we cannot draw a strong conclusion, data show that the (slightly) increased female participation and employment was accompanied by increased enrolment rates of children 0-2 and children 3-7 in nurseries and kindergartens, though they are at a comparatively low level. For example, data from the State Statistical Office¹⁷ show that net enrolment rate in nurseries in 1995/96 was 2.8%, equally distributed for both genders. The rate almost doubled till 2006, reaching 5.4%. The same is true for the net enrolment rates in kindergartens that increased from 22.6% in 1995 to slightly less than 25% in 2004/05. Data for 2005 and 2006 show declining net enrolment rates in kindergartens because of the change in the education system: whereas previously primary school was starting at 7 years of age and was lasting 8 years or grades, now it starts a year earlier and has an additional 9th grade.

Availability and cost of child care is important for achieving true gender equality since it affects the types of work that females can take and hence their pay rates. Usual cost per child both in nurseries and kindergartens is about 10% of the average net monthly wage. Though, there are additional costs since children are asked to bring hygienic items like soap, wet napkins, etc. In recent years, private kindergartens emerged but they are still

¹⁷ Annual publication on public institutions for children care.

on a very small scale and are much more expensive, their cost goes up to 50% of the average wage. They are not yet captured in the official statistics. Couples with no family support in child rearing, often hire baby sitters until their children reach certain age (usually 2-3 years) and afterwards send their children in kindergartens. There is no official market of baby sitters and their usual price is about 100EUR per month (about 40% of the average monthly wage). The minimum age for children to be sent to a nursery is 8 months, which is harmonized with the statutory 9-month maternity leave (actually 8 months after the birth).

Opening and closing hours of nurseries and kindergartens support working parents, i.e. they work from 6a.m. to 6p.m., whereas usual working time is 8-8.30a.m. to 4-4.30p.m. In primary education classes last up to 3.30p.m., though schools organise care for the children afterwards. This is not the case for the lower secondary education where classes end earlier, though in some schools there is an extended programme for which parents pay. Nurseries and kindergartens work during whole year, but schools are closed during winter holiday and summer holiday. However, after-school, holiday and emergency care are not much developed but parents rely on family support (grandparents). In addition, there are no public (also private) childcare services in some regions and municipalities. In particular, there are public nurseries and/or kindergartens in 33 out of 84 municipalities, though there are no available labour market data by municipality to judge for the link between the availability of childcare and females' participation and employment. On a regional level, for example, while there are nurseries and kindergartens in the region of Polog, the activity and employment rate of both females and males are lowest in the country. This might suggest that social customs and traditions have greater impact on labour market situation than other, common factors.

In addition to the availability of childcare, the availability and access to elderly care is as important for the labour market decisions of women, whether they will be active, jobs they will accept, promotion and pay prospects. With the decentralisation process, institutions for care of elderly are now run by municipalities, financed by block transfers from the general government budget. The Law on Social Assistance defines two forms of elderly care: institutional and non-institutional, where the Minister of Labour and Social Policy, in a by-law, defines rules and minimum standards for the private care centres. However, this by-law was only recently adopted and hence there are only two private centres for elderly care registered with the MLSP. The rest of the private centres are registered by the Trade Law, so that there are no available data. Data on public institutions for care and assistance to elderly show that, despite the ageing population, in the period 1995-2005 there is no change in the provision both in terms of number of institutions and number of beneficiaries. There are only 4 such institutions and about 480 beneficiaries (0.2% of total population aged 65+).

In the communist system, females usually worked in social services, public administration, education, health and similar with shorter and more flexible working hours allowing them to balance family and work. However, today, females are over-represented in some sectors with strong international competition (for example textile industry) where working conditions are poor and the use of shift work, night and holiday work (and low pay) is rather high. Even females working in the public administration felt the changes of the system, through increased workload (and stress at work) and longer working hours. Moreover, nowadays new job opportunities are open to highly-educated females (as well as for males) in international firms starting activity in Macedonia or domestic successful firms, which pay high wages but also demand much effort, including long working hours, high decision-making, etc. Females accept these job opportunities because they should get return on their (investment into) education, but they face (increasing) difficulty in balancing private and working life given that women continue to assume responsibility for domestic tasks and care of dependents. Hence, workers, especially women, should have some flexibility in working time, for example, a chance for job-sharing, reducing working

hours (without a pay), flexible working hours, flexitime, time banking, teleworking, etc. Flexitime, for example, can help workers with family responsibilities to adapt their starting and finishing time to school and kindergarten hours, or simply allow workers to avoid traffic jams. Currently, there are only few firms that allow flexible working hours (half-hour flexibility to arrive early and leave early), whereas the other forms of scheduling of work are not used, despite that they are regulated in the Labour Code (for example, work from home). Moreover, public administration, where a majority of females work, does not allow flexitime.

Increased participation of females in the labour market was accompanied by a declining fertility rates. In the period 1995-2006, the number of births declined by 25%, whereas fertility rate declined by 32%, as a result of several factors: reduced living standard, greater returns to education or better job opportunities for educated females, new culture of long and unsocial working hours, etc. Hence, country is in the process of demographic ageing which will have effects on the elderly care system, health care system, pension system, etc. Besides reforms in the pension system to ensure its sustainability, the Government just announced that the MLSP will start preparing a national population strategy and policy.

Division of household labour (domestic chores, child and elderly care) between men and women is an important determinant of females' economic activity, types of jobs they undertake and their ability to balance paid and family responsibilities.

In 2004, the State Statistical Office conducted a time use study in Macedonia. The study clearly shows that family responsibilities are not shared by spouses with a bulk of activities performed by females. Among employed persons, the average time per day that females devote to household chores (4.40 hours) is about 2.5 times greater than average men's hours spend in home tasks. Moreover, employed parents spend with their children half the time of unemployed couples. Employed parents with youngest child aged between 0-6, on average, spend most time in doing home activities among all couples (with no children, youngest child aged 7-17, single parents with youngest child aged 0-17). Given that females undertake disproportional part of domestic chores and children and elderly care, they are likely to face difficulty in balancing work and family.

The discussion above clearly shows that the reconciliation between work and family appears to be problem only for women. In the last two years, there has been some progress in the area of gender equality, mainly in terms of legislation, whereas implementation and real effects are lacking. In 2006, the Parliament passed the Law on Equal Opportunities (Official Gazette No. 66/06). The Law defines discrimination, prescribes policies and measures for ensuring gender equality as well as responsible institutions and structures. As defined in the Law, the Parliament set a Committee on Equal Opportunities and the MLSP set a section for equal opportunities and equal opportunity committees have been established and equal-opportunity coordinators designed in 30 (out of 84) municipalities.

The EC 2007 Progress Report for the Republic of Macedonia states that:

“Implementation of the law on equal opportunities for women and men has progressed only slowly. The definitions provided for in the law are not yet in full compliance with the acquis. Furthermore, it is not clear which national body has to be considered as the gender equality body required by the acquis and if this has all the competences required. [...], the political ownership and administrative capacity continues to be poor in the field of social policy and employment. Capacity to implement policy is therefore limited.“

In addition, the Progress Report notes that women remain vulnerable to discriminatory practices, particularly women living in rural areas and women from ethnic minorities.

The Government adopted a National Action Plan for Gender Equality 2007-2012. The focus of the Plan in 2008 is 1) women and work, 2) women and violence, 3) women and

education, 4) women and the decision-making process. The implementation is responsibility of the section for equal opportunities of the MLSP and the Ministry of Education.

11. Child labour, forced labour

11.1. Child labour

Article 32 of the Convention on the Rights of the Child (UN, 1989) states: "Parties recognize the right of the child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development..." This Convention, along with the "World Fit for Children" are basis for the protection of the child (forced) labour in the Republic of Macedonia.

According to the Macedonian legislation, children below 15 years of age are prohibited to work, or that is considered as a child labour. Moreover, Labour Code defines specific work conditions for children below 18 years of age. The issue of child labour is not very prominent in Macedonia, except for the Roma population. Till now, there were no data in this area, but, in 2005-2006, the State Statistical Office, in cooperation with the UNICEF, conducted a Multiple Indicator Cluster Research (MICR) in order to assess the economic and social situation of children and women (State Statistical Office, 2007).

Within the MICR, the child labour is defined as children aged 5 to 14 involved in labour activities. In particular, a child is considered to be included in child labour activities at the moment of the survey if during the week preceding the survey:

- ages 5 to 11 years: worked at least 1 hour on a paid job or 28 hours at home, per week;
- ages 12 to 14 years: worked at least 14 hours on a paid job or 28 hours at home, per week.

Survey data show that 5.7% of children aged 5-14 are performing some kind of labour activity. Only 0.1% of child labour is paid, 3.3% is unpaid, and 2.7% work in the family business. Male children are more likely to be included in the child labour than female children, 6.8% compared to 4.6%. Urban children are more likely to work, which is due to the over-representation of Roma population (including children) in urban areas. An interesting finding is that 9.5% of children whose mother has at least secondary education are working, and as much as 9.3% of children of rich families, which are the highest shares among all groups. Data suggest that richer families that operate own businesses involve their children from quite an early age in the business probably considering them as business successors.

Table 11 Child labour by different characteristics of children

	Paid activity	Unpaid activity	Household work	Work in family business	Total
Total	0.1	3.3	0.0	2.7	5.7
Males	0.1	4.1	0.0	3.1	6.8
Females	0.2	2.5	0.1	2.2	4.6
Urban	0.1	2.6	0.1	3.9	6.6
Rural	0.1	4.0	0.0	1.5	4.8
Macedonian	0.1	1.8	0.1	3.5	4.9
Albanians	0.1	4.4	0.0	0.9	5.3
Roma	1.2	3.4	0.0	2.0	6.6

Source: State Statistical Office, MICS 2005-2006.

The survey also provides cross-information on child labour and participation in education. Out of 85% of children aged 5-14 that participate in education, 6% are performing labour activities. On the other hand, out of 5.7% children that are defined as child labourers, 95% participates in education.

Although child labour is high among richer and highly educated, the forced labour and child exploitation is dominant within the Roma population. Roma population is concentrated in urban centres, mainly the capital Skopje, where both children and adults are included in some activities such as cleaning automobiles or selling different goods at traffic lights, begging, performing some music, etc. In order to reduce child labour and improve economic and social position of Roma population, the Government, in particular the MLSP, undertakes a project called a Decade of Roma population. This activity should raise awareness of policy makers, provide information and analysis and undertake measure to improve social inclusion of Roma. One of the most powerful tools in doing so is education. Unfortunately, whereas the net enrolment rate in primary education of children from Macedonian ethnicity is 99.1%, it is only 65.9% for Roma population. In 2006, the MLSP started a two-year project called "Inclusion of Roma children in public child care institutions" within the Strategy on Roma Decade, supported by the UNICEF. The project will include 450 children aged 4-6, from 15 municipalities, but will also work with parents to raise their awareness for the importance on early child learning. In addition, as already discussed, there are preparations to link the entitlement to social assistance programmes with children attending school.

11.2. Human trafficking

Macedonia is a source, transit, and, to a lesser extent, destination for women and children trafficked for the purpose of profit-making exploitation (usually sexual exploitation). Though trafficking existed before, it increased during security crises in Macedonia in 2001 and the 1999 Kosovo war. Victims mainly originate from ex-socialist countries, Moldova, Belarus, Ukraine, Albania, and to a lesser extent Romania and Bulgaria and are mainly young females and women. Traffickers usually move victims from Albania and Kosovo through the country en route to Greece, Western Europe and, from recently, into Bulgaria (after it joined the EU). Regarding the forms of forced labour, forced commercial sexual exploitation of women and young females and forced labour for economic exploitation, usually children in form of begging, prevail. There is no forced labour imposed by State or by armed forces.

Though there is no (publicly) available historic data, in 2005 there was an improvement in terms of reduced number of both criminal activities in the area of trafficking and traffickers compared to 2004 (see Table 12).

Table 12 The magnitude of human trafficking in Macedonia

	Number of criminal activities		Number of traffickers	
	2004	2005	2004	2005
Human trafficking	33	12	56	40
Mediation and supporting prostitution	23	20	25	34
Establishment of slavery relation and transit of slavers	2	1	2	1
Irregular transfer of people on the state border	6	5	9	

Source: Annual Report 2006, National Commission for Combating Trafficking (www.nacionalnakomisija.gov.mk).

In 2006, the Government adopted the National Action Plan and Strategy to combat trafficking which provide a concrete road map to fight trafficking. There is one transit shelter centre for victims of the trafficking, established by the Government, run by the

International Organisation for Migration (IOM), and one run by a NGO. The two shelters provided protection and assistance to 12 trafficking victims during 2005.

Recently, Social Work Centres (SWCs) within the MTSP are increasingly active in protecting trafficking victims, especially children (young females). The MTSP conducted or supported specialised training programs for social workers from all 27 SWCs, many of them focusing on prevention of trafficking and identification of actual or potential victims.

Legislation

Internationally, the area of human trafficking is regulated by laws, recommendations, protocols, conventions and other, mainly from the European Communities, United Nations, Council of Europe, OSCE, etc. The Republic of Macedonia has already implemented some of these regulations in the national legal system, but several remain so. Macedonian Government undertook some obligations in this area within the Stabilisation and Association Agreement from 2001, and signed and ratified several Conventions of the Council of Europe. Macedonian anti-trafficking legislation is defined in the Constitution, Criminal Code (Official Gazette No. 52/1996), Code of Criminal Procedure (No. 15/1997), Laws on Misdemeanors (No. 15/1997), National Action Plan for Illegal Trafficking in Humans and Illegal Migration in Macedonia (No. 13/2002), National Action Plan for Migration and Asylum, etc.

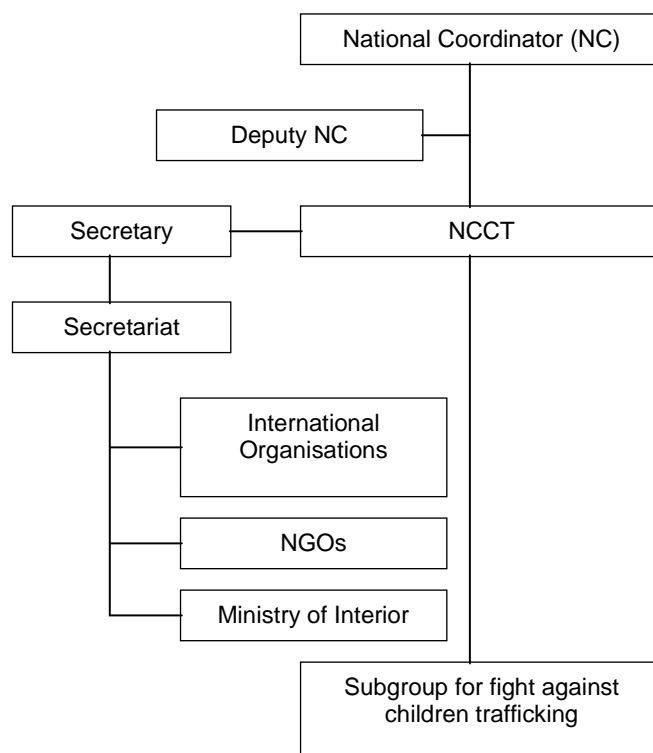
In order to improve legislation and reduce human (especially females' and children' trafficking), as well as comply with international standards and obligations, the Government has made several changes in national laws.

In 2006, the Government adopted important witness protection legislation, though there is no witness protection program in the country. While the government took some steps to provide legal safeguards for victims and witnesses, it must fully implement the law on witness protection to reduce threats and acts of intimidation made to victims in courtroom settings (US Department of State, 2006). In 2007, the Government submitted to the Parliament amendments in several laws to ensure effective protection of children-victims of trafficking: Family Law, Law on Child Protection and Law on Social Protection.

Institutional setup

Main institutions in the area of trafficking in the Republic of Macedonia are: National Commission for Combating Trafficking (NCCT), National Mechanism for Referrals, MLSP (including Social Work Centres), Ministry of Interior, Ministry of Justice, NGOs and International Office for Migration (IOM). The hierarchical structure of the system is presented in the Figure 14.

Figure 14 Structure of the national institutional setup for combating human trafficking



NCCT was established in 2001 with a Government decision (Official Gazette, No. 18/2001). Following the Decision, in 2002 the Government nominated a National Coordinator (State Secretary of the Ministry of Interior) and elected the members of the NCCT. Members are representatives from Ministry of Interior (5 representatives from different departments), Ministry of Foreign Affairs, State Prosecutors Office, Ministry of Education and Science, MTSP, Ministry of Justice, Ministry of Health, Customs Office, and Prime Court.

In 2005, the MLSP (MLSP) established a National Mechanism for Referrals, within a project supported by the Organisation for Security and Co-operation (OSCE). The role of the Mechanism is to strengthen the state capacity in identification, assistance and protection of all victims of trafficking, based on international human rights, regardless of their nationality, ethnicity, age and gender. The Coordinative Office of the National Mechanism for Referrals has activities in the area of raising awareness, development of public institutions' capacity and training of the staff, development of database, referrals, legal protection of victims, etc. Within the project, a Memorandum of Understanding was signed between the MLSP and Ministry of Interior, whereas annual reports of the Coordinative Office are submitted to the Secretariat of the NCCT.

The Secretariat is a body of the NCCT, which has members from the NGOs and experts from the government institutions. The Secretary represents the NCCT and is in charge of implementation of the NCCT decisions. Within the NCCT there is a subgroup focused on combating children trafficking.

Main international organisation in this area is the IOM Skopje. The IOM Skopje initially grew out of a need to support the work of IOM in Kosovo after the war in 1999, and became a vital part of the emergency response to the 2001 civil conflict in Macedonia.

The strategic goal of the IOM Mission is to assist the country in the implementation of the Stabilization and Association Agreement, with particular emphasis on migration management. Since then, IOM Skopje activities have expanded to address a variety of pressing migration related issues including trafficking in human beings, confidence building and HIV/AIDS. In this regard, the IOM supports the NGO sector, organises public debates, prepares analyses, etc.

The NGO sector in the area of human trafficking is quite developed. As US Department of State (2006) notes, despite the recent considerable progress of Government in combating trafficking, prevention and imposing penalties to traffickers, it continues to rely on NGOs to carry out most prevention and awareness programs, providing only non-financial support to them. The NGOs have their representatives in the Secretariat of the NCCT.

12. Interactions and vulnerable groups

The previous analysis showed that Macedonian labour market is specific in terms of a large unemployment and high grey economy employment. In such an environment, there are two major groups with relatively poor economic status, that are unemployed and informal workers.

Given that unemployed represent about 35% of the active population, but do not participate in the bargaining process, they might be disadvantaged since employees' organisation push for greater wages and better working conditions, increasing employers' costs and reducing labour demand.

Notwithstanding this, for our goal is to analyse Decent Work in Macedonia, special focus should be paid to the informal economy workers that are likely to get low pay, work long hours and have bad working conditions and environment. There is a difference between females and males informal employment in that females are mainly informally involved in agriculture, whereas males in self-employment or as employees. The analysis showed that informal employment is in low-productivity jobs meaning that workers get low wages, i.e. to be working poor. We also presented data showing that informal economy workers have, on average, longer working hours per week than regular workers, 48 compared to 44. These workers are also most likely excluded from occupational safety and health protection, i.e. they usually do not use the required safety equipment, work in unclean environment, etc. Further disadvantage is that informal workers are excluded from the social security system. A "positive" thing is that, according to the current health insurance provisions, these workers can acquire free health insurance through the ESA, if registered as unemployed. However, their position will worsen once they become older, unable to work, without any income.

If fathers participated more in care for even very young children, women's activity in the labour market would be easier, and gender equality in this regard would be reduced (ILO and Council of Europe, 2006).

Based on the quantitative and qualitative analyses, we can suggest that there is a clear link between the type of employment contract and working conditions and prospects. In particular, while workers with flexible working contracts, part-time, fixed-term, agency work, etc., have same rights as workers with open-ended work contracts, they are likely to be "penalised" by low access to training, low wage, low-productivity work place, and low promotion likelihood. Hence, there is a low chance for them to advance in their career. Majority of such workers are females and young workers, who take up these jobs because they have no other employment possibility. Another related issue is "employment" through the civil law contracts. These workers are excluded from any social security and from any employment rights. They are mainly young workers, labour market entrants, for whom, civil law contracts are a channel to a regular employment.

Although, some of them are left with such contracts for more than 5 years, meaning that they would have low contribution record (if they succeed to find a job) for pensions.

There is another category of (said to be) vulnerable workers or groups, that are ethnic minorities. Though, the type of vulnerability is different for different minorities. In particular, the issue among the Albanian ethnicity is low participation, mainly attributable to low activity of females due to their traditional family role, and the problems of Roma population in terms of poor access to the labour market.

However, an important finding is that education is a single best strategy for workers to find good job in terms of high wage, better working conditions, training prospects, etc, that is a Decent Work. In particular, workers with high education are over-represented among employed and active, underrepresented among unemployed, and get much higher wage. They are also less likely to work in the grey economy, meaning they are socially secured and they can reap the benefits of the collective bargaining.

Though data are not available, there is an indication of an increased stress at work, for managers, officials and public administration. These workers increasingly experience long working hours, weekend work and high pressure. On the other hand, they have higher job security and social security. However, both low-skilled, low-paid workers and these highly-educated workers on high positions, are affected by the underdeveloped OSH. In particular, underdeveloped reporting system, the lack of list of occupational diseases and irregular inspections, lead to a greater exposure to risk worse working conditions. Hence, the implementation of this law should improve. In addition the capacity of the Labour Inspectorate has to improve to ensure better protection of workers' rights and reduction of the informal employment, which is probably the single most important source of non-decent work.

A separate area is probably forced labour and human trafficking, which by default, is opposite to the Decent Work. There has been much progress in this area in recent years and increasing public awareness. Institutional setup improved and high coordination between all selected parties has been reached.

Annex

Table A1 Basic Macroeconomic Data for the Republic of Macedonia, 1995-2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population	1,966,000	1,983,000	1,997,000	2,008,000	2,017,000	2,026,000	2,035,000	2,022,000	2,027,000	2,032,000	2,037,000	2,041,000
Real sector												
Gross Domestic Product												
- real growth rate	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.098	3.7
- current prices, in million of denars	169,521	176,444	186,018	194,979	209,010	236,390	233,841	243,970	251,486	265,257	286,620	308,772
- In million US \$ (nominal)	4,456	4,412	3,733	3,581	3,674	3,588	3,437	3,769	4,631	5,368	5,815	6,329
- In million US \$ (PARE methodology)				3,575	3,730	3,899	3,723	3,872	4,119	4,928	4,519	-
- In millions of EUR (nominal)						3,893	3,839	4,001	4,105	4,325	4,676	5,046
Inflation (CPI, average)	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2
Wages (monthly average)												
- nominal growth	10.7	2.8	2.8	3.7	2.9	5.5	3.5	6.9	4.8	4.0	2.5	7.3
- real growth	-4.3	0.5	0.2	3.8	3.6	-0.3	-2.0	5.1	3.6	4.4	2.0	4.1
Employment (% increase)			-4.7	5.4	1.0	0.8	9.0	-6.3	-2.9	-4.1	4.3	4.6
External sector												
Export (f.o.b.), million US \$	1,204	1,147	1,237	1,292	1,190	1,321	1,155	1,112	1,362	1,672	2,040	2,400
Import (f.o.b.), million US \$	1,719	1,627	1,779	1,807	1,686	2,011	1,682	1,916	2,211	2,784	3,097	3,681
Trade balance (million US \$)	-515	-480	-542	-515	-496	-690	-527	-804	-849	-1,112	-1,057	-1,281
- Trade balance (% of GDP)	-12	-11	-15	-14	-14	-19	-15	-21	-18	-21	-18	-20
Current account deficit millions of \$ US				-270.0	-32.5	-72.0	-244.0	-358.0	-149.0	-415.0	-81.5	-24.0
- Current account deficit (% of GDP)				-7.5	-0.9	-2.0	-7.1	-9.5	-3.2	-7.7	-1.4	-0.4
Foreign direct investments	9.5	11.2	15.7	128.0	32.0	176.0	441.0	78.0	96.0	156.0	97.0	350.0
- Foreign direct investments (% of GDP)	0.2	0.3	0.4	3.6	0.9	4.9	12.8	2.1	2.1	2.9	1.7	5.5
Government finances												
General government balance (% of GDP)		-1.4	-0.4	1.7	0.0	1.8	-7.2	-5.7	-0.6	0.4	0.3	-0.5

Source: Ministry of Finance, State Statistical Office, National Bank of the Republic of Macedonia.

Table A2 Specific participation and employment rates in 1996 and 2006 (age 15-64)

	Participation rate		Employment rate	
	1996	2006	1996	2006
Overall	60.6	62.2	41.1	39.6
Males	73.4	74.9	51.8	48.3
Females	47.8	49.2	30.3	30.7
15-24	43.3	35.8	13.2	14.4
25-54	75.8	77.2	56.4	51.5
55-64	27.0	38.9	24.4	27.9
Primary or less ¹	39.8	36.8	24.4	21.4
Secondary	72.7	69.4	50.6	43.7
Tertiary	82.9	82.3	70.3	64.9

1) Age 15-80.

n.a. Not available.

Note: Primary or less means less than ISCED 2. Upper secondary equals ISCED 3. Tertiary is ISCED 4-6.

Source: Author's own calculations based on data from 2004 LFS and for 1994 from State Statistical Office (1997).

Table A3 Unemployment and individual characteristics, 15-64 (in %)

	Share of all the unemployed		Unemployment rate	
	1996	2006	1996	2006
National average	100	100	32.2	36.3
Gender				
Men	55.5	59.7	29.4	35.6
Women	44.5	40.3	36.5	37.5
Age				
15-24	35.2	21.7	70.9	59.8
25-54	62.1	71.2	28.6	33.3
55-64	2.7	7.1	13.4	28.4
Duration¹				
0-11 months	19.3	13.7	-	-
1-4 years	36.2	19.9	-	-
4+ years	44.5	66.4	-	-
Work experience²				
None	74.2	41.8	-	-
Up to 1 year	3.4	5.4	-	-
1-5 years	5.9	8	-	-
5+ years	16.6	44.8	-	-
Education				
Less than primary	11.5	6.7	33.6	37.7
Primary	36.5	30.2	40.6	42.6
3 years secondary	15.3	16.0	34.0	44.4
4 years secondary ³	29.7	38.1	28.9	34.5
Tertiary ⁴	7.0	9.0	15.2	21.2

1) Data for working age population 15-80.

2) Data are for 1995 and 2003 because ESA does not publish such data regularly.

3) Data do not allow us to distinguish between general and vocational courses.

4) ISCED 4-6.

Source: Author's own calculations based on LFSs.

Table A4 Sector wage developments, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007	change 2007- 2000
Agriculture	89.7	89.1	83.6	84.5	78.8	79.7	76.9	74.0	-15.7
Fisheries	86.5	77.9	70.5	61.2	83.5	101.4	95.5	76.1	-10.4
Mining and quarrying	90.3	105.2	113.8	112.0	112.5	116.8	118.4	112.7	22.4
Manufacturing	91.0	90.8	88.2	84.8	85.3	81.7	78.6	80.2	-10.8
Electricity, gas and water supply	132.4	134.7	129.3	127.2	125.4	127.6	143.3	136.5	4.1
Construction	76.6	76.3	73.7	74.1	76.1	77.7	73.3	72.3	-4.3
Trade	119.9	100.3	95.4	100.2	99.9	102.6	98.6	96.8	-23.1
Hotels and Restaurants	89.4	83.3	78.3	78.8	84.8	86.1	82.9	80.7	-8.6
Transport and Communications	122.7	123.7	126.8	124.2	123.0	126.7	125.1	122.8	0.1
Financial intermediation	191.9	199.5	197.5	198.9	205.1	207.2	196.6	194.4	2.4
Real estate and business activities	122.2	125.5	121.7	120.1	109.3	107.4	101.4	102.6	-19.6
Public administration and social security	99.1	99.3	102.9	109.2	110.9	122.2	118.6	117.2	18.0
Education	92.7	91.3	96.1	97.6	94.4	92.7	92.0	95.4	2.6
Health and social work	97.1	95.9	97.7	100.3	98.0	96.4	92.6	90.2	-6.9
Other activities	105.3	104.6	104.1	101.7	99.3	97.8	93.7	93.9	-11.5
Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

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

Table A5 Degree of compliance with ILO OSH Conventions

Convention No:	Ratified	Provisions incorporated in national law	Provisions used as guidance	Intention to ratify in near future
155 on Occupational safety and health, 1981	Yes	Yes		
161 on Occupational health services, 1985	No			Yes
81 on Labour inspection, 1947	Yes	Yes		
129 on labour inspection (Agriculture) 1969	No			Yes
115 on Radiation protection, 1960	No			Yes
119 on Guarding of machinery, 1963	Yes	Yes		
127 on Maximum weight, 1967	No			Yes
136 on Benzene, 1971	No			Yes
139 on Occupational cancer, 1974	Yes	Yes		
148 on Working environment (Air pollution, noise and vibration), 1977	Yes	Yes		
162 on Asbestos, 1986	Yes	Yes		
167 on Safety & health in construction, 1988	No			Yes
170 on Chemicals, 1990	No			Yes
174 on Prevention of major industrial accidents, 1993	No			Yes
176 on Safety and health in Mines, 1995	No			Yes
184 on Safety and health in agriculture, 2001	No			Yes
12 on Injury During Work in Agriculture, 1921	Yes			
89 on Night Work for Women employed in Industry (revised) 1948	Yes	Yes		
90 on Night Work for Children in Industry (revised), 1948	Yes	Yes		
121 on Allowances in Case of Injury at Work and Occupational Diseases, 1964	Yes	Yes		
129 on Labour Inspection in Agriculture	Yes			
135 on Protection and Relief for Workers' Representatives in Enterprises	Yes	Yes		
137 on Benzene Poisoning Protection	Yes	Yes		

Source: Macedonian National Occupational Safety and Health profile report, 2007.

List of abbreviations

CEECs - Central and Eastern European Countries
CVET - Continuous Vocational Education and Training
EODS - European Occupational Diseases Statistics
ESA - Employment Service Agency
ESAW - European Statistics for Accidents at Work
ETF - European Training Foundation
HBS – Household Budget Survey
IOM - International Organisation for Migration
ISCED - International Standard Classification of Education
LTU - Long-Term Unemployed
MEBOs - Management/Employees' Buyouts
MICR - Multiple Indicator Cluster Survey
MLSP - Ministry of Labour and Social Policy
NAPEs - National Action Plan(s) for Employment
NCCT - National Commission for Combating Trafficking
NGOs - Non-Governmental Organisations
OSCE - Organisation for Security and Cooperation in Europe
OSH - Occupational Safety and Health
PDF – Pension and Disability Fund
TFP – Total Factor Productivity
TWAs - Temporary Work Agencies
VET - Vocational Education and Training
WHO – World Health Organization

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