

# Action Plan on Youth Employment 2015

Skopje, 2012

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## Foreword

The *Macedonian Action Plan on Youth Employment* presented forthwith is the result of the work of policy-makers of the ministries of Labour and Social Policy; Education and Science; Economy; Finance; as well as officials of the Employment Service Agency; the Vocational Education and Training Centre; and the Macedonian employers' and workers' organizations. The development process was coordinated by the Labour Market Unit of Ministry of the Labour and Social Policy and it is based on the framework proposed by the *Guide for the preparation of national action plans on youth employment* of the International Labour Organization (ILO).

The key features of the *Macedonian Action Plan on Youth Employment* were agreed upon during a workshop organized by the ILO in May 2012. Such work comprised the review of key labour market indicators, policies and institutions for youth employment; the identification of key problems for policy prioritization; the development of a framework to ensure a comprehensive and coherent approach to youth employment promotion; the design of objectives, targets and outcomes as well as the respective responsibilities of lead institutions; the estimations of costs, the timeframe, coordination mechanism and monitoring and evaluation approaches.

The *Action Plan* is divided into three parts. The first section reviews the situation of the youth labour market in Macedonia. The second part elaborates on the policy options identified to address youth employment challenges. The last part describes the operational aspects relating to the implementation of the policy and action plan. Finally, the annexes provide the matrix, plan of work as well as the list of members of the *Advisory Group on Youth Employment*.

## Introduction

Over the last several years, growing political attention has been given to youth employment in Macedonia, where the difficulties young people face in entering in the labour market are compounded by the additional burden of large numbers of young people who are engaged in precarious work, often in the informal economy. Youth unemployment and underemployment impose heavy costs on Macedonian society. Long unemployment spells early in life affect the prospects of young people to secure a career job and a decent wage. High percentages of unemployed youth mean that investments in education and training are wasted, that there is a reduced taxation base and higher welfare costs. High unemployment levels among young people can also be a source of social instability.

The Government of the Republic of Macedonia recognizes that addressing this challenge requires coordinated and concerted action over a number of policy areas such as economic and fiscal policy, enterprise development, education and labour market policy. The magnitude of the youth employment challenge calls for preventive and curative approaches that address at the same time labour supply and demand and require the concerted efforts of government agencies, labour market institutions, including employers' and workers' organizations, and civil society.

Against this backdrop, the Government and its social partners developed the *Macedonian Action Plan on Youth Employment 2015* that outlines four strategic objectives and a number of key outcomes to be pursued for the promotion of full, productive and freely chosen employment for young people, namely:

- 1) **Strengthen the (youth) labour market governance system** (improving the competence of the Labour Market Unit of the Ministry of Labour and Social Policy to coordinate and monitor the achievement of employment and youth employment objectives; the mainstreaming of the Employment Service Agency reform throughout all local employment offices, and the strengthening of the Labour Inspectorate with a view to address informal employment).
- 2) **Enhance youth employability** (including the reform of the education and training system; the career counselling and guidance; the introduction of a flexible training system leading to gainful employment; and more and better career guidance services for young people);
- 3) **Foster youth employment through private sector development** (setting up a system of incentives to promote youth employment and human capital development, and the establishment of dedicated youth entrepreneurship services);
- 4) **Ensure the labour market inclusion of disadvantaged youth** (improving the targeting and financing of active labour market programmes; expanding promotional measures to move enterprises established by young people to the formal economy; awareness-raising among youth on their rights at work; and

integration of employment and social services to address multiple layers of disadvantage).

The time frame of the *Macedonian Action Plan on Youth Employment* is three years (2012-2015), to allow its alignment to the budgetary planning framework and to the objectives set by the *National Employment Strategy 2015*<sup>1</sup>.

The total cost is estimated at approximately €28.2 million. More than €26.8 million are already available and budgeted either through the policy measures planned by the Government, or through the EU pre-accession instrument or donor-funded technical cooperation projects. Another €1.3 million will have to be raised in the timeframe of the Action Plan. The total number of young people targeted by the interventions introduced by the *Macedonian Action Plan on Youth Employment* is 28 per cent of the total youth population aged 15 to 29 years old (e.g. 135,000 young men and women).

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<sup>1</sup> A priority strategic objective of the National Employment Strategy of the Republic of Macedonia is youth employment rate of 29% (aged 15-29)

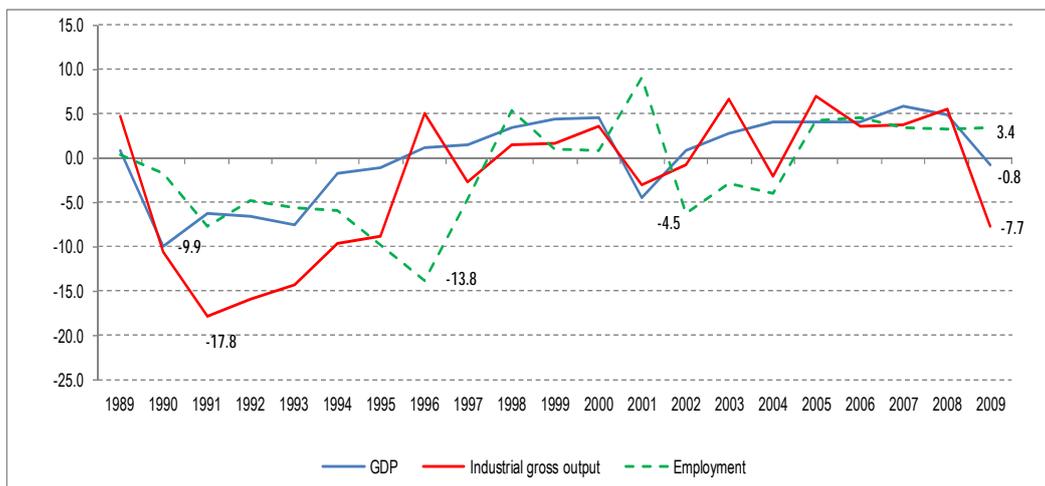
## PART I – SITUATION ANALYSIS

### 1. Overview of the social and economic context

In the last decade, the Republic of Macedonia has made considerable progress in terms of economic development, democratic reforms and integration into global economic markets. Such reforms reversed the negative trends of the early 1990s, characterized by contracting Gross Domestic Product (GDP) and declining industrial output and employment (Figure 1).

The reform programme centred on macroeconomic stabilization, price and foreign exchange liberalization, the restructuring of the banking system, the privatization of state- and socially-owned enterprises, and improvements in the business regulatory framework. Output growth started to accelerate in 2003 to an average of 4.2 per cent annually.

Figure1: GDP, industrial output and employment growth rates, Macedonia (1989-2004)



Source: European Bank for Reconstruction and Development (EBRD), *Economic research and data*, Paris, 2011, available at <http://www.ebrd.com/pages/research.shtml>

Economic growth was mainly driven by increased exports and private consumption fuelled by foreign direct investments (FDI) inflows, remittances and credit expansion (Table 1).<sup>2</sup> On the supply side, the main feature of this period was the shift in value added from agriculture and industry towards services, with resources increasingly allocated to non-tradable sectors.

<sup>2</sup> European Commission, Directorate-General for Economic and Financial Affairs, *The pre-accession economies in the global crisis: from exogenous to endogenous growth?*, Occasional Paper 62, Brussels, 2010

Table 1: Sources of GDP creation (2005-2011)

	2005	2006	2007	2008	2009	2010	2011
GDP (ann.% change)	4.4	5.0	6.1	5.0	-0.9	2.9	3.0
Private consumption (ann.% change)*	5.7	6.0	9.8	7.8	-4.8	1.8	2.5
Gross capital formation (%GDP)	21.3	21.5	24.6	26.8	26.2	25.5	25.4
Exports (ann.% change))	22.2	16.5	29.2	8.9	-28.2	29.0	27.5
Imports ann. % change)	10.7	16.6	25.3	21.9	-21.6	13.4	22.7

Source: Ministry of Finance, *Macroeconomic indicators*, (<http://www.vlada.mk>). (\*) EU Directorate of Economic and Financial Affairs, *EU candidate and pre-accession countries. Economic Quarterly*.

Macedonia recorded its highest output growth in 2007 and 2008 (6.1 and 5 per cent, respectively). This positive trend was interrupted in the fourth quarter of 2008 when growth slowed due to the global economic crisis, and then turned negative for the following three consecutive quarters. GDP growth in 2009 was negative (-0.9 per cent) but the contraction was considerably lower than that experienced by most European countries. The spill-over effects of the economic crisis mainly materialized through a sharp fall in export demand (more than 30 per cent in 2009), but also in decrease of Foreign Direct Investments (FDIs).

Growth recovered in the last quarter of 2010 and first half of 2011 to then slowed down again amid a worsening global environment.

Figure 2: Quarterly GDP growth rate (2008-2011)

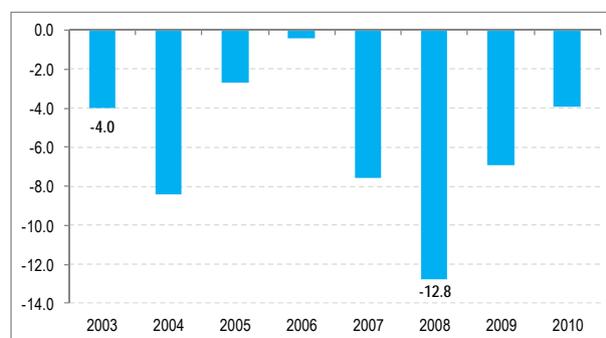


Source: State Statistical Office, *Quarterly GDP data*, at [http://www.stat.gov.mk/Default\\_en.aspx](http://www.stat.gov.mk/Default_en.aspx).

The current account deficit widened in 2008 to 12.8 per cent due to increased imports fuelled by FDIs, as well as an increase in domestic consumption (Figure 3). The deficit narrowed in 2009 and 2010.

The structure shows large merchandise trade deficits, averaging 21 per cent.

Figure 3: Current account deficit, % GDP (2003-2010)



Source: EBRD, *Macroeconomic data*, op.cit

The inflows of FDIs in the country started to increase in 2006 with the highest peak recorded in 2007 (at over 8.5 per cent of GDP). FDI inflows declined from 6 per cent of GDP in 2008 to just over 3 per cent in 2010. In the period 2005-2010 remittances declined slightly in relative terms (from 2.8 per cent to 2.6 per cent of GDP).

In 2007 the government introduced a flat tax system with proportional tax rates for personal (PIT) and corporate income (CIT). Tax rates were reduced from the previous 15, 18 and 24 per cent for the PIT to 10 per cent in 2008, and from 12 per cent in 2007 to 10 per cent for the CIT. Social security contribution rates were also reduced in 2009 to lower labour costs and boost employment creation. Lower taxation, integrated collection of social contributions by the Public Revenue Office, personal income tax amendments, as well improved effectiveness of the Public Revenue Office, led to increased tax collection, a widening of the tax base, and, most likely, a shrinking of the informal economy.

Small and medium-size enterprises (SMEs) play an important role in the Macedonian economy. They represent the near totality of companies (99.7 per cent in 2011) and employ approximately 82 per cent of all workers. In the same year, micro companies represented 92 per cent of all companies. In 2010, the number of SMEs increased by 6.7 per cent compared to 2009, but they decreased by 3 per cent in 2011. Still, the number of SMEs in 2011 was 3.4 percentage points higher than in 2009.

Macedonia maintained a prudent fiscal policy with small deficits, but also surpluses in the period 2005-08, which allowed the introduction of counter-cyclical fiscal policies to mitigate the 2009 downturn. These policies comprised increased spending, mainly on capital expenditures (which increased by 14 per cent compared to 2008) and reduced taxation. The effect was an increase in the budget deficit from 0.9 in 2008 to 2.7 per cent in 2009.

Despite increased spending on social assistance, the head count poverty index increased from 28.7 per cent in 2008 to 31.1 per cent in 2009, to then decline slightly to 30.9 per

cent in 2010. The poverty figures show that unemployment and education are important determinants of poverty. In 2010, the poverty rate for households with unemployed members was 44.8 per cent compared to 22.3 per cent for households with two or more employed. Similarly, poverty declines with educational attainment, ranging between 62.3 per cent for households whose head is without education, to 13.6 per cent for households where the head has tertiary education.<sup>3</sup>

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<sup>3</sup> State Statistical Office, Relative Poverty in 2010, Skopje, 2011

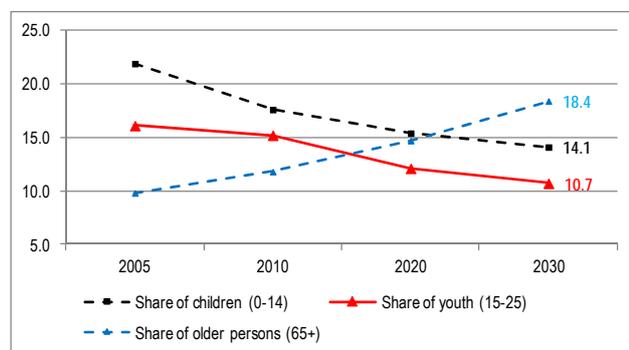
## 2. Analysis of the labour market

### 2.1. Demographic trends

The population of the Republic of Macedonia is estimated at just over 2 million, with women accounting for 49.9 per cent. As a result of positive natural increases, the population raised in the decade 2000-2010 by 1.3 per cent. According to the 2002 Census, the largest national minority is the Albanian one (25.1 per cent), followed by the Turkish (3.8 per cent), Roma (2.6 per cent) and Serbian minorities (1.7 per cent).

In the last few years, there have been significant changes in the age structure of the population, a trend that is likely to continue over the next decades (Figure 4). The participation of children (up to 14 years of age) in the total population decreased from 22 per cent to 17.4 per cent, while the participation of the elderly population (65 and over) increased from 10.1 per cent to 11.8 per cent. The share of youth (15 to 24 years old) decreased from 16.1 per cent in 2005 to 10.7 per cent in 2010.

Figure 4: Projections of children, youth and elderly population groups (2005-2030)



Source: United Nations population projections for Macedonia, at <http://www.un.org/esa/population/>.

The lower child and higher old age dependency ratios will affect labour supply: in absolute terms, the shrinkage of the working age population (aged 15 to 65) will imply a loss of over 120,000 individuals in the working age population by 2035.

### 2.2. Trends in education

The impact of learning and training is of central importance in determining the employability of the labour force and influencing the investment climate of an economy. The economic transformation resulting from the transition to a market economy in Macedonia resulted in a serious shock to its education and training system, which had to be re-oriented to respond to the needs of increased globalization, trade liberalization and technological change.

Macedonia still has low net rates of pre-primary enrolment by international standards. Only 25.2 per cent of four year old children attend education institutions compared to an EU-27 average of 90 per cent. Low enrolment in pre-school is due to the relatively low

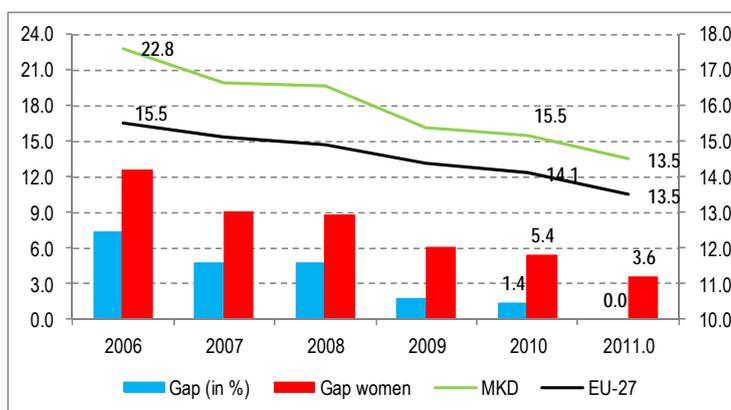
labour force participation of women (or low demand for the services) and the underdeveloped network of public childcare facilities (low supply).

In 2010-11 the net enrolment rate in basic education (ISCED 1 and 2) was 92.5 per cent, with no sex difference. Both sexes are equally represented in primary education, with boys and girls having the same opportunity to progress to secondary education (84 per cent and 83 per cent, respectively in 2010).<sup>4</sup>

The country had till 2009 a relatively high proportion of early school leavers (e.g. share of the population aged 18-24 with primary education only). This share was 23 per cent in 2006, but it declined to 13.5 per cent in 2011 (Figure 5), at the same level of EU 27 countries.

In recent years there has been a rapidly growing demand for tertiary education, reflecting on the one hand higher returns of university education. Such demand was boosted by the supply of private providers and the expansion of state-funded university programmes. There are growing concerns about the fast pace of decentralization of higher education, as well as its relevance for the current economic environment.

Figure 5: Early school leavers (2006-2011)



Source: EUROSTAT, *Early leavers (share of the population aged 18-24 with at most lower secondary education and not in further education or training)*, at <http://epp.eurostat.ec.europa.eu>.

Despite the recent favourable trends in secondary and tertiary education enrolment, Macedonia still performs below European Union countries in terms of overall educational attainment. In particular, the share of individuals 30-34 years old with completed tertiary education in 2011 was, at 20.4 per cent, much lower than that recorded in the EU-27 countries (34.6 per cent) and well below the target set by Europe 2020 (40 per cent)<sup>5</sup>. However, progress has been considerable, since this share was only 12.4 per cent in 2008.

<sup>4</sup> UNESCO Institute for Statistics at <http://www.uis.unesco.org/Education>

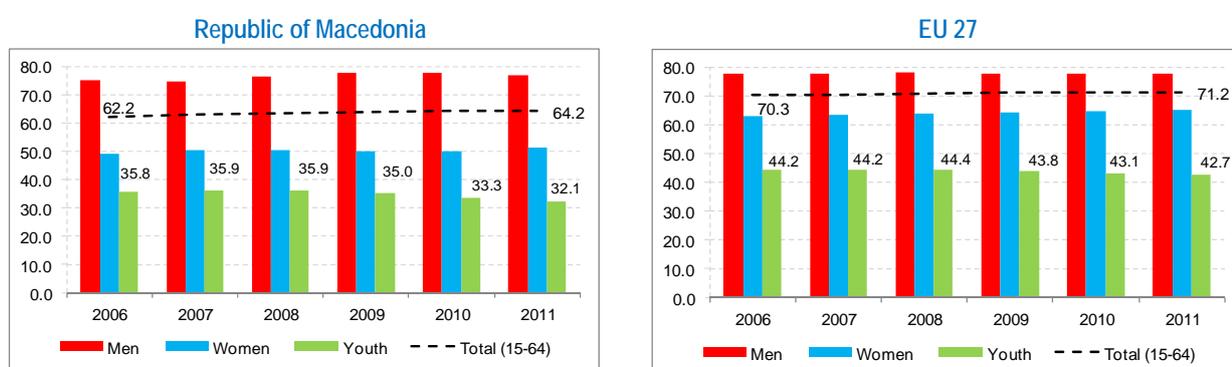
<sup>5</sup> One of the priority goals set in the Macedonian National Employment Strategy is the attainment of 19% of the population with completed primary education by 2015.

## 2.3. Labour market<sup>6</sup>

### 2.3.1. Youth labour force participation

The labour force participation rates of Macedonia have been well below those recorded in the EU-27 throughout the last decade. Low participation rates are mainly due to the low activity rates of women, young people and individuals over 50 years old. Labour force participation is strongly related to educational attainment, with individuals with tertiary education almost two and half times more active than those with primary education or less.

Figure 6: Labour force participation rates, (2006-2011)



Source: Annual Labour Force Survey (2006-2011), State Statistical Office, the figures are taken from the EUROSTAT web page

From 2005 to 2011 Macedonia experienced growing labour force participation rates, mainly driven by increasing activity rates of adult men. The activity rates of women (15 to 64) remained fairly stable at around 50 per cent, with an increase recorded in 2011. In the same year, the activity rate of men declined.

The activity rate of young people (15-24) is roughly half that of adults (32.1 per cent and 64.2 per cent, respectively in 2011). The participation of youth increased slightly in the biennium 2005-2007 to then decline (from 35.9 per cent in 2008 to 32.1 per cent in 2011). Such a decline is due to increasing enrolments into higher education, shrinking employment opportunities, difficult transition from school to work, skills mismatch between employers' needs and the competencies acquired in schools and the unwillingness of employers to bear the cost of training young workers.

As it occurs for the adult labour market, the higher the level of education of the young individual, the higher labour force participation rate. Youth (15-24) with primary and lower secondary education have activity rates that are less than half those recorded for

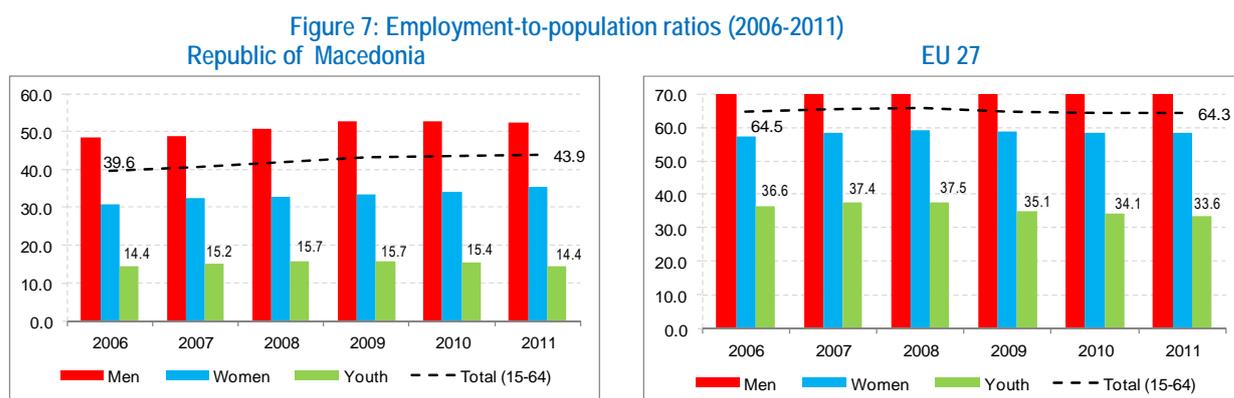
<sup>6</sup> The main source of labour market statistics in Macedonia is the Labour Force Survey (LFS). Unless otherwise indicated, the analysis of the overall and youth labour market provided in the next chapters is based on the figures of the annual LFS.

youth with upper secondary education (16.7 per cent in 2011 and 40.5 per cent, respectively). University educated youth have the highest activity rates of all (78.8 per cent in 2011).

Gender gaps in labour force participation rates also tend to be bridged with higher educational attainment, that is to say that education is a stronger predictor of labour force participation than sex. In 2011, the activity rate of secondary educated young women was 28 per cent compared to 50.9 per cent for young men with the same educational attainment, while the activity rate for women with tertiary education was 77.8 per cent compared to 80.5 per cent for men.

### 2.3.2 Employment trends

Employment-to-population trends show an uneven growth path, with sharp drops in the first years of transition (1990-1997), a recovery reversed by the 2001 unrest and positive employment growth from 2005 onward. The overall employment-to-population ratio, however, remains among the lowest in South-East Europe, with a mere 43.9 per cent of the working age population employed in 2011.



Source: Annual Labour Force Survey (2006-2011), State Statistical Office, the figures are taken from the EUROSTAT web page.

The employment rate of women is lower than men's by more than 17 percentage points (52.3 per cent for men and 35.3 per cent for women in 2011). The employment gap between the sexes, however, decreases with educational attainment. University educated women have only marginally lower employment rates compared to men, suggesting that educational attainment is a stronger determinant of employment probability than sex.

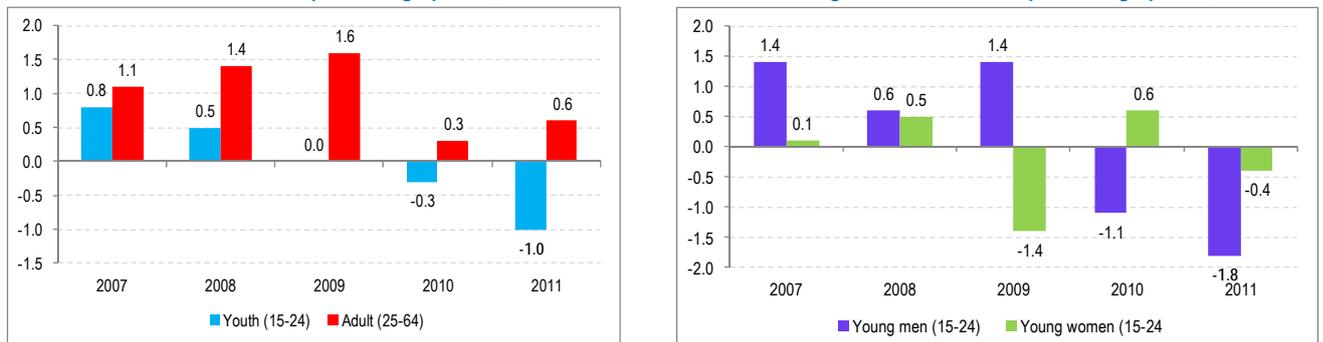
Young people aged 15 to 24 years old have a very low employment-to-population ratio (14.4 per cent in 2011), with young women less likely to be employed compared to young men (10.8 per cent and 17.7 per cent, respectively). The youth employment-to-population ratio increased slightly in the period from 2006 to 2009 (from 14.4 per cent to 15.7 per cent), to then decrease again in 2010 (to 15.4 per cent) and return to its 2006 level in

2011. Similarly to activity rates, low youth employment in Macedonia can be attributed to the delayed entry in the world of work due to difficulties in finding the first job and high inactivity rates due to school attendance. Educational attainment is the main determinant of the transition from unemployment into employment, with individuals with secondary and tertiary education more likely to shift to employment (7 and 18 per cent, respectively) compared to low educated workers.<sup>7</sup>

Labour market data shows that in the period 2005-2009, roughly 93,800 new jobs were created in the country. Job creation decelerated considerably in 2011, with only 8,738 new jobs created. This trend continued also in the first quarter of 2012, when 6,858 job vacancies were detected by the State Statistical Office, mostly in manufacturing (22.7 per cent of the total), wholesale and retail trade (15.9 per cent) and services (education, health, social work, arts and entertainment, 21.5 per cent).

Employment growth, however, remained positive for adult workers (aged 25-64), but not for youth. As the figure below shows, the decline in youth employment is due to the decline recorded among young men in both years, while young women experienced a drop in employment in 2009, a partial recovery in 2010 and another slight drop in 2011.

Figure 8: Change in employment, youth and adults, young men and women (2007-2011)  
 Youth and adults (percentage points)      Young men and women (percentage points)



Source: Annual Labour Force Survey (2006-2011), State Statistical Office, the figures are taken from the EUROSTAT web page

In 2011, self-employment accounted for 6.4 per cent of youth employment, three times lower than the self-employment rate found for the working age population (18.4 per cent). The share of contributing family workers, however, exceeded one third of youth employment (30.5 per cent), while the share for the working age population was just 9.1 per cent. This underlines the scarce employment opportunities available to the young population. Young women were slightly more likely to be working as contributing family members compared to young men (32.1 per cent and 29.2 per cent, respectively).

<sup>7</sup> Angel-Urdinola, D. F. and Macias, V., *FYR Macedonia Labour Market Profile 2004-2007*, World Bank Policy Note, World Bank, Washington D.C. 2008, op.cit. Mojsoska, N., *The public employment, education and labour markets in Macedonia*, Nam Press Skopje, 2006.

In 2011, the percentage of workers employed part-time was 6 per cent of total employment. Young people are twice as likely to be employed part-time, with an increasing trend noticeable from 2007 (Table 2). There are only small differences in part-time employment between the young men and women: in 2011 approximately 14 per cent of young women were employed part time compared to 12.9 per cent of young men. Involuntary part-time represents over a third of total youth part-time employment, but this is lower than the involuntary part-time rate recorded for the working age population (41.1 per cent of total part-time employment). Young men had an involuntary part-time rate of 41.8 per cent.

Table 2: Structure of youth employment (15-24), 2007-2011

	2007	2008	2009	2010	2011
<i>Status in employment</i>					
Employees	63.8	66.7	65.8	68.1	63.2
Self-employed persons	7.6	4.7	5.3	4.6	6.4
Contributing family members	28.4	28.5	29.0	27.2	30.5
<i>Type of contract</i>					
Part-time	12.9	8.8	9.3	10.3	13.4
Involuntary part-time	50.2	29.5	32.7	38.7	33.5
Temporary work	35.3	32.6	37.1	37.4	34.9

Source: Annual Labour Force Survey (2006-2011), State Statistical Office, the figures are taken from the EUROSTAT web page

Temporary work accounted for 14.8 per cent of overall employment in 2011, 16.7 per cent for men and 12.3 per cent for women. The share of young workers in temporary employment represents over 34 per cent of total youth employment. As it occurs for adults, young men are more likely to be employed temporarily compared to young women (38.7 per cent and 28.8 per cent, respectively).

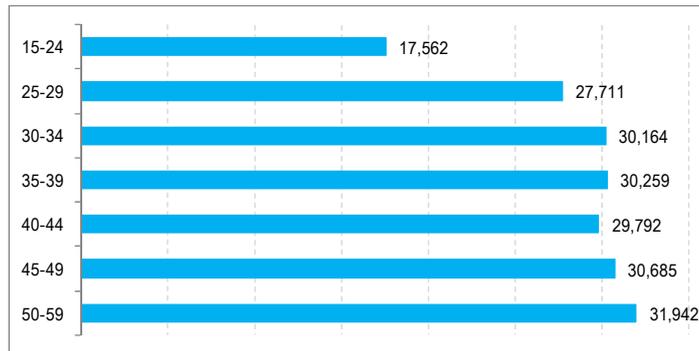
Informal employment accounts for roughly 25 per cent of total employment (24 per cent for women and 28.7 per cent for men). The figures for 2010 reveal that nearly half of youth employment (46.9 per cent for young men and 42.3 per cent for young women) was in the informal economy.

### 2.3.3. Wages and other conditions of work

Real wage growth was positive in the period 2005-2010, with an average growth rate of 4.2 per cent per year. The

Figure 9: Gross earnings (denars/month) by age group, 2010

average gross monthly earnings of youth (15-24) are 1.7 times lower than adults (30-59). The gender gap between young men and women was 13 per cent, while the overall earning gap was 6 per cent.



Source: State Statistical Office, *Structure of earnings of employees (2010)*

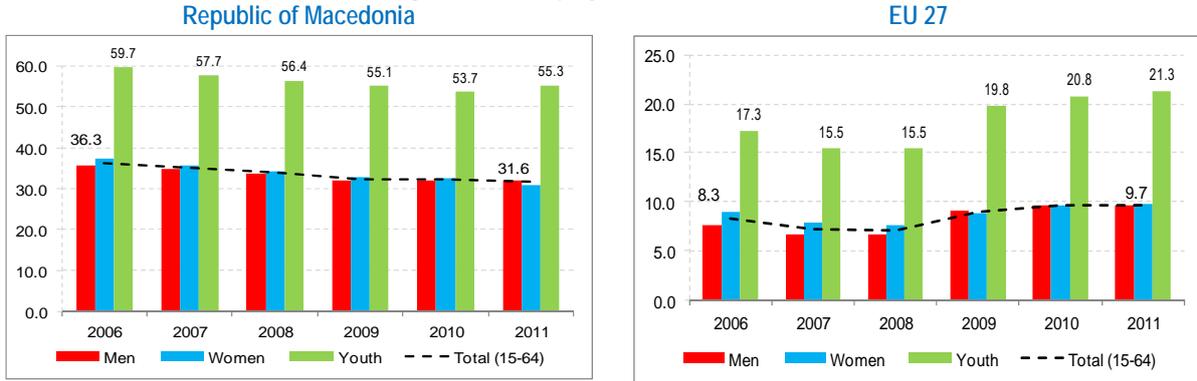
Such difference in the level of earnings is due to lower educational attainment of the cohort 15-24 and to less hours worked. The average gross earnings of individuals with primary and lower secondary education is 30 per cent lower than that recorded for individuals with upper secondary education (18,192 and 23,951 denar/month, respectively). University education brings a high earning premium, with university educated individuals earning 80 per cent more than those with upper secondary education. Workers with temporary employment contracts have the lowest level of earnings (22,546 denars/months). Workers with permanent job positions and trainees earn on average 40 and 12 per cent more than temporary workers, respectively.

Young people work less hours than adults, with youth with primary education more likely to work less hours compared to those with tertiary education. In 2011, the share of low-educated young workers (15-24) working up to 20 hours per week was 11 per cent, compared to 3.6 per cent of adults with the same educational attainment. But only 3.9 per cent of young workers with university education was employed for less than 20 hours per week (compared to 1.9 per cent of university educated adult workers). These figures point to a higher incidence of time-related underemployment for young workers with low educational attainment.

#### 2.3.4. Unemployment trends

Unemployment in Macedonia started to decline in 2006. Since then, the overall unemployment rate declined by 13 per cent (from 36.3 per cent to 31.6 per cent). Whereas the labour force participation and employment rates of women are much lower than men's, unemployment rates are almost equally shared between the sexes (31.9 per cent for men and 31 per cent for women in 2011).

Figure 10: Unemployment rate (2006-2011)

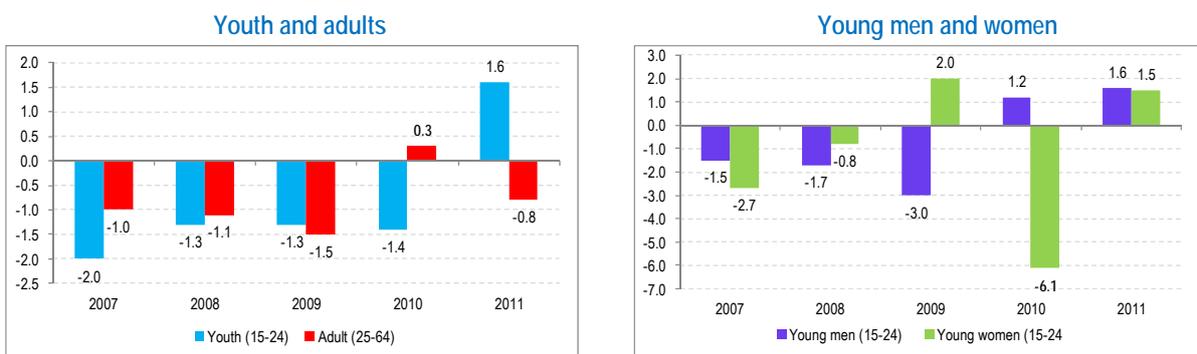


Source: Annual Labour Force Survey (2006-2011), State Statistical Office, the figures are taken from the EUROSTAT web page.

The youth (15-24) unemployment rate is nearly twice that of adults (55.3 per cent and 28.7 per cent, respectively in 2011). Youth unemployment, however, decreased in the period 2006 to 2010, alongside the overall unemployment rate, to then increase again in 2011. This indicates that youth employment in the country moves alongside – and it is more sensitive to – the business cycle. Young women are slightly less exposed to unemployment than men (54.8 per cent and 55.5 per cent, respectively).

The highest incidence of unemployment is found among university educated youth (67.3 per cent). Those with lower educational level are less exposed to unemployment, with upper secondary graduates showing an unemployment rate of 51.3 per cent, and 59 per cent for youth with primary and lower secondary education. Two factors may contribute to such a high unemployment rates among graduates. One relates to the skills mismatch, e.g. the supply of educated youth exceeds demand. The other may relate to wage reservation mechanisms.<sup>8</sup>

Figure 11: Change in unemployment, youth and adults, young men and young women (2007-2011)



Source: EUROSTAT, Annual Labour Force Survey results (2007-2010)

<sup>8</sup> Wage reservation refers to expectations of a minimum income as a pre-condition for accepting work.

Unemployment in Macedonia is long-term in nature, since in 2011 roughly 82.6 percent of the unemployed had been jobless for a year or more (83.6 per cent for men and 81 per cent for women). Individuals over 50 years old are more affected than prime age workers (92.1 per cent and 85.5 per cent, respectively). Youth unemployment is also predominantly long-term (63.6 per cent), with young men more exposed than young women (66.3 per cent and 58.8 per cent, respectively).

Regional disparities, as reflected by poverty and unemployment figures, are quite large. Relative poverty in 2010 ranged from 9.2 per cent in the capital city to 47.1 per cent in rural areas, while unemployment was higher in the North-East (over 64 per cent) and lower in the South-West (11.5 per cent). Those more exposed to poverty are individuals living in multi-member households, the unemployed – who represent 44.8 per cent of the poor – and low skilled individuals.<sup>9</sup>

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<sup>9</sup> State Statistical Office, *Living standards figures*, Skopje, 2011.

### **2.3.5. Inactivity**

Inactivity among youth increased from 64.1 per cent in 2008 to 67.9 per cent in 2011, more for young women compared to young men (4.2 and 3.4 percentage points respectively). Over 85 per cent of inactive youth are in school (92.9 per cent for young men and 82.1 per cent for young women). Approximately 1.5 per cent of inactive youth are discouraged workers, while over 13 per cent of inactive young women are engaged in family and care responsibilities. The share of youth not in employment, education or training (NEET) has been decreasing from 42.3 per cent in 2006 to 25.5 per cent in 2010, as a result of higher shares of youth enrolled in education. The higher rates compared to the EU-27 level (12.8 per cent) are due to the high youth unemployment levels in Macedonia.

### 3. Review of policies affecting youth employment

The labour market data indicate that Macedonia faces quantitative and qualitative challenges in youth employment. The institutional framework governing the youth labour market, and the way in which government policies are formulated and implemented, have an impact on the effectiveness of the measures taken to ease young people's transition to decent work. The labour market data point to three policy areas that have an impact on youth employment: 1) macroeconomic and sectoral policies and their impact on job creation; 2) education and training policies and their relevance to labour market needs; and 3) labour market policies that bridge labour supply and demand gaps.

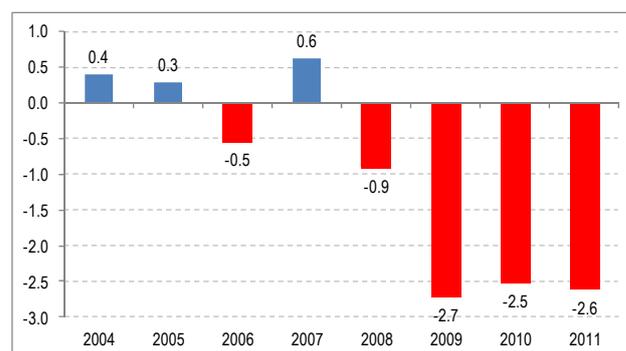
#### 3.1. Macroeconomic and sectoral policies

Since 2005, Macedonia has recorded significant macroeconomic progress in terms of economic growth, low inflation and increasing public investment. Output increased at an average annual rate of over 5 per cent in the period 2005 to 2008, decreased by 0.9 per cent in 2009 and stabilized at an annual growth rate of 3 per cent in 2010 and 2011. Growth in 2011 was driven by an expansion of the construction sector (23.4 per cent growth in the second quarter of the year), also fuelled by government capital expenditures, which increased by 15.5 per cent.

Lower taxation, integrated collection of social contributions, personal income tax amendments, as well as greater effectiveness of the Public Revenue Office, led to improved tax collection and a widening of the tax base. In 2009, the country reformed the gross wage system, which included the gradual reduction of non-wage labour costs (from 32 per cent in 2008 to 27.9 per cent in 2009).<sup>10</sup> In 2011, despite lower tax rates, budget revenues increased by 3.8 per cent on an annual basis.

The country maintained a prudent fiscal policy with low deficits (but also surpluses) in the period 2005-08. This fiscal stance allowed the adoption of expansionary measures during the 2009 downturn. The government significantly increased spending at the end of 2008, turning a moderate fiscal surplus into a deficit. In the following years, the government maintained the deficit at around 2.5 per cent of GDP (much lower than the average 4.5 per cent recorded in European countries).

Figure 12: Central government balance, % GDP (2004-2011)



Source: Ministry of Finance, *Economic indicators*, 2012

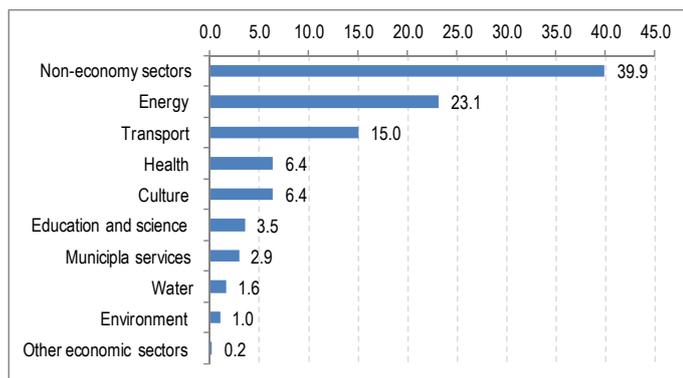
<sup>10</sup> Mojsoska-Blazevski, N., *Supporting strategies to recover from the crisis in South-Eastern Europe: Country Assessment Report - The former Yugoslav Republic of Macedonia*, ILO, 2010.

The *Pre-accession Economic Programme (2011-2013)* emphasizes the acceleration of economic growth as a means to reduce unemployment and increase living standards in the country. To achieve this goal, the *Programme* envisages the promotion of foreign and domestic investments; the improvement of the quality of education; the enforcement of the rule of law; the enhancement of public services; the increase of the public administration capacity to implement reforms; and a prudent management of public finances. The objectives of the fiscal policy are to maintain macroeconomic stability and support growth by intensifying capital investments, while the monetary policy is geared to maintain price and exchange rate stability. To increase the competitiveness of industry, the *Industrial Policy of the Republic of Macedonia (2009-2020)* prescribes increased international cooperation and incentives to attract foreign direct investments, promotion of applied research and innovation, support of small and medium size enterprises (SMEs) development, as well as promotion of industry clusters and networks.

Productive public investments are considered as a key driver of growth. As such, investments increased from 3.9 per cent of GDP in 2007 to 5.2 per cent in 2011. As the country will continue to face a shortage of investment capital, the strategic priority of the Government is to promote larger inflows of foreign investments.

In particular, investment in infrastructure is considered as a means to reduce poverty and unemployment, increase the competitiveness of the national economy, induce higher economic growth and more balanced regional development. The sectoral distribution of the infrastructural investment planned in 2011 and 2012 (roughly €1,5 million) is shown in Figure 14.

Figure 13: Sectoral distribution of infrastructure investment 2011-13



Source: Republic of Macedonia, *Public Investment Programme 2011-2013*, Skopje 2011

The private sector absorbs approximately 78 per cent of all the workers in Macedonia, with SMEs contributing approximately 82 per cent to overall employment. The reforms implemented in the last few years to promote this sector included: 1) a regulatory guillotine to decrease administrative and procedural barriers to enterprise start-up and expansion, 2) the establishment of a one-stop shop system, and 3) the reform of the labour tax system, to decrease the cost of employing workers. The *National Strategy for the Development of Small and Medium-Sized Enterprises (2003-2013)* identifies the increase of economic growth and employment as its primary goal. The strategy identifies as key policies: 1) the promotion of a transparent business environment; 2) the development of enterprise competitiveness; 3) the improvement of managerial capacities; and 4) the promotion of innovation and investments in SMEs.

Despite the progress recorded in establishing a conducive business environment, there still are a number of constraints to SME development, namely: 1) the institutional infrastructure for SME promotion is still under development; 2) the lack of capacity of SMEs to innovate (the share of firms innovating in-house is 11 per cent compared to an EU average of 30 per cent); 3) the limited access to finance (identified as a constraint by over 25 per cent of Macedonian enterprises); 4) the low participation of the workforce in education and training (4.8 per cent of workers in 2009 compared to 12.6 per cent in the EU, with less than 20 per cent of Macedonian enterprises offering training to their workers) and 5) the unfair competition exerted by enterprises in the informal economy (identified as a constraint by over 32 per cent of Macedonian firms).<sup>11</sup> In 2010, the government operationalized a €100 million credit line from the European Investment Bank. Although the credit line does not specifically address SMEs' needs, most of the final beneficiaries are small (up to 50 workers) and medium size enterprises (up to 250 employees). In 2012, the Government negotiated an additional €111 million credit line.

The draft *Innovation Strategy of the Republic of Macedonia (2012-2020)*, identifies the limited capacity of research institutions, the low propensity of the business sector to innovate, the limited knowledge transfer and the lack of coordination among policy-making institutions as key challenges to competitiveness, growth and employment creation. The *Strategy*, therefore, aims at: 1) increasing the innovation capacity of the private sector; 2) strengthening human capital formation; 3) establishing a conducive innovation environment, and 4) increasing knowledge flows.

The *National Youth Strategy (2005-2025)* aims to improve the position of young people (15-29 years) by: increasing the quality of formal and informal education; promoting entrepreneurship; and improving youth participation in public life and in decision-making. The strategies to be deployed to achieve these priorities are, among others, the introduction of career education, internship and voluntary work in the school curricula; the availability of tax rebates for youth setting up small enterprises; and the monitoring of the labour market performance of vocational education and training (VET) graduates through tracer studies.

### **3.2. Education and training policy**

One of the key findings of the youth labour market analysis revolves around the relationship between young people's education and skills level and labour market outcomes. Since 2005, the national education system has been undergoing reforms to improve human capital formation and learning outcomes. These reforms are enshrined in the *National Programme for the Development of Education (2005-2015)* and in a number

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<sup>11</sup> European Commission (Enterprise and Industry) Small Business Act Factsheet: the former Republic of Macedonia, 2010-2011, at [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/fyrom\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/fyrom_en.pdf); World Bank, *Enterprise Surveys: Country Profile Macedonia*, FRY, World Bank, Washington D.C. 2009.

of legislative instruments. The reforms were accompanied by increasing resource allocation (from 3 per cent of GDP in 2005 to 4.6 per cent in 2009).

These reforms included: 1) the increase of the duration of elementary education from 8 to 9 years; 2) at least one year mandatory secondary education (with options to progress to two, three or four years secondary education); 3) a system to promote tertiary education enrolment; and 4) a conditional cash transfer to increase school participation of children living in households beneficiaries of financial social assistance. Macedonia also reformed the curricula and streams of the VET system (to better respond to the requirements of the labour market) and work is ongoing on the National Qualification Framework (NQF). It is estimated that the number of primary and secondary students affected by the primary and secondary education reform is approximately 300,000 young people, while the reforms of tertiary education system affected approximately 9,000 youth. In 2008, the conditional cash transfer for secondary school attendance was estimated to target nearly 19,000 students.

The Law on Secondary Education (Law No 49/2007) made secondary school attendance mandatory with substantial fines for household failing to send their children to school.<sup>12</sup> Such reform increased the progression from basic to secondary education from 88 per cent to 93.7 per cent. The promotion of tertiary enrolment (increase of tertiary education facilities, both public and private, and the expansion of subsidies for university attendance) increased the progression from secondary to tertiary education from 46 per cent to 85 per cent.

The reform of the VET system, implemented through a number of legislative instruments, introduced for the four-year stream, a new curriculum, reduced the number of occupational areas and profiles, and improved the quality and quantity of educational inputs (learning material, equipment and teachers).<sup>13</sup> The 3-year VET programmes have not been reformed yet (the curricula dates back to 1989). A Vocational Education and Training (VET) Centre was also established tasked to design curricula, establish occupational standards, prepare vocational qualifications, and set professional standards for teachers. Concurrently, the Adult Education Law (Law No 07/2008) established a Centre for Adult Education responsible to: 1) compile occupational standards for adult education programmes; and 2) coordinate, monitor and evaluate the provision of adult formal and informal education.

A research conducted in 2010 reveals that VET graduates are predominantly oriented towards continuing their education, also as a result of the government promotional efforts to increase post-secondary learning opportunities. A small share of VET graduates finds employment, but mostly in jobs not in line with the qualifications gained. No accurate data exists, as there is still no system that tracks students after they leave an educational stream. The research, however, indicates that employers consider VET graduates as

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<sup>12</sup> Secondary education comprises courses for one, two, three or four 4 years. In practice, however, there is no provision for one-year secondary education., yet.

<sup>13</sup> Law No 71/2006; No 87/2006; No 117/2008; No 148/2009 and No 17/2011.

having good theoretical knowledge, but little practical experience, low job-related competences and poor core employability skills (namely, self-confidence, initiative, learning to learn and problem-solving skills).<sup>14</sup>

The relationships between education institutions and enterprises are still being developed. In secondary vocational education and training, such cooperation mainly revolves around the organization of practical training for students. Although the legislative framework allows the granting of incentives for companies that offer practical training, few firms currently take advantage of these benefits, mostly due to lack of information. A more strategic relation exists between enterprises and higher education institutions, partly driven by legislative rules and as a means for universities to attract private funding.

The education reform in Macedonia has made notable progress in addressing a number of quantitative challenges, but quality and relevance of learning outcomes are still a concern. Early school leaving (e.g. the share of 18-24 years old with at most lower secondary education) decreased from 22.2 per cent in 2006 to 13.5 per cent in 2011, while the share of individuals 30- 34 years old with university attainment increased from 11.6 per cent to 20.4 per cent in the same period. Lifelong learning opportunities are limited, with only 8.4 per cent of individuals aged 25 to 34 and 2.3 per cent of those aged 35 to 44 participating to education and training in 2011 (compared to 15.1 per cent and 8.9 per cent in the EU27, respectively).

The education system is still characterized by: 1) low responsiveness to labour market requirements, 2) limited competency-based and core employability skills training; 3) underdeveloped adult training and lifelong learning opportunities; and 4) a weak skills forecasting system. A quality assurance systems at all levels of education would also need to be deployed and include mechanisms to track students into the labour market or in further education to measure the relevance of learning outcomes.

### **3.3. Labour market policies**

The commitment of the government to address the employment situation of young people – because of their vulnerability and exposure to social exclusion – is emphasized in the *National Employment Strategy 2015* and accompanying action plan. The key challenges identified include: (1) increasing economic growth and the rate of investment to enhance job creation; (2) improving the overall level of employment especially for young people, the long-term unemployed and individuals with low educational attainment; (3) enhancing the relevance of the education and training system for the labour market; and (4) decreasing informal employment. Meeting these challenges requires synchronized policies in the areas of investments, enterprise promotion, education and training, social dialogue and active labour market policies. The *Employment Strategy* prioritizes action to promote youth employment. Specifically, it identifies the following constraints in the

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<sup>14</sup> Ministry of Education and Science, European Training Foundation and the VET Centre *Collaborative evaluation of the impact of the reformed 4-year secondary vocational education*, Skopje 2010

youth labour market: 1) low labour demand for youth; 2) mismatch between educational outcomes and labour market requirements; 3) low investment of enterprises in job training; 4) lack of experience of new entrants; 5) the higher take-home pay accrued through informal employment; and 6) low scope and range of active labour market programmes targeting youth. These challenges are to be addressed by aligning the education and training system to labour market needs and by implementing targeted active labour market programmes centred on career counselling and guidance; on-the-job training and entrepreneurship promotion. The combination of these policy interventions with those envisaged for the promotion of economic growth, enterprise development and education and training reforms are expected to increase employment rate of the cohort 15 to 29 years old from 26.5 per cent to 29 per cent and reduce early school leaving from 13.5 per cent to 12 per cent by 2015.

### **3.3.1. Active and passive labour market policies**

The Employment Service Agency (ESA) is organized around a nationwide network of 34 local employment offices. A modern system of active labour market services and programmes (ALMPs) was introduced in 2007. It includes employment services (labour market information, counselling and guidance, individual employment planning, job fairs and job clubs); labour market training (including off- and on-the-job training and internships); and employment creation schemes (employment subsidies and self employment programmes). The implementation of ALMPs is managed through Annual Operational Plans that determine yearly the range, scope and financial allocation of the employment services and programmes to be offered. The coverage of ALMPs in the country is approximately 25 per cent of the total registered unemployed (namely 65,000 unemployed every year). Over 46 of the unemployed treated are individuals aged up to 34 years old, while 20 per cent are young individuals up to 24 years old.

In 2008 and 2009 the funding for ALMPs increased from 0.1 per cent of GDP to 0.2 per cent to decline in the following two years mainly due to the discontinuation of public works and a cutback of the self-employment programme. The number of beneficiaries, however, remained the same in 2010 and even increased in 2011. Overall, although progress has been made, the design of active labour market programmes, including sequencing of services and targeting approaches, would warrant revision to increase the returns in the labour market and improve cost-effectiveness.

The two main types of passive policies in Macedonia are the unemployment benefit and the financial social assistance for households living below the poverty line. The unemployment benefit system does not represent a limiting factor to job creation as both the level of benefits and coverage are low (only about 8 per cent of registered unemployed are entitled to it). In addition, it hardly reaches young people due to absence of coverage for first time job seekers.

National expenditures on social assistance benefits are, at 1.2 per cent of GDP, slightly below the average recorded in Central and Eastern Europe countries (1.6 per cent). The coverage of the poorest quintile of the population, however, is only 46 per cent.<sup>15</sup> Social assistance spending increased in 2008 and 2009 despite a general decline in the number of beneficiaries, including beneficiaries of social financial assistance (SFA), the main social assistance programme in the country. The system still faces gaps in benefit administration and delivery, in the monitoring of eligibility and limited incentives for the beneficiaries to leave the welfare system.<sup>16</sup>

### **3.4. Institutional framework and coordination on youth employment**

Within the Macedonian government, there are a number of institutions deputed to deal with youth employment issues, including the Ministry of Labour and Social Policy, the Ministry of Education and Science and the Ministry of Economy. The Economic and Social Council (ESC), re-established at central level in 2010, is a tripartite body responsible for advising the government on economic, social and education policy design.

The institutions responsible for coordinating and implementing economic, fiscal and monetary policies are the Ministry of Finance and the National Bank of the Republic of Macedonia. The macroeconomic and fiscal guidelines are set by the *Programme of the Government of Macedonia* on the basis of the annual projections of the Ministry of Finance.

The Ministry of Labour and Social Policy has a two-fold mission, which is reverted in its organizational structure. The social policy sector designs and implements social policies and programmes and provides entitlements to retired persons. The labour and employment sector is responsible for the design and implementation of employment policies, labour law and labour relations. The mandate of the Labour Market Unit within the MLSP covers the design, monitoring and evaluation of the employment policy and national action plan; analysis of labour market trends, especially with regard groups at risk of labour market exclusion; and monitoring and evaluation of active labour market policies. The State Labour Inspectorate (SLI) is in charge of enforcing labour legislation; specifically, it deals with the implementation of standards with regards to labour relations, as well as employment and social insurance in all sectors of the economy.

All issues concerning the education system falls under the competence of the Ministry of Education and Science. Preschool, elementary and public secondary education curricula are prepared by the Bureau for Educational Development in collaboration with the Pedagogical Council. The VET Centre is responsible for developing the vocational education and training system; defining occupational standards for all VET levels; researching the labour market in collaboration with the social partners; and participating

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<sup>15</sup> World Bank, UNDP, *Social Impact of the Crisis and Building Resilience*, Zagreb, 2010, op.cit.

<sup>16</sup> World Bank, *Implementation completion and results report: Social Protection implementation project*, World Bank, Washington D.C., 2012.

in the accreditation of training programmes. The Centre for Adult Education is tasked to develop occupational standards for adult education as well as monitor and evaluate adult education programmes.

The Ministry of Economy is responsible for economic and industrial policy, the promotion of small and medium size enterprises, energy, the use of natural resources, export promotion, public-private partnership and tourism development. It is organized into eleven departments, each responsible for a specific policy area. This Ministry also coordinates the activities of the Central Business Register, the Agency for the Promotion of Entrepreneurship (APERM), the Agency for the Promotion of Foreign Direct Investments and the Agency for Tourism.

### **3.5. Development cooperation and youth employment**

There are a number of development initiatives aimed at easing the transition of youth from school to work in Macedonia, the most important of which are listed below.

In the forthcoming years, the education and training priorities to be supported by the EU *Instrument for Pre-Accession* (IPA) are aimed at: 1) modernising the two and three-year VET streams with a view to increasing the vocational and non vocational competences of students; 2) promoting the inclusion of national minorities in education and introducing an intercultural curriculum in multi-ethnic schools, and 3) supporting the establishment of a system for adult education, including literacy and elementary education.

In the area of employment promotion, the priorities include support to: 1. further develop the services and programmes offered by the Employment Service Agency; 2. improve the delivery on the objectives established by the *National Employment Strategy*; 3. promote employment opportunities for young people, women and the long-term unemployed; and 4. tackle the informal economy.

The World Bank has two initiatives that are expected to impact youth employment, namely: 1. the *Conditional Cash Transfers* Project aimed at strengthening the effectiveness and efficiency of the social safety net through the introduction of conditional cash transfers for human capital development and improvements in the administration, monitoring, and evaluation of social assistance transfers; and 2. the *Policy Based Guarantee* (PBG) Programme geared, among others, to support improved protection of the most vulnerable groups of the population and to enhance incentives for formal labour market participation.

Other two initiatives, which have a bearing on youth employment, are financed by USAID. The *Youth Employability Skills (YES) Network* targets students in their final year of VET education, unemployed registered with the ESA and out-of-school youth with career guidance and coaching, work-based learning and short term internship placement in private sector enterprises. The *Development Credit Authority* facility provides access to capital for SMEs to expand their operations. It consists of a seven-year, US\$9 million

loan portfolio guarantee programme disbursed over two years and with maximum loan tenure of five years.

## PART II – PRIORITY POLICIES

### 1. Problem identification

The economic reform programme launched to accelerate the transition to a market economy contributed to reverse the trend of decreasing industrial activity and GDP that characterized Macedonia's development in the 1990s. Strong economic growth led to an expansion of the private sector, an increase in domestic demand and inflows of foreign direct investments. Despite these progresses, employment remains a pressing challenge especially for the younger cohorts. The data on the youth labour market indicates that:

- Educational attainment is a strong determinant of both labour market status and poverty risk. Young people with low educational attainment experience higher inactivity and unemployment rates and lower employment rates. Also, they are more likely to be employed in low quality jobs, under precarious working conditions – often in the informal economy. In addition, scarce employment prospects are having an impact also on employment for higher educated youth.
- Despite increasing educational attainment, most young people in Macedonia face problems in making a smooth transition from education to work due to the mismatch between education outcomes and labour market requirements. It is estimated that approximately 40 per cent of all workers are employed in occupations not aligned to their educational attainment. While some young people will, eventually, make it into a permanent, career job, a significant number remain trapped in temporary and low-paid jobs from which they find it difficult to exit. The labour market indicators of the 15-24 age group, compared to those of individuals aged 25-34, show that labour force participation and employment rates increase roughly three-fold and unemployment decreases by nearly half when young people enter adulthood. A worrying aspect of the transition from school to work is the still large share of young people neither in school nor in employment, comprising more than one fourth of the young population– e.g. over 81,000 youth.
- Employment in the informal economy remains pervasive with higher incidence among young people, low skilled workers and with a prevalence in certain sectors of the economy, such as agriculture, construction and food and accommodation services. In 2010, nearly half of total youth employment was in the informal economy.
- The economic and social policies pursued to date paid little attention to addressing the constraints enterprises faced in creating more jobs and in developing their workforce capital. Limited financial and non-financial support, high training costs, combined with an insufficiently developed credit policy, still hinder the employment potential of many private sector enterprises.
- Although there is a general lack of decent work opportunities for youth, not all young people face the same risk of being excluded from the labour market. Young

women, the poorly educated, youth living in rural areas and in less developed regions are more likely to be unemployed than other groups.

The policy mix pursued to date considered employment as being a derivative of sound macro-economic policy (i.e. demand side policies), rather than an objective in itself. The monetary and fiscal policies adopted to date have been effective in creating a favourable environment for economic growth and succeeded – to an extent – in promoting employment growth. The enterprise development strategies enacted to improve the legal framework and access to financial and non-financial services had a positive impact on the business climate. However, enterprises still face a number of constraints to productivity, both endogenous (i.e. management capacities, technology and innovation; investment and skills base of the workforce) and exogenous (i.e. effective state institutions and policies and a properly functioning credit system), which will need to be addressed in the medium to long term.

The strategies adopted so far to address the informal economy focused on reducing the corporate tax burden on enterprises and the non-wage labour costs, with little attention paid to the determinants of informality for both enterprises and workers. As a consequence, the results yielded by these measures in terms of moving workers and enterprises to the formal economy may be short-lived.

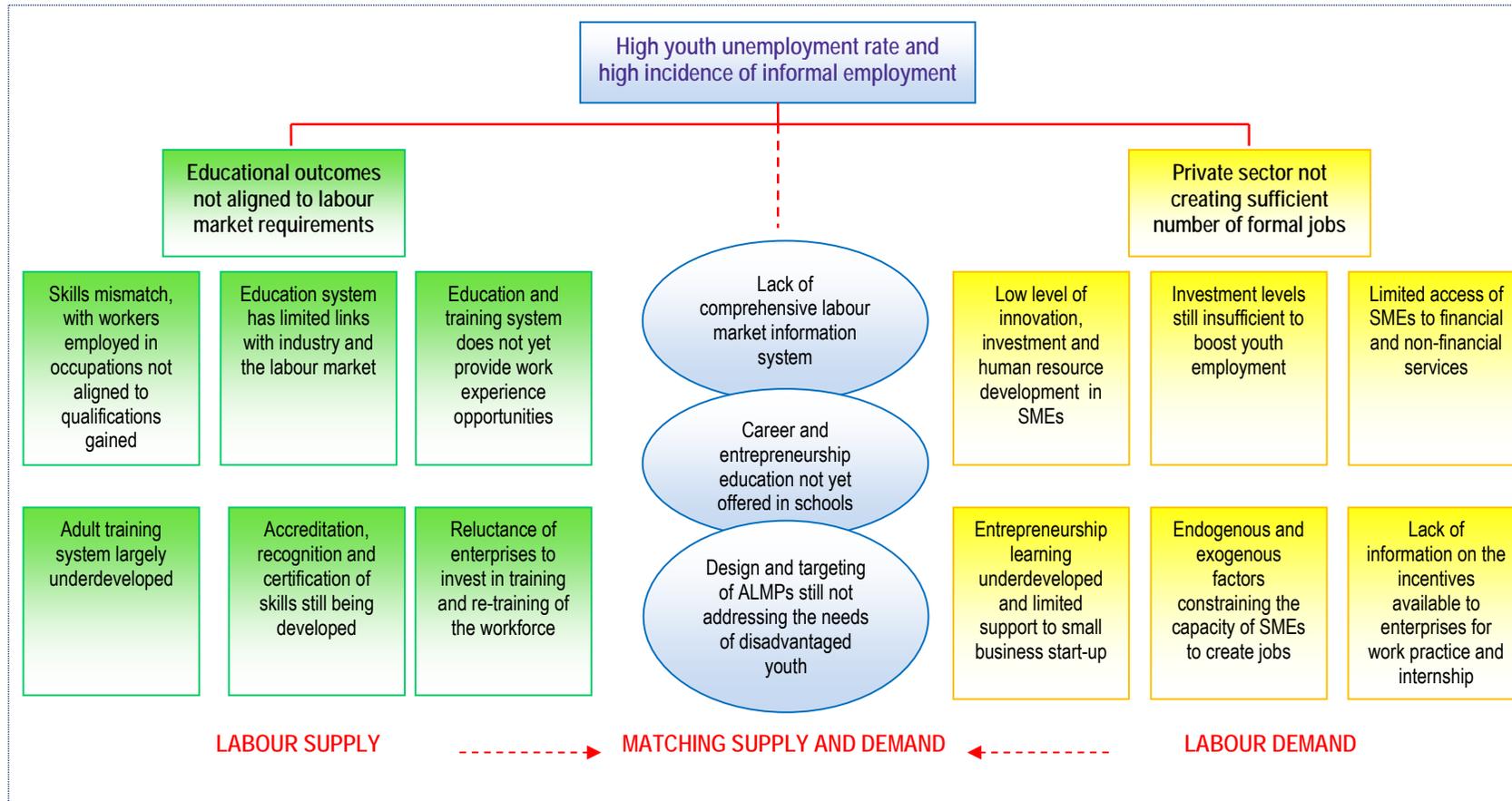
The education and training system is currently unable to address the employability challenges faced by young Macedonians. The increase in quality and relevance of education is not yet matching the increases in overall quantity. Lifelong learning opportunities and the possibility for early school leavers to return to education and training are still limited. The relations between the VET system and industry are still weak; youth often enter the labour market with poor core employability skills; and the lack of a reliable labour market information system and career guidance for students complicates their transition to a career job.

Box 1 provides a summary of the main problems identified, while the main cause/effect relation is illustrated in the following figure.

### Box 1: Main youth employment determinants

Macroeconomic framework	<ul style="list-style-type: none"><li>— Low youth employment elasticity to GDP growth; investment levels (both domestic and foreign) still insufficient to boost employment-rich growth; low capacity of the formal economy to create jobs; attract more foreign direct investments; low level of qualifications of the workforce; Employment considered as a derivative of sound macro-economic policies and not an objective in itself.</li></ul>
Education and training	<ul style="list-style-type: none"><li>— Inadequate education inputs leading to poor quality of education outcomes; lack of relevance of education outcomes to labour market needs; still limited linkages with industry and the world of work; entrepreneurship and career education still limited to few schools.</li><li>— Low level (quantity and quality) of adult training provision, no competency-based system linked to the world of work; few lifelong learning opportunities.</li><li>— Qualification and certification system as well as recognition of prior learning still being developed.</li></ul>
Enterprise development	<ul style="list-style-type: none"><li>— Low job creation capacity of enterprises in the formal economy, endogenous and exogenous productivity constraints.</li><li>— Framework for the promotion of SME in place, but still limited access to credit, scant investment in human resource development; and unfair competition exerted from firms operating in the informal economy;</li><li>— Limited youth entrepreneurship initiatives and access of young people to credit facilities, limited advisory services and networks.</li></ul>
Labour market	<ul style="list-style-type: none"><li>— Low participation of women and young people in the labour market, slow increase in employment rates and high percentage of long term unemployed among the working age population;</li><li>— High rates of temporary, casual and seasonal employment of youth compared to adults; higher incidence of informality among young workers;</li><li>— Difficulties in enforcing labour protection legislation that discourage youth employment and promote informality;</li><li>— Inadequate design and targeting of active labour market policies (ALMPs), lack of linkages between passive and active measures; no impact evaluation of ALMPs; limited and ineffective instruments to overcome lack of work experience of young people;</li><li>— Many interventions deployed on youth employment, but with little coordination.</li></ul>

Figure 14: Cause/effect relation of high youth unemployment rates and incidence of the informal economy



## 2. Policy priorities

The guiding scenario (policy space available) for the identification of youth employment policy options is provided by: 1) the *Programme of the Government of Macedonia* for the period 2011-2015 and the medium-term priorities set therein for each policy areas, 2) the macroeconomic and fiscal objectives set by the Ministry of Finance, and 3) the priorities established by the *National Employment Strategy 2015* and the National Employment Action Plan 2011-2013.<sup>17</sup>

The macroeconomic and fiscal policies to be pursued by the Government of Macedonia in the period 2012-2015 will centre on preserving macroeconomic stability, supporting output growth by increasing capital investments and ensuring low inflation and a stable exchange rate. In 2012 the economy is projected to grow at a rate of 2.5 per cent. However, in 2013 and 2014 it is estimated that the acceleration of global economic growth and the strengthening of investor confidence will increase trade and foreign direct investment flows, leading to stronger output growth and improved external position. Inflation is expected to remain low, at an average of 2.8 per cent on an annual basis. In 2012, the fiscal deficit will be maintained at 2.5 per cent of GDP. The structure of public expenditures will be shifted towards an expansion of capital investment and a reduction of recurrent spending.

As the growth of output in 2012 has been revised downward, employment will grow at a slower pace compared to prior years (0.9 per cent annually).<sup>18</sup> As youth employment is more sensitive to the business cycle than overall employment, its growth will remain negative in 2012, to return positive once output start to accelerate. However, the planned Government policy to generate higher rates of domestic investment is expected to shift upward labour demand and to have a positive impact of the creation of new jobs. Given the available policy space, the priorities to improve youth employment touch upon education, private sector development and labour market policies. Their interaction with macroeconomic, investment and social policies is expected to shift job creation towards young people aged 15 to 29 years old.

The medium-term effect of the combination of these policy options on youth employment is presented in the following paragraphs. For each policy area, the analysis and evaluation of options builds upon the existing policy context and elaborates on expansions and adjustments that are necessary to maximize the outcomes in terms of youth employment. Wide ranging reforms are neither affordable nor desirable, given the current volatility of the external environment. A progressive approach is preferred – centred on accelerating the on-going reform process – since this allows space for policy re-formulation, should economic growth prospects change both at national and European level.

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<sup>17</sup> Programme of the Government of Macedonia (2011-2015), available at <http://www.vlada.mk>.

<sup>18</sup> The *Pre-Accession Economic Programme (2011-2013)* of the Ministry of Finance computes employment elasticity in Macedonia at 0.36.

## 2.1 Education and training

The reform of the education and training system – as set in the *National Programme for the Development of Education (2005-2015)* – needs to be accelerated to remedy the growing skills gap, which today affects over 40 per cent of all individuals employed. Such reforms require a high level of coordination between the government, the enterprise sector and trade unions, which has so far been limited. Constraints to both the supply and demand side of skills need to be identified and addressed. There is a mismatch between the skills provided to young and adult workers by the education and training system and those demanded by enterprises. A review of the available skills, the needs of enterprises and the operation of the education and training system would help identify such disparities and indicate measures to address them. The work undertaken towards the establishment of National Qualification Framework – including Recognition of Prior Learning mechanisms – represents a first step in this direction. The reforms of the national vocational education and training systems, however, will have a positive effect on labour market developments only in the medium to long-term. In the short term, the expansion of subsidized skill development programmes would improve employment prospects for young workers with low or inadequate skill levels and address the erosion of competencies resulting from long unemployment spells.

The following policy options are deemed feasible in the short- to medium-term to increase the relevance of education and training and facilitate the labour market integration of young people:

- *Reform the education system*– as already set forth by the reform *Programme* of the Ministry of Education– by: a) addressing the risk factors leading to poor education outcomes; b) modernizing the VET curriculum to include non-vocational skills and work-based learning; c) exploiting the Education Management Information System as a tool for education planning and for monitoring the relevance of educational outcomes; and d) aligning education outcomes to labour market requirements.
- *Establish a flexible system for training and retraining* to: a) provide young people with the skills demanded by enterprises; b) provide training programmes in partnership with the private sector for those occupations most demanded by the labour market;
- *Strengthen the link between schools and work* by: a) providing timely career information, education and guidance for young people in and out of school.

## 2.2. Private sector development

Macedonia needs high quality investment to foster economic growth and employment. The opportunity to advance such investments is provided in the *Public Investment Programme* for the period 2011-2013 as well as in the system of incentives to attract foreign direct investment planned by the *Industrial Policy* (2009-2020). Measures to further improve the business environment – as set forth by the *National Strategy for the Development of Small and Medium Size Enterprises* – are already in the pipeline to enhance private sector participation in the economy, as well as increase productivity and competitiveness.

The draft *Innovation Strategy* (2012-2020) proposes to address three key constraints to enterprise growth, namely the capacity to innovate; the development of human capital and entrepreneurship learning. Thus, the policy options which are deemed relevant to improve job opportunities for young people build on the pillars of the *Innovation Strategy* and centre on re-directing the available incentive system towards economic sectors that have high youth employment elasticity and on fostering entrepreneurship among youth:

- *Foster youth employment and human resource development* by: a) shifting existing business development services and credit opportunities towards initiatives with high youth employment impact; and b) establish a system of incentives to promote innovation through human resource development;
- *Promote youth entrepreneurship* by: a) mainstreaming entrepreneurship learning in school, b) developing services and programmes to reward innovation among young entrepreneurs.

## 2.3. Labour market policies

The economic crisis has hit young people harder than other age groups. This is being felt mainly in terms of unemployment and longer job search periods. The human and social costs of youth unemployment are far-reaching and include loss of lifetime earnings and human capital, worker discouragement and loss of social cohesion. There is increasing empirical evidence that long spells of unemployment early in the working life are associated with an average 20 per cent loss of earnings for 15-20 years after the unemployment episode.<sup>19</sup> For young workers, entering the labour market in an economic slowdown lowers earnings, raises career instability and affects individuals' beliefs and family formation. These scars persist for ten years and over and are only partially mitigated by a recovery of aggregate demand. As young people are a heterogeneous group and face different types of labour market disadvantages, an early identification of individual risk factors and of the determinants of labour market disadvantage is of crucial

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<sup>19</sup> *The Challenges of Growth, Employment and Social Cohesion*, Joint ILO-IMF conference in cooperation with the office of the Prime Minister of Norway, 2010

importance to provide appropriate and effective employment assistance. Multi-component interventions that combine remedial education and training with work-experience programmes and job-search assistance, as well as incentives for employers to hire young workers, have demonstrated to be more cost-effective than single measures.

The funds invested in active labour market programmes in Macedonia are still low and this limits their scope, range and coverage. In order to improve funding allocation, a percentage of the revenues stemming from the unemployment insurance will be earmarked for the financing of youth employment programmes.

Informality matters because it deters investment and productivity growth. Breaking the cycle requires a careful approach that induces enterprises to comply with their obligations yet avoids driving them out of business. This can be done by addressing the root causes leading enterprises to the informal economy, and establishing provisional measures to encourage firms to move to the formal economy, some of which are already in place.

Activation policies to re-integrate the long term unemployed and social welfare recipients into the labour market will be initiated, while the emphasis will be gradually shifted to the design of active labour market programmes that are well targeted, respond to labour market requirements and involve the social partners in their design, monitoring and evaluation. To this end, the policy options in these areas are:

- *Reform the targeting and financing of ALMPs* by: a) developing an early profiling system for young unemployed; b) earmarking a percentage of the revenues stemming from unemployment insurance contribution for active labour market programmes targeting youth; c) designing and offering sequenced programmes integrating components targeting both labour demand and supply, and d) establishing a cost-effectiveness mechanism to accompany the monitoring system aimed at measuring the employment outcomes of programmes on young beneficiaries;
- *Reduce informality* by: a) expanding existing measures to move informal business set up by young people to the formal economy, and b) raising the awareness of enterprises and young people about rights at work and the consequences of informal employment;
- *Integrate employment and social services* by: a) developing a referral system between employment and social services; and b) designing integrated programmes addressing the needs of young beneficiaries of social financial assistance and aimed at shifting them from welfare to work.

## PART III – ACTION PLANNING

### 1. Goal

The overarching goal of the *Macedonian Action Plan on Youth Employment* is **to promote more and better jobs for young men and women.**

### 2. Specific youth employment objectives and targets

The Government is in the process of implementing the policy and institutional changes envisaged by the *Programme 2011-2015*. In order to achieve the objectives of the youth employment policy, an effective labour market governance system is required. The first priority objective of the *Action Plan*, therefore, is cross-cutting and geared to:

#### 1. *Strengthen the governance of the (youth) labour market*

This objective has one target, namely the improvement of the effectiveness of labour market institutions to deliver on the objectives of the youth employment policy and *Action Plan*.

Improving the quality and relevance of education provides the highest rate of return in terms of promoting youth employability. Therefore, the second policy objective of the *Action Plan* is to:

#### 2. *Enhance youth employability*

This objective has two targets: 14 per cent increase in the number of secondary education leavers (15 to 29 years of age) who are employed, and 1.5 percentage points decrease in the number of youth (15 to 24) who leave the secondary education system without qualifications.

The impact of the reform of the educational and training system will yield results only in the medium to long term. To remedy education and training failures, lifelong learning opportunities will be expanded to address the employability needs of those young people who are outside the formal education system. But increasing youth employability without addressing the capacity of the private sector to create decent work opportunities will erode the benefits generated by a more educated youth workforce. Hence, the third priority objective is to:

#### 3. *Promote youth employment through private sector development.*

The target is to increase the employment rate of youth (15 to 29) to at least 29 per cent and a 10 percentage increase in the share of youth employed in decent jobs.

Simply increasing the employability of young people and promoting the capacity of the economy to create more and better jobs will not be sufficient to address the needs of those young people who face multiple barriers in the labour market. Equity concerns demand that specific measures be enacted. Thus, the fourth and final objective of the *Action Plan* is to:

**4. *Ensure labour market inclusion of disadvantaged youth through targeted labour market measures.***

The targets are 30 percent increase in the number of low skilled youth exposed to active labour market services and programmes; and 20 percent increase in the number of young Social Financial Assistance (FSA) beneficiaries gaining employment and shifting from welfare to work

The time frame of the *Action Plan on Youth Employment* is three years, from 2012 to 2015. This timeframe allows the alignment of the *Action Plan* to the budgetary planning framework of the Republic of Macedonia and the objectives of the *National Employment Strategy 2015*. The total number of youth people targeted is approximately 135,000 youth between 15 and 29 years old, namely over 28 per cent of the total population in that age-group.

### **3. Key outcomes and indicators**

#### ***Strengthening the (youth) labour market governance system***

A more effective governance of the labour market builds on three interlinked outcomes: 1) the Labour Market Unit of MLSP coordinates and monitors the delivery on the employment policy objectives; 2) the reform of the Employment Service Agency is accelerated and mainstreamed to all local employment offices, and 3) the Labour Inspectorate is strengthened to address informal employment, especially for young workers.

#### ***Outcome 1.1 – The Labour Market Unit of MLSP coordinates and monitors the delivery on the employment policy objectives***

- The Labour Market Unit of the MLSP is able to formulate and monitor the performance of the (youth) employment policy.

**Baseline:** The new policy framework of the Republic of Macedonia, aligned to the principles of the European Union, builds on the pillars of the *National Employment Strategy 2015* and implementing National Employment Action Plan 2011-2013. A better knowledge of the labour market will be instrumental to setting up an effective monitoring system that continuously provides inputs on the progress made in the achievement of employment objectives.

Effective employment policies call for improved labour administration, efficient use of financial resources and better design, monitoring and evaluation of active labour market programmes. Hence, the government will move forward with the reform of labour administration envisaged in the *Employment Strategy* and the *Government Plan* (2011-2015). This includes capacity building of the Labour Market Department to collect and analyze labour market data to inform the policy development process and the establishment of a monitoring and evaluation system to measure the effectiveness of active labour market policies.

#### *Output 1.1.1*

The Employment Department regularly collects and aggregates information on the implementation of the (youth) employment policy;

#### *Output 1.1.2*

Monitoring and evaluation cycles of the employment and youth employment policies regularly conducted.

### ***Outcome 1.2 – The reform of the Employment Service Agency is accelerated and mainstreamed in all local employment offices***

- 20 per cent increase in the number of young unemployed treated with employment services and programmes;
- Number of local employment offices deploying improved service delivery and programme administration approaches;
- At least 4 performance monitoring cycles conducted by ESA in the timeframe of the Action Plan.

**Baseline:** Every year, the Employment Service Agency treats approximately 25 per cent of the total unemployed registered (e.g. nearly 65,000 individuals) with employment services and programmes. Of these, 20 per cent are youth 15 to 24 years old and 26 per cent are individuals aged 25 to 34 years old. The ESA conducts a performance monitoring cycle once a year. This however, is not accompanied by cost-effectiveness analyses. It is not possible, therefore, to determine which programme, among those delivered, is most effective in terms of costs and returns in the labour market.

This outcome envisages the mainstreaming of the ESA reform to all employment offices with a view to introducing a tiered and profiled system to better respond to the different needs of clients. It is expected that capacity building activities planned within the technical assistance package of the European Union will improve both the quantity and the quality of employment services delivered to clients. Within this assistance package, the ESA will introduce clients' satisfaction surveys to gather feedback on the quality of services provided to clients (both unemployed and employers posting vacancies).

Regular performance monitoring exercises, accompanied by cost-effectiveness measurement of ALMPs, will be instrumental to: 1) provide information on programmes that work for young people; 2) help decide which service and/or programme needs to be discontinued; and 3) maximize the allocation of human and financial resources.

#### *Output 1.2.1*

The quantity and quality of the services and programmes offered by the Employment Service Agency to clients (unemployed and employers) improved;

#### *Output 1.2.2*

Performance monitoring and cost effectiveness analyses of employment programmes conducted on a yearly basis in all local employment offices. The ESA does it under supervision of MLSP and yes the cost-effectiveness is done office by office as the number of programme delivered changes. It is also a question of how much different offices can manage.

### ***Outcome 1.3. The labour inspection system is strengthened to tackle informal employment, especially for young workers***

- The number of labour inspections carried out annually increased by 5 per cent;
- An increase of 20 per cent in the number of young people registered as workers in sectors at risk of informality (agriculture, accommodation and food services, trade and construction);
- 1.2 per cent increase in social contribution revenues.

**Baseline:** The amendments to the *Labour Relations Law* of 2008 introduced severe measure to prevent undeclared work practices among firms and workers. These envisage the shutting down of business operations for 30 days and fines ranging from €7,000 to €15,000 for violations. In 2011 the Labour Inspectorate conducted over 28,700 inspections – especially in the trade, hospitality, construction and manufacturing sectors – and detected over 1,250 cases of labour legislation violations.

In 2010, the number of workers aged between 15 and 24 years old with registered (formal) work contracts was 18,115 individuals. Over 28 per cent were employed in wholesale and retail trade; 6.1 per cent were registered as employed in hotels and restaurants and another 2.8 per cent in other social and personal services. Only 4.3 per cent were registered as working in the construction sector and 2.3 per cent in agriculture.<sup>20</sup> The sectors recording the highest differences between the number of young workers registered and those detected by the Labour Force Survey are agriculture (where over 96 per cent of young workers are not registered), personal and other services (83 per

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<sup>20</sup> State Statistical Office, *Employees and net wages*, 10/2010, at [http://www.stat.gov.mk/PrikaziPoslednaPublikacija\\_en.aspx?id=50](http://www.stat.gov.mk/PrikaziPoslednaPublikacija_en.aspx?id=50)

cent unregistered), accommodation and food services (76.4 per cent not registered) and construction (where 60 per cent of young workers are not registered).<sup>21</sup>

In 2011 the total amount of social security contribution revenues amounted to roughly MKD 38 billion (or 8.2 per cent of GDP), while the revenues stemming from the Personal Income Tax was MKD 9.4 billion (or 2 per cent of GDP).<sup>22</sup>

This outcome focuses on expanding the coverage of the labour inspection system and increasing the number of inspections in those economic sectors more exposed to undeclared work practices. The Labour Inspectorate will develop methodologies and tools to detect and effectively address these practices. The information gathered during inspections will be shared with other enforcement agencies (such as the Public Revenue Office, the health inspection, Employment Service Agency, Social Work Centres and so on). The various inspection systems (labour, tax and health) will be provided with clear, transparent and coherent guidelines for sharing information. This system will include other government agencies as appropriate, with a view to consolidate the knowledge base on enterprises, industry sectors and compliance with legal requirements. To support the inspection work, enforcement agencies will jointly develop and distribute information material explaining the requirements of the current legal framework (protection of workers' rights, social security, taxes, obligations of employers in securing health and safety in the workplace and so on) and the benefits deriving from the regularization of enterprises and/or workers (improved performance and productivity).

#### *Output 1.31.*

The labour inspection system is strengthened to deter both workers and enterprises from operating informally;

#### *Output 1.3.2*

A system of referral and information-sharing established among enforcement agencies (labour, health and tax inspection).

### ***Enhancing youth employability***

The achievement of this objective builds on three interlinked outcomes: 1) the alignment of the education and training system to labour market requirements, as envisaged by the of the Ministry of Education and Science; 2) the establishment of flexible training system

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<sup>21</sup> State Statistical Office, *Labour Force Survey 2010*, at [http://www.stat.gov.mk/PrikaziPoslednaPublikacija\\_en.aspx?id=3](http://www.stat.gov.mk/PrikaziPoslednaPublikacija_en.aspx?id=3)

<sup>22</sup> International Monetary Fund (IMF), *First Review Under the Precautionary Credit Line*, September 2011 at <http://www.imf.org/external/pubs/ft/scr/2011/cr11280.pdf>.

to remedy skills mismatches for young jobseekers; and 3) providing access to career development services to young people in and out of school.

***Outcome 2.1. The education and training system is aligned to labour market requirements***

- 14 per cent increase in the number of secondary education leavers who are employed;
- 1.5 per cent decrease in the number of youth (15-29) who leave the secondary education system (especially VET) without qualifications.

**Baseline:** In 2011 there were 174,500 individuals aged 15 to 29 years old with only primary and lower secondary educational attainment (ISCED 0-2). This represents 36.4 per cent of the overall cohort. While most of those in the age-group 15 to 19 are attending compulsory education (9 years primary education plus at least one year of lower secondary education) and are expected to progress to upper secondary education, those aged 20-24 and 25-29 years old with at most lower secondary education (e.g. 23,800 and 35,000 individuals, respectively) are low qualified youth and therefore at risk of poor labour market outcomes. In fact, only 2.8 per cent of those aged 20-24 and 5.9 per cent of those aged 25-29 years old were employed in 2011.

In the academic year 2011-2012, the secondary education system had 91,300 student, 40 per cent in general secondary streams and 60 per cent in vocational education (or 54,784 students). The dispersion between primary and secondary education is approximately 6 per cent (around 1,500-1800 students every year), with another 3 per cent (600 students) who leave the VET secondary education system after the first compulsory year.

In 2011, the rate of early school leavers (15-24 years old) was 13.5 per cent (e.g. 42,510 young people).

Increasing young people's employability involves making sure that they acquire the skills, knowledge and attitudes that will allow them to find work and cope with unpredictable labour market changes throughout their working lives. To prevent failure at school, it is necessary to intervene as early as possible and to persist with interventions to give young people at risk the best chances to overcome multiple disadvantages. Vocational education needs to become more diverse and embed core employability skills to meet the interests of a wider range of young people. The introduction of practice in a real work setting is deemed instrumental to increase the capacity of students to transfer the skills acquired to the world of work, and hence increase their employability.

Vocational education will be broadened and include enterprise-based learning opportunities, while career education will be introduced in secondary schools. Work will also start to mainstream career education at primary level.

The full deployment of the Information Management System will be key to measure improvements in the relevance of education outcomes. The regular monitoring of

learning outcomes and the employment rate of VET graduates will provide information on the results achieved (tracer studies and employers' surveys) to be mainstreamed in the system of education and training planning and forecasting. In the medium term, a system for pooling administrative data on education and employment will be constructed (data warehousing) to automatically measure the success of education leavers in the labour market by educational attainment and stream. Against this backdrop, the specific outputs leading to outcome 2.1 are:

*Output 2.1.1.*

The system to identify early youth at risk strengthened and linked to career development services;

*Output 2.1.2.*

VET secondary and post-secondary curricula modernized to include vocational and non-vocational skills and work-based learning;

*Output 2.1.3.*

The Education Management Information System fully operationalized to inform education planning and resource allocation;

*Output 2.1.4*

The relevance of education outcomes to labour market requirements monitored and evaluated on a regular basis and results used for education planning.

***Outcome 2.2. A flexible system for labour market training is in place to provide skills leading to employment for young jobseekers.***

- By 2015, at least 2,000 youth will have attended training programmes in the skills most demanded by the labour market
- 60 per cent of young unemployed who participated in labour market training are employed 6 months after completion of the programme

**Baseline:** In 2010 approximately 9,200 young people aged 15 to 24 attended non formal education and training (2.9 per cent of the cohort). However, only 4,395 low skilled youth (e.g. with educational attainment ISCED 0-2) participated to non-formal education and training.<sup>23</sup> In 2011, the ESA targeted with active labour market services and programmes approximately 1,920 young people (up to 27 years old). This represents 32 per cent of the total number of unemployed treated. Young people were referred mostly to training programmes (42 per cent of total youth treated); internship programmes (24 per cent); employment subsidies (16 per cent); and self-employment programmes (8.3 per

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<sup>23</sup> The figures are derived from the data posted by EUROSTAT in lifelong learning.

cent). The gross employment rate at follow up for ALMPs participants in 2011 was 46.2 per cent. Approximately 50 per cent of young people who attended a training programme gained a job afterwards.

Occupational skills and job vacancies surveys will be conducted regularly to identify occupations and economic sectors creating more jobs. The key findings of these surveys will be disseminated by the Labour Market Unit to the Ministry of Education and the Employment Service Agency. The Ministry of Education will use this information to plan the delivery of vocational education courses at secondary and post-secondary level, whereas the ESA will use them to design and contract labour market programmes geared to increase the employability of young jobseekers. In addition, the design of short-term training programmes funded by the ESA will be adjusted to give priority to the acquisition of skills on-the-job in partnership with private enterprises.

*Output 2.2.1.*

Occupational skills/job vacancy surveys conducted regularly to inform the design of vocational education and training programmes;

*Output 2.2.2.*

Labour market training programmes for priority occupations developed and used for ESA contracting of active labour market programmes targeting youth;

*Outputs 2.2.3.*

Training programmes for young jobseekers leading to productive jobs systematically delivered in collaboration with the private sector

***Outcome 2.3 – Young people have access to career development services***

- 10 per cent of secondary education students receiving career education services;
- 10 percentage points increase in the number of youth registered in the employment service receiving individualized career guidance and employment counselling;
- By 2015, at least 30,000 youth will have had access to labour market information (LMI)

**Baseline:** The provision of labour market information and career education is still not part of the secondary school curriculum in Macedonia.

In 2011, over 13,000 young people (up to 24 years old) received labour market information, counselling and guidance and individual employment planning (20 per cent of the total number of unemployed treated with these services). Over 10,000 youth accessed labour market information through the services put at disposition by the local employment offices. Individualized counselling and guidance, including assistance to resume writing, was offered to over 1,150 youth.

Well designed career education curricula help prepare students for a changing world of work. As the development of career education in the secondary school system will take time, for curative purposes the resources of the ESA will be tasked with the delivery of career information and guidance to out-of-school youth. Instrumental to this will be the collection and dissemination – in and out of schools – of information on career paths, industries, jobs and their requirements, as well as skills most demanded in the labour market. This will improve the access of young people to updated and reliable labour market information. The Labour Market Unit of the MLSP will take responsibility for the gathering, analysis and dissemination of updated and reliable labour market information. This Outcome encompasses three outputs:

*Output 2.3.1*

Information on the labour market, industries, occupations and career paths collected, analyzed and systematically available to a wide range of users (individuals, institutions, community-based organizations, schools);

*Output 2.3.2*

Career education mainstreamed in secondary schools and work undertaken for introducing it at primary level;

*Output 2.3.3*

Career development services provided to youth by local employment offices, including through the use of Information and Communication Technologies (ICT).

***Fostering youth employment through private sector development***

The achievement of this objective builds on two interlinked outcomes: 1) the establishment of a package of incentives to improve youth employment and human resource development; and 2) improving the scope and range of services available to young entrepreneurs.

***Outcome 3.1: A package of incentives is in place to foster youth employment and human resource development***

- Percentage of young people employed in priority economic sectors;
- Percentage increase in investments in priority economic sectors/enterprises with higher youth employment elasticity;
- Number of young workers trained through the incentive scheme;
- 5 per cent increase in the number of enterprises providing training to their workers and 10 per cent increase in the number of young workers receiving training.

**Baseline:** There is no data on the youth employment elasticity of economic sectors, yet. According to the Labour Force Survey, over 32 per cent of young workers (15 to 24) were employed in agriculture (14,700 individuals) in 2011. Manufacturing accounted for 15 per cent of young workers (6,800 individuals); wholesale and retail trade for 14.6 per cent (6,600 individuals); and 8.6 per cent were employed in the food and accommodation sector (3,900 young workers).<sup>24</sup> According to the Employers' Survey conducted by the World Bank in 2009, only 18.9 per cent of enterprises in Macedonia provided training to their workforce. The figures of the Labour Force Survey data show that the share of young workers (18 to 24) who participated in education and training in 2010 was 9.3 per cent (compared to 35.8 per cent of young workers in the EU27).

The private sector in 2010 contributed 66.2 per cent to fixed capital formation in the country. The economic sectors contributing most were construction (37 per cent of total private fixed capital formation and 7.8 per cent of total value added); manufacturing (18.7 per cent of total capital investment and 29 per cent of total value added); wholesale and retail trade (14.6 per cent and 21.2 per cent, respectively) and Information and Communication Technology (9.2 per cent of capital formation and 10.7 per cent of value added).<sup>25</sup>

In 2011, the tax incentives granted for new recruits (article 98 of the *Law on Employment and Insurance against Unemployment*) totalled approximately MKD 70.3 million.<sup>26</sup>

This outcome proposes to complement the measures set forth by the *Innovation Strategy of the Republic of Macedonia 2012-2020* and to address some of the constraints identified to SME development, namely limited credit opportunities and the lack of incentives to invest in human resources development. The growing gap between demand and supply of skilled employees is one of the main obstacles to increasing investment and developing new branches of the economy. Companies are reluctant to offer personal/professional development and training to new recruits due to the cost of the investment. These constraints may be addressed by providing incentives to enterprises in sectors that have high youth employment elasticity and/or are more likely invest in innovation. In addition, the incentive package available for new recruits will be extended to target enterprises operating in specific economic sectors and/or employing young people in priority economic sectors/occupations.

### *Output 3.1.1.*

A survey to measure the youth employment elasticity of the various economic sectors conducted to identify priority sectors of intervention;

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<sup>24</sup> EUROSTAT, *Annual LFS data*, 2011.

<sup>25</sup> State Statistical Office, *Gross fixed capital formation, 2010 and Structural business statistics*, 2010

<sup>26</sup> This is calculated on the Personal Income Tax rate (10 per cent) applied to the gross average wage (MKD 30,777 per month), and the number of granted application for the period (1,890 in 2011).

*Output 3.1.2.*

Credit opportunities and other enterprise development services available to enterprises investing in priority sectors with high youth employment elasticity;

*Output 3.1.3*

Tax incentives granted to enterprises employing first time labour market entrants;

*Output 3.1.4.*

An information system established by the Entrepreneurship Development Agency (APERM) to raise the awareness of enterprises on the financial, human resources and productivity incentives that are available;

*Output 3.1.5.*

Incentives provided to enterprises to improve the innovation capacity of young workers through human resource development and training.

***Outcome 3.2. A system for the promotion of youth entrepreneurship is established***

- 10 per cent of secondary education students participate to entrepreneurship learning courses;
- At least 500 small business established by young people benefitting from self-employment and entrepreneurship development programmes and 750 additional jobs created;

**Baseline:** Entrepreneurship education is not yet available in primary and secondary schools. In 2011, 160 young people (up to 24 years old) accessed the self-employment incentive system made available by the employment service.

This outcome is focused on the improvement of entrepreneurship learning for young people in and out of school. Teaching entrepreneurship skills through the school curriculum can pay large dividends later on – not only because it enhances students' employability, but also because it cultivates the "can-do" attitude that is essential for young entrepreneurs. Elective course on entrepreneurship will be designed and offered in secondary education as of the end of 2012, while the next period will see an extension of these courses to primary education level.

Entrepreneurship development services and programmes will be expanded and offered to young people as a means to increase employment opportunities and foster innovation. A range of targeted services will be put in place to support young entrepreneurs in setting up and expanding their business, in particular: 1) information and advisory services (on

taxation, regulations, liabilities, access to networking and mentoring opportunities); 2) prizes that reward innovation; and 3) business incubators facilities.

*Output 3.2.1.*

Entrepreneurship learning is mainstreamed in primary and secondary education institutions;

*Output 3.2.2.*

Information resources and advisory services provided to young would-be entrepreneurs by the Entrepreneurship Development Agency;

*Output 3.2.3.*

Business competitions that reward innovation among enterprises established by young people organized on a yearly basis;

*Output 3.2.4.*

Youth entrepreneurship is promoted by expanding support through business incubators, as envisaged by the *Innovation Strategy 2012-2020*;

*Output 3.2.5.*

The existing business support system is extended to young entrepreneurs (network of business angels and Business Centre's services)

### ***Ensuring the labour market inclusion of disadvantaged youth***

The labour market measures adopted in the Republic of Macedonia have largely neglected the need to combine employment and social services with a view to target the groups of the population that are most at risk of exclusion. Labour market institutions are now facing the challenge of developing strategies and measures to “treat” hard-to-place jobseekers. Evidence from evaluations of labour market programmes carried out in many countries shows that these interventions work when they are well designed and targeted at disadvantaged people, so as to place them in open market jobs through a combination of measures. The promotion of social inclusion of young people facing multiple layers of disadvantage builds on three interlinked outcomes: 1) reforming the targeting and financing of active labour market programmes; 2) offering programmes to shift young informal entrepreneurs to the formal economy, and 3) integrating employment and social services to better address the multiple needs of disadvantaged youth.

***Outcome 4.1 – The targeting and financing of active labour market policies is reformed to address the multiple needs of the most disadvantaged groups of young people***

- Activation rate of low skilled youth increased to 33 per cent of total youth registered as unemployed;
- At least 50 per cent of youth registered with the ESA are profiled early (within the first 6 months of unemployment spell);
- At least 20 per cent of public funds earmarked for ALMPs (equal to 5 per cent of the annual revenues stemming from the unemployment insurance contribution) are invested in increasing the employment prospects of disadvantaged youth
- Percentage increase of disadvantaged youth in ALMPs and employed in formal work.

**Baseline:** In 2011 the total amount of revenues stemming from the unemployment insurance contribution was MKD 1.9 billion (or 0.43 per cent of GDP). This represents roughly 60 per cent of annual allocation available to ESA (just over MKD 3 billion). In the same year, the ESA spent MKD 479 million for the implementation of active labour market measures (e.g. 15.6 per cent of the total budget available).

In 2011, over 15,000 young people (up to 27 years old) were treated by ESA. Over 87 per cent received labour market information, counselling and guidance and individual employment planning services, while 12.6 per cent were referred to programmes (training, internship, employment subsidies and self-employment grants). Of all young people participating to employment promotion programmes, 57.3 per cent were employed at follow up.

The evaluations of active labour market policies (ALMPs) carried out in EU countries suggests that these are more effective if they are well targeted to the needs of individual jobseekers and labour market requirements and when treatment starts as early as possible in the period of unemployment. There is a premium on accurately identifying at-risk jobseekers early in their period of unemployment (profiling). But this is not in itself sufficient to guarantee appropriate responses– e.g. service provision and programmes – that match both individual needs and labour market requirements. That is why the design and targeting system currently used for ALMPs needs to be revisited and constantly monitored to ensure that this matching actually occurs in the most cost-effective manner. The work under this outcome will therefore include: 1) the development of an early identification and targeting system to treat youth who face multiple barriers to labour market entry; 2) the design and implementation of sequenced employment services and programmes; and 3) the establishment of a cost-effectiveness measurement system attached to performance monitoring to inform the allocation of human and financial resources in the employment service.

*Output 4.1.1*

An early profiling system for youth developed and used in all employment offices to segment young clients for priority intervention;

*Output 4.1.2*

At least 5 percent of the annual unemployment insurance contribution revenue (20 per cent of the annual ALMP allocation) set aside to finance employment interventions to smooth the transition of youth to decent work;

*Output 4.1.3*

Integrated programmes developed by Employment Service Agency of the Republic of Macedonia to improve the employment prospects of disadvantaged youth;

*Output 4.1.4*

The design and targeting of active labour market programmes systematically monitored and their cost-effectiveness measured to inform decision-makers;

*Output 4.1.5.*

Parameters for a better allocation of financial and human resources for ESA offices developed and used.

***Outcome 4.2 – Promotional measures to move youth informal enterprises to the formal economy are available***

- Increase by 20 per cent in the number of informal self-employed youth moved to the formal economy and still formal after 12 months;
- Number of enterprises aware of the disadvantages of employing workers informally
- Number of young people sensitized on fundamental rights at work.

**Baseline:** In 2011 only 37 firms set up by youth aged up to 24 years old had access to the self-employment grant put at disposition by the ESA for the formalization of informal enterprises.

The employers' and workers' organizations in Macedonia have carried out numerous activities to raise awareness on the informal economy, its determinants and consequences. However, these activities need to be organized on a continuous basis and be specifically aimed at young people that are about to enter in the labour market either as wage workers or as self-employed. Enterprises as well, and especially small firms operating in sectors more exposed to informality (agriculture, construction, retail trade and food and accommodation services), need to be informed about the legal and financial consequences of operating fully or partially in the informal economy.

Many young people turn to self-employment as an alternative career path. However, many of these have little access to business development services and credit opportunities. Often this results in youth businesses being small scale and operating at the margin of the mainstream market. In order to help young entrepreneurs formalize their activities, the ESA will expand its business development services, self-employment grant and credit lines.

The Ministry of Labour and Social Policy will organize, in collaboration with the social partners, nation-wide information and awareness raising campaigns on the negative impact of the informal economy. This will be complemented by the development of information and training material prepared jointly by the social partners to raise the awareness of young people about their rights at work to be distributed through schools, employment offices and the local networks of the social partners. Concurrently, the employers' organization will plan actions to increase the awareness of enterprises about the consequences of operating in the informal economy.

*Output 4.2.1.*

Financial and non-financial services available to informal enterprises set up by young people to shift to the informal economy;

*Output 4.2.2.*

Awareness raising campaigns on the negative aspects of the informal economy are organized and conducted by the MLSP, the employers' and workers' organizations;

*Output 4.2.3.*

Awareness among enterprises on the negative aspects of recruiting workers informally is raised through the activities of the employers- organizations

*Output 4.2.4.*

Young people – both in and out of school –are informed and aware of their rights at work through the activities of the workers' organizations of Macedonia.

***Outcome 4.3 – Employment and social services are integrated to address the needs of disadvantaged youth***

- At least 2,000 disadvantaged young men/women use integrated employment and social services;
- At least 20 per cent of young Social Financial Assistance (SFA) beneficiaries treated with integrated services gain employment and shift from welfare to work.

**Baseline:** The total number of young individuals 15 to 29 years old who are direct recipients of Social Financial Assistance is approximately 4,000 individuals. Nearly all

are registered as unemployed with the ESA. However, there is still no specific sequence of services and programmes to help these young people shift from welfare to work. The relations among the employment service and the centres for social work are presently limited to the simple exchange of information to verify compliance with procedural requirements.

The Government is committed to fighting poverty and exclusion. Three dimensions prevail in marking whether individuals are excluded: 1) poverty and at-risk of poverty (calculated in terms of disposable monetary income below the median), 2) activity status of individual and cumulative work intensity of household (employed, unemployed and inactive); and 3) level of education of the individual and of household members. These three dimensions are related and exacerbated by other individual factors (such as sex and age). A low level of education limits employment opportunities; not having a job affects the disposable income of the individual and of the household; in turn, the fact of living in a poor household tends to perpetuate disadvantage. Getting people into decent jobs is the one single factor capable of changing individuals' conditions and enabling them to become self-sufficient on a lasting basis.

Today nearly all EU countries have put such employment integration at the very heart of their policies for tackling poverty and exclusion. Active policies, first introduced for unemployed jobseekers, have been extended to other benefit recipients. They typically combine tailored interventions; better service delivery by the public sector; an obligation for clients to participate in labour market programmes; and, sometimes, benefit sanctions for failing to participate.

Developing and delivering an integrated policy response entails the establishment of a system of support services geared to respond to the risk factors leading to exclusion and prevent the escalation of adverse circumstances. To overcome the multiple difficulties faced by disadvantaged youth, a referral system will be established to connect employment and social protection services at central and local level.

A coordination mechanism that brings the employment and the social services will be set up to exchange information on common clients (namely registered unemployed beneficiaries of financial social assistance) and design activation services and measures geared to shift social assistance beneficiaries to productive work.

#### *Output 4.3.1.*

A referral system between employment and social services for disadvantaged youth established;

#### *Output 4.3.2.*

Integrated programmes developed and financed by the ESA to improve the employment prospects of young beneficiaries of financial social assistance.

## 4. Resources

The total cost of the *Action Plan on Youth Employment* is estimated at €28.2 million for the three year period, excluding monitoring and evaluation costs. Approximately €26.8 million has already been pledged and/or made available either through the measures envisaged by the Government (and already budgeted) or the EU-funded Instrument of Pre-Accession (IPA) projects. The remaining €1.3 million required will be raised through technical cooperation assistance. Table 4.1 at the end of this chapter summarizes the cost envisaged under each outcome and its source of financing.

***Outcome 1.1 – The Labour Market Unit of MLSP coordinates and monitors the delivery on the employment policy objectives (€500,000)***

The responsibility of this outcome falls primarily under the mandate of the Ministry of Labour and Social Policy. The funds necessary to achieve this outcome have already been pledged by the technical assistance package funded by the EU Instrument of Pre-Accession (IPA). Part of the funding is to be invested in monitoring and evaluation (€500,000) and the remaining amount (€700,000) for the establishment of a skills forecasting system.

***Outcome 1.2 – The reform of the Employment Service Agency is accelerated and mainstreamed in all local employment offices (€1.5 million)***

The Employment Service Agency (ESA) is responsible for this outcome, which will be partly financed by the technical assistance package envisaged by IPA for the strengthening of employment services (€1.3 million) and partly by own funding (€200,000).

***Outcome 1.3 – The labour inspection system is strengthened to tackle informal employment, especially for young workers (€1.3 million).***

This outcome falls under the responsibility of the Ministry of Labour and Social Policy and the Labour Inspectorate. The total amount of funds necessary has already been pledged through the EU-financed IPA assistance package geared to improve the organizational and functional capacity of the Labour Inspectorate.

***Outcome 2.1 – The education and training system is aligned to labour market requirements (€5,640,000)***

This outcome will be under the primary responsibility of the Ministry of Education and Science. The costs of the reform of the secondary education system in the period 2012-2015 is already covered by State funding and it is estimated at 2 per cent of the total allocation of secondary education (at €2 million for the period). Another part of the resources needed have already been earmarked through an IPA technical assistance package (€2 million). The Education Management Information System costs approximately €30,000 on an annual basis, while additional €50,000 will be required up to 2015 to build the capacity of the staff of the Ministry of Education to analyze the data.

USAID is expected to contribute to the achievement of this outcome through the *Youth Employability Skills (YES) Network* with approximately €1.5 million.

**Outcome 2.2** – *A flexible system for labour market training is in place to provide skills leading to employment for young jobseekers (€1.5 million)*

This outcome is under the responsibility of the Ministry of Labour and Social Policy (for the detection of skills and occupation most demanded by the labour market) and the Employment Service Agency (ESA). Part of the amount required stems from the IPA direct grant to the ESA (€1.3 million), while the remaining amount (€200,000) is the amount that will be allocated from the funds of ALMPs to the training of youth in occupations most demanded by the labour market during the timeframe of the Action Plan.

**Outcome 2.3** – *Young people have access to career development services (€2,667,000)*

This outcome is under the responsibility of the Ministry of Labour and Social Policy, the Ministry of Education and Science and the Employment Service Agency. Part of the funds required (€700,000), made available by the IPA technical assistance package to the Ministry of Labour, will be invested to improve the quality and quantity of labour market information. The Ministry of Education is expected to invest approximately €167,000 to mainstream career education in secondary schools (design of curricula, teachers' training and learning material). The ESA will invest approximately 20 per cent of its budget to provide labour market information and counselling and guidance to job seekers, with €1.8 million invested annually for young people aged up to 24 years of age. The amount pledged by USAID for the *YES Network* was already computed under Outcome 2.1.

**Outcome 3.1** – *A package of incentives is in place to foster youth employment and human resource development (€4,115,000)*

This outcome is primarily under the responsibility of the Ministry of Economy, the Ministry of Finance and the APERM. The measurement of youth employment elasticity by economic sectors will be computed by the Labour Market Unit of the MLSP with own resources. The total amount waived in terms of tax incentives for new recruits in 2011 amounted to roughly €1.2 million; therefore the total amount that will be waived in the timeframe of the Action Plan will be approximately € 3.5 million. The amount pledged by the *Innovation Strategy* for the business start-up competition is €60,000, while the voucher system for business development services is estimate at € 280,000 for the period. The awareness and information actions will cost €35,000. The human resource development pillar of the *Innovation Strategy*, finally, envisages the investment of €240,000, excluding the costs for strengthening the capacity of the VET and Adult Education Centres. The amount envisaged by the *Innovation Strategy* have not been budgeted yet.

**Outcome 3.2** – *A system for the promotion of youth entrepreneurship is established (€706,000)*

This outcome is under the responsibility of the Ministry of Education and Science and the Ministry of Economy. The mainstreaming of entrepreneurship education in primary and secondary education is estimated at € 166,000 (curricula development, teachers' training and learning material development). The expansion of business services to young would be entrepreneurs has already been accounted for in Outcome 3.2. The additional services to be put at disposition by the Business Development Agency (APERM) are already envisaged by the *Innovation Strategy* at €540,000 (business angel network, quality of business services, business network, technology centres and incubators).

***Outcome 4.1 – The targeting and financing of active labour market policies is reformed to address the multiple needs of the most disadvantaged groups of young people (€5 million)***

This outcome is under the responsibility of the ESA and the Ministry of Labour and Social Policy. It is expected that roughly € 1.7 million stemming from the yearly allocation for ALMPs (or 5 per cent of the annual revenues stemming from the unemployment insurance contribution) be invested in treating young people. This totals €5 million for the timeframe of the Action Plan. Also, part of the resources put at disposition by the IPA direct grant to ESA will be invested (already budgeted under Outcome 2.2).

***Outcome 4.2 – Promotional measures to move youth informal enterprises to the formal economy are available (€285,000)***

This outcome is under the responsibility of ESA, the Ministry of Labour and Social Policy, employers' and workers' organizations. The ESA will invest approximately €135,000 of the funds available for ALMPs for the period to increase the number of youth that will have access to the self-employment grant for formalizing their business. The awareness raising campaign to be organized by the MLSP and the social partners will cost approximately €50,000, while the information campaigns to be carried out by employers and workers' organization will cost € 50,000 each. These amounts will be raised during the timeframe of the *Action Plan*.

***Outcome 4.3 – Employment and social services are integrated to address the needs of disadvantaged youth (€ 5 million)***

This outcome is under the responsibility of ESA, the Ministry of Labour and Social Policy and the Social Work Centres. The total amount of funding necessary has already been secured through a grant of the World Bank.

Table 3: Summary of costs and sources of financing the Action Plan on Youth Employment of the Republic of Macedonia

Outcome	Overall cost	Pledged	Source of pledged funds	Amount to be raised
1.1 The Labour Market Unit coordinates and monitors the delivery on the employment policy objectives	500,000	500,000	IPA, Capacity building on M&E for the MLSP	...
1.2. The reform of ESA is accelerated and mainstreamed	1,500,000	1,500,000	IPA, Capacity building service delivery ESA	...
1.3. The labour inspection is strengthened to tackle informal employment, especially for young workers	1,300,000	1,300,000	IPA, Capacity building of the Labour Inspectorate	...
2.1. The education and training system is aligned to labour market requirements	5,640,000	5,590,000	IPA, Capacity building of the MoES State budget USAID YES Network Project	50,000
2.2. A flexible system for labour market training is in place to provide skills leading to employment	1,500,000	1,500,000	IPA, Direct grant to ESA ESA budget for ALMPs	...
2.3. Young people have access to career development services	2,667,0000	2,667,0000	IPA, Capacity building on LMI for the MLSP MoES budget ESA budget USAID YES Network Project	...
3.1. A package of incentives is in place to foster youth employment and human resource development	4,115,000	3,500,000	State budget	615,000 <i>(Innovation Strategy)</i>
3.2 A system for the promotion of youth entrepreneurship is established	706,000	166,000	MoES budget	540,000 <i>(Innovation Strategy)</i>
4.1. The targeting and financing of active labour market programmes is reformed to address the needs of disadvantaged youth	5,000,000	5,000,000	ESA budget IPA, Direct grant to ESA	...
4.2. Promotional measures to move youth informal enterprises to the formal economy are available	285,000	135,000	ESA budget	150,000
4.3. Employment and social services are integrated to address the needs of disadvantaged youth	5,000,000	5,000,000	World Bank grant for the improvement of the social protection system	....
<b>TOTAL</b>	<b>28,213,000</b>	<b>26,858,000</b>		<b>1,355,000</b>

## 5. Implementation and coordination mechanism

To maximize the impact of the *Action Plan on Youth Employment*, it is crucial to ensure its integration within national strategies and its alignment with the budgetary process. Due to the overall youth employment situation, it is critical to ensure that the interventions planned move to implementation in a rapid manner, taking into consideration sequencing and prioritization. This requires the building of a mechanism to steer the implementation process. The development of an effective coordination mechanism builds on the following elements:

- The relevant line ministries and government institutions will be responsible for the implementation of the policies and measures set forth in the *Action Plan*. Detailed programmes will be developed to ease implementation and promote accountability. The group of experts of the various line ministries and the social partners who develop the *Action Plan* will act as Advisory Group to the Labour Market Unit during implementation (see Annex II for the list of members);
- The staff of the Labour Market Unit at the MLSP will be tasked to coordinate overall implementation and to present regular progress reports to the Government. The Labour Market Policy Unit will also work closely with the mechanism that coordinates donors' and technical assistance programmes. The Unit will liaise with the ministries involved in the implementation of the *Action Plan*, with the social partners and organizations representing the interests of young people.

The general responsibilities of key ministries, agencies and partners in the implementation of the *Action Plan* are provided in the matrix appended as Annex 1, while the main functions of the coordination mechanism are described in Box 2.

### Box 2: Coordination mechanism for the Action Plan on Youth Employment

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

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

The **Advisory Group** will:

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

## 6. Monitoring and evaluation

The monitoring of the *Action Plan* will comprise the regular examination of the inputs, outputs and outcomes of policy interventions. It will be based on a system of information gathering and analysis of performance indicators. The Labour Market Unit of the MLSP will have the responsibility to systematize the monitoring information generated by line ministries and partner agencies for presentation to the Government.

Each agency involved will produce annual workplans that translate the *Action Plan* into operational activities. These will detail inputs, the activities to be conducted and the expected results as well as indicate schedules and persons and/or institutions responsible. The matrix appended as Annex 1 provides the general frame for monitoring the results achieved.

The evaluation system will be integrated into the policy/programme cycle. Two evaluation exercises will be conducted: 1) an interim evaluation in mid 2013 and 2) a summative evaluation in mid 2015. The MLSP Labour Market Unit shall be responsible for coordinating both mid-term and final evaluations.

The mid-term evaluation will analyze the outputs and results of interventions, financial management, the quality of the monitoring and of its implementation. By comparison with the baseline situation, it will highlight changes in the general context and judge whether the objectives remain relevant. This evaluation will also examine whether the evolution of national priorities and policies poses a problem of coherence. The mid-term evaluation will rely on information drawn from the monitoring system and from the overall context and its evolution into feedback into the management of action planning.

The summative evaluation, to be carried out in mid 2015, will judge the entire Action Plan performance. It will account for the use of resources and will report on the effectiveness and efficiency of interventions and the extent to which expected outcomes were achieved. The primary evaluative and research questions will revolve around:

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

The summative evaluation will use a combination of methods to measure results: stakeholders' and beneficiaries' surveys as well as cost-effectiveness analysis. Evaluation details will be gathered through the use of primary data collected from the individuals involved in the intervention, secondary data and qualitative techniques.

## Annexes

## Annex 1 – Youth Employment Action Plan Matrix

Objective: <i>Strengthen the governance of the (youth) labour market</i>						
Target: The effectiveness of labour market institutions to deliver on the objectives of the youth employment policy and Action Plan improved						
OUTCOMES AND OUTPUTS	INDICATORS	RESPONSIBLE UNIT	FINANCIAL INPUT		TIMEFRAME	
			Pledged	Not pledged yet	Start	End
<p><i>Outcome 1.1 – The Labour Market Unit of MLSP coordinates and monitors the delivery on the employment policy objectives</i></p> <p><i>Baseline</i> None</p> <p><i>Outputs</i> 1.1.1 The Employment Department regularly collects and aggregates information on the implementation of the youth employment policy; 1.1.2 Monitoring and evaluation cycles of the employment and youth employment policy regularly conducted.</p>	<ul style="list-style-type: none"> <li>▪ The Labour Market Unit of the MLSP is able to formulate and monitor the performance of the youth employment policy</li> </ul>	MLSP	€500,000	....	2013	2015
<p><i>Outcome 1.2 – The reform of the Employment Service Agency is accelerated and mainstreamed in all local employment offices</i></p> <p><i>Baseline</i></p> <ul style="list-style-type: none"> <li>▪ In 2011, the employment Service treated 13,277 youth (up to 24 years old) with employment services and 1,922 youth (up to 27 years old) with active labour market programmes</li> <li>▪ The ESA has a network of 34 local employment offices</li> <li>▪ 1 monitoring cycle per year is conducted on ALMPs</li> </ul> <p><i>Outputs</i> 1.2.1 The quantity and quality of the services and programmes offered by the Employment Service Agency to</p>	<ul style="list-style-type: none"> <li>▪ 20 per cent increase in the number of young unemployed treated with employment services and programmes;</li> <li>▪ Number of local employment offices deploying improved service delivery and programme administration approaches;</li> <li>▪ At least 4 performance monitoring cycles conducted by ESA in the timeframe of the Action Plan.</li> </ul>	ESA	€1,500,000	....	2013	2015

clients (unemployed and employers) improved; 1.2.2 Performance monitoring and cost effectiveness analyses of employment programmes conducted on a yearly basis in all local employment offices.						
<p><b>Outcome 1.3. The labour inspection system is strengthened to tackle informal employment, especially for young workers</b></p> <p><b>Baseline</b></p> <ul style="list-style-type: none"> <li>▪ 28,700 labour inspections carried out in 2011</li> <li>▪ In 2010, the number of registered workers (15-24) was 18,115 individuals: 28 per cent were employed in wholesale and retail trade; 6.1 per cent were working in hotels and restaurants and another 2.8 per cent in other social and personal services. Only 4.3 per cent were registered as working in the construction sector and 2.3 per cent in agriculture.</li> <li>▪ The sectors recording the highest differences between the number of young workers registered and those detected by the LFS are agriculture (96 per cent of young workers are not registered), personal and other services (83 per cent unregistered), hospitality (76.4 per cent unregistered) and construction (60 per cent unregistered).</li> <li>▪ In 2011 the total amount of social security contribution revenues was roughly MKD38 billion</li> </ul> <p><b>Outputs</b></p> <p>1.3.1. The labour inspection system is strengthened to deter both workers and enterprises from operating informally;</p> <p>1.3.2 A system of referral and information-sharing established among enforcement agencies (labour, health and tax inspection).</p>	<ul style="list-style-type: none"> <li>▪ The number of labour inspections carried out annually increased by 5 per cent;</li> <li>▪ An increase of 20 per cent in the number of young people registered as workers in sectors at risk of informality (agriculture, accommodation and food services, trade and construction);</li> <li>▪ 1.2 per cent increase in social contribution revenues.</li> </ul>	MLSP Labour Inspectorate	€1,300,000	....	2013	2015

Objective: <i>Enhance youth employability</i>						
Target 14 per cent increase in the number of secondary education leavers (15 to 29 years of age) who are employed, 1.5 percentage points decrease in the number of youth (15 to 29) who leave the secondary education system without qualifications						
OUTCOMES AND OUTPUTS	INDICATORS	RESPONSIBLE UNIT	FINANCIAL INPUT		TIMEFRAME	
			Pledged	Not pledged yet	Start	End
<p><i>Outcome 2.1. The education and training system is aligned to labour market requirements</i></p> <p><i>Baseline</i></p> <ul style="list-style-type: none"> <li>▪ 14,500 individuals aged 20 to 29 with lower secondary education employed in 2011</li> <li>▪ In 2011 there were 42,510 youth (15-24) who were early school leavers</li> </ul> <p><i>Outputs</i></p> <p>2.1.1. The system to identify early youth at risk strengthened and linked to career development services;</p> <p>2.1.2.VET secondary and post-secondary curricula modernized to include vocational and non-vocational skills and work-based learning;</p> <p>2.1.3. The Education Management Information System fully operationalized to inform education planning and resource allocation;</p> <p>2.1.4 The relevance of education outcomes to labour market requirements monitored and evaluated on a regular basis and results used for education planning.</p>	<ul style="list-style-type: none"> <li>▪ 14 per cent increase in the number of secondary education leavers who are employed;</li> <li>▪ 1.5 per cent decrease in the number of youth (15-24) who leave the secondary education system (especially VET) without qualifications.</li> </ul>	MoES	€5,590,000	€50,000	2013	2015
<p><i>Outcome 2.2. A flexible system for labour market training is in place to provide skills leading to employment for young jobseekers.</i></p> <p><i>Baseline</i></p>	<ul style="list-style-type: none"> <li>▪ By 2015, at least 2,000 youth will have attended training programmes in the skills most demanded by the labour market</li> </ul>	MLSP ESA	€1,500,000	....	2013	2015

<ul style="list-style-type: none"> <li>In 2011, the ESA treated 800 young people with training programmes. The rate of employment at follow up is roughly 50 per cent.</li> </ul> <p><b>Outputs</b></p> <p>2.2.1. Occupational skills/job vacancy surveys conducted regularly to inform the design of vocational education and training programmes;</p> <p>2.2.2. Labour market training programmes for priority occupations developed and used for ESA contracting of active labour market programmes targeting youth;</p> <p>2.2.3. Training programmes for young jobseekers leading to productive jobs systematically delivered in collaboration with the private sector</p>	<ul style="list-style-type: none"> <li>60 per cent of young unemployed who participated in labour market training are employed after completion of the programme</li> </ul>					
<p><b>Outcome 2.3 – Young people have access to career development services</b></p> <p><b>Baseline</b></p> <ul style="list-style-type: none"> <li>There are 91,299 students enrolled in secondary education in the academic year 2011/2012</li> <li>In 2011, over 13,000 youth (up to 24 year old) received LMI and counselling and guidance from the employment service</li> </ul> <p><b>Outputs</b></p> <p>2.3.1 Information on the labour market, industries, occupations and career paths collected, analyzed and systematically available to a wide range of users (individuals, institutions, community-based organizations, schools);</p> <p>2.3.2 Career education mainstreamed in secondary schools and work undertaken for introducing it at primary level;</p> <p>2.3.3 Career development services provided to youth by local employment offices, including through the use of Information and Communication Technologies (ICT).</p>	<ul style="list-style-type: none"> <li>10 per cent of secondary education students receiving career education services;</li> <li>10 percentage points increase in the number of youth registered in the employment service receiving individualized career guidance and employment counselling;</li> <li>By 2015, at least 30,000 youth will have had access to labour market information (LMI)</li> </ul>	MLSP MoES ESA	€2,667,000	....	2013	2015

Objective: <i>Promote youth employment through private sector development.</i>						
Target Employment rate of youth (15 to 29) increased to at least 29 per cent 10 percentage increase in the share of youth employed in decent jobs						
OUTCOMES AND OUTPUTS	INDICATORS	RESPONSIBLE UNIT	FINANCIAL INPUT		TIMEFRAME	
			Pledged	Not pledged yet	Start	End
<p><i>Outcome 3.1: A package of incentives is in place to foster youth employment and human resource development</i></p> <p><b>Baseline</b></p> <ul style="list-style-type: none"> <li>▪ In 2011 there were 73,118 active businesses in Macedonia</li> <li>▪ 18.9 per cent (or 13,645 firms) provided training to their workers</li> <li>▪ In 2010 only 4,585 of young workers (15-24) attended training in their enterprise (9.3 per cent)</li> </ul> <p><b>Outputs</b></p> <p>3.1.1. A survey to measure the youth employment elasticity of the various economic sectors conducted to identify priority sectors of intervention;</p> <p>3.1.2. Credit opportunities and other enterprise development services available to enterprises investing in priority sectors with high youth employment elasticity;</p> <p>3.1.3. Tax incentives granted to enterprises employing first time labour market entrants;</p> <p>3.1.4. An information system established by the Business Development Agency (APERM) to raise the awareness of enterprises on the financial, human resources and productivity incentives that are available;</p> <p>3.1.5. Incentives provided to enterprises to improve the innovation capacity of young workers through human resource development and training.</p>	<ul style="list-style-type: none"> <li>▪ Percentage of young people employed in priority economic sectors;</li> <li>▪ Percentage increase in investments in priority economic sectors/enterprises with higher youth employment elasticity;</li> <li>▪ Number of young workers trained through the incentive scheme;</li> <li>▪ 5 per cent increase in the number of enterprises providing training to their workers</li> <li>▪ 10 per cent increase in the number of young workers receiving training.</li> </ul>	<p>MoE MoF APERM</p>	€3,500,000	€615,000	2014	2015

<p><i>Outcome 3.2. A system for the promotion of youth entrepreneurship is established</i></p> <p><i>Baseline</i></p> <ul style="list-style-type: none"> <li>▪ There were 91,299 students enrolled in secondary education in the academic year 2011/2012</li> <li>▪ In 2011, 60 youth (up to 24 years old) accessed self-employment grants.</li> </ul> <p><i>Outputs</i></p> <p>3.2.1. Entrepreneurship learning is mainstreamed in primary and secondary education institutions;</p> <p>3.2.2. Information resources and advisory services provided to young would-be entrepreneurs by the Entrepreneurship Development Agency;</p> <p>3.2.3. Business competitions that reward innovation among enterprises established by young people organized on a yearly basis;</p> <p>3.2.4. Youth entrepreneurship is promoted by expanding support through business incubators, as envisaged by the Innovation Strategy 2012-2020;</p> <p>3.2.5. The existing business support system is extended to young entrepreneurs (network of business angels and Business Centre services)</p>	<ul style="list-style-type: none"> <li>▪ 10 per cent of secondary education students participate to entrepreneurship learning courses;</li> <li>▪ At least 500 small business established by young people benefitting from self-employment and entrepreneurship development programmes and 1,000 additional jobs created</li> </ul>	<p>MoES MoE</p>	<p>€166,000</p>	<p>€540,000</p>	<p>2013</p>	<p>2015</p>
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Objective: <i>Ensure labour market inclusion of disadvantaged youth through targeted labour market measures.</i>						
Target 30 percent increase in the number of low skilled youth exposed to active labour market services and programmes 20 percent increase in the number of young Social Financial Assistance (SFA) beneficiaries gaining employment and shifting from welfare to work						
OUTCOMES AND OUTPUTS	INDICATORS	RESPONSIBLE UNIT	FINANCIAL INPUT		TIMEFRAME	
			Pledged	Not pledged yet	Start	End
<p><i>Outcome 4.1 – The targeting and financing of active labour market policies is reformed to address the multiple needs of the most disadvantaged groups of young people</i></p> <p>Baseline</p> <ul style="list-style-type: none"> <li>▪ In 2011 the total amount of revenues from the unemployment insurance contribution was MKD 1.8 billion</li> <li>▪ In April 2012 there were 25,000 youth registered as unemployed with low qualifications.</li> <li>▪ In the same period, 12,336 youth had been registered with the ESA for less than 6 months</li> <li>▪ Of the total amount of ALMPs funding available (MKD 479 million), approximately MKD 102.5 million is spent for youth up to 27 years of age</li> </ul> <p><i>Outputs</i></p> <p>4.1.1 An early profiling system for youth developed and used in all employment offices to segment young clients for priority intervention;</p> <p>4.1.2 At least 5 percent of the annual unemployment insurance contribution revenue ( 20 per cent of the ALMP funds) set aside to finance employment interventions to smooth the transition of youth to decent work;</p> <p>4.1.3 Integrated programmes developed by ESA to improve the employment prospects of disadvantaged youth;</p> <p>4.1.4 The design and targeting of active labour market programmes systematically monitored and their cost-</p>	<ul style="list-style-type: none"> <li>▪ Activation rate of low skilled youth increased to 33 per cent of total youth registered as unemployed;</li> <li>▪ At least 50 per cent of youth registered with the ESA are profiled early (within the first 6 months of unemployment spell);</li> <li>▪ At least 20 per cent of public funds earmarked for ALMPs are invested in increasing the employment prospects of disadvantaged youth</li> <li>▪ Percentage increase of disadvantaged youth in ALMPs and employed in formal work.</li> </ul>	ESA MLSP	€5,000,000	....	2013	2015

effectiveness measured to inform decision-makers 4.1.5. Parameters for a better allocation of financial and human resources for ESA offices developed and used.						
<p><b>Outcome 4.2 – Promotional measures to move youth informal enterprises to the formal economy are available</b></p> <p><b>Baseline</b></p> <ul style="list-style-type: none"> <li>In 2011, only 37 business set up by youth up to 27 accessed the grant for shifting to the formal economy.</li> </ul> <p><b>Outputs</b></p> <p>4.2.1. Financial and non-financial services available to informal enterprises set up by young people to shift to the informal economy;</p> <p>4.2.2. Awareness raising campaigns on the negative aspects of the informal economy are organized and conducted by the MLSP, the employers' and workers' organizations;</p> <p>4.2.3. Awareness among enterprises on the negative aspects of recruiting workers informally is raised through the activities of the employers- organizations</p> <p>4.2.4. Young people – both in and out of school –are informed and aware of their rights at work through the activities of the workers' organizations of Macedonia.</p>	<ul style="list-style-type: none"> <li>Increase by 20 per cent in the number of informal self-employed youth moved to the formal economy and still formal after 12 months;</li> <li>Number of enterprises aware of the disadvantages of employing workers informally</li> <li>Number of young people sensitized on fundamental rights at work.</li> </ul>	<p>ESA, MLSP, Employers' Organizations Workers' Organizations</p>	€135,000	€ 150,000	2013	2015
<p><b>Outcome 4.3 – Employment and social services are integrated to address the needs of disadvantaged youth</b></p> <p><b>Baseline</b></p> <ul style="list-style-type: none"> <li>Employment and social services are not yet integrated</li> <li>There are 4,000 young people registered with ESA and benefitting from Financial Social Assistance</li> </ul> <p><b>Outputs</b></p> <p>4.3.1. A referral system between employment and social services for disadvantaged youth established;</p> <p>4.3.2. Integrated programmes developed and financed by the</p>	<ul style="list-style-type: none"> <li>At least 2,000 disadvantaged young men/women use integrated employment and social services;</li> <li>At least 20 per cent of young Financial Social Assistance (FSA) beneficiaries treated with integrated services gain employment and shift from welfare to work</li> </ul>	<p>ESA MLSP</p>	€5,000,000	....	2013	2015

ESA to improve the employment prospects of young beneficiaries of financial social assistance.						
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## Annex 2 - Youth Employment Advisory Group

1	<b>Mr. Borcho ALEKSOV</b>	Ministry of Education and Science
2	<b>Ms. Maja ARGIROVSKA</b>	Ministry of Finance
3	<b>Mr. Imerali BAFTIJARI</b>	Ministry of Economy
4	<b>Mr. Chedomir DIMOVSKI</b>	Centre for Vocational Education and Training
5	<b>Mr. Mladen FRCHKOVSKI</b>	Ministry of Labour and Social Policy
6	<b>Mr. Sasha IVANOV</b>	Confederation of Free Trade Unions
7	<b>Ms. Eleonora JOVANOVIKJ</b>	Ministry of Labour and Social Policy
8	<b>Ms. Sanja KIKOVSKA GEORGIEVSKA</b>	Ministry of Finance
9	<b>Ms. Jasna MISHEVSKA</b>	Organization of Employers of Macedonia
10	<b>Mr. Slobodan TREDAFILOV</b>	Federation of Trade Unions of Macedonia
11	<b>Mr. Goran VELESKI</b>	Ministry of Labour and Social Policy
12	<b>Mr. Perica VRBOSKI</b>	Ministry of Education and Science
13	<b>Ms. Biljana ZHIVKOVSKA</b>	Employment Service Agency