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► Informal employment and Undeclared work in the Horeca sector: Findings from North Macedonia

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Blagica Petreski, Ada Huibregtse and Aleksandar Ristovski

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Authors¹

► Blagica Petreski

Finance Think – Economic Research & Policy Institute, Skopje

► Ada Huibregtse

ILO Office for Central and Eastern Europe

► Aleksandar Ristovski

Ss. Cyril and Methodius University in Skopje, Iustinianus

Primus Law Faculty

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1 Executive Summary

The informal sector plays a substantial role in North Macedonia, both in terms of its contribution to the GDP and the number of individuals it employs. As of 2022, the informal economy accounted for a significant 23.2 percent of the Gross Domestic Product (GDP), according to Finance Think's 2022 policy study. Simultaneously, informal employment constituted 12.2 percent of the overall workforce, as indicated by the Labour Force Survey in 2022. Other estimations of the informal economy's magnitude have been noteworthy; in 2020, the International Monetary Fund (IMF) suggested an informal economy equivalent to a substantial 38 percent of the GDP. Additionally, unreported or undeclared work forms a notable segment of the so-called 'informal' economy in North Macedonia, according to the Ministry of Labour and Social Policy in 2018, posing a considerable challenge to labor market policies and sustainable economic development.

The International Labour Organization (ILO) conducted an assessment of the motivations of workers, particularly young individuals, and employers in the Hotel, Restaurant, and Catering (HORECA) sector to participate in formal employment. This evaluation was based on the pilot intervention titled "Making Declared Work Attractive for Employers and Employees," implemented in Ohrid and Struga by the Association of Hotel, Restaurants, and Cafés (HOTAM). Initially focusing on occasional workers, the project expanded to include seasonal workers due to limited interest. Target groups included students, full-time and part-time workers, women with young children, and HORECA businesses. The pilot involved various activities, such as an online matching platform, public relations campaigns, capacity-building, and measures to reduce undeclared work. The outcomes included successful transitions to declared work for participants, with positive impacts on employment formalization. The objective of this policy study is to document insights gained from the intervention, align them with the regulatory framework, and propose any necessary policy and practice adjustments to promote work formalization.

The results suggest that the pilot measure successfully attracted 160 job seekers and 21 businesses through its online portal. However, despite job seekers expressing initial interest, they declined offers for formal occasional work primarily due to concerns about losing social or student benefits, restrictions on working hours, and hesitancy to seek additional work permission from current employers. Limited awareness of the benefits of registered work and a preference for immediate cash over social security also contributed to the prevalence of undeclared jobs. Employers, on the other hand, showed

low motivation, citing issues such as regulatory inflexibility, administrative bureaucracy, worker reluctance, short project timelines, and perceived unfair competition. Interestingly, when the same offer of subsidized taxes and social contributions was extended to seasonal workers, a swift response was observed. Within two weeks, 136 workers transitioned to formal employment, with changes including full-time and part-time contracts, higher wages, and parallel employment of up to 10 hours per week.

The findings show that the HORECA sector experiences a substantial demand for seasonal and casual workers, with 85 percent of companies hiring seasonal workers, 52 percent employing casual workers, and 39 percent engaging part-time employees. Employers perceive seasonal workers to perform similarly to full-time or long-term employees, offering an opportunity to shift to a more flexible seasonal workforce. The primary targets for employment are university and high school students, those who seeking additional work, including workers from the same sector, public servants, and teachers, as well as instructors from vocational catering schools available during the summer.

The study identified employers' motivations for undeclared work, including perceptions of regulatory rigidity, the obligation to seek permission for additional work, limitations on weekly hours, restrictions on young people aged 16 to 18, administrative bureaucracy, and the allure of cash payments in the informal economy through income and VAT underreporting that stimulate wages cash payment known as "envelope wages". The findings emphasize the complexities and diverse factors influencing the choice between formal and informal employment in the HORECA sector.

While most employers (61 percent) believe undeclared work has decreased, perceptions vary based on location and business type. Reasons for undeclared work among part-time, seasonal, or casual workers include high contributions and workers' preference for cash payment, with variations among different company types. Employers suggest that government measures, such as a reduction in social contributions, could enhance formalization, with many expressing a willingness to offer higher salaries if contributions were lower. However, the pilot program indicates that even with subsidized contributions, employers may not be motivated to increase salaries, suggesting that factors beyond contributions, such as cash transactions, play a crucial role in informal short-term work. Despite the increasing budget for active labor market measures, employers report a lack of specific measures targeting part-time, seasonal, and occasional workers.

From the workers' perspective the findings indicate that young workers prefer seasonal and daily contracts. These contract types provide flexibility, especially for university students who aim to balance work with their studies while seeking financial independence. On the other hand, older adults tend

to like and somewhat prefer permanent and fixed-term contracts. Despite the preference for these contracts, workers often feel they have limited opportunities to choose them, as this decision is typically made by the employer. The motivation for permanent and fixed-term contracts is often linked to future career opportunities, such as the potential for securing a stable or improved job and developing enhanced skills.

Financial incentives play a crucial role for workers with various contract types, but the perceived importance varies. Those with permanent contracts value job stability, while seasonal workers, fixed part-time workers, and daily workers appreciate the chance to earn additional income.

The rest of the report is organized as follows. Section I, the Background, describes the objective and logic of the Pilot. Section 2, the Literature Review presents key evidence and stylized facts on informality and undeclared work in North Macedonia and wider setting. Section 3, Methodology and Data, describes the methodological approach, data and data sources. Section 4, the Findings, sheds light on motivations of surveyed participant and non-participant workers and employers regarding formalization and contractual preferences in Ohrid, Struga and Krushevo. Section 5 presents the Regulatory Framework in Labour Relations. Section 6 draws conclusions on motivations for and outlines a series of recommendations to encourage formalization employment.



Awareness raising public campaign to reduce undeclared work in the tourist and catering facilities in Ohrid and Struga, North Macedonia, August, 2022.

2 Background

The International Labour Organization (ILO) assessed motivations of workers, especially young people, and employers in the Hotel, Restaurant and Catering (HORECA) sector to engage in formal employment based on the Pilot intervention¹ “Making Declared Work Attractive for Employers and Employees” implemented in Ohrid and Struga by Association of Hotel, Restaurants and Cafés (HOTAM), a member of the Employers’ Organization in North Macedonia. This Pilot was implemented within the framework of the Employment and Social Affairs Platform (ESAP) 2, a project financed by the European Union. The main purpose of this report is to document the learnings from this intervention, nest them in the regulatory framework, and recommend any changes in policies and practices that may be necessary to encourage work formalization.

The main objective Making Declared Work Attractive for Employers and Employees, implemented between November 2021 and November 2022, was to generate evidence about policies and practices that can serve either as catalysts or enablers of employment formalization. Regarding longer-term outcomes, the objective of this Pilot was to support evidence-based policy formulation and decision making in employment formalization. The Pilot itself was designed to increase employers’ and employees’ incentive to declare work in the HORECA sector by reducing unnecessary bureaucratic procedures and decreasing the tax wedge for occasional workers.

Initially, the measure focused solely on occasional workers (individuals willing to work up to three days per week, in one or different places). This target was chosen primarily because of the employers’ demand for daily workers during high seasons when numerous large events, such as conferences, and social gatherings, weddings and other family celebrations, take place. However, during the implementation phase, there was no interest from potential daily workers to declare their work. Explanations for such low motivation are elaborated in detail in the Findings. Therefore, the Pilot’s expanded its target group to include seasonal workers, whose cost-and-benefit calculations seemed more likely to be affected by the changes proposed in this Pilot.

¹ Hereafter referred to as the Pilot.

The target groups for this pilot measure were workers and businesses who were willing to transition from undeclared to full-time declared jobs, from part-time declared while working full-time to full-time declared.

The potential targets were:

- High school students and university students, 15 - 26 years old, when school is not on session. The law limits the type of work done by students 15-17 years old, and the Pilot ensured implementation of all occupation safety and health regulations placed by the national legislation and international standards.
- Workers with full-time contracts. Those employed full-time cannot have parallel employment without their employer's consent and can work up to ten additional hours per week.
- Part-time workers. Employees can have several part-time contracts as long as working hours do not exceed 40 hours a week accounting for all contracts. However, some of those in part-time contracts work full-time and parts of their wages are not declared.
- Women with kids under 12 years old.
- Businesses in the HORECA sector that needed short-term, seasonal, or daily workers.

The pilot measure included the following activities, designed in close collaboration with employers:

- Providing an outlet for matching labour supply and demand. An online platform for workers and businesses to register for participation in the pilot project was developed. This platform can be repurposed in the future for other matching activities by the implementer.
- Conducting a public relations campaign with the aim of sensitizing the public in Ohrid and Struga municipalities about the disadvantages of undeclared work and advantages of formalization.
- Supporting registered participants with information and guidance regarding jobs available in the HORECA sector.
- Organizing capacity-building activities to equip participants with skills for job profiles demanded by businesses in the HORECA sector.
- Provisions to reduce undeclared work included:
 - o subsidizing social security contributions for participating workers: the project covered workers' contributions from their gross salaries to increase their motivation to declare their work;

- o ensuring that daily workers were paid above the minimal wage and around the median daily salary per job profile²;
 - o reducing the administrative burden on employers by registering first-time workers with the Employment Office on behalf of participating businesses;
 - o Helping employers registering short-term/daily workers with the Employment Service Agency of North Macedonia;
 - o Providing child support for mothers with children under 12 years old.
- Provide information about the benefits of formal work.

Upon completion, 136 individuals (68 female and 68 male) and 17 businesses operating a total of 26 hospitality establishments participated in the Pilot. Of 136 participants, 105 undeclared workers were registered as seasonal workers with fix-term contracts working full time, 40 hours per week; 20 participants declared as part time were registered as full-time workers, 40 hours per week; eight unregistered participants were registered as seasonal workers with fixed term contracts working 20 hours per week; two registered workers received an increase of 10 hours per week (previously undeclared), and in case of one participant the employer reported a higher salary than the minimum wage previously declared (ESAP 2, 2022).

² A minimum daily wage for the category of servers, cook helpers, bell boys, and cleaners in Struga and Ohrid at 1,500 MKD or 24 €.

The minimum daily wage for skilled cooks in Struga and Ohrid at 3,000 or 48 €.

3 Literature review

The ILO Recommendation 204 (2015) acknowledges that high incidence of informal economy, found across all economic sectors whether public or private, is a major challenge for the rights of workers, social protection, and decent work, and it negatively affects the development of sustainable enterprises, public revenues and fair competition in national and international markets.

The drivers of informality are multidimensional, such as institutional, monetary, regulatory, and cultural. They vary across countries and over time and are deeply intertwined with one another, and facilitating transition to formal economy usually requires “coherent and integrated strategies” (ILO R204, 2015). The Pilot, which is at the heart of this assessment, focuses mostly on monetary reasons such as avoiding paying taxes and all or partial social security contributions, and regulatory reasons such as avoiding cumbersome and lengthy bureaucratic rules and rigidity of created by certain parts of relevant legislation. Formal firms engaging in undeclared work contribute to a smaller tax, social security, and health insurance base, as well as to unfair competition against other formal firms whose employees are fully declared. (IOE 2021, OECD 2004) Furthermore, fully, or partially undeclared workers tend to be worse off than declared peers in long-term either in terms of income or working conditions (ILO 2018, 2011, 2004, OECD 2015).

This assessment acknowledges that institutional and cultural reasons such as the quality of political institutions, presence of corruption and its acceptance or rejection by the society, fiscal morality, and weak rule of law are of no less importance in North Macedonia. However, this assessment does not delve into these dimensions.

The informal sector in North Macedonia is extensive both in its share of GDP and in the number of people it employs. In 2022, the informal economy was as large as 23.2 per cent of gross Domestic Product (GDP) (Finance Think 2022), while informal employment represented 12.2 per cent of total employment (Labour Force Survey, 2022). Other estimates of the size of the informal economy have been staggering: in 2020, the International Monetary Fund (IMF) (mimeo) estimated an informal economy as large as 38 per cent of the GDP. Furthermore, undeclared work is a significant part of the ‘informal’ economy in North Macedonia (Ministry of Labour and Social Policy, 2018), making it one of the largest challenges for labour market policies and sustainable economic

development. The assessment by the European Commission on the Economic Reform Programme of the Republic of North Macedonia (2023-2025) lists the reduction of the informal economy, as one of its key goals.

Undeclared work is defined by the 1998 European Union directive as “any paid activities that are lawful as regards their nature, but not declared to public authorities, taking into account differences in the regulatory systems of the Member States”. In the employer-employee relationship, forms of undeclared work include unregistered employment, where the employee does not have a working contract nor receives any social security benefits (Williams and Horodnic 2018; 2019) or partially undeclared work. Partially undeclared work, also known as “under-declared work” or “envelope wages”, occurs in two main forms. One is when working hours or employee remuneration are underreported to reduce income tax and social security contributions (Williams and Horodnic 2020). Another is when the declared wage is lower than the one formally agreed to. This also includes situations in which compensation for overtime work, holiday work, and night shifts is not received. Finance Think’s research (2017) revealed that approximately 18 per cent of all workers received ‘envelope wages’ which could be as high as 90 per cent of their formal wage. Among minimum wage earners, as much as 69 per cent received “envelope wages”. A significant portion of undeclared work involves various forms of self-employment, such as household work and other unreported tasks performed for neighbors, friends, and acquaintances (Persson and Malmer 2006; Williams 2004). Emerging forms of undeclared self-employment include freelance work and personal services provided at home or online (European Commission, 2021). Sectors with notably high levels of labor informality include agriculture (52.3 per cent), construction (16.1 per cent), and the wholesale and retail trade (8.3 per cent) (ILO 2020 b). According to Pfau-Effinger (2009), students are more likely to accept undeclared jobs because their student status already provides them with some social security benefits.

The Macedonian labour law does not provide guidance or solutions to the casual employment and the increasing trend of online work and other new forms of employment. This negatively affects the Ministry of Labour and Social Policy’s responsiveness to address such developments through policy making. A survey conducted by the Ministry of Labour and Social Policy in 2018 indicated a significant presence of “undeclared” work in IT online and e-commerce services. The ILO (2020 a) concluded that in North Macedonia, workers with fixed-term employment, seasonal workers, and those hired through temporary employment agencies are especially vulnerable because their fixed-term contracts are often shorter than the required period of employment needed to qualify for unemployment benefits.

One of the essential elements to address undeclared work is understanding the main motives of employers and workers involved in it. The ILO R204 (2015) acknowledges that most people enter the informal economy not by choice but because of a lack of opportunities in the formal economy and in the absence of other means of livelihood. Employers' or workers' decisions to engage in undeclared work are characterized by a multitude of motivations and pathways in which these motivations transform into decisions. Literature suggests that one of the primary motives for employers to engage in undeclared work is economic with employers aiming to increase earnings while avoiding taxation and social contribution payments (EC 1998). Given that approximately one-third of Macedonian gross wages goes toward taxes and benefits, while the quality of public services can significantly improve, it can be discouraging for both employees and employers to fully comply with the fiscal regulatory framework. Furthermore, workers may find it necessary to work multiple jobs, including undeclared ones, to cover their monthly living expenses. This is more emphasized in developing economies and especially among the vulnerable groups. (Lewis, 1959; Geertz 1963; Williams & John Round, 2010). While many workers engage in undeclared work due to a lack of options, some others prefer this arrangement. Voluntary motives for workers exiting or not entering the formal labour market could be to gain flexibility and autonomy, as well as to avoid high government contributions and to earn higher wages (Maloney 2004; Packard 2007; Williams and Round 2010). Distrust in public institutions and less than satisfactorily quality of services further discourages compliance with tax regulations, as employees doubt that the existing system is designed to protect their labor rights (European Commission 2021). A heavy tax burden intertwined with limited options to enter formal economy, and lack of public trust in public institutions due to poor quality services, law enforcement or corruption, encourages greater participation in the informal economy for both workers and employers (ILO 2011, 2018; European Commission 1998; Wallace and Latcheva 2006).

Literature shows that unfair competition affects the formalized economy (OECD 2017, World Bank 2019). According to the World Bank Enterprise Survey conducted in the period 2018-2019, 13.9% of the Macedonian companies perceive the informal economy as its biggest business environment obstacle, coming in second after political instability (28.6%). Furthermore, in the Western Balkans smaller companies find unfair informal competition more costly and as a result one of the biggest obstacles for doing business (Kresic et al, 2017). To compete with the informal economy, formalized companies may under-report their revenues for tax purposes (Gokalp, et al, 2017).

Undeclared work can be culturally accepted in more traditional sectors of the economy, such as agriculture, retail trade, and household services, which have not yet absorbed practices from the modern economy (Bender 2004; Espenshade 2004; Hapke 2004; Ross 2004; Williams & Round 2010).



Awareness raising public campaign to reduce undeclared work in the tourist and catering facilities in Ohrid and Struga, North Macedonia, August, 2022.

4 Methodology and data

The methodological framework for this assignment is grounded in a qualitative research approach that incorporates several methods:

- The existing literature on the informal economy and undeclared workers was reviewed.
- An in-depth desk review of the current labor legislation and employment protection legislation was conducted.
- Descriptive statistics were employed from the dataset provided by the ESAP 2 Project. This analysis encompasses: (a) the demographic, educational, and economic status statistics of participants involved in the Pilot; (b) an analysis of employee and employer motivation categorized by the type of contract; (c) employers' perspectives on motivations and other relevant factors that may reduce undeclared work in the HORECA sector.
- Interviews were conducted with HORECA business sector representatives and with final beneficiaries. These were conducted with the employers who participated in the pilot, and a control group of HORECA employers from Krushevo, another tourist destination that did not participate in the MDWAE pilot. Krushevo has a developed HORECA sector during the summer and winter seasons.
- Interviews were conducted with potential workers who did not participate in the pilot measure but were registered on the platform, and with undeclared workers representing target groups from another tourist destination.

Two surveys were utilized as data sources, one involving employers (28) and the other involving workers (90) engaged in action, both conducted in 2022. The response rate was 100 per cent for employers and 66 per cent for workers.

5 Findings and Analysis

The pilot measure attracted 160 job seekers and 21 businesses through the portal. The workers registered on the online platform had expressed interest to engage in the Pilot. However, they refused the offer to formally work on casual or daily basis. The most frequent reason for not accepting formal occasional work was the fear of losing social or student benefits. Other reasons include the inability to work more than the permitted ten hours of work and the obligation to request permission for additional work from the current employer. Regarding the latter, workers are reluctant to request permission from their workers out of concern that they will be frowned upon, punished in some way, or simply be right out rejection. In addition, low levels of awareness of the benefits of registered work and short-term preferences for cash over social security were moderate but important drivers for undeclared jobs. Motivation among employers was also low. They cited inflexibility and rigidity of regulations associated with registering occasional workers with the employment agency, administrative bureaucracy, the refusal and low interest of workers, short project implementation period, and unfair competition⁴ as the most frequent reasons for this. (The pilot midterm and final reports, interviews with HOTAM staff involved in the implementation of the Pilot, and employers).

Making the same offer of subsidized taxes and social contributions to seasonal workers resulted in 136 workers changing the modality of their work (absence of contract into fixed-term full- or part-time contract, part-time into full time, wage higher than declared minimum wage, and parallel employment of up to 10 hours) in less than two weeks.

- full-time (40 hours per week): 105 individuals;
- part-time (20 hours per week): eight individuals;
- additional work (10 hours per week): two individuals;
- part-time (20 hours per week) to full-time (40 hours per week) conversion: 20 individuals;

⁴The employers describe unfair competition from companies that practice various forms of the informal economy (unreported and/or underreported VAT, undeclared workers, unregistered activity, etc.)

- minimal salary to higher salary conversion: one individual;
- there was no employment on a daily or short-term basis.
- no mothers applied for childcare.

Employers perspective

Figure 1 illustrates the distribution of employers based on their location and company type. Of the companies involved in the action, 61 per cent are located in Ohrid and 39 per cent are in Struga. Hotels make up the majority (69 per cent), followed by cafes (15 per cent), with restaurants, apartments, and villas each accounting for less than 10 per cent. This distribution provides a satisfactory level of diversity.

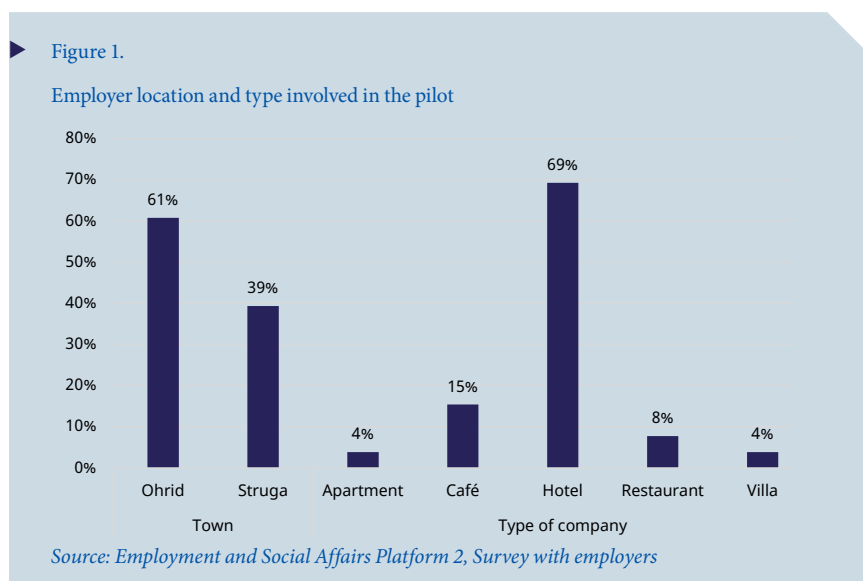


Table 1 presents select indicators reflecting the operational and financial capacities of the businesses, categorized by company type. Operational capacity is approximated by factors such as company age, the number of rooms and seats, and the number of rooms and seats per permanent employee. The results reveal that the average business age varies from two years (villas) to 26 years (hotels), indicating that hotels have a longer history of providing accommodation compared to apartments and villas in the Ohrid and Struga regions. As expected, the accommodation capacity of hotels is significantly higher (102 rooms on average) than that of apartments (two rooms) and villas (ten rooms). The seating capacity of coffee bars and restaurants is similar, although there are notable differences in terms of staff per seat. Restaurants have nearly twice as many seats per worker as coffee bars. This difference is likely related to the nature of the work and may explain potential variations in labor needs, contract types, or motivations for undeclared workers.

Regarding financial capacity, the yearly turnover of hotels is the largest and corresponds to their operational capacity. On the other hand, the financial capacity of other types of companies does not necessarily align with their operational capacity. For example, apartments with two rooms reported an average yearly turnover of €40,650, while restaurants with 150 seats and a similar level of experience reported €32,520. Some of these discrepancies could be due to data quality issues (such as missing information on companies' financial capacity and their reported annual turnover), but they may also indicate potential underreporting.

► Table 1

Operational and financial capacity

HOTAM-type	Operational Capacity, average				Financial capacity, average
	Age of company	Number of rooms	Number of seats	Room/seat per employee	Yearly turnout, in euro
Apartment	15	2		<1	40,650
Cafe	9		162	13	56,911
Hotel	26	102		2	1,109,408
Restaurant	18		150	23	32,520
Villa	2	10		1	

Source: *Employment and Social Affairs Platform 2, Survey with employers*

Table 2 presents staff capacity by business type. Staff capacity is measured by factors such as permanent staff over the last three years, the age, gender, and education of employees, as well as seasonal differences in staff numbers. The results show that hotels, on average, have the largest permanent staff (49), while other types of businesses have nearly five times fewer permanent employees, with similar permanent staff capacity (around eight). However, there are significant differences between the off-season and high-season months, reflecting the seasonal nature of the work. The fluctuation in the number of employees is higher for accommodation-related businesses (hotels, apartments, and villas) compared to food services (restaurants and cafes), where work remains more stable throughout the year. This is relevant to labor needs and the types of employment contracts. Compared to 2019, the number of permanent employees has decreased for hotels, coffee bars, and apartments, likely due to the impact of Covid-19. Part of the trend could be explained by the labor shortage, especially in the tourism sector, where workers migrate to higher-paying countries during the summer season.

Regarding the gender analysis, all types of businesses in the study – except for restaurants, where the majority of employees (75 per cent) are male – had a relatively balanced gender distribution, with a slight advantage for women (approximately 55 per cent). However, there are differences in the age structure of employees based on the type of business. In restaurants and coffee bars, half of the employees are youths up to 29 years old, and the other half are between 29 and 54 years old. This suggests that students are suitable candidates for these types of businesses. In accommodation-related businesses, two-thirds of employees are between 29 and 54 years old. In terms of education, there are no significant differences by business type, with the majority of employees having a high school education (ranging from 50 per cent for apartment employees to 100 per cent for restaurant employees), followed by employees with university degrees

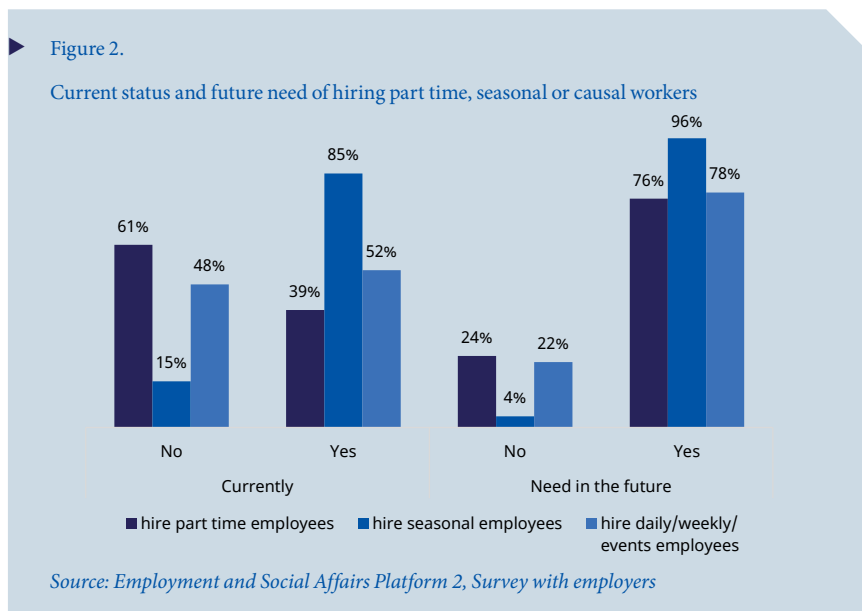
Table 2

Staff capacity

	Type of company					
		Apartment	Cafe	Hotel	Restaurant	Villa
Number of staff, average	permanent staff in 2022	7	9	49	9	11
	permanent staff in 2021	6	9	54	8	7
	permanent staff in 2019	9	11	58	3	
	staff during off-season months	1	10	8	3	4
	staff during high-season months	3	13	38	7	10
	Planned increase (approximate)	2	6	14		5
Gender of employees, %	Male	43%	47%	44%	75%	45%
	Female	57%	53%	56%	25%	55%
Age of employees, %	up to 29	29%	51%	17%	50%	18%
	29-54	71%	47%	66%	50%	82%
	55 and over	0%	3%	17%	0%	0%
Education, %	Elementary or less	0%	0%	7%	0%	0%
	high school	50%	63%	59%	100%	64%
	University	50%	38%	34%	0%	36%

Source: Employment and Social Affairs Platform 2, Survey with employers

Given the seasonal nature of work in the HORECA sector, the demand for employees encompasses various part-time jobs. 85 per cent of companies stated that they hire seasonal workers, 52 per cent hire casual workers (those employed daily, weekly, or for events), and 39 per cent hire part-time employees (see Figure 2), with the expectation that this need will increase in the future. Casual workers are one of the target groups of the pilot measure. The results indicate that casual workers are predominantly hired by hotels (52 per cent of all casual workers), often for special events and celebrations. Cafes come next (14 per cent), hiring casual workers mainly for weekends. Restaurants and accommodation-type companies report fewer hirings of casual workers.



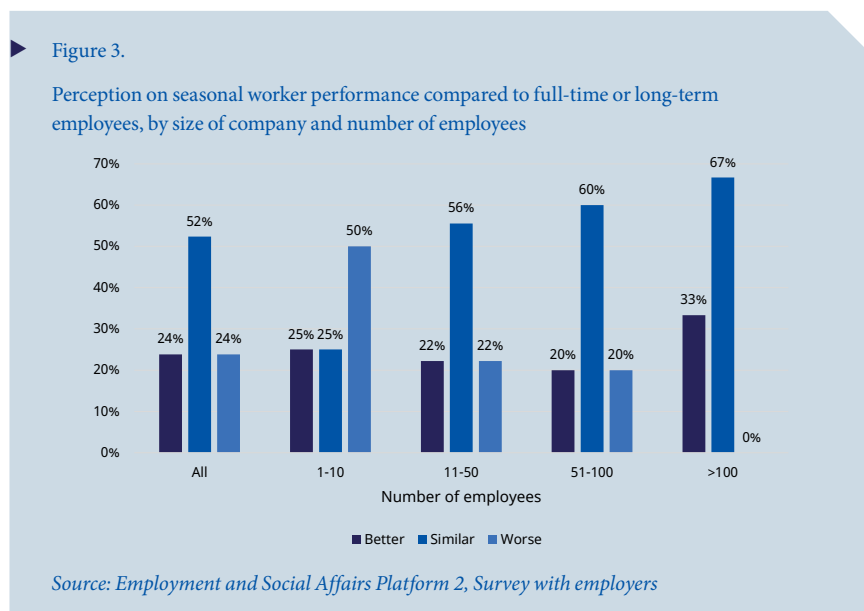
Although there is a clear need for casual workers, the pilot measure that offered to transition casual workers from an informal to a formal engagement type did not prove attractive to employers and workers. The subsidy for income tax and social contributions was not a sufficient motivation for casual workers to formalize. According to interviews with employers in the HORECA sector from various locations, the primary factors motivating this preference for undeclared engagement of daily workers are associated with the rigidity of regulations, administrative bureaucracy, and the unfair competition. The perceived rigidity of the regulations pertinent to casual workers is particularly evident in the limitation of ten hours of additional work per week. As one employer noted, "If someone feels capable and wants to work longer, why shouldn't they one

be allowed to? Ten hours of extra work during the week in the season is too little.” Employers stated that such a rigidity is particularly relevant for specific occupational profiles that can be engaged as casual workers, such as full-time public administration employees or instructors from vocational catering schools, who are suitable personnel in the HORECA sector during the summer season. Casual workers engaged in second (additional) jobs are more prevalent in hotels and businesses organizing large events, and less common in cafes and restaurants. The latter group (employers in cafes and restaurants subgroup) noted that another relevant limitation is on the employability of high school students before completing compulsory education, as they are one of the targets for daily and seasonal work for cafes and restaurants. It is important to note that the Macedonian Labour Code is in full compliance with the ILO Convention 138 on Minimum Age. This obstacle is, however, associated with the Law on Secondary Education and it will be discussed in the section covering legal analysis.

A significant administrative hurdle, identified by the employers, is the requirement that casual workers be treated the same as full-time employees regarding registration and contracts. One employer described it as “a lot of bureaucracy for a little work. It is easier to work informally.” This refers to the requirement that casual workers be registered with the Employment Service Agency (ESA) every time they are engaged.

The third identified motivation for employers to keep workers undeclared is to maintain access to cash, primarily from underreported income and Value Added Tax (VAT). In North Macedonia, all taxpayers exceeding 2 million MKD turnover in the past calendar year or forecasted to exceed in the beginning of the economic activity must register as entities that pay VAT. Those whose turnover does not exceed this amount do not pay VAT and are not entitled to claim a refund of input VAT. According to interviews with several employers from different locations and profiles (hotels, restaurants, cafes), unfair competition and underreported income are important motivations. As one interviewed employer said, “There are businesses that adjust their total annual income to be below the threshold of 2 million Macedonian denar. They issue fiscal bills only up to that amount (approximately 5000 denar per day); anything above that amount is not reported. It remains as cash, and their motive is to spend it as cash. From the saving of unpaid VAT, from the saving of unpaid contributions for employees, they can provide higher daily salaries and attract better workers, generating unfair competition. Some of them even operate as unregistered companies who rent a place for weddings.” This indicates that there are different pathways that can result in undeclared work and that some forms of informal economy can be catalysts for other forms.

Beyond the seasonal nature of their work, the preference for seasonal workers could also be due to employers' perception of their work quality. Overall, employers involved in the project perceive that seasonal workers perform at a similar level compared to full-time or long-term employees (see Figure 3). This provides the HORECA sector with an opportunity to shift from fixed costs for employees to a more flexible seasonal workforce. The perception of seasonal workers' quality compared to long-term employees improves as the size of the company, measured as the number of employees, increases. The perception that seasonal workers perform worse than long-term or full-time employees only appears to be present among companies with ten or fewer employees.



Employers' perceptions regarding trends in undeclared work are presented in Figure 4. Most employers (61 per cent) state that undeclared work has decreased, while only 26 per cent believe it has increased. However, perceptions vary depending on location and the type of company. Perceptions of decline are more pronounced among employers from Ohrid (71 per cent), in the apartments sector (100 per cent) and in the villa sector (100 per cent). Conversely, perceptions of an increase in undeclared work are higher among employers from Struga (33 per cent) compared to employers from Ohrid (21 per cent), and for cafes (50 per cent) compared to other types of businesses. Restaurants unilaterally (100 per cent) perceive that undeclared work remains the same.

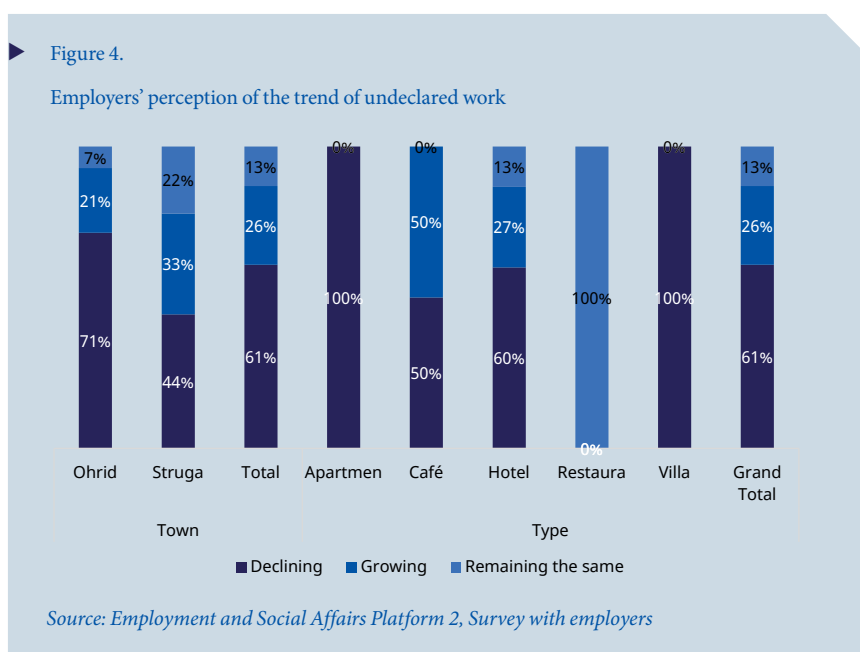
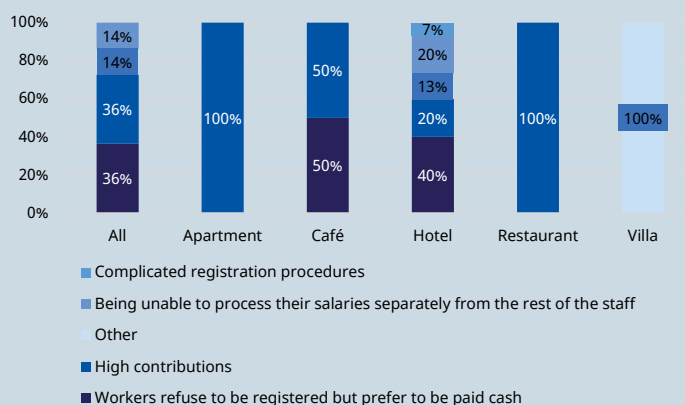


Figure 5 presents the reasons for undeclared work among part-time, seasonal, or casual workers, categorized by employer type. Results of employers' survey indicate that two-thirds of undeclared work is attributed to high contributions (36 per cent) and workers' preference for being paid in cash and their refusal to be registered (36 per cent), with administrative barriers to processing salaries separately from the rest of the staff⁵ (14 per cent) and other reasons (14 per cent) being less important. However, these reasons differ among company types. For instance, 100 per cent of apartment and restaurant companies believe that high contributions are the main reason for undeclared work, while for cafes this figure is 50 per cent, and only 20 per cent for hotels. This could be related to the financial potential of the companies (Table 1), indicating that for larger and financially stronger companies, high contributions are not the main reason. On the other hand, the workers' preference for cash payment is more common in cafes and hotels. In the cafe sector, Table 2 shows that youth and potentially students are the predominant employee category, suggesting that their motivation may be linked to systemic barriers related to losing student benefits (like student meals or scholarships).

⁵In North Macedonia, salaries are paid monthly for all workers regardless of their type of employment. A worker engaged for a short time or occasionally should wait until the 15th of the next month to receive his salary.

► Figure 5.

Reasons for undeclared work among part-time, seasonal, or casual workers, by type of workers



Source: Employment and Social Affairs Platform 2, Survey with employers

According to the employers participating in the project, the formalization of short-term work can be increased through government measures. Most of them (56 per cent) strongly agree (on a scale from one to seven) that a reduction in social contributions can boost formalization, followed by a decrease in income tax (44 per cent). Simplifying registration procedures can also contribute to formalization to some extent. Furthermore, 57 per cent of employers stated that they would offer higher salaries to employees if contributions were lower, indicating that contributions serve as a significant motivation for employers. In practice, however, the pilot program shows that even when contributions are subsidized and there is labour force shortage, employers are not motivated to provide higher salaries. One potential explanation identified through interviews is that cash (from different forms of the informal economy), not contributions, is the key driver for informal short-term work. Contributions are more likely to be a cause for not registering full-time workers. Although active labor market measures are on the rise in terms of budget and diversity, more than two-thirds of employers reported that there are no measures specifically targeting part-time, seasonal, and occasional (daily, weekly, or event workers). Workers' perspective

Workers' perspective

Table 3 presents some descriptive statistics from the workers' responses. Almost 85 per cent of respondents engaged in the HORECA sector were up to 29 years of age. Therefore, findings of this assessment can provide relatively accurate tendencies among young people 16 - 29 years of age but be only indicative of tendencies among people over 29 years old. The sample is gender-balanced, with equal representation of males and females. Half of the workers in the sample have a high school education, with a slightly higher percentage among females. More than one-third have only completed elementary school, while those with a university education or post-graduate education make up less than 10 per cent, with a higher percentage among males. Regarding the type of employment contract, two-thirds of the workers have seasonal contracts on average, followed by those with fixed and permanent contracts. There were no participants with daily contracts. HOTAM project staff reached out to workers registered with their platform and presented them with the offer of formalized daily work. None of them accepted this opportunity. According to the employers, this was a decision made by the workers. But, the employees, mainly university students, explain that the reason for not formalizing casual jobs is the rigidity of the system. The formalization or declaration of their work could be a reason to lose some university student benefits, such as student meals. The income and benefits gained through casual work might not offset the loss of a year-long student meal, hence there is lower motivation among university students to declare their jobs.

The same motivation drives workers or their direct relations who are beneficiaries of certain social schemes, such as minimum guarantee income or family pension, not to formalize. According to the Law on Social Protection (2022), one of the eligibility criteria for minimum guaranteed income is that a household's income does not exceed a certain threshold. The household income is calculated as "the total average amount of all incomes of all household members on all grounds in the last three months". This means that any income generated from occasional work that contributes to exceeding the threshold, although this income can be one-time or of an irregular nature, it will result into getting that household out of the GMI scheme.

For high school students engaged in undeclared work, there is often no alternative while they are involved in compulsory education (which includes secondary education) except for participating in an internship program lasting up to three months and receiving pay between 42 and 74 per cent of the minimum wage. In practice, many of these interns are working under different conditions than those specified in the law or bylaws regulating internships, thus violating the law established to comply with the ILO Convention 138. As one

employer explained “All high school students have a contract for an internship, they work as daily workers, and receive an extra cash payment, on top of the internship contract”. The additional cash is not declared and therefore not taxed.

Some gender differences exist, with more females having seasonal contracts than males. Conversely, more males have permanent and fixed-term contracts. Parts of these differences might be a result of the nature of occupations dominated by either female or male workers, personal characteristics such as better negotiation skills, higher confidence, and better starting positions. Such differences can also be a result of gender socialization and discrimination. Agents of socialization at society, social networks and family levels can affect the types of gender norms and roles people develop and internalize. The latter can affect the choices and decisions one makes whether as an employer or an employee.

When comparing these workers’ employment contracts to their contracts in previous jobs, the structure is similar, with workers having had predominantly seasonal contracts. However, there is a positive transformation for those without a contract in the previous job, with 13 per cent of females and nine per cent of males transitioning from informal to formal jobs through the pilot measure.



Awareness raising public campaign to reduce undeclared work in the tourist and catering facilities in Ohrid and Struga, North Macedonia, August, 2022.

► Table 3

Descriptive statistics

		Female	Male
Age	Up to 19 years old	50%	50%
	20 years old and older	50%	50%
The highest school cycle completed	Elementary	38%	44%
	Faculty	4%	7%
	High School	58%	47%
	Post Graduate	0%	2%
Work experience, in months	<3	23%	36%
	3-6	45%	30%
	7-12	18%	11%
	13-24		
	>24	14%	23%
Type of current employment contract	Did not have a contract	13%	9%
	Fixed	4%	7%
	Permanent	7%	13%
	Seasonal	76%	71%
Type of current employment contract	Seasonal – full-time	67%	49%
	Seasonal – part-time	2%	5%
	Fixed – full-time	9%	12%
	Fixed – part-time	0%	5%
	Permanent	7%	12%
	I don't know	16%	19%

Source: Employment and Social Affairs Platform 2, Survey with workers

Table 4 presents the transitions in employment contract type from one's previous job to their current job, and their preferences for the next job contract. This can indicate workers' long-term preferences and personal career plans associated with contracts satisfying these preferences. The green cells represent a transition to more flexible types of employment contracts, while the yellow cells represent no transition in contract type. Seasonal contracts are predominant. All (100 per cent) of those with fixed contracts in their previous jobs, 56 per cent of those with permanent contracts, and 40 per cent of those without a previous contract transitioned to seasonal employment contracts. In addition, 63 per cent of those with a seasonal contract kept the same type of contract. Only 14 per cent of those with seasonal contracts transitioned to less flexible contracts (fixed and permanent). This indicates that the targeted groups of workers have a preference for seasonal contracts. This tendency is confirmed in the workers' contract preferences for the next job. Half (50 per cent) of all participants preferred seasonal contracts for their next job. These preferences

might be affected by workers' young age and participation either in secondary or tertiary education.

Findings from the interviews with undeclared daily workers show that casual work is perceived as a transitional, not a long-term option. One high school student stated, "This is a temporary job for me, to earn money for vacation, and not to depend on my parents. I will attend university and I will look for a permanent declared job that is relevant to my occupation. That is why I do not think about being registered." Although fixed and permanent contracts were less common in the transition of current contracts, the preference for them in the next job increases. The results presented in Table 4 show that half of all participants prefer fixed (26 per cent) and permanent (24 per cent) employment contracts. This is especially emphasized among those who currently have such types of contracts. Still, differences by age exist. More young people up to 29 years of age prefer seasonal contracts, while those above 29 prefer fixed and permanent contracts. Compared to the transition of current contracts, the results indicate that permanent and fixed contracts are not always the choice of young workers but rather the decision of employers.

► Table 4

Transitions in employment contract type from one's previous job to their current job and next job

		Type of current employment contract			
		Seasonal	Fixed	Perma- nent	I don't know
Employment contract type in the previous job	Seasonal	63%	12%	2%	23%
	Fixed	100%			
	Permanent	56%	11%	33%	
	Did not have a contract	40%	20%	40%	
		Type of contract preferred for the next job			
Current employment con- tract type	All	Seasonal	Fixed	Permanent	
	Seasonal	50%	26%	24%	
	Fixed	57%	24%	19%	
	Permanent	18%	45%	36%	
	I don't know		38%	63%	
		73%	13%	13%	

Source: *Employment and Social Affairs Platform 2, Survey with workers*

Table 5 summarizes the motivations for the employees' current forms of employment. Motivations are divided into four main categories: intrinsic, integrated, identified, and external motivations.

Intrinsic motivation refers to the extent to which the current form of employment is a result of internal motivation, such as a preference for or choice of this type of contract. The results show differences between types of contracts. Seasonal full-time contracts are largely liked, preferred, and chosen by the workers (above 65 per cent). Seasonal part-time contracts are liked and preferred by more than 67 per cent of workers, but they are not always chosen. Youth are in a better position regarding their choice of contract, where 57 per cent agree that they chose seasonal agreements compared to only 20 per cent of non-youth. The lack of preference for seasonal contracts among older adults is expected. Usually, they have significantly more responsibilities such as taking care of their families and a better understanding of advantages having social and health benefits and good working conditions, and as a result they will be inclined to have greater stability typically associated with permanent contracts or long-term fixed contracts. There are no gender differences. According to the interviews with daily workers, daily engagement is fully preferred by the workers, meaning that they like, prefer, and choose to have that type of engagement. Perhaps it is due to their status as high school or university students, or workers on additional work. In contrast, fixed contracts (both full-time and part-time) and permanent contracts are liked and to some extent preferred by workers, but they do not always have the power to choose these types of employment contracts. This is a decision made generally by the employer. The key conclusion is that workers have intrinsic motivations and choose to work under seasonal and daily types of employment contracts. This is particularly important for students who are typically free during weekends and the summer, their schedules therefore aligning with these types of contracts.

Integrated motivation refers to work-life balance motivations as a driver for specific employment contract. However, different aspects (needs, flexibility, or freedom) are important for different employment contract types. The survey results indicate that those with part-time employment contracts, especially fixed part-time contracts, are generally motivated by their needs such as to continue studies or taking care of their family or family members. Flexibility as a motivation is most important for workers with seasonal full-time contracts, which could be crucial for workers from other places or internal migrants, where seasonal flexibility is a strong motivation. Freedom to combine work goals with other goals in their life is a significantly higher motivation for youth workers with seasonal contracts, indicating that this category of workers values flexible arrangements and relaxation of eligibility criteria, especially in some youth-targeted measures. This is important for university and high-school students, engaged as seasonal workers during high seasons, or occasional

workers during the schooling period of the year. “This type of engagement fits my needs, I can study and at the same time I can be financially independent” was the statement from one university student engaged as a seasonal worker (during the summer) and a daily undeclared worker (during the weekends in other periods of the year). In general, integrated motivation is linked to more flexible employment contracts.

Identified motivation is relevant for future career pathways, such as the possibility of obtaining a permanent or better job or developing better skills. While intrinsic and integrated motivations were more relevant for flexible types of employment contracts, identified motivation is more important for those with fixed types of employment contracts. More than half of the workers with permanent and fixed part-time employment contracts believe that these types of contracts can allow them to secure a permanent job and increase their chances of having a better job in the future. For workers with seasonal contracts, there are no differences by age and education. For those with fixed and permanent contracts, non-youth and university educated employees these type of contracts are perceived as a steppingstone to a better job. Interviews with workers with daily or seasonal contracts revealed that they view these employment arrangements as opportunities for developing their soft skills (communication, networking), hence their motivation to enter into these types of contracts.

External motivation refers to income, defined as not failing to have a job, the need for salary and additional income, and the importance of employment status. This motivation, from all aspects, is most important for those holding permanent and seasonal part-time contracts, followed by those with fixed full-time contracts. This indicates that this engagement is seen as an opportunity for job stability (permanent contracts) or an opportunity for generating additional income (seasonal and fixed part-time workers). Motivations of having a job and the need for salary are higher among non-youth and higher educated persons for all contract types. While additional income is more important for youth with seasonal contracts, and there is no age difference among employees with fixed and permanent contracts. For the daily workers, additional income is an important motivation (according to interviews), especially for those engaged in additional work, students, and beneficiaries of social protection measures.

► Table 5

Motivations for current forms of employment

			Type of contract				
			Sea- sonal FT	Sea- sonal PT	Fixed FT	Fixed PT	Per- ma- nent
Intrinsic Motivation	I like this type of employment contract	Agree	82%	67%	67%	100%	75%
		Neither agree nor disagree	8%	33%	0%	0%	13%
		Disagree	10%	0%	33%	0%	13%
	I prefer this type of employment contract	Agree	65%	67%	56%	50%	75%
		Neither agree nor disagree	24%	33%	22%	50%	13%
		Disagree	20%	0%	44%	50%	13%
	I chose to have this type of employment contract	Agree	65%	33%	33%	0%	38%
		Neither agree nor disagree	18%	33%	22%	0%	13%
		Disagree	18%	33%	44%	100%	50%
Integrated Motivation	It is the job that best fits my needs (example: studies, family)	Agree	55%	67%	67%	100%	50%
		Neither agree nor disagree	25%	0%	22%	0%	0%
		Disagree	20%	33%	11%	0%	50%
	it can ensure a flexibility that is important to me now	Agree	71%	67%	67%	50%	50%
		Neither agree nor disagree	14%	0%	11%	50%	0%
		Disagree	16%	33%	22%	0%	50%
	it gives me more freedom to combine with other goals in my life	Agree	57%	67%	78%	100%	38%
		Neither agree nor disagree	25%	0%	0%	0%	0%
		Disagree	18%	33%	22%	0%	63%

Identified Motivation	it will allow me to get a permanent job	Agree	29%	33%	33%	50%	63%
		Neither agree nor disagree	10%	0%	11%	50%	13%
		Disagree	61%	67%	56%	0%	25%
	it increases my probabilities to have a better job in the future	Agree	39%	33%	33%	50%	63%
		Neither agree nor disagree	29%	0%	22%	50%	13%
		Disagree	31%	67%	44%	0%	25%
	it allows me to develop skills that will be useful in the future	Agree	71%	33%	67%	50%	75%
		Neither agree nor disagree	20%	33%	22%	0%	0%
		Disagree	10%	33%	11%	50%	25%
External Motivation	I cannot fail to have a job	Agree	33%	67%	44%	0%	75%
		Neither agree nor disagree	14%	0%	0%	0%	0%
		Disagree	53%	33%	56%	100%	25%
	To be employed is important to my life	Agree	47%	67%	56%	0%	50%
		Neither agree nor disagree	14%	0%	11%	0%	0%
		Disagree	39%	33%	33%	100%	50%
	I need to have a salary to live	Agree	53%	67%	56%	0%	75%
		Neither agree nor disagree	16%	0%	22%	50%	13%
		Disagree	31%	33%	22%	50%	13%
	To generate additional income	Agree	67%	67%	78%	100%	63%
		Neither agree nor disagree	16%	0%	11%	0%	0%
		Disagree	18%	33%	11%	0%	38%

Source: Employment and Social Affairs Platform 2, Survey with workers

5 Regulatory framework: Labour relations

The regulatory framework that addresses informal employment includes labour relations, social insurance, and tax law. For the purposes of this report, the focus will be on the Law on Labour Relations (hereinafter: LLR) and its relevance to seasonal and casual work.

The Law on Labour Relations regulates the “lawfully established” employment relationship and sanctions the “undeclared, i.e. unregistered employment”. An employment relationship shall be established by the signing of an employment contract⁶, and the employee cannot start working before concluding an employment contract and before the employer registers the employee for social insurance.⁷ As a consequence, so-called undeclared workers (workers without a written employment contract and registration in mandatory social insurance) do not have the status of “employees” and therefore lack the protective provisions of the labour legislation and social insurance. Workers engaged on the basis of sham civil contracts (such as workers in disguised employment relationships or bogus self-employment) are in a similar position to undeclared workers. The LLR envisages measures to sanction these forms of informal employment. In this regard, the labour inspector is authorized to undertake the following actions:

- to order the employer to enter into a permanent employment contract with the persons found working informally without reducing the total number of employees in the following three months;
- to propose a settlement to the employers, enabling them to pay half of the stipulated fine without initiating a misdemeanor proceeding against them; and
- to initiate a misdemeanor proceeding if the employer does not accept the settlement proposal.⁸

⁶ LRL, art 13, para 1.

⁷ LRL, art 13, para 7.

⁸ LLR, article 259, paragraph 1.

The sanctioning of employers for undeclared and disguised employment consist of fines for established misdemeanor liability. These fines range from 200 to 1000 EUR depending on the size of the employer⁹ measured by the number of employees and not the company turnover. While penalties decrease when employers formalize undeclared workers, they are not differentiated by the duration and severity of the infringement. For example, employers are not required to pay social security contributions retroactively and do not account for the length of time that a worker has been informally employed. Thus, the current regulatory framework does not sufficiently deter employers from engaging informal or undeclared work and protect the rights of informally employed persons for the entire period of their informal employment.

The shortcomings and limitations of the regulatory framework for formalizing informal employment with special reference to the HORECA sector

Increasing the incentives to formalize informal employment in the HORECA sector largely depends on the establishment of an appropriate regulatory framework. This framework should meet the interests and needs of employers by reducing administrative and financial burdens regarding employment, meet the interests and needs of workers for decent work, and should allow special categories of persons to retain certain material guarantees based on their statuses. This section screens several segments of the LLR such as: the presence of non-standard forms of employment, the procedure for establishing employment relationships, and the form of the employment contracts.

The non-standard form of employment¹⁰ closest to satisfying the needs of employers and workers in the HORECA sector is the employment contract for a fixed period of time for performing seasonal work (LRR, Article 47). Taking into account the way it is defined (as work that is performed in a certain period-season that does not exceed eight months in a period of 12 consecutive months) and regulated (as an employment relationship that mainly provides a full range of labour and social security rights), it can be concluded that it is intended for work of a relatively stable and continuous nature. Employees can also enter into part-time employment contracts with the same contractual or other rights and obligations arising from employment as the comparable full-time employees.

⁹ LRL Art.5 para.1 (7) defines the size of a company based on the number of employees.

¹⁰ “Non-standard forms of employment” – also referred to as diverse forms of work – is an umbrella term for different employment arrangements that deviate from standard employment. They include temporary employment; part-time and on-call work; temporary agency work and other multiparty employment relationships; as well as disguised employment and dependent self-employment.

They can exercise their rights proportionally to the hours of work as defined in the employment contract, with the exception of the rights and obligations for which the law stipulates otherwise (LRR, Article 48). The Macedonian labour and social security legislation does not recognize non-standard forms of employment such as casual, temporary and occasional work that is executed for a very short period, or occasionally and intermittently, often for a specific number of hours, days or weeks (ILO 2016, 22). It also does not recognize on call or zero-hours contract work under which an employer agrees to pay for work done but makes no commitment to provide a set number of hours of work per day, week or month (Deakin, Wolters and Kluwer 2016, 47). However, the Macedonian labour legislation recognizes another non-standard form of work regulated through so-called “special contracts”. Special contracts can be concluded for the independent manufacture or repair of certain things, or for the independent performance of certain manual or intellectual work. The employer can enter into such contracts with a person only for the performance of work which is outside of employer’s activity.¹¹ However, special contracts should serve as a legal ground for hiring persons with the status of self-employed or who perform work in the form of self-employment (primarily various types of freelancers), and not as a legal ground for hiring workers on a seasonal, temporary or occasional basis.

Thus, the current types of contracts as defined in the regulatory framework do not sufficiently meet employers’ or workers’ need for engaging in temporary or occasional work. This particularly affects certain group of people. These include the unemployed, beneficiaries of guaranteed minimum assistance, young persons under the age of 18, students and full-time employees who need additional work. However, the existing regulatory framework is rigid and contains certain perceived limitations which can decrease the motivation for formal employment. In the following section, we provide a brief overview of the regulatory framework that governs the status and position of these persons, with special reference to the aforementioned limitations.

The procedure of the recruitment of workers, the date of employee registration for mandatory social insurance and the method of employee registration can be used as indicators to assess the existing legal and institutional framework for ease of establishing an employment relationship. The recruitment procedure for employers who want to hire workers on a very short, temporary, or occasional basis, principally requires that the deadline for applying for vacancy announcements not to be shorter than three working days. The efficiency of the employment process may also be hindered because the employer is usually

¹¹ LLR, art 252, para 1.

obliged to submit a registration form for mandatory social insurance (the M1 form) at least one day before the employee starts work. Electronic registration of workers is possible through the 'e-Work' platform of the Employment Service Agency of North Macedonia. However, such registration is intended only for employers from the private sector who have created an electronic identity and personal user profile in the system for single login of the Ministry of Information Society, and it takes 15-20 minutes to complete the form. Based on these regulations, the shortest amount of time that an employer can recruit a worker by advertising the vacancy and by means of a public announcement it is three working days. In this regard, it is worth mentioning that in 2006, the Constitutional Court of the Republic of Macedonia issued a decision abolishing the possibility provided by the legislation at that time for an immediate recruitment of a worker by the employer without advertising the vacancy.¹² Currently, the only possible scenarios for recruiting workers in a procedure lasting less than 3 days are the hiring of seasonal workers without publicly announcing the vacancies but only with the mediation of the Employment Service Agency¹³ and the hiring through a Private Agency for temporary employment. Nonetheless, while the first possibility covers only unemployed persons, thus excluding persons who may have the status of employees, self-employed, university students, etc., the second, by definition, excludes direct and immediate employment by the employer-user, since he uses the services of the private agency. Thus, the existing legal and institutional framework for the establishment of an employment relationship is not favorable for immediate employment of workers whether on temporary or occasional basis unless an individual is registered as unemployed or the services of a Private Agency for temporary employment are used.

Finally, the Law defines an employment contract as a strictly formal contract in writing¹⁴, and it must contain detailed stipulation. This approach narrows the possibility of entering into an employment relationship based on a contract concluded in oral form or establishing the existence of an employment relationship based on "facts relating to performance of work and the remuneration of the worker, notwithstanding how the relationship is characterized in any contrary arrangement, contractual or otherwise, that may have been agreed between the parties" (ILO Recommendation 198, 2006). Furthermore, it narrows the possibility for sharing information about the employment and working conditions through an electronically generated form.

¹² See Decision of the Constitutional Court, no. 134/2005, from 29 March, 2006.

¹³ See LLR, Art.22, para 6.

¹⁴ See LLR, Art.15, para 1.

Workers under 18 years of age

The regulatory framework, in line with the ILO Convention 138 prohibits the employment of a child under 15 years of age or a child who has not completed its compulsory education, except for activities which the child may perform in accordance with the law, but no longer than four hours per day (LLR, Article 18, para. 2 and 6). However, in North Macedonia, secondary education is compulsory for every citizen (Law on Secondary Education, Article 3, para. 1). This can be interpreted as creating a legal obstacle to entering into an employment relationship with a person included in compulsory education usually between the ages of 15 and 19.¹⁵

According to the existing legal framework, the only indisputable category of young persons who can lawfully establish an employment relationship are young people between the ages of 16 and 18 who have completed two or three-year vocational education.¹⁶

Students

The LLR does not substantially deal with the issue of university students work. It does not address, for instance, the existence or non-existence of statutory obstacles to establishing an employment relationship with a student depending on their student status, the method of employing students, or the appropriate type of employment contract (full-time or part-time). On the other hand, pursuant to the Law on Employment and Insurance against Unemployment, a regular (full-time student) is not considered an unemployed person,¹⁷ meaning that they are deleted from the record of unemployed persons if they have the status of a regular student¹⁸. This does not mean, however, that in North Macedonia there is a legal obstacle to employing a person with regular student status or that entering into an employment relationship is incompatible with full-time studies. The employer can register the regular student in mandatory social insurance, like any other employee, for an indefinite period or for fixed time,

¹⁵ Article 18 on minimum working age (LLR) dates from the period when only elementary education was mandatory. Mandatory secondary education was introduced later. The Ministry of Labour and Social Policy is working on the new text of LLR, where the provisions on employment of young persons are reformed.

¹⁶ LLR places limitations on the number of work hours and hazardous jobs for under 18 years of age.

¹⁷ LEIAU, Art.53, para 4 (7).

full-time or part-time work. However, certain rights and benefits designated for regular students are incompatible with their status as employees. This includes the right to a subsidized student meal, which according to the Law on Subsidized Student Meals is not due to students who are in a regular employment relationship.¹⁹

Unemployed

The status, rights and obligations of unemployed persons are subject to regulation under the Law on Employment and Insurance against Unemployment (hereinafter: LEIAU). On the basis of unemployment, unemployed persons acquire different monetary and non-monetary rights and services. A prerequisite for exercising these rights and services is that the persons are registered in the registry of unemployed persons, which is kept at the Employment Service Agency of North Macedonia. Pursuant to the LEIAU, persons are deleted from the unemployment registry if they are no longer unemployed or if they are engaged for work.²⁰ Such provisions could have a deterrent effect on the incentive for employment of unemployed persons in the form of casual, i.e. temporary and occasional work, regardless of whether it would be regulated as a form of work within or outside of an employment relationship (i.e. engagement for work). By removing them from the unemployment registry, they would lose monetary rights (such as unemployment benefits) and other rights and services (such as active employment measures).

¹⁸ LEIAU, Art.59-B.

¹⁹ Law on Subsidized Student Meals, (Official Gazette of RNM, no.31/20, Art.9, para 1, a) Subsidized Student Meal in the amount of 120 MKD (2 EUR) per day or 2,400 MKD (approximately 40 EUR) per month intended to all full-time students studying at public and private universities in North Macedonia. All students are entitled to subsidized student meal every working day from 8-20 h., except for the state, religious holidays and non-working days.

²⁰ L. LEIAU, Art.59-B, para 1 (25).

Beneficiaries of guaranteed minimum aid (GMA)

According to the provisions of the Law on Social Protection, GMA beneficiaries are registered as unemployed persons in the competent employment center.²¹ On the other hand, the LEIAU calls for persons to be deleted from the unemployment registry if they are no longer unemployed or if they are engaged for work. The deletion of these persons from the unemployment registry could also cause the termination of their right to GMA. While the termination of one's right to GMA due to the establishment of an employment relationship may seem reasonable and justified if the employment is of a relatively permanent and stable nature, the same could not be said for temporary and occasional employment or engagement for work. This is because performing activities of a temporary and occasional nature is usually short and intermittent, and this type of work is characterized by greater income insecurity for the worker.

Full-time employees performing additional work

Additional work can be performed for a maximum of ten hours per week with the prior consent of the employer, where the employee is employed full-time.²² This requirement for prior consent, as stipulated by the LLR, contradicts the principle of employment freedom and the mobility of the worker in the labour market. It also contradicts the provisions of the EU Directive 2019/1152 on transparent and predictable working conditions, which regulates so-called "parallel employment".²³

²¹ Law on Social Protection (Official Gazette of RNM, no. 104/2019), Art.34.

²² LLR, art. 121, para. 1.

²³ Pensioners and beneficiaries to a right of a pension are not the focus of this report. However, to provide a complete overview of the Macedonian legislation affecting those that might have an incentive to engage in occasional work, a summary is provided in this footnote. The Law on Pension and Disability Insurance (hereinafter: LPDI) provides for the possibility of suspending pension payments (primarily from the old-age pension, but also from the family pension) when one establishes an employment relationship or performs an independent activity. This provision refers to two categories of persons – employees and self-employed persons – who first acquired the status of pensioners, and then reentered an employment relationship or became self-employed, whereby the payment of their pension would be put on hold. These current provisions for suspending the right to a pension could have a deterrent effect on the incentives for pensioners to engage in casual, temporary and occasional work if this regulation remains in force. The income that they would earn, from which contributions would be paid for mandatory social insurance, would be an obstacle to continuing to access their pension.

6 Conclusions and recommendations

The objective of this analysis was to examine the motivations behind undeclared work and formal employment from the perspectives of both employers and workers with focus on your workers, based on the results of the pilot measure “Making Declared Work Attractive for Employers and Employees”, which has been implemented by the International Labour Organization in North Macedonia. Initially, the measure targeted daily workers only. Due to low interest, the target was expanded to include seasonal workers. A total of 136 individuals and 17 businesses, operating 26 hospitality establishments in the HORECA sector in the Ohrid and Struga municipalities, were engaged in the project over the course of one year, from November 2021 to 2022.

The demand for seasonal and casual workers (those employed daily, weekly, or for events) in the HORECA sector is high. The results show that 85 per cent of companies hire seasonal workers, 52 per cent hire casual workers, and 39 per cent hire part-time employees. The primary targets are university and high school students, workers who want additional employment (for example, workers from the same sector, public servants, and teachers and instructors from vocational catering schools who are available during the summer), and casual workers mainly hired by hotels for special events. Although the pilot measure subsidized contributions and offered administrative support to companies to register daily workers, potential daily workers expressed no interest or outright refusal in doing so. Once the target was modified to include seasonal workers, 136 participants were recruited and transitioned from undeclared to declared work.

The results identified several motivations for undeclared work from both the employers’ and workers’ perspectives.

- Several elements of the regulatory framework were considered too rigid by the respondents of this study.
- Obligation to request permission for additional work from the current employer and the limit of ten hours of additional work per week were identified as a main constraint. These constraints mostly affect workers from other companies in the same sector, public servants, and skilled instructors from vocational education and training schools.

The definition of the secondary education as compulsory removes the possibility for most young people 16 to 18 years of age to formally work even when the school is not in session.

The administrative bureaucracy is too demanding. The same registration procedures, contracts and contributions are required for casual workers as for full-time or part-time workers.

Other forms of informal economy motivates businesses that have access to cash due to underreporting of the of income and VAT to pay wages in cash, in this case as “envelope wages”.

From the workers’ perspective, the results show that seasonal and daily contracts are preferred and chosen by young workers. These types of contracts offer flexibility, especially for university students, who can balance work with studies and who seek financial independence.

Permanent and fixed-term contracts are liked and to some extent preferred especially by older adults. However, while workers might prefer these contract types, they perceive to have little opportunities to choose them. Usually, this decision is made by the employer. At the same time, the motivation for these types of contracts is linked to the opportunity for future career pathways, such as the possibility of obtaining a permanent or better job or developing better skills.

Financial motivation is important for different types of workers holding various contract types, yet it is perceived through diverse lenses. Those holding permanent contracts appreciate job stability (permanent contracts), while seasonal, fixed part-time workers, and daily workers appreciate the opportunity to generate additional income.

Recommendations are developed to address motivations for undeclared work, on both sides, employees and employers. They are defined in four pillars as follows:

Review of the regulatory framework:

- Regarding formal employment of the young people 16 to 18 years of age, relevant institutions must review the current law on labour relations and the law on secondary education to identify solutions that comply with the ILO Convention 138 and ensure that work does not interfere with the education process. Any revisions of the current regulatory framework must ensure that:

- Young people have the possibility of engaging in light work for the duration of the school year that is outside the mandatory school schedule or during school breaks. A clear and specific definition of light

work should be developed, including light work in the HORECA sector. Additionally, provisions should be made for the possibility of engaging in combined work/training program implemented at school or in-plant work-experience schemes implemented at an employer. This should be done under conditions and procedures prescribed by a special law in the field of education.

- The regime covering the employment and engagement of young people should be accompanied by firm guarantees against the employment of child labour and for the protection of their occupational safety and health. This includes limitations on the duration and organization of their working hours and the types of work they will be engaged.

- The involvement of young people in the work should be preceded by the prior consent of their legal representative and approval by the competent labor inspector after an inspection of the location where the activities will be carried out.

- Regarding formal employment of university students, it is necessary to review the provision of the Law on Subsidized Student Meals. Based on this law, regular employment is an obstacle to exercising the right to subsidized student meals. The term 'regular employment relationship' needs to be defined more clearly in order to determine which forms of employment are covered or excluded. Additionally, students engaged in jobs of a temporary and occasional nature should continue to enjoy the right to subsidized student meals. However, limiting the right the subsidized meals for students engaged in part-time or carry out seasonal work exceeding a specific income threshold could be considered.

- For full-time employees who perform additional work, the relevant provisions of the Law on Labour Relations should be amended. These amendments should abolish or loosen the prior consent requirement, which requires the employer of a full-time employee to consent in advance to them taking on additional work. In this regard, the EU Directive 2019/1152 on transparent and predictable working conditions should be taken into account, which ensures that an employer neither prohibits a worker from taking up employment with other employers outside the work schedule established with that employer nor subjects a worker to adverse treatment for doing so. The only exceptions to this rule may be taken for objective reasons like health and safety including by limiting working time, the protection of business confidentiality, the integrity of the public service, or the avoidance of conflicts of interests.²⁴

²⁴ See Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union, art. 9.

- For persons with the status of “unemployed”, it is necessary to provide that their engagement in work activities of a temporary and occasional nature will not result in being deleted from the unemployment registry, which could terminate their access to unemployment benefits and other rights and services from the Employment Service Agency. Any solutions of this nature should ensure that it does not create wither motivation for unemployed persons to retain their status over finding a decent job, nor for employers to engage in social dumping and worsen employment right and conditions of workers. .
- An identical measure could be provided for the beneficiaries of Guaranteed Minimum Assistance (GMA), so that they would not be denied GMA benefits after taking on any temporary or occasional work. For beneficiaries of the right to old-age and family pensions, it is necessary to provide that their engagement in work activities of a temporary and occasional nature will not suspend their access to the pension. The only exception to this rule could be when the amount of the monetary compensation for their engagement exceeds a certain maximum cap.

Simplify the procedures

- Formalize undeclared work for daily workers and reduce cash payments through the use of vouchers. The vouchers should be issued by an authorized institution (ideally the Public Revenue Office) and labeled with a serial number by the company. The voucher should be a gross amount (of at least the daily wage, the personal tax, and the insurance for injury at work) and transferred by the company into the worker's bank account. In this way, undeclared daily workers will be registered in the system, while employers will reduce their administrative burden and reduce cash payments. To avoid the misuse of the voucher, the days of causal work per employer could be limited.
- A user-friendly digital platform could be used for the electronic registration of workers on a daily or similarly casual basis. Or it could be an application similar to “my VAT”, widely used by different groups. Whatever the technical solution to simplify employment engagement, such a measure should be preceded by legal changes that ensure that:
 - o there is a specific definition of employment engagement that will be managed by the platform in order to prevent the degradation of the current rights of workers;
 - o the rules regarding the time and frequency of work engagement are enforced through clear and easy-to-implement restrictions; and
 - o the workers are provided access to freedom of association and collective bargaining, while protecting the collective rights of

other employees working under the same employer under North Macedonian law.

- Taxes and social insurance contributions (but only for pensions and insurance against occupational accidents) shall be calculated on a daily basis for each engaged casual or daily worker. One-thirtieth of the minimum monthly salary is expected to be used as the basis for their calculation. This means that employers will pay taxes and contributions only for the days when workers are actually engaged in work..
- A temporary and occasional work, thus with limited duration, contract is expected to be concluded orally, but the worker should have access to the terms and conditions of the engagement in an electronic form on the platform and be provided with a printed confirmation from the electronic platform by the employer if requested.,. Additionally, if any dispute arises out of this contract, the employer has the burden of proof that there was not an employment contract.
- Measures to prevent abusive practices should be introduced, particularly concerning the use and duration of the engagement. Such measures could be:
 - limiting the use of contracts for temporary and occasional work in selected sectors (such as facilities for accommodation and service activities with food²⁵) and for certain jobs (such as bartender, waiter, valet, and dishwasher);
 - limiting the maximum number of days on which an employer will be able to hire a total number of workers on a temporary and occasional basis, regardless of the number of individually hired persons (for example, 180 days in a calendar year);
 - limiting the maximum number of days an employee can be engaged by the same employer, regardless of whether they perform the same or different tasks and whether the work is performed continuously or intermittently (for example, 90 days in a calendar year); and
- - introducing additional monthly and weekly restrictions (for example, a maximum of 15 days per month or five consecutive days per week for persons employed in the accommodation facilities and food service activities sector).

²⁵ "Facilities for Accommodation" and "Service Activities with Food" fall under Sector I/3 of the National Classification of Activities.

- **Stimulative measures to formalize undeclared work.** Tax reliefs on pension and health insurance contributions for students.
- Provide resources for students to access government benefits or tax credits available for those with legal employment.

Provide education and awareness campaigns.

- Provide students with information about the consequences of undeclared work, including legal penalties and the potential harm it could cause to their future careers.
- Offer workshops or seminars on legal employment practices and tax responsibilities.

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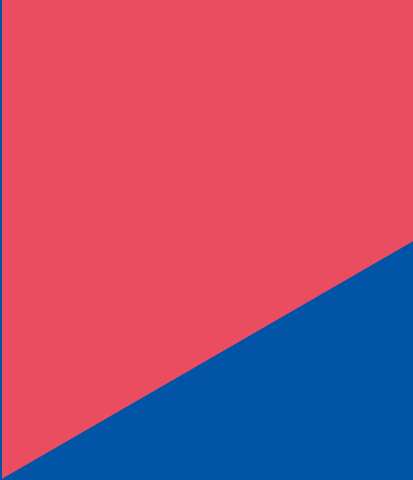
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ilo.org
International Labour Organization
Route des Morillons 4
1211 Geneva 22
Switzerland