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# TAKING STEPS TO A 21<sup>ST</sup> CENTURY WORKFORCE MACEDONIA

REPORT

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## REPORT

**APRIL 2009**

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## LIST OF ACRONYMS

ALMPs	Active Labor Market Programs
DB	Doing Business
DOL	Department of Labor
EAR	European Agency for Reconstruction
EE	Energy Efficiency
ESA	Employment Service Agency
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOM	Government of Macedonia
HE	Higher Education
ICT	Information and Communication Technology
ILO	International Labor Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
ISCED	International Standards of Classification of Education
IT	Information Technology
MOES	Ministry of Education and Science
MOLSP	Ministry of Labor and Social Policy
NAPE	National Action Plan for Employment
NES	National Employment Strategy
NFTE	National Foundation for Teaching of Entrepreneurship
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
PISA	Program for International Student Assessment
PPP	Purchasing Power Parity
R&D	Research and Development
SMEs	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training
USAID	United States Agency for International Development
VET	Vocational Education and Training
WfD	Workforce Development

## EXECUTIVE SUMMARY

Macedonia faces sharp challenges to economic growth and the development of a modern skilled workforce. These include macro-economic realities and the failures of labor market adjustments that have resulted in a low employment rate and high unemployment. Long-term joblessness is the most dominant feature of Macedonia's labor market, with many of the unemployed having no education or incomplete primary or secondary education. The employment rate for young people is extremely low, as are the activity and employment rates for women in general, and young women in particular.

While plans and hopes to join the European Union (EU) are paramount in public dialogue, Macedonia may best be understood as a member of a network of neighbors. Macedonia is a country with a small population, about 2 million, and a small economy, about \$19 billion gross domestic product (GDP). As such, its growth and economic well being are significantly dependent on its former Yugoslavian neighbors, and its future is linked to eventual integration into the EU. Compared to the region, Macedonia's economy trails its neighbors, except for Kosovo and Montenegro, both more recently declared independent countries. Despite significant progress in macroeconomic stabilization and the process of privatization, which is almost complete, job creation has been limited. As a result, many people end up working in the informal or "grey" sector. The large informal sector has acted as a livelihood buffer for many workers, yet has suppressed growth of the formal labor market and complicates the search for a modern understanding of labor market operation. A further complication for the country is the gap between agreements and performance in both educational and economic opportunities afforded the nation's ethnic minorities.

The education system and the market economy are two separate worlds in the Republic of Macedonia. Although there has been talk of the need to strengthen the link between these two sectors, little has been done in practice. As a result, the formal education system, from primary through secondary and to university continues to struggle for market relevance in its educational offerings and pedagogy, while employers are unified in their criticism of it. The most consistent features of the criticism are that, while basic education seems to produce graduates with relatively high rates of basic literacy, too many people leave before graduation, and even those who graduate are under-educated with practical experience, and not prepared with the knowledge and attitudes that will make them effective workers. While there are jobs, they trickle slowly into the economy. There are not nearly enough new jobs to completely meet the supply of the currently unemployed; knowing that seems to inhibit progress in preparing more qualified future workers.

The government of Macedonia's response to these challenges has been uneven, and where it has been effective, it is not well understood. As with any country on the path to EU membership, there are laws and frameworks on both the labor and education side but precious little coordinated planning between relevant ministries, and almost as little effective implementation of policies that might improve preparation of prospective workers.

A good beginning has been made with donor assistance in understanding labor skill demand, and there are prospects for improvement, but that understanding has not, evidently, flowed either to the producers of curricula, the teachers of teachers, the vocational schools and universities, or to the employer community. More help is needed in this arena to provide all stakeholders with the data that defines and charts the path for the workforce. Moreover, few effective institutional arrangements exist to bridge the gap; little career counseling is done at any level, less “soft skills” training, and almost no true labor exchange “mediation” exists – with a few very local exceptions. There is no system for responding to the kinds of local job losses that result from layoffs, staff reductions, or business closings, phenomena that are likely to occur more frequently as a result of the worldwide economic downturn. Finally, there are frequently laws, regulations, and practices that inhibit sensible practices – it is harder than it should be to start (or close) a business, to hire part-time employees or students in the summer, or to establish sensible internship opportunities to provide the practical experience called for by employers.

There are many opportunities for assistance or intervention that USAID could consider. We have grouped the options into five “target beneficiary” categories: Options for Preparation of Future Workers, Options for Serving the Presently Unemployed; Options for Serving the Presently-employed, but Under-skilled; Options for Capacity Building; and Options for Policy Initiatives. Recognizing considerable overlap among these categories, the assessment team considered numerous possibilities, and recommends five *Service Investments*, and four *Capacity-building Investments*:

#### Service Investments:

- **One Stop career centers** (a regional demand-supply labor exchange and career development mechanism);
- **Municipal “supply-side” model-building** (targeting local vocational secondary schools and employment service agencies);
- **Supporting entrepreneurship and enterprise development** (a job creation and enterprise growth mechanism);
- **The Green Jobs Corps program** (creating opportunities for youth 18-27 through education, employment, and energy efficiency);
- **The Rising Generation Initiative** (a business skills and enterprise growth initiative for family-owned enterprises).

#### Capacity-Building Investments:

- Assisting the Ministry of Labor and Social Policy to deepen and continue its Skills Gap Analysis survey and reporting process;
- Assisting the Ministry of Education, Science and Technology to develop policies that promote practical experience for students in both secondary and higher education;
- Assisting the new Center for Adult Education to develop a competency-based alternative diploma program; and
- Assisting the Ministry of Economy to deepen its work in entrepreneurship and small enterprise support.

## APPROACH AND METHODOLOGY

This assessment was an intense and rigorous process. The Assessment Team was comprised of three international experts and two local teams – one each to investigate “supply” and “demand” issues in the Macedonian workforce and economy. With the guidance of the Mission, the team planned and executed a taxing schedule of interviews (more than 175 people from over eighty separate governmental, non-governmental, and private sector organizations) and another fifty in focus groups of employers and trainees. We are workforce development specialists, economic development experts, educators, and policy specialists with extensive experience both in the United States, Macedonia, and the Balkan region. We were guided throughout by both the advice and conceptual frameworks of USAID officials Dwaine Lee and Lela Jakovlevska from the Education section, Marcia Wong and Margareta Lipkovska Atanasov from the Economic Growth section, Mission Director Michael Fritz, and several of their colleagues in the USAID Mission in Skopje.

The team took an informal, information-gathering approach to interviews with key informants. Guided in part by the Mission’s questions and supplemented by our own, we sought to understand firsthand the informants’ perspectives on Macedonia’s economy, the changes and prospects in current times and future, its education and training systems, both public and private, and the mechanisms designed to connect the two. We asked for recommendations on ways in which relatively modest funds might make the most significant contribution to developing the job-related skills of the largest numbers of people, where new opportunities might be created, and where policies and capacities needed to be developed. We asked questions, probed, listened, made site visits to observe programs and agencies first-hand, and enjoyed lively conversations with groups of Macedonian employers, educators, and young people.

We interviewed firms, schools, government agencies, private trainers, private agencies, non-governmental organizations, and other members of the international donor community. Each team member took notes and as a team we compared our observations and comments, and prepared “institutional profiles” from each meeting. By the end of the first week, clear themes were emerging, and these themes guided the direction for most of our interviews during the second and third weeks, and formed the basis for our recommendations.

In addition, the team reviewed and analyzed many documents and a great deal of policy, programmatic, statistical, and demographic data. We began our analysis and reporting before arriving in Macedonia, and finished it before leaving the country. While this analytical process was rigorous and scrupulous, our intention is that the tone of this assessment and its recommendations will be action-oriented, rather than academic. We present several groups of recommendations for the project: *service investments*, *capacity-building investments* and *linkage recommendations* reflecting possible connections with other current USAID activities.

## OBSERVATIONS AND FINDINGS

### **MACEDONIA FACES SHARP CHALLENGES TO ECONOMIC GROWTH AND THE DEVELOPMENT OF A MODERN SKILLED WORKFORCE. THESE INCLUDE:**

#### MACRO-ECONOMIC REALITIES AND THE NEED FOR LABOR MARKET ADJUSTMENTS

“... labor market outcomes improved in the 2004-2007 period, with some increases in employment and labor force participation, and reductions in unemployment. However, labor market indicators are still far from the levels of the European Union (EU).”<sup>1</sup>

Labor market policies relating to wages, social protection costs, labor market regulations, and workforce development greatly influence the level and extent of job creation and employment growth in a country. It is often a difficult challenge for governments to institute policies that enhance the current and future supply and demand for labor when a variety of other compelling needs and options such as consideration of macroeconomic policies, demographics, transportation, national security, and housing, just to name a few, compete for resources. Ideally, the combination of labor market policies coupled with other influencing policies should promote a healthy environment for businesses and workers. The rewards for a country are enormous when the policy mix is right. Conversely, they will likely be anemic when the policies ignore market forces or are slow to be adopted and implemented. With an erratic or slow response to today's and tomorrow's labor market needs and challenges, workers, households, and the private sector all pay the price.

To its credit, Macedonia has several useful tools to help it fight many of its labor market challenges and improve the standard of living for its citizens. It has a highly educated workforce, on several levels, albeit largely without practical work experience for its graduates, and an economy that has grown between 4 percent and 5 percent per year over the last 4 years. Its geography puts it squarely between Western and Eastern Europe for trade, cultural, and educational opportunities. The government has been reasonably active in responding to the needs of the business community with laws and regulations designed to improve the business environment for domestic and foreign enterprises.

Macedonia's macroeconomic policies coupled with the current fiscal crisis are compounding factors. Macedonia's current account deficit (about 14 percent of GDP last year) has widened. Its trade deficit has increased from 21 percent of GDP in 2007 to 28 percent of GDP in 2008. Formal remittances (about 2.8 percent of GDP in 2007) are expected to shrink this year. Inflation was up 10 percent in early 2008 due to the worldwide jump in oil and food prices, but now is stable at about 3 percent. Additionally, the fiscal deficit is creeping upwards from 2 percent to 3 percent of GDP in 2009, to 4 percent by 2011, increasing the pressure on inflation and the current account.

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<sup>1</sup> “Labor Market Profile (Macedonia); A Policy Note, World Bank, June 2007

**TABLE I: GDP AND LABOR FORCE BY INDUSTRY IN THOUSANDS**

Sector	GDP share	Total Employees
Agriculture, hunting, forestry and fishing	10.8 percent	108
Mining		5
Manufacturing industry	20.2 percent	126
Electricity, gas and water supply		16
Construction	5.7 percent	38
Wholesale, retail trade, repair of motor vehicles		83
Hotels and restaurants		17
Transport, storage and communication		35
Financial intermediation		9
Real estate, renting, services	46.4 percent	16
Public administration, defense, compulsory social sector		41
Education		34
Health and social welfare		33
Other social and personal services		25

The country has a small open economy, with total trade in goods and services accounting for some 130 percent of GDP. Trade integration with the EU is advanced, with about 60 percent of all exports being directed at the EU-27 and about 47 percent of imports coming from the EU-27. The neighboring countries in the Western Balkans are the second most important trade destination, with about 34 percent of exports and about 11 percent of imports. The export structure is still highly concentrated on a limited range of products, with textiles and clothing accounting for about 24 percent of total exports, and manufactured iron and zinc products for some 26 percent<sup>2</sup> In 2007, EU-27 accounted for about 75 percent of foreign direct investment (FDI) inflows. In the first half of 2008, FDI inflows reached some 10 percent of GDP, compared to 3 percent of GDP, on average, during the same period of the previous year.

Industrial output seems to be falling dramatically, threatening Macedonia's economic prospects even further. According to the IMF, industrial output fell by 10 percent from December 2007 to December 2008, with metals falling almost 60 percent.<sup>3</sup> January 2009 continued the negative trend, with January industrial output dropping 16.7 percent.<sup>4</sup>

Anecdotally, the assessment team was told during its visit to Stip in late February that 50 out of the town's 90 textile companies had closed during last year alone. More factory closings are expected in the second quarter of 2009 as production orders received in this first quarter trickle in, much below those of the previous few years.

<sup>2</sup> FYROM 2008 Progress Report, Commission of the European Communities, Brussels November 2008

<sup>3</sup> Van Selm, MACEDONIA: Implications Of The International Financial Turmoil, IMF, February 2009

<sup>4</sup> [http://www.seenews.com/news/latestnews/macedonia\\_sjanuaryindustrialoutputfalls21\\_1\\_m\\_m\\_down16\\_7\\_y\\_y-table-161115/](http://www.seenews.com/news/latestnews/macedonia_sjanuaryindustrialoutputfalls21_1_m_m_down16_7_y_y-table-161115/)

Macedonia has pursued an aggressive foreign direct investment program for the last 5 years. Having increased for several years, FDI fell by 140 million € in the second half of 2008 through October, just after having garnered 300 million € in FDI in the first half of the year.<sup>5</sup> This is attributed mainly to the worldwide credit crunch; if that is so, it seems liable to worsen in 2009.

In November 2008, the government reduced taxes on businesses and individuals in an effort to help the economy weather the shock of the global economic crisis. Its tax collection reforms have helped to offset the reduction in taxes (personal and corporate income taxes decreased from a flat 12 percent in 2007 to 10 percent in 2008, one of the lowest tax rates in the world) with increased tax revenues.

However, labor in Macedonia is among the most expensive in the region, more expensive than labor in neighboring EU member Bulgaria<sup>6</sup>. This justifies the government's decision to cut the taxes on salaries, and thus make labor cheaper for foreign investors and hiring illegal workers less attractive for domestic employers. The recent cuts are expected to slightly reduce the country's informal economy, estimated to be 40 percent of the formal economy. In addition to the direct labor costs of hiring workers, firms also have to bear the costs of complying with regulations in hiring and firing workers. Within the West Balkans, Croatia and Macedonia have the strictest employment protection legislation, followed by Bosnia and Herzegovina and Serbia. For Bosnia and Herzegovina, this rigidity, along with its relatively high wages, creates disincentives for investment and job creation. This is also true for Macedonia. Its relatively high employment rigidity index combines with wages that, on several measures, are second only to those in Bosnia and Herzegovina.

Still, Macedonia has moved up eight places in the World Bank's Doing Business 2009 report, to be ranked 71<sup>st</sup> out of 181 economies because it has made it easier to start a business, register property, and obtain credit.

The banking sector may be a silver lining in this economic downturn, but it will require steady monitoring to assess how the sector reacts to increasingly tight credit and conservative lending practices. Already, Macedonia banks are reportedly raising interest rates as well as implementing stricter collateral requirements, which are likely to raise the bar for Small and Medium Enterprises (SMEs) attempting to access credit. Meanwhile, according to the IMF, Macedonia's banks are adequately capitalized with an average capital to asset ratio of 15 percent, about twice the minimum capital requirement. Moreover, banking in Macedonia relies mainly on domestic deposits rather than international credit lines to fund lending, as is the case in many central and Eastern European countries.

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<sup>5</sup> Van Selm, MACEDONIA: Implications Of The International Financial Turmoil, IMF, February 2009

<sup>6</sup> World Bank. "Western Balkans Integration and EU: An Agenda for Trade and Growth." Ed. Sanjay Kathuria. 2008

## LOW EMPLOYMENT AND HIGH UNEMPLOYMENT

“It doesn’t really matter very much in practical terms whether unemployment is 35 percent or 20 percent; it is too high, there are too many people out of the labor market entirely. Those who are looking, those who have given up, and those who have never looked for work all lack the skills required for 21<sup>st</sup>-Century jobs. What comes first – teaching the skills, or creating the jobs? It is, how would you say it, the chicken and the egg.”<sup>7</sup>

The challenges that Macedonia faces regarding employment, employability, and job quality are steep and protracted. Macedonia suffers from a labor market environment that is so rigid and complex that unemployment is in excess of 20 percent, and as high as 34 percent, depending on how its labor market data are interpreted. Inflexible or overly rigid labor market laws and regulations have contributed to stifling the country’s economic growth and employment expansion. Today, the labor market is one of limited business startups, small companies (most with fewer than 50 employees; many companies have fewer than 10), and a growing long-term cadre of incompletely educated and low-skilled, often young, unemployed.

The main labor market indicators show weak labor market performance in Macedonia as compared to those in the EU. According to the State Statistical Office<sup>8</sup>, the unemployment rate in the country in 2007 was 34.9 percent which is well above the EU average (7.2 percent for EU-27<sup>9</sup>). Overall employment levels in the last five years have been well below the EU average (65.4 percent for EU-27 for 2007), ranging from 36.2 percent in 2007, 35.2 percent in 2006, 33.9 percent in 2005, 32.8 percent in 2004 to 34.5 percent in 2003.

Analysis of the unemployment problem in the country based on available data from the Labor Force Survey 2007 shows:

**Long-term joblessness** is the most dominant feature – 84.9 percent of the registered unemployed in Macedonia in 2007 had been without work for one year or more.

**Many of the unemployed are uneducated** or have incomplete primary or secondary education – the registered unemployment rate in 2007 of workers without education and/or unqualified or semi-qualified was 46.1 percent.

**The employment rate for young people is low** –the employment rate for workers aged 18-24 is only 15.2 percent.

In 2007, **activity and employment rates for females were very low** as compared to EU averages - 32.2 percent and 50.4 percent, respectively, for females aged 18-64.

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<sup>7</sup> Key informant interview with Assessment Team, February 2009

<sup>8</sup> Labor Force Survey 2007, State Statistical Office of the Republic of Macedonia, June 2008

<sup>9</sup> <http://epp.eurostat.ec.europa.eu/>

## COMPETITION IN THE REGION

“While plans and hopes to join the EU are paramount in public dialogue, Macedonia is best understood as a member of a network of neighbors.”<sup>10</sup>

Macedonia is a country with a small population, about 2 million, and a small economy, about \$19 billion GDP (purchasing power parity)<sup>11</sup>. As such, its growth and economic well-being are significantly dependent on its former Yugoslavian neighbors, and its future linked to eventual integration into the EU.

Compared to the region, Macedonia’s economy trails its neighbors, except for Kosovo and Montenegro, recently declared independent countries.

**TABLE 2: 2008 PURCHASING POWER PARITY\***

Macedonia’s Neighbors	Per Capita	GDP (PPP) in billions
Kosovo	\$2,300	\$5.00 (2007 est.)
Albania	\$6,400	\$23.07**
<b><u>Bosnia and Herzegovina</u></b>	\$6,600	\$30.49**
<b><u>Serbia</u></b>	\$8,200	\$83.14
<b><u>Macedonia</u></b>	\$9,200	\$18.97**
Montenegro	\$10,600	\$7.16
<b><u>Croatia</u></b>	\$16,900	\$75.93
<b><u>Bulgaria</u></b>	\$13,200	\$95.88

Source: *CIA World Factbook (2008)* \*Estimate \*\*Large informal sector

## A LARGE “GREY” MARKET OF UNDOCUMENTED LIVELIHOOD GENERATION

“Until many more people are working in the formal sector – real jobs with regular schedules and higher wages that carry benefits and require payment of taxes – Macedonia will not have a modern economy.”<sup>12</sup>

The Republic of Macedonia, like most formerly planned economies, has been going through a difficult period of transition which has resulted in low participation in the labor market, high unemployment rates, and increasing levels of poverty. Despite significant progress in macroeconomic stabilization and the process of privatization, which is almost complete, job creation has been limited. As a result, many people end up working in the informal sector, which has acted as a temporary buffer.

<sup>10</sup> Key informant interview with Assessment Team February 2009

<sup>11</sup> CIA Factbook 2008

<sup>12</sup> Key informant interview with the Assessment Team, February, 2009

A comparative study conducted by Prof. Friedrich Schneider of the Linz University<sup>13</sup> has estimated the size of the Macedonian grey economy in 2000 and 2001 at 45.1 percent of the country's GDP. According to this author, this represents a significant increase compared to the period of 1990-1993, for which the estimate was 35.6 percent.

Macedonia's large grey economy reduces the efficiency of the labor market. In such a situation, the wage costs depend on how easily a business can conceal its activities. The loss of tax revenues from informal activities causes low quality public services, increases susceptibility to public corruption by depressing public wages, and exerts pressure to increase the tax burden on the formal sector.

With the grey economy estimated between one-third and one-half of the formal economy, the government of the Republic of Macedonia has identified this issue as one of the areas that requires immediate and substantial actions. Some of the planned government activities to address this issue are: tax reductions on certain activities and products, simplification of administrative procedures for obtaining different licenses and permits, and increasing the efficiency of the Public Revenue Administration, among other measures.

In November 2008, the government reduced taxes on businesses and individuals in an effort to help the economy weather the shock of the global economic crisis. Its tax collection reforms have helped to offset the reduction in taxes (personal and corporate income taxes decreased from a flat 12 percent in 2007 to 10 percent in 2008, one of the lowest tax rates in the world) with increased tax revenues. It remains to be seen whether these measures had an impact on the grey economy.

#### ETHNIC AND ECONOMIC INEQUITIES WITHIN MACEDONIA ITSELF

“It is important to recognize the history of tensions, and the present differences among ethnic groups in Macedonia, some of which are reflected in economic differences as well as de facto discrimination. Any initiative will need to take into account geography and minority interests as it plans and executes its activities.”<sup>14</sup>

The Ohrid Framework Accord was signed on August 13, 2001 by Macedonian and Albanian politicians, on one hand, and representatives of the international community, on the other. It put an end to an almost 7-month long armed ethnic conflict. The Framework Agreement paved the way for the decentralization and equal representation of ethnic Albanians and other ethnic communities in public administration. As a political document which incorporates the EU-NATO values regarding interethnic problems, the Accord is based on the following principles:

- Reconciliation and integration of the conflicting elements of society;

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<sup>13</sup> "The Development of the Shadow Economies and Shadow Labor Force of 22 Transition and 21 OECD countries" (PDF Datei), in: Boyan Belev: The Informal Economy in the EU - Accession Countries: Size, Scope, Trends and Challenges to the Process of EU Enlargement, CSD, Sofia, 2003.

<sup>14</sup> Key informant interview with Assessment Team February, 2009

- Full integration of all citizens in the country;
- Greater degree of inclusion of the citizens from the non-majority communities, especially of the ethnic Albanians;
- Affirmative action, as a model for overcoming interethnic tensions that can result from imposition of the majority system;
- Unity through diversity, as a model demonstrating how a unified multiethnic and heterogeneous society can function;
- Not only formal rights, but a real equality of the citizens, regardless of sex, nationality, language, or religion;
- Greater participation of citizens belonging to non-majority communities, especially ethnic Albanians, in all aspects of public life;
- Decentralization of the national government in a functional manner, as a preventive model for avoiding possible territorial models for resolving ethnic problems.<sup>15</sup>

Today's picture of the ethnic and economic inequality in Macedonia is rather intricate and complex to analyze. Due to inadequate methodology of recording data on the part of the statistical services, it is difficult to ascertain the actual situation in this respect.

Formally, education is free and accessible to all, regardless of ethnic affiliation. Disparities emanating from ethnicity are evident largely with respect to gender. Girls from the Macedonian ethnic group are equally represented in primary and secondary education with Macedonian boys, which is not the case in the other ethnic groups; ethnic Albanian, Turkish, and Roma girls are equitably represented in primary education, but their number is well below parity in secondary education. This is apparently a consequence of both traditional values and cultural customs, and economic problems – lack of funding, especially among the Roma population. Similar socioeconomic reasons also determine the high dropout rate of Roma students.

According to the 2002 Census, the percentage of ethnic Albanians in mainstream primary and the first years of secondary education is about 30 percent, whereas their participation rate in the upper years of secondary education is just half that rate, or 16 percent. The most drastic decrease is recorded among the Roma, whose enrollment in primary and lower secondary education is approximately 3.3 percent, falling to 0.5 percent in upper secondary education.<sup>16</sup> The situation has improved slightly in recent years through the introduction of active policies, especially mentoring of and scholarships for Roma students in primary and secondary education.<sup>17</sup>

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<sup>15</sup> UNDP, National Human Development Report, Macedonia, Decentralization for Human Development, Executive Summary, 2004

<sup>16</sup> State Statistical Office, 2002 Census

<sup>17</sup> REP Macedonia, Evaluation Report, 2008 (internal draft version), FOSIM, 2009

Unemployment is one of the most difficult economic, social, and political problems in Macedonia. The problem existed even before the transition, only to become more pronounced and complex in the last years. In addition to the limitation imposed by lack of financial resources, the restructuring of ownership and production also had an adverse effect on unemployment in the last decade, as did the insufficient development of the private sector, which failed to develop sufficient power to be able to absorb new employees.

The data summary in the following table illustrates the unemployment rates of women in the ethnic groups according to the 2002 Census. The group most affected by unemployment is the Roma, with an unemployment rate twice the national average (78.5 percent of the workforce, as opposed to 38.1 percent of the total unemployment rate at a national level). They are followed by the ethnic Albanians, Turks, and Bosnians, with similar levels of unemployment – 61.2 percent, 58.2 percent and 60.3 percent respectively. The lowest unemployment rate can be found among the Serbs (30.9 percent) and Macedonians (32 percent), under the national average (38.1 percent).

The disparities in the activity rate are linked with the gender and ethnic aspect of the population. The regions with a dominant Albanian population are characterized by a low female activity rate. Inactive population includes persons who are for different reasons not seeking employment: age (retired persons), education (students), those not interested in employment, and those who believe they will not find employment. An additional reason for inactivity can be involvement in the grey economy or illegal activities, rarely analyzed.

Most significant is the unemployment rate within the total population among those who are of working age, the most relevant indicator of the seriousness of the problem. From this perspective, the most vulnerable group in respect to lack of jobs and sustainable income are the Roma, followed by Bosnians and Turks. The percentage of ethnic Albanians is almost equal to the national average and to the percentage of unemployed ethnic Macedonians.

**TABLE 3: INDICATORS OF LABOR MARKET PARTICIPATION BY ETHNICITY<sup>18</sup>**

	Total	Macedonian	Albanian	Turkish	Roma	Vlach	Serbian	Bosnian	Other
Concrete rates of employment	61.9	68.0	38.8	41.8	21.5	74.7	69.1	39.7	59.2
Concrete rates of unemployment	38.1	32.0	61.2	58.2	78.5	25.3	30.9	60.3	40.8
Inactivity rate	52.8	46.5	70.7	61.9	52.4	51.7	52.7	56.6	56.6
Unemployment rate of the total population at working age	18.0	17.1	17.9	22.2	37.3	12.2	14.6	26.2	18.0

Source: State Statistical Office, 2002 Census

### AN EDUCATION SYSTEM STRUGGLING TO CATCH UP WITH CHANGING REALITIES OF A MARKET ECONOMY

“The highest rate of unemployment is amongst the persons with secondary or lower education (46.1 percent in 2004). The lowest rate of unemployment is amongst the persons with high education (18.3 percent in 2004)”<sup>19</sup>

“There is a united choir of dissatisfied customers of the education system. Companies who wish to hire new employees find that graduates lack technical skills, have not had any real exposure to practical experience, and – while most have decent language and reading ability coming from universities – they have underdeveloped soft skills and do not know how to present themselves. We require a system which teaches skills, not just theory.”<sup>20</sup>

The education system and the market economy are two separate worlds in the Republic of Macedonia. Although there has been talk of the need to strengthen the link between these two

#### <sup>18</sup> Methodological notes

Working age population comprises all persons aged 15-79;

Economic active population consists of both employed and unemployed (labor force);

Following ILO recommendations, the employed include persons over 15 years of age who:

- during the week of the report have worked for money (in cash or in kind) or for profit at least one hour;
- during the week of the report were temporary absent from work (because of illness; leaves; studies; break of the activity of the firm e.t.a.), but were formally employed;
- were helping on the family estate or in the family enterprise without pay.

According to EUROSTAT recommendations, unemployed are the persons aged 15-74 who:

- during the week of the report they did not work (according to the above mentioned criteria);
- have searched actively for a job or have taken concrete activities to find a job;
- were prepared to accept job in the next two weeks after the referent week.

The persons that are not included in both categories are the judged to be are not in the labor force.

In accordance with the research, the economic inactive population includes all persons that did not work for even one hour in the week of the report:

<sup>19</sup> “Development and State of Adult Learning and Education, Ministry of Education and Science, April 2008

<sup>20</sup> Key informant interview with Assessment Team, February 2009

sectors, little has been done in practice. With the shift away from the concept of a planned economy, as a relic from the former socialist system, there was also a shift away from planned educational production. The gap between the two has never really been closed.

The debates on the need for adaptation of the education system and positioning it in such a way that it responds to the needs of the market economy continue a seemingly intractable dialogue.

Companies blame educators for not preparing the workforce they require, while educators complain that companies do not really want to collaborate and are not willing to invest in the development of workers they need. The companies are focused on the formal system of education and expect it to find a solution for their needs, marginalizing or completely forgetting the influence that the system for adult education has and the opportunities it brings. On the other hand, the formal education institutions, primarily secondary (high) schools and universities, in an environment of over-regulation and lack of finances, face slow and lengthy procedures for internal transformation and cannot respond quickly to the needs of the companies. They, too, as a rule marginalize adult education and all models for vocational and professional in-service training/advancement at their disposal. And insufficient funding complicates it all.

## **BASIC EDUCATION DATA**

- Coverage of children in preschool education is 18.67 percent;
- Coverage in primary education is approximately 95 percent;
- Annual dropout rate in primary education is 1.42 percent, with an additional 0.29 percent officially discontinuing their education;
- Mandatory secondary education is new, the law having just passed in 2008, and being implemented for the first time in the current year
- Transition rate of students who completed primary education into secondary education is 83.35 percent, meaning that 16.65 percent of graduates discontinue their education at this point;
- Annual dropout rate in secondary education is 2.84 percent, with an additional 0.88 percent officially discontinuing their education;
- Total number of university students is 2,212 per 100,000 citizens;
- Lowest dropout rate is found among Macedonians and highest is among the Roma.

## **EDUCATIONAL ATTAINMENT VS. UNEMPLOYMENT**

An analysis of the educational structure of the Macedonian population shows that out of the total number of persons over 15 years of age, nearly half (49.39 percent) are persons who do not have an elementary level of education (illiterate, with an incomplete elementary education ,or with an elementary education only). If we add to this group the persons who have completed 3 or 4 years of secondary education, who in turn comprise the largest group of long-term unemployed, then the educational composition of the Republic of Macedonia is alarming and does not offer optimism for

future economic and social state development. In terms of a permanent modernization of the technical-technological labor base, this condition conjoined with the decreased economic power of the state represents a real generator of the increased number of unemployed and slow economic state growth.

Most of Macedonia's unemployed individuals possess a low level of education. If the economically inactive population is added to this number, out of which 62.05 percent are female, and 67.57 percent have only completed elementary school, then the situation gets even worse. On the other hand, the state effort to intensify inclusion and participation in decision-making and influence on a local and state level, in terms of a large number of educationally handicapped populations, become more a declaration than a realistic possibility.

There are many reasons for the extremely unfavorable educational composition of the population, the most dominant being: insufficient coverage of students, especially of those from vulnerable groups; domination of traditional values that neglect the importance of education in some ethnic groups; a level of technological development in the economy that still tolerates undereducated workers; and decreased financial power of the population.

The dropout rate in primary and secondary education was reported in 2006 as 18.32 percent, highlighting the annual increase of persons with low educational attainment. If we consider the vertical mobility of students in elementary and secondary education, from a cohort perspective, the indicators worsen. Thus, among those enrolled in elementary education in 1994-1995 (34,935), only 89 percent completed their primary education in 2001-2002. The situation in secondary education is even more alarming. Those enrolled in secondary education in 2001-2002 (21,241) represented only 80.93 percent of the enrollment in 1998-1999 (26,244).

## **FINANCING OF EDUCATION**

Expenditures for the education sector are allocated from the state budget to Ministry of Education and Science (MOES, 2007). About 5 percent of GDP goes to education: 57 percent is for primary education, 24 percent for secondary education, including technical and vocational education and training (TVET), and 19 percent is allocated to higher education. About 80 percent of these resources are spent on teacher salaries. Secondary education absorbs about one-quarter of the total state budget for education, 82 percent of which is spent on staff costs, 6 percent on running costs, 6 percent on subsidies, and 6 percent on capital expenditure. Due to low allocation to capital expenditure, schools (and in particular TVET schools) often suffer from lack of adequate equipment. The Organization for Economic Cooperation and Development (OECD), in its education policy review from 2001, concluded that chronic under-investment creates long-term impoverishment of the system's infrastructure. Private investments can be only seen through the establishment of private schools, currently nine of them being accredited, and none of them offering vocational education and training. General education is much cheaper to prepare and deliver with a higher rate of return, whereas vocational training and education requires substantive investments.

Macedonian higher education (HE) has traditionally relied on government funding, and as such, has been progressively underfunded. The HE budget accounted for 15.68 percent of the education budget in 1998 and 12.03 percent in 2003. The share of GDP for HE<sup>21</sup> was 0.47 percent, which was 2.5 percent lower than in 2002, whereas the state budget for Research and Development (R&D) is 0.2 percent. This is far below the EU average of 1.1 percent for HE and the EU average of 1.9 percent for R&D, and the EU targets of 2 percent for HE and 3 percent for R&D. The re-launched Lisbon agenda guiding education in European Union and EU accession candidate countries highlighted the national priorities for cooperation in the science and research arena, thus underscoring the introduction of refined government instruments to motivate investments by the private sector. Tax reforms that further stimulate private investments have been investigated and prepared (Government of the Republic of Macedonia, 2007).

The 2006 National Plan for Development of Education has targeted an increase of the HE budget to 1 percent of GDP by 2010. Macedonian higher education has been subject in recent years to cuts in public funding, accompanied by changes in funding formulas and pressures to seek alternative funding sources. The Higher Education Law (2008) entitles universities to collect and manage additional funding that can be retained by each institution in a separate account, such as: revenues from sponsoring activities, donations and grants, and funds collected from educational services to foreign and domestic individuals and/or legal entities. Although Macedonia has no tradition of privately sponsoring Higher Education Institutions, since 2003 Macedonian higher education has been increasingly dependent on fees privately paid by students; institutional revenues from charities, private enterprises, businesses, and organizations are insignificant. There is a lack of involvement, and of opportunities for involvement, by enterprises in investing in education for their own personnel.

The need for structured dialogue between the different stakeholders is discussed at a personal level but not nationally. There is no forum where a connection between education and enterprises can be discussed, and it is widely assumed that only one Ministry (either Ministry of Education and Science or the Ministry of Labor and Social Policy) can make decisions and regulate the provision of education. The notion that everything has to be institutionalized and that every activity must be licensed may be a general obstacle to the creation of a flexible framework for cooperation between education and enterprises in Macedonia.

Lack of cooperation and dialogue between the main stakeholders in education may further limit opportunities to take positive experience from projects and to create an environment that

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<sup>21</sup> In addition, TEMPUS IV with annual budget of 3.5 million EUR contributed significantly to the HE reform in RM, supporting intensive cooperation between the Macedonian HEIs and the EU member states, the candidate countries and CARDS countries.

encourages investment in education. Social dialogue should be strongly supported by the government.

## A COMPLICATED PATHWAY TO EUROPEAN UNION MEMBERSHIP

“Political considerations aside, modernizing the workforce development system will be a key factor in the pace at which Macedonia prepares to join the EU, and in its long term success as a member.”<sup>22</sup>

In December 2005, the European Union granted Macedonia EU accession "candidate country" status, a major step toward EU membership. However, becoming a EU member for a small country with an economy under stress is a significant challenge. Macedonia's economy is only about \$19 billion today (the large grey economy is an inhibiting factor in measuring overall size and growth), and will likely be smaller this year as a result of the current fiscal crisis. Its GDP per capita is about \$9,000, slightly ahead of its neighbors – Serbia, Bosnia and Herzegovina, Albania, and Kosovo.<sup>23</sup> The road to EU membership for Macedonia definitely includes a number of hurdles with the main priorities being the alignment of legislation and the reform of public administration and the court system.

Macedonia, like other accession countries, will receive financial and technical assistance from the EU and its EU country neighbors. For the next 5 years, the EU accession labor market and employment programs are expected to cost about 8 million euros, with nearly 7 million euros coming from the EU based on certain benchmarks being met. However, until various structures and systems are in place and certain conditions are met, the implementation of the pre-accession assistance is delegated by the European Commission to the European Agency for Reconstruction (EAR) in Skopje. In September 2008, the responsibility for the implementation of CARDS assistance was transferred from the EAR to the Commission Delegation in Skopje, the EU assistance portfolio managed by the EAR amounting to 326 million euros.

As set out in the Lisbon Strategy and the European guidelines for employment, EU members must update and strengthen their labor market institutions, and in particular, their employment services. The guidelines require significant actions by governments:

- Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
- Promote a lifecycle approach to work.
- Ensure inclusive labor markets for job-seekers and disadvantaged people.
- Improve matching of labor market needs.

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<sup>22</sup> Key informant interview with Assessment Team, February 2009

<sup>23</sup> CIA Factbook 2008

- Promote flexibility combined with employment security and reduce labor market segmentation.
- Ensure employment-friendly wage and other labor cost developments.
- Expand and improve investment in human capital.
- Adapt education and training systems in response to new competence requirements.

The Revised Strategy for Social Cohesion of the Council of Europe (2004) promotes access to decent employment for everyone. It states that “investment in human resources is one of the most crucial areas of investment for future economic growth”. As such, regarding EU accession policies and guidelines as specifically related to the labor market, Macedonia has agreed to address:

- Its consistently high unemployment and relatively slow pace of job creation;
- Skills mismatches and regional disparities and their adverse consequences for poverty and social cohesion, by investing in better education and skills in line with European standards (*priority axis 2*);
- The need to improve employment policies and employment services, including training (*priority axis 1*); and,
- The need to develop specific measures and programs to improve access to employment for the most disadvantaged, particularly women and young job seekers (*priority axis 3*).

Macedonia has developed a roadmap – strategy, implementation, and operational plans - to address the above issues. With this roadmap, Macedonia intends to:

- Embrace the objectives and guidelines of the European Employment Strategy;
- Implement the Council of Europe standards in employment matters – the European Social Charter and the Revised Social Charter – to create a labor market environment that adopts the Council of Europe Recommendations concerning the promotion of employment; and
- Adopt and utilize fully the core principles of the International Labor Office’s (ILO) Global Employment Agenda.

Regarding vocational education and training (VET), one EU accession recommendation is for Macedonia to develop a VET system that enhances entrepreneurship learning and that VET become a key aspect of the education system. If adopted, Macedonia’s VET programs and policies should eventually become aligned with the EU Lisbon process, the EU Oslo agenda on entrepreneurship learning, the European Qualifications Framework, the International Standards of Classification of Education (ISCED), and the stipulations of the European Charter for Small Enterprises.<sup>24</sup>

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<sup>24</sup> Convention on the Recognition of Qualifications Concerning Higher Education in the European Region, Lisbon, 1997; Harmonisation of the architecture of the European higher education system, Sorbonne, 1998; The European

In the context of higher education, the reforms are following the recommendations from the Bologna Process (Macedonia is a signatory to the Bologna declaration from 2003). This obligates the country to interventions in areas such as: increased study efficiency, facilitation of student and academic staff mobility, improved quality of the educational process, active participation of students in quality assurance, enhancement of employability of undergraduates in the national and European labor market, and competitiveness and compatibility of universities. This initiative should also strengthen the link between the business community and universities.

The Bologna Process also requires universities to respect the European directives pertaining to *regulated professions* in the European Higher Education Area, which are among the top priorities of the European Commission. Regulated professions are a result of the efforts made by the business community (European professional associations) to see to it that its needs for specific competences are reflected in the study programs. This means that with the application of these directives, Macedonian universities are training their students according to curricula and programs compatible with the programs delivered in the EU. So far, a number of study programs for regulated professions have been developed and implemented which are also taught at universities in Macedonia.

Overall, the EU accession process offers Macedonia the opportunity to develop, adopt, and implement labor market legislation and policies that will contribute to creating a modern and vibrant economy based upon principles of social justice and equality of opportunity for all. If fully embraced, this process will help the country close the gap in its ability to compete in an increasing competitive European and world market.

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Higher Education Area, Joint Declaration of the European Ministers of Education, Convened in Bologna on the 19th of June 1999; Haug, Guy & Knudsen, Inge: Trends in Learning Structures in Higher Education (I) - 1999; Message from the Salamanca Convention of European higher education institutions, Shaping The European Higher Education Area, Salamanca 2001; Haug, Guy & Tauch, Christian: Trends in Learning Structures in Higher Education (II) - 2001; Working on the European Dimension of Quality, Report of the international conference, Amsterdam, March 12 and 13, 2002; Credit Transfer and Accumulation – the Challenge for Institutions and Students, EUA/Swiss Confederation Conference, ETH Zürich, 11/12 October 2002; European Strategy Framework, For Improving and Increasing Global Education In Europe to the Year 2015, Europe-wide Global Education Congress, Maastricht, November 15th - 17th 2002; EUA Graz Convention, 29/31 May 2003 Reichert, S. and Tauch, Ch.: Trends in Learning Structures in European Higher Education (III) - 2003; Realising the European Higher Education Area, Communiqué of the Conference of Ministers responsible for Higher Education in Berlin on 19 September 2003, London Communiqué, Towards the European Higher Education Area: responding to challenges in a globalised world, London, 2007

## **There is an uneven official government response to these challenges.**

The Ministry of Labor and Social Policy (MOLSP) has the primary responsibility for employment policy in Macedonia. Within the MOLSP there are six departments and two special offices that work semi-independently of the Ministry. These departments and offices are as follows:

- Social protection
- Child protection
- Labor
- Pension and disability insurance
- International cooperation
- Social inspection
- Equal opportunities
- Legal and general issues
- Coordination and minister's support
- Budget, finance and accounting

### **SPECIAL OFFICES**

- War Veterans and War Invalids
- State Labor Inspectorate

The Department of Labor (DOL) is responsible for employment policy and administration (wages, collective agreements, and social partnership), unemployment insurance benefits, advancement of gender equality, implementation of the ILO and EU international norms, and the labor market in general. DOL has three units:

1. Work relations and employment
2. Wages
3. Social partnership

The MOLSP is also responsible for:

- Issuing licenses for the establishment of temporary employment agencies;
- Issuing permits for the establishment of placement agencies that charge for their services;
- Handling registrations for associations of trade unions and employers' associations;
- Registering collective bargain agreements; and
- Providing information about employing the disabled.

The MOLSP establishes and supervises the work of a number of commissions and councils. A Socio-Economic Council was established as a tripartite body based on the agreement between the government of Macedonia, the Association of Trade Unions, and the Chamber of Commerce of Macedonia. The Council has advisory and consultative functions and provides the main ground for social dialogue. The roles of the Council are defined in the 2005 Law on Working Relations.

In framing employment policies for the 21<sup>st</sup> Century to address Macedonia's high unemployment challenge and to expand employment opportunities coupled with the EU accession labor market recommendations and guidelines, the MOLSP spearheaded the adoption of a framework to guide it through its labor market reform process. This reform package includes an employment strategy, the National Employment Strategy 2010 (NES), the Work Program of the Republic of Macedonia 2006-2010 (macroeconomics focus), the National Action Plan for Employment (NAPE)<sup>25</sup> 2006-2008 (implementation focus), and the Operational Plan for Active Employment Programs and Measures for the Year 2008.<sup>26</sup> In accordance with Component IV<sup>27</sup> of the EU Instrument for Pre-Accession Assistance (IPA), the Government of Macedonia (GOM) also adopted the Multi-Annual Operational Program for Human Resources Development 2007-2013. The goal of these measures is to raise the employment rate from 38 percent in 2005 to 48 percent in 2010. They give employment and labor market policies a fairly significant priority in keeping with the GOM's broader economic policy objectives and EU accession plans.

## **LABOR MARKET RIGIDITY**

Macedonia has adopted and begun to implement a host of laws and regulations to improve the business environment with the goal of increasing its economy and generating a higher employment rate. Ultimately, Macedonia seeks to improve the standard of living for its citizens. Thus, its labor market reform measures have addressed high tax rates, business startup impediments, hiring and firing rigidities, employee benefits, student internships, and active labor market programs (ALMPs) for the unemployed. All in all, the labor market reforms in Macedonia provide a clear signal that the labor market reform process has begun in earnest. For example, Macedonia has one of the lowest tax regimes in the world, a flat rate tax of 10 percent on corporate and personal income. Its recent doing business laws were revamped so much so that the World Bank deemed Macedonia one of the

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<sup>25</sup> A working group established by the MOLSP prepared NAPE. The group included independent experts as well as representatives of the Ministries of Education, Economy, Finance and Local Self- Government, of the ESA, of the Association of Local Government Authorities, the Chamber of Commerce, and the Association of Trade Unions.

<sup>26</sup> Other employment related programs and policies include the National Strategy for Development of Education 2005-2015; the National Strategy for the Roma Decade 2005-2015; the National Action Plans for Roma 2006-2008 (education, employment, health, housing); the National Action Plan for Gender Equality; the National Strategy for Development of Small and Medium Enterprises; the Action Plan for Combating Grey Economy; the Government's Working Program for the period 2006-2010; the Strategic Plan of the Government for 2006-2008; and the Strategic Plan of MoLSP 2006-2008.

<sup>27</sup> Component IV is managed by the EU Directorate-General for Employment, Social Affairs and Equal Opportunities; it is designed to strengthen human capital and help combat exclusion (similar to the European Social Fund).

top 2006-2007 reformers in the world by the World Bank's Doing Business (DB) project.<sup>28</sup> It moved from #96 to #75 (out of 178 countries) in one year.<sup>29</sup>

Nevertheless, when it comes to starting businesses and creating jobs the labor market is still stuck. While Macedonia has experienced a modest increase of jobs, the level and quality of such jobs are insufficient to begin to reduce the large numbers of currently unemployed or underemployed, not to mention the growing numbers of students who will be seeking jobs upon leaving school, either as dropouts or as graduates. Consequently, *Macedonia has a labor market blockage* that is stifling its economic growth and suppressing its ability to create quality jobs in sufficient numbers to lift the standard of living for its citizens and allow them to compete effectively in the 21<sup>st</sup> century. From a policy perspective, what exactly is missing or not working in this labor market? What needs to be done to unclog the labor market machinery to make the system work effectively, efficiently, and ultimately, competitively?

Even with Macedonia's commendable labor market reforms, there is still much work to be done. Macedonia's employers face great difficulty in hiring and firing workers. A consistent response from the legal and business community has been that the business and employment laws are overly complicated, contradictory, and almost impossible to adhere to. According to the World Bank's "Ease of Doing Business" analysis, Macedonia ranked 125 (out of 181 economies) in DB09, an improvement from 130 in DB08 considering how rigid its labor market laws and regulations are. As indicated in the chart below, Macedonia trails its neighbors and OECD countries when it comes to promoting job creation and increasing employment. Its labor market legal and regulatory environment needs significant additional reforms in order to improve the numbers of businesses started or expanded and its employment rate in the formal sector.

**TABLE 4: LABOR MARKET RIGIDITY**

Indicator	Macedonia	Region	OECD
Difficulty of Hiring Index	50	36.4	25.7
Rigidity of Hours Index	60	48.0	42.2
Difficulty of Firing Index	30	32.4	26.3
Rigidity of Employment Index	47	38.9	31.4
Firing costs (weeks of salary)	26	26.3	25.8

Source: World Bank Doing Business Project 2008; values are between 0 and 100, with higher values indicating more rigid regulations

<sup>28</sup> Macedonia did not make it on the list of top reformers when it comes to hiring workers.

<sup>29</sup> <http://www.doingbusiness.org/features/Reform2007.aspx>

**TABLE 5: POPULATION, LABOR FORCE STRUCTURE, EMPLOYMENT, & UNEMPLOYMENT, IN THOUSANDS**

Age	Population	Economically Active	Employment		Unemployment	
			Men	Women	Men	Women
0-14						
15-24	326	117	NA	NA	42	25
25-49	755	596	NA	NA	111	85
50-64	352	186	NA	NA	36	17
65+	196	8	NA	NA	0.2	0.03
Total 15+	1,629	907	359	231	189	128
<b>Total</b>	<b>2,000</b>	<b>907</b>	<b>590</b>		<b>317</b>	

According to one foreign investor that recently established operations in Skopje, the rules and regulations on how to fire an employee without the consequence of a protracted legal battle are confusing, at best. Employers should be able to fire unsuitable employees in a manner that is precisely prescribed by law with reasonable certainty, stated a firm representative. The difficulties or uncertainties involved in firing an employee are just one aspect of how inflexible or complex the labor laws are in Macedonia. The assessment interviews revealed numerous examples of other rigidities or barriers to hiring and firing workers, such as the 40-hour maximum work week for registered employees, and its implications for increased informal employment for those who work beyond 40 hours, or for more than one employee. Another barrier is employee registration. While the recently introduced online employee registration process is, in theory, a vast improvement over the previous process, in practice, it has not been fully implemented. Moreover, even if it were fully operational, employers still must submit documents to the employment centers in person, according to several business owners.

An employment contract is generally required for formal sector employment with a maximum of 40 hours that one can work. Moreover, one cannot be registered as employed for beyond 40 hours, whether with one employer or several employers. This 40-hour maximum requirement has definitely pushed workers who work more than 40 hours into the informal economy. Any work beyond 40 hours is generally performed “off the books” because the labor laws have forced workers and their employers to circumvent this law, it seems. With unemployment so high and wages so low, employees cope by working several jobs and long hours, often far beyond the restrictive 40 hours, simply to provide the minimum for their families. Thus, the 40-hour maximum labor law requirement seems out of step with the reality of the work force and labor market environment in Macedonia.

## **SEASONAL, STUDENT, AND PART-TIME WORKERS**

It is not clear what the rules are regarding seasonal, student<sup>30</sup>, and part-time workers. Several sources stressed that there is a shortage of seasonal workers, especially during the agricultural season, in large part attributable to the legal and regulatory environment that is said to discourage employers from hiring needed workers in a country with high unemployment. The reason often provided for this inconsistency is that hiring such workers is an administrative nightmare. Most sources expressed exasperation with the administrative employee burdens – forms, taxes, and inspectors – associated with hiring part-time or temporary workers. Several business owners commented that the law did not allow them to hire employees whose “legal” status was as full-time students – even for school holidays when in most societies summer work is the most common introduction to employment – and that recent grads had to register as an unemployed person with the employment agency before a firm could hire them. Both of these policies – if the report was true (and it was confirmed by several informants) – would seem worth changing, and this change would likely not be too difficult. A consequence of the complex, inconsistent, and inflexible legal and regulatory environment is a sizeable informal (grey) economy in Macedonia, estimated to be as high as 30-40 percent, according to the IMF. Employers simply hire workers throughout the society without the benefit of the formal structure. While this is especially true for low-wage, low-skilled workers, workers throughout the labor market face this dilemma.

## **THE EMPLOYMENT SERVICE AGENCY (ESA)**

The Employment Service Agency (ESA), under the supervision of the MOLSP, is responsible for all aspects of employment services – registering the unemployed, paying unemployment benefits, providing counseling to job seekers, and developing and managing active labor market programs. ESA is based in Skopje with 8 regional and 30 branch offices. ESA is also responsible for providing those registered as unemployed with free health insurance coverage and other social benefits. According to ESA, about 80 percent of their unemployment registrants do so for reasons unconnected to job seeking. There is a legal change being proposed to move health benefit payments to the Ministry of Health, which would seem a sound change, as it would relieve ESA of the administrative responsibility and free up resources for critically needed job placement services. In fact, with a few exceptions, there is little capacity in the ESA branch offices either to go far beyond registration – to assess registrants’ needs and interests, to understand employers’ needs and requirements, or to match jobseekers with job opportunities. Some ESA branch offices have gone beyond registration to include active job clubs, but only a handful have pursued more active labor market projects.

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<sup>30</sup> A recent change at the university level now requires students to have at least one month of practical/internship experience for each year of studies. Inconsistencies between this new education policy and the labor employment policies should be examined. Moreover, the business community should be made aware of the possibility of hiring students as interns and provided clear instructions on how the internship process works.

## LEGAL FRAMEWORK

The relevant laws governing employment and unemployment are:

- Law on Labor Registration, 2004
- Law on Employment and Insurance in Case of Unemployment (July 1997, revised in 2000, 2001, 2003, 2004, 2005, 2006, 2007).
- Law on Labor Relations, 2005
- Law on Agencies for Temporary Employment, 2006<sup>31</sup>
- Law on Employment Incentives, 2006
- The Law on Establishment of Employment Relations with Foreign Persons

According to the law (Article 53), an unemployed person shall be a person:

- Not employed
- Registered with the ESA
- Capable and willing to work
- Actively looking for work during the past 30 days
- Available to start work within 15 days
- Has not refused suitable job offers
- Whose job contract has not been terminated by own will

Further (Article 54), a person shall not be considered unemployed if:

- If he/she is in a working relation
- Is a pension beneficiary
- Performs a professional activity
- Is an owner or founder of a company
- Is involved in agricultural activities
- Does not accept training, retraining, or re-qualification
- Is engaged in illegal activities

## UNEMPLOYMENT BENEFITS

Unemployment benefits are available to those persons who have worked at least 9 months continuously or 12 months with interruptions during the last 18 months. Unemployment beneficiaries are obliged to report to ESA every 30 days and to prove that they are actively seeking work. Unemployment beneficiaries who register only for health insurance should report to ESA

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<sup>31</sup> The 18% VAT tax on temporary employees should be lowered or removed to increase the use of temporary workers. Rules that may reduce the demand for hiring should be one of the major responsibilities of a Job Creation and Workforce Development Task Force, a high-level working committee with a broad cross section of society that addresses policy and administrative changes to increase employment.

every 60 days. In any case, an unemployed individual should report to the employment agency every four months. Noncompliance can lead to the termination of benefits.

The average monthly unemployment benefit is about 135 euros (average wage is about 400 euros a month) and is payable for 12 months if the beneficiary has more than 25 years of employment. With less than 25 years of service, the benefit is reduced based on the years of employment.

Unemployment beneficiaries generally fall in one of three categories:

1. Those eligible for unemployment benefits and health insurance, pension, and disability insurance as well as other forms of ESA assistance, such as job counseling and training;
2. Those eligible for health insurance who also have the right to job counseling and training (no cash benefit); and
3. Those who have only the right to job counseling, training, and other related services provided by the ESA (no cash or health insurance benefits).

In 2007, there were 357,166 registered unemployed beneficiaries and, of that number, 75,508 registered for the health insurance benefit only.<sup>32</sup> The number of new beneficiaries declined from 24,405 in 2003 to 4,008 in 2007. The characteristics of the new beneficiaries have also changed, namely they were older in 2007 than those in 2003. In 2007, males represented approximately 61 percent of the beneficiaries, Macedonians almost 90 percent, and over 82 percent were from urban areas. In terms of education, the unskilled workers and people with secondary education were the largest beneficiaries.<sup>33</sup>

Unemployment contributions are paid solely by the employer<sup>34</sup> at a rate of 1.4 percent of gross wages in 2009, down from 1.6 percent of gross wages last year. Within the legal framework, civil law contracts, generally for consultants or short-term hires, exist for which no social contributions are paid. These civil law contracts are said to increase the number of workers in the informal economy, estimated to be 30 percent to 40 percent of GDP.<sup>35</sup>

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<sup>32</sup> European Social Charter Reply To Supplementary Question 1st report on the implementation of the European Social Charter submitted by The Government Of The Republic Of Macedonia (30/04/2005 – 31/12/2006), June 2008

<sup>33</sup> Republic of Macedonia Ministry of labor and social policy and Social Policy, A Review Of The Social Protection System In The Republic Of Macedonia, May 2008

<sup>34</sup> It is not clear if the social contributions are actually paid by the employer considering that wages paid are net of the social contributions. It seems as if the employee pays these taxes and the employer simply withholds and remits the social taxes.

<sup>35</sup> Strban, Grega Contribution Collection Systems and Possible Measures To Improve Their Effectiveness, European Union Social Institutions Support Program, April 2007

In theory, employers are required to inform ESA about every newly hired employee, but this requirement is often not enforced. Thus, some of the registered unemployed, according to several sources, are in fact employed. For example, many agricultural workers are farm producers without the benefit of title to their land due to a cumbersome land registry. These workers often receive unemployment benefits as the “formally landless”. Additionally, ESA collects very little from self-employed individuals.<sup>36</sup>

In 2006, **social contributions provided just 22 percent of the revenues** needed by the employment fund, with the deficit financed by the general budget. Keep in mind that ESA is responsible for paying pensions, disability, and health insurance contributions for a large number registered as unemployed. These contributions amounted to almost **72 percent of total ESA expenditures** in 2006.

## TAXES

Income taxes and social insurance taxes can influence the hiring of workers, especially seasonal and low-skilled workers. The income tax burden on wages, which was reduced to a 10 percent flat tax in 2008, is down from 12 percent in 2007. However, according to several business owners and legal experts, the social tax costs under the reduced tax regime are effectively the same as before the tax reduction was introduced because some benefits that were tax-free are now included as wages, the result being a lower tax on a higher wage base.

**TABLE 6: LABOR TAXES**

Type of Tax	Rate in 2007	Rate in 2009	Rate in 2011
Pension and disability insurance	21.2	19.0	15.0
Health insurance	9.2	7.5	6.0
Employment insurance	1.6	1.4	1.0
<b>Total Social Percentage*</b>	<b>32</b>	<b>27.9</b>	<b>22</b>
Income Tax	10	10	10
<b>Total Labor Tax</b>	<b>42</b>	<b>37.9</b>	<b>32</b>

*\*Applied to gross wages before deducting the personal income tax*

*Source: Invest Macedonia*

<sup>36</sup> The State Labor Inspectorate (SLI), a relatively weak institution, is responsible for monitoring and enforcing the labor laws.

**Examined from the “Demand” side – from the point of view of the current and prospective employer community – there are significant gaps between skills required in a changing economy, and those provided by the current system of education and training. While there are some promising developments, they are seen as insufficient by the employer community.**

“There is no tangible connection between employers and the education or training of employees...

“If we have jobs, we advertise as required, but the people we hire we find through personal contacts...

“People coming out of universities have theoretical skills, but no practical experience, and poor ‘soft skills’: they don’t know how to present themselves, and they expect more from the job than they are prepared to contribute.

“Unemployed people in this system are like the cockroaches in that old American commercial – they go in (register) but they don’t come out... we never see them, let alone hire them.”<sup>37</sup>

## **FEEDBACK FROM EMPLOYERS**

While the Assessment Team did not conduct a wide survey of the private sector, we did conduct interviews with 13 individual firms, and 8 focus groups comprising another 34 firms. The firms were somewhat over-weighted towards ICT (or at least to technically-oriented firms); there were also real estate firms, retail sales, agro-processing, light manufacturing, construction and building material, and textile firms. We asked similar questions of all. Despite their differences, we can summarize their feedback in a handful of points:

- All have done hiring in the last year, and nearly all hired university graduates only;
- Few candidates for jobs possessed adequate levels of technical skills for the jobs presented; all needed further company training;
- Most had acceptable levels of cognitive ability (i.e., reading, basic math competencies, and language ability);
- Few exhibited any “soft skills” in interviewing, possession of an adequate CV, experience with teamwork, ability to communicate with supervisors and colleagues, and so on;
- None had heard about the Employment Service Agency’s “Skills Gap Analysis” and all were skeptical;
- All believed that secondary schools were outmoded, and were preparing students for obsolete jobs;

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<sup>37</sup> From key informant interviews with employers and the Assessment Team, February 2009

- Some believed that their jobs were really too elementary for university graduates, and that well-prepared secondary students could succeed in them, but had never hired one;
- Only the textile firms had actually done so;
- Few had ever attended or visited a vocational secondary school;
- Only two reported ever offering an internship;
- None had ever hired an employee from an Employment Service Agency, and some were surprised to learn they even had activities like job clubs and that they were interested in placing candidates;
- Several recalled posting job openings at ESA centers;
- Several reported good experience with privately-operated employment placement agencies;
- Almost all reported willingness to work in public private partnership with any contemplated USAID initiative – as one said, “at least any one that is realistic.”

## **FEEDBACK FROM FORMALLY MEASURING THE “SKILLS GAP”**

Public and private sector alike believe that there is a “gap” between supply and demand. With EU support, the Center for Labor Market Analysis within the National Employment Service Agency (Ministry of Labor and Social Policy) has formed and developed a system of ongoing “demand” surveys of the labor market. The Center developed the methodology in 2006 – adapting a Swedish labor market survey – and fielded the first survey with 1600 firms in 2007. The first survey is complete, the first report published and distributed to “the relevant agencies in government”, according to the director of the Center. The survey has fifteen questions – several on business “demographics” – and is administered by face-to-face interviews.

They have focused on firms with 10 or more employees, and on eight sectors:

- Agriculture and food production
- Industry, including textiles
- Construction
- Trade
- Hospitality
- Transportation
- Financial
- Real estate

The first analysis – beyond demographics – focused on:

- Needs for employees in the next 6-12 months
- Profiles (skills) that would be required for these needs; and
- Professions (skill profiles) for which qualified candidates were not found.

A single open-ended question produced interesting answers about what needs employers were unable to fill:

- Language proficiency (English, but not only)
- Computer literacy
- Organizational management capacity
- Communication skills
- Demonstrated ability to work in teams
- Project management experience

The second report, issued in 2008,<sup>38</sup> deepened some of the previous year's data, and revealed useful findings:

“In the past year, there was an increase in the number of employees in the following activities: hotels and restaurants 15.6 percent; financial brokerage (11.0 percent); trade (9.5 percent); real estate and services (7.5 percent); and in processing industry (5.1 percent). The processing industry had the highest absolute growth and the number of employees was increased by 3408 persons.

With respect to the occupation, in recruitments, priority is given to:

- *persons with completed secondary education*, with occupations: sewer for textile, sewer, operator of sewing machine for textile, knitters, shoe-makers, blacksmith, waiter, bricklayer, lorry driver, metal founder, welder, etc.
- *persons with completed primary education*: workers for simple works not elsewhere classified, workers for simple works in the tobacco processing, workers for simple graphical work, worker ironing clothes, gardener, building construction labourer, bricklaying labourer, worker for simple wood-processing tasks, worker on simple works in shoe-production etc.
- *persons with secondary or higher education*, employers have foreseen employment of persons with occupations: textile technician, agricultural technician, technician in food-processing industry, mechanical engineering technician, technician for shoes, textile-chemical technician etc.
- *persons with completed university level education*: economist, electro-engineer in automatics, mechanical engineer, economist in banking, IT specialist, programmer, engineer-technologist, pharmacist for research and control of medicines, economist - commercial, civil engineer etc.

The survey research showed that employers have stressed the need for recruiting workers with working experience. Namely, more than 50 percent of the stated employers' needs for recruiting workers are for workers with experience. Even though there is a small number of anticipated recruitments for staff with university education, employers stressed the need for experienced workers even for this category (70.1 percent of the stated needs for workers with university

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<sup>38</sup> “THE SKILL NEEDS ANALYSIS OF THE LABOUR MARKET IN THE REPUBLIC OF MACEDONIA FOR 2008”  
, Employment Service Agency, Center for Labor Market Analysis, 2008

education are for persons with working experience). Employers stated the lowest need for workers with working experience for the anticipated recruitments of persons with primary education (26.9 percent)

With respect to the needs for special knowledge and skills of the persons who will be employed in the period, the research showed that besides the basic occupation employers mainly request knowledge in foreign languages, (mainly English language), as well as IT literacy and basic computer applications. Among the other skills, the following should also be mentioned: communication skills, team work, reliability etc (see Table 8). This refers not only to persons with working experience but also to persons without working experience. Here, we should also mention employers' remark about the low educational level (acquired in the formal educational process) of the workforce supply.

Special knowledge and skills of the persons to be employed in the surveyed firms in the next 12 months (ranged by the received answers to the survey):

1. Knowledge in languages
2. Computer literacy
3. Good educational level
4. Knowledge in software packages
5. Communication skills
6. Organizational skills
7. Languages and computers
8. Team work
9. Skills in managing small businesses
10. Reliability
11. Flexibility
12. Skills in selling and marketing

This survey holds real promise for beginning to make policy and create initiatives according to actual information from firms. The agency appears to be competently led, but inadequately staffed. While the survey technology is quite good, and administration appears thorough, this is an area where USAID (and potentially other donors) could productively invest in capacity building that would leverage important results.

## **ACTIVE LABOR MARKET POLICIES IN THE PUBLIC SECTOR**

While the local Employment Service “branches” are generally overwhelmed by the registration tasks assigned to them and not well-suited at present to a more active labor exchange function, some are nonetheless carrying out a limited number of “measures” to carve out a more active role. In 2007, ESA introduced several experimental Active Labor Market Policies (ALMPs). A special department within the agency responsible for these policies managed the following ALMPs in 2007:

1. Financial support to municipalities for the engagement of long-term registered unemployed social assistance beneficiaries for public works “employment” for a period of three months. Monthly allowance per worker (a maximum of 3 months) was 6,000 denars (98 euros). By November 2007, there were 50 projects in 50 local government agencies with 965 workers. The total cost of these 50 projects was 19.8 million denars (3.18 million euros).
2. Self-employment support for individuals from undeveloped regions, the long-term unemployed (more than 5 years), beneficiaries of unemployment benefits, and young people up to 27 years of age. Participants in this program must leave the unemployment registry for at least 3 years. Cost per beneficiary is 2,500 euros. As of November 2007, there were 496 new enterprises registered.
3. Food allowance and wages for unemployed people from underdeveloped regions for reconstruction, ecological, and other projects. Monthly allowance per person: 8,300 denars (133 euros). In 2007, 52 projects were started in 45 municipalities for a total number of 418 unemployed beneficiaries.
4. Employment subsidies for single parents, disabled people, and children without parents. Monthly allowance per person: 11,200 denars (including wages, contributions, food allowance, and transport costs) (183 euros). In 2007, 69 single parents and 3 children without parents and parental care were employed.
5. Training and counseling for the unemployed on behalf of an employer. The employer is obligated to retain the trainee for another full year. Monthly allowance per person: 4,000 denars (65 euros) for the worker and 2,000 denars (33 euros) for the employer for a three-month period for training, prequalification, and retraining. In 2007, 2,942 persons received training, out of which 1,793 were employed; 1,199 persons received training for computer literacy; and 1,477 people attended foreign language training.

The EU IPA team considers the funding for ALMPs in Macedonia insufficient for meaningful job creation, less than 0.09 percent of the GDP in 2006 compared to 0.7 percent in the 25 EU Member States.<sup>39</sup> However, the MOLSP indicated that it spent 0.121 percent in 2006, still only slightly more than what was reported by the EU.

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<sup>39</sup> Operational Program for Human Resource Development:  
[http://ec.europa.eu/enlargement/pdf/the\\_former\\_yugoslav\\_republic\\_of\\_macedonia/ipa/mk\\_comp\\_4\\_program\\_9\\_1\\_2007\\_en.pdf](http://ec.europa.eu/enlargement/pdf/the_former_yugoslav_republic_of_macedonia/ipa/mk_comp_4_program_9_1_2007_en.pdf)

**TABLE 7: EXPENDITURES ON LABOR MARKET MEASURES**

<b>Expenditures as percent of GDP</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Active Labor Market Measures	0.231 percent	0.121 percent	0.083 percent
Passive Measures	2.10 percent	1.72 percent	1.36 percent
Total Employment Measures	2.34 percent	1.84 percent	1.44 percent

Source: Macedonia Ministry of labor and Social Policy

## **SKILL ENHANCEMENT IN THE PRIVATE SECTOR**

The workforce is trained not only through the formal and non-formal education systems, but through the investment of employers in skills upgrading for their incumbent workforce. The majority of businesses in Macedonia are small and medium enterprises with little capacity and few incentives to provide training for their workforce. Many of these are household-based agricultural producers which tend to be isolated. (There are only 100 public agricultural extension workers for an agricultural population of some 500,000. Part of the reason why employers may be reluctant to train their employees is the lack of responsive, nimble training providers available to meet specific training needs. One textile company, BEAS-S, described an urgent need to train line managers to oversee its assembly production. However, it was limited in the training it could provide by the high cost of international consultants to come in and deliver training. There was apparently no attempt to mobilize local training providers, either because competent training providers were not in existence or there were no market mechanisms to link supply and demand.

In more developed economies, the private sector takes an active role in not only training its incumbent workforce but also in reaching out to the rising population of students who will constitute their future workforce. In Europe and the United States, high school and university students generally have a myriad of opportunities for internships, mentorships, work-study, and entry-level job experiences in both the public and private sectors. In Macedonia, the Laws on Secondary Vocational Education and on Higher Education, mandate that students have practical learning opportunities: 50 percent of time for vocational education and 10 percent of time for university. With the support of the EU, USAID, and GTZ, vocational schools and universities have attempted to set up internships on a broad scale. Although no formal evaluations have been completed, there is anecdotal evidence that this effort, while laudable, is marred by many operational challenges. Students have had very diverse experiences: some report a positive learning experience, while others complain that they were made to do manual work of minimal educational value. Teachers were expected to supervise students but could not possibly be at all the job sites. It was difficult to find enough businesses willing to take student interns, especially if the internship was just one day a week, or in the case of university students, had to be compressed into a single summer month (July or August). Clearly there are many operational challenges to be worked out, though the inclination to expand students' horizons for learning by doing and making education more relevant

to the real needs of the workplace is sound. Many of these challenges could be overcome if there were a closer collaboration between educational institutions and the private sector.

## **STAKEHOLDER COLLABORATION**

Effective workforce development policy measures are a prerequisite for sustained employment growth, and correspondingly, increased employment. Moreover, effective policymaking requires full stakeholder involvement at all levels, bottom-up and top-down. Thus, planning by the government (executive and parliamentary) to improve the economy and increase employment should include active participation by all stakeholders, those within and outside of the government.

Macedonia has not done a good job of collaborating with a broad cross section of society when it comes to economic and labor market policy development. Collaborations among employers, workers, students, educators, and other stakeholders are not common. In the absence of such collaborations, the labor market policymaking process is not as effective as it should be, and thus, the results are not as robust as they can and should be.

Involvement of all social partners in the design and implementation of education, training, and labor market programs and policies should be strengthened. All stakeholders – government, educators, businesses, media, NGOs, and employees - should help to identify the most appropriate programs and policies needed for greater job opportunities in Macedonia. Greater involvement of all stakeholders in the whole process of growing the country's economy is crucial to the outcomes of greater job creation, workforce readiness, and competitiveness.

**The institutions of the “Supply” system – public education from primary through secondary to university levels – will require continued and specific adaptation to meet the requirements of advances in technology and other changes to the structure of worker skill demand.**

“One of biggest challenges of implementing National Education Strategy is changing the mentality of older adults who are used to a safe system in which they got paid regardless of work performance. The last thing they want to do is to go back to school, however the only real way out of this problem is through education.”<sup>40</sup>

Like other countries in the Eastern European region, Macedonia is in the midst of transformation as it moves from the former Yugoslav socialist system towards integration with Europe. The education and training sector is a critical dimension of this change process, because of its mandate to

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<sup>40</sup> Key informant interview with Assessment Team, February, 2009.

both re-tool the older generation and to socialize rising generations of workers and citizens into new ways of thinking and behaving. This change process affects all levels of society: individuals, families, workplaces, and public and private institutions. At the heart of the change process, it is necessary to move out of the “safety zone” of the past in which individuals were offered security in exchange for the locus of control residing with the state. In the new system emerging from globalization and market capitalism that Macedonia now faces, individuals must take responsibility for their own learning and for finding or making their own work situations, even while employment prospects diminish. Institutions as well must learn to be entrepreneurial and to take initiative for educational results, without waiting for direction from the center. However, what is challenging about the current situation is that Macedonian society is in transition, so mixed messages about educational change abound, educational leaders are uncertain about how to implement the reforms that are sought, and the re-packaging of old habits in new rhetoric is common.

Nonetheless, over the past several years, Macedonia has seen a number of achievements in educational reform though many are legislative achievements and changes in government structure. These include Laws on Secondary Vocational Education and Training and on Adult Education, and establishment of the Center for Vocational Education and Training, the Council for Adult Education, and the Center for Examinations. The latter involved the re-establishment of a national assessment, the *Matura*, which had not been implemented since the Yugoslavian era. The focus of reform to secondary education has been largely structural and legal, supported by the EU PHARE program. Reforms in primary education are conducted in line with the UN “Education for All” Declaration, whereas in higher education reforms are guided by EU’s Bologna Process. There have been some reforms that have more directly affected student learning such as changes to the 4-year vocational education track curriculum and implementation of the exam system. Although the government has been largely preoccupied by strategy development and structural changes in the education system to more closely match labor market demand, there is some evidence that it wants to more quickly and directly affect students' learning environments such as around the imperative to ramp up ICT use in education.<sup>41</sup>

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<sup>41</sup> From interviews with Ministers of Information and of Education and Science, as well as with State Advisor for the Ministry of labor and social policy and Social Policy during February-March assessment

## **SUMMARY OF KEY CHALLENGES**

There are a number of challenges to the contribution of the education and training field to a well-functioning workforce system in Macedonia, including:

- A highly centralized formal education system that is rigid and legalistic, and thus ill-equipped to engage in the reforms needed to respond to the new conditions of a modern, globally competitive economy.
- Decentralization of the education system is planned, however to date there have been very few measures beyond fiscal decentralization. As a result, there is a high level of uncertainty concerning the future of the education system.
- Excessive politicization of the civil service which makes longer-term educational reform difficult to undertake. This tendency has resulted in a lack of consistency in the implementation of the current National Education Strategy, such that reform items were cherry-picked from the government’s “100 Steps Program” and implemented in a haphazard fashion. For example, the promise of a computer for every student was implemented without attention to necessary supports, such as electrical capacity, software and digital content, teacher training in computer use, or curricular integration of computers. To date, hundreds of computers are left unused in schools across the country.
- Inconsistent attention to accountability for student academic performance.
- Under-supply of non-formal education and training providers capable of delivering educational services appropriate and attractive to adult learners.
- Weak demand for training services by adult learners, even while many are under-skilled, whether employed or not.
- Lack of incentives for workers, employers, and education and training providers to engage in life-long learning endeavors.
- Lack of substantial partnership between the private sector and educational institutions.
- A declining youth population which will put even greater pressure on the educational system and the labor force more broadly to raise levels of productivity in order to support the aging population.
- Sporadic nature of donor activities in workforce development and uncertainty about how more innovative programs might be sustained within Macedonian systems.
- Brain drain—the tendency of Macedonian youth to feel that they must escape the country in order to succeed.

## **EDUCATIONAL ACHIEVEMENT AND ACCOUNTABILITY**

There is global consensus that a well-qualified workforce is one in which nearly every worker possesses foundational or basic skills (literacy and numeracy), soft skills and employability skills (e.g.,

teamwork skills, critical thinking, etc.), and sufficient technical skills to perform on the job. In addition, societies need a skills mix that includes higher-level management and technical skills, and mechanisms for connecting the education and training system to private sector labor demand. It is difficult to gauge where Macedonia is in relation to these requirements for a number of reasons, including the lack of reliable labor market data and internationally comparable educational data. However, the National Education Strategy is clear that nearly 50 percent<sup>42</sup> of the population is only marginally educated (e.g., no education, incomplete primary education, or merely primary completion), and that this achievement level is not adequate for contemporary labor market demand.

**TABLE 8: POPULATION: SCHOOL TRAINING**

	<b>Total</b>	<b>Percent</b>
Total	1,579,500	100
Without education	60,700	3.85
Incomplete primary education	170,200	10.77
Primary education	549,200	34.77
Three-year secondary education	168,000	10.64
Four-year secondary education	465,100	29.45
Two-year college-level education	41,200	3.24
University education	114,900	7.28

Source: National Education Strategy, p. 28

Of the unemployed, the majority are less educated: nearly 60 percent<sup>43</sup> with less than a four-year secondary diploma, and a substantial number are (four-year) secondary school completers (another 34 percent).<sup>44</sup>

**TABLE 9: UNEMPLOYED: SCHOOL TRAINING**

	<b>Total</b>	<b>Percent</b>
Total	315,900	100
Without education	3,700	1.17
Incomplete primary education	16,700	5.29
Primary education	112,600	35.64
Three-year secondary education	49,100	15.54
Four-year secondary education	108,400	34.31
Two-year college level education	7,700	2.44
University education	17,700	5.61

Source: National Education Strategy, p.29

<sup>42</sup> 45.17% in 2006 according to the Statistical Review 2.4.8.06/593

<sup>43</sup> 51.14% in 2006, Statistical Review 2.4.8.06/593

<sup>44</sup> 39.34% in 2006, Statistical Review 2.4.8.06/593

In addition to the challenge of having a large segment of the adult population relatively uneducated, the dropout rate, while not widely considered a pressing issue in Macedonia, is in fact substantial. While gross intake is 91 percent at the primary level, it falls to only 69 percent at the secondary level (NES: 30, using 2002 survey data). While official dropout rates at (*during*) the secondary level are not considered high (17% – 32% annually, depending on source)<sup>45</sup> this assertion is deceiving because of the large number of youth –perhaps as many as another 30% who fail to make the transition from primary to secondary school. (The recent shift to compulsory secondary education is expected by some to reduce this large number. It may do so, but in the judgment of the assessment team it is also likely to more directly reveal the significant size of the dropout challenge). There is little significant public debate on the phenomenon of drop-out in Macedonia, and no systematic effort to understand why students drop out. However, it is widely understood that minority ethnic groups, particularly the Roma, make up a disproportionately large proportion of low school-achievers and steps have been taken to remediate the problem. Donors have supported the government in providing tailored educational supports to Roma youth from early childhood through tertiary education. Also the NES understands the need to broaden early childhood development throughout the country and has included it in its plan.

In terms of tertiary education enrollment, Macedonia is at the bottom of European countries with only 2,212 university students out of 100,000 inhabitants. In the NES, the Ministry of Education has committed to raising the level of tertiary enrollment to the European minimum: 3,500 of 100,000 inhabitants by 2015.

Up-to-date comparison of education quality in Macedonia to global standards is difficult because Macedonia has participated in international testing only intermittently. Macedonia participated in the 2000 and 2001 Program for International Student Assessment (PISA), in TIMSS (2003) and PIRLS (2001), but not since. Unfortunately, Macedonia came out at the bottom of industrialized nations and the shock of these results caused a wave of denial and the decision to retreat from further participation in international testing. Although the decision to forego international testing does not bode well for a country seeking integration with Europe, the Ministry of Education must have taken this as a wake-up call, because since 2008 they have implemented a national competency-based assessment, the Matura.

In the first test results for the State Matura exam, 17,006 of students took Mother Tongue (Macedonian, Albanian, and Turkish language) as a mandatory subject, of whom 8 percent failed to pass, the majority or 38.4 percent passed with a grade 3<sup>46</sup>, and only 5.6 percent received grade 5, with no significant difference between the languages. On the other hand, almost 30 percent of

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<sup>45</sup> A recent analysis by The Open Society Foundation of Macedonia (personal communication), shows that 32 percent of students in the bottom SES quintile do not graduate from secondary school.

<sup>46</sup> On the scale of 1 to 5, five being excellent and 1 being a failing grade.

students passed the English language test with a grade 5, with only 5.3 percent of students failing the test.

The poorest results were achieved in the test of Mathematics (basic level), with 28.3 percent of students failing the exam and in the French language test, which was failed by 26.4 percent of the students who took the test. The optional Advanced Level Mathematics test was failed by 12 percent of the students who had opted for it, with just less than 20 percent passing it with a grade 5 and a grade 4 each.

Testing in Mother Tongue was mandatory for all students, even those for whom languages are not a strong point, and that the pass threshold for Mother Tongue was set higher (at 40 points out of 100), while the thresholds for foreign languages (30) and mathematics (22) were much lower.

Recently however, the government has been focused on other accountability measures, designed to contribute to the goal of raising educational quality. This year, teacher performance will be evaluated by testing students and comparing these standardized test results with school-level grades. Where there is discrepancy, teachers' salaries can be cut by 10 percent. Unsurprisingly, teachers and their union are opposed to this measure.<sup>47</sup>

Non-formal and adult education are characterized by: a lack of a mature framework for adult education and for coordination and collaboration among potential institutional partners; absence of a learning culture among the population; poor transparency and availability of the education offered; inadequacy of the education offered in relation to the educational needs of the population and society; inconsistent quality of the educational services; and, finally, no system for connecting adult education students with employment.

Training conducted by means of distance learning is new to Macedonia and is currently limited to some narrow study programs for joint degrees at the Ss. Cyril and Methodius University in Skopje.

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<sup>47</sup> This may be due in part to an odd disincentive built in to the system. One informant told us that there is no incentive for a teacher to do well. If a student receives a failing grade from the teacher and the standardized test confirms that failing grade, there is no repercussion for the teacher despite the lack of learning. However, if the teacher gives the student a failing grade and the student actually succeeds in the standardized test, the teacher can be punished since his/her assessment differed from the standardized test.

## **Macedonia lacks consistently effective mechanisms to connect future employees, currently unemployed, and the employed but under-skilled to employment and to training opportunities**

“How do we avoid the *train and pray* trap, where we train them, then pray they’ll get a job? It doesn’t just happen, you know...”<sup>48</sup>

### **LOCAL LABOR EXCHANGE/JOB-MATCHING CAPACITY**

While the Employment Service Agencies – with eight regions and thirty local branches – have labor exchange as their purpose, they appear to be so overburdened by their unemployment registration role that the real labor exchange function seems to be “back-burnered” at best. The Individual Employment Plans, so promising in description, have become mostly an elaborated part of the registration process, accomplished during a 15-minute intake, and never again revisited. Little or no career counseling takes place there, there is no system of assessment, little guidance, and the Job Club approach to group-based peer guidance and career development is hit or miss in most local ESA branch offices.

### **RAPID RESPONSE TO JOB REDUCTIONS, LAYOFFS, AND CLOSURES**

There appears to be no system parallel to the Rapid Response Teams that exist in several more developed countries, including the U.S., for pre-identifying firms about to undergo staff reduction or closure, and moving a “task force” rapidly into counseling and placement mode with employees about to lose their jobs. It is true that this missing piece of a system is due to lack of many formal-sector jobs in many municipalities and areas throughout Macedonia, but an approach to this matter tailored to Macedonia could help places like Veles and Stip, where the assessment team visited, and others in similar circumstances.

### **COLLABORATION AND PUBLIC-PRIVATE PARTNERSHIPS**

Although many policy-makers and institutional leaders in Macedonia use the rhetoric of dialogue among “social partners” in creating a demand-driven workforce system, there are very few sustained efforts to build substantial partnerships and regular dialogue. There is no high-level workforce development task force which would enable the private sector, relevant government ministries (both “supply-” and “demand-” oriented), labor unions, NGOs, and education and training institutions to coordinate, collaborate, and build workforce development systems. These intermediary workforce groups do not appear to exist on the local level in Macedonia either, which is especially

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<sup>48</sup> Assessment Team member Denise Lamaute, February 2009

disconcerting because there is a great deal of evidence that it is at the local or regional level that real workforce development and economic growth results are produced.

A positive example to the contrary can be found at several faculties at the Ss. Cyril and Methodius University in Skopje, predominantly within the medical and technical sciences. The witnessed initiatives at the Faculty of Mechanical Engineering demonstrate what can be achieved through collaboration between educational institutions and the private sector. In addition to funding being made available through donor-assisted projects (funded by the Austrian Development Agency, the Swedish Development Agency, USAID, and the EU Commission), donations in kind (equipment and laboratories, as was the case with Johnson Controls), these initiatives enable the students to acquire the very skills needed by respective private companies. Additionally, this type of cooperation contributes to the development of new and efficient systems for student support, practical training, and career guidance within the faculty/university, such as the Business Start-up Centre. Unlike these few examples, the majority of representatives from the business community complain that higher education does not produce a labor force with requisite high competencies, without undertaking or responding to initiatives for cooperation and partnership. Most often, these are small companies with a small number of employees and a limited capacity for absorbing the available labor force.

All three of these matters – labor exchange mechanisms, rapid response to job loss and layoffs, and public-private partnership – will be addressed in the Recommendations sections which follow.

**Even if the current demand and supply equation were perfectly aligned, there are not enough employment or livelihood opportunities in Macedonia – put simply, job creation will be required**

Both the IMF<sup>49</sup> and World Bank Labor Market<sup>50</sup> reports agree that Macedonia needs several years of high GDP growth in order to begin to influence the employment rate and even longer to significantly decrease unemployment. Even with 2007 GDP growth of 5 percent and unemployment in 2008 Q3 decreasing 1.9 percent compared to 2007 Q3, it is likely that even if Macedonia were to maintain the level of 2007 GDP growth, significant reduction in unemployment through economic growth is a long-term prospect, perhaps 15 years into the future.

The increase in the FDI rate in 2007 of 6.5 percent of GDP from 2.8 percent of GDP in 2006 is the result of the Government's worldwide promotion and free economic zones incentives. However, FDI inflows, while helpful – even essential both for investment capital and for “know-how”, cannot itself be expected be the “silver bullet” solution for a significant percentage of low-educated

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<sup>49</sup> International Monetary Fund country Report No. 06/345 – Selected Issues, Oct. 2006

<sup>50</sup> World Bank, Active Labor Market Programs in Macedonia, Sep. 2008 and World Bank Labor Market Profile 2004-2007, June 2008

unemployed. Even under the most optimistic scenario, FDI will help the economy, but is unlikely to have much impact on unemployment in the country, in the near term.

Growing the local business community to create new employment seems the best available solution for Macedonia's economic growth, in the short and medium term. However, the capacity of SMEs to expand and absorb new employees is limited based on their limited ability to attract capital (loans or equity) to be competitive in regional and global markets. They are hampered by low economies of scale, low investment in know-how, lack of productive human capital, and lack of managerial and organizational capacities.

The grey economy is known to be significant in Macedonia, as much as 30-40 percent by some estimates. Without question, the informal economy is undermining the growth of the formal sector by stunting the growth of businesses that operate informally as they tend to stay small and under the radar screen, instead of growing and employing new people.

Looking at the Skills Gap Survey and Analysis conducted by the Center for Labor Market Analysis in 2007, and based on numerous meetings with representatives from the private sector, there is apparently a mismatch between the technical and soft skills and experience of job applicants and what the private sector needs. In other words, the supply side (worker pool) is large and growing, but it's not providing the demand side (employers) with what they need to be competitive and profitable in today's market without incurring additional employee expense to train or re-train its new workers. However, even if there were no mismatch between demand and supply, it is obvious that the current pace of economic growth is not able to create enough new jobs in order to absorb the newcomers to the labor market (graduating students and dropouts) and the existing unemployed (especially those with a low skill profile).

With the world recession knocking on Macedonia's door, it is most probable that FDI and GDP growth will suffer a dramatic decrease in 2009 and maybe 2010. Thus, Macedonia needs to look for other job-creating venues such as self-employment, starting of micro- and small businesses, and supporting SMEs poised to grow if this economy is to continue to grow and employ new workers. Other job creation and employment approaches are also needed, such as providing incentives for formalizing employment and business, quick retraining of the underskilled unemployed, and paid internships or apprenticeships for the currently unemployed.

## OPTIONS AND RECOMMENDATIONS

**OPTIONS: Many suggestions emerged from interviews and focus groups, and were analyzed by the assessment team. We have grouped the options into five “target beneficiary” categories:**

### OPTIONS FOR PREPARATION OF FUTURE WORKERS

- There should be more skills-oriented education, combined with practical training for every secondary (both vocational and Gymnasium) student and for every university student;
- There should be a suffusion of higher-order thinking and state-of-the-art knowledge in popular career fields into curriculum—it’s not just about “practical” training.
- There should be a functional and active Career Center in every school, and at every level, including primary;
- There should be public education campaigns stressing education as preparation for work (e.g., “Learn to Earn /Stay in School”) and for starting your own business (e.g., “Starting a business is as easy as 1-2-3 Go!!”);
- We should deepen and broaden entrepreneurship education along the lines of the U.S. - based National Foundation for Teaching of Entrepreneurship (NFTE);
- We should pilot an effective labor exchange system that goes beyond registration and offers genuine assistance with career planning and job placement;
- The education system should suffuse curriculum at all levels with ways of thinking, problem solving, analysis, collaborative learning needed by 21<sup>st</sup> century- oriented industries/businesses, and curriculum needs to reflect much more closely “state of the art” knowledge;
- We should not let the government’s recent computer investment in schools be wasted. Deepen use of ICT in all aspects and at all educational levels;
- Help schools understand the difference between practical learning in schools and true private sector linkages and work-based learning;
- Consider implementing a youth service program that combines learning and earning with skill building, something like YouthBuild or ISUS in the US, adapted to Macedonian realities; specifically something like a Green Jobs Corps.

### OPTIONS FOR SERVING THE PRESENTLY UNEMPLOYED

- Create a significant program for entrepreneurship support, including incubators, for all three categories (future, unemployed, employed) in order to create new jobs;

- There needs to be a better mechanism and system for labor exchange -- what is called in Macedonia “mediation.” Consider whether something like a One Stop Career Center might be established as a demonstration pilot;
- Better skills assessments are needed at every point in the system, to be linked to career planning and relevant training
- Tailor initiatives to local geography and culture: e.g. “advanced” agriculture for rural areas, trades/crafts for urban, self-employment focused on indigenous enterprises;
- Create a vigorous national “rapid response” system to respond to layoffs, plant closings, and large concentrations of unemployed, offering retraining, counseling, and job referral;
- Create another kind of “rapid response” training focused on demand for significant numbers of employees such as Foreign Direct Investment opportunities or expansion.
- Re-balance the mix of training opportunities to be sure that there are programs in rural areas;
- Consider supported work/learning experiences, possibly including salary or stipends as a step towards employment;
- Be sure to understand how out-migration (and return) might alleviate severe unemployment – how, when, where?

#### OPTIONS FOR SERVING THE PRESENTLY-EMPLOYED BUT UNDER-SKILLED

- Work with and in key municipalities to demonstrate links between workforce development and local economic development. Consider *local* or *regional* partnerships among jurisdictions, NGO’s, local branches of vocational education and employment service, and private firms. .
- Develop a strategy and a program for small and medium-sized family-owned firms in which both proprietor and employed offspring (sons & daughters) would be trained in modern management techniques and methods that would promote growth and business success. Part of this could include succession planning for family-owned and managed firms.
- Provide incentives for businesses to invest in the training of the existing and incoming workforce, and supports such as skills gap analysis, shared training platform, and cost-sharing.
- Develop a course of experience-based business management training for current middle managers in targeted growing businesses.
- Include financial (and other?) incentives and cost-sharing for employees who could return to formal schooling or training to catch up on skills required by current and prospective employers.
- Develop and deliver on-worksite or community (adult) learning that may not be directly job-skills oriented, but which would lift general skills (e.g. workplace literacy, soft skills like teamwork and communications).
- Consider developing and delivering “niche” training for food safety inspectors in the proposed new Food Safety Agency, in partnership with the Faculty of Agricultural Sciences at the University of Ss. Cyril and Methodius.

## OPTIONS FOR POLICY IMPROVEMENT INITIATIVES

- Establish a high level task force with government officials plus broad cross section of society to identify and address barriers to job creation, hiring and firing and workforce skills upgrade issues, and to serve as a steering committee for the workforce development project;
- Support capacity to go deeper with skills surveys and skills gap analysis;
- Create private-public partnership to advise and improve the Employment Service Agency, including improved career counseling, individualized planning, and online job posting;
- Consider how to use tax incentives for training or assistance incentives that might already be in law;
- Consider “regionalizing” support of workforce development planning and implementation tied to local economic development as government decentralization progresses.

## OPTIONS FOR CAPACITY-BUILDING INITIATIVES

- Enhance the capacity of the ESA labor analysis department to analyze survey results, publicize them, and link them to the policy and curriculum bodies at the Center for Vocational Education and Center for Adult Education.
- Train and coach ESA staff to do real Individual Plans and case management.
- Build a program of real employer participation in vocational education centers and regional ESAs.
- Build capacity at Center for Vocational Education and the Center for Adult Education.
- Create/build capacity in a true labor market exchange system – perhaps through public-private partnerships with private agencies like Employment.com and ITC.
- Develop a program for company-based internships for teachers so they can come to understand the nature of skill demand.
- Try capacity-building of a few institutions (labor or education and training) in order to showcase successful models and to encourage lower-risk innovation.

## RECOMMENDATIONS

### CRITERIA FOR SORTING THE OPTIONS AND DEVELOPING RECOMMENDATIONS

The assessment team reviewed the options generated by the assessment – through literature review, key informant interviews and focus groups, and conversations with the Mission staff, and considered which had priority according to certain criteria:

- Systemic importance (if it worked, what difference would it make?)
- Leverage (could USAID’s investment leverage useful change?)
- Feasibility (could it be done successfully?)

- Innovation (will it break new ground?)
- Compatibility with context (could it fit Macedonian policy and organizational realities?)
- Potential for scaling up and sustainability
- Public-Private Partnerships (does it advance this interest?)

Recognizing considerable overlap among these categories, the assessment team considered numerous possibilities, and recommends five **(5) Service Investments**, and four **(4) Capacity-building Investments**. In addition, we have several suggestions for **aligning** current USAID workforce, education, and business assistance activities more closely as the workforce development initiative unfolds.

## SUMMARY OF RECOMMENDATIONS

### SERVICE INVESTMENTS:

- **One Stop career centers** (a regional demand-supply labor exchange and career development mechanism);
- **Model-building with vocational secondary schools and employment service agencies** (a supply side initiative to improve education for work and employment services at the municipal level)
- **Support entrepreneurship and enterprise** (a job creation initiative to respond to extremely low demand for workers in the formal economy)
- **The Green Jobs Corps program** (creating education and employment opportunities for unemployed youth 18-27 in the areas of conservation and energy efficiency);
- The Rising Generation Initiative (a business skills and enterprise growth initiative for family-owned enterprises).

### CAPACITY-BUILDING INVESTMENTS:

- Assisting the **Ministry of Labor and Social Policy** to deepen and continue its Skills Gap Analysis survey and reporting process;
- Assisting the **Ministry of Education, Science and Technology** to develop policies that promote practical experience for students in both secondary and higher education
- Assisting the new **Center for Adult Education** to develop a competency-based alternative diploma program; and
- Assisting the **Ministry of Economy** to deepen its work in entrepreneurship and small enterprise support.

The next several pages provide brief descriptions and illustrative activities for each recommendation.<sup>51</sup>

## SERVICE INVESTMENTS

### **RECOMMENDATION # 1: ONE STOP CAREER CENTERS**

A demand-supply labor exchange and career development mechanism

**Objective: Develop and pilot (in two or three locations) a system for labor supply-demand matching in the form of REGIONAL ONE STOP CAREER CENTERS as a “best practice laboratory” to demonstrate effective, demand-responsive career counseling and coaching, assessment-based training and education, and managed job placement for secondary students, university students, and the currently unemployed.**

The primary goal of this investment is to provide improved employment opportunities for employers and job seekers by providing training, career counseling, soft skills and work readiness assistance. A secondary goal is to demonstrate the state of the art techniques and technologies for such services, and through the centers also to show how public institutions can collaborate to improve human resource capacity building outcomes in Macedonia.

**Background:** The assessment confirmed through research and interviews that in an economy plagued by high rates of unemployment, and low rates of labor market participation, good mechanisms are needed to match future employees – as well as the currently unemployed – with the jobs that do emerge in a steadily-growing economy. Moreover, it has been a matter of consensus that both young future employees and the currently unemployed lack both practical and technical skills and the social/behavioral attitudes and “soft” skills required to get and keep jobs.

What seems to be lacking in the employment arena is a reliable and competent institution that can assist employers and job seekers get what they need. Neither the vocational secondary schools, nor the public or private universities, nor the national Employment Service Agency generates good results or great confidence among employers. Both preparation for employment and matching job-seekers with jobs are ineffective processes in the current system. To bridge this gap and build a strong path to matching job ready job seekers with today’s and tomorrow’s jobs, a proactive career mediation apparatus is needed in Macedonia, one which builds upon existing institutions, adding vision, technical competence, and resources to building a system to ensure the workforce development results that this economy needs.

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<sup>51</sup> Detailed operational descriptions of the most complex of them are included as Annex C.

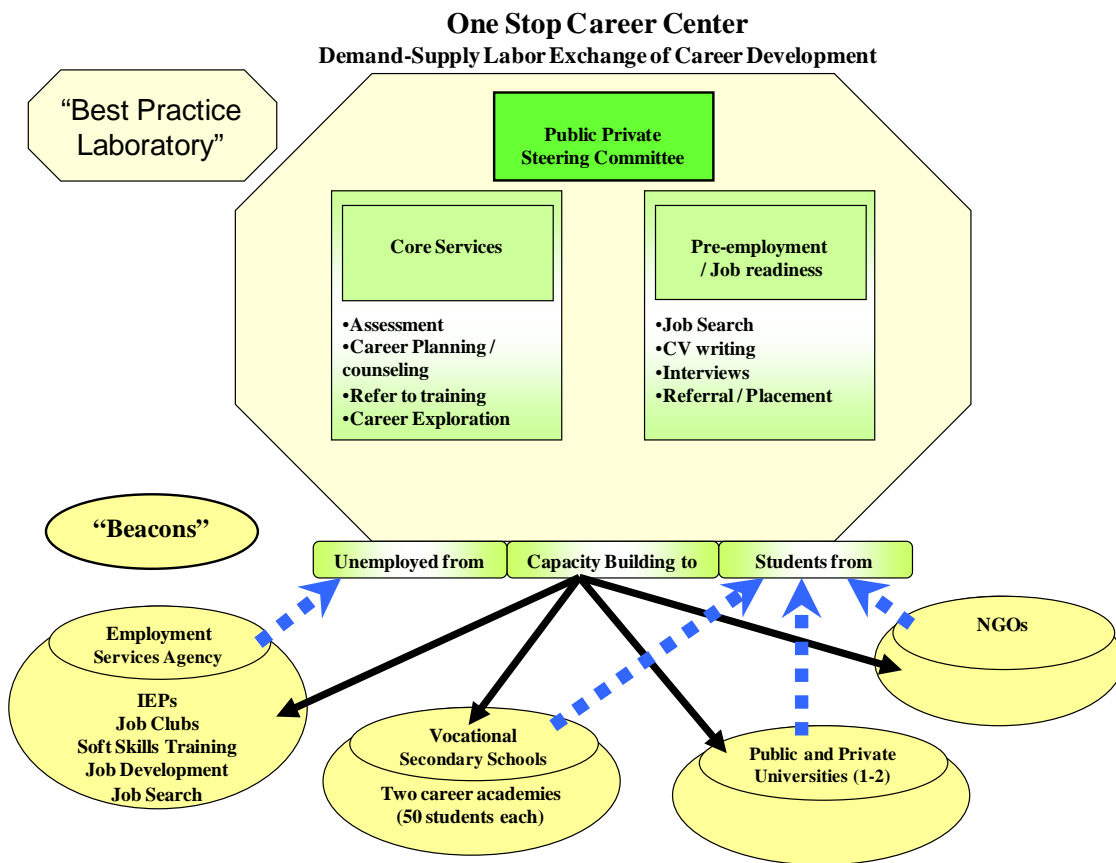
## Implementation Steps and Illustrative Activities:

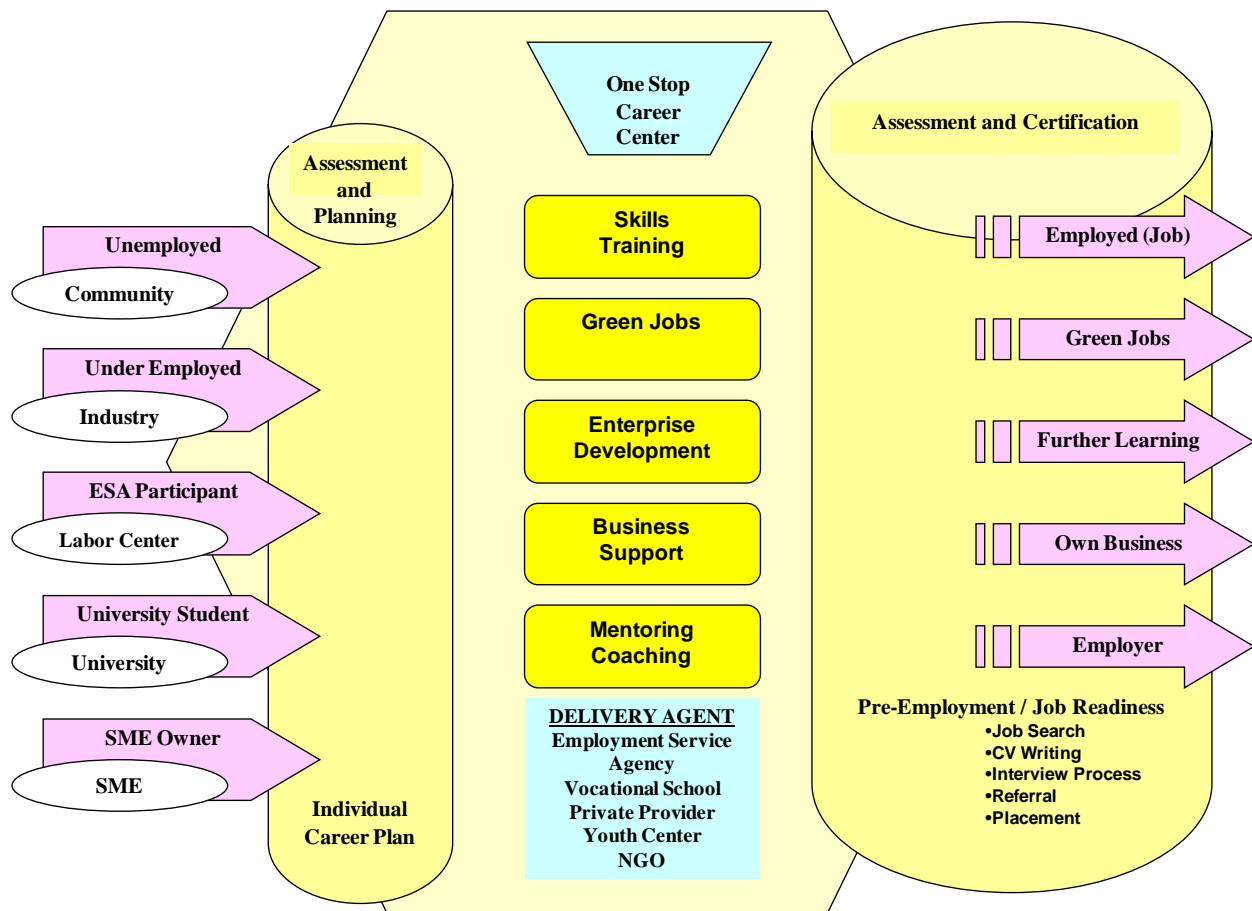
- Develop *One Stop Career Centers* in certain key areas of Macedonia to improve job skills, job matching, and job career prospects. These centers will provide job skills development services, including, but not limited to, job search strategies, resume writing, interviewing techniques, career exploration, and help with job searches;
- Develop a Public-Private Steering Committee to guide each Center, and to assure that the center is driven by labor demand, and is responsive to local industry and employers;
- Use the centers as the base – “beacons”, as it were, to inspire the development of *an efficient and effective network of educational and other service providers* for the economic growth and development of each region, and to demonstrate how it might be accomplished in other regions;
- Develop the centers as “best practice laboratories” for assessment, career planning and counseling, and for job matching, referral and follow-up, and for establishing the economic and social value of lifelong learning;
- Develop and deliver a set of “core services” to currently unemployed people, students in secondary schools and public and private universities, and lead participants through a process of career planning beginning with assessment, and working through pre-employment (“soft skills”) training and job search and placement strategies;
- With the One Stop centers as a base, promote the advancement and efficient use of research, technology, and innovation to improve the quality of the human resource capacity building outcome;
- On the basis of successful implementation of the One Stop Career Centers, provide capacity-building assistance to public institutions, such as Vocational Secondary Schools, Employment Service Agency offices and Public and private universities (see next recommendation for another perspective on these links);
- This activity could be piloted and done in two phases. In the first phase, two centers should be established in locations that meet the following criteria:
  - Existence of industrial capacities;
  - geographical accessibility and suitability for communication with all municipalities in the region;
  - Equitable ethnic distribution, i.e. ensuring representation of the main ethnic groups in the country;
  - Regional administrative capacity;
  - Developed educational network of secondary schools, universities and trainers; and
  - Strong motivation and support from the local governments in the region
- In a subsequent phase, depending on the results from the pilot phase, similar centers can be established in other regions in the country, perhaps two at a time for measured results and

timing. Centers should be allowed to have a specific regional focus, such as business start-ups, agriculture, tourism, or industrial area. They should also be allowed to be located in new or existing institutions in order to get the best results possible.

We recommend that the One Stop Career Centers work closely with national and local governments, educators, businesses, and others to advance the Government of Macedonia’s policy and program objectives as set in various laws, policies and plans that govern vocational education, adult education, higher education, and employment services. While the One Stop Career Centers will need to *produce* in their role as the mediation mechanism between the labor market, students, job seekers, and the providers of educational, career, and employment services, this success will also have implications for expanded practices elsewhere, and for national and local policy.

This recommendation would be closely linked with the activities proposed in Recommendation #2. In the two pages following, there are graphic renderings of the proposed Centers, and of flow of students and unemployed people through the contemplated Centers and between the centers and the affiliated public and private institutions addressed in the second recommendation.





## RECOMMENDATION #2: MODEL-BUILDING WITH VOCATIONAL SECONDARY SCHOOLS AND EMPLOYMENT SERVICE AGENCIES

A supply side initiative to improve education for work and employment services at the municipal level

(Note: linked to Service Investment #1)

**Objective: To develop and implement new practices in a matched set of two (2) vocational high schools and two (2) local Employment Service Agency offices through a “pairing and fading” consultative approach that will demonstrate the potential and possibilities of excellent program practice. Specifically:**

1. Guided by a private-public Board of Advisors, vocational schools will each select two vocational profiles and implement “career academies” for groups of up to fifty students each – combining academic learning with vocational training and guided work experience or internships, in both three year and four year vocational programs. They will activate dormant career centers, focus on applying modern technology with career guidance software and

coaching, and focus on job placement in training-related vocations, and on transition to university or post-secondary training. The curriculum revisions would take place under the “20 percent” local equation, and waivers would be sought only if truly necessary, as the point is to demonstrate what can be done with local leadership from both school and employer communities;

2. In the same localities, guided by the same Board of Advisors, Employment Service Agency offices will redevelop Individual Employment Plans, train case managers to develop, monitor, and help unemployed registrants implement the plans. They will activate dormant job clubs, developing an active program of soft skills training and guided job search, and they will initiate a pro-active process of job development to supplant the current passive registration process.

Ideally these sets of schools and centers would operate in the geographic region selected for the One Stop Career Centers, and develop a means of mutual referral and complementary training and career counseling services. Schools would draw on international expertise provided by the USAID workforce development project, which would engage experts conversant with best practices such as Career Academies (such as developed by the National Academies Foundation and the California Career Academies Network. Similarly, local employment service agency centers would draw on expertise conversant with One Stop centers and Youth Opportunity Centers in the United States Workforce Investment system.

It is intended that these schools and centers would become “centers for excellence”, or “beacons” for other schools and ESA centers, and would demonstrate best practice for the adoption by other schools, while at the same time becoming the laboratories for implementation of national policies for vocational education, adult education, and employment services.

### **RECOMMENDATION #3: SUPPORT ENTREPRENEURSHIP AND ENTERPRISE**

(a job creation initiative to respond to extremely low demand for workers in the formal economy)

**Objective: To support job creation through a significant initiative of entrepreneurship education and training, business start-ups, and small enterprise expansion in key economic activity sectors. Specifically, we propose creating new jobs through: 1) Stimulating business start-ups; 2) Providing targeted micro-finance for truly small enterprises; 3) Partnering with current incubators (and considering others) to support new firms; 4) Considering small equity investments to support enterprise expansion; and 5) Identifying and recruiting “Business Angels” both for start-ups and enterprise expansion**

Even though this is a somewhat crowded field, the assessment team is convinced that there are both a need and several opportunities for USAID to contribute and make a difference.

**Background:** As summarized in section 3.6 of this report, even though unemployment in 2008 Q3 had decreased by 1.9 percent in comparison to 2007 Q3, it would take around 15 years of continuous moderate GDP growth alone to significantly reduce the unemployment rate. Thus, even if the current demand and supply equation were perfectly aligned, there are not enough employment or livelihood opportunities in Macedonia.

**Program Elements:** While the following list of elements may be seen as a “mix and match” list, there is good evidence from pilots in Macedonia and programs elsewhere in the region that all of the following elements, managed strategically, can contribute to business launch, enterprise growth, and – in the medium-to-long run -- job creation.

- Self-employment or start-up programs offer assistance to unemployed workers to start their own enterprises. This can involve providing financial and advisory support for start-up, “incubator” services, or supporting operating costs of small businesses. Training, training plus grants or loans, supporting business plan development, and technical assistance to start-ups are all part of the strategy envisioned here.
- Micro-finance programs make small, low-cost loans available to new, often extremely small, start-up companies – most often to first-time entrepreneurs who would be unable to enter a market without operating funds, small technologies, or inventory investments.
- Incubators offer full scope support to start-up businesses such as space, infrastructure, joint offices, and ongoing support through training and advisory services. Based on our meetings with the two fully operational business incubators in Macedonia (YES in Skopje and SPARK in Bitola), we propose supporting existing incubators to expand to new areas in Macedonia or to expand the capacity within the existing locations. These incubators are already working in Macedonia and have accumulated knowledge and experience that takes time to build.
- Private Equity funds invest capital in operating companies poised to grow and take share in the ownership structure of the company. They act as co-owners and support the growth of the company. After a certain time period they exit the company and return the capital to its institutional investors. During this period of a world financial crisis and recession, lending and financing SME growth will be severely contracted, thus companies will either halt expansion (which might mean no new job openings or even layoffs) or will need alternative sources of funding to finance growth and survival. The USAID WfD Project can leverage the existing know-how and infrastructure that can be quickly expanded and utilized for injecting capital into rising companies who can look beyond the recession and use the recession as an opportunity to grow.
- Business Angels invest in a wide range of commercial ventures, and are seasoned or retired successful businesspeople who invest their business skills as well as their capital into new and developing enterprises. Again, in recessionary times alternative sources of funding are needed. Business Angels are typically successful business people – perhaps in this case Macedonian “diaspora” are good candidates -- who can assist start-up companies with financing and ongoing advice. Since Business Angels do not exist at present in Macedonia,

USAID could initiate and support the first Business Angel group. One of USAID's legacy programs at its regional conference in 2008 in Bulgaria hosted Mr. John May, chairman of the US Angel Capital Association and one of the most highly regarded U.S. experts and practitioners in this field. Based on his analyses of the region, Business Angels with strong initial support could prosper in this region. Bulgaria already has two rising groups and Slovenia has three; Macedonia could follow their path.

#### **RECOMMENDATION #4: DEVELOP AND IMPLEMENT A "GREEN JOBS CORPS"**

Combining Education and Employment Strategies to create jobs and provide training to the young unemployed, while serving an energy efficiency agenda in Macedonia

**Objective: Improve the employment opportunities for youth with a focus on providing energy conservation training and work readiness for program participants (out of school and unemployed young people, aged 18-27) while assisting low-income households<sup>52</sup> and government facilities save money by reducing their energy costs. Secondary goal: Improve the public's knowledge about the role of energy efficiency (EE) in achieving the overall objective of energy security and in improving households' standard of living for less with warmer and cooler environmentally friendly homes.**

The aims of the project are to:

- Improve the job skills of youth through an energy efficiency lens to strengthen their employability outcomes
- Increase the number of youth pursuing green careers
- Promote energy efficiency as vital to the well being of Macedonia

There are numerous reasons why it is important to reduce youth unemployment by improving their skills. It is equally important to focus such efforts through an energy efficiency lens. As Macedonia adopts the EU energy standards and recommendations, its energy costs are expected to skyrocket as energy prices are harmonized to market rates. Thus, a **GREEN JOBS CORPS** is a win-win for Macedonia – better trained youth, a better environment, and more highly energy efficient homes and buildings resulting in lower energy costs.

**Background:** An energy efficiency "peer review" was undertaken in Macedonia in September 2007 by a review team of national energy efficiency experts in close cooperation with the Ministry of Economy of the Republic of Macedonia. This review revealed that Macedonia has a growing energy

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<sup>52</sup> The high level of electricity use by households makes the residential sector a key target for energy efficiency improvement programs in Macedonia. In-Depth Review of the Former Yugoslav Republic of Macedonia, Energy Charter Secretariat, 2007  
[http://www.encharter.org/fileadmin/user\\_upload/document/FYROM\\_id\\_EE\\_2007\\_ENG.pdf](http://www.encharter.org/fileadmin/user_upload/document/FYROM_id_EE_2007_ENG.pdf)

demand with a strong dependence on energy imports, about 46 percent and increasing in the last few years. Its power systems are in poor condition with a high degree of inefficiency in energy production and use. It was strongly recommended that Macedonia give energy efficiency a high priority. Especially, it was recommended that Macedonia focus on:<sup>53</sup>

- Strengthening the institutions responsible for energy matters
- Continuing with price reforms
- Reducing the electricity used for heating
- Increasing buildings' energy efficiency
- Increasing local authorities' capacity building
- Promoting energy efficiency awareness

Low-income households, in particular, experience extremely cold weather and often pay a high price to heat seriously dilapidated and often inadequate housing in the absence of government subsidies. While there are no direct household energy subsidies in Macedonia, electricity is sold below market rates even when the GOM buys energy imports at much higher rates.<sup>54</sup> According to a recent USAID energy study, the household affordability limit for heat in the region is 10 percent. However, households spend on average from 1 percent to 18 percent for central heating, with low-income households spending 3 to 4 percent more.<sup>55</sup>

Public buildings and facilities, particularly schools, are also in great need of renovation and energy conservation measures. Macedonia has 1324 primary and secondary schools and an estimated 40 general hospitals. According to one expert, schools in Macedonia lose more than 30 percent of their heat. With certain energy efficiency measures in these schools, the heating costs could be reduced by as much as 60 percent and the costs recovered in less than 3 to 5 years, depending on the EE measures used.

Macedonia adopted an Energy Efficiency Strategy in 2004, accompanied by implementation plans and technical program analyses. While it does not have an Energy Efficiency Law, its energy law adopted in 2006 provides the legal framework for an energy efficiency policy in Macedonia.<sup>56</sup> However, due to limited financial resources and technical and administrative capacity, Macedonia relies heavily on the international donor community regarding energy efficiency projects.

## High youth unemployment in Macedonia

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<sup>53</sup> In-Depth Review of the Former Yugoslav Republic of Macedonia, Energy Charter Secretariat, 2007

<sup>54</sup> Roughly, less than 9% of the households are connected to district heating networks.

<sup>55</sup> Alliance to Save Energy Municipal Network for Energy Efficiency, Regional Urban Heating Policy Assessment Part I, USAID, July 2007.

<sup>56</sup> The Ministry of Economy, supported by the Energy Agency, is responsible for energy efficiency. Within the MOE is the Energy Department and its Unit for Energy Efficiency and Renewable Energy

The **GREEN JOBS CORPS** project would seek to make energy efficiency a known quantity in Macedonia while building skills for unemployed youth for better employability outcomes. Youth unemployment is high in Macedonia. In a country where the official unemployment rate is over 30 percent, the youth unemployment rate is estimated to be as high as 56 percent.<sup>57</sup> Youth in Macedonia face several labor market challenges. First is the economy that is not strong enough to add jobs in large enough numbers to improve employment opportunities for those who are unemployed or underemployed. Second, youth in Macedonia tend to have poor quality skills, particularly soft skills. Third, there are little or no incentives for employers to hire first-time job seekers. Fourth, the job market and the education system are void of mechanisms that give students practical work learning experiences.<sup>58</sup> Notwithstanding these youth employment challenges, the benefits of youth job training combined with energy efficiency will address developing skills that unemployed youth need, lowering energy costs, and possibly adding higher-value jobs over the long-term.

Spending on weatherization, retrofits, solar installation, and other energy efficiency measures is said to create more jobs per dollar (taking some latitude, denars or euros) than spending on other energy sources. This is particularly true for new power plants, where the production process is more labor intensive, requiring more workers, and thus more project energy related costs, per kWh of power “produced”<sup>59</sup>. As Macedonia moves toward more highly energy efficient buildings, these buildings will mean improved economic and environmental performance. Moreover, the energy efficiency and alternative energy sectors as they mature will create new jobs, requiring higher skilled workers receiving higher paying jobs, often above the average wage jobs.

**THE PROJECT** is an activity directed at training unemployed youth (ages 15-27) to implement energy efficiency measures in the homes of the neediest, and in public buildings and facilities. Partnering with firms, NGOs, and others, the **GREEN JOBS CORPS** seeks to enhance employment opportunities for Macedonia’s young people. Thus, the ultimate goal of this project is for trained youth to secure employment in the energy sector as well as other sectors. This project would also seek to train energy providers and regulators on best practices in increasing energy efficiency.

The long-term anticipated impact of this project is skills building, job creation, and employment for youth coupled with reduced consumer and government (national and local) energy costs. In a paid internship (on-the-job experience) environment, the **GREEN JOBS CORPS** participants would receive soft (communication, team building, and project management) and technical energy conservation skills training. The project would draw heavily on the private sector to hire the interns in a cost sharing arrangement, albeit a small amount paid by employers. As such, employers and this project

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<sup>57</sup> BCYF Final report “Youth Employability Program for European Macedonia”, January 2008

<sup>58</sup> A recent education policy may be addressing this at the university level with required internships.

<sup>59</sup> <http://www.focusthenation.org/create-green-jobs-save-energy>

(and possibly other donors) would pay the interns their public transportation fees and a small stipend.

The elderly poor and other low-income households would also be the beneficiaries of this activity because the **GREEN JOBS CORPS** would devote some hours to residential energy efficiency activities. The USAID study mentioned above recommended that low-income households receive weatherization and other residential energy cost reduction measures to reduce heating bills and save energy in the long-term when heat subsidies are eliminated or rate tariffs are increased.<sup>60</sup> This project would also include an energy efficiency consumer awareness component designed and delivered by the **GREEN JOBS CORPS**.

### **Examples of the energy efficiency training could include:**

Training to Retrofit Existing Buildings with:

- Compact fluorescent lights
- Waterless urinals
- Thermostats
- Efficient windows
- Window treatments
- Efficient appliances

Weatherization activities:

- Installing insulation
- Improving furnace systems
- Reducing air flow through buildings
- Repairing chimneys
- Installing control devices on water heaters & other appliances
- Reducing hot water flows in showers

Since, these same EE measures are needed in public buildings such as schools and hospitals, the **GREEN JOBS CORPS** could also partner with municipalities to bring EE measures to local government buildings. In some cases, the national and local governments could provide the work internship experiences. Additionally, the EE job skills training could lead to some trainees starting their own EE businesses after receiving additional entrepreneurial training and coaching.

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<sup>60</sup>The USAID report strongly urged EE countries to provide targeted assistance for low-income families when heat subsidies are eliminated, deeming this approach to be the best practice in countries in the advanced stages of heat sector reform.

## **Sustainability and scalability**

The **GREEN JOBS CORPS** is most suited for a public private partnership wherein various donor partners (corporations and international donors) would support an umbrella NGO or educational institution to develop and advance this program over the long-term. Working with the key stakeholders (energy regulators, local governments, community councils, condo owners' associations, donors, NGOs, youth centers, schools and universities, and Line Ministers [Labor, Economy, Energy, and Education]), a task force would identify the most appropriate institution to implement the goals and objectives of the **GREEN JOBS CORPS**.

The success of the **GREEN JOBS CORPS** will depend on the effective energy/environmental conservation awareness campaign provided by the youth, financial support from the government, private sector, and international donors as well as active community participation.

### **RECOMMENDATION #5: THE RISING GENERATION PROJECT**

Skill-building for currently employed, focused on small and medium enterprises – especially (but not only) family-owned businesses

**Objective : Develop a program of business management skills for a RISING GENERATION of young entrepreneurs and sons and daughters of current owners of business enterprises who are often resistant to change to modern methods, but who favor opportunities for their children – the future owners and operators of enterprises which show promise for growth and future job creation.**

Investing in further knowledge of the next generation of Macedonian business leaders will have a triple effect:

- Short-term - it will increase their managerial knowledge, capacity, and know-how.
- Mid-term - it will initiate learning on lower managerial and operational levels (managers will start to allow other staff to learn and grow).
- Long-term - it can lead to growth of their companies (leading to new jobs) based on the newly implemented managerial tools, processes, techniques, and procedures.

**Background:** The first generation of Macedonian entrepreneurs that started companies between 1991 and 2000 is aging, whether they like it or not -- aged 45 and above, with some exceptions. This generation was by and large educated in the old system where there was limited openness for adult and life-long learning.

Most of these managers suffer from “I know everything”, “I have been in this field for 20-30 years so I can teach the others,” whereas most in fact are working more with intuitive management and business skills, which in the long run is inhibiting their firms’ growth and competitive position. Most lack skills of strategic and business planning, modern approaches to human resources management, an understanding of current marketing techniques and tools, cash flow management, time

management, thinking about middle management “bench strength,” and soft managerial skills of communication and teamwork. Most have not considered building those skills in their family members who stand to take over the business.

**THE PROJECT** will develop a skills-building learning program for business leadership and management skills for a **RISING GENERATION** of young entrepreneurs and sons and daughters of seasoned entrepreneurs and business owners.

We propose a program that responds directly to the needs of this highly demanding target group. The program will need to be – and build a reputation for being -- practical, based on peer-to-peer learning, mentoring, and coaching, and easy-to-apply managerial tools and ideas. Also, it has to provide a systematic approach to managerial learning – a set of events scheduled for the whole year so that managers can plan their busy schedule around the events. In addition, the program should provide networking and regional expansion business opportunities such as B2B events and matchmaking in order to help businesses expand and grow.

### **How will it work?**

Although some programs already exist on the market, newly developed programs are needed, especially for specific target groups such as middle managers.

The Rising Generation Project would assist a network of existing training providers to:

- Develop new training and learning curricula and programs by fostering links with international and regional entrepreneurship/ management learning experts, providers, and brand names
- Adapt international curricula, standards, and practices coordinated with domestic market realities
- Incorporate local and regional business networking, matchmaking, and exchange of experiences
- Pilot newly developed training programs
- Use the media to promote adult education and life-long learning, especially for entrepreneurs and managers, and to promote entrepreneurship role models
- Introduce management information packages including trends, innovations, and business lessons learned by other entrepreneurs
- Promote e-learning, video conference, and distance learning methods
- Develop and provide in-company advice and consultancy for specific industries and high growth companies
- Develop a role model for smooth accreditation and certification from the Center for Adult Learning
- The topics would include managerial advanced soft-skills such as leadership, internal communication, coaching, teamwork, prioritizing/time management, delegation, change management, innovation and creativity, decision making, external communications, and

influencing and negotiations. Other such topics and programs are also likely to be needed as the project evolves.

This program will train young rising entrepreneurs, owners, managers, and middle managers in new modern management and leadership skills. Outcomes will be measured by:

- Short-term - numbers of trained entrepreneurs and managers;
- Mid-term – number of middle managers and staff that participated in training events after the entrepreneur, owner, or CEO went to a training; new job creation ; and business growth (annual percentage) as it can be indirectly associated with the improved managerial skills and capacities.
- Long-term - new job creation and business growth (annual percentage) as it can be indirectly associated with the improved managerial skills and capacities.

## CAPACITY-BUILDING INVESTMENTS

- Assisting the **Ministry of Labor and Social Policy** to deepen and continue its Skills Gap Analysis survey and reporting process

The two-year-old national survey of 1600 firms, supported by the EU, and adapting the Swedish survey methodology, is off to a decent start technically, but has failed as yet to gain policy “traction”. Technical expertise should be provided to do deeper analysis of a potentially rich data base, to re-cast certain questions and survey techniques for greater policy relevance, and to develop a communications strategy inside and outside of government – in Macedonia, throughout the region, and with the original EU sponsors, all as part of a modernization of the labor market information system.

- Assisting the **Ministry of Education, Science and Technology** to develop policies that promote practical experience for students in both secondary and higher education

The current effort by the Competitiveness Project is a good beginning to this endeavor, but more is needed. Technical expertise should be provided to the Ministry in developing implementation strategies for measures applied to the Center for Vocational Education, the Center for Adult Education, and the Bureau for Education Development in order to support work-based learning, upgrading of institution-based career centers, and to tie in the proposed One Stop Centers to the national policy apparatus.

- Assisting the new **Center for Adult Education** to develop a competency-based alternative diploma program;

The lack of a widely-accepted or officially-endorsed alternative secondary diploma will greatly inhibit the implementation of mandatory education, the return to school of school-

leavers, and the development of alternative education for adults. It seems likely that the new Center for Adult Education, established late in 2008 and still awaiting permanent staffing will be a good place to “lodge” the development of a competency-based diploma that takes into account life experience, work-based learning, and competency measures in order to grant a credible certification of educational competency and work-readiness. As with the technical assistance cited above, this work too should tie in the work of the One Stop Career Centers and the proposed local centers for excellence, outlined above in Service Investments 1 and 2.

- Assisting the **Ministry of Economy** to deepen its work in entrepreneurship and small enterprise support.

This is an admonition/recommendation, not yet an active one. As the project moves towards support of entrepreneurship, enterprise support, incubators, and the like, it should bear in mind that the Ministry of Economy has been plowing this field for several years, with support from several other donors. The project should build on that work, develop needed relationships and policy support from the Ministry of Economy, and consider affirmatively how to make practical linkages, as well as to examine lessons and possible mistakes of earlier investments made by others in this field.

#### ALIGNING CURRENT USAID ACTIVITIES WITH WORKFORCE DEVELOPMENT PRIORITIES:

- The **Primary Education Project** could consider how to incorporate successful *curricula for entrepreneurship*, such as the U.S. based National Foundation for Teaching Entrepreneurship (NFTE);
- The **Competitiveness Project** could consider how to provide *internships for teachers* in both secondary and higher education, in order to provide them with a better understanding of labor market realities;
- The **AgBiz Project** could re-visit the opportunity to provide specialized training regarding food safety to the newly-authorized Agency on Food – perhaps in conjunction with relevant university faculty;
- The **Business Environment Activity (BEA) Project** could intensify its efforts to remove health insurance registration from the Employment Service Agency responsibilities, freeing them up to do labor market guidance.
- The **Macedonia Local Government Activity (MLGA)** should be an active partner in developing criteria for selection of regions or municipalities in which to locate One Stop Centers and candidate vocational high schools and employment service agency centers, and in tying together local economic development expertise with workforce development strategies.

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