



FYR Macedonia exits political deadlock and resumes reform processes aimed at reducing poverty and income disparities

ESPN Flash Report 2018/65

MAJA GEROVSKA MITEV – EUROPEAN SOCIAL POLICY NETWORK

DECEMBER 2018

At the beginning of November 2018, the Government of FYR Macedonia proposed a set of laws that focus on: introducing a guaranteed minimum assistance, social pension, as well as progressive taxation. The overall goal of this reform package is to reduce poverty and income disparities in the country. The proposed laws are expected to enter into force in early 2019.

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Description

During the first half of 2018, the Government of FYR Macedonia announced that it is working on a number of reforms to improve the current social protection scheme. However, this process was halted due to the political deadlock resulting from the organisation and carrying out of the referendum on 30 September 2018 (on the “name issue”), which highlighted deep political divisions within society. However, after a month of political deadlock, the Government seems resolved to resume the reform process. A set of new laws aimed at enhancing the social protection of citizens were proposed in early November 2018. Among others, this included a new Law on Social Protection, a new Law on Social Security for the Elderly and a Law on Personal Income Tax.

The process of preparing the new Social Protection Law was initiated in September 2017. After a series of assessments and alternatives, following a report commissioned from local researchers, the Government has agreed to introduce guaranteed minimum assistance (GMA) and to modify the associated rights and services in the social and child protection system. The main new feature in terms of rights is the introduction of GMA. This benefit combines two existing benefits (social financial assistance and permanent financial assistance) and introduces a new (more favourable) equivalence

scale based on the “minimum income question” from the Survey on Income and Living Conditions (SILC). Unlike the current approach, which uses different equivalence scales for different rights, the use of one equivalence scale for all means-tested benefits ensures equal treatment among people in similar circumstances. It also simplifies the administrative procedure, both for applicants and for the Centres for Social Work (CSWs). In addition, this Law removes the current barrier to access for those who are employed, but on low or irregular incomes, as long as their total income per adult equivalent is below the stipulated threshold. The Law reinforces activation of GMA beneficiaries, by requiring all unemployed household members to participate in activation measures (not just the GMA right-holder). Finally, it also gives more responsibilities to CSWs in relation to registration of unemployed household beneficiaries, preparation of individual work plans as well as increased cooperation with the Centres for Employment.

According to an impact assessment of the GMA (Carraro, 2018) coverage will increase from 4.6% households in 2017 to 6.7% households in 2019. GMA will be available to 6.6% of people and 9.8% of children in the country. The poverty impact assessment of the combined reform (all other cash benefits) estimates an 8% reduction of the at-risk-of-poverty rate (from 20.3% in 2016 to 18.7% in 2019), and a 43% reduction in the “intensity” of income

poverty as measured by the median poverty risk gap (from 5.2% in 2016 to 3.0% in 2019).

The reform package also includes a Law on Social Security for older people (65+). Under this Law, those who have a contributory record of less than 15 years (which is a required minimum for establishing the right to a pension) will acquire the right to a "social pension" (of MKD 6000 or close to €100 per month). This Law aims to provide a minimum income to people aged 65+ who are not receiving a pension or guaranteed minimum assistance. In addition, these beneficiaries will acquire the right to an energy subsidy of MKD 950 per month or €15 (similar to that provided to GMA beneficiaries). According to the Government assessment, it is expected that around 4000 people aged 65 or above will be eligible for this right.

The financing of this new set of rights requires additional funds and budgets. In that respect, the Government has proposed a new Law on Personal Income Tax. This stipulates the introduction of progressive taxation. Incomes above MKD 90,000 or €1,460 will be taxed with an additional 8% tax, while incomes below this threshold will continue to be taxed at 10%. According to government estimates, this will only affect 1% of the wealthier citizens, and the expected revenues from this measure are €25 million. The plan is for the increased revenues to be directed to financing of the new social protection rights.

Outlook & commentary

The public debates on the proposed laws are still ongoing. The Law on Personal Income Tax has attracted most attention, as both the major opposition party as well as employers' associations in the country have disagreed with the suggested taxation change. They indicated that the tax change would contribute to greater tax evasion, relocation of capital to

other more "tax-favourable" destinations, etc. However, a survey undertaken in 2017 on citizens' perceptions of tax change indicates that 61% of the population favours progressive taxation (Gerovska-Mitev, 2018).

In parallel to the open invitation to comment on the draft Law, the Ministry of Labour and Social Policy organised two public debates with relevant stakeholders. The majority of the comments on the guaranteed minimum assistance expressed fear of misuse of this right by people in undeclared jobs, and questioned whether the activation possibilities would be able to attract GMA beneficiaries with a lower "activation" profile.

Overall, the main remaining challenges to the successful implementation of these laws, aimed at reducing poverty and income inequality in the country, can be summarised as follows:

- adaptation of administrative systems, in particular the information management system, to enable successful implementation of the new legislation;
- enhanced and continued training of frontline social workers on implementation of the new set of rights;
- enforcement of separate activation measures tailored and targeted at GMA beneficiaries;
- rulebook guidance on how to define households (i.e. what constitutes a household, family, single-parent household) in order to avoid the current practice of many social workers, allowing households to be split into different family units so they can be treated as separate for the purpose of eligibility for social protection rights, leading to duplication of support; and
- providing continued transparent evidence of coverage and impact of the social protection reform, so as to ensure success and support for progressive taxation.

Further reading

Carraro, L. (2018), "Mission Report July 2018 – Conditional Cash Transfer Project" (unpublished).

Gerovska-Mitev, M. (2018), Report on Citizens' perceptions of social protection and social insurance (in MK language), Skopje: Centre for Change Management: <http://www.cup.org.mk/publications.php>

Government of the Republic of Macedonia, Press release, Fair tax for better social protection system: <https://vlada.mk/node/15693>

Macedonian Information Agency (MIA), Press release: <https://mia.mk/2018/11/gov-t-sees-progressive-tax-as-remedy-against-social-injustice-oposition-disagrees/?lang=en> (accessed 04.11.2018)

Ministry of Labour and Social Policy, Draft Law on Social Protection: <http://www.mtsp.gov.mk/predlog-zakoni1.nspix>

Author

[Maja Gerovska Mitev](#) (Faculty of Philosophy, Skopje)