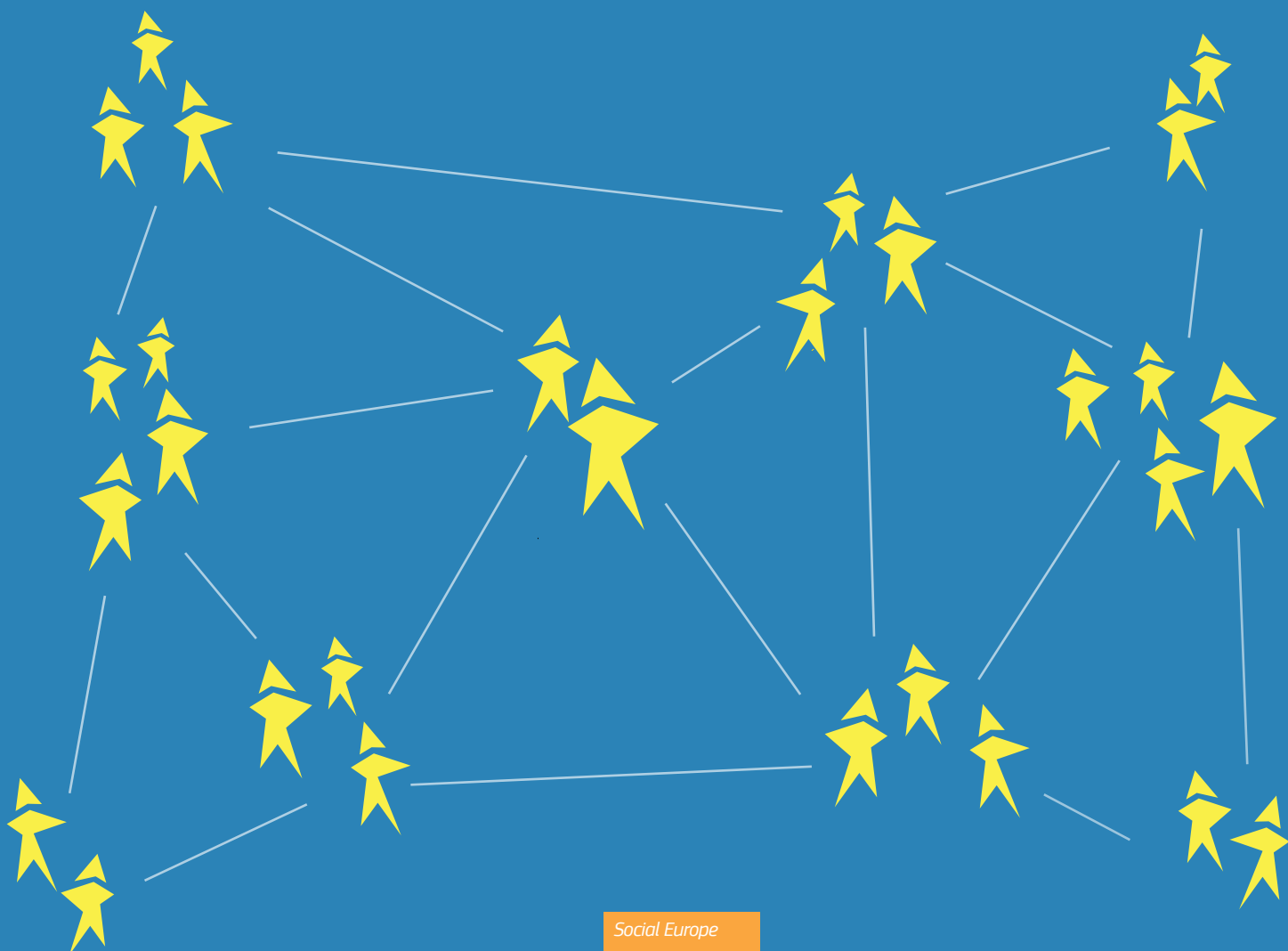




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in North Macedonia

Maja Gerovska Mitev



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Contact: Giulia Pagliani

E-mail: Giulia.PAGLIANI@ec.europa.eu

European Commission

B-1049 Brussels

European Social Policy Network (ESPN)

**ESPN Thematic Report on
In-work poverty**

North Macedonia

2019

Maja Gerovska Mitev

Institute of Social Work and Social Policy

Faculty of Philosophy

Ss. Cyril and Methodius University, Skopje

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Summary/Key findings/Suggestions

In-work poverty¹ (IWP) in North Macedonia affected 8.9% of employed persons aged 18-64 in 2016. An analysis of IWP during 2012-2016 shows a net decline of 2.1 p.p. The IWP rate in 2016 was highest among those with lower secondary education or less (25.5%), part-time workers (24.7%), the self-employed (18.6%), and single employed persons with dependent children (30.8%). Data from the structure of earnings survey (SES) also suggest a significant incidence of low wages, with 25.1% of all employees on low wages in 2014.

Based on the statistical findings presented, it may be concluded that the key drivers and dimensions influencing IWP are: low pay, household structure and parenthood, educational attainment, and working time/type of employment contract.

During the period 2012-2016, apart from the minimum wage, most policies neither focused on nor prioritised the people at risk of IWP. This changed slightly in 2017, as proposed amendments and reforms to the social and child protection system proved beneficial for people at risk of IWP, by enabling them to apply for social and child assistance, as well as for an educational allowance. Nonetheless, public policies are not well targeted at the different groups most exposed to IWP. Also, the high tax wedge on earnings affects participation in formal employment, and there is no reduction at low-income levels, or tax credits for low-wage earners. In North Macedonia there are no explicit in-work benefits, such as tax credits, tax allowances or equivalent benefit schemes.

Key challenges regarding tackling IWP in the country include: (i) precarious and low-paid self-employment and part-time employment; (ii) the low educational attainment of the working poor; (iii) the large share on low wages; (iv) the low level of the minimum wage; (v) a lack of active labour market policies targeted at low-skilled employees; and (vi) limited support from the social and child protection system for the working poor.

The narrative of 'employment as a way out of poverty' should therefore be complemented by measures to promote decent and adequate pay levels.

An improvement in the IWP rate is expected following the adoption of the proposed new Law on Social Protection and amended Child Protection Law, anticipated in early 2019. According to estimates accompanying the reform, an increase of 44.2% in social assistance coverage is expected, while an additional 40,000 families are expected to receive child allowance. Most of those affected are estimated to be on the minimum wage and/or low incomes, as previously (due to lower benefit thresholds and other administrative barriers) they were not entitled to the benefits concerned.

In view of the challenges and policy gaps identified in this report, further measures and policies are required to address IWP in the country. In order to tackle IWP the government needs to put stronger emphasis on measures related to the low pay, limited working hours and constrained employment opportunities that create severe financial complexities and challenges. This should encompass a continual increase in the minimum wage accompanied by adequate labour inspection, support for housing costs correlated with increases in the costs of living, and tax exemptions for those on low incomes.

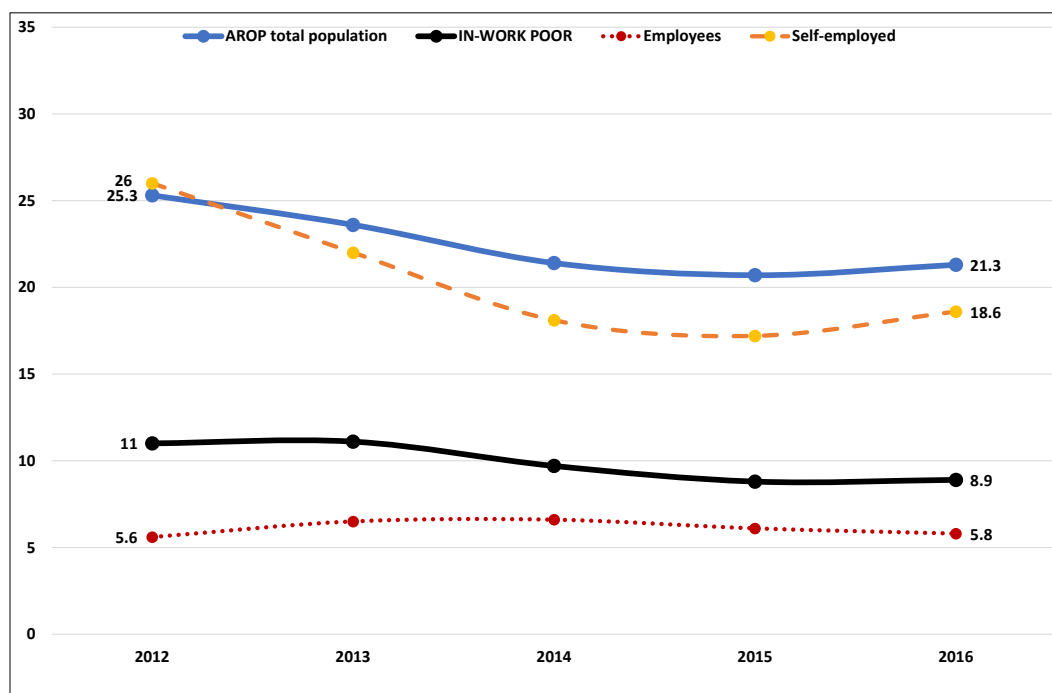
Although indicators for measuring IWP are readily available through international and comparative data, such as EU-SILC (European Union Statistics on Income and Living Conditions), the Labour Force Survey and the SES, still there is lack of more in-depth analysis as well as longitudinal studies related to IWP in the country.

¹ For ease of reading, we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

1 Analysis of the country's population at risk of in-work poverty

In-work poverty (IWP) in North Macedonia is not as pronounced as out-of-work poverty. According to the EU indicator on IWP, a person is at risk of IWP if they are in employment and live in a household that is at risk of poverty². Eurostat data show that 8.9% of employed persons in North Macedonia aged 18-64 were at risk of poverty after social transfers in 2016 (Figure 1 and Table 1). Between 2012 and 2016 the IWP rate fell by 2.1 p.p., or 19.1%.

Figure 1 Evolution of IWP rate (%) for whole population, waged employees and the self-employed, North Macedonia 2012-2016

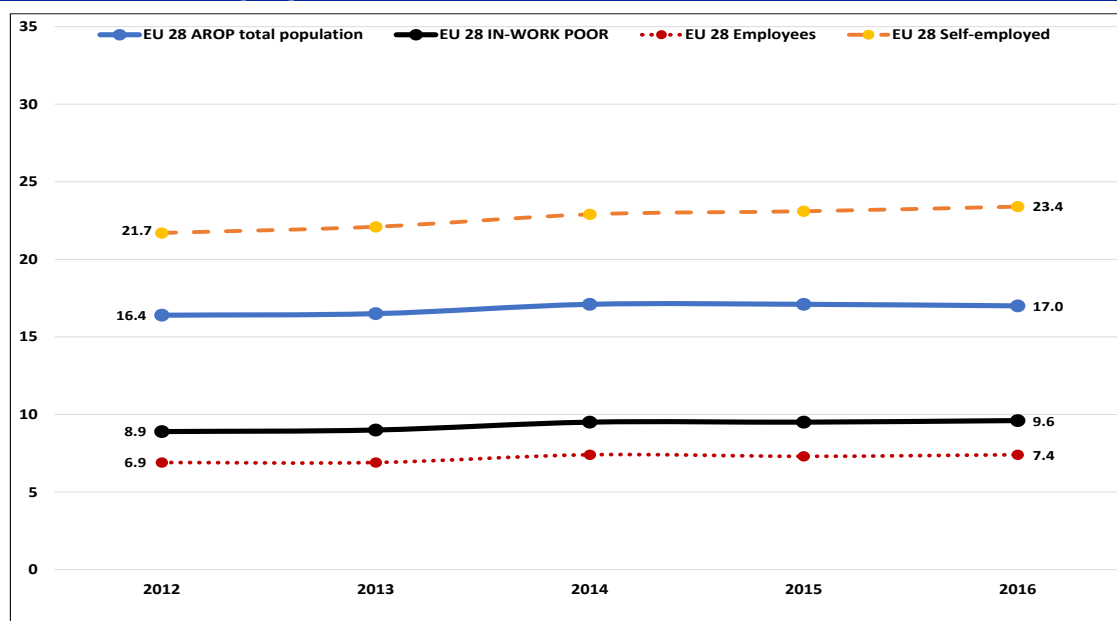


Source: Eurostat, 2018.

The country's IWP rate was slightly lower in 2016 than the EU average of 9.6% (which was the same in 2017) (Figure 2).

² Under the EU agreed definition of IWP, a person is in employment when they worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. The income reference year is the calendar year prior to the survey. A household is at risk of poverty (or 'income poor') if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

Figure 2: Evolution of the IWP rate (%) for whole population, waged employees and the self-employed, EU28 2012-2017



Source: Eurostat, 2018.

Disaggregated data show that, in 2016, male workers had a higher at risk of IWP (by 4 p.p.) than females. Some of the reasons for this may be the lower supply of jobs tailored to men, such as those in the textile industry. In terms of age groups, those aged 25-54 had the highest at risk of IWP compared with other age groups (0.9 p.p. higher than those aged 55-64 years, and 3.4 p.p. higher than those aged 18-24).

Table 1: In-work poverty rate for employed persons, by sex and age, North Macedonia 2012-2016

IWP rate employed persons (%)	Reference period						Change 2016 vs 2012	
	2012	2013	2014	2015	2016	2017	Absolute (p.p.)	Intensity (%)
Total	11	11.1	9.7	8.8	8.9	:	-2.1	-19.1
Males	11.8	11.8	10.9	10.1	10.5	:	-1.3	-11.0
Females	9.8	10.1	7.8	6.7	6.5	:	-3.3	-33.7
18 to 24 years	13.7	13.9	16.3	7.7	5.8	:	-7.9	-57.7
25 to 54 years	10.6	11.1	9.6	9.1	9.2	:	-1.4	-13.2
55 to 64 years	11.6	9.5	7.2	8.0	8.3	:	-3.3	-28.4

Source: Eurostat website, EU-SILC survey [ilc_iw01], extracted 12-11-2018.

Analysis of the most affected sub-groups of the employed population shows that the following individual factors contribute to IWP: educational attainment level, household type, type of employment status and duration of working time (Table 2).

In terms of the employment status of workers, the self-employed are at highest risk of IWP. Self-employed people in 2016 had an IWP rate 12.8 p.p. higher than that of employees, which was a slightly smaller difference than that in the EU28 (15.7 p.p.). The largest absolute reduction in the IWP rate during 2012-2016 was evident among the self-employed (-7.4 p.p.) and part-time workers (-7.3 p.p.). This pattern may also be

associated with the continual increase in the number of non-standard jobs and in self-employment: since 2012 temporary employment in the country has increased by 16.15%, and self-employment by 8.41%. However, employees had a higher material and social deprivation rate³ in 2014 than the self-employed (by 5.7 p.p.) (see Statistical Annex).

The IWP rate among employees on temporary contracts stood at 5.9% in 2016, while those on permanent contracts had a somewhat lower rate of 4.8%. Part-time work significantly contributes towards IWP in North Macedonia, as part-time workers experienced the highest IWP rate of all sub-groups of employed people. Although their IWP rate declined by 7.3 p.p. in the period 2012-2016, they still had a 3 times higher risk of IWP than full-time workers. It should also be noted that part-time employment in the country is to a large extent involuntary, as Labour Force Survey data for 2017 show that the main reason for working part-time work was the lack of alternative jobs (63%). The higher IWP rate among part-timers results from the fact that part-time work tends to be precarious and low paid.

Table 2: In-work poverty rate (%) by employment status, type of contract and working time, North Macedonia 2012-2016

	Reference period						Change 2016 vs 2012	
	2012	2013	2014	2015	2016	2017	Absolute (p.p.)	Intensity (%)
IWP rate by employment status								
employees	5.6	6.5	6.6	6.1	5.8	:	+0.2	3.6
Self-employed	26.0	22.0	18.1	17.2	18.6	:	-7.4	-28.5
Permanent contract	4.9	5.4	5.2	5.4	4.8	:	-0.1	-2.0
Temporary contract	9.8	8.6	8.6	6.7	5.9	:	-3.9	-39.8
IWP rate by full/part-time work⁴								
Part-time	32.0	24.3	31.6	25.7	24.7	:	-7.3	-22.8
Full-time	10.4	10.9	9.0	8.3	8.5	:	-1.9	-18.3

Source: Eurostat website, EU-SILC survey [ilc_iw01], [ilc_iw05], [ilc_iw07], extracted 12-11-2018.

IWP, like out-of-work poverty, is connected with educational attainment level (Table 3). The likelihood of being in IWP diminishes as workers attain higher levels of education. Among those with lower secondary education or below, 25.5% of employed persons were in-work poor in 2016, compared with 1.6% of those with tertiary education. The national rate of IWP among employed people with the lowest educational level was much higher than the EU average, which stood at 20.6 in 2017. However, the IWP rate in North Macedonia among employed people with tertiary education was much lower than the EU average, which in 2017 stood at 4.5%. In the period 2012-2016, the IWP rate fell most among those with upper secondary and post-secondary non-tertiary education, while those with tertiary education experienced a slight increase of 0.3 p.p.

³ The material and social deprivation rate (MSD) is the proportion of people lacking at least five out of the 13 items in the following set. At household level: can cope with unexpected expenses; can afford a one-week annual holiday away from home; can avoid arrears; can afford a meal with meat, chicken or fish every second day; can afford to keep the home warm; have access to a car; and can replace worn-out furniture. At personal level: can replace worn-out clothes; have two pairs of properly fitting shoes; can spend a small amount of money each week on themselves; have regular leisure activities; have an internet connection; can get together with friends/family for a drink/meal at least monthly.

⁴ Full-time and part-time working time are self-assessed.

Table 3: In-work at-risk-of-poverty rate (%) by educational attainment level, North Macedonia 2012-2016

Educational attainment	Reference period						Change 2016 vs 2012	
	2012	2013	2014	2015	2016	2017	Absolute (p.p.)	Intensity (%)
Lower secondary or below (levels 0-2)	25.9	25.2	25.1	19.4	25.5	:	-0.4	-1.5%
Upper secondary and post-secondary non-tertiary (levels 3 and 4)	8.7	7.6	6.7	7.7	6.2	:	-2.5	-28.7%
Tertiary (levels 5-8)	1.3	1.9	1.0	2.4	1.6	:	+0.3	23.1%

Source: Eurostat website, EU-SILC survey [ilc_iw04], extracted 12-11-2018.

Household type and parenthood also affect the probability of being in IWP (Table 4). In North Macedonia households with dependent children experienced the highest at risk of IWP in 2016, at 30.8% for single parents and 11.2% for households of two or more adults with children. Households with dependent children were also most at risk in the EU as a whole in 2017, albeit at a lower rate of 21.4%. The national IWP rate among single parents cannot be analysed, due to the small SILC sample size for this group.

Table 4: In-work poverty rate (%) by household type and parenthood, North Macedonia 2012-2016

	Reference period						Change 2016 vs 2012	
	2012	2013	2014	2015	2016	2017	Absolute (p.p.)	Intensity (%)
Single person	11.6	3.0	5.3	1.3	0.0	:	-11.6	-100.0
Single person with dependent children	:	:	:	13.2	30.8	:	:	:
Two or more adults without dependent children	9.1	6.0	4.8	4.9	5.6	:	-3.5	-38.5
Two or more adults with dependent children	12.2	13.7	12.6	11.4	11.2	:	-1.0	-8.2

Source: Eurostat website, EU-SILC survey [ilc_iw02], extracted 12-11-2018.

SES data also suggest that the incidence of low wages is high in North Macedonia, as 25.1% of all employees were low-wage earners in 2014.

Based on the statistical findings presented, it may be concluded that the key drivers and dimensions influencing IWP are: low pay, household structure and parenthood, educational attainment, working time and type of employment contract, and household work intensity.

Key challenges regarding tackling IWP in the country include:

- precarious and low-paid self-employment and part-time employment;
- the low educational attainment of the working poor;
- the high incidence of low wages;
- the low level of the minimum wage;
- a lack of active labour market policies targeted at low-skilled employees; and
- limited support from the social and child protection system for the working poor.

The narrative of 'employment as a way out of poverty' should therefore be complemented with measures to promote decent and adequate pay levels.

2 Analysis of the policies in place

During the period 2012-2018 a number of policies were adopted and amended which have had an impact – either directly or indirectly – on IWP in the country.

2.1 Policies with direct influence on IWP in the country

In 2012, a statutory *minimum wage* was introduced. Previously, collective agreements had stipulated minimum wage, so the new law extended coverage among non-unionised sectors. However, until amendments to the law in 2017, access to the minimum wage was not guaranteed to workers in all sectors, as a three-year adjustment period applied to those where the average monthly gross wage was below 15,600 MKD (€253). These sectors included textiles, clothing and the production of leather, where the majority of low-wage workers are employed. In addition, self-employed people are not covered by the minimum wage law.

The amount of the minimum wage is adjusted according to the increase in average wages for the previous year. Between 2012 and 2018, the minimum net wage increased by 51%, from 8,050 MKD (€131) to 12,165 MKD (€198) per month.

In order to ensure payment of the minimum wage level in all sectors, amendments to the minimum wage law (132/17) introduced financial assistance ranging from 500 MKD (€8) to 2000 MKD (€32). Despite this, and the stipulation of rigorous disciplinary sanctions against employers in cases of non-compliance, anecdotal evidence suggests that the minimum wage is predominantly used by employers as a social insurance contribution threshold, with amounts above the minimum wage being paid in cash in order to avoid higher taxation.

An analysis based on a representative sample of households showed that the minimum wage increase in 2017 has had a positive impact on poverty reduction, as relative poverty was reduced by 0.6 p.p. and absolute poverty by 0.4 p.p. (Petreski and Kochovska, 2018). It may therefore be said that the minimum wage legislation (as amended) has not only led to the equal wage treatment of workers in different sectors, but also reduced IWP in the most affected sectors, such as the textile industry. However, its main weakness is a lack of appropriate monitoring and inspection, which reduces its impact in practice. In addition, the very low amount of the minimum wage (€200 per month) does not guarantee a decent living standard.

In North Macedonia there is a high *tax wedge* on wages, which affects participation in formal employment, and there is no reduction at low-income levels, or tax credits for low-wage earners. As noted by the International Monetary Fund (IMF), the country has "a highly regressive labor tax system that discourages low-skilled workers from entering the labor force and taking up formal employment" (2017, p.12). The IMF mission to North Macedonia has suggested lowering the minimum income base for social security contributions, but this is not reflected in current government policy.

The child protection system provides a number of *child benefits*, among which are: a child allowance, a special child allowance (for disabled children), one-off assistance for a new-born child and a parental allowance for a third child. With the exception of the child allowance, all the benefits are non-means tested. Although those on low incomes can also access the child allowance, single-breadwinner households on the minimum wage due to the current income census (2,490 MKD or €40.50 per household member; and 4,980 MKD or €81 for single parents) do not qualify. With the increase in the minimum wage since 2012, many of those on the minimum wage have gone above the income threshold to qualify for the allowance. That contributed to a significant reduction in the number of child allowance beneficiaries: the number of families receiving the allowance

dropped from 19,235 families in 2008 to 5,122 families in 2017, or a reduction of 73.4%, and the number of children covered by the allowance fell from 35,774 to 12,955, a fall of 63.8%. In November 2018 amendments to the Child Protection Law were proposed with a view to reforming the child benefit system, and these are expected to be adopted by parliament and implemented in early 2019 – as discussed later in this report.

According to the law on social protection adopted in 2009, *social welfare benefits* can be classified into three groups:

- (i) rights related to material insecurity (social financial assistance, one-off financial assistance and in-kind assistance);
- (ii) rights related to incapacity to work or to independently fulfil basic living needs (permanent financial assistance, financial compensation for assistance and care for another person); and
- (iii) categorical rights (financial assistance for children without parents/parental care; financial assistance for mothers who give birth to a fourth child; financial assistance for foster parents; a salary allowance for part-time work due to care of a child with physical or mental disabilities; an allowance for deafness; financial assistance for single parents of children with disabilities; financial assistance for social housing; the right to health protection; and an allowance for blindness and mobility).

If a household's income is below the income threshold for the main social assistance benefit (social financial assistance) they qualify for this right. However, as the threshold is quite low (2,871 MKD or €46.70 per month for a single person), and since there is no income disregard threshold, this right is effectively not accessible to many low-income households. Due to this and similar shortcomings of the social and child protection system a comprehensive reform is underway, which should also improve access to benefits for those on low or minimum incomes.

In North Macedonia, there are no explicit in-work benefits, such as tax credits, tax allowances or equivalent benefit schemes.

Active labour market policies (ALMPs) in the country have a limited scope, as less than 10% of the population and less than 25% of the poor are covered (World Bank Group, 2018). Although self-employment programmes are part of the package of ALMPs, they do not seem to achieve a lasting effect on job creation. Significant part of self-employment in the country is informal (4%) and ALMP incentives for formalisation are both weak and unproductive. Current ALMPs are not tailored to specifically tackling IWP. According to the results from structured interviews with representatives of the 30 Employment Centres and 30 Social Work Centres in the country (Gerovska-Mitev, 2017), some of the reasons that make ALMPs an ineffective tool for tackling IWP can be identified as: (i) specific features of ALMPs, such as: the prevalence of fixed-term contracts and the fear of employment insecurity; the long time period for self-employment loans, combined with the difficulty of providing financial guarantees; the long waiting times for training organised by training centres, leading to cancellation of applications; and employers not offering the same conditions as those listed in job descriptions; and (ii) the personal characteristics/choices of individuals, such as: low educational qualifications; unregistered agricultural workers not being motivated to search for or accept a job offer; people who have been working in difficult working positions refusing to do demanding or overtime work; older workers not accepting further training and retraining (Gerovska-Mitev, 2017 pp. 14-17). Although ALMPs can contribute towards increasing skills and qualifications, as well as formalising the businesses of people experiencing IWP, the current package of ALMPs is neither specifically targeted at, nor concretely contributes towards improving, the IWP situation.

2.2 Policies with indirect influence on IWP in the country

At beginning of 2018, the right to access publicly funded childcare facilities was extended to single parents with incomes up to the amount of the minimum wage, under the Child Protection Law. Prior to 2018, a full or partial fee waiver was only available for children from households whose financial condition had deteriorated due to damage from a natural disaster (flood, earthquake, fire, etc.) – hence its scope was very limited and the number of beneficiaries was insignificant. Although the cost of publicly funded childcare is relatively affordable (1,490 MKD or €24 per month), for single breadwinner parents with several children this cost nonetheless represents a significant burden. The right to access free childcare should therefore be gradually extended to other low-income households. This is particularly important if the announced governmental initiative for greater income progressivity in tuition payments is realised.

Since 2009, *healthcare* and health insurance for those who cannot afford it has been provided through the central budget as a healthcare contribution. As indicated in Parnardjieva-Zmejкова and Dimkovski (2017) “basic health services such as primary care and emergency care are available without any payment by patients, while for the majority of other services in the system persons’ share in the use of services is a minimum percentage of the total health service amount. In addition, the system among other rights provides many co-insurance payment exemptions” (2017, p.32). However, the authors also indicate a high share of ‘out-of-pocket payments’, standing at 34% of total health expenditure, which signals the risk that low-income groups might not be able to afford the full costs of healthcare.

Financial support for *long-term care* is provided through the social protection system, and encompasses a right to financial compensation for assistance and care from another person. Its amount – (i) 4,348 MKD or €70 and (ii) 3,846 MKD or €62 – is quite low compared with the real costs of long-term care provided by public or private providers, and can only compensate for the minimal expenses associated with long-term care. Amendments to the social protection law in late 2017 made this right non-means tested, hence it is now available to all income groups. For parents taking care of a child with physical or mental disabilities there is also a *salary allowance for part-time work* (shorter working hours): however, this right is not frequently used judging by the very low absolute number of beneficiaries (only 108 in 2017 according to the State Statistical Office), which indicates possible access barriers.

The Law on Employment of Persons with Disability, adopted in 2000, established basic *employment* rights for disabled people. The special conditions and amenities relating to the employment of disabled people are also governed by the rulebook on the criteria for, and manner of allocations from, a special fund. The special fund had a budget in 2018 of around €3.8m, and provides non-refundable funds for:

1. employment of a disabled person for an indefinite period, for which 20 times the average salary is awarded (or 40 times for a wheelchair user or completely blind person);
2. workplace adaptations, for which grants are awarded of up to 100,000 MKD (€1,626);
3. procurement of equipment, for which up to 200 times the average salary is allocated, depending on the number of disabled employees and the employer’s stated capital and reserves;
4. training of disabled persons⁵.

⁵ Agency for Employment, <http://www.avrm.gov.mk/vrabotuvanje-na-invalidni-lica.nsp.x>.

However, as indicated in Shavreski and Kochoska (2018) the two main schemes that target disabled job-seekers – subsidised jobs (in designated companies) and limited support for self-employment – account for only around 2% of the employment agencies' plans.

Social housing is provided only to specified categories of people who experience greater risk in relation to lack of housing or inadequate housing. There are seven stipulated categories who can apply for social housing, including: (i) children without parents/parental care who have reached the age of 18 and who were previously in residential care; (ii) beneficiaries of social or permanent financial assistance; (iii) persons affected by natural disasters, regardless of the legal status of their existing (primary) residence; (iv) disabled persons, persons in need of assistance and care from another person, and families with disabled persons; (v) persons belonging to the Roma community, who are at greater social risk (in accordance with the country's Roma strategy); (vi) single parents with dependent children; and (vii) blind people who are beneficiaries of social or permanent financial assistance. In addition, for beneficiaries of social and permanent social assistance there is an energy subsidy of 1,000 MKD or €16 per month: however, only one third of the eligible households have obtained this subsidy, due to the requirement to provide official receipts for utility bills.

In general, it may be concluded that during the period 2012-2016, apart from the minimum wage, most policies did not focus on, or prioritise, the people at risk of IWP. This trend slightly changed in 2017, as it is estimated that the proposed amendments and reforms to the social and child protection system have proved beneficial for people at risk of IWP. Nonetheless, public policies are not well targeted at the different groups most exposed to IWP.

However, in a country with a significant undeclared economy (18.1% according to the Labour Force Survey for 2017), provision of more generous support through the social and child protection system may contribute towards disincentivising those in low- or minimum-income jobs. Hence, income disregards and in-work benefits must also be provided in order to balance the support to those in the labour market and to social protection system beneficiaries.

3 Policy debates, proposals and reforms on in-work poverty and recommendations

Although the EU-SILC survey enables regular IWP monitoring, addressing IWP since 2012 has not been a major policy priority in the country.

Some existing research simulations have already suggested that the introduction of in-work benefits in the tax and benefit system would have a beneficial effect on inactivity and unemployment, especially among the poor, females, and informal workers. By using *ex ante* analysis relying on a combined tax and benefit micro-simulation model (MAKMOD) and a structural model for labour supply, and utilising the 2011 SILC, it was estimated that an individual in-work benefit would generate a 7% higher household income than the baseline disposable household income and 11% larger than the average consumption basket, while increases generated by a family in-work benefit would be much smaller, at 0.4% and 4.1% respectively (Mojsoska Blazevski et al., p. 485).

The most recent policy reforms that are estimated to have had an impact on IWP in the country includes the proposed new Law on Social Protection and the amended Law on Child Protection. Both are currently being considered by parliament and are expected to be adopted in early 2019. The main novelty with the Social Protection Law is that it introduces a guaranteed minimum assistance (GMA) that, unlike current social financial assistance, is targeted at people with low incomes. In addition, the threshold for child allowance and the newly introduced education allowance is much higher, extending access to these benefits among minimum-wage earners.

In terms of coverage, the new reforms will substantially increase the coverage of social assistance and child allowance – by 44.2% in the case of GMA households. The most dramatic increase is expected in relation to the child allowance, as an additional 40,000 families are expected to receive this benefit.

Table 5: Estimated number of eligible beneficiaries for GMA and CA/EA in North Macedonia

	GMA	Child allowance/ educational allowance
Number of households	37,721	45,275
Number of people	136,244	222,665
Number of children	40,838	91,875
% of households	6.7	8.0
% of people	6.6	10.7
% of children	9.8	22.0

Source: Carraro, 2018.

An assessment the impact of the reforms by Carraro (2018, p. 12) estimates that all households with no income will receive significantly higher support; whereas when one member of the household works and receives a monthly income equivalent to the minimum wage, the overall household income is higher in five cases, the same in three, and lower in two. In one of the latter two cases, the household combines permanent financial assistance and the child allowance, while in the second the household continues to receive the parental allowance.

Therefore, under the reforms, discrepancies in treatment are reduced, but overall maintain the incentive to work: the ratio between overall income when someone is working at the minimum wage and when the household only receives social assistance is on average 1.55 in the 10 household types considered (Table 6 below). Such ratios are currently higher: but it is currently possible for people to work in the hidden economy and keep receiving social assistance, whereas the reform provides for a stricter approach.

Table 6: Examples of benefit entitlement under different income scenarios, and comparing current and proposed reform in North Macedonia

Household composition	Under current benefits		Under new social and child protection benefits	
	No income	1 Working at minimum wage	No income	1 Working at minimum wage
Single adult	2,871 MKD (€46)	12,000 MKD (€195)	4,500 MKD (€73)	12,000 MKD (€195)
Single elderly	4,306 MKD (€70)	12,000 MKD (€195)	6,500 MKD (€105)	12,000 MKD (€195)
Single parent + 2 children, aged 5 and 2	6,028 MKD (€98)	19,516 MKD (€317)	9,200 MKD (€150)	13,900 MKD (€225)
Single parent + 2 children, aged 9 and 6	4,955 MKD (€80)	13,488 MKD (€219)	10,300 MKD (€167)	15,000 MKD (€243)
Couple + 1 child, aged 10	4,955 MKD (€80)	12,000 MKD (€195)	8,600 MKD (€140)	12,000 MKD (€195)
Couple + 2 children, aged 16 and 12	7,057 MKD (€114)	12,000 MKD (€195)	10,600 MKD (€172)	15,300 MKD (€248)
Couple + 3 children, aged 17, 15 and 12	9,120 MKD (€148)	13,870 MKD (€225)	12,000 MKD (€195)	16,300 MKD (€265)
Couple + 3 children, aged 8, 6 and 3	8,362 MKD (€135)	20,362 MKD (€330)	10,200 MKD (€165)	15,000 MKD (€243)
Elderly (<65), son, his	8,120 MKD (€132)	12,000 MKD (€195)	12,200 MKD (€198)	15,300 MKD (€248)

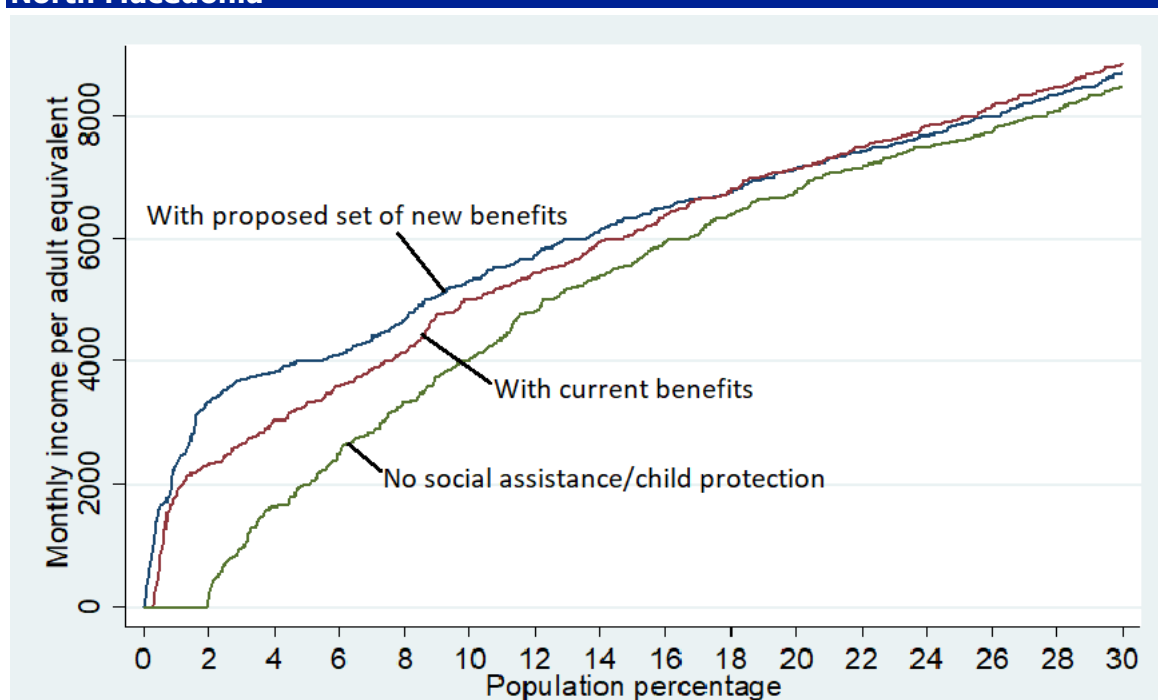
wife, 2 grandchildren (aged 16 and 12)				
Elderly (65+), son, his wife, 2 grandchildren (aged 16 and 12)	11,363 MKD (€185)	12,000 MKD (€195)	14,200 MKD (€230)	15,300 MKD (€248)

Source: Carraro, 2018.

Using SILC data, Carraro (2018) simulated the potential effect of the reforms on poverty. Figure shows the simulated effect across the income distribution. At each income level per equivalent adult, one can observe the corresponding percentage of the population with that level of income or less.

As can be seen, the new set of benefits provides gains compared with current benefits at all levels of income except relatively high ones, with the gains largely concentrated at low income levels (Carraro, 2018, p.20).

Figure 3: Simulated income distribution before and after benefits reform in North Macedonia



Source: Carraro, 2018.

As it can be seen from the Table 7, the combined impact of the reforms is estimated to be an 7.9% reduction in the at-risk-of-poverty rate (from 20.3% in 2016 to 18.7% in 2019) and a 42.6% 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).

Table 7: Simulated poverty reduction before and after benefits reform in North Macedonia

	60% of median		40% of median		3.1 \$PPP equivalised	
	Current	Reform	Current	Reform	Current	Reform
% of poor	9.7	7.9	22.7	34.9	34.7	74.0
% of poverty gap	26.8	42.6	45.6	71.7	60.6	82.8

Source: Carraro, 2018: calculations based on SILC 2016.

So far, the major EU funds that came under the instrument for pre-accession assistance (IPA) component IV – Human Resource Development 2007-2013 – included the grant scheme “Fostering Social Inclusion” and ‘Promoting Social Inclusion at local level’. Allocated funds under the new IPA II for North Macedonia in the period 2014-20206 amount to €664.2 million. Currently, there are no projects or EU funds being used that directly combat IWP in the country.

in view of the challenges and policy gaps identified in previous sections, further measures and policies are required to address IWP in the country. In order to tackle IWP the government needs to put stronger emphasis on measures related to the low pay, limited working hours and constrained employment opportunities that create severe financial complexities and challenges. This should encompass a continual increase of the minimum wage accompanied by adequate labour inspection, providing support for housing costs correlated with increases in the costs of living, and tax exemptions for those on low incomes.

4 Assessing data and indicators

The indicators and data currently available at national level are sufficient to capture and monitor the situation of IWP in the country. The main sources include EU-SILC, the Labour Force Survey, the SES and the Household Budget Survey. In addition, there are two microsimulation models that have been maintained and adjusted by a local non-government organisation. The first one is MK-MOD (a tax and benefit microsimulation model⁷), which belongs to the family of EUROMOD (the tax-benefit microsimulation model of the European Union). The model enables a calculation of the effects of taxes and benefits on household incomes and work incentives for the population of the country. The second model is MK-Labour (a labour supply model⁸). MK-Labour has two sub-models: one estimates the preferences for single people and the other for couples. The computation of the model is based on the STATA statistical software package, and relies on a maximum-likelihood estimation of a conditional logit function. Together with MK-MOD, MK-Labour constitutes a behavioural tax and benefit model.

However, there is no extensive analysis of IWP in the country, and those analyses used in this report rely on the above-mentioned indicators and models.

⁶ EU neighborhood policy, financial assistance under IPA II: http://ec.europa.eu/enlargement/instruments/funding-by-country/north-macedonia/index_en.htm.

⁷ Finance Think: <http://www.financethink.mk/models/tax-benefit-microsimulation-model>.

⁸ Finance Think: <http://www.financethink.mk/models/mk-labour-model-za-ponuda-na-rabotna-sila>.

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Statistical annex

IWP rate employed persons (%)	Reference period						Change 2016 vs 2012	
	2012	2013	2014	2015	2016	2017	Absolute (p.p.)	Intensity (%)
<i>IWP rate by household type and parenthood</i>								
Single person	11.6	3.0	5.3	1.3	0.0	:	-11.6	-100.0
Single person with dependent children	:	:	:	13.2	30.8	:	:	:
Two or more adults without dependent children	9.1	6.0	4.8	4.9	5.6	:	-3.5	-38.5
Two or more adults with dependent children	12.2	13.7	12.6	11.4	11.2	:	-1.0	-8.2
<i>IWP rate by household work intensity⁹</i>								
Very high work intensity (0.85-1)	5.2	5.4	4.4	4.2	3.5	:	-1.7	-32.7
High work intensity (0.55-0.85)	7.5	9.4	5.4	2.5	3.4	:	-4.1	-54.7
Medium work intensity (0.45-0.55)	15.4	14.7	13.3	16.1	16.1	:	+0.7	4.5
Low work intensity (0.2-0.45)	29.1	25.6	25.4	28.7	32.5	:	+3.4	11.7
Very low work intensity (0-0.2)	:	:	:	:	:	:	:	:
<i>IWP rate for households without dependent children</i>								
Very high work intensity (0.85-1)	6.3	1.3	1.8	2.6	2.5	:	-3.8	-60.3
High work intensity (0.55-0.85)	5.9	3.4	1.1	1.1	2.7	:	-3.2	-54.2
Medium work intensity (0.45-0.55)	6.3	5.5	3.5	4.2	6.7	:	+0.4	6.3
Low work intensity (0.2-0.45)	28.7	20.2	16.9	21.1	21.1	:	-7.6	-26.5
Very low work intensity (0-0.2)	:	:	:	:	:	:	:	:
<i>Households with dependent children</i>								
Very high work intensity (0.85-1)	4.6	7.3	5.5	5.0	4.1	:	-0.5	-10.9
High work intensity (0.55-0.85)	8.6	12.4	8.5	3.6	4.0	:	-4.6	-53.5
Medium work intensity (0.45-0.55)	19.1	18.1	17.6	22.0	21.4	:	+2.3	12.0
Low work intensity (0.2-0.45)	29.3	28.6	29.6	32.7	39.0	:	+9.7	33.1
Very low work intensity (0-0.2)	:	:	:	:	:	:	:	:
<i>People at risk of poverty or social exclusion (AROPE) by most frequent activity status</i>								
Employed persons	33.1	34.9	27.7	25.9	26.2	:	-6.9	-20.8
employees	28.1	29.1	24.0	23.3	24.5	:	-3.6	-12.8
Self-employed	47.1	48.5	37.7	33.4	31.9	:	-15.2	-32.3

⁹ There are no data for 'very low work intensity' households. This is largely due to the use of MFAS (more than 6 months in employment in income year) to define the work status of the in-work poor.

	Reference period					
	2012	2013	2014	2015	2016	2017
<i>Material and social deprivation rate (MSD) by most frequent activity status (%)</i>						
Employed persons	:	:	40	:	:	:
employees	:	:	40.6	:	:	:
Self-employed	:	:	34.9	:	:	:

Source: EU-SILC survey, based on the statistical annex (accompanying note) for the first 2018-2019 ESPN Thematic Report on In-work poverty in Europe.

Low-wage earners as a proportion of all employees (excluding apprentices) (%)

Reference period		Change 2014 vs 2010	
2010	2014	Absolute (p.p.)	Intensity (%)
28.3	25.1	-3.2	-11.0

Source: Structure of Earnings survey, based on the statistical annex (accompanying note) for the first 2018-2019 ESPN Thematic Report on In-work poverty in Europe.

