



European Employment Observatory

EEO Review: Self-employment, 2010

The former Yugoslav Republic of Macedonia (FYROM)

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1. Introduction

Unemployment in the former Yugoslav Republic of Macedonia (FYROM) is one of the most difficult economic, social and political problems. In this very difficult labour market situation, self-employment is an important driver of entrepreneurship and plays an important part in job creation. Self-employment in FYROM makes an important contribution to the Government's goal of achieving higher growth and more and better jobs. Recent statistics point to a significant resilience of self-employment to the crisis, since there is a steady growth in the absolute and relative number of self-employed people during the period from 2004 to 2009 (LFS data). In 2009, 80 053 people were self-employed, accounting for 12.7 % of the total employment in the country (10.2 % in 2004). Sectors with high levels of self-employment include agriculture (52.5 %), wholesale and retail trade (18.0 %), transport, storage and communications (7.8 %) and construction activities (7.6%). As for the typical profile of the self-employed in 2009, 86.3 % were male and 13.7 % female, with the largest share of self-employed workers aged 35-39 years (13.44 %), 40-44 (15.93 %), 45-49 (16.14 %) and 50-54 (13.69 %).

Self-employment is regarded very highly in FYROM, since more entrepreneurs and self-employed workers mean more innovations and it introduces new ways of organising production. People do not only provide themselves with employment, they also employ others, which creates economic growth, and where large numbers of self-employed people work it increases competition and efficiency. In political discussions, the desirability of self-employment is seldom questioned and many people are sure about which policies promote self-employment and which do not.

The Government undertook complex structural and institutional reforms over recent years aimed at improving the business environment. These include: (1) introduction of a flat personal income tax of 10 % and fully exempting reinvested profits from tax; (2) implementing a tax reform in order to decrease the tax burden for workers; (3) introduction of a one-stop shop system for opening own businesses; (4) implementing the project Regulatory Guillotine, which simplified hundreds of laws and bylaws in order to speed up the registration procedures; (5) introducing the rule 'silence means approval', which applies pressure on the administration to respond to requests from citizens and businessmen within the proscribed deadline; (6) reforms to the cadastre (land register) to increase its efficiency related to ownership rights; etc.

2. Assessment of national Labour Market policies and recovery measures

As a result of the global crisis which hit FYROM in 2009, the real sector (production of goods and services) and investment growth slowed down, conditions for credit provision deteriorated, the current account deficit rose and exports lowered. The government adopted various anti-crisis measures to tackle the impact of the global economic crisis: (1) the process of issuing construction permits has been reformed; (2) worker hiring was made more flexible by allowing greater use of fixed-term contracts, easing restrictions on working hours and making redundancy dismissals more flexible; (3) social security payments were classified in five groups and social security contribution rates reduced; (4) investor protections were increased by regulating the

approval of transactions between interested parties, increasing disclosure requirements in annual reports and making it easier to sue directors in cases of prejudicial transactions between interested parties; (5) property registration was eased with the introduction of new time limits at the real estate cadastre; (6) business start-up was simplified by integrating procedures at a one-stop shop; etc.

Moreover, the Government took a pro-active approach in planning and implementing active labour market programmes, since they are an important employment policy tool that are aimed at increasing the quality of the labour supply, increasing demand for labour and improving the matching of workers' skills to what the labour market requires. The main priority of the Government is, by implementing the annual Operational Plan for Active Labour Market Policies, to stimulate job creation, reduce rigidities and administrative barriers in the labour market, and improve the efficiency of the main labour market institutions. One of the programmes in this operational plan is the Self-Employment programme. The purpose of this programme is to reduce poverty and unemployment by starting up new businesses. The programme involves training interested jobseekers in the basics of entrepreneurship, preparing jointly a sound and sustainable business plan and providing start-up subsidies and assistance with business registration. The Ministry of Labour and Social Policy, the Employment Service Agency and the Agency for Entrepreneurship Promotion (supported by the United Nations Development Programme (UNDP)) are in charge of its implementation.

The self-employment programme offers assistance in starting a business. Eligible participants are the long-term unemployed), young people up to 27 years of age, recipients of unemployment benefits and women. Participants on the self-employment programme receive the following:

- 1) *Training* ('from idea to business') in the form of a two-day course on business, covering entrepreneurship, marketing and sales, and business planning. The training courses were used to select the strongest business ideas and, accordingly, not all participants proceeded to the next stage.
- 2) *Business Planning* was organised by the Agency for Entrepreneurship Promotion through a voucher-based scheme, under which beneficiaries can 'buy' the services of business consultants (they were given a voucher equivalent to EUR 200 to 'buy' 13 hours of business planning consultancy). The business consultant used is selected from a list of consultants on the basis of their CV and presentations.

A selection is made from the participants who took part in the business planning and those successful qualify for business registration support. They receive a grant for equipment and materials¹ (EUR 2 500 under the 2007 programme, raised to EUR 3 000 under the 2008 programme and EUR 3 500 under the 2009 programme), as well as not having to pay statutory employment and social contributions for the first three months of the company's operations.² All persons who take part in the self-employment programme may not re-register as unemployed for

¹ Equipment and materials for the businesses were procured by the UNDP on the basis of the specifications provided by the beneficiaries.

² Exemption from statutory social and employment contributions for the first three months of business is not provided under the 2009 programme.

a period of three years. The main characteristics and results of the self-employment programme, for the period 2007-2009, are presented in Table 1.

Table 1 Results of the Self-Employment programme

	2007	2008	2009
Target groups	- unemployed over 5 years - young unemployed persons up to 27 years of age - unemployed persons receiving welfare payments	- unemployed over 2 years - young unemployed persons up to 27 years of age - unemployed women	- unemployed over 1 year - young unemployed persons up to 27 years of age - unemployed women
Number of applications	2,026	894	1,517
Approved applications	815	800	900
Number of business plans prepared	591	557	704
Number of self-employments	559	529	654
Main sectors of self-employment	- agriculture (30 %) - handicraft trade (16 %) - manufacturing industry (15 %) - services (13.8 %)	n.a.	- wholesale, retail trade (21.4 %) - manufacturing industry (20.3 %) - agriculture (17.1 %) - transport, storage (7.2 %)
Grant amount EUR	2 500	3 000	3 500

Source: Employment Service Agency of the former Yugoslav Republic of Macedonia (www.zvrm.gov.mk), Agency for the Promotion of Entrepreneurship in the former Yugoslav Republic of Macedonia (www.apprm.gov.mk) and UNDP office in the former Yugoslav Republic of Macedonia (www.undp.org.mk)

Two years after the initial implementation of the self-employment programme, the UNDP office in Skopje carried out an impact assessment of the programme, as part of the Government's Operational Plan for Employment for 2007 (UNDP 2009). The following table presents the main quantitative findings of the assessment.

Table 2 Impact assessment of the self-employment programme 2007

Total number of registered companies in 2007	559
Companies which did not submit a financial statement for 2009	132
Liquidated companies	102
Number of employments in 2007	559
Number of employments in 2009	527
In 48 companies additional employment was realised	74

Source: UNDP office in the former Yugoslav Republic of Macedonia (www.undp.org.mk)

The main finding of this report is that the programme for self-employment has had direct positive results on the economy and public finances over the last four years. In addition, the report pointed to the following findings and conclusions: (1) the interest shown by the unemployed in the programme indicates the high importance of such support for potential entrepreneurs; (2) design of entrepreneurship measures and activities is successful in the country and it is a solid base for further improvement and development; (3) this intervention is in accordance with the needs of new entrepreneurs; (4) the organisation and management of the programme by the UNDP and its partners is quite efficient; (5) the voucher-based consultancy scheme is an integral part of the Self-Employment programme; (6) there is a need for continuous improvement of the quality and quantity of business advisors in the country; and (7) the overall approach for monitoring and evaluation needs to be organised.

All in all, the self-employment programme proved to be highly beneficial to many unemployed persons who had great entrepreneurial ideas, but were lacking affordable start-up capital (from the banking sector) to open their own businesses.

3. Quality of self-employment jobs

Addressing the issue of the quality of self-employment jobs in FYROM (quality of work, business sustainability, work-life balance, working hours, work-related stress, life-long learning, etc.) is difficult, since there is a lack of detailed research in this area. Moreover, the Labour Relations Law and the Law on Social Protection do not specifically deal with the self-employed. Therefore, this article focuses on the questions which asked for suggestions for future improvements, and in some case only general comments and recommendations are presented.

‘Job quality’ is a complex and subjective concept, which includes the following key elements: (1) policies that support the sustainability of enterprises; (2) good human resources policy; (3) a good work environment for employers and employees; (4) access to quality education and training; etc. High levels of informal employment and low levels of productivity, coupled with extremely high unemployment point to low job security and employment protection in FYROM. The country faces a real economic, social and political challenge to ensure decent work conditions and income growth prospects for a large number of inactive, unemployed or informally employed workers. In other words, FYROM needs to simultaneously lower unemployment and create good, high-productivity jobs. This is very much true also for the self-employed, since they rely on selling their labour just as employees do, but they frequently earn both substantially less and have a less regular income than the latter. Moreover, as a rule, they are not covered by labour law and therefore do not enjoy the protection afforded by labour rights. However, one should nevertheless focus on the incidence of self-employment due to its potential effectiveness in reducing unemployment at a time when there are few jobs. The rise in the share of self-employment as a percentage of total employment in FYROM can be considered as a positive structural change during transition, if these new jobs are highly productive. However, analyses of self-employment by economic sectors reveal that high-productivity activity among self-employed workers tends mainly to be disguised wage-employment (also called ‘false’ self-employment) rather than entrepreneurship. Moreover, during downturns, low-productivity self-employment or disguised wage employment are the first jobs to disappear. Hence, in the case of FYROM, economic recovery is the essential first step to job recovery. A return to strong economic growth combined with effective employment and education policies are the prerequisites to ensure sustainable job creation and improve the employability of all individuals.

The concept of ‘flexicurity’ is generally defined as an integrated strategy for simultaneously enhancing flexibility and security in the labour market. Employment and labour relations in FYROM are regulated by the Labour Relations Law (Official Gazette of the RM, no. 62/05, 106/08, 161/08), the Collective Agreements and other legal acts. In recent years, the Labour Law has been amended several times to reflect the government’s intention of increasing labour market flexibility and reducing hiring and firing costs, while trying to enhance workers’ security and penalties for non-compliance. The recent changes to the Labour Law in 2008 provided increased labour market flexibility by offering and promoting flexible and different employment contracts

and flexible working time. However, some further improvements should be implemented: (1) there is a need to promote further flexible forms of employment and self-employment in the formal economy, which means reviewing and streamlining employment protection, in particular where temporary and self-employed workers are concerned. And giving consideration to compensating workers for any loss of employment, to better income protection during unemployment and to effective assistance with obtaining new employment; (2) this review process should be carried out in consultation with the main relevant social partners.

The social protection policy in FYROM comprises two levels: social insurance and social assistance. The former covers: a) pension and disability insurance; b) health insurance; and c) unemployment insurance, all financed through respective contribution-based revenues. The other level of social protection is social assistance funded from general taxes. The reform of the tax and social contribution systems, implemented on 1 January 2009, consists of: (1) full harmonisation of the basis for payment of the three (mandatory) social contributions; (2) gradual reduction of social contribution rates from 32 % in 2008 to 27.9 % in 2009 and further to 22 % in 2011; (3) introduction of a gross wage system; and (4) integrated collection of personal income tax and social insurance contributions by the Public Revenue Office.

Employees and the self-employed in FYROM need social insurance and assistance frameworks that support transfers into new jobs, whereas employment protection must be properly balanced with encouraging job creation and maximising employability when jobs are no longer sustainable. A 'flexicurity' approach, including effective active labour market policies, that incorporate lifelong learning approaches and effective social benefit systems, is critical to supporting these transfers. In addition, the safety net in FYROM must simultaneously support individuals in need and encourage job growth. Policies must continue to address the effectiveness and sustainability of the social benefit systems. Adequate investment in benefits and public services, such as healthcare, education, transport and housing, and more effective interaction between social benefit systems that provide incentives for all who can work to work, will also further support the employment and labour market participation of all groups, in particular those most vulnerable in FYROM, such as young people, older workers, women and the disabled.

Employment protection legislation (EPL) - the set of rules governing hiring and firing employees - is a key feature of any country's labour market. The 'strictness' of employment protection legislation affects both employers' and employees' decisions, generating a number of effects on labour costs, employment and productivity, both favourable and unfavourable. FYROM was, until 2003, a country with very strict employment protection legislation. Changes that were introduced in 2003, 2005 and 2008 helped to increase labour market flexibility and ease *regular* employment, including dismissals. However, some inflexibility remained with regard to 'atypical' forms of employment, including workers on fixed-term contracts, agency workers, seasonal workers, and employees with contracts regulated by civil law. The 2005 amendments to the Labour Law, which received strong IMF and World Bank backing, include a reduction of maximum severance payments from eight to six months, the removal of some restrictions on fixed-term, temporary and part-time contracts and a reduction of employers' sick pay obligation from 60 to 21 days a year. Collective agreements concluded at industry level for a two-year term

are binding for signatories and members of signatory associations and trade unions only. This provision exempts many smaller firms from having to enter into collective wage agreements. Now, while some people in regular jobs continue to enjoy a relatively high employment security, many describe the current situation as a phase of 'early capitalism' that scarcely ensures basic social rights to people. Employees, especially in the private sector, are hired and fired at the discretion of the business owner or manager. Notwithstanding, labour disputes are not commonplace, as the legal system does not function properly and a certain proportion of the jobs continue to be in the informal domain.

Despite different conclusions in the empirical literature regarding the impact of employment protection on general labour market outcomes, the research in this area related to FYROM delivers some findings and valuable information for the policymakers. Thus, a study by the Vienna Institute (WIIW) and the European Commission (2008) on Western Balkan countries finds that more flexible collective dismissal procedures in FYROM would bring only gender restructuring effects without any improvement in the overall level of employment, while relaxing the protection given to temporary contract workers would result in only a negligible positive employment effect. On the contrary, very significant improvements in the female and the overall employment level results from strengthening the rule of law.

As a consequence, the government must ensure that economic, labour market and social policy frameworks support sustainable business activity, including enterprises of the self-employed, which is the prerequisite for recovery from the jobs crisis. The best social safety net is an economy that generates jobs, thus reducing unemployment and raising labour market participation of all groups. More specifically, the government should: (1) focus more on implementation of the concept of flexicurity, not simply by adjusting the labour legislation to allow more flexibility, but also ensuring that the legislation is properly implemented; (2) provide incentives (not necessarily financial) for employers to invest more in educating their workers; (3) make progress in building institutions for adult education and implement measures to increase participation of adults in lifelong learning; and (4) develop and implement an education system that will improve the key competencies of students rather than area specific knowledge.

4. Conclusions

The former Yugoslav Republic of Macedonia has persistently high unemployment which negatively affects the living standards of most of the population and has increased the level of poverty. The restructuring of the economy has led to an overall decline in the labour demand, as low growth dynamics and a poor business environment failed to create a sufficient number of job opportunities. Thus, one of the exit strategies is to support workers to become self-employed. Self-employment in FYROM makes an important contribution to the government's goal of achieving higher growth and more and better jobs. However, a lot more has to be done in order to support and improve self-employment within the economy, more specifically:

- 1) support job creation: the government should continue its focus on enhancing competitiveness and improving the business environment, by easing regulations for closing a business, developing a system for retraining laid-off workers, infrastructure

development, and further simplification of regulatory procedures. Reforms that would promote and strengthen competition (e.g. further trade and market liberalisation, stronger regulatory bodies, etc.) are also a key requirement for stronger economic growth and job creation.

- 2) focus policies on employment: the government must focus on employment and employability, supported by labour market policies that activate the labour force and provide for labour market mobility, supported by implementing education inclusion policies which will provide equal access to education and equal opportunities within education.
- 3) develop safety nets that promote employability and work incentives: Social expenditure should be aimed at supporting employability and re-entry to the workforce. Income support should be temporary, well targeted and timely. The government should improve the supply of social services and benefits, particularly introducing a needs-based assessment, to ensure that those most disadvantaged when facing unemployment can return to jobs as quickly as possible.

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Annex

Table 1 Share of the self-employed in total employment

	Total	Men	Women
2004	10.2	14.0	4.1
2005	12.0	16.8	4.6
2006	12.4	16.8	5.4
2007	12.1	16.7	4.8
2008	12.9	17.6	5.5
2009	12.7	17.7	4.6

Source: LFS data

Table 2 Self-employed by activity

	2004	2005	2006	2007	2008	2009
Total	100	100	100	100	100	100
AGRICULTURE, HUNTING AND FORESTRY	53.1	53.1	53.2	52.7	56.3	52.5
FISHING	-	-	-	0.1	0.1	-
MINING AND QUARRYING	-	-	-	-	0.1	0.0
MANUFACTURING	4.9	4.7	5.0	6.3	4.1	4.7
ELECTRICITY, GAS AND WATER SUPPLY	-	-	-	-	-	-
CONSTRUCTION	7.0	8.3	9.4	7.0	5.8	7.6
WHOLESALE AND RETAIL TRADE, REPAIR OF MOTOR VEHICLES, MOTORCYCLES AND PERSONAL AND HOUSEHOLD GOODS	21.7	18.5	17.0	17.2	18.4	18.0
HOTELS AND RESTAURANTS	0.6	1.4	2.0	1.6	2.0	2.2
TRANSPORT, STORAGE AND COMMUNICATIONS	5.8	7.6	6.9	7.2	6.8	7.8
FINANCIAL INTERMEDIATION	0.1	-	0.1	0.2	0.2	0.4
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	2.8	2.4	2.7	3.3	2.6	2.6
PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	-	-	-	-	-	-
EDUCATION	0.1	0.3	0.2	0.1	0.1	
HEALTH AND SOCIAL WORK	0.4	0.4	0.8	0.7	0.6	0.4
OTHER ACTIVITIES OF COMMUNAL, CULTURAL, GENERAL AND PERSONAL SERVICES	3.2	2.9	2.2	2.6	2.7	2.9
PRIVATE HOUSEHOLDS EMPLOYING DOMESTIC STAFF AND UNDIFFERENTIATED PRODUCTION ACTIVITIES OF HOUSEHOLDS FOR OWN USE	0.2	0.5	0.4	1.0	0.3	0.8
EXTERITORIAL ORGANISATIONS AND BODIES	-	-	-	-	-	-

Source: LFS data

Table 3 Self-employed by age and gender

	2004			2005			2006			2007			2008			2009		
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
15-19	0.51	0.37	1.30	0.77	0.71	1.12	0.80	0.83	0.62	0.86	0.89	0.73	0.34	0.34	0.32	0.41	0.44	0.25
20-24	3.97	4.25	2.45	3.47	3.19	5.10	3.29	3.50	2.25	2.96	2.99	2.81	2.24	2.07	3.08	2.17	2.30	1.34
25-29	7.44	7.18	8.84	7.89	8.10	6.71	8.04	8.24	7.00	7.48	6.84	10.92	5.52	5.54	5.46	6.12	6.46	3.94
30-34	12.44	12.64	11.35	11.86	11.76	12.42	12.39	11.88	14.97	13.15	13.03	13.81	10.17	9.85	11.81	10.47	10.53	10.11
35-39	12.62	12.26	14.53	15.33	15.44	14.68	14.77	13.86	19.42	15.13	15.51	13.12	15.17	15.25	14.76	13.44	12.59	18.81
40-44	14.59	13.81	18.79	13.54	12.84	17.51	15.37	14.52	19.68	15.01	15.46	12.59	17.31	16.99	18.95	15.93	15.13	21.04
45-49	15.54	15.18	17.51	14.37	13.81	17.60	13.82	13.62	14.82	14.83	13.99	19.35	14.76	14.77	14.74	16.14	16.32	14.99
50-54	12.66	12.27	14.75	12.26	11.99	13.79	12.39	13.05	9.09	11.98	12.43	9.56	12.95	12.78	13.79	13.69	13.80	13.04
55-59	7.45	7.80	5.54	8.13	8.41	6.54	8.79	9.07	7.41	8.55	8.68	7.85	11.20	11.72	8.55	10.33	10.53	9.09
60-64	7.53	8.25	3.65	7.02	7.69	3.14	5.51	6.13	2.37	5.31	5.50	4.25	5.21	5.43	4.11	6.25	6.72	3.30
65 and more	5.26	5.99	1.32	5.36	6.06	1.38	4.83	5.31	2.40	4.73	4.68	5.01	5.13	5.27	4.43	5.04	5.19	4.10

Source: LFS data