



Republic of North Macedonia

Ministry of Social Policy,
Demographics and Youth



Strengthening Child Benefits: Options to enhance the Impact of Cash Benefits for Children

MAY 2026



Acknowledgement

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The microsimulation model and results presented in this report are intended for illustrative purposes only and should not be viewed as definitive forecasts. Rather, they are designed to inform and facilitate evidence-based discussions on the targeting performance of key child-related cash benefits and potential policy options for improving coverage and adequacy in the future.

Full responsibility for the content of this technical report rests with Development Analytics, and the views expressed herein should not be attributed to UNICEF.

Executive Summary

North Macedonia has undertaken substantial social protection reforms since 2019, consolidating fragmented programmes and expanding income-tested support for vulnerable households. These reforms have strengthened the legal and institutional framework of social assistance. However, they have not translated into sustained reductions in child poverty. According to SILC 2024, 29.5 per cent of children remain at risk of poverty, a level that has remained broadly unchanged for over a decade and continues to exceed the national poverty rate of 21.9 per cent.¹ Poverty risks are highest among single-parent households and families with three or more children, where nearly one in two children lives below the poverty threshold.

The evidence shows that these outcomes are not the result of short-term shocks or implementation alone. Rather, they reflect structural limitations in the design of child-related cash benefits, which constrain their ability to respond to the costs of raising children, changes in household composition, and transition to the formal labour market.

Core structural constraints in the current system

Four interlinked structural issues underpin the limited poverty impact of the current system.

First, benefit adequacy has eroded significantly. Child-related cash benefits and eligibility thresholds are defined in nominal terms in the respective laws and have not kept pace with wage growth or the poverty line. Since 2019, the value of key transfers relative to the net minimum wage has declined sharply. Even households receiving GMA typically remain well below the poverty line, limiting the system's capacity to lift children out of poverty.

Second, the system systematically undermines families with children, particularly larger families. The child allowance is capped at two children, resulting in declining per-child support as household size increases. This design feature directly contradicts observed poverty patterns, where households with three or more children face the highest poverty risks.

Third, children's needs are underestimated within the GMA. The eligibility scale assigns very low weight to children, reducing eligibility and transfer amounts for families with child dependents. Inconsistent use of household composition scales across programmes further fragments support and weakens coherence.

Fourth, early childhood is insufficiently prioritised. The education allowance excludes pre-school children, despite strong evidence that early childhood investments yield high returns and despite very low pre-school enrolment among children from poor households. While supply constraints are significant, the current cash benefit design fails to align social protection with early childhood development objectives.

Reform logic and analytical approach

¹ State Statistical Office of the Republic of North Macedonia (2025). Laeken poverty indicators, 2024, preliminary data. Retrieved from: <https://www.stat.mk/en/stat/population-and-living-conditions/standard-of-living/laeken-poverty-indicators/laeken-poverty-indicators-2024-preliminary-data/>

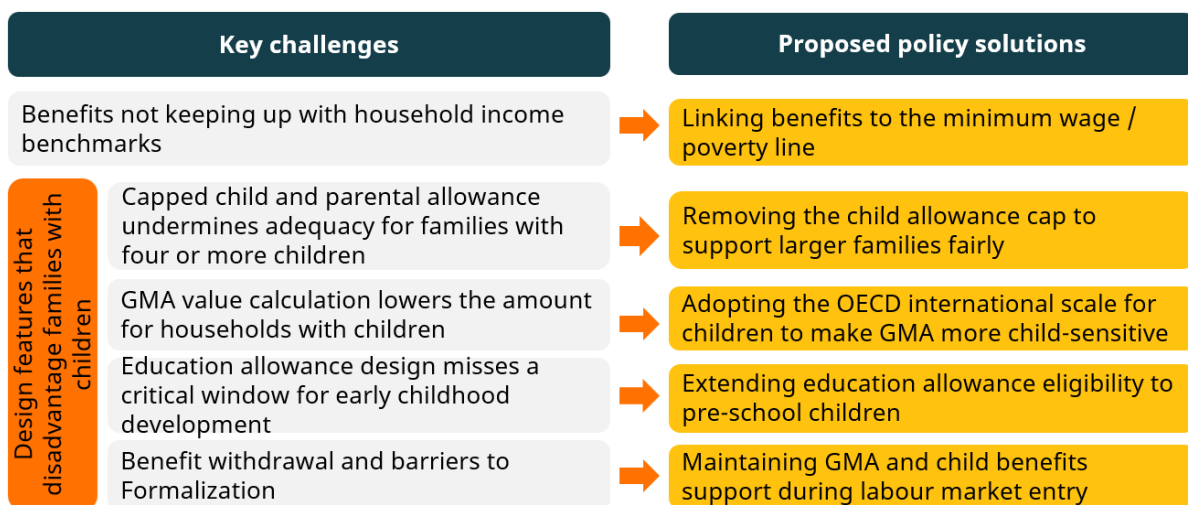
This report addresses a central policy challenge: how to redesign child-related cash benefits so that they deliver meaningful, sustained reductions in child poverty while remaining fiscally feasible.

The analysis applies a microsimulation model based on SILC 2023, assessing alternative policy designs in terms of poverty reduction, coverage, adequacy, and cost-effectiveness. Importantly, the analysis adopts a system-wide perspective, modelling interactions between allowances rather than assessing programmes in isolation.

Five reform parameters structure the analysis:

- **Restoring adequacy** by linking benefit thresholds and transfer levels to the poverty line and/or minimum wage.
- **Removing the cap** on the number of eligible children.
- **Strengthening child sensitivity** through adoption of the OECD equivalence scale across programmes.
- **Extending support to early childhood** by including pre-school children in education-related benefits (while considering the supply side improvements).
- **Introducing the gradual exit from social benefits** upon the registration of formal income (addressed qualitatively).

Key Challenges in the Current Social Protection System and Integrated Simulation Parameters Forming Potential Policy Reforms



Source: Authors' own illustration.

Scenario design: two strategic reform pathways

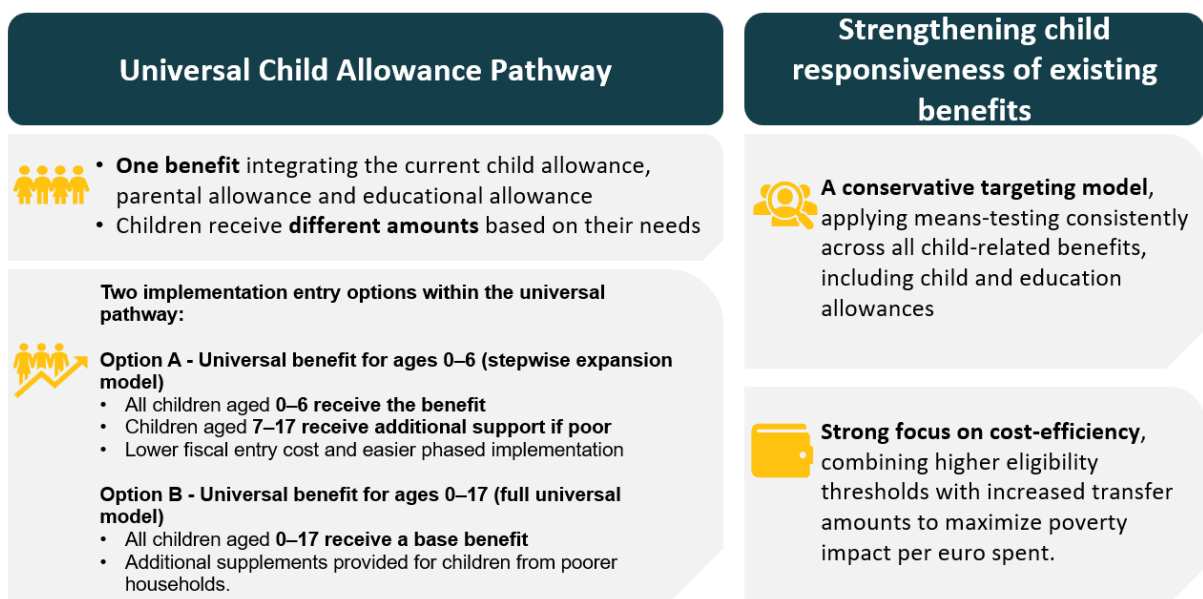
The analysis evaluates two main reform pathways, complemented by phased transition options.

- **Universal child allowance pathways, combined with targeted top-ups, prioritise broad coverage.** These scenarios introduce a universal child allowance—either partially by age group or fully for all children—while retaining income-tested supplements for poorer households. Results show that well-designed universal-plus-targeted models achieve larger absolute reductions in child poverty (3–6 percentage points) and reach a majority or all children, without

sacrificing cost-effectiveness. In several cases, the fiscal cost per percentage point reduction in child poverty is comparable to enhanced income-tested alternatives.

- Enhanced income-tested pathways focus on increasing the depth of support for the poorest households with children.** By raising eligibility thresholds, removing child caps, and applying child-sensitive equivalence scales, these scenarios significantly strengthen poverty impacts. The most ambitious income-tested scenario reduces the child poverty rate by up to 6 percentage points and substantially narrows the child poverty gap, while remaining relatively cost-effective. However, even under strengthened designs, coverage remains limited to around 30–42 per cent of children, reflecting the inherent exclusion risks of strict income-testing.

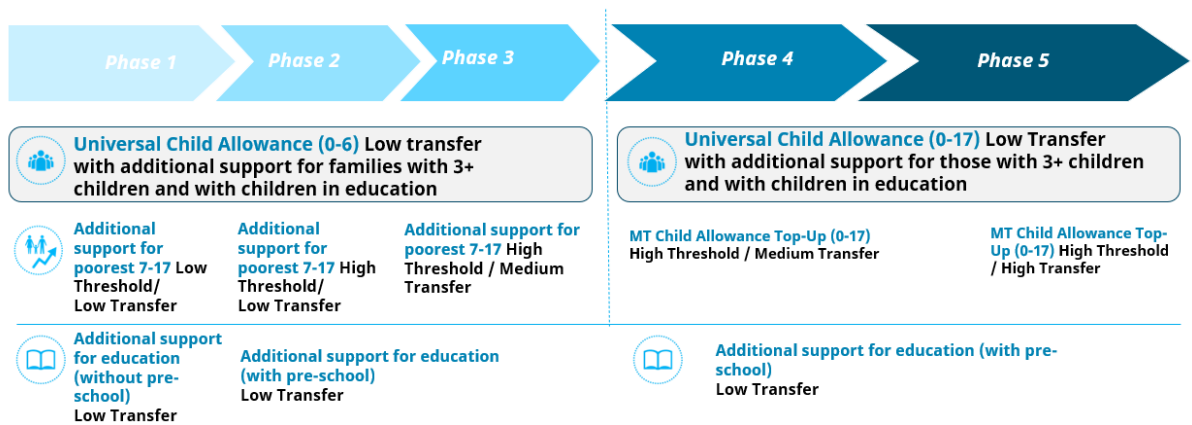
Alternative Targeting Pathways for Child-Related Cash Benefits



Source: Authors' own illustration.

To support realistic sequencing, the report also examines phased expansion pathways. These show that intermediate steps—such as universal coverage for younger children combined with targeted support for older children—can deliver substantial poverty reduction at relatively low fiscal cost, while building administrative and fiscal capacity for broader reforms.

Gradual Phasing Options for a Universal Child Allowance with Targeted Complements



Key reform pathways and policy choices

Three strategic conclusions emerge.

- First, improving design is critical. Reforms such as adopting a child-sensitive equivalence scale, removing the child cap, and strengthening indexation yield substantial gains even without large increases in expenditure.
- Second, enhanced income-testing can deliver strong poverty reduction among the poorest children, but cannot fully address exclusion among near-poor households. It is therefore best suited as a short-term or fiscally constrained option.
- Third, a universal child allowance complemented by targeted top-ups represents the most robust medium-term reform pathway. This model combines inclusion, predictability, and child rights with fiscal discipline and progressivity. Crucially, it can be introduced gradually, allowing policymakers to balance poverty impact with fiscal sustainability.

Across all scenarios, the analysis confirms that one-off newborn grants have negligible impact on child poverty and should not be prioritised over recurrent, child-centred income support.

Implications for policy

The findings point to a clear reform agenda:

- **Short-term priorities:** strengthen benefit adequacy and remove structural penalties for larger families.
- **Medium-term direction:** move toward a universal child allowance with targeted complements through a phased approach.
- **System-wide focus:** ensure coherence between social protection, early childhood development, and labour-market incentives for a comprehensive approach.

Overall, the evidence demonstrates that North Macedonia has credible, evidence-based pathways to significantly reduce child poverty. Achieving this requires shifting from incremental adjustments toward structural, child-centred reform of cash benefits, grounded in sound design and phased implementation.

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1. Introduction and Policy Context

The Republic of North Macedonia undertook a comprehensive reform of social protection in 2019. In May 2019, the country enacted significant social legislation as part of its broader reform agenda. The adopted Law on Social Protection, Law on Social Security for the Elderly, and Law on Protection of Children collectively aimed to strengthen social welfare by reducing child poverty, expanding support for individuals with special needs, and improve retirement support for elderly individuals without pension income.² These reforms, developed through extensive consultation among stakeholders, represent a substantial step toward enhancing social protection, while also presenting the ongoing challenge of balancing priorities with available resources.³

A central component of the 2019 social protection reform was the introduction of the **Guaranteed Minimum Assistance (GMA)**. This income-tested benefit replaced multiple fragmented social assistance programmes, which had previously struggled with limited coverage and minimal impact on poverty reduction.⁴ The GMA aims to provide a more coherent framework for supporting vulnerable populations. Accordingly, the GMA was designed to increase the income eligibility threshold for social assistance, thereby initially broadening the number of beneficiaries.⁵ The adoption of unified, poverty-based eligibility criteria under the GMA proved instrumental in enabling a swift response during the COVID-19 pandemic.⁶

Amendments to the Law on Child Protection introduced an educational allowance and a revised child allowance, as a income-tested benefit to better allocate resources to those most in need.⁷ Eligibility for the child allowance was broadened with entitlement determined by the household’s financial situation as well as the number and age of children, significantly expanding the pool of potential beneficiaries.⁸ **As for the education allowance**, as an extension of the conditional cash transfer (CCT) for secondary education under the Social Financial Assistance (SFA) programme, is granted to households with children enrolled in primary or secondary education, conditional upon the child attending at least 85 percent of the total teaching hours.⁹

The social assistance reform in the country was motivated by several long-standing and emerging challenges. The high poverty rate is considered one of the most prominent challenges. The at-risk-of-poverty rate declined steadily from 31.1 percent in 2009 to 21.9 percent in 2018¹⁰. The at-risk-of-

² Mamuti, A. (2021). Health, Pensions and Disability Insurance in the Republic of North Macedonia. In M. Żakowska & D. Domalewska (Eds.), *Social Security in the Balkans: Volume 2: An Overview of Social Policy in the Republics Of North Macedonia and Montenegro* (Vol. 192, Pp. [14-34]). Brill. Retrieved From: <https://brill.com/Display/Title/60234?Language=En&SrsIid=Afmbooril-Mwgadyzhes9aulcvvputad74mj8ouupfn745nokuznbjui>

³ Ibid.

⁴ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia*. © World Bank. <http://hdl.handle.net/10986/37873>

⁵ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia (Summary)*. © World Bank. Retrieved from:

<https://openknowledge.worldbank.org/server/api/core/bitstreams/261f5965-5d4a-5a21-909a-e1adafe1494c/content>

⁶ Ibid.

⁷ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia*. © World Bank. <http://hdl.handle.net/10986/37873>

⁸ Mojsoska-Blazevski, N. (2021). *Performance of Western Balkan economies regarding the European Pillar of Social Rights: 2021 review on North Macedonia*. European Centre for Social Welfare Policy and Research. Retrieved from: <https://www.esap.online/docs/153/rcc-esap-2-performance-of-western-balkan-economies-regarding-the-european-pillar-of-social-rights-2021-review-on-north-macedonia>

⁹ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia*. © World Bank. <http://hdl.handle.net/10986/37873>

¹⁰ Republic of North Macedonia State Statistical Office (2019). *Laeken poverty indicators in 2018 - final data*. Retrieved from:

https://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?id=115&rbr=3179

Republic of North Macedonia State Statistical Office (2010). *Theme: Standard of Living*. Retrieved from:

https://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?id=37&rbr=111

poverty rate then became approximately 22.2 percent in 2023 according to the State Statistics Office¹¹. Despite this notable progress and although the country exhibits one of the lowest poverty rates among the Western Balkan countries, the incidence of poverty remains substantially higher compared to European Union member states.¹² Poverty is particularly concentrated among households with low educational attainment among adults, members of ethnic minority communities, and those living in rural and northern regions of the country.¹³

Nevertheless, the current social protection system in the country is still characterised by a significant discrepancy between advanced legal frameworks and the factual situation on the ground, where implementation often lags due to resource and institutional constraints.¹⁴ While the 2019 reforms made strides in consolidating a previously fragmented system—replacing scattered programs with the GMA — the framework remains largely categorical or income-tested rather than universal or providing an integrated safety net.¹⁵ Furthermore, to build on the progress made by North Macedonia’s 2019 social protection reforms, it is recommended to enhance support for the most vulnerable children through targeted outreach and simplified enrolment, particularly focusing on the bottom income quintile, while strengthening local government capacity through dedicated training and resources to ensure effective decentralization.¹⁶

A primary critique involves the inadequacy of benefit levels, which remain too low to effectively lift households out of poverty. Even after the 2019 increases, average per capita social assistance payments were estimated at only ~30% of the poverty line.¹⁷ Social assistance spending trails behind the Western Balkan average of 2.1% and the European average, raising concerns that the current funding is insufficient to address high levels of material deprivation.¹⁸ Specifically, the child allowance has been criticised for its low impact, failing to significantly improve the living standards of vulnerable families, particularly during economic crises.¹⁹

Finally, the pension system faces long-term sustainability threats that risk "crowding out" other essential social spending. The system generates a large deficit (approximately 4.6% of GDP), requiring significant direct transfers from the central budget—funds equivalent to what the country spends annually on education.²⁰ This creates an allocative efficiency concern, where high pension costs limit the fiscal space for anti-poverty programs.

Building on insights from existing literature, sustained progress will require addressing implementation gaps, further strengthening the capacities of social work centres, and improving coordination through integrated information systems. This study contributes to these ongoing efforts by examining potential revisions to the targeting approach—particularly adjustments to eligibility criteria and transfer

¹¹ Republic of North Macedonia State Statistical Office (2025). *Theme: Standard of Living*. Retrieved from: https://www.stat.gov.mk/prikazisoopstenie_en.aspx?rbrtxt=115

¹² World Bank. (2022). *Social Protection Situational Analysis : North Macedonia*. © World Bank. <http://hdl.handle.net/10986/37873>

¹³ EESPN. (2024). *North Macedonia Country fact sheet (CFS)*. EESPN.

¹⁴ Regional Cooperation Council (2021). *Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia*. Retrieved from: <https://www.euro.centre.org/publications/detail/3908>

¹⁵ World Bank (2020). *FYR Macedonia Special Focus Note: Social Assistance*. Retrieved from: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/720171542965871345>

¹⁶ Korir, L., & Ushchapovska, Y. (2024). *Expansion of social protection programmes to address child poverty in Montenegro, North Macedonia, and Serbia* (Policy Brief 2024/6). European Centre for Social Welfare Policy and Research. Retrieved from: <https://www.euro.centre.org/publications/detail/4952>

¹⁷ World Bank (2022) *Social Protection Situational Analysis: North Macedonia* [Policy Brief]. Washington, DC. © World Bank. License: CC BY 3.0 IGO.

¹⁸ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia*. © World Bank. <http://hdl.handle.net/10986/37873>

¹⁹ Mitev, M. (2020). *Social and child protection cash benefits amended in North Macedonia in response to COVID-19*. ESPN Flash Report 2020/40, European Social Policy Network (ESPN), Brussels: European Commission.

²⁰ World Bank (2020). *FYR Macedonia Special Focus Note: Social Assistance*. Retrieved from: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/720171542965871345>

World Bank (2022) *Social Protection Situational Analysis: North Macedonia* [Policy Brief]. Washington, DC. © World Bank. License: CC BY 3.0 IGO.

amounts—and exploring the feasibility of universal child benefits, with the goal of enhancing the effectiveness and performance of the country’s social protection system for children.

1.1. Why Reform Child-Related Cash Benefits Now?

Despite the introduction of the 2019 Social Protection Reform, child poverty in North Macedonia remains persistently high. Recent data (SILC 2024)²¹ show that around one in three children continues to live at risk of poverty, a rate that has remained broadly stable over the past decade and consistently above the national at-risk-of-poverty rate (21.9%), as shown in **Figure 1**. This indicates that existing cash benefit schemes have not been sufficient to offset the higher cost of raising children or to adequately protect families with dependents against poverty risks.

Disparities are particularly pronounced across household types. Single-parent households and families with three or more children face the highest poverty risks, with more than half of these households

Figure 1 At-risk-of-poverty rate by age groups, %

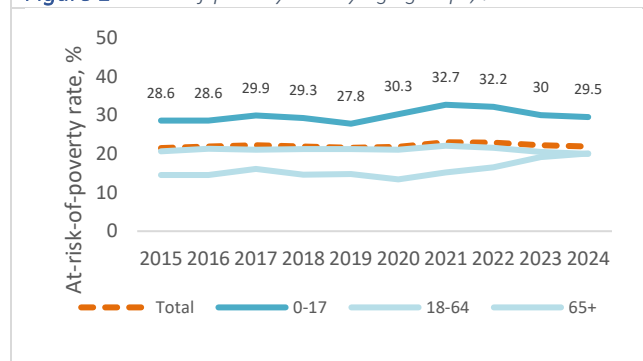
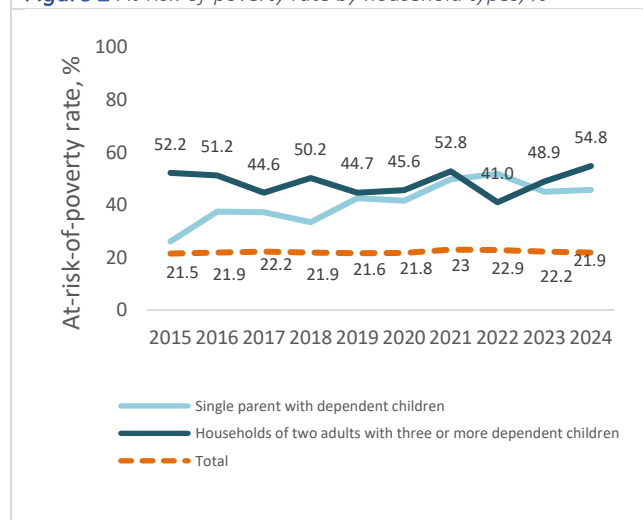


Figure 2 At-risk-of-poverty rate by household types, %



Source: State Statistical Office of the Republic of North Macedonia. Survey of Income and Living Conditions-Cross-Sectional Database.

living below the poverty threshold as of 2024.

To be more specific, single-parent households and two-adult households with three or more children face the highest poverty risks, with poverty rates reaching approximately 45 percent among single-parent households and close to 55 percent among two-adult households with three or more children. These groups have experienced only limited improvement since the reform, suggesting that current eligibility rules, benefit levels, and household composition adjustments do not fully reflect children’s needs. Overall, the evidence points to structural gaps in the design of child-related benefits, reinforcing the need for reforms that are more child-sensitive, better targeted to family size and composition, and aligned with poverty dynamics.

Likewise, a defining feature of the landscape in the Western Balkan region is the disproportionate exposure of children to poverty; they are more likely than adults to experience material deprivation leading to lifelong consequences for their health and economic potential.²² The Western Balkan

²¹ SILC stands for the Survey on Income and Living Conditions. Source: State Statistical Office of The Republic of North Macedonia (2025). Laeken poverty indicators, 2024, preliminary data. Retrieved from: <https://www.stat.mk/en/stat/population-and-living-conditions/standard-of-living/laeken-poverty-indicators/laeken-poverty-indicators-2024-preliminary-data/>

²² Korir, L., & Ushchapovska, Y. (2024). *Expansion Of Social Protection Programmes to Address Child Poverty in Montenegro, North Macedonia, And Serbia (Policy Brief 2024/6)*. European Centre for Social Welfare Policy and Research. Retrieved From: <https://www.euro-centre.org/publications/detail/4952>

region, including North Macedonia, is currently navigating a period of profound socio-economic and demographic transition, characterised by a **"demographic winter" of low fertility rates, an ageing population, and high levels of outward migration.**²³ While the region has seen some progress in reducing poverty, rates remain significantly higher than European Union averages, with between 12% and 34% of the population living below the international poverty line for upper-middle-income countries.²⁴

A major structural critique of social protection in the region is the "pension crowd-out" effect, where a disproportionate share of the social budget is allocated to pensions, as aforementioned before. Across the Western Balkans, pensions account for over 70% of social protection spending (and sometimes nearly 90%), leaving modest resources for poverty-targeted social assistance, social services, and labour market programs.²⁵ Consequently, spending on last-resort income support is minimal, averaging just 0.3% of GDP across the region.²⁶

In this context, the Government's adoption of the National Action Plan on Child Rights 2025–2029 is relevant, as it recognises the need for measures that *"improve the understanding of the multidimensional nature of poverty, identify inequalities stemming from social and political systems, and address their consequences."*²⁷ **However, translating this commitment into effective action requires strengthening child-sensitive social protection,** particularly through social protection designs that better reflect children's needs across different household types and life stages.

This study is positioned within the joint efforts of UNICEF and the Government to support this agenda by providing evidence-based policy options to enhance child-related cash benefits. It aims to adopt a **child-sensitive social protection approach,** which recognises that while enhanced access to social protection for all children should remain the main objective, constraints necessitate careful prioritisation.²⁸ Accordingly, the analysis focuses on identifying reform options that can improve coverage, adequacy, and poverty impact for children, while laying the groundwork for a more comprehensive and inclusive system in the country.

1.2. Objectives of the Analysis

Given the complex structure of cash benefits aimed at households with children or children directly, it is essential to establish a comprehensive framework for evaluating key mechanisms and reconsidering targeting approaches. **To this end, the primary objective of the study is to conduct a microsimulation analysis to assess the potential impact of various cash benefit scenarios on household and child poverty, estimated cost and cost-effectiveness.**

Srbinoski, B., Petreski, B., & Petreski, M. (2024). *Granular examination of the informal economy in North Macedonia: Insights into informal workers, undeclared work and income underreporting in households*. ILO & Finance Think – Economic Research & Policy Institute.

²³ Hohmann, J., Giske, N., and Boillot, F. (2025). *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

²⁴ World Bank (2023). *Advancing Social Protection in the Western Balkans: Opportunities for Reform*. Retrieved from: <https://www.worldbank.org/en/region/eca/brief/advancing-social-protection-and-opportunities-for-reform-in-the-western-balkans>

²⁵ Ibid.

²⁶ World Bank (2023). *Advancing Social Protection in the Western Balkans: Opportunities for Reform*. Retrieved from: <https://www.worldbank.org/en/region/eca/brief/advancing-social-protection-and-opportunities-for-reform-in-the-western-balkans>

Hohmann, J., Giske, N., and Boillot, F. (2025). *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

²⁷ Ministry of Social Policy, Demography and Youth (2025). *Национален акциски план за правата на децата во Република Северна Македонија (2025-2029)*. Retrieved from: <https://arhiva.mtsip.gov.mk/content/pdf/2025/>

²⁸ Roelen, K., & Sabates-Wheeler, R. (2012). A child-sensitive approach to social protection: serving practical and strategic needs. *Journal of Poverty and Social Justice*, 20 (3), 291-306. Retrieved from <https://doi.org/10.1332/175982712X657118>

Another key objective of the study is to assess the fiscal space for expanding social assistance spending while ensuring long-term financial sustainability. The analysis explores and evaluates potential sources of fiscal space. It is important to note that a full-scale fiscal space analysis, which requires extensive macroeconomic modelling, is beyond the scope of this study. Therefore, the insights generated rely on a targeted examination of existing data on fiscal options, the literature review and qualitative findings from interviews.

Additionally, the study develops a set of targeted policy recommendations, incorporating specific interventions to enhance the impact of cash benefits on reducing child poverty. These recommendations are based on the microsimulation results as well as the literature review and stakeholder consultations, ensuring that they are both evidence-based and contextually relevant. The study explores options for revising the targeting approaches, such as expanding eligibility criteria and adjusting benefit levels, improving targeting mechanisms.

2. Key Challenges in the Current System

Despite the progress achieved through the 2019 Social Protection Reform, the current system continues to face structural challenges that limit its effectiveness in reducing poverty, particularly for households with children. Benefit levels remain well below key household benchmarks such as the poverty line and the minimum wage. While indexation mechanisms formally exist, they have not kept pace with rapid increases in wages, resulting in a steady decline in benefit adequacy. These pressures are compounded by design features in the 2019 Law of Social Protection and the 2019 Law of Child Protection, which set transfer amounts as fixed nominal values, limiting their responsiveness to evolving needs. Together, these factors have weakened the capacity of social assistance and child-related benefits to protect vulnerable families, underscoring the need for reforms that strengthen adequacy, improve responsiveness to economic conditions, and better align benefits with the costs of raising children.

2.1. Benefits Not Keeping Up with Household Income Benchmarks

Social protection benefits in the country face a persistent challenge where monetary support remains significantly below the levels required to meet basic living standards, a gap that has been severely widened recently. Although the 2019 reforms improved targeting, average per capita social assistance payments are estimated at only 31% of the poverty line.²⁹ This inadequacy means that **even households receiving the centrepiece GMA remain mired in poverty, as these levels are insufficient to cover basic household expenses.**³⁰ As emphasised by the European Centre for Social Welfare Policy and Research

²⁹ World Bank (2022) *Social Protection Situational Analysis: North Macedonia* [Policy Brief]. Washington, DC. © World Bank. License: CC BY 3.0 IGO.

³⁰ European Centre for Social Welfare Policy and Research (2021). Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia. Retrieved from: <https://www.rcc.int/download/docs/Regional%20Overview%20of%20Western%20Balkan%20Economies%20Regarding%20the%20European%20Pillar%20of%20Social%20Rights%202022.pdf/aa92b8d8bea48f06da907ce956f48bda.pdf>

(2021), “this is a very low level to prevent households from poverty, even in case the household receives the child and educational allowance” in the country.³¹

The "cost-of-living crisis" triggered by the invasion of Ukraine caused inflation to peak at 19.5% by the end of 2022, with an annual average of 14.2%. This surge has disproportionately eroded the purchasing power of the poor, whose consumption is heavily tilted toward food and energy. For the poorest decile of the population, expenditure on essential food items—such as bread, milk, and oils—accounts for one-third of their total income, while the share of total food spending reaches two-thirds.³² Consequently, rising prices act as an immediate tax on the most vulnerable, pushing an estimated 13,000 more people into poverty, including 5,000 children, during 2022 alone.³³

Support for children is frequently cited as being too low to significantly improve living standards.³⁴ As of 2026, monthly child allowances range from 1,418 MKD (EUR 22.9) to 2,692 MKD (EUR 43.6)³⁵, levels that fall short of ensuring basic financial security for families.³⁶ As discussed in detail in the following chapter, this inadequacy is further compounded by the benefit cap limiting payments to two children. Even with emergency top-ups provided during the pandemic and energy crises, benefits have not kept pace with the "triple threat" of poverty, material deprivation, and joblessness that affects nearly 10% of all children in the country.³⁷

Although benefits are legally mandated to be adjusted annually based on the cost-of-living index, these lag behind the real-time escalation of living expenses and minimum wage. Figure 3 clearly shows that child-related cash benefits have lost a significant share of their value relative to the net minimum wage since the 2019 reform. This shows that the subsequent adjustments have not kept pace with rising wages. As a result, the GMA base transfer declined from 32 percent of the net minimum wage in 2019 to 23.2 percent in 2026. The erosion is also pronounced for child and education allowances: the minimum child allowance fell from 8 percent to 5.8 percent, the maximum from 15.2 percent to 11 percent, and the education allowance for primary school children dropped to just 4.1 percent of the net minimum wage.

³¹ Ibid.

³² Petreski, M. and Petreski, B. (2023). The Impact of the Food and Energy Crisis on Household Welfare in North Macedonia. Retrieved from: <https://www.financethink.mk/wp-content/uploads/2023/10/The-impact-of-the-food-and-energy-crisis-on-household-welfare-in-North-Macedonia.pdf>

³³ Ibid.

³⁴ Gerovska Mitev, M. (2019). *Financing social protection: North Macedonia* (ESPN Thematic Report). European Commission, Directorate-General for Employment, Social Affairs and Inclusion.

European Centre for Social Welfare Policy and Research (2021). Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia. Retrieved from: <https://www.rcc.int/download/docs/Regional%20Overview%20of%20Western%20Balkan%20Economies%20Regarding%20the%20European%20Pillar%20of%20Social%20Rights%202022.pdf/aa92b8d8bea48f06da907ce956f48bda.pdf>

³⁵ Authors' calculations based on the official exchange rate of 1 EUR = 61.6950 MKD, published by the National Bank of the Republic of North Macedonia as of April 1, 2026.





Source: National Bank of the Republic of North Macedonia (2025). List of Exchange Rates. Retrieved from: https://www.nbrm.mk/kursna_lista-en.nsp

³⁶ Bundalevska, A. I., Radulovic, M., & Keskinova, A. (2021). *Family support in the Republic of North Macedonia*. *Проблеми на постмодерността*, 2, 157–169. <https://www.ceeol.com/search/article-detail?id=980665>

European Centre for Social Welfare Policy and Research (2021). Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia. Retrieved from: <https://www.rcc.int/download/docs/Regional%20Overview%20of%20Western%20Balkan%20Economies%20Regarding%20the%20European%20Pillar%20of%20Social%20Rights%202022.pdf/aa92b8d8bea48f06da907ce956f48bda.pdf>

³⁷ Korir, L., & Ushchapovska, Y. (2024). *Expansion Of Social Protection Programmes to Address Child Poverty in Montenegro, North Macedonia, And Serbia* (Policy Brief 2024/6). European Centre for Social Welfare Policy and Research. Retrieved From: <https://www.Euro.Centre.Org/Publications/Detail/4952>



Figure 3 Changes in the Value of GMA, Child and Education Allowances Relative to the Net Minimum Wage³⁸

Cash benefits	2019 transfer value (% of minimum wage)	2026 transfer value (% of minimum wage)
 GMA (base value)	32%	23.2%
 Child allowance (minimum to maximum value)	Between 8% and 15.2%	Between 5.8% and 11%
 Education allowance (primary school)	5.6%	4.1%
 Education allowance (secondary school)	8%	5.8%

Source: Authors' own calculations.

The erosion of benefit adequacy is further reinforced by the current legal design of child-related transfers. Table 1 highlights a key structural issue in the design of child-related cash benefits in the country: benefit amounts are defined in law as fixed nominal values rather than as percentages of wages or the poverty line. As minimum wages and the poverty line increased rapidly after 2019, the absence of robust attachment of benefits to those values resulted in a gradual but substantial erosion. This design feature helps explain why, despite legal provisions/rulebooks for annual adjustments, benefit adequacy has deteriorated over time. **Anchoring transfer amounts to static nominal values—rather than to the net minimum wage or the national poverty line—has weakened the capacity of child-related benefits** to respond to rising living costs and to protect families with children against poverty risks.

Table 1 Legally Defined Social and Child Protection Transfer Amounts in North Macedonia, 2019


Law on Social Protection, 2019 Article 29: GMA Base Transfer Amount ³⁹	
	<ul style="list-style-type: none"> The base referred to in paragraph (1) of this article amounts to 4,000 denars per month, while for each subsequent household member the base increases according to the equivalence scale.
Law on Child Protection, 2019 Article 31: Child Allowance Transfer Amounts ⁴⁰	
	<ul style="list-style-type: none"> If the family has children of school age in accordance with the law, the amount of the child allowance for one child shall be 1,000 denars per month, and for two or more children, the total amount shall be 1,600 denars per month for all children.

³⁸ The monthly net minimum wage is set at 12,507 MKD in 2019 and 24,379 MKD in 2025. The Guaranteed Minimum Assistance (GMA) allowance amounted to 4,000 MKD in 2019 and 5668 MKD in 2025. The minimum child allowance shown in the figure reflects the legally prescribed amount for a family with one school-age child, set at 1,000 MKD in 2019 and 1,418 MKD in 2025. The maximum child allowance corresponds to the amount for families with two or more children who are not of school age, amounting to 1,900 MKD in 2019 and 2,692 MKD in 2026. Education allowances are paid per period within the school year. To enable comparison with the minimum wage, monthly equivalents were calculated. Education allowance payments per period are 2,100 MKD for primary education and 3,000 MKD for secondary education in 2019, and 2,976 MKD in 2019 and 4,250 MKD in 2026.

³⁹ Republic of North Macedonia. (2019). Law on social protection. Official Gazette of the Republic of North Macedonia, No. 104/2019. The original legal text establishes the following transfer amounts in Macedonian:

“Основицата од став 1 на овој член изнесува 4.000 денари месечно, а за секој следен полнолетен член на домаќинството основицата се зголемува согласно со еквивалентната скала.”

⁴⁰ Republic of North Macedonia. (2019). Law on child protection (consolidated text). Official Gazette of the Republic of North Macedonia, Nos. 23/13, 12/14, 44/14, 144/14, 10/15, 25/15, 150/15, 192/15, 27/16, 163/17, 21/18, 198/18, 104/19. The original legal text establishes the following transfer amounts in Macedonian: “Доколку во семејството има дете на училишна возраст согласно закон, висината на детскиот додаток за едно дете изнесува 1.000 денари месечно, а за две и повеќе деца во семејството изнесува 1.600 денари месечно за сите деца. Доколку во семејството има дете кое не е на училишна возраст согласно закон, висината на детскиот додаток за едно дете изнесува 1.200 денари месечно, а за две и повеќе деца изнесува 1.900 денари месечно за сите деца. Доколку во семејството има и дете на училишна возраст и дете кое не е на училишна возраст, висината на детскиот додаток за сите деца изнесува 1.600 денари месечно.”

	<ul style="list-style-type: none"> • If the family has children who are not of school age in accordance with the law, the amount of the child allowance for one child shall be 1,200 denars per month, and for two or more children, the total amount shall be 1,900 denars per month for all children. • If the family has children of school age and children who are not of school age, the amount of the child allowance for all children shall be 1,600 denars per month.
Law on Child Protection, 2019 Article 39: Education Allowance Transfer Amounts⁴¹	
	The annual amount of the education allowance for primary education per school year for one child shall be 8,400 denars , and for secondary education per school year for one child shall be 12,000 denars .

2.2. Design Features That Disadvantage Families with Children

Despite the expansion of child-related benefits under the 2019 reform, several core design features of the current social protection system systematically disadvantage families with children. Benefit adequacy is weakened by capped child allowances that do not scale with family size, a GMA household composition scale that assigns disproportionately low weight to children, and an education allowance design that excludes pre-school children during a critical developmental period. These design choices interact with sudden benefit withdrawal, creating disincentives to formal employment, as explained in the following part of the report.

2.2.1. Capped Child Allowance Undermines Adequacy for Families with Three or More Children



A key design feature that disadvantages families with children is the cap on the child allowance, which limits benefit amounts regardless of family size beyond two children. Under Article 31 of the Law on Child Protection (2019), the child allowance increases from one child to two children but does not rise further for families with three or more children.⁴²

⁴¹ Republic of North Macedonia. (2019). *Law on child protection (consolidated text)*. *Official Gazette of the Republic of North Macedonia*, Nos. 23/13, 12/14, 44/14, 144/14, 10/15, 25/15, 150/15, 192/15, 27/16, 163/17, 21/18, 198/18, 104/19. The original legal text establishes the following transfer amounts in Macedonian: “Годишниот износ на додатокот за образование за основно образование во учебна година по едно дете изнесува 8.400 денари, а за средно образование во учебна година по едно дете изнесува 12.000 денари.”

⁴² Specifically, according to the initial design of benefits for the child allowance in the Law of Child Protection in 2019, families with school-age children receive 1,000 denars per month for one child and a total of 1,600 denars for two or more children; families with pre-school children receive 1,200 denars for one child and a total of 1,900 denars for two or more children; and mixed households with both school-age and pre-school children receive a flat amount of 1,600 denars for all children combined. As a result, larger families receive the same total support as smaller households, despite facing substantially higher costs associated with food, clothing, education, and care.

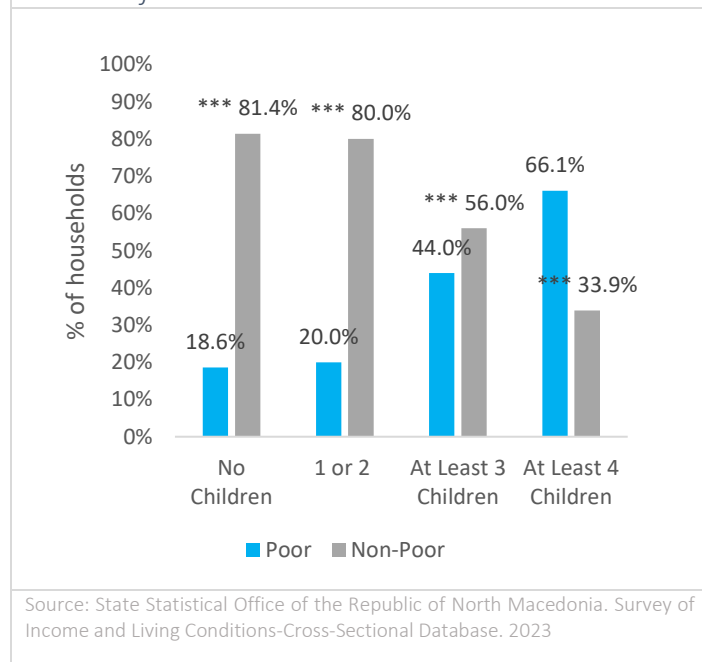
This design choice has important implications, as illustrated in *Figure 5*. The figure shows a clear and steep gradient in poverty risk by family size: while households with one or two children are predominantly non-poor, the share of poor households rises sharply among families with three or more children. In particular, more than half of households with at least three children are poor, and the poverty incidence increases further among households with four or more children. These patterns indicate that current child allowance levels are **insufficient to offset the cumulative cost pressures faced by larger families**.

Figure 4 Family Illustration of the Same Total Benefit Cap for the Child Allowance, Lower Support per Child in Larger Households⁴³

Stojanovski Family	Nikolovski Family
 <p>Eligible for the child allowance and receiving the monthly amount of 2,267 MKD in total (1,133.5 MKD per child) as of 2026.</p>	 <p>Eligible for the child allowance and receiving the monthly amount of 2,267 MKD in total (566.75 per child) as of 2026.</p>

Source: Authors' own illustration.

Figure 5 Proportion of Poor and Non-Poor Households by Number of Children



Source: State Statistical Office of the Republic of North Macedonia. Survey of Income and Living Conditions-Cross-Sectional Database. 2023

While parental allowances in the country provide substantial transfers for third-born children under the income-tested approach, as well as for third- and fourth-born children under the previously applied universal scheme, *Figure 5* demonstrates a persistent gap between household needs and the benefit levels provided.⁴⁴ As discussed in the reform section of this report, revising the child allowance—specifically by removing the cap on the number of eligible children—is critical to improving the effectiveness of the scheme.

By failing to scale benefits in line with household size, the current design systematically underestimates children's needs in larger families and weakens the poverty-mitigating potential of the child allowance precisely for those most

exposed to deprivation. From a policy perspective, this cap reduces the adequacy of child-related support and helps partially explain why families with three or more children remain among the most vulnerable groups despite the existence of child benefits. Removing the cap—and allowing total benefits to increase progressively with each additional child—would be **a critical step toward a more child-sensitive, right-focused and needs-based social protection system**.

⁴³The transfer amount of 2,178 MKD shown here corresponds to the benefit for families with two or more school-age children in 2025, as specified in the Notice on the Adjustment of Child-Related Cash Benefits for 2025 pursuant to the Law on Child Protection.

⁴⁴ According to the Notice on the Adjustment of Child-Related Cash Benefits for 2025 pursuant to the Law on Child Protection. The amounts of the parental allowance are as follows: 1) for a third-born child: 9,191 MKD, 2) for a fourth-born child: 12,867 MKD, 3) for a single-parent household: 18,282 MKD, and 4) for a third-born child for beneficiaries based on the income condition of the household of the mother: 10,954 MKD.

2.2.2. GMA Household Composition Formula Weakens the Benefit for Households with Children

A central design feature that disadvantages families with children in GMA is the very low weight assigned to children in the household composition scale while determining the transfer amounts and the eligibility. Under the current GMA formula, the base amount is set at 5,668 MKD per month as of 2026, with additional household members weighted through equivalence coefficients. While adult members receive relatively substantial weights—1 for the first adult, 0.5 for the second adult, 0.4 for the third and fourth adults, and 0.2 for the fifth adult—each child in the household is assigned a coefficient of only 0.1. **This implies that, in the eligibility calculation of GMA, a child is valued at just one-tenth of the first adult, despite the additional costs associated with raising children.**

This design substantially underestimates children’s needs when assessing household income relative to the eligibility threshold. As a result, households with children—particularly those with multiple children—are more likely to be assessed as having sufficient “equivalised” income and therefore excluded from GMA, even when their actual living standards are lower than those of smaller or adult-only households. In practical terms, **the low child coefficient weakens the child-sensitivity of the GMA** and shifts support away from families with dependents, reinforcing patterns observed in the poverty data, where child poverty rates remain persistently higher than the national average.

By assigning children such a low coefficient, the current GMA equivalence scale effectively favours adult-only households over families with children, even though children face higher poverty risks. This undermines the poverty-reduction role of the GMA for households with children and limits its alignment with child-sensitive social protection principles. Adjusting the household composition scale to better reflect children’s needs—by moving closer to internationally recognised benchmarks such as the OECD scale as detailed under the section of reform areas in this report.

Furthermore, under the current system, the GMA and the child and education allowances use different household composition scales when determining household needs and eligibility. This inconsistency means that the same household may be treated differently depending on which benefit it is assessed for. This approach also creates gaps and additional administrative burden in the system, leading to cases where some GMA beneficiary households do not receive child allowances, despite being eligible under both programmes, as raised through the key informant interviews with the key stakeholders.

2.2.3. Education Allowance Design Misses a Critical Window for Early Childhood Development

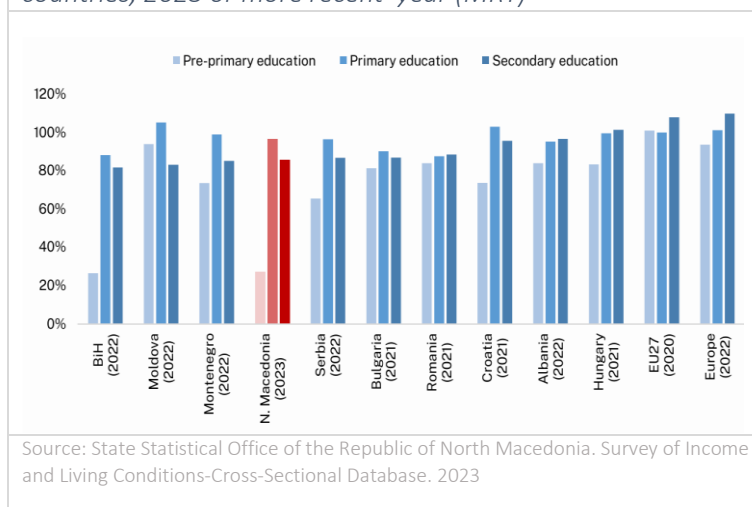
The education allowance in the country is an income-tested cash benefit designed to support human capital development, but its current scope functionally excludes children of pre-school age. Originally established as a conditional cash transfer (CCT) solely for secondary school students, the 2019 social protection reforms expanded the benefit to include children in primary education.⁴⁵ However, the eligibility criteria remain strictly tied to formal school attendance, requiring a minimum rate of 85% for primary and secondary students. As a result, children under the age of five or six who have not yet entered the compulsory school system are not eligible for this specific financial support.

⁴⁵ World Bank (2022) *Social Protection Situational Analysis: North Macedonia* [Policy Brief]. Washington, DC. © World Bank. License: CC BY 3.0 IGO.

This exclusion is particularly significant given the stark disparities in pre-school enrolment across different socioeconomic groups in the country.⁴⁶ While nearly universal in primary education, enrolment in early childhood education (ECEC) for children aged 3–6 remains low at roughly 42% in 2022, falling far short of the EU target of 96%.⁴⁷ The gap is most pronounced for the most vulnerable: only 7% of children from the poorest income quintile attend kindergarten, compared to 67% from the richest quintile, and enrolment for Roma children is as low as 2.6% based on the 2018–2019 Multiple Indicator Cluster Survey (MICS) results.⁴⁸ Furthermore, children from disadvantaged backgrounds often start primary school without foundational literacy and numeracy skills, thereby perpetuating the cycle of intergenerational poverty.⁴⁹ Accordingly, participation in early childhood education at ages three to four is associated with higher reading scores in PISA assessments in North Macedonia, while later entry into ECE (around age six) is associated with lower performance across assessed domains.⁵⁰

Nevertheless, the sources indicate that the current exclusion of pre-schoolers is a major policy gap in the national agenda and investment priorities.⁵¹ International observers and researchers have recommended extending the education allowance to include pre-school enrolment as a "nudge" to encourage parents to utilize these services.⁵² This gap is especially concerning given that the country records the lowest gross enrolment ratio in pre-primary education in the region, according to UNESCO (2023), as shown in *Figure 6*.⁵³ At the same time, public investment in pre-primary education remains limited: together with Albania, North Macedonia allocates only 8

Figure 6 Gross enrolment ratio by educational level, selected countries, 2023 or more recent year (MRY)



percent of total education and training expenditure to pre-primary education, compared with 22 percent in Bulgaria, 19 percent in Latvia, and 16 percent in Hungary (Ministry of Finance, 2023, as reported by UNESCO).⁵⁴

⁴⁶ UNICEF (2020). *Reforming the Social Protection System through the Introduction of a new Child Benefits System and Integrated Case Management Approach: North Macedonia*. Retrieved from: <https://www.unicef.org/eca/media/14346/file>

World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

⁴⁷ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia (Summary)*. © World Bank. Retrieved from: <https://openknowledge.worldbank.org/server/api/core/bitstreams/261f5965-5d4a-5a21-909a-e1adafe1494c/content>

⁴⁸ World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

⁴⁹ UNICEF (2020). *Reforming the Social Protection System through the Introduction of a new Child Benefits System and Integrated Case Management Approach: North Macedonia*. Retrieved from: <https://www.unicef.org/eca/media/14346/file>

World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

⁵⁰ UNESCO International Institute for Educational Planning. (2024). *Republic of North Macedonia: Education sector analysis*. UNESCO. Retrieved from: https://www.iiep.unesco.org/sites/default/files/medias/fichiers/2024/10/ESA-2024_North_Macedonia.pdf

⁵¹ World Bank. (2022). *Social Protection Situational Analysis: North Macedonia (Summary)*. © World Bank. Retrieved from: <https://openknowledge.worldbank.org/server/api/core/bitstreams/261f5965-5d4a-5a21-909a-e1adafe1494c/content>

⁵² Ibid.

⁵³ UNESCO International Institute for Educational Planning. (2024). *Republic of North Macedonia: Education sector analysis*. UNESCO. Retrieved from: https://www.iiep.unesco.org/sites/default/files/medias/fichiers/2024/10/ESA-2024_North_Macedonia.pdf

⁵⁴ Ibid.

Table 2 Number of children and institutions for child care and education - kindergartens / centres for early childhood development

		Public	Private	Total
2018	<i>institutions</i>	71	32	103
	<i>children</i>	36,401	1,214	37,615
2019	<i>institutions</i>	69	34	103
	<i>children</i>	36,737	1,357	38,094
2020	<i>institutions</i>	70	26	96
	<i>children</i>	25,789	800	26,589
2021	<i>institutions</i>	73	31	104
	<i>children</i>	30,025	1,268	31,293
2022	<i>institutions</i>	76	37	113
	<i>children</i>	34,474	1,458	35,932
2023	<i>institutions</i>	80	37	117
	<i>children</i>	36,291	1,513	37,804
2024	<i>institutions</i>	80	38	118
	<i>children</i>	36,283	1,588	37,871
Change (%), 2018-2024	<i>institutions</i>	12.7%	18.8%	14.6%
	<i>children</i>	-0.3%	30.8%	0.7%

Source: Authors' own calculations based on the State Statistics Office MAKSTAT Database.⁵⁵

Nevertheless, it is important to recognise under this study that pre-school education in the country is shaped by both supply-side constraints and demand-side factors, and cannot be explained solely by education allowance design, which primarily influences household demand. *Table 2* indicates that growth in early childhood education capacity between 2018 and 2024 has been driven primarily by the private sector. While the total number of institutions increased by 14.6 percent, private institutions expanded more rapidly (18.8 percent) than public ones (12.7 percent). At the same time, enrolment in private kindergartens rose sharply (30.8 percent), whereas total enrolment increased by only 0.7 percent. This pattern suggests that recent expansion has disproportionately benefited families able to afford private provision, while overall access—particularly for lower-income households—has remained largely unchanged.

The primary supply-side challenge is the limited and inequitable availability of facilities, particularly in rural and remote areas. In North Macedonia, as of 2022, 18 municipalities⁵⁶ had no registered children enrolled in preschool institutions (11.2% of children living in those municipalities)⁵⁷, reflecting a stark urban-rural divide where urban enrolment is 47% compared to only 20% in rural settings.⁵⁸ This is compounded by overcrowding and high child-to-staff ratios in existing public kindergartens; while statutory standards suggest ratios of 4:1 for infants and 8:1 for older children, actual average ratios are often around 12:1, with some groups reaching up to 40 children.⁵⁹ Furthermore, the system suffers from a shortage of qualified specialists and inadequate professional development. Many expert teams in kindergartens lack essential profiles such as special educators and rehabilitators, with 72.2% of facilities reporting incomplete teams.⁶⁰

⁵⁵ State Statistics Office (2025). Number of children and institutions for child care and education - kindergartens / centres for early childhood development. Retrieved from:

https://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat__SosijalnaStat__DetsakZastita/DetZas_MK_Ustanovi_ml.px/table/tableViewLayout2/

⁵⁶ These municipalities are listed as follows: Aracinovo, Bogovinje, Bosilovo, Gradsko, Debarca, Dolneni, Zelino, Zelenikovo, Lozovo, Mavrovo and Rostuse, Plasnica, Rankovce, Staro Nagoricane, Studenicani, Tearce, Centar Zupa, Caska, Cucur-Sandevo

⁵⁷ UNICEF. (2023). Profile of child population in the Republic of North Macedonia: Results of the analysis of data on children from the 2021 census of population, households and dwellings and administrative data. Retrieved from: <https://www.unicef.org/northmacedonia/reports/profile-child-population-republic-north-macedonia>

⁵⁸ World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

⁵⁹ European Centre for Social Welfare Policy and Research (2021). Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia. Retrieved from:

<https://www.rcc.int/download/docs/Regional%20Overview%20of%20Western%20Balkan%20Economies%20Regarding%20the%20European%20Pillar%20of%20Social%20Rights%202022.pdf/aa92b8d8bea48f06da907ce956f48bda.pdf>

UN Women. (2019). Investing in free universal childcare in the Republic of North Macedonia: Analysis of costs, short-term employment effects and fiscal revenue. Retrieved from: <https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2020/Discussion-paper-Investing-in-free-universal-childcare-in-North-Macedonia-en.pdf>

⁶⁰ this data relies on the Ombudsman Study of the Republic of North Macedonia in 2018 as cited by the UNICEF Country Office. UNICEF (2023). Situation Analysis on Early Childhood Intervention in North Macedonia. Retrieved from: <https://www.unicef.org/northmacedonia/media/13291/file/Situation%20Analysis%20on%20Early%20Childhood%20Intervention%20in%20North%20Macedonia%20%28ENG%29.pdf>

On the demand side, financial barriers and out-of-pocket costs are the most significant deterrents for vulnerable families. Although public ECE is partially subsidized, parents in the country still face a monthly fee of approximately EUR 24 to 25, which, when combined with indirect costs like transport and clothing, proves prohibitive for the poorest households.⁶¹ More specifically, parents are reported to pay for nutrition and part of materials costs, with an average monthly fee of MKD 1,490 (EUR 24) in 2023.⁶²

The current design of the education allowance in the country overlooks a critical window for early childhood development, while structural constraints in the preschool system continue to limit access for the most vulnerable children. Although early childhood education is strongly associated with better learning outcomes, preschool enrolment remains among the lowest in the region, reflecting both insufficient public investment and unequal access. Recent expansion in kindergarten capacity has been driven largely by the private sector, with private enrolment increasing by over 30 percent since 2018, while total enrolment has remained almost unchanged. Together, the exclusion of pre-school children from education allowances and persistent supply-side gaps weaken the system's ability to reduce early inequalities and reinforce the case for more child-sensitive, right-based and inclusive policy reforms for children.

2.2.4. Benefit Withdrawal and Barriers to Formalization

The design of social protection systems in the Western Balkans often creates significant disincentives for labour market entry, primarily through the abrupt and total withdrawal of benefits upon the registration of formal income. In many economies, including North Macedonia, last-resort poverty-alleviation schemes are strictly reserved for those with zero formal earnings. Consequently, accepting even a low-paid, part-time, or temporary formal job can lead to a net loss in total household income, as the resulting wage is frequently insufficient to offset the immediate cessation of state support. This phenomenon, measured by the **Formalisation Tax Rate (FTR)**, reaches extreme levels in the region.⁶³ FTR is a metric used to measure **the proportion of household income that is lost when an individual transitions from informal to formal employment.**

Information Box 1 Calculation of the Formalisation Tax Rate (FTR)

The FTR is calculated by comparing the "net total income" a household receives when working formally against the "income if informal" (the net wage plus all social benefits that would be lost upon formalisation, plus unpaid labour taxes). It is primarily driven by two factors:

- **Withdrawal of Social Benefits:** Formal earnings often trigger the immediate and total loss of poverty-targeted assistance, such as GMA, child allowances, and energy subsidies.
- **Labour Taxes and Social Security Contributions (SSCs):** These are mandatory deductions from a formal wage. In many Western Balkan economies, minimum SSC bases (contribution floors) require a high fixed amount to be paid regardless of actual earnings, which creates a significant tax burden for low-wage or part-time workers.

⁶¹ European Centre for Social Welfare Policy and Research (2021). Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia. Retrieved from: <https://www.rcc.int/download/docs/Regional%20Overview%20of%20Western%20Balkan%20Economies%20Regarding%20the%20European%20Pillar%20of%20Social%20Rights%202022.pdf/aa92b8d8bea48f06da907ce956f48bda.pdf>

Hohmann, J., Giske, N., and Boillot, F. (2025), Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

⁶² Hohmann, J., Giske, N., and Boillot, F. (2025), Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620

⁶³ World Bank (2025) Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modelling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. Retrieved from: <http://documents.worldbank.org/curated/en/099061725062028120>

Source: World Bank (2025)⁶⁴

According to World Bank estimates⁶⁵, across the Western Balkans, the FTR is significantly higher than in OECD countries, where rates typically range between 30% and 40%.⁶⁶ At very low income levels in this region, the FTR frequently exceeds 60% to 75%, **creating a severe "poverty trap" where households find formal work to be an irrational economic choice.**⁶⁷

Based on the simulations conducted for a hypothetical household consisting of two adults and two-pre-school children in the Western Balkan region in comparison, a specific initial FTR jumps upon the first euro of formal labour income as follows⁶⁸:

- **North Macedonia: 88%, the highest in the region, driven by the abrupt loss of GMA and a high minimum SSC base.**
- **Republika Srpska (BiH): 78%**, due to high SSC floors and immediate benefit withdrawal.
- **Federation of BiH: 76%**, largely because it has the highest total SSC rate in the region at 41.5%.
- **Montenegro: 75%**, where the design of the social benefit program is the primary driver of the rate.
- **Kosovo⁶⁹: 70%**, though a new pilot scheme is being tested to reduce this peak to approximately 32% through gradual benefit phase-outs.
- **Albania: 62%** initially, jumping to a peak of 83% when the household exceeds the eligibility threshold for Ndihma Ekonomike.

The FTR generally declines as income rises because the relative magnitude of the lost benefits and fixed taxes decreases against a larger wage. However, the rate often remains high until a worker reaches roughly two-thirds of the average national wage.⁷⁰

Figure 7 A hypothetical case illustrating the loss of a net total income for a family transitioning from formal to informal employment in North Macedonia.

⁶⁴ Ibid.

⁶⁵ In the methodology, those estimates are based on simulations for a hypothetical household consisting of two adults and two-pre-school children. For more details, please see the original study: World Bank (2025). Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modeling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099061725062028120>

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ All references to Kosovo should be understood to be in the context of United Nations Security Council resolution 1244 (1999).

⁷⁰ Ibid.

If Nikola from the Stojanovski family works formally at 50% part time at the minimum wage...

...then the family would have a net total income of around 230 EUR.

If Nikola works informally...

... Then the family would have a net total income of around 530 EUR, consisting of the net wage, social benefits, unpaid personal income tax and unpaid social security contributions

By transitioning from informal to formal work the Stojanovski family would lose 300 EUR from its total income of 530 EUR

Source: Authors' own illustration based on the World Bank Labour Market Brief (2025)⁷¹ These calculations are based on the World Bank (2025) simulations conducted for a hypothetical household consisting of two adults and two-pre-school children.

In North Macedonia, one of the core drivers of these disincentives is the "gap-filling" formula used in programs like the GMA.⁷² The GMA typically provide a benefit equal to the difference between a predetermined subsistence threshold and the household's actual income. This creates a situation, where for every additional euro earned formally, one euro of assistance is withdrawn, **leaving the household's disposable income stagnant.**⁷³ Such a structure makes formal work an irrational economic choice for many, instead incentivising informal employment or "envelope wages," where individuals can supplement their income while maintaining legal eligibility for state benefits.⁷⁴

Disincentives are further reinforced by the use of binary, exclusionary filters that disqualify applicants based on specific administrative statuses rather than overall welfare. If a beneficiary accepts formal work, they lose their "unemployed" status and, by extension, their entire benefit package. Furthermore, **entry into formal work often triggers the loss of "passported" or associated benefits,** such as subsidised energy bills, free health insurance, or free school textbooks, making the transition into the workforce even more financially precarious.⁷⁵

As illustrated in Figure 8, in North Macedonia there are two major "kinks" in total household net income for a household with two adults and two pre-school children transitioning into formal employment: one stemming from the loss of GMA and the other from the loss of the child allowance.⁷⁶ As explained by the World Bank (2025), the first loss in the net household income occurs with the first euro of formal labour income, due to the immediate loss of GMA.⁷⁷ Because eligibility for GMA is restricted to households without formal employment, the analysed household receives approximately EUR 145 per month when it has no formal income.⁷⁸ This support is lost entirely as soon as any formal earnings are

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

⁷⁵ Ibid.

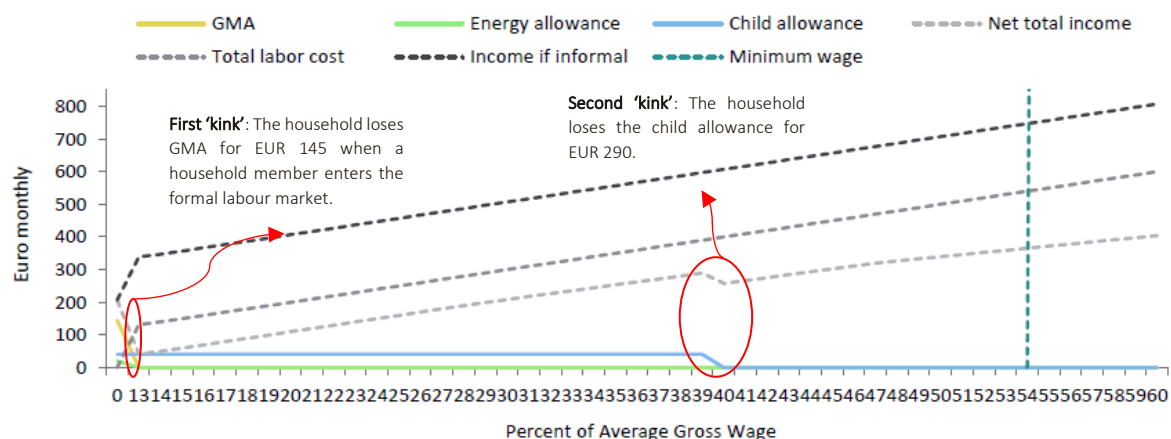
⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ibid.

registered, meaning that the initial formal wage is insufficient to offset the resulting reduction in total net income. **The second lost occurs at a net income of around EUR 290, when the child allowance is withdrawn.**⁷⁹

Figure 8 Income and social benefits at different levels of gross wage for a household with two adults and two pre-school children in North Macedonia



Source: World Bank Labour Market Brief (2025)⁸⁰

Furthermore, for low-wage and part-time workers, the minimum base for social security contributions (SSCs) acts as a regressive fiscal barrier to formalisation in the country. In economies like North Macedonia and the entities of Bosnia and Herzegovina, SSCs must be paid on a floor equivalent to a set percentage of the average wage—often 50%—regardless of the actual hours worked.⁸¹ This means an employer must pay a high fixed contribution (e.g., EUR 131 in North Macedonia) even for a worker earning a very small wage. As exemplified by the World Bank (2025), an individual working part-time at 30 percent of full-time hours and earning the minimum wage would receive approximately EUR 110 in net income.⁸² Despite this low earnings level, social contributions of around EUR 131 would still be due, resulting in total labour costs that exceed the net wage by more than twofold. This disproportionate tax wedge makes formal "mini" or "midi" jobs economically unviable, trapping vulnerable populations in the informal sector.⁸³

The evidence highlights prominent labour-market disincentives embedded in the design of social protection systems across the Western Balkans, including North Macedonia. According to World Bank analysis, the Formalisation Tax Rate (FTR)—which measures the share of income lost when moving from informal to formal work—reaches 88 percent in North Macedonia, the highest in the Western Balkan region, and also compared to typical OECD levels of 30–40 percent.⁸⁴ This **extreme disincentive** is driven primarily by the abrupt withdrawal of the GMA upon any formal employment, combined with high minimum social security contribution floors. As a result, low-wage or part-time formal work often leaves households worse off than remaining inactive or informal. The situation is further exacerbated by the loss of passported benefits—such as energy subsidies, health insurance, and child allowances—and by rigid eligibility rules strictly tied to employment status rather than overall welfare.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

⁸⁴ Ibid.

3. Universal Child Allowance & Country Benchmark: Montenegro

In assessing the policy design, the team reviewed relevant country benchmarks, which are presented in detail in the appendix of the report. Montenegro is the primary comparator discussed in this section. **The key reason for selecting Montenegro is the similarity in structural and institutional conditions.** Both countries face persistent child poverty at around 30%, relatively low female labour market participation, demographic pressures, and fiscal trade-offs between cash transfers and social services. At the same time, both operate social protection systems shaped by post-transition reforms and EU-alignment processes. This comparability makes Montenegro's reform trajectory particularly relevant, as it demonstrates how ambitious child-focused reforms can be implemented without dismantling existing social assistance programmes.

Montenegro is also a useful benchmark because of its phased and pragmatic approach to reform. Rather than introducing a fully universal and generous child allowance in a single step, Montenegro expanded coverage gradually—first by age group, then to all children. This sequencing is also important to provide an approach for North Macedonia on how to manage fiscal risks and build administrative capacity, while progressively strengthening child-sensitive social protection.

Montenegro has made considerable progress in reforming its child benefit system, transitioning from a targeted scheme focused on vulnerable groups to a fully universal child benefit.⁸⁵ Montenegro's child-related social protection system is built around three core programmes—the child allowance, material support (MO), and the mother's benefit—along with disability-related benefits, a one-off newborn grant, and education-related assistance.

Child Allowance: In May 2021, the country started implementing a quasi-universal child benefit covering children at 0-6 years. This expansion increased the number of child beneficiaries from 14,903 to 48,000.⁸⁶ At the conclusion of 2021, the Parliament enacted a decision to broaden the child allowance coverage to include all children under the age of 18, with disbursements commencing in October 2022.⁸⁷ Recent reform scenarios simulated include extending the allowance to cover (i) all children under 7 and (ii) all children under 18, with a uniform benefit of EUR 30 per child.⁸⁸

Mothers' Benefit: This benefit was introduced in 2015 for mothers with three or more children, set at approximately 70 percent of the average net wage for women with 25 years of employment and about 40 percent of the wage for women with 15 years of employment.⁸⁹ However, in 2017, the Constitutional Court deemed the benefit discriminatory and unconstitutional, leading to its abolition.⁹⁰ Following political pressure, a compensatory version of the benefit was reintroduced in 2022 for those who were

⁸⁵ ILO and UNICEF. (2023). *More than a billion reasons: The urgent need to build universal social protection for children. Second ILO–UNICEF Joint Report on Social Protection for Children*. Geneva and New York. Retrieved from:

https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_protect/@soc_sec/documents/publication/wcms_869602.pdf

⁸⁶ Ibid.

⁸⁷ Von Lenthe, C. C., Smolovic, D., Anusic, Z., Coll-Black, S., Rigolini, I. P., & Koettl-Brodmann, S. (2023). *Montenegro - Social Protection Situational Analysis* (English). World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

⁸⁸ UNICEF. (2022). *Fighting Poverty in Montenegro through Responsive Evidence-Based Social and Child Protection A Review of Sustainable Reform Scenarios*. UNICEF Montenegro Country Office. Retrieved from: <https://www.unicef.org/montenegro/en/reports/fighting-poverty-montenegro-through-responsive-evidence-based-social-and-child-protection>

⁸⁹ International Monetary Fund. European Dept. (2024). Montenegro: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Montenegro. IMF Staff Country Reports, 2024(101), Article A001, A001. Retrieved from <https://doi.org/10.5089/9798400275715.002.A001>

⁹⁰ Ibid.

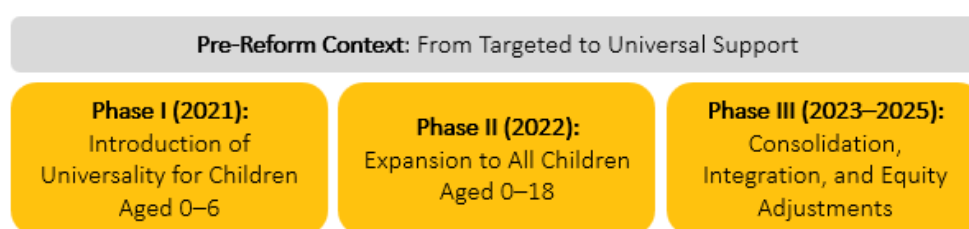
previously eligible.⁹¹ In April 2022, expenditures on the benefit totalled EUR 3.59 million, reaching nearly 15,000 beneficiaries.⁹² At this level, annual spending is estimated at around EUR 43 million, equivalent to more than 0.9 percent of estimated GDP in 2023.⁹³ The scheme is widely considered poorly targeted because it is distributed to women who became mothers decades ago, rather than addressing current family or child poverty.⁹⁴ Additionally, it has been found to discourage female labour force participation, as many women chose to exit the formal workforce to claim the transfer.⁹⁵

A similar pro-natal program existed in North Macedonia called the Parental Allowance (PA), introduced in 2009. It was originally provided a high, continuous monthly benefit (MKD 8,362) to mothers who gave birth to a third child, granted until the child reached the age of ten.⁹⁶ The 2019 Law on Social Protection transformed the PA from an untargeted categorical benefit into a means-tested program.⁹⁷ To remain eligible under those rules, a family must earn less than the national minimum wage from the previous year.⁹⁸ Current beneficiaries under the old rules were permitted to continue receiving the benefit until their children reached the age limit to avoid a sudden loss of income.

Material Support (MO): Material Support is Montenegro's primary means-tested cash transfer scheme, functioning as a last-resort safety net for individuals and families in extreme economic hardship. Eligibility for MO is exceptionally restrictive, based on a combination of low income, strict property and asset ownership limits, and a specific requirement regarding work incapacity; generally, it is only available to those deemed "incapable of working" due to disability, old age, or temporary factors like pregnancy and childcare responsibilities.⁹⁹ Due to these stringent criteria, the program has low coverage, reaching only approximately 5% of the population despite nearly 34% of citizens being at risk of poverty.¹⁰⁰ The benefit amount is considered inadequate for basic needs, providing less than 15% of the national minimum wage, with a four-member household receiving roughly EUR 153 per month.¹⁰¹

The gradual scaling of the universal child allowance in Montenegro between 2021 and 2025 can be presented through three primary stages, moving from a categorical model to full universalism:

Figure 9 Main Phases Regarding the Gradual Scaling of the UCA in Montenegro



⁹¹ Ibid.

⁹² Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodmann, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

⁹³ Ibid.

⁹⁴ European Commission. (2023). *Improving social protection in the Western Balkans: Analysis of the regional and national situation and recommendations* (Full report). <https://euagenda.eu/publications/improving-social-protection-in-the-western-balkans-analysis-of-the-regional-national-situation-and-recommendations-full-report>

⁹⁵ Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodmann, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

⁹⁶ World Bank. (2020). *FYR Macedonia: Special focus note—Social assistance*. World Bank Group. <https://documents.worldbank.org>

⁹⁷ World Bank (2022) Social Protection Situational Analysis: North Macedonia. Washington, DC. <http://hdl.handle.net/10986/37873>

⁹⁸ Ibid.

⁹⁹ Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodmann, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

¹⁰⁰ Hohmann, J., Giske, N., and Boillot, F. (2025), *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

¹⁰¹ Ibid.

Montenegro has transitioned from a largely means-tested child benefit system to a universal child allowance, doing so through a phased and politically sequenced reform process. The reform unfolded over several stages, gradually expanding eligibility, consolidating universality, integrating the benefit within the broader social protection system, and adjusting key design elements to address equity and fiscal concerns.

1. **Pre-Reform Context | From Targeted to Universal Support:** Prior to the reforms, the child allowance was a categorical benefit restricted to specific vulnerable groups, such as children from households receiving Material Support (MO), children receiving disability benefits, or those without parental care.¹⁰² In 2019, only 14,721 children (approx. 9.7% of the child population) received the benefit.¹⁰³
2. **Phase I (2021) | Introduction of Universality for Children Aged 0–6:** The first expansion introduced a quasi-universal benefit of EUR 30 per month for all children under the age of six, regardless of household income. This measure added approximately 27,800 households to the system and was estimated to have reduced the relative child poverty headcount by 1.3 percentage points.¹⁰⁴
3. **Phase II (2022) | Expansion to All Children Aged 0-18:** The government expanded the eligibility to include all children under the age of 18. By late 2022, the allowance reached approximately 129,000 children, accounting for roughly 1% of Montenegro's GDP.¹⁰⁵ According to the 2022 SILC data, the expansion was expected to reduce the child poverty risk rate from 30.5 % to 28.4 %, although less than 40 % of the expanded allowance is allocated to the poorest quintile.¹⁰⁶
4. **Phase III (2023-2025) | Consolidation, Integration and Equity Adjustments:** By 2024, approximately 130,685 children were receiving the allowance, representing 97% of the child population.¹⁰⁷ The total funds allocated for the child allowance are now ten times higher than a decade ago, reaching approximately EUR 50 million annually.¹⁰⁸ Furthermore, Montenegro adopted amendments to the Law on Social and Child Protection in 2025 that deleted the provisions limiting the child allowance to a maximum number of children per family. Specifically, Article 42 paragraphs previously restricting entitlement ("The right to child allowance is granted to five children in a family...") were removed as part of changes to the law.¹⁰⁹

The UCA is not a singular flat rate in Montenegro; it is structured to provide enhanced support to the most vulnerable through a system of tiered top-ups and "passported" rights.

- **Tiered Benefit Amounts:** While the standard universal rate is EUR 30 per child, children in higher-risk categories receive significantly larger transfers.¹¹⁰ For example, children in families receiving Material Support or unemployment benefits receive EUR 48.6; those receiving a care

¹⁰² Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodman, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

¹⁰³ Ibid.

¹⁰⁴ Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodman, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

¹⁰⁵ Ibid.

¹⁰⁶ Hohmann, J., Giske, N., and Boillot, F. (2025), *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

¹⁰⁷ UNICEF (2025). UNICEF Republic of Montenegro Annual Report 2024. UNICEF: New York.

¹⁰⁸ Ibid.

¹⁰⁹ Bencom. (2025). Montenegro: Social and child protection legal changes – Child allowance eligibility amendments. [bencomltd.com. https://www.bencomltd.com/en/blog/social-and-child-protection-changes/](https://www.bencomltd.com/en/blog/social-and-child-protection-changes/)

¹¹⁰ Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodman, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

and support allowance receive EUR 57.4; and children receiving a personal disability allowance or those without parental care receive EUR 66.2.¹¹¹

- **The "Passporting" Effect of Material Support (MO):** Eligibility for the last-resort income support (MO) acts as a gateway to up to ten additional benefits. Families receiving MO and the associated child allowance are also integrated into schemes for free health insurance, electricity subsidies, funeral grants, and subsidised fees for kindergartens and school meals.¹¹²
- **The "Kink" in Income Transition:** A critical challenge in this integration is that the higher child allowance rates are strictly tied to MO status. If a household member enters the formal labour market and loses eligibility for Material Support (i.e. the material support at the amount of EUR 153 per month is withdrawn), the child allowance for two children can drop immediately from EUR 114 to EUR 60, contributing to a high Formalisation Tax Rate (FTR).¹¹³ In total, the hypothetical household in Montenegro would lose EUR 207 once the household member enters the formal labour market.¹¹⁴

While the country has made considerable progress in reforming its child benefit system, the evidence points to three critical concerns for the medium-term outlook.¹¹⁵ First, the Universal Child Allowance is set at a flat rate of EUR 30 and is not systematically indexed to inflation or income growth.¹¹⁶ As noted by UNICEF Montenegro Country Office (2025), *"the fixed rate of EUR 30 (with the exception of the UCA for children with disabilities and those from families receiving family material support) is not regularly adjusted to rising incomes and living costs, which may affect its adequacy."*¹¹⁷ As a result, while nominal benefit levels have remained stable, their real value risks eroding over time. **In this regard, the reform trajectory for the universal child allowance in Montenegro highlights a sequencing logic: coverage first, adequacy later, with indexation and benefit level adjustments which will most likely emerge as the next policy challenge for the country.**

Furthermore, despite its wide reach, the UCA remains only weakly progressive: less than 40 percent of total UCA spending accrues to the poorest income quintile, limiting its redistributive effectiveness.¹¹⁸ Lastly, the rapid expansion of social assistance—rising from 1.29 percent of GDP in 2019 to an estimated 3.17 percent in 2023—raises concerns about fiscal sustainability and the potential crowding out of resources for complementary social services, including home-based care, day centres for children with disabilities, and targeted outreach programmes.¹¹⁹

Montenegro's experience highlights both the benefits and the limitations of universalisation, making it a balanced and credible reference point. Montenegro's phased transition to a universal child allowance offers important lessons for North Macedonia at a critical moment for reform. By prioritising rapid expansion of coverage, Montenegro succeeded in reaching nearly all children and achieved measurable reductions in child poverty. **However, the experience in Montenegro also highlights key design challenges that are directly relevant for North Macedonia: the risk of adequacy erosion when benefits are not properly indexed, limited progressivity when universal transfers are not complemented by well-designed means-tested top-ups, and labour-market disincentives created through sharp benefit**

¹¹¹ Ibid.

¹¹² Hohmann, J., Giske, N., and Boillot, F. (2025), *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

Von Lenthe, Cornelius Claus; Smolovic, Danilo; Anusic, Zoran; Coll-Black, Sarah; Rigolini, Iamele P.; Koettl-Brodmann, Stefanie. Montenegro - Social Protection Situational Analysis (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099095502132323485>

¹¹³ World Bank (2025). Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modeling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099061725062028120>

¹¹⁴ Ibid.

¹¹⁵ UNICEF Montenegro (2025). UNICEF Republic of Montenegro Annual Report 2024. UNICEF: New York.

¹¹⁶ Ibid.

¹¹⁷ UNICEF Montenegro (2025). For Every Child Every Right: UNICEF Results Summary 2024. UNICEF: New York.

¹¹⁸ Hohmann, J., Giske, N., and Boillot, F. (2025), *Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations*, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

¹¹⁹ Ibid.

withdrawal linked to last-resort assistance. For North Macedonia—where child poverty remains persistently high, benefits have lost real value over time in relation to the minimum wage, and families with children are structurally disadvantaged in eligibility calculations—the Montenegro case underscores the importance of designing reforms carefully. Expanding coverage must be accompanied by carefully designed thresholds, child-sensitive household composition scales, gradual benefit withdrawal, and fiscal integration to ensure that child-related cash benefits deliver durable poverty reduction rather than short-term gains.

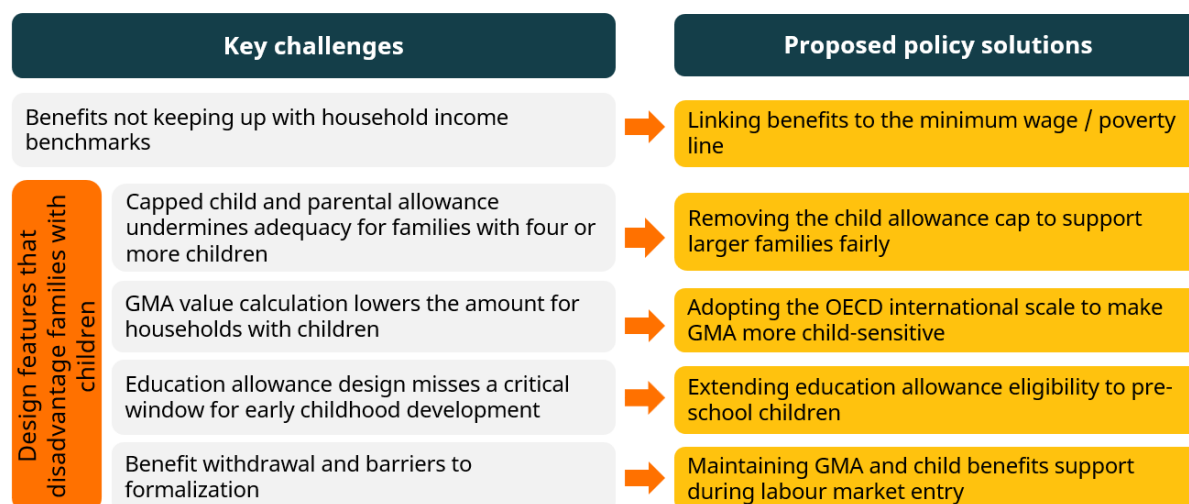
4. Key Reform Areas Integrated into the Simulation

In relation to the discussed key challenges, this study integrates complementary parameters into a unified microsimulation framework as reform areas to assess how country’s child-related cash benefit system can be made more adequate and child-sensitive, as summarised in [Figure 10](#). The parameters used in the simulation address core structural issues in the current system, including the erosion of benefit value, the disproportionate disadvantage faced by larger families, the underestimation of children’s needs within the GMA equivalence scale and gaps in support during early childhood. Although not directly incorporated into the microsimulation study, qualitative evidence is presented to inform potential approaches to addressing the sharp withdrawal of benefits at labour market entry, drawing primarily on the most recent World Bank report (2025).¹²⁰ For this reason, the following section also discusses possible measures to mitigate disincentives to formal employment during the transition period, particularly in relation to social benefits.

By systematically introducing parameters into the microsimulation that link benefits to the poverty line and minimum wage, remove caps on the number of eligible children, harmonise household composition rules using the OECD scale and extend education allowances to pre-school children, the analysis provides a coherent set of policy options that strengthen poverty reduction while improving targeting efficiency. **Together, those policy parameters demonstrate that meaningful gains in child poverty reduction can be achieved not only through higher spending, but through elaborate design choices that better align social protection with household needs and life-cycle risks.**

¹²⁰ World Bank (2025). Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modelling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099061725062028120>

Figure 10 Key Challenges in the Current Social Protection System and Integrated Simulation Parameters Forming Potential Policy Reforms



Source: Authors' own illustration.

Reform Area I: Linking Benefits to the Minimum Wage / Poverty Line

An important issue of the current child-related cash benefit system is that **eligibility thresholds and benefit amounts are defined in nominal terms in legislation**, rather than being systematically anchored to evolving household income benchmarks such as the poverty line or the minimum wage. While the formal indexation mechanism exist, the reliance on fixed nominal values has made benefits insufficiently responsive to rapid changes in wages and living costs. As demonstrated in earlier sections, this design choice has resulted in a steady erosion of benefit adequacy, undermining the poverty-reduction capacity of both the child-related allowances. On the other hand, **linking eligibility thresholds and benefit levels directly to relative benchmarks—such as a fixed percentage of the national poverty line or the net minimum wage—offers a more transparent approach.**

Against this background, the microsimulation analysis evaluates three alternative threshold designs that explicitly link eligibility to the poverty line and the minimum wage. These scenarios allow for a structured comparison of how different degrees of generosity and coverage affect targeting performance, child poverty outcomes, and fiscal costs.

Therefore, this analysis tested three alternative eligibility threshold scenarios, each combined with different transfer amounts and explicitly linked to the poverty line and the minimum wage. The low threshold scenario sets the eligibility threshold at 55 percent of the poverty line¹²¹, equivalent to approximately 31.5 percent of the minimum wage. The medium threshold raises eligibility to 70 percent

¹²¹ Based on the Survey on Income and Living Conditions (SILC), the State Statistical Office calculates poverty indicators annually. Poverty is measured using income as the welfare indicator, with the poverty threshold defined at 60 percent of the median equivalised income. For 2023, the corresponding monthly poverty threshold was calculated at 12,048.2 MKD. To update this threshold to 2026 levels, the analysis adjusts the 2023 value using the average of the consumer price index and gross annual income growth, in line with discussions held with State Statistical Office officials, which resulted in the adjusted equivalised poverty threshold as 13,888.96 MKD.

of the poverty line, or around 40 percent of the minimum wage. Finally, **the high threshold aligns eligibility fully with the poverty line** (100 percent), corresponding to roughly 57 percent of the minimum wage. Together, these scenarios allowed for a systematic assessment of how varying the reach of child-related benefits affects the key targeting indicators for children.

Furthermore, the team adjusted transfer amounts linked to the poverty line and the minimum wage. In the simulations, the base transfer amount for the GMA remained broadly consistent with the 2026 level of 5,668 MKD (approximately 41 percent of the equivalised poverty line and about 23.2 percent of the monthly net minimum wage). However, cash transfer amounts for child and education allowances were adjusted using three alternative threshold levels. For example, under a universal child allowance scenario, the transfer amount per child was set at approximately 7 percent of the poverty line. Under the income-tested child allowance scenarios, the transfer levels correspond to around **11 percent of the poverty line at the low level, 14 percent at the medium level, and 16.5 percent at the high level.**¹²²

Reform Area II: Removing the Cap to Support Larger Families Fairly

The current design of the child allowance in North Macedonia includes a cap that limits total benefit amounts to a maximum of two children, regardless of household size. As documented earlier, this feature results in families with three or more children receiving the same total level of support as smaller households, despite facing significantly higher costs related to food, clothing, education, and care. This design choice systematically underestimates the needs of larger families and contributes to their disproportionately high poverty rates. For instance, the minimum child allowance monthly transfer amount is 1,418 MKD paid for a single child of school age, as of 2026. However, the maximum child allowance transfer amount is 2,692 MKD capped at 2 children.

Removing the cap on the number of children eligible for the child allowance is therefore a critical step toward a right-based and child-sensitive benefit design. By allowing benefits to scale progressively with each additional child, this reform would align support more closely with household needs and reduce implicit penalties on larger families. Importantly, the approach does not introduce new eligibility categories or complex administrative procedures; instead, it corrects a structural limitation within the existing framework, making it a low-complexity adjustment

Accordingly, the microsimulation removed the child allowance cap and involved transfer amounts under different policy designs. Under the income-tested child allowance, monthly per-child transfer amounts were set at 1495.6 MKD (low level), 1955.8 MKD (medium level), and 2300.9 MKD (high level), reflecting increasing levels of generosity. Under the universal child allowance, a flat monthly transfer of 989.4 MKD per child was applied.

In the combined scenario, the universal child allowance serves as a base benefit for all children, while an additional top-up is provided to children living in households that remain eligible under the income-

¹²² Under the means-tested child allowance, monthly per-child transfer amounts were set at 1,495.6 MKD (low level), 1,955.8 MKD (medium level), and 2,300.9 MKD (high level), reflecting increasing levels of generosity. Under the universal child allowance, a flat monthly transfer of 989.4 MKD per child was applied.

tested criteria. In these cases, the top-up corresponds to the difference between the income-tested transfer level and the universal transfer amount, ensuring higher support for poorer households.

Furthermore, in scenarios where only the universal child allowance is adopted, a no-loss rule is applied. If the universal transfer amount of 989.4 MKD per child is lower than the current child allowance received by a household, the difference is paid as a supplementary amount. This safeguard ensures that no child experiences a reduction in benefit levels as a result of the reform.

Finally, the team incorporated parental allowance into the determination of eligibility in the microsimulation design. Where a child is deemed to be eligible for parental allowance—either under the current income-tested scheme or the previously applied universal approach—the child continues to receive support. However, rather than providing the parental allowance in addition to the newly designed scenarios, only the difference between the parental allowance amount and the newly designed child allowance is transferred.

Reform Area III: Adopting the OECD International Scale to Make GMA More Child-Sensitive

As discussed in the report, further structural limitation of the GMA is the very low weight assigned to children in the household composition scale to determine the eligibility and transfer amounts, which significantly weakens the child-sensitivity of the programme. Furthermore, beyond adequacy concerns, the current system is characterised by **a fragmented use of household composition (equivalence) scales across the programmes**. While GMA relies on one household composition formula, child allowance and education allowance eligibility are determined using different scales. From an administrative perspective, this fragmentation increases complexity, raises transaction costs for both administrators and applicants, and reduces transparency and predictability for families navigating the system.

Adopting the OECD modified equivalence scale offers a practical solution to both challenges. Under the OECD scale, the first adult is assigned a weight of 1, additional person aged 14 and over 0.5, and children under 14 0.3, reflecting international evidence on relative household needs and aligning with equivalence scales commonly used in poverty measurement across the EU.¹²³ This approach is also aligned with the poverty-at-risk calculations used by the State Statistical Office.

The microsimulation analysis tests scenarios in which the OECD scale is applied for children to improve the child sensitivity of the GMA. As shown in **Figure 11**, under the baseline design with the current household composition scales, overall coverage among the poorest 20 percent of the population with GMA reaches about 23 percent. Policy models indicate these changes would slightly increase the coverage among the poorest population from 23% to roughly 26%, strengthening support for vulnerable families. More importantly, coverage increases from approximately 14% to 17% for single-parent households and from about 16% to 20% for households with at least three children. Despite reaching more children, child poverty impact remains limited (less than one percentage point) as the

¹²³ EUROSTAT (n.d.) Glossary: Equivalised income. Retrieved from: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Equivalised_income

GMA baseline amount (5,857 MKD) still remains very similar to the 2026 baseline (5,668 MKD). The annual additional cost of implementing this approach is estimated at €16.9 million. *

Figure 11 Comparison of the Coverage of the Poorest Population (Poorest 20%), Single Parent Households and Households with At Least Three Children Adjusting the Household Composition Scale for Children and Keeping a Similar GMA Baseline (~40% of the poverty line)

Baseline coverage of

- the poorest 20%: ~23%
- households with at least three children: ~14%
- single parent households: ~16%



Reformed coverage of

- the poorest 20%: ~26%
- households with at least three children: ~17%
- single parent households: 20%

Reform Area IV: Extending Education Allowance Eligibility to Pre-School Children

In this study, the policy scenarios were designed to include pre-school children into the income-tested education allowance.¹²⁴ Participation in pre-primary education in North Macedonia is relatively low (roughly 42% for ages 3–6), with only 7% of children from the poorest quintile attending, as discussed before in this report.¹²⁵ While targeting pre-school children through the income-tested education allowance ensures the poorest children attending pre-school education benefits the allowance, it is important to note that the enrolment among the poorest is already low, yielding low distributional impact. For example, relative to the baseline scenario in which pre-school children are excluded from the education allowance, extending the allowance to include pre-school children and applying the OECD equivalence scale alone along with low-level threshold and transfer amounts is estimated to reduce child poverty by only 0.35 percentage points. Nevertheless, extending eligibility to pre-school children also aligns social assistance objectives with education policy goals, reinforcing incentives for early enrolment where services are available. However, strategic notes from the World Bank (2022) suggest that the allowance should be extended to younger children once the supply of preschool services has expanded sufficiently to meet the resulting increase in demand.¹²⁶

From a policy perspective, this reform should be understood as part of a sequenced investment strategy. While demand-side support through cash transfers can help offset costs and encourage enrolment, it must be accompanied by parallel supply-side investments in kindergarten infrastructure, particularly in underserved municipalities. Extending the education allowance to pre-school children should therefore be considered a forward-looking reform, complemented by well-designed supply-side policy investments.

*This is approximately equal to 40% of the 2026 inflated poverty line.

¹²⁴ In the SILC data, it is asked whether a child currently participated in pre-school. This involves pre-school or equivalent (e.g. kindergarten, nursery school ...). The educational classification \ is ISCED Level 0. Special pre-schools or equivalents for children who have special needs (handicapped,...) is included in as far as they are considered as pre-school (level 0). Source: European Commission (2023). Methodological Guidelines and Description of EU-SILC Target Variables. 2023 Operation (Version 6). Retrieved from: <https://www.gesis.org/en/missy/materials/EU-SILC/documents/guidelines>

¹²⁵ World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

¹²⁶ World Bank (2022) Social Protection Situational Analysis: North Macedonia. Washington, DC. <http://hdl.handle.net/10986/37873>

Reform Area V: Maintaining Support During Labour Market Entry

While labour market incentives fall outside the scope of the microsimulation study, the literature review and key informant interviews conducted in February 2025 in Skopje with government and intergovernmental organization stakeholders highlighted **a strong emphasis on the need to introduce a transition period for phasing out key child-related cash benefits as a household member moves into formal employment.**

To reduce labour market disincentives in North Macedonia, the sources suggest replacing the current "binary" system with a gradual benefit phase-out mechanism. Currently, the first denar of formal labour income can trigger the immediate and total loss of the GMA and energy allowances, resulting in a Formalisation Tax Rate (FTR) as high as 88%, as aforementioned in the report.¹²⁷ To mitigate this "cliff-edge" effect, a stepwise reduction model is mentioned in the World Bank report (2025), where **households retain 80% of their GMA for the first three months of employment, tapering down to 30% by the end of the first year.** Implementing a permanent "income disregard"—where only a portion of earned income is counted against benefit eligibility—could significantly lower the peak FTR and ensure that a household's net total income consistently rises when a member transitions to formal work.

A critical barrier to formalisation is the high minimum floor for Social Security Contributions (SSCs), which creates a regressive tax burden on low-wage earners. The current minimum SSC base is set at 50% of the average gross monthly salary, meaning employers must pay at least EUR 131 per month regardless of whether the employee works full-time or only a few hours.¹²⁸ This makes part-time or "gig" jobs economically unviable for the poor. **Reducing this minimum base would lower the initial cost of entering the formal sector and encourage the legal registration of flexible work arrangements,** as argued by the World Bank (2025).¹²⁹

Strengthening institutional integration and integrated case management is essential to move beyond passive cash transfers toward active inclusion. The sources recommend completing the rollout of the Social Welfare Information System (SWIS) to integrate cash benefit databases with employment services.¹³⁰ This system should facilitate real-time data exchange between Social Work Centres (CSWs) and the Employment Service Agency (ESA) to ensure that social assistance beneficiaries are matched with individual activation plans and job-search support.¹³¹ Transitioning from "case work" to a "family

¹²⁷ World Bank (2025). Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modelling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099061725062028120>

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ Petreski, M., & Mojsoska-Blazevski, N. (2018). Overhaul of the social assistance system in Macedonia: Simulating the effects of introducing Guaranteed Minimum Income (GMI) scheme. Retrieved from: <https://www.financethink.mk/wp-content/uploads/2017/04/Policy-Study-11.pdf>

World Bank (2022) Social Protection Situational Analysis: North Macedonia. Washington, DC. <http://hdl.handle.net/10986/37873>

Hohmann, J., Giske, N., and Boillot, F. (2025), Improving social protection in the Western Balkans: Analysis of the regional/national situations, and recommendations, Knowledge Hub on Health, Inequalities, and Social Protection to the European Commission (HISP), Publications Office of the European Union, Luxembourg, doi:10.2876/9943620.

¹³¹ Paolucci, Massimiliano; Begolli, Rhedon; Peruseska-Joncevska, Cveta; Record, Richard; Ellis, Simon David; Lahire, Nathalie; Bozinovska, Anita; Jankulovski, Mario. North Macedonia - Policy Notes (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099008512112429283>

World Bank (2022) Social Protection Situational Analysis: North Macedonia. Washington, DC. <http://hdl.handle.net/10986/37873>

World Bank. (2023). *Project appraisal document on a proposed loan in the amount of EUR 27.50 million (US\$30 million equivalent) to the Republic of North Macedonia for a Second Social Services Improvement Project (P180350)* (Report No. PAD00122). International Bank for Reconstruction and Development.

social worker" model would allow to better manage a household's total needs, including referrals to services that remove personal barriers to employment.¹³²

Information Box 2 Addressing Labour Market Disincentives Inherent in the Social Assistance Scheme (SAS) in Kosovo

The Kosovo government, supported by a five-year Social Assistance System Reform project funded by a EUR 47 million World Bank loan, has introduced a pilot program to fundamentally restructure its primary poverty-alleviation scheme. Launched in 2024, the pilot aims to address severe labour market disincentives inherent in the legacy Social Assistance Scheme (SAS), which traditionally required households to have zero formal income to remain eligible. By transitioning from a rigid "binary" eligibility check to a more flexible model, the pilot seeks to inform a new social protection law that encourages formal employment and prevents individuals from being trapped in the informal economy.

The Income Disregard Mechanism

The centrepiece of the pilot is a gradual phase-out mechanism, also known as an "income disregard". In the traditional system, receiving even one euro of formal wages triggered the immediate and total loss of the SAS benefit, creating a massive financial "cliff-edge". The new pilot allows households to retain their full benefit if their formal labour income remains below a specific baseline—EUR 130 for a standard model household. Once earnings exceed this threshold, the benefit is not cut off entirely but is instead reduced gradually using a formula where the benefit equals the base amount minus 50% of the income earned above that base ($\text{Benefit} = 130 - [(\text{Household Income} - 130) / 2]$).

Impact on the Formalisation Tax Rate (FTR)

This structural shift significantly alters the economic logic for low-income earners by drastically reducing the FTR, which measures the proportion of income lost when moving from informal to formal work.

- Traditional SAS: Transitioning to formal work results in an immediate FTR jump to 70%, meaning a household loses 70 cents in benefits and taxes for every euro earned.
- Pilot SAS: The peak FTR is more than halved, dropping to approximately 32%. By ensuring that a household's net total income continues to rise as formal earnings increase, the pilot makes formal employment a more rational economic choice compared to informal work or complete inactivity.

Broader Institutional and Administrative Reforms

The pilot is part of a comprehensive overhaul of the social protection delivery chain. It includes the development of a new poverty assessment to be implemented by Centres for Social Work and the creation of a social registry that integrates existing IT frameworks. Later phases of the project are

¹³² Regional Cooperation Council (2021). *Performance of Western Balkan economies regarding the European Pillar of Social Rights; 2021 review on North Macedonia*. Retrieved from: <https://www.euro.centre.org/publications/detail/3908>

intended to enhance case management systems and more effectively link social assistance beneficiaries to Active Labour Market Programmes (ALMPs), such as vocational training and job-matching services.

Source: World Bank (2025). Western Balkans - Labor Market Brief 2023 : Special Topic - Disincentives to Formal Work : Modelling Social Benefits and Labor Taxation for Low-Income Households (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099061725062028120>

5. Policy Scenarios: From Reform Priorities to Targeting Options

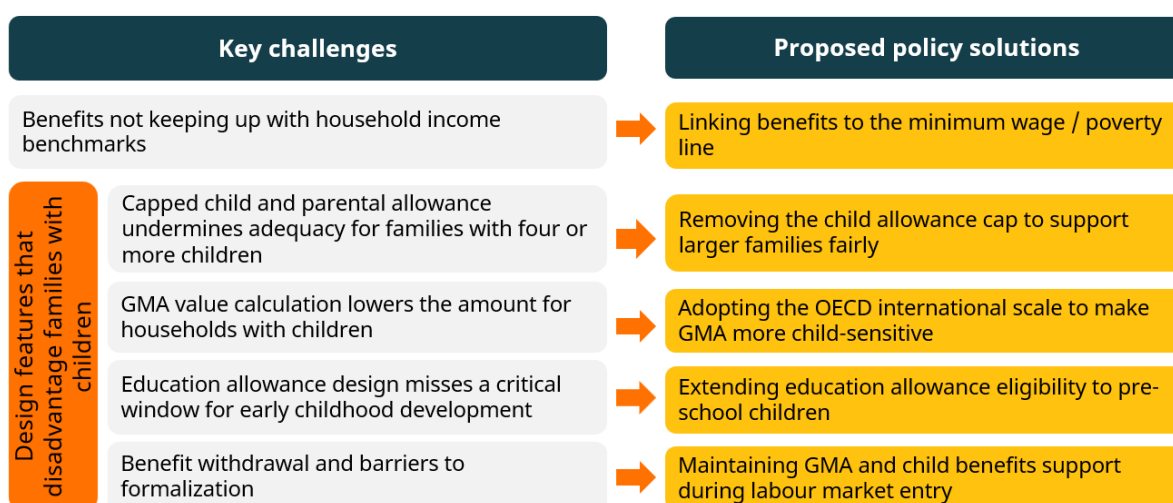
Building on the diagnostic analysis and the reform areas identified in the previous sections, this chapter translates policy priorities into a structured set of microsimulation scenarios. The objective is to assess how alternative targeting approaches and benefit designs perform in terms of coverage, poverty reduction, and fiscal cost, while remaining grounded in the institutional and fiscal realities of North Macedonia.

To this end, the policy scenarios are organised around two main streams: (i) universal child allowance-based approaches and (ii) enhanced income-tested approaches, as summarised in [Figure 12](#). Each scenario integrates the core design parameters discussed earlier in the report—namely, the alignment of thresholds and benefits to the poverty line / minimum wage, the removal of caps on the number of eligible children, the adoption of a child-sensitive household composition scale, and the extension of education-related support to pre-school children. Where relevant, scenarios also incorporate safeguards to avoid benefit losses and ensure consistency across programmes.

Where a child is deemed to be eligible for parental allowance—either under the current income-tested scheme or the previously applied universal approach—the child continues to receive support. However, rather than providing the parental allowance in addition to the newly designed scenarios, only the difference between the parental allowance amount and the newly designed child allowance is transferred.

The scenarios are not intended as mutually exclusive policy choices, but rather as alternative pathways that illustrate different trade-offs between targeting coverage expansion, adequacy, and fiscal sustainability. The income-tested stream reflects a more conservative reform logic that prioritises depth of support for the poorest households and cost-efficiency under tighter budget constraints. In contrast, the universal stream explores options for broadening coverage and strengthening child rights, while retaining targeted elements—such as top-ups or complementary income-tested benefits—to preserve progressivity and fiscal discipline.

Figure 12 Alternative Targeting Pathways for Child-Related Cash Benefits



Source: Authors' own illustration.

Importantly, all scenarios are designed within a coherent system perspective. Rather than adjusting individual benefits in isolation, the simulations assess combined policy packages that reflect how the allowances interact in practice. This approach allows the analysis to capture cumulative impacts on households with children, particularly those facing multiple vulnerabilities such as large family size.

The remainder of this section presents the scenario designs in detail, first outlining the logic and structure of the income-tested options, followed by the universal child allowance scenarios and the additional phased pathways focused on child allowance reform. Subsequent subsections compare these pathways in terms of poverty impact, coverage and fiscal implications, providing a clear evidence base to inform short-term reform priorities, medium-term structural options, and preferred policy packages.

In the simulation, the child allowance is presented in three alternative forms:

- **A low eligibility** threshold of 7,669.6 MKD, corresponding to 55 percent of the adjusted poverty line for 2026 and approximately 31.4 percent of the net monthly minimum wage. Compared to the 2025 baseline threshold of 6,800 MKD, this represents a very moderate change in the threshold value.
- **A medium eligibility** threshold of 9,761.3 MKD, corresponding to 70 percent of the adjusted poverty line for 2026 and approximately 40 percent of the net monthly minimum wage. Compared to the baseline, this represents an increase of approximately 43.5 percent, expanding eligibility to a broader group of low-income households with children.
- **A more expansive approach is tested through a high eligibility threshold** set at 13,944.7 MKD, equivalent to 100 percent of the adjusted poverty line for 2026 and 57.2 percent of the net monthly minimum wage. Relative to the baseline, this constitutes an increase of approximately 105.1 percent in the child allowance threshold, substantially broadening coverage and allowing the analysis to assess the trade-offs between expanded reach, poverty reduction, and fiscal cost.

With respect to child allowance transfer amounts, the microsimulation removes the existing cap on the number of eligible children and applies different benefit levels across alternative policy designs, as described in the report. Under the income-tested child allowance, monthly per-child transfers are set

at 1,495.6 MKD (low level), 1,955.8 MKD (medium level), and 2,300.9 MKD (high level), reflecting increasing degrees of generosity. Under the universal child allowance, a flat monthly transfer of 989.4 MKD per child is applied.

In the combined scenario, the universal child allowance functions as a base benefit for all children, with an additional top-up provided to children in households that continue to qualify under the income-tested criteria. The top-up equals the difference between the applicable income-tested benefit level and the universal transfer amount, thereby ensuring higher support for lower-income households.

While the microsimulation tested alternative transfer levels and eligibility thresholds for the education allowance, the results presented in this report focus on a income-tested education allowance design implemented in two main variants, using a single core threshold and two sets of the transfer amount, which changes depending on whether the universal or the income-tested child allowance is applied.

- Education allowance without pre-school children: Under this variant, the benefit is provided only to eligible children attending primary and secondary education within the revised scheme.
- Education allowance with pre-school children: Under this variant, eligibility is extended to include children attending pre-school¹³³, in addition to eligible primary and secondary school students.

Across all the scenario designs presented below, the education allowance threshold amount is set at 7669.6 MKD, corresponding to 55 percent of the adjusted poverty line for 2026 and approximately 31.4 percent of the net monthly minimum wage.

Under the income-tested child allowance scenarios, the education allowance transfer amounts are adjusted by education level as follows: 805.3 MKD per child attending pre-school, 1035.4 MKD per child attending primary education, and 1495.6 MKD per child attending secondary education. For ease of comparison and consistency with other benefits, these amounts are presented on a monthly equivalent basis in the analysis. In practice, however, the education allowance in North Macedonia is paid in instalments aligned with the academic calendar, rather than as a monthly transfer.

Under scenarios that adopt a universal child allowance—in any of its forms regarding the targeted age groups—the education allowance transfer amounts are moderated to balance overall fiscal implications. Accordingly, the education allowance per month is adjusted by education level as follows: 603.9 MKD per child attending pre-school, 776.5 MKD per child attending primary education, and 1121.6 MKD per child attending secondary education.

5.1. Scenario Options with the Universal Child Allowance Approach

The first stream of policy scenarios explores alternatives based on a universal child allowance with education allowance and parental allowance top-ups, either fully universal or combined with targeted elements. These scenarios are motivated by the persistent coverage gaps observed under purely

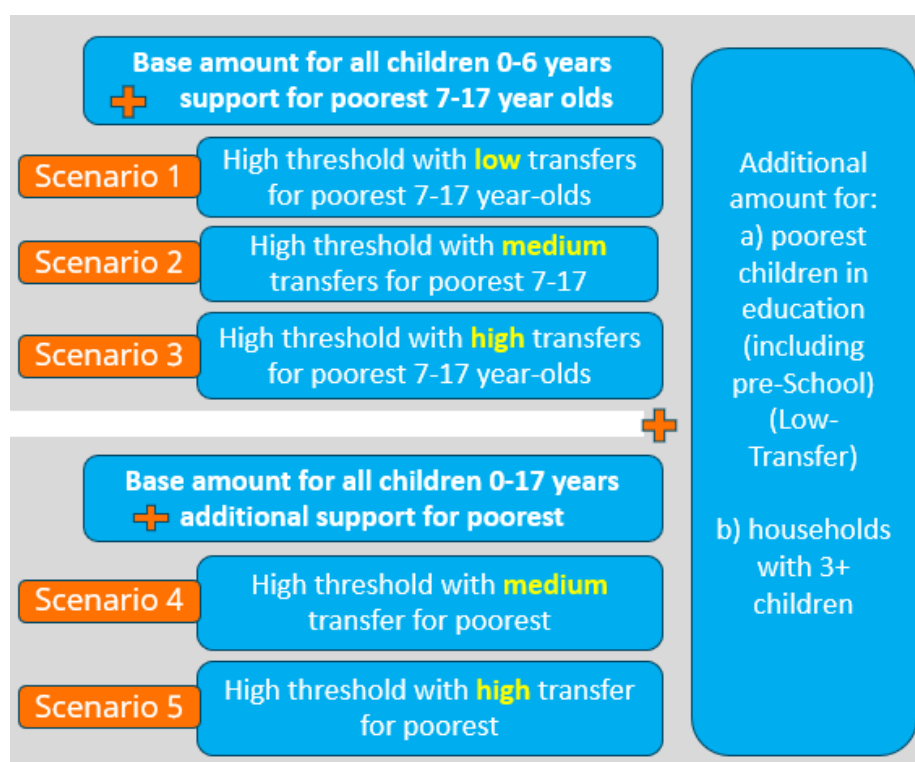
¹³³ In the SILC data, it is asked whether a child currently participated in pre-school. This involves pre-school or equivalent (e.g. kindergarten, nursery school ...). The educational classification \ is ISCED Level 0. Special pre-schools or equivalents for children who have special needs (handicapped,...) is included in as far as they are considered as pre-school (level 0). Source: European Commission (2023). Methodological Guidelines and Description of EU-SILC Target Variables. 2023 Operation (Version 6). Retrieved from: <https://www.gesis.org/en/missy/materials/EU-SILC/documents/guidelines>

income-tested designs, particularly among near-poor households, as well as by the fact that universal approaches can deliver broader and more predictable protection for children while reducing exclusion and administrative complexity.

Unlike the income-tested stream, which prioritises depth of support for the poorest under tighter fiscal constraints, the universal approach focuses on expanding coverage across the child population, while preserving progressivity through complementary design features such as income-tested top-ups. In this sense, in some of the targeting scenario options, the universal scenarios should be understood not as a binary alternative to targeting, but as hybrid models that combine universality with redistributive mechanisms.

Figure 13 summarises the universal scenario options assessed in the microsimulation. Across all universal scenarios, the cap on the number of eligible children is removed, the OECD scale is applied consistently across all programmes including GMA, and safeguards are introduced to prevent benefit losses for current beneficiaries.

Figure 13 Universal Child Allowance Scenario Options



Source: Authors' own illustration.

The universal scenario stream is organised around two core design logics:

- **First, partial universalisation by age group.** Some scenarios introduce a universal child allowance for younger children (aged 0–6), reflecting the high vulnerability of early childhood and the importance of predictable income support during this period, while retaining income-tested child allowance arrangements for older children aged 7–17. This design mirrors the initial phase of universalisation observed in comparator countries such as Montenegro and allows for a gradual expansion of coverage.
- **Second, full universalisation combined with targeted top-ups.** In these scenarios, all children aged 0–17 receive a flat universal child allowance, complemented by additional top-up

payments for children living in households that remain eligible under the income-tested criteria. This approach ensures that universality does not come at the expense of adequacy for the poorest, preserving vertical equity while significantly expanding horizontal coverage.

Across all universal scenarios, the education allowance continues to operate under a income-tested logic, with adjusted transfer amounts to balance fiscal implications, same as the education allowance presented in the previous section. As universal child allowances are introduced under this framework, education allowance transfer levels are moderately reduced relative to the income-tested child allowance scenarios and are added as top-ups to household income levels, as discussed before.

To illustrate how the proposed universal child allowance scenarios affect households with different compositions, **Figure 14** uses three exemplary low-income family structures representing typical beneficiary profiles across early childhood, primary school, and secondary school ages. These include:

- i. a household with one preschool-aged child (Maja, age 5);
- ii. a household with two children (Sara, age 5, attending preschool, and Nikola, age 8, attending primary school); and
- iii. a household with three children (Ana, age 5; Zoran, age 8; and Doncho, age 15, attending secondary school).

The universal child allowance scenarios illustrate how combining **base universal support for all children aged 0–6**, additional **education-linked supplements**, and **targeted top-ups for poorer children aged 7–17** progressively strengthens benefit adequacy across different family sizes. For a low-income household with one preschool-aged child (Maja, age 5), the monthly transfer remains unchanged across SC1–SC3 at MKD 1,701.¹³⁴ However, once higher universal transfer levels are introduced (SC4 and SC5), support increases to **MKD 2,560** and **MKD 2,905**, respectively, demonstrating the adequacy gains achievable through stronger base entitlements.

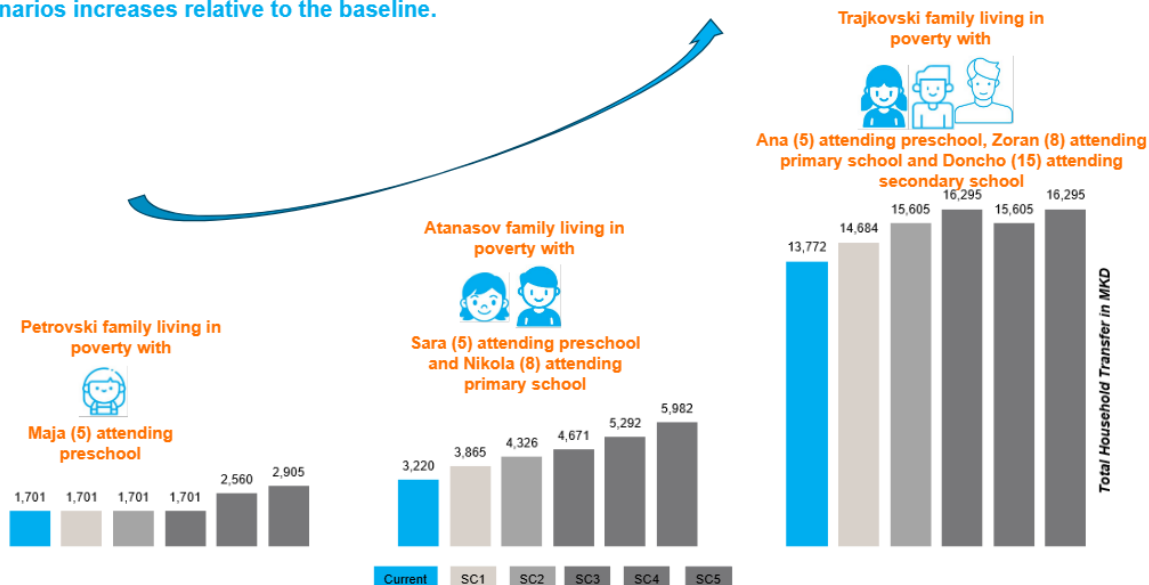
For households with **two children (Maja, age 5, and Nikola, age 8)**, the interaction between universal benefits and education-linked supplements becomes more visible. Transfers increase from **MKD 3,220 under the current system** to **MKD 3,865 (SC1)**, **MKD 4,326 (SC2)** and **MKD 4,671 (SC3)**, reflecting progressively larger targeted support for school-age children. Under higher universal transfer scenarios (SC4 and SC5), total household support rises further to **MKD 5,292** and **MKD 5,982**, illustrating how combining universal and targeted components substantially improves adequacy for families with mixed preschool and primary-school children.

The largest gains are observed among **larger households with three children (ages 5, 8 and 15)**, where both education supplements and the additional support for households with **three or more children** become binding. In these cases, transfers increase from **MKD 13,772 currently** to **MKD 14,684 (SC1)**, **MKD 15,605 (SC2)** and **MKD 16,295 (SC3)**. Under scenarios with higher universal transfer levels (SC4 and SC5), support remains elevated at **MKD 15,605** and **MKD 16,295**, demonstrating that larger families benefit strongly from the combined effect of universal entitlements and education-linked supplements.

¹³⁴ This reflects a built-in safeguard: when the existing benefit level (MKD 1,701 under the current child allowance for non-school-aged children) exceeds the simulated entitlement (MKD 1,593.4, comprising MKD 989.4 for the universal child allowance and MKD 603.9 for the preschool education allowance), the higher baseline amount is retained. This ensures continuity of support and avoids any deterioration in the welfare of current beneficiaries.

Figure 14 Monthly Child Allowance Amounts under Universal Reform Scenarios (SC1–SC5) for Exemplary Low-Income Families by Number and Age of Children

Children living in poverty tend to fare better as the generosity of universal scenarios increases relative to the baseline.



Children living in poverty tend to fare better as the generosity of universal scenarios increases relative to the baseline.

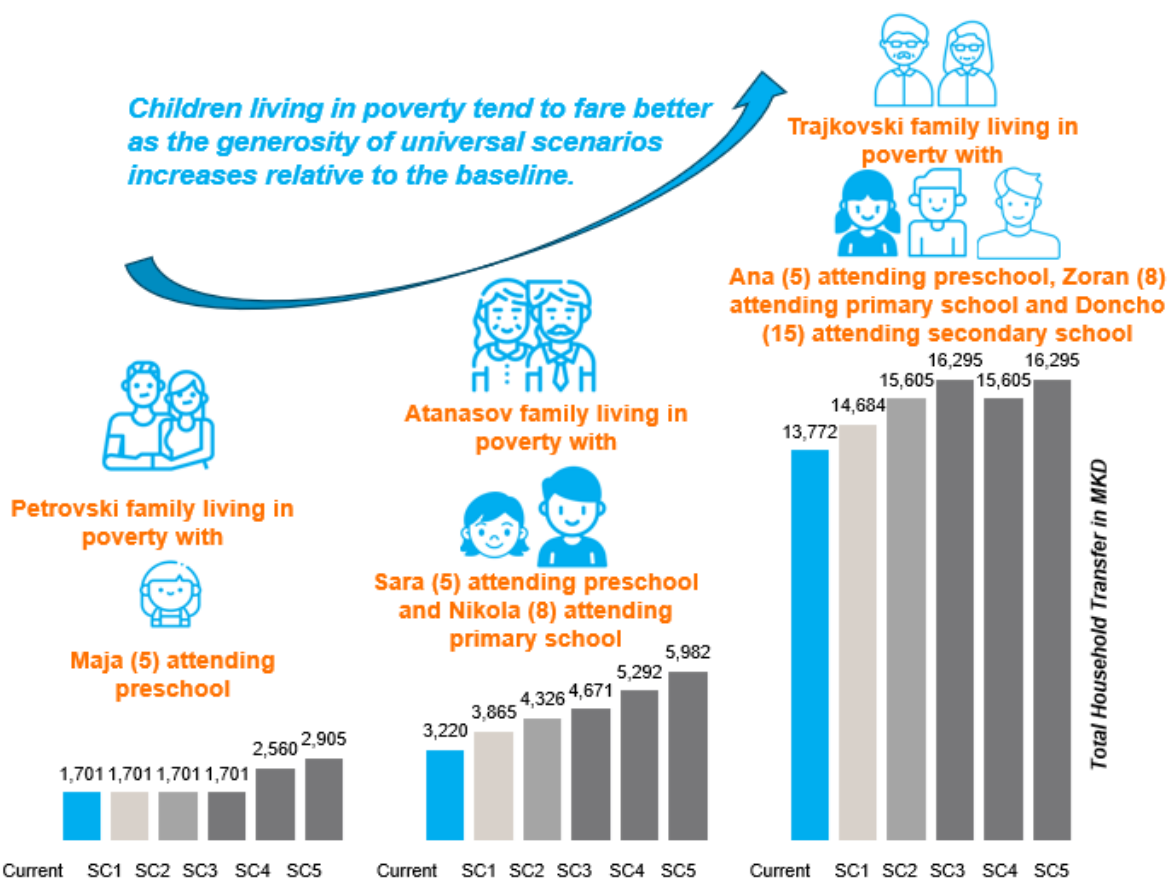


Table 3 presents the estimated impacts of the universal scenarios on child poverty incidence, poverty depth, and coverage. Compared to the income-tested stream, the universal scenarios deliver substantially higher coverage, reaching between 64 percent and nearly 100 percent of children, depending on the design. In the baseline, the child poverty headcount rate is estimated as roughly 30%, child poverty gap as 11.3% and child coverage as 21.4%.

Table 3 *Estimated Impact of Selected Universal Child Allowance Scenarios on Child Poverty Reduction, Poverty Gap, and Coverage*

.Source: Authors' own calculations based on the SILC 2023 data

Even the least expansive universal scenario reduces the child poverty rate by 3 percentage points and the child poverty gap roughly by 1.5 percentage points, substantially outperforming most income-tested configurations in terms of the child poverty reduction impact as discussed below. More ambitious universal designs achieve poverty reductions of between 5 and 6 percentage points, with comparable reductions in the poverty gap, indicating meaningful improvements in adequacy for poor children.

Notably, the strongest results emerge in scenarios that combine full universal coverage with targeted top-ups, confirming that poverty impacts are stronger when broad coverage is paired with mechanisms that channel additional resources toward children in the poorest households.

	Reduction in child poverty (prevalence of poverty) in percentage points	Reduction in child poverty gap (of poverty) in percentage points	Child Coverage, %
Universal Combined Scenario 1	-3.1	-1.5	63.9%
Universal Combined Scenario 2	-3.9	-2.1	
Universal Combined Scenario 3	-4.8	-2.4	
Universal Combined Scenario 4	-4.7	-2.5	100%
Universal Combined Scenario 5	-5.9	-3	

Figure 15 Additional Cost of Each Universal Child Allowance Scenario in Million EUR

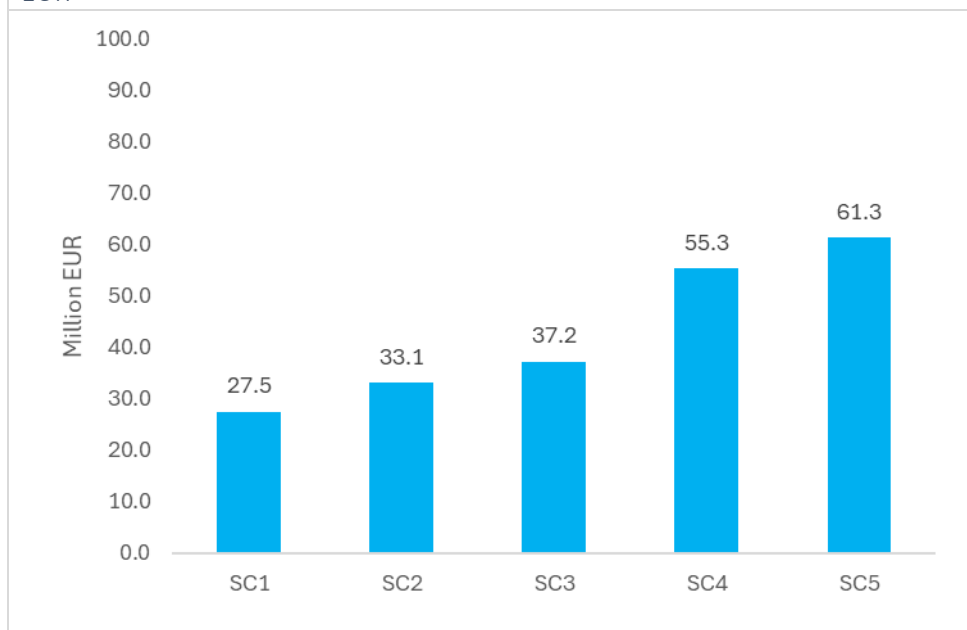
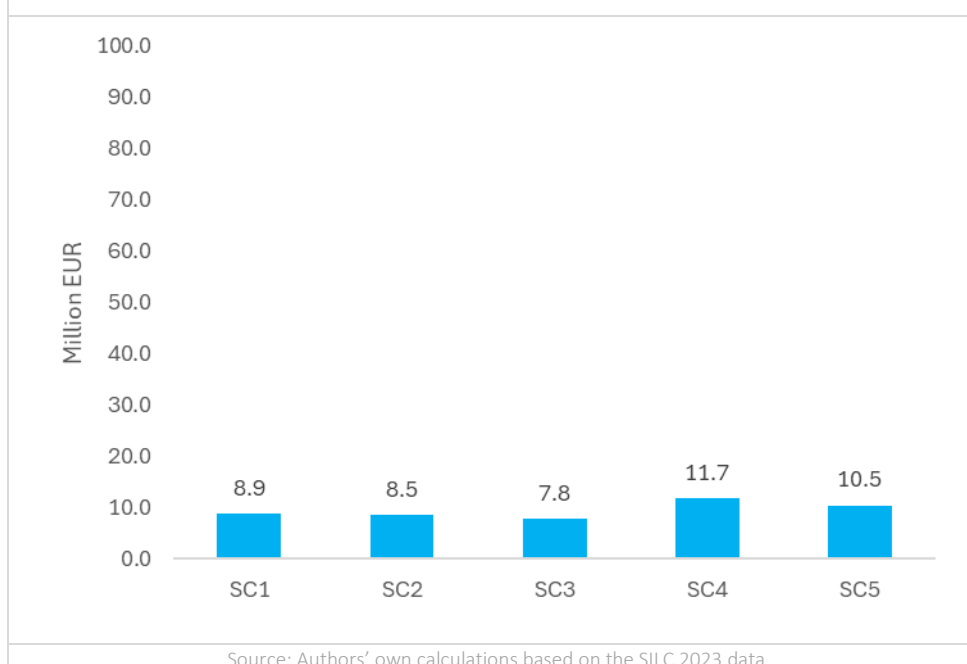


Figure 16 Additional Cost of Each Universal Child Allowance Scenario Required to Reduce Child Poverty by 1 Percentage Point in Million EUR



Figures 15 and 16 illustrate the fiscal performance and cost-effectiveness of the universal child allowance scenarios. While total additional costs rise progressively from €27.5 million in Scenario 1 to €61.3 million in Scenario 5, the cost required to reduce child poverty by one percentage point remains relatively stable and, in several cases, highly competitive.

In particular, Scenarios 3 and 5 stand out as the most cost-efficient universal options, requiring only €8 million and €10.5 million, respectively, to achieve a one-

percentage-point reduction in child poverty—levels comparable to, and in some cases better than, strengthened income-tested designs.

This finding highlights a critical policy insight: expanding coverage through a universal child allowance does not inherently weaken efficiency. When universal benefits are combined with targeted top-ups for poorer households, they can deliver both broad inclusion and strong poverty-reduction impacts at reasonable fiscal cost. The results demonstrate that well-designed hybrid models avoid the traditional trade-off between universality and targeting, offering a balanced approach that maximises poverty impact per euro spent while ensuring that no children are excluded from basic income support.

Taken together, the universal scenarios demonstrate that expanding coverage and strengthening child rights need not come at the expense of efficiency, provided that universal benefits are embedded within a coherent system that retains targeted elements. The results suggest that hybrid universal–targeted models offer a promising pathway for North Macedonia.

The universal stream shows that design choices—such as age-based sequencing, top-ups, and harmonised equivalence scales—play a decisive role in shaping outcomes. These findings set the stage for the comparative assessment in the following section, which weighs the relative strengths and trade-offs of enhanced income-tested and universal approaches in identifying preferred policy packages for short- and medium-term reform.

5.1.1. Gradual Expansion of the Universal Child Allowance

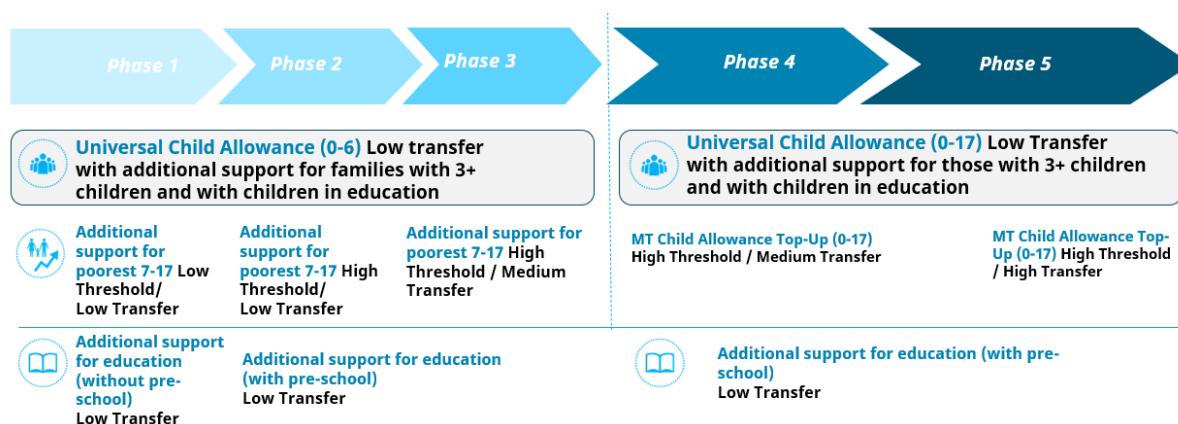
In addition to the core income-tested and universal scenario streams, the analysis further explores gradual reform options focused specifically on the child allowance, developed in close consultation with UNICEF and the Ministry of Social Policy, Demography and Youth. These scenarios are designed to illustrate feasible transitional pathways toward a universal child allowance, allowing policymakers to assess how incremental design changes affect coverage, poverty outcomes, and fiscal costs.

Importantly, the phased scenarios presented in this subsection do not represent forecasts of sequential reforms implemented cumulatively over time, nor do they assume that each phase builds mechanically on the previous one. Rather, each phase is modelled as a stand-alone policy configuration, enabling a transparent comparison of alternative design choices at different levels of ambition. The purpose of this exercise is not to project year-by-year reform trajectories, but to provide a structured exploration of how gradual adjustments to the child allowance—across age coverage, targeting, and transfer levels—perform under consistent assumptions.

The phased scenarios progress along two key dimensions. The first concerns age-based expansion, beginning with a universal child allowance for children aged 0–6 and subsequently extending coverage to all children aged 0–17. The second dimension relates to the balance between universality and targeting, combining universal child allowance components with income-tested child allowance top-ups and revised education allowances, including the extension of support to pre-school children.

Across the five phases illustrated in [Figure 17](#), the scenarios gradually introduce higher eligibility thresholds and transfer amounts for income-tested child allowance components, followed by targeted top-ups for children in the poorest households once universal coverage is in place. Throughout this process, the education allowance is also revised to ensure coherence with the broader child benefit architecture, particularly by including pre-school children and aligning design parameters across programmes.

Figure 17 Gradual Phasing Options for a Universal Child Allowance with Targeted Complements



Source: Authors' own calculations based on the SILC 2023 data

The phased scenarios illustrate how a gradual expansion of the child allowance can progressively improve child poverty outcomes while balancing coverage, adequacy, and fiscal cost. As shown in Figure 18, early phases (Phases 1–3) focus on partial universality—either by age or through limited top-ups—resulting in moderate reductions in the child poverty rate, ranging from 1 to 4 percentage points. During these phases, child coverage increases from just over half of all children (51.4%) to nearly two-thirds (63.9%), while additional fiscal costs remain relatively contained, between EUR 18 million and EUR 33.1 million.

Figure 18 Gradual Phasing of the Universal Child Allowance: Poverty Impact and Budgetary Implications

	Universal Child Allowance (0-6) Low Transfer			Universal Child Allowance (0-17) Low Transfer	
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Child poverty rate reduction, compared to 2025	-0.7	-3.1	-3.9	-4.7	-5.9
Child poverty gap reduction, compared to 2025	-0.9	-1.5	-2.1	-2.5	-3
Child coverage (%)	51.4%	63.9%	63.9%	100%	100%
Additional expenditures, compared to 2025 (million EUR)	18M EUR	27.5M EUR	33.1M EUR	55.3M EUR	61.3M EUR
Additional cost per percentage point child poverty reduction, compared to 2025 (million EUR)	26.8M EUR	8.9M EUR	8.5M EUR	11.7M EUR	10.5M EUR

Source: Authors' own calculations based on the SILC 2023 data

Phases 3 and 5 stand out in terms of cost-effectiveness. In particular, Phase 3 achieves a nearly 4 percentage-point reduction in child poverty at an estimated cost of EUR 8.5 million per percentage point reduced—the lowest across all phases. Phase 5 further deepens the poverty impact (5.9 percentage points) while maintaining a similarly low cost per percentage point (EUR 10.5 million), highlighting the strong efficiency gains from combining a universal child allowance for younger children with targeted support for older children.

Phases 4 and 5 mark the transition to full universal coverage for children aged 0–17, with coverage reaching 100 percent. These phases deliver the largest reductions in child poverty—4.7 and 5.9

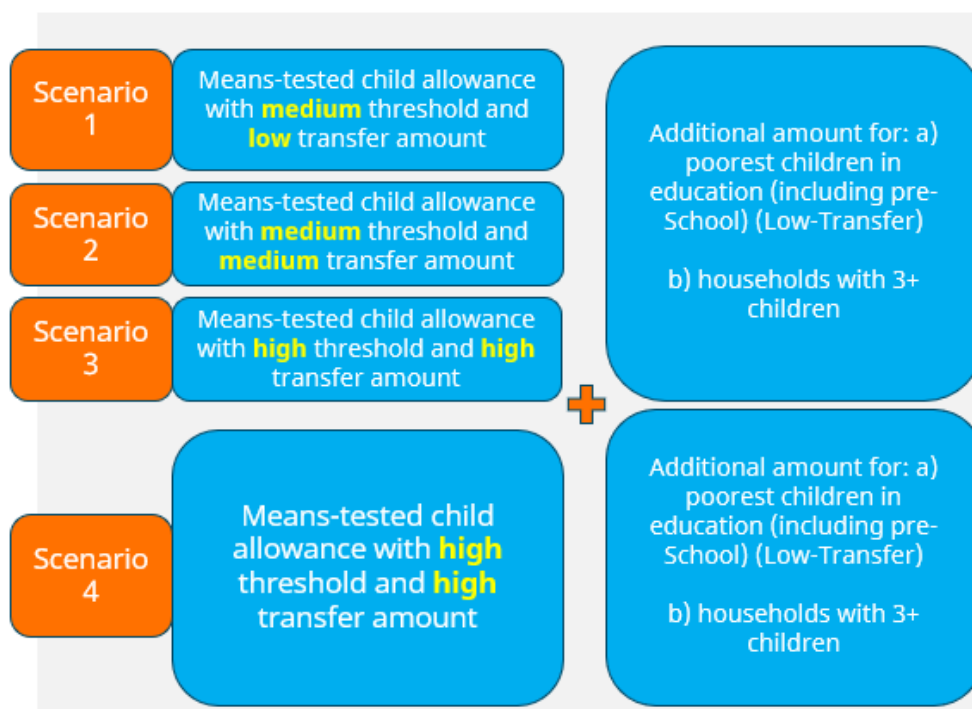
percentage points, respectively—and substantially reduce the child poverty gap, indicating not only fewer children in poverty but also improved income adequacy among the poorest. However, these gains come with higher fiscal costs, rising to EUR 55.3 million in Phase 4 and EUR 61.3 million in Phase 5, and with a higher cost per percentage point of poverty reduction (around EUR 10 million).

Overall, the table highlights a clear trade-off between coverage and cost-efficiency. While full universality (Phases 4 and 5) maximises inclusion and poverty impact, intermediate phases—particularly Phases 3—offer a highly cost-effective pathway to significantly reduce child poverty within tighter fiscal constraints. These results underscore the value of a phased approach, allowing policymakers to sequence reforms strategically while building toward a comprehensive universal child allowance over time.

5.2. Scenario Options with the Income-Tested Approach

Within the income-tested reform stream, five scenario options are developed to reflect increasing degrees of ambition in redesigning child-related cash benefits. Together, these scenarios illustrate how incremental design changes can improve child sensitivity, coverage, and poverty impact under different fiscal and legislative constraints. The five scenarios are summarised in [Figure 19](#) and described below.

Figure 19 Means-Tested Scenario Options



Source: Authors' own illustration.

- **Scenario 1. Moderately Adjusted Child Allowance with a Relatively Low Transfer Amounts and a Mid-Range Eligibility Threshold:** In this scenario, the child allowance threshold is increased to the medium level (9,761.2 MKD), and the cap on the number of eligible children is removed. A

low cash transfer amount of 1,495.6 MKD per child is introduced. This scenario also integrates the education allowance with the low threshold as in the case of Scenario 2 and 3.

- **Scenario 2: Strengthened Child Allowance with Medium Threshold:** In this scenario, the child allowance threshold is still kept at the medium level, and the cap on the number of eligible children is removed. In this case, a mid-range transfer amount (1,955.8 MKD) is introduced.
- **Scenario 3: Strengthened Child Allowance with High Threshold:** Scenario 3 further expands the approach introduced in Scenario 2 by setting the child allowance threshold at the high level, equivalent to 100 percent of the poverty line (i.e. roughly 13 thousand MKD). Relative to the baseline, this represents a substantial expansion in eligibility, allowing coverage to extend to a broader segment of households at risk of poverty. Furthermore, a high level of transfer amount (2,300.9 MKD) is introduced.
- **Scenario 4: Strengthened Child Allowance with High Threshold:** Scenario 4 introduces an education allowance with a medium-level threshold (i.e. 9.1 thousand MKD) while keeping the child allowance threshold at the highest level (i.e. 13 thousand MKD). This scenario tests whether slightly increasing the eligibility threshold and the transfer amount for the education allowance can outcome indicators without significantly increasing fiscal costs.

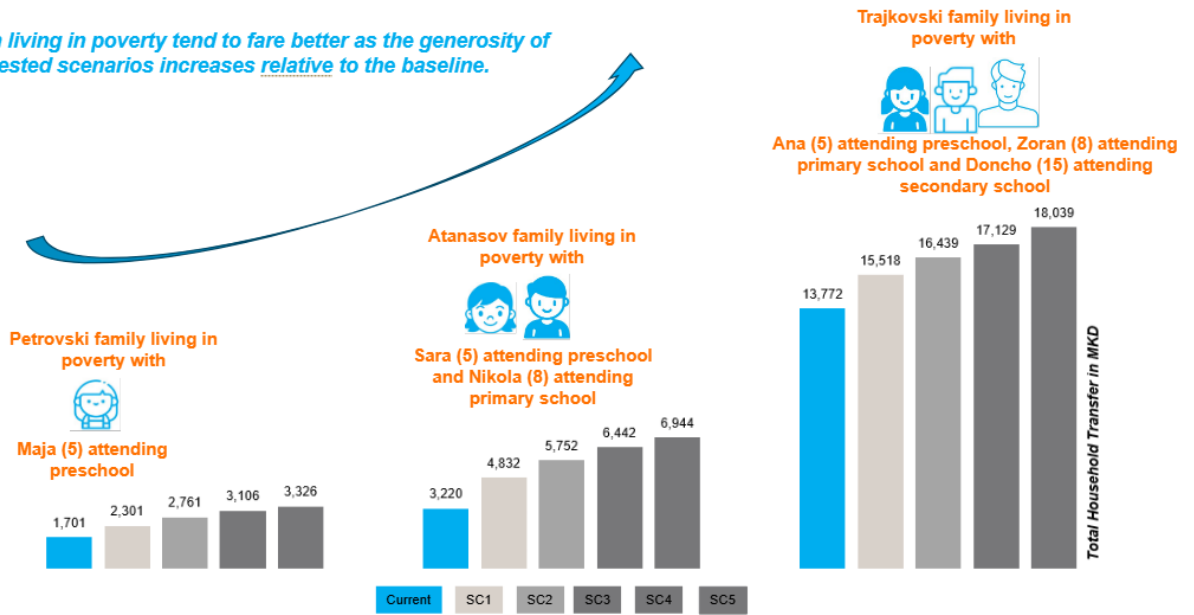
The income-tested child allowance scenarios demonstrate how increasing **income eligibility thresholds** and **transfer generosity** affects benefit adequacy for low-income families with different numbers of children, as illustrated in **Figure 20**. For a household with **one preschool-aged child (Maja, age 5)**, support increases steadily from **MKD 1,701 currently** to **MKD 2,301 (SC1)**, **MKD 2,761 (SC2)**, **MKD 3,106 (SC3)** and **MKD 3,326 (SC4)**. These increases reflect the direct effect of expanding eligibility thresholds and strengthening transfer amounts within the income-tested framework.

For households with **two children (Sara, age 5, and Nikola, age 8)**, adequacy improvements are more pronounced due to the interaction between threshold expansion and education-related supplements. Monthly support rises from **MKD 3,220 under the current system** to **MKD 4,832 (SC1)**, **MKD 5,752 (SC2)**, **MKD 6,442 (SC3)** and **MKD 6,944 (SC4)**. This demonstrates that adjusting both eligibility and transfer size simultaneously can substantially strengthen protection for families with school-age children.

For **larger households with three children (ages 5, 8 and 15)**, the combined impact of higher thresholds, education supplements and additional support for larger families produces the largest adequacy gains. Transfers increase from **MKD 13,772 currently** to **MKD 15,518 (SC1)**, **MKD 16,439 (SC2)**, **MKD 17,129 (SC3)** and **MKD 18,039 (SC4)**. These results indicate that expanding eligibility thresholds alongside higher transfer levels within a income-tested design can significantly improve support for larger low-income families, though coverage expansion remains more limited compared to universal approaches.

Figure 20 Monthly Child Allowance Amounts under Universal Reform Scenarios (SC1–SC5) for Exemplary Low-Income Families by Number and Age of Children

Children living in poverty tend to fare better as the generosity of means-tested scenarios increases relative to the baseline.



Children living in poverty tend to fare better as the generosity of means-tested scenarios increases relative to the baseline.

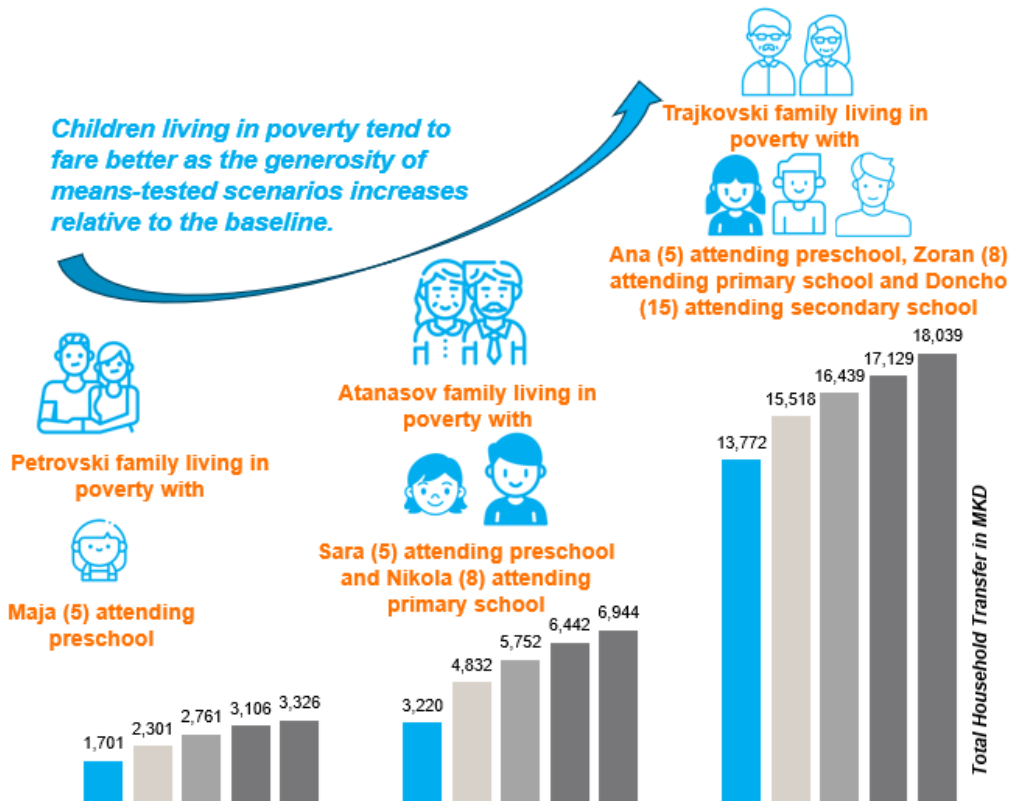


Table 4

presents the impacts of the five income-tested scenarios on child poverty incidence, depth, and coverage. In addition to changes in the child poverty rate, the table highlights reductions in the child poverty gap, which capture improvements in the adequacy of support among poor children by measuring how far their incomes fall below the poverty line.

Table 4 *Estimated Impact of Selected Income-Tested Scenarios on Child Poverty Reduction, Poverty Gap, and Coverage*

.Source: Authors' own calculations based on the SILC 2023 data

Scenarios 1 and 2 introduce only modest enhancements to the child allowance and, as a result, generate limited poverty impacts. In Scenario 1, the child poverty rate declines by just 0.4 percentage points, while in Scenario 2 the reduction reaches 1.2 percentage points. Similarly, the child poverty gap narrows by only 1.2 percentage points in Scenario 1 and 1.7 percentage points in Scenario 2. These results indicate that marginal adjustments—when not accompanied by meaningful increases in eligibility thresholds and transfer amounts—are insufficient to significantly improve benefit adequacy or to materially reduce poverty among children living in the poorest households.

Substantially stronger results emerge in Scenario 3, where the child allowance threshold and is raised to the highest level. This scenario reduces the child poverty rate by 5.8 percentage points and the child poverty gap by 3.0 percentage points, while expanding coverage to 42.1 percent of children. The sizable reduction in the poverty gap indicates that benefits not only reach more poor children but also provide higher levels of support, moving recipient households closer to the poverty line.

Differently from Scenario 3, Scenario 4 incorporates the education allowance using a medium eligibility threshold and medium transfer amounts. This configuration leads to slight improvements in child poverty outcomes and coverage compared to Scenario 1 and Scenario 2. However, the overall reduction in the child poverty rate remains more limited, as the education allowance is inherently applied to a narrower population—restricted to children enrolled in education and subject to attendance conditions—thereby constraining its reach as a poverty-reduction instrument. Nevertheless, the stronger reduction observed in the child poverty gap indicates that the expanded

	Reduction in child poverty (prevalence of poverty) in percentage points	Reduction in child poverty gap (depth of poverty) in percentage points	Child Coverage, %
Income-Tested Scenario 1	-0.4	-1.2	29.2
Income-Tested Scenario 2	-1.2	-1.7	
Income-Tested Scenario 3	-5.8	-3.0	42.1%
Income-Tested Scenario 4	-6.0	-3.5	

education allowance could be considered as a top-up for the poorest beneficiary households,

deepening support among children already reached by the system and improving benefit adequacy for those facing the most severe income shortfalls.

Figure 21 Additional Cost of Each Income-Tested Scenario in Million EUR

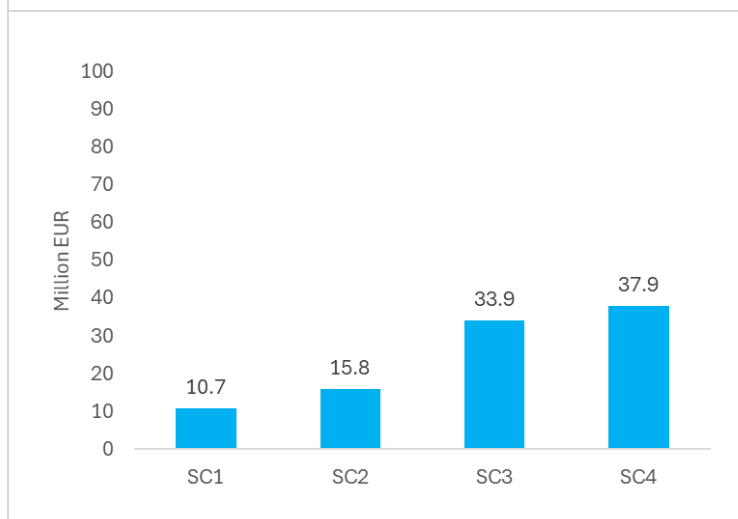
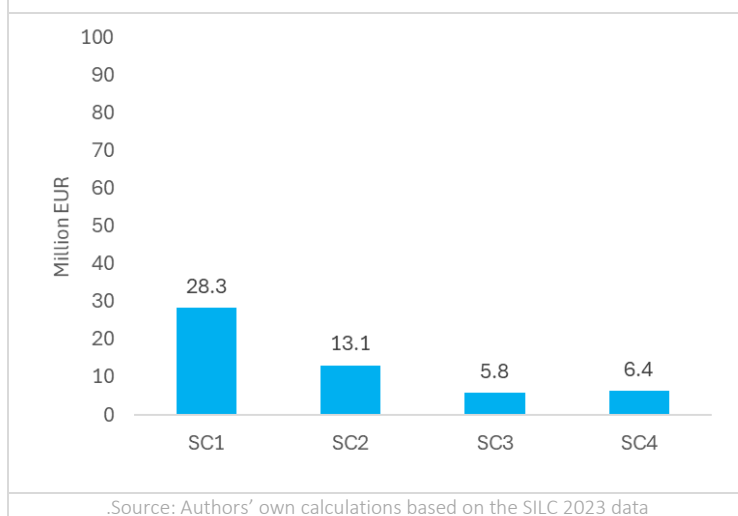


Figure 22 Estimated Additional Cost of Each Income-Tested Scenario Required to Reduce Child Poverty by 1 Percentage Point in Million EUR



.Source: Authors' own calculations based on the SILC 2023 data

Figures 21 and 22 jointly illustrate the fiscal implications and cost-effectiveness of the selected income-tested scenarios. Figure 19 shows that the estimated additional fiscal cost varies substantially across scenarios, ranging from €11 million in Scenario 1 to €38 million in Scenario 4. Scenarios 3 and 4 are among the more fiscally demanding options, reflecting their higher eligibility thresholds and increased transfer amounts, which expand both coverage and benefit adequacy for households with children.

However, Figure 20 demonstrates that higher total cost does not imply lower efficiency—indeed, the opposite holds. Scenarios that introduce more ambitious income-tested design changes deliver substantially larger poverty reductions per euro spent. In particular, Scenario 3 and Scenario 4 achieves a reduction in the child poverty rate at an estimated cost of approximately €6 million per percentage point. This indicates that expanding eligibility thresholds and strengthening transfer adequacy significantly improves the cost-effectiveness of the intervention, even when overall fiscal costs increase.

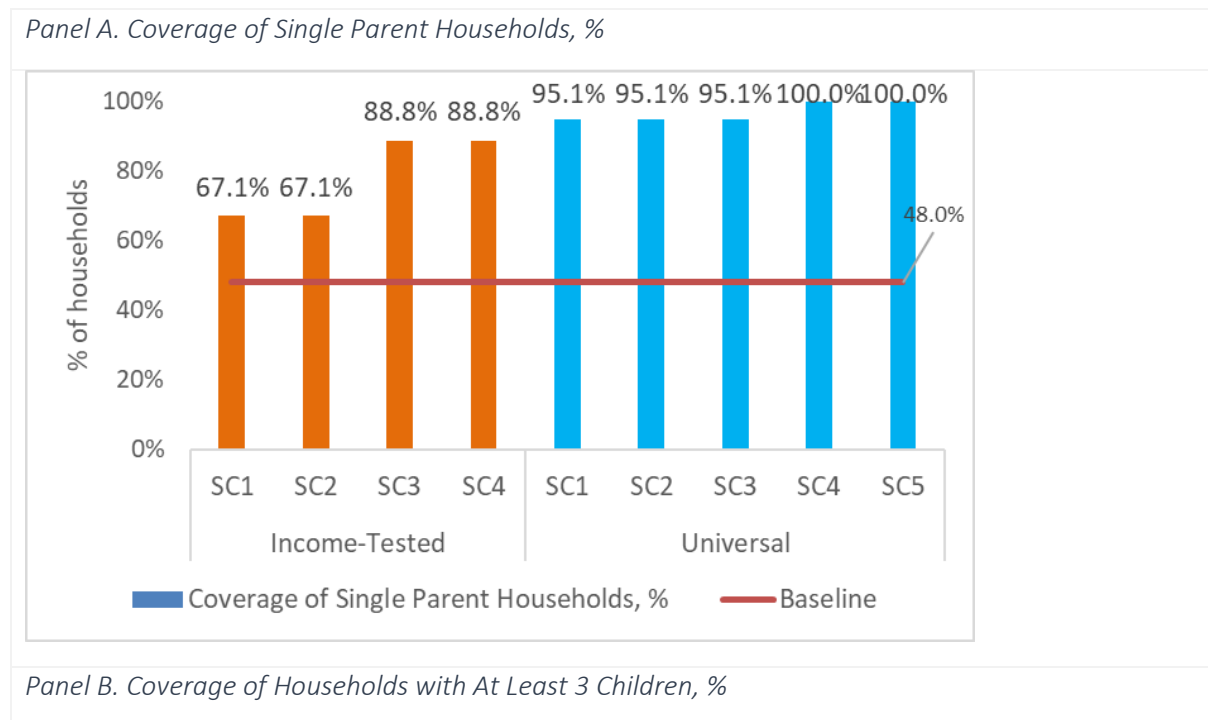
Taken together, the figures highlight a key policy trade-off. While Scenarios 3 and 4 involve higher absolute fiscal costs, they generate significantly greater returns in terms of child poverty reduction efficiency. This suggests that moderately higher upfront investment, when paired with improved targeting and adequacy, can yield more effective poverty outcomes than lower-cost but weaker designs. These results suggest that incremental or marginal adjustments to existing income-tested schemes are unlikely to yield meaningful gains, whereas more ambitious reforms—focused on higher thresholds, adequate transfer levels, and child-sensitive design—offer substantially better value for money. The evidence therefore supports prioritising reforms that strengthen both coverage and adequacy, rather than minimising expenditure at the expense of effectiveness, particularly in a context where child poverty remains structurally high.

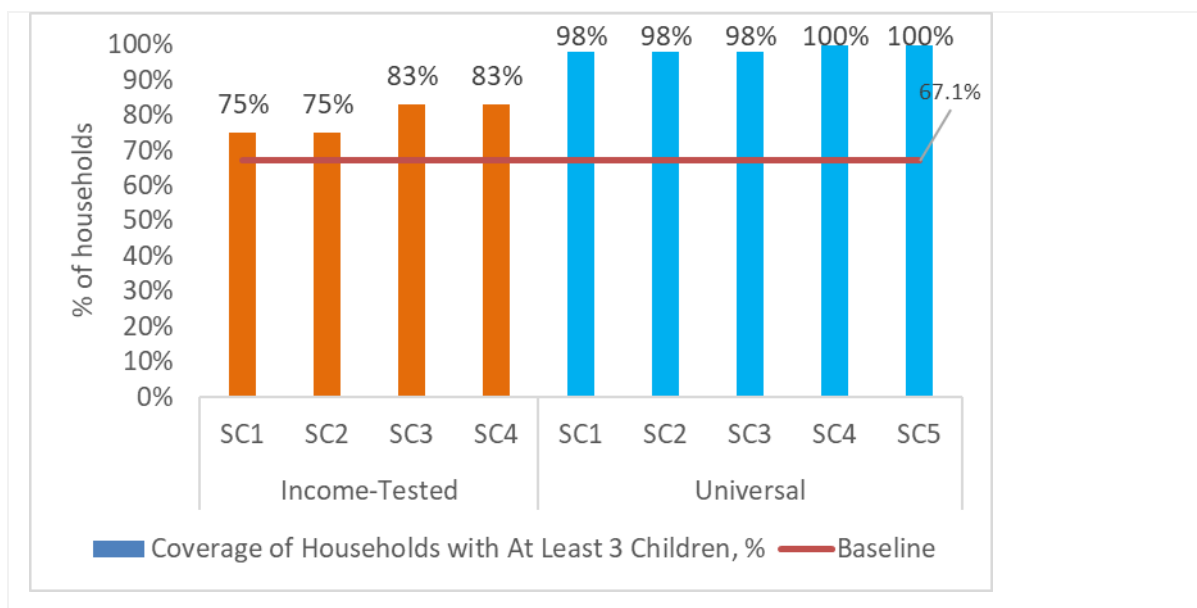
Coverage Improvements for the Most Vulnerable Households

All simulated policy options improve access to child benefits for vulnerable families including single-parent households and households with at least three children, while universal scenarios achieve near-complete coverage, making them particularly effective in closing remaining coverage gaps among households facing the highest child poverty risks.

As shown in Figure 23, For single-parent households, coverage increases substantially compared to the baseline level of approximately 48%. Under the income-tested reform scenarios, coverage rises to 67% in SC1–SC2 and further to 88.8% in SC3–SC4, reflecting the effect of expanding eligibility thresholds and transfer generosity. However, the universal reform scenarios produce the largest improvements: coverage reaches 95.1% under SC1–SC3 and becomes fully universal (100%) under SC4–SC5.

Figure 23 Coverage Rates for Single-Parent Households and Households with Three or More Children under Income-Tested and Universal Child Allowance Reform Scenarios





Similarly strong improvements are observed for households with at least three children, another group facing elevated child poverty risk. Coverage increases from a baseline level of approximately 67% to 75% under SC1–SC2 and 83% under SC3–SC4 in the income-tested scenarios. Under the universal scenarios, coverage rises sharply to 98% already in SC1–SC3 and reaches full coverage (100%) in SC4–SC5, ensuring that nearly all large families with children benefit from the reform.

Overall, the results show that while income-tested reforms improve coverage progressively through expanded eligibility, universal child allowance scenarios nearly eliminate coverage gaps among the most vulnerable households, making them particularly effective instruments for strengthening equity and reducing child poverty risks across structurally disadvantaged family types.

5.3. Additional Considerations on the GMA

Given the central role of the GMA as the last-resort income support, the analysis gives particular attention to how alternative design choices within the GMA affect child poverty outcomes, coverage, and fiscal sustainability. While the broader reform agenda in this study focuses on child and education allowances, the performance of the GMA remains critical, both because of its direct poverty-alleviation function and because of its interaction with other child-related benefits.

Accordingly, the analysis considers two alternative policy configurations, reflecting different degrees of reform ambition and fiscal exposure.

- **First, the GMA baseline reflects the current legal and operational framework.** Under this configuration, eligibility thresholds, equivalence scales, and transfer amounts remain unchanged, and the GMA operates exactly as defined under the existing Law on Social Protection. This option therefore serves as a reference case and implies no legislative amendments or changes to programme parameters.

- **Second, the GMA–Low variant introduces a targeted structural adjustment aimed at improving child sensitivity without increasing fiscal pressure.** Under this configuration, the GMA adopts the OECD equivalence scale for children, replacing the current household composition formula for children that assigns very low weights to children. At the same time, the eligibility threshold and base transfer amount are recalibrated to approximately 40 percent of the adjusted poverty line for 2026¹³⁵, a level that preserves the overall generosity of the scheme. The base GMA transfer is set at 5856.8 MKD, which is closer to the current transfer level of 5,668 MKD in 2026.

Simulation results clearly show that even modest increases in the GMA threshold lead to disproportionately large increases in total programme costs, an effect that is further amplified when more child-sensitive equivalence scales are applied. For this reason, expanding the GMA through higher thresholds or higher base transfers was not considered fiscally viable within the scope of this analysis. Instead, the focus is deliberately placed on the GMA–Low configuration combined with the OECD equivalence scale, which preserves the core structure of the programme while improving its child sensitivity.

Under this approach, eligible households continue receiving a transfer equal to the gap between their equivalised household income and the GMA threshold, with the resulting amount added directly to household income. This design ensures that improvements in targeting arise from better assessment of household needs, rather than from higher benefit generosity.

The results indicate that introducing the OECD household composition scale for children modestly improves the child outcomes of the GMA, even without substantially increasing the baseline level. Under the baseline design with the current household composition scales, overall coverage among the poorest 20 percent of the population with GMA reaches about 23 percent. Policy models indicate these changes would slightly increase the coverage among the poorest population from 23% to roughly 26%, strengthening support for vulnerable families. More importantly, coverage increases from approximately 14% to 17% for single-parent households and from about 16% to 20% for households with at least three children. Despite reaching more children, child poverty impact remains limited (less than one percentage point) as the GMA baseline amount (5,857 MKD) still remains very similar to the 2026 baseline (5,668 MKD).

From a policy perspective, this finding is critical. It demonstrates that improving child sensitivity within the GMA can yield meaningful targeting gains without significantly revising the programme structure. Nevertheless, the analysis also confirms that any structural change to the GMA carries non-negligible fiscal implications, given the size and centrality of the programme. The estimated additional cost of introducing the OECD equivalence scale under the low-threshold configuration amounts to approximately 16 million EUR. While this cost is modest relative to more expansive reform options, it underscores the sensitivity of GMA expenditures to parameter changes and highlights the importance of cautious calibration.

Overall, the findings suggest that the GMA should not be the primary vehicle for large-scale expansion of child-related support, given its high fiscal elasticity. Instead, the GMA is best positioned as a foundational safety net, whose effectiveness for children can be enhanced through targeted design improvements, while broader coverage and adequacy objectives are addressed through

¹³⁵ Based on the Survey on Income and Living Conditions (SILC), the State Statistical Office calculates poverty indicators annually. Poverty is measured using income as the welfare indicator, with the poverty threshold defined at 60 percent of the median equivalised income. For 2023, the corresponding monthly poverty threshold was calculated at 12,048.2 MKD. To update this threshold to 2026 levels, the analysis adjusts the 2023 value using the average of the consumer price index and gross annual income growth, in line with discussions held with State Statistical Office officials, which resulted in the adjusted equivalised poverty threshold as 13,888.96 MKD.

complementary child-specific benefits. This reinforces the case for strengthening child allowances—potentially through universal or hybrid designs—while preserving the GMA as a fiscally disciplined instrument focused on last-resort protection.

5.4. Comparing Policy Pathways

The microsimulation results highlight two distinct but complementary reform pathways for strengthening child-related cash benefits in North Macedonia: (i) universal child allowance models combined with targeted supplements, and (ii) enhanced income-tested designs. Each pathway reflects a different balance between coverage, adequacy, targeting efficiency, and fiscal cost. Rather than presenting these approaches as mutually exclusive, the analysis shows that their relative strengths lie in addressing different dimensions of child poverty and system performance.

Universal + Income-Tested Supplement: Strengths, Trade-Offs, and Fiscal Profile

Universal child allowance models—particularly those complemented by income-tested top-ups—consistently deliver the largest reductions in child poverty and the broadest coverage. By design, universal schemes eliminate exclusion errors, reach near-poor households that are often missed by strict income-testing, and provide predictable income support across the child population. In the simulations, universal scenarios achieve child coverage rates of up to 100 percent and reduce child poverty by between 3 and 6 percentage points, with substantial reductions in the child poverty gap.

The key strength of the universal-plus-supplement approach lies in its hybrid design. The universal component ensures horizontal equity by treating all children as entitled to a basic level of support, while targeted top-ups preserve vertical equity by directing additional resources to children in the poorest households. This combination improves poverty outcomes without fully abandoning targeting discipline. Moreover, universal designs reduce administrative complexity, improve transparency, and strengthen social legitimacy, which may enhance take-up and compliance.

The main trade-off is fiscal. Universal schemes entail higher total costs than most income-tested configurations, particularly when coverage is extended to all children aged 0–17. However, the cost-effectiveness analysis shows that several universal scenarios perform competitively when assessed per percentage point reduction in child poverty. This suggests that higher upfront spending can yield proportionally stronger outcomes when benefits are well-designed and complemented by targeted elements. The fiscal profile therefore points to universal-plus-supplement models as viable medium-term options, provided that reforms are carefully sequenced and anchored in sustainable financing strategies.

Enhanced Income-Tested Design: Efficiency and Coverage Limitations

Enhanced income-tested scenarios prioritise depth of support for the poorest children and households, aiming to maximise poverty reduction per euro spent under tighter budget constraints. When eligibility thresholds are raised and child-sensitive design features—such as the OECD equivalence scale and removal of child caps—are introduced, income-tested models can deliver substantial poverty reductions. In particular, scenarios with higher thresholds achieve reductions of up to 6 percentage points in the child poverty rate and significant improvements in the child poverty gap.

The main strength of this pathway lies in its targeting efficiency. Income-tested designs concentrate resources on households with the greatest need, resulting in strong poverty reduction effects relative to their fiscal cost. This makes them particularly attractive in contexts where fiscal space is limited or where legislative constraints restrict rapid system-wide reforms.

However, the analysis also highlights inherent limitations. Even the most ambitious income-tested scenarios leave a sizable share of children uncovered, particularly those in near-poor or unstable households. Coverage plateaus at around 42 percent, reflecting the structural exclusion risks associated with income thresholds, administrative complexity, and imperfect take-up. As a result, while enhanced income-testing can significantly reduce poverty among beneficiaries, it cannot fully address the broader vulnerability profile of children across the income distribution.

Short-Term Reforms

Several reform measures emerge as low-risk, high-impact options that can be implemented in the short term without major legislative overhaul or fiscal expansion.

- Linking benefits to the poverty line/the minimum wage. Strengthening indexation mechanisms to systematically link benefit thresholds and transfer amounts to the poverty line or minimum wage would prevent further erosion of benefit adequacy. This reform improves predictability and maintains the real value of benefits over time, protecting households from inflation and wage growth shocks.
- Removing Caps. Eliminating the cap on the number of children eligible for the child allowance directly addresses the disproportionate poverty risks faced by larger families. This reform corrects a structural inequity in the system and enhances adequacy for households with three or more children with minimal administrative complexity.
- Including Pre-School Children. Extending education allowance eligibility to pre-school children aligns cash support with early childhood development priorities. While poverty impacts are modest in the short term due to supply constraints, this reform strengthens policy coherence and prepares the system for future expansion as preschool availability increases.
- Child Scales. Adopting the OECD equivalence scale across all child-related benefits represents one of the most cost-effective reforms identified in the analysis. By better reflecting children's needs in household income assessments, this adjustment improves targeting toward families with children without increasing benefit levels or thresholds.

Medium-Term Structural Options

Beyond incremental adjustments, the results point to two structural reform directions for the medium term.

- Universal Child Allowance with Supplement. A universal child allowance complemented by targeted top-ups for the poorest households emerges as a balanced and effective model. This approach combines broad coverage with progressivity, reduces exclusion errors, and delivers strong poverty impacts. The phased scenarios demonstrate that such a model can be introduced gradually—starting with younger children or partial coverage—while maintaining fiscal control.
- Labour-Market-Compatible Benefit Design. Reforming benefit withdrawal rules to reduce sharp income cliffs during labour market entry is essential to avoid reinforcing poverty traps. Introducing gradual phase-outs, income disregards, or temporary benefit retention can improve incentives for formal employment while preserving income security for children.

Aligning child benefits with activation policies would strengthen both social and labour market outcomes.

Preferred Policy Packages

Drawing on the simulation results, two policy packages emerge as particularly compelling.

- First, a high-threshold income-tested package combined with child-sensitive design reforms—corresponding to Means-Tested Scenario 4—offers the strongest poverty reduction within a targeted framework. This option delivers large reductions in both the child poverty rate and gap, with high cost-effectiveness, making it suitable where fiscal space is constrained but political appetite for reform exists.
- Second, a phased universal child allowance with targeted top-ups—corresponding to Universal Combined Scenarios 3 to 5 and the Phases 2–5—provides a strategic pathway toward comprehensive coverage. Intermediate phases achieve strong poverty reductions at relatively low cost, while later phases deliver full coverage and the largest absolute impacts.

Overall, the evidence shows that design choices matter as much as spending levels. Reforms that improve child sensitivity, harmonise programme rules, and combine universality with targeted support can deliver measurable reductions in child poverty at manageable fiscal cost.

Main Limitations of the Microsimulation Approach

This study relies on SILC 2023 microdata, which imposes several methodological constraints on the exact replication of eligibility rules for child-related cash benefits. In the absence of access to administrative application and beneficiary records, the microsimulation necessarily relies on survey-based information to approximate eligibility. While SILC provides a robust and nationally representative income dataset, it does not capture all variables used in administrative eligibility assessments.

Specifically, certain eligibility conditions applied in practice—such as disability status and certain types of land ownership—are not fully observable in the SILC dataset. Consequently, these factors could not be incorporated as they are applied in reality into the baseline eligibility design. In addition, the income concept used in administrative assessments may differ from the gross household income reported in SILC. Although the analysis adjusts reported income, differences remain between survey-reported income and the income definitions applied by the Ministry.

A further limitation relates to the modelling of the education allowance. Due to the SILC questionnaire design, school attendance information is missing for children aged 13–14, creating gaps in compulsory education status. To address this, the analysis applies a survey-weighted regression imputation approach, estimating school attendance for 13–14-year-olds based on observed patterns among children aged 10–12. The model predicts attendance as a function of certain variables such as age, gender, highest household educational attainment, and degree of urbanisation, and deterministically assigns predicted values to missing observations. While this approach is methodologically sound, it introduces an additional layer of uncertainty relative to directly observed attendance data.

Moreover, the education allowance in practice is conditional on an attendance rate of at least 85 percent, a criterion that cannot be directly modelled using SILC, as detailed attendance rates are not collected. As a result, all children reported as attending pre-school, primary, or secondary education are assumed to meet the attendance condition. This simplifying assumption may slightly overestimate eligibility compared to administrative practice.

Finally, the microsimulation assumes full and correct implementation of programme rules, including automatic receipt of the child allowance for households eligible for GMA. Evidence from key informant

interviews suggests that such linkages do not always function perfectly in practice, due to administrative bottlenecks or information gaps. However, the model intentionally applies the rules as designed—without leakage or take-up errors—in order to assess the intended policy impacts of alternative reforms rather than current implementation shortcomings.

Taken together, these limitations imply that the results should be interpreted as policy simulations under ideal implementation conditions. Nonetheless, the approach provides a coherent framework for comparing reform options and identifying the relative effectiveness of alternative policy designs.

6. Preliminary Fiscal Space and Sustainability Considerations

Creating fiscal space for social protection is a crucial step toward ensuring sustainable and inclusive social policies. The preliminary fiscal space analysis explores and elaborates on potential sources of fiscal space for expanding social assistance programmes in North Macedonia. The analysis aims to provide a foundational understanding of the opportunities and constraints in financing social assistance expansion. The findings aim to inform policy discussions on sustainable social protection financing.

The analysis leverages existing literature and fiscal data available online in international databases supplemented by qualitative insights from key informants. The study is a preliminary fiscal space analysis and does not undertake full-scale macroeconomic modelling or dynamic fiscal projections. Instead, it focuses on a pragmatic and policy-oriented examination of fiscal space creation options as outlined in ILO'S Tool for fiscal space analysis¹³⁶ and elaborates on these options based on available literature and data.

Fiscal space can be defined as “the resources available as a result of the active exploration and utilization of all possible revenue sources by a government”.¹³⁷ The expansion of it is a dynamic process where governments actively explore additional funding sources beyond budget redistribution or debt, with taxation being a crucial alternative. Lastly, expanding fiscal space involves both securing new financial resources as well as implementing institutional reforms, particularly in expenditure management.

Closing the financing gap for universal social protection and essential health care remains a significant challenge, across the globe. The financing gap for achieving universal social protection and essential health care in low- and middle-income countries is estimated at 3.3% of GDP—approximately US\$1.4 trillion annually.¹³⁸ Of this, 1.3% of GDP is needed for key cash benefits, with child benefits alone requiring 0.6% of GDP and accounting for 17.8% of the overall gap.¹³⁹ The financing gap for achieving universal social protection and essential health care was estimated as 4.6% of GDP for North Macedonia.¹⁴⁰

¹³⁶ ILO. (2024). *Tool for fiscal space analysis when financing social protection*. Geneva: International Labour Office, 2024. © ILO.

¹³⁷ Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. (2019). *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*. ILO. Retrieved from: <https://www.ilo.org/publications/fiscal-space-social-prote>

¹³⁸ Cattaneo, U., Schwarzer, H., Razavi, S., Visentin, A. 2024. *Financing gap for universal social protection: Global, regional and national estimates and strategies for creating fiscal space*, ILO Working Paper 113 (Geneva, ILO). <https://doi.org/10.54394/FGPM3913>

¹³⁹ Ibid.

¹⁴⁰ Ibid.

A variety of options exist for creating fiscal space. Ortiz et al. (2019) identify eight strategies to expand fiscal space for social protection, drawing on both domestic and external sources and composed of revenue and expenditure-based measures.¹⁴¹ These include (i) **increasing tax revenues** through base broadening, new taxes, and improved compliance, (ii) **expanding social security coverage and contributory revenues**, (iii) **eliminating illicit financial flows** such as tax evasion and trade mis-invoicing, and (iv) **reallocating public expenditures** by shifting resources from low-impact to high-impact areas and improving efficiency. Additional strategies involve (v) **using fiscal and central bank reserves**, including sovereign wealth funds and excess foreign exchange, (vi) **managing public debt** through borrowing or restructuring while maintaining sustainability (vii) **adopting a growth-oriented macroeconomic framework** that fosters job creation and economic expansion without compromising stability and (viii) **increasing aid and transfers from international partners**. All these strategies should be assessed and implemented within national contexts through **inclusive social dialogue**, ensuring that trade-offs are well understood and reforms are equitable and sustainable.¹⁴²

Expanding fiscal space for social protection is a pressing priority for many governments striving to reduce poverty, enhance resilience, and promote inclusive development. Across diverse country contexts, a range of strategies has been employed in the past to mobilize domestic resources and reallocate spending toward social objectives. Illustrative cases from the Middle East, North Africa, Latin America, and Southern Africa can be seen showcasing how targeted reforms in energy subsidies, taxation, and natural resource governance have enabled countries to finance and scale up social protection programmes.

In **Egypt**, the government reformed energy subsidies and redirected nearly half of the savings—around USD 3.6 billion—toward health, education, and social protection.¹⁴³ **Tunisia** pursued broader structural reforms, including reducing energy subsidies as well as revising tax systems, and improving the performance of public banks.¹⁴⁴ **Morocco** introduced VAT reforms such as to limit exemptions and modernize collection methods as well as making corporate taxes more progressive to widen the tax base and improve efficiency.¹⁴⁵ **Algeria**, where social protection is largely funded through high payroll contributions, introduced targeted taxes on tobacco, alcohol, and pharmaceuticals to support social spending.¹⁴⁶ In **Bolivia**, natural resource governance reforms—particularly in the hydrocarbon sector—increased public revenues from 6.9% to 13% of GDP (2004–2008), enabling the rollout of key universal and targeted programmes like old-age pensions and cash transfers funded through earmarked revenues from hydrocarbons.¹⁴⁷ **South Africa** relied on improved tax compliance and administration, increasing revenues without new taxes or debt, to expand social spending from 2.9% to 4.5% of GDP between 1994 and 2007.¹⁴⁸ **Brazil** focused on expanding social security contributory coverage and formalizing employment, raising the gross tax burden from 27% to 31% of GDP between 1996 and 2006,

¹⁴¹ Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. (2019). *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*. ILO. Retrieved from: <https://www.ilo.org/publications/fiscal-space-social-prote>

¹⁴² Ortiz, I., Cummins, M., & Karunanethy, K. (2017). *Fiscal space for social protection and the SDGs: Options to expand social investments in 187 countries* (ESS Working Paper No. 48). International Labour Office; UNICEF; UN Women. <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537>.

¹⁴³ Bloch, C., Bilo, C., Helmy, I., Osorio, R. G., & Soares, F. V. (2019). *Fiscal space for child-sensitive social protection in the MENA region* (No. 36). Research report. Link: <https://www.econstor.eu/handle/10419/224105>.

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

¹⁴⁶ Ortiz, I., Cummins, M., & Karunanethy, K. (2017). *Fiscal space for social protection and the SDGs: Options to expand social investments in 187 countries* (ESS Working Paper No. 48). International Labour Office; UNICEF; UN Women. <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537>.

¹⁴⁷ International Labour Organization (ILO). (2012). *Fiscal space for social protection: Lessons learnt from developing countries* (Extension of Social Security Series No. 33). International Labour Office.

¹⁴⁸ Ibid.

while also introducing a rural pension, taxing financial transactions, and extending tax systems to micro and small enterprises.¹⁴⁹

These diverse experiences demonstrate that creating fiscal space for social protection is achievable through context-specific strategies rooted in sound governance and political commitment. Whether through revenue reforms, resource mobilization, or better spending allocation, each case underscores the potential to build inclusive and sustainable protection systems aligned with national development goals.

The remainder of this part is structured to provide a comprehensive analysis of the context and policy options relevant for expanding fiscal space to support social assistance programmes in North Macedonia. It begins with a context analysis, examining the macroeconomic, fiscal, and demographic conditions that influence the scope for fiscal space expansion in North Macedonia. Building on this, the report presents an assessment of seven selected policy options to create fiscal space, chosen based on the availability of information identified during the desk review. These include: (i) increasing tax revenue; (ii) expanding social security coverage and contributory revenues; (iii) eliminating illicit financial flows, (iv) reallocating public expenditure; (v) managing debt. Each section explores the potential and limitations of these options, offering evidence-informed insights to support policy dialogue and planning.

6.1. Assessment of options to create fiscal space for expanding social assistance programmes

This section explores the range of fiscal space options available to North Macedonia for expanding and sustaining its social protection system. It examines the potential and constraints of several financing strategies—including increasing tax revenue, expanding social security coverage, eliminating illicit financial flows, reallocating public expenditure, managing debt, adopting growth-oriented macroeconomic policies, and leveraging international aid. By analysing these avenues, the section aims to inform policymakers of the opportunities and trade-offs involved in financing inclusive social protection reforms.

A. Increasing Tax Revenue

A major avenue for expanding fiscal space is enhancing domestic tax revenue. Taxation is the primary source of public finance, contributing over 80% of total government revenue in about half of all countries and more than 50% in nearly all.¹⁵⁰ To address high income inequality, governments are encouraged to shift away from regressive taxes like VAT and consumption taxes, and instead strengthen progressive taxation—such as income, corporate, property, and inheritance taxes, including levies on

¹⁴⁹ Ibid.

¹⁵⁰ Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. (2019). Fiscal Space for Social Protection. A Handbook for Assessing Financing Options. ILO. Retrieved from: <https://www.ilo.org/publications/fiscal-space-social-prote>

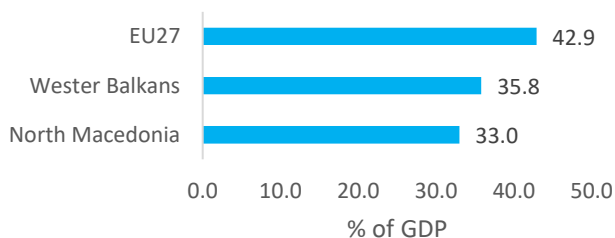
the under-taxed financial sector.¹⁵¹ Other tax options include natural resource taxes, innovative taxes (e.g. carbon, and tourism-related taxes), tariffs, and tolls.¹⁵²

ILO emphasizes the need to broaden tax bases, implement progressive taxation, and eliminate harmful subsidies to generate additional resources.¹⁵³ Property and natural resource taxes are also highlighted as underutilized but potentially significant revenue sources.¹⁵⁴ Strengthening tax administration and improving VAT efficiency are also essential institutional reforms to boost compliance and collection.¹⁵⁵

Tax revenue in North Macedonia remains low compared to regional peers and the EU, with general government revenue at 33 percent of GDP in 2023—well below the EU27 average of 42.9 percent, and the Western Balkans average of 35.8 percent (See Figure 24).¹⁵⁶ One of the most viable options for expanding the financing envelope for sustainable development goals in North Macedonia is increasing tax revenues, an area where the country currently performs below the levels observed in other Western Balkan countries and the EU-27 average.¹⁵⁷ In 2023, tax revenues (excluding social security contributions) accounted for 20.2 percent of GDP, well below the estimated potential of approximately 25 percent, as observed in ECA and middle-income countries.¹⁵⁸ Thus, increasing tax revenue is a critical priority for North Macedonia to create fiscal space and support inclusive, post-pandemic growth, especially given limited scope for reducing government spending.¹⁵⁹

North Macedonia’s tax system is heavily reliant on indirect taxes and social security contributions. While indirect taxes have consistently generated nearly three times more revenue than direct taxes over the past decade, the gap has begun to narrow.¹⁶⁰ Direct taxes currently account for just 5.8% of GDP—well below the EU27 average of 13.4%.¹⁶¹ In contrast, indirect tax revenues are broadly aligned with EU averages, representing 13.4% of GDP in North Macedonia as opposed to 13.3% in EU27.¹⁶²

Figure 24. Tax revenue in North Macedonia remains low compared to regional peers and the EU



Source: World Bank. (2024). North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

While tax revenues have grown in recent years, their efficiency—especially in the case of value-added tax (VAT)—remains well below potential. Approximately 40 percent of government revenue is generated from indirect taxes, and particularly VAT and excise taxes.¹⁶³ North Macedonia’s VAT efficiency is among the lowest in the Western Balkans, reflecting challenges in compliance, policy design, and administration.¹⁶⁴

¹⁵¹ Ibid.

¹⁵² Ibid.

¹⁵³ ILO. (2024). *Tool for fiscal space analysis when financing social protection*. Geneva: International Labour Office, 2024. © ILO.

¹⁵⁴ Coady, D. (2018). Creating fiscal space. *Finance and Development*, 55(4), 23-28.

¹⁵⁵ Ibid.

Harris, E. (2013). Financing social protection floors: Considerations of fiscal space. *International Social Security Review*, 66(3-4), 111-143. DOI: <https://doi.org/10.1111/issr.12021>

¹⁵⁶ Ibid.

¹⁵⁷ Petreski, M., & Kandikjan, L. (2021). *SDG financing landscape in North Macedonia*. United Nations Resident Coordinator Office in North Macedonia.

¹⁵⁸ World Bank. (2024). North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>.

¹⁵⁹ IMF. (2022). *IMF Country Report No. 22/48 Republic of North Macedonia Selected Issues*. IMF.

¹⁶⁰ World Bank. (2024). North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

¹⁶¹ Ibid.

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

North Macedonia's direct tax revenues are notably low by both regional and EU standards, limiting their contribution to overall tax collection. Personal income tax (PIT) revenues, in particular, account for a small share of GDP (3.2% as opposed to 7.9% in EU27), reflecting the relatively flat tax structure (the top statutory tax rate is a flat 10%).¹⁶⁵ Although a progressive income tax reform was introduced in 2019, it faced strong public and political resistance and was ultimately rolled back, underscoring the difficulty of implementing redistributive tax policies.¹⁶⁶ While there are various options for generating additional revenue, previous attempts to reform the tax system were unsuccessful, highlighting the political sensitivities surrounding such measures.¹⁶⁷

Similarly, corporate income tax (CIT) revenues remain subdued (2.0% of GDP as opposed to 3.3% in EU27), partly due to a low top statutory corporate income tax rate at 10 percent (as opposed to 21.2% in EU27).¹⁶⁸ Strengthening direct taxation—through raising PIT and CIT rates could increase revenues considerably.¹⁶⁹

Introducing more progressive income taxation¹⁷⁰, raising PIT rates to 15 percent (estimated to yield 0.14 percent of GDP), and increasing the CIT rate to 15 percent (with an estimated gain of 1.07 percent of GDP) are among the proposed measures by the World Bank.¹⁷¹ Streamlining special tax regimes and adopting a phased approach to reforms in CIT, PIT, and VAT are also central elements of the government's Tax Reform Concept as indicated in 2024-2028 Fiscal Strategy.¹⁷²¹⁷³ These efforts are part of the Ministry of Finance's comprehensive tax policy reform programme launched in 2022, grounded in the 2021–2025 Tax System Reform Strategy.¹⁷⁴ This agenda aims to enhance the quality of the tax system and increase revenue mobilization. The 2024–2028 Fiscal Strategy reinforces these priorities, emphasizing the need to adjust tax rates and expand the tax base to ensure more robust and sustainable fiscal outcomes.¹⁷⁵

There is also scope for more and better use of property taxes.¹⁷⁶ Property taxes, currently contributing only about 0.5 percent of GDP, are identified as an underutilized revenue source.¹⁷⁷ The government is considering raising rates on high-value properties as part of fiscal decentralization reforms, given their potential to generate additional revenue in a growth-friendly and equitable manner.¹⁷⁸ In the case of North Macedonia, inter-municipal cooperation and shared service delivery models could be considered as viable options to strengthen local capacity and ensure efficient administration.¹⁷⁹ Moreover, given the persistently high levels of unemployment, there is an opportunity to introduce or increase taxes on immovable property, which are generally regarded as more growth-friendly and efficient compared to other forms of taxation.¹⁸⁰ Property taxes are often considered more equitable, as they predominantly

¹⁶⁵ Ibid.

¹⁶⁶ Ibid.

¹⁶⁷ (K114, 2025).

¹⁶⁸ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

¹⁶⁹ Ibid.

¹⁷⁰ IMF. (2022). *IMF Country Report No. 22/48 Republic of North Macedonia Selected Issues*. IMF.

¹⁷¹ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

¹⁷² IMF. (2022). *IMF Country Report No. 22/48 Republic of North Macedonia Selected Issues*. IMF.

¹⁷³ Government of the Republic of North Macedonia. (2023). *2024-2028 Fiscal Strategy of the Republic of North Macedonia*. Government of the Republic of North Macedonia.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

¹⁷⁶ IMF. (2022). *IMF Country Report No. 22/48 Republic of North Macedonia Selected Issues*. IMF.

¹⁷⁷ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

¹⁷⁸ Government of the Republic of North Macedonia. (2023). *2024-2028 Fiscal Strategy of the Republic of North Macedonia*. Government of the Republic of North Macedonia.

¹⁷⁹ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

¹⁸⁰ Ibid.

affect middle- and upper-income individuals who own property, while imposing fewer distortions on business operations and consumer behaviour.¹⁸¹

High levels of informality present a significant challenge for tax administration, undermining revenue collection and compliance efforts.¹⁸² To address this, a gradual formalization of businesses is recommended, supported by the introduction of a lower social contribution rate.¹⁸³ This approach aims to incentivize compliance while enhancing the sustainability of social protection financing. To tackle the issue of informality the Ministry of Finance has also developed the Strategy for the Formalization of the Informal Economy 2023–2027, which builds upon the previous strategy covering 2018–2022.¹⁸⁴ Reducing informality is a key objective outlined in both the Public Revenue Office’s Strategic Plan 2023–2025 and the Ministry of Finance’s Strategy for Tax System Reforms 2021–2025.¹⁸⁵

B. Expanding Social Security Coverage and Contributory Revenues

Social security contributions are defined as “a prior payment that is directly linked to protection guarantees (acquired rights and entitlements) through insurance mechanisms”.¹⁸⁶ They can be collected from both employees and employers. In recent times, several countries—such as China, Thailand, Brazil, and South Africa—have significantly boosted social protection funding through generating financing through improved social contributions.¹⁸⁷ Fiscal space for social protection can be expanded through social contributions by: (i) extending legal coverage to new population groups, (ii) increasing effective coverage by formalizing employment and businesses, and (iii) adjusting contribution rates.¹⁸⁸

In North Macedonia, the effectiveness of social contributions has long been constrained by the size of the informal economy, which is estimated to account for between 21.3% and 33.6% of GDP.¹⁸⁹ High regulatory complexity, excessive tax burdens, and rigid wage rules incentivize firms and workers to operate informally.¹⁹⁰ Employers often evade taxes due to low detection risks and high enforcement costs, while workers—especially youth and students—may prefer undeclared work to retain social or student benefits and maintain schedule flexibility.¹⁹¹ Additional barriers to formalization include outdated labour regulations, lack of recognition for short-term or casual work, and a business environment where perceptions of unfair competition and widespread informality weaken compliance incentives.¹⁹²

¹⁸¹ Ibid.

¹⁸² Ibid.

¹⁸³ Gerovska Mitev, M. (2019). *Financing social protection: North Macedonia* (ESPN Thematic Report). European Commission, Directorate-General for Employment, Social Affairs and Inclusion.

¹⁸⁴ Srbinoski, B., Petreski, B., & Petreski, M. (2024). *Granular examination of the informal economy in North Macedonia: Insights into informal workers, undeclared work and income underreporting in households*. ILO & Finance Think – Economic Research & Policy Institute.

¹⁸⁵ Ibid.

¹⁸⁶ Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. (2019). *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*. ILO. Retrieved from: <https://www.ilo.org/publications/fiscal-space-social-protection-handbook-assessing-financing-options>

¹⁸⁷ Ibid.

¹⁸⁸ Ibid.

¹⁸⁹ Srbinoski, B., Petreski, B., & Petreski, M. (2024). *Granular examination of the informal economy in North Macedonia: Insights into informal workers, undeclared work and income underreporting in households*. ILO & Finance Think – Economic Research & Policy Institute.

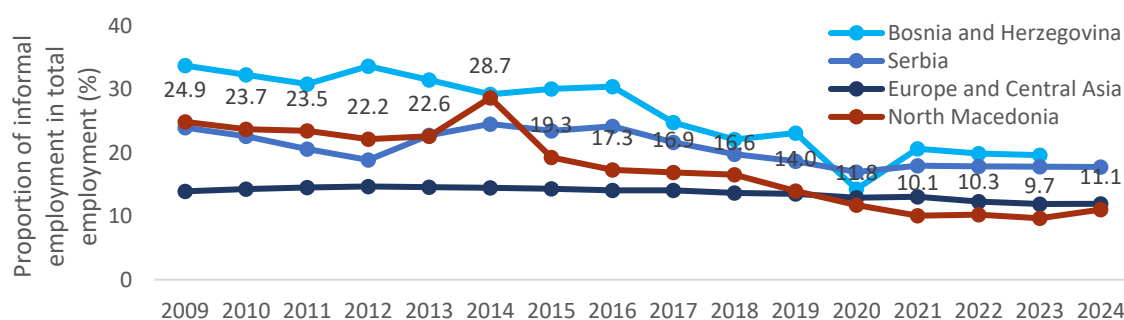
¹⁹⁰ Ibid.

¹⁹¹ Petreski, B., Huibregtse, A., & Ristovski, A. (2023). *Informal employment and undeclared work in the HORECA sector: Findings from North Macedonia* (Policy study Nr. 49). ILO & Finance Think – Economic Research & Policy Institute.

¹⁹² Petreski, B., Huibregtse, A., & Ristovski, A. (2023). *Informal employment and undeclared work in the HORECA sector: Findings from North Macedonia* (Policy study Nr. 49). ILO & Finance Think – Economic Research & Policy Institute.

Despite these challenges, North Macedonia has made significant progress in reducing informal employment, which declined from around 28% in 2014 to under 13% by 2021, and has remained relatively stable through 2024 (See *Figure 25*). This reduction outpaces trends in other Western Balkan countries such as Serbia and Bosnia and Herzegovina, where informal employment has remained between 20–30% with only modest improvements. Compared to the ECA regional average, North Macedonia has demonstrated stronger and more sustained gains in formalizing its labour market, reflecting improvements in enforcement, regulatory frameworks, and targeted policy efforts.

Figure 25. North Macedonia has made significant progress in reducing informal employment



Source: ILOSTAT.

To enhance social contribution revenues, the government could consider gradually introducing contributions on temporary income and applying reduced contribution rates to encourage formalization among small businesses.¹⁹³ Broader efforts to improve tax collection and strengthen tax administration would also support compliance and revenue mobilization, with spillover benefits for the collection of social contributions.¹⁹⁴

C. Reallocation of Public Expenditure

While expenditure reprioritization does not generate new fiscal resources, it can help create fiscal space for social protection by reallocating funds from less impactful or lower-priority areas.¹⁹⁵ Large-scale defence projects or bank bailouts, for example, often demand significant public resources while offering limited social returns. Redirecting such funds toward more people-centred investments can improve the efficiency and equity of public spending.¹⁹⁶ By curbing inefficient or low-impact expenditures governments can channel resources into areas with greater social benefit, such as health, education, or social assistance.¹⁹⁷

Figure 26. Social protection emerges as the largest expenditure category in North Macedonia

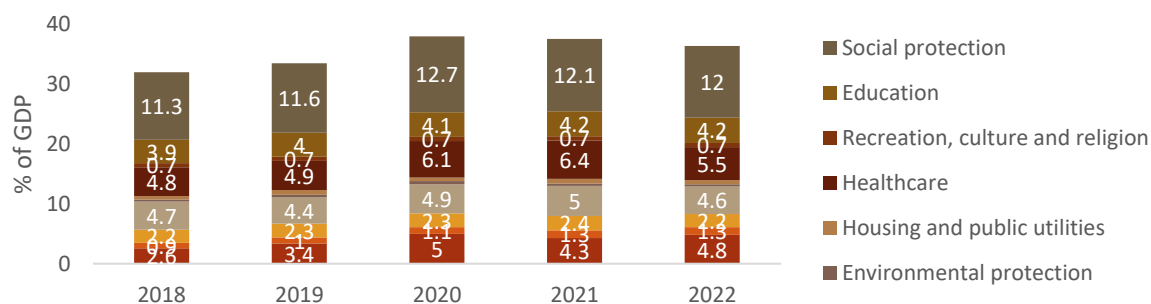
¹⁹³ Gerovska Mitev, M. (2019). *Financing social protection: North Macedonia* (ESPN Thematic Report). European Commission, Directorate-General for Employment, Social Affairs and Inclusion.

¹⁹⁴ IMF. (2022). *IMF Country Report No. 22/48 Republic of North Macedonia Selected Issues*. IMF.

¹⁹⁵ Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. (2019). *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*. ILO. Retrieved from: <https://www.ilo.org/publications/fiscal-space-social-prote>

¹⁹⁶ Ibid.

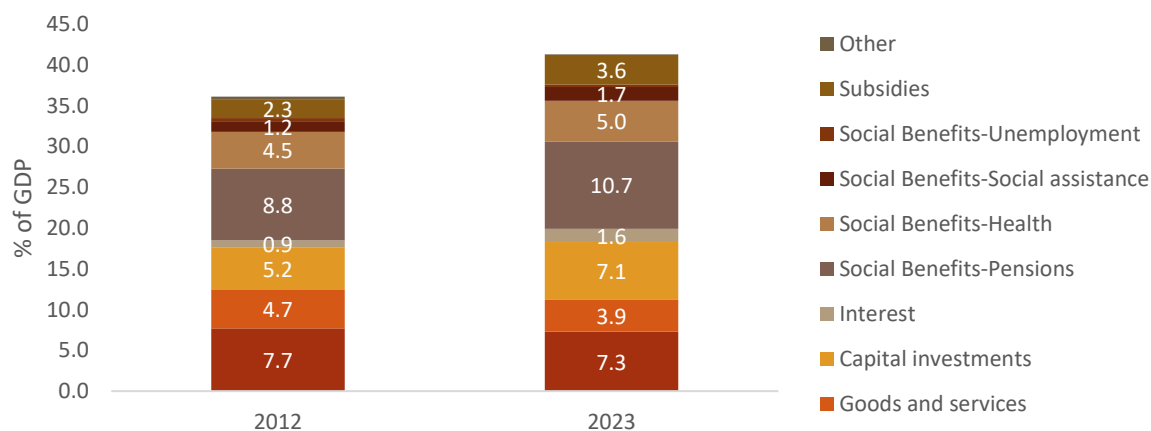
¹⁹⁷ Ortiz, I., Cummins, M., & Karunanethy, K. (2017). *Fiscal space for social protection and the SDGs: Options to expand social investments in 187 countries* (ESS Working Paper No. 48). International Labour Office; UNICEF; UN Women. <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537>



Source: World Bank. (2024). North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/09906272411154165>

When general government spending is assessed by functional classification, social protection emerges as the largest expenditure category in North Macedonia. Social protection spending rose from 11.3% of GDP in 2018 to a peak of 12.7% in 2020 during the COVID-19 crisis, and stabilized around 12% in 2022 (See [Figure 26](#)). Other major spending areas include healthcare (which increased notably in 2020 and remained relatively high), and economic affairs (peaking in 2021). While education spending remained stable at around 4% of GDP, defence, general public services and economic affairs together made up over 10% of GDP in 2022. While essential sectors like health, education, and public order have limited scope for reallocation, areas such as general public services and certain economic affairs could potentially be rationalized to free up resources for social protection.

Figure 27. Growth in pension expenditures and capital investment expenditures can be seen over the past decade



Source: World Bank. (2024). North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/09906272411154165>

A broader view of general government spending over the past decade, based on economic classification, shows growth in pension and capital investment expenditures (See [Figure 27](#)). The continued rise in pension costs underscores the urgency of addressing long-term sustainability in social protection systems. At the same time, the persistently low share of social assistance (only 1.7% in 2023) suggests underinvestment in more progressive, poverty-targeted instruments. While operational spending on wages and goods and services has been proportionally reduced, the rise in capital and “other” expenditures points to shifting priorities that may benefit from more targeted evaluation.

Several areas offer scope for reallocation. Pensions can be considered as the first area for reallocation. Pension expenditures constitute a significant portion of the budget—approximately 10% of GDP or 30%

of total government spending¹⁹⁸—and exceed averages observed in the EU and regional peers.¹⁹⁹ Rationalization of pension spending is under consideration, particularly given that the poverty rate among pension recipients is comparatively low.²⁰⁰ Furthermore, ad-hoc policy adjustments have exacerbated the pension deficit, thereby crowding out resources needed for strategic priorities such as health and education.²⁰¹ Untargeted subsidies and crisis support can be considered as another area for reallocation. Energy-related subsidies in North Macedonia were implemented to shield households and small businesses from energy price surges, placing significant pressure on public finances.²⁰² In 2022, these subsidies amounted to approximately 3.2 percent of GDP or 9.2 percent of government expenditures, though a gradual phase-out began in 2023.²⁰³ The World Bank indicates that phasing out these temporary subsidies, given their limited long-term impact, presents an opportunity to reallocate resources and create budgetary space for more sustainable and strategic investments.²⁰⁴ It is also noted that subsidies and transfers—especially the "other transfers" category, which accounts for over 80% and includes agricultural subsidies—have doubled in terms of both spending and GDP share, often raising concerns due to limited transparency.²⁰⁵ Third, social and education expenditures, including health and social protection, offer the potential for rationalization and improved targeting to achieve better outcomes, possibly with reduced overall spending.²⁰⁶

A past example of successful reprioritization of public expenditure involved the reallocation of approximately 2 billion MKD from the pension system in 2019–2020 to support social reform efforts.²⁰⁷ This was achieved through savings from pension reforms and did not require additional central budget allocations, illustrating how internal system efficiencies can finance broader reforms.²⁰⁸

Additional measures to expand fiscal space include introducing a progressive payment scale for social services. Currently, services like home support for the elderly are universally free, even for pensioners. A targeted approach—offering full subsidies to Guaranteed Minimum Assistance (GMA) recipients and partial subsidies (10–70%) to others—could improve efficiency.²⁰⁹ Reducing administrative barriers in the GMA system, such as long waiting periods and limited access to job training, could also enhance the effectiveness of social programmes and support labour market reintegration.²¹⁰

Reallocation is also constrained by several political, institutional, and fiscal challenges. Politically, phasing out untargeted support measures—particularly energy subsidies—is challenging, as even minor price increases risk pushing vulnerable households into poverty.²¹¹ Efforts to rationalize sensitive spending areas, such as pensions or support for state-owned enterprises (SOEs), often encounter resistance.²¹² Additionally, competing demands for investment in infrastructure and transitions to green economies, such as the promotion of green investments in the Republic of North Macedonia and

¹⁹⁸ Petreski, M., & Kandikjan, L. (2021). *SDG financing landscape in North Macedonia*. United Nations Resident Coordinator Office in North Macedonia.

¹⁹⁹ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Basheska, M., Petreski, M., Tumanoska, D., & Petreski, B. (2024). *The fiscal space in the Western Balkans: Evidence from the recent multilayer crisis (Policy Study No. 51)*. Finance Think – Economic Research & Policy Institute.

²⁰³ Ibid.

²⁰⁴ Ibid.

²⁰⁵ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

²⁰⁶ Ibid.

²⁰⁷ (KII 8, 2025)

²⁰⁸ Ibid.

²⁰⁹ (KII8, 2025).

²¹⁰ (KII8, 2025).

²¹¹ Basheska, M., Petreski, M., Tumanoska, D., & Petreski, B. (2024). *The fiscal space in the Western Balkans: Evidence from the recent multilayer crisis (Policy Study No. 51)*. Finance Think – Economic Research & Policy Institute.

²¹² World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

digital economies including developing new technologies²¹³ make trade-offs difficult. Previous reform efforts, including those outlined in the 2018 Public Finance Review, have seen partial implementation or reversals, reflecting a broader resistance to change.²¹⁴ Finally, demographic shifts, including an aging population, continue to intensify long-term pressures on pension and care systems. Collectively, these challenges constrain the ability to reallocate resources toward expanding social assistance coverage.²¹⁵ While there have been targeted cuts in the past—such as ending universal third and fourth child allowances—further reallocation from within the social protection system, particularly child benefits, is becoming increasingly difficult due to limited remaining options.²¹⁶

Reallocating public expenditure offers a potentially feasible but politically and institutionally constrained avenue for creating fiscal space to expand social assistance programmes in North Macedonia. While social protection is already the largest expenditure category at around 12% of GDP, social assistance remains at just 1.7% of GDP, indicating scope for reprioritization within the broader social sector. Key areas for potential reallocation include pension spending, which absorbs around 10% of GDP and exceeds regional and EU averages, and energy subsidies, which peaked at 3.2% of GDP in 2022 but have limited long-term impact. Past successful examples—such as the 2019–2020 reallocation of pension savings to fund social reforms—demonstrate that internal efficiencies can generate meaningful fiscal space.

D. Managing Debt

As many countries struggle to fully fund their expenditures through taxes and revenues, debt often serves as a necessary supplement to maintain essential programmes, including social protection.²¹⁷ In crisis contexts, debt may be the only feasible means of expanding social protection when taxation faces political or legal obstacles.²¹⁸ Borrowing for social protection, debt management opportunities, debt restructuring and debt relief are among the strategies that could be implemented in this realm.²¹⁹

By the end of 2023, North Macedonia's public debt had risen to 62 percent of GDP—exceeding the newly established fiscal rule and marking an increase of 13 percentage points compared to 2019.²²⁰ This elevated debt level significantly constrains the government's capacity for additional borrowing, particularly for the expansion of ongoing programmes such as social assistance, without risking long-term fiscal sustainability. Also, North Macedonia recorded the highest primary deficit among the Western Balkan countries in both 2022 and 2023.²²¹ The World Bank indicated that North Macedonia, alongside Montenegro, is identified as a key contributor to the projected regional increase in public debt in 2024.²²² Thus, The evolution of North Macedonia's fiscal position and public debt reflects a

While the idea of restructuring existing debt to free up resources for social protection is theoretically plausible, the literature does not identify this as a proposed or viable strategy in the context of North

²¹³ Government of the Republic of North Macedonia. (2023). *2024-2028 Fiscal Strategy of the Republic of North Macedonia*. Government of the Republic of North Macedonia.

²¹⁴ World Bank. (2024). *North Macedonia - Public Finance Review: Ensuring Stability and Boosting Resilience (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099062724111541653>

²¹⁵ Ibid.

²¹⁶ (KII4, 2025).

²¹⁷ ILO. (2024). *Tool for fiscal space analysis when financing social protection*. Geneva: International Labour Office, 2024. © ILO.

²¹⁸ Ibid.

²¹⁹ Ibid.

²²⁰ World Bank. (2024). *North Macedonia Policy Notes*. The World Bank Group. Link: <https://www.worldbank.org/en/country/northmacedonia/publication/north-macedonia-policy-notes>

²²¹ Basheska, M., Petreski, M., Tumanoska, D., & Petreski, B. (2024). The fiscal space in the Western Balkans: Evidence from the recent multilayer crisis (Policy Study No. 51). Finance Think – Economic Research & Policy Institute.

²²² World Bank. (2024). *Western Balkans Regular Economic Report No. 26, Fall 2024: Retaining the Growth Momentum*. © World Bank. <http://hdl.handle.net/10986/42267>

Macedonia. Instead, there is a focus on broader debt management practices. The Ministry of Finance is expected to manage public debt efficiently in the medium term, including exploring opportunities for early repayment and optimizing the maturity, currency, and interest rate structure.²²³ These measures are aimed at enhancing the composition and sustainability of the debt portfolio, rather than pursuing large-scale restructuring to create new fiscal space for social protection. Relevant to managing debts, the literature also highlights the importance of proactively managing fiscal risks—including legal risks that may be associated with debt obligations—though this is not presented as a strategy for freeing up resources.²²⁴ Instead, discussions on debt sustainability emphasize the need to reduce deficits and overall debt levels through fiscal consolidation, primarily by adjusting revenues and expenditures.²²⁵

The challenges of using additional borrowing to expand social assistance coverage in North Macedonia are considerable. Elevated debt levels, high deficits, and increased borrowing costs all point to the conclusion that further debt-financed expansion of social protection would be fiscally unviable. While optimizing debt management is critical for ensuring sustainability, it is not sufficient on its own to create meaningful fiscal space. Therefore, any sustained expansion of social assistance programmes must rely primarily on improvements in revenue mobilization and expenditure efficiency rather than new borrowing.

E. Additional Considerations

Current one-off cash transfers provided at birth—paid to the first and second-born children—have negligible impact on child poverty reduction. By design, these transfers are short-term, non-recurrent, and weakly targeted, limiting their ability to influence either the at-risk-of-poverty rate or the child poverty gap in a sustained manner. Consultations with the Ministry of Social Policy, Demography and Youth indicate that there is an intention to increase the value of newborn grants and extend eligibility to third-born children. However, simulation results and international evidence suggest that such an expansion would absorb fiscal resources while generating little to no measurable reduction in child poverty.

From a policy efficiency perspective, expanding one-off newborn payments is therefore not recommended, particularly in a context of constrained fiscal space. Redirecting these resources toward recurrent, child-centred benefits—such as a universal child allowance with progressive supplements—would yield substantially higher poverty impacts per euro spent and strengthen income security during critical stages of childhood.

As a result, despite a number of constraints, North Macedonia’s general macroeconomic and fiscal context reveals a number of enabling factors for creating additional fiscal space. Economic growth, though modest, is expected to continue, supported by public investment and the EU accession agenda, offering a platform for revenue gains through improved tax compliance and formalization. Labour market improvements—especially the declining rate of informal employment and increased employment rates—present a foundation for boosting contributory revenues. Recent increases in revenue-to-GDP ratios signal that tax policy and administrative reforms are beginning to yield results, which could be expanded through measures such as broadening the tax base and improving efficiency.

²²³ Government of the Republic of North Macedonia. (2023). *2024-2028 Fiscal Strategy of the Republic of North Macedonia*. Government of the Republic of North Macedonia.

²²⁴ World Bank. (2024). *North Macedonia Policy Notes*. The World Bank Group. Link: <https://www.worldbank.org/en/country/northmacedonia/publication/north-macedonia-policy-notes>

²²⁵ Ibid.

Additionally, North Macedonia's fiscal strategy and 2025 budget aim to reduce the deficit while prioritizing capital investment, indicating a political will for reform.

The preliminary fiscal space analysis highlights that while North Macedonia has several options to expand fiscal space for social assistance, their feasibility varies significantly across strategies. Among the most viable and sustainable approaches are increasing domestic tax revenues and expanding social security contributions. These options offer substantial potential for revenue generation, particularly through progressive tax reforms, improved tax administration, and further formalization of the labour market. Additionally, rationalizing inefficient expenditures—particularly within the pension system, untargeted subsidies, and low-impact transfers—could help reallocate resources toward more targeted and inclusive social assistance.

Other options, such as managing public debt, adopting more accommodative macroeconomic policies, and increasing reliance on international aid, offer limited scope due to current fiscal constraints, high debt levels, and North Macedonia's status as an upper-middle-income country. While these approaches can play complementary roles—such as through improved debt portfolio management or targeted donor-funded investments—they are unlikely to generate sufficient or timely fiscal space on their own. Eliminating illicit financial flows could unlock substantial resources, but success depends heavily on strengthening institutional enforcement and cross-agency coordination. Ultimately, a pragmatic combination of enhanced domestic resource mobilization, strategic expenditure reallocation, and targeted institutional reforms will be essential to support the sustainable expansion of social assistance.

7. Conclusion

This report set out to assess whether and how North Macedonia's system of child-related cash benefits can be redesigned to deliver meaningful, sustained reductions in child poverty, while remaining fiscally feasible. Despite major reforms since 2019, structural features of the current system continue to weaken adequacy, limit coverage, and systematically disadvantage households with children—particularly larger families and single-parent households.

The analysis demonstrates that incremental adjustments within the existing framework are unlikely to deliver transformative change. As long as benefit levels erode in real terms, children remain undervalued in household needs assessments, and support fails to scale with family size and early childhood needs, child poverty will remain stubbornly high.

At the same time, the findings show that the country has viable, evidence-based reform pathways. Microsimulation results consistently indicate that child poverty can be reduced by 4 to 6 percentage points through reforms that prioritise adequacy, child sensitivity, and coherent system design. Importantly, these gains are achievable without disproportionate fiscal costs, particularly when reforms are well sequenced and focused on structural efficiency rather than across-the-board expansion.

A central conclusion of the report is that design choices matter as much as spending levels. Measures such as adopting a child-sensitive scale, removing the cap on the number of eligible children, and anchoring benefits to the poverty line or minimum wage deliver significant improvements in coverage and poverty reduction—even before considering more ambitious reforms. These represent low-risk, high-impact entry points that can be implemented in the short term and would immediately improve the system's alignment with children's needs.

Looking forward, the analysis highlights a strategic policy choice. Enhanced means-tested approaches can deliver strong poverty reduction among the poorest children and are particularly relevant where

fiscal space is constrained. However, they inherently leave a substantial share of children uncovered, especially those in near-poor and unstable households. By contrast, a universal child allowance complemented by targeted top-ups emerges as the most robust and resilient medium-term pathway. This model combines broad coverage, predictability, and child rights with progressivity and fiscal discipline—and, crucially, it can be introduced gradually to manage costs and administrative capacity.

The phased scenarios explored in this report demonstrate that sequencing is a viable option. Intermediate reform steps—such as universal coverage for younger children combined with targeted support for older children—can deliver substantial poverty reductions at relatively low cost, while building the institutional and fiscal foundations for broader reforms over time. This approach allows policymakers to move decisively without overextending fiscal space.

The report also underscores what should not be prioritised. One-off newborn grants, even if expanded, are shown to have negligible impact on child poverty and absorb resources that could be more effectively deployed through recurrent, child-centred income support. In a context of constrained fiscal space, reallocating resources toward benefits that provide sustained protection across childhood is both more equitable and more efficient.

In conclusion, reducing child poverty in North Macedonia is both possible and affordable, but it requires a shift from incremental adjustments toward structural, child-centred reform of cash benefits. By strengthening adequacy, correcting systemic biases against families with children, and adopting a phased pathway toward a universal child allowance with targeted complements, North Macedonia can significantly improve outcomes for children while maintaining fiscal sustainability.

Appendix: Universal Child Allowance Country Cases

Universal Child Allowance Country Case of Kosovo

The Social Assistance Scheme was Kosovo’s main instrument for poverty alleviation among vulnerable groups and provided beneficiary households with a child supplement for each child. Historically, Kosovo’s social assistance architecture did not envisage a stand-alone monthly child benefit.²²⁶ Instead, child support was later incorporated into the Social Assistance Scheme (SAS) through a supplement of EUR 5 per child per month for each child in a recipient household, within Kosovo’s principal programme for poverty protection among vulnerable groups, including families with children.²²⁷ On 7 November 2018, the Parliament of the Republic of Kosovo adopted a resolution requesting the Government to prepare legislation for a child benefit financed from the state budget. The resolution specified that eligibility was to be determined based on criteria such as household income, parents’ employment status, and the age of children.²²⁸

Kosovo has undergone a significant transition in its social policy, moving from a limited child benefits to a universal cash child benefit model. In September 2021, approximately six months after assuming office, Kosovo’s Government introduced a universal cash child benefit and extended maternity benefits to unemployed women.²²⁹ The reform established a monthly universal child benefit of EUR 20 for children aged 0–2 years and by November 2021, 68 per cent of children in this age cohort were receiving the benefit—an increase of 30 percentage points compared with September, the first month of implementation—reflecting growing familiarity with the online application procedures.²³⁰ The Government initially announced that a monthly benefit of EUR 10 would be provided to all children aged 2–16 years, following a phased implementation starting in January 2022 and concluding in July 2023.²³¹ However, by November 2021 the rollout was already eight months ahead of schedule, as the EUR 10 benefit had been extended to children aged 2–7 years and in that month, approximately 58 per cent of children in this age group were receiving the benefit.²³² Also, the **maternity benefit for unemployed women** was paid for a duration of six months and amounted to EUR 170 per month, equivalent to the official minimum wage.²³³ As of November 2021, the benefit covered around 17

²²⁶ Brodmann, S., Gotcheva, B., Kerschbaumer, F., & Elezaj, E. (2019). *Options for Child Benefits in Kosovo*. The World Bank Group. Retrieved from: <https://openknowledge.worldbank.org/bitstreams/fd4e75-8194-5bca-b757-b5973dc7e574/download>

²²⁷ Ibid.

²²⁸ Ibid.

²²⁹ Mustafa, A. (2021). *Kosovo introduces a universal child benefit and extends maternity benefit to unemployed women*. European Social Policy Network ESPN Flash Report 2021/63. Retrieved from: https://www.bing.com/ck/a?!&&p=cfd6f41e86f181a93bef37be7d2dfd5ff1045377a652f71a659d5af6ae1d9fb6JmltdHM9MTc2Njk2NjQwMA&ptn=3&ver=2&hsh=4&fclid=31eae9ba-49bd-6db3-2020-ffa148246c38&psq=Kosovo*+introduces+a+universal+child+benefit+and+extends+maternity+benefit+to+unemployed+women&u=a1aHR0cHM6Ly9lYy5ldXJvcGEuZXUvc29jaWFsL0Jsb2JlZTJ2bGV0P2RvY0lkPTI1MTAyJmxbmdJZD1lbg

²³⁰ Ibid.

²³¹ Ibid.

²³² Ibid.

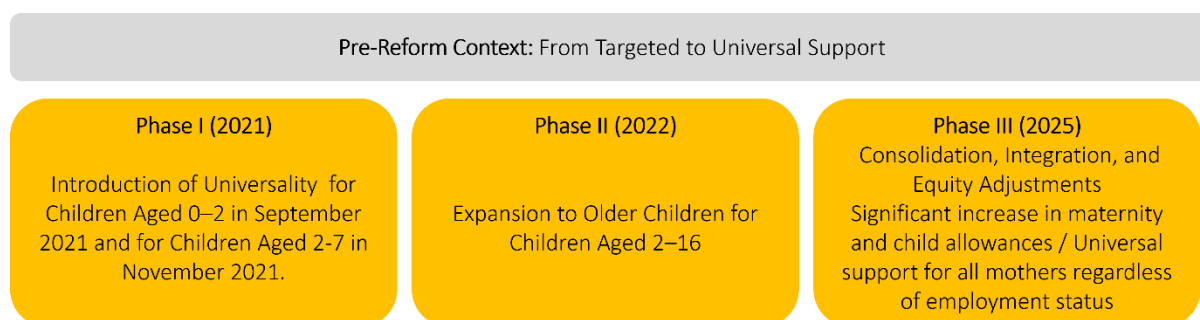
²³³ Mustafa, A. (2021). *Kosovo introduces a universal child benefit and extends maternity benefit to unemployed women*. European Social Policy Network ESPN Flash Report 2021/63. Retrieved from: <https://www.bing.com/ck/a?!&&p=cfd6f41e86f181a93bef37be7d2dfd5ff1045377a652f71a659d5af6ae1d9fb6JmltdHM9MTc2Njk2NjQwMA&ptn=3&ver=2&hsh=4&fclid=31eae9ba-49bd-6db3-2020->

percent of unemployed women who had given birth after 1 August, with coverage expected to expand in subsequent months as administrative delivery improved.²³⁴

As of June 2025, the Government of Kosovo, through the Ministry of Finance, has implemented an immediate increase in maternity and child allowances to support families and promote women’s economic empowerment. Unemployed mothers now receive a total maternity allowance of €1,955.4, disbursed at €315.9 per month for six months, alongside a child allowance of €240, paid at €20 per month for 12 months, totalling €2,195.4 in the first year per child.²³⁵ Working mothers continue to receive 70% of their salary during maternity leave, supplemented by additional state payments of €977.7 for the first three months and €958.5 for the following three months, with the same child allowance, totalling €2,176.2 in the first year per child.²³⁶ These measures apply to all new mothers, regardless of employment status, ensuring broad and immediate support for families.

Between 2021 and 2023, the number of child benefit recipients in Kosovo more than tripled, increasing from approximately 127,000 to 391,000, representing an estimated 80 percent coverage of the child population.²³⁷ Despite this growth, coverage of poor and vulnerable children under the Social Assistance Scheme (SAS) declined significantly, dropping by 20 percent from nearly 50,000 in 2021 to around 40,000 in 2023.²³⁸ As a result, only about 35 per cent of children living in poverty, estimated at 23 per cent of the child population, are reached by SAS.²³⁹ This indicates a widening gap between universal child benefit coverage and targeted support for the most vulnerable children.

Figure 28 Main Phases Regarding the Gradual Scaling of the UCA in Kosovo



Source: Authors’ own illustration.

[ffa148246c38&psq=Kosovo*+introduces+a+universal+child+benefit+and+extends+maternity+benefit+to+unemployed+women&u=a1aHR0cHM6Ly9lYy5ldXJvcGEuZXUvc29jaWFsL0Jsb2JlZmVOP2RvY0lkPTI1MTAyJmxbmdJZD1lbg](https://www.unicef.org/kosovoprogramme/media/5476/file/Budget%20Brief_Social%20Protection_2024.pdf)

²³⁴ Ibid.

²³⁵ Platform of the Office for Community Affairs. (16/06/2025). *Notification For All Citizens: Increased maternity And Child Allowance*.

Platform of the Office for Community Affairs. Retrieved from: <https://zck-kpz-platform.rks-gov.net/en/notification-for-all-citizens-increased-maternity-and-child-allowance/>

²³⁶ Ibid.

²³⁷ UNICEF. (2024). *Social Protection Budget Brief 2024 Kosovo*. UNICEF Kosovo. Retrieved from:

https://www.unicef.org/kosovoprogramme/media/5476/file/Budget%20Brief_Social%20Protection_2024.pdf

²³⁸ Ibid.

²³⁹ Ibid.

Universal Child Allowance Country Case of Poland

Poland's universal child allowance was introduced in April 2016 as part of the "Family 500+" programme, following the electoral victory of the Law and Justice party in the 2015 parliamentary elections.²⁴⁰ The programme represented a major expansion of state support for families with children and was initially designed as a semi-universal benefit. Under the original design, a monthly transfer of 500 PLN per child was granted universally for the second and subsequent children, while eligibility for the first child was subject to an income test and limited to low-income families.²⁴¹ Since April 2016, families have been eligible to receive a monthly cash transfer of approximately \$125 per child for their second and subsequent children, corresponding to 40 percent of the net minimum wage.²⁴² A significant reform took place in July 2019, when the income threshold for the first child was abolished and the benefit was extended to all children under the age of 18, regardless of household income or birth order.²⁴³ This reform marked the transition of the programme into a fully universal child allowance, substantially increasing its coverage and fiscal cost, and firmly establishing it as a cornerstone of Poland's family policy framework. According to a 2020 UNICEF report, evidence from Poland's 500+ programme indicates that the universal child benefit increased household consumption and savings, reduced debt, and lowered extreme poverty from 11.9 to 6 per cent.²⁴⁴ The Rodzina 500 Plus programme in Poland provides 500 zlotys (\$131) per month for the second and each subsequent child under 18, and, for families below a specified income threshold, the benefit is also available for the first child.²⁴⁵ Evidence indicated that the programme significantly reduced both absolute and relative child poverty between 2015 and 2017 and may have also contributed to a modest increase in fertility rates.²⁴⁶

Since July 2019, the benefit was made universal, entitling all parents of children under 18 to 500 PLN per month for each child. The programme is relatively generous, representing 17.9% of Poland's minimum wage in 2021.²⁴⁷ After the programme was made fully universal in July 2019, total annual public spending reached around 41 billion PLN per year, which corresponds to approximately 1.7% of Poland's GDP.²⁴⁸ The scale of expenditure reflects both the flat-rate monthly benefit (500 PLN per child) and the move to universal coverage for all children under 18, regardless of household income.²⁴⁹ These reforms more than doubled fiscal support for families, positioning Poland among the highest spenders

²⁴⁰ Myck, M., Oczkowska, M., Trzciński, K., & Król, A. (2021). *Five years in operation: The Polish universal child benefit* (Free Policy Network Brief Series). CenEA. Retrieved from: <https://cenea.org.pl/wp-content/uploads/2021/03/freepolicybriefs20210510.pdf>

²⁴¹ Ibid.

²⁴² Gromadzki, J. (2024). *Universal Child Benefit and Child Poverty: The Role of Fertility Adjustments*. IBS WORKING PAPER 03/2024. Retrieved from: https://ibs.org.pl/wp-content/uploads/2024/11/UNIVERSAL-CHILD-BENEFIT-AND-CHILD-POVERTY_IBS_WP_3_2024.pdf

²⁴³ Myck, M., Oczkowska, M., Trzciński, K., & Król, A. (2021). *Five years in operation: The Polish universal child benefit* (Free Policy Network Brief Series). CenEA. Retrieved from: <https://cenea.org.pl/wp-content/uploads/2021/03/freepolicybriefs20210510.pdf>

²⁴⁴ UNICEF. (2020). *Universal Child Benefits in Europe and Central Asia Regional Social Protection Brief: 4*. UNICEF. Retrieved from: <https://www.unicef.org/eca/reports/universal-child-benefits-europe-and-central-asia>

²⁴⁵ Ibid.

²⁴⁶ Myck, M., & Trzciński, K. (2019). *From Partial to Full Universality: The Family 500+ Programme in Poland and its Labor Supply Implications*. Ifo DICE Report, ISSN 2511-7823, Ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 17, Iss. 03, pp. 36-44. Retrieved from: <https://www.econstor.eu/bitstream/10419/216278/1/ifodice-2019-03-p36-44.pdf>

²⁴⁷ Myck, M., Oczkowska, M., Trzciński, K., & Król, A. (2021). *Five years in operation: The Polish universal child benefit* (Free Policy Network Brief Series). CenEA. Retrieved from: <https://cenea.org.pl/wp-content/uploads/2021/03/freepolicybriefs20210510.pdf>

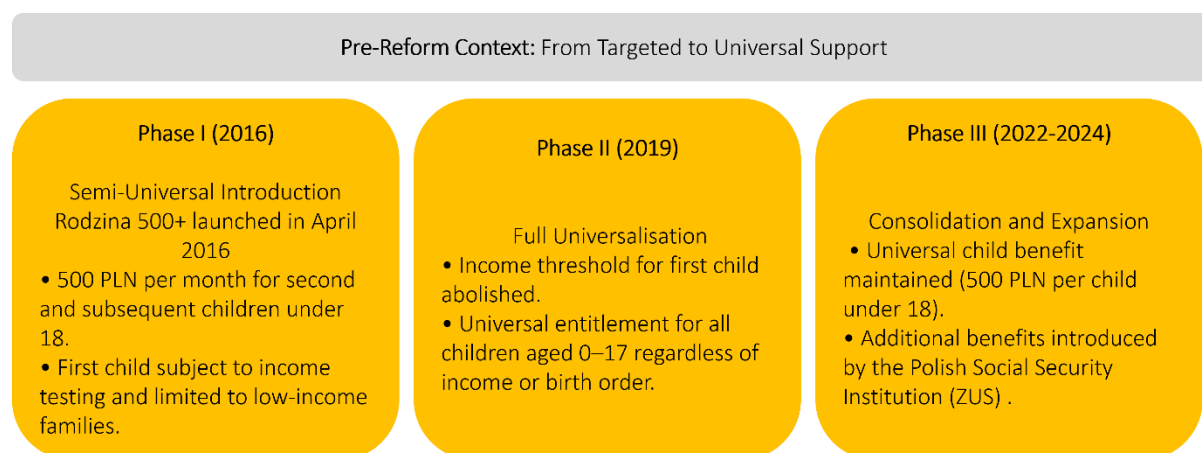
²⁴⁸ Ibid.

²⁴⁹ Ibid.

in the EU in terms of cash transfers for families.²⁵⁰ **In terms of coverage, the programme covers all children aged 0–17, reaching the parents of approximately 6.7 million children nationwide.**²⁵¹ Since the 2019 reform, every eligible child receives the benefit, making it one of the most comprehensive and fiscally significant family support programmes in Poland. More recently, and according to the 2024 ILO report, Poland’s Rodzina 500 Plus (Family 500 Plus) program provides a universal child benefit to all children under 18, with a monthly payment of 1,000 zlotys for a family with two children.²⁵² This amounts to approximately \$498.66 in PPP terms, representing 19.4% of the average wage in 2020, and achieves full coverage of children aged 0–15 years.²⁵³

In summary, Poland reformed its child benefit system by converting the means-tested allowance into a universal child benefit, Rodzina 500+, providing 500 zlotys (US\$100) per month for each child aged 0–18, regardless of family income or household size in 2019.²⁵⁴ In 2022, the Polish Social Security Institution (ZUS) introduced two additional child benefits funded through savings from digitizing UCB registration and payments. The Family Care Capital scheme offers a non-contributory, unconditional monthly benefit of 1,000 zlotys (US\$200) per child for second and subsequent children aged 12–35 months, reaching approximately 615,000 children in 2022.²⁵⁵ **Additionally, Poland serves as an example of a country that rapidly integrated Ukrainian children displaced by the 2022 crisis into its child benefit system.** The country extended its monthly universal child benefit of 500 zlotys (US\$100) to each Ukrainian child, provided an annual school supplies allowance of 300 zlotys (US\$62) per child, and offered a family care support benefit for every second and subsequent child aged 12 to 36 months, up to a maximum of 12,000 zlotys (US\$2,450) per child.²⁵⁶

Figure 29 Main Phases Regarding the Gradual Scaling of the UCA in Poland



²⁵⁰ Brandt, N. (2018, March 19). *Child benefits and female labour supply: The case of Poland*. OECD Economics Department. Retrieved from: <https://oecdecoscope.blog/2018/03/19/child-benefits-and-female-labour-supply-the-case-of-poland/>

²⁵¹ Myck, M., Oczkowska, M., Trzciński, K., & Król, A. (2021). *Five years in operation: The Polish universal child benefit* (Free Policy Network Brief Series). CenEA. Retrieved from: <https://cenea.org.pl/wp-content/uploads/2021/03/freepolicybriefs20210510.pdf>

²⁵² RICHARDSON, D., STEWART, D., OKUBO, T., WINDER-ROSSI, N., ORTON, I., BEHRENDT, C., SANTOS, A., CURRAN, M., & HARRIS, D. (2024). *THE PROMISE OF UNIVERSAL CHILD BENEFITS: THE FOUNDATIONAL POLICY FOR ECONOMIC AND SOCIAL DEVELOPMENT*. UNICEF & ILO; COLUMBIA UNIVERSITY. RETRIEVED FROM: <HTTPS://WWW.SOCIAL-PROTECTION.ORG/GIMI/SHOWRESSOURCE.ACTION;JSESSIONID=SMFRS8YUWC4FXKUONAYKV3KGM4NJCLJUBG0D-CUPZXKGQKVGORZS!-458942951?LANG=EN&ID=58416>

²⁵³ Ibid.

²⁵⁴ ILO & UNICEF. (2024). *More than a billion reasons: The urgent need to build universal social protection for children*. ILO & UNICEF. Retrieved from: <https://www.ilo.org/publications/more-billion-reasons-urgent-need-build-universal-social-protection-children>

²⁵⁵ Ibid.

²⁵⁶ Ibid.