



# POLICIES FOR HUMAN CAPITAL DEVELOPMENT MONTENEGRO

AN ETF **TORINO PROCESS**  
ASSESSMENT

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# PREAMBLE

The European Training Foundation (ETF) assessment provides an external, forward-looking analysis of the country's human capital development issues and vocational education and training (VET) policy responses in a lifelong learning perspective. It identifies challenges related to education and training policy and practice that hinder the development and use of human capital. It takes stock of these challenges and puts forward recommendations on possible solutions to address them.

These assessments are a key deliverable of the Torino Process, an initiative launched by the ETF in 2010 aimed at providing a periodic review of VET systems and policies in the wider context of human capital development and inclusive economic growth. In providing a high-quality assessment of VET policy from a lifelong learning perspective, the process builds on four key principles: ownership, participation, holistic and evidence-based analysis.

For the ETF, human capital development is the provision of support to countries for the creation of lifelong learning systems that provide opportunities and incentives for people to develop their skills, competences, knowledge and attitudes throughout their lives for the sake of employment and realisation of their potential, and as a contribution to prosperous, innovative and inclusive societies.

The purpose of the assessments is to provide a reliable source of information for planning and monitoring national education and training policies for human capital development, as well as for programming and policy dialogue in support of these policies by the European Union and other donors.

The ETF assessments rely on evidence from the countries collected through a standardised reporting template (National Reporting Framework) and a participatory process involving a wide variety of actors with a high degree of ownership by the country. The findings and recommendations of the ETF assessment have been shared and discussed with national authorities and beneficiaries. However, the ETF takes full responsibility for the content of the assessment.

This assessment report starts with a brief description of Montenegro's socioeconomic and strategic context (Chapter 1). It then presents an overview of issues related to the development and use of human capital in the country (Chapter 2), before moving on to an in-depth discussion of problems in this area, which in the view of the ETF require immediate attention, and it formulates specific recommendations (Chapter 3). Chapter 4 provides overall conclusions of the analysis.

The annexes provide additional information: a summary of the recommendations in the report (Annex 1) and an overview of the education and training system of Montenegro (Annex 2). The national Torino Process report compiled by the country itself can be found here:

<https://openspace.etf.europa.eu/trp/torino-process-2018-2020-montenegro-national-report>



# EXECUTIVE SUMMARY

## Context

The European Training Foundation (ETF) assessment provides an external, forward-looking analysis of the country's human capital development issues and vocational education and training (VET) policy responses in a lifelong learning perspective. It is based on evidence provided in the national Torino Process report for Montenegro, compiled in 2019 using a standardised reporting template questionnaire (National Reporting Framework) and additional information sources, where relevant.

## Findings on human capital

*Human capital context.* In Montenegro, human capital is both the main asset and a big challenge of this small country that aspires to join the European Union (EU). Montenegro has been undergoing deep economic restructuring since the end of the Republic of Yugoslavia, moving to a service-oriented economy, with an important focus on the tourism sector, making human resources a key pillar for future growth and wealth.

Currently, both the *use* of current human capital and the *formation* of future human capital are raising policy issues. On the one hand, the optimal use of human capital is challenged by an improving but contrasted labour market. On the other hand, the formation of human capital is supported by educational paths that grant access and participation, and pay remarkable attention to social inclusion but still raise quality and efficiency issues.

Montenegrin demographic trends point out an ageing workforce and slow depopulation due to emigration. In parallel, the abovementioned transition of the economy is reshuffling human capital needs, both in quantitative and qualitative terms. Alongside this, the labour market, despite actual improvements, still suffers from lack of job creation and inadequacy of skills available from the education and training system to meet the actual needs of employers. The labour force demand is 2.7 times lower than the supply. The skills mismatch has various explaining factors, including weak soft skills or a lack of regular skills updates, with different impacts depending on people's age or location. These impediments to optimal use of human capital are also linked to the high level of informality, the seasonality of work in some key economic sectors, structural inequities related to workers' age, sex or regional location, and the low responsiveness of the education and training system to fast-changing needs.

This brings about unemployment. Although not bad compared to other South Eastern Europe countries, at 15.2% overall in 2018, this average rate hides large disparities: it is almost double for young people (29.2% for 15- to 24-year-olds); it is more than double for people from the northern region (35.2% unemployment in this region); and the high female inactivity rate (almost half (48.2% in 2018) of 15- to 74-year-old women are inactive) reflects how discouraging the lack of job prospects may be perceived.

As far as the formation of human capital is concerned, challenges are also diversified for this predominantly state-led, school-based education and training system. Historically, the education and training offer is stronger for initial than for continuing and lifelong learning. Access and participation are then relatively well ensured – VET is attended by two-thirds of secondary education students, and early school leavers represent only 5.7% – and inclusion is paid remarkable, sustained attention. The

country's overall level of education is comparable to the EU average, but the insufficient quality of education and training hampers full translation of this into economic productivity, employment and social development. With the exception of various active labour market measures, the adult and lifelong learning sector remains underdeveloped. And efficiency remains uneven.

This overall situation of human capital requires sustained effort towards improving the initial education and training system to better fit labour market needs on the one hand, and to develop lifelong learning and adult education on the other. Beyond, it calls for renewed governance of human capital development policies in order to foster and monitor structural changes.

*Policy responses.* The Government of Montenegro has developed a number of strategic responses to address the abovementioned challenges, including a national strategy for VET 2015-2020. However, in the recent decade, VET reforms have mainly targeted secondary VET (SVET), with less consideration given to post-secondary or continuing VET (CVET). The main driver behind these reform processes, substantially supported by EU pre-accession assistance funds, has been the impetus to develop a VET system able to respond to the labour market needs, mainly by introducing a new approach, based on demand and focusing on learning outcomes, for developing VET standards and modernising teaching processes.

Beyond these content priorities for reform, an important transversal priority is to reach increased cooperation between education and business, including for developing practical work experience, whether in VET or in higher education. The re-introduction of dual education is a promising and major innovation. However, the extent to which this model could be expanded is uncertain, as it requires steady commitment and willingness from both companies and students. In a country where VET is commonly considered the main route to pursuing secondary education, as a path to higher education (university), with limited appetite for VET graduates to directly enter the labour market, and where education and training is commonly considered, including by businesses, as the sole responsibility of the state, this system could soon reach its absorption ceiling, or will require a genuine change of mindset (like in many EU countries). The shift to learning outcomes-based curricula and the related revision of curricula and teacher training in cooperation with the companies should introduce more flexibility and responsiveness in the system. Interestingly, the government also uses financing instruments (such as incentives for companies and subsidies for students) as a vehicle for enforcing its policy priorities. However, effectiveness and impact remain to be appraised, especially in a context where reform measures remain scattered (more than 200 co-exist at national level), and the monitoring and evaluation mechanism needs strengthening to fulfil the function of assessing progress and orienting reforms.

As a candidate country aiming for accession to the EU in the 2020s, Montenegro demonstrates serious interest in reaching the European standards in all domains, including human capital, where progress is regularly registered through monitoring of the Economic Reform Programme. Both the 2018 European Commission assessment of the Economic Reform Programme (2018–20) and the annual enlargement package acknowledge that Montenegro is making good progress. But they also call upon the Government of Montenegro to move vocational education and skills development up on the policy agenda.



## Recommendations for action

Based on the above findings, a number of recommendations have been identified. They were successfully submitted to the Torino Process national working group for validation in May 2019 in Podgorica.

The first series of recommendations call for various concrete ways to accelerate current efforts to address the skills mismatch.

- By developing further key competences throughout the education, training and employment system, programmes and tools will help smooth the transition from school or unemployment to work. Inter-institutional cooperation is providing an enabling framework for implementing this recommendation.
- In the short to medium term, setting up a system for the recognition of non-formal and informal learning should help fill occupations which do not attract people with the required skills. More long term, the expansion of adult education provision and the systematisation of targeted active labour market measures combined with social protection should become a national priority, consequently better resourced by the state, given the demographic situation of the country.
- In complement, pursuing the reform of upper secondary education, and in particular the further development of dual education, with a proper mechanism for impact monitoring and evaluation, is a promising way forward to smooth the transition from school to work and foster private sector engagement.
- Maintaining and expanding the financial mechanism of individual incentives to engage in training for in-demand occupations (also sometimes called “shortage occupations”, or “deficit occupations” in Montenegrin terminology), based around modernised learning outcomes-based curricula, is a safe channel to ensure greater youth employability. This could be combined with a priority on the development of dual education in relation to these occupations.

The second series of recommendations focus on reinforcing the so-called ‘policy capacity’, or the institutional arrangements and organisational setting in place to ensure design and implementation of ambitious, coherent and results-oriented reforms of the education and training sector, and more generally of human capital development policies.

- Preparing the ground for a more holistic and results-oriented post-2020 strategy, seizing the opportunity of the new VET strategy requires identification of national strategies and reform efforts with a link to skills development. There is also a need to consolidate the strategies and create a clear vision of skills but also of VET within the education or employment sectors, and to base the future strategy on stronger labour market needs analyses.
- Setting up a multi-stakeholder task force (interministerial and with social partners) around the new VET strategy tasked with its monitoring and evaluation would ensure better horizontal coordination across ministries and close complementarity across strategies, and provide a space to discuss the future division of responsibilities, based on the enabling but under-used existing legal framework.
- Revising the framework, including legal provisions and work processes, for more shared governance of VET, granting more space to decision-making by social partners, giving VET colleges more autonomy, and preparing municipalities to fulfil their future legal competences in this domain will be an important step towards structural change of the policy approach.

- Conducting a sound diagnostic assessment of the capacity state of play, including human resources (organisational audit) and financial resources (spending review and investment needs), would provide the baseline on which to discuss priority needs for institutional capacity building.
- Last but not least, to ensure financial sustainability, which is the concrete evidence of financial capacity, there is an urgent need to diversify the sources of funds and increase the share of non-state resources, and also to explore possibilities to design additional financial schemes that would help enforce the policy priorities.

To sum up, moving to more shared and inclusive governance of the VET policy implementation while keeping the momentum of involving more active social partners appears essential for ensuring structural modernisation of the VET system, where adaptation to changing labour market needs becomes part of the continuous management process, and where companies' contribution to training, for quality and relevance of skills provision, is institutionalised.

# 1. INTRODUCTION

## 1.1 About this assessment: Torino Process in Montenegro

This European Training Foundation (ETF) assessment was prepared in 2019 with the help of a standardised template for national reporting (National Reporting Framework – NRF). Thanks to the strong leadership and commitment of the Montenegrin Ministry of Education (MoE), this NRF was filled in by a multi-partner national working group set up for the Torino Process purpose under the chairmanship of Zora Bogicevic, Torino Process national coordinator. The result was the national Torino Process report for Montenegro (2019), which has been used as a basis for this assessment, together with additional information sources, where relevant.

Identification of the key issues presented in this assessment was jointly done by the ETF and the Montenegrin Torino Process working group. The main findings and recommendations were also shared and discussed with national stakeholders.

This ETF assessment comes at an important point as the country prepares for the next multiannual cycle of reform implementation along the lines of these priorities, which includes preparation for European Union (EU) support through the next generation of the Instrument for Pre-Accession Assistance (IPA) in 2021–27. The report is expected to help with the prioritisation of reforms and the design of actions by providing input to policymakers in the domain of education and training. The assessment findings complement the monitoring of the Economic Reform Programme (ERP) from a sector point of view.

Like other ETF assessments, this paper is not meant to be exhaustive. The national report of Montenegro covers a broad selection of problems around human capital development (HCD) and use, while the focus here is on challenges which the ETF recommends addressing as a matter of priority.

## 1.2 Country socioeconomic context

With 13 812 square kilometres and 622 359 inhabitants (2018, see Table 1), Montenegro is one of the smallest countries in the world; according to official estimates from the Statistical Office of Montenegro (Monstat), it ranks 39th in Europe (156th worldwide) by area size and 43rd out of 51 (163rd worldwide) by population size. Economy-wise, Montenegro is classified by the World Bank as an upper middle-income country.

Montenegro is an open and service-oriented economy. The Gross Domestic Product (GDP)/capita places the country among the poorest in Europe (36th out of 43 in Europe, with an estimate of USD 7 397 in 2018 (ERP Montenegro 2019-2021)), at a comparable level to other Western Balkan countries. However, the GDP growth is remarkable and was until recently the 6th highest (out of 43), with 4.3% annual growth in 2017 (5.1% in 2018 (World Bank, 2019)). Roughly, and in a quite stable manner over time, the service sector accounts for 60% of GDP (59.1% in 2017), while around one-sixth (15.9% in 2017) is generated by (energy-intensive) industry and only 6.8% by the agriculture sector – the rest being the informal sector. The remarkable GDP growth is, however, considered unstable due to a vulnerability to external shocks, as its economy relies heavily on capital inflows from abroad to stimulate its growth. Accounting for 8.9% of GDP, foreign direct investments in Montenegro are higher than in other South East European countries and high compared to EU countries as well.

International indicators convey that Montenegro and Turkey have the highest global innovation index in the region.

**TABLE 1: SELECTED COUNTRY CONTEXT INDICATORS, MONTENEGRO (2013–18)**

| Indicator  | 2013         | 2015    | 2017    | 2018    |
|--|--------------|---------|---------|---------|
| GDP per capita, purchasing power parity (current international \$)     | 14 870       | 16 337  | 19 355  | N/A     |
| GDP, real growth rate (%)  | 3.5          | 3.4     | 4.7     | 4.9     |
| Foreign direct investment, net inflows (% in GDP)                      | 10.0         | 17.3    | 11.6    | 8.9     |
| Population   | 620 893      | 622 099 | 622 387 | 622 359 |
| Youth population (15–24 in % of the working age population)            | 19.4         | 18.4    | 18.4    | 18.3    |
| Unemployment rate (in % of those aged 15–74)                           | 19.5         | 17.6    | 16.1    | 15.2    |
| Activity rate (in % of those aged 20–64)                               | 65.1         | 68.5    | 69.3    | 70.5    |
| Enrolment in VET (in % of total upper secondary enrolment)             | 67.63 (2012) | 67.2    | 67.9    | N/A     |
| Share of young people (15–24) not in employment, education or training | 18.5         | 19.1    | 16.7    | 16.2    |

Source: ETF database and World Bank

In terms of social situation, including equity, one should note that, beyond suffering a strong decrease in 2018, the GDP/capita hides a number of disparities, in particular linked to sex and geographical location. The Monstat Poverty Analysis revealed that 8.6% of the population lives below the absolute poverty line (2013 est, Monstat, 2014). This rate reaches 10.3% in the northern regions. According to the Social Scoreboard<sup>1</sup> supporting the European Pillar of Social Rights, it appears that Montenegro has a high share of people at risk of poverty or social exclusion. This is particularly high for vulnerable families, the unemployed and children. While safety nets exist, the social protection system is not well equipped to target and assist those in need.

## 1.3 Country strategic and policy context

### National and European policy framework

At the European level, Montenegro shows strong commitment to EU accession: since December 2010, when it acquired candidate country status, and June 2012 when accession negotiations started, it has demonstrated progress in the European Accession process, as acknowledged by the European Commission's assessment of the ERP carried out in April 2018. Montenegro's strategic development objective stated in the ERP is 'sustainable and inclusive economic growth that will contribute to reducing the country's development gap relative to the EU average and increasing the quality of life of all its citizens'. This policy is led by a governmental team that has been in place since November 2016.

<sup>1</sup> The Social Scoreboard includes 14 headline indicators, of which 12 are currently used to compare performance of Member States. These 12 are also compared for the Western Balkans and Turkey. The assessment includes the country's performance in relation to the EU average (performing worse/better/around EU average) and trends within the country (improving/deteriorating/no change). Data availability is from 2015 to 2017.

At national level, two sets of policies are planned to improve the situation in the medium term:

1. strengthen the macro-economic stability of the country, both fiscally and financially;
2. Implement structural reforms, eliminating the key obstacles to improving the country's competitiveness and increasing the potential of real economic growth over the medium and long term.

Subsequently, the priority reform measures validated by the government in 2017 focus on public finance management; energy market and transportation market reform; improvement of business environments; development of research and innovation and the digital economy; and improvement of trade, education and skills as well as the employment and labour market.

### HCD strategic context

Human capital development is expected to play a key role in the national policy framework. Among the 32 chapters under negotiation for accession to the EU, chapters 25 and 26 on education and research have been provisionally closed (yet subcommittee meetings still take place annually). In the area of VET, the country seeks to respond to the Riga mid-term deliverables 2020 and in higher education (HE) to the Bologna Process. However, HCD challenges remain manifold in Montenegro, including a worrying degree of skills mismatch between labour market needs and the training supply offered by the education and training system; low level of educational attainment and challenging quality of education; centralised governance; and funding impetus of the education and training sector that makes responsiveness to new HCD needs a challenge. Skills development needs to be better tailored to the structure of employment, which follows nearly the same pattern as the GDP structure: in 2018, almost three-quarters of the country's workforce were employed in services (72.7%), 18.9% in industry, while the agriculture sector employed 7.8% of the workforce (ETF, 2018c).

As part of this vision, as per the Montenegro National Report (2019), the government aims to 'deliver excellent and inclusive education and training that offers opportunities for both economic and social integration and which fosters democratic citizenship and values – thus helping all individuals to develop their full potential. They should be built on:

- skills and competences which ensure employability, adaptability and the personal development of individual;
- provision which is accessible, valued, modern and attractive to all;
- integrated, responsive and diversified systems with governance and funding which foster excellence, inclusion and effectiveness.

To do so, the Vocational Education Development Strategy (2015–20) and its action plan, adopted in December 2016, provide the strategic and operational umbrella expected to take up part of these challenges. Other additional strategic frameworks adopted since the last Torino Process round include the Strategy of Teachers Training in Montenegro 2017–24, the Adult Learning Strategy, the Inclusive Education Strategy, and the Strategy for Small and Medium Enterprise Development.

Design of the post-2020 VET strategy started in mid 2019 to pursue and intensify the efforts.



## 2. HUMAN CAPITAL: DEVELOPMENT AND CHALLENGES

### Overview

Some of the key indicators on human capital, as well as the performance of Montenegro against the EU benchmarks in education and training, suggest that, as in most countries, there are challenges at all stages of this value chain. This chapter endeavours to identify and evidence these various issues, using relevant data.

According to the relatively new Human Capital Index, developed by the World Bank to measure the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and education that prevail in the country where they live, a child born in Montenegro today will reach only 62% of its productive potential when he or she grows up, compared to children born in countries with the best education and healthcare. In addition, the World Bank research shows that on average children can expect to complete 12.4 years of schooling by age 18. However, this is only equivalent to 8.6 years of effective education when taking into account the quality of learning<sup>2</sup>.

**TABLE 2: SELECTED INDICATORS OF HUMAN CAPITAL, MONTENEGRO**

|   | Year     | Value |
|---|----------|-------|
| <b>(1) Population structure (% of total)</b>  |          |       |
| <b>0–24</b>   | 2015     | 32.0% |
| <b>25–64</b>  | 2015     | 54.1% |
| <b>65+</b>  | 2015     | 13.9% |
| <b>0–24</b>   | 2015     | 29.1% |
| <b>25–64</b>  | 2025(1). | 52.7% |
| <b>65+</b>  | 2025(1). | 18.2% |
| <b>(2) Average years of schooling</b>   | 2017     | 11.3  |
| <b>(3) Expected years of schooling<sup>1</sup></b>  | 2017     | 14.9  |
| <b>(4) Learning-adjusted years of schooling<sup>2</sup></b>   | 2017     | 8.6   |
| <b>(5) Adult literacy<sup>3</sup></b>   | 2015     | 98.7% |
| <b>(6) Global Innovation Index Rank (x/126)</b>   | 2018     | 52    |
| <b>(7) Global Competitiveness Index Rank<sup>4</sup> (x/137)</b>  | 2017–18  | 71    |
| <b>(8) Digital Readiness Index Rank (x/118)</b>   | 2018     | m     |
| <b>(9) Occupational mismatch</b>  |          |       |
| <b>% of upper secondary graduates working in low-skilled jobs (International Standard Classification of Occupations (ISCO) 9)<sup>5</sup></b> | 2016     | 8.2%  |
| <b>Male</b>   | 2016     | 6.7%  |
| <b>Female</b>   | 2016     | 11.4% |

<sup>2</sup> For more details, see: <https://www.worldbank.org/en/country/montenegro>

|  |      |       |
|--|------|-------|
| <b>% of tertiary graduates working in semi-skilled jobs (ISCO 4–9)</b> | 2016 | 10.9% |
| <b>Male</b>  | 2016 | 13.9% |
| <b>Female</b>  | 2016 | 8.8%  |

Notes: m=missing; <sup>(1)</sup>: Projection.

Sources: (1) United Nations (UN) Population Division, World Population Prospects, 2017 revision; (2) United Nations Educational, Scientific and Cultural Organization (Unesco) Institute for Statistics (UIS) database; (3) and (4) World Bank, Human Capital Index, 2018; (5) Unesco, UIS database; (6) World Economic Forum (WEF), The Global Innovation Index, 2018; (7) WEF, Global Competitiveness Index 4.0, 2018; (8) Cisco, Country Digital Readiness, 2018; (9) ETF, skills mismatch measurement in the ETF partner countries.

1 Expected years of schooling is calculated as the sum of age-specific enrolment rates between ages 4 and 17. Age-specific enrolment rates are approximated using school enrolment rates at different levels: pre-primary enrolment rates approximate the age-specific enrolment rates for 4- and 5-year-olds; the primary rate approximates for 6- to 11-year-olds; the lower secondary rate approximates for 12- to 14-year-olds; and the upper secondary approximates for 15- to 17-year-olds.

2 Learning-adjusted years of school are calculated by multiplying the estimates of Expected Years of School by the ratio of most recent Harmonised Test Score to 625, where 625 corresponds to advanced attainment on the Trends in International Mathematics and Science Study test.

3 Percentage of population aged 15 years and over who can both read and write with understanding a short simple statement on his/her everyday life. Generally, 'literacy' also encompasses 'numeracy', the ability to make simple arithmetic calculations.

4 The index is based on technology adoption, start-up environment, human capital, technology infrastructure, business and government investment, business foundation, and basic needs.

<sup>5</sup> This indicator is based on comparisons of the ratio of people with a given education level (International Standard Classification of Education – ISCED) working at an inappropriate skill level (measured by the ISCO) to all workers within that ISCED level.

One can distinguish two main areas of human capital-related challenges: those linked to the use of human capital, namely in the business world, hence linked to the labour market situation, and those related upstream to the 'production' or formation of human capital.

## 2.1 Using human capital in an optimal way: the challenge of skills mismatch in a contrasted labour market context

The optimal use of human capital is hampered in Montenegro by two main factors: the skills mismatch, in particular at the secondary and HE levels, and the lack of (decent) job creation, which together represent challenges for inclusive growth and competitiveness. The labour market suffers additional difficulties originating from high informality, seasonal work and sex and regional disparities. While this seems to be recognised with a policy priority officially set on human capital, success remains uneven.

The labour market, despite some improvements, is still characterised by a lack of job creation and high level of informality. This leads to high unemployment rates, in particular for young people and long-term unemployed, but also to low activity and employment. The structural discrepancy between supply and demand both explains and reinforces these features. Equal opportunities and access to the labour market are not ensured yet.

According to ETF 2018 data (KIESE), the labour market continues to show positive developments, taking into account the overall rate of activity, employment and unemployment, as the evolution of basic ratios attests (see Table 3).



**TABLE 3: LABOUR MARKET BASIC RATIOS – MONTENEGRO (2018)**

| Indicators (2018)                   | Total | Men  | Women |
|-------------------------------------|-------|------|-------|
| Activity (% aged 20–64)             | 70.5  | 78.6 | 62.5  |
| Employment (% aged 20–64)           | 59.8  | 66.7 | 52.9  |
| Inactivity (% aged 15–74)           | 40.4  | 32.4 | 48.2  |
| Unemployment (% aged 15–74)         | 15.2  | 15.3 | 15.1  |
| Youth employment (% aged 15–24)     | 23.2  | 25.6 | 20.6  |
| Youth unemployment (% aged 15–24)   | 29.4  | 33.3 | 23.6  |
| Long-term unemployment (% aged 15+) | 11.4  | 11.3 | 11.6  |

Source: ETF

The employment rate for the age range 20 to 64 has been increasing since 2011 (59.8% in 2018) but remains around 13 percentage points below the EU-28 average of 73.1%. Similarly, the activity rate registers positive trends, having gained more than one point over the last year, taking it to 70.5% in 2018 (against 69.3% in 2017), but remains low.

There is an obvious discrepancy between men and women for these indicators. Activity and employment rates are significantly higher for men, while unemployment rates are at a similar level. The sex employment gap, which is notably comparable to the EU average, has however increased in recent years. Lower activity and employment rates for women indicate that women in Montenegro still represent a vulnerable group in the labour market. In recent years, as a key policy measure to address inequality, specific benefits were granted to women with three or more children upon the condition that they register with the Employment Agency of Montenegro (EAM). Consequently, the number of women registered as unemployed almost doubled over the course of five years (from around 15 000 in 2013 to over 27 000 in 2017), which shows that they were ‘overlooked’ and not choosing their inactivity status. Still, there is too little interaction between social assistance and labour activation measures and this keeps people in their poverty and assistance trap.

Unemployment among 15- to 74-year-olds has followed a downward trend since 2012: 17.6% in 2015, 16.1% in 2017 and 15.2% in 2018. Montenegro does not have the highest unemployment rate within the South Eastern Europe and Turkey (SEET) region, but the percentage is high (more than double) if compared with the EU average (6.8%).

Long-term unemployment (persons seeking employment for more than one year) has followed a downward trend over the last five years, standing at 11.4% in 2018 (starting from 16.1% in 2013). Its value is lower compared to countries such as North Macedonia (15.5%, 2018), Bosnia and Herzegovina (15.2%, 2018) or Kosovo<sup>3</sup> (71.5%, 2017) but it is still considered pretty high when compared with the other SEET countries and even more with EU Member States (2.9%). Moreover, the over-50s unemployed represent 31.5% of all unemployed, and are often considered difficult to employ, hence probably represent a high share of the long-term unemployed.

Youth unemployment (15- to 24-year-olds) has also been decreasing in recent years, but still stands at high levels: 29.4% in 2018 against 37.6% in 2015. This means that almost one-third of registered

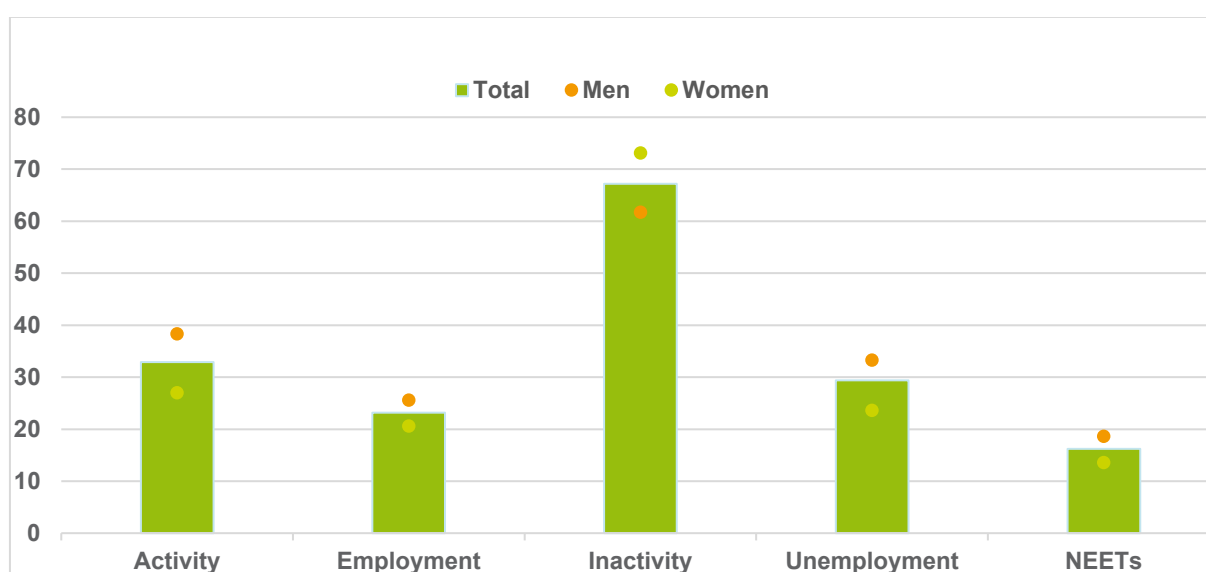
<sup>3</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence – hereinafter ‘Kosovo’.

unemployed people are first-time jobseekers. They also represent almost 10% of the total unemployed (NRF, 2019).

The not-in-education, employment or training (NEETs) rate has gone down, to 16.7% in 2017 (ETF, 2018c). Although it remains nearly 6% points higher than the EU value (10.5%), it is the lowest rate among all SEET countries (only Serbia has a similar value, 16.5%, while all the other SEET countries present much higher numbers).

The latter two ratios point to a worrying situation for youth employability and the overall prospects of a wealthy future for young people. An International Labour Organization (ILO) study (2015) on youth transition from school to work showed that the most important barrier for finding a job was lack of vacancies (see Figure 1).

**FIGURE 1: YOUTH TRANSITION TO WORK IN MONTENEGRO IN 2018 (% AGED 15–24)**



Source: ETF database, 2019

These positive trends affect the labour market in the long run, but are not sufficient to address its structural problems. In 2017 and 2018, improvements were mainly the consequence of increased economic activity, which was registered not only in tourism (significant increase of overnight stays compared to 2016), but also in the construction sector due to the intensification of highway construction and other capital projects. The main indicators of the absorption capacity of the labour market are the scope and structure of job vacancies that employers register with the EAM and the scope and structure of employment in relation to the reported demand. In the first half of 2018, 17 998 vacancies were announced to the EAM. Of these, 1 300 or 7% were for permanent employment, 10 879 or 60% for fixed-term employment, 113 or 0.63% for trainees, and 5 653 or 31% for seasonal jobs (the remaining vacancies were unspecified).

Seasonality, especially in the tourism sector, is a remarkable issue as employers do not manage to find Montenegrin workers interested in seasonal work; consequently, they resort to foreign workers while officially there are unemployed people who could satisfy the requirements. Most vacancies were posted for those with tertiary or intermediate HE (National Qualifications Framework level of education

V – 27%), followed by higher secondary education (level IV – 23%) and lower secondary (level III – 22%).

The qualification structure of unemployed people is as follows: the dominant share (49.9%) belongs to those with secondary or tertiary education (levels III, IV and V of education), while 13.6% have HE (levels VI, VII and VIII) and 36.4% have lower secondary education (level I or II)<sup>4</sup>.

Regional differences in employment and unemployment is one of the challenges of the labour market of Montenegro. Both men and women from the northern region have fewer opportunities to find a job than those in the central and coastal regions. Furthermore, activity and employment rates in the northern region are significantly lower than the national average, while the unemployment rate is more than twice as high (35.2% compared to 15.2% on average for Montenegro in 2018<sup>5</sup>). These disparities are expected to be addressed by the Regional Development Strategy of Montenegro (2014–20), implemented through annual action plans. One of its activities concerns active labour market measures, with special emphasis on loans for stimulating employment and entrepreneurship. Accordingly, in 2017, 55% of the total loans approved through the EAM went to the northern region.

Activation measures are still insufficient to contribute substantially to formal employment, while labour reform is still in the design phase.

In this context, the use of human capital cannot be homogenous, as it is under-used for some categories. Fortunately, the education and training system does not seem to deepen this problem, as could be the case if the rate of early school leavers was high, which is commonly correlated with the vulnerability of people, or said differently with their level of poverty. On the contrary, retention in the system is one of the best in the Western Balkans, and sustained attention is paid to tailoring the education and training offer to vulnerable groups.

These basic features of the labour market characterise a structural skills mismatch that is to be addressed as a priority, as will be developed in Chapter 3.

## 2.2 The formation of human capital: access and participation are well ensured, and inclusion is paid a remarkable attention, but quality and efficiency remain uneven

### Lifelong learning and adult education: an imperative to expand, in view of coping with unfavourable demographic trends

The age structure in Montenegro, combined with the post-Yugoslavia restructuring of the economy with a focus on the service industry, makes adult education a priority, including developing key competences and hence adaptability. More than half of the population (53%) is aged between 25 and 64 (CIA, n.d.)<sup>6</sup>, while 15% is over 65. The dependency ratio has been steadily increasing and the employment rate for older workers (55 to 64 years) is 43.7%. This, coupled with the abovementioned high inactivity and low employment rates, indicates the clear need for prolonging working lives, which

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<sup>4</sup> EAM data, as per the NRF, 2019, pp. 17–18.

<sup>5</sup> Monstat Labour Force Survey (LFS) data, 2019.

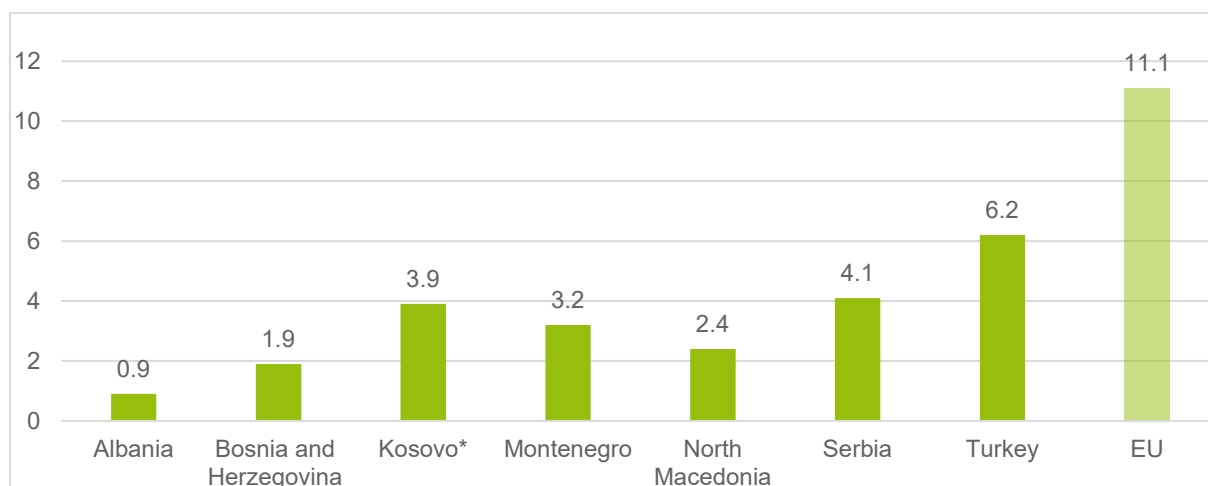
<sup>6</sup> CIA: 0–14 years: 18.22% (male 58 219; female 53 718); 15–24 years: 13.05% (male 41 406; female 38 755); 25–54 years: 40.16% (male 122 940; female 123 746); 55–64 years: 13.47% (male 40 661; female 42 089); 65 years and over: 15.09% (male 39 899; female 52 816) (2018 est.).

as a pre-requisite implies maintaining a satisfactory level of skills. Currently though, participation in lifelong learning remains low, at 1.9% in 2018.

As pointed out by the National Strategy for Sustainable Development (Đurović et al., 2016), the depopulation trend will continue, with the population of Montenegro in 2050 expected to be 542 000, or 12.6% less than in 2011, which is similar to the population levels of the 1970s. Besides the low fertility rate (1.67 child/women in 2016 (World Bank, 20XX)), which does not reach the threshold for generational renewal, one important factor is emigration. Although there is no reliable register referring to emigration numbers, most people leave the north of Montenegro and temporarily stay in western European countries (up to three months in one slot) or the United States (up to six months).

In Montenegro, overall lifelong learning means access to ‘adult learning’ and as such is a priority of the country (NRF, 2019, pp. 14–15); the responsibility for this lies with the Directorate for VET, General Secondary Education and Adult Education in the MoE, and the VET Centre. Despite their efforts, adult participation in lifelong learning is low, at 3.2% in 2018, having decreased in recent years (it was 3.3% in 2016) after increasing by less than 1 percentage point in eight years (it was 2.4% in 2011). Adult participation is much below the EU average of 10.9%, and does not perform well at regional level either, as the last Riga report confirms: it is much lower than Turkey (6.2%, 2018) and Serbia (4.1%).

**FIGURE 2: ADULT PARTICIPATION IN LIFELONG LEARNING IN SEET (%), 2018**



Source: Eurostat; Albanian Institute of Statistics (INSTAT) Labour Force Survey (LFS) for Albania; Agency for Statistics of Bosnia and Herzegovina (BHAS), LFS for Bosnia and Herzegovina; Kosovo Agency of Statistics for Kosovo. Note: \* last year available 2017 for Kosovo.

Women and low-skilled people are less prompt to participate in further training, trapped in low-skilled jobs with no career paths. This brings about missed opportunities of upskilling the current workforce and skills depletion.

To address this worrying situation, effort is being put into active labour market programmes and educational programmes, with support of various projects and development partners (for example the Electronic Platform for Adult Learning in Europe (EPALE) project). A dedicated adult education strategy has recently been adopted. The Entrepreneurial Learning Strategy (2014–19) is the only strategy in a lifelong learning context, from the cradle to the grave. Adult education programmes are approved by the National Council for Education and refined by the Ministry of Labour. Until now, the National Council has adopted 92 adult education programmes, leading to a vocational-level

qualification<sup>7</sup>. Emphasis has also been placed on extending the number of licensed adult organisations, with the goal of having these organisations and related training services available in all municipalities. According to the NRF, there are now 104 licensed education providers in Montenegro, out of which 22 are VET schools; in 2017, they provided training to 27 962 adults. In parallel, to improve the quality of adult education provision, a pedagogical training of teaching staff working with licensed adult education organizers is organized and one-fifth of teachers (over 400 out of 1 983) have been recently trained by the VET Centre, while specific teaching manuals have also been updated.

Access to the adult education system has improved for different target groups, including unemployed people without any qualifications, or with qualifications not required by the labour market; employees in need of re-skilling to better accommodate the changes that new technologies bring; and students who dropped out. Modularised competency-based programmes for students with special educational needs enable them to acquire qualifications gradually, in accordance with their capabilities. For students who have left the education system, these programmes give the opportunity for them to acquire a professional qualification for the part of the programme that has been successfully completed. Key competences and key skills are promoted in the new competency-based programmes in the context of lifelong learning.

Monitoring of adult education is also a priority and could trigger further improvements by better capturing achievements but also limitations. The Montenegro Education Information System (MEIS) has been upgraded with a module designed to gather information on adult education, such as organisers, programmes and participants. This way, it should be possible to perform different important quality and relevance analyses for further improvement of adult education programmes.

One domain where adult education is particularly important for responding to new and evolving needs of the labour market is that of key competences, defined as 'a transferable multifunctional package composed of knowledge, skills and attitudes needed by an individual for personal development, inclusion and employment' (NRF, 2019, p. 60).

Digital competence is taken seriously in Montenegro, although the focus remains on initial VET (IVET). To date, digital skills remain underdeveloped in CVET. Most CVET providers report a lack of up-to-date hardware and a shortage of licensed teaching software, which is a major obstacle to digital and online learning. Several strategies highlight the value of using digital and online learning in education and training. For example, the Information Society Development Strategy 2016–20 recommends the use of digital and online methods in education to diversify knowledge acquisition and develop students' digital skills. However, there is no explicit reference to digital and online learning in curricula and no formal framework and monitoring system to measure progress, as the ETF (2017) factsheet referring to digital skills and online learning in Montenegro<sup>8</sup> reports.

Regarding adult education targeting teachers and trainers specifically, the VET strategy introduces different forms of continuing professional development (CPD) for teachers and trainers, and some good progress has been registered in this regard. It covers many professional competence areas, including digital and online learning and platforms for sharing good practice and providing teachers and trainers with formal and non-formal options to improve their digital skills. However, entering the

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<sup>7</sup> For further details, a table with the number of programmes by economic sector is available in the NRF.

<sup>8</sup> Despite the absence of a formal framework for measuring progress of students in acquiring digital skills and competences in line with relevant national strategies, the factsheet reports that students go online 4.9 days out of 7, whereby one-third of the students use the internet regularly and 43% of their time on the internet is used for searching and browsing.

VET teaching profession requires a university diploma in a relevant field but with no specific requirements for digital skills, which are not assessed on recruitment nor during practice.

Montenegro's National Strategy on Teachers' Education 2017–25 emphasises the need for CPD of teachers and training to focus on digital skills.

As in most domains, the effectiveness of the reform measures for adult education is not easy to assess, due to the lack of evaluation culture and tools, although some progress has been made in the last few years. Tracer studies are now regularly produced in education and are planned for VET. One can assume that the work currently done on the information system should address this limitation in the future, provided the production of data is combined with the setting up of mechanisms for interpreting them and discussing them broadly among stakeholders.

## Education and training in Montenegro: key features and orders of magnitude

In view of understanding and exploring issues of the formation of human capital in Montenegro, beyond lifelong learning, it is important to clarify how the system is expected to function.

**TABLE 4: EU BENCHMARKS IN EDUCATION AND TRAINING**

|   | Montenegro |      |      |      | EU    |      |      | EU target |
|---|------------|------|------|------|-------|------|------|-----------|
|   | 2010       | 2011 | 2017 | 2018 | 2011  | 2017 | 2018 | 2020      |
| Early leavers (% aged 18–24)                | 6.6        | 7.2  | 5.4  | 4.6  | 13.4  | 10.6 | 10.6 | < 10      |
| Tertiary attainment (% aged 30–34)          | 18.7       | 24.1 | 34.0 | 32.4 | 34.8% | 39.9 | 40.7 | ≥ 40      |
| Employment rate (% aged 20–64)              | 52.9       | 50.7 | 58.2 | 59.8 | 68.6  | 72.1 | 73.1 | ≥ 75      |
| Lifelong learning (% aged 25–64)            | 2.4        | 2.4  | 2.8  | 3.2  | 9.1   | 10.9 | 11.1 | ≥ 15      |
| Low achievers: Reading (% aged 15)          | 49.5       | -    | 41.9 | 44.4 | 19.7  | 19.7 | 21.7 | < 15      |
| Low achievers: Maths (% aged 15)            | 58.4       | -    | 51.9 | 46.2 | 22.3  | 22.2 | 22.4 | < 15      |
| Low achievers: Science (% aged 15)          | 53.6       | -    | 51.0 | 48.2 | 17.8  | 20.6 | 21.6 | < 15      |
| Employment rate of graduates (% aged 20–34) | 42.4       | 42.4 | 61.3 | 61.2 | 77.1  | 80.2 | 81.6 | ≥ 82      |

Sources: ETF database, Eurostat, Monstat and Organisation for Economic Co-operation and Development (OECD).

Notes: Programme for International Student Assessment (PISA) results refer to 2009, 2015 and 2018; Source for the Montenegro data in 2010 is Monstat. Source for EU and for Montenegro (2011, 2017, 2018) is EUROSTAT.

The education and training system in Montenegro is predominantly state-led, school-based and focused on initial training.

Montenegro has the highest value of expected years of schooling among all SEET countries (only Serbia has a similar percentage, 11.1%). However, for learning-adjusted years of schooling, it has one of the lowest values among SEET countries. Despite this, it is one of the two SEET countries (with

Kosovo) with the highest adult literacy rate, which reflects that although not optimal from an efficiency point of view, the system reaches its objective of getting an educated population.

The IVET system is divided into several training programmes with various durations (more details are provided in Annex 2). Three different types of initial programmes are offered: lower VET (two years), secondary VET (three-year and four-year programmes) and post-secondary VET (two-year programmes, following secondary VET).

While no students are currently registered on two-year programmes and only 30 on post-secondary VET, the vast majority of students are enrolled in four-year programmes, with a view to then continue studying in HE after VET graduation. The ongoing development of three-year programmes aimed at graduates entering the labour market directly is considered an efficient path to fulfil urgent skills needs, both because programmes target in-demand occupations and because it is expected to smooth the transition from school to work given the work-based learning approach.

**TABLE 5: VET SYSTEM BASIC FIGURES – MONTENEGRO (2017–18)**

|  | Numbers                           | %                               |
|--|-----------------------------------|---------------------------------|
| <b>Total population</b>                      | 622 359 (2018)                    |                                 |
| <b>15- to 24-year-olds</b>                   | 81 273 (2018)                     | 13.1 of total population (2018) |
| <b>Breakdown of students</b>                 |                                   |                                 |
| <b>Students in secondary education</b>       | 27 978                            |                                 |
| <b>Students in VET</b>                       | 18 980 (2017/18) 19 053 (2018/19) | 68                              |
| <b>Students in two-year programmes</b>       | 0                                 | 0                               |
| <b>Students in three-year programmes</b>     | 1 797 (2017/18) 2 765 (2018/19)   | 9.9                             |
| <b>Students in four-year programmes</b>      | 17 093 (2017/18) 16 288 (2018/19) | 90                              |
| <b>Students in post-secondary programmes</b> | 30                                | 0.1                             |
| <b>Student–teacher ratio in VET</b>          | 13:1                              |                                 |
| <b>Number of teachers</b>                    | 2 113                             |                                 |
| <b>Number of VET schools</b>                 | 37                                |                                 |
| <b>Number of adult education providers</b>   | 104                               |                                 |

Sources: ETF database, Eurostat and NRF.

## Access and participation

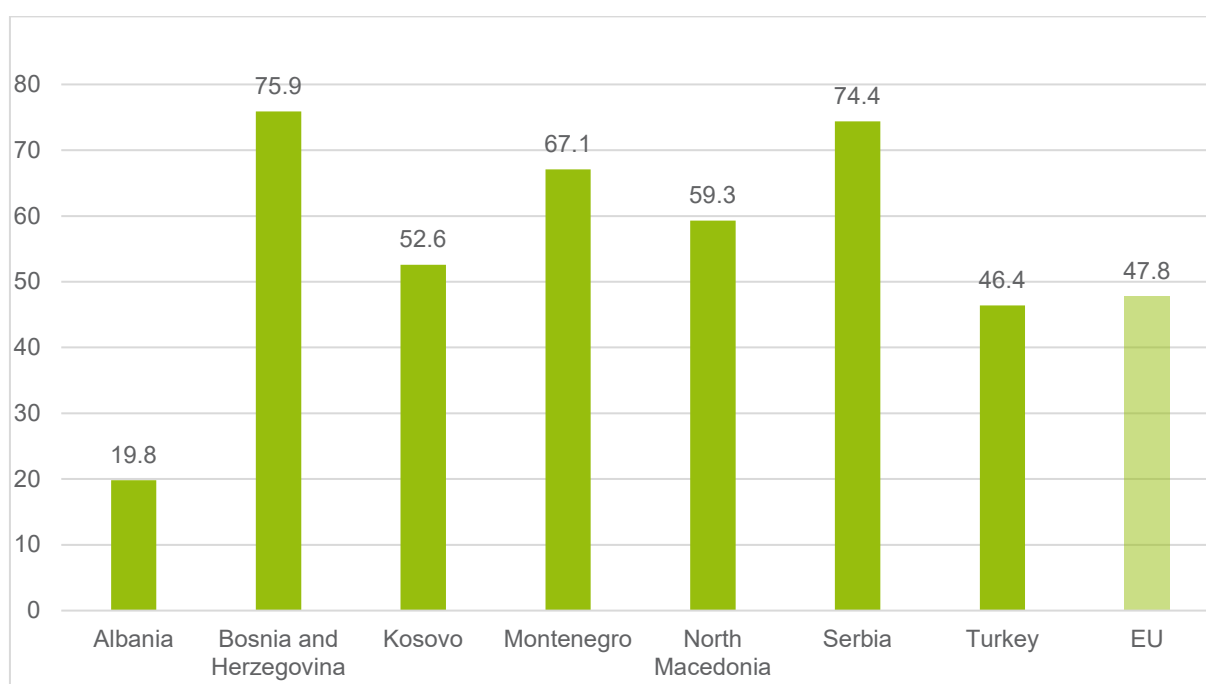
The specificity of the training system, which Montenegro shares with many other ex-Yugoslav countries and a number of EU countries, is that VET is very well attended: it attracts two-thirds of the students in upper secondary education (67.1% in 2017, Eurostat database). Attractiveness of IVET therefore does not seem to be a strong issue, although it is still addressed through specific campaigns. In the majority of cases, VET students continue their studies after graduation, which shows that they do not access VET in anticipation of getting prepared for specific vocations and the



labour market; rather, students see it as one pathway to accessing HE. This situation raises a number of questions from a policy point of view:

- either VET is expected to prepare young people for the labour market, and the skills acquired should be operationalised shortly after graduation: in this case, having students continue their studies is not efficient, as these students will generate public expenses for practical training that they will not use, while there will be skills depletion in the following years. All efforts to set up three-year programmes could then shortly touch their 'effectiveness ceiling', as these programmes could not be able to attract more candidates;
- or it is agreed that VET is one path to prepare students for further education, and this should then focus on reinforcing key competences as a key priority.

**FIGURE 3: SHARE OF VET ENROLMENT IN UPPER SECONDARY EDUCATION IN SEET AND THE EU (%), 2017**

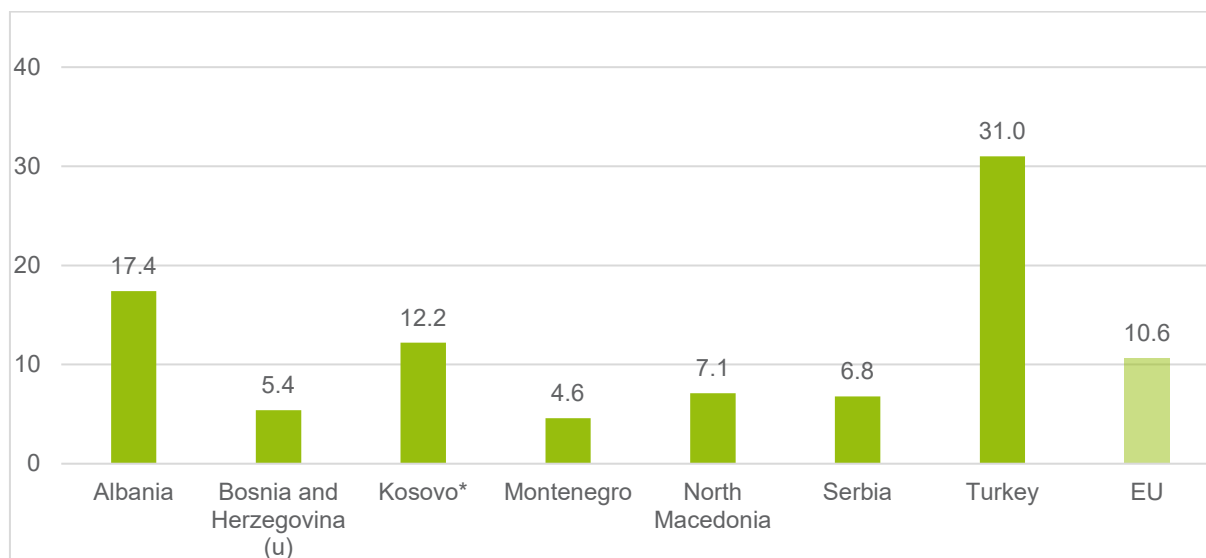


Sources: Unesco; Eurostat for North Macedonia, Turkey and EU; ETF calculation on Kosovo Agency of Statistics data for Kosovo, online education statistics publications.

In terms of internal efficiency, the Montenegro system performs better than most, including European ones. The fact that VET is seen as a 'normal' pathway could also be part of the explanation: it is not the choice of last resort for students and therefore there is less temptation to quit before graduation. In Montenegro, early school leavers from education and training only represent 5.7%, much below all other Western Balkan countries and the EU 2020 benchmark of 10% (see Figure 4).



**FIGURE 4: EARLY LEAVERS FROM EDUCATION AND TRAINING IN SEET AND THE EU (%), 2018**



Source: Eurostat; INSTAT, LFS for Albania; BHAS, LFS for Bosnia and Herzegovina; Kosovo Agency of Statistics for Kosovo.

Note: \* last year available 2017 for Kosovo

The current reform of the VET system and related enrolment policy, with the abovementioned three-year programmes leading by design to the labour market, is a promising way to change the cultural vision of VET.

## Inclusion

Remarkably, taking care of the most vulnerable people is paid a steady and sustained attention by the education and training system and policies. This concerns students with special education needs, but also members of the Roma community, unemployed people and students who dropped out of the education system and want to resume to pass the parts of the qualifications they failed. Although Montenegro is not currently on the main migration route to the EU, there is awareness of the need to get prepared in case of mass arrival of people who need to be quickly included in the education, training or employment markets.

## Quality

Quality is a continuous challenge that has been granted priority attention. The government made it its first priority in the NRF: 'In the field of education, through the implementation of reforms aimed at improving the quality of education, from preschool to high, the Government continues to improve the quality of education, striving for the creation of knowledge that is functional, as well as creating the preconditions for students to adopt the skills needed in the 21st century' (ERP, 2019, p. 5).

According to the NRF, the teaching and learning environment is relatively satisfactory, with regular renewal of equipment. Eight schools have been recently equipped through IPA funds.

The move to competency-based curricula, initiated in the previous period, has been confirmed. Within this, 25 level 3 and 4 educational programmes have been revised. This has been combined with a modularised approach, developed on two or more standards of occupations (16 modularised

educational programmes developed in 2018/19, 13 in 2019/20), which brings flexibility also from the learner's point of view.

The CPD of teachers is an important asset for the VET system. It builds on well-designed legal norms for teachers entering VET schools in terms of required profiles. This CPD has enabled half of the teachers from secondary and mixed schools (those with 11 to 20 years of experience) to acquire new knowledge for teaching. A total of 60% of teachers (NRF, 2019) also participated in non-formal and informal forms of learning. Around 300 teachers from 26 schools have been trained to design VET standards, and 180 on how to apply new competency-based programmes. Nevertheless, the in-service training of teachers remains underfunded and designed in such a way that training opportunities more often target general education teachers than VET subject teachers. In addition to training efforts, the creation of different teachers' titles operates as an important motivation and quality factor (65 mentors, 48 teacher advisors, 20 senior teacher counsellors, one teacher researcher).

The quality of learning outcomes remains a big issue, as attested by the PISA results: in the 2018 testing round, almost half of the 15-year-olds tested underachieved in reading, maths and science (i.e. scored below level 2 on the PISA scale), far worse than the respective EU averages (NRF, 2019, p. 59) (see Table 4). Results had slightly improved in maths and science compared to 2015 testing but worsened in reading. As a response, the government set up an interministerial working group that prepared a paper on quality and equity to draw lessons from the PISA assessment and better address the issue of key competences, as will be developed in Chapter 3.

In a nutshell, the formation and optimal use of human capital in Montenegro are conditional to the functioning of the labour market, but also to a number of reforms to improve the responsiveness of the education and training system to its evolving needs. The next chapter will discuss how the skills mismatch is being addressed currently and could further be in the future, and how reinforcing the shared governance and equipping policymaking with stronger instruments could systematise a dynamic treatment of the system.

### 3. ASSESSMENT OF SELECTED CHALLENGES AND POLICY RESPONSES

As briefly mentioned in Chapter 2, throughout the analytical documents related to human capital in Montenegro, whether country-led or produced by development partners, one may capture two main types of challenges:

- those related to the structural skills mismatch through which employers' needs are not covered, neither by the training provided to young people as IVET, nor by the continuing training to employed adults or by the active labour market training measures offered to unemployed people. This skills mismatch is closely linked to the inappropriate level of quality and relevance of the training provision;
- those related to the difficulty setting up genuinely shared governance of the VET system which would increase the effectiveness and impact of the policy, hence reinforce the policy capacity for VET, by seeking consensus about the reform choices, by sharing responsibilities in their implementation, and by imposing a collective monitoring and evaluation process for all policy measures and its reforms.

Policy responses have endeavoured to address these challenges, with uneven success so far, or rather with insufficient implementation time to enable proper assessment of their effectiveness. For each of these challenges, the next two sections aim to:

1. analyse the situation;
2. identify the policy responses to date;
3. formulate recommendations for further progress.

#### 3.1 Addressing and preventing the skills mismatch

The skills mismatch is identified by national stakeholders as one of the most worrying issues for HCD and use in Montenegro. Together with the lack of job creation, it is considered a key obstacle to growth and competitiveness. It has called for a diversified set of policy measures, yet more could be done to better articulate efforts and increase overall impact.

##### Analysis of the skills mismatch

In addition to regular analyses of labour market demand<sup>9</sup> and a recently established graduate tracking system<sup>10</sup>, four relevant studies done in Montenegro over the last few years have contributed to an evidence-based picture of existing or emerging mismatches, reasons behind these and possible policy approaches, namely the Directorate-General for Education and Culture (DG EAC) study (2016), the ILO youth school-to-work transition (2016), the Montenegrin Employers Federation (MEF) study on mismatch between education and labour market needs (Radovic et al., 2016) and the ETF skills mismatch measurement study (2019). Below are the main conclusions from these works.

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<sup>9</sup> See EAM labour market demand analyses, including vacancy monitoring, and similar studies done by business sector associations.

<sup>10</sup> A tracer study is due to become a regular practice of the MoE.

The skills mismatch is a combined consequence of a fast-changing labour market supply, which translates into loss of jobs (decreasing labour force demand), a lack of job creation and a limited or lengthy adaptation of the education and training supply to the new needs, both from a quantity and quality point of view. This is worsened by the fact that many VET students continue studying after graduation instead of going into the labour market.

The process of transition from a planned, production-oriented economy to a liberal service-oriented market has required a necessary adaptation and redistribution of the workforce between sectors, from production to services. This has led to a change in the demand for qualifications, as well as to closing some and opening up other job positions; however, this has not been balanced and the job vacancies have not been able to absorb workers who were made unemployed. This is one of the most important explanations for the skills mismatch. This cannot be solved by VET reform efforts alone, but curricula revision and provision supply planning can in theory contribute to finding solutions. Changes in the formal education system realised in view of adapting it to the new economic structure, although significant and in the right direction, cannot respond quickly enough to the new demands for workforce and dynamic changes in the labour market.

As per the EAM data (2016), total labour force demand (by employers) is 2.7 times lower than labour force supply. The first obstacle to a well-functioning labour market is a lack of job opportunities in absolute terms.

On average, the labour force demand decreased in the period 2015–16 by 10.4%. Tourism, trade and construction sectors registered the highest shares in demand. Looking at qualification levels, labour force demand increased for unqualified and semi-qualified people. The reason for such trends could be found in intensive economic activities in tourism and construction sectors, for which employers seek (possibly due to misinformation about opportunities or pressure on salaries) unskilled and lower educated people. Vacancy monitoring and other analyses reveal that there is still a strong demand in occupations requiring secondary and primary level of education, most vacancies being recorded in trade, administrative and auxiliary services, and tourism and the hospitality industry.

Although there is still a low percentage of highly educated people compared to many EU countries, there is also not enough demand for tertiary-level graduates. Some figures illustrate this issue: in 2017, 1 597 occupations were recorded (NRF, 2019, p. 14). There was demand for 721 of these occupations, but not for the remaining 876. For 510 (out of 721) of the requested occupations, the offer (observed as the sum of the number of unemployed at the beginning of the period and the number of newly registered) was higher than the demand. As for 103 occupations, the offer was equal to demand, and in 108 occupations, the demand was higher than the offer.

From the supply side, between 2015 and 2016, the labour force availability increased by 11.5%. More than one-third of the total supply are persons without work experience and 20% are younger than 25. On the other hand, a significant proportion of registered, often long-term, unemployed people are formerly employed people, whose knowledge and skills mirror the structure of labour and skills demands specific to the old economic structure and are obsolete.

Behind these average trends hide additional challenges for better skills matching:

- regional disparities: some regions (namely the northern region) suffer more structural unemployment due to lack of economic opportunities;

- informality: in more dynamic regions, where activity is generally seasonal (tourism or construction), this is often associated with a high incidence of informality.

Key findings of the 2018 measurement of skills mismatch incidence in Montenegro (ETF, forthcoming) show that:

1. young persons are the most affected by the skills mismatch (30- to 49- and 50- to 64-year-olds are less affected);
2. occupational mismatch in the form of over-qualification is higher for people with tertiary-level education, though this is a decreasing trend, while the incidence is lower but increasing for those with secondary-level education;
3. women with upper secondary education are more exposed to the risk of working in mismatched occupations (compared to their male peers);
4. decreasing shares of NEETs over the last three years indicate that the school-to-work transition has become easier and young people are finding jobs quicker than before; it seems, however, that the school-to-work transition is slightly quicker and easier for young males;
5. VET graduates tend to have higher employment rates compared to people who graduated from general secondary education programmes.

First-time jobseekers face challenges in employment as employers increasingly require additional knowledge, practical skills and competences, capacity to perform jobs independently and the ability to carry out tasks within the profession, on top of qualifications acquired in regular education. This supposes a good level of key competences.

The skills mismatch manifests itself at secondary and higher education levels; it stems from high levels of people transitioning from VET to HE and to programmes less relevant for labour market needs. There seems to be an oversupply of HE graduates, particularly in low demand professional fields such as law or humanistic areas, leading to a high level of graduate unemployment.

The DG EAC study (2016) anticipated these findings, as it states that the main reasons graduates have difficulty finding jobs include the lack of available jobs and the fact that the HE system does not equip graduates with relevant skills. Social capital may end up being an impediment: there is a high reliance on friends and family when finding a job and this leads to inefficient recruitment practices. Having some work experience is important in enabling graduates to achieve a successful transition to the labour market in terms of both the probability of finding a job and of finding a job well matched to the field of study followed. Although graduates have strong numerical, reading and writing skills, employers are more concerned with the absence of interactive skills and report serious and growing skills gaps in this area. While most graduates are employed by large enterprises, much of the recent increase in graduate employment has been in fast-growth small and medium-sized enterprises (SMEs) called gazelles. These may be an important source of graduate employment in the future, hence the importance of building up entrepreneurial skills and a suitable mindset. For employers, the most important skills are sector-specific skills (for which vocational courses are relevant), computer skills, and analytical and problem-solving skills (i.e. a mix of cognitive and interactive skills). The relative weakness of such skills (apart from computer skills) among graduates indicates a major challenge facing employers, which many of them solve by providing additional training to their graduate recruits.

The ILO study, 'Labour market transitions of young women and men in Montenegro' (Djuric, 2016), applied to a youth cohort of 15- to 29-year-olds. Key findings point out a slightly higher incidence of

### 1. Further develop the system for recognition of non-formal and informal learning

- Expand adult education and targeted active labour market measures and ensure adequate state funding

### 2. Further develop dual education

- Improve the transition from school to work.
- Foster the engagement of the private sector.
- Conduct a lessons learned exercise on the dual education pilot with a focus on governance

### 3. Focus on key competences

- Reinforce the development of key competences throughout education, training and employment programmes
- Gain the trust of employers in the quality of future employees.

### 4. Revise the structure of occupations

- Reduce the gap between the structure and volume of labour demand and supply
- Target economic and social needs in the education and training provision

### 5. Develop strategies



### 6. Further develop the system for the sharing of knowledge

- Assess the social partnership implementation
- Introduce measures for VET cooperation

### 7. Review the system

- Carry out capacity building
- Establish institutional framework



### Develop a new national strategy for vocational education

- Ensure a more holistic and results-oriented sector development strategy
- Set up an inter-ministerial and public-private task force to steer the strategy

### Develop a framework for governance of VET

- Define roles and responsibilities of partners in policymaking and implementation
- Introduce new accountability mechanisms
- Address illegal practices

### Build and monitor capacity

- Conduct a sound diagnostic assessment of capacity
- Establish, regularly update and maintain an institutional database

### 8. Review financing mechanisms



- Carry out a spending review
- Discuss ways to diversify sources of funding
- Explore other financing schemes
- Maintain and expand the financing of individual incentives to engage in in-demand occupations



### 9. Institutionalise monitoring and evaluation



- Institutionalise a shared monitoring and evaluation function
- Assess policy progress regularly
- Engage stakeholders.





overeducation among young workers (11.4%) than undereducation (8.0%). At aggregate level, the majority of young workers (80.7%) have managed to find work that is well matched to their level of qualifications. Among young people working in elementary occupations (ISCO group 9), more than half (53.6%) have a higher educational level than the primary level degree expected for effective performance in the job. The other occupations in which overeducated young people are primarily found are clerks (where 25.7% are overeducated) and service and sales workers (12.8%), but they are also found among technicians, associate professionals and plant and machine operators.

Cross-institutional collaboration is essential for early warnings about emerging mismatches and to tackle causes and effects of such imbalances, as stated in the report on the mismatch between education and labour market needs (Radovic et al., 2016) developed by the MEF. This paper recommends improved quality of education, effective active labour market policies, career guidance and lifelong learning. Enhanced cooperation between stakeholders could also serve a periodical in-depth analysis of mismatches using available data (Monstat, EAM) and additional empirical surveys/studies with an underlying methodology compatible with European practices to allow comparability.

In all instances, there is a need for larger investments in skills development and updating. This requires financial input, not only from the state but also companies, as they would have direct return on investment, in productivity terms in particular.

## Policy responses

To address the skills mismatch from an education and training perspective, numerous measures have been taken, illustrating the priority that the Government of Montenegro has given to this issue. The Ministry of Labour and Social Welfare seeks to address these gaps, with a focus on improving cooperation of employment offices, municipalities and other actors at local level, to deliver tailor-made activation services to jobseekers and exposed social groups. Most active labour market measures implemented are subsidised employment schemes, while provision of (re)training and start-up incentives remain scarce (mainly due to underfunding). This is worrying since most unemployed people have low levels of education or hold mismatched qualification profiles against the labour market demand. Part of the solution relies on greater involvement of the private sector. The measures need to target all stages of the training path, from initial choice of relevant and in-demand occupations to successful integration into the labour market. These measures belong to different strategic frameworks, including the National Strategy for Employment 2016–20, the VET Strategy and the Strategy for SME Development.

Below is a summary of some of the key measures and policies that have been or are being put in place to address the issues.

1. Active labour market policies: intermediation and outplacement support to improve the school-to-work transition for the available labour force. Specific projects have been designed and are currently being implemented to facilitate young people's inclusion in employment, for example:
  - The 'professional training of people with acquired HE' has been implemented since 2012 in cooperation between the EAM and the MoE. It supports internships for a period of 10 months after university graduation, for young people without experience. From around 3 000 beneficiaries per year, between one-third and half get a job after (NRF, 2019, pp 39–45).
  - The 'young people in winter tourism' project provides subsidies to employers from less developed municipalities who employ people under 24 years of age (the tourism sector represents 78% of these subsidies).



- Programmes related to acquisition of professional qualifications and key skills for persons registered with the EAM, with priority to unemployed persons with experience in more profitable occupations.
- The 'stop the grey economy' programme is aimed at preventing informal business and greater inclusion in the labour market of young people, women and long-term unemployed persons.
- Youth employment fairs are organised regularly (10 in three municipalities in 2017–18).

The last measure is a good and inspiring example of the Montenegrin policy practice focusing on equity and inclusion. In this case, while addressing the skills mismatch, it provides affirmative action for vulnerable regions. This is a strong point of many public interventions in Montenegro.

Also noteworthy, in September 2017, the Ministry of Sports launched the draft process of a new Law on Youth (NRF, 2019, p. 38) that could serve as an umbrella to further support young people and their integration efforts to the labour market.

The inter-institutional cooperation between the MoE, Ministry of Labour and Social Welfare, EAM, schools and social partners has received particular attention to improve the quality of education and training, school-to-work transition and help young graduates find jobs matching their level and field of studies. For instance, the EAM and some social partners actively participate in the planning and development of vocational education and are present in the development of modularised and credit-worthy educational programmes. The results of such inter-institutional cooperation are still to be measured.

2. Career guidance and counselling measures. Diversified efforts have been deployed to try to address the skills mismatch both upfront and with a long-term vision. Structural measures have been taken to improve the career guidance services within the education, training and labour market intermediation systems, starting from general education:
  - Eight centres for information and professional counselling operate within the EAM.
  - Training of teachers through the IPA funded programme 'career skills in secondary vocational schools': most VET schools have trained teacher teams of three for career guidance advice.
  - 'Career orientation initiatives and the labour market in elementary and secondary schools' programme: school visits have included 57 primary schools (3 692 students) and 18 secondary schools (1 850 students).
3. Reform measures of the core IVET organisation include the following:
  - Development of a flexible system of competency-based and modularised qualifications in line with labour market needs, and based on the occupational standards developed with the support of industry representatives. This includes revision of curricula and the teacher training system.
  - Promotion of three-year programmes recognised by the labour market, which offer graduates the option of entering the labour market or continuing to general education (after passing an exam) or to VET. Out of 1 466 students enrolled in the three-year programmes, there is a positive expansion trend from one year to the other. Development of work-based learning and traineeship programmes is expected to improve the transition from school to work for both HE and VET.
  - Introduction of a genuine 'dual education' path, including financial incentives for employers hosting the young students in their workplace. Dual education is organised in 12 municipalities across 18 vocational and mixed schools, through 14 educational programmes. At present, 101 employers are involved in dual education. Incentives to first and second grade students are provided by the MoE; subsidies for the third grade are the duty of the employer. In total, out of 18 773 students in VET programmes, 277 follow dual education

programmes. Although promising, this programme struggles to find interested employers in some regions, namely the northern region; moreover, its expansion could be limited if the number of employers decreases.

4. Social communication campaigns and other promotional initiatives: to improve the attractiveness of VET, and in particular the required VET specialities, the government has increased the initiatives:
  - 'Vocational is key! Get employed, earn and build yourself' presents VET opportunities to families in secondary schools. Such promotional campaigns are organised every two years;
  - the EuroSkills competition profiles VET as a path of excellence;
  - the Festival of Adult Education raises awareness on the importance of having the right education for employment;
  - TV shows (such as *Let's move!*) have introduced 20 different professional orientations.
5. Use of financial incentives: a financial envelope is secured in the state budget for granting scholarships for the in-demand or so-called deficit occupations; through this, in 2017/18, 119 students who enrolled in the first grade of level III programmes leading to occupations recognised by the labour market as being in demand received scholarships of EUR 70 per month. The enrolment figure increased to 300 in 2018/19.
6. Support for entrepreneurship and self-employment:
  - With a view to securing greater employment in undeveloped areas of Montenegro, with an emphasis on the northern part of the country, the EAM has implemented an innovative programme for continuous stimulation of employment and entrepreneurship through preferential loans for business ideas that provide new employment; financial advisory and training support to those who start new businesses in agritourism; and other alternative forms of economic activity, such as green jobs.
  - At school level, 30 entrepreneurial clubs were established, reaching out to 150 students.
7. Support for key competences: as the absence of key competences has been identified by employers as a major bottleneck to employing people, the issue is taken up through different projects and initiatives, such as:
  - ten workshops organised in cooperation with the University of Montenegro for students on self-presentation skills;
  - professional orientation services given to 4 770 people including 1 560 unemployed people in 2017.

The above list of initiatives shows both the concrete attention paid to this key challenge of skills mismatch and the vitality of the policy in Montenegro. The following section explains how expanding these to other actors could trigger more coordination and greater impact of these initiatives.

### Recommendations for VET to contribute to addressing the skills mismatch in the short to medium term

The skills mismatch measurement analysis shows that efforts to improve the position of vulnerable people (e.g. women, young people, those with low education levels) in the labour market should continue. A precondition is related to adequate data availability and regular use and interpretation for follow-up measures. In addition to this continuous effort, some short- to mid-term approaches could bring interesting improvements and possibly 'quick wins' to the current state of play:

1. In the short to medium term, further developing the system for recognition of non-formal and informal learning could help fill occupations that do not attract people with the required skills. More long term, the expansion of adult education provision and the systematisation of targeted active

labour market measures combined with social protection should become a national priority, consequently better resourced from the state budget, given the demographic situation of the country.

2. In complement, further development of dual education, as a major innovation within the VET system, with a proper mechanism for monitoring and evaluating impact, is a promising way forward: not only does it smooth the transition from school to work, but beyond individual cases, it also fosters engagement of the private sector in the training provision and in the management in the system more broadly. This is internationally recognised as a key condition for success.
3. Maintaining and expanding the financial mechanism of individual incentives to engage in in-demand occupations is a safe channel to prepare young people with the necessary skills. In addition, as previously described, some financing instruments have been created to encourage young people to choose training pathways corresponding to in-demand occupations, and this measure needs to be continued, and possibly even expanded. This could also be combined with priority development of dual education in these occupations.
4. Keeping and reinforcing the focus on the development of key competences throughout the whole education, training and employment programmes will be an important step to regaining the trust of employers in the quality of future employees, but also more broadly in the public provision.
5. Last but not least, several measures could help reduce the gap between the structure and volume of demand and supply. It supposes proper targeting of economic and social needs in the education and training provision, and measures for stimulating demand and job take-up. It requires accurate knowledge of the situation and adequate tools. To start with, the discrepancy between existing occupations and actual job vacancies, highlighted by the national employment agency, calls for revision of the structure of occupations that serves as reference for designing or offering training. Longer term, there is a need to develop (and use) tools for more precise analysis of skills needs and also anticipation, with a view to harnessing the responsiveness of the VET system. The public institutions, which have a great influence on the labour market as big employers themselves, need further capacity building and proper resourcing to play an effective role in addressing the labour market and skills imbalances.

### 3.2 Sharing VET governance to improve policy capacity

Governance is a key pillar and condition for success of any public policy, including HCD, in any country. It focuses on actors, from public to private, local to national and sectoral, but also mechanisms for their coordination, and instruments or tools for their effective joint approach throughout the policy cycle, from design to implementation, without forgetting monitoring and evaluation. In Montenegro, for historical, cultural and administrative reasons, most of these dimensions remain underdeveloped, and are important conditions for sustainable success of VET and employment reform efforts, in other terms the national policy capacity.

Policy capacity refers to the competences and capabilities important to policymaking, as per the analytical framework developed by Wu et al. (2017). Competences are categorised into three general types of skills essential for policy success – analytical, operational and political – while policy capabilities are assessed at the individual, organisational and system resource levels.

Following this definition, in Montenegro, policy capacity remains a challenge for various reasons, including:

- the strategic planning landscape, which prevents a systemic, holistic and results-oriented approach to HCD;
- the institutional set-up characterised by a centralised governance tradition, which hampers shared decision-making based on a genuine social partnership and on the empowerment of different stakeholders outside the state;
- limited institutional capacity, in terms of human, material and financial resources;
- the weak monitoring and evaluation system, with unsystematic use of data, which does not enable use of results from various innovative pilot projects to upscale them into ambitious and unified VET reform.

## The scattered strategic landscape and the lack of results orientation

### Analysis of the situation and current policy responses

Montenegro has around 200 public policies and strategies, including the Vocational Education Development Strategy (2015–20). This strategy relies on a sound analysis of the current economic and employment situation in the country, including the main challenges to address, although it does not fully explain *how* VET can contribute to solving them. In line with the Riga mid-term deliverables, the main driver behind the reform processes, substantially supported by EU IPA funds, has been the need to develop a VET system able to respond to these labour market needs, mainly by introducing new approaches in developing VET standards through revising methodologies for occupational and qualification standards and curricula development to be more demand-driven and oriented towards a learning outcomes-based logic. These reforms mainly target SVET, with less consideration given to post-secondary or CVET.

Given the scattered landscape of strategies and the focused scope of Riga, the strategy is not comprehensive of the whole sector and makes it difficult to check full alignment with all skills-related strategies within or outside the sector (such as employment, SME development, teacher training and curricula development).

In terms of operational planning, the strategy has been well translated into two-year action plans (last one adopted in December 2016), with smooth articulation across documents.

The main challenge in terms of accountability is linked to the absence of results-oriented **indicators**, which limits the accountability of stakeholders to reporting on the completion of planned activities as per the strategy and action plan, following a traditional administrative approach, and does not instil a performance or impact measurement culture. This activity is performed quarterly.

In parallel, a review is conducted at Prime Minister level, with the aim to reduce the number of strategies and integrate them better. This raises specific questions about the connection between the VET and education strategy on the one hand, and the VET and employment strategy on the other, not to mention the abovementioned sub-strategies or the strategy for SME development for instance. However, overlapping and conflicting time frames and a certain sense of urgency to deliver new strategic documents once the previous ones expire, including to satisfy funding requirements for the EU and other donors, seem to play against a rational approach to strategic planning. This requires taking the time, for example, to review the different strategic documents and drafting processes, evaluate achievements and impact of the different ones, and assess the cost-effectiveness of having them separate. To date, these reasonable steps are not foreseen and there is still a gap between the political time (announcing merging of strategies) and the technical time (of delivering papers requested). Therefore, the recommendations below take this into account.

## Recommendations for improving the strategic framework of VET reform

As the current strategy will expire in 2020, this provides an opportunity to prepare for the design of the next strategy by drawing lessons from current gaps. In particular, it will be important to:

1. identify national strategies and reform efforts with a link to skills development (including ERP and key economic sectors' development strategies), and the nature of this link (potential impact on VET or needing VET provision support);
2. ground the strategy in a clear vision for skills in Montenegro based on these links, but also a clear vision of the place and priority purpose of VET within the education and training system (preparation for HE or the labour market);
3. broaden the strategic planning to the whole VET/skills development sector in order to mirror and back the economic development strategic priorities of the government;
4. set safeguards for this new strategy to explicitly serve the needs of the labour market (by better use of relevant data)<sup>11</sup>;
5. make the VET strategy more forward-looking and impact-oriented, including through the introduction of outcomes/impact objectives, targets and indicators (such as VET graduate placement, self-employment and mismatch rates) into a performance assessment framework. A costing methodology should be developed and agreed to ensure accurate and sustainable budget planning and execution.

## Institutional set-up, centralised governance and the social partnership activation challenge

### Analysis of the situation and current policy responses

The MoE leads the design of the strategic approach to IVET, with strong ownership of the European agenda. It entrusts public education institutions with its implementation, with a fair level of intra-sectoral coordination. Stakeholder commitment is rather high and the strategy enjoys support from the country's political leadership. Stakeholders of designated institutions are involved at all levels, such as school boards, the National Education Council and the National Council for Qualifications. Past record of the previous action plan shows that the MoE and its institutions effectively ensured implementation.

However, full ownership would probably require a larger basis of committed stakeholders. In particular, horizontal coordination across ministries needs to be developed, namely with ministries in charge of economic development and finance, to increase ownership of this strategy, and hence maximise the chances of making the case for VET, including financially.

In specific areas, coordination is encouraged by the creation of dedicated bodies, such as a coordinating body for career guidance comprised of representatives from the Ministry of Labour, MoE, Bureau for Educational Services, VET Centre, EAM, Chamber of Economy, MEF, University of Montenegro and schools.

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<sup>11</sup> VET is still often seen (culturally, historically) as a pathway to HE (through the four-year programme, in the absence of sufficient general secondary education supply); this change requires changing the three-year programme and increasing the attractiveness of VET per se, for employability purposes. This requires an increase in the social demand to ensure the expansion of the work-based learning stream as planned in the strategy. This remark relates to relevance of the strategy rather than credibility; however, it is a key assumption for the further development of the VET system.

Social partnership needs to be improved in Montenegro. In theory, each level of VET governance is well defined in the legal framework. In each body responsible for development of VET education governance, there are different stakeholder representatives. In practice, this legal framework is unevenly implemented. Consultation in the reform preparation phases is satisfactory, as seems to be the case for participation of enterprises in the operational activities, although they are not formally responsible for them. But when it comes to making decisions on policy priorities and jointly assessing progress, the central state seems to keep a predominant role. Other public institutions, social partners and actors at decentralised levels (including municipalities) have little recorded involvement. According to the MoE, the legal framework exists but is little used, due to low willingness of the private sector to get more engaged. This prevents further subsidiarity, and is limited to public education institutions.

At school and local levels, coordination efforts with actors outside the school walls are being made. However, there is no review of these. For example, CPD and ICT coordinators have been appointed to establish and maintain coordination between industry and the school to implement practical learning but to date there is no assessment of how this works.

### **Recommendations for fostering shared governance:**

1. The new VET strategy design process should foster interministerial coordination and involvement of social partners by setting up a post-2020 strategy task force. This should aim to enable better horizontal coordination across ministries, and to also ensure close complementarity across strategies (including education, training and employment). The presence of social partners should encourage more subsidiarity; as a first discussion point, the division of responsibilities in the next strategy could be a good chance to refresh what the legal framework already authorises and how to make the most of it.
2. Regarding autonomy of VET colleges and decentralised governance, a greater degree of decentralisation could provide more autonomy (both in terms of management and financing) to the VET colleges so they are better able to adapt and respond to the skills needs of the local labour market. This should go hand in hand with revised accountability rules, based on agreed objectives. The youth advisory bodies that are foreseen in the new Law on Youth could also be interesting intermediary bodies for an inclusive approach to policymaking including young people.

### **Limited human, material and financial resources keep institutional and policy capacity at risk**

#### **Analysis of the situation and current policy responses**

In general, stakeholders seem adequately equipped with human and material resources, but nuances need to be accommodated. The state budget mainly covers running costs, which does not allow equipment renewal, upgrade and other quality improvement unless it is a matter of capital investment which falls under a specific line in the budget. As a consequence, schools suffer from lack of equipment. Employers' representatives admit having limited human resources, translating into knowledge gaps in the field of skills development (ETF, 2018b).

The institutional memory is weak, due to human resources issues, and this has an inevitable impact on policy capacity. Several reasons are suggested: turnover of important staff, frequent changes in ministerial teams, and insufficient numbers of staff in certain institutions due to logistical or financial bottlenecks. Although teams that have participated in policy design and implementation usually remain in institutions and relevant bodies, this situation brings about some loss of the experience gained



throughout the policy/strategy cycle and disrupts continuity. Capacity building needs, if more systematically identified, could be the starting point for planning to reach a critical mass of staff, not only in the MoE but also for social partners who are aware and involved in the steering of the strategy/policy.

The sector's financial resources have issues related to both the amount (the state budget does not cover the needs) and the source (insufficient diversification).

The main financing source is the state budget. The budget designated for education is part of the general annual budget approved by the Government of Montenegro, in accordance with Article 136 of the General Law on Education. All expenditure is financed, including wages and running costs. Public expenditure on education in 2016 was 4.5% of GDP and 9.7% of total expenditure. Secondary education represents EUR 34.9 million, out of which approximately 80% goes to VET (EUR 27.8 million), mainly covering salaries. The inter-sectoral prioritisation (at government level) of policies and strategic measures takes place through the medium-term strategy of the government set out in the Economic and Fiscal Programme. Mid-term sectoral priorities are defined by those documents and therefore the budgetary resources are planned accordingly. Mid-term strategic priorities are translated into annual priorities, aligned to the Fiscal Strategy 2017–20 and set on the basis of the action plan. However, there is no intra-sectoral prioritisation at the MoE level. The envelope of resources received from the Ministry of Finance is distributed among the subsectors of primary, secondary (where VET is included) and HE according to the needs derived essentially from the number of students in each subsector. For secondary education, no distinction is made between general education and vocational education despite the large cost discrepancies.

Until recently, international donors used to contribute mainly through technical assistance (the EU also provided equipment directly to VET). Now IPA funds also target the sector, but disbursement has been difficult due to formalised country requests. Recently, private enterprises have started to contribute, mainly through in-kind contributions, investing their physical resources through the dual system of education. VET schools are allowed to raise their own resources, of which the MoE retains one-third.

Financing mechanisms (including for resource allocation, and reporting and auditing) are well defined by the Ministry of Finance. Resource allocation methods are based on standard unit costs common to general secondary education and SVET, which should be changed. Wages are the main cost element and their implementation falls under the responsibility of existing MoE staff and subordinated institutions.

The diversification of financing sources is a recurring challenge (NRF, 2019, p. 74). There is no decentralisation of the sector; there was an intention to transfer parts of the financing responsibilities to municipalities, but the conditions for implementation do not seem to be in place. The Law on Local Self-Government Financing establishes the financial autonomy of the municipalities, which are half self-funded (for example through property tax, tax on personal income, and local administrative and communal charges and fees), with the other half coming from the state budget. Funding from the central budget is regulated by the Local Government Finance Law and takes the form of conditional grants or assigned revenues. An equalisation fund also provides additional revenue to poorer municipalities. Conditional subsidies can also be granted by the state for specific capital investments. In general terms, HCD remains underfunded.

## Recommendations for systematically addressing the institutional capacity issue

1. In order to accurately define remediation measures to the capacity issues, whether human, material or financial, a sound diagnostic assessment of the capacity state of play is required. It could easily build on existing methodological tools, including the SABER methodology from the World Bank, the SIGMA methodology from the OECD and EU, or other organisational audit methods.
2. To address the institutional memory issue, corporate measures may include setting up an institutional database to be regularly updated and maintained, formalised handover procedures, and/or overlapping engagement of the current and new staff.
3. For financing aspects specifically, and as recommended by the World Bank in its Growth and Jobs report (2018), a spending review could help 'verify whether efficiency of spending is appropriate given the limited ability of the sector to provide the right skills', and establish the baseline situation and scope of needs. Improving financial capacity requires assessment of investment needs to upgrade the infrastructure and the equipment in schools. The assessment should be based on the needs expressed by the schools, aggregated by categories of investment; establish the corresponding priorities by categories, municipalities and training providers; and make an investment plan over a longer period.
4. Last but not least, to ensure financial sustainability, there is an urgent need to diversify the sources of funds and increase the share of non-state resources. Various means may help do this; for example, before introducing further fiscal facilities, one could first discuss existing incentives given to enterprises involved in the dual system, or allow, encourage or even train (if needed) training providers to apply for foreign donors' financial support for equipment, technology or technical assistance.

## Financing mechanisms of the VET system: an interesting tool for steering policy and sharing governance

### Analysis of the situation and current policy responses

Despite structural financial constraints, financing is seen and used as an opportunity to support the policy priorities, and dedicated instruments have recently been designed for this. Besides fostering consistency and sustainability of policy measures, this paves the way for more shared governance, including with stakeholders (e.g. enterprises) benefitting from or contributing to these financing mechanisms.

**Capital budget.** In addition to the abovementioned allocations, the government allocates special funds for the education system through the capital budget, within which a significant amount is allocated for the improvement of school infrastructure. This is based on the economic cost of enrolling pupils for a particular educational programme; the number of students; the coefficient of the programme group in which the educational programme is classified; and other criteria specific to the educational programme and the area<sup>12</sup>.

**Fund for quality and talent.** This fund is resourced by income generated by schools, and serves the objective of quality improvement (of teaching) and meritocracy. A public institution in the field of

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<sup>12</sup> Rulebook on norms and standards for acquiring funds from public sources for institutions which are implementing educational programmes

<http://www.mps.gov.me/ResourceManager/FileDownload.aspx?rid=231272&rType=2&file=Pravilnik%20%20o%20normativima%20i%20standardima%20za%20sticanje%20sredstava%20iz%20javnih%20prihoda%20za%20ustanove.docx>



primary and secondary education that realises income from property (leasing), funds from the sale of services and products or other sources is obliged by law to give 30% of these resources to replenish a special account of the MoE<sup>13</sup>.

**Scholarships for in-demand occupations.** Since 2017–18, the MoE has provided scholarships for short-term qualifications to pupils who are educated on three-year programmes related to in-demand occupations.

**Subsidies for dual education.** In addition, the MoE provides an allowance to pupils in the first and second grade of three-year educational programmes in dual education. It amounts to at least 10% of the average net salary in Montenegro for the first year of training and at least 15% for the second year. Employers are expected to pay the allowance cost in the third year, as students should then become productive, hence bring a benefit to the company.

### **Recommendation for further using financing mechanisms and schemes to reinforce policy capacity**

Based on the experience with the funds for in-demand occupations, for talented students or with the subsidies for dual education, it would be interesting to explore what other schemes could be set up to similarly support the main policy priorities, for example in favour of vulnerable populations or lagging-behind regions in order to bridge the human capital gaps. This exploration should take into account the need to keep mechanisms as simple as possible in administrative and legal terms, both for targeted users to apply and for the public actors to manage them.

**Data, monitoring and evaluation: the missing link to foster a culture of results and accountability on the one hand, and to convert the vitality of innovative pilot projects into systemic reforms on the other**

### **Analysis of the situation and current policy responses**

As evidenced in various reports (such as the ERP and NRF), there is a further need to strengthen processes of timely and reliable collection of data in Montenegro. Several indicators remain unavailable and are not being developed, particularly for social protection, inclusion and migration. In addition, several statistics are not harmonised with the EU standards or are not systematically transmitted to Eurostat. Financial and administrative capacities of responsible institutions are limited due to inadequate resources.

For example, although there are 13 000 refugees and asylum seekers registered in Montenegro, there are no figures reflecting their attendance in the education system and in employment.

However, effort has been constant in this domain, and some progress has been made, both at national and sectoral levels, in terms of data production. Data analysis, interpretation and use remain an issue.

On the positive side, Montenegro published the results of its first Statistics on Income and Living Conditions survey in December 2018, as mentioned in the European commission comments to the

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<sup>13</sup> Rulebook on the criteria, method and procedure for allocating funds for improving the quality of teaching and talents <http://www.mps.gov.me/ResourceManager/FileDownload.aspx?rid=305717&rType=2&file=Pravilnik%20-%20Fond%20za%20kvalitet%20i%20talente.docx>

ERP. However, at the time of writing this report, it seems there is no publicly available data analysis and interpretation.

The MEIS is the ultimate point where all statistics related to pre-university education are collected, including all data about VET providers and students. From 2018/19, a separate MEIS module started collecting information about adult education providers and training offered and implemented. The first VET graduate tracer studies have also started being carried out. In all examples though, it is unclear how this data will be made public and used to monitor and evaluate the systems or to orient decision-making.

At national level, there are no well-defined monitoring and evaluation tools and mechanisms, except a reporting instrument that is used for checking if an activity or an action was implemented or not. Different databases co-exist, such as the abovementioned MEIS, but also databases from the EAM, Tax Directorate and University of Montenegro, which could support the monitoring, provided they are harmonised and made consistent.

Financial reporting and auditing is relatively good, but the periodical financial reports are limited to recording if costs were incurred or not. Cost-effectiveness or efficiency assessment elements are missing.

Officially, there is a methodology for external evaluation, but the tool is used only for checking if an activity or an action was implemented or not, and cannot be considered a tool for reviewing the strategy and defining remediation measures.

According to the Torino Process national report, each school has an annual plan for self-evaluation (managed by the quality team) that contains a status analysis, an assessment of performance against defined success indicators, and recommendations for the improvement of the school work. The results of the self-evaluation are expected to guide the objectives of the next annual work plan. This process is reported to an enlarged range of stakeholders, including teacher/expert councils and parents, and is endorsed by the school management body.

Many pilot projects are reported to have been implemented, with the support of development partners, including in the field of active labour market measures: 'innovate your dreams', EPALE project, 'empower me to succeed', the 'fund for professional rehabilitation', 'A step closer to the labour market'. This profusion shows the vitality of the policy reform area. Unfortunately, it seems that when projects come to an end, there is no procedure or mechanism in place to evaluate results and draw lessons learned. Furthermore, there is no collective reflection on the follow-up in terms of continuation, extension to other regions or other target groups, scaling-up or mainstreaming into country-led policy. This leads to a lack of continuity and limits possible impact.

### **Recommendations for improving data, monitoring and evaluation**

1. Building and institutionalising a shared monitoring and evaluation function, and related framework, will enable not only assessment of policy progress, but could also help engage stakeholders. Ideally, this monitoring and evaluation function should entail systematic evaluations and subsequent follow-up of pilot or other projects, including the dual education initial implementation.

This supposes that the body in charge would include representation from the different key stakeholders, including social partners. It would also interconnect the MEIS of the MoE with the databases of the Ministry of Labour and the Ministry of Finance. It would use the consolidated intelligence to monitor and follow up enrolment, graduation and placement, and it would ensure

systematic evaluations of pilot projects and decision-making based on the recommendations that those evaluations would make. Again, the experiment of dual education may be a good example to evaluate, through a lessons learned exercise, in particular in view of more participatory governance. Implementation of this reform is monitored by the National Coordination Body, composed of representatives from the Chamber of Commerce, VET Centre and the MoE.



## 4. CONCLUSIONS

In conclusion, the Montenegrin VET system has clearly demonstrated some progress, in particular regarding being more oriented towards labour market needs, both in terms of types of qualifications and skills needed. It has invested substantially on quality measures, including curricula development and teachers and trainers' training, recognising the central role of these in the system. Yet, some challenges remain and call for probably more ambitious choices and clearer policy trade-offs in favour of VET, in order to be able to offer opportunities for both economic and social integration and foster democratic citizenship and values of all individuals. This requires a greater focus on: skills and competences for employability, adaptability and personal development; modern and valued provision; integrated, responsive, diversified and efficient governance and financing systems.

The recommendations identified in Chapter 3 propose possible steps (to be combined, not sequenced) towards improving the robustness of the strategic approach, hence the future performance of the VET system.

The organisational arrangements needed to implement those recommendations should be explored, discussed and agreed among partners to maximise commitment and chances of success. The upcoming discussions and organisational arrangements for the adoption of the post-2020 VET strategy offer an ideal framework and timeline for this.

This requires sustained attention and evidence-based effort to address in a coordinated and integrated manner many different topics, starting with skills mismatch and policymaking. This also requires a deep, sensitive and probably painful introspection into the cross-sectoral issues of centralisation and institutional resources that would need to be addressed if the ambitious policy objectives are to be met.

The ETF confirms its full support for the Government of Montenegro and its effort to achieve these priorities.



## ANNEX 1: SUMMARY OF RECOMMENDATIONS

| Human capital development and use problem | Recommendations |   |   |
|---|-----------------|---|---|
|   | No.             | Recommendation  | Description   |
| Skills mismatch                           | R.1             | Further develop the system for recognition of non-formal and informal learning  | In the short to medium term, further developing the system for non-formal and informal learning could help fill occupations that do not attract people with the required skills. More long term, the expansion of adult education provision and the systematisation of targeted active labour market measures combined with social protection should become a national priority, consequently better resourced from the state budget, given the demographic situation of the country.   |
|   | R.2             | Further develop dual education as the main innovation within the VET system   | In complement, the further development of dual education, as the main innovation within the VET system, with a proper mechanism for monitoring and evaluating impact, is a promising way forward: not only does it smooth the transition from school to work, but beyond individual cases, it also fosters engagement of the private sector in the training provision, and in management of the system more broadly. This is internationally recognised as a key condition for success.   |
|   | R.3             | Maintain and expand the financial mechanism of individual incentives to engage in in-demand occupations                               | Maintaining and expanding the financial mechanism of individual incentives to engage in in-demand occupations is a safe channel to prepare young people with the necessary skills. In addition, as previously described, some financing instruments have been created to encourage young people to choose training pathways corresponding to the in-demand occupations, and this measure needs to be continued, perhaps expanded. This could also be combined with priority development of dual education in these occupations.   |
|   | R.4             | Reinforce the focus on the development of key competences   | Keeping and reinforcing the focus on the development of key competences throughout the education, training and employment programmes will be an important step to regain the trust of employers in the quality of future employees, and as a more general consequence to public provision.  |
|   | R.5             | Revise the structure of occupations as a first step towards reducing the gap between structure and volume of labour demand and supply | Several measures could help reduce the gap between structure and volume of demand and supply. These include a proper targeting of economic and social needs in the education and training provision, and measures for stimulating demand and job take-up. It requires accurate knowledge of the situation and adequate tools. To start with, the discrepancy between existing occupations and actual job vacancies, highlighted by the national employment agency, calls for revising the structure of occupations that serves as reference for designing or offering training. Longer term, there is a need for tools for more precise analysis of skills needs, but also anticipation is needed to harness the VET system's responsiveness. Further capacity building of public institutions and proper resourcing is required to play an effective role in addressing the labour market and skills imbalances. |

| Human capital development and use problem           | Recommendations |   |  |
|---|-----------------|---|--|
|   | No.             | Recommendation  | Description  |
| Further develop shared governance of the VET system | R.1             | Prepare the ground for a more holistic and results-oriented sector development strategy   | As the current strategy will expire in 2020, this provides an opportunity to prepare for the design of the next strategy by drawing lessons from current gaps; in particular, it will be important to: i) identify national strategies and reform efforts having a link to skills development (including Economic Reform Programme and key economic sectors' development strategies), and the nature of this link; ii) ground the strategy in a clear vision for skills in Montenegro based on these links, but also a clear vision of the place and priority purpose of VET within the education and training system; iii) broaden the strategic planning to the whole VET/skills development sector in order to mirror and back the economic development strategic priorities of the government; iv) set safeguards for this new strategy to explicitly serve the needs of the labour market (by better use of relevant data); v) make the VET strategy more forward-looking and impact-oriented, including through the introduction of outcomes/impact objectives, targets and indicators in a performance assessment framework. A costing methodology should be developed and agreed to ensure accurate and sustainable budget planning and execution. |
|   | R.2             | Set up an interministerial and public-private task force to steer the new strategy  | When creating the new VET strategy, a multi-stakeholder task force could be set up to enable better horizontal coordination across ministries, ensure close complementarity across strategies (including education, training and employment), and to help engage social partners.<br>As a first discussion point, the division of responsibilities in the new strategy could be a good time to refresh what the legal framework already authorises and how to make the most of it.   |
|   | R.3             | Conduct a lessons learned exercise based on the dual education pilot and focusing on its governance aspects (incl. institutional arrangements and policy capacity review) | As in the case of the skills mismatch, the experiment of dual education may be a good example to follow: implementation of this reform is monitored by the National Coordination Body, composed of representatives from the Chamber of Commerce, VET Centre and the Ministry of Education. This requires carrying out a mini-exercise of lessons learned based on these two years of existence.  |
|   | R.4             | Review obstacles to social partners' involvement in the policy implementation, and entrust them with specific responsibilities in the next strategy in the policy cycle   | Further develop the framework for shared governance of VET, with particular attention to the roles and responsibilities of social partners in policymaking and implementation.   |
|   | R.5             | Review current and if needed introduce new accountability mechanisms for VET colleges, in view of increasing their autonomy and decentralised governance                  | Regarding VET colleges' autonomy and decentralised governance, a greater degree of decentralisation could provide more autonomy (both in terms of management and financing) to the VET schools to enable them to adapt and better respond to the skills needs of the local labour market. This should go hand in hand with revised accountability rules, based on clear, agreed objectives. The youth advisory bodies that are foreseen in the new Law on Youth could also be interesting intermediary bodies for inclusive approach of policymaking including young people.   |



|  |             |   |  |
|--|-------------|---|--|
|  | <b>R.6</b>  | Carry out a sound diagnostic assessment of capacity   | In order to accurately define remediation measures to the capacity issues, whether human, material, or financial, a sound diagnostic assessment of the capacity state of play would be needed as the very first step. It could easily build on existing methodological tools, including the SABER methodology from the World Bank (Systems Approach for Better Education Results), the SIGMA methodology from the OECD and EU, or other organisation audit methods.  |
|  | <b>R.7</b>  | Set up an institutional database to be regularly updated and maintained   | Regarding human and institutional memory issues, including staff turnover, corporate measures could help to establish an institutional memory. These measures may include setting up an institutional database to be regularly updated and maintained, formalised handover procedures, and/or overlapping engagement of the current and new staff.   |
|  | <b>R.8</b>  | Carry out a spending review   | For financing aspects specifically, and as recommended by the World Bank in its Growth and Jobs report (2018), a spending review could help 'verify whether efficiency of spending is appropriate given the limited ability of the sector to provide the right skills', and establish the baseline situation and scope of needs. Improving financial capacity would require assessment of investment needs to upgrade the infrastructure and the equipment in schools. The assessment should be based on the needs expressed by the schools, aggregated by categories of investment; establish the corresponding priorities by categories, municipalities, and training providers; and make an investment plan over a longer period. |
|  | <b>R.9</b>  | Discuss ways and steps to diversify the sources of funds and increase the share of non-state resources, based on existing opportunities | To ensure financial sustainability, there is an urgent need to diversify the sources of funds and increase the share of non-state resources. Various means may help doing so: introduce further fiscal facilities or communicate about existing incentives given to enterprises involved in the dual system, and allow, encourage or even train (if needed) training providers to apply for foreign donors' financial support for equipment, technology or technical assistance.   |
|  | <b>R.10</b> | Explore other financing schemes to support the main policy priorities   | Based on the experiences developed with the funds for in-demand occupations, for talented students or with the subsidies for dual education, it would be interesting to explore what other schemes could be set up to similarly support the main policy priorities, for example in favour of vulnerable populations or lagging-behind regions, in order to bridge the human capital gaps. This exploration should take into account the need to keep mechanisms as simple as possible in administrative and legal terms, both for targeted users to apply and for the public actors to manage them.  |
|  | <b>R.11</b> | Institutionalise a function for shared monitoring and evaluation  | Building and institutionalising a shared monitoring and evaluation function, and related framework, will enable assessment of policy progress but could also help engage the stakeholders.   |

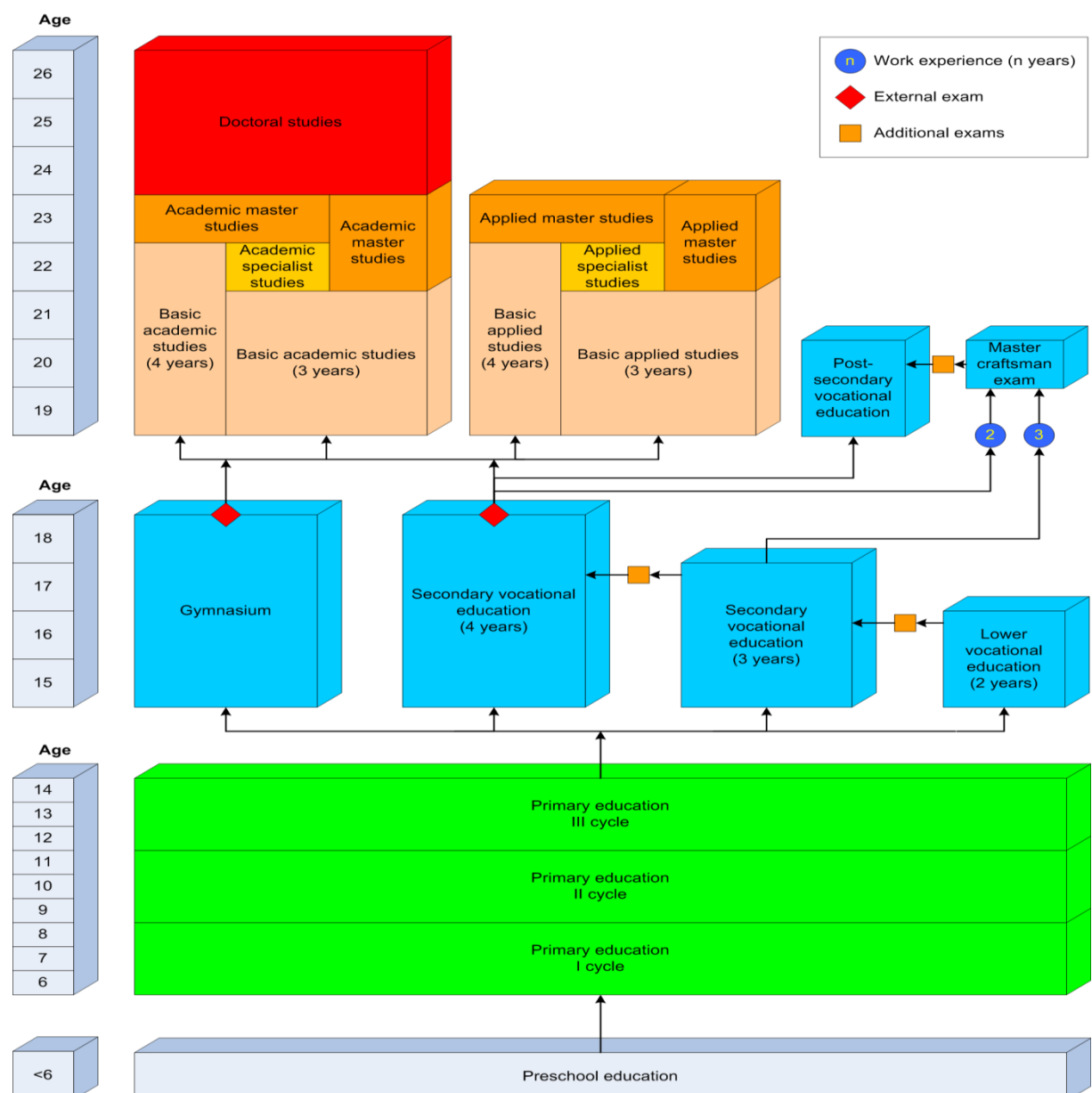


## ANNEX 2: BASIC OVERVIEW OF THE VET SYSTEM AND ACTORS

### The education and training system

The Montenegrin education system includes preschool, primary, general secondary education (gymnasiums), vocational education and higher education.

**FIGURE A1: THE MONTENEGRIN EDUCATION AND TRAINING SYSTEM**



According to the Montenegrin education information system (MEIS), the education system includes 21 public and 13 private preschool institutions; 163 public primary schools; 47 public secondary schools (gymnasiums, vocational and combined schools) and one private gymnasium; three resource centres

(for children with special educational needs); and 106 licensed adult education providers, of which 22 are VET schools, four are universities and others are autonomous private providers. There are 2 565 teachers teaching in secondary schools, of which 1 983 teach VET programmes.

In academic year 2017/18, the student teacher ratio in VET schools was 12.98 (8 to 9 is the EU average), compared to 15.17 in 2012/13. The total number of teachers delivering VET programmes in 37 VET schools is 2 113; this number also includes music and art schools, accounting for approximately 250 teachers in total.

Continuing VET is provided through the network of adult education providers, offering short- and medium-term training programmes for vocational qualifications as well as for key skills.

## LIST OF ACRONYMS

|       |  |
|-------|--|
| CPD   | Continuing Professional Development                    |
| CVET  | Continuing Vocational Education and Training           |
| EAM   | Employment Agency of Montenegro                        |
| EPALE | Electronic Platform for Adult Learning in Europe       |
| ERP   | Economic Reform Programme                              |
| ETF   | European Training Foundation                           |
| EU    | European Union   |
| GDP   | Gross Domestic Product                                 |
| HCD   | Human Capital Development                              |
| HE    | Higher Education                                       |
| ICT   | Information and Communication Technology               |
| ILO   | International Labour Organization                      |
| IPA   | Instrument for Pre-Accession                           |
| ISCED | International Standard Classification of Education     |
| ISCO  | International Standard Classification of Occupations   |
| IVET  | Initial Vocational Education and Training              |
| LFS   | Labour Force Survey                                    |
| MEF   | Montenegrin Employers Federation                       |
| MEIS  | Montenegrin Education Information System               |
| MoE   | Ministry of Education                                  |
| NEET  | Not in Employment, Education or Training               |
| NRF   | National Reporting Framework                           |
| OECD  | Organisation for Economic Co-operation and Development |
| PISA  | Programme for International Student Assessment         |
| SEET  | South Eastern Europe and Turkey                        |
| SME   | Small and Medium-sized Enterprises                     |
| SVET  | Secondary Vocational Education and Training            |
| VET   | Vocational Education and Training                      |
| WEF   | World Economic Forum                                   |



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