



ETF COUNTRY ANALYSIS 2006

# MONTENEGRO

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## ETF COUNTRY ANALYSIS FOR IPA PROGRAMMING IN THE FIELD OF HUMAN RESOURCES DEVELOPMENT 2006

### Summary

Recent ambitious privatisation initiatives demonstrate that the Montenegrin government is determined to push forward the economic transition. However, many challenges remain, including the need to address joblessness (estimated at 23%), more concerted efforts to combat the grey economy and the need for a national vision and plan to ensure that Montenegro's human resources contribute better to the country's competitiveness agenda. The Government's 'Economic Reform Agenda 2002-2007' goes some way towards tackling these issues, including enterprise restructuring, privatisation and private sector development. The country has additionally taken initial steps towards putting in place a front-line administration to support its interface with the European Union. This will need to be followed up with additional structures and measures across government departments and at sub-national level, including social partnership frameworks, as the country forges closer links with the European institutions and adopts and delivers on EU policies.

The aim of this paper is to provide an assessment and recommendations for employment promotion and human resource development in Montenegro with particular reference to IPA programming. It firstly provides an overall assessment of the labour market and human resource development in the country with respect to the broader EU employment policy objectives: full employment, quality and productivity at work and social and territorial cohesion. It goes on to review the range of policy areas and their implementation in Montenegro with specific reference to the EU's employment guidelines (2005-2008) and the contribution of the EU and other donors to employment and workforce developments. There then follows an analysis of institutional arrangements for employment and human resource development with due reference to Montenegro's interface with, and eventual integration into, EU structures. The paper concludes with recommendations for possible EU support by the IPA Programme

These include capacity building measures for employment policy and the administration and delivery of services to the unemployed disadvantaged groups. The analysis recommends assistance aimed at building local capacities in education and training delivery and management and to enhance mobility and participation in EU networks: quality assurance, qualifications framework, key competences, lifelong learning, as well as support to secondary education.



## Analysis of human resource and labour market developments in Montenegro

Montenegro has a population of some 650,000, with Montenegrins as the biggest ethnic group (43.2%). The other 14 ethnic groups make up 56.8% of the total population. According to the 2003 Census, the national structure is as follows: Montenegrin 43.16%, Serbs 31.99%, Bosniaks 7.77%, Albanians 5.03%, Muslims 3.97%, Croats 1.1%, Roma 0.42%, other 1.23%<sup>1</sup> comprising Montenegrins, Serbs, Bosnian Muslims, Albanians and Croats. A refugee population is estimated at some 30,000. Following a decade of stagnation in the nineties caused by the various conflicts in the region, trade sanctions and international isolation, substantial progress has been achieved in the establishment of a stable legal framework and macro-economic environment. The statistical data for the last several years indicate positive trends in the economy and a return to growth. Price stability has been a major contributor to economic growth and virtually all prices have been liberalised in the context of a euro economy.

### Full employment

Although Montenegro remains outside the Lisbon monitoring process, the 'full employment' objective for the EU25 provides a useful reference for Montenegro as it undertakes further structural reforms and attempts to deal with its own employment agenda. The EU has set itself the target of 70% employment rate to be achieved by 2010 which in itself would not amount to full employment but will be a significant step in that direction.

In its most recent Labour Force Survey in 2003, Montenegro's overall employment rate stands at just under 50%. This is significantly lower than the top five EU employment rate performers (avg. 73%) and also trails the weaker five EU performers (avg. 55%), although falling behind Poland by just 1% (see Table 1)<sup>2</sup>. Compared to the EU candidate countries, Montenegro falls behind Romania, Croatia and Bulgaria (avg. 54%) but clearly outperforms Turkey and fYR Macedonia which have respective employment rates of 46% and 35%.

Table 1: Comparative employment rates for Montenegro, EU and candidate countries (2003)

Employment rates		EU25 average		63%	
		EU15 average		64%	
		Lisbon 2010 target		70%	
		Montenegro		50%	
<b>EU better performers</b>		<b>EU weaker performers</b>		<b>EU candidates</b>	
Denmark	75%	Luxemburg	63%	Romania	58%
NL	74%	Slovakia	58%	Croatia	53%
Sweden	73%	Hungary	57%	Bulgaria	52%
UK	72%	Malta	54%	Turkey	46%
Austria	69%	Poland	51%	fYR Macedonia	35%

Three target groups in particular will need to be addressed in the bid for fuller employment in Montenegro: women, young people and older workers (minorities and disadvantaged groups are addressed in the following chapter).

<sup>1</sup> Source: Access to Education, Training and Employment of Ethnic Minorities in the Western Balkans, Country report on Montenegro, ETF internal paper, prepared by EURAC, 2005

<sup>2</sup> Data refer to 2003 labour force surveys for all countries. Data for Member States sourced from EUROSTAT, while data for fYROM and Montenegro are taken from national statistics offices in both countries. Note that the data predates the 2005 enlargement and the EU candidacy of Croatia and fYROM.

Firstly, Montenegro's female employment rate requires policy reflection and measures if women are to be better represented in employment. At just under 37%, Montenegro's female employment rate falls behind the male employment rate of 55% and lags considerably behind EU Member States and candidate countries (but ahead of Turkey, FYROM and Malta with employment rates at 26%, 28% and 34% respectively). See Table 2. Furthermore, comparing data over the period 1999-2003 also indicates that not only are women losing out on employment but many are now retreating altogether from the labour market (neither registering as unemployed nor actively seeking employment).

Table 2: Comparative female employment rates for Montenegro, EU and candidate countries (2003)

Female employment rates		EU25 average		55%	
		EU15 average		56%	
		Lisbon 2010 target		60%	
		Montenegro		37%	
<b>EU better performers</b>		<b>EU weaker performers</b>		<b>EU candidates</b>	
Sweden	72%	Hungary	51%	Romania	52%
Denmark/Estonia	71%	Poland/Spain	46%	Bulgaria	49%
Finland/NL	66%	Greece	44%	Croatia	47%
UK	65%	Italy	43%	fYR Macedonia	28%
Austria	62%	Malta	34%	Turkey	26%

A particular feature of Montenegrin women's employment is a tendency for irregular employment. This refers to forms of employment and work that deviate from the "standard" model of permanent, full time and waged employment (e.g. part-time jobs, occasional/casual work, jobs with seasonal, temporary or fixed term contracts)<sup>3</sup>. In Montenegro, over 24% of women participate in irregular employment (18% for men).

Comparing unemployment rates for women, Montenegro's 23% lies well ahead of the EU average of 10% and outpaces the weakest EU and candidate countries considerably (female joblessness in Poland stands at 20%, Slovakia 18%, Croatia 16%, Spain, 15%). No specific measures are in place to support unemployed women. Nonetheless, the Ministry of Labour and Social Welfare and social partners have agreed to look more strategically at female employment promotion which will take place within a CARDS 2006 labour market reform and workforce development programme.

Secondly, some 52% of young people (15-24 years) are out of work. Compared to an EU average of 19%, itself a worrying level, youth unemployment in Montenegro is chronic<sup>4</sup>. Adding those young people who are in irregular employment (38%) completes the picture: as little as 10% of Montenegro's young people are in full time employment. Apart from poor absorption capacity of the economy, part of the difficulty is what appears to be a 'last-in, first out' policy of employers who shed most recent recruits on restructuring. This issue is returned to in the next section.

A review of specific support for active employment measures undertaken by ETF in 2005<sup>5</sup> indicates that there are no specific measures to address youth unemployment. Vocational training provision which targets the total unemployed group is very under-developed with only 3.4% of those registered with the employment service benefiting from training. Proportionately for 15-24 year olds, this translates roughly to 1.5% of young unemployed people benefiting from vocational training programmes.

<sup>3</sup> Data on irregular employment in this paper includes those involved in the informal economy.

<sup>4</sup> Those aged 15-27 years constitute as much as 45% of the total unemployed in Montenegro.

<sup>5</sup> Labour Market Review, Montenegro. ETF (2005).

Table 3: Youth unemployment: Montenegro, EU and candidate countries (2003)

Youth unemployment		EU25 average		19%	
		EU15 average		17%	
		Montenegro		52%	
<b>EU better performers</b>		<b>EU weaker performers</b>		<b>EU candidates</b>	
Netherlands	6%	Poland	42%	Bulgaria	28%
Austria	8%	Slovakia	33%	Croatia	n/a
Germany/Ireland	9%	Greece	27%	Romania	20%
UK	12%	Spain	25%	Turkey	21%
Hungary/Sweden	13%	Italy	24%	fYR Macedonia	66%

Thirdly, turning to older workers (55-64 year-olds) while an 8% unemployment rate in itself is not serious, in terms of a 'full employment' objective, the overall employment rate for this group is relatively low at 33% when compared to the better performing EU Member States (see Table 4) but still considerably off the 50% Lisbon target. And of these employed, a considerable proportion (44%) are in irregular employment.

More generally, participation rates of older workers have fallen with various phases of the privatisation drive, most likely reflecting early retirement measures which put pressure on the national pensions system. With further privatisation and restructuring in the pipeline it is likely that older workers will continue to feature in the downsizing plans and eventual jobless figures. An estimated 15,000-20,000 jobs are considered to be at risk in the next wave of privatisation (this issue is further elaborated at para.2.2). Further, the implications of the 2005 IMF public spending restrictions agreed with the government will mean a cut in public service workers of some 5,000 (police, military, public administration). Again, older workers are likely to feature in the rationalisation process.

Table 4: Older worker employment rates for Montenegro, EU and candidate countries (2003)

Employment rates (55-64 yrs)		EU25 average		40%	
		EU15 average		42%	
		Lisbon 2010 target		50%	
		Montenegro		33%	
<b>EU better performers</b>		<b>EU weaker performers</b>		<b>EU candidates</b>	
Sweden	66%	Poland	20%	Romania	38%
Denmark	60%	Italy	19%	Turkey	34%
Estonia	47%	Slovenia	15%	Bulgaria	30%
Finland	48%	Malta	13%	Croatia	28%
United Kingdom	46%	Slovakia	11%	fyr Macedonia	25%

Finally, a word on the informal economy. With less than 6% of the registered unemployed in receipt of unemployment benefit, the public employment service estimates that some 30% of the registered unemployed hold jobs in the informal economy. Seepage into the informal economy has been seen particularly as a function of high taxes and non-wage contributions of employers which have encouraged both workers and employers to collude on informal employment. Steps have been taken by the government to shift those working informally into the open labour market. These include reduction of taxes paid by employers resulting in an overall 6% reduction in labour costs. Furthermore, the introduction of tax relief for

new job creation has generated approximately 57,000 jobs between April 2003 and June 2005. While these jobs are registered as 'new' employment it is not certain to what extent they reflect jobs which have transferred from the grey economy. Nevertheless, the job growth statistics are considerable and represent an important contribution of national fiscal policy to employment generation.

### **Improving quality and productivity at work**

This section considers how the overall work environment assures quality employment. In particular it addresses employment security vis-à-vis more flexible labour markets, trends in company lay-offs and skill development.

Overall, Montenegro is witnessing a shift towards more irregular forms of employment with a 5% increase between 1999 and 2003 to a total of 19%. Irregular employment refers to forms of employment and work that deviate from the "standard" model of permanent, full time and waged employment (e.g. part-time jobs, occasional/casual work, jobs with seasonal, temporary or fixed term contracts). Data on irregular employment used in this paper borrows on an ETF 2005 labour market review which includes those operating in the informal economy.

A more developed analysis and tracking of irregular employment, including the informal economy, is required to determine level of precariousness and to what extent the various forms of irregular forms employment are by choice. Nonetheless, it is very likely at this point in the transition process that a significant share of the Montenegro's irregular employment is a function of *force majeure*. And with many operating in the informal labour market it is safe to assume that overall job security will be slim, with few opportunities for training or career development and workers excluded from workplace decision-making. Issues such as health and safety provisions of informal workers, including the informally self-employed, are also a concern.

A particular feature of irregular employment in Montenegro is a high percentage of women - over 24% compared to 18% for men. Straddling family and income generation responsibilities, women workers, as the data suggests, are prone to less employment security. They are also more likely to be subject to lower pay and particularly if working informally will be outside the employment insurance and pension schemes which engender further propensity towards poverty and hardship.

Notwithstanding the concerns regarding the precariousness of irregular forms of employment, non-linear career development is set to become a feature of Montenegro's labour market, as enterprises adapt to market changes. For workers this will mean that periods of employment may alternate with periods of unemployment, re-training etc and which the individual, in particular, will need to manage and negotiate in the bid to remain employable. For young workers, in particular, labour market entry is more likely to be increasingly based on irregular forms of employment until a foothold is gained in more permanent employment. What will be important is that workers operating in more fluid and irregular working situations will have flexible pathways in career development and have ready access to upskilling and training to ensure their continued employability.

A debate on future labour market orientations, and in particular, more flexible working arrangements in Montenegro involving government, employers and social partners still needs to be held. In the medium term, all parties will need to understand how workers increasingly engaged into non-standard forms of work can be supported in the bid for full employment and a competent workforce. Future support from IPA could be considered to open a policy debate on development of a more flexible labour market with options for policy learning from better performers within the European Union Member States.

A second factor of Montenegro's labour market is what appears to be a trend towards a two-tier system of internal labour market where employers are applying a 'last in, first out' policy on staff lay-offs. While most restructuring inevitably leads to lay-offs, what is not clear is the extent to which employers decisions as to who is laid-off is taken in the interest of company performance or staff loyalty. Data on redundancies for 2003 indicate that there is an inverse relationship between time served with a company and likelihood of redundancy. In particular, of the 20,748 workers laid off, almost half had been with the company five years or less. Assuming that a considerable proportion of the more recent recruits were younger workers and subsequently made redundant, as is suggested by independent observers, the potential to bring longer term

value to a company's performance in terms of adaptability and contribution to productivity is forfeited while more able workers are denied employment opportunity.

With a third wave of restructuring and privatisation now getting underway involving eight large enterprises and a number of SMEs, and where employment surplus will be addressed, decisions on worker retention and lay-offs as a function of performance should be given priority.

Thirdly, education and training are key determinants and contributors to quality and productivity at work. A 2005 World Bank assessment of Montenegro's education system identifies a number of factors which will significantly undermine the potential of the education system in contributing to the development of a quality workforce and the wider competitive challenge of the evolving economy. Firstly, there are serious deficiencies in school infrastructure with almost all schools operating in double shifts and some schools in urban areas in triple shifts. There has been little capital investment in the school infrastructure in the last 10 years. Secondly, learning materials and equipment are of poor quality with little money for quality enhancing inputs (e.g. teacher training). Apart from those schools which have benefited from donor supported teacher development, approaches to teaching and learning are long outdated. Thirdly, only a handful of schools have an ICT infrastructure. Finally, while education expenditure (7.4% of GDP) exceeds the average OECD countries (5.9%), efficiency problems impact on quality and delivery.

With respect to quality of vocational education and training, which is for the most part school-based, questions are now being raised as to its overall relevance to the labour market. An ETF labour market review highlights how no difference in unemployment rates between those with primary education and those with vocational education<sup>6</sup> which raises the question of the value and confidence of the market in the vocational skills being delivered by the education system. The World Bank even goes so far as to challenge the appropriateness of the vocational concentration. Both the labour market outcomes data highlighted in the ETF review and the World Bank's assessment of vocational education warrant a strategic review and assessment of how Montenegro's vocational education effort is or is not meeting market requirements. This should additionally address the quality and appropriateness of training for the unemployed, which is insufficient with only 3.4% of those registered with the public employment services benefiting from training in 2004.

Finally, there is little data available on the level of investment of businesses in staff training, apart from isolated efforts at more corporate oriented-training (e.g. marketing, business strategy, standards) mostly supported by international donors, geared towards improving business performance with no reported investment in shop-floor workers<sup>7</sup>.

To conclude, if Montenegro is to join mainstream developments in workforce development in Europe and is to align itself in the medium term with the policies and delivery systems necessary to fulfil the quality and productivity guidelines of the European Employment Strategy, a strategic review of the role and potential contribution of the wider learning system will be necessary including decisions as to how all national institutions, including employers, can ensure that the various parts of the learning system, including on-the-job training, can be integrated into Montenegro's competitiveness agenda. An adult education strategy already developed and which would provide one pillar of such a broader lifelong learning' framework provides a first building block in this direction. This issue is returned to in the following chapter when considering the financing of a quality learning system.

## **Social and territorial cohesion**

Overall poverty in Montenegro is estimated at 12.2% of the population with poverty defined as living on up to €3.50 per day. One third of the population is considered as vulnerable i.e. just above the poverty line and at risk of any form of economic instability or drop in personal income<sup>8</sup>. The average monthly salary in Montenegro is just over €200 with monthly expenses for a family of four, four times as much<sup>9</sup>. Estimates on

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<sup>6</sup> Labour Market Review, Montenegro. ETF (2005) p.19.

<sup>7</sup> European Charter for Small Enterprises. National Report for Montenegro. 2005.

<sup>8</sup> Poverty Reduction Strategy Paper. Montenegro. World Bank. November 2003.

<sup>9</sup> Household Survey N°9. Institute for Strategic Studies and Prognosis. Montenegro. March 2004.

economic growth suggest that poverty could be halved by 2010 but widening income inequality and regional disparities is likely to lead to specific groups in the population being economically and socially marginalised.

The causes behind the poverty levels are complex and inter-related: an economic downturn associated with market transition; war in the region; economic sanctions against the state of Serbia and Montenegro; population shifts and an influx of refugees seeking harbour from conflict in neighbouring territories. Present refugee estimates are in the order of 8% of the overall population. While the greater part of the poor are Montenegrin citizens (73%), Roma, Aškelja and Egyptian communities (RAE) account for 12%, refugees at 6% (approx. 13,000 Bosnians and Croats, 18,000 Kosovars) and the internally displaced (IDP) at just under 10%.

Education and employment are key determinants of poverty in Montenegro. Some 17% of families whose head of household did not attend or has not completed secondary school - defined as educationally poor - are three times more likely to be poor than families whose head has completed secondary school. By way of indicators, the following educationally poor represent core poverty risk groups: some 5% of young people (15-24 year olds), 70% RAE, 29% refugees and 8% IDPs. These groups are also characterised by high school dropout rates. The estimated illiteracy rates amongst RAE communities are 76%. Specific efforts at catch-up education could therefore be a policy response to address poverty and poverty-risk across these groups.

In terms of employment, it is assumed that the poor are highly represented in the informal economy in the attempt to etch out a living. Competition for jobs in the informal economy, particularly in seasonal work is keen, with large numbers of workers travelling into/ temporarily moving to Montenegro for employment in the agriculture and tourism sectors, particularly. Vulnerability of the poor working in the informal economy is further reinforced given that they are excluded from pensions system and health insurance. With high unemployment rates amongst the RAE community (43%), refugees (33%) and IDPs (39%), these populations are most exposed to hardship and social exclusion.

With respect to territorial cohesion, clear divisions are now manifesting themselves with three regions<sup>10</sup> identifiable in terms of socio-economic development. The northern 'region', with unemployment at just under 40%, hosts nearly half of Montenegro's poor. Of those resident in the region, some 19% fall below the poverty line. The central region, with 42% joblessness, hosts 35% of Montenegro's poor or 11% of those residents in the region. With 19% unemployment and accounting for the same percentage of the country's poverty, the southern region is the most developed economically. Some 9% of its residents are poor.

Table 5: Poverty and unemployment by region (% figures rounded)

Region	Poverty Rates		Unemployment
	% <i>within region</i>	% <i>within Montenegro</i>	
North	19%	45%	39%
Central	11%	35%	42%
South	9%	19%	19%

The two least developed regions – North and Central – between them, account for approximately 80% of Montenegro's poverty as well as 80% of its unemployment. Digging deeper into the data highlights that both regions account for 62% of the Montenegro's RAE community, 61% of its refugees and over 88% of its IDPs.

Table 6 socio-profiles Montenegro's three regions. The figures speak volumes. The lion's share of Montenegro's jobless, poor, ethnic minorities and refugees are locked into the country's two most under-developed regions (shaded cells represent collapsed figures for North and Central regions). The government's development blueprint, the Economic Reform Agenda, gives specific emphasis to regional

<sup>10</sup> National and international commentators refer to the regions. These are not political or administrative regions but loosely defined according to stage of development or underdevelopment.



development. Amongst the priorities identified for support at regional level are SME development, infrastructure and local government reform. While factors such as SME development and tax breaks on workers and businesses for defined periods will go some way to addressing the unemployment in the regions, it is clear that the regional strategy has been elaborated without sufficient attention being given to social concerns.

Table 6: Unemployment and poverty by region and 'at risk' social groups (% figures rounded)

Region	% of jobless		% of poverty		RAE		Refugee		IDP	
North	39%	81%	45%	80%	10%	62%	10%	61%	52%	89%
Central	42%		35%		52%		51%		37%	
South	19%		19%		38%		39%		11%	

Three factors can be identified which contribute to imbalance on the labour market with regard to minority representatives. Firstly, the economic situation of the Bosniak/Muslims is directly caused by their concentration in the northern region, which is characterised as the rural zone, known also as the "poor zone". Secondly, language barriers create problems for Albanian students hence they fail to achieve adequate knowledge for communication in the official language which reduces their opportunities for equal labour market participation. As they are not familiar with the local language, the RAE has a similar problem. Ethnic distance and stereotypes present additional obstacles to their better integration in the labour market<sup>11</sup>.

In conclusion, the socio-economic trends across Montenegro are stark given the overall size of the country (approx. 14,000 sq.km). Social exclusion is essentially institutionalised in two out of its three regions with chronic levels of poverty and joblessness. Regional development policy would appear to follow neo-liberal lines where market development has been exclusive of a broader, more sustainable socio-economic development paradigm akin to that applied within the EU. The present regional development effort in Montenegro is supported by CARDS and USAID. A next phase of support for regional development through IPA would do well to pull on the core principles of EU regional development policy where support for economic development and social development are part of an integrated strategy and reform package.

## Analysis of relevant policies and identification of challenges in relation with the main priorities of the employment guidelines

This chapter analyses existing employment and workforce development policies and delivery systems in Montenegro. It builds on the broader assessment of issues raised in the previous chapter. In particular, it highlights gaps and constraints in the existing policy framework, provides an institutional capacity assessment and identifies challenges which will need to be addressed by Montenegro as it engages further with the EU in its bid to advance preparedness for accession.

### Attracting and retaining more people in employment

It is important at the outset to be clear that education, training and wider active employment policies alone do not create employment; rather they contribute to better employment. Sustainable employment in Montenegro will be a function of growth-oriented enterprises able to create jobs. In this regard, fiscal policy is a brake on enterprise opportunity and by default on employment potential. It has been seen a key driver of informal employment where employers evade high contributions. While efforts have been undertaken to reduce taxes and the contribution on employees' net wages to 75% (these amounted to 100% in 2004 i.e. for every euro paid on a worker's wage packet, the employer transferred an additional euro to the

<sup>11</sup> Source: Access to Education, Training and Employment of Ethnic Minorities in the Western Balkans, Country report on Montenegro, ETF internal paper, prepared by EURAC, 2005

exchequer) these are still considered high in relation to charges on employees' wages in the rest of the region.

Nonetheless, efforts to legalise existing employment and to promote employment, adopted in early 2003, are already having an effect. Legislation has been followed up with two government decrees designed to reduce taxes for newly employed workers and employment of non-nationals (refugees are a target group here). Both decrees have resulted in 24,766 'new' employment posts (it is assumed that the majority were originally informal workers) as well as 19,230 non-nationals registered as employed. In itself, the new fiscal arrangements for newly employed workers resulted in an 18% drop in the official employment rate in its first year of operation (2003) and represent a significant step towards employment promotion.

The opportunities that more flexible working arrangements can bring to creating employment have been addressed earlier. For their part, the Montenegrin authorities have introduced legislation (Labour Law, 2003) to promote more flexible forms of work e.g. part-time work, home working, and self-employment. Some provisions particularly favour enterprise flexibility e.g. simplification of the dismissal of employees and reduction of maternity leave to 365 days which lies above the EU minimum requirement of 14 weeks. However, how effective this legislation is remains to be seen. In particular, some commentators remark that the area of flexibility of work is insufficiently developed in the legislation and that difficulties in its application are likely<sup>12</sup>. Policy monitoring should therefore be encouraged with necessary adaptations by decree, as necessary, to ensure that the spirit and objectives of the legislation are put to good effect.

A 2002 Employment Law provides a framework for better statutory and institutional arrangements for employment regulation. The legislation covers *inter alia* procedures for employment, unemployment insurance, unemployment benefits and rights of the unemployed, ensuring necessary levels of employment protection. The legislation also provides for co-financing arrangements for employment on public works schemes as well as broader job creation measures. The legislation provides a sound basis for Montenegro to move forward in promoting the employment agenda. More particularly, the legislation allows for the creation of an 'employment fund' – a new institutional and legal entity and again involving a co-financing arrangement – to be governed by a tri-partite committee and whose task is to ensure support for workers made redundant due to restructuring. The fund represents a possible reference instrument for a future national ESF finance and administration framework.

The EU guidelines for attracting and maintaining people in employment lays particular emphasis on job matching, employment counselling and vocational training as key leverages into the world of work with skills updating considered necessary for continued quality employment. While financing arrangements for the 'employment fund' remain to be finalised, support for active labour market measures in Montenegro is particularly under-resourced. Some 1.2% of GDP addresses employment integration and development (compared to 4.6% Denmark, 3.6% Belgium, Netherlands). However, some 42% of this goes to the running costs of the public employment service (average running costs in the European Union are around 10%). This raises questions as to overall efficiency of the public employment services.

Further, with respect to particular groups more prone to unemployment, a review of specific support for active employment measures undertaken by the ETF in 2005<sup>13</sup> indicates overall financial support is insufficient and there are no specific measures to address young people, women, long-term unemployed or minorities. Rather, a general budget allocation is available for active employment measures without clear priorities and related budgetary allocation.

By way of example, with only 3.4% of those registered unemployed benefiting from training in 2003, for 15-24 year olds, this translates roughly as 1.5% of young unemployed people participating in vocational training programmes. More targeted measures with specific budgetary allocations should therefore be considered for those featuring significantly in the unemployment data. Apart from young people, with women's jobless standing at 37%, increasing inactivity of women in the labour market needs to be tackled. A barrier to women's integration into the labour market is that they predominantly take responsibility for child rearing and dependents. Work/family life reconciliation policies may eventually need to be considered in the bid to reduce the gender gap in employment. Similarly, more targeted policy attention is required to address

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<sup>12</sup> Poverty Reduction Strategy Paper for Montenegro. November 2003. p. 22.

<sup>13</sup> Labour Market Review, Montenegro. ETF (2005) p.35.

the employment potential of disadvantaged groups (RAE, refugees and IDPs), which are significantly excluded from employment.

An additional challenge will be to address the long-term unemployed. Long-term unemployment in Montenegro accounts for 85% of the total unemployed - almost double the EU rate. Digging deeper into the 85% highlights that some 40% have been unemployed for five years or more, with 23% out of work for eight years or more. The longer an individual remains out of work the less employable s/he becomes and with such large numbers of long-term unemployed the risk of creating a ghetto of the economically and socially excluded in Montenegro increases. This category of worker therefore represents a particularly vulnerable group and requires specific consideration if the knock-on implications – economic, social and individual – are to be avoided.

A particular feature of the active employment measures pursued by the employment services is the level of support attributed to self-employment promotion. This is primarily administered by way of competitive loans to those interested in creating their own jobs. In 2004, the loans for self-employment accounted for 14% of public employment service expenditure. Comparing this to 6% on vocational training and 2% on employment counselling suggests that training and counselling services could be disadvantaged as a consequence of a significant proportion of active labour market measures being absorbed by the self-employment loans scheme.

To conclude, a review of overall public expenditure on active employment measures should be considered with the objective of determining how existing budgetary resources can be optimised to support employment integration of youth, women, long-term unemployed and disadvantaged groups, including minorities. The review would not be complete without a commitment by employers in determining how enterprise could play its part in ensuring the development of its employees which will add to better retention of workers in employment. Additionally, the review should be set against a broader assessment of the efficiency of the public employment service particularly given the current levels of the running costs of the service. Finally, given the specific emphasis out on self-employment by the employment service, the review should consider the administration of the self-employment loans and how this interfaces with other loans schemes administered by other government agencies (e.g. Directorate for SMEs) with a view to arriving at a more cost-effective delivery of support for self-employment promotion.

### **Adaptability of enterprises**

Structural reform remains the single most significant factor for the Montenegrin economy as it undertakes its market transition. The implications of enterprise restructuring and privatisation, in terms of its impact on employment and the growing need for flexible working arrangements, vocational training and employment support to workers have been addressed earlier. This section looks at the implications of privatisation to date and what measures could be considered particularly in the context of the next phase of privatisation and restructuring which is likely to impact further on overall employment rates.

An ETF 2005 labour market review identifies three phases of privatisation in Montenegro, each differing in general approach and demonstrating various ways in dealing with change, including impact on workers.

A first round of privatisation involved a transfer of ownership of companies to public funds and some 25% going to employees. The implications of this were few job losses, no management restructuring and little change in overall enterprise strategy. A second wave of privatisation was characterised by insider acquisition. No restructuring of the companies followed. Job losses were few. In brief, the first two efforts at have not had any significant impact on company strategy nor any key workforce implications. A third wave of privatisations is now underway and is backed up by legislation to ensure greater transparency in the bidding process. Three models are in operation: a) mass voucher privatisation, b) sale to strategic partners, and c) sale by auction.

This phase of privatisation is expected to lead to considerable lay-offs. A survey of enterprises for sale by the public employment service suggests that approximately 20% of current employment is surplus labour. This translates into some 16,000 potential job losses or a 25% increase in official unemployment. Other sources paint an even grimmer picture. For example, European Agency for Reconstruction (EAR) estimate

that up to 40% of workers in the power sector could go to the wall with guesstimates of the overall hidden employment as high as 39,000.

Despite more openness and transparency, and maybe because of it, the third wave of privatisation has not been smooth. The government, with support of EAR, has engaged technical support for the restructuring and privatisation of eight large companies (power, minerals, coal, ports, and shipyards), 12 medium sized companies and 60 small enterprises. The objective of the technical assistance is to enhance the potential of the companies for investor interest. Management training and the issue of employment surplus feature in the support measures.

One distinguishing factor in this round of privatisation has been the social partnership approach which has been established to support and advise the process. In particular, the creation of tri-partite committees to undertake a socio-economic assessment of the each company and the community where it is located, in particular to determine impact in terms of redundancies represents good practice in terms of overall governance of the restructuring effort. However, despite having a clear remit to support workers made redundant as a result of the process, a missing link is what appears to be a non-involvement of the employment authorities in the prior discussions and preparations for restructuring, in particular on discussions on issues concerned with redundancies.

In its labour market review in 2005, ETF experts visited one of the largest Montenegrin companies (KAP Aluminum) where an estimated 1,000 redundancies are expected (7,692 workers have already been laid off) and where neither the public employment services nor the municipality were engaged in the change process preparations. In this regard, the Montenegrin authorities would do well to borrow immediately on the recommendations of the EU's 'adaptability' employment guideline by integrating the public employment services as early as possible into company change process where worker lay-offs are anticipated and where services can be more effectively managed in terms of job-matching and retraining.

A further constraint noted by ETF, this time in the post-privatisation support framework within the EU supported TAM and BAS programmes, is that company performance was being impeded as former managers remained in post. This suggests that more emphasis within the support programmes on change of management, as well as management of change, may be required.

More generally, without sufficient intelligence it is difficult to determine how the wider enterprise environment is evolving to head off competition. Ensuring more flexible working arrangements for staff and adapting to new technologies will be core features of the enterprise world's contribution to more and better employment in Montenegro. In this regard, monitoring of policies related to the introduction of more flexible employment contracts should be established to determine particularly the value of the legislation both for workers and enterprises. It should additionally determine the extent, if any, of trade off between flexibility and job security and make recommendations as to how a balance between the two can be reached.

To conclude, while the change process associated with restructuring and privatisation demonstrates good social partnership, the non-inclusion of the public employment services as early as possible into the downsizing process is a missed opportunity for Montenegro to minimise the overall (un)employment impact of the latest wave of privatization. It is recommended that further EU support for the privatisation drive through the IPA programme should ensure a more pro-active engagement of the public employment services as early as possible into the restructuring plans in order to determine how existing manpower could be re-deployed to best effect both within the remaining company structure, smaller holdings created as a consequence of the company break-up or alternatively into the wider labour market. Such an approach would assist the Montenegrin authorities in adopting a good 'guideline' practice.

### **Increased investment in human capital**

This section reviews the broader learning system in Montenegro, analyses the overall financial investment in learning and considers the evolving policy orientations for lifelong learning as a key instrument for economic and social development in the country. Particular comment is made on vocational education. Recommendations are made as to how more efficiency could be brought to those parts of the learning system which directly interface with the labour market and wider economy.

The last five years has seen Montenegro undertake an ambitious reform across its entire education system initiated by the government's White Paper 'The Book of Changes' in 2001 and involving the promulgation of seven education laws (general, pre-school, primary, secondary, vocational, higher and adult education). First attempts have also been taken to devolve its highly centralised education system. While spending on education demonstrates the level of priority attached to education in the government's agenda (7.2% of GDP compared to an average of 6.1% in OECD countries)<sup>14</sup>, a World Bank 2005 assessment nonetheless calls for more efforts to improve overall efficiency and effectiveness in education delivery. Critical to the World Bank's assessment is the issue of quality which is undermined by serious deficiencies in infrastructure, outdated teaching and learning methods and low quality inputs, particularly teacher training and educational materials.

Access to learning is generally good with 97% enrolment for primary school children (7-14 years) and an overall enrolment rate for secondary education of 85-90%. In the interests of promoting employability, however, more young people and adults should be encouraged to follow post-secondary education. This factor is addressed within an adult learning strategy which drew on EU policy evidence that those with better skills and qualifications are more likely to find and remain in employment. Data from Montenegro underlines this factor. The risk of unemployment is reduced with level of education attainment. Some 72% of the unemployed have not completed primary education compared with approximately 14% who followed third level studies. However, similar rates of unemployment amongst those completing primary and secondary education prompts the question as to the how effective the secondary schooling system is in preparing people for work.

The question is all the more pertinent given that 75% of secondary school goers are following labour market oriented, vocational courses. In its assessment of the figures, the ETF points to 'a profound inadequacy [in skills matching]... between vocational education and the labour market'<sup>15</sup> while a World Bank assessment concludes that vocational education in Montenegro 'is likely to be the main explanation for the poor labour market outcomes'<sup>16</sup>. Both these independent assertions warrant a review of the effectiveness and efficiency of vocational schooling and a reflection on the overall emphasis being given to vocational education by the Montenegrin authorities. In particular, any review of vocational education should additionally consider the options for secondary schooling to better reflect an increasingly services-oriented economy which require a broader skills' base, as opposed to occupational-specific skills, which are increasingly restrictive to labour market mobility and a changing economy<sup>17</sup>. This review would additionally assist Montenegro in determining what adaptations are required to the education and training systems in response to new competence requirements in line with the EU's integrated guidelines for growth and employment.

A second concern raised by the World Bank is the government's intention to partly decentralise education financing. Proposals in the offing envisage that central government budget should cover teachers salaries and capital investment while local authorities would be responsible for the remaining expenses of schools. Municipalities have already reacted that in the present economic climate they do not have the resources. The Bank is now supporting the education authorities in developing an effective plan for the decentralisation of education finance.

It was argued in the previous chapter that overall financial support in Montenegro is insufficient to address the training and retraining requirements of the unemployed. The Law on Employment nonetheless foresees co-financing with employers on some of the active employment measures but this provision of the legislation is not being met. Further, investment by enterprises in their own staff is generally confined to tasks associated with equipment on site without any overall commitment to broader staff development. Until the economy takes off and enterprise accounts are sufficiently healthy, employers will be very unlikely to be in a position to consider sustained commitments to staff development.

In general, the difficulties in getting to optimal financing arrangements for different parts of the learning system reflect the general disconnect between the range of different stakeholders in understanding and

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<sup>14</sup> However, the executed budget for same year (2003) was 5.9%

<sup>15</sup> Labour Market Review – Montenegro. ETF. 2005. p.38.

<sup>16</sup> Montenegro Education Reform Project Appraisal Document. World Bank (2005). p.2.

<sup>17</sup> Both tranches of CARDS support to vocational education and training predate the ETF and World Bank reports.

applying themselves to a fully-fledged, lifelong learning policy and delivery framework. Despite the best meaning EU policies and a real interest in joining mainstream EU developments, the lifelong learning concept is still considered a too 'rich' phenomenon at this stage in Montenegro's reform and development. At best what can be hoped for, in the medium term, is that the various stakeholders with responsibility for education and training for their respective target groups, ensure coherence between the range of measures supported and also that what is delivered is effective and of quality.

In the medium term, quality assurance will be the key challenge. EU support from 2007 onwards should continue to encourage the broader development of a quality education system, including work-based learning, borrowing on the principles of the Copenhagen process.

## **Analysis of EU and other donor support instruments in the field of employment and human resources development**

To date, CARDS support for human resource development has totalled approximately €1.5 million and concentrated primarily on school-based vocational education reform (curriculum modernisation, teacher-training and training infrastructure in selected sectors). The extent to which this investment is subject to the ETF and World Bank criticism of the poor labour market outcomes of vocational education and training should be determined by evaluation or a wider strategic review of the vocational education and training effort. The litmus test of the evaluation will be to identify if graduates from courses supported by CARDS in the selected sectors (agriculture, tourism and catering, wood processing and construction) feature more successfully in labour market integration in comparison to vocational education and training delivered in other occupational sectors.

A particular outcome of the CARDS 2004 vocational education programme has been the development of a framework for vocational qualifications, with legislation expected to be put to Parliament in Autumn 2006. This provides an essential building block for the development of a wider national qualifications framework which has been promoted by ETF across the region and which draws particularly on the key principles of the European Qualifications Framework which is now a central feature of the EU's policy architecture for quality in education and mobility of workers.

A 2006 CARDS programme (€1.2m) to be operational from June 2006, picks up on a number of issues raised in this paper and has been conceived by the ETF and EAR as an IPA preparatory programme. With institution and capacity building in mind, the programme aims to align policy and governance arrangements of the labour and public employment administration service with the wider socio-economic policy framework, in keeping with broader developments of the EU Employment Strategy. Further development of labour market statistics and reinforcing social dialogue capacity and social partnership in the area of labour market reform and workforce development will be addressed.

More particularly, the 2006 programme will assist the Montenegrin authorities with the development of a National Action Plan for employment, akin to plans drawn up by EU Member States with measures addressing specific target groups, to include an establishment plan, operational arrangements and funding implications for the 'employment fund' which is already foreseen within legislation. Although these preparatory measures will not be completed before March 2007, it is proposed that the next phase – first steps in the employment plan and administration of 'employment fund' – are already considered for 2007 IPA support.

The 2006 programme will additionally facilitate a strategic reflection and dialogue on lifelong learning in Montenegro by establishing a national partnership for innovation in the learning system whose objective will be to determine policy principles, innovation potential and options to bring Montenegro's learning system closer to the demands of a more knowledge-based economy.

Secondly, USAID, in cooperation with the ILO, has provided technical assistance to the Ministry of Labour for the development of employment legislation with the objective of introducing more flexibility in the labour market. The resulting legislation provides an important legislative benchmark in Montenegro's bid to deregulate its labour market and promote employment potential.

Thirdly, a 2005 \$5m World Bank credit line currently supports the education authorities in the development of the quality of teaching and learning in schools and in the efficient use of budgetary resources. Given a) the EU's interest in promoting quality in education as enshrined within Copenhagen process which is now being adopted by Western Balkan countries and b) concerns regarding availability and efficiency of national funds for human resource development, both components of the World Bank programme will directly assist Montenegro in aligning itself with the quality and availability of training as core components of the EU employment guidelines.

Next, the German and Luxemburg authorities are behind a number of small, institution-building projects to support workforce development in the tourism sector. These include the development of occupational standards and training programmes for trainers. Efforts to support occupational standards will be important for the development of quality services in the tourism sector. The wider development of occupational standards for other key sectors of the economy now needs to be considered.

Finally, a range of smaller donor-supported projects, with little mainstreaming policy impact, address employment and social inclusion of RAE, people with special needs and localised training and employment development.

To conclude, five lessons from EU and international support investment to date:

- human resource development programmes are by definition multi-stakeholder concerns; confining responsibilities to a single stakeholder, for political or administrative reasons, reinforces institutional divisions and promotes poor governance;
- in the institution and capacity building efforts for employment and human resource development programme, support for social partners has been minimal and at best incidental; more direct engagement of social partners, including specific capacity building measures in policy formulation, monitoring and appraisal should be considered in future EU supported programmes;
- reform programmes which are directly related to immediate policy concerns within the EU (e.g. national qualifications frameworks) are better appreciated by the partner country; such programmes immediately create a sense of common mission with EU partners;
- bench-marking against Member States, candidate countries and other potential candidates, including the establishment of policy performance indicators provides good references to the partner country as to what they need to do and where they stand in policy performance terms in relation to other countries;
- developing institutional structures and capacities, no matter how primary, which can eventually contribute to the complex organisational arrangements for planning, administration and delivery of ESF-supported operations, should be built in as early as possible to the EU's programming mission with its partner country; rushing the policy and institutional arrangements in the last three years before accession creates untold stress on the partner country administration and is not optimal in efficiency terms as institution and capacity building are carried in by the new Member State on accession.

## **Analysis of governance and challenges for administrative capacity related to HRD, employment policy and inclusion**

This section considers the general governance arrangements for employment and human resource development for the key each of the key ministries (education and labour) and their executive agencies. It also identifies a number of weaknesses in administrative capacity and how these could be addressed. The issues identified are based on general knowledge of the organisations and observation and are not based specific institutional assessments but provide a general overall picture of the institutional arrangements and capacities. Recommendations for more inclusive governance arrangements, involving broader stakeholders, interest groups and particularly social partners, are then considered.

The Ministry of Education and Science holds responsibility for education policy with executive arrangements transferred to the Bureau for Education Services (BES), the Centre for Vocational Education (CVE) and the Examination Centre of Montenegro (ECM). The BES provides research, advisory and development functions, quality assurance and teacher development. The CVE provides overall management of the network of vocational schools and plays a particular role in vocational curriculum reform and occupational standards. The ECM, which falls under the BES is responsible for assessment of all levels of education (exclusive of higher education).

The CVE presents an important support institution and demonstrates good overall performance. It is managed by a tri-partite Board comprising state (education, labour) and social partners. CVE funding arrangements are in theory sourced from education and labour ministry and the social partners. Since its inauguration in 2003, however, only the education ministry contributes to the CES operations and the CVE's operations are constrained. General capacity of CVE is good with strong project management skills. To offset funding restrictions, CVE has been particularly active in fund raising. This has raised the international profile of the Centre.

The Ministry of Education is supported by three Councils: a) General Education Council, b) Council of Vocational Education and c) the Council of Adult Education. The role of the Councils is to provide independent and impartial advice and recommendations to the Ministry on issues related to their specific competence. Each Council has a five year tenure and comprises experts, researchers and representatives of civic society. The Ministry additionally establishes ad hoc 'commissions' comprising different stakeholders whose task is to review and propose policy options and on the basis of which the Ministry can move forward with policy elaboration. The 'commissions' and Councils arrangements represent effective policy formulation and advisory functions.

The Ministry of Labour and Social Welfare holds responsibility for labour and employment policy, social welfare and child protection. It is supported by the Employment Agency of Montenegro which is headed by a former Minister of Labour. Policymaking and policy decision-making responsibilities between ministry and the agency are blurred. Overall governance arrangements for employment and labour market developments need to be more transparent. Policy and executive responsibilities need to be more clearly defined. The issue will be addressed in the CARDS 2006 programme.

The Employment Agency of Montenegro hosts a good administration and manages seven regional offices and 14 local offices. It has good data management and analytical capacities. The agency is funded from a range of sources – state budget 1% contribution from the wage bill of the 'employment fund' and a €2.5 levy per day on all non-resident employees (paid by employer). The extent of the agency's financial independence from the Ministry of Labour may in part explain a tendency for it to be seen as institutionally separate from the Ministry of Labour.

In general, both ministries and their executive agencies have well defined missions but miss clear measurable indicators of success. In this regard, policy performance monitoring could be an area across the ministries and their agencies. Both ministries and the CVE and EAM, in particular, have well established understandings of the range of EU policies although knowledge tends to be centred round a number of core individuals and is not institutionalised which is a risk to the various organizations.

Given the increasing development of EU policy lines in the employment and HRD sector, and with the aim of ensuring the fullest possible understanding and alignment by the Montenegro authorities, the creation of policy learning units (PLUs), each with a particular EU policy remit, within each ministry could be considered. The task of the PLU would be a) to track and disseminate key information on all relevant EU policies to the Montenegrin public, b) determine policy options and recommend national policy responses, c) establish policy performance indicators to assist the country in achieving the required results, d) monitoring and evaluation of policy performance and for feed back for policy adjustments and improvements and e) establish a catalogue and agenda for alignment with EU directives'.

Finally, given a range of interest groups associated with labour market, employment, education and training developments at national, regional and local levels in Montenegro, and with a view to ensure the fullest possible engagement and ownership of all parties into key developments, the classic governance arrangements (ministerial) could be reinforced with purpose-driven, cross-stakeholder partnerships to work-up national strategy documents and to ensure overall coherence and adherence by the range of



stakeholders. Creating a policy, practice and culture of partnership at this stage in Montenegro's employment and HRD development will pay off as the country prepares for EU integration and ESF supported operations, where partnership is key to development and delivery processes.

## **Suggested priorities for action and EU support**

The following priorities are proposed for consideration for 2007 IPA programming

- a review of overall public expenditure on active employment measures with objective of determining how existing budgetary resources can be optimised to support employment integration of youth, women, long-term unemployed and disadvantaged groups, including minorities;
- support to the Ministry of Labour and Social Welfare for first phase implementation of a national action plan for employment, including the piloting of a employment fund (national and IPA contributions) for active employment measures targeting young people, women, older workers, long-term unemployed, those from poor areas and ethnic minorities; ideally this measure should interface or be integrated within a wider regional development initiative as opposed to being a stand alone measure;
- capacity building within the administration for the overall management and administration of the employment fund borrowing on procedures, standards and accountability requirements of ESF operations from small EU Member States;
- support to the ministries of education, labour and finance for the development of an integrated national performance management system for employment and HRD, including staff capacities related to EU directives and policies, including development of performance indicators, measurement and reporting systems;
- Support to the Ministry of Education for the reform of curricula and teaching strategies in secondary education, key competencies development at ISCED levels 1 and 2 (primary and secondary education);
- support to the ministries of education and labour in governance and the ongoing implementation of modernisation strategies in education and training, including the elaboration and further development of initiatives in national qualification frameworks, comprising qualification assurance, the pathways between initial and continuing vocational education.

It is recommended that future IPA support for privatisation should ensure that employment and HRD implications are integrated into each company's restructuring plan and fully engage the public employment authorities, education ministry and municipalities.

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