



LABOUR MARKET REVIEW OF MONTENEGRO

WORKING PAPER

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PREFACE

During the last decade, all Western Balkan countries, at different points in time and at different speeds, have started the process of economic and social transformation into functioning democracies and market economies. As in other transition countries, the transformation process has been difficult – and despite the progress made to date, major challenges are still present in all fields including social and economic development. The Western Balkan countries will need to continue their intensive and systematic efforts in order to succeed in their economic restructuring processes and ensure the economic growth and social cohesion that will enable them to catch up and sustain a closer relationship with the EU. Taking into account the contribution of employment and productivity to economic growth, part of these efforts need to be directed at the development and implementation of employment policies and structural labour market reforms that support the economic restructuring process and lead to increases in productivity. In this context, emphasis must be given to efforts towards the development of an adaptable, entrepreneurial and well-skilled labour force through adequate investment in human capital. The promotion of inclusive labour markets (open for all and attracting inactive persons) for more social cohesion should also be considered an important factor.

The European Training Foundation (ETF), in agreement with the European Commission, undertakes a series of in-depth reviews of the labour markets in the Western Balkan countries with the aim of contributing to a better understanding of their functioning and identifying areas for further work in the fields of employment policy and education and training reform. The reviews have a double purpose:

1. to contribute to EU programming by providing well-documented input to the programming documents of the CARDS programme, the annual country progress reports on the stabilisation and association process, the European Partnership papers, and the action plans that governments will have to prepare in order to address the challenges identified in the European Partnership papers; and
2. to provide a comprehensive background instrument for the Commission and the countries of the Western Balkans to support policy developments.

More specifically, the reviews will

1. analyse the economic context in the Western Balkan countries and in particular the pace of the economic restructuring process and its impact on jobs and employment (chapter 1);
2. analyse recent trends in the labour markets (chapter 2);
3. identify major challenges in the labour markets in view of the economic restructuring process (chapter 2);
4. assess policy responses and the institutional setting to address the challenges identified in the perspective of supporting economic restructuring and growth (chapter 3); and
5. provide recommendations for further action (chapter 4).

The labour market challenges and policy responses to them are examined against the four broad key objectives set out in the revised European Employment Strategy:

- increasing adaptability of workers and enterprises;
- attracting more people to enter and remain in the labour market;
- investing more and more effectively in human capital;
- ensuring better implementation of reforms through better governance.

The labour market review of Montenegro was prepared between October 2004 and May 2005 by a team of experts: Susanne Oxenstierna, Bozidar Sisevic, Jean-Raymond Masson (ETF) and Jens Johansen (ETF). The team was assisted by Aleksandra Rackovic. The reviewing process entailed broad consultation of documents prepared by international organisations and national institutions as well as in-depth interviews with national and local stakeholders. The fact-finding field visits took place in October 2004 and January 2005. A validation seminar with national stakeholders on the draft results of the review was held in Podgorica, Montenegro, on 22 June 2005. The experts behind this report would like to express their gratitude to all the individuals consulted and the organisations or companies they represent for the valuable time allocated to the review team, as well as for the information and comments provided.

1. ECONOMIC SITUATION AND BACKGROUND

1.1 Macroeconomic situation

Levels of gross domestic product (GDP) and industrial production in Montenegro are far below those seen in 1989. Overall growth has been slow¹, apart from in 2000 when the economy rebounded after the end of the NATO intervention. Inflation has fallen dramatically, with the introduction of first the German mark and subsequently the euro as the official currency easing inflationary pressure. Inflation is still relatively high, but there are indications that it is continuing its downward trend.

Table 1: Macroeconomic indicators

	2000	2001	2002	2003
Product (GDP) – million €, current prices	1,022.2	1,244.8	1,301.5	N/A
GDP, real annual growth, %	3.1	-0.2	1.7	N/A
GDP, 1989=100 (official economy)	56.2	56.7	57.2	N/A
Industrial production, 1990=100	51.3	50.3	50.7	N/A
Agriculture, 1989=100	111.4	119.2	N/A	N/A
Inflation rate	24.8	28	9.4	6.7
Export of goods and services – million US\$	280.8	345.3	471.4	434.4
Import of goods and services – million US\$	395.3	695.2	777.7	843.4
Foreign trade balance – million US\$	-114.5	-349.9	-306.3	-409

Sources: Industrial production, agriculture, tourism, inflation, import/export: National Central Bank data. GDP figures delivered by MONSTAT except GDP compared to 1989, which is based on Central Bank data.

N/A = not available.

The industrial sector overall has been developing slowly since it collapsed to half of its 1989 output. It now remains stable at around half the 1989 level. Agriculture is the only sector that is currently at a higher level than in 1989, but this is most likely caused by people turning to a sector that is seen as a stable source of food and income not easily available otherwise. Tourism, which is regarded by the government as a strategic sector for Montenegro, has revived somewhat after a catastrophic year in 1999, but it is still only at approximately half its 1989 level².

¹ Judging GDP on the methodology used until recently (called “GDP, official economy” in table 1), it would have to be described as stagnant. The recent adaptation of the System of National Accounts has allowed MONSTAT to calculate a GDP figure that is more internationally comparable. This measure shows a slow growth rate. Figures only exist up to 2002 from MONSTAT. GDP data from other sources are not mentioned in the table as these data would not be comparable.

² In 2003 Montenegro registered 599,000 tourists, whereas there were almost 1.2 million in 1989. The tourists in 1989 came primarily from Eastern European countries. The challenge today is to attract Western tourists; this will demand substantial upgrades in the tourist infrastructure.

The trade deficit seems unsustainable, but as there is an open border with Serbia it is possible that many imported goods are re-exported without being registered³ (see annex 2). It must also be taken into account that there are large remittances sent in cash by Montenegrins working abroad. The scale of officially registered remittances is around 9–10% of GDP, including the receipt of veteran's benefits from Serbia⁴. Nonetheless, Montenegro needs to develop export industries to narrow the trade deficit.

There have been no large inflows of foreign direct investment (FDI). FDI in 2003 was US\$56 million (or approximately 3.8% of unofficial GDP estimates), down from US\$75 million in 2002, when the majority of FDI came from the sale of Jugopetrol to Hellenic Petroleum⁵. Even less appears to have been coming into Montenegro in 2004⁶. In terms of volume, the greatest amount of FDI has come from Greece (€45.5 million), Slovenia (€12.8 million), Bosnia-Herzegovina (€3.6 million), Russia (€3.4 million) and Japan (€0.8 million). The Economic Reform Agenda of Montenegro is dependent on attracting substantial amounts from foreign sources and is therefore in danger of not being implemented fully unless the trend in FDI is reversed. The investment climate in Montenegro must be made more attractive for investors for this to happen.

1.2 Economic restructuring

Privatisation has taken place in roughly three phases. In the first phase, up to 1999, ownership was changed formally as companies were given over to their employees, but this meant that very little management restructuring took place. The second wave was effectively an insider privatisation, and again very little restructuring took place (for more details, see chapter 2). The third and current wave places a strong emphasis on transparency and is thus able to attract more attention from external investors. It is expected that the third wave will lead to substantial redundancies. Companies generally use voluntary separation as a means to decrease their workforce; this often takes the form of an early retirement offer, where the retiring worker is offered 24 months' salary, but these offers are becoming less generous as the economic climate tightens (based on interviews with various economic actors in Montenegro). Furthermore, these offers have not always been honoured by the companies that make them. Many companies have become so insolvent that retired workers have only received their retirement bonus with substantial delays, if at all. Sometimes only partial payment has been made.

As a result of the privatisation efforts taking place in Montenegro, 65% of all capital in the country is now privatised⁷ and 400,000 citizens own shares in companies and funds⁸. Today less than 20 companies remain under the control of the government⁹. The enterprises remaining with the government are larger companies that have been harder to make attractive for investors. Some planned privatisations have had to be cancelled due to lack of interested investors. Privatisation has led to some reductions in the workforce overall (down about 8,000 between 1999 and 2003 according

³ Gros et al., 2000.

⁴ Central Bank of Montenegro, 2004.

⁵ CEED, 2004a and b, and Bulgarian Economic Forum, 2005, p. 125.

⁶ By 10 December 2004, only €25 million in FDI had arrived (Agency for Privatisation and Foreign Investment, press release, 15 December 2004). The average inflow in 2002 for the Western Balkans was about 4.5% of GDP (EC, 2003), which in itself is lower than the average of 5%, which the 10 new EU Member States received in 2001.

⁷ Agency for Privatisation of Foreign Investment, press release, 15 December 2004.

⁸ ISPP, 2003, pp. 151 and 158.

⁹ Ibid.

to Labour Force Surveys), but privatisation has generally not been accompanied by restructuring. The most complete data available come from Labour Force Surveys (LFS). LFS data will be used throughout this review, as they are the only data that make it possible to review trends over time. Other data will be introduced and discussed where appropriate.

1.3 SME development and the informal economy

It is estimated that the SME¹⁰ sector provides around 40% of all employment and produces around 52% of GDP¹¹ compared to 72% of all employment in the new Member States¹². As can be seen from table 2, based on survey data from the Employment Agency of Montenegro (EAM), 80% of registered employers are very small enterprises, having less than five employees. Another 8% have between 5 and 10 employees. Other sources estimate that the average size of SMEs is less than seven employees¹³. It is not reasonable to believe that the structure of the informal economy in Montenegro is skewed further towards large companies. All in all, this means that micro-enterprises in Montenegro constitute around 88% of all enterprises compared to 95% in the new Member States¹⁴. This indicates that the SME sector has not shown its full potential; this in turn could be due to several factors such as an absence of restructuring and a lack of credit for new enterprises. As will be shown later, the bureaucratic obstacles to SME development in Montenegro are relatively few.

Table 2: Overview of employers according to number of employees

	Employers by number of employees					
	Total	1 worker	1–5 workers	5–10 workers	10–50 workers	Over 50 workers
Number of employers	9,749	3,465	4,394	803	737	350

Source: EAM survey, 2004.

Solid data on the informal economy are also hard to come by, but there is a general consensus in documents (Economic Reform Agenda) and in the interviews conducted for this labour market review that the size of the grey economy is approximately 30% of GDP. The legalisation efforts conducted by the Ministry of Labour have meant that large numbers of previously non-registered workers have become registered within the last 18 months (and hence that the grey economy has shrunk equivalently), but MONSTAT has not yet published the results for the 2004 LFS, so this claim cannot be substantiated. It does appear reasonable, however, to assert that the legalisation effort has been successful in registering some workers who previously were not registered. According to UNDP

¹⁰ There is no official definition in Montenegro of what constitutes an SME, but MONSTAT uses a definition stemming from the previous FR of Yugoslavia Law on Accounting and Auditing, where micro-enterprises have less than 10 employees; small enterprises fulfil at least two of the following criteria: up to 50 employees, total annual income less than €2.5 million, and average value of assets less than €1 million; and medium-sized enterprises fulfil at least two of the following criteria: 50 to 250 employees, total annual income between €2.5 million and €10 million, and average value of assets between €1 million and €5 million.

¹¹ EC, 2004.

¹² EC, 2002.

¹³ ISSP, 2003, p. 9.

¹⁴ EC, 2002.

surveys, among those with informal employment, 27% are pensioners – this indicates that pensions are too low to cover basic expenditures¹⁵.

1.4 Poverty

In the last 10 to 15 years, in Montenegro as in many other transitional and West Balkans countries, restructuring reforms towards market economies (along with various other developments) have resulted in growing inequalities in standards of living and large rises in poverty. The Poverty Reduction Strategy Paper for Montenegro¹⁶ provides a snapshot of poverty in Montenegro (see annex 3). With one-third of the entire population being classified as vulnerable, poverty is a major problem that must be addressed. Successful policies must target the less-developed northern regions of Montenegro, IDPs, refugees and the RAE (Roma, Ashkaelia and Egyptian) communities in order to have a substantial impact on the overall number of poor people. The RAE communities, IDPs and refugees are more likely to declare that they are unemployed but are willing to work than the regular population, and they are also less likely to have secondary education than the overall population. Employment and education programmes targeting these groups will thus be pivotal instruments for any poverty reduction strategy.

¹⁵ UNDP, 2002.

¹⁶ World Bank, 2003.

2. TRENDS IN THE LABOUR MARKET

2.1 Population and labour force

Table 3 summarises the working-age population. There was only a small overall increase during the period 1999–2003, with a spike in 2001. This spike may have been caused by migration due to the volatile situation in the region, but the official migration figures (annex 1.B) do not bear out this theory; it must be considered that it reflects poor data¹⁷. There is a marked decrease in the youngest age group, 15–24, throughout the period, which is likely caused by decreased fertility. The hardened economic climate, in addition to tightened rules on maternity leave, does not induce families to have more children. The increases in the older age groups, especially the jump in the group of 35- to 44-year-olds from 2000 to 2001, are harder to explain, and the subsequent rates must be interpreted with caution. Brain drain does not appear to be an issue, as this would normally be reflected in the age groups 25–34 and 35–44; these age groups would become smaller over time than demography alone could explain. However, the substantial decrease in the age group 15–24 could be seen as a sign of brain drain before enrolment or at the beginning of higher education studies.

Table 3: Working-age population in Montenegro

Total	1999	2000	2001	2002	2003
	15–64	404,462	405,220	437,372	427,250
15–24	89,611	89,937	85,212	78,999	76,611
25–34	64,011	63,791	70,594	74,540	79,985
35–44	89,299	81,035	102,952	101,600	99,126
45–54	95,436	105,446	115,229	114,650	96,717
55–64	66,105	65,011	63,385	57,461	63,013

Source: LFS, various years.

The labour force does not follow the same fluctuations as the working-age population. The labour force has fluctuated between around 268,000 and 277,000 throughout the period 1999–2003. The LFS in Montenegro only counts regular part- and full-time employed as employed. People with irregular work, such as day labourers or workers with short-term contracts, are not counted as employed. Irregular work overlaps with, but is not identical to, the informal economy. The figures have therefore been re-calculated by subtracting the unemployed from the active population. The difference between the resulting figure (which is considered as the total number of employed) and the number of employed as listed in the LFS tables constitutes a group that will be referred to in this review as “partially employed” or “irregularly employed”. This group includes farmers.

For reasons of international comparability, the labour force surveys will be used throughout this review to assess trends in Montenegro’s labour market. The Employment Agency of Montenegro has a large

¹⁷ The ETF has received no explanation for these drastic changes from MONSTAT.

number of interesting data on the registered unemployed, but this data does not cover the informal economy. Furthermore, the EAM registers some people that are only interested in social security (the EAM assesses this number to be around 14,000, including farmers, in correspondence of July 2005), while others are not registered as unemployed despite the fact that they are searching for a job.

Table 4: Rates of participation, employment and unemployment, and proportion of irregular employment (%)

	1999	2000	2001	2002	2003
Labour force participation rate	66.4	68.4	61.7	64.4	64.7
Employment rate	53.2	54.9	48.6	50.9	49.8
Unemployment rate	19.9	19.8	21.3	21.0	23.0
Proportion of irregular employment	14.3	18.4	16.9	18.5	19.0

Source: LFS, various years, own calculations.

The labour force participation rate (see table 4) has been decreasing slightly over time. People in Montenegro are increasingly becoming inactive. This is especially the case for the older age groups. As can be seen from table 5, labour force participation is already dwindling at the age of 45, and although the last few years have seen a small increase, the overall trend seen in 1999–2003 is a decrease of more than 6% in this age group. There was a sharp drop in labour force participation rates for the oldest age group, 55–64, between 2000 and 2001, with the rate going from 46.5% to 24.4%; this reflects the increasing pace of the privatisation process around 2001 and the use of early retirement measures. The young are also displaying increased rates of inactivity – participation rates have declined to a larger extent for the age group 25–34 than for the other age groups. As will be seen below in section 2.3, there are very high levels of unemployment among the youngest age groups, and these consistently high levels of unemployment are discouraging the young from remaining on the labour market. Young people are therefore increasingly finding themselves either inactive or pushed towards the informal labour market. At the same time, activity rates for 15- to 24-year-olds are relatively high. Bulgaria has a youth activity rate of 28.8% and Romania 32.9%, whereas the EU25 has a youth activity rate of 45.1%¹⁸. The high activity rates for young Montenegrins partly reflect their low participation in higher education. Only 15% of the age group 19–23 are in higher education. The activity rate for the oldest segment of the population is low compared to the EU25 and Romania (43% and 38.8% respectively in 2003) but higher than in Bulgaria, where it was only 33.9% in 2003.

¹⁸ This and the data used throughout this review for Bulgaria, Romania and the EU Member States are taken from the online database of Eurostat, 26 July 2005. The data refer to 2003.

Table 5: Labour force participation rates by age

Age group	1999	2000	2001	2002	2003
	15–64	66.4	68.4	61.7	64.4
15–24	38.6	42.6	40.4	45.0	43.8
25–34	87.4	86.3	82.9	74.8	75.3
35–44	86.0	89.8	82.7	84.8	83.7
45–54	78.2	76.8	66.2	70.8	71.7
55–64	40.2	46.5	24.4	28.8	36.4
Total active population	268,498	277,328	269,832	275,246	268,999

Source: LFS, various years.

In 2003 there were about 44 pensioners per 100 employed, up from 38 in 1999 (all LFS data). This ratio has increased as a consequence of the decrease in the number of employed people, but also as a result of the increase in the overall number of pensioners. The burden of providing for pensioners is not eased by the fact that only around 40% of all pensioners are old-age pensioners. The remaining 60% belong to other categories. The offers of early retirement and the redundancies that have resulted from the privatisation process are thus putting strain on the pension system.

Gender

The paucity of gender data makes it difficult to make an in-depth examination of labour market participation in gender terms. It is however possible to look at participation rates by gender for the whole population over the age of 15 (see table 6), even if it is impossible to have the data broken down further by age. These labour force participation rates are not comparable with those provided above, as the inclusion of people over 65 naturally decreases these rates. Interestingly, the trends in overall numbers of employed people, both regularly and irregularly employed, are fairly similar for both genders. Fewer are employed regularly and more are employed irregularly, which effectively means that social protection is becoming patchier. But when it comes to the labour force, the trends are diametrically opposite. There were more men active in 2003 than in 1999, while for the women the picture is reversed; there were fewer women active in 2003 than in 1999. Women who have left the labour market have thus retreated completely from it, whereas men who have become unemployed have strived to get a new job. Judging from the labour force participation rates, it must have been primarily older women that took early retirement packages in 2001. The gender gap, which is already large, is growing. The gender gap in Montenegro is 21 percent points, whereas in countries such as Bulgaria and Romania the gap is far smaller, 8 and 14 percent points respectively, although for the population aged 15–64. The gender gap for the population aged 15–64 in the former Yugoslav Republic of Macedonia is 24 percent points. Special emphasis must be placed on attracting women to the labour market in the future to reverse this negative trend.

Table 6: Labour force participation by gender, aged 15+

	1999	2000	2001	2002	2003
Number of men	150,877	160,433	158,243	163,722	158,648
Number of women	124,797	124,825	113,647	114,542	115,304
Men, LFPR (%)	65.0	67.6	68.0	69.9	69.6
Women, LFPR (%)	52.2	53.0	46.8	48.4	48.7

Source: LFS, various years.

Urban/rural population and labour mobility

Between the last two censuses (1991 and 2003), the urban population increased from 350,840 to 382,836, or from 59.2% to 61.9% of the total population. Internal migrations have intensified. Practically all municipalities in the less-developed northern region have experienced a reduction of their total population, while only Podgorica and the coastal region in the south have had substantial population increases. Migration has led to many small and remote settlements being deserted and has increased the pressure on both schools and labour markets in urban areas. As schools in rural parts of Montenegro close due to low student numbers, it must be expected that migration will continue. There is therefore a risk that a vicious circle will be created wherein families leave the most remote areas as schooling conditions become too harsh, and ever more schools are closed due to a lack of school-age children.

Labour mobility has not been very high, however. The geographical constraints of Montenegro (mountainous terrain and inadequate roads) pose obstacles for commuting. In regions where bus and other transport facilities have been reasonably good, daily migrations have been larger, and these villages and settlements have been much less affected by depopulation.

Ethnic minorities and other vulnerable groups

There are no data on employment or unemployment by ethnic status from the LFS. It must be noted that refugees generally are not registered as unemployed. They may receive work permits from the Employment Agency, but according to anecdotal evidence such permits are not easily obtained as they are dependent upon having residence papers that are difficult to acquire as a refugee. Refugees are largely forced to search for income in the informal economy.

Some indication of unemployment in various ethnic groups is provided by the various studies on household expenditure and poverty and living standards carried out by the ISSP and the World Bank. The Poverty Reduction Strategy Paper (PRSP) lists the number of population aged 16–65 who are not working but are ready to work if employment opportunities are identified. The rate is 17.0% for the population as a whole, 30.4% among internally displaced persons, 32.5% among refugees, and as high as 43.3% among the RAE communities. According to the PRSP, RAE persons often take poorly paid jobs that no one else is willing to do¹⁹.

¹⁹ PRSP, 2003, p. 7.

2.2 Employment developments and structural shifts and changes

The employment rate (for 15- to 64-year-olds) fell from the mid-fifties to less than 50% over the period 1999–2003, which is substantially lower than in Bulgaria and Romania (55.1% and 58.7% respectively in the second quarter of 2004) and lower still than in the EU25 (63% in the second quarter of 2004). This is despite an increase of 2.5% in the employment rate for the age group 15–24. The age group 25–34 is finding the employment situation particularly difficult, with a drop of more than 10% in employment rate. Table 7 indicates that it is the youngest that are having the greatest difficulties retaining a connection to the labour market. It is conceivable that this is due to companies applying a “last in, first out” policy when redundancies are inevitable. The age group 55–64 has some of the lowest employment rates of all. As already mentioned, this is due to the retirement possibilities open to people in this age range, especially after attractive early retirement offers were made around 2001 in connection with the third privatisation wave. These generous offers²⁰ explain the huge drop in employment rates for the oldest age group between 2000 and 2001.

Table 7: Employment rate by age (%)

Age group	1999	2000	2001	2002	2003
15–64	53.2	54.9	48.6	50.9	
15–24	18.7	23.1	20.3	23.6	21.2
25–34	57.3	56.6	54.2	50.9	47.2
45–54	73.1	71.9	62.0	66.6	67.1
55–64	37.8	44.0	24.0	27.3	33.4
55–64	37.8	44.0	24.0	27.3	33.4
Total number of employed	215,148	222,379	212,487	217,557	207,084

Source: LFS, various years.

The available data on employment by gender only allows for comparisons of the population aged over 15. Nonetheless, it is interesting to note that the male employment rate has stayed stable at around 55% while the female rate has been much lower and has experienced a decrease, going from 39.5% in 1999 to 36.8% in 2003 (for detailed data, see annex 1.C). The gender gap in employment is thus substantial and increasing. The gender difference in employment rates lies between 16 and 19 percent points in Montenegro, whereas in Bulgaria and Romania the gender difference in employment rates is only around 9–13 points. The gender gap for the EU25 is close to that of Montenegro with a difference in employment rates of around 16 points, but contrary to Montenegro this gap appears to be closing in the EU25.

From table 8 it can be noted that those with employment are increasingly employed in a partial or irregular capacity. There are fewer regular jobs available – that is, job security is falling. The number of irregularly employed has gone from 14.3% of all employed persons to 19% in just four years. The

²⁰ The fact that companies had offered generous severance packages unfortunately did not mean that the employees who took the offers were paid upon retirement, and not all were paid in full. Insolvent companies often had no choice but to delay the payments as they had no means with which to fulfil their obligations.

oldest and the youngest age groups (15–24 and 55–64) are characterised by far higher levels of irregular employment than any of the other age groups. The young, being new entrants, are the first to feel the tightening of the labour market. They must accept irregular employment in order to enter the labour market. The oldest appear to have taken up irregular jobs after having taken early retirement deals. The old officially retire, but then engage themselves in the informal economy²¹.

Table 8: Irregular employment in % of total employment by age

Total	1999	2000	2001	2002	2003
15–64	14.3	18.4	16.9	18.5	19.0
15–24	26.9	46.3	34.4	35.6	37.6
25–34	8.0	6.8	16.9	15.1	12.9
35–44	7.9	5.9	9.1	14.9	10.5
45–54	10.7	18.0	14.0	13.7	18.6
55–64	42.3	40.7	47.1	45.2	44.0
Total number of irregularly employed	30,730	40,946	35,966	40,192	39,368

Source: LFS, various years.

Women are generally more likely than men to be irregularly employed. Women who held irregular employment in 2003 constituted 24.3% of all employed women; the corresponding percentage for men was 17.8%. One possible explanation of this gap between men and women could be the role some women play as buffers within the family economy. These women enter the labour market in order to bring some additional income to the family and then return to their homes as housewives when this additional income is no longer needed. Irregular employment is more vulnerable to shifts in the economic climate than regular employment, as there is no protection for workers. Women are therefore more vulnerable than men to economic changes.

Structural changes

There have been three waves of privatisation in Montenegro. The first wave concerns the period up to 1999, when enterprises were transformed and privatised in accordance with the Ownership and Control Transformation Law of 1992²². This has resulted in a greatly dispersed ownership structure, with almost a fourth of shares in the hands of employees and the rest in different public funds, and this has inhibited strategic restructuring. The second small wave²³ of privatisation can be characterised as insider privatisation, wherein strategic investors were not attracted and restructuring not undertaken

²¹ It is worth noting that of the approximately 10% of the 65+ age group who are still working, almost all are engaged in irregular employment. In a typical year around 95% are irregularly employed, although there seems to have been a tendency in the last year or two for this age group to undertake more regular jobs.

²² A large number of shares, 40% in 357 enterprises, was given for free to employees or sold to them at discount rates. Another portion of the shares was transferred to funds like the Development Fund, Pension Fund and Employment Fund (ISSP, 2003, p. 153).

²³ Capital sale models were used in 1997 and 1998. Six companies were put up for sale by tender and two of these were sold. The procedures followed were not transparent and property rights were not protected (ISSP, 2003).

due to lack of funds²⁴. In 1998, the Privatisation Council was established and a new privatisation law was prepared; this was adopted in 1999. This law provides conditions for greater development of divisions of responsibilities between different actors and stresses the importance of transparency and competitive procedures, and marks the start of the third wave.

The Privatisation Council developed three models of privatisation: mass voucher privatisation, which was carried out between April 2001 and March 2002; sale of capital to strategic partners, which is still ongoing; and sale by auction²⁵. The year 2001 thus marks the beginning of larger-scale privatisation leading to restructuring.

Up to the beginning of the 1990s, Montenegro's economy was dominated by large socially owned enterprises in industry, power generation and the metallurgy sector. Industry thus dominated both in terms of GDP and employment, when the role of the public sector is excluded. Small, self-sufficient family farms dominated the agricultural sector, and the service sector, dominated by SMEs, was relatively undeveloped. This was especially the case for the private part of the service sector.

Examining the latest LFS data on employment by economic activity, however, a very different picture emerges. This is largely because the public sector is now included fully, in accordance with international standards on national accounts. The service sector is growing in terms of employment. On the other hand, the share of employment in industry is decreasing, with a reduction of 2 percent points between 2002 and 2003²⁶. Industry makes up a very small part of overall employment; this indicates that a shift has already taken place in Montenegro. It should be remembered, however, that this shift seems larger than it is because the public sector was underestimated in the early 1990s. The emphasis should therefore be on the trends that are now apparent, in this case being an increase in services and a decrease in industry. Industry has suffered a reduction in its share of overall employment as a result of restructuring, and the service sector (which includes the public sector) will also have to face redundancies in the near future.

²⁴ ISSP, 2003, pp. 9 and 151–154.

²⁵ *Ibid.*, pp. 155–158

²⁶ The classifications used in the LFS data on employment by different sectors were unfortunately not identical throughout the whole five-year period, and no data are available for 1999 and 2000. The 2001 data have been judged unreliable and are not shown.

Table 9: Full-time regular employment, including farmers, by economic activity (% of total)

Type of economic activity	2002	2003
Agriculture	30.4	29.7
Industry	16.2	14.7
Services	53.4	55.6

Source: LFS, various years, own calculations.

The upcoming privatisation process is expected to lead to considerable redundancies. According to an EAM survey of employers, around 21% of employment in enterprises to be privatised is surplus labour that will become redundant in the next few years as the enterprises are restructured. Officials who have worked on restructuring plans for companies that are up for tenders claim that this is a very conservative estimate. Many companies in Montenegro have still not been restructured and substantial parts of the labour force are very inefficiently used, according to interviews carried out for this review. For example, a non-published study by the European Agency for Reconstruction (EAR) found that up to 40% of staff in parts of the electricity-producing sector could potentially face redundancy. The absolute number of redundancies expected in the EAM survey is approximately 16,000, which is more than a quarter of the present level of unemployed according to the LFS. Hidden unemployment is thus still substantial; some estimate that the total number of hidden unemployed is as high as 39,000.

In addition, public administration (PA) is to be cut – a number mentioned in interviews in October was 4,500 – and even if some part of this concerns the army, it is considered difficult to make these cuts as there is a need to improve the PA infrastructure and cuts would possibly lead to young people who are very much needed in a modernised PA having to be made redundant first. It is already difficult to attract young, highly qualified labour due to the relatively low wage levels found in the public sector. According to an interview with a reliable source at the Ministry of Finance in January 2005, the government has now agreed with the IMF to lay off 800 public officials each quarter in 2005, (3,200 employees in total).

Regarding the type of ownership of the businesses in which workers are employed, big changes have occurred in the last 10 to 15 years. The general trend in the period covered by this review is summarised in annex 1. It shows a substantial reduction of employment in socially owned enterprises on the one hand, and a constant rise in employment among mixed-ownership companies on the other. Thanks to the decline in employment in socially owned enterprises, employment in the private sector as a percentage of total employment is going up; however, this masks the fact that total employment in the private sector has been stable at around 43,000 throughout the period 1999–2003. These data are based on the full-time employed only, but it is still interesting to note that men are moving towards the mixed-type ownership whereas women are increasingly working in the private sector (and in relative terms also more in the cooperative sector).

Regional disparities in employment

The less-developed northern part of Montenegro is home to a large portion of the country's industrial sector, which has suffered most – this includes textile, leather and shoe production, and wood processing. At the same time, small towns and mountain regions have provided fewer possibilities to develop services and even an informal sector. There is no hard evidence on this apart from the unemployment rates mentioned previously for ethnic minorities, who predominantly live in these less-developed northern regions. The only regional data available, through a UNDP study, is unfortunately not detailed enough to throw much light on the subject; the regions are too broadly defined within these data. The best measure is the inactive population, which is 19% in the south but ranges from 26% in Podgorica to more than 30% in the north. What also distinguishes the south is the greater proportion of people engaged in multiple employment. The average figure for individuals holding multiple jobs in Montenegro is 13.2%, but the figure is 18.6% in the south, 9.6% in the north and 15.6% in the centre²⁷.

Process of wage formation

Basic propositions governing collective agreements are made at the national level; thereafter, the actual collective agreements are negotiated both at the sector level and at the level of individual enterprises. It has so far been the case, however, that the employers' organisations are too weak to make collective agreements at the sector level truly binding for enterprises. The trade unions have had to resort to supporting the employers' organisations in order for the latter to develop their capacity and be recognised as social partners, as opposed to the current reliance on the Chamber of Commerce.

Those employers who register workers have to pay social contributions and taxes on the wages. Social contributions currently amount to around 40% of gross wage or salary. From the beginning of 2003, the government has been trying to reduce total labour costs and to motivate entrepreneurs to register workers and to employ more people. However, the total cost of labour is still perceived as being too high by employers, who have been trying to reduce it in different ways such as using unregistered workers and reducing the nominal wage (see section 3.2 for a fuller discussion on this).

2.3 Inactivity, unemployment and social exclusion

The overall unemployment rate increased steadily over the period 1999–2003. Regular jobs disappeared and not enough irregular jobs were created to compensate for this. Table 10 lists the unemployment rates by age. The unemployment rates are low and relatively stable for the age group 45–54, as people in this age-range retire rather than seek new employment if they lose their job. The fluctuations in the older age ranges are most likely caused by low participation rates, but overall the oldest age groups have very low unemployment rates. In comparison, the unemployment rates in the second quarter of 2004 for 55- to 64-year-olds were higher in Bulgaria (10.2%) and at a similar level in the EU25 (7%). In Romania only 3.3% of 55- to 64-year-olds were unemployed. The youngest age groups have substantially higher unemployment rates than the other age groups, also compared to other countries. More than half of the active persons in the 15–24 age group are unemployed in Montenegro, whereas less than a quarter of 15- to 24-year-olds are unemployed in Bulgaria and Romania (24.5% and 22.3% respectively in the second quarter of 2004); this brings these two

²⁷ UNDP, 2002.

countries close to the EU25 average of 18.5% unemployed in this age group. Furthermore, the unemployment rates for the 25–34 age group are increasing. The 35–44 age group is also experiencing increases in unemployment rates; this indicates that it is not only the young that have difficulties entering the labour market, and that these difficulties translate into long-term unemployment. As the total number of unemployed is slowly increasing, it would appear that the labour market is finding it hard to absorb the new entrants while retaining the current workers; the situation is therefore worsening. In absolute terms, 15- to 27-year-olds constitute around 45% of all unemployed.

Table 10: Unemployment rates by age (%)

Age group	1999	2000	2001	2002	2003
15–64	19.9	19.8	21.3	21.0	23.0
15–24	51.6	45.7	49.8	47.6	51.5
25–34	34.4	34.4	34.6	32.0	37.3
35–44	12.7	16.2	17.4	19.9	19.2
45–54	6.5	6.4	6.3	6.0	6.4
55–64	6.1	5.2	1.6	5.2	8.1
Total number of unemployed	53,350	54,949	57,345	57,689	61,915

Source: LFS, various years.

While the female unemployment rate (for the population aged 15 and over based on LFS data) remains fixed at around 23–24%, the male unemployment rate rose from 15.2% in 1999 to 21.5% in 2003 (see annex 1.D). The unemployment rates for men and for women are evening out, but this is because women are choosing to become inactive rather than unemployed.

According to LFS data, the number of unemployed males has been higher than the number of unemployed females since 2001, but as women are far more likely to be inactive than men the unemployment ratios for women are higher. The EAM data on registered unemployed show a markedly different picture, however. In 2003, there were 39,265 females and only 29,360 males registered as unemployed. The corresponding LFS data reports 28,002 females and 34,103 males. If these data are correct, it means that around 11,000 females register as unemployed in order to receive health insurance, but also that almost 5,000 males are unemployed without registering as such or having been deleted from the unemployment registers.

Registered unemployed jobseekers

As shown in table 11, below, the number of unemployed registered with the EAM has dropped quite considerably, by almost 30% since 2000, and stood at around 60,000 on 1 October 2004. The trend is thus quite the opposite of that seen in the LFS data, but this is less of a contradiction than it appears.

Table 11: Registered unemployed with the EAM, end September, 2000–2004

	2000	2001	2002	2003	2004	2000-2004
Jobseekers	85,657	80,346	80,809	67,664	60,447	-25,210
Change compared to previous year						
Jobseekers	N/A	-5,311	463	-13,145	-7,217	-25,210
Change in %	N/A	-6.2	0.6	-16.3	-10.7	-29.4

Source: EAM, October 2004.

In order to be registered by the EAM, workers must apply to the EAM with ID documents, a workbook and certificates of educational attainment. The jobseeker then has an interview with a counsellor, and an action plan to obtain employment is developed. A number of people register as unemployed only

because contributions towards health insurance for unemployed people are paid by the EAM. According to EAM estimates, around 30% of registered unemployed are assumed to hold jobs in the informal economy. In 2003, less than 6% of registered unemployed received some form of unemployment benefit. The EAM has managed to clear from the registers some individuals who previously registered as unemployed, and it is this eradication of wrongly registered unemployed that has brought about the large drop in the total number of registered unemployed despite the rising unemployment rate seen in the LFS data.

LFS unemployed and EAM registered unemployed

Quite a large percentage of the unemployed according to labour force surveys are registered with the EAM, and the share of unemployed people that register has risen since 1999 (see table 12). Of the total of unemployed persons in 2003, 90% are registered with the EAM. This is a good coverage and shows that the EAM is accessible to unemployed people and that the EAM's definition of an unemployed person is not too far from that of the LFS. Comparison with the EAM data over time indicates that a larger proportion of the LFS unemployed are being registered with the EAM now than was the case in previous years. The share of LFS unemployed who are also registered as unemployed with the EAM as a percentage of the total number of unemployed registered with the EAM went up from 55% in 2000 to almost 83% in 2003.

Table 12: LFS data on the proportion of registered unemployed, and job search methods 1999–2003

		1999	2000	2001	2002	2003
LFS unemployed who are also registered, % of LFS unemployed		83.8	86.2	89.6	89.4	90.3
Not registered, % of LFS total		16.2	13.8	10.4	10.6	9.7
<i>Active job</i>	<i>Search through:</i>					
Private agency		6.7	9.3	6.6	4.9	4.4
Advertisements		60.4	60.0	70.8	62.4	65.6
Trying to start own business		3.5	2.9	0.5	1.0	2.0
Personal contacts		24.4	24.8	17.6	27.5	22.6
Other ways		4.9	2.9	4.5	4.2	5.5

Source: Own calculations based on translated LFS tables.

The age composition of jobseekers registered with the EAM is similar to the age composition of LFS unemployed. This is not surprising, as 90% of all unemployed persons are registered with EAM.

New entrants

People not previously employed constitute the majority of the unemployed. In 2003, their share was 67%, which corresponds to 41,000 persons (see table 13). This is surely a reflection of the fact that

new entrants are a major proportion of the EAM's clients. However, it may be that these people have previously held temporary employment, which is sometimes not considered as "being employed".

Table 13: Proportion of people previously and not previously employed among the LFS unemployed, 1999–2003 (%)

	1999	2000	2001	2002	2003
Previously employed	32.1	35.9	29.8	39.4	33.4
Not previously employed	67.9	64.1	70.2	60.6	66.6

Source: Translated LFS.

Vacancies and unemployed/vacancies ratio

It is mandatory to report vacancies to the EAM, but due to so many jobs being in the informal economy and these of course not being reported, the EAM reflects only part of the labour market. The number of vacancies reported to the EAM has varied quite substantially over the last few years. However, the number of vacancies has increased, and the U/V (unemployed/vacancies) ratio, which reflects roughly the imbalance between labour supply and labour demand, has almost halved from nearly 5% in the year 2000 to 2% in 2004; there was also a net increase in yearly reported vacancies of almost 13,000, or 79%, during that period. A large part of this jump in the number of vacancies must be attributed to the efforts that were made to legalise informal jobs in 2003 (see section 3.2 and table 14).

Table 14: Number of vacancies reported to the EAM and U/V ratio, 2000–2004

	2000	2001	2002	2003	2004	2000–2004
Vacancies (V)	16,386	20,198	15,998	30,521	29,245	
Yearly change in number of vacancies		+3,812	-4,200	+14,523	-1,276	+12,859
Yearly change in %		+23.3	-20.8	+90.8	-4.2	+78.5
U/V ratio (%)*	4.9	4.0	4.8	2.2	2.0	-2.9

Source: EAM, 2004, and updates from the National Observatory, February 2005.

* The number of unemployed jobseekers registered with the EAM has been used as a proxy for the unemployed (U).

Table 15: Regional U/V ratios (%)

Region	U/V	
	2003	2004
Montenegro	2.2	2.0
Northern region	4.7	4.9
Central region	1.9	2.4
South coastal region	0.9	0.8

Source: Monthly bulletin of the Employment Agency of Montenegro (various issues).

Table 15 demonstrates that there are large regional differences in U/V ratios throughout Montenegro, although it must be remembered that this is based on officially registered unemployed and not LFS unemployed. There are less unemployed in the southern coastal region than there are vacancies; this situation contrasts strongly with that seen in the northern region, where there are almost five jobseekers per vacancy.

Long-term (hard-core) unemployment

Domination of long-term unemployment is another negative characteristic of unemployment in Montenegro. According to LFS data, around 85% of the unemployed in 2003 fell in a long-term unemployment category; 40.2% had been registered for five years or more, and 23.4% for eight years or more, and the average amount of time taken to find a job was four years (see annex 1.E for raw data and EAM, March 2005). In the EU unemployment for over 12 months is usually considered long-term unemployment, and in the EU25 countries only 44% of the unemployed can be categorised as long-term unemployed.

Table 16 contains data on unemployed persons that were made redundant, categorised by level of work experience. Two categories – those with up to 5 years of working experience and those with 6 to 10 years – constituted more than 73% of the total in 2003. These data confirm that the workers who were first laid off or made redundant are the workers that have been the last to be hired. Very few people with substantial work experience have become unemployed, which indicates that the labour market protects insiders. Companies could have been expected to fire their least productive and least promising workers first – that is, their oldest workers, as young workers would generally be more adaptable faced with changes in organisation and technology.

Table 16: Unemployed (previously employed) by years of work experience, 2003

Total	20,748
up to 5 years	9,395
6–10 years	5,930
11–15 years	2,842
16–20 years	1,565
21–25 years	0
26–30 years	659
31–35 years	357
36–40 years	0
40 years and over	0

Source: LFS, various years.

2.4 Qualification patterns of the workforce

Compulsory education starts at seven years of age and lasts eight years²⁸. Levels of drop-out are said to be low, but in 2001 only 84.2% completed compulsory education. Almost all of these individuals continued into upper secondary, however, with 28% following general and 72% following vocational routes. The different routes in secondary education have durations of two, three or four years according to the programmes in question. Organised in vocational schools, two-year routes correspond to lower vocational education and lead to a practical exam, and three-year routes lead to professional certificates. Organised in technical schools, four-year routes lead to Matura examinations administrated by teachers. Higher vocational education is also provided in routes of two years' duration in these schools. In total, about 32,000 students were in upper secondary education in 42 schools in 1999/2000. In the same year, less than 5,000 students followed tertiary education, mainly at Podgorica University.

Table 17 illustrates the educational attainment levels of the employed. The number of employed persons with post-secondary and higher education was more than 26% in 2000 but has decreased regularly since then, which could indicate that some brain drain is occurring after all. The most numerous group of employed people are those with secondary education (65.6% in 2003). The number of employed persons that have not attained secondary education (around 14%), although falling, is still substantial.

Table 17: Employed persons according to educational attainment, % of total

	1999	2000	2001	2002	2003
Not completed primary school	1.5	1.3	0.9	0.9	0.2
Primary school	14.7	15.0	16.2	14.3	13.8
Secondary school	57.8	57.4	62.6	65.2	65.6
Post-secondary school	12.5	11.2	7.0	7.4	7.3
Higher education – university	13.5	15.0	13.4	12.1	13.0

Source: LFS, various years.

The education system has suffered greatly from the war and the embargo. The school infrastructure is now of very poor quality and is highly fragmented, with classes often being overcrowded. Technical equipment for practical training is obsolete, curricula for general and vocational education are outdated and teaching methods are very traditional. Teachers were not retrained until recently. Cooperation between schools and businesses is poor. This leads to a situation where most graduates after three years of VET enter the labour market by registering in a labour office, and where most graduates after four years of VET enter university, where many fail in less than one or two years according to interviews conducted for this review. Apprenticeship is almost nonexistent.

²⁸ Compulsory education is now in the process of being increased to nine years. After experimentation in 2004/05 in 20 primary schools, this will affect all schools by 2009.

Unemployment rates by educational attainment²⁹, shown in table 18, demonstrate clearly that the chance of becoming unemployed decreases drastically with the educational attainment an individual has achieved. Not having completed primary school leads to a high risk of becoming unemployed. There are relatively few differences in the unemployment rates for primary and secondary graduates; this may be seen as an indicator of very low performance in the secondary education system and particularly in vocational education³⁰, as the general secondary education system is intended to lead the student on to higher education and not out into the labour market. And although the unemployment rates for people with post-secondary and higher education are much lower than the rates for other educational attainment levels, they are very high compared to the corresponding rates in the EU.

Table 18: Proxy unemployment rates by educational attainment, in %
(irregularly employed people are excluded)

	1999	2000	2001	2002	2003
Total	22.4	23.2	24.6	24.5	26.9
Not completed primary	45.2	47.4	48.7	39.5	71.8
Primary school	29.1	32.3	24.9	30.7	29.7
Secondary school	24.3	25.7	28.2	26.1	28.9
Post-secondary school	8.6	8.6	10.0	18.4	17.9
Higher education – university	12.2	6.4	7.2	6.1	14.0

Source: LFS, various years.

There are no available data on the participation of the employed in education and training programmes. Generally speaking, both sides – individuals and employers – have been investing very little in further education and training (in terms of updating knowledge, acquiring new skills, improving competences, etc.). This has been the case not only in the last 10 to 15 years, when enterprises and society in Montenegro have faced many difficulties, but also in the more prosperous past. Larger enterprises used to have their own training centres and were investing in education and training, but in comparison to similar enterprises in developed market economies, investment in training was limited. In recent years, very few companies have invested in education and training; when investment has been made, it has been mostly due to the introduction of new equipment and technologies.

Most investment in education and training has been made by the EAM, but this is mostly for the unemployed and laid-off workers. In comparison with the needs of the labour market and society, however, the number of people trained, the total time spent on education and training and the amounts of money involved are all very small. On average less than 2,000 people have been trained

²⁹ Table 18 does not reflect the proper unemployment rates as no data were available on the irregularly employed, who are included in the employment data in all other calculations in this review. The LFS tables only contain data on the unemployed and regular full-time employed by educational attainment. The total rates in table 18 are therefore higher than the unemployment rates presented in table 4.

³⁰ These rates refer to populations of 10,000 unemployed persons with primary education and 45,000 unemployed persons with secondary education.

by the EAM each year in the last five years, despite Montenegro having more than 55,000 unemployed persons throughout that period (and even higher numbers of unemployed registered with the EAM).

The problem of skills mismatch is therefore substantial. Despite high unemployment rates within Montenegro, the tourism and construction sectors hire between 10,000 and 15,000 seasonal workers each year from other countries. New businesses have brought new occupations such as management, marketing, bookkeeping and modern accounting, banking, financing, public administration, ICT and foreign languages, but until very recently, educational establishments in Montenegro have continued to deliver the narrow qualifications needed by the planned economic system. And it was clear during the study visit made for this review that some vocational schools continue to work in the traditional manner of preparing selected pupils for direct employment after graduation in dedicated state-owned companies (for instance, in the railway sector).

In order to estimate employment needs, the EAM undertook a business survey in 2003 in which 9,749 registered employers took part. This represents around 50% of all registered businesses in that year, and these businesses employ more than 75% of the total registered employed. The employers expressed the need for 3,272 new employees with the following educational levels: 3% unqualified workers, 12% with two years of VET, 48% with three years of VET or a four-year technical school qualification, and more than 35% with some form of tertiary education. These figures have to be seen in reference to the figures in table 17 on employed persons by educational attainment.

More recent EAM statistics confirm the extent of the disparity between labour supply and labour demand. Analysing the ratios between supply and demand for the unemployed according to qualification levels, the EAM shows 6,200 published vacancies for low-level qualifications versus 20,200 unemployed at that level (U/V ratio 3.3); 12,500 vacancies for medium-level qualifications versus 36,500 unemployed (U/V ratio 2.9); 600 vacancies for graduates with two years of university versus 1,950 unemployed (U/V ratio 3.2); and 3,200 vacancies for university degree graduates versus 1,850 unemployed (U/V ratio 0.6)³¹.

These figures only partially explain the problem of employment needs and do not touch upon the quality of the labour force and other mismatches. However, there is empirical evidence that Montenegro has significant mismatches between demand and supply of the labour force. Thus, the EAM registers feature 435 occupations that are no longer in demand and 265 occupations that are in demand but for which no registered unemployed people are adequately qualified³². However, this mismatch is a reflection more of the inadequacy of occupational definitions in times of drastic change than of a real mismatch in skills and capabilities.

Some qualitative evidence can also be found through analysis of EAM figures on available occupations with university education and published vacancies in 2002, 2003 and 2004³³. In 2004, there were 373 unemployed lawyers for 407 vacancies (the available unemployed persons only constituting 92% of the number of individuals needed), 323 economists or banking and finance

³¹ EAM, March 2005.

³² Ibid.

³³ Ibid.

specialists for 458 vacancies (70%), 78 engineers for 242 vacancies (32%), and 29 graduates in different medical fields for 213 vacancies (14%). This is a clear indicator of a very substantial lack of enrolments in scientific and technological fields at university level.

2.5 Main labour market challenges

The findings of this chapter can be summarised under six main categories: employment, unemployment, the young, the old, women, and skills mismatch.

The number of regular jobs is falling in Montenegro, and more and more jobs are of an irregular nature. However, not enough irregular jobs are being created to compensate for the loss of regular jobs. The activity rate is fairly stable at around 65%, while the employment rate has gone down to less than 50% after a high of 55% in 2000. The level of social contributions is perceived to be high – it is at 40% of gross wages – and is therefore a constraint for the creation of new jobs. The number of regular jobs must be expected to fall even further as there is still substantial hidden unemployment. Expected redundancies stand at around 16,000 in industries with a current total of around 77,000 employees, and total hidden unemployment for the whole economy may be as high as 39,000 when possible future redundancies in the public sector and the remaining parts of the economy are taken into account. The data on sectoral employment show that agriculture is still an important sector and that industry is dwindling in terms of employment. The service sector contains over half of all employed people and is still growing. The informal economy is large; up to 30% of the economy is generated there. Activities in the informal economy are not contributing their proper share to state finances, and the transformation of jobs in the informal economy into jobs in the formal economy must remain a high priority.

There are regional differences in both employment and unemployment. The data are hard to analyse as the LFS data have not been made available by region, but the regional differences come through in UNDP data showing that people are more likely to have multiple jobs in the south (18.6%) than in the north (9.6%) and that people in the south are less inactive (19%) than those in the north (more than 30%). In Montenegro as a whole there are two unemployed persons for every vacancy, but in the north this ratio rises to five unemployed persons per vacancy. There are substantial problems with long-term unemployment. More than 40% of the unemployed have waited more than five years for a job, and 85% belong to a long-term unemployment category. Being unemployed rarely means that one is entitled to unemployment benefits. Only 6% of the registered unemployed receive unemployment benefits. The main benefit achieved by registering as unemployed is that this ensures that a person will receive health benefits. 90% of the LFS unemployed are also registered as unemployed with the EAM. Almost all the unemployed are young. The age group 15–27 makes up 47% of all unemployed people in Montenegro.

The young have severe difficulties entering the labour market and are increasingly working in irregular jobs – almost 38% of all 15- to 24-year-olds who are working have irregular jobs. The labour market cannot absorb all the new entrants, so the young are forced to accept jobs with poorer working conditions or remain unemployed. The unemployment rate for 15- to 24-year-olds is more than 51%. This high unemployment rate must be seen in relation to the fact that the young are relatively active on

the labour market compared to other countries. There is an activity rate of 44% for the 15–24 age group, but this is largely a reflection of the fact that these individuals often choose not to continue in an education system that is seen as inefficient and incapable of providing young people with an education that is useful for the labour market. Only 15% of the 19–23 age group are in higher education.

The oldest age groups are not very active on the labour market. The activity rate for 55- to 64-year-olds is as low as 36%, which is similar to the rate found in countries such as Bulgaria and Romania, but as pensions are not sufficient to sustain the basic needs of pensioners, income must be secured from other sources. 27% of pensioners are engaged in the informal economy. Companies that reduced their workforces offered generous severance packages to their workers and many, especially older workers, accepted these offers and retired from the labour force. Older people rarely stay active once they lose their connection to the labour market. Unemployment rates are therefore low for the oldest age groups.

Women are much less active than men in Montenegro. Less than half of all women are active on the labour market, whereas almost 70% of men are. Women are marginalised on the labour market. Higher percentages of women than men are engaged in irregular jobs (24% versus less than 18%), and the unemployment rates for women are evening out with the unemployment rates for men. The rise in unemployment in Montenegro has taken place predominantly among males, despite there being fewer women employed in 2003 than in 1999. Women are choosing to be inactive rather than unemployed. The young, the old and women are the groups with the weakest attachment to the labour market. This is demonstrated through the fact that these three groups have the highest percentage of irregular employment. The jobs they hold are more insecure and do not provide the same level of social protection as do jobs in the formal economy. These groups are therefore more likely to fall into poverty.

The fact that people with primary education are facing a similar risk of being unemployed as people with secondary education shows that the education system, especially at secondary level, is not seen by the labour market as providing sufficient skills. Hard data on skills mismatch must be provided through an appropriate analysis of the skills needed and provided. Interpreting the available evidence, it is clear that the infrastructure of vocational schools is of very poor quality. The qualifications provided by initial vocational education are outdated and far too narrow. Businesses invest very little in human resources, and the labour market training provided is underdeveloped. Only about 2,000 people a year receive training through the EAM, even though the number of registered unemployed is still above 60,000.

Drawing upon these findings, a number of challenges for the labour market policies of Montenegro can be outlined. The SME sector must be developed further and faster. This is where the new jobs will have to come in Montenegro, but the total number of jobs in the private sector has remained stable over the last five years. In order for the SME sector to develop, the management and working methods of the state-owned enterprises (SOEs) must be restructured. Ways of addressing the current low level of labour mobility must be examined; labour legislation must also be adapted so as to create a flexible labour market while protecting the social rights of workers. The current dependency on irregular jobs should be addressed. Jobs must be created in the formal economy if they are to have an impact on

poverty levels. Creating ways of overcoming the problem of low labour mobility would help to make the labour market more flexible. Geographical constraints may be mitigated if infrastructure issues and public transport are recognised as having labour market significance.

The low level of investment in HR in companies and the poor performance of the education system mean that the Montenegrin workforce are not being provided with the skills they need. Participation in higher education is very low. Improving the quality of the education provided would encourage more young people to remain longer in the education system and acquire additional skills. Women, young people and old people are marginalised in the labour market. In order to raise the overall activity rate and to lessen the pressure on the pension system, ways must be explored to ease access into the labour market for the young and to make entering and remaining on the labour market a more attractive prospect for women and old people. The available statistics do not allow for detailed monitoring of men and women by age, and many other data must be interpreted with caution due to the relatively poor quality of the data available. Montenegro must make additional efforts to improve its capacity to gather statistical information if economic development and the labour market are to be monitored. The government of Montenegro has made good progress in terms of legalising jobs in the grey economy, but once again the actual effects realised cannot be assessed because the labour force surveys are delayed.

Successful labour market policies will address these issues and attempt to overcome the challenges presented here.

3. REVIEW OF POLICIES, LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS TO ADDRESS LABOUR MARKET CHALLENGES

3.1 Employment policies as part of the overall policy agenda

Employment policy is a key component of macroeconomic policy, beside monetary policy, fiscal policy, privatisation and investments, prices, social policy, earnings and retirement policy, and development policy. The Economic Reform Agenda of Montenegro (March 2002) has strong implications for employment and related policies. Other strategies or recently established policies and programmes make substantial contributions to the improvement of the employment situation with the support of European and international donors. This is the case with the Development and Poverty Reduction Strategy (November 2003), the programme for “Legalisation of existing jobs and job creation” (April 2003), in which the “Strategy for the development of SMEs” is now embedded, and the programme for “Restructuring of enterprises and support to development of institutions” (April 2003). Other important contributions come from the Laws on Employment and Labour amended in 2003.

More recently (March 2005), the programme for “Legalisation of existing jobs and job creation” has been reshuffled in reference to the European Employment Strategy. It now focuses on five priorities – (i) increasing employability, (ii) securing social inclusion, (iii) new job creation and increased adaptability of enterprises, (iv) stimulation of employment, entrepreneurship and SMEs, and (v) equal opportunities – and has been renamed the “Programme for new job creation”.

Some initiatives foreseen in these policies have not been implemented yet. Others will need time and also appropriate resources. It is still unclear to what extent these policies will be able to tackle the fundamental challenges identified above.

Current economic policy agenda

a) The Economic Reform Agenda

The goal of the Economic Reform Agenda (henceforth referred to as the Agenda) is to set forth a series of discrete but interconnected tasks that, if completed, will transform the Montenegrin economy. There are six main topics in the Agenda, all of them contributing to or having close links with employment and labour market policies:

- entrepreneurship;
- investment;
- broadening the tax base;
- legalising the grey economy;
- increasing competition and the competitiveness of the Montenegrin economy; and
- job creation.

At the end of the four-year programme (in 2006) it is expected that the economy will show the characteristics of a modern, sustainable and competitive economy, including in particular³⁴: fiscal sustainability; a financially sustainable pension system; a well-regulated financial sector; a stable business environment; privatisation completed; reformed public administration; increased local governance; and reduced poverty. Tourism, agriculture, forestry and wood processing are identified as priority sectors for development.

The very ambitious macroeconomic goals set out in the Agenda foresee a drop in unemployment from 23.3% in 2002 to 19% in 2006. They also show high reliance on FDI and an expected growth in GDP per capita of nearly 30% (see table 19); this is somewhat optimistic, as it demands an annual growth rate in GDP per capita of more than 6.7%.

Table 19: Expected macroeconomic results of the Agenda, 2002–2006

Indicators	2002	2003	2004	2005	2006
GDP, million €	1,221	1,328	1,421	1,516	1,618
GDP per capita, €	1,832	1,982	2,111	2,241	2,379
Inflation, %	9.4	8.5	4.5	2.8	2.1
Unemployment rate, %	23.3	22	21	20	19
Balance of payment, million €	-50	-33	33	34	35
FDI, million €	75	90	120	150	180
Grey economy (% of GDP)	30	20	15	13	11

Source: Economic Reform Agenda for Montenegro, 2003, p. 9.

b) The Development and Poverty Reduction Strategy

Initiated in 1999 following a G7, World Bank and IMF initiative, the Poverty Reduction Strategy Paper process has reached its goal of establishing a Development and Poverty Reduction Strategy that has been fully endorsed and adopted by the government of Montenegro (in November 2003), in close connection with the Agenda of Economic Reforms. The Development and Poverty Reduction Strategy has seven dimensions, arranged in specific working groups:

1. poverty assessment and social protection;
2. macroeconomic stabilisation policies;
3. health sector development;
4. education sector development;
5. labour market and employment;
6. economic and regional development; and
7. environment and infrastructure development.

This governmental programme involves all relevant ministries and institutions through an inter-ministerial steering committee coordinated by the Ministry of Labour and Social Affairs and chaired by

³⁴ See also annex 1.

the prime minister, and through dedicated working groups and a centralised expert task force. The monitoring and evaluation process is overseen by a central unit within the Ministry of Labour and Social Affairs.

c) The programme for “Legalisation of existing jobs and job creation”

In line with the Agenda, the government of Montenegro adopted the programme “Legalisation of existing jobs and job creation” in April 2003. This programme succeeded in legalising 20,000 jobs by April 2004, which increased fiscal revenues by around €10 million. The programme is further expected to increase the number of jobs overall by 5,000 per year up to 2006. The current policies also advocate the establishment of a modern education system that meets labour market needs³⁵.

As a result of this programme, it is reported that up to October 2003, 27,766 persons had been registered as newly employed and 19,230 as non-residential persons who were registered as employed. The numbers of unemployed jobseekers with the EAM were thereby decreased dramatically (by over 20,000) from over 80,000 in October 2002 to around 60,000 in October 2004³⁶ and 57,000 in June 2005.

d) The programme for “Restructuring of enterprises and support to development of institutions”

Also adopted in April 2003 was the programme “Restructuring of Enterprises and support to development of institutions”. This programme aims to advance all business practices in companies, increase competitiveness, help Montenegro to obtain the optimum level of organisation and number of employees, and attract foreign investors. The financial costs of this programme amount to €23.1 million³⁷.

Legal and institutional set-up

The Ministry of Labour and Social Welfare (MOLS) is responsible for employment. The Ministry is particularly involved in discussion with social partners, the drafting of laws on employment and social issues, and the monitoring of obedience to those laws; definition and implementation of labour market policies is delegated to a state agency, the EAM. The EAM, beside allocations from the state budget, controls the employment fund and thereby its own incomes from privatisation, which may be used for labour market policies in accordance with current legislation (see section 3.3).

Until recently, the legal environment was not conducive to the reforms needed. According to studies³⁸, labour legislation was burdened with numerous and disparate legal solutions drawn from many regulations in different areas. The lack of new, systemic laws was compensated for with constant changes, amendments and government decrees. Thus, the law on health protection and health insurance was changed or adapted 11 times between 1990 and 1996, the law on social insurance contributions 7 times between 1993 and 1998, and the decree on salaries, compensations and other

³⁵ World Bank, 2003a.

³⁶ EAM, 2004.

³⁷ It is expected that €11 million will come from privatisations and €2 million from the budget. Companies will contribute €2.4 million and donations €7.7 million (World Bank, 2003a, p. 21).

³⁸ Durovic et al., 2003, pp. 5–74.

incomes 10 times between 1994 and 2001. Moreover, laws were often contradicted by collective agreements set up at sector level – for example, although the law guarantees workers the monthly payment of their salaries, in accordance with collective agreements not all salaries were paid regularly due to shortage of funds³⁹.

The Labour Law and the Law on Employment adopted in 2003 are attempts to set up the basis of a labour legislation compatible with the new market conditions and the requirements of the European Employment Strategy. The Law on Employment governs the procedures of employment, unemployment and the rights of the unemployed, and is aimed at including these issues in the programme of active employment policies. A range of active measures to achieve this is identified in the Law. Within this framework, the Law emphasises the co-financing principle for job creation, in particular for public works, and accepts that private employment services should be licensed by MOLS and the EAM. The Law also regulates the role of employment mediators, and ensures that the rights of the unemployed are enhanced and better systemised⁴⁰. It further envisages the establishment of a Work Fund (or Labour Fund), to be funded by the government and social partners, intended to deal with the problems of employees whose employment has ceased due to technological, economic and/or organisational changes and to help them find alternative jobs.

Meanwhile, the Labour Law has introduced some changes in the direction of increased flexibility. The procedure for dismissal of employees was simplified and the rules for severance payments were changed from 24 to 6 average wages. Maternity leave was reduced – women now get 365 days' leave with earnings compensation for every child instead of 12 months for the first, 18 months for the second and 24 for the third⁴¹. The Labour Law also introduced part-time and temporary work engagement, and specified the obligation of the employer to conclude the contract of employment. It set the pension age to 65 years but also opened the possibility of working after 65 under certain conditions. The area of flexibility of work was only generally specified, however, so difficulties in this area can be expected in practice, especially in terms of insurance⁴². Furthermore, the Labour Law is still under discussion, and recent amendments taken in autumn 2004 open the possibility of disabled employees being made redundant under certain conditions.

Financial compensation for the unemployed is limited to 60% of the average wage for a maximum of 12 months⁴³. Obtaining it is still subject to rather restrictive conditions, and payment is often delayed by three to six months or even a year due to financial problems. The Work Fund is not yet operational, due to difficulties in the discussions on how to secure the funds needed. In addition to the weakness of social dialogue and the strength of trade unions (see section 3.5), there are strong incentives for employers to keep workers inside their companies and to limit mobility even when work is decreasing drastically and even if these companies often suffer insolvency sooner or later, salaries will be paid. In 2003, hidden unemployment was estimated to have reached 39,000 people⁴⁴. Furthermore, a large

³⁹ Durovic et al., 2003, p. 33.

⁴⁰ Ibid.

⁴¹ 12 months for all subsequent pregnancies.

⁴² World Bank, 2003b.

⁴³ Except in cases of individuals with more than 25 years of insurance contributions, who gain the right to receive compensation until they find new employment.

⁴⁴ World Bank, 2003b.

part of the labour market is left out of these regulations as there are many informal economic activities occurring in the country and around 20% of the workforce are employed in temporary and seasonal jobs where working conditions are not properly monitored.

In general, discussions between the state and the social partners – particularly the trade unions– are difficult. In the past few years strikes have been used repeatedly as a method for improving the professional and economic position of employees, and there has been a clear absence of dialogue and negotiation⁴⁵ and a lack of funds to respond to the needs of workers⁴⁶ when salaries have been delayed due to financial problems within companies. The new Law on Strikes resolves part of the problem but does not address the non-existence of social dialogue, which is linked to a lack of a culture of negotiation among management and trade unions and is the key political cause of strikes⁴⁷.

The Ministry of Labour has a department for labour relations headed by a deputy minister with 4 units and 73 employees. This department is geared towards developing the legal framework of the labour market, but most of the work is focused on monitoring obedience to the law. The unit for inspection of safety and protection has representatives in 21 municipalities, and together with the inspectors of labour relations (40 in all) these individuals conduct regular controls on work sites. They inspect different aspects of working conditions, including the payment of social contributions. The inspectors previously carried out around 50 inspections a month, but with the new regulations and the development of the private sector this has increased to 200 inspections a month on average; this still seems insufficient to follow the requirements of the new regulations and the variety of collective agreements in a context of increasing private sector and a huge informal economy, however. Nevertheless, this department seems to have contributed successfully to the programme “Legalisation of existing jobs and job creation”.

Conclusions on employment policies

The government has been very active during recent years in setting up ambitious policies aimed at adapting Montenegro to the requirements of a dynamic and modernised economy and society, and has made significant efforts to fight the fundamental weaknesses inherited from the past, especially with regard to the war and its damaging consequences in the former Yugoslavia. Present economic policies are generally reform-minded and well formulated. Employment has been one of the key components of these policies, which address some of the issues that are crucial for a functioning labour market. Crucial targets are the reduction of unemployment and drastic reduction of the grey economy. Important laws have been established in the fields of employment and the labour market aimed at promoting flexibility and setting up effective and substantial labour market policies. The Ministry of Labour plays a central role in all of these developments. Initial results are encouraging, particularly in the field of legalisation of the grey economy.

Policy and administrative coordination is complex, however, with many interconnected programmes and policies and a large number of donors involved. There is a lack of vision as to what Montenegro's economy should become by 2010 and further into the future, and no overall integrated economic and

⁴⁵ Ibid.

⁴⁶ Durovic et al., 2003, p. 33.

⁴⁷ Ibid.

employment strategy. Clear references to the European Employment Strategy have been introduced recently but an explicit National Action Plan for Employment does not yet exist. There are no explicit targets for global employment, youth employment, or employment among women or the elderly in the Agenda, and there is no overall monitoring of developments in line with general or specific objectives. Some key measures foreseen in the laws have not been implemented yet. The legislative framework is not complete, and some aspects have not proved as ambitious as expected. There is little consensus throughout society, and dialogue with social partners, especially the trade unions, is difficult.

3.2 Increasing the adaptability of workers and enterprises

Improving the business environment

a) SME development

The Agenda's emphasis on improving the conditions for entrepreneurship, investment and competitiveness is in line with what is generally assumed to be necessary to create a competitive environment and spur the creation of new firms and jobs, particularly among micro-businesses and SMEs. The restructuring of the banking sector and the introduction of micro-credit schemes to support the "Strategy for the development of SMEs" adopted by the government has also improved the situation. Under this strategy, priority goals for the development of SMEs are:

1. promotion of entrepreneurship;
2. provision of business education;
3. securing fair competition;
4. reduction of the regulations for and administrative barriers to the development of businesses;
5. simplification of the system of business taxation;
6. stimulation of the foundation of private business associations;
7. improvement of access to business information;
8. Improvement of business services; and
9. facilitation of access to available financial resources.

Founded in December 2000, the Agency for the Development of SMEs is charged with coordinating the implementation of the Strategy. Thanks to the work done by the Agency in close cooperation with the Chamber of Commerce, and through the progressive establishment of regional and local business centres and the establishment of specific legislations, the government has made considerable efforts to facilitate the creation of new companies by easing the administrative burden around registration. In particular, within the programme on "Legalisation of existing jobs and job creation", the Agency is now implementing a range of new projects in different sectors ("Industrial park", "Agro park", "Internet park", "Made in Montenegro", "Development of SMEs in tourism", etc.).

A new Enterprise Law was passed by parliament in 2001. Under this Law, it now takes only four days and costs only €10 to register a company. Registering a joint stock company requires €25,000, which is in line with EU norms. Montenegro has set the benchmark for business registration procedures in

the region, according to an assessment by the OECD and EBRD⁴⁸ (see also annex 1.E). These rules are applied at the level of the Republic, however, and additional procedures are applied at the local level. Thus, entrepreneurs can still face problems obtaining certain permits and licences at the level of the municipalities, where procedures have not been simplified. Several authorities such as the Development Agency and donors such as the UNDP are pushing for the removal of the remaining obstacles, and some are proposing that the maximum delay that any authority could allow for an application for a permit should be seven days, according to interviews conducted for this review.

A new Accounting Law was passed in 2002, and International Accounting Standards are applied to all companies with revenue higher than €500,000. The Foreign Investment Law, which was adopted in 2000, gives foreign and domestic investors equal rights. Foreigners – legal and physical persons – can buy any property in their own name. There is no landowner restriction, which makes Montenegro unique in the region⁴⁹. However, FDI has not developed extensively due to the lack of a business-friendly environment until recently.

Credit lines for SMEs have been introduced through the Employment Fund, managed by the EAM, which focuses on providing credit for smaller enterprises⁵⁰. The government, together with the banks and the Development Fund, finances larger projects. As can be seen from annex table 3, these tools seem to have been effective, with a total of around €10 million per year granted as credits during 2003 and up to May 2004 and almost 2,800 workplaces created in 2003 and around 1,500 in 2004. However, the number of projects financed by the Employment Fund seems to be decreasing, the incentives offered apparently being perceived as not sufficiently attractive.

Nonetheless, this all adds up to serious improvements in the development of SMEs. However, there are still limitations and doubts about the possibility for further progress. According to private business associations, state support goes primarily to the creation of SMEs and not enough is given to the development of existing SMEs. And according to the EU Enterprise Reform Programme for 2005, the business environment remains difficult for the emerging SME sector, which generates over 40% of employment and 52% of GDP. Poor access to finance with overly high interest rates represents the greatest impediment to further development. In addition, as noted in the report on the SME sector in the CARDS countries (2004), there is a lack of formal mechanisms for consulting entrepreneurs. A recent attempt to address this problem was made in the form of a Memorandum of Understanding between the parliament, two independent business associations and two NGOs, with the aim of opening up the legislative process on support to SME development.

b) Social contributions and the tax base

The high level of social contributions was highlighted in interviews conducted for this review as the main reason for informal employment. A mandatory social contributions rate of 40% is of course high for developing businesses, and many EU Member States have similar levels that also cause problems

⁴⁸ ISSP, 2003, p. 162.

⁴⁹ Ibid.

⁵⁰ Within the period 1999–2004, with the assistance of the Employment Agency, more than 5,000 loans have been implemented in the framework of the “Permanent encouraging of employment and entrepreneurship” programme, amounting to €25 million and aimed at creating 8,500 jobs.

for small start-up businesses and inhibit their expansion. Moreover, although social and unemployment benefits are not high, they are considered to be too close to the minimum wage; they therefore act as disincentives for taking up jobs and prevent mobility⁵¹.

Table 20: Social insurance contributions as % of gross wage

Contribution	Paid by employee	Paid by employer	Total
Pension insurance	12	12	24
Health insurance	7.5	7.5	15
Unemployment insurance	0.5	0.5	1
Total	20	20	40

Source: ISSP, 2003, p. 184.

In 2003, as part of its efforts to legalise the informal economy, the government introduced a temporary cut in social contributions for new employees in their first year, resulting in a total contributions rate of 20% for these individuals. This has resulted in 54,700 more persons being registered with the Pension Fund and paying their social contributions⁵². This is a short-term measure (nobody knows how long these people will stay as active contributors), however, and some employers feel that it has only served to reward companies that had previously hired staff without paying the mandatory contributions⁵³.

Of course, the problem with cutting contributions only becomes clear after employment, as contributions should cover the costs of pensions, health care and unemployment. Due to the wide use of early retirement, the pension system is suffering from an extremely high ratio of pensioners compared to the number of workers – about 80% of the total of registered employed in 2000, one of the highest rates in Europe⁵⁴ – and is therefore heavily subsidised⁵⁵. Only 40% of the total number of pensioners are old-age pensioners, and their pensions make up 48% of total pension expenditures⁵⁶.

It is a problem when large parts of the labour force are engaged in the informal sector and do not contribute to the income of the Health Fund. The deficit of the Health Fund has increased in recent years. In 2002, 91% of expenditures were covered by contributions, compared to 95% in 2000. Insufficient funding impedes the undertaking of necessary investments, and dissatisfaction is apparent among both users and providers⁵⁷.

The Employment Fund is also unable to cover alone the costs of the required labour market measures. A particular problem is the recent increase of the share of unemployment benefits within the total expenditure for labour market measures from 9% in 2002 to 13% in 2004 (see table 21). The Employment Fund therefore receives state subsidies as well as other resources.

⁵¹ Geeroms, 2001.

⁵² Interviews at the Ministry of Labour.

⁵³ Interviews and correspondence with the Union of Employers of Montenegro.

⁵⁴ Ibid.

⁵⁵ In 2002, the government transfers to the Pension Fund for paying entitlements amounted to €58 million, which corresponds to 40% of the spending of the Pension Fund (Agenda, p. 33). ISSP, 2003, pp. 184–185.

⁵⁶ Ibid.

⁵⁷ Ibid.

Personal income tax

The key objective of the ongoing tax reform is to keep taxes low and broaden the tax base. Recommended actions in the Agenda are:

- tax all fringe benefits including loans, reduced interest rates and other personal incomes from employment on top of the minimum amount set by the General Collective Agreement;
- a substantial increase in the zero-tax level from the current level whereby the first €728 of annual income is exempt (Agenda p. 21).

No study on how these measures would affect labour supply decisions is available.

The government has approved a by-law on tax reduction that gives a 10% reduction in taxes on gross salaries. This was to be introduced in two parts: 5% from 1 July 2004 and 5% from December 2004⁵⁸. According to the Ministry of Finance a new 5+5% cut is to be established during 2005. The business community, having fought for a 10+10% cut, is not satisfied with this measure⁵⁹.

Assisting enterprise restructuring

According to the EU Enterprise Reform Programme for 2005:

Weak corporate governance, slow privatisation, high level of enterprise debts, labour rigidities and constraints to competitiveness are some of the main causes of slow economic development in Montenegro. Large SOEs could not be privatised nor attract strategic investors due to lack of political commitment and to the size of liabilities burdening these companies. The existing government institutions involved in the privatisation and restructuring, such as the Montenegro Development Fund or the Agency for Privatisation and Foreign Investment, do not have a clear mandate in these areas and are therefore not fully contributing to the process...⁶⁰

The remaining problems facing restructuring and privatisation are very much linked to early insider privatisation, particularly the multiplicity of owners that appeared among SMEs and the difficulty of attracting strategic investors in an unclear and often changing business environment. As seen above, existing legislation and strong trade unions make it difficult for companies to lay off workers, and the absence of the Work Fund foreseen by the Law is a crucial omission. Moreover, some investments have been made in companies where previous guarantees given to investors were not respected afterwards. It has also been difficult to declare insolvent companies bankrupt, and thus there have been few opportunities for fundamental reorganisation of these companies. A new Bankruptcy Law was adopted in 2002, but it is still difficult to gain social acceptance of bankruptcy as part of the institutional framework.

The very low mobility of workers is another negative factor for restructuring. Mobility is primarily hampered by geographical conditions, poor housing policy and the weakness of the country's transport infrastructure. It is also limited by the strong disparities between salaries and working

⁵⁸ European Charter, Section 7.

⁵⁹ Interviews with the Ministry of Finance and the Montenegro Business Alliance.

⁶⁰ EU Enterprise Reform Programme, 2005, pp. 1–2.

conditions in large companies on the one hand and SMEs and the grey economy on the other, even if the payment of salaries in large companies is often seriously delayed. Limitations also come from the trade unions and the lack of social dialogue. Another key issue is linked to qualifications (see chapter 2) – the main companies to be restructured are in industrial fields where there are no competitors in Montenegro, and qualifications have suffered from a lack of investment for many years. The existing qualifications of redundant workers are therefore often outdated and far from sufficient for the needs of new and developing SMEs. The lack of human resources development in companies, limited public investment in adult training, and the absence of any instrument for the recognition and validation of non-formal/informal learning based upon a sound qualification framework are considerable obstacles to professional mobility.

During the four years of the Economic Reform Agenda, several strategic companies should be privatised in a third wave of privatisation⁶¹. However, some sources indicate that not all tenders have been successful because there is a reluctance to take the final step and accept the necessary changes, and in some cases no official offers are expressed. In other cases sale contracts are cancelled⁶². The government of Montenegro, in cooperation with the EAR, is now implementing a project that provides technical assistance for the restructuring and further privatisation of 8 large⁶³, 12 medium-sized and 60 small companies, as well as for 16 companies supported by the Firm-Level Assistance Group⁶⁴ (FLAG). The project should define the status of those companies and their potential for profitability and investor interest. The government will work with these enterprises to establish a mechanism for rescheduling old debt owed by these companies to the state, resolving employment surpluses and educating management. The EAR has proposed a credit fund for SMEs (Agenda, p. 31).

In March 2004, a tripartite working group including representatives of ministries, trade unions and employers was established. The group will visit each municipality and the major companies in the country with the purpose of assessing the socioeconomic situation, focusing particularly on redundancy figures; it will then propose measures to the government. The first recommendations made by this working group were an increase in severance payments and the provision of ad hoc financial aid.

Despite these efforts, many companies face grave difficulties. A visit to the aluminium company KAP undertaken for this review revealed that this particular enterprise is extremely run down. It works with equipment that is several decades old, and working conditions there are dangerous. The call for tender for privatisation has only resulted in one bid. The company, the government and the trade union are negotiating the number of redundancies, and it is expected that another 1,000 workers of the already diminished workforce (from 5,000 in 1998 to 2,692 in January 2005) will be discharged.

⁶¹ These include the aluminium company KAP, Telecom, Port of Bar, HC Steelworks in Niksic, and tobacco company Podgorica (Agenda, p. 6.; CEED, 2004a, p. 6).

⁶² Mogren in Budva (CEED, 2004a, p. 6).

⁶³ The largest being KAP; electric power utility, Niksic; Port of Bar, ship repair yard, Bijela; Plantaze Winery, Podgorica; and coal mine, Pljevlja.

⁶⁴ FLAG is an American organisation that provides technical assistance and business advice to SMEs in Montenegro and other areas of Southeast Europe.

Despite EU assistance, neither the local authorities nor the EAM have been involved so far in the discussions on restructuring and on how to deal with the redundant workers.

More generally, despite the more business-friendly climate, there are still doubts regarding the possibility of implementing the important changes in economic management demanded by the Agenda. The budget constraints of SOEs are still soft, and instead of laying off workers and sticking to restructuring plans that could attract strategic investors, enterprises back off and wait for the state to bail them out. Subsidies for “economic activities” from the state budget are still considerable⁶⁵ and represent a higher share of GDP than, for example, spending on labour market policy.

Improving work organisation and management

A lack of management skills has been highlighted in several reports as one of the key issues that has hampered restructuring and put a brake on privatisation. A general lack of market know-how, marketing and linguistic skills inhibits exploitation of the market and export potential. Education given at university level is theoretical and there is a need to develop practical learning. A solid education in management disciplines is strongly needed among young people, and skills upgrading for existing managers should be addressed through adequate training.

The 2004 EU Programme also includes a Turn Around Management (TAM) and Business Advisory Services (BAS) programme (second phase) addressing the post-privatisation restructuring needs of 12 medium-sized and 60 small enterprises. According to the EAR⁶⁶, the implementation of the TAM and BAS programmes up to July 2004 has shown that enterprises are still unaware of the finance and credit options available and that there have been no efforts to change or remove managers that are impeding development. Whether or not the TAM and BAS coordinators have sufficient political support from the authorities is open to debate.

The new Labour Law defines more flexible forms of work contracts – work-at-home, part-time work, etc. – but measures to address this are very recent and, according to LFS data, the incidence of part-time work is very low (2% in 2003 in the regular sector). Among the irregularly employed, working times are probably more flexible and often higher than stipulated by labour legislation.

Conclusions on the adaptability of enterprises and workers

The *European Enterprise Charter national report for Montenegro* shows that a lot of efforts towards economic development have been made, especially regarding improvement of the business environment, and initiatives have been started to help develop the SME sector, including training courses for new entrepreneurs conducted by the Agency for the Development of SMEs. This Agency has also initiated entrepreneurship clubs in primary schools so as to engrain an entrepreneurial mindset in future generations. There have been important reforms aimed at restructuring the banking sector, introducing effective micro-credit schemes, assisting enterprise restructuring and privatisation, promoting entrepreneurship and improving management skills, reducing social contributions and

⁶⁵ More than 6% of the state budget in 2003 was spent on these activities. This figure is expected to drop to less than 4% in both 2004 and 2005 (see annex 1. E).

⁶⁶ EAR, 2004.

widening the tax base. Substantial results have already been obtained with the rapid increase in the number of small businesses, and the private sector makes up a substantial part of the economy already.

The effect of all this on job creation is still limited, however. So far the new credit lines established appear to have generated a little over 2,000 jobs a year, which corresponds to a yearly increase in total employment of less than 1%. Expansion of existing SMEs is not sufficiently supported, with credit being difficult to access. SME training needs analysis focuses more on management training issues and not enough on occupational/trade skills, and no quality assurance framework for entrepreneurship training is available. Advisory services and business consultancy are underdeveloped⁶⁷; more effective dialogue and coordination should therefore be set up between government, municipalities and businesses.

Progress is also limited in other sectors. Foreign investments are still minimal. Adaptability of enterprises is hampered by a lack of investments and slow privatisation and restructuring processes, while restructuring, in turn, is delayed by a lack of social dialogue and limited improvements to management skills. A national investment promotion campaign to attract serious strategic investors is needed – a first step has been the establishment of an agency for promoting investments, MIPA, on 1 March 2005⁶⁸. The government must support this effort and find ways of mobilising all of society in an effort to make Montenegro more attractive to investors. This includes finding ways to engage trade unions in a constructive dialogue on employment prospects in the education sector (see section 3.5)⁶⁹.

Business development is also limited by high social contributions, but these contributions are paid only by a limited proportion of companies as the grey economy represents 30% of the overall economy. The present tax system and social contributions give strong incentives to stay in the grey economy, although this has been lessened substantially by recent legalisation efforts. The pension, health and unemployment insurance systems must be subsidised, as must the loss-making SOEs, and this reduces the capacity of the state to develop and invest in more active policies in line with their ambitious policy objectives. In particular, the capacity of the institutions involved in economic development is very low and will need to be strengthened⁷⁰. All these reforms will need strong commitment and political support for several years. In addition, they will need appropriate monitoring mechanisms at national and regional level, well coordinated by the MOLS and the EAM.

In this context, the issue of adaptability of workers has not received substantial attention from either businesses or the state. Quality and security at work are still big issues. The development of SMEs mainly creates temporary and seasonal jobs with insufficient job security and unacceptable working conditions. The recent introduction of flexible forms of work has not had any impact yet, HR development within companies is not given enough consideration, and mobility is extremely limited.

⁶⁷ ETF, 2005,

⁶⁸ According to correspondence received from the Montenegro Business Alliance after the validation meeting, 22 June 2005.

⁶⁹ An already existing grant agreement with MIGA and the World Bank will assist in establishing a proper institutional framework for investment promotion in Montenegro.

⁷⁰ Two ongoing EU projects are active in this area. One provides technical assistance for capacity building in economic policy and development management; the primary purpose of this project is to strengthen the capacity of the Office of the Deputy Prime Minister for Economic Policy and Development and of the line ministries under its supervision in managing the economic reform process.

Overcoming the resistance of trade unions to the restructuring process and engaging in a constructive social dialogue will require serious effort and investment, particularly regarding the effective implementation of the Labour Fund foreseen in the Law on Employment and the need for substantial investment in education and training. Here again, a National Action Plan for employment could be the best framework for dealing with these issues.

3.3 Attracting more people to enter into and remain in the labour market: Making work a real option for all

The EAM and the registered unemployed

The EAM works under the supervision of the Ministry of Labour and Social Policy. In autumn 2004, the EAM had 324 employees (of which 72% were women), corresponding to a ratio of 1 employee for every 200 registered unemployed⁷¹. This ratio compares well with Central European Countries and is markedly higher than in Serbia and other Western Balkans countries. Of the total number of EAM staff, 190 are counsellors who work directly with the unemployed.

The EAM has a headquarters with five departments – the department for employment, the department for research, the department for legal matters, the department for finances, and the department for informatics. There are 7 regional offices and 14 local offices, comprising one office for each of the 21 municipalities in Montenegro. The number of employees in the regional and local EAM offices depends on the size of the municipality. The smallest office (Pluzine) employs only one individual, while the largest (Podgorica) has 53 employees.

EAM resources

The EAM gets its income from a number of sources (see details in annex 1.B), including:

- the 1% contribution paid from the wage bill to the Employment Fund;
- the €2.5 per day tax for non-resident employees⁷²;
- the state budget;
- sales of shares in privatised enterprises held by the Employment Fund; and
- other incomes, such as rent.

One key issue is linked to contributions to the Employment Fund. Since this contribution is only paid regularly by a small proportion of businesses and not paid at all by a substantial proportion, the Employment Fund in 2004 covered only one-third of total incomes and was unable even to cover the totality of the EAM's running costs. Other income is therefore needed. The state budget provided about a quarter of the EAM's annual income in 2004, while proceeds from the sale of shares comprised about 39% of the EAM's annual income in 2002 but only 3.4% in 2004. Thus, even if income from sale of shares provides some freedom of movement for the EAM, this solution is a very

⁷¹ Interview at the National Observatory Montenegro.

⁷² The government has instituted a policy wherein a €2.5 per day tax must be paid by non-resident employees, whereas the similar tax for Montenegrin workers is €1. Seasonal workers are still flowing in from Serbia and Albania every summer, so the overall cost for employers must still be lower than would be the case if a local worker were hired.

fragile one as it hampers the regularity of payment of unemployment benefits and impedes the smooth planning of active labour market measures.

This is one reason why the EAM is often obliged to postpone until the following year payments for already implemented measures, or occasionally EAM is permitted to transfer income from one year to the next if that income was not spent. The total budget for the EAM has been around 1.2% of GDP in recent years. A large share of the income gained from privatisation in 2002 came from the sale of Jugopetrol. The repayment of loans provided by increased employment is now a major source of income (almost 23% in 2004); state contributions to this scheme have correspondingly decreased, so the scheme is now effectively paying for itself.

Passive and active labour market policies

The passive measure used by EAM is unemployment benefit. This forms a small but rising part of the EAM's budget. Early retirement is also used, but this is not reported in EAM data and does not affect the EAM's budget.

a) Unemployment benefits

The amount of unemployment benefit received depends on how long the individual concerned has worked or has been an entrepreneur⁷³. Of registered unemployed jobseekers, only a small fraction receives unemployment benefits – in 2003 the figure was 3,900 out of 67,000 jobseekers, or 6%. The rest of those registered have their health insurance contribution paid through the EAM. Unemployment benefit is paid to the recipient through bank transfer. Unemployment benefit is very low; the average paid out in September 2003 was €49 according to EAM data.

Jobseekers receiving unemployment benefit must report to the EAM once a month. Persons receiving health insurance payment only must report every three months. If a jobseeker entitled to receive unemployment benefit or health insurance payment fails to report to the EAM on time, their name and contact information will be put up on a board in the local EAM's reception area as a warning. If the jobseeker does not report back with a viable explanation, their benefit or insurance payment will be cancelled.

b) Budget for active and passive measures

In total, taking into account planned expenditure for 2005 (see table 21), total expenditure for labour market policies amounts to about 1% of GDP, rising to 1.2% if the self-employment loans scheme is included. This compares well with Poland and Slovakia, where unemployment rates are the highest in the EU, but is far below the best EU performers (Denmark at 4.6%, and Belgium and the Netherlands at 3.6%, according to the OECD⁷⁴). EAM maintenance costs make up a high proportion of overall expenditure, at 30% (if self-employment loans are not included in order to compare with other countries – although it must then be remembered that some members of the EAM staff work on self-employment loans but are classified as administrative costs); this is much higher than in the EU,

⁷³ Beneficiaries need to have worked continuously for the preceding 9 months, or for a total of 12 months out of a continuously period of 18 months, and must have registered with the EAM within 30 days of the becoming unemployed (Article 48, Law of Employment).

⁷⁴ OECD, 2004.

where the cost of employment services amounts to about 10% of total expenditure on average, and means that the EAM is capable of managing many more active labour market measures than is presently the case. Passive measures constitute 0.43% (Slovakia 0.46%, Poland 1.14%) and active measures (not including self-employment loans) only 0.25% of GDP. Moreover, EAM data show a certain increasing trend for passive measures to the detriment of active measures, contrary to the trends observed in Slovakia between 1999 and 2002.

The share of unemployment benefits was lower than 10% of total labour market expenditure until 2003; this was due to benefits being low and few jobseekers qualifying for benefits (see table 21). In 2004 the share of benefits rose to 13% of total labour market spending, and this figure is expected to reach 36% in 2005, mainly due to the need to catch up with delays in the payment of benefits in 2004.

Table 21: EAM expenditures 2002–2005, % of total expenditure and % of GDP

	2002	2003	2004	Plan 2005	2005 as % of GDP
1. Active employment policy	52.4	55.0	33.4	38.6	0.46
1.1. Self-employment loans	39.6	37.3	14.0	17.6	0.21
1.2. Beginners financed from state budget	6.4	6.9	10.0	14.8	0.18
1.3. Beginners financed from EAM budget	1.5	1.1	0.4	6.3*	0.08
1.4. Professional training – training of unemployed	3.2	7.9	5.8		
1.5. Career guidance	0.2	0.2	0.4		
1.6. Career information for the unemployed	0.8	0.7	1.6		
1.7. Employment of invalids	0.7	0.6	0.4		
1.8. Public works		0.2	0.7		
2. Passive employment policy measures (material insurance for the unemployed)	9.0	8.6	12.9	35.6	0.43
3. EAM maintenance costs	36.5	33.0	47.2	25.8	0.31
3.1. Gross wages and reimbursements to persons employed in EAM	18.1	17.2	23.5		
3.2. Materials and services costs	13.8	13.4	17.2		
3.3. Purchase of equipment	4.6	2.4	6.6		
4. Other expenditure	2.2	3.4	6.5		
4.2. Buying shares, other bank expenses	2.2	3.4	1.5		
4.3. Repayment of loans to banks			5.1		
Total	100.0	100.0	100.0	100.0	1.20
*For transfer into the following year	30.5	4.1	3.1		

Source: EAM. * Also includes measures 1.4–1.8 2005 GDP estimate from the Ministry of Finance, €1.58 billion.

c) Active employment measures

As seen in the table above, self-employment loans receive the same amount of funding as all other active measures put together. Figures show a declining trend for self-employment, however; this could be linked to a decrease in interest from individuals and possibly a lack of supportive measures aimed at targeting beneficiaries and helping them with adequate training or tutoring throughout the process.

Of the limited resources devoted to other active measures, substantial and increasing amounts are being allocated to programmes for recent entrants into the labour market (beginners), particularly the project financed by state funds aimed at supporting companies that hire young graduates from higher education. This approach is certainly helpful for the beneficiary companies, but it runs the risk of subsidising jobs that would have been created anyway.

Training has, until now, received a very limited budget (see annex 1.E). Although the budget allocated to training increased markedly between 2002 and 2003, it dropped in 2004, was integrated into a broader category in 2005 and can be expected to continue to fall. Overall, in the period 2000–2004, 7,090 unemployed and employed persons benefited from qualification, re-qualification or other training programmes. In 2004, 2,075 (or only 3.4% of the registered unemployed) benefited from training. Career guidance is experiencing increased participation, but at a very low level. Finally, although public works receive high priority in policy documents, the 2005 plan sets out only a very limited budget for them, possibly due to the limited interest demonstrated by local authorities⁷⁵.

There are no special measures to support the geographical mobility of workers. There is no mention of measures aimed at addressing some of the key challenges highlighted above concerning participation (or reintegration) of women in the labour market, youth unemployment, participation of ethnic minorities⁷⁶, and regional disparities.

Improving the effectiveness and efficiency of employment services

The EAM has improved its performance in many areas over the last years. For example:

- The number of unemployed persons on the register has markedly decreased and the share of “real” unemployed has reached more than 80% of the registered unemployed. Thus, there is a better coherence between the numbers of unemployed according to LFS data and the numbers of registered unemployed.
- The number of vacancies reported to the EAM has increased by 36.5 % since 1999 (almost 6,000 more positions) and the U/V ratio has declined from around 5% to 2%.
- The EAM offers grants and loans for self-employment and wage subsidies for the employment of new entrants into the labour market. This has probably had a positive effect on the very high rate of youth unemployment (over 50%), which would most likely be even higher without these measures.

⁷⁵ According to interviews conducted for this review.

⁷⁶ According to the PRSP, the especially disadvantaged groups are the RAE communities, refugees and IDPs, but there is no evidence to suggest that any special employment programmes addressing these groups have been established.

However, there are still many people on the register that are not seeking work, and unemployed people do not have regular contact with the EAM and are not forced to be very active in their job seeking. The high ratio of maintenance costs to total expenditure suggests the need for a higher level of funds for active labour market measures and also, possibly, that efficiency in the delivery of services could be improved. Although they do not suffer from a lack of staff, the labour offices are not sufficiently customer-friendly and need technical assistance and training to modernise their premises and ways of working, including making better use of ICT. Moreover, the EAM is not sufficiently proactive, especially towards big enterprises when they are to be restructured and large redundancies are expected. Although provided for in law, the deployment of private employment services is still not effective.

There also seem to be a lack of microeconomic-based analysis of the labour market and its reactions to the policies being implemented. There seems to be no underlying analysis of how different gender and age groups will change their labour market behaviour as a result of shifts in overall economic processes, taxes and regulations, or how different labour market measures will affect these groups.

Conclusions on attracting more people to enter into and remain in the labour market: Making work a real option for all

The EAM plays a significant role in collecting employment contributions and managing passive labour market policies as well as in a number of active measures including the successful self-employment loans scheme. It has been very effective in reducing substantially the number of registered unemployed and bringing this figure much closer to the number of unemployed according to LFS data.

Although the EAM benefits from relatively substantial resources, however, a high proportion of these is spent on maintenance costs. Once funds for the self-employment loans are subtracted, active measures receive very limited funding, which could be seen as a sign of limited effectiveness. EAM revenues are also unstable and may vary substantially from year to year, which could further inhibit effectiveness. Passive measures form an increasing part of overall expenditure when active measures are in decline. Taking all this into account, active labour market measures amount to only 0.25% of GDP. Moreover, taking the 2004 expenditures as an example, about 40% are used for the programme for new jobs for beginners, and this does not address the issues that the EAM should prioritise.

In compliance with the main challenges highlighted above, target groups for active measures should be young people, women, ethnic minorities and elderly people. Even if concrete programmes are organised for them groups by labour offices, these groups do not appear on EAM plans as priorities. Training and retraining for unemployed and redundant workers should be considered a priority area; this is far from the case now, and a serious effort must be made to implement career guidance programmes through individual counselling and monitoring. Finally, the EAM should be more proactive and should try to anticipate changes in the business environment. With all of this considered, there is clearly a considerable gap between the objectives set up in the policy papers and the concrete implementation of measures on the ground.

3.4 Investing more and more effectively in human capital and lifelong learning

Adapting and developing the education and training system, initial and continuing training, apprenticeship and other forms of work-based training, by giving clear priority in the policy agenda in order to raise levels of human capital and research and development

Current situation and main challenges

The key challenges for education and training have been identified above. This review's analysis of the skills mismatch showed profound inadequacies in the school system and particularly vocational education and the labour market, especially in relation to the objectives of a developed economy as expressed in the policy documents being produced. This was clearly demonstrated by the very high level of youth unemployment. Moreover, this review's analysis of the labour market made clear the urgent need for substantial updating of qualifications among the workforce, especially those of redundant workers; in addition, EAM resources are scarce and investment in human capital is not considered important by businesses.

The 2003 *OECD Review*⁷⁷ of Montenegro's education system concluded with the following recommendations: decentralise and devolve authority and responsibility as closely as possible to those most affected by decisions made; develop a strong "culture" of evidence-based policy decision-making through standards development and quality monitoring; improve efficient use of financial resources; expand the overall financial resource base; draft a core curriculum that offers the "essential" elements needed; lighten the curriculum, and make classrooms less crowded; develop a strategy for in-service training of teachers; improve professional networking and exchange of ideas and experiences; modernise the infrastructure; and increase opportunities for (re-)training of adults.

Meanwhile, a *Peer review on reforms in VET* was conducted by the ETF in Montenegro in 2002/2003. The review underlined in addition the fact that "the delivery system had dramatically worsened over the past decade" and concluded by identifying four priorities for change: "(1) capacity building and staff development for those to be involved in the VET reforms (2) developing social partnership and in particular strengthening the involvement of employers; (3) adopting a broad approach to curriculum development within an overall national framework of qualifications; (4) establishing a professional support infrastructure". In addition, the review strongly suggested that priority should be given to adult training.

As will be detailed below, almost all recommendations have been translated into policy priorities and have begun to be implemented. However, it is clear that all of these initiatives are based on a long-term perspective and will need continuous commitment, time and resources. Montenegro is still at the beginning of this journey.

⁷⁷ OECD, 2003.

Priorities in the policy agenda

Education and training issues have been part of the public and policy debate since at least 2000. As a kind of white paper, the *Book of changes*, advocating a “modern vision towards education in line with mainstream thinking and policy development in Europe”, was prepared by the Ministry of Education and Science in 2001 with a view to preparing further reforms. A series of debates involving the general public was organised in a decentralised fashion at more than 20 sites throughout the country in 2003, based on the *Book of changes*. Multiple steps were suggested, starting with the introduction of new legislation and continuing with: “1) establishment of new institutions defined by the book of changes; 2) establishing the curriculum framework; 3) training the teachers; 4) equipping schools with ICT; 5) rationalising the school network; 6) adult training introduced in the entire system; 7) extensive use of social partners”.

New legislation was introduced in 2003 comprising a set of laws covering all aspects of education. Most recently, in December 2004, the Law on Tertiary Education was passed as part of the preparations for full participation in the Bologna process.

The set of laws introduced in 2003 (Education Legislation, 2003) demonstrates a clear political will for in-depth reform of the education system, with the expressed intention of achieving this in close cooperation with all stakeholders. However, the drafting of the laws lacks a strategic vision for the future of the system. Councils have a key role to play concerning curricula standards and textbooks, but according to the law, only the Council for General Education is asked to give its opinions on “general issues relating to education; compatibility of the education system with the education systems of developed democratic countries; [and] the status and development of education and training”. Councils are chaired by university professors. According to the law, two-thirds of the members of the Council for Vocational Education and the Council for Adult Education are appointed by the government and the Association of Employers, and one-third by the Alliance of Independent Trade Unions. Real involvement on the part of social partners and the labour administration is limited, however. Laws are rather prescriptive with regard to enrolment modalities, educational work, the organisation of the teaching process, education and examination standards, the role and responsibilities of employers when setting up education contracts, assessment and marking, and so on. This confirms worries expressed in the *ETF peer review on reforms in VET* that “legislative reform [was] input oriented rather than output [oriented]”, and that a “lot of discussions [centred] on legislation and regulation, and little on the needs of students and learners”. It must be noted that the General Law on Education does not make any reference to higher education and thus fails to address the need to set up a comprehensive concept of education in the wider perspective of lifelong learning.

Nevertheless, the laws are seen as the basic framework for further preparation of relevant strategies. Thus, although being drafted in a very similar way to the Law on Vocational Education, the Law on Adult Education foresees in its article 22 the introduction of “pilot projects”. Furthermore, in article 28, it foresees the introduction of the Plan for Adult Education, to be “passed by the Government at the

proposal of the competent Council” after having “obtained the opinions of the Employment Bureau, the Association [of Employers], [and] the local self-government community bodies”.

By working hard to reach a consensus among all stakeholders, the Centre for Vocational Education and the Bureau for Educational Services play a substantial role in such consultations on the main components of reforms and related issues.

Laws are also very centralised, and the role played by representatives of local interests seems limited. This should be seen in the context of the previous decentralised organisation of the system, wherein 84% of education expenditure came from local governments in 1989⁷⁸. The principle of “local school autonomy” presented as an objective to OECD reviewers by the government of Montenegro in 2002 seems somewhat rhetorical so far. As stated in the *ETF peer review on reforms in VET*, there are “no mechanisms that would enable and stimulate local stakeholders to play a key role in implementation and development of reforms”.

There have been further attempts to decentralise the system, particularly with regard to the financing of schools; these tend to focus on the idea of giving more responsibilities to the municipalities, but without giving those municipalities more state funds. Such ideas are likely to face resistance, for obvious reasons.

Although Montenegro has developed a broad economic policy concept with a set of key priorities for 2004, this document does not cite human capital as a priority for investment. As part of its priorities for employment, however, the concept does mention training programmes as a condition for employment growth in some sectors (metal manufacturing, craft, agriculture, computer science, foreign languages, tourism and inn-keeping, seamanship)⁷⁹. Human resources development is seen as part of development policy, but with a focus limited to “training and establishing of managerial teams in transformed enterprises” and “education of managerial structures in enterprises”. Overall, as observed during the visit undertaken by the ETF review team, cooperation between the Ministry of Education and Science and the Ministry of Labour seems limited.

Public expenses for education amount to about 7% of GDP according to various reports and official documents, but in order to gain a realistic perspective it is necessary to consider the figures from the executed budget and not only the planned budget. The latter amounted to 6.87% in 2002 and 7.01% in 2003, while the former reached only 4.65% and 5.91% in those two years respectively. Furthermore, the planned budget was severely reduced in 2004, to 6.15%, and again in 2005, to 4.85% (a 22% reduction on 2004). Overall public funding is clearly not sufficient to cover all the needs detailed above regarding the revamping and refurbishment of the educational infrastructure, and the new plans for 2005 seem particularly worrying in the context of a continuing disparity between the realised budget and the planned budget.

There have been attempts to seek additional resources by mobilising the international community, however. The Ministry of Education and Science is keen to raise awareness on education issues and

⁷⁸ Ibid.

⁷⁹ Government of Montenegro, 2004.

to involve international institutions and donors. Moreover, the 2003 Law on Employment has established the principle of co-financing for some active labour market schemes.

Overall, it can be said that prioritisation for education and training still suffers from insufficient commitment at government level, poor cooperation between the main ministries involved and between the state and local governments, and low involvement in HR development on the part of social partners. However, the establishment of the three Education Councils, the work done by the Centre for Vocational Education and the Bureau for Educational Services, and the commitment demonstrated by the Ministry of Education and Science and the Employment Agency (particularly in preparing a national Adult Learning Strategy and being more responsive to EU developments in education and training) are signs that mobilisation of human resources is improving.

Preparing adequate lifelong learning strategies in close cooperation with all stakeholders, particularly social partners, and setting up the appropriate legislative and institutional framework

All institutions set out in the 2003 Education Legislation are now in place. The three Councils (for General Education, Vocational Education and Adult Education) have been established, and meet regularly⁸⁰. The Bureau for Educational Services is functioning. The government, together with the Association of Employers, the Alliance of Independent Trade Unions and the Employment Office, established the Centre for Vocational Education in 2003. Since its inception, the Centre for Vocational Education has been very active in developing curricula on the basis of occupational profiles in cooperation with social partners and with the support of the CARDS programme⁸¹.

Curricula reform for vocational education and national priorities for adult training are now in line with economic priorities in four main sectors: agriculture, tourism and catering, wood processing, and construction. In addition, labour market analysis is now a priority for the EAM, supported by CARDS.

Adult learning has received top priority and an Adult Learning Strategy is being prepared. The October 2004 draft of this document⁸² demonstrated a sound and critical analysis of the labour market and of the current provision for adult learning; the document was not drafted by national representatives, however, and it was felt that there was a need for those representatives to draft a “light” version that was less ambitious and based on the shorter term. After a long consultation involving all the main actors, this new draft was discussed and endorsed on 2 February 2005 in a dedicated workshop organised by the Employment Agency, sent for approval to the Council for Adult Education, and then sent to the Ministries of Labour and Education. However, a comprehensive

⁸⁰ The Council for General Education has held meetings almost every week over the last couple of months.

⁸¹ Four education programmes were designed in 2003 within the CARDS programme, and nine other initiatives were created within the activities of the Centre for Vocational Education. This process continued through 2004 and 2005.

⁸² Adult Learning Strategy for Montenegro 2005–2015, draft revision, October 2004. This document is based around six priority objectives, each one further categorised in terms of short-, medium- and long-term objectives and activities. The six main objectives are: (1) to increase skills levels to achieve faster economic growth; (2) to increase the employability of the labour supply; (3) to increase social inclusion through adult learning; (4) to move closer to a fully democratic society through adult learning; (5) to increase protection of the environment through adult learning; (6) to realise the benefits of other learning which is not work-oriented.

strategy for lifelong learning that could serve to create possible links and continuity between initial and continuing education is currently not in preparation.

Facilitating access to and increasing participation in lifelong learning for all, particularly low-skilled, older workers and disadvantaged groups, and reducing early school leaving

Participation in lifelong learning is still very low, but increased in 2002/2003 as a result of funds made available by the EAM and the establishment of three regional training centres, each being dedicated to one of the national priorities. Available funds are now decreasing, however, and training for unemployment will therefore reduce drastically at a time when companies have received new rights giving them more flexibility with regard to firing employees.

Investment in training on the part of companies seems limited to adaptation of the workforce to new equipment. There is no evidence of a substantial private training provider sector.

Nevertheless, as part of its third priority objective, on social inclusion, the draft Adult Learning Strategy intends to consider seriously a range of excluded groups (or groups at risk of exclusion). It will be important to monitor how far these priorities will be taken into account in the new action plan drafted by the EAM.

It is clear that such dedicated actions will take time and will not be implemented easily. The Law on Vocational Education makes provision for students with special needs, but there is no other reference to any special group in the General Law on Education or in the Law on High Schools. In 2003, the percentage of Albanian-language students was 4.2% in primary education but only 2.4% in secondary education, according to the *OECD Review* of that year. The lack of any reference to the Albanian population in the draft Adult Learning Strategy is also cause for concern.

Official figures concerning drop-out rates seem low at about 3% to 4% of students in secondary education, but there is no reliable figure concerning early school leavers. Schools do not keep track students after graduation and there is no national tracer study.

Special education is organised through four secondary schools for special needs students and also through integration of other students into regular schools. According to the 2003 *OECD Review*, however, 7,000 students with special needs were not served by the secondary school system at the time of the Review.

Modernising curricula and introducing key competences

The three education councils as well as the Bureau for Educational Services and the Centre for Vocational Education are fully involved in the drafting of new curricula, but the work is too recent to allow any assessment of the results achieved so far. There are some concerns over the curricula for vocational education as these are seen in law as consisting of a vocational element, defined by the Council for Vocational Education, and a general element, established by the Council for General Education – it is felt that these curricula could therefore lack the integrated vision needed to deal with the new occupations present in a knowledge-based economy.

This work has benefited from considerable support from the CARDS programme. CARDS 1 was successful in the development of two pilot curricula in tourism and wood processing. CARDS 2 is in its early stages and is concerned with developing new curricula in agriculture and construction, consolidating the education system and undertaking capacity building⁸³.

The Ministry of Education and Science is also introducing the dual system through pilot projects run by the Centre for Vocational Education in the fields of car mechanics and hairdressing. The Ministry intends to help the companies involved in this system by paying for pensions and social insurance in order to get the scheme off the ground. It is expected that the dual system will encompass around 5% of all enrolled VET students within a few years.

In addition, there are attempts to develop post-secondary vocational education in VET schools; this fits very well with labour market needs but will need substantial resources from the state and businesses. Moreover, there is a need to increase enrolment in tertiary education substantially, with a particular focus on vocational higher education; this should now be facilitated by effective participation in the Bologna process.

Improving teachers' and trainers' training and status, improving pedagogies and facilitating learning processes through better equipment and the development of ICT

Article 112 of the General Law on Education states that "teachers have the right and the obligation to go for in service training through various forms...(individual, formal and informal)". The Bureau for Educational Services is now fully involved in the design and implementation of policies to support this, and as teachers have shown themselves willing to participate in training at weekends, these policies seem to be proving effective. Support is also given through the CARDS programme, as detailed above. A further objective of the Adult Learning Strategy is to train trainers for the adult learning curricula. The Centre for Vocational Education has started training trainers, teacher trainers (18) and VET teachers (more than 300) as part of the process of implementing a new concept of vocational education.

In 2002, teachers in public primary and secondary schools went on strike for several months as a result of their difficult economic and social situation. It seems that the situation has improved only slightly since then, with a 4% increase in salaries. Teachers' salaries have reached around €240 on average; this is nevertheless higher in absolute terms than the average in other countries such as Romania, where GDP per capita is much greater. In addition, teachers were offered new pre-retirement measures featuring severance payments of €2,000 in 2004 – about 10% of the total number of education staff (teachers and non-teachers) accepted this proposal.

⁸³ This is seen as very important by the new CARDS Programme Implementation Agency (PIA), since according to the PIA, "all VET institutions work in isolation, and the social partnership is not functioning". As part of overall capacity building, there is an intention to retrain 30 labour market analysts close to the Chamber of Commerce and already trained by CARDS 1, and also to upgrade the three training centres set up mainly for school teachers but also for employees.

Promoting quality, attractiveness and transparency with a view to increasing responsiveness to individual and labour market needs

These broad objectives are in line with the new legislation and current projects in general. There is also a need to establish a National Qualifications Framework, which would be the basis for better coordination between initial education and continuing training. The Ministry of Labour is heading up a project aimed at setting up a National Qualifications Framework that could make a valuable contribution to increasing mobility. This initiative is in its early stages, however, and the preliminary field visit revealed weak levels of commitment on the part of the key players.

A law on certification is also being prepared; this should set up a national qualification system and make provision for national examination of formal learning as well as validation and recognition of non-formal and informal learning. Discussions are ongoing, however, and the project has been delayed.

Attempts to increase responsiveness must also address the mismatches identified in this review in both quantitative and qualitative terms and at both secondary and tertiary levels.

Providing adequate resources, redirecting funding towards priorities and developing incentives for training in companies and for individuals, with a view to sharing costs and responsibilities between public authorities, companies and individuals

As detailed above, the government devotes far fewer resources to education than the amount planned for in its budgets, and this latter amount has also been substantially reduced in 2005. In addition, there are questions about the ways these funds are allocated. More than 10% of secondary schools have less than 250 students. There is a high proportion of non-teaching staff (around 30% of school staff), and the national administration should also be taken into account. The vocational education system still covers too many narrow specialisations (178 profiles organised in 17 clusters).

The measure of expenditure as a percentage of GDP is also probably misleading, as the GDP is very low. Finally, the collapse of the former economic and political system has led to a need for significant funding from the state, but also from businesses and individuals (as far as adult education and higher education are concerned).

The *ETF peer review on reforms in VET* notes that there was little serious debate concerning the financial implications of reform at the time the review was written. It seems that things are moving forward now, however; this is demonstrated by the draft Adult Learning Strategy, which provides a solid analysis of the funding issues involved and also makes proposals for setting up priorities, redirecting funding accordingly and developing incentives. It should be noted, however, that the Employment Agency has expressed serious doubts about such proposals due to the main governmental objective of reducing taxes as much as possible.

The Ministry of Education and Science is moving in the direction of co-financing by establishing principles for the co-funding of education. Decentralised funding is ongoing and is comprised of two parts; one, which finances schools directly, focuses on teachers and other national priorities, while the other, which functions under a compensation mechanism managed at national level, is aimed at local

bodies financing maintenance, equipment, and running expenses. Local governments refuse to accept this reform, however, as they would need additional resources.

Co-financing mechanisms to develop training in companies are also promoted by the Employment Agency. This supposes prior agreement by dedicated commissions under the EAM on the duration, training programme, costs and training provider.

Conclusions on investing more and more effectively in human capital and lifelong learning

In conclusion, it can be said that the reform of education and training is receiving growing attention in Montenegro. With the *Book of changes* published in 2003, the comprehensive set of laws passed in 2003, the establishment of a full set of councils and relevant institutions in 2003 and 2004, the 2003 donor conference on education and training, the first draft of a comprehensive Adult Learning Strategy in 2004, and the substantial involvement of various stakeholders at many stages of the various ongoing processes, it is clear that a substantial amount of work is under way even if it is regrettable that an overall concept of lifelong learning including higher education is still missing.

Nevertheless, neither the state nor the businesses have devoted the level of resources needed by the difficult situation of the delivery system for education and training and the growing difficulties of the labour market on one side, and the ambitious strategies put forward on paper by the national stakeholders. Although EU resources are available and international donors such as the World Bank are committed to supporting reform of the education and training system, a large amount of work still needs to be done and the momentum already established will have to be seriously strengthened to convince all national stakeholders to set up the right priorities and to address them with appropriate resources.

The lack of consistency between Montenegro's economic policy, which insists on sparing public expenses and alleviating taxes and contributions by companies, and the significant requirements of human capital development generated by the accelerating restructuring of the economy, remains a major difficulty. The privatisation process, as well as the liberalisation of work regulations and the development of SMEs, calls for heavy investments in education, training and retraining, with a view to addressing both competitiveness and social cohesion, and the VET system has a key role to play in this.

There is also a certain discrepancy between the range of activities undertaken under the auspices of the Ministry of Education and the reality of the education system. As seen in Central Europe in the last 10 years, the design and implementation of education and training reforms is a long process that involves many different activities and a wide range of actors. It is therefore uncertain whether a small country such as Montenegro, although the main actors are extremely committed, can properly implement in a very short time and in isolation the range of measures needed by the in-depth reform of education and training put on paper by policy makers well aware of EU developments under the Bologna, Copenhagen and Education and Training 2010 processes.

Finally, there is the question of the considerable weight⁸⁴ of vocational and technical routes within upper secondary education, and the consequences of this on the underdevelopment of tertiary education. The share of VET seems too high compared to the qualifications needs of the developing economy. It is clear that vocational and technical routes must be made flexible and attractive and must have their curricula substantially modernised through the introduction of key competences and broadening qualifications; tertiary education must also develop substantially, however, by widening its access and offering adequate specialisations for VET graduates, particularly with a view to providing professional higher education corresponding to the first level of the Bologna framework.

Another recommendation would be to approach local communities and find ways and means to incorporate them fully in the design of strategies and appropriate measures, as well as the management of the whole system. In 2003, parliament adopted the Law on Local Self-governance and the Law on Financing Local Authorities, with the particular aim of involving citizens in decision-making on local socio-economic and cultural development and helping to create a healthy business environment⁸⁵. Discussion on education and particularly vocational education in relation to local/regional needs for socio-economic development would be helpful in this context. This would be the right level for involving all partners, including social partners, in the discussion on challenges for local/regional economic and social development and the identification of proper strategies, and would imply in particular a proactive approach towards companies under restructuring on the part of schools, labour offices and other training providers, including the University.

3.5 Ensuring effective implementation of reforms through better governance

Social partners

Organisation of workers

In contrast to the situation in many Eastern European countries, trade unions are still very strong in Montenegro. During the visit made by the ETF review team in October 2004, several teachers' strikes were ongoing and were supported by the relevant trade union. There is one main labour union, which is organised as a centralised alliance of 19 industry-specific trade unions. The official name is the Alliance of Independent Trade Unions (hereafter referred to as the Union), and it represents a reorganisation of the old Montenegrin trade union. The unionisation rate is 72–73% according to the central office, which corresponds to 80,000–85,000 workers (estimate given by the central office based on the amount of paid membership fees). This is about half of those regularly employed according to LFS data.

The Union also has five regional legal offices, which help to resolve disputes between company management and workers. According to statements made in interviews with the Union, some 4,000 disputes were settled over the last two years. The Union has opened a training centre in Kotor, where it primarily provides courses in management.

⁸⁴ 72% according to the OECD.

⁸⁵ World Bank, 2003.

Membership of the Union is formally voluntary; fees are compulsory, however, with 0.2% of the employee's gross wage being paid to the Union by the employer. If the worker is also a member of a branch association in the company where they work, the membership fee is 1% of the net wage. Around half of the collected fees are used to pay for the central administration of the Union, 10 % goes to a solidarity fund, and 40% stays with the branch associations at the company level⁸⁶.

Organisation of employers

The Chamber of Commerce has traditionally been the counterpart to the Union in collective agreement negotiations. This has changed with the recent amendments to the Law on Employment; the legal official social partner on the employers' side in the social dialogue and collective bargaining process is now the Union of Employers of Montenegro, which was founded in 2002. This organisation also maintains all formal international relations with the ILO and similar organisations in Europe. Unlike the Chamber of Commerce, membership of which is compulsory for all employers, the Union of Employers has within its membership 50% of all employers in the country, who produce 50% of the GDP. The formal requirement in the Law on Employment for an organisation to represent employers in the social dialogue is that it must have within its membership 25% of all employed workers in the country, producing 25% of GDP.

It follows that there are other business associations representing the employers. The one mentioned most often in connection with the reform process is the Montenegro Business Alliance (MBA), which was founded in September 2001 with American support. This association counts around 400 companies as members, including some foreign investors. The MBA has a network of six regional offices and about 10 business associations and is deeply engaged in the reform process – for example, it helps to develop the legal framework⁸⁷ while also engaging actively in collective bargaining⁸⁸.

Reducing overall payment of taxes and contributions from the current 100% of net wages to 50–60%, liberalising the labour law and working for the liquidation of all wage regulations are the short- and medium-term goals of the MBA. The MBA is very critical of the pressure put on employers in the present collective bargaining agreement, and claims that this and the overly high level of taxes and contributions are an impediment to legal business and present strong incentives to engage in informal activities. The MBA is also very critical of ad hoc reduction of taxes and contributions to the grey economy and demands equal opportunities for all⁸⁹.

It is clear that the business associations play an important role in defining profitable conditions for businesses and the development of the legal framework⁹⁰.

Social dialogue and partnership

As seen above in the case of enterprise restructuring, bilateral social dialogue is not functioning properly. Trade unions are quite powerful and have a strong culture of strikes, and employers'

⁸⁶ ISSP, 2003.

⁸⁷ Ibid.

⁸⁸ Correspondence with the MBA, July 2005.

⁸⁹ MBA, 2004.

⁹⁰ Ibid.

associations are young. Social dialogue in general is therefore difficult, particularly in the context of the current process of reform, and strong involvement on the part of social partners and the establishment of an effective tripartite social partnership are needed. A first attempt has been made in the form of the Social-Economic Council, which was established in 2001 on tripartite basis, but employment issues have not been specifically discussed up to now, except as part of general discussions on economic and sectoral policies. The Council may finance independent studies, but its funds are very limited.

The EAM has a tripartite steering committee with a consultative role on the breakdown of expenses among the different measures proposed. Social bargaining exists at sector level; numerous collective agreements have been signed at this level, but these are mainly concerned with wages and minimum wage issues. There is no evidence of any discussion on employment and training in this context.

Coordination among social partners is very weak overall, particularly among employers and unions at local and company level. Social partners also lack expertise and relevant training. The role of the state in employment policies is therefore very dominant and the role of social partners very limited. However, the establishment in 2004 of the tripartite working group aimed at assessing the socio-economic situation in the municipalities and large companies is an interesting attempt to involve social partners in the design of appropriate measures and to try to reach consensus.

Involvement of local authorities

The involvement of local administrations in matters of redundancies and employment appears to be weak. As has previously been noted, neither the EAM nor the local administrations become involved early enough when large companies make significant reductions in staff numbers. There is a need for the development of channels that allow local administrations to assume a coordination function in deciding how to provide new jobs to regions in case of job losses in SOEs. It is also vital that the EAM is involved in the early stages of this process to find solutions for laid-off workers. As mentioned above, the Law on Local Self-governance and the Law on Financing Local Authorities adopted in 2003 have created a context in which employment issues can be effectively raised. The recent initiative of a tripartite working group visiting all municipalities and main companies is an example of this.

Donor cooperation

Donor cooperation in Montenegro seems fairly effective, and all donors are supporting the Economic Reform Agenda. When it comes to enterprise reforms, macroeconomic policy and the institutional framework, donors appear to have a common view on what needs to be done and coordination is ensured enough to avoid duplication. As examples, it may be noted that the European Bank for Reconstruction and Development (EBRD) has approved a credit to the government of Montenegro for engaging advisory services in the privatisation of the aluminium company KAP. The call for tender has been launched and the transaction should be completed by early 2005. Previous restructuring work supported by the EU made this possible. In line with its general policy, the EBRD is also expected to support financially potential strategic investors and thus encourage their participation in the privatisation tenders.

German and US government support has been instrumental in assisting the recovery and development of the banking sector. The banks' credit potential is still weak, however. Other donors are

relatively inactive in the process of enterprise reform. Stronger involvement on the part of the World Bank and possibly other donors in helping to address the social ramifications of the privatisation process and create new employment opportunities would be desirable⁹¹.

There is a lack of donor support explicitly addressing the problems of employment and the labour market. There seems to be a general assumption that the problems of the labour market will be automatically solved by getting the business environment in shape and by SMEs creating more jobs. The lack of donor focus on employment is a reflection of the fact that there is no explicit national mobilisation and no proper institutional framework around these issues.

The National Action Plan for Employment

As detailed above, the programme “Legalisation of existing jobs and job creation” has been reshuffled and now makes closer reference to the European Employment Strategy. Continuing in this direction, Montenegro would profit from the development of a comprehensive National Action Plan for Employment (NAP). Like the PRSP, which focuses on poverty issues, a NAP would help identify the problems of employment at a detailed and overall level, which would help in defining policies. It would need good coordination at state level and would increase the visibility of the policies involved.

The EAM alone cannot take care of the labour market adaptation that follows from transition. There has to be a more comprehensive institutional framework that raises awareness and coordinates employment issues, with a mandate to implement employment policies as part of other reform and policy initiatives. What is needed is a clear strategy and a national coordinator focusing on employment policies while analysing the employment consequences of other policies and ensuring that these employment consequences are fully understood and addressed.

The MOLS is a natural coordinator for the development of an employment strategy. This Ministry needs to involve social partners in the process of developing a strategy and policy so that these partners will take their share of responsibility. The regional authorities, together with the EAM, need to be more involved in the formulation of policies.

Conclusions on ensuring effective implementation of reforms through better governance

Better governance in employment and training in Montenegro requires a stronger role for the MOLS – at present its mission is too narrowly defined. The Ministry also has an important role to play in employment policy as a national coordinator for all actions affecting the labour market. The MOLS needs to identify the main challenges and policy measures needed to break the trend of steadily declining employment and increasing unemployment, and must monitor the effects of the employment measures initiated. How much employment is created? Are there crowding-out effects? What will the labour market look like in 5 to 10 years? What kind of jobs will people have? Which preconditions and measures are needed to achieve our goals? What enterprise reforms, changes in the business climate, and adaptation of the workforce, taxes, education and social security system will be needed? What are the forecasts for labour force migration in the region?

⁹¹ EU Enterprise Reform Programme, 2005.

By developing a NAP, the MOLS would have a strategic document recognised by the government that would clarify which measures are needed in the next few years and would provide an instrument for working systematically according to a step-by-step approach in all areas, from taxes and social contributions to better coordination between social partners in employment policy. The NAP will also facilitate the targeting of EU technical assistance. Continuous follow-up on all measures and analysis is another important task for the MOLS. Technical assistance would be needed to develop such a document, especially in a pre-accession perspective.

Improved coordination with the Ministry of Education is needed in order to maximise the effectiveness of efforts on all sides. This should be achieved at all levels, from the ministerial level to the operational level, and in schools and labour offices.

The social dialogue is in an embryonic stage. The players have been identified but there is no really fruitful dialogue addressing the problems of Montenegro's labour market. This is not a criticism of the efforts of the trade unions and different employer organisations; so far they have been busy taking care of other issues important for their members during the transition phase of Montenegrin society. Yet perhaps the time is now right for these organisations to start thinking about how they can create, together, an environment where employment grows.

The EAM is an executor of employment policies – it should be seen as such, and not as the only actor affecting the situation on the labour market. Policies need to be formulated at the level of government in association with the social partners. The EAM is very effective, but there needs to be an explicit policy that rests on analysis, negotiations with other ministries, explicit objectives for employment, and a joint understanding with the social partners. Also, a process of monitoring policy effects against set goals needs to be developed.

Lack of statistical information is a key issue. Even more serious is the fact that the authorities do not use the statistics that are available. There is a labour force survey, which can be used to produce the key indicators for the labour market at least broken down by age groups (see Chapter 2). The quality of this survey could probably be significantly improved, and neither the MOLS nor the EAM use these data when analysing the labour market situation. A population census was conducted in 2003, the first since 1991, and the results are now slowly being published – these results and population projections were not available for use in the present review, however.

The donor community in Montenegro appears quite well coordinated, not least in the economic and enterprise reform areas, which have important implications on the situation in the labour market. However, donor initiatives directly addressing employment and unemployment problems are strongly needed.

4. CONCLUSIONS AND RECOMMENDATIONS

Globally, in terms of improving the employment situation and the labour market, it can be said that Montenegro is on the right track. Employment is one of the key priorities of the Economic Reform Agenda. Several policies addressing particular aspects and promoting better functioning of the labour market are ongoing or in preparation. Ongoing reforms in education and training are closely connected to these objectives. Ministries and national administration are mobilised and benefit from substantial support on the part of the donor community.

Nevertheless, the challenges are still huge. Unemployment is still growing and severely affects young people, women, ethnic minorities and several regions, and hidden unemployment is a very important factor, particularly in the large state-owned companies awaiting restructuring and privatisation. Participation in the labour market is limited. Around 30% of total employment is in the grey economy, although this may have improved over the last year. Social exclusion is growing. Social protection systems, particularly the pension system, face huge difficulties. Social dialogue has barely begun and trade unions continue to resist change. Labour market mobility is very limited. Many aspects of the reforms needed still wait for the appropriate legislation to be enacted. The education system is not performing well in terms of increasing the employability of graduates from secondary education, human resources development is not considered seriously by businesses, and there is a huge skills mismatch compared to the needs of a modern economy and the development of SMEs. In general, there is a lack of adequate resources from both the state and businesses for the implementation of active labour market measures and for education and training in general.

Recommendations on employment policy

In order to address the decline in employment and growing unemployment, employment needs to be an even more highly prioritised and explicit government goal in economic policy. Existing legislation must be implemented and the various elements must be closely coordinated. Addressing these challenges demands a step-by-step strategy over several years with overall and partial objectives that must be measured and monitored. Labour and social inspection should be reinforced and systematised.

The MOLS's mission should be broadened and the Ministry should become the national coordinator of employment policies. Besides the strategic documents on economic reform and poverty, the government should develop a National Action Plan for employment and continue the process of adaptation to the European Employment Strategy, including the use of appropriate monitoring and evaluation instruments. Employment policies should be well coordinated with regional development policies and education and training policies. Technical assistance will be required.

Recommendations on the adaptability of workers and enterprises

Several issues must be addressed. The main issues concerning workers are lack of mobility, the need to address security and quality at work, and the need to manage social and employment protection in such a way as to reduce the gap between the formal and informal labour market. There must also be an effort to help and tutor redundant and unemployed workers who wish to create and develop their own businesses. Key issues concerning enterprises are the need to improve management skills, the need to encourage and organise social dialogue, and the need to proceed with restructuring, particularly by creating adequate and sustainable spin-off SMEs. For its part, the state must support all of these objectives by persevering with effective policies already in effect, moving from subsidising loss to encouraging companies to invest in economic development, developing a conscious policy for micro-enterprises, and mobilising energies for the sake of investment, particularly FDI.

The NAP, based on the main priorities set up under the European Employment Strategy, is the right framework for addressing all these issues and challenges in a consistent and systematic way. Achieving persistent and significant effects on employment should be the priority criteria. As several initiatives and programmes are already running, adequate monitoring and evaluation is crucial. Establishing sound monitoring and evaluation systems will do much to support the preparation of the next stages and the setting up of the NAP.

Recommendations on labour market policies and measures

The main issues in this area are active labour market measures, their global compliance with employment policy objectives and their ability to address the needs of priority groups such as women, young people and ethnic minorities; the weak and decreasing amounts of funding devoted to training; the low level of development of measures such as public works aimed at dealing with poorly qualified individuals; and, more generally, lack of resources. Other issues include the cost-effectiveness of the public employment services and the need to make labour offices much more user-friendly and even more proactive in the context of enterprise restructuring.

This review therefore recommends a substantial increase in funding (public and private, as already established by law) for active labour market measures and a marked reorientation of these measures in line with the priorities identified above. Effective career counselling and guidance well coordinated with the school system and a proactive and anticipatory approach towards the main challenges for employment development are also needed. This will require better communication and partnership with enterprises and other local/regional actors, particularly schools and other training centres. It will also require considerable improvements to the analytical and research function of the EAM, with a view to developing and managing an effective monitoring system well aligned with the monitoring of the NAP. Staff development will be crucial.

Recommendations on education and training systems

As detailed above, the skills mismatch present in Montenegro's economy is mainly due to the education system not responding quickly enough to the needs of a fast-changing economy and not being prepared to anticipate economic development. Adult learning is very underdeveloped and very prejudicial to labour mobility. Higher education is also underdeveloped. Reform of education at all levels has begun and there is strong commitment to it despite a crucial lack of public resources and a lack of support from social partners. EU assistance will therefore be crucial. In this context, it is good to see the voluntary approach developed by the Ministry of Education in giving priority to modernising vocational education and developing general and higher education, as well as the MOLS's development of adult training in specific centres focusing on the priority fields identified in the Economic Reform Agenda.

Financial support is needed at state level to continue supporting ongoing reforms in education and the development of adult training along development priorities. This would complement the comprehensive lifelong learning strategy that is being established in good partnership with all key stakeholders. The lifelong learning strategy should make the role of the different components of the system clear, including their specific objectives and their needs for funding. Ambitious financial incentives should also be introduced, both for companies and for individuals, with a view to promoting lifelong learning.

Schools should work closely with businesses, become more involved in following up school leavers and set up partnerships with local/regional actors including social partners and participants in the grey economy, supported by the new mechanisms set up by the Law on Self-governance and the Law on Financing Local Authorities. This would lead to a better understanding of the skills needs of the labour market and the requirements for regional economic development.

There is a need to restructure the education system in depth by reducing the number of specialisations, reducing the importance of vocational routes in secondary education, broadening the qualifications learnt at school, introducing key competences including entrepreneurship, making educational routes more flexible and better adapted to the needs of the developing economy and facilitating better access to tertiary education. Participation of young people in upper secondary, post-secondary and tertiary education including vocational higher education should be markedly increased. These reforms would benefit from an examination of the instruments, references and principles coming from EU developments in education and training through the Copenhagen process for vocational education and training, the Bologna process for tertiary education and the Education and Training 2010 programme for the whole system.

Recommendations on governance

Key issues here are the weakness of social dialogue, the difficulty of coordination between many ministries and institutions and, increasingly, between different levels, and the production and use of appropriate statistics aimed at making it possible to better analyse the labour market situation, understand trends, and monitor and assess policies and changes.

MONSTAT needs help to develop the techniques used around labour force surveys as it has no previous experience of processing LFS data. Labour force data was previously processed at the Federal Statistical Agency in Belgrade, and this is the first year that MONSTAT should do this by itself. Twinning projects with other statistical agencies carrying out labour force surveys and assistance from labour economists and statisticians that have experience of adapting the ILO methodology to local circumstances would be valuable contributions to building MONSTAT's capacity to use labour force surveys. The development of a quarterly LFS would be the next step. The new census data form a sound basis for the projections that have so far been lacking for population and labour force. MONSTAT can probably use assistance in this area as well. Moreover, each time the LFS is published, key indicators need to be published by the government and necessary adjustments of policies made. Also, there is a need for independent labour market studies on these data by independent researchers/institutes.

As mentioned above, employment and labour market policies must be coordinated nationally with the MOLS. Effective cooperation with local actors must be established by making the best use of the new mechanisms set up by the Law on Self-governance and the Law on Financing Local Authorities. Most importantly, ways must be found to develop social partnership through tripartite instruments and to promote a culture of bilateral social dialogue; this crucial need can be addressed through effective cooperation with and support from EU social partners. Here again, EU assistance, possibly through twinning arrangements, will be needed.

Finally, the MOLS's mission should be broadened to include employment policies on an equal footing with overall economic policy. Its role should be to analyse the labour market situation, formulate adequate policies and goals, secure sufficient funds for the EAM in negotiations with the Ministry of Finance, monitor the work of the EAM, and respond to any changes in the country's economic situation. This requires capacity building within the Ministry.

ANNEXES

Annex 1: Statistical annex

A) MACROECONOMIC SITUATION

	1999	2000	2001	2002	2003
Annual inflation rate (%), year-to-year changes	128.4%	24.8%	28.0%	9.4%	6.7%

Source: MONSTAT.

	1999	2000	2001	2002	2003
Trade					
export, million US\$	211.5	280.8	345.3	471.4	434.4
export, % of GDP	23%	27%	33%	45%	53%
import, million US\$	383.8	395.3	695.7	777.7	843.4
import, % of GDP	42%	39%	67%	75%	61%

B) POPULATION AND LABOUR FORCE

Working-age population by age

Age group	1999	2000	2001	2002	2003
	15–64	404,462	405,220	437,372	427,50
15–24	89,611	89,937	85,212	78,999	76,611
25–34	64,011	63,791	70,594	74,540	79,985
35–44	89,299	81,035	102,952	101,600	99,126
45–54	95,436	105,446	115,229	114,650	96,717
55–64	66,105	65,011	63,385	57,461	63,013

Men	1999	2000	2001	2002	2003
	15+	231,950	237,174	232,777	234,110

Women	1999	2000	2001	2002	2003
	15+	239,286	235,483	243,035	236,689

Source: LFS, various years.

Population over the age of 15 by educational attainment

Level of education	1999	2000	2001	2002	2003
	Primary or less	195,342	191,786	185,032	175,206
Secondary	211,613	217,333	240,558	246,013	250,465
Tertiary*	63,942	63,539	50,223	49,581	50,953

*Tertiary is ISCED 4, 5 and 6.

Source: LFS, various years.

Number of pensioners compared to total number of employed

	1999	2000	2001	2002	2003
Pensioners	73,224	74,437	77,513	72,069	76,456
Employed⁹²	215,148	222,379	212,487	217,557	207,084
Pensioners/employed	0.34	0.33	0.36	0.33	0.37

Source: LFS, various years.

Migration flows

	1999	2000	2001	2002
Emigration	6,513	7,336	7,109	6,157
Immigration	6,851	5,054	4,451	5,321
Net emigration, all ages	-338	2,282	2,658	836
Net emigration, % of working age population	-0.08	0.56	0.61	0.20

Source: Statistical yearbook of Montenegro, 2003.

C) EMPLOYMENT DEVELOPMENTS AND STRUCTURAL SHIFTS AND CHANGES

	2000	2001	2002	2003
Net employment growth	7,231	-9,892	5,070	-10,473
Net employment growth, % of all employed	3.3	-4.7	2.3	-5.1

Source: LFS, various years.

⁹² Includes partially employed.

Working-age population

Age group	1999	2000	2001	2002	2003
	15–64	404,462	405,220	437,372	427,250
15–24	89,611	89,937	85,212	78,999	76,611
25–34	64,011	63,791	70,594	74,540	79,985
35–44	89,299	81,035	102,952	101,600	99,126
45–54	95,436	105,446	115,229	114,650	96,717
55–64	66,105	65,011	63,385	57,461	63,013
65+	66,774	67,437	38,440	43,549	49,476
Total	471,236	472,657	475,812	470,799	464,928
15–27	111,369	114,411	111,556	106,909	105,026

Men	1999	2000	2001	2002	2003
	15+	231,950	237,174	232,777	234,110

Women	1999	2000	2001	2002	2003
	15+	239,286	235,483	243,035	236,689

Full-time employed

Age group	1999	2000	2001	2002	2003
	15–64	184,418	181,433	176,521	177,365
15–24	12,233	11,179	11,332	11,988	10,147
25–34	33,710	33,671	31,793	32,184	32,900
35–44	61,716	57,424	63,874	58,707	60,026
45–54	62,341	62,174	61,481	65,903	52,845
55–64	14,418	16,985	8,041	8,583	11,798
65+	415	330	81	253	754
Total	184,833	181,763	176,602	177,618	168,470
15–27	21,634	22,467	19,532	20,958	18,495

Men	1999	2000	2001	2002	2003
	15+	109,642	109,688	106,056	109,042

Women	1999	2000	2001	2002	2003
	15+	75,191	72,075	70,546	68,576

Source: LFS, various years.

Irregularly employed

Age group	1999	2000	2001	2002	2003
	15–64	30,730	40,946	35,966	40,192
15–24	4,500	9,630	5,947	6,632	6,112
25–34	2,951	2,456	6,474	5,737	4,862
35–44	5,271	3,570	6,416	10,312	7,066
45–54	7,447	13,642	9,976	10,422	12,069
55–64	10,561	11,648	7,153	7,089	9,259
65+	6,761	7,600	1,786	2,765	4,008
Total	37,491	48,546	37,752	42,957	43,376
15–27	5,514	10,303	7,636	8,117	7,671

Men	1999	2000	2001	2002	2003
	15+	18,275	24,600	21,346	23,304

Women	1999	2000	2001	2002	2003
	15+	19,216	23,946	16,406	19,653

Source: LFS, various years.

Labour force (active population)

Age group	1999	2000	2001	2002	2003
	15–64	268,498	277,328	269,832	275,246
15–24	34,578	38,296	34,425	35,523	33,527
25–34	55,920	55,064	58,546	55,774	60,196
35–44	76,763	72,750	85,123	86,198	83,009
45–54	74,636	81,015	76,299	81,211	69,342
55–64	26,601	30,203	15,439	16,540	22,925
65+	7,176	7,930	2,058	3,018	4,953
Total	275,674	285,258	271,890	278,264	273,952
15–27	53,499	59,359	54,179	54,585	53,751

Men	1999	2000	2001	2002	2003
	15+	150,877	160,433	158,243	163,722

Women	1999	2000	2001	2002	2003
	15+	124,797	124,825	113,647	114,542

Source: LFS, various years.

Unemployed

Age group	1999	2000	2001	2002	2003
	15–64	53,350	54,949	57,345	57,689
15–24	17,845	17,487	17,146	16,903	17,268
25–34	19,259	18,937	20,279	17,853	22,434
35–44	9,776	11,756	14,833	17,179	15,917
45–54	4,848	5,199	4,842	4,886	4,428
55–64	1,622	1,570	245	868	1,868
65+	0	0	191	0	191
Total	53,350	54,949	57,536	57,689	62,106
15–27	26,351	26,589	27,011	25,510	27,585

Men	1999	2000	2001	2002	2003
	15+	22,960	26,145	30,841	31,376

Women	1999	2000	2001	2002	2003
	15+	30,390	28,804	26,695	26,313

Source: LFS, various years.

Employment rate by age and gender (%)

Age group	1999	2000	2001	2002	2003
	15–64	53.2	54.9	48.6	50.9
15–24	18.7	23.1	20.3	23.6	21.2
25–34	57.3	56.6	54.2	50.9	47.2
35–44	75.0	75.3	68.3	67.9	67.7
45–54	73.1	71.9	62.0	66.6	67.1
55–64	37.8	44.0	24.0	27.3	33.4
65+	10.7	11.8	4.9	6.9	9.6
Total	47.2	48.7	45.1	46.9	45.6
15–27	24.4	28.6	24.4	27.2	24.9

Men	1999	2000	2001	2002	2003
	15+	55.1	56.6	54.7	56.5

Women	1999	2000	2001	2002	2003
	15+	39.5	40.8	35.8	37.3

Source: LFS, various years.

Partial employment in % of total employment by age

Age group	1999	2000	2001	2002	2003
	15–64	14.3	18.4	16.9	18.5
15–24	26.9	46.3	34.4	35.6	37.6
25–34	8.0	6.8	16.9	15.1	12.9
35–44	7.9	5.9	9.1	14.9	10.5
45–54	10.7	18.0	14.0	13.7	18.6
55–64	42.3	40.7	47.1	45.2	44.0
65+	94.2	95.8	95.7	91.6	84.2
Total	16.9	21.1	17.6	19.5	20.5
15–27	20.3	31.4	28.1	27.9	29.3

Men	1999	2000	2001	2002	2003
	15+	14.3	18.3	16.8	17.6

Women	1999	2000	2001	2002	2003
	15+	20.4	24.9	18.9	22.3

Source: LFS, various years.

Full-time regular employment by activity

In thousands	2002	2003
Agriculture	61.9	56.0
Industry	32.8	27.7
Services	108.5	104.7

By %	2002	2003
Agriculture	30.4	29.7
Industry	16.2	14.7
Services	53.4	55.6

Source: LFS, various years.

D) INACTIVITY, UNEMPLOYMENT AND SOCIAL EXCLUSION

Labour force participation rate (activity rate) by age and gender (%)

Age group	1999	2000	2001	2002	2003
	15–64	66.4	68.4	61.7	64.4
15–24	38.6	42.6	40.4	45.0	43.8
25–34	87.4	86.3	82.9	74.8	75.3
35–44	86.0	89.8	82.7	84.8	83.7
45–54	78.2	76.8	66.2	70.8	71.7
55–64	40.2	46.5	24.4	28.8	36.4
65+	10.7	11.8	5.4	6.9	10.0
Total	58.5	60.4	57.1	59.1	58.9
15–27	48.0	51.9	48.6	51.1	51.2

Men	1999	2000	2001	2002	2003
	15+	65.0	67.6	68.0	69.9

Women	1999	2000	2001	2002	2003
	15+	52.2	53.0	46.8	48.4

Source: LFS, various years.

Unemployment rate by age and gender

Age group	1999	2000	2001	2002	2003
15–64	19.9	19.8	21.3	21.0	23.0
15–24	51.6	45.7	49.8	47.6	51.5
25–34	34.4	34.4	34.6	32.0	37.3
35–44	12.7	16.2	17.4	19.9	19.2
45–54	6.5	6.4	6.3	6.0	6.4
55–64	6.1	5.2	1.6	5.2	8.1
65+	0.0	0.0	9.3	0.0	3.9
Total	19.4	19.3	21.2	20.7	22.7
15–27	49.3	44.8	49.9	46.7	51.3

Men	1999	2000	2001	2002	2003
15+	15.2	16.3	19.5	19.2	21.5

Women	1999	2000	2001	2002	2003
15+	24.4	23.1	23.5	23.0	24.3

Source: LFS, various years.

Structure of unemployed according to duration of unemployment

	1999	2000	2001	2002	2003
Total	53,340	54,949	57,536	57,688	62,105
up to 6 months	3,009	3,499	2,477	4,711	4,741
6–9 months	1,446	1,251	700	–	572
9–12 months	5,362	6,196	5,434	3,386	4,320
1–3 years	11,075	12,004	16,060	13,632	13,269
3–5 years	10,057	6,957	8,481	11,017	14,272
5–8 years	11,099	11,080	9,884	8,471	10,421
over 8 years	11,293	13,963	14,500	16,470	14,509

Source: LFS, various years.

Structure of unemployed according to duration of unemployment (%)

Age group	1999	2000	2001	2002	2003
up to 6 months	5.6	6.4	4.3	8.2	7.6
6–9 months	2.7	2.3	1.2	–	0.9
9–12 months	10.1	11.3	9.4	5.9	7
1–3 years	20.8	21.8	27.9	23.6	21.4
3–5 years	18.9	12.7	14.7	19.1	23
5–8 years	20.8	20.2	17.2	14.7	16.8
Over 8 years	21.2	25.4	25.2	28.6	23.4
up to 12 months	18.4	19.9	15	14	15.5

Source: Translated LFS, own calculations.

Age composition of unemployed (all over 15 years of age) 1999–2003, % of total

Age group	1999	2000	2001	2002	2003
15–24 years	33.5	31.8	29.8	29.3	27.8
25–34 years	36.1	34.5	35.2	30.9	36.1
35–44 years	18.3	21.4	25.8	29.8	25.6
45–54 years	9.1	9.5	8.4	8.5	7.1
55–64 years	3	2.9	0.4	1.5	3
65 years and over	–	–	0.3	–	0.3
Young people (15–27 years)	49.4	48.4	46.9	44.2	44.4

Source: LFS, various years.

E) ADDITIONAL TABLES

State budget by sector (€)

Expenditure by sectors	Budget for 2003	Structure	Budget for 2004	Structure	Budget for 2005	Structure
Public services	155,482,348	36.0%	130,779,477	29.0%	177,053,679	36.0%
Defence	0	0.0%	36,000,000	8.0%	41,645,291	8.5%
Public safety - police	67,102,023	15.5%	65,330,705	14.5%	64,637,420	13.1%
Education	96,201,757	22.3%	90,722,561	20.1%	89,090,803	18.1%
Health	4,721,661	1.1%	4,631,903	1.0%	13,252,809	2.7%
Social care	40,166,967	9.3%	48,467,084	10.8%	43,302,526	8.8%
Housing	2,016,440	0.5%	1,756,735	0.4%	3,169,806	0.6%
Sports	17,284,173	4.0%	12,422,665	2.8%	10,167,930	2.1%
Electricity	1,177,000	0.3%	700,000	0.2%	800,000	0.2%
Agriculture, forestry, hunting and fishing	11,252,347	2.6%	11,134,085	2.5%	8,871,694	1.8%
Mining	351,000	0.1%	825,030	0.2%	919,121	0.2%
Transport	7,551,824	1.7%	27,511,819	6.1%	18,007,099	3.7%
Other economic activities	26,117,387	6.1%	18,828,450	4.2%	18,221,414	3.7%
Other expenditures	2,227,258	0.5%	1,628,264	0.4%	2,624,040	0.5%
Total	431,652,187	100.0%	450,738,779	100.0%	491,763,632	100.0%

Source: Ministry of Finance.

Business entry procedures in Montenegro

Number of procedures to register a limited liability company	4
Days to register a company	4
Costs to register a company (€)	10
Minimum paid-up capital relating to limited liability companies (€)	1

Source: ISSP, 2003, p. 162.

New credit lines for SMEs, amounts granted, number of projects and job positions, 2003–2004

Channel	Government/ banks	Employment Fund	Development Fund	Total	Total	Employment Fund	Develop. Fund	Government / banks
Year	<i>Amount approved, €</i>				<i>Average cost per project, €</i>			
2003		6,177,105	4,360,000	10,537,105	8,892	5,550	60,556	
2004 (to May)	9,391,525	833,608	530,000	10,755,133	16,623	6,363	58,889	18,524
Year	<i>Number of projects</i>				<i>Average number of workplaces per project</i>			
2003		1,113	72	1,185	2.3	1.8	9.7	
2004 (to May)	507	131	9	647	2.4	2.1	6.3	2
Year	<i>New job positions</i>				<i>Average cost of work place, euro</i>			
2003		2,023	700	2,723	3,870	3,053	6,229	
2004 (to May)	1,244	273	57	1,574	6,833	3,054	9,298	7,549

Source: European Charter, 2004, section 7, own calculations.

Breakdown of the EAM's income 2002–2004, % of total

	2002	2003	2004
Source of income			
1. Transfer from previous year	2.8	23.7	5.0
2. Contribution for employment (Employment Fund)	25.3	24.3	34.2
3. Non-residents' employment taxes		5.6	9.4
4. State budget	22.1	22.0	23.7
4.1. For material insurance	6.9	8.5	12.9
4.2. For employment of university degree beginners	4.8	6.9	9.8
4.3. For self-employment loans	10.4	6.6	1.0
5. Shares sale – privatisation	38.9	5.2	3.4
6. Repayment of loans for self-employment	8.7	14.4	22.7
7. Short-term loans at banks		3.9	
8. Other income (donations, rent, etc.)	2.3	0.9	1.5

Source: EAM.

Number of persons trained 2000–2004 according to type of training

	2000	2001	2002	2003	2004
Total trained	766	1,228	1,398	3,034	2,075
% of total reg. unemployment	0.9	1.5	1.8	4.5	3.4
Of which:					
Skill upgrading (in the same profession)	243	803	758	1,957	1,406
Requalification	208	172	272	672	508
Professional training	293	253	349	372	159
Specialisation	22	0	15	N/A	N/A
CVT	0	0	3	N/A	N/A
Equipping workplaces for persons with special needs	0	0	1	N/A	2

Source: EAM, 2004, table 7.

Annex 2: Elements of the Economic Reform Agenda for Montenegro

The Agenda sets out by recognising that *entrepreneurship* will be a key driver of future growth. Developing an entrepreneurial economy requires a wide range of reforms in the business environment (legal, regulatory, simplification of administrative procedures and incentives). The Agenda contains a timetable for introducing and amending existing laws that should facilitate entrepreneurship.

Investment is a recurring theme throughout the Agenda and there are high expectations regarding the increase of Foreign Direct Investments. The overall goal is to decrease the amount of economic and legal uncertainty and reforms aimed at reducing uncertainty are prevalent throughout the Agenda, including: resolution of contracting issues, restitution, an efficient judicial system, and a legal framework that gives confidence to potential investors that their property and businesses will be secure.

A broadening of the tax base combined with tighter control of government expenditures will create the space to reduce the tax burden of the private sector. A mechanism is needed for the quick resolution of liabilities owed to the state by former state owned companies that are technically insolvent or near insolvency, as is a more aggressive use of the reorganisation provision in the new bankruptcy law. These two actions will open new investment opportunities in sectors of the economy that are potentially viable. Completing the sale of residual shares will help investors consolidate controlling interest, thereby giving them the ownership position they need to justify substantial capital investments.

A strong theme in the Agenda is the formalisation of the *grey – informal – economy*. The most effective way to shift businesses and workers to the formal economy is to remove their incentives for participating in the informal economy. The combination of taxes and pension, health and unemployment contributions is a significant burden to employers and employees.

Competition and competitiveness are also central themes in the Agenda. Ending subsidies to state owned companies will increase competitive pressures and prevent businesses supported with public funds from unfairly crowding out private businesses. Simplification of procedures for businesses to enter and exit the market will increase competitiveness. Increasing the competitiveness of the Montenegrin economy begins with a complete review of existing business regulatory and securities legislation and adoption of new legislation negotiated as a condition of EU and WTO accession.

Cutting across all others is the theme of *job creation* in the legal labour sector. In addition to those measures already mentioned, a market-based, flexible labour law that does not unduly burden employers is critical to improving employment. The current regime is costly and does not offer sufficient flexibility. Consequently, the labour law reduces the incentive for employers to hire legally. Creating conditions for greater flexibility is fundamental to increasing employment. Stagnant, indebted and undercapitalised state or former state owned companies are unable to offer new jobs, or to sustain the employees they already have. These companies cannot attract and retain the best and brightest workers with adequate salaries. Revitalising these companies through the voluntary restructuring provision in the Law on Insolvency of Business Organisations, or liquidating companies

that are not viable in order to free up their assets for productive use, are ways these firms can contribute to solving the employment problem over the long run.

Annex 3: Poverty Reduction Strategy Paper for Montenegro

According to a joint World Bank ISSP Study (ISSP and The World Bank, 2003), the poverty profile of Montenegro is characterised by:

1. Around 12% of the population in Montenegro is poor⁹³. One third of the population is classified as vulnerable according to these definitions and drawing of poverty lines.
2. Poverty varied considerably over population groups. The poverty rate is largest among the RAE (52.3%). For refugees and IDPs (internally displaced persons) it is slightly below 40% and smallest among the standard population, 9.6%. Nevertheless the standard population poor are the largest group (72.5% of all poor), while the percentage of RAE of the total poor is 11.7%, refugees 5.9%, and IDPs 9.9%.
3. The regional poverty distribution is characterised by the most vulnerable being found among residents of Northern Montenegro, with an overall poverty rate of 19.3%, and where 45% of all the poor are located. Around 35% of the poor live in the central region, which has a poverty rate of 10.8%. Around 19% of the poor live in the Southern region, which has the lowest regional poverty rate of 8.8% (ISSP and The World Bank, 2003, p. 4–5).
4. Poverty with respect to education varies between these groups as well. For regular population this measures 4.7%; for RAEs 70%; for refugees 29.3%; and for IDPs 8% (ISSP and The World Bank, 2003, p.5).
5. Poverty with respect to employment – 16–65 year olds, who are not working but would be ready to do so if there were employment opportunities – also shows that there are big differences between the regular population and the other three groups. If 17% of the regular population in the study were not employed and expressed willingness to work, the same percentage for RAEs was 43%, and that for refugees and IDPs over 30% (ISSP and The World Bank, 2003, p.5).

⁹³ The absolute poverty line was defined as the total expenditure below the expenses of the minimal consumer basket for a standard household (€116.20) and the line of defining the economically vulnerable population is set 50% above the poverty line (€173.40).

ADDENDUM

New labour force survey data for 2004 was published by the statistical agency of Montenegro, MONSTAT, on 25 May 2005. These data have not been incorporated in the present review – *Labour market review Montenegro* – partly because they have only been published partially and at too late a date for the review team to fully assess them, and partly because the labour force survey carried out in October 2004 in Montenegro followed a different methodology to the previous labour force surveys. This use of different methodologies from the LFS 1999–2003 to the LFS 2004 makes the resulting data incomparable.

Previously the labour force surveys in Montenegro did not follow the same methodology as is recommended internationally by the International Labour Organization (ILO) and Eurostat. All methodological aspects of the LFS 2004 were reviewed and fully harmonised with the latest international standards and requirements. The sample basis for the 2004 LFS was the 2003 census, whereas the sample basis for the previous LFS was the 1991 census. Furthermore, the sample size was increased from 500 households to 900 in 2004. Both of these changes should increase the reliability of surveys. To give an indication of what this means in practice, the LFS 2003 estimated the working-age population (15 to 64 years of age) to be 408,801, whereas the LFS 2004 estimates the same population (although of course the following year) to be 423,290. The differences are more apparent for the population aged 15 and older, going from a 2003 estimate of 464,928 to an estimated 501 358 in 2004, an increase of more than 7.8%.

Interestingly, the LFS 2004 showed a higher number of unemployed than the Employment Agency of Montenegro has in its registers. In all previous LFS data, the number of unemployed was lower than the number of registered unemployed. Other transition countries have seen similar trends, in which the number of registered unemployed is relatively high initially and then gradually tapers off as the unemployed fail to find reasons to remain registered due to the low level of unemployment benefit.

However, the overall conclusion to be drawn from the differences in methodology and sampling is that it is not reasonable to compare the results of the 1999–2003 labour force surveys with the results of the LFS 2004. It should be noted that the main recommendations of the present review are still valid as the LFS 2004 reports an even lower number of employed people than the number calculated by the review team and the number of unemployed is also reported to be higher than is assessed in the review. There is thus no doubt that the labour market situation in Montenegro needs serious attention and that the recommendations outlined in this review should be carefully considered by stakeholders.

LIST OF ACRONYMS

BAS	Business Advisory Services
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEED	Centre for Entrepreneurship and Economic Development
EAM	Employment Agency for Montenegro
EAR	European Agency for Reconstruction
ETF	European Training Foundation
FDI	Foreign direct investment
FLAG	Firm-Level Assistance Group
GDP	Gross domestic product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HR	Human resources
IDP	Internally displaced person
ISSP	Institute for Strategic Studies and Prognoses
LFPR	Labour force participation rate
LFS	Labour force survey
LLL	Lifelong learning
MBA	Montenegro Business Alliance
MIGA	Multilateral Investment Guarantee Agency
MoLS	Ministry of Labour and Social Welfare
NAP	National Action Plan (for Employment)
OECD	Organisation for Economic Cooperation and Development
PA	Public administration
PRSP	Poverty Reduction Strategy Paper
RAE	Roma, Ashkaelia and Egyptians
SME	Small and medium-sized enterprise
SOE	State-owned (or socially owned) enterprise
TAM	Turn Around Management
UNDP	United Nations Development Programme
USAID	US Agency for International Development
U/V	Unemployed/vacancies
VET	Vocational education and training
WTO	World Trade Organisation

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