

# Employment Policy Review

## Montenegro

International  
Labour  
Organization



# **Employment Policy Review**

## Montenegro

Prepared by the International Labour Office  
and the Council of Europe  
in 2006 and 2007

The opinions expressed in this work are the responsibility of the authors and do not necessarily reflect the official policy of the International Labour Office or of the Council of Europe.

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## Foreword

The period of political turbulence and restructuring that they went through presented the countries of South-East Europe with significant challenges. They needed to restructure their national economies and get them back onto a path of sustainable growth, revive demand for labour and raise employment, as well as fight unemployment, underemployment, increasing gender inequalities and the social exclusion of vulnerable groups.

The South-East European Ministerial Conference on Employment held in Bucharest on 30 and 31 October 2003 acknowledged the serious employment challenges faced by the Stability Pact countries. The Bucharest Declaration adopted at the Conference called for regional co-operation in addressing these challenges, so as to bring about major improvements in national employment policies. The International Labour Organization and the Council of Europe were asked to give guidance and support to this effort by reviewing national employment policies, in close co-operation with the social partners and labour market institutions, and by providing policy recommendations and assisting with their implementation. This joint remit is being fulfilled under the auspices of the Initiative for Social Cohesion of the Stability Pact for South-Eastern Europe. The Ministers of Labour of the Stability Pact countries approve and update the objectives of this co-operation, and the activities are designed and supervised by a Permanent High-Level Committee comprising Directors General of Employment and representatives of National Employment Services.

Meanwhile, the “Bucharest Process” has become a significant reference point for employment policy development in South-East Europe. The Sofia Conclusions adopted at the 2nd Ministerial Conference, held in Sofia on 21 October 2005, endorsed the process and placed even more emphasis on policy coherency and social dialogue.

This series of Country Reviews of Employment Policy (CREP) is the major outcome of this process. Each review is based on a national report produced by the relevant Ministry of Labour in co-operation with the National Employment Service. They are adopted at National Tripartite Conferences organised by the ILO, the promotion of social dialogue being a key component of the process.

These country reviews can be used to strengthen labour market institutions and to make employment and labour market policies in the countries concerned more coherent and effective within the framework of an integrated policy approach. Particular emphasis is placed on gender equality issues, and especially on developing strategies designed to mainstream gender in employment policies and to promote gender equality in follow-up activities.

The review process is intended to help to promote decent and productive employment for women and men in Stability Pact countries, while converging with the guidelines of the European Employment Strategy and strengthening stability and social cohesion in the region.

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## Introduction

### Objectives

This Country Review of Employment Policy focusing on the Republic of Montenegro serves various purposes:

- It highlights the main labour market and employment challenges facing Montenegro and provides a number of recommendations about addressing them.
- It contributes to the implementation of international labour standards and principles relating to employment<sup>1</sup> in Montenegro, in particular the **ILO Employment Policy Convention (No. 122)**, 1964, requiring governments of ratifying countries, in close collaboration with the social partners, to formulate and implement an active policy promoting full, productive and freely chosen employment, The general principles of an active employment policy are further developed in the **ILO Recommendation No. 122** (1964).<sup>2</sup> The review also seeks to support the implementation of the provisions of the **ILO's Global Employment Agenda (GEA)** that places decent employment at the heart of economic and social policies. Consistent with the Millennium Development Goals, the GEA seeks, through the creation of productive employment, to improve the lives of the millions of people who are either unemployed or whose remuneration from work is inadequate to allow them and their families to escape poverty. The fundamental role played by employment in fighting poverty and social exclusion was also a conclusion of both the World Summit on Social Development in 1995 and the 24th Special Session of the United Nations General Assembly in 2000, which called upon the ILO to develop a coherent and co-ordinated international strategy for the promotion of freely chosen and productive employment.
- The review is also intended to make operational the standards on employment and labour market policy that are defined by the **European Social Charter** and the core elements of the **Revised Strategy for Social Cohesion of the Council of Europe** (2004). The latter states that access to employment for all and the promotion of decent employment are key elements of social cohesion and that *“investment in human resources is one of the most crucial areas of investment for future economic growth”*. The Council of Europe has also drawn up a number of guidelines and recommendations on improving access to employment, especially for the most vulnerable groups.
- This Employment Policy Review is a contribution to Montenegro's preparation for its future membership of the European Union by converging with the **Guidelines of the European Employment Strategy (EES)**. For this purpose, the present report has been drafted on the model of the Joint Assessment Papers on Employment Policies formulated by the European Commission and the countries preparing for accession.

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1. See Appendices I and II for a list of international instruments ratified by Montenegro.

2. The Republic of Montenegro became the 179th ILO member state on 14 July 2006.

## Background

Montenegro was the sixth country, after Albania, Croatia, Serbia, Moldova and “the former Yugoslav Republic of Macedonia”, to have its employment policies assessed by the Council of Europe and the International Labour Office in compliance with the commitments made by the Ministers participating in the South-East European Ministerial Conference held in Bucharest on 30-31 October 2003.<sup>3</sup> The “Bucharest Declaration”<sup>4</sup> mandated the ILO and the Council of Europe to assess the employment situation of the Stability Pact countries involved in the process of regional co-operation on employment, and draw up recommendations in a Country Review of Employment Policy (CREP).

On the basis of an outline for national background reports, jointly prepared by the ILO and the Council of Europe, Montenegro agreed to draw up a detail report on its labour market and employment policies. In order to obtain a comprehensive overview of the employment situation in Montenegro, the ILO and Council of Europe team in charge of the elaboration of the Employment Policy Review visited Montenegro in September 2006. The aim was to collect additional information and examine more thoroughly specific labour market issues. This paper was mainly drafted in October 2006 and subsequently submitted for discussion within the Montenegrin Ministry of Labour and Social Welfare before its presentation at the 5th Session of the Permanent High-Level Committee of the “Bucharest Process” that took place in Skopje in December 2006. The Review was also discussed at a National Tripartite Conference organised in Podgorica on 13 April 2007. This event provided an opportunity for the social partners to discuss and assess the findings of the review and the recommendations put forward.

Both the ILO and the Council of Europe are very grateful to the Montenegrin authorities for their active support, guidance and efficient co-operation and, especially to the Employment Agency of Montenegro which had been entrusted by the government with the task of preparing and organising the visit.

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3. Forthcoming CREP: Bosnia and Herzegovina.

4. See Appendix III to this report.

# 1. Overview of the economic and social context

## 1.1. Macro-economic framework

Economic reforms were slower getting started in Montenegro than the other countries of South-East Europe (SEE). The reforms initiated in the late 1990s gathered speed in the early 2000s. The privatisation process, which started at the end of the 1980s, was interrupted by the collapse of the Federal Socialist Republic of Yugoslavia. Like most formerly planned economies, Montenegro found the transition to a market-based economy a difficult one. The transition process, coupled with political instability and the conflicts that escalated in other countries of former Yugoslavia during the 1990s, had a dramatic impact on industrial production, which dropped by 29% during the period 1990-1996.

In the early years Montenegro's gross domestic product (GDP) increased by 2.4% annually, compared with more than 3.5% average growth in SEE. The economy sparked in 2004 and 2005, registering GDP growth of 3.4 and 4.1% respectively. The economic forecasts for 2006 estimate a growth rate of 5.5%.<sup>5</sup> If such forecasts are met, the 2006 per capita income of Montenegro will reach 98.6% of the 1989 level (see Table 1). The new wave of reforms envisaged within the Stabilisation and Association Agreement (SSA) with the European Union (EU) is expected to consolidate growth prospects at 4% per year for 2007-2008.<sup>6</sup> The public-sector debt-to-GDP ratio is on a downward trend: it was 40.5% in 2005 and is expected to reach 37.1% by the end of 2007. Domestic debt decreased from 19.6% in 2004 to 9.4% of GDP, while the foreign debt decreased from 68.7% to 30.6% over the same period.<sup>7</sup>

**Table 1: Main economic indicators (2000-2006)**

	2000	2001	2002	2003	2004	2005	2006 est
GDP millions (in euros)	1022.2	1244.8	1301.5	1433	1535	1644	1794
GDP growth (% change)	3.1	-0.2	1.7	2.3	3.7	4.3	5.5
Real GDP per capita (% change)	..	..	..	1.9	3.4	3.8	3.7
GDP (Level 1989 = 100)	56.2	68.4	71.6	78.8	84.4	90.4	98.6
Government deficit (% GDP)	..	..	..	4.3	2.9	3.2	2.3
Government debt (% GDP)	..	..	..	49.5	48.2	40.5	40.0
CPA inflation	24.8	24	9.4	6.7	4.3	1.8	2.8

Source: Ministry of Economy and Trade and Central Bank of Montenegro, 2006.

In 1997 Montenegro took control of economic and fiscal policies and three years later it established its own central bank. Since 2002 it has been pursuing its own path to macroeconomic stabilisation, as depicted in the *Economic Reform Agenda 2002-2007*. The reform process so far has included introduction of the euro as legal tender in 2002,<sup>8</sup> reduction of public expenditure, privatisation of publicly- and socially-owned enterprises, broadening of

5. Ministry of Economy and Trade, *Bulletin*. Forecasts are provided in Standard and Poors, *Sovereign Analysis* (June 2006), and Fitch (June 2006).

6. See World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005.

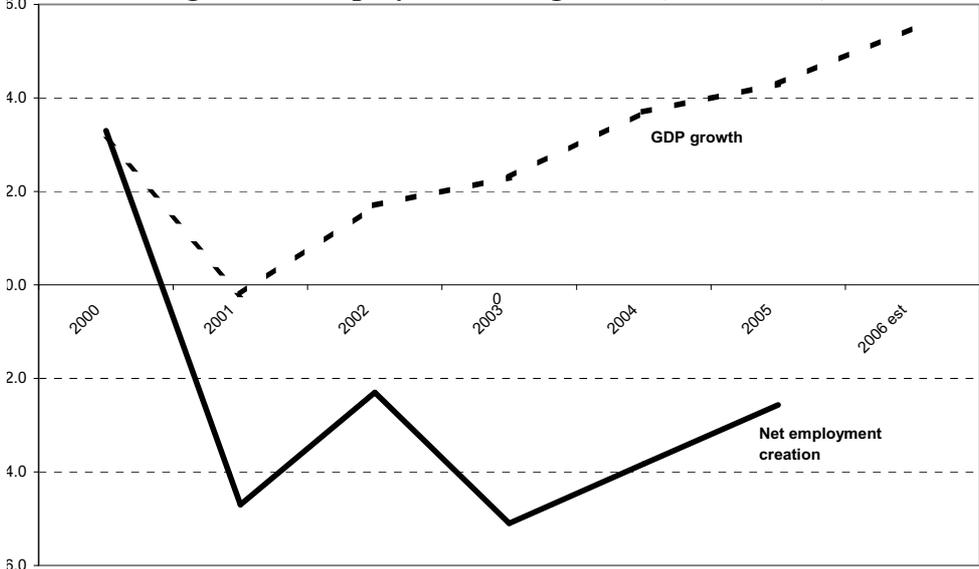
7. Central Bank of Montenegro, *Annual Report 2005*, Podgorica 2006.

8. In 1999 the government of Montenegro declared the Deutschmark (DM) a parallel currency to the Yugoslav dinar and in November 2000 the Central Bank of Montenegro declared the DM the sole legal tender. In January 2002 the euro replaced the DM as official currency.

the tax base, and price and trade liberalisation. These stabilisation policies drastically reduced inflation from 24% in 2000 to less than 2% in 2005.

However, macroeconomic stabilisation and economic recovery have not been accompanied by employment growth. Figure 1 below shows that since 2000 Montenegro has been experiencing joblessness growth, with two low points coinciding with two milestones in economic stabilisation: the first wave of privatisation in 2001 and the contraction of public employment in 2003 due to reform of public administration. Since 2004 employment has started to recover. Its current level is still well below that of 2000 and the elasticity of employment to growth remains negative (1.30%).<sup>9</sup> Net job creation, i.e. the percentage change in the number of people employed, has declined since 2001 by more than 2% per year. This year-on-year decline brought the 2005 overall employment rate down to 34.8%, one of the lowest in the region. Employment and unemployment trends are discussed in more detail in section 2 of this report.

**Figure 1 – Employment and growth (2000-2006\*)**



\* Estimate

Source: MONSTAT, *Statistical Yearbooks and Labour Force Survey* (various years) and the World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005, op.cit.

Aggregate investment has expanded significantly in the past few years, with private investment growing to an annual increase of more than 100%. Direct foreign investment (FDI) is mainly from Hungary (46.3%). Other important partners are the United Kingdom (11.3%), Slovenia (7.2%) and the Russian Federation (4.4%).<sup>10</sup>

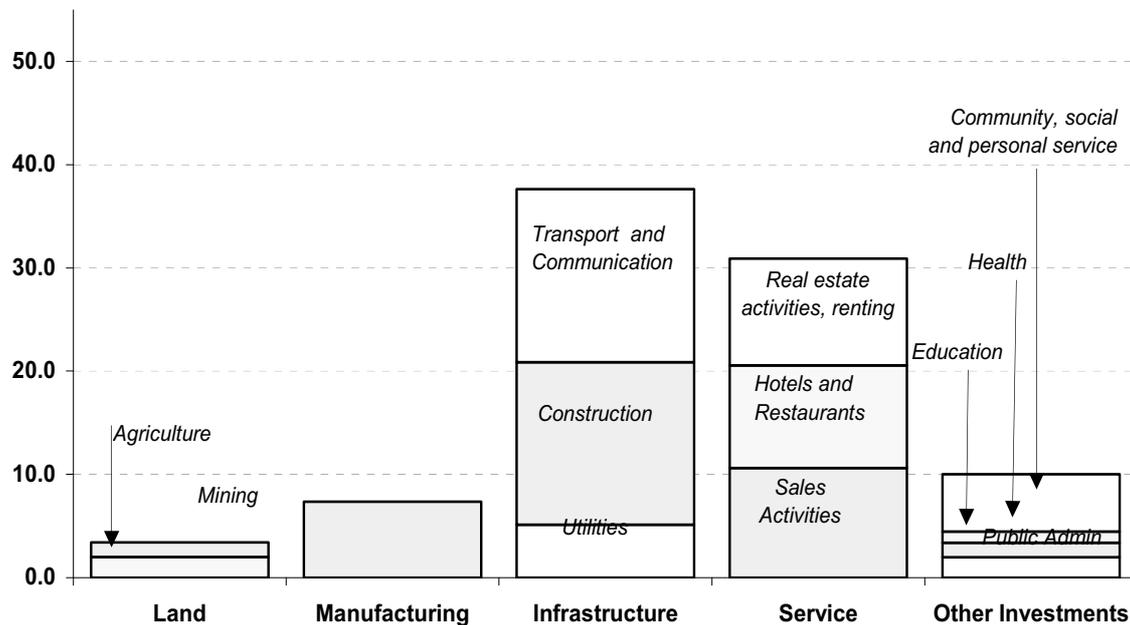
The investment breakdown indicates that tourism and related activities account for the lion’s share. In 2003-2004 social and personal activities increased by 117.3% while capital investment in commercial and property activities and the hotel and catering sector increased by 66% in the same two-year period. Capital investment in industrial activities grew at under 8% and now accounts for only 7.4% of the total. Public investment was primarily in infrastructure (54.8%), manufacturing, agriculture and mining (14%), and services (20%).

9. World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005, op. cit., p. 22.

10. World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005, op. cit.

Investment in education, health, public administration and social insurance accounts for only 11.2%. Figure 2 below gives details of investment in 2004.<sup>11</sup>

**Figure 2: Investment by purpose as a percentage of total investment in 2004**



Source: MONSTAT, 2005 Statistical Yearbook, op. cit.

Despite increasing economic growth, public investment as a whole decreased by 12.7%. Investment in the transport and communications sub-sector decreased by 31%, while investment in infrastructure increased by 44%.

In the last six years of privatisation, public-administration reform and tighter control of government spending have reduced the budget deficit from 8 to 2.2%. Approximately 80% of publicly- and socially-owned enterprises have been privatised since 2001. Many of these enterprises were small and among the most profitable. Another wave of privatisation is expected to take place in 2007. Most of the enterprises to be privatised are large ones and include public utilities. There is no estimate of the number of workers to be made redundant during this new wave of privatisation.

Tighter control of government expenditure has led to cutbacks in the welfare budget. The latter decreased by 12.5% between 2003 and 2004. In particular, investment in public health and education decreased by 47% and 11.3% respectively.<sup>12</sup>

Since 2001, the main driver of Montenegro's growth has been the private sector, whose share in GDP increased from 37% in 2002 to an estimated share of 55% in 2006.<sup>13</sup> This was mainly due to an increase in metal production, tourism and viticulture.<sup>14</sup>

11. MONSTAT, 2005 Statistical Yearbook, op. cit.

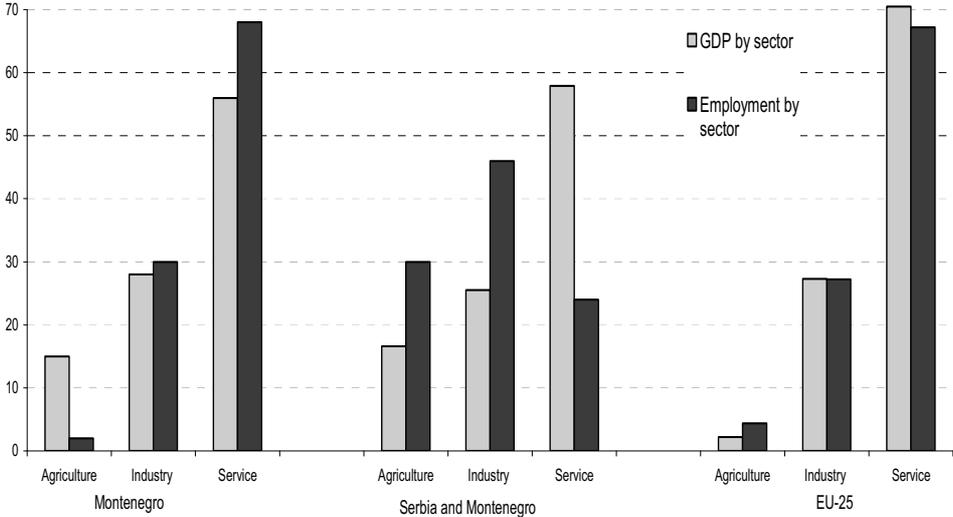
12. MONSTAT, 2005 Statistical Yearbook, op. cit., Table 9.3, page 87.

13. World Bank, *Serbia and Montenegro, Joint IDA-IMF Advisor note on the poverty reduction strategy. Progress reports*, Report No. 35245, Washington, D.C., 2006

14. MONSTAT, 2005 Statistical Yearbook, op. cit., tables 9-4, 11-1 and 13-1.

As shown in Figure 2, agriculture accounts for more than 15% of total output, compared with less than 5% in the EU 25. In the 2002-2005 period output in the agriculture sector recovered at 6.2% per year. This strong growth coincided, however, with a 32% contraction of employment in the same sector. Agriculture is a considerably larger factor in GDP than in employment. It is a reasonable assumption that the sector is shedding hoarded labour but also that most employment goes unreported. Traditional agricultural output has recently been supplemented, and partially replaced, by more value-added production such as viticulture and fruit growing, which have increased by 22% and 36% respectively. These double-digit growth rates did not, however, prevent employment losses (viticulture alone experienced a 50% decrease).

**Figure 3: Sectoral breakdown of employment and GDP – 2005**



Source: MONSTAT, *2005 Statistical Yearbook and Labour Force Survey, 2005*; EUROSTAT, *New Cronos, 2005*.

Industrial production contributes 28% of GDP and accounts for more than one fifth of total employment. The composition of the industrial sector shows that production of metals alone represents almost 74% of total industrial output.<sup>15</sup> This sector has experienced an average annual increase of 1% over the past ten years, despite some volatility in the last two years due to the impact of market-oriented reforms (Figure 3). The reduction in the output of soft manufacturing – the only exception being wood and wood-related products – suggests that investment has recently been redirected into heavy industry – mostly aluminium – and privatised utilities. Compared with other countries in the region, industrial policies appear to have performed better in Montenegro, especially as regards reduction of labour hoarding.<sup>16</sup> However, despite output growth and fast economic restructuring, the number of workers in manufacture decreased by 16% between 2002 and 2005.

The service sector accounts for 55% of GDP, but more than two-thirds of total employment. In 2005 the marketing and distribution of utilities accounted for 5.6% of GDP and the energy sector alone, despite an increase of 20%, suffered a net employment loss of 5.9% during the same year. The tourism industry’s share is on the rise, with a contribution to GDP of 8.5%

15. MONSTAT, *2005 Statistical Yearbook*, op. cit.

16. See World Bank, *Montenegro Economic Memorandum*, op. cit., and Standard and Poors, *Sovereign Analysis*, 2006.

and to employment of 9.1%.<sup>17</sup> Tourism is projected to grow in output and employment over the next decade by more than 10%.<sup>18</sup> This industry is the only one to display net job creation, ie more than 15% annual increase since 2003. Given tourism's seasonal character, most of the jobs created are temporary and subject to high turnover.<sup>19</sup> In addition, many of them are likely to be characterised by informal arrangements. Excessive reliance on tourism, combined with moderate competitiveness and a relatively undiversified economy, makes Montenegro highly exposed to external shocks.

The trade balance shows that imports increased by more than 20% between 2004 and 2005 to a total value of €600 million, e.g. 50% of GDP and more than four times the value of exports. Imports are mainly from the European Union, Bosnia and Herzegovina and Croatia. Consumer goods (37%), petroleum derivatives (20%) and capital goods (16.5% of total imports) account for a large proportion of imports, raw materials and semi-finished products – mainly aluminium and steel – for the bulk of exports (91.5%), mainly to Switzerland. Despite drastic falls in official grants, the government has taken positive action to reduce the current account deficit. In 2005 this came to 8.6% of GDP and is expected to decrease to 7.9% in 2006 and 6.8% in 2007. This positive trend in the current account is due to tourism receipts.

The outcome of the past few years' reforms has been mixed. It is relatively positive as regards public finance and economic growth, but job creation and poverty reduction have been disappointing. The tourism industry is undoubtedly an engine of the Montenegrin economy. The question is whether its development will compensate for the job losses experienced by Montenegro during its initial transition to a market economy.

## **1.2. Poverty and social exclusion**

Absolute poverty in Montenegro affects a relatively small percentage of the population (between 8.4 and 13.6%), with the poor concentrated in the north and centre of the country, especially in rural areas. The poverty line in Montenegro is set at €119 in monthly consumption, while the country defines economic vulnerability as the proportion of the total population living in households whose income is below 150% of the poverty level.

In 2003 the government of Montenegro adopted the *Development and Poverty Reduction Strategy* (DPRS) for the period 2004-2006. The strategy aims to: i) create the conditions for self-sustaining and equitable economic growth and reduce the proportion of economically vulnerable population; ii) ensure social stability and reduce the poverty rate; and iii) define key poverty indicators in line with the Millennium Development Goals (MDGs) and assess them through a comprehensive monitoring and evaluation system. The Ministry of Health, Labour and Social Welfare is entrusted with coordinating DPRS implementation.

The DPRS is meant to complement the *Economic Reform Agenda* that was endorsed in 2002 by the government as the strategic framework for national development. Both strategies

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17. Domestic tourism shows an annual growth of 9.4%, while tourism from high-income countries increased by 70% per year.

18. World Bank, *Montenegro Economic Memorandum*, op. cit.

19. The main tourism months are July and August (25.9% and 35.6% of total inflow respectively), followed by September (17.2%) and June (12.5%). It is worth noting that estimates for 2005 indicated a figure of 60% for tourists accommodated in private rooms. Source: Ministry of Tourism and MONSTAT, *Tourist accommodation facilities inventory drawing: programme and tourist turnover estimate for Montenegro for the year 2005*, International Institute for Tourism, Ljubljana, 2005.

highlight the centrality of employment in the fight against poverty. However, the progress report that was released in July 2005 shows little headway towards promotion of the employment goal. It dealt with the labour market issues under the heading of sectoral policies. Alignment of labour law on ILO standards and EU regulations, stimulation of new employment and development and strengthening of small and medium-sized enterprises were indicated as main priorities, together with development of an employment strategy. Although important, those priorities are not consistent with the central place which the DPRS assigned to employment. In addition, most of the priorities have not yet been implemented.

The poverty rate is highest (52.3%) among Roma, Ashkaelia and Egyptians (RAE). For both refugees and internally displaced persons (IDPs) it runs at slightly below 40%. It is smallest in the majority population (9.6%). Extreme poverty outside the socially excluded (such as Roma and IDPs) is low – only a negligible proportion (about 1%) of non-Roma and non-IDP household stayed chronically poor between 2002 and 2004. In the last two years poverty has become more severe for those at the bottom of the income ladder.<sup>20</sup>

Economic vulnerability is the most acute social problem and affects about a third of the population. Vulnerability to poverty, especially among farmers and families out of regular employment, remained severe throughout this period. The benefits of growth, mainly deriving from tourism spillover, hardly reached the poor or the economically vulnerable. Social protection reforms enacted by the government do not appear to have made a dent in the numbers living in poverty.

The main poverty correlates in Montenegro are household size, place of residence, sex and educational attainment. Poverty also depends on the employment status of the head of the household.<sup>21</sup> Joblessness has grown steadily in the past few years, especially in northern Montenegro, where many industrial conglomerates were located and 45% of the poor live.<sup>22</sup>

Employment *per se* is not a guaranteed escape from poverty for the many RAE engaged in poor-quality, low-paid jobs in the informal economy. Cumulative disadvantages within the household have severe inter-generational consequences. In 2005 almost 40% of young people living in poor households were not in school (see the section on education in this report). Today's education barriers and the poor educational outcomes of young people from disadvantaged households predict their continued social exclusion and poverty during their adult lives.

The poverty monitoring indicators also show that 46.5% of the population aged 20 to 65 were not working but were willing to work if given a job opportunity. This rate highlights that a large percentage of the working age population are discouraged workers.

Inequality, as measured by the Gini index, is estimated at 0.28 – much the same as for other countries of Central and Eastern Europe. However, the 90/10-decile ratio coefficient of 7.0 shows a higher level of inequality in Montenegro than in other transition economies (see Figure 4 below). The average monthly expenditure per person in the RAE population is 2.3

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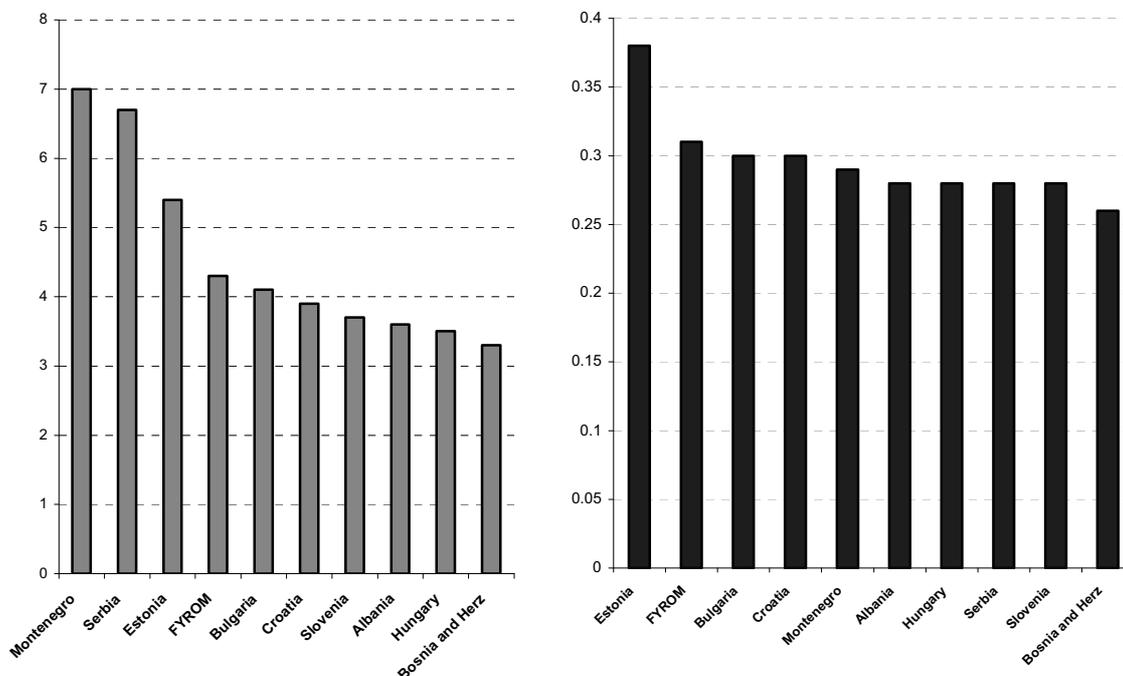
20. Government of the Republic of Montenegro, *Poverty Reduction Strategy Paper, The First Progress Report, 2003 – 2004*, Podgorica, 2005.

21. Bodewig, C., Sethi, A., *Poverty, social exclusion and ethnicity in Serbia and Montenegro: The case of the Roma*, World Bank, Washington, D.C., 2005.

22. Government of the Republic of Montenegro, *Poverty Reduction Strategy Paper*, Podgorica, 2003.

times lower than the average expenditure per person nationally.<sup>23</sup> The overall human development index (HDI) has also shown little improvement over the years. Montenegro falls in the middle group of countries (those with an HDI between 0.5 and 0.8), with a level of development similar to those of Bulgaria, Russia, “the former Yugoslav Republic of Macedonia”, Albania, Bosnia and Herzegovina and Romania.<sup>24</sup>

**Figure 4: Income inequality indicators – Central and South-East Europe**  
*90 / 10 deciles ratio* *Gini coefficient*



Source: UNDP, *Diversity – Potential for development, Human Development Report for Montenegro*, Podgorica, 2005

The main features of Montenegro’s social policy are described in the sections of this report concerning education and passive labour market policies.

### Recommendations:

- *There is little evidence of economic growth resulting from improved competitiveness in sectors other than tourism. The low level of employment in Montenegro calls for a mix of employment-centred economic and social policies that stimulate aggregate demand. The government might consider reviewing progress of both the DPRS and the Economic Agenda by including employment as the main benchmark for the assessment of performance of economic and social policies.*
- *Despite the positive job-creation record, evidence of the overall impact of tourism growth on decent employment is still awaited. The tourist inflow is tied to the summer season, with a two-month high and two months of smaller tourist numbers. In addition, further employment growth in the sector will not have any great impact on poverty levels in northern and central Montenegro.*

23. Republic of Montenegro, *A report on the progress towards the achievement of the Millennium Development Goals in Montenegro*, Podgorica, 2005.

24. World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005.

- *Joblessness and low educational attainment are key determinants of economic vulnerability and social exclusion. An adequate mix of preventive and curative policies could be achieved through cost-effective investment in health and education, and by means of targeted social and employment programmes that have clear equity objectives and are well administered. This approach could pull certain groups of the population out of poverty (e.g. RAE and IDPs) and prevent the economically vulnerable (e.g. the long-term unemployed, especially young people and redundant and older workers) from falling into the poverty trap.*

## **2. Labour market situation**

The main sources of labour market information in Montenegro are the Labour Force Survey (LFS) processed by the national statistical institute (MONSTAT) and the administrative data collected by the Employment Agency of Montenegro (EAM) on individuals registered as unemployed. For purposes of international comparability, this review of employment policies is mainly based on the data of the LFS. Household-based surveys, such as the LFS, constitute a primary source of information as they allow joint measurement of the employed, unemployed and economically inactive. If designed to cover all branches of economic activity and all categories of worker (including own-account workers, unpaid contributing family members and persons engaged in casual work), LFSs have the unique advantage of obtaining information on the total labour force and its structure. Other sources of labour market data, such as censuses, establishment surveys and administrative records, can usefully complement household surveys provided that concepts, definitions, coverage and reference period are aligned.<sup>25</sup> Each source of labour market data can have certain limitations. In the case of Montenegro, the LFS may overestimate unemployment due to the share of seasonal and atypical work – not fully captured by the current LFS methodology – while the EAM data may underestimate unemployment, as not all individuals looking for a job necessarily register with the employment service.<sup>26</sup>

### **2.1. Population and labour force participation**

According to the last census, in 2003 Montenegro had a population of 620,145.<sup>27</sup> This represents an increase of 6.3% on the 1981 census. A large part of the increase is explained by high natural population growth, due to a fertility rate of 1.7% (in 2003), which is relatively high by transition economy standards. Demographic developments will continue to exert pressure on the labour market for some years to come: in the years 2004-2014 about 88,000 people will reach working age (15-64 years of age), while in the same period only about 57,000 people will reach retirement age. Only after 2014 will the working-age population be starting to decline. This is because the birth rate has continued to fall (it has more than halved since 1961) and, alarmingly, the death rate went up by more than a third in the 1990s, so that the natural population increase will shortly turn negative if current trends continue. Montenegro has also received a large proportion of refugees and IDPs resulting from the conflicts in the region. Although the numbers were several times higher in the early 1990s, at mid-2005 there were about 26,500 refugees and IDPs living in the country. About 43% of the

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25. Hussmans, R., Merhan, F., Verma, V., *Survey of economically active population, employment, unemployment and underemployment: an ILO manual on concepts and methods*, ILO Geneva, 1990.

26. According to the EAM there are also people who register for benefit despite not meeting the ILO unemployment criteria. For more details see EAM, *Main characteristics of the labour market in Montenegro in 2005*, Podgorica, 2006, p. 26.

27. MONSTAT: *2005 Statistical Yearbook*, op. cit.

population classifies itself as Montenegrin and 32% as Serb. The largest minorities are the Bosniaks (8% with an additional 4% classified as “Muslims”) and the Albanians (5%). In the last two decades there has been noticeable internal migration to the capital and the coastal region. Around 62% of the population lives in urban communities.

The 2005 Labour Force Survey put the total population at 634,935. The labour force or active population (i.e. those employed and those unemployed) comprised 256,569 people or 49.9% of the population of working age (age 15 and over). This is quite low by EU standards<sup>28</sup> but roughly in line with regional standards (in Serbia, for instance, the activity rate is about 55% and in Croatia it is around 50%). Although the LFS results after 2004 are not strictly comparable to earlier results, due to LFS harmonisation with ILO and EUROSTAT methodology, the earlier series suggest that the activity rate slightly increased between 1994 and 2003. However, this masks important changes, since as from 2000 employment decreased while unemployment increased.<sup>29</sup>

The most striking disparity concerning the activity rate is the gender one. While the activity rate for men was 57.4%, only 42.9% of women were economically active in 2005. Time series suggest that this gap has widened since 2000. The activity rate for prime-age workers (25-54 years of age), at 76%, is considerably higher than for the population average. It is interesting to note that the gender difference is also lower for prime-age workers: the activity rate for prime-age men is less than 20% higher than the rate for prime-age women, whereas for workers of all age groups it is about a third higher. This is mainly due to the extremely low activity rate of older women (21.2%) and to a lesser degree to the activity rate for young women (26.6%). In 2005 about 32% of the inactive were pensioners, 24% were students and 17% were housewives, while 26% (about two-thirds of them women) were inactive for “other” reasons.

## 2.2. Employment developments

Between 1994 and 2003 the employment rate did not change much overall, rising by about 7.5% between 1994 and 1999 and then falling back to the original level.<sup>30</sup> The absolute level of employment in Montenegro is alarmingly low, however: in 2005 there were 178,815 employed, which represents an employment rate (age 15 and over) of 34.8%.<sup>31</sup> This is extremely low, even compared with neighbouring countries such as Croatia (around 43%) and Serbia (around 45%), which already have very low employment rates compared with EU countries. The employment rate for the population aged 15 to 64 was 41%, which is more than 20% lower than in Poland, the country with the lowest employment rate in the EU 25.

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28. The activity rate for the population between 15 and 64 years of age was 58.9%. This compares with an EU average of 70.2%.

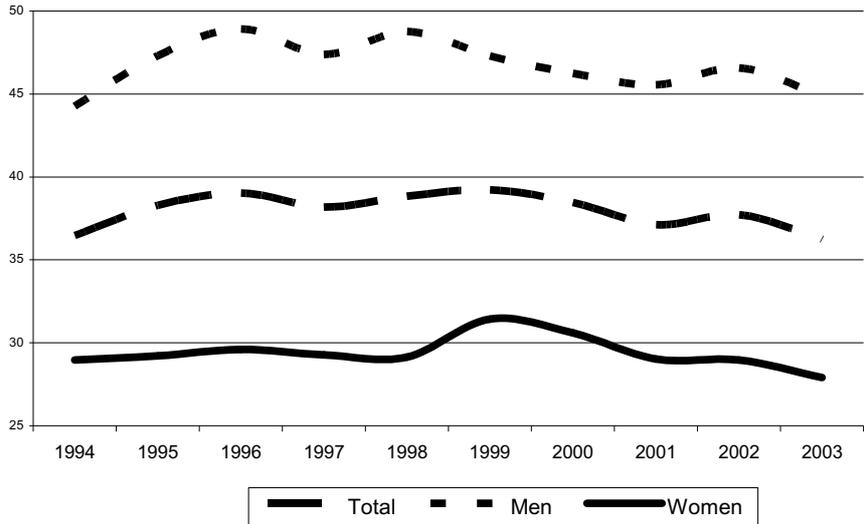
29. See sections 2.3 and 2.4 below.

30. Employment differs considerably according to different data sources, and figures therefore need to be treated with extreme caution. While the LFS gives 187,000 employed in 2004, the number of registered employed reported in the Statistical Yearbook is lower (143,000). On the other hand the same source shows a steady and steep decline in registered employment between 1987 (165,186) and 2003 (111,968), before an increase of almost 30% in 2004 due to statistical adjustments. Given the experience of other transition economies as well as the high unemployment rate in Montenegro, it seems safe to assume that there was massive destruction of jobs in the country during the 1990s.

31. Survey data published by the Institute for Strategic Studies and Prognoses (ISSP) suggest that employment grew by as much as 4.4% in 2005 (ISSP 2006, p. 15), driven by marked increases in trade, fishing and business services. However those data diverge from the LFS in that, unlike the LFS, they also show a 2005 employment increase on 2004. The same applies to registered employment as published by MONSTAT.

Like the activity rates, employment rates are very unequal with respect to sex. While 42.4% of men were employed, only 27.6% of women were in paid work in 2005. As with activity, employment is concentrated in the prime age brackets. Workers between 35 and 54 years of age have the highest employment rate (59.5%), while only 13.7% of young people (15-24) have jobs. As will be shown, this is not sufficiently explained by their high rate of school enrolment.

**Figure 5: Employment Rate (15+)**



Source: LFS (various years)

The breakdown of employment according to sector reveals a pattern typical of countries in transition towards a service economy. Again data are not strictly comparable over time because methodology was repeatedly adjusted, but a clear pattern emerges nonetheless: since the onset of transition in the early 90s, the agricultural and industrial sectors have been declining to the benefit of the service sector. Major industries that have shed workforce include maritime transport (minus 75% between 1991 and 2005), textile production (minus 55%) and leather production and footwear (minus 81%).<sup>32</sup> According to the LFS, in 2005 around 9% of the employed were still working in the primary sector and 19% in the secondary sector, leaving the vast majority (72%) of the employed in the services sector.<sup>33</sup> The public-administration sector alone employs 13% of the employed workforce, which is slightly more than the entire manufacturing sector. Geographically, most of the agricultural activity is concentrated in the north whereas 87% of all employment in the coastal region is in services. Women almost exclusively work in services (82% of all women workers).

The most important occupational categories were “technicians and associated professionals” (19.5%) and service and sales workers (18.3%). Marked sex differences exist in the managerial category as well as in crafts and in plant workers. These occupational groups are almost exclusively male.

32. EAM, *Main characteristics of the labour market in Montenegro in 2005*, op. cit. p. 30.

33. The European Training Foundation (ETF) labour market review (2006) puts employment in agriculture much higher, claiming that the LFS underestimates employment by not counting “irregular employment”, which is frequent in agriculture. Thus in 2003 29.7% of employees were in agriculture, 14.7 in industry and 55.6 in services. These figures seem more realistic. After the change in the LFS in 2004, seasonal agricultural workers might still be hidden in the “inactive for other reasons” category.

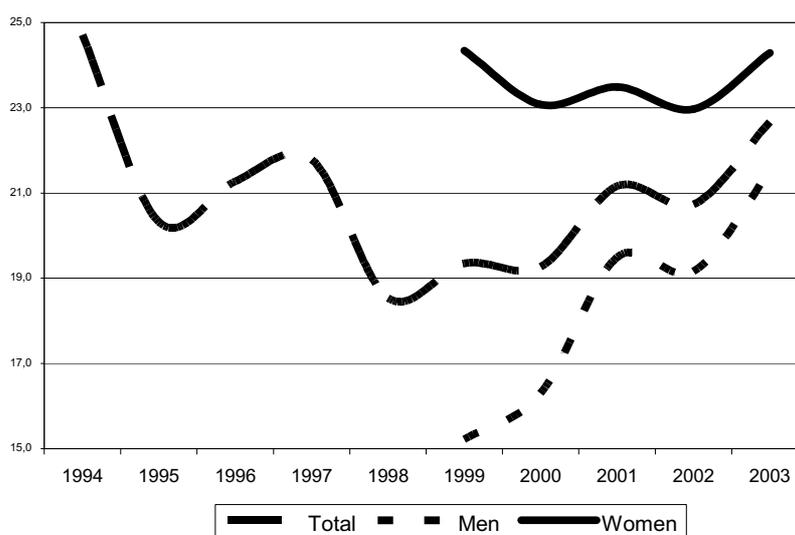
Although privatisation has gained momentum since 2001, most workers are still employed in state or publicly- and socially-owned enterprises (51%), while privately-owned enterprises account for 44% of employment. The number of employees in the private sector increased approximately fivefold between 1990 and 2003.<sup>34</sup> Thus ongoing privatisation will put heavy pressure on the Montenegrin labour market for some time to come. The Employment Agency of Montenegro estimates that there are still between 20,000 and 28,000 workers to be laid off, many of whom are older workers.<sup>35</sup>

More than 80% of the workers are employees, while 17.4% are self-employed and 72% of the self-employed are men.

### 2.3. Unemployment trends

One of the most troubling features of the Montenegrin labour market is the persistently high unemployment. According to the LFS, unemployment fell by more than 20% between 1994 and 1999 but then started to rise again and almost reached the 1994 level again by 2003. In October 2005 there were 77,754 unemployed.<sup>36</sup> This represents an unemployment rate of 30.3%, which is among the highest in Europe, far in excess of any EU member or candidate (with the exception of “the former Yugoslav Republic of Macedonia”).

**Figure 6: Unemployment Rate**



Source: LFS various years

34. Đurić and Radović: “Case studies of illegal work”. In: *South-East Europe Review* 3, 2004, pp. 45-68, based on LFS and SME surveys.

35. *Labour Market Analysis*, p. 32.

36. Data on unemployment are particularly riddled with uncertainties. The Employment Agency, for instance, gives the figure of 48,845 unemployed in 2005, which represents a fall by more than a third compared with 2002. The unemployment trend is thus the opposite of that reported by the LFS. However, in this period the EAM “cleaned” its register of individuals who had registered as unemployed while not entitled to do so, and this may have caused a decrease in the overall figures of people registered as unemployed (ETF, *Labour Market Analysis*, 2006 p. 20). Generally, the LFS data tend to be more reliable than the data for registered unemployment, since there are no disincentives to declaring one’s status truthfully. However, the new LFS methodology – applied since 2004 – does not allow a comparison with earlier periods. A general problem with the LFS in Montenegro is that it is run once a year. Data are collected during one week in October. This might lead to an underestimate of the impact of seasonal employment on overall employment. In addition, the current LFS does not include any question that could help detect informal employment.

For women the unemployment rate was 35.5%, which is about 40% more than the rate for men. It emerges from the LFS time series that the increase in unemployment from 2000 onwards was mainly due to an increase in male unemployment, while the female rate was more or less stable at a high level – before increasing again between 2004 and 2005. For both sexes, the risk of being unemployed decreases with age. Youth unemployment is a particularly severe problem because it prevents young people from acquiring skills and working habits and thereby has an adverse effect on both social inclusion and economic productivity. Young people (15-24 age group) have by far the highest unemployment rate of all age groups, with 58.1% out of work in 2005 (more than 52% of young men and almost 63% of young women). For the 15-19 age cohort the unemployment rate in 2005 was 65.8%.<sup>37</sup> Although it is not possible to detect a trend because of the changed LFS methodology, it is safe to assume that youth unemployment rates have remained persistently high – around 50% – over the past seven years.<sup>38</sup> These data show that the very low employment rate for the youth cohorts is due not only to school attendance but also to young people's inability to find employment despite their willingness to work. At the other end of the age distribution, unemployment is lowest for older workers (55-64 years of age), at 11.8%. The very high rate of inactivity for this age group (68.6%) reflects the fact that early retirement has been chosen as a method of removing workers from the labour market who would otherwise have been unemployed.<sup>39</sup>

The duration of unemployment is another matter of particular concern with regard to Montenegro. About 85.4% of all the unemployed are long-term unemployed (unemployed for more than a year) and, strikingly, 48.7% have been unemployed for more than 5 years. More men tend to be short-term unemployed, while the number of women is much higher among the long-term unemployed. Since 1994 the numbers of long-term unemployed as a proportion of total unemployed have remained more or less stable, but the average unemployment spell has probably increased considerably, with the proportion out of work for more than 8 years increasing steadily over the period. It can be concluded that in Montenegro unemployment is not a transitory position in the labour market: people who lose their jobs tend to stay unemployed for a long time.

Half of the unemployed were looking for a job for the first time. This is explained to a large extent by the high percentage of young people among the unemployed. However, the number of first-time jobseekers is so high that there must also be labour market entrants from older age groups. The jobseekers who had had a job before had, in most cases, lost their employment due to liquidation of the enterprise (31%). These people tend to be long-term unemployed. Unemployment because of the seasonal nature of work, which is particularly frequent in the coastal region, accounted for 23% of the unemployed who had had a job before, while 22% were out of work for “other reasons”.

Most of the unemployed (74%) have secondary education. It is interesting to note that very few unemployed people have very low educational attainment: only 17% of them have primary education or less as compared with a third of the population as a whole. As we will see in the section of this report on human resources development and training, the reason is likely to be that many people with very low educational attainment are either discouraged or

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37. 2005 LFS, Table 3, page 5.

38. For the analysis of the youth unemployment rate over the period 1999-2003 see ETF, *Labour Market Analysis*, op. cit.

39. Early retirement was offered to older workers during the privatisation wave of 2001, which explains the drop in the employment rate of older workers from 44% in 2000 to 24% in 2001.

inactive; it also reflects the prevalence in the labour market of men, who tend to have higher educational attainment.

As regards the geographical distribution of unemployment, it can be said that although unemployment is pervasive all over the country it tends to be higher in the central and northern regions than in the coastal region, where it is only 24.8%, ie around 20% lower than the national average. Unemployment is particularly high in the capital, Podgorica, where it reaches 34.2%.

Some groups face particular challenges in the Montenegrin labour market: the RAE, refugees and IDPs. Although officially the number of Roma in Montenegro is tiny (0.4% of the total population according to the latest census), it is estimated that up to 20,000 RAE live in Montenegro, many of them refugees from Kosovo.<sup>40</sup> This would represent around 3% of the population. According to a survey carried out by the Institute for Strategic Studies and Prognoses (ISSP) in 2003, the employment rate among the Roma is only 10.8%. Most RAE work as farm labourers or rubbish collectors, many of them in the informal economy. The unemployment rate among RAE is 43%. Although they are likely to be poor too, the labour market situation for refugees and IDPs is slightly better than for the RAE. In 2003 around 13,000 refugees lived in Montenegro, most of them from Bosnia and Herzegovina and Croatia, as well as around 10,000 IDPs from Kosovo. The unemployment rate for refugees was 32.5% in 2003 and for IDPs 30.4%.

Employment in the informal economy has been estimated at 45,000 to 65,000 workers.<sup>41</sup> This figure represents between a quarter and a third of total employment and it approximately coincides with the difference between registered employment and employment as measured by the LFS.<sup>42</sup> It is estimated that around 60% of informal employment actually occurs in formal settings, i.e. in registered enterprises. The remaining 40% of informal employment is found in agriculture, handicrafts, petty trade, transport and construction. Typically, the workers concerned are slightly less qualified than the average employee, but their net pay tends to be higher (by around 30%) on account of tax evasion.

### **3. Identification of main priorities for employment policy**

#### **3.1. Design, monitoring and evaluation of employment policies**

Labour market policies can improve employability, ease transitions in the labour market, contribute to better matching of demand with supply and help reintegrate vulnerable groups. But employment can be increased only through economic growth and job creation. As already

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40. UNDP (2003), *Household Survey of Roma, Ashkaelia and Egyptians, Refugees and IDPs in Montenegro* and World Bank (2005), *Poverty, Social Exclusion and Ethnicity in Serbia and Montenegro: The Case of the Roma* investigate the situation concerning these population groups.

41. In the period from December 2002 to February 2003, research on the informal economy and unprotected work was conducted by a team of researchers (Milivoje V. Radović from the Faculty of Economics, Ratko S. Bakrač from the Employment Agency of Montenegro and Dragan Đurić from the Centre for the Development of Industrial Democracy) for the Confederation of Independent Trade Unions of Montenegro. Another study was published by D. Đurić and M. Radović in 2004: "Case Studies of Illegal Work", *South-East Europe Review*, 3/2004, pp. 45-68.

42. As already mentioned, the current LFS questionnaire does not contain any question that would help measure informal employment. This is why the figures need to be treated with caution. For more information on how to review the LFS questionnaire so as to take account of informal employment, see Hussmanns, R., *Measuring the informal economy: from employment in the informal sector to informal employment*, ILO, 2005.

mentioned in this report, the Development and Poverty Reduction Strategy has as its first objective to create conditions for self-sustaining and equitable economic growth so as to reduce the proportion of the economically vulnerable in the population. The main means of achieving this objective are: i) creating a stable macro-economic environment for dynamic economic growth while ensuring the private sector plays a crucial role; ii) harmonisation of legislation and policy with the EU; iii) promotion of Montenegro's potential, especially in areas where Montenegro holds a comparative advantage by means of a set of proactive policies for creating employment opportunities, with special emphasis on employment options for disadvantaged groups; and iv) protection of the environment and sustainable management of resources.

There is awareness in Montenegro of the need to make job creation an objective of general economic policies. The DPRS recognises that "*reduction of the level of unemployment and unprotected labour is a long-term and complex socio-economic process and, as a rule, includes a whole range of systemic measures*".<sup>43</sup> But to date no global employment strategy has been formulated to address this challenge; specific programmes have been developed and labour law reforms carried through but not as part of a comprehensive strategy for employment promotion.<sup>44</sup>

Even though the DPRS has developed a vision and an action framework with objectives capable of meeting the employment challenges, the government needs to formulate a national employment strategy. This should be a responsibility of the Ministry of Health, Labour and Social Welfare, acting in full consultation with the social partners and other ministries so as to make clear the government's desire actively to put employment at the centre of economic and social policies.

The government – and more generally the state – cannot ignore employment issues because the challenge is growing and there are considerable risks to the balance and cohesion of society. There is thus a need to find ways of speeding up employment growth in the short term, helping the most vulnerable enter employment, and promoting equal employment opportunities. These short- to medium-term needs call for proactive government action, which must be more concrete and closer to economic and social actors in the country. It goes much further than choices and efforts pertaining to the economic growth profile.

Employment strategy provides the means of and framework for choosing and defining appropriately proactive orientations and interventions. It makes it possible to develop specific conditions favouring employment creation. It establishes intervention and/or assistance machinery as well as action programmes. It addresses specific employment-access problems of particular social groups. In other words, through employment strategy government not only sets strategic objectives but also becomes an agent of change through concrete operational pushes. It is fully engaged in responding better and faster to employment problems. The box below highlights the main employment policy instruments of both the ILO and the EU.

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43. Government of the Republic of Montenegro, *Poverty Reduction Strategy Paper*, op. cit. p. 21.

44. In April 2003 the government adopted two employment programmes, *Legalisation of Existing Jobs and Job Creation* and the *Program of Restructuring of Enterprises and Support to Development of Institutions* as specified in the Agenda of Economic Reforms adopted in March 2003, which aims at (a) supporting economic growth with the private sector playing a decisive role, (b) addressing the problem of informal employment and reducing the extent of illicit work, and (c) job creation.

### Box 1: ILO and EU instruments on employment promotion

The main international instrument for employment promotion is the ILO Employment Policy Convention, 1964 (No. 122) This calls on ratifying members to “declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment”. The general principles of active employment policy are further developed in Employment Policy Recommendation, 1964 (No. 122) and Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169).

The European Employment Strategy (EES) of the European Union is an integrated employment policy approach centred on “employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion”. Countries are guided in establishing common objectives articulated around three areas (attract and retain more people in employment, increase labour supply and modernise social protection systems; improve adaptability of workers and enterprises; and increase investment in human capital through better education and skills).

Both the ILO convention and the EES pay particular attention to consultation with the social partners in designing employment policies. In particular, C122 stipulates that “*representatives of the persons affected by the measures and in particular representatives of workers and employers shall be consulted concerning employment policies with a view to taking fully into account their experiences and views*”. The EES Employment Guidelines assign responsibility to the social partners in the area of labour market policies, including negotiation of collective agreements, work organisation and flexibility.

Source: <http://www.ilo.org/ilolex> and [http://europa.eu/pol/socio/index\\_en.htm](http://europa.eu/pol/socio/index_en.htm)

Availability of labour market information is crucial to the design, monitoring and evaluation of employment policy. There are three main sources of labour market statistics in Montenegro: the annual Labour Force Survey (LFS) and decennial census data (both produced by MONSTAT), and the Employment Agency’s administrative data. The health insurance records also provide very accurate data on the number of employed persons. Other sources of data are *ad hoc* surveys conducted by the Institute for Strategic Studies and Prognoses (ISSP).

Even though there is a relative wealth of statistical information, the data available have a number of limitations. First, the statistical institute is slow in processing the data collected. The latest LFS was conducted in October 2005 by MONSTAT – except for the sampling, which was done by experts from Serbia – and the results were published in June 2006. Second, there is a lack of information on the informal economy. Some estimates are based on LFS and EAM data, but no proper research has been conducted on the topic.<sup>45</sup> Third, the ISSP surveys are not detailed enough and cannot be used to calculate labour market indicators. Fourth, the not surprising divergence between the data published by the EAM and those published by MONSTAT has led to a debate in the country about the most reliable source of labour market information, rather than to the purpose of different sources and their integrability.

The EU helped MONSTAT with the LFS. However, staff proficiency in LFS sampling methodology and labour market data analysis requires reinforcing. Assistance in conducting a survey on the informal economy is needed. Finally, a labour market information system bringing together all data producers should be set up to produce at least annual reports on the employment situation as well as to develop the indicators necessary for monitoring and evaluating employment and labour market policies.

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45. Available research is confined to the study commissioned by the Confederation of Independent Trade Unions of Montenegro and to the paper by D. Đurić and M. Radović in 2004.

## Recommendations:

- *A national employment strategy should be prepared by the Ministry of Health, Labour and Social Welfare in close co-operation with the social partners as well as with other specialist ministries and the Employment Agency of Montenegro. This strategy should be designed to meet national conditions and practices and should take into account the interconnections between employment objectives and other economic and social objectives.*
- *A national labour market information system (NLMIS) should be set up within the Ministry of Health, Labour and Social Welfare so as to network all producers of labour market data. The NLMIS would be in charge of the monitoring and evaluation of employment and labour market policies.*
- *MONSTAT's technical capability in the sampling field needs strengthening. It also needs greater operational capacity so as to be able to either conduct a full two-yearly survey of the informal economy or to include specific questions relating to the informal economy in the annual LFS.*

### 3.2. Employment-protection legislation and labour market flexibility

Employment-protection legislation (EPL) has a variety of effects on employment and productivity, some favourable and some unfavourable.<sup>46</sup> The primary objective of EPL is to give workers – especially those belonging to vulnerable groups – more employment and income security, both in their current jobs and in the event of redundancy. A widespread criticism of strict EPL holds that it leads to a segmentation of the labour market between insiders and outsiders. Insiders are those workers who enjoy the benefits of EPL because they have well-protected jobs. Outsiders are those who have irregular jobs that are not subject to EPL or who have no job at all. Strict EPL is thus said to help create a pool of long-term unemployed who have very little chance of obtaining regular jobs. This is particularly detrimental for labour market entrants (most of whom are young), who are outsiders by definition and who will find it very difficult to enter employment in a labour market that is segregated along insider-outsider lines. Another more subtle possible negative effect of strict EPL is that it might allow insiders to push up their wages, which could either lower total employment or contribute to inflate the informal economy. Strict EPL might also make it less likely for employees to leave well-protected jobs in search of better-paying ones. This might reduce the matching efficiency of the labour market and thereby overall productivity. On the other hand, strict EPL makes workers feel more secure, which has socially desirable effects, such as improved physical and mental worker health. Since stricter EPL increases average tenure, it also increases the potential benefits which employers can reap from investing in human capital. This increases the overall productivity of labour in the economy.

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46. EPL refers to the regulatory provisions concerning “hiring and firing”, particularly those governing unfair dismissals, termination of employment for economic reasons, severance payments, minimum notice periods, administrative authorisation for dismissals, and prior consultations with trade union and/or labour administration representatives.

## Box 2: Changes made to the employment-protection legislation

### Notice period

Law in force	Until July 2003 Art. 53 Labour Law (Official Gazette, No. 29/90)	As from July 2003 Art. 114, Labour Law (Official Gazette, No. 43/2003)	2005 amendments Labour Law (Official Gazette, No. 25/06)
Minimum notice period	30 days	30 days	No changes concerning the topic
Maximum notice period	6 months	3 months (for redundancies only)	

### Severance payments

Law in force	Until July 2003 Art. 36 Labour Law (Official Gazette, No. 29/90)	As from July 2003 Art. 17 Labour Law (Official Gazette, No. 43/03)	2005 amendments Article 4 Labour Law (Official Gazette, No. 25/06)
Lowest amount of severance payment	24 wages in the enterprise on the previous person's job	6 average monthly wages – minimum defined by law; may be supplemented in line with collective agreement	For workers with disability only: 24 average monthly wages (work-related injuries or diseases)
Highest amount of severance payment			For workers with disability only: 36 average monthly wages (for work-related injuries or diseases)

The positive and negative effects of EPL differ according to the economic and social situation. There is thus no clear optimum EPL level and every country needs to find its own optimal level. In transition economies, where regulations were very strict before the change of regime and the speed of economic change is high, lowering the level of EPL was necessary to allow enterprises to adjust to the environment of a market economy. However this is only socially feasible if workers who lose their jobs because of the lower protection level receive sufficient income support (eg in the form of unemployment benefit) and are given opportunities to adapt their skills to changed labour demand.

In Montenegro both the 2003 Labour Law and the 2003 general collective agreement provide much more flexibility in labour relations than did the previous, 1990 legislation, which was in the spirit of the Yugoslav economy with its predominantly socially-owned enterprises (see Box 2 above). The Labour Law lays down standard provisions for dismissal on employee-related grounds (misconduct, etc.). An employer who wants to dismiss workers for economic reasons is obliged to notify the employee, the labour fund and the trade union three months in advance and to give information about the redundancies. An employer laying off more than five people must offer the redundant workers a redeployment or re-training programme. If this is not possible, the employer is obliged to pay six average monthly wages to the workers made redundant. For less than five workers made redundant, the employer proceeds directly with severance payments.<sup>47</sup>

47. Art. 117 (3) of the Labour Law makes it difficult to dismiss workers with disabilities, although the provisions have been relaxed by amendments to the Law in 2005. An estimated 11% of the workforce is disabled in Montenegro. It might thus be necessary to debate at the tripartite level whether this dismissal cost should be more equally shared between the social safety net and the employers so as to give the latter an incentive to hire people with disabilities.

**Table 2: Ease of employing workers (2006)**

Indicator	Montenegro	Region	OECD
Difficulty-of-hiring index	33.0	34.2	27.0
Rigidity-of-hours index	40.0	50.7	45.2
Difficulty-of-firing index	30.0	37.1	27.4
<b>Rigidity-of-employment index</b>	<b>34.0</b>	<b>40.8</b>	<b>33.3</b>
Hiring cost (% of salary)	16.1	26.7	21.4
Firing costs (weeks of wages)	39.0	26.2	31.3

Note: the rigidity-of-employment index is an average of the other three indices.

Source: *Doing Business in Montenegro, The World Bank, 2006*

Table 2 sheds some light on EPL in Montenegro. As can be seen, the overall index of employment rigidity is similar to that of OECD countries and lower than the average index for the region. Two observations can be made on the current EPL. First, the cost of severance payments – an index which is higher than that of OECD and other countries in the region – is independent of the time a worker has spent with the enterprise, so it is relatively more costly to dismiss newly hired workers, which gives an incentive to dismiss workers with longer tenure, which in turn is potentially bad for productivity. It also makes it quite risky to hire workers in the first place, because as soon as the probation period is over they are entitled to the full severance payment in case of dismissal. It would be better to let the amount of the severance payment increase with tenure.

Second, the 2003 Labour Law shifts the costs of dismissals onto the employer. In OECD economies a large part of that risk is carried by the state through income support in the event of unemployment (unemployment benefit) and measures to help workers find a new job (active labour market policies). In Montenegro, however, the state pays very little unemployment benefit and thus the employer has to shoulder the task of providing income support to the unemployed by paying high severance payments. The employer also has to provide training measures and job brokerage as part of the redundancy programme, a task which is usually carried out by the public employment service.

The same law also allows atypical forms of employment but regulates them. Part-time work, for instance, is not allowed for less than 10 hours per week (Art. 39); multiple employment totalling more than 40 hours per week needs the consent of the main employer (Art. 38); temporary work is only allowed for a well-defined range of occupations or in extraordinary situations (Art. 14). The actual occurrence of atypical forms of employment in Montenegro is higher than in many other South-East European countries, probably not least because of the seasonal character of many economic activities in the country. Non-permanent forms of employment such as temporary, seasonal or periodic work account for 13.2% of total employment. Part-time work is also less uncommon than in neighbouring countries: 7.5% of all employees work part-time (the figure is slightly higher for women, at 9.1%). Atypical forms of employment can increase the efficiency of the labour market both on the demand and on the supply side. They allow enterprises to cope with temporary changes in market conditions without making changes in the workforce. They also allow workers to strike an optimum balance between work and other realms of life, such as family responsibilities.

An important feature of Montenegro's labour market is the large proportion of employment provided by the informal economy. It represents between a quarter and a third of total employment in the country. Employing workers informally allows employers to avoid administrative burdens and undercut competition – albeit unfairly. For workers, informal employment is often the only job opportunity in an economy with widespread unemployment. In the short term, informal employment and avoidance of social security contributions and taxes bring monetary advantages to both the employer and the worker. The medium to long-term consequences of informal employment for the economy and society are manifold. For enterprises, competitiveness based solely on price competition becomes difficult to maintain, due to the increasing globalisation of markets. Tax evasion increases the pressure on the public budget and, consequently, the tax burden placed on formal enterprises. Unfair competition can force enterprises out of business, putting further pressure on the labour market. Informal employment deprives workers of employment protection and rights at work and thus exerts downward pressure on labour standards in general. In addition, general avoidance of social security contributions means that costly safety nets have to be provided in order to cover the needs of informal workers when they reach retirement age.

According to both official statistics and the ISSP data, regular earnings are very low and barely meet 40% of the population's consumption needs. As already mentioned, this indicates that a significant part of the population is faced with a high poverty risk and has to resort to additional income through the informal economy. The data of the ISSP show that around a third of household expenditure in Montenegro is met from income earned in the informal economy.<sup>48</sup> According to the same research, 42% of average net earnings are obtained through the informal economy.

In order to reduce informal employment and create new jobs, the government introduced tax exemption measures in 2003. For all employees hired for a period of at least two years between April 2003 and December 2004, employers could deduct from their taxes the wage cost of such employees as well as the employer's share of social security contribution. The latter was also lowered for the workers concerned. Although there are no data on the impact of these measures, the government estimates that some 30,000 employees working in the informal economy were "formalised" and about 5,000 new jobs were created.<sup>49</sup> Another measure introduced a low lump-sum tax of €2.50 per day for non-resident workers, which led to the registration of around 50,000 non-resident workers and generated additional tax revenue. Most recently, large reductions in personal income tax rates were announced. A flat rate of 15% will be applied from 2007, which will fall to 9% by 2010.

### **Recommendations:**

- *The overall rigidity of employment in Montenegro is lower than in other countries in the region and comparable with that of OECD countries. Some of the Labour Law provisions concerning dismissal costs are still too rigid. However, the law should only be made more flexible if workers are compensated for the attendant loss of security by better income protection in the event of unemployment and by effective re-employment assistance. Reform of the Labour Law should be carried out in close co-operation with the social partners.*

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48. ISSP, *Survey on household expenditures in Montenegro*, 2003.

49. World Bank, *Montenegro Economic Memorandum*, Washington, DC, 2005, op. cit., p. 27.

- *Many of the high costs of dismissals are due to the fact that the state does not yet provide an effective safety net or appropriate measures to help unemployed workers find suitable new jobs quickly. The state should gradually take over these tasks from the employers through active and passive labour market policies.*
- *Other regulations concerning work organisation should be implemented by collective agreements, which should also be negotiated at regional, branch and enterprise level and be open to adjustment more often than the general collective agreement. This would allow the social partners to strike a balance between flexibility and the degree of security which they consider appropriate without compromising the legitimate interest of either party.*
- *Measures to tackle the informal economy need to remain high on the Montenegro government's agenda. Informality matters because it deters investment and productivity. Enterprises need to be convinced that it is in their interest to comply with their obligations. The government could consider adopting a two-pronged approach with measures to encourage enterprises to put themselves on a formal footing and with improved administration of penalties for non-compliance, especially in those sectors that employ most women and young people (trade and other services). This approach would simultaneously: i) promote formalisation of enterprises operating at the "border" of the formal economy without driving them out of business, and ii) firmly suppress activities that are intolerable and illegal.*
- *The level and forms of participation in the informal economy differ according to the gender and ethnic origin of the worker. Any strategy aimed at reducing the incidence of informal work in total employment must examine and address gender and ethnic patterns of informal work and the underlying causes.*
- *In order to extend employment protection to all workers, the informal economy should be reduced. Revising some of the labour regulations as suggested above will in itself reduce the incentives to hire employees outside the formal economy. Tax provisions might also be reviewed in order to reduce those incentives. It is necessary, however, to strengthen labour inspection considerably and credibly threaten employers with penalties if they hire workers informally. Otherwise employers still have an incentive to engage in informal agreements even if regulations are flexible and taxes are low, because they can save on labour costs by not paying any taxes or contributions at all for their informally employed workers.*

### **3.3. Human resources development and training**

#### **3.3.1. Education**

Adult literacy levels in Montenegro are quite high and compare favourably with those of other European countries. In 2004 approximately 97.5% of the adult population were able to read, write and make basic calculations. Official estimates on youth literacy, which is used at international level as a proxy for assessing country progress toward the achievement of Millennium Development Goal 2 (MDG2), recorded a 96.33% rate for the year 2005 (see

table below), although other sources report a rate of 99.4%<sup>50</sup> with a gender parity index (GPI) of 1.00.<sup>51</sup> Some challenges still remain if the government is to meet its commitment to achieving universal primary education by 2015. Illiteracy is higher among the female adult population and extremely high among the RAE. In 2004, women represented 63.5% of illiterate people.

**Table 3: Literacy rates, youth (15-24) and adult (15+) population by sex for 2004**

	Total (%)	Male (%)	Female (%)	GPI
Adult literacy rate	97.5	99.20	95.90	0.97
<i>Adult literacy rate – Europe average</i>	98.9	99.2	98.6	0.99
Youth literacy rate 2005 est.	96.3	n.a.	n.a.	n.a.
<i>Youth literacy rate – Europe average</i>	99.6	99.6	99.7	1.00

Source: UNESCO's Institute for Statistics, at <http://stats.uis.unesco.org>; for the estimate of the youth literacy rate see: Republic of Montenegro, *A report on the progress towards the achievement of the Millennium Development Goals in Montenegro*, op. cit. and for adult literacy rate: UNDP, *Human Development Report for Montenegro, Diversities: potential for development*, Statistical annex, Podgorica, 2005.

Table 4 shows that the net enrolment ratio – which measures the proportion of children enrolled in school, expressed as a percentage of the age group – has been slowly increasing since 1990. When compared with school attendance or completion ratios, the net enrolment ratio provides some information about school dropout.

**Table 4: Basic education in Montenegro: MDG indicators for 1990-2015<sup>52</sup>**

Indicator	1990	2000	2005 est.	2015 target
6. Net enrolment ratio in primary education	96.0	96.9	97.6	99.0
7. Proportion of pupils starting grade 1 who reach grade 5	92.9	93.8	94.2	95.0
8. Literacy rate of 15-24 year-olds	90 est.	95.0	96.33	99.0

Source: Republic of Montenegro, *A report on the progress towards the achievement of the Millennium Development Goals in Montenegro*, op. cit.

Extremely low enrolment rates – compounded by very high school dropout rates – for young RAE and, to a lesser extent, IDPs bring down the overall basic education figure for Montenegro (see Figure 7 below).<sup>53</sup> Although there are no precise figures, the government reports high illiteracy among the RAE (76% in 2002). About half of them speak the language

50. For Serbian and Montenegro see data provided by the UNESCO Institute for Statistics at <http://stats.uis.unesco.org>

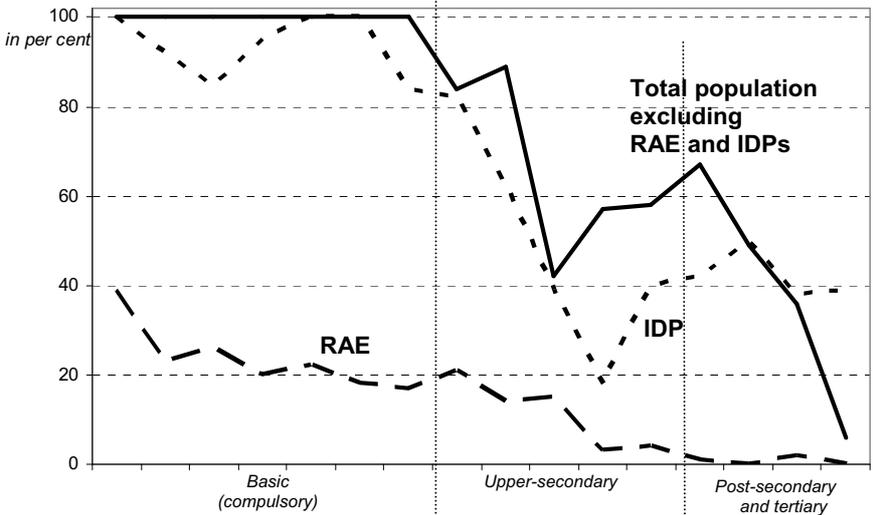
51. The gender parity index (GPI) refers to the value of an indicator for women divided by that for men. In the specific case, a value of less than one indicates differences of literacy and education in favour of men, whereas a value near to one indicates that parity is being achieved.

52. The government of Montenegro has added three indicators to those required for MDG reporting: i) the net enrolment ratio for Roma children attending elementary education; ii) the net ratio of children with special needs attending elementary education; iii) the ratio of pupils enrolling to pupils completing elementary education. However, data on these additional indicators are not yet available.

53. OECD, *Reviews of national policies for education: South Eastern Europe*, Paris, 2003, pp. 197-264.

of Montenegro and only 7.1% attend school.<sup>54</sup> At the pace currently estimated by the government for reaching the 2015 target (i.e. an annual improvement of 0.37%), illiteracy among the RAE cannot be eradicated until the year 2115. To put it differently, growth in RAE literacy rates would have to be 10 times higher to reach the target by 2015.<sup>55</sup> This finding points to a need for alternative approaches to boosting literacy in all RAE and IDP age groups.<sup>56</sup> Sex-disaggregated data on MDG2 indicators are only available for Serbia and Montenegro together.

**Figure 7: Education enrolment ratios in 2002**



Source: Author’s calculation based on C. Bodewig, A. Sethi, *Poverty, social exclusion and ethnicity in Serbia and Roma*, op. cit.

Reform of the Montenegro education system started in 1999. The main features of the system are highlighted in *The Book of Change*, a white paper issued by the government in 2001.<sup>57</sup> This sets the framework for the whole education and training system, from pre-schooling to adult training and lifelong learning.<sup>58</sup> In 2002 a general law on education was adopted together with a number of laws on pre-schooling, elementary education, gymnasiums, secondary vocational education and adult education. A law on education of children with special needs was passed in 2004. The above-mentioned policy document sets out the principles underpinning gradual introduction of the new education policy. These include universal access to quality education, application of European standards, flexibility and decentralisation of the system, horizontal and vertical integration of educational paths, recognition of prior learning, and lifelong learning. All these principles are important for building an employable workforce, and also assist personal development and active citizenship. There is wide international evidence that a solid, quality education is one of the main determinants of young people’s and adults’ employment outcomes.

54. Republic of Montenegro, *A report on the progress towards the achievement of the Millennium Development Goals in Montenegro*, op. cit.  
 55. UNDP, *At risk: Roma and the displaced in Southeast Europe*, Bratislava, 2006.  
 56. The Workers’ and People’s Universities are the institutions responsible for providing remedial adult education. There are currently three institutions of this type in the main cities of Montenegro.  
 57. Ministry of Education and Science, *The book of changes of the education system of the Republic of Montenegro*, Podgorica, 2001.  
 58. The *Book* uses the term “adult education” to refer to formal adult education and non-formal and informal adult learning.

Table 5 below gives a snapshot of the current education system. The national classification of education does not follow the International Standard Classification of Education (ISCED). For international comparison purposes the education structure has been matched with the main ISCED levels.

**Table 5: Montenegro’s education system at a glance (2003-2004)**

ISCED	National classification
0	<b>Pre-primary education</b> , starting at the age of 3 and lasting 4 years. Childcare is available for children aged between 0 and 3. In 2004, a total of 11,761 pupils (around 20% of the age cohort) were enrolled in pre-primary education provided by 82 schools.
1 and 2	<b>Basic compulsory education</b> , extending over 8 years, consists of 4 years of <b>primary education (ISCED 1)</b> , starting at the age of 7, and 4 years of <b>lower secondary education (ISCED2)</b> . In 2004, there were 459 elementary schools with 72,998 students (GPI 0.93), while nearly 23% of the population aged 15 and over had completed basic education in 2003.
3	<b>Upper secondary education</b> starts at the age of 15. It consists of three streams: general secondary (grammar), vocational education (lasting 4 years) and occupational education (lasting 3 years). Approximately 70% of students enrolling in upper secondary education take the vocational education and occupational streams. A total of 30,906 students were enrolled in the existing 46 secondary education institutions in 2004 (GPI 1.02). 48.4% of people aged 15 and over (238,671) had completed secondary education in 2003.
4	<b>Post-secondary education</b> lasts two years and is provided by the universities. In 2004, there were 1,074 students attending higher school. The number of people aged 15 and over who had completed post-secondary (non tertiary) education in 2003 totalled 24,822 (GPI 0.60), which is 5.04% of the reference group.
5 and 6	<b>Tertiary education</b> includes <b>full university studies (ISCED 5)</b> lasting from 4 to 6 years and <b>post-graduate specialisation (1-2 years)</b> or Master of Art or Science followed by doctoral thesis ( <b>ISCED 6</b> ). In 2004 there were 17 faculties enrolling 9,937 students (GPI 1.68). Those aged 15 and over who had attained university education in 2003 were 37,017 or 7.5% of the same age group.

Source: Elaboration of data from MONSTAT, 2003 Census and 2004 education data from *2005 Statistical yearbook*, op. cit.

The expression “from cradle to grave”, used to emphasise the importance of learning throughout an individual’s life, is indicative of the impact on future education and, ultimately, on labour market outcomes which international research ascribes to pre-primary education. It is at this stage that the foundations for employability are laid. In addition, the more children there are in pre-primary education the easier it is for parents to combine family responsibilities with work. These implications may be of importance to the achievement of employment targets, especially as regards women, and to promoting investment in human capital through better education and training.

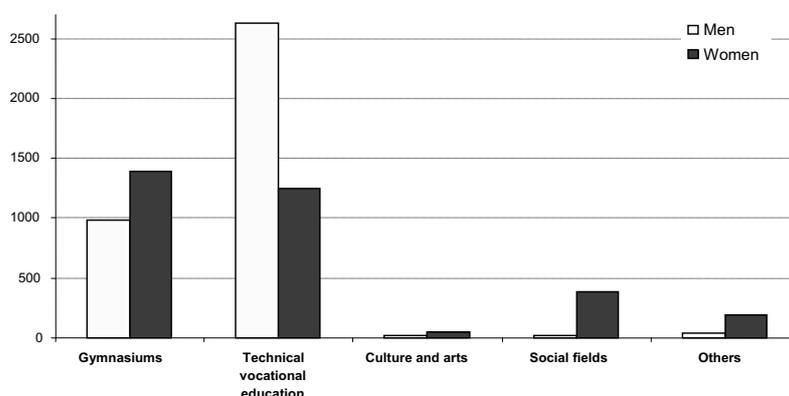
Apart from issues of RAE and IDP access, overall educational levels classified as ISCED 1 and 2 seem to be moving ahead, although implementation is experiencing some pitfalls, especially in terms of teaching methodologies.<sup>59</sup>

Compared with the regional average, enrolment ratios by educational level in 2004 were rather low for pre-primary (20% of the reference age-group) and tertiary education (around 9% of the total population of students). There are no significant gender differences in enrolment ratios, except at the post-secondary level (six women to every ten men) and university (almost 17 women to every 10 men). For upper secondary education, the gender index shows total parity, though young women do favour grammar schools more than young

59. The government is currently engaged in extending the reform to take in more primary and general secondary schools. The US\$5 million loan from the World Bank for the period 2005-2009 includes a capacity-building component for the preparation, implementation and monitoring of the programme’s budget.

men (see Figure 8). Some of these figures hold a number of implications for the labour market.

**Figure 8: Students enrolled by secondary education stream and by sex (2003)**



Source: data derived from MONSTAT, *2005 Statistical Yearbook*, op. cit.

Today graduate women outnumber graduate men although the employed female-to-male index in 2005 was just above 1.<sup>60</sup> A deeper analysis would be required to determine whether improved rates for women in tertiary education are paying-off in the labour market and whether women are having to offer higher educational qualifications than men in competing for a given job. Data for 2003 show the numbers graduating as equal to 10% of numbers enrolling in the same year. This very low figure indicates that some of the changes envisaged in the tertiary-education chapter of the *Book* have not yet materialised.<sup>61</sup>

It is too early to gauge the labour market impact of newly introduced reforms. With another 57 countries, Montenegro is taking part in the 2006 OECD Programme for International Student Assessment (PISA).<sup>62</sup> This assessment tests cross-country quality education for 15-year-olds and their preparedness for work and life. The results of the performance of the Montenegrin education system will be known later in 2007.

### **3.3.2. Vocational education and training and lifelong learning**

The vocational education and training (VET) system is largely still in the making. Many schools have been refurbished and re-equipped, some of them are piloting new approaches and curricula, others are introducing occupational standards and a few are testing apprenticeship training and the “dual system” model.<sup>63</sup> Taken together, the main features of the VET are reminiscent of the system that was common to all the republics of former Yugoslavia – time-based programmes designed for a fixed set of occupations, supply-driven and ill-adapted to labour market requirements. Most of the programmes are still theory-based and do not provide practical skills.

The 2001 reform gives central importance to vocational education. Adult training borrows many elements from vocational education, although it also has some distinctive features. The

60. 2005 LFS, Table 5.

61. MONSTAT, *2005 Statistical Yearbook*, op. cit.

62. Besides testing reading, mathematics and problem-solving, the third PISA assessment (2006) will focus specially on scientific knowledge. For more information see <http://www.pisa.oecd.org>.

63. The EU helped the government of Montenegro to set up the VET policy, develop occupational standards and refurbish a number of VET schools. The project was implemented in 2001-2005 and totalled €6.1 million.

system is governed by two separate laws that are implemented under the supervision of the Council for Vocational Education and the Council for Adult Education, which provide advice and define the overall input of VET. These two councils have a tripartite composition with the Ministry of Education taking the lead, the Ministry of Labour playing an advisory role and the Employment Agency providing expertise –especially to the Council on Adult Education. The councils are complemented by the Centre for Vocational Education, which is the technical body responsible for VET organisation, including standard-setting, curriculum development and training of teachers and trainers. The government is working on a bill to introduce a national qualifications framework (NQF). Although the content of the bill is not yet finalised, it is hoped that an *ex ante* cost-benefit analysis will be conducted to assess the existing institutional set-up and align it with the needs and resources of a small country such as Montenegro.<sup>64</sup>

VET currently attracts as many as 75% of secondary-education students (just under 59% of them are boys and just over 41% girls) and they take vocational education for a period of three years – not giving access to higher education (vocational training) – or four years (vocational education) with the latter offering the option to enter post-secondary education. The *Book of Change* keeps the vocational education and vocational training streams separate, with no opportunities of transferring from one to the other. The system provides training in 11 main occupational areas. Statistics on education do not provide any breakdown by occupation, although EAM data report around 80 occupations as in greatest demand by employers.

The chart below shows the distribution by sex of enrolled students in 2003. Tourism, economics and law are the most popular areas of study for 76% of girls enrolled in VET. Female students are also in the majority in chemistry and there are no male students in textiles. Half of the boys are enrolled in the two clusters of electrical and mechanical engineering, while more than 39% of them take subjects relating to tourism (20%), transportation (9.5%), agriculture (3.6%) and construction (3.4%). A final 12% of them study economics and law. These figures show some gender stereotyping, which – as noted in the labour market section – reverts to gender segregation in employment and occupation. RAE and IDP participation in VET is negligible.<sup>65</sup> There is a serious dropout problem among the Albanian-speaking minority between basic and secondary education, with almost half not going on to secondary education.<sup>66</sup>

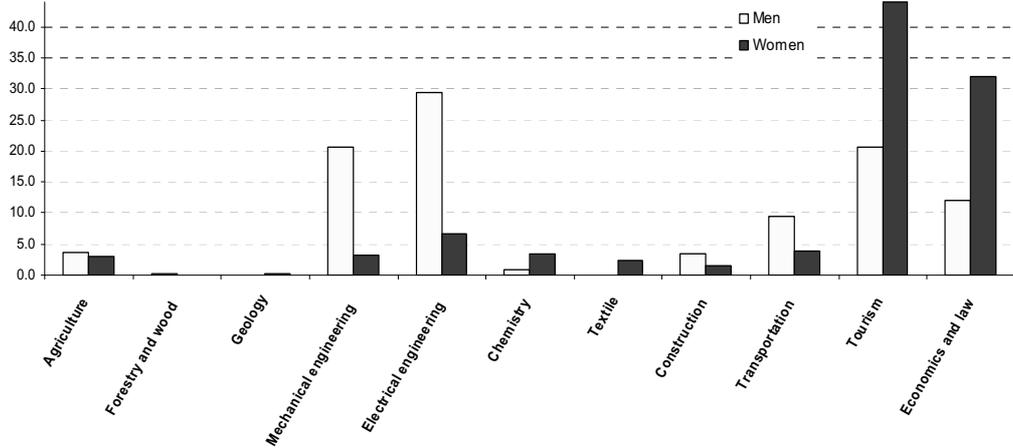
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64. For more information on country experience of NQFs see Young M., *National Qualifications Frameworks: Their feasibility for effective implementation in developing countries*, ILO, 2005. An online information database on NQFs is available from [www.ilo.org/skills](http://www.ilo.org/skills).

65. UNDP, *National Human Development Report*, Podgorica, 2005.

66. *OECD Education Review*, Paris, 2003.

**Figure 9: Students in secondary vocational education by occupational area and sex (2003)**

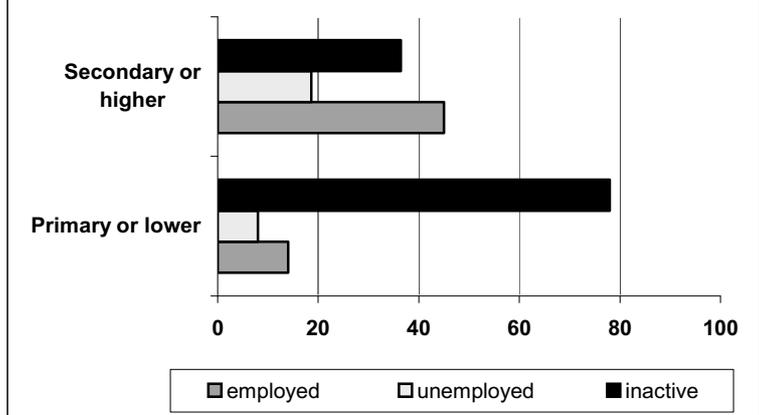


Source: data derived from MONSTAT, 2005 Statistical Yearbook, op. cit.

The relevance of VET outcomes to labour market requirements is rather mixed. While Montenegro seems to confirm the international trend of “the less education and training the more unemployment”, there are a number of factors that need clarifying for a better understanding of VET performance.

The fact that the educated unemployed outnumber the unemployed with only primary education should be read with caution to avoid the misconception that education and training do not matter much in Montenegro’s labour market. In a country where inactivity rates are extremely high, the working-age population (i.e. employed and unemployed together) is a more relevant consideration than the labour force. The fact that the employment rate for workers with secondary and higher education is almost four times that for workers with primary or lower education (45 and 14% respectively) powerfully suggests that the policy should be to invest in education and training. Similarly, inactivity affects 78% of those with primary or lower education compared with 36.4% of people with secondary and higher education.

**Figure 10: Labour market status of working-age population by educational level, 2005**



Source: data derived from 2005 LFS, Table 5.

A serious skills mismatch is apparent when we compare occupations in the same occupational area. The aggregation level means education statistics are of little help here. However, the detailed data collected by the EAM show that within the same occupational area there are

unfilled vacancies for certain jobs and many unemployed workers elsewhere. This is indicative of the narrow content of VET, in contrast with broad competency-based training that meets the requirement of adaptability and flexibility in a rapidly changing labour market. Non-vocational abilities are still not part of VET programmes although highly sought after by enterprises in many countries (i.e. core work skills such as communication skills, problem-solving, team-work). These are skills that allow workers to move across occupations and industries.

VET staff seem largely unable to develop employment-oriented and competency-based training programmes. Approximately 120 occupational standards have been developed for 4 occupational areas (agriculture, building construction, tourism and wood processing). Their implementation, however, requires that trainers be fully conversant with the competency-based approach.<sup>67</sup>

Last but not least, there are very few links between school and the world of work. As already mentioned, some attempts are being made to introduce apprenticeships. These pilot initiatives currently focus on two occupations. The dual system has performed quite well in the past – the low youth unemployment figures of the four countries that applied the dual system speak for themselves. However, the system is under pressure because it is too slow to adapt to the current pace of changes in technology and work organisation, and also because enterprises are less inclined to take apprentices than they used to be. In addition, application of the dual system outside its originating countries has not always been successful. It is important that Montenegro look at lessons learned and cost-benefit analysis in a number of countries that are introducing more flexible apprenticeship systems.

Although the above-mentioned reforms apply almost entirely to the training of adults, a number of specific issues relate directly to adult training. Adult training and lifelong learning in Montenegro are still in their infancy. The EAM is the only public institution delivering institution-based training to adults. This training is confined to a few occupations (eg building construction, tourism and IT). Further, most of this training is for the unemployed and there are very few examples of training for the employed (ie so called “training for known employer”). These programmes are described in the following section on employment services and active labour market policies.

It is important to stress that training for adults is quite different from training for pupils. There are specific methodologies and approaches that are more self-paced and learner-centred, build on prior experience and allow flexible entrance-exit at various points in the course of working life. None of these approaches is much used in Montenegro and the existing adult learning strategy points to a lack of qualified trainers for adults.<sup>68</sup> This indeed was one of the main findings of the CREP mission to Montenegro.

The design, monitoring and evaluation of enterprise-based training require urgent attention. Currently there are no indicators in place to measure achievement of training objectives and outcomes in publicly-sponsored training for adults. The monitoring work is purely based on administrative requirements. Training financed by enterprises seems to be rather limited and is mostly linked to introduction of new technologies. It is of the utmost importance that Montenegro start to deliver on adult training, especially in view of impending large-scale

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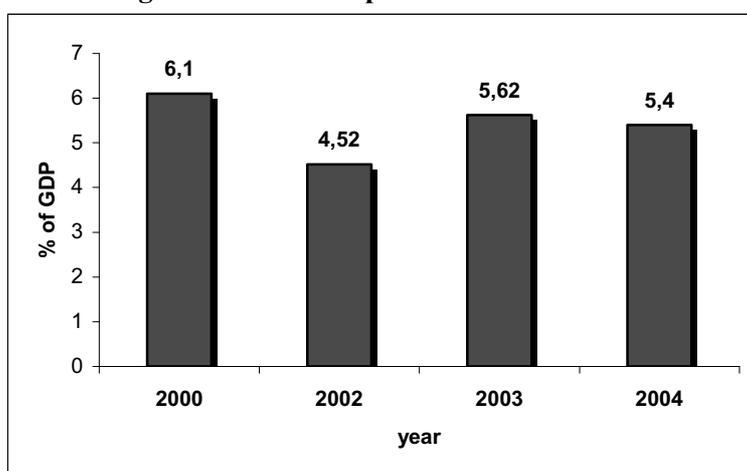
67. The new laws restate the importance of time-based as opposed to outcome-based programmes.

68. The adult learning strategy was adopted by the government at the end of 2005. Most of its provisions have not been implemented yet.

redundancies and its opening up to the global economy. The experience of the new central-European EU members shows that a skilled workforce becomes a priority for enterprises when deciding if and where to invest.<sup>69</sup> OECD countries' experience indicates that the state has a major role to play in sponsoring enterprise-based training for low-skilled and other vulnerable workers whose jobs are at risk.<sup>70</sup> For these groups, a system of financial incentives, including tax rebates and/or partial waiving of social contributions, could be justified.

As we can see in Figure 11, since the year 2000 public spending on education as a percentage of GDP has been kept at over 5%, which is higher than the regional average and in line with average spending in OECD countries. The government is committed to maintaining the current level of education spending until the year 2009.<sup>71</sup> Data on investment in adult training are only available for the programmes implemented by the EAM (see next section on active labour market policies). There is no information on investment by enterprises in workforce training and retraining.

**Figure 11: Public expenditure on education**



Source: The World Bank, Economic Memorandum, op. cit.

### Recommendations:

- *The government of Montenegro should introduce alternative approaches to improving literacy outcomes in all RAE and IDP age groups. Well-targeted programmes tailored to specific needs that combine remedial education with livelihood and work skills have proved successful in many countries. Early action also needs to be taken to increase enrolment rates and avert school dropout by children in these at-risk groups. Among the means that can be used to address low enrolment and early school leaving are parental counselling, awareness-raising within the community and education vouchers based on attendance.*
- *Access to pre-primary education should be improved. Wider availability of pre-primary education for children makes it easier to combine work with family responsibilities. It has also an impact on labour force participation by women. Pre-*

69. Rutkowski J. and Scarpetta S., *Enhancing job opportunities: Eastern Europe and the Former Soviet Union*, The World Bank, Washington, D.C., 2005.

70. OECD, *Employment outlook: Towards more and better jobs*, Paris, 2003.

71. According to several reports, salaries make up by far the largest part of education spending.

*primary education helps improve overall education and labour market outcomes in population groups vulnerable to social exclusion.*

- *The introduction of a National Qualifications Framework should be carefully appraised in terms of the existing institutional framework, of human and financial investment and of expected outcomes and their responsiveness to national needs.*
- *The introduction of apprenticeship and, more generally, of systems that link education and training with work experience should certainly be continued. In deciding which shape to give these approaches, the government could have regard to their cost-effectiveness and their appropriateness to national circumstances. The wide array of examples combining learning with work experience that have recently been introduced in many countries could be reviewed so as to determine the approaches that are better suited to Montenegro.*
- *It is crucial to ensure a gender-sensitive education and training system at all levels. Core messages on gender equality and human rights should be included in the curriculum and in teacher training programmes. Gender stereotyping, which encourages young women to train in traditional occupations – and prevents them from taking part in training programmes that could lead them to higher long-term earnings and better quality jobs – should be avoided.*
- *Efforts to ensure that education and training keep pace with changing labour market requirements should be maintained. A mechanism to improve links between work and learning should be put in place in co-operation with employment offices, schools, training institutions and the social partners. Specialisation should be reduced to ensure that students are not locked into narrow occupations that may become unwanted by the labour market. Core employability skills, as well as awareness of rights at work, should be included in the curriculum. The framework introduced in 2001 is an important step forward. Effective implementation of such legislation, however, remains a challenge and requires the development of policies and programmes that translate law into practice.*
- *Despite the profound changes in Montenegro's economy over the years, training and retraining of adults has been largely neglected. Obsolescence of skills could endanger many workers' jobs. The state urgently needs to promote adult learning and training, especially for low-skilled workers and long-term unemployed, and to monitor the quality and outcomes of public expenditure. Skills training is also important for improving productivity and promoting quality of employment, especially in the case of workers unable to find jobs except in the informal economy. The knowledge economy is at the forefront of the EU's economic development strategy and Montenegro should make every effort to remedy under-investment in adult training.*
- *Lifelong learning should be a key priority of Montenegro's education and training policy. Coherent strategies and practical measures, supported by appropriate methodologies, are crucial to promote lifelong learning and to make it accessible to all.*
- *Involvement of the social partners in the design and implementation of vocational education and training policies and programmes should be strengthened. Employers'*

*and workers' organisations can help identify the most appropriate forms of training for the job opportunities available. They can also help develop links between education and training and working life.*

- *Lack of data on vocational education and training, especially on investment in training by enterprises, makes it more difficult for policy makers to plan and design measures that can address high exposure to unemployment and social exclusion. Such information is essential for deciding how to introduce reforms in line with overall policy objectives, both in terms of efficiency and equity. Both MONSTAT and employers' organisations might consider introducing specific questions on investment in training in any payroll surveys they carry out or other surveys among entrepreneurs.*

### **3.4. Employment services and active labour market policies**<sup>72</sup>

#### **3.4.1. Employment services**

The Employment Agency of Montenegro (EAM) is a public institution that operates with autonomous legal status under the overall responsibility of the Ministry of Health, Labour and Social Welfare. The EAM's activities are steered by a tripartite governing board that was one of the first to be introduced in Montenegro. The administrative structure comprises a central directorate and a capillary network of seven employment bureaux and fourteen offices that cover the whole of Montenegro. The EAM has standing collaboration agreements with twenty-one municipalities and runs three vocational training centres. The Central Employment Directorate is divided into five departments (employment; research and development and self-employment loans; legal and general affairs; economic affairs and IT) and a unit dealing with human-resource development. At the end of 2005 the EAM had a total of 332 employees, 190 of whom were counsellors directly engaged in providing services to the unemployed, with a staff to unemployed ratio of 1:150 (quite favourable compared with the ratios found in other countries in the region).

In Montenegro there are two private employment agencies and four agencies specialising in placement of seafarers on foreign ships.

Access to employment services in Montenegro is universal – all jobseekers can use the public employment service provided that they register. Registration with the employment services gives access to a range of other benefits such as health insurance and child allowance. The EAM estimates, however, that as many as 30% of the registered unemployed are in fact working in the informal economy. The EAM has established a good platform for performing the core functions of a public employment service (job broking, administration of labour market programmes, provision of labour market information and administration of unemployment benefits).

Progress of the EAM's work has been remarkable in the last few years. Most of the reforms have been implemented by the EAM itself, with little support from the outside. In November 2006 the EAM became a member of the World Association of Public Employment Services (WAPES).

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72. Most of the data on the employment services and active labour market policies are drawn from the 2006 EAM report, while the legal provisions are taken from the Labour Law (2003) and the Statute on Brokerage.

All the registered unemployed receive standard job-broking services that encompass development of individual employment plans. Tiered services – intensive case-management of “hard-to-place” unemployed – have recently been introduced. The EAM does categorise unemployed clients according to the ease or difficulty of their placement. However, this categorisation does not appear to translate into matching individual characteristics to available labour market measures, and this may affect the overall efficiency and effectiveness of employment service workflow. Moreover, ability to fully explore the possibilities of the local labour markets, and in particular to establish and develop sound working relations with employers, is limited. Employers have an obligation to notify vacancies to the EAM but in practice many employers evade this requirement.

The use of information and communication technology is widespread. The EAM has a computerised system, based on the EURES model, for recording information on jobseekers and vacancies. Jobseekers can access the listing of current job opportunities through the EAM web page. A recent innovation has been EAM use of telephone text messages to inform registered unemployed of vacancies matching their profile.

Development training is available to all EAM staff. The counsellors in particular have to take a full five-month training course before they are allowed to work with unemployed clients. EAM fully recognises the need for continuous investment in human resources, but this needs to be extended beyond counselling and management profiles.

As the amount and range of administrative and labour market information expand, it will be necessary for the EAM to develop special competencies for systematising labour market information in more user-friendly formats, including provision of data for helping identify the more vulnerable groups. Labour market information on registered unemployed is routinely collected by skill level, placement according to economic activity and other standard PES indicators. The EAM also commissions ad hoc surveys and research on labour-market-related topics. However, problems of comparability and compatibility between labour market statistics (MONSTAT) and the administrative data collected by the EAM still remain to be addressed. The EAM could organise and present its own data more effectively, especially as regards disaggregation by sex, age group and ethnic belonging.

Most of EAM’s revenue derives from sale of shares in privatised companies (31.8%), the government budget (24.5%), workers’ insurance contributions (21.7%), daily tax levied on non-resident workers and repayment of self-employment loans (13%). In 2005 its total revenue was €22 million. EAM expenditure falls under three main headings: unemployment benefit (18.3% of the total budget in 2005), active labour market programmes (ALMPs) (34.8%) and administration costs (24.1%). As much as 20.3% of the 2005 funds were carried forward to the next year. The high share of the budget devoted to ALMPs represents, in monetary terms, approximately €8 million with an annual disbursement per unemployed person of €350-400.

Most of the EAM’s activities so far have been devoted to improving labour market efficiency through canvassing services such as employment counselling and labour market information, as well as delivering on passive labour market measures. Administration of ALMPs is a relatively new function.

The EAM has recently started to address equity objectives through the services it provides. Although the lack of a coherent employment strategy prevents it from pursuing clearly

defined targets, there are various indications of greater focus on integrating the “hard-to-place” jobseeker. Striking a balance between quantity and quality of service provision needs to be a concern of Montenegro’s overall employment strategy, together with the efficiency and equity gradients to assign to employment policy objectives. In principle, an efficient and effective employment service is one that sets quantitative and qualitative targets. Both targets should be achieved with due regard to the needs of individual clients (men, women, younger, older), local circumstances, and also the inequalities that place some people at a serious disadvantage. This necessitates rethinking the current system so that there is a platform of services for all jobseekers – including a modern information technology (IT) system – and also intensive assistance for the “hard-to-place” (eg RAE, IDPs, people with disabilities). Development of an internal strategy for organising the tiered approach, analysis of the cost-effectiveness of existing services and a staff training programme to develop the appropriate new competencies should certainly have an important bearing on the future shape of the EAM’s work. The main employment services and programmes currently in place at the EAM are discussed in the section below.

### **3.4.2. Active labour market policies**

The 2003 Employment Law represented an important step towards consolidating employment promotion programmes into a coherent policy framework. This legal framework specifies the forms of assistance and the focuses of labour market programmes, while the Statute on Brokerage authorises the EAM to provide counselling services and job-search assistance as well as implement and evaluate active labour market policies (ALMPs).

The Employment Law prescribes the range and scope of fifteen different active labour market measures (see Box 3). It contains provisions that regulate the rights and obligations of employers and beneficiaries *vis-à-vis* the EAM. It also provides for an employment fund, not yet in place. It provides (paragraph 25) for guaranteed access to ALMPs for all unemployed, for part-time workers (i.e. those wishing to move to full-time jobs), for redundant employees and for laid-off workers. The policy framework does not establish any other eligibility criteria – aside from some provision for people with special needs – for selecting among the wide range of potential beneficiaries.<sup>73</sup>

The EAM can also design and finance *ad hoc* labour market programmes that are not specified in the Employment Law. An example is the already mentioned programme of registration of existing jobs and job creation that included tax exemptions for regularisation of people working in the informal economy. The programme resulted in the registration of about 35,000 jobs. However, there is no evidence of its overall impact on those workers.

ALMPs are intended to reduce labour market imperfections and are justified when the aim is to alleviate inequalities and social exclusion by means of better access to the labour market and fairer income distribution. International experience indicates that the impact of such active labour market measures is higher when they are targeted, respondent to labour market requirements, linked with work experience and part of a comprehensive package of services (see Box 4). The targeting requirement contrasts with the above-mentioned universal provision in the Montenegrin legislation. Besides the rather doubtful impact of untargeted and universally available ALMPs, the legislation does not say anything about funding, which certainly needs to be much higher than the share of GDP that is currently available. This

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73. The by-laws, however, restrict access to ALMPs to men over 50 and women over 45 years of age.

provision warrants some re-formulation so as to ensure universal access to general employment services while keeping ALMPs for the “hard-to-place” (the tiered approach that was mentioned in the employment services section of this report).

### Box 3: ALMPs in Montenegro

Active labour market measures in Montenegro can be grouped into the following main categories:

- *Employment counselling and job-search assistance.* The referral of jobseekers to active programmes is based on an individualised employment plan developed during the counselling process. In 2005 alone the EAM reported to have conducted nearly 13,000 interviews, prepared and updated more than 75,000 individual employment plans, and delivered group counselling/motivation seminars for more than 2,600 people out of a total number of registered unemployed of approximately 48,800.
- *Training programmes* comprise vocational training, skills upgrading, retraining, specialisation courses, and scholarships. The EAM classifies these measures according to whether the disbursement is for adult training provided by an enterprise for newly recruited workers (*training for known employer*) or for training to enhance jobseekers' employability (*preparation for the labour market*). The former type of training (15.3% of beneficiaries) is mostly used by employers in manufacturing, construction and tourism, while labour market training for jobseekers (84.7%) mostly relates to IT, foreign languages and catering. In the period 2000-2005 more than 12,000 individuals participated in such training programmes, most of them belonging to the 19 to 35 age group (74%). Training is conducted either through the three public training institutions or through programmes commissioned from enterprises and private training providers.
- *Self-employment loans and micro-credit for business start-ups* are available to unemployed people who face difficulties in securing commercial loans. Special attention is paid to redundant workers. Loans are for three years and the maximum amount available is €3,000 for every job created (up to a maximum of 5). Since 1999 the programme has granted 11,257 loans (42% of them to women) for a total number of 17,765 jobs created and a total disbursement of €53.4 million. The EAM has also instigated 14 credit lines (€13.2 million) for the promotion of small enterprises and employment growth, mainly in agriculture and tourism (3,361 people have been employed so far).
- *Employment subsidies* are available for 2 to 3 years in the form of reimbursement of employers' social security contributions for a) people who have been unemployed for more than five years, b) unemployed people with more than 25 years of work and c) unemployed people receiving financial assistance, and d) training of labour market entrants. These subsidies are available only to employers who provide full-time employment on unlimited contracts. They are available for both the low-skilled and the educated unemployed. The first of these two categories gives entitlement to up to 80% (100% in the case of people from disadvantaged groups) of the unit labour cost as determined by the collective agreement for a maximum period of 6 months. For the educated unemployed the time frame can be extended to 9 or 12 months.
- *Public works.* Since 1999 a total of 72 public works projects have been implemented by the EAM with the involvement of 1,200 unemployed. The measures are designed by EAM in collaboration with municipalities, local government bodies and civil-society organisations.
- *Measures for people with special needs.* The EAM offers assistance to employers in the recruiting process, in the design of training programmes, and by providing workplace-adaptation funding, micro loans and employment subsidies. In the period 2000-2005 such measures benefited only eight individuals.

Source: Employment Agency of Montenegro, *Main characteristics of the labour market in Montenegro in 2005*, op. cit.

Employment counselling and job-search assistance are considered to be more cost-effective means of tackling frictional unemployment as they provide individuals with information about education and training, trends in the labour market and job openings (see Box 4 for the advantages and disadvantages of ALMPs). Like any other active measure, however, counselling and job search need to be appropriately sequenced, targeted and, of paramount importance, evaluated. Counselling and job-search assistance in Montenegro appear somewhat fragmented. The mandatory requirement to provide all unemployed with an individual employment plan within two months of registration – which is used as a basis for accessing ALMPs – puts employment service staff under pressure to deliver on quantitative more than on qualitative targets for individualised plans. This pressure may result in selecting a labour market measure that does not fit the individual's characteristics and needs. This, in turn, could undermine the efficiency and effectiveness of the services. Moreover, the lack of targeting could hamper access to services for unemployed men and women who face more labour-market disadvantages than others. For instance, preventive services such as redeployment plans are available only in cases of actual redundancy and cannot be activated

to meet a redundancy risk. It is important to include design of ALMPs in any “social package” which the government and the trade unions negotiate for company privatisations. Upgrading of workers’ skills may be a more beneficial long-term employment outcome than the present lump-sum severance payments made to employees who voluntarily quit newly-privatised enterprises.

Labour market training programmes which, as well as identifying and targeting individual characteristics (e.g. age, gender, educational level, socio-cultural background) and the disadvantages faced by the unemployed, respond to labour market requirements – e.g. new skills in growing industries and occupations – are in general more successful than measures such as employment subsidies. In contrast, the current adult training measures offered by the EAM risk producing *creaming* effects and *deadweight losses* when applied to those already in employment (*training for known employer*) and could be unresponsive to labour market requirements when applied to the unemployed.<sup>74</sup> Furthermore, programmes do not seem to be competency-based or to combine technical and core employability skills that could improve participants’ employment opportunities. There is no evidence that labour market training is combined with other active labour market programmes targeting labour demand (eg tax incentives, self-employment) or with career guidance or other job-search assistance. Table 6 below provides a breakdown of labour market programmes delivered by the EAM in the recent past.

**Table 6: EAM training programmes by type, economic sector and beneficiaries**

Total adults trained by economic sector (2000-2005)			Total unemployed in labour market training by type of course(2000-2005)		
	All	Women		All	Women
Manufacturing	1,036	80	IT courses	4,905	2,901
Construction	149	0	Foreign languages	1,698	1,358
Trade	97	91	Naval courses	499	0
Tourism and catering	293	181	Driving courses	710	0
Health care	50	43	Catering occupations	1,722	561
Personal & social services	213	211	Craft	606	202
<b>Total</b>	<b>1,838</b>	<b>606</b>	Scholarship	24	12
			<b>Total</b>	<b>10,164</b>	<b>5,034</b>

Since 1999 Montenegro has invested significant resources in a micro-credit programme. Although the efficiency of the programme seems to have improved in recent years, it remains fairly expensive and benefits only a limited number of participants. In addition, there is no information about the survival rate of the businesses and jobs created through the programme. Other countries’ experience suggests that micro-credit programmes are more successful if they are supported by other employment programmes such as training, counselling, assistance in developing a feasibility study and advisory services during business start-up.

There appear to be significant gaps in the programmes aimed at bringing people with disabilities into the labour market. The low number of beneficiaries in the past five years suggests that the programmes need expanding and that strategies need devising to convert employers to the idea of recruiting people with disabilities.

74. ALMPs should avoid counter-productive effects – *deadweight losses* (the same result would have been reached without the programme), *substitution effects* (subsidised participants may replace non-participants), *displacement* (output of subsidised activities may displace that of non-subsidised) and *creaming* (programmes help people who are already “better off”).

Overall, both targeting and performance-monitoring of ALMPs are weak, and impact evaluation analyses are not yet conducted. The importance of measuring the gross and net impact of the measures on participants cannot be overstated. Evaluation is also important for assessing the cost-effectiveness, relevance and impact of schemes and learning lessons from them for future programmes. Availability of labour market information is thus essential to the design and monitoring of programmes. The following box shows some lessons learnt from the evaluation of ALMPs around the world.

**Box 4: Active labour market policies: Advantages and disadvantages**

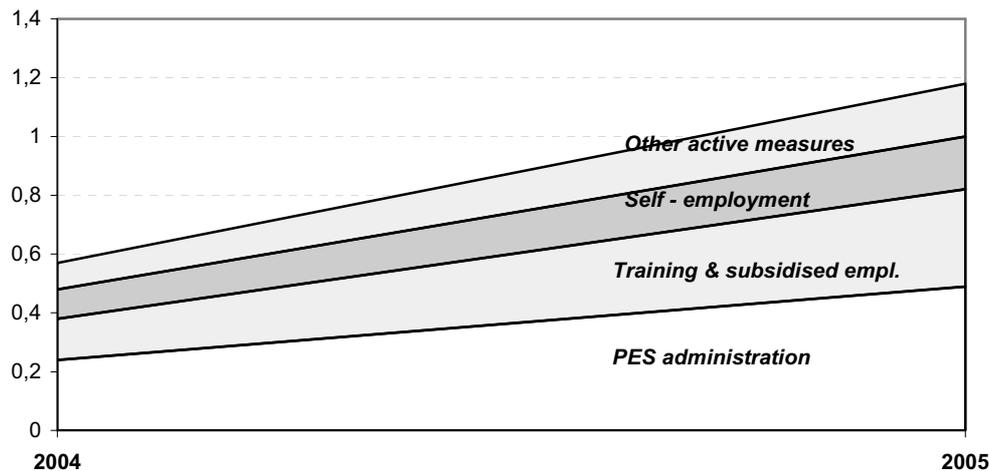
Several studies of ALMPs have shown that some programmes are successful while others fail to enhance participants' chances of gaining a job. Some of the features of these programmes are summarised below.

Type of ALMP	Advantages	Disadvantages
<b>Labour market training</b>	Works better with broader technical and employability skills that are in demand and includes work experience as well as other employment services.	May produce temporary rather than sustainable solutions and if not well targeted, may benefit those who are already "better off". Training alone may not be sufficient to increase employment prospects.
<b>Employment services (career guidance, job search and labour market information)</b>	Can help make realistic choices and match with employment and training opportunities; improve information on job prospects and efficiency, effectiveness and relevance of initiatives. They can also increase targeted/tailor made design and implementation.	May create unrealistic expectations if not linked to the labour market, and often cover only urban areas and the formal economy.
<b>Employment-intensive public works and community services</b>	Help people gain labour market attachment and, at the same time, improve physical and social infrastructure, especially if combined with development and sectoral strategies. They can increase employability if combined with training.	Low capacity for labour market integration; workers may get trapped in a spiral of temporary public-works programmes; often gender-biased; displacement of private sector companies.
<b>Employment subsidies</b>	Can create employment if targeted on specific needs (eg compensating for initial lower productivity and training) and at disadvantaged groups.	High deadweight losses and substitution effects (if not targeted); employment may last only as long as the subsidy is provided.
<b>Entrepreneurship promotion</b>	Can have high employment potential and may meet people's aspirations (eg for flexibility, independence); more effective if combined with financial and other services, including mentoring.	May create displacement effects and may have high failure rate, which limits its capacity to create sustainable employment. Often difficult in the case of disadvantaged groups, owing to their lack of networks, experience, know-how and collateral.

Source: An overall review of ALMPs is provided in Auer, P. et al, *Active labour market policies around the world*, ILO, Geneva, 2005. For ALMPs targeting youth, see Rosas G. and Rossignotti G., *Starting the new millennium right: Decent work for young people*, International Labour Review, Vol. 144-2, ILO, 2005.

In 2005 Montenegro spent around 1% of GDP on active measures – much more than ALMP expenditure in other countries in the region but much less than in many OECD countries. Most expenditure is on services such as counselling, job-search assistance – which accounts for nearly half the ALMP budget – training, direct job creation measures and micro-credit schemes for self-employment and small business start-ups (the chart below gives a breakdown of EAM expenditure on ALMPs).

**Figure 12: Expenditure on ALMPs as percentage of GDP (2004 and 2005)**



Source: EAM, *Main characteristics of the labour market in Montenegro*, op. cit.

### **Recommendations:**

- *The core functions of a modern public employment service are adequately covered by the EAM. It is nevertheless important that the EAM pursue objectives relating to both labour market efficiency and equity. This can be done by targeting employment services and ALMPs more effectively at clients who are at a disadvantage in the labour market. This in turn requires an internal strategy that is cost-effective and based on the tiered approach, a performance-monitoring system with clear indicators, and staff training programmes in working with “hard-to-place” jobseekers. This recommendation may entail amendments to the Labour Law, the Statute on Brokerage and by-laws on employment-promotion programmes, including those that limit access to services to men over 50 and women over 45 years of age.*
- *The Agency should consider setting up programmes that reach out to people who fall outside the natural range of “clients” of the employment services, e.g. discouraged workers, inactive women and people who are inactive because they are socially excluded (e.g. the RAE and IDPs).*
- *Preventative action should be included in the EAM’s mission statement. In particular, early EAM involvement in the event of mass redundancies should be given highest priority.*
- *The EAM should co-operate more closely with MONSTAT on survey methodology so as to achieve optimum comparability and integration of labour market data. Progress in improving the reliability of the labour market information system will have an impact both on the EAM’s overall performance and on policy-making.*
- *The EAM is the first government institution to introduce tripartite management. It should pursue this approach further and involve the social partners at all levels of the EAM’s work – most importantly in the design, monitoring and evaluation of employment services and programmes. The EAM should also seek feedback from partner employers as to their level of satisfaction with the services provided.*

- *Impact evaluation of ALMPs should be carried out to determine both the efficiency and effectiveness of the programmes. The EAM could establish a system of performance indicators to monitor whether the programmes are properly designed, targeted, sequenced and administered. This would help measure the impact on individuals in terms of employment and income, compare the outcomes of different programmes and identify what works and for whom. It would also help improve both the quality and targeting of programmes as well as provide policy- and decision-makers with information for future financing of programmes that have proved successful.*
- *Adult training programmes should be reviewed to ensure that they target both individual needs and labour market requirements. The EAM should also consider introducing competency-based methodologies that combine technical and core employability skills with a great deal of work experience.*
- *In order to promote gender equality in the labour market, it is crucial to improve women's access to ALMPs. It is also important to tailor programmes to the needs of disadvantaged and vulnerable groups, such as people with disabilities, the RAE and other ethnic minorities. The programmes should identify and address the different opportunities and risks facing men and women in these groups. This entails improving EAM staff's ability to deal with discrimination in employment and occupations. Employment-oriented measures of this kind are important to redress disadvantages and combat social exclusion.*

### **3.5. Passive labour market policies**

Passive labour market policies consist of unemployment benefits – which form part of the Employment Agency's budget – and early retirement, paid for by the Pension Fund. These policies are set by the Labour Law. A social welfare system provides income support to people who are not entitled to unemployment benefits.

#### **3.5.1. Unemployment benefit**

The system of income support during unemployment in Montenegro consists of an insurance-based system for resident nationals. Unemployment benefit is granted on condition that termination of employment was not the fault of the employee, that the employee had been working full-time for a period of consecutive months and that s/he registered with the EAM within 30 days after the termination of employment.<sup>75</sup> The length of unemployment benefit depends on the length of the previous employment (see Table 7). All beneficiaries are entitled to employment counselling programmes. Any beneficiary who refuses a job offer corresponding to his/her qualifications is removed from the unemployment register for six months and loses unemployment benefit.

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75. Unemployment benefit can also be granted during the following periods: i) pregnancy and childbirth, which are treated as maternity leave in accordance with the regulations on labour relations; ii) temporary disability for work defined in accordance with the regulations on health protection and health insurance but only until the deadline set by the regulations, when the beneficiary is subject to an assessment of the disability; and iii) during training (for the unemployed), unless employment is found during that period.

**Table 7: Requisites for entitlement to unemployment benefit**

Length of benefit	Requirement (insurance period)
3 months	9 consecutive months or 12 months with interruptions during the previous 18 months
4 months	2 consecutive years or 4 years with interruptions during the previous 5 years
6 months	5 to 10 consecutive years
8 months	10 to 15 consecutive years
10 months	15 to 20 consecutive years
12 months	20 to 25 consecutive years
Until new job or until retirement	more than 25 consecutive years

Source: EAM, *Main characteristics of the labour market in Montenegro*, op. cit.

Unemployment benefit is set at 65% of the minimum wage.<sup>76</sup> A flat rate of €30 is paid direct to every beneficiary. A further amount of €9 is reserved and paid into the health and pension fund. The contributions for unemployment amount to 1% of employees' gross wage. The employers pay this percentage direct to the EAM and the latter pays it out to the beneficiaries.

Unemployment benefit is thus extremely low – the poverty line in Montenegro is €119 – and cannot properly support workers until they find new employment. The level of unemployment benefit thus increases the risk of falling into poverty or of resort to the informal economy. In addition, only a small fraction of registered jobseekers receive unemployment benefit. In 2003 the figure was 3,900 out of 67,000 jobseekers, or 6%. This is a very low ratio by international standards.

Unemployment benefit is intended to provide a safety net of income support during job-searching and thereby improve allocation efficiency in the labour market (because search and information costs are not zero). This is not the case in Montenegro. The short duration of unemployment income support (and the very small number of recipients) makes it unlikely that the structure of unemployment benefit discourages workers from taking up employment at the lower end of the wage scale. The contributions to the benefit are one of the EAM's main sources of income, while actual payments constituted 18.3% of its budget. The payments have been rising since 2002 (they were then 9% of the EAM budget). This increase is due to the higher number of recipients.

### 3.5.2. Early retirement

The legal retirement age is 61 and a half for men and 56 and a half for women. It is being increased gradually to 65 for men and 60 for women or 40 years' service by 2013. There are currently 37,943 pensioners and the average monthly pension is €160.

Early retirement and pension for long periods of service<sup>77</sup> can be claimed only by men and women who, respectively, are 55 years old with 40 years' contributions to the pension fund and 51 and a half with 35 years' contributions. The minimum early retirement age for women

76. The minimum wage is currently fixed at €50 a month.

77. As already mentioned above, older unemployed workers with more than 25 years of service are entitled to claim unemployment benefit until retirement age.

is being gradually increased to equal that of men, i.e. 55, by 2013. This progressive tightening of the entitlement rules aims to discourage older people from taking early retirement and encourage longer employment.

The option of paying insurance contributions for the period up to retirement for redundant workers was stopped in 2003. Since then the only people eligible for early retirement have been those whose jobs are classed as endangering health or life.

### ***3.5.3. Social welfare***

The objective of social welfare is to provide care and income support for individuals and families exposed to social exclusion. Montenegro's social welfare system was reformed in 2003. The new system differentiates between social insurance benefits (old-age pension, disability pension and unemployment benefit) and social-welfare and child-protection benefits (material support to families, child allowance, caregiver allowance, disability benefits, former municipal social assistance, and various family and child-care services). The reform reduced certain entitlements (disability and child fostering allowance) and revised eligibility criteria (child and care allowances). The budget allocation for child allowance and family support increased from €19 million in 2002 to €30 million in 2004 (1.9% of GDP) and most of the benefits accrued to the northern areas of Montenegro (40%). The number of households receiving support from the child allowance system increased in 2003 and 2004 by 5.8% and 7.4% respectively, while the number of individual recipients of family financial support increased by 4.8% in the same period. In the second quarter of 2006 there were 105,000 recipients of income support. There are 2,713 people with disabilities on the EAM's books, which represents 6.4% out of the total number of registered unemployed.

For unemployed persons who are registered with the EAM but do not receive unemployment benefits, the base line for health insurance is 50% of the minimum wage, ie €25. For those who receive unemployment benefits, it is 6% of the base line. The health-insurance contribution is 7.5% of wages for both the employer and the employee.

Family cash benefit can be regarded as the general social insurance benefit. It is provided to families when a member is unable to work, pregnant, a single provider, a parent maintaining a child or an adult disabled for work, a person who has completed his/her education through adjusted or special education programmes, or a child without parental care.

Anyone discovered to be working in the informal economy while drawing benefit loses entitlement to benefit. The average monthly income is between €50 for a single-family member and €95 for a family with five or more children. Personal disability benefit is €50 per month.

Both women and men are eligible for parental leave, and employers are legally prohibited from dismissing employees on parental leave. Salary must be maintained at the same level as before the leave period started. Employers (except state-owned companies and ministries) can apply to be reimbursed by the state. For those who are not working the benefit amount is 50% of the minimum wage and a lump sum of €100 for one year is payable as well. There are also arrangements for obtaining unpaid leave with security of tenure. A total of 28 pre-natal and 40 days post-natal leave is granted to the mother only. Persons registered with the EAM and full-time university students receive a monthly parental allowance of €25 until the child is one year old.

Social protection expenditure is mainly driven by significant financing of pensions and by unemployment and severance benefits. The pension reform envisages an increase in retirement age, a new pension formula based on individual coefficients and an increased number of years of social security contribution in order for workers to be eligible for pension. In 2004 the contribution to pension insurance was reduced from 24 to 21.6%.

### **Recommendations:**

- *Information on passive labour market policies needs to be developed in order to make available fuller, categorised analysis and establish proper links with active labour market policies.*
- *The overall structure of unemployment benefit should be revised to combine relatively short duration (providing an incentive to take up new work) with an appropriate level of benefit (allowing the unemployed to maintain themselves while searching for new jobs).*
- *There is a need to create better, universal access to social rights for minorities in accordance with their needs and specific characteristics.*
- *Increasing the retirement age must be combined with active labour market measures that are widely available to older workers and designed to improve their employability.*
- *In the fight against the informal economy, systematic stoppage of benefit when recipients are found to be working in the shadow market should not jeopardise gradual reintegration into the formal economy for marginalised groups who are in real need.*

## **3.6. Income policy**

### **3.6.1. Wage policy**

As in many other South-East European countries, in the first phase of transition until 2000 the output decline associated with economic transition was accommodated by a decline in wages, and less so by a fall in employment. In Montenegro, in fact, employment increased during the second half of the 1990s. After this the pattern changed, wages increased and employment fell.

The average monthly wage in Montenegro increased by 38% between 2000 and 2005 in real terms, while GDP only rose by 13% in the same period. After an 8% fall due to economic stagnation in 2001, real wages grew particularly fast in 2002 and 2003. Wage growth rates have since fallen back to single digits but remain about two percentage points above GDP growth. In the first eight months of 2006, real net wages grew by a hefty 15% compared with the same period a year earlier, while labour productivity was growing at a mere 2.7%, which might indicate a return to earlier patterns. A pronounced gender difference is observable in wage levels: women on average earn about 19% less than men. The wage gap is larger than this in some important sectors, such as health services, sales, education and public administration.

According to a World Bank study, wages also rose faster than productivity in the 2000-2003 period, although not much faster; while labour productivity increased by 14% during that period, wages increased by 19%.<sup>78</sup> At first sight wage growth thus seems to have been roughly in line with labour productivity growth and not to have seriously threatened employment. However, as the same study shows, nominal unit labour costs rose much faster than real unit labour costs because of high inflation in the early years after the Deutschmark was introduced as the currency (by 68% between 2000 and 2004). In the euro zone, nominal unit labour costs increased by only 8%. As Montenegro cannot devalue its currency, this resulted in an enormous loss of competitiveness *vis-à-vis* the euro zone, severely harming both exports and foreign investment because Montenegro is a rather open economy.

As observed earlier, between 2000 and 2005 the employment rate fell continuously, although it is difficult to say by exactly how much because of the LFS re-sampling in 2004. Part of the employment loss might be explained by the loss of competitiveness. Second, wages grew much faster than GDP, especially in 2002 and 2003, but also faster than productivity; thus in Montenegro labour became more expensive relative to capital, which might also explain part of the employment loss. In general, wage growth that outstrips labour productivity growth for a sustained period of time is detrimental to employment.

Why have real wages grown so markedly in Montenegro? In periods of pronounced deflation, such as in Montenegro between 1999 and 2002, it is common for wage expectations to lag behind real price developments: the social partners get used to a high nominal wage rise being needed to compensate for loss of purchasing power due to high inflation. If workers' bargaining position is strong, they can continue winning high nominal wage growth for some time after inflation has come down – thereby generating high real wage growth with negative consequences for employment.

In August 2006 the average gross wage in Montenegro was €382 per month. This corresponds to an average net wage of €249, which implies an average tax rate on labour of 34.8%. In the first eight months of the year the average wage was €368 gross and €240 net.<sup>79</sup> Wage dispersion is high between economic sectors. The lowest gross wages were paid in fishing (29% of the average wage), construction, trade and hotels and restaurants (all around 60% of the average wage). By far the highest wages are paid in financial intermediation (2.3 times the average wage). The re-distributive effect of the tax system is very small: the net wage of workers in financial intermediation is still 2.2 times higher than the average net wage.

Since July 2002 the minimum wage has been set at €50, which corresponds to a mere 13% of the average wage. However, the 2003 general collective agreement introduced new minimum wage coefficients, which increase the minimum wage by up to four times according to the employee's qualifications and education. Thus for workers with a degree, for instance, the minimum wage is more than three times higher.

There are a number of additional non-wage benefits for employees under the general collective agreement. The employee is entitled to allowances for retirement, annual leave, meals, transport, housing (employers have to contribute 0.7% of their gross earnings to a housing fund), to additional paid leave days for specific events, and to seniority wage

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78. World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005, op. cit., p. 26.

79. This average is taken in calculating wage dispersion because wages seem to vary significantly from month to month.

premiums. All these additional entitlements increase the cost of employment but they also raise administrative burdens, which can be especially harmful for small and medium enterprises.

Wage bargaining in Montenegro is conducted at the central, branch and enterprise levels. Basic principles are laid down at central level while the actual agreements are made at the lower levels. Branch-level agreements are often not binding, however. In principle, this arrangement can have favourable macroeconomic consequences as centralised wage bargaining allows the social partners to react concertedly to macroeconomic shocks.<sup>80</sup> However, it also presupposes very prudent stances by the social partners. They have to conduct wage bargaining with an eye to the macroeconomic and employment consequences of their decisions.

### **Recommendations:**

- *Given the high nominal and real wage increases in recent years, the government and the social partners should use the wage-setting institutions to achieve more wage moderation, which will eventually increase employment. Future wage increases should be more in line with GDP growth. This lower growth of wages will over time also reduce unit labour costs relative to other countries, which will especially benefit the export sector and foreign investment. At the same time, continued investment in human capital should increase labour productivity and thus justify higher wages in the future.*
- *The social partners should review the system of non-wage costs as laid down in the general collective agreement to see if some of the benefits could be converted into wages, thus reducing the administrative burden. Thought could also be given to exempting small enterprises from some of these obligations.*
- *The minimum wage is currently too low to cover even the most basic needs and should therefore be raised in line with ILO Recommendation 135.*

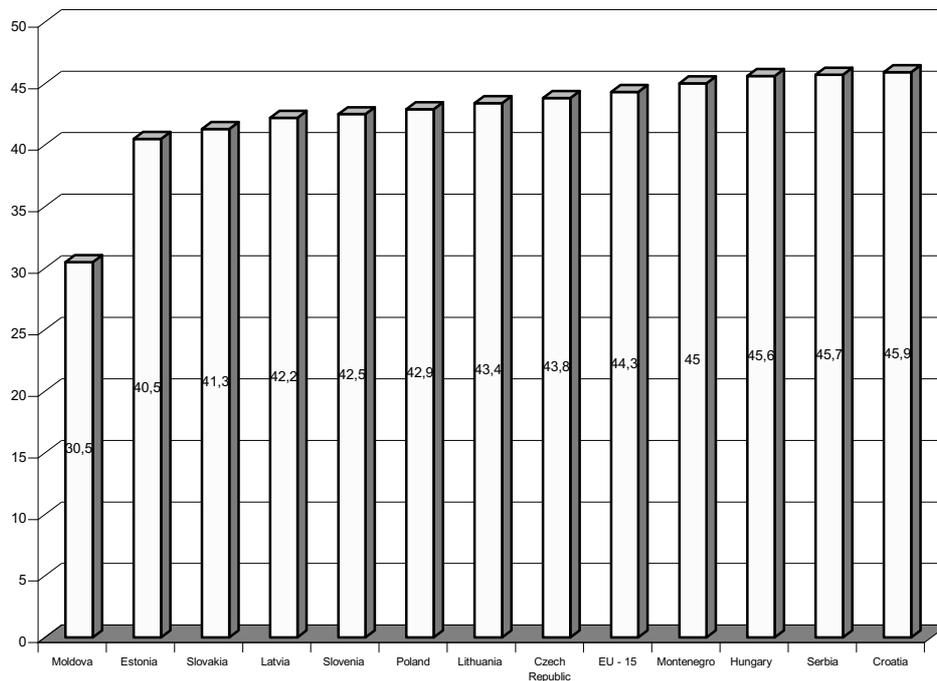
### **3.6.2. Tax policy**

According to the International Monetary Fund, Montenegro's tax revenue, having been rising slightly, had reached 36.3% of GDP by 2005. This put Montenegro in the middle range of Central and Eastern European countries, but still significantly below the EU 15. As in many other Central and Eastern European countries, revenue from personal income tax is very low (currently 4.2% of GDP) and reliance on indirect taxation, particularly VAT, is high (10.7%). Taxes on labour and direct taxes – personal income tax and social security contributions – account for 41.8% of total tax revenue, which is a lower figure than in most other countries in the region. The tax system thus seems relatively employment-friendly, containing no serious disincentives to hire of labour. This impression is confirmed by the fact, mentioned above, that the tax share of the gross wage (the non-wage labour cost) is only 35%, which is about a third lower than the OECD average.

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80. Calmfors and Driffill, "Centralisation of Wage Bargaining", *Economic Policy* 6 (April 1988): 14-61.

**Figure 13: Tax wedge as percentage of total labour cost**



Source: World Bank: EU-8 Quarterly Economic Report, April 2005 and own calculations

The picture changes however if we look at the tax wedge, ie the tax share – including social security contributions – of total labour costs, which include the gross wage and the employer’s social security contributions. According to the World Bank, the tax wedge in Montenegro was 52% of total labour costs in 2004.<sup>81</sup> This would be much higher than in any of the new EU member countries, but also higher than in Serbia or in Croatia. What is the explanation for the two very different pictures that emerge from these measures of the tax burden on labour?<sup>82</sup> Since the data for the tax wedge relate to legal requirements and not the tax amount actually paid, while the other measures (direct taxes as a proportion of GDP and the non-wage labour cost) are based on the amount actually paid in tax, a simple explanation is that the taxes prescribed by law are often not paid in practice. This again confirms the presence of a relatively large informal economy in Montenegro. If this argument is correct, it also means that lowering the tax wedge will not in itself create more employment, because employers have already lowered their tax burden through tax evasion. Nevertheless it would shift employment from the informal to the formal economy and thereby increase overall efficiency as well as workers’ protection.

### **Recommendations:**

- *Recent tax breaks have already achieved some reduction of the informal economy. These reforms should be continued and put on a more permanent basis. Since the total*

81. World Bank, *Montenegro Economic Memorandum*, Washington, D.C., 2005, op. cit., p. 26.

82. One explanation is that the World Bank figure might actually be too high. In Montenegro social security contributions come to 40% of the gross wage. If we assume that personal income tax is around 14% of the average wage, the tax wedge is only 45%, which would be more in line with regional standards. The high World Bank figure takes into account all the allowances stipulated by the General Collective Agreement and many other taxes, hence the figure might not be comparable across countries.

*tax wedge payable on labour is likely to be high by international standards, it should be reduced so that both employers and employees are more willing to pay their taxes – thus creating employment in the formal economy.*

- *It is not enough to reduce the tax burden in order to fight the informal economy. It is also very important to increase enforcement of tax collection and to strengthen labour inspection.*
- *The heavy reliance on indirect taxation can be challenged on social grounds, as indirect taxes disproportionately affect the poor, and low personal and capital income taxation increase social inequalities.*

### **3.7. Social dialogue**

As mentioned earlier, both the ILO and the EU have drawn up employment policy instruments that strongly advocate broad social dialogue between public authorities and social partners on employment issues.<sup>83</sup> Montenegro's tripartite bodies will find very useful guidance in these instruments about promoting effective social dialogue between government and the social partners in the interests of efficient employment policy, which is very much needed in view of the employment challenges facing Montenegro.

#### **3.7.1. Legal framework**

In Montenegro bipartite social dialogue between workers and employers and their representatives is governed by several laws, among which may be mentioned the 2003 Labour Law (as amended in 2004) and the 2003 law on strikes as amended in 2004 and 2005.

The Labour Law lays down the rules on establishing employers' and workers' organisations and on collective bargaining between workers and employers in both the private and public sectors. In particular, it specifies the parties to collective bargaining, the levels at which agreements may be concluded and the status and applicability of collective agreements. The law on strikes protects exercise of the fundamental right to strike and stipulates the conditions under which it can be exercised lawfully.

Tripartite social dialogue is still not properly regulated in Montenegro. For the time being the only regulation is the 2001 government decree that established the Social and Economic Council (SEC). The latter does not function very effectively. As will be mentioned later, the social partners are intent on getting the government to provide a more appropriate legal framework so that tripartite social dialogue functions better. They are also calling for an appropriate conciliation and mediation mechanism to help workers and employers settle employment disputes amicably.

On the trade union side there is one main player at present, the Trade Union Confederation of Montenegro (CTUM). The CTUM is the successor to the former Montenegrin Federation of Trade Unions. It adopted a new statute in the early 1990s and has been reorganising its structure and programmes ever since. The CTUM represents workers in both private and

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83. For example, the ILO Tripartite Consultation Recommendation, 1963 (No. 113) calls on member states "to take measures to promote effective consultation and co-operation between public authorities and social partners ... in the establishment and functioning of national bodies responsible for the organisation of employment, vocational training and retraining".

public sectors, including public administration. It is a member of the International Trade Union Confederation (ITUC) and has observer status with the European Trade Union Confederation (ETUC).

The CTUM claims 93% coverage of the labour force in Montenegro. However, it confirms that only a third of its members pay membership fees. This is due to the difficult economic situation and to the fact that some of the branch unions have suffered total decline since entire sectors of the economy were restructured and privatised. The services that the CTUM provides to its members include legal assistance, education and training, and social services for families of vulnerable workers.

The CTUM is actively engaged in both bipartite and tripartite social dialogue. It has been a party to all the collective agreements concluded at national and branch levels and most of those signed at enterprise level.

On the employer's side the Union of Employers of Montenegro (UEM) is the main player. It is a relatively new organisation officially established in 2002. It was registered and recognised as a representative organisation at national level by the Montenegro government in August 2005. Over the past few years, the UEM has been very active, together with CTUM, in the promotion of social dialogue and respect for freedom of association principles, including at the regional and local levels.

In Montenegro, as in many other countries of former Yugoslavia, it was the chamber of economy which represented employers both in bipartite and tripartite social dialogue in the 1990-2004 period. In December 2004 a new provision was introduced into the Labour Law barring organisations based on compulsory membership from taking part in collective bargaining. As a result, the chamber of economy withdrew from social dialogue and was replaced by the UEM.<sup>84</sup> However, it still represents employers in some tripartite bodies such as the Social and Economic Council (SEC), the latter operating under the 2001 government decree issued before the UEM came into existence.<sup>85</sup> There is current pressure on the government to restructure the SEC in line with present industrial-relations realities.

The UEM has a dual membership made up of individual enterprises – both private and public – and associations of employers. It claims that its members account for more than 80% of the country's GDP and employ over 65% of the total employees in Montenegro.<sup>86</sup> The UEM is a member of the International Organisation of Employers (IOE) and of the Forum of Employers' Associations of South Eastern Europe.

### **3.7.2. Bipartite and tripartite social dialogue on employment**

The Labour Law provides that collective agreements may be concluded at national, inter-occupational, branch and enterprise levels. They can also be concluded in both private and public sectors, including public institutions such as social security, education and cultural organisations.

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84. For instance, in the tripartite board of the national agency for employment the UEM took over from the chamber of economy as the representative of employers in October 2006.

85. Other tripartite bodies where the chamber of economy still represents the employers include tripartite boards of pension schemes and health funds.

86. Communication of the Vice-President of the UEM to ILO staff.

Available data show that 15 sectoral agreements were in force in 2005. These agreements apply to all workers irrespective of whether they are members of the signatory employers' and workers' organisations. At enterprise level collective bargaining takes place mainly in large companies. There are no data on the number of collective agreements in force at enterprise level, nor is there precise information on the percentage of workers covered by existing collective agreements.

These agreements, including the national inter-occupational ones, deal mainly with wages, leave periods, rights and obligations of workers and employers and conditions of work, including working-time arrangements. Other employment-related issues appear to attract less attention from the social partners, and when they are included in collective agreements the provisions on them are not always complied with on account of weak enforcement.

Even though the first national tripartite agreement concluded between the government, the CTUM and the chamber of economy came into effect back in 1995,<sup>87</sup> Montenegro was one of the last in South Eastern Europe to institutionalise social dialogue at the national level. In February 2001 the government adopted the decree establishing the SEC, which came into operation in 2002. The government decree assigns an advisory role to the SEC in matters of economic and social policy, including the national budget. The SEC is an EU-type body with multipartite representation; it is financed by the national budget and is composed of 38 members representing workers, employers, the government and other segments of society.

The SEC has seven sections of council members: production, research and development; labour and social issues; social transition; agriculture, the food industry and forestry; economy and finance; environment protection; foreign relations. There is no section dealing specifically with employment matters. SECs have also been set up in 12 municipalities thanks to efficient collaboration between the social partners and local authorities.

Since it started operating in 2002 the SEC has played a somewhat marginal role in the design of economic and social policy.<sup>88</sup> It meets two to three times a year. The social partners consider this insufficient. In their view the SEC lacks authority and a clear mandate. Because of its structural weaknesses, the government has not enlisted it in forging consensus with the social partners on how to tackle the country's employment challenge. Unsurprisingly, therefore, both the CTUM and the UEM are pushing for reform of the SEC in order to improve social dialogue in the country. In 2005, with ILO assistance, they prepared draft legislation on setting up a new SEC on which only government and the social partners would be represented. The aim is to strengthen the SEC's role by clarifying its mandate, changing its structure and composition and increasing its resources. The draft was submitted to the government for consideration together with another proposal on setting up an agency for amicable settlement of labour disputes, to improve labour relations in the workplace.

In December 2006, the government signed a tripartite agreement with the CTUM and the UEM foreseeing the amendment of the resolution that established the SEC.<sup>89</sup> This agreement states that, by the end of the year, the SEC will have worked on the amendment of the labour law and the laws on collective bargaining and amicable settlement of disputes, as well as the law on the Council itself. It also envisages a progressive increase of the minimum wage to

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87. The 1995 national tripartite agreement was extended in 2004 and 2005.

88. Ghellab, Y., Vylitova. M., *Tripartite social dialogue on employment in the countries of South-Eastern Europe*, ILO, Budapest, 2005.

89. This tripartite agreement was sent to the ILO after this Review was discussed at the PHLC.

€55 by the end of 2007, the revision of some non-monetary elements of remuneration and the decrease of the tax wedge – including a reduction of the tax on salary devolved to local authorities – to around 50% of the net salary. Finally, it commits the government to provide the means for the SEC's functioning.

#### **Recommendations:**

- *Accelerate reform of the Social Economic Council by: a) strengthening its role and functioning; b) adapting its structure and composition to the current context of industrial relations; c) increasing its resources; d) considering setting up within it a special commission to deal with employment issues. This commission could participate in the design, monitoring and evaluation of employment policies.*
- *Strengthen the skills of the social partners on employment issues and encourage them to incorporate employment concerns into their bipartite agreements.*
- *Strengthen the mechanisms for enforcement of labour law and collective agreements and improve data collection on collective agreements.*

#### **4. Conclusions**

The Montenegrin economy, having been growing for some years at an average rate of 2.4%, sparked in 2004 and 2005, registering GDP growth of 3.4 and 4.1% respectively. Economic forecasts for 2007-2008 indicate average annual growth prospects of 4%.

Since 2002 Montenegro has been pursuing its own path to macroeconomic stabilisation, as depicted in the *Economic Reform Agenda 2002-2007*. The reform process so far has included introduction of the euro as legal tender, reduction of public expenditure, privatisation of publicly- and socially-owned enterprises, broadening of the tax base, and price and trade liberalisation. These stabilisation policies drastically reduced inflation to less than 2% in 2005.

This positive economic performance has not been accompanied by employment growth. Unemployment grew in the 2000-2003 period, with two low points which coincided with two milestones in economic stabilisation: the first wave of privatisation in 2001 and contraction of public employment in 2003 due to reform of public administration. Since 2004, employment has been recovering. However, its current level is still well below that of 2000, with an overall employment rate of 34.8% in 2005 and negative elasticity of employment to growth (1.3%).

This review of employment policy in Montenegro has been conducted to support the government in identifying priority areas that could help re-centre employment in the economic development agenda. Situation analysis is the first step in the policy cycle. This review can be used as a basis for developing an employment strategy and national action plans, and as a tool for progress on the employment front and for stabilisation and EU association. Ratifying both international labour standards on employment policy and the European Social Charter could help the Montenegro government adopt an active employment policy and establish a mutually reinforcing relationship between employment and economic and social policies. The main priority for Montenegro should be to develop an employment policy geared to a number of objectives in the following policy areas: i) employment protection legislation, ii) education and training, iii) employment services and active labour

market policies, iv) passive employment policies, v) income policy and vi) social dialogue on employment. These priorities are briefly summarised below.

### ***Designing, monitoring and evaluating an active policy on employment***

Although employment promotion is identified as a priority by the national policy agenda, the government has not yet formulated clear employment-policy objectives to be integrated and coordinated with economic and social policies and linked to quantified targets for economic growth and employment. The Montenegro government might consider establishing an inter-institutional mechanism including the social partners and tasked with identifying the mix of economic and social policies regarded as most effective for promoting not only more, but also better employment. This mechanism could also be in charge of the design, monitoring and evaluation of a gender-sensitive employment strategy that addresses both efficiency and equity targets through operational plans that reflect employment-policy objectives.

To ensure that these plans produce action and therefore achieve the pre-established targets, tight monitoring and evaluation should underpin the overall implementation process. This will entail strengthening national ability to provide timely and reliable labour market statistics, including those relating to the informal economy.

### ***Striking a fair balance between labour market flexibility and worker security***

Overall employment rigidity in Montenegro is lower than in other countries in the region and comparable with that found in OECD countries. High costs of dismissal are due to the government's providing neither an adequate income-protection system in the event of unemployment nor effective re-employment assistance through employment services and other active labour market policies. Any reform of current labour law should take due account of these factors and should be built on consensus between the government and the social partners. This would allow a balance to be struck between flexibility and security without compromising the legitimate interests of either party.

Despite the important measures recently adopted by the government, the informal economy remains fairly substantial and the estimated number of workers not covered by employment protection legislation is quite high. The government could consider adopting a two-pronged approach, with measures which encourage enterprises to formalise and other measures to reinforce administration of penalties for non-compliance, especially in the sectors that employ most women and young people. This would require a review of administrative and tax provisions on the one hand and reinforcement of labour inspection on the other.

### ***Investing in human capital through better education and training***

Montenegro started reforming its education and training system in 1999. This reform touches all levels of education and training, ranging from pre-school to adult training and lifelong learning. Overall, adult literacy rates are quite high and compare favourably with other European countries. However, some challenges remain: increasing pre-primary school enrolment, tackling the high illiteracy rates in all RAE and IDP age-groups, and reducing school dropout, especially in the transition from primary to secondary education.

The impact of the above-mentioned reform on vocational education and training (VET) and on labour market outcomes has not yet been assessed. Although available statistics on

education do not allow a detailed analysis of the extent to which education input is reflected in labour market outcomes, information from administrative data points to a significant skills mismatch, especially apparent in occupations within the same occupational area. The indications are that VET is too narrow in content instead of providing broad competency-based training that meets the requirement of adaptability and flexibility in a rapidly changing labour market. It is also important to build closer links between learning and work by promoting co-operative arrangements involving schools, training institutions, employment offices and the social partners.

Adult training borrows many elements from vocational education rather than being based on employment-oriented approaches that allow flexible entrance/exit at various points in the course of working life and that are built on prior experience. Notwithstanding the profound changes in the Montenegro economy over the years, training and retraining of adults has been largely neglected. As a result large numbers of workers risk losing their jobs because of skills obsolescence. The government should promote learning and training of adults, especially low-skilled workers and long-term unemployed. Skills training is also important for improving productivity and promoting quality of employment, especially among those workers unable to find jobs other than in the informal economy.

### ***Developing targeted employment services and active labour market policies to redress disadvantages and promote social inclusion***

The employment services in Montenegro cover the core functions of a modern public employment service. Access to them is universal and all registered unemployed are provided with standard job-broking services that include the development of individual employment plans. Intensive case-management of “hard-to-place” unemployed has recently been introduced.

Reform of the employment services should continue in order to improve both quantitative and qualitative targets. Both sets of targets should be achieved with due regard to the needs of individual clients, local circumstances and the inequalities that put some people at a particular disadvantage. One approach might be to develop a platform of standard services available to all jobseekers while intensive and targeted employment services are provided to clients who are at a disadvantage in the labour market. Efforts should also be made to reach out to people who fall outside the current range of clients of the employment services, e.g. discouraged workers, inactive women and socially excluded groups such as RAE and IDPs.

Active labour market policies (ALMPs) have recently been introduced in Montenegro. The 2003 Labour Law lays down the range and scope of fifteen different active labour market measures and provides for establishing an employment fund, not yet in place. The Labour Law also requires that ALMPs be available to all unemployed, to part-time workers, to redundant employees and to laid-off workers. Such universal provision conflicts with evidence gathered from evaluation of several ALMPs around the world, which is that these measures are more effective when they are: i) targeted, ii) designed to respond to labour market requirements, iii) linked with work experience, and iv) part of a comprehensive package of employment and other services. Indeed, ALMPs should be mainly aimed at reducing labour market imperfections and redressing the inequalities of groups that are at a disadvantage in the labour market.

There is very little information about either the efficiency or the effectiveness of ALMPs implemented so far in Montenegro. ALMP impact evaluation should be carried out to determine whether the programmes are appropriately designed, targeted, sequenced and administered. Establishment of a system of both quantitative and qualitative indicators could help assess the performance of the programmes. More specifically, the monitoring and evaluation system would allow measurement of the impact on individuals in terms of employment and income, identification of distortions such as this type of programme often produces, comparison of the outcomes of different programmes and identification of what works and for whom. The evaluation results would, in turn, help improve both quality and targeting of programmes as well as give policy- and decision-makers information for future allocation of finance to the programmes that prove successful. A general finding of this review of employment policy is that a more gender-balanced approach is needed in administration of the programmes, and that they need extending to workers at risk of unemployment, to those working in the informal economy and to other hard-to-place unemployed and socially-excluded groups, including persons with disabilities, the RAE and IDPs.

### ***Providing adequate income support during unemployment***

The unemployment insurance system aims to provide a safety net in terms of income support during job search and, therefore, to promote efficient allocation of resources in the labour market. In Montenegro the unemployment benefit is set at 65% of the minimum wage. Its current level is one quarter of the threshold below which an individual is considered to be living in poverty. In addition, the benefit covers just 6% of the unemployed. Both the low level and low coverage of the benefit increase the poverty risk and may therefore encourage work in the informal economy.

A review of the overall structure of unemployment benefit should be conducted to ensure that its short duration is combined with an appropriate level of benefit which enables the unemployed to look for a new job, providing them with income without creating work disincentives. This review should also establish proper links between unemployment insurance and active labour market policies.

### ***Ensuring an effective and equitable income policy***

Wage policy should continue to support macroeconomic stability. Future wage increases should be aligned to GDP growth so as to enhance competitiveness and increase employment. At the same time, investment in human capital should increase labour productivity and thus justify higher wages in future.

Since 2002 the minimum wage in Montenegro has been set at €50, which corresponds to a mere 13% of the average wage. The 2003 general collective agreement introduced coefficients that increase the minimum wage by up to four times according to the employee's qualifications and educational level. The fundamental purpose of the minimum wage is to give enough social protection to workers. This is why it should never be below the minimum income that allows escape from poverty. In Montenegro this is not the case for workers with low qualifications and little education. For them the minimum wage can be well below the poverty line. A tripartite revision of the minimum wage should lead to its substantial increase. This would decrease the number of working poor on the one hand and reduce the attractiveness of the informal economy on the other.

Recent tax-policy breaks seem to have already achieved some contraction of the informal economy. These tax policy reforms should be pursued further and be accompanied by better law enforcement in terms of both tax collection and labour inspection. The heavy reliance on indirect taxation could be challenged on social grounds, as indirect taxes disproportionately affect the poor while low personal and capital income taxation increases social inequalities.

### ***Promoting social dialogue on employment***

Involvement of the social partners in the overall design, monitoring and evaluation of employment policy is still rather limited. There are a number of employment policy areas that are dealt with by collective agreements, including the national inter-occupational ones. These areas include rights and obligations of workers and employers as well as wages, leave periods and other conditions of work. However, weak enforcement of collective agreements, coupled with lack of data on those agreements, constitutes an obstacle to effective implementation of their employment policy provisions.

Even though the first national tripartite agreement came into effect as early as 1995, Montenegro has only recently institutionalised social dialogue at the national level. In February 2001 the government adopted the decree establishing the Social and Economic Council (SEC), which started operating in 2002. The SEC was assigned an advisory role in matters of economic and social policy although it has never been brought into play to help forge consensus on how to tackle the employment challenge.

Draft legislation for reform of the SEC was recently submitted to the government. The draft reform seeks to strengthen the role and functioning of the SEC, adapt its structure and composition to the current context of industrial relations and increase its resources. The SEC reform should be accelerated and the new body should consider setting up a special commission on employment issues. The members of the commission should take part in the design, monitoring and evaluation of employment policy. At the same time the social partners' skills on employment issues should be enhanced so that employers' and workers' organisations are better able to promote all aspects of employment policy while negotiating both bipartite and tripartite agreements.



## APPENDIX I

### List of relevant Council of Europe instruments ratified by Montenegro

<b>Convention</b>	<b>Signature/ ratification date</b>	<b>Status</b>
Revised European Social Charter	22.03.2005	Signed
Framework Convention for the Protection of National Minorities	06.06.2006	Ratified



## APPENDIX II

### List of ILO conventions ratified by Montenegro

Convention	Ratification date
C2 Unemployment Convention, 1919	03.06.2006
C3 Maternity Protection Convention, 1919	03.06.2006
C8 Unemployment Indemnity (Shipwreck) Convention, 1920	03.06.2006
C9 Placing of Seamen Convention, 1920	03.06.2006
C11 Right of Association (Agriculture) Convention, 1921	03.06.2006
C12 Workmen's Compensation (Agriculture) Convention, 1921	03.06.2006
C13 White Lead (Painting) Convention, 1921	03.06.2006
C14 Weekly Rest (Industry) Convention, 1921	03.06.2006
C16 Medical Examination of Young Persons (Sea) Convention, 1921	03.06.2006
C17 Workmen's Compensation (Accidents) Convention, 1925	03.06.2006
C18 Workmen's Compensation (Occupational Diseases) Convention, 1925	03.06.2006
C19 Equality of Treatment (Accident Compensation) Convention, 1925	03.06.2006
C22 Seamen's Articles of Agreement Convention, 1926	03.06.2006
C23 Repatriation of Seamen Convention, 1926	03.06.2006
C24 Sickness Insurance (Industry) Convention, 1927	03.06.2006
C25 Sickness Insurance (Agriculture) Convention, 1927	03.06.2006
C27 Marking of Weight (Packages Transported by Vessels) Convention, 1929	03.06.2006
C29 Forced Labour Convention, 1930	03.06.2006
C32 Protection against Accidents (Dockers) Convention (Revised), 1932	03.06.2006
C45 Underground Work (Women) Convention, 1935	03.06.2006
C48 Maintenance of Migrants' Pension Rights Convention, 1935	03.06.2006
C53 Officers' Competency Certificates Convention, 1936	03.06.2006
C56 Sickness Insurance (Sea) Convention, 1936	03.06.2006
C69 Certification of Ships' Cooks Convention 1946	03.06.2006
C73 Medical Examination (Seafarers) Convention, 1946	03.06.2006
C74 Certification of Able Seamen Convention, 1946	03.06.2006
C80 Final Articles Revision Convention, 1946	03.06.2006
C81 Labour Inspection Convention, 1947	03.06.2006

C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	03.06.2006
C88 Employment Service Convention, 1948	03.06.2006
C89 Night Work (Women) Convention (Revised), 1948	03.06.2006
C90 Night Work of Young Persons (Industry) Convention (Revised), 1948	03.06.2006
C91 Paid Vacations (Seafarers) Convention (Revised), 1949	03.06.2006
C92 Accommodation of Crews Convention (Revised), 1949	03.06.2006
C97 Migration for Employment Convention (Revised), 1949	03.06.2006
C98 Right to Organise and Collective Bargaining Convention, 1949	03.06.2006
C100 Equal Remuneration Convention, 1951	03.06.2006
C102 Social Security (Minimum Standards) Convention, 1952	03.06.2006
C103 Maternity Protection Convention (Revised), 1952	03.06.2006
C105 Abolition of Forced Labour Convention, 1957	03.06.2006
C106 Weekly Rest (Commerce and Offices) Convention, 1957	03.06.2006
C111 Discrimination (Employment and Occupation) Convention, 1958	03.06.2006
C113 Medical Examination (Fishermen) Convention, 1959	03.06.2006
C114 Fishermen's Articles of Agreement Convention, 1959	03.06.2006
C116 Final Articles Revision Convention, 1961	03.06.2006
C119 Guarding of Machinery Convention, 1963	03.06.2006
C121 Employment Injury Benefits Convention, 1964	03.06.2006
C122 Employment Policy Convention, 1964	03.06.2006
C126 Accommodation of Crews (Fishermen) Convention, 1966	03.06.2006
C129 Labour Inspection (Agriculture) Convention, 1969	03.06.2006
C131 Minimum Wage Fixing Convention, 1970	03.06.2006
C132 Holidays with Pay Convention (Revised), 1970	03.06.2006
C135 Workers' Representatives Convention, 1971	03.06.2006
C136 Benzene Convention, 1971	03.06.2006
C138 Minimum Age Convention, 1973	03.06.2006
C139 Occupational Cancer Convention, 1974	03.06.2006
C140 Paid Educational Leave Convention, 1974	03.06.2006
C142 Human Resources Development Convention, 1975	03.06.2006
C143 Migrant Workers (Supplementary Provisions) Convention, 1975	03.06.2006
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	03.06.2006

C148 Working Environment (Air Pollution, Noise and Vibration) Convention, 1977	03.06.2006
C155 Occupational Safety and Health Convention, 1981	03.06.2006
C156 Workers with Family Responsibilities Convention, 1981	03.06.2006
C158 Termination of Employment Convention, 1982	03.06.2006
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983	03.06.2006
C161 Occupational Health Services Convention, 1985	03.06.2006
C162 Asbestos Convention, 1986	03.06.2006
C182 Worst Forms of Child Labour Convention, 1999	03.06.2006

Source: ILOLEX – 27.8.2007



## **APPENDIX III**

### **The Bucharest Declaration**

**South East Europe Conference on Employment (SEE-EC)  
Bucharest, 30-31 October 2003**

#### **Improving Employment in South Eastern Europe**

The Delegates to the Conference of Bucharest, meeting under the chairmanship of Mrs Elena Dumitru, Minister of Labour, Social Solidarity and Family of Romania, at her invitation and at the invitation of the Council of Europe and of the Belgian Federal Public Service Employment, Labour and Social Dialogue, under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe,

Bearing in mind the expectations with regard to further co-operation with the EU and within the region,

Recalling the Thessaloniki Declaration adopted on the occasion of the EU-Western Balkans Summit on 21 June 2003,

Considering the important preparatory work leading to this Conference,

**approved unanimously the following declaration:**

**We, the Ministers responsible for Employment of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and “the former Yugoslav Republic of Macedonia”, as well as the Head of the Economic Administration of UNMIK,<sup>90</sup> recognise the common problems we face in the area of employment as a result of the restructuring linked to the transition to market economies, insufficient levels of investment as well as the damaging effects of the conflicts in the region in the 1990s.**

We acknowledge:

- the substantial reduction in employment and, despite the reforms and restructuring already under way, the consistently high unemployment and relatively slow pace of job creation, the wide skill mismatches and regional disparities, and their adverse consequences for poverty and social cohesion;
- the need to improve employment policies and employment services, including training;
- the need to further develop specific measures and programmes to improve access to employment of vulnerable groups;

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90. Associated to this process according to Security Council Resolution 1244 on Kosovo.

- the need to promote labour mobility and to remove obstacles preventing it;
- the need to improve social dialogue.

**Together and in partnership with relevant national and international institutions, we are convinced that we can better address these common problems, through improvements of our policies, reinforcement of our institutional capacities, pooling of our expertise in employment matters, and improved co-ordination of available international assistance.**

**We commit ourselves to a process of regional co-operation in the areas of employment, labour markets and training, as described in detail in the Appendix to the present Declaration. The process, intended to better addressing the above-listed problems, is aimed at:**

- **preparing our future integration into the European Union** by converging towards the objectives and guidelines of the European Employment Strategy;
- **implementing the Council of Europe standards in employment matters** – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and
- **making operational the core elements of the International Labour Office’s Global Employment Agenda in our countries.**

**We are aware that the success of our effort will depend on the creation of a favourable investment climate based on macro-economic stability, full co-operation with social partners, sound legal and regulatory frameworks and governance standards as well as on the development of small and medium enterprises. In this context, we commit ourselves to concentrate our efforts on the following areas:**

- promotion of entrepreneurship;
- greater mobility, by:
  - fostering a more flexible labour market but balanced with reasonable employment and income security for workers;
  - examining the possibility of promoting the free movement of workers in the region by means of bilateral agreements;
- incentives for employment creation and training;
- improvement of the performance of the national employment services;
- non-discrimination in access to employment, in remuneration and in working conditions, with particular attention to gender equality;
- handling of the social consequences of privatisations and restructurings;

- improvement of the quality of employment (contracts, remuneration, skills and qualifications, health and safety at work, employment related social protection, etc.);
- specific programmes for vulnerable groups (including access to credit);
- improvement of social dialogue and enhanced involvement of social partners in the formulation and implementation of social and economic policies;
- the transformation of undeclared work into regular work;
- adequate and comprehensive labour market information.

**We issue a plea for assistance from international stakeholders to achieve the goals of this Declaration.** We acknowledge the important support we have been receiving from international and bilateral institutions. In particular, we acknowledge the important analytical and policy development work of the International Labour Organization, the Council of Europe and the World Bank.

**Under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe, we look particularly to the Council of Europe and the International Labour Organization for strategic guidance and support in ensuring an efficient follow-up to our meeting along the lines described in the Appendix.**

**We commit ourselves to meet again in the Spring of 2005 to assess progress achieved over the next 18 months in implementing the goals set out in this declaration.**

**Done in Bucharest on 31 October 2003**

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Albania

**Safet HALILOVIĆ**  
Minister of Civil Affairs  
Bosnia and Herzegovina

**Rumen SIMEONOV**  
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**Davoriko VIDOVIĆ**  
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**Valerian REVENCO**  
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**Dragan MILOVANOVIC**  
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**Serbia and Montenegro**

**Jovan MANASIJEVSKI**  
**Minister of Labour and Social Policy**  
**“The former Yugoslav Republic of**  
**Macedonia”**

**as well as**    **Jürgen VOSS**  
**Associate Head for Economic Reconstruction**  
**United Nations Interim Administration**  
**Mission in Kosovo**

**We, the representatives of the Stability Pact for South Eastern Europe, the Council of Europe and the International Labour Organization, commit ourselves to ensure the follow-up to this Conference.**

**Miet SMET**  
**Chair, Initiative for Social Cohesion**  
**Stability Pact for South Eastern Europe**

**Gabriella BATTAINI-DRAGONI**  
**Director General of Social Cohesion**  
**Council of Europe**

**Bernard SNOY**  
**Director, Working Table II**  
**Stability Pact for South Eastern Europe**

**Göran HULTIN**  
**Executive Director – Employment Sector**  
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## Appendix

### Operation of the process of co-operation on employment in South Eastern Europe

1. **The Council of Europe** is in charge of co-ordinating the process of co-operation, in close relation with the **International Labour Office**, under the auspices of the **Social Cohesion Initiative of the Stability Pact for South Eastern Europe**.

2. **The Ministers responsible for employment of the beneficiary countries of the Stability Pact for South Eastern Europe** will approve and regularly update the objectives of the co-operation on employment as well as the programme of activities. They will meet every 18 months. The next meeting will take place in the Spring 2005.

3. **An assessment process of national employment policies will be launched for each country:**

3.1. This assessment process will take into account the key elements of the Global Agenda for Employment of the International Labour Organization, the European Employment Strategy and the relevant Articles of the European Social Charter and of the Revised Charter and relevant Recommendations of the Committee of Ministers of the Council of Europe;

3.2. In the case of Bulgaria and Romania, the assessment process will rely on the Joint Assessment Papers (JAPs), prepared with the European Commission;

3.3. The national social partners will be fully associated in the process;

3.4. The assessment process will be inspired by the methodology applied between the European Commission and candidate countries in their co-operation on employment within the framework of the EU enlargement;

3.5. Employment experts from Belgium and other EU member states will be invited to contribute with their experience in implementing the European Employment Strategy.

4. **A Permanent High-Level Committee (PHLC) composed of the General Directors of Employment** of the beneficiary countries of the Stability Pact for South Eastern Europe will design the programme of activities; set up working groups; mobilise human and financial resources in support of the programme of activities; supervise its implementation and prepare the ministerial meetings.

4.1. The following partners will be able to participate in the meetings of the Permanent High Level Committee, as observers:

4.1.1. the social partners of the countries concerned by the review of national reports;

- 4.1.2. representatives of international organisations of social partners (IOE, ETUC);
  - 4.1.3. representatives of interested international organisations (UNDP, UNECE, OSCE, OECD,...) and international financial institutions (World Bank, CEB, EBRD, EIB,...);
  - 4.1.4. representatives of interested donor countries.
- 4.2. The technical contribution of the European Commission will help the process of co-operation.
- 4.3. The Permanent High-Level Committee will meet at least twice in between ministerial meetings. It will meet in Working Groups with experts to examine, in particular, the following questions:
- 4.3.1. **Review of national employment policies (Working Group I).** The Working Group I will meet under the leadership of the **ILO**;
  - 4.3.2. **Capacity-building, quality of service delivery in employment services and improvement of programmes specifically designed for vulnerable groups (Working Group II).** The Working Group II will meet under the leadership of the **Council of Europe**;
  - 4.3.3. Each Working Group will meet at least once in between ministerial meetings.
- 4.4. The Working Groups will pay particular attention to the identification of projects to be funded by international stakeholders and donors. **The collection and co-ordination of demands and offers for assistance will be monitored by the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe.**

5. **The terms of reference and rules of procedure** of the Working Groups will be set up at the first meeting of the Permanent High-Level Committee, to take place in Brussels on 9 and 10 December 2003, at the invitation of the Belgian Federal Public Service for Employment, Labour and Social Dialogue.

#### 6. **Financing the co-operation process:**

The above-mentioned international organisations and international financial institutions are invited to provide long-term assistance to our process of co-operation on employment.

In particular, we ask for support from the stakeholders of the ISC of the Stability Pact for South Eastern Europe.

#### 7. **Entry into force of the process of co-operation:**

The process of co-operation, as described above, will enter into force on **9 and 10 December 2003**, at the occasion of the first meeting of the Permanent High-Level Committee.

