



# MONTENEGRO

## Social Protection Situational Analysis



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## List of acronyms

<b>ALMPs</b>	Active Labor Market Programs
<b>CEE</b>	Central and Eastern Europe
<b>CIS</b>	Commonwealth of Independent States
<b>CPI</b>	Consumer Price Index
<b>CSW</b>	Center for Social Work
<b>EAM</b>	Employment Agency of Montenegro
<b>ECA</b>	Europe and Central Asia
<b>ESPN</b>	European Social Policy Network
<b>ESSPROS</b>	European System of Integrated Social Protection Statistics
<b>ETF</b>	European Training Fund
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>GIP</b>	Graduate Internship Program
<b>ISCP</b>	Institute for Social and Child Protection
<b>MO</b>	Material Support
<b>NEET</b>	Neither in Employment, Education or Training
<b>NGO</b>	Non-Governmental Organization
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PAYG</b>	Pay-As-You-Go
<b>PIO</b>	Fund for Pension and Disability Insurance
<b>PPP</b>	Purchasing Power Parity
<b>SDG</b>	Sustainable Development Goals
<b>SILC</b>	Survey on Income and Living Conditions
<b>SPEED</b>	Social Protection Expenditure and Evaluation Database
<b>SWIS</b>	Social Welfare Information System
<b>UNDP</b>	United Nations Development Programme
<b>WDI</b>	World Development Indicator

# Introduction

**A period of economic growth over the past decade led to a reduction in poverty and improvements in labor market outcomes in Montenegro.** The country's prolonged recovery from the global financial crisis until 2013 was followed by a period of sustained positive economic growth until the COVID-19 pandemic-induced recession. On the back of strong construction, tourism and retail sectors, employment had increased consistently and labor force participation rallied. As a result, the employment-to-population rate increased from 39 percent in early 2013 to almost 50 percent in the second quarter of 2019. The poverty rate measured at \$5.5 purchasing power parity (PPP) declined substantially by an estimated 8 percentage points in the last decade.

**Substantial challenges remain, which have been aggravated by the COVID-19 pandemic, drawing attention to the role that social protection plays in reducing poverty and promoting human capital.**

Despite the recent reductions in poverty, levels of poverty remain high relative to European Union (EU) countries. Households in the northern and rural areas continue to have a higher likelihood of being poor and have worse labor market outcomes than central Montenegro and the coastal region. Additional challenges such as high informality, emigration and an aging population pose barriers to inclusive and sustainable economic growth in the coming years. The COVID-19 pandemic has exacerbated these inequalities. Montenegro saw the largest economic decline in the Western Balkans, as real GDP shrunk by 15 percent. In 2020, poverty is estimated to have increased by more than 5 percentage points and inactivity rates went up 2 percentage points higher than prior to the COVID-19-induced crisis. In order to again reduce the incidence of poverty, measures to create more job opportunities must be complemented by an effective social protection framework, complementing cash support with access to adequate services. Securing continued investments in human capital will also increase social and economic resilience, while simultaneously fostering long-term growth.

**This note presents a situational analysis of the social protection system in Montenegro.** It assesses the extent to which the social protection system in Montenegro fulfils its purpose and proposes areas for reform in the short, medium, and long term. To this end, this note seeks to assess each category of social protection, namely: social assistance, social services, social insurance (specifically pensions) and labor market programs, in terms of program coverage, equity, sustainability and effectiveness. Box 1 further defines these four categories according to World Bank definitions for the sake of comparability to other countries. Based on this analysis, this note proposes policy priorities and future areas of focus. The note is based on analysis of administrative data, the most recent Survey on Income and Living Conditions (SILC 2019) and Labor Force Surveys, a review of relevant literature, and engagement with technical experts in relevant ministries and employment institutes conducted as part of the Social Protection System Assessment commissioned by UNICEF (2021b).

**The analysis finds that Montenegro's comprehensive social protection system is not used to its full potential.** With over 30 programs covering different groups of people in need, the system covers more than half of the population in Montenegro. The high coverage of social protection had, up until recently, been almost entirely due to the wide reach of pensions (which fall under social insurance), whereas the coverage of social assistance has been low. Through the introduction of numerous new social assistance programs, the coverage of social assistance is now rapidly expanding. However, not all new schemes have a precise focus on those most in need. The poverty-targeted material support (MO) has been shrinking in size, despite its ability to accurately reach the poorest, while increased funding has been allocated to categorical benefits. Financing of social services has been low and a minimum level of services cannot be guaranteed, despite the increased need and demand, which will only be exacerbated by an aging population requiring long-term care. Spending on labor market programs has been high

### **Box 1: What are social protection systems?**

As this note is part of regional work social protection systems are categorized into social assistance, social insurance (pensions), social services and employment and labor market programs as defined below.

**Social assistance** targets the poor and vulnerable. These programs reduce chronic poverty and protect people from falling into poverty, provide support for other vulnerabilities and provide support at certain points in the lifecycle. Assistance includes non-contributory programs such as cash transfers, in-kind support or other forms of targeted consumption assistance as well as family- and child-related cash benefits, synonymous to benefits in the social and child protection system in Montenegro.

**Social insurance** targets the population at large. These programs are intended to help people smooth income across the lifecycle and protect them from shocks. Social insurance programs are contributory and provide benefits to those that contributed to the program, with the level of benefit related to their contribution. Examples include old-age pensions or disability pensions.

**Social services** target individuals and families to improve or preserve their quality of life, eliminate and mitigate the risk of adverse life circumstances and create opportunities for independent living. Foster care or elderly care are examples of these services. Social services according to this definition are synonymous to Montenegro's social and child protection services.

**Employment and labor market programs** improve the inclusiveness and effectiveness of labor markets. They aim to increase and/or improve the quality of labor supply, labor demand and job matching, and protect income against labor market shocks or during life events such as parenthood. They include job-search assistance, skills training, wage subsidies, public works, unemployment benefits and parental benefits.

relative to regional peers but is largely targeted toward well-educated segments of the population rather than those most vulnerable, who have the most difficulty (re)entering the labor market.

**In the last 10 years Montenegro started planning and initiating substantial reforms in social assistance, social services and pensions.** The former Ministry of Finance and Social Welfare outlined a roadmap of reforms for the social protection system, some aspects of which have already been put into practice. The government is reforming the country's outdated and fragmented disability assessment by adopting a human rights based model of understanding disabilities, which aims to provide more just and equal access to cash benefits and social services. The aim of deinstitutionalization drives social service reforms and the much-needed transition to family- and community-based services has been progressing, although slowly. In 2020, a pension reform was enacted in Montenegro which, in the long run, is expected to maintain the adequacy level of pensions but at the expense of the fiscal sustainability. A recently introduced quasi-universal child benefit will increase the coverage

of social assistance of children, a particularly vulnerable group in Montenegro. A further expansion to all children under the age of 18 was passed in the Parliament and started in October 2022.

**While this commitment to expand access to social protection is commendable, the (re)introduction of numerous fragmented and untargeted programs is projected to more than double social assistance spending, implying the need to reassess the fiscal sustainability of the sector and public expenditure as a whole.** The current parliament has introduced or announced multiple social assistance programs. The child allowance has been expanded to all children under the age of 18 years, with payments having started in October 2022. The recently abolished mothers' benefit was re-introduced for previous beneficiaries in April 2022. Furthermore, spending on one-off transfers, which can be issued at the discretion of any ministry, is quickly expanding and multiple minimum wage hikes are further increasing the deficits of contributory programs, given that some benefit levels are calibrated to the minimum wage. Given the newly-introduced programs, increases in minimum wages and the expansion



sion of the child allowance to all children up to the age of 18, spending on social assistance is projected to more than double from the current equivalent of 1.3 percent of GDP in 2019 to an estimated 3.0 percent in 2023, which will place Montenegro among the countries with the highest level of spending on social assistance in Europe and Central Asia (ECA) and above that for middle-income countries. Such substantial increases in untargeted social assistance spending risk the fiscal sustainability of the social and child protection system in an environment of tightening budget and high public debt. More specific analysis of announced benefits is provided in the text below.

**Continued commitment to investments and reforms is therefore required to improve the effectiveness and equity of the system.** To further advance the balance, effectiveness, efficiency and sustainability of Montenegro’s social protection system, the country will need to further improve its poverty-targeted programs, provide adequate and sufficient services, and invest in the human resource capacity of key implementing institutions. Montenegro’s highly developed social welfare information system (SWIS) has the potential to introduce a transparent method for identifying the poorest families for the material support (that is, expanding social assistance while improving targeting accuracy of social benefits). A strategy and coordinated efforts are needed on increasing the supply and quality of preventive, outreach and support services for children and families, community services for adults with disabilities, and the non-public provision of elderly services. Improved coordination and clearly defined obligations across national and local levels is needed to ensure the financing, provision and referral of a minimum basket of social services. The effectiveness of active labor market programs (ALMPs) could be strengthened by better targeting vulnerable groups and an increased focus on monitoring and evaluation. Finally, disaster preparedness and response could be strengthened by reassessing the targeting method to allow for the expansion of the program in times of need. In addition, the SWIS could be expanded into a full social registry, by including potential beneficiaries and including disaster risk indicators in the SWIS, thus linking disaster risk response and social protection policies.

**The situational analysis note is structured as follows:** the next section reviews the main poverty and labor market outcomes in Montenegro, comparing it with peers and relevant country groups. Section

3 introduces a framework to consider the performance of the social protection system and then outlines the broad characteristics of social protection in Montenegro, by program type and expenditure. The following sections assess the performance of each sub-sector of social protection. Section 4 looks at non-contributory cash transfers to support the poor, the vulnerable and persons with disabilities and assesses recent changes to the child allowance. Section 5 discusses social services, and Section 6 discusses the most recent pension reform in 2020. Section 7 then explores employment and active labor market programs. Section 8 considers the recent social protection response to the COVID-19 pandemic and Section 9 concludes by offering an assessment of the main areas for reform.

# Poverty and labor market outcomes

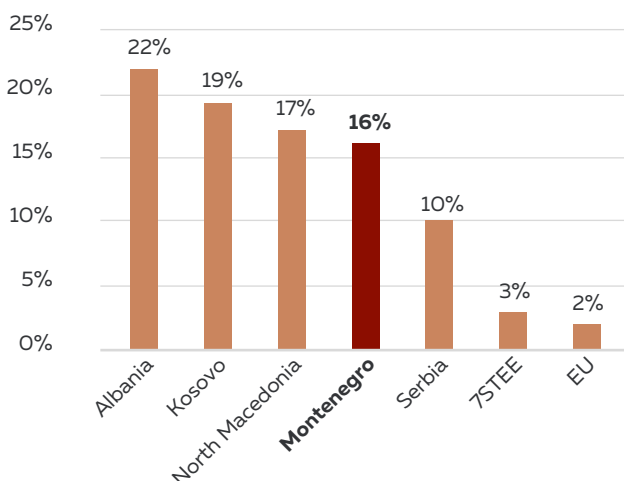
Montenegro experienced significant poverty reduction until 2019, leading to the lowest poverty rate in the Western Balkans (Figure 1). Between 2013 and 2019 the economy grew on average by 3.7 percent and economic growth was accompanied by a reduction in poverty, estimated at over 5 percent over the same time span (Figure 2) and a reduction in inequality. Nevertheless, Montenegro continues to have the most unequal income distribution in the Western Balkans, as measured by the Gini coefficient. The Northern and rural areas have significantly higher poverty rates: in 2017 they were estimated to be around 25 and 27 percent, respectively, relative to the national rate of 16 percent (World Bank 2021b). These inequalities reflect persistent gaps in access to education, health and economic opportunities, which disadvantage Roma, women, youth and people living in the northern and rural areas.<sup>1</sup>

However, large parts of the population continue to be at risk of poverty. In 2021, more than one fifth of the population (21.2 percent) was at risk of poverty.<sup>2</sup>

Children, the uneducated and rural households are particularly vulnerable to poverty.<sup>3</sup> One out of three children was estimated to be at risk of poverty. Members of the Roma and Egyptian community also continue to face significant barriers and inequalities in access to economic opportunities and basic services, such as the labor market, education and health care.

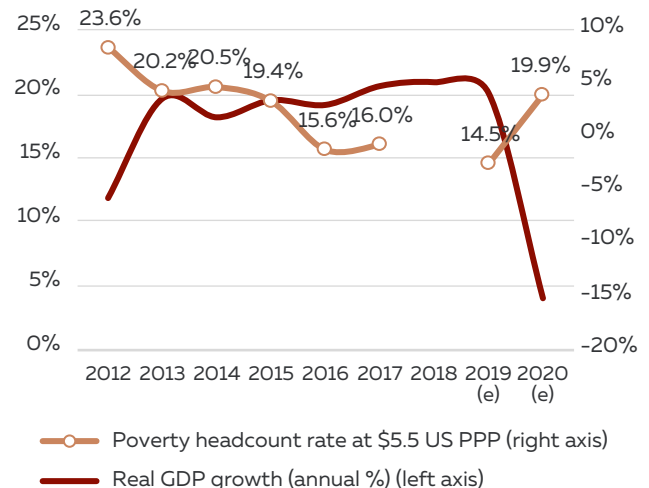
Montenegro's labor market had improved substantially in the decade leading up to the COVID-19 pandemic. Between 2008 and 2013, the employment rate remained around 40 percent. Since then, employment has increased significantly, with 57 percent of the working-age population employed in the second quarter of 2019<sup>4</sup>. In the same time span, the unemployment rate also decreased by almost 5 percentage points, from 19.5 percent in 2013 to 14.7 percent in the second quarter of 2019 (Figure 3). In the decade leading up to the COVID-19 pandemic, inactivity had decreased by more than 10 percentage points, 3 percentage points lower than the

**Figure 1: Poverty headcount ratio at \$5.50 a day (2011 PPP) (% of population), 2021 estimates**



Source: World Development Indicators using SILC-C data for SRB, MKD, MNE, 7STEE and EU, and HBS data in KSV. Income measures in the SILC and consumption measures in the HBS are not strictly comparable. Note: 7STEE refers to the seven small transition economies of Europe, namely Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic, and Slovenia.

**Figure 2: Poverty had been decreasing prior to the COVID-19 pandemic**



Source: World Bank (2021b).

<sup>1</sup> Montenegro is divided into only three statistical regions: Northern, Central and Coastal.  
<sup>2</sup> The at-risk poverty rate is set using 60 percent of the median equivalized income after social transfers. Eurostat indicator ILC-LI02 based on the EU-SILC (Accessed January 2022). [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_li02\\$DV\\_548/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_li02$DV_548/default/table?lang=en)  
<sup>3</sup> World Bank. 2021. Poverty & Equity Brief Europe and Central Asia: Montenegro. October 2021 and October 2019.  
<sup>4</sup> The situational analysis uses the most up-to-date comparable data. While later data is available for Montenegro, it is not for other countries, or is not comparable due to the COVID-19 pandemic. The analysis and recommendations remain the same even when just taking into account the latest available data.

Western Balkans' average but high at 33 percent in second quarter of 2019. Montenegro continues to struggle with long-term unemployment among the unemployed. The country has the highest share of long-term unemployed in the Western Balkans (80 percent of total unemployed). Data on informality are limited, but 2014 data suggest that informality makes up significant shares of the economy and labor force and that it limits government revenues. At the time, almost a quarter of economic activities were conducted in informal sectors and a third of the labor force was working informally (Radulovic 2014). In 2018, Montenegro had the lowest share of youth neither in employment, education or training (NEET) in the Western Balkans (16.2 percent), nearly 6 percentage points below the average NEET across the six Western Balkan countries (22.1 percent) (Figure 3). The NEET rate in Montenegro, however, is estimated to have steeply increased to up to 26.6 percent in 2020 (European Commission 2021).

Although inequality has been reducing in Montenegro, significant discrepancies across regions, gender and ethnicity remain. Despite having some of the smallest gender gaps in terms of labor market outcomes in the Western Balkans, women continue to be 17 percentage points more likely to be inactive than men. Gender disparities are especially persistent among already disadvantaged members of the Roma community. Economic welfare is concentrated in the urban and coastal regions, and out-migration to the capital Podgorica or the coast is high (World Bank 2021b). Labor market outcomes, which are highly correlated with poverty outcomes in Montenegro, reflect these inequalities: Six out of ten unemployed individuals are from the Northern region. In the second quarter of 2019, the unemployment rate of the Northern region as share of the total labor force was 34.7 percent, more than double that of the national average (14.3 percent).<sup>5</sup> Furthermore, due to the existing primary resources

Figure 3: Labor market indicators, Western Balkans



Source: SEE Jobs Gateway: <https://data.wiiw.ac.at/seejobsgateway.html>.

Note: Data for employment, unemployment and inactivity are for 2019 Q2; data for NEET rate are for 2018.

<sup>5</sup> SEE Jobs Gateway.

in the Northern region, employment has largely been conducted in agriculture and forestry, with much of the population leaving to urban centers looking for higher wages (ETF 2021).

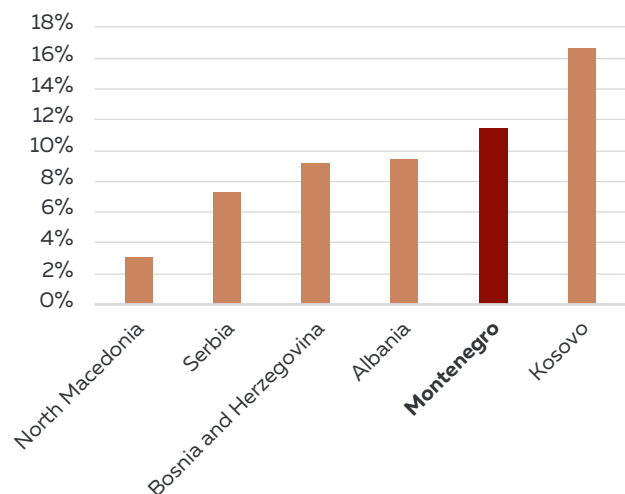
**The COVID-19 pandemic wiped out previous gains in employment and poverty reduction.** In 2020, Montenegro was hit by one of the deepest recessions in Europe, with the economy contracting by 15.2 percent, largely as a result of decreased tourism due to the pandemic and ensuing ripple effects (World Bank 2021c). An estimated 19.9 percent of the population lived on less than \$5.5 PPP per day in 2020, up more than 5 percentage points relative to the previous year (see above Figure 2). Most of the employment gains made over the last decade were also wiped out, as the dominant service industry, especially tourism, was most severely impacted by the COVID-19 crisis. The number of registered unemployed rose from 37,616 in December 2019 to 47,509 in December 2020 (World Bank 2021c). The unemployment rate of 2020's last quarter was estimated at 21.2 percent, the highest quarterly estimate since early 2013.<sup>6</sup> Simultaneously, already-high-inactivity rates rose further, with the labor force participation decreasing by an estimated 6.3 percentage points.<sup>7</sup> The pandemic highlighted the unequal burden of domestic work, with inactivity rates rising 8 percentage points for women between the first and last quarter of 2020 versus 4.5 percentage points for men.

**The labor market has shown continuous improvement since 2021.** In 2021, activity rate was at 51 percent, employment rate at 42.5 percent, and unemployment rate at 16.6 percent. There have been solid gains in 2022: Labor Force Survey data reveal a 30 percent increase in employment in Q2 2022, which equally benefited male and female employees. The activity rate rose to 59.5 percent in Q2 from 46.8 percent a year ago, while in the same period the unemployment rate fell to 14.6 percent from 17.1 percent in Q2 2022.

**Montenegro relies heavily on remittances, which plunged during the pandemic but have since helped the country recover.** As a result of heavy outmigration of Montenegrins in the past, annual personal transfers from abroad to households in Montenegro are the equivalent of 11.4 percent of GDP, the second highest in the Western Balkans only second to Kosovo (Figure 4). Remittances play an important role in supporting households with workers in the informal economy who do not have

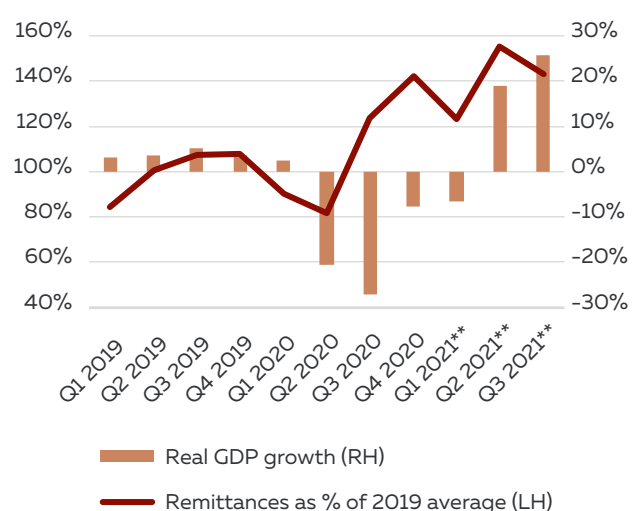
access to social insurance mechanisms but also, due to their higher welfare, do not qualify for social assistance (Kolev and La 2021). During the COVID-19 pandemic, remittances reduced significantly during the second quarter of 2020 relative to the 2019 average but quickly recovered and has since been increasing to all-time highs (Figure 5). The flow of remittances has since acted as a complement to cash transfer programs to support families during hardship. Public policies focusing on the facilitation of such remittances can help support the recovery from the pandemic.<sup>8</sup>

**Figure 4: Remittances in the Western Balkans (% of GDP), 2021**



Source: Global Knowledge Partnership on Migration and Development (KNOMAD) (2022).

**Figure 5: Remittance trends 2019Q1–2021Q3 (% of 2019 average)**



Source: WDI and Central Bank of Montenegro (2019–2021).  
Note: \*\* indicate that GDP figures are estimates.

<sup>6</sup> MONSTAT.

<sup>7</sup> ILOSTAT.

<sup>8</sup> See, for example, Ratha and Kim (2022) on how to facilitate the flow of remittances.

# The social protection system in Montenegro

**Social protection is a fundamental pillar of social policies.** Conceptually, social protection systems rest on four main pillars: social assistance, social services, social insurance and labor market programs. Social assistance generally aims to protect people from falling into poverty and to provide support at certain points in the life cycle or respond to particular vulnerabilities. It encompasses non-contributory programs (that is, government funded), including non-contributory pensions (often called social pensions), and family- and child-related cash benefits. Social services support individuals and their families to improve their living conditions when facing various risks throughout the life cycle, such as children, adolescents, the elderly and persons with disabilities. Social insurance aims to smooth income across the life cycle and to protect people from shocks and typically comprises benefits based on individual contributions (that is, old-age pensions, disability pensions and survivors' pensions); individuals who contribute to these programs are entitled to benefits, usually based on the length and level of their contribution. Finally, employment and labor market programs aim to improve the functioning

of the labor market (through employment services), to enhance labor supply (through training) and to increase labor demand (through subsidies or public works); they also seek to smooth income during unemployment (through unemployment insurance) or to protect employment due to childbirth (through parental benefits).

**While each benefit or service addresses a specific need against which its performance is often assessed, it is also important to analyze whether the system as a whole fulfills its objectives.** Table 1 provides an overview of the social protection system in Montenegro according to these four broad categories of social protection and the benefits and programs under each. The government has recently, or is in the process of, introducing a number of new social protection programs, such as a free text-book program for children in elementary schools, social vouchers, an alimony fund and a new birth grant. These programs were only be partially considered, given the limited public information at the time of writing.

**Table 1: Overview of the social protection in Montenegro**

Category	Benefits and programs
<p><b>Cash transfers to support the poor, the vulnerable and persons with disabilities</b></p>	<ul style="list-style-type: none"> <li>• Material Support (MO)</li> <li>• Veterans and disability protection<sup>9</sup></li> <li>• Child allowance</li> <li>• Personal Disability Allowance</li> <li>• Care and Support Allowance</li> <li>• Guardian allowance for disability and care benefits</li> <li>• Old-age benefit for farmers</li> <li>• Transportation subsidy</li> <li>• Costs of nutrition in kindergarten</li> <li>• Benefit for a newborn child</li> <li>• Paternity benefit for registered unemployed</li> <li>• Mothers' benefits</li> <li>• Funeral Costs and Electricity Subsidy</li> <li>• One-time cash assistance</li> </ul>

<sup>9</sup> The Law on Veterans and Disability Protection 2003 defines both the eligible veterans and the benefits for which they are eligible. The analysis of such are, however, outside of the purview of this analysis.

<b>Social services</b>	<ul style="list-style-type: none"> <li>• Support services such as day care, homecare, personal assistance, interpretation and translation into sign language etc.</li> <li>• Counselling therapy and social-education services</li> <li>• Accommodation services</li> <li>• Services for urgent interventions</li> <li>• Other services</li> </ul>
<b>Pensions</b>	<p>Contributory pensions (state budget funds the deficit)</p> <ul style="list-style-type: none"> <li>• Old-age pension</li> <li>• Disability pension</li> <li>• Survivor's pension</li> </ul>
<b>Employment and labor market programs</b>	<ul style="list-style-type: none"> <li>• Graduate Internship Program</li> <li>• Public Works</li> <li>• Adult learning and training</li> <li>• Training for work at the employer</li> <li>• Training for independent work</li> <li>• Stop the grey economy program</li> <li>• Unemployment Benefit</li> <li>• Maternity / Paternity benefit</li> </ul>

**Montenegro's social protection system is relatively centralized, especially with respect to financing, planning and policy design.** The Ministry of Labor and Social Welfare (MLSW) is responsible for policy design and implementation through the 13 Centers for Social Work (CSW), some of which are responsible through branch units for multiple of the 24 municipalities, and a network of public and non-public institutions providing social services.<sup>10</sup> The Employment Agency of Montenegro (EAM) is an independent body under the supervision of the Ministry of Labour and Social Welfare which provides employment services and unemployment benefits to registered unemployed, while also designing and implementing active labor market policies (ALMPs). The independent Fund for Pension and Disability Insurance (PIO) administers pension payments and contributions, and individual information is collected regularly and efficiently by the Tax Administration for the benefit and use of all other involved agencies. The administration of social assistance, as well as the provision of social services, is the responsibility of CSWs. Apart from the state, municipalities can design, implement and finance their own programs and services such as the provision of free textbooks for children for extremely vulnerable families or homecare for elderly.

**Montenegro has similar expenditures on social protection as the average Western Balkan country, driven mostly by spending on social insurance.**

In 2019, spending on social protection (excluding spending on health care<sup>11</sup>) reached 10.7 percent of Montenegro's GDP, similar to the average spent among countries in the Western Balkans and above the average for the ECA Region (Figure 6).<sup>12</sup> Spending on social protection is dominated by social insurance expenses. Unlike in neighboring countries, spending on social insurance as a share of GDP has declined in recent years, following consolidations across pension schemes (see Figure 7 and section IV for more details). Similarly, spending on social assistance had declined up until 2020 following the removal of a costly mothers' benefit. Spending on social assistance in 2019 (1.3 percent of GDP) was well below both the Western Balkan and the ECA average (2.2 and 1.75 percent of GDP respectively). Of this, only a fraction explicitly aims to reach the economically deprived: only 0.5 percent of GDP was spent on means-tested programs in Montenegro according to the European System of integrated Social Protection Statistics (ESSPROS) database for 2018 (compared with the average of the 27 EU countries of 2.9 percent of GDP). In 2020, during the Covid-19 pandemic, nominal spending on social protection remained almost constant, despite a stark contraction of the economy. Notwithstanding this, the government accessed the equivalent of 3.4 percent of 2020 GDP from its budgetary reserves,<sup>13</sup> the exact use of which is not apparent from official data sources.

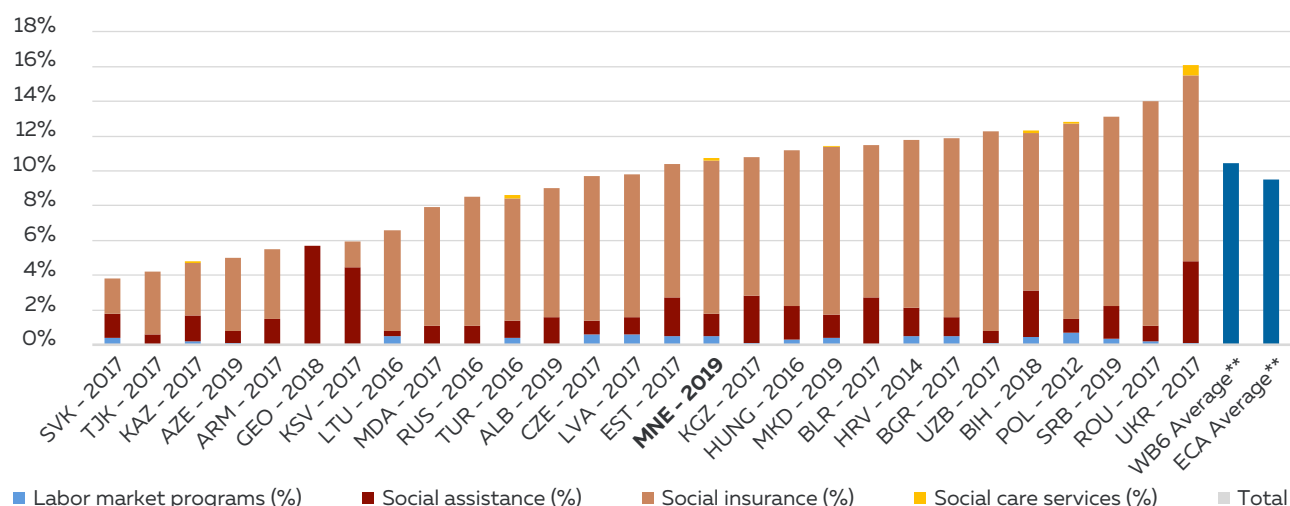
<sup>10</sup> In 2020, the Ministry of Finance and the Ministry of Labor and Social Welfare were merged into the Ministry of Finance and Social Welfare. This merger was reversed in May 2022, but this analysis was not revised to reflect that.

<sup>11</sup> Unlike the World Bank, the European System of integrated Social Protection Statistics (ESSPROS) reports sickness/health care as part of social protection expenditure data and is hence not comparable. Using the ESSPROS methodology, social protection spending in the EU averaged 26.9 percent of GDP in 2019 and 16.3 percent in Montenegro.

<sup>12</sup> The World Bank ECA Region comprises of countries in Central and Eastern Europe (CEE), the Western Balkans and the Commonwealth of Independent States (CIS) sub-regions.

<sup>13</sup> This line is referred to as a reserve fund used for unforeseen expenditures, with spending authorized by the Ministry of Finance, but usage of the funds is not documented transparently to the public (OECD 2011).

Figure 6: Expenditure on social protection programs (% of GDP), ECA countries



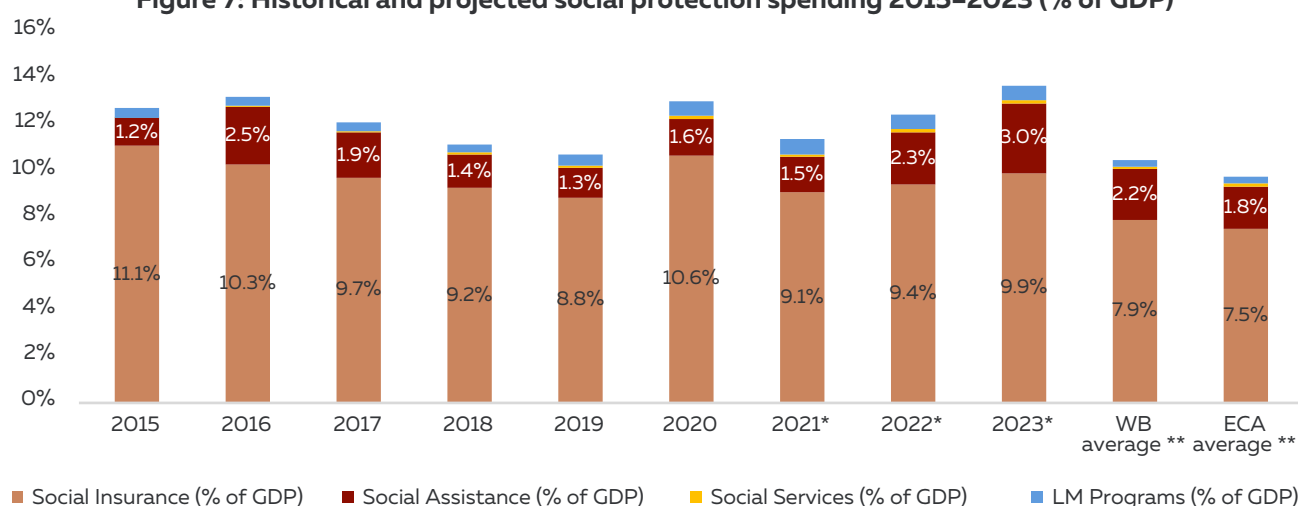
Source: World Bank SPEED Database (Accessed June 2022).

Note: \*\* Indicate an arithmetic average of the total SP spending (%) among all listed ECA countries or the six Western Balkans countries on the chart: Albania, Serbia, Montenegro, North Macedonia, Kosovo and Bosnia and Herzegovina.

Social protection spending is estimated to increase rapidly in the coming years as part of increases in social insurance and social assistance spending. As part of substantial reforms which included multiple minimum wage hikes, tax reforms and the (re)-introduction of a number of social assistance programs, spending on social protection will likely increase to well beyond the current average of countries in the region. Reforms to the pension system conducted in 2021, as well as changes to the minimum wage, are estimated to lead to social insurance spending increases from the equivalent of 8.8 percent of GDP

to 9.9 percent by 2023. Social assistance spending is estimated to increase from 1.3 percent of GDP in 2019 to 3 percent in 2023 (Figure 7). This is estimated to lead to total social protection spending increasing to up to 13.5 percent of GDP, above the spending levels of similar countries in the European Union, such as Latvia, Lithuania and Estonia, as seen in Figure 6, and much above the average spending of 9.5 percent of GDP among ECA countries (Figure 7).<sup>14</sup> Further details on the reforms and simulations are provided in the relevant sections below.

Figure 7: Historical and projected social protection spending 2015–2023 (% of GDP)



Source: World Bank SPEED Database (Accessed June 2022). Note: \* indicates that expenditures are estimated and \*\* indicates a simple arithmetic average of spending in the latest year available in the relevant countries. The 2019/2020 pension reforms initiated a reversal in the trend of social insurance spending. In nominal terms expenditures, however, only increased marginally in 2020, whereas the large increase recorded here can almost entirely be attributed to the substantial drop in GDP as a result of the COVID-19 pandemic.

<sup>14</sup> Using the ESSPROS methodology, Montenegro's spending is below many of these countries and the EU average. This data are, however, not comparable and lower spending is by in large due to higher spending on pensions. In 2020, the average EU country spent 2 percent of GDP on family and child benefits and 1.1 percent on social exclusion not elsewhere classified. In 2019, prior to the introduction of the named benefits, Montenegro spent 0.6 percent on family and child benefits and 0.4 percent on social exclusion benefits not elsewhere classified. Projected spending for 2023 is compared to current country averages which do not include the potential introductions or increases of spending elsewhere in the future.

# Cash transfers to support the poor, the vulnerable and persons with disabilities

Montenegro's social assistance system relies on strong delivery systems, providing financial assistance to poor families, people with disabilities, children under the age of six, as well as veterans and old-age farmers not covered through formal social insurance. While spending on social assistance has recently been low, it is set to increase more than twofold in the coming years, mostly due to the reintroduction of a benefit for mothers with three or more children and the expansion of the quasi-universal child allowance to all children below the age of 18. Meanwhile, coverage and adequacy of the poverty-targeted material support has remained low, despite the increased needs brought about with the COVID-19 pandemic. With the introduction and expansion of fragmented social assistance programs and those not necessarily backed up by evidence and cost-benefit analysis, the government risks the deterioration of the cost-effectiveness of social assistance spending. Reforming some of the current and announced categorical eligibility criteria and reassessing the targeting method of the last-resort income support would help reduce some of the existing exclusion errors. A much-needed reform to move from a medical model to a rights-based model of disability assessment is ongoing. Strong government commitment is needed to successfully coordinate the reform which will accelerate the just and equitable provision of disability benefits and integrated services.

**Social assistance consists of four significant programs which are supplemented by multiple smaller benefits.** Expenditures on social assistance in Montenegro were equivalent to around 1.3 percent of GDP in 2019, well below the average of the Western Balkans (2.2 percent) but similar to the average in ECA (1.8 percent).<sup>15</sup> Social assistance in Montenegro revolves around four main transfer programs, beneficiaries of which become eligible for a number of supplemental benefits. Of these four main transfer programs, two are targeted toward people with disabilities or those in need of care and their families: (i) the personal disability allowance and (ii) the care and support allowance. Parents or guardians of recipients of these two allowances can receive an additional allowance.<sup>16</sup> The two remaining main programs are the poverty-targeted last-resort income support, the material support (MO), and the quasi-universal child allowance for all children under the age of six years.<sup>17</sup> According to the Law on Social and Child Protection, all beneficiaries of the two disability-related allowances, as well as those on MO, are eligible to receive an increased child allowance (higher than the amount allocated to all children under the age of six) and until 18 years of age, an electricity subsidy and subsidized access to health insurance. In addition, all material support recipients are eligible to receive support for funeral costs, a benefit to cover the cost of kindergarten and its meals, textbooks, holidays (seven days per child) and a subsidy for transportation costs for children

and youth with disabilities. The Ministry of Agriculture provides certain elderly farmers who are not covered by social insurance with a separate means-tested pension. Lastly, an individual or a family may receive a one-off cash transfer at the discretion of the CSW, municipalities or other institutions, usually not more than once per year. Further details on the design of the main programs is provided below.

**Currently, social assistance expenditures are dominated by the allowances to support persons with disabilities.** Among the set of programs that support persons with disabilities, the largest program in terms of spending is currently the care and support allowance, with EUR 14.4 million, or the equivalent of 0.3 percent of GDP, spent in 2019. The personal disability allowance, a similar, significantly more generous allowance only for those deemed severely disabled by a medical commission, and the allowance for their parents or guardians, each account for the equivalent of about 0.1 percent of GDP in 2019. These three allowances for persons with disabilities have seen a significant rise in expenditures. In 2015, the equivalent of 0.33 percent of GDP were spent on the three allowances. In terms of GDP, these expenditures doubled by 2020 to make up 28 percent of total social assistance spending (Figure 8). In contrast, MO spending has been relatively consistent and small, with the equivalent of 0.21 percent of GDP, or EUR 10.3 million, having been spent on transfers for the last-resort income support in 2019.

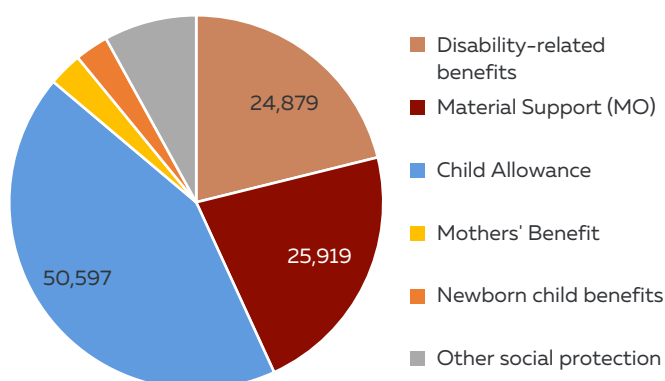
<sup>15</sup> World Bank SPEED Database (2022).

<sup>16</sup> Article 39a specifies that the allowance is for parents and guardians of beneficiaries of the personal disability allowance but can also be provided if they are parents or guardians of two or more beneficiaries of the care and support allowance, or to beneficiaries of both the personal disability allowance and the Care and Support Allowance.

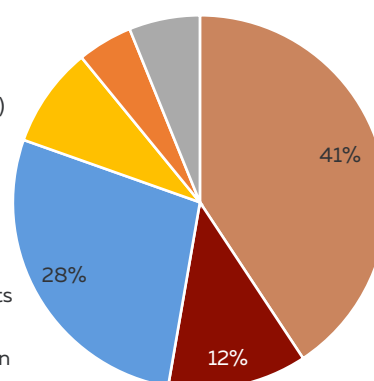
<sup>17</sup> The child allowance only provides benefits for up to five children and, hence, is not entirely universal. Instead, it partially excludes large families, which particularly affects members of the Roma and Egyptian communities.



**Figure 8: Beneficiaries by program, December 2021**



**Figure 9: Share of expenditures by program, December 2021**



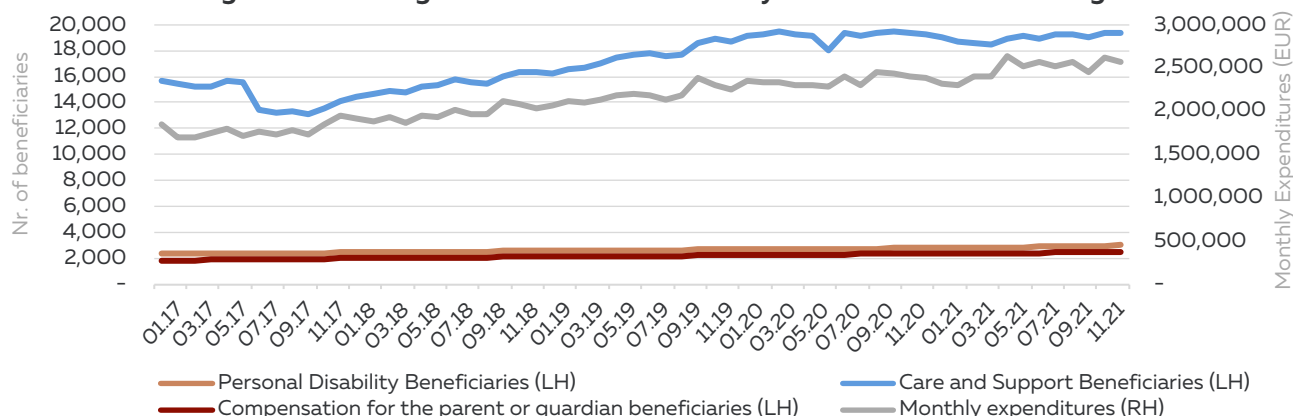
Source: Ministry of Finance and Social Welfare (2022). Note: Disability-related benefits in this graph capture the personal disability allowance, the care and support allowance and the compensation for parents or guardians of beneficiaries.

Spending on the child allowance has been small in recent years, in large part due to its limited categorical eligibility, as detailed further in the note. In 2019, around EUR 4.5 million was spent on the child allowance, which is the equivalent of 0.09 percent of GDP. Figure 8 and Figure 9 present the distribution of beneficiaries across programs and the associated expenditure for 2021.

**Expenditures on disability and care are high and increasing steadily, and the value of the transfers provided is not based on an assessment of the additional cost of living with a disability.** As discussed above, there are three main disability-related benefits, (i) the personal disability allowance, (ii) the care and support allowance and (iii) the compensation for the parent or guardian of beneficiaries of the previous two allowances. The personal disability allowance is paid to all those with a severe disability and amounts to EUR 207.16 per month (details on the means by which disability is assessed are provided below). Beneficiaries who

do not qualify for the personal disability allowance, but who are assessed as having a more mild disability, may receive access to the care and support allowance, which amounts to EUR 75.97 per month. Eligibility to this transfer is defined in a broader sense for persons requiring care and support due to bodily, mental, intellectual or sensory disorders. Conditional on not using a public accommodation service, parents or guardians of persons with disabilities can also avail of a caregiving allowance of EUR 224.36 per month. Beneficiary numbers of all three allowances have been rising consistently (Figure 10). Due to a fragmented disability assessment being the main gateway into these benefits, the exact cause of rising beneficiary numbers is unclear. The fragmented assessment also leads to unequitable provision of disability benefits. The caregiving allowance is provided irrespective of beneficiaries' employment or pension status, while also remaining eligible for a number of other benefits such as the increased child allowance or electricity subsidy.<sup>18,19</sup> The care and support allowance cannot

**Figure 10: Coverage and total cost of disability-related benefits are rising**



Source: Ministry of Finance and Social Welfare Social Welfare Information System (2022).

<sup>18</sup> Parents or guardians are eligible if they provide care to either (i) a beneficiary of the personal disability allowance and one or more recipients of the care and support allowance or (ii) two or more beneficiaries of the right to care and support allowance. The compensation of EUR 193 is provided for each person in care of the parents or guardians.  
<sup>19</sup> Public accommodation service can refer to family placements, foster care or institutional accommodation, as long as the service is paid for by the government for more than 60 days.

be allocated to professional caregivers. Allocating support to persons with disabilities residing in households with higher incomes is reasonable if the aim is to support their equal participation in society by financing the additional costs arising from their disability; however, the country lacks an assessment of additional costs of living and participation with disability, which would in turn inform adequacy of disability-related benefits and their combination.

**Disability assessments used to access services and benefits are outdated and fragmented.** The first step required for persons with disabilities to be eligible for any type of benefits or services is to undergo an assessment of a Social and Medical Commission on the level of disability. There are 30 commissions which assess and determine disability in Montenegro and their setup differs depending on which ministry's jurisdiction they fall under. However, they generally consist of mostly medical doctors. Most assessments are based on the medical model of disability which solely determines whether or not individuals are 'able-bodied', although the commissions operating in the education and employment sector apply a more advanced version of a socio-medical concept. This leads to some persons with severe disabilities, in particular persons with mental health issues, not being eligible for services or benefits and instead being deprived of their legal capacity (UNDP 2021). The government is developing a new disability assessment which is to be based on an ability-based socio-medical model under the Reform of National Disability Determination System Project financed by the EU and implemented by the Ministry of Labor and Social Welfare and UNDP (2021).<sup>20</sup>

**Spending on the only poverty-targeted cash transfer has remained constant at low levels.** The MO benefit is the only social assistance benefit that is directly allocated to people who are assessed as being poor and identifies eligible people through a means-test. However, a number of eligibility criteria restrict access to those in need: eligibility to this last-resort income support is conditional on an individual applicant or a family member being either incapable of working or temporarily incapable of working due to being pregnant or having dependent children.<sup>21</sup> All members of the family capable of working must be registered as unemployed with the Employment Agency, and no close relative must be capable of providing financial support. Applicants that pass these exclusionary criteria must also have formal income below a certain threshold and not be in possession or use of differing amounts of real

estate or land.<sup>22</sup> The Law on Social and Child Protection defines 14 additional conditionalities such as not owning certain-sized land or none of the family members having terminated employment in the last year, refused employment in the last two years or received severance pay in the last six months to three years, depending on the severance amount.<sup>23</sup> Evidence from other countries shows that the use of these exclusionary criteria and additional conditionality limit the ability of the MO to effectively reach the poorest households in Montenegro.<sup>24</sup>

**The material support is inadequate for households which rely solely on this program as their source of income to meet their basic needs.** Benefit amounts of the material support match the income eligibility threshold (that is, the maximum income an application unit may receive to not be ineligible for the program). The eligibility threshold for an individual is EUR 76.56 (average of the past three months), or 17 percent of the current minimum wage of EUR 450. The income threshold gradually increases by family size to up to EUR 145.55 for a family of five or more members.<sup>25</sup> Benefit amounts are set at the same level as the previously-mentioned income threshold and, hence, transfers from the material support by itself provide significantly less than what is needed to meet basic living standards in Montenegro. However, in effect, most families receive a higher level of transfers which somewhat improves the adequacy of support, as 83 percent of material support beneficiaries also receive another benefit such as the child allowance or the electricity subsidy (Raketić and Višnjic 2021). The value of the combined benefits, however, has not been assessed. Still, some rely solely on the material support benefit, often the elderly not capable of working and not eligible for a pension or child allowance. In addition, the means test in its current form (directly and rigidly related to employment status) is likely to act as a disincentive for individuals, notably youth to take up formal employment. This is because formal employment would imply the youth's remaining family losing the benefit altogether, although the increased child allowance continues to be paid for one year after exit from the MO.<sup>26</sup>

**The lowering of the retirement age has left a gap in support for persons of age who are not eligible for pensions.** Changes to the pension system in 2020 have also created a gap between the retirement age (now capped at 66) and the age from when individuals are deemed ineligible to work and hence eligible for material support (which remained at 67). The current legislation needs to be adapted to prevent

<sup>20</sup> For a brief project summary, please see: <https://www.me.undp.org/content/montenegro/en/home/projects/reform-of-the-national-disability-determination-system.html>

<sup>21</sup> The precise list of conditions under which an individual is eligible even though he/she is capable of work includes: (i) she is expecting a child; (ii) he/she is a single parent; (iii) a parent maintaining a child or a parent exercising prolonged parental right, in accordance with the law regulating family relations; (iv) he/she has completed education in certain special education programs and day care centers for people with disabilities; (v) he/she has turned 18, if he/she is attending regular secondary school education, until the end of the time limit prescribed for that education; (vi) a child without parental care or a person who was a child without parental care, until he/she finds employment for a time period longer than six months.

<sup>22</sup> Given the high minimum wage, the ability to work while receiving the benefit is theoretical, as the number of opportunities to work for an income that would be below the threshold are limited.

<sup>23</sup> The full list is specified in Article 22 of the Law on Social and Child Protection.

<sup>24</sup> See, for example, the analysis on similar exclusionary categories in Kosovo: World Bank. 2019. "Kosovo Social Assistance Scheme Study: Assessment and Reform Options." Washington DC.

<sup>25</sup> The average monthly income over three months may not exceed EUR 63.50 for an individual, EUR 65.86 for a family with one member, EUR 76.2 for a family with two members, EUR 91.50 for a family with three members, EUR 108 for a family with four members and EUR 120 for a family with five or more members.

<sup>26</sup> In the example given here, another option would be to allow households to restate their family members so that young people may "exit" the family, become employed and improve their welfare independently of the family. While recognizing this option, the disincentives for employment within the design of the MO remain for other households, as does the requirement that family members from other households should be able to provide support.

retirees who are ineligible for pensions, often single-women households, from retiring without social protection coverage.<sup>27</sup>

**Material support coverage is very low because of exclusionary criteria, which also prevent the program from expanding during crises.** In 2019, a maximum of 30,286 individuals received the material support monthly, slightly less than 5 percent of the population, despite around 16 percent living on less than \$5.50 PPP. The number of beneficiaries reduced to a four-year low in September 2021, with 26,250 beneficiaries covered. The combination of rigid exclusionary criteria and means testing with a very low threshold is preventing poor families from receiving the material support benefit (UNICEF 2021a). Explicitly stating the objective of the program is as a last-resort income support for the poor, removing the exclusionary criteria and relying only on an assessment of poverty (such as a means test) would help reduce exclusion errors and increase its coverage of the poor. For example, an UNDP analysis of rejected applicants showed that a quarter of the applications were not eligible due to the strict criteria on landownership (Raketić and Višnjic 2021), giving an indication of the criteria to be reviewed.<sup>28</sup> In the long term, the program's targeting method should be reassessed to target the poor based on statistical evidence and to allow for the dynamic expansion of the program during crises, which may require modifications to the means test or consideration of a proxy means test. The SWIS offers the technical capabilities to implement such a reformed benefit.

**Montenegro's sophisticated information system enhances the social assistance system and provides the technical capacities to reform the material support targeting mechanism.** The Social Welfare Information System (SWIS), which started operating in 2015, is an integrated MIS that combines 18 webservices and 9 databases across different agencies and ministries and covers almost all social assistance programs. The introduction of the SWIS is one of the most significant improvements toward a comprehensive and integrated social protection system in Montenegro (UNICEF 2021a). First, it has become a one-stop solution for managing and monitoring the beneficiaries of social assistance and services funded by the MLSW. Second, it has significantly improved the social protection system's operational efficiency by optimizing the process for confirming eligibility for social assistance. The integration of databases (including tax information, property and asset ownership data, among other) across ministries has enabled CSWs

around the country to verify applicants' eligibility within minutes and almost completely abolished the need of applicants to physically collect documents from multiple agencies for eligibility verification. The SWIS has a host of analytical functions to eliminate duplication of benefits for individuals and within a family. All non-automated analyses are currently outsourced, because the ministry has little in-house capacity to conduct data analysis, including to evaluate programme effectiveness, analyse past data to predict support needs, refine support and perform outreach function. Notably, the SWIS does provide the MLSW with the capacities to introduce a statistical scoring formula which would be derived from survey evidence. This would allow for programs to be well-targeted and for coverage to expand. Increased coverage of social protection can also improve the quality of administrative databases which are integrated in the SWIS, which in turn can be used to inform and improve policy making, in the event that the SWIS remains an integrated beneficiary database. However, expanding this toward a social registry offers other avenues for data collection and analysis, which would need to be supported through revised business processes within the CSWs.

**The new child allowance for children under the age of six will significantly reduce poverty, replacing an inadequate previous child allowance with high exclusion errors.** According to the 2021 survey on income and living conditions (SILC), an estimated 30.5 percent of children below 18 were at risk of poverty. In May 2021, the Parliament adopted changes to the Law on Social and Child Protection to increase the child allowance coverage to all those children under the age of six. In addition, up to five children per family will now be able to avail of the child allowance, up from the previous limit of three children. This limit will not apply to children who have no parents to care for them, or children who are beneficiaries of the person disability allowance or the care and support allowance. Previously, child allowances were only provided to certain parts of the population, which mostly included children who were beneficiaries of other allowances, such as the material support, care and support allowance or the personal disability allowance. In 2019, 14,721 children received the allowance, around 9.7 percent of the estimated population of children between the ages of 0 and 19, despite one third of all children of that age being at-risk-of-poverty.<sup>29</sup> The new quasi-universal child allowance for all children under six years of age has now started covering an additional 27,800 households, increasing the share of children

<sup>27</sup> More specifically, Article 19 of the Law on Social and Child Protection should reference the official retirement age.

<sup>28</sup> Eligibility is solely based on the quantity of land ownership, rather than on its usability.

<sup>29</sup> MONSTAT estimated 152,077 children between the ages 0 and 19 to live in Montenegro in the year 2019.

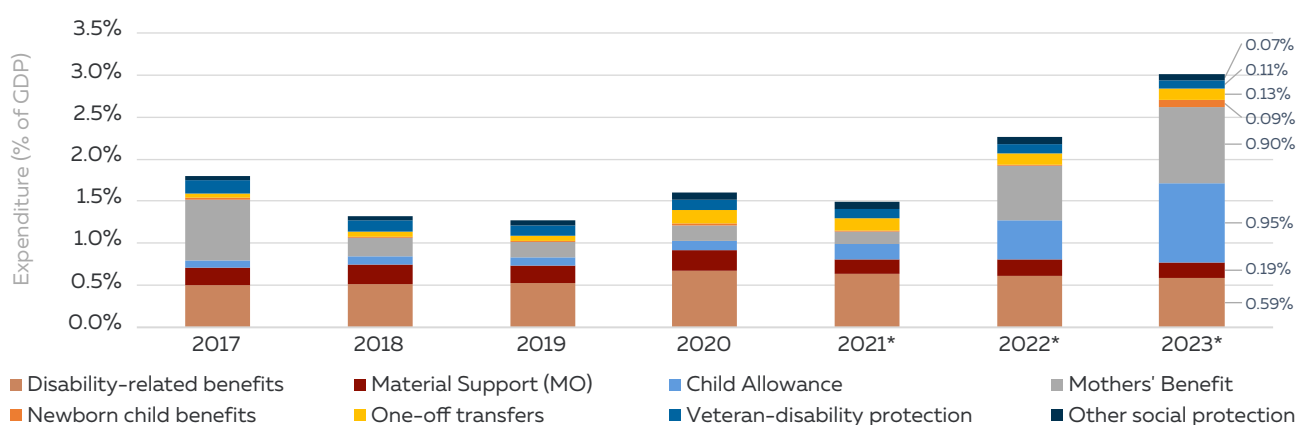
between the ages of 0 and 19 covered by the child allowance to around 33 percent of the population. The quasi-universal benefit will be set at EUR 30 per child per month and beneficiaries of other social assistance programs and children without parental care will continue to have higher, differing allowance, considerably higher than was previously the case (ESPN 2021). Children in families receiving the material support or unemployment benefit receive EUR 48.6 up from 24.41 per month, beneficiaries of the care and support allowance receive EUR 57.4 and children receiving the personal disability allowance or those without parental care receive EUR 66.2. The quasi-universal allowance for children under the age of six is estimated to have reduced the relative poverty headcount by 1.3 percentage points relative to the previous child allowance.

**Elderly farmers can benefit from a means tested cash transfer provided by the Ministry of Agriculture.** In Montenegro, many rural households whose members are engaged in agriculture as their main occupation do not qualify for the regular old-age pension. The old-age allowance provided under the Law on Agriculture and Rural Development is a substitute for such a pension. It is paid to men over 65 years of age and women over 60 years of age if they reside in the countryside, are engaged in agricultural activities and have no other sources of income. It is determined as 70 percent of the lowest pension in Montenegro and, following the retrospective increase of the minimum pension since September 2022, amounts to 177 EUR per month which is around half of the 2022 average old-age pension.<sup>30</sup>

## Recent policy changes

**A number of policy changes are set to more than double social assistance spending by 2023.** In May 2021, the Government of Montenegro decided to introduce a quasi-universal child allowance for all children under the age of six to tackle high rates of child poverty, as discussed in the section above. By the end of 2021, this will be extended to all children under the age of 18, with payments having started in October 2022. The government also reinstated a previously-abolished benefit for mothers of three and more children, the so-called mothers' benefit.<sup>31</sup> Around 14,500 former beneficiaries have applied to have their benefit reinstated starting in April 2022.<sup>32</sup> In addition, in an attempt to increase fertility rates, the Ministry of Economic Development has announced the introduction of an additional birth grant with the benefit amount being determined by the birth rates of the municipality in which the applicant resides. In municipalities with positive natural growth rates, families will receive a one-off payment of EUR 500, while families in municipalities with negative natural growth rates will receive EUR 1,000. Further increases in social assistance spending are expected from the introduction of an alimony fund and so-called social vouchers, the increased use of one-off transfers distributed at the discretion of any ministry and the growing number of beneficiaries of disability-related allowances. In total, social assistance spending is estimated to increase to the equivalent of more than 3 percent of GDP, up from the equivalent of 1.27 percent of GDP in 2019 (Figure 11).

**Figure 11: Social assistance spending is expected to double in the coming years (% of GDP)**



Source: World Bank SPEED Database (Accessed June 2022). Note: Other social protection includes expenditures on costs of nutrition in kindergarten, the transportation subsidies and funeral costs. An asterisk indicates that expenditures are estimated based on the proposed 2022 budget, SWIS data and information provided by the government on the newly introduced programs. The estimates do not yet account for the newly announced alimony fund, social vouchers and expected increases in benefit levels due to increases in cost of living. All other benefits are assumed to remain constant in nominal terms, which leads to a reduction in spending relative to GDP due to assumed GDP growth. GDP is calculated using the IMF's projected growth rates (2022).

<sup>30</sup> The average old-age pension amounted to EUR 362 in November 2022 according to the PIO Fund. <https://www.fondpio.me/statistika/>

<sup>31</sup> The lifetime benefit, which was introduced in 2016 and again abolished in 2017, entitled mothers of three and more children to a monthly benefit equivalent to 70 percent (40 percent in case of unemployed mothers) of the average net wage in Montenegro in the previous year. The Constitutional Court had ruled to abolish the mothers' benefit, as it had deemed it discriminatory.

<sup>32</sup> Ministry of Finance and Social Welfare. 2022. Centri dobili 14.575 zahtjeva za naknade. Accessed at <https://www.gov.me/clanak/centri-dobili-14575-zahtjeva-za-naknade>

**Despite the significant increase in spending, these combined policy efforts are unlikely to achieve the government's objectives in an effective manner.**

In an effort to (i) reduce poverty among vulnerable groups and (ii) increase the productive working population through higher fertility rates, the government has set to vastly accelerate spending on procreational programs. Evidence suggests that financial incentives to increase fertility only do so marginally, and mostly in the short term through a "tempo effect", as it encourages people to have children earlier, rather than more (Wilmoth 2004). Additional evidence suggests that in countries with more equal gender relationships, fertility rates are higher.<sup>33</sup> Supporting women to achieve educational and career aspirations, while also achieving work-life balance, through the provision of adequate paternity benefits and childcare, are also likely to be a vehicle for increasing fertility rates. Moreover, financial support should only be the first step; support to children and youth, especially poor and vulnerable ones, should also be provided in terms of their education and health, to ensure that every youth will become a productive member of society. Without adequate education and services which support children and parents throughout their entire upbringing and lifecycle, pure financial incentives are likely to be ineffective in achieving the government's objectives of improving the productivity of the population.

**The recently re-introduced mother's benefit is, similarly, unlikely to achieve its fertility objective.**

In 2017, a Constitutional Court had proclaimed the mothers' benefit unconstitutional on the grounds of discrimination against other groups. Since then, the Law on Execution of the Constitutional Court Decision outlined three compensatory measures to replace the mothers' benefit; however, the mothers' benefit was restored in 2022. This benefit was provided to women with three and more children, but only to those who also had certain work experience or who were registered as unemployed. Due to this combination of criteria, the average age among previous beneficiaries was around 55 years (World Bank 2017). The benefit cannot be combined with a pension and has effectively been an alternative to a pension for these women; in addition, a significant number of working-age women left the labor market. In April 2022, EUR 3.59 million was spent on the benefit, reaching close to 15,000 beneficiaries. This alone is likely to amount to around EUR 43 million per year, or more than 0.9 percent of estimated GDP in 2023.

**Increased investment in services to ensure all children's good health, education and protection would be more effective, as these would improve the productivity of the population.**

With the newly announced programs, social assistance spending is estimated to increase to the equivalent of 3 percent of GDP, among the highest in the ECA Region. Meanwhile, 2019 expenditures on education (3.9 percent) and health (5 percent) were well below average spending in similar EU countries. Although early childhood education has been increasing, gaps persist: the gross enrollment rate in preschool enrollment is 35 percent of rural children (62 percent in urban areas), 18 percent of the poorest children (65 percent of the richest), and 15 percent of Roma children (World Bank 2021b). Similar gaps pertain across other levels of education and other crucial human capital developing services. In regions characterized with strong outward migration, such as in the Northern region of Montenegro, citizens have access to inferior infrastructure and worse access to social services. Minimum packages of social services, including for children, are not guaranteed. Furthermore, women continue to face significant barriers to work, the compatibility of which with family formation has been a critical determinant in all countries that have achieved a rebound in fertility rates (Bussolo, Koettl and Sinnott 2015). Given the limited fiscal space, making health, education, access to the labor market and social protection services more inclusive and efficient will provide better opportunities for all Montenegrins to become healthy and productive individuals and to share the benefits of economic growth.

**Reforming the last-resort income support would be an equitable and cost-effective way to tackle poverty in Montenegro.**

The high rates of poverty, including child poverty, cannot be tackled with the current rigid last-resort income support, the material support, as the program's current exclusionary eligibility criteria limit its expansion. Programs such as the mothers' benefit or birth grants based on population growth rate are unlikely to present a more effective path to tackling poverty, which is central to ensuring childhood wellbeing. Instead, a more cost-effective way of improving the welfare of families with children in need would be to remove the exclusionary categorical criteria and, in the medium-term, to reassess the material support's targeting mechanism. The targeting mechanism could use a means or proxy means test to identify households that are poor in a scientific, transparent and objective manner.

**Although the anticipated expansion of the child allowance to those under 19 years will reduce poverty, less than an estimated 40 percent of the budget will be spent on the poorest quintile.** The child allowance expansion to all children up to the age of 18 is expected to decrease general poverty by 3.8 percentage points, and child poverty by as much as 6.7 percentage points, thus likely reducing child poverty below 30 percent for the first time since it started to be measured. Beyond the immediate poverty reduction effect, the universal child allowance offers the opportunity to help build a comprehensive social protection system across the lifecycle, although important gaps remain as discussed in the sections above. The universal child benefit can be an incentive for families to stay in contact with the state and services, if designed to encourage such interactions; it can also provide a vehicle to reach eligible households with additional support in response to a shock (ILO 2021). In an effort to balance (i) the aims of investing in children, (ii) system strengthening and (iii) incentives to use services, with broader poverty-reduction goals, some countries have opted to means test, age test (restrict to lower age groups) or tax universal child benefits for the richest households, which effectively requires these households to repay to the state an amount equivalent to the benefit they have received, all of which require investments in delivery systems to achieve balanced goals.<sup>34</sup>

<sup>34</sup> Taxing a universal benefit is most common among countries with robust taxation systems and very high rates of tax compliance.

# Social services

*Social and child protection services have undergone significant reforms in the last decade, focusing, like in many other countries, on decentralization, deinstitutionalization and the development of family- and community-based services. Montenegro has progressed quickly on reducing the number of children in public institutions, but specialized foster care for children with disabilities and emergency foster care for children without proper parental care is missing in practice to prevent further institutionalization. Responsibility lines for financing social services between central and local levels are blurred, leading to inequities in the provision and quality of services.*

**The provision of social services is defined in the Law on Social and Child Protection.** Social services in Montenegro are regulated by the 2013 Law on Social and Child Protection and supplemented with several other laws.<sup>35</sup> The current strategic framework for the development of social services is the 2018–2022 Strategy for the Development of the Social and Child Protection System, which puts significant focus on furthering analysis on the current state of social services. The Law on Social and Child Protection defines social and child protection as those activities provided and implemented to support “a family in unfavorable personal or family circumstances”. The law foresees the provision of four types of services: (i) support services for community-based living such as day care, homecare, personal assistance, interpretation and translation into sign language, among other, (ii) counselling therapy and social-education services, (iii) accommodation and (iv) services for urgent interventions such as responses to domestic violence or child abuse. Finally, the law allows for the provision of other new innovative services, although case managers’ understanding of when to use this clause is limited (Institute for Social and Child Protection 2021a). Bylaws tend to be vague on the target groups of certain social services causing uncertainty and delays in their provision despite the importance of their timeliness. Especially in the realm of counselling and therapy, this vagueness has led to difficulties during the licensing of service providers as target groups, standards and purpose of the services are unclear (Institute for Social and Child Protection 2021b). In addition, the process of developing standards is often slow and insufficiently flexible, which can be an obstacle for new service providers and hinder the development of new and

innovative services. Last but not least, very few services are being evaluated for their effectiveness and cost-effectiveness.

**Legislation on social services is not clear on financial obligations and the degree of centralization.**

According to the relevant legislation, social services can be financed from the municipal budget and funding gaps for services shall be financed from the national budget. This vague definition surrounding financing has caused uncertainties around the obligations of the central and municipal governments. Further, no minimum basket of services to be provided at the local level is prescribed by any law. Due to the high administrative burden and oftentimes high fixed costs associated with social service provision, municipalities often resort to providing families with one-off monetary support (UNICEF 2021b). Responsibility for financing accommodation services, however, are clearly defined as being from the central level, with additional services provided by some municipalities and relying on cost-sharing. Most services are managed and referred to by the 13 CSWs under the mandate of the MLSW. This confusion in financing and responsibility for service provision causes problems for non-public service providers who invest in attaining the necessary licenses while rules and financing are vague and no multi-year contracts are provided (UNICEF 2021a).

**Service providers face a strict licensing process, but there is little quality assurance thereafter.** Non-governmental organizations (NGOs) play an important role in service provision in addition to the public institutions. Service providers are contracted for up to one year using a tendering process. Individual licenses are required for different types of services

<sup>35</sup> Such as the Family Law, the Law on Travel Benefits for Persons with Disabilities or the Law on Protection against Domestic Violence.

and often have strict human resource and structure requirements. In addition to those service providers officially procured with full licenses, 59 additional NGOs are able to provide services with a limited license for three years, due to the fact they fulfil basic requirements and no other service providers meet the strict criteria outlined for a full license (Kaludjerovic and Boskovic 2021). The Institute for Social and Child Protection (ISCP) is in charge of assuring the quality and standards of services providers, but it is limited in its ability to monitor all service providers by financing and human capacity constraints (Institute for Social and Child Protection 2021b; European Commission 2021). There is no general provision in Montenegro's legislation that persons having committed criminal acts and specific acts, such as violence against children, gender-based violence and sexual violence, among other, cannot work with children and/or other beneficiaries of social services.

**Human capacity constraints in CSWs lead to reactive rather than proactive provision of services.**

Despite admission procedures envisioning the determination of a level of risk and procedural priority, most services are only referred to when beneficiaries approach the CSWs for specific services or if they were referred by other institutions such as the police or the judiciary. This is largely due to the low number of case managers in CSWs and the administrative burden of providing cash benefits which could be further reduced. CSWs use disproportionately more resources on cash benefit related affairs than on case management, which weakens the role of the CSWs as social and child protection agencies. Less than half the staff are engaged in direct work with beneficiaries (UNICEF 2019). Evidence from focus groups suggests that members of the public are not aware of the CSWs responsibility to refer citizens to social services, but rather see them only as a provider of cash benefits (UNICEF 2019). In addition, linkages between the CSWs and the Employment Agency, as well as between CSWs and municipalities, are sporadic at best, leading to activation activities not being carried out effectively.

**Significant efforts have been made in the deinstitutionalization of childcare, but prevention, outreach and child, family and victim support services are scarce.**

In the last decade, the share of children residing in residential institutions has been decreasing to the point where no more children under the age of three lived in institutions in 2019 (European Commission 2019). To support the deinstitutionalization process, the foster care system has been

strengthened but still lacks emergency and foster care with intensive and additional support. The government has piloted a 'Family Outreach Worker' service, which provides families with a professional's support at the initiative of the CSW who conducts three activities: (i) counselling the family with an individual service plan revised every three months (ii) empowering the family with practical organizational advice and (iii) providing information on how to access and use local resources such as existing support programs or local health centers. The service was discontinued on January 1st 2021 but the ISCP recognized its relevance and recommended the service to be standardized. Children are, however, still being institutionalized presumably due to lack of services to prevent family separation and foster care services. This leads to residential institutions often being the only alternative in emergency situations. Expanding support for the development of professional care as well as establishing a robust foster care system with different types of foster care to respond to different needs are necessary to proceed with the steady progress on deinstitutionalization (Center for Social Policy 2021). In addition, clear vision for expansion and sustainable financing of prevention, outreach and child, family and victim support services is needed to meet the basic/essential needs of those most at risk.

**Day care for children with disabilities is increasingly being provided but the unclear financing of community-based services is limiting progress.**

Most municipalities have functional day care centers for children and youth with disabilities, 17 of which were established by 2020. Such day care is co-financed by municipalities and the Ministry of Labor and Social Welfare. The supply of community-based services such as assisted living for adults with disabilities continues to be non-existent. A number of day care facilities have been established and from March 2020 a home help service was financed from the national level. One of the main constraints, aside from the supply of professional staff, is the imprecise definition of financing of such services in the Law on Social and Child Protection.

**The capacity for elderly care is increasing through the construction of residential institutions rather than community-based services.**

In Montenegro, much like in other countries, the elderly population is growing rapidly.<sup>36</sup> In order to meet this increasing demand, the government has been investing in building residential institutions for the elderly, doubling its capacities in the last four years (Center

<sup>36</sup> The share of people aged 65+ is expected to grow from 15.1% in 2018 to between 23 and 27% in 2016 (Kaludjerovic and Boskovic 2021).



for Social Policy 2021). This focus on the expansion of residential institutions not only acts counter to the government's strategy of deinstitutionalization but will likely come with a significant fiscal burden in the coming years. In addition, NGOs are playing an expanding role in the provision of services for the elderly but donor dependency and the lack of multiyear financing means their financing is often unsustainable (Kaludjerovic and Boskovic 2021). That being said, the number of users of community-based services for the elderly is still significantly higher than the number of residential services for the elderly (1,979 users of community-based services in 2019 versus 474 users of residential institutions in 2018). In September 2020, the Public Institution Home for the Elderly "Podgorica" and the Public Institution Home for the Elderly "Nikšić" were established with a total capacity of 478 users, further increasing the supply of residential elderly care.

# Pensions

Recent reforms have rolled back fiscal consolidation efforts from previous years but are estimated to ensure adequate pensions in the long term. A number of outdated hazardous occupations remain eligible for early retirement despite the 2020 reform aiming to tackle the issue. A firm institutional framework has been occasionally politically intervened on, disrupting the system's consistency and finances.

## Montenegro initiated significant pension reforms in 2020, rolling back recent reforms that aimed at fiscally consolidating the social insurance system.

Multiple parameters of Montenegro's pay-as-you-Go (PAYG) system were reformed in recent years, such as the retirement age, the indexation formula, the calculation period and the pension points formula (See Table 2 for current parameters). In 2020, the retirement age was capped at 66 years for men and the gradual increase of the retirement age for women was reduced from 67 by 2041 to 64 by 2028. The pensionable base was increased by reducing the calculation period from the full career to only three quarters of the career, with the lowest quarter of contributing years being excluded. This window of a more favorable calculation period will close in 2030. Pension benefits are determined by a

pension point formula, the value of which is indexed by a "rotational indexation." The two parameters used are the Consumer Price Index (CPI) rate of change and the average gross wage growth. The value of the benefit will be indexed to 75 percent of the higher of these two parameter and 25 percent of the lower (ESPN 2020). Furthermore, a number of hazardous occupations remain eligible for early retirement, including professions which are no longer included in most EU countries. Finally, the 2020 Law closes the ad hoc early retirement option for metal workers by end 2022 but reintroduces the eligible pensionable service to military conscription, closed more than a decade ago. Furthermore, the parliament increased the minimum pension from EUR 149 in December 2021 to EUR 254 in September 2022.

**Table 2: Pension system parameters in Montenegro**

<b>Old-age pension eligibility</b>	Retirement age: Current pensionable age: 66 years for men and 61 years 9 months for women with 15 years of contributions. Capped to 66 years for men and 64 years for women (to be reached by 2028); or 40 years of service with 61 years of age.
<b>Early retirement</b>	63 years with 15 years of contributions; Old age pension is reduced by 0.35 percent for every month of retirement prior to full retirement age.
<b>Pensionable base</b>	One quarter of all contributing years with lowest earnings are excluded until 2030. Full period afterwards.
<b>Pension formula</b>	Point formula. Annual points (share of individual to average wage) summed up and multiplied by point value. Point value is revalued with a "rotating formula," increasing by 75 percent of the higher of average gross wage growth or CPI rate of change and 25 percent of the lower. Point value in 2022 equaled EUR 8.51.
<b>Minimum pension</b>	Minimum average point 0.5 per year, minimum pension amount of EUR 253.61, which was extraordinarily indexed in January and September 2022.
<b>Indexation</b>	Pensions will be indexed by 75 percent of the higher parameter of either the gross wage rate change or CPI, plus 25 percent of the lower of these two parameters.
<b>Eligibility for disability pension</b>	Professional incapacity and injury at work: at least 75 percent reduced work capacity, regardless of contribution period. General incapacity: at least 75 percent incapacity, no length of service requirement prior to 20 years of age (23 years for tertiary education), at least one year of contribution between 20 and 30 years of age, and at least of one third of contribution period for others
<b>Level of disability pension</b>	Old-age pension for 40 years of service, for full incapacity in case of work injury and professional illness; in case of illness or injury outside work: actual points plus supplementary points depending on age; for partial general incapacity, 75 percent of old-age pension for general disability pension

<b>Eligibility for survivor pension</b>	Age 52 for both widows and widowers. Children age 0–19 years, 0–25 years if a student or lifetime if incapacitated.
<b>Level of survivor's pension</b>	Actual old-age pension at death for 20 years of service or actual service; 70 percent of contributor's entitlement if one person; 80 percent to be divided by two people; 90 percent to be divided by three people; and 100 percent to be divided if four or more people.
<b>Contribution rate</b>	20.5 percent, 15 percent by employer and 5.5 percent by employee.

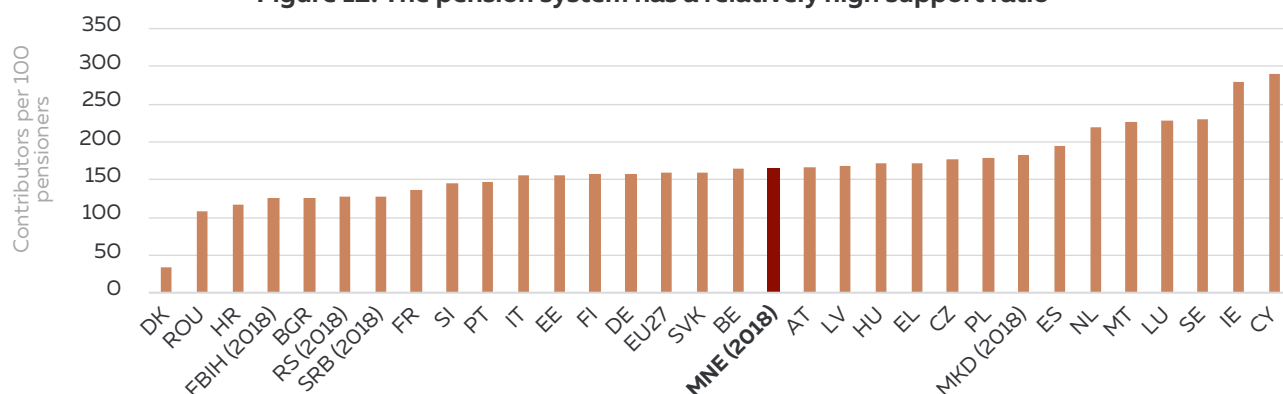
**Overall, Montenegro's pension system rests on a well-developed and reliable institutional framework.**

These firm rules have occasionally been intervened on politically, disrupting the system's consistency and finances. For example, in 2015, 2017 and 2019, a temporary early retirement window was opened for selected occupations, companies or groups; in 2016, all pensions were indexed above the standard formula and a lifetime benefit (pension) was introduced for mothers with three or more children (Mothers' benefit, see cash transfer section above).

**The 2020 pension reform responded to previous adequacy concerns but likely at the cost of fiscal sustainability.** Between 2012 and 2020, pension expenditures in Montenegro had been declining. At 8.5 percent of GDP in 2019, the country spent less

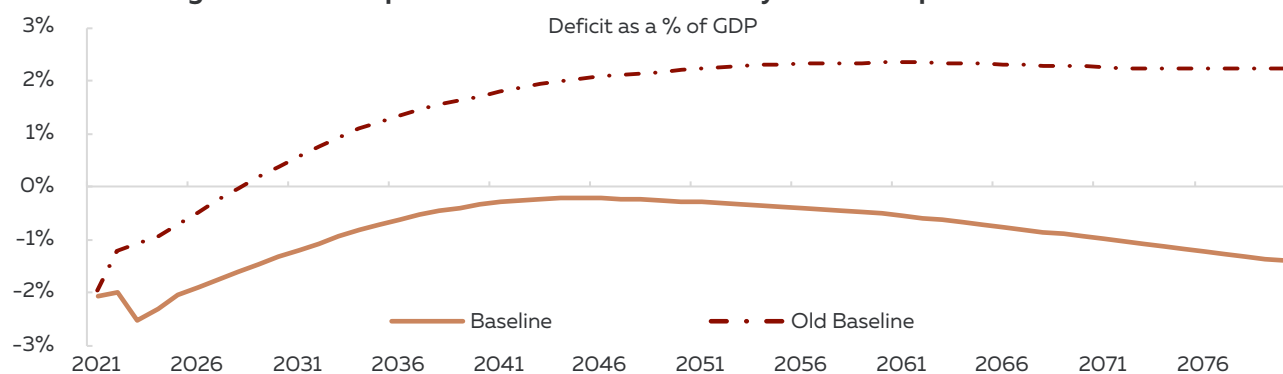
on pensions than most of the EU or any Western Balkan countries. This is largely due to Montenegro's declining, but higher than average, support ratio<sup>37</sup> and fiscal consolidation reforms before 2020 (Figure 12). In the long run, pension policy measures introduced in 2020 are expected to maintain the adequacy level, unlike previously, but at the expense of the fiscal sustainability even as the number of contributors restores to pre-pandemic levels (Figure 13). As a consequence of the 2020 law and the declining support ratio, the share of pension expenditures in GDP in 2020 increased to 11 percent, with almost 40 percent being financed from the central budget. Finding a right balance between pension adequacy and fiscal sustainability will be the main challenge for the government in the next stage of reforming the pension system.

**Figure 12: The pension system has a relatively high support ratio**



Sources: EU Aging Report 2018, EU Adequacy Report 2018, pension agencies in Western Balkans countries.

**Figure 13: Recent pension reforms have led the system into a permanent deficit**



Source: World Bank staff estimates using the World Bank PROST Model. Note: Baseline refers to the current policy of point values being calculated using the "rotational formula" and the old baseline refers to the previous policy of the value of points valorized with wage growth, where pensions were indexed 75 percent to CPI inflation and 25 percent to nominal wages.

<sup>37</sup> The support ratio is a ratio between contributors and pensioners.

# Employment and ALMPs

Montenegro has the highest expenditures on labor market policies in the Western Balkans. Despite this, coverage of active labor market policies is relatively low and few programs reach the most vulnerable. The largest program, the Graduate Internship Program, is outside of the purview of the Employment Agency of Montenegro (EAM), absorbing high spending toward a relatively privileged share of the population. Passive labor market policies (that is, unemployment benefits) have relatively high coverage, but adequacy is low and disproportional to previous income. Statistical profiling and an increased use of existing data for monitoring and evaluation could increase the efficiency and effectiveness of the EAM's services.

**Montenegro's employment policies are outlined in its new National Employment Strategy, which is supplemented by annual action plans.** The final report on the implementation of the previous National Strategy for Employment and Human Resources identified the high unemployment of youth and women, long-term unemployment and informal employment as some of the main challenges, coupled with high regional differences in labor market outcomes. The new National Employment Strategy 2021–2025, adopted in December 2021, aims to address these shortcomings of the labor market by setting objectives such as increasing employment growth through tax reforms, improving competencies through education reforms or reducing unemployment through a youth guarantee. Annual action plans provide detailed statistical monitoring of the activities conducted by the relevant stakeholders, although this remains descriptive in nature without much analysis or evaluation of the success or effectiveness of the activities.

**Labor market policies are coordinated by the Employment Agency of Montenegro (EAM) although the largest ALMP is outside its purview.** The EAM is responsible for providing public employment services in Montenegro, as designated by the updated 2019 Law on Employment Mediation and Rights during Unemployment.<sup>38</sup> Per this law, the four main responsibilities of the agency are to (i) prepare registered jobseekers for employment, (ii) conduct intermediation with employers, (iii) implement ALMPs and (iv) provide cash benefits to the unemployed. There are four ALMP categories: adult education and training, wage subsidies, public works and self-employment. However, employment offices may implement other measures as they see fit. In practice, ALMPs only partly align to these

categories and the largest ALMP in Montenegro, a graduate internship program (GIP), is not implemented by the EAM but by the Human Resource Management Authority, an independent body for public personnel management.

**The EAM offers five core ALMPs focused on public works, vocational training and on-the-job training.** In 2019, a total of 2,192 registered jobseekers benefitted from ALMPs offered by the EAM, which is the equivalent of 6 percent of the total number of registered jobseekers.<sup>39</sup> In both 2019 and 2020, more than one third of expenditures toward ALMPs was channeled into providing public works. In 2019, 29 percent of the agency's ALMP beneficiaries, 629 registered jobseekers, were placed into temporary employment of up to four months. The second program (Stop the Grey Economy) is effectively another public works program, which places unemployed individuals into jobs combating informality, such as the tax or police administration. An additional 190 jobseekers were placed into this program in 2019. The largest program in terms of beneficiaries is the adult learning and training program, although it was suspended in 2020 and 2021 due to the COVID-19 pandemic. In 2019, the program accounted for 41 percent of all ALMP recipients, in total 896 individuals. It provides jobseekers with the opportunity to attend a course at licensed education institutes to either acquire a skill or a qualification. Popular qualifications chosen and acquired are in the service industry, catering and construction, while popular skills are language and IT skills. The last two programs are the Training for Independent Work and the Training for Work at the Employer programs. The latter is an on-the-job training which has reached around 230 individuals in the past couple of years. Beneficiaries receive a monthly stipend of

<sup>38</sup> Official Gazette of Montenegro No 024/19 of April 22, 2019.

<sup>39</sup> The following information is based on the EAM's statistical reports and action plans published each year and accessible at [www.zzzcg.me](http://www.zzzcg.me)

EUR 222 (previously the minimum wage level) for a period of three months. The Training for Independent Work program also collaborates with employers, who support jobseekers at an educational institution with mentoring or technical resources, preparing them for a professional exam.

**The limited available evidence indicates mixed performance of the agency’s ALMPs.** Qualitative evaluations have largely been used to assess the performance of the different ALMPs offered by the EAM. The lack of data on the timing of employment of jobseekers significantly limits the ability to conduct quantitative evaluations, as the tax administration provides information on whether or not an individual is employed but not at what point in time. A recent evaluation concluded that the impact of the adult learning and training program is likely limited, as training curricula are not adapted and instead repeated from year to year, not resulting in employment, and trainings suffer from a lack of qualified and accredited staff in charge of the training (Bejaković 2021). The on-the-job training program appears to be effective in jobseekers receiving employment offers thereafter. However, feedback by employers and jobseekers indicates that the three-month duration is often too short to gain the necessary experience. Lastly, most programs are implemented through annual public tenders, preventing timely and on-demand provision of programs. Instead, potential participants may change their mind, and employers are not able to plan as appropriately as they could with planned multi-annual public calls.

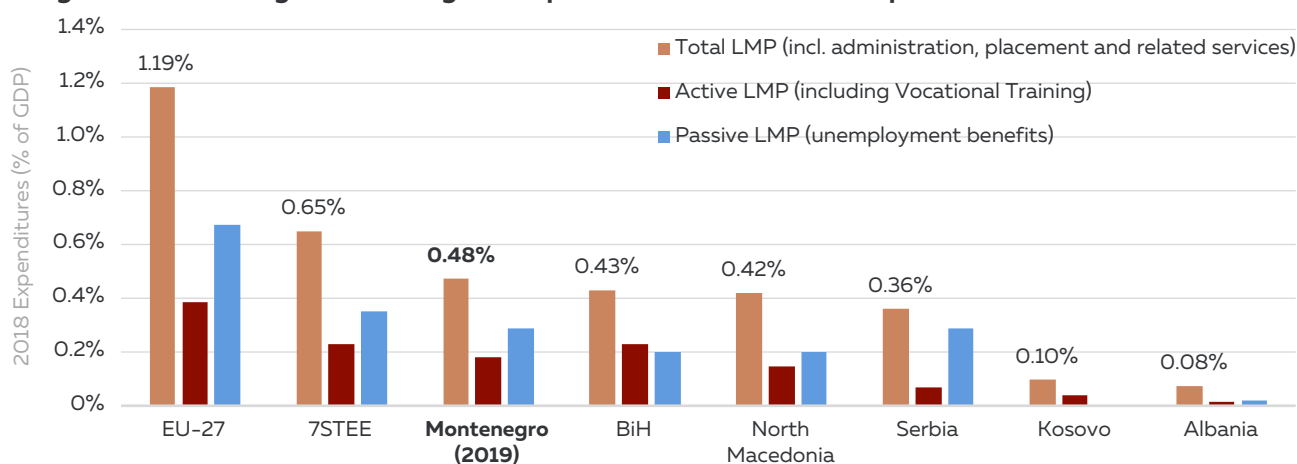
**The largest ALMP in terms of funding is the Graduate Internship Program.** The Graduate Internship

Program was introduced in 2012 and has since provided individuals who graduated from higher education institutions with the opportunity of being matched to interested employers with vacancies and receiving an allowance for nine months. In 2019, a total of 3,009 graduates received an allowance of 50 percent of the average net salary, with total expenditures of EUR 7.5 million, or the equivalent of 0.14 percent of GDP. In 2022, the allowance was increased to the level of the new minimum wage of EUR 450. Around one half of beneficiaries end up employed in the capital, Podgorica, and around 45 percent work in the public sector. The type of sectors within which graduates are hired have remained relatively constant, with economics and law being the most popular areas of work. A recent evaluation by the ILO found no direct gains in labor market outcomes for participants of the program, which each year represent almost 90 percent of each year’s cohort of graduate students (ILO 2022).

**Expenditures on labor market policies are high relative to other countries in the Western Balkans.**

In 2019, Montenegro spent the equivalent of 0.48 percent of GDP on all labor market policies, more than any other country in the Western Balkans. Although spending on active labor market policies is relatively high at 0.18 percent of GDP, this is almost entirely made up of spending on the Internship Graduate Program, whereas the EAM only spent the equivalent of 0.048 percent of GDP on remaining ALMPs, significantly less than most employment agencies in the Western Balkans. Spending on unemployment benefits makes up the equivalent of 0.29 percent of GDP due to its high coverage, despite the relatively low benefit, as elaborated on below.

**Figure 14: Montenegro has the highest expenditures on labor market policies in the Western Balkans**



Sources: EU-27/7STEE: Eurostat; North Macedonia: Administrative Data; Kosovo: Paun Jarallah et al., 2019; Albania: Administrative Data NAES. Montenegro: MONSTAT and ZZZCG. Note: 7STEE refers to the seven small transition economies of Europe, namely Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic and Slovenia.

**The share of jobseekers participating in the EAM's active labor market programs has been decreasing, and the programs do not reach the most vulnerable.**

Despite a relatively constant number of registered jobseekers, the share participating in ALMPs has been decreasing substantially in the last couple of years. While in 2018, 3,745 jobseekers participated in ALMPs representing 8.6 percent of registered jobseekers, this decreased to 6 percent in 2019 and to 3.4 percent in 2020. More significantly, the population of recipients is often made up of the relatively well-educated, rather than those most removed from the labor market. The Stop the Grey Economy Program and Graduate Internship Program only target jobseekers with tertiary education, whereas those targeting the long-term unemployed, such as the on-the-job training program, still largely reach those with secondary (72 percent of participants in 2019) and higher education (12 percent). Registered jobseekers with an education level lower than secondary education made up 36 percent of registered jobseekers at the end of 2019. Of the total beneficiaries of ALMPs offered by the EAM in 2019, 2 percent were members of the Roma and Egyptian community, only 1.2 percent were long-term unemployed and less than 1 percent were recipients of the material support, likely also due to the program's low coverage. Given the currently large share of registered jobseekers who are long-term unemployed, the EAM must increase their efforts to activate those furthest removed from the labor market.

**Strategic targets set in the new employment strategy are modest, but donor programs are being piloted.**

The new National Employment Strategy acknowledges the need to increase the coverage of ALMPs, improving the activation of material support beneficiaries as well as increasing the participation of the Roma and Egyptians in the labor market. However, the targets set up until the year 2025 are not robust. The number of Roma and Egyptians participating in ALMPs is set to increase from 28 to 60, for beneficiaries of the material support from 33 to 70 individuals and the total number of ALMP beneficiaries is only to increase to 2,500 by 2025. The average number of beneficiaries over the last five years was 2,321. This is despite significant donor funding having been committed to activation efforts under the Activate! Program coordinated among the Ministry of Finance and Social Welfare and a colloquium of UN agencies under a joint SDG fund.<sup>40</sup> Pilot programs designed specifically around activating women were conducted in 2021.

**Statistical profiling could assist counselors in**

**assessing a jobseeker's distance from the labor market.** The EAM applies a profiling methodology to assign participants in different labor market interventions based on face-to-face interviews. Since the EAM offers several types of services and programs, it needs to establish which services are more appropriate to each client, based on the initial interview with a case worker. An individual action plan is drafted, and the case worker follows up on plan progress regularly. It appears that the assignment to different measures does not utilize administrative data or other sources of to inform the decision, beyond what is collected in the initial interview. Introducing a methodology of statistical profiling, which complements the assessment made by the case worker, could be a suitable tool to maximize the impact of the EAM's scarce resources.

**Unemployment benefits cover a relatively large share of registered jobseekers despite a minor share of social security contributions being earmarked for it.**

In 2019, there were 14,000 recipients of unemployment benefits, which is the equivalent of 36 percent of the average 39,000 registered jobseekers during that year. This is despite only 0.5 percentage points of the 10.3 percent social security contributions being earmarked for unemployment benefits. The replacement rate is accordingly the lowest among its neighboring countries and comparable countries in the European Union (Figure 15).<sup>41</sup> Despite being collected as a progressive tax, benefits are not paid according to the size of previous income. According to the 2019 Law on Employment Mediation and Unemployment Benefits, all recipients receive a benefit equivalent to 120 percent of a coefficient determined by law (most recently EUR 108 net) for between 3 and 12 months depending on the length of previous employment. Recipients must have worked a minimum of 9 months consecutively or intermittently in the last 18 months.<sup>42</sup>

**Both formal workers and the registered unemployed are provided with paid parental leave.**

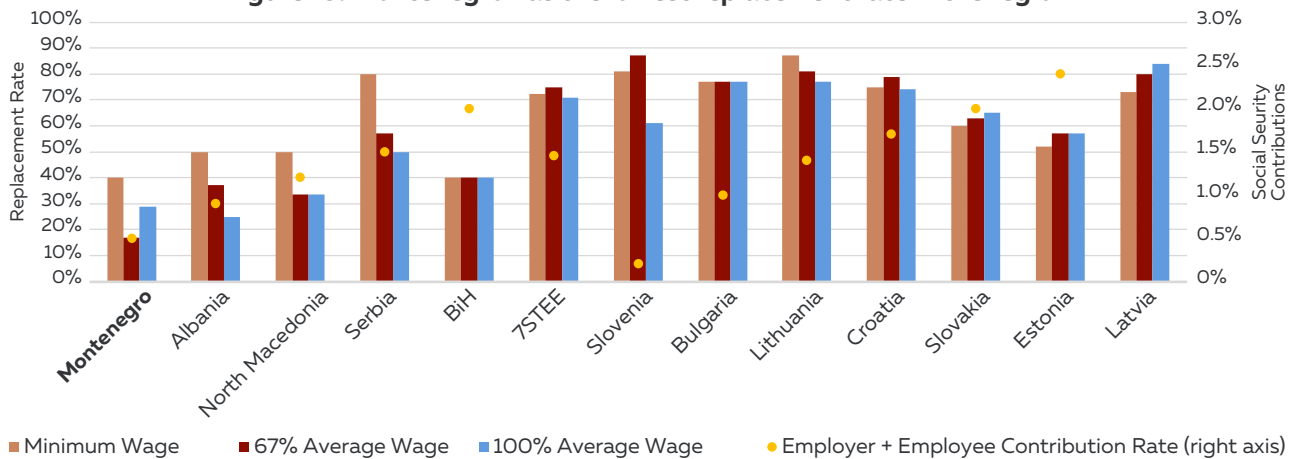
Employees are entitled to up to 12 months of parental leave following the birth of a child and a share of the previous income is received as a wage compensation, capped at double the average wage, unless the employee had worked for less than 12 months without interruption, then it is capped at the average. Parental leave benefits are paid by employers, who are refunded from the government budget. CSWs are also responsible for administering this benefit, falling under employment policy, adding to the workload for the already overburdened case managers. There is no dedicated

<sup>40</sup> Joint funding totals almost US\$2.7 million (Joint SDG Fund, 2021).

<sup>41</sup> The replacement rate measures the unemployment benefit share relative to the beneficiary's previous income.

<sup>42</sup> Official Gazette of Montenegro 24/19.

Figure 15: Montenegro has the lowest replacement rate in the region



Sources: Montenegro: MONSTAT, Albania: INSTAT, Serbia: Statistical Office of the Republic of Serbia, BiH: Federal Bureau of Statistics Bosnia and Herzegovina, North Macedonia: MAKSTAT and OECD for the remaining countries; For contribution rates: Social Security Programs Throughout the World, Europe, 2018. Note: Replacement rates are given in terms of gross wage for single individuals without additional housing or social assistance benefits. The contributions for Latvia are collected combined with other social insurances, hence those for unemployment insurance cannot be isolated.

social security contribution for parental leave and expenditures amounted to EUR 16.3 million in 2019 or the equivalent of 0.3 percent of GDP. Shifting the paid parental leave to social insurance and administering it either through the functional PIO Fund or the Health Insurance Fund would be in line with the prevailing models worldwide and would alleviate some of the burden of the CSWs. In the case of no parent having been in formal employment, those registered as unemployed at the EAM and students are eligible to receive a monthly compensation of EUR 63.50 per month up until the child is one year old.

# Learning from the COVID-19 response

*The government reacted quickly to the COVID-19 pandemic with multiple social protection support packages. However, the support mostly consisted of one-off transfers to existing beneficiaries because existing programs were unable to expand horizontally. All registered unemployed were provided with one-off benefits. Additional wage subsidies supported the creation of new jobs and the retention of employees. Social and child protection services suffered from serious disruptions, while the benefit level of pensioners remained stable due to indexation.*

**The government of Montenegro swiftly responded to the crisis through five packages.** In 2020, the government provided social protection support through three different packages, the first one on April 9, only three weeks after the first confirmed Covid-19 case was reported in the country. Two subsequent packages followed in April and July 2020, both providing social protection support of around EUR 35 million. In January and April 2021, the government adopted new packages which included additional and renewed measures.

**Montenegro's social assistance system was able to rapidly support existing beneficiaries but was unable to expand social assistance support to the newly poor and vulnerable.** Recipients of the MO received a one-time benefit of EUR 50 as part of the first support package in 2020, and EUR 200 in the third package. Support through the fourth package in January 2021 varied by family size; families with one- or two-members receiving EUR 50 and larger families receiving EUR 100. Beneficiaries of the personal disability allowance were allocated EUR 50. Furthermore, all families receiving some type of social assistance support and an electricity subsidy, saw those doubled as part of the first support package. Due to the existing SWIS, the government was able to rapidly identify eligible beneficiaries and to process payments within three days. However, the material support was unable to expand in coverage due to strict categorical eligibility criteria. In order to modify these criteria during the crisis, the government would have needed to secure the approval of parliament, which it was unable to do in an election year. The crisis has highlighted the need for carefully analyzing the effectiveness of social assistance as a crisis response mechanism and the rigidities imposed by the current social protection system, in particular the MO's categorical exclu-

sion filters. In addition to reforming the program's targeting mechanism, establishing triggers in the social protection and disaster risk response laws can facilitate timely vertical and horizontal expansion to reach newly vulnerable populations in a crisis.

**The government provided one-off benefits to all registered unemployed and created wage subsidies to protect jobs.** As the government was unable to expand the last-resort income support program to protect the newly poor, it instead provided one-off support to all those registered with the EAM. The second package provided a one-time benefit of EUR 50 and a second benefit in January 2021 of over EUR 100 to all those registered who (at the time) did not receive material support. In order to incentivize the creation of new jobs and to protect employment, wage subsidies of between 50 and 100 percent of employees' wages were introduced as part of the first package and subsequently renewed. As part of the third economic package, the government extended wage subsidies for the months of July, August and September to firms, companies and entrepreneurs operating in the area of tourism, catering and public transport. It was estimated that this initiative implied a budget of EUR 4 million monthly (that is, EUR 12 million for the duration of the measure. In January 2021, wage subsidies were increased to unanimously provide 100 percent of the minimum gross salary and the number of sectors listed as endangered by the pandemic was broadened using turnover data from the tax administration.

**Pension benefit levels remained stable during the pandemic as a consequence of the rotational indexation.** In 2020, the contributor coverage rates of Montenegro's pension system had strongly declined to 62 percent of the labor force as a con-



sequence of shrinking employment due to the pandemic and the contributors dropped by almost 20 percent. In 2021, as employment rebounded with the economy revival, the number of contributors was restored to the pre-pandemic level. Nominal, real and relative pensions remained stable during 2020 and 2021, with the replacement rate hovering around 55 percent,<sup>43</sup> in part as a consequence of the introduced rotational indexation. However, together with a retroactive increase of the minimum pension from EUR 149 to EUR 253.61, the policy will impose strong fiscal pressure on public finances.

**Social insurance systems were leveraged through one-off payments to minimum pension recipients and by subsidizing social security contributions.**

Within the first economic package, the government implemented an extraordinary payment of EUR 50 to those receiving the minimum pension. The total number of pensioners who received this benefit was 12,012, totaling the cost to EUR 628,700. The benefit was extended for a second one-off cash transfer of the same amount in January 2021. As part measures to incentivize new employment, the government also subsidized social security contributions. In the second economic package, the government paid for six months of social security contributions of farmers who were regular contributors. Furthermore, the government announced that newly employed who had been registered with the EAM for more than three months would be exempt from paying personal income tax, as well as contributions for pension and disability insurance for the year 2021 and partly thereafter, as long as the employer had increased their employees relative to the end of 2020 when hiring.

<sup>43</sup> The replacement rate indicates the level of the first new pensions relative to the average wage.

# Summary and reform priorities

**The analysis finds that the cost effectiveness of Montenegro's social and child protection system is at risk of deteriorating.** The government is introducing or expanding a set of untargeted and fragmented social assistance programs which are estimated to double social assistance spending by 2023. While the proposal to increase coverage of the system is commendable, not all the proposed reforms are likely to be cost-effective and some are not likely in achieving the government's objectives at all. Investing more in services that support investments in human capital and an expansion of the last-resort income support would improve effectiveness in reducing poverty and in increasing the productive of all members of society.

**Social assistance spending targeted toward the poor has remained low, even though many people continue to live in poverty.** Despite a sustained period of economic growth up until 2020, poverty in Montenegro has remained substantial. Nevertheless, coverage of the material support (MO) has been low, leading to some of the most vulnerable members of society being excluded from social protection. Reforming the current exclusionary criteria and reassessing the targeting method toward one more correlated with poverty status would help reduce some of the existing exclusion errors.

**An outdated disability model is leading to inequitable and inefficient provision of disability benefits and services.** Currently, more than 30 commissions assess and determine disability in Montenegro and mostly apply the outdated medical model of assessing disability. This leads to some persons with severe disabilities not being eligible for services or benefits, and the size of cash transfers not being based on an assessment of additional cost of living and participating with disabilities. A much-needed reform to move from a medical model to a rights-based model of disability assessment is ongoing. Strong government commitment is needed to successfully coordinate the reform which will accelerate the just and equitable provision of disability benefits and integrated services, as well as facilitate their contact with and access to the social protection system.

**The area of social and child protection services has undergone significant reforms but a minimum package of services is not provided nor defined.** The availability and coverage of services is low, particularly of essential services for children and families. The country has progressed quickly on reducing the number of children in public institutions but foster care with intensive and additional support for children with disabilities and emergency care for children without proper parental care is missing to prevent further institutionalization. Responsibility lines for financing social services between central and local levels are blurred, leading to inequities – for example in the provision and quality of services. The expansion in access, scope, geographical distribution, quality and sustainability of child, family support and victim support services as well as minimum package of services to be provided at local level needs to be clearly defined by relevant legislation and properly budgeted. Given the aging population and the aim of deinstitutionalization, a strategy is needed on increasing the supply and quality of non-public provision of elderly services. Quality assurance and monitoring of all services (regardless of the funding source) needs to be improved. In this regard, capacities of the MLSW and the Institute for Social and Child Protection, but also Social Inspection, need to be strengthened to ensure quality assurance in the social protection system.

**More analysis is needed on the long-term fiscal impact and sustainability of the 2020 pension reforms.** Recent reforms have rolled back fiscal consolidation efforts from previous years but are estimated to ensure adequate pensions in the long-term. Finding the right balance between pension adequacy and fiscal sustainability will be the main challenge for the Government in the next stage of reforming the pension system. This will require further detailed analysis on the long-term consequences of different reform scenarios such as changes to the indexation pattern, retirement age, social security contributions or early retirement windows. Furthermore, a number of outdated hazardous occupations remain eligible for early retirement despite the 2020 reform aiming to tackle the issue.

**ALMP coverage is low and few programs reach the most vulnerable.** Montenegro has the highest expenditures on labor market policies in the Western Balkans, in large part due to high spending on the graduate internship program. Although unemployment benefits have relatively high coverage, adequacy is low, in part as it is not paid out in proportion to previous income. The largest program is the Graduate Internship Program, which is targeted toward a relatively privileged share of the population. Coverage of ALMPs implemented by the EAM which are targeted toward the most vulnerable is low. Statistical profiling and an increased use of existing data for monitoring and evaluation could increase the efficiency and effectiveness of the EAM's services.

**The government responded quickly to the COVID-19 pandemic but missing shock-responsive mechanisms prevented a horizontal expansion of support and essential services were interrupted.** Finally, lessons from the COVID-19 pandemic draw attention to the need to build flexibility into the social protection system, particularly the social assistance system, to enable it to expand coverage to additional poor households during periods of crisis and in response to shocks. The SWIS provides the basis for building such a shock-responsive system and for analyses which could inform early response to risks and outreach to affected communities. Missing investments in crucial social services led to an inadequate provision of essential support during the peak of the pandemic, in particular for women and children, including those with disabilities.

Short-term	Medium-term	Long-term
<b>Cash transfers to support the poor, the vulnerable and persons with disabilities</b>		
<ul style="list-style-type: none"> <li>• Reassess social assistance eligibility criteria with the aim of improved poverty targeting (e.g. by removing exclusionary criteria such as land ownership and unemployment status).</li> <li>• Improve the adequacy of the material support for all beneficiaries.</li> <li>• Reassess the adequacy of combined benefits, in-kind support and cost deductions in relation to decent living, participation and activation agenda.</li> <li>• Refocus spending to support children to fulfill their full potential by investing into health, education and child services.</li> <li>• Develop evidence-based alternative solutions for the mothers' benefit based on cost-benefit analysis and which would gradually replace the current benefit.</li> <li>• Review the effectiveness and rationale of the procreational, and other cash benefits, such as the birth grant; consider options for ensuring benefits reach the poorest and most vulnerable through proactive outreach to eligible populations, assessing options to introduce means testing or taxing high-income earners.</li> </ul>	<ul style="list-style-type: none"> <li>• Reassess the effectiveness and compatibility of different targeting methods for the material support to transparently and objectively identify households that are poor.</li> <li>• Expand coverage of the material support.</li> <li>• Assess the feasibility of an income disregard to reduce disincentives to work for recipients of the material support.<sup>44</sup></li> <li>• Finalize the disability assessment reform to move from medical to an ability-based socio-medical model centralized in one commission, but which is easy and access for persons with disabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Use the finalized disability assessment reform to streamline the number of cash transfers for disability and integrate the provision of services, with benefit amounts and guaranteed services varying on the level of support needed.</li> </ul>

<sup>44</sup> Income disregard is the part of earning that is excluded during a defined period from the income calculation used to define the eligibility for a benefit and the benefit amount.

Short-term	Medium-term	Long-term
<b>Social services</b>		
<ul style="list-style-type: none"> <li>• Ensure the delivery of a minimum package of services within each municipality or as shared provision across multiple municipalities.</li> <li>• Establish or scale up preventative services such as family outreach services, foster care including specialized and emergency foster care or SOS helpline to prevent institutionalization of young children, evaluate the services so that effective evidence based services are financed as a priority.</li> <li>• Strengthen the ISCP's quality assurance role (i.e. develop indicators for monitoring the services quality, including the services providers' professional work).</li> <li>• Develop a national long-term plan with adequate budget for the development, scale up and provision of services for all relevant groups and needs, including child, family and victim support services.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce/review the necessary legislation to monitor and evaluate social service providers and ensure adequate human resources for their implementation.</li> <li>• Ensure that service delivery is financially predictable for public and non-public service providers and that costs of service delivery are adequately covered.</li> <li>• Strengthen capacities of ISCP for research, data analysis and evaluation so they are able to provide to the system tangible evidence on why certain service need to be scaled up or not.</li> <li>• Strengthen the human and professional capacities of case managers at the CSWs to fully implement case management and referrals systems.</li> <li>• Reform organization of work in CSWs to reduce administrative workload and increase time for expert social work.</li> <li>• Develop a register of persons with disabilities in the Institute of Public Health.</li> <li>• Implement a long-term plan for the development and scale-up of services.</li> </ul>	<ul style="list-style-type: none"> <li>• Build capacities of the system to ensure quality in services provision, including the quality of services providers' professional work.</li> <li>• Build capacity of the system to monitor and evaluate social services.</li> <li>• Implement a long-term plan for the development and scale-up of services.</li> </ul>
<b>Pensions</b>		
<ul style="list-style-type: none"> <li>• Determine and rank the pension system objectives (fiscal sustainability; adequacy; intergenerational equity, horizontal equity).</li> <li>• Introduce pension measures to prolong labor market activity such as extending the retirement age, eliminating long service eligibility (61 years of age and 40 years of service), narrow the general early retirement window.</li> <li>• Introduce full work period as calculation period for pension.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider pension valorization and indexation pattern that would value past incomes and protect pensioners against inflation better (wage valorization and price indexation).</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce a fully funded mandatory or quasi-mandatory pension pillar (add on in case of narrowed fiscal space).</li> </ul>
<b>Employment and ALMPs</b>		
<ul style="list-style-type: none"> <li>• Create clear and transparent monitoring and evaluation framework which includes conducting and distributing the results of regular rigorous evaluations of ALMPs.</li> <li>• Create formal linkages between the databases of the Employment Agency and the Tax Administration.</li> <li>• Further develop and strengthen the social protection and employment sector activation agenda, beyond formal requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Explore the introduction of statistical profiling of jobseekers to increase efficiency of counselling.</li> <li>• Explore ways to transform the call-based application system for ALMPs into open programs that are continuously available.</li> </ul>	<ul style="list-style-type: none"> <li>• Reform the size of unemployment benefits and carry-out detailed analysis of unemployment benefits to inform the revision of parameters such as: (i) duration of benefits; (ii) period of contributions, with flexibility to accommodate; and (iii) contribution rate.</li> </ul>

Short-term	Medium-term	Long-term
<b>Disaster preparedness and response</b>		
<ul style="list-style-type: none"> <li>• Introduce the legal basis to allow the MO or other relevant benefits to expand to additional poor households in response to shocks.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider expanding the SWIS to include additional potential beneficiaries that can be targeted for support in a crisis (move towards a social registry)</li> <li>• Strengthen the outreach of the CSWs to support the “on-demand” nature of the MO, child benefits, among other programs.</li> <li>• Reform the material support to allow for the program to be horizontally expanded during crises (i.e., new beneficiary intake),</li> <li>• Analyze the vulnerability of Montenegro, the main source of risk<sup>45</sup> to inform options for future crises response, including setting out in advance eligibility criteria, type of support, targeting and delivery methods.</li> <li>• Develop comprehensive cooperation framework with the humanitarian and disaster-risk response.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider disaster risk financing linked to established triggers that would allocate funding to expand the coverage of social protection programs in response to a shock.</li> </ul>

<sup>45</sup> For example, historic crises in Montenegro include, COVID-19 in 2020, Global Economic Crisis in 2008, Yugoslav War in the 1990s, and the 1979 earthquake.

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