

Montenegro

Social Protection Situational Analysis¹

Summary

Montenegro has strengthened its social protection system in the last decade, but recent policy reforms raise concerns regarding their sustainability and effectiveness. Social assistance spending reaches only a limited share of the poor population. However, a recently introduced allowance for children will increase the social assistance coverage of children, a particularly vulnerable group in Montenegro. Access to social assistance has recently been expanded further through a birth grant, reinstatement of the mothers' benefit for previous beneficiaries and increased spending on one-off transfers by various Ministries. These increased benefits are expected to more than double social assistance spending. However, the poverty-targeted material support (MO) has been shrinking in size, despite its ability to accurately reach the poorest. A revised disability assessment is designed to provide more just and equal access to cash benefits and services, and progress has been made in reducing the number of children cared for in institutions, as opposed to through residential foster care. Financing of social services has been low, and a minimum level of services cannot be guaranteed. This is despite the increased need and demand, which will only be exacerbated by an aging population requiring long-term care. Recent pension reforms are expected to maintain the level of pensions relative to wages but will substantially worsen fiscal sustainability over the medium long term. Spending on labor market programs has been high relative to regional peers but is largely targeted towards well-educated segments of the population rather than those who have the most difficulty (re)entering the labor market.

Recommended key areas of reform

- Improve poverty targeting of social assistance and expand coverage of the Material Support (MO) program.
- Re-assess the adequacy of combined benefits, in-kind support and cost deductions in relation to decent living, participation and activation agenda.
- Finalize move from medical to an ability-based socio-medical model disability assessment centralized in one commission.
- Review the effectiveness and rationale of the procreational, and other cash benefits, such as the birth grant. Establish or scale up preventative services such as family outreach services, foster care including specialized and emergency foster care, and SOS helpline.
- Improve coordination of agencies providing social services and clearly define obligations across national and local levels.
- Build capacity of the system to monitor and evaluate social services, including strengthening capacity of Institute for Social and Child Protection (ISCP).
- Introduce pension measures to prolong working lives such as extending the retirement age, eliminating long service eligibility, and narrowing the general early retirement window.
- Introduce a fully funded mandatory or quasi-mandatory pension pillar.
- Strengthen targeting of Active Labor Market Programs (ALMPs) to reach vulnerable groups and increase focus on monitoring and evaluation.
- Provide legislative authority for the MO or other relevant benefits to expand to additional poor households in response to shocks. Expand the Social Welfare Information System (SWIS) into a full social registry by including potential beneficiaries.

¹ This note is one of a series that reviews the challenges facing social protection programs in the Western Balkans. It is based on a longer version prepared by the World Bank and UNICEF, and funded by the European Union. The note was finalized in November 2022.

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

Low benefits and exclusionary eligibility criteria limit the effectiveness of the MO program, the only poverty-targeted cash transfer program. Eligibility is limited to those with low income and incapable of working (or temporarily incapable due to being pregnant or having dependent children), along with various conditions related to assets and employment history. In 2019, slightly less than 5 percent of the population benefited from the MO, despite around 16 percent living below the international poverty line. The benefits are well below that required to meet basic needs (e.g., an individual with no other income receives less than 15 percent of the minimum wage), although many beneficiaries are eligible for other programs (child allowance or electricity subsidy).

The new child allowance will significantly reduce poverty. All children under the age of 18 are now eligible for the allowance, and up to five children per household can receive benefits (up from the previous limit of 3 children).² These changes increased the share of the population under 20 years of age receiving this allowance from 9.7 percent in 2019 to 33 percent and are estimated to have reduced the share of the population living in poverty by 1.3 percentage points. The anticipated expansion of the child allowance to those under 18 years is estimated to further reduce poverty by 3.8 percentage points, although less than an estimated 40 percent of the budget will be spent on the poorest quintile.

Expenditures on people with disabilities have increased and a reform of the disability assessment system is underway. Spending on programs that support persons with disabilities, such as the Care and Support allowance and the Personal Disability allowance, jumped from 0.33 percent of GDP in 2015 to 0.66 percent in 2020. However, the disability assessment system is fragmented, and the value of benefits is not based on an assessment of the additional cost of living with a disability, leading to an inequitable provision. The disability assessment is based largely on an outdated medical model which solely determines whether individuals are 'able-bodied', leading to many persons with mental health issues being ineligible. A much-

needed reform to move from a medical model to a rights-based model of disability assessment is ongoing.

Recent policy changes are set to more than double social assistance spending by 2023. The extension of the child allowance to all children under the age of 18, reinstatement of a previously abolished benefits for mothers of three or more children, the introduction of an additional birth grant, 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 are expected to boost social assistance spending to more than 3% of GDP, up from 1.27% in 2019. The introduction and expansion of fragmented social assistance programs and those not necessarily backed up by evidence and cost-benefit analysis risks the deterioration of the cost-effectiveness of spending. For example, cash transfers with the aim of increasing fertility are unlikely to achieve their objective. By contrast, investing more in health and education, and expanding the poverty-targeted MO program, would help to reduce poverty and increase the productivity of all members of society.

Montenegro's social assistance system was able to rapidly support existing beneficiaries during the COVID-19 pandemic but was unable to expand the number of beneficiaries. Recipients of the MO program and the Personal Disability Allowance received additional benefits in response to the COVID-19 pandemic. The Social Welfare Information System (SWIS) enabled the government to identify eligible beneficiaries rapidly and process payments within three days. However, the MO program was unable to expand its coverage due to strict categorical eligibility criteria that could not be modified without legislative action.

Social services

Some aspects of the legislative framework for social services lack clarity. An ambiguous definition of the source of financing for services has made the obligations of the central and municipal governments uncertain, while the lack of a required minimum basket of services leads municipalities to provide one-off monetary support rather than an administratively more costly menu of services.

² 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.

Vagueness on the groups eligible for certain social services, particularly the provision of counselling and therapy, has led to difficulties in the licensing of service providers.

Administrative and resource limitations impair the quality and access of services. Standards are often inflexible and are developed only slowly, and there is a lack of monitoring, evaluation and quality control of services. Inadequate financing and staff limit the Institute for Social and Child Protection's monitoring of the quality of services providers. Human capacity constraints in CSWs mean that most services are provided either because beneficiaries approach the CSW or are referred by other institutions, rather than through admission procedures determining priority based on risk.

Significant efforts have been made to reduce the number of children in institutional care. The share of children living in residential institutions has fallen (no child under the age of 3 lived in an institution in 2019), and the foster care system has been strengthened. However, children are still being institutionalized due to a lack of emergency and specialized foster care, which means that residential institutions are often the only alternative in emergencies.

Resources for community-based services are limited. While day care for children with disabilities is increasingly provided, the supply of community-based services such as assisted living for adults with disabilities continues to be limited. Elderly care is being increased through the construction of residential institutions rather than community-based services, which will likely impose a significant fiscal burden in the coming years. Non-governmental organizations play an expanding role in the provision of services for the elderly, but, as for all social services, their financing structure is often unsustainable due to donor dependency and the lack of multiyear financing.

Pensions

The recent pension reform has ensured adequate pensions but at a high cost and through unsustainable policy measures. The reform limited the earlier envisioned rise in the retirement age, increased the base used to calculate pensions by excluding the

quarter of an individual's career with the lowest salary (effective through 2030), and provided for benefits indexation based on the (higher of) rate of change of the consumer price index and the average gross wage growth. While this has ensured a higher level of pensions, the reform raises concerns regarding its sustainability. Pension expenditures, which account for over 80 percent of total social protection spending, rose to 11 percent of GDP in 2020, with almost 40 percent being financed from the central budget. While the pension deficit is expected to improve after next year, the system is anticipated to remain in deficit, with the deficit widening after 2045. Finding a right balance between pension adequacy and fiscal sustainability remains a significant challenge.

Pension benefit levels remained stable during the COVID-19 pandemic. The fall in employment reduced the number of contributors by almost 20 percent, although the number of contributors was restored to the pre-pandemic level with the economic revival in 2021. Nominal, real and relative pensions have remained stable during 2020 and 2021. However, the retroactive increase in the minimum pension and a one-off payment made to those receiving the minimum pension imposed a substantial fiscal burden in 2020.

Employment and Active Labor Market Policies

Coverage of active labor market policies is relatively low, and few programs reach the most vulnerable. The Employment Agency of Montenegro (EAM) offers five core ALMPs focused on public works, vocational training and on-the-job training. In 2019, 6 percent of the total number of registered jobseekers benefitted from ALMPs offered by the EAM, down from 8.6 percent in 2018. A recent qualitative evaluation found the impact of the adult learning and training program to be limited; the on-the-job training program appears to be effective in jobseekers receiving employment offers, although feedback by employers and jobseekers indicates that the three-month duration is often too short to gain the necessary experience. Most programs are implemented through annual public tenders, preventing timely and on-demand provision of programs. Most recipients are relatively well-educated, rather than being from vulnera-

ble groups or those most removed from the labor market.

The largest program, the Graduate Internship Program, is outside of the purview of the Employment Agency of Montenegro. The program provides a wage subsidy for individuals who graduated from higher education institutions. In 2019, a total of 3009 graduates received a subsidy of 50 percent of the average net salary, with expenditures of 0.14 percent of GDP. A recent evaluation by the ILO found no direct gains in labor market outcomes for participants of the program. Thus, the program spends substantial funds on relatively privileged beneficiaries, with little or no impact on employment.

Statistical profiling could assist counsellors in assessing a jobseeker's distance from the labor market. The Employment Agency assigns participants to different labor market programs based on interviews. Complementing the interview assessment with statistical profiling based on administrative data could help to maximize the impact of the Employment Agency's scarce resources.

Unemployment benefits cover a relatively large share of registered jobseekers, but benefits are low. Recipients of unemployment benefits in 2019 equaled 36 percent of the average 39 thousand registered jobseekers. However, only 0.5 percentage points of the 10.3 percent social security contributions are earmarked for unemployment benefits, so the average benefit relative to the beneficiary's previous income is the lowest among neighboring countries and comparable countries in the European Union. Benefits are not related to the worker's previous income. Instead, recipients receive a flat rate benefit for between 3 and 12 months depending on the length of previous employment.

The government increased unemployment benefits and instituted wage subsidies in response to the COVID-19 pandemic. One-off payments were made to all those registered as unemployed with the EAM, and various wage subsidies for firms were introduced. The government also paid six months of social security contributions of farmers who were regular contributors and exempted the newly employed who had been registered with EAM for more than three months from paying personal income tax, and covered their pension and disability insurance, as long as the firm's employment had risen relative to end-2020.

Detailed / specific recommendations

Cash transfers: (i) remove exclusionary criteria such as land ownership and unemployment status, and adopt transparent, objective targeting to identify poor households; (ii) increase benefits and expand coverage of the material support program, and assess the feasibility of an income disregard to reduce disincentives to work³; (iii) develop an alternative to the mothers' benefit based on cost-benefit analysis which would gradually replace the current benefit; (iv) review the effectiveness and rationale of the procreational, and other cash benefits, such as the birth grant; (v) finalize the move from a medical to an ability-based socio-medical model disability assessment, centralized in one commission; (vi) streamline the number of cash transfers for disability and integrate the provision of services, with benefit amounts and guaranteed services varying by the additional cost of disability and the level of support needed.

Social services: (i) ensure the delivery of a minimum package of services across municipalities; (ii) establish or scale up preventative services such as family outreach services and specialized and emergency foster care; (iii) develop indicators for monitoring services quality; (iv) introduce/review legislation and build system capacity to monitor and evaluate social service providers, and ensure adequate human resources; (v) improve the coverage of costs and financial predictability for public and non-public service providers; (vi) strengthen the capacities of ISCP for research, data analysis and evaluation; (viii) strengthen the capacity of case managers at the CSWs to implement case management and referrals systems; (ix) reduce administrative workload at CSWs and increase time for expert social work; and (x) develop a register of persons with disabilities in the Institute of Public Health.

Pensions: (i) determine and rank the pension system objectives (fiscal sustainability, adequacy, intergenerational equity, horizontal equity); (ii) consider pension valorization and indexation patterns that would value past incomes and improve protection against inflation (wage valorization and price indexation); (iii) introduce full work period as calculation period for pension; (iv) introduce pension measures to prolong labor market activity such

³ 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.

as extending the retirement age, eliminating long service eligibility (61 years of age and 40 years of service), and narrowing the general early retirement window; and (v) introduce a fully funded mandatory or quasi-mandatory pension pillar.

Labor market policies: (i) create clear and transparent monitoring and evaluation framework for ALMPs; (ii) create formal linkages between the Employment Agency's and the Tax Administration's databases; (iii) further develop and strengthen the social protection and employment sector activation agenda; (iv) explore the introduction of statistical profiling of jobseekers to increase efficiency of counselling; (v) transform the call-based application system for ALMPs into open programs that are continuously available; and (vi) carry out a detailed analysis of unemployment benefits to inform the revision of parameters such as duration of benefits, period of contributions, and contribution rate.

Emergency response to shocks: (i) introduce a legal basis to allow the MO or other relevant benefits to expand to additional poor households in response to shocks; (ii) consider expanding the SWIS to include additional potential beneficiaries that can be targeted for support in a crisis; (iii) strengthen the outreach of the CSWs to support the "on-demand" nature of the MO and child benefits, among other programs; (iv) analyze the main source of risk to inform options for future crises response, including setting out in advance eligibility criteria, type of support, targeting and delivery methods; (v) develop a comprehensive cooperation framework for humanitarian and disaster-risk response; and (vi) 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.

