

Activation and Smart Safety Nets in Montenegro: Constraints in Beneficiary Profile, Benefit Design, and Institutional Capacity

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This study is part of the Western Balkans Activation and Smart Safety Nets analytical and advisory services. It was completed by a World Bank team led by Boryana Gotcheva and Aylin Isik-Dikmelik, and including also Matteo Morgandi, Victoria Strokova, Tomas Damerou, and Vojin Golubovic.

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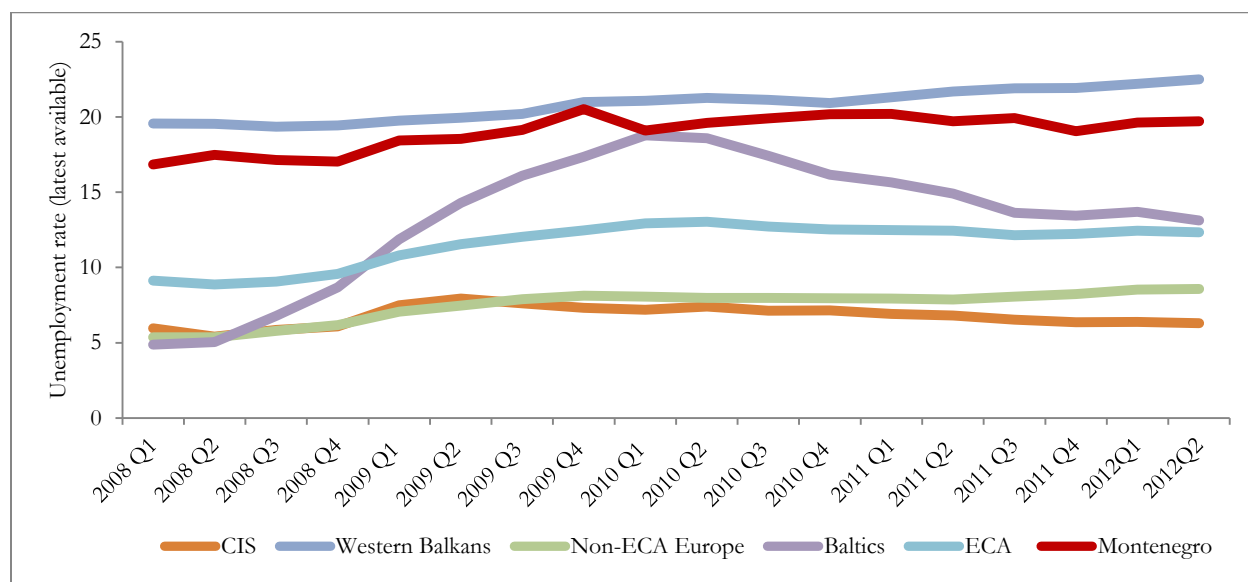
AETR	Average Effective Tax Rate
ALMPs	Active Labor Market Programs
AW	Average Wage
CA	Child Allowance
CSWs	Centers for Social Work
ECA	Europe and Central Asia
EAM	Employment Agency of Montenegro
EOs	Employment Offices
EU	European Union
EUR	Euro
FMS/MOP	Family Material Support
GDP	Gross Domestic Product
HBS	Household Budget Survey
IEP	Individual Employment Plan
ILO	International Labor Organization
IPA	Instrument for Pre-Accession
LCA	Latent Class Analysis
LFS	Labor Force Survey
LRSA	Last Resort Social Assistance
METR	Marginal Effective Tax Rate
MLSW	Ministry of Labor and Social Welfare
MONSTAT	Statistical Office of Montenegro
OECD	Organization for Economic Cooperation and Development
PTR	Participation Tax Rate
PWD	People with Disability
PWPs	Public Work Programs
SSN	Social Safety Net
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund

1. Introduction

1.1 Motivation of the Note

Persistently high unemployment and low employment rates present a serious concern for policy makers in Montenegro. Unemployment in the Western Balkans has been historically high and increased significantly during the global economic crisis. In Montenegro, the unemployment rate increased from 16.8 percent at the beginning of 2008 to a peak of 20.5 percent by the end of 2009 (Figure 1). It has remained largely unchanged since then. Among the unemployed, most have been unemployed for more than 12 months.¹ Employment rates continue to be very low in Montenegro with just about 40 percent of the working-age population in gainful employment (Figure 2). As a result, pressure on social safety nets (SSNs)² has increased at a time when fiscal resources to provide support to the poor and vulnerable are more limited. There is now a more urgent need to assess the effectiveness of social protection spending and to reform social programs so they can respond to crises more flexibly while also increasing incentive compatibility and promoting employment of those excluded from the labor market.

Figure 1: Unemployment Rates in Montenegro and Selected Regions, 2008–12



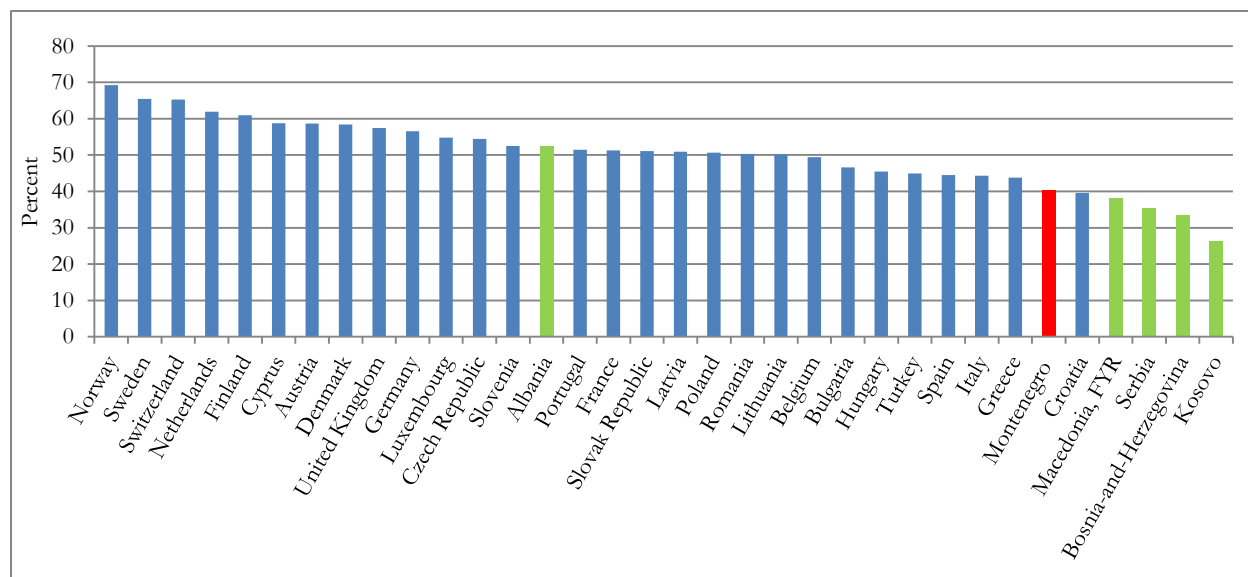
Source: Eastern Europe and Central Asia Employment Monitor, World Bank.

Note: Western Balkan countries, in this case, include Albania, FYR Macedonia, Montenegro, and Serbia. ECA = Eastern Europe and Central Asia. CIS = Commonwealth of Independent States, which includes Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine. Baltics include Estonia, Latvia, and Lithuania.

¹ In 2012, 68.2 percent of the unemployed were out of a job for more than 2 years and another 13 percent for between 12 months and 2 years (MONSTAT).

² Social safety nets are defined here as noncontributory cash transfers and are synonymous with social assistance.

Figure 2: Employment-to-Population Ratios in the Western Balkans and Selected Other European Countries, 2011–12



Source: Eastern Europe and Central Asia Employment Monitor, World Bank; MONSTAT; Kosovo Labor Force Survey data 2009.

In addition to providing a certain degree of protection against income shocks, promoting labor market inclusion of benefit recipients is an important function of social protection.

Because of relatively low coverage and generosity, the extent to which SSNs contribute to overall unemployment and inactivity is likely to be limited. However, promoting labor market and social inclusion of SSN beneficiaries is an important social policy priority, recognized by the Government of Montenegro. Long-term dependency on social assistance (SA) is detrimental for human development outcomes in the long run: it undermines working habits, social skills, and self-esteem and could cause intergenerational dependency on social transfers.

Last resort social assistance (LRSA) programs can be leveraged to promote labor market participation of the long-term unemployed and those who are inactive but capable of working. Montenegro operates a large LRSA program—Family Material Support (FMS/MOP) — relative to similar programs in the Western Balkans. There are some concerns that FMS/MOP receipt might create work disincentives, as suggested by the composition of beneficiaries: Almost 60 percent of FMS/MOP recipients are of working age (15–64), of whom almost 80 percent are not in education or disabled. Among those who are work-able, only about half are employed. On the one hand, a high share of unemployed among benefit recipients (44 percent) could be a function of poor labor demand and strict eligibility criteria for the unemployment benefit, which covers only about 11 percent of the unemployed.³ On the other hand, SA benefit design can be improved to increase work incentives and connect beneficiaries with the support needed to improve their employability and address barriers they may face. The LRSA program can be leveraged to promote labor market inclusion of those who are facing significant labor market difficulties.

³ Montenegro Labor Force Survey 2011.

The Government of Montenegro is embarking on reforms of SA benefits to promote social inclusion and activation. A new direction of social assistance policy change is toward activation—a combination of policy tools that supports and incentivizes job searching and job finding as a way to increase productive participation in society and self-sufficiency. As activation reforms are unfolding, significant learning is taking place by understanding “what other countries do and why.” Experience in the Organisation for Economic Co-operation and Development (OECD) countries suggests that most progress can be made with a coherent overall activation *policy package*. Such a package is based on a good understanding of the target clients’ profile and encompasses assessment of benefit adequacy and the reasons for receipt (whether benefits are received as a result of short-term unemployment or long-term work detachment) as well as an assessment of labor supply and demand (particularly the reasons for insufficient labor supply, be it a result of insufficient financial incentives to work or other relevant barriers).

While the Government of Montenegro is embarking on SA reforms to promote activation along these lines, it faces knowledge gaps and capacity constraints. The World Bank has responded to requests for assistance by developing detailed diagnostics of the labor market constraints to supply and demand for labor as well as assessments of the impact of SA design on the labor market behavior of its able-bodied recipients. The World Bank has also shared best practices on theory and practice of activation policies in high- and middle-income countries. The technical assistance supported the development of a reform concept and a new draft law on social assistance and social services with a clearly articulated activation agenda. More specifically, the reform will affect the structure of the overall noncontributory benefit system (LRSA, noncontributory disability benefits, and child benefits) and will limit disincentives to work that arise from “passporting” the LRSA to a large number of other benefits. The reform will introduce case management that brings together provision of cash transfers and social care services and will establish pathways for activation of the able-to-work poor (see Box 1 for more details on the draft legislation).

1.2 Objectives

This study is part of the knowledge generation and knowledge sharing effort. It contributes to knowledge transfer in three main ways. First, it analyzes the labor market profile of safety net beneficiaries, which can shed light on their constraints to productive employment and on the appropriate activation policies. Second, it identifies the main legal and institutional constraints to activation related to the design of SA cash transfers as well as social and employment services. Particularly, it identifies incentives and disincentives in benefit design and benchmarks the design of FMS/MOP against the design of programs that are similar in their objectives, including arrangements for effective and efficient activation and graduation policies in LRSA programs. Third, it analyzes the institutional readiness for activation of SA beneficiaries, looking specifically at (a) the availability of active labor market programs (ALMPs) and their financing; (b) the capacity and business processes of existing labor market institutions such as the Montenegro employment offices (EOs); and (c) the coordination mechanisms, including referral processes, between the centers for social work (CSWs) and the EOs that are applied to social assistance beneficiaries.

The note will inform the design of incentives for activation, particularly in the LRSA program, FMS/MOP. As already mentioned, the Government of Montenegro has prepared a new draft Law on Social and Child Protection. It envisages introduction of a “right to activation” for all able-bodied FMS/MOP recipients along with the establishment of supporting mechanisms for the realization of this right (individual case-by-case approaches with mutual responsibilities, ALMPs, referrals between the CSWs and EOs, monitoring of compliance, and sanctioning of noncompliance) and specific FMS/MOP design features aimed to encourage job searching and investment in employability. This note could guide the drafting of secondary legislation on how to promote activation, drawing on evidence and best international practices.

1.3 Scope of Work and Methodology

The note attempts to address three important policy areas related to activation and overcoming dependence on social assistance:

- *Beneficiary profile.* The note analyzes the profile of those who are unemployed and out of the labor force, including those on social assistance, and the reasons for their detachment from the labor market.
- *Benefit design.* It also analyzes the legal frameworks and policies in support of activation, looking at whether they are designed to provide individuals with the right incentives to work, particularly (a) whether the last-resort income support programs are designed to minimize any negative effects of redistributive schemes on incentives to participate in the labor force; and (b) whether specific design elements are used to promote activation (for example, does the social assistance scheme build on co-responsibilities, mutual obligations, and incentive-compatible program design to help transition the recipients into jobs?).
- *Institutional capacity.* Finally, the note analyzes the institutional arrangements and their potential impact on fostering or hampering activation policies in the following aspects: (a) the mix of available ALMPs and adequacy of instruments for improving the employability of vulnerable groups; (b) the financing and coverage of ALMPs; (c) the capacity of the EOs to provide meaningful employment support; and (d) the effectiveness of coordination mechanisms between the EOs and the CSWs for activation of social assistance beneficiaries (who are likely to be among the “hard-to-serve” cases because of long-term detachment from the labor market and multiple barriers to work).

The analysis uses a combination of quantitative and qualitative data sources. It draws on administrative data to analyze the scope of social assistance in Montenegro, its coverage, and its financing. It also uses household budget survey (HBS) data to analyze the performance of FMS/MOP (including its targeting accuracy, coverage, and adequacy) and to conduct a detailed analysis of beneficiary profile(s). A significant part of the analytical work involves desk review of the key legislative acts and internal instructions regulating institutional roles in design, implementation, financing, eligibility restrictions, and links to services and associated rights. A significant body of

evidence is brought in from previous World Bank analytical work (World Bank 2011a, 2011b, 2012), policy discussions, and research undertaken by other institutions. A background study for the note (World Bank 2013) summarized the results of field visits and structured interviews with key staff of two EOs (Bijelo Polje and Podgorica), two CSWs (Bijelo Polje and Podgorica), representatives of the Central Service of the Employment Agency of Montenegro (EAM), the Department of Labor and Employment, and the Department of Social Welfare in the Ministry of Labor and Social Welfare (MLSW) of Montenegro. The analysis is reinforced by references and benchmarking to good international practices with respect to design of social assistance to incentivize activation, key reforms in ALMPs, and implementation of “make work pay” initiatives.

The note is organized as follows. *Section 2* provides a macroprofile of the employed, the unemployed, and those out of the labor force in Montenegro as well as a microprofile of social assistance beneficiaries with respect to their ability to work and barriers they may face. *Section 3* analyzes the design of the LRSA program from the perspective of built-in conditions, incentives, and disincentives for moving out of social assistance into employment, including role of the overall tax and benefit system. *Section 4* discusses the readiness of employment and social assistance institutions to improve the employability of people who are largely detached from the labor market. *Section 5* summarizes analytical findings and suggests ways of enhancing the incentive compatibility in the design of the FMS/MOP program in Montenegro and institutional improvements to increase capacity for activation policies.

Box 1: Main Policy Changes Envisioned by the Draft Law on Social and Child Protection

The *draft Law on Social and Child Protection* tackles a number of social assistance design issues (including those related to LRSA program, noncontributory disability benefits and child benefits) and introduces regulation of social care services and activation. Specifically related to activation, the most significant policy changes in the draft law are as follows:

- The draft law defines social assistance as a *combination* of cash transfers, social care services and employment support.
- The draft law also introduces a ‘*right to activation*’ and a joint responsibility of the CSWs and PES for offering jobs, training and re-qualification opportunities to those able to work and to disabled according to their social situation.
- To qualify for FMS/MOP assistance, those *able to work must*: (a) register with PES; (b) have been involuntary dismissed from work, and (c) not refuse offer to work, participate in training, re-qualification and additional qualification courses.
- The draft law requires CSWs to initiate and sign individual agreements with FMS/MOP beneficiaries to develop *individual activation action plans*.
- The draft law *limits the scope of benefits* associated with FMS/MOP eligibility, thus lowering the overall generosity of the benefit and services ‘package’. Some of such benefits would no longer be strictly conditioned on being eligible for the FMS.
- The draft law introduces a *time limit* on FMS/MOP benefit duration. Those able to work can receive the benefit for a maximum of 9 months in a year. The time limit won’t apply to those FMS/MOP beneficiaries who are undertaking activation, including training, as well as those able bodied beneficiaries with increased caregiving needs, e.g. if parents with disabled children.

2. Profile of Work-Able Social Safety Net (SSN) Beneficiaries

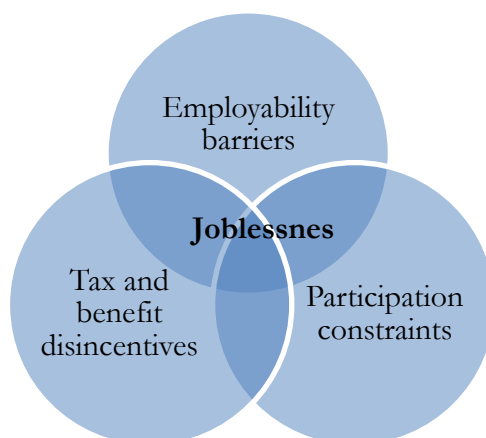
Activation is defined as a combination of policy tools that *supports* and *incentivizes* job searching and job finding as a way to increase productive participation in society and self-sufficiency. The first part of this section will focus on understanding the challenges that the population faces in finding gainful employment, in order to lay the ground for the design of appropriate policy responses.

2.1 A Framework to Understand Labor Market Outcomes for Safety Net Beneficiaries

Three main types of barriers could prevent SSN beneficiaries from participating in gainful employment: employability constraints, participation constraints, and benefit-related disincentives. These are some of the many reasons that could explain nonparticipation in the labor force or prolonged unemployment spells among the working-age population—in particular among SSN beneficiaries. Figure 3 illustrates the organizing framework used in this study to analyze constraints to employment in a systematic manner:

- *Employability constraints.* People may be out of work because their existing level of human capital, such as their education, skills, or experience, does not meet the requirements of the labor market.
- *Participation constraints.* A person may be potentially work-able but facing nonmarket constraints to joining the labor force. These include, for instance, caretaking duties in the household, lack of transportation to the work place, or lack of information about job opportunities.
- *Benefit disincentives.* In addition to the two preceding types of constraints—which apply to the entire labor force—the design of social assistance benefits (and their interaction with the tax system) may be an additional factor discouraging SSN beneficiaries (who would otherwise be working) from taking up employment.

Figure 3: Analytical Framework of Constraints to Employment of Safety Net Beneficiaries



These barriers are interrelated. The ultimate labor force participation outcome of each individual is the result of the combination of this set of factors, which are strongly interrelated but also particularly difficult to identify. In classical labor supply models (Heckman 1979; Blundell and MaCurdy 1999; Killingsworth and Heckman 1986), the expected market wage of an individual (which relates to employability) affects the decision to participate to the labor force. For individuals whose leisure time is particularly valuable, supplying labor to the market at a low wage may be prohibitive. For instance, this is the case for low-educated women with children, whose labor income may not be sufficient to compensate for the cost of performing time-consuming but essential household tasks, such as taking care of children. In addition, social transfers may reduce labor supply, not only because—like any other unearned income—they may reduce the valuation of work over leisure, but also because the design of benefits may constitute an effective tax on earnings, especially among workers with low wage potential.

Only rigorous impact evaluations or natural experiments have been able to identify the effect played by some of these factors. In the case of social transfers, the existing studies relate to OECD countries; overall, they do find some evidence that welfare programs involve work disincentives, especially among women with children and low-income earners, driven by the design of tax and benefits (Gruber 1996; Moffitt 1992; Hoynes 1993; Blundell 2000). On the other hand, the emerging literature on SSNs and labor supply in developing countries (Skoufias and Di Maro 2006; Ardington, Case, and Hosegood 2007) fails to find significant work disincentives, possibly because the generosity and design of benefits as well as the labor market conditions all differ strongly from the OECD context (Charlot, Malherbet, and Ulus 2013). Where countries in the Western Balkans stand in this respect has not yet been proven empirically, and the profiling exercise presented in this chapter can be a first step to build such evidence.

The labor market profiling of SSN beneficiaries sheds light on the constraints to labor force participation and on the appropriate activation policies. The next part of this section will provide an operational definition of work-able population—the main target group of activation

policies. Using HBS data, it will then illustrate the share of SSN beneficiaries who are work-able in comparison with the general population. Finally, the section will describe the work-able population and highlight, to the extent possible, the constraints to participating in productive employment that they may be facing. (See Box 2 for a discussion of data sources used in this note).

Box 2: Data Sources: Montenegro Household Budget Survey (HBS) 2011

The current analysis relies on HBS data. This is the only nationally representative dataset that enables identification of households that benefit from various social safety nets as part of their income and that also estimates living standards in terms of consumption and the associated poverty rates. The 2011 HBS covers 1,287 households in Montenegro, for a total of 3,966 individuals. The survey also contains several basic variables that are used to identify the education level and labor market profile of SSN beneficiaries. The employment statistics derived from the HBS, however, are not directly comparable with official data derived from the Labor Force Survey, for two main reasons: First, the samples of the two surveys are drawn with different objectives (one aiming at being representative of households in Montenegro, the other aiming at being representative of the working-age population). Second, the two instruments use different questions to detect unemployment, employment, and labor force participation.

The other Western Balkan country notes produced as part of this regional activity have included an advanced profiling of SSN beneficiaries through latent class analysis (LCA). In the case of Montenegro, the small coverage of SSNs, coupled with a relatively small sample size of the survey, have prevented conducting LCA on the SSN beneficiary population. However, advance profiling could be produced using the administrative data collected by the CSWs for all applicants and beneficiaries in the future.

The detailed profile of SSN beneficiaries will then inform the design of activation policies that may help each subset of the population overcome barriers to employability and participation. The findings of this section will be complemented by an analysis of the design of tax and benefit systems in Montenegro in Section 3.3, which will explore whether beneficiaries may be facing disincentives in taking up employment deriving from the current social assistance benefit design and its interaction with the system of taxes and social security contributions.

2.2 Main Characteristics of Safety Net Beneficiaries Relative to General Population

More than half of the overall population in Montenegro could be considered “work-able,” while less than 50 percent of SSN beneficiaries could be expected to work. This report defines as SSN beneficiaries all those individuals living in households that received income from any noncontributory program. It also adopts a simple operational definition of “*work-able*” population as individuals of working age (15–64)⁴ who are not in full-time education or training, and who are not disabled (see Box 3). This is the population that could be potentially “activable”—for instance, required to work in exchange for social assistance. Using these definitions, about 48 percent of SSN beneficiaries are work-able, 8 percentage points below the share of work-able in the whole

⁴ It is important to note that in Montenegro, children until the age of 18 are not considered able to work, however, the share of “work-able” (as defined in this note) young persons aged 15-18 among SSN beneficiaries is very small (1.6 percent) since most of them are expected to be in education or training.

population (Figure 4). In addition, the distribution of the non-work-able members among SSN beneficiary households stands out for having a much larger share of children than the general population.

Box 3: Definitions of “Work-Able” and “SSN Beneficiary”

Work-able individuals are all those working age who are neither disabled nor in education or training. Note that this definition does not question the ability to work of persons with disabilities, but rather acknowledges that this population may not be *expected* to seek or find employment as a condition of receiving social assistance. This definition can also be different from those currently used in the assessment of ability to work by local CWSs. In Montenegro, for example, having caretaking responsibilities qualifies one as “not able to work.”

SSN beneficiaries are defined as all individuals living in a household that benefits from any of the following noncontributory programs, and they follow the classification of the income module of the HBS:

—*Social assistance*, according to the HBS, includes “social assistance, allowances and other income in respect of social care.” In practice, this question of the HBS captures the main LRSA program in Montenegro, the Family Material Support (FMS/MOP) program. Section 3 of the note describes the program’s design in detail.

—*Child allowance* includes means-tested child allowance benefits.

—*Scholarships* include “scholarships for pupils and students, rewards and the like.”

—*Noncontributory disability and war-related benefits* includes all personal or family allowances for war veterans and their survivors, for civilians disabled during war, and noncontributory disability benefits.

World Bank (2011a) contains a detailed description of each program in Montenegro. SSNs do not include contributory benefits, such as pensions, unemployment insurance, and disability insurance. Finally, table B2.1 shows the coverage of these programs in 2009 according to the HBS.

Table B2.1 Share of Households Covered by Social Safety Nets in Montenegro, 2009

Any social safety net	5.7%
Social assistance (FMS/MOP)	4.9%
Child allowance	0.6%
Disability and war-related benefits	0.5%
Scholarships	0.3%

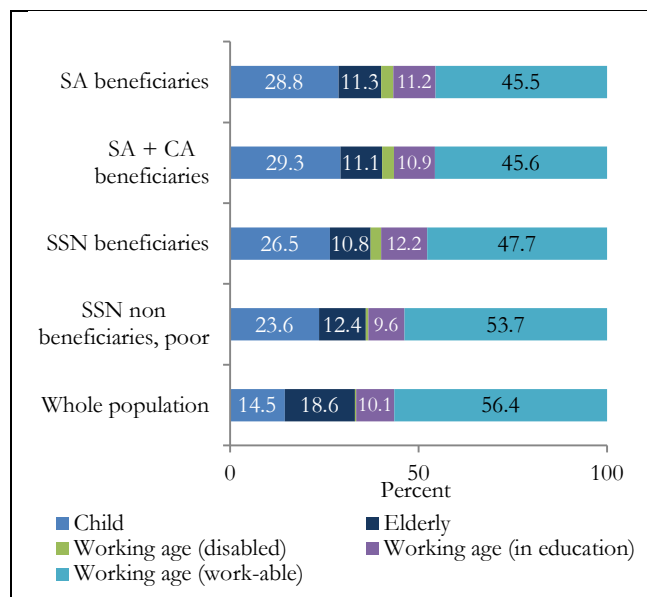
Source: Montenegro HBS data 2011.

Note: FMS/MOP = Family Material Support (Materijalno Obezbedenje Porodice)

Three-quarters of the work-able population participate in the labor force, and wage employees make up the bulk of the employed. About 76 percent of the work-able population declared themselves to be either working or unemployed, signaling an overall high activity rate among those who could be expected to work; and among labor market participants, nearly 70 percent are employed (Figure 5). Unlike other countries in the Western Balkans, the Montenegro’s structure of employment is extremely skewed toward wage employment, possibly also due to the very low share of agriculture in the economy.⁵

⁵ However, participation and unemployment rates cannot be compared to official LFS-based statistics because the work-able excludes those individuals who are disabled or in education (see Box 1).

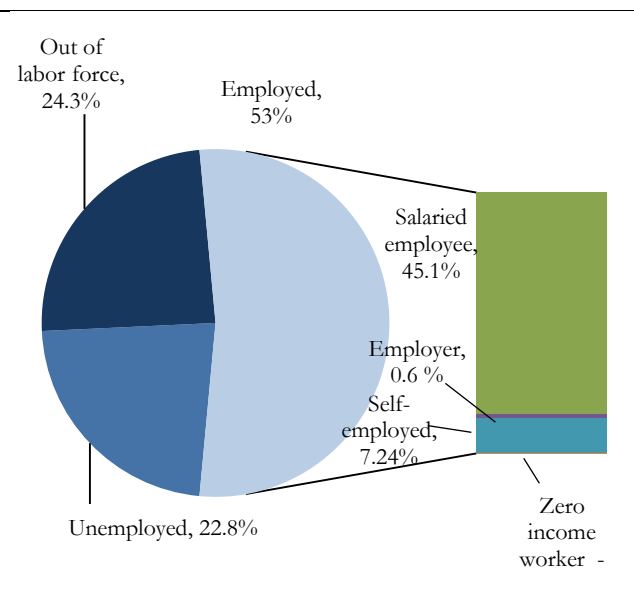
Figure 4: Age Composition and Work-Able Status of SSN Beneficiaries Relative to General Population in Montenegro, 2011



Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (includes SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

Figure 5: Labor Market Characteristics of Work-Able Population in Montenegro, 2011

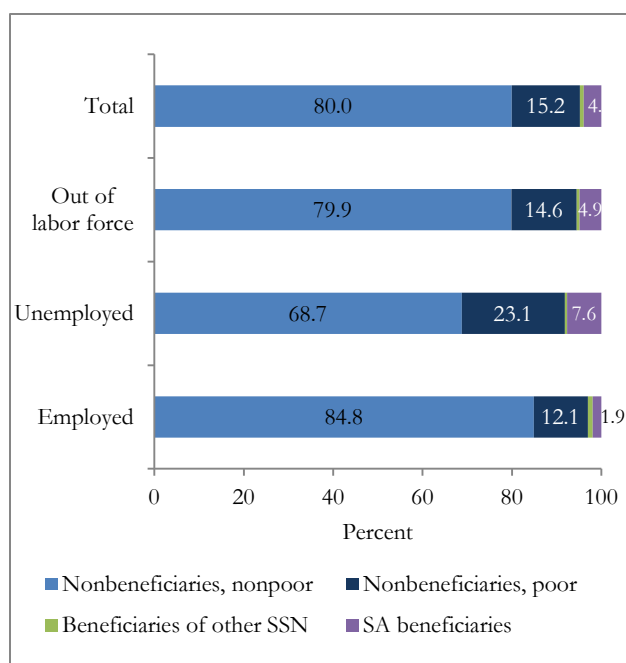


Source: Montenegro HBS data 2011.

Note: “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training.

SSN beneficiaries represent only 4 percent of the work-able population in Montenegro. As Figure 6 indicates, SSN beneficiaries constitute only 4 percent of the work-able population, with this coverage rate being slightly higher among those who are out of work. In addition, it is also evident that only a quarter of the *poor* work-able individuals are actually benefiting from any safety net program. This safety net coverage implies that an activation agenda aiming uniquely at SSN beneficiaries would reach a very small share of the work-able who are out of jobs, including a small share of the jobless poor.

Figure 6: Safety Net Coverage of the Work-Able Population in Montenegro, by Labor Force Status, 2011



Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). Other SSN = social safety net other than SA (including CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

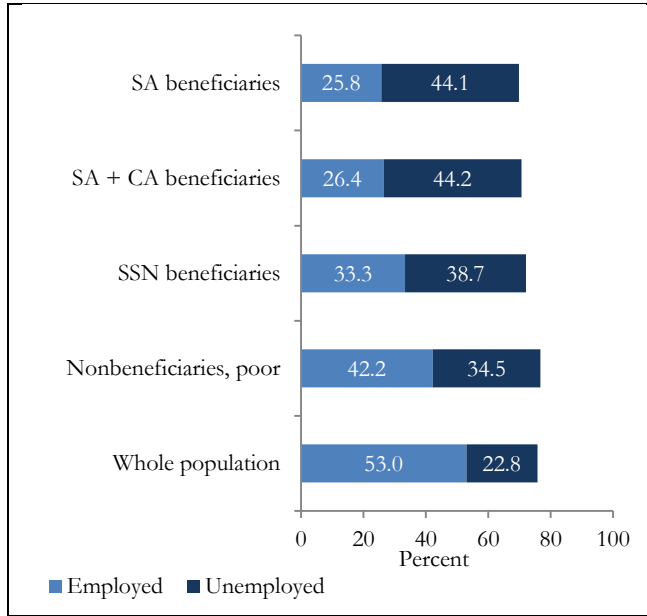
2.3 Labor Market Outcomes for SSN Beneficiaries Who Are Work-Able

There is a case for activation of SSN beneficiaries as well as nonbeneficiary poor individuals given their higher unemployment rates compared to the general population. The employment profile of the SSN beneficiary population differs slightly from that of the general population. Among those who are work-able, participation in the labor force is high (72 percent), just below the rest of the population (76 percent). However, the employment rate is 20 percentage points lower among SSN beneficiaries than the general work-able population (Figure 7), or in other words, most active SSN beneficiaries are unemployed. The notably higher labor market vulnerability of SSN beneficiaries, coupled with the potential fiscal implications of prolonged inactivity, justifies a specific analysis of the constraints and incentives faced by this group. A second priority group for activation measures are the large pool of nonbeneficiary poor individuals: this group exhibit similar labor force participation rate to the rest of the population, but remain at much higher risk of unemployment.

Moreover, employed SSN beneficiaries are much more likely to be in low-quality jobs. About 27 percent of all SSN beneficiaries work in nonwage jobs; this rate is substantially higher among SA (FMS/MOP) beneficiaries, while it decreases among the general population, which is made up almost entirely of wage employees (Figure 8). Perhaps more tellingly, 20 percent of SSN beneficiaries (particularly the recipients of FMS/MOP) are highly represented in the otherwise small agricultural sector and underrepresented in professional and service jobs (

Figure 9).

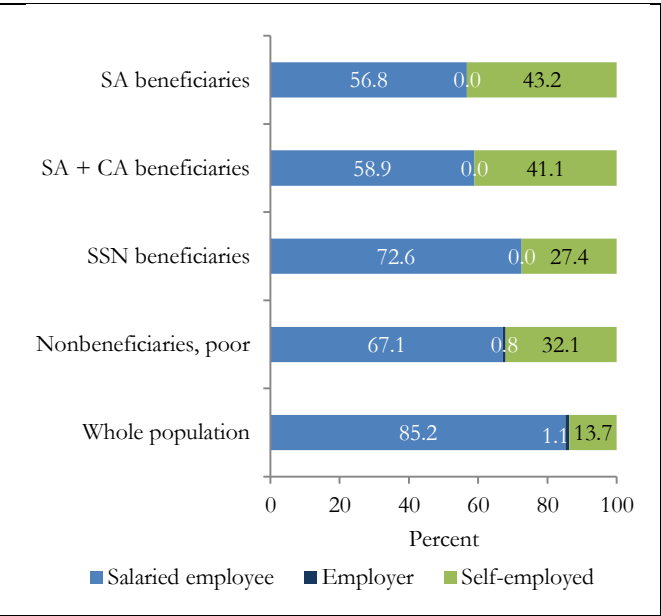
Figure 7: Labor Force Participation, by employment status, among the Work-Able in Montenegro, 2011



Source: Montenegro HBS data 2011.

Note: Labor force participation is the sum of employed and unemployed. SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (including SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

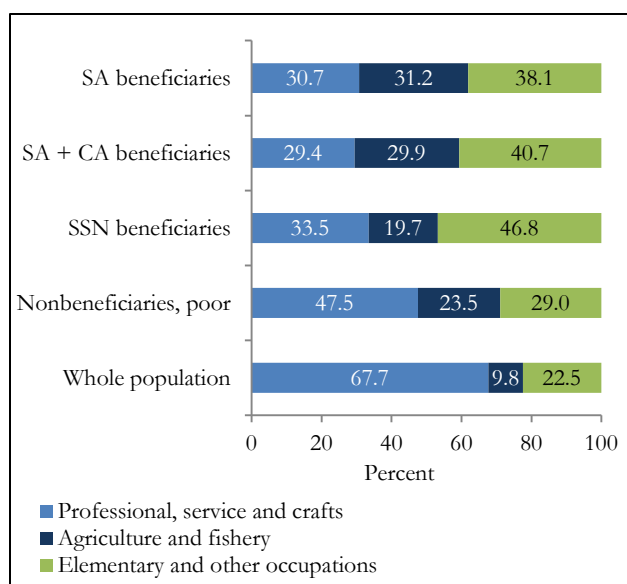
Figure 8: Status of Employed SSN Beneficiaries Relative to Whole Population in Montenegro, 2011



Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (including SA, CA, disability benefits, and scholarships). “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

Figure 9: Employment Sectors of SSN Beneficiaries Relative to General Population in Montenegro, 2011

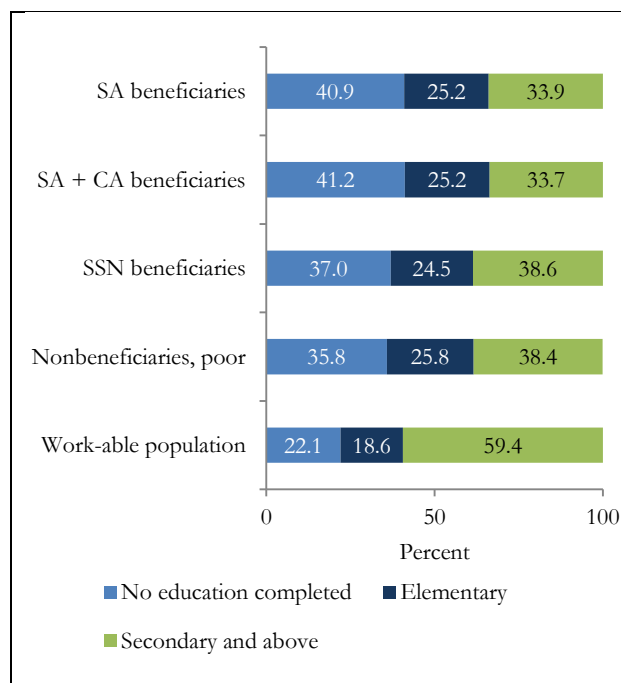


Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (including SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution. “Elementary and other occupations” includes responses coded as “without classification” and “elementary occupations” in the HBS

The low employment rates and quality of jobs for SSN beneficiaries are, in part, explained by their relatively low educational achievement. More than 60 percent of the SSN beneficiaries achieved at most primary education compared only 40 percent among the general work-able population (Figure 10). A considerable share of beneficiaries does not even have a primary education diploma. As indicated by Figure 11, lower levels of human capital affect labor market outcomes; but interestingly while this effect is present in the general population, it is even more pronounced among SSN beneficiaries. For instance, preprimary-educated SSN beneficiaries (who represent 37% of all work-able beneficiaries) display low employment rates relative to individuals with a similar educational attainment in the overall population and in the nonbeneficiary poor (15 percent, 34 percent, and 38 percent, respectively). Conversely, the share of uneducated individuals who report being unemployed is higher among SSN beneficiaries than in the general population (27 percent against 16 percent). Even FMS/MOP beneficiaries with secondary or tertiary education exhibit a clear disadvantage, with one out two reporting to be unemployed, compared to one out of four in the whole work-able population. Thus, human capital can only partially explain the lower employment outcomes of SSN beneficiaries, who are facing additional barriers to employment (Figure 11).

Figure 10: Education Distribution of Work-Able SSN Beneficiaries in Montenegro, 2011



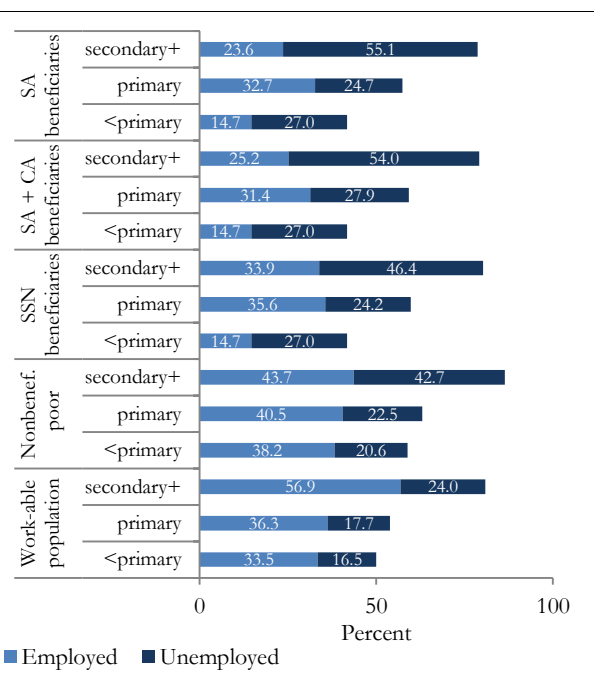
Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (including SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

SSN beneficiaries include more out-of-school youth, who generally are among those at higher risk of unemployment. In terms of age distribution, SSN beneficiaries include a larger share of work-able (and therefore out of school) individuals aged 15-24 than the general population (Figure 12). On the contrary, there is a much lower presence of people in the last stage of their working lives (aged 55–64), reaching only 9 percent for the SSN beneficiaries compared with 23 percent in the general population. This age structure, which is even more skewed among SA beneficiaries, is partially driven by the design of safety nets in Montenegro, which require the presence of a dependent person for eligibility, thus skewing the composition of beneficiaries toward families with young children. Because young out-of-school individuals tend to be new labor market entrants with low working experience and few formal skills, the age composition of SSN beneficiaries also explains the lower employment rates and high unemployment of this group relative to the general population.

On the other hand, younger individuals may be among the clients who could benefit the most from activation policies. Those with sufficient basic education may be more likely to absorb and accept new training that can improve their employability potential. In addition, young people

Figure 11: Employment and Labor Force Participation, by Education, in Montenegro, 2011

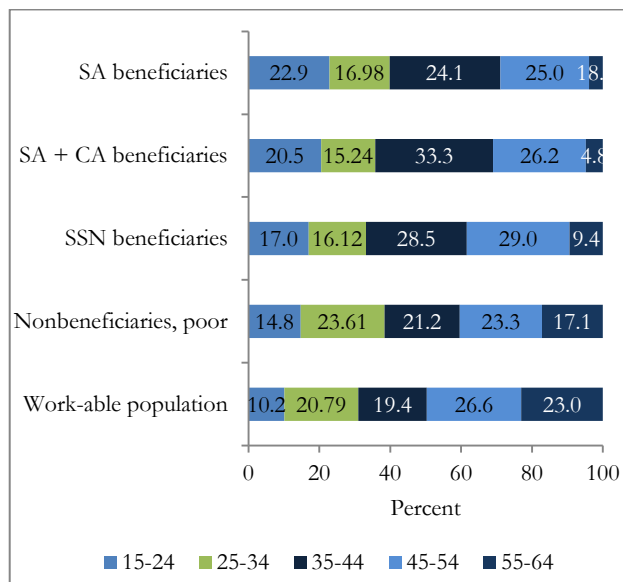


Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (including SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

can display greater flexibility in changing their professional orientation or work location to meet labor demand.

Figure 12: Age Distribution of Work-Able SSN Beneficiaries in Montenegro, 2011



Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety net (includes SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

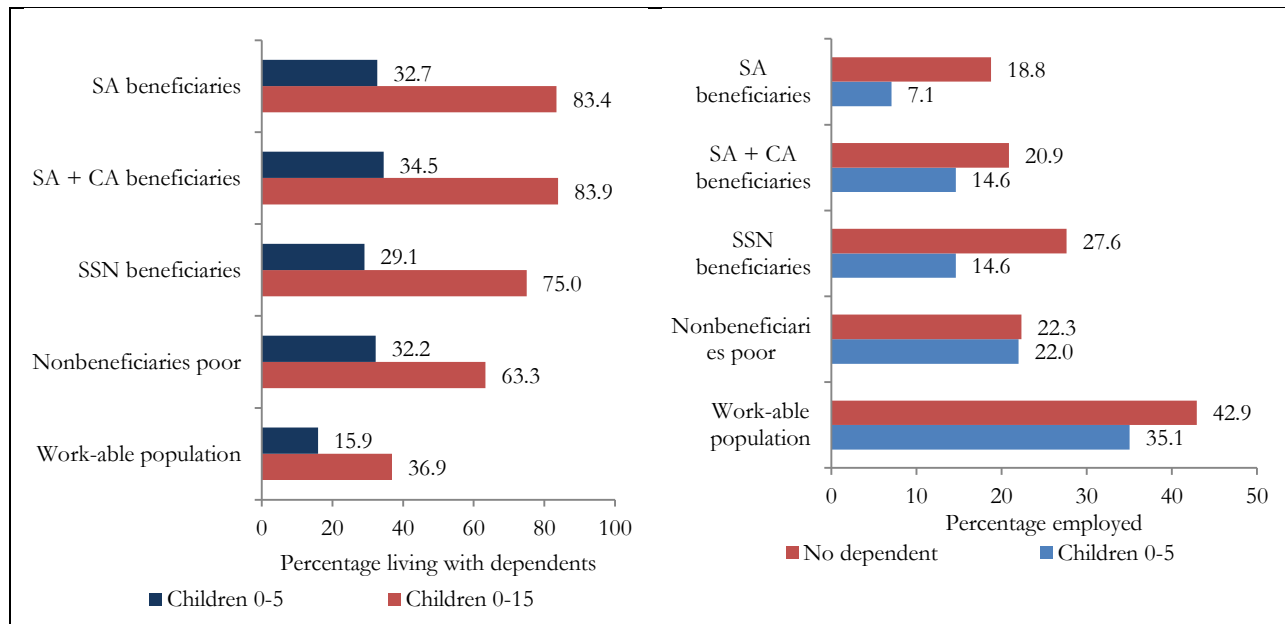
By design, safety nets in Montenegro capture mostly individuals who are likely to have constraints, other than human capital, that prevent them from realizing their labor market potential. These constraints pertain largely to the environment where beneficiaries live and include caretaking duties for children or people in need of care, mobility constraints, or information constraints. However, data limitations allow us to examine only one such barrier: caretaking duties for children.⁶ Figure 13 shows that 33 percent of work-able individuals receiving FMS/MOP live with at least one child aged 0–5, compared with 16 percent among the general work-ready population. As mentioned earlier, the composition of households benefiting from SSNs is driven by the design of programs, which “exclude” all individuals who are work-able and do not have dependents or children.

Greater caretaking duties for children are associated with significantly lower employment rates, especially among women who benefit from social assistance and the child allowance. Traditionally women tend to perform most of the caretaking duties in the household. This seems also to be the case of Montenegro, where the employment rate of female SSN beneficiaries is much lower in the presence of young children aged 0–5 (15 percent) than among beneficiaries with no

⁶ The small sample size, and the relative scarcity of disabled individuals among household members, do not allow us to estimate either the share of women who live with persons with disabilities—which is probably extremely low—or their employment rates.

dependents (28 percent) (Figure 14). On the other hand, the data indicate that the presence of young dependents is not associated with lower employment rates in the case of male SSN beneficiaries (not shown in the figures). The relationship between the presence of dependents and reduced employment rates appears to be much weaker for women in the general population and even for nonbeneficiary poor women, although the exact reason cannot be inferred from the data. A possibility is that individuals with higher incomes may have access to more support services, including formal childcare, than in SSN beneficiary households.

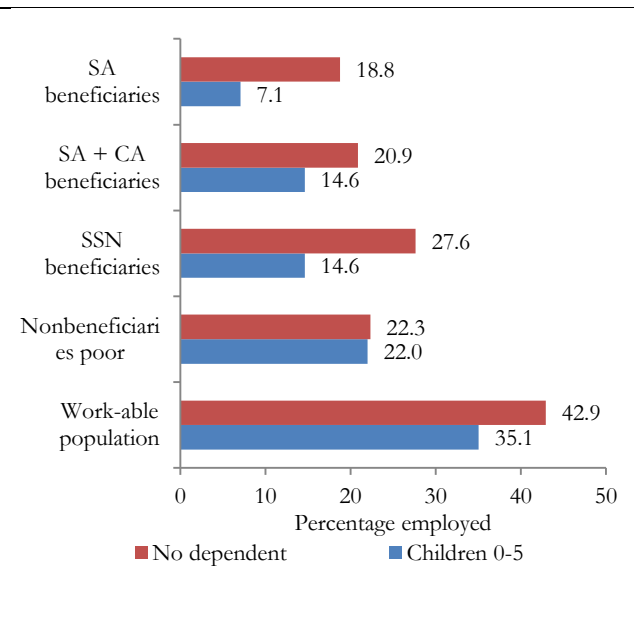
Figure 13: Share of Work-Able Population Living with at Least One Person in Need of Care in Montenegro, 2011



Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety nets (includes SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

Figure 14: Employment Rate of Work-Able Women Living with a Person in Need of Care in Montenegro, 2011

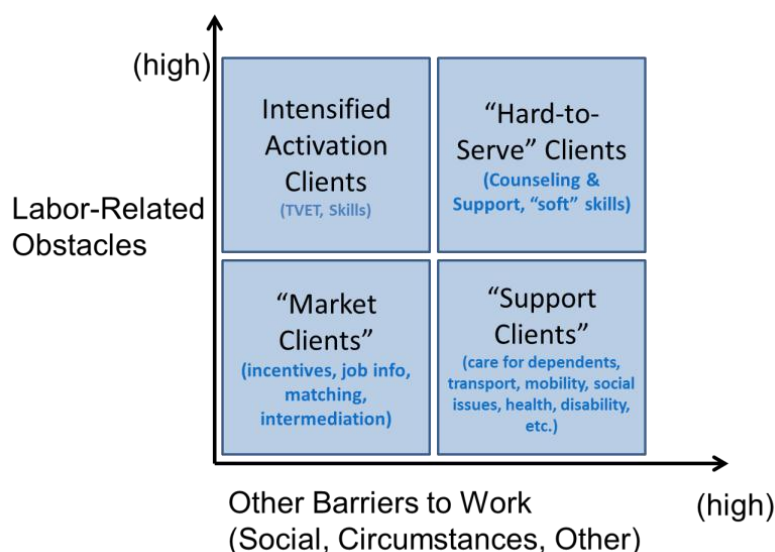


Source: Montenegro HBS data 2011.

Note: SA = social assistance (FMS/MOP). CA= child allowance. SSN = any social safety nets (includes SA, CA, disability benefits, and scholarships). “Work-able” includes all individuals of working age (15–64) who are neither disabled nor in education or training. “Poor” refers to individuals in the bottom 20th percentile of the total consumption distribution.

The potential for activation of work-able beneficiaries varies according to their characteristics and will require a tailored mix of services. Figure 15 below presents a taxonomy of activation “packages” that could be used to activate different typologies of beneficiaries. The four activation packages are distributed along the two axes, representing the extent of constraints related to employability (y-axis) and “other barriers” to entering employment (x-axis). It is important to consider this discussion as a first step toward a comprehensive exercise that matches profiling of beneficiaries with services, which would require a wider range of information such as the range included in the administrative datasets.

Figure 15: Matching Beneficiary Typologies and Activation Services in Montenegro, by Client Group



Market-Ready clients are those who can be more easily—and less expensively—activated. These clients normally do not require services other than those offered to facilitate intermediation with the labor market because their unemployment spells tend to be short and engagement in ALMPs other than tools for job matching may not be cost-effective. In Montenegro, unemployed beneficiaries, especially the educated or those with work experience, could belong to this group. To the extent that the labor market has open vacancies, cost-effective services to this client segments can range from access to information on vacancies to workshops on résumé preparation, interview skills, and job searching (Brown and Koettl 2012). Impact evaluations show that incentives or threats—such as the reduction of benefits in association with the duration of unemployment or more stringent work search requirements where job search efforts are monitored—have been associated with reductions in unemployment duration (Cahuc and Lehmann 2000; see Fredriksson and Holmlund 2006 for a review of the evidence). Understanding what profile of individuals is at highest risk of long-term unemployment is challenging given the data limitation, but the low unemployment rates among the more-skilled workers suggest that this is possibly the most likely candidate group. Since only two out of five SSN beneficiaries have secondary education (or even fewer if considering only FMS/MOP beneficiaries), the actual number of beneficiaries that could potentially be activated at the lowest cost is small.

Intensified Activation clients can benefit the most from interventions that build human capital. SSN beneficiaries in this group include the individuals who, to become employable or to raise their productivity above subsistence level, would benefit from acquiring job-specific skills that the labor market requires. Training could be the most appropriate strategy to activate the group of beneficiaries who are at higher risk of becoming—or actually are—long-term unemployed. Training has been shown to have little effect on such groups in the short run, but it has positive effects in the long run (Brown and Koettl 2012). Although the discussion of training programs is beyond the scope of this study, the literature emphasizes that only good-quality, market-relevant training

(especially on-the-job training rather than in the classroom) is likely to yield cost-effective results. However, not all individuals who lack human capital may be able to absorb advanced training. A large group of work-ready SSN beneficiaries in Montenegro lack primary education. Given the sectoral composition of the employed, they are likely to find work either in self-employment or agriculture. This group may benefit the most from other forms of support, such as entrepreneurship training, start-up assistance, agricultural extension services, and the like. Financial incentives built into the benefit formula and associated with participation to activation measures and the activities offered for “market-ready” clients make these an appropriate mix to sustain the effort of this group to find employment.

***Special Support* clients require intensified case management and a mix of services to improve their participation in the labor force.** Special support clients are defined as those who face nonmarket barriers to joining the labor force, particularly caretaking duties. In addition, inactive individuals may face other barriers to participation such as geographic or transportation constraints or temporary health conditions. This heterogeneous group of clients requires an intensive and more costly case management to enable their labor market participation and identify potential solutions for activation, which often lie beyond the confines of the employment services. In this case, the main role and challenge of activation services is to ensure proper institutional coordination with the other service providers in the community, including facilitating clients’ access to specific benefits (such as transport, housing, prioritization in child-care centers, and disability benefits for other family members). Because these clients are not part of the labor force, they will also benefit from a mix of incentives to build motivation and job search assistance to identify their labor market potential. Because of the design of the LRSA and child allowance programs—which essentially target households with at least one dependent person—a large share of SSN beneficiaries, especially women, is likely to fall either into this category or into the following one (if low-skilled and inexperienced). In fact, the data discussed earlier pointed out the markedly lower employment rates among SSN beneficiary women living with dependents.

***Hard-to-Serve* clients include individuals who face high barriers both in terms of employability and in terms of ability to participate in the labor market.** This group is similar to the Special Support clients, but in addition suffers from lack of basic skills and work experience. Given the way in which labor force participation decisions and skills interact in practice (as shown in our initial analytical framework), those individuals who face constraints to joining the labor force are often also those who also lack skills to be competitive enough in the labor market to purchase the services that could replace them as caretakers. As their naming implies, such beneficiaries may be considerably harder to activate and require, in any case, a longer process, which will include both the intensive case management and the basic skills development activities or assistance to enter into productive self-employment.

Public employment services (PES) in Montenegro have already developed some experience in profiling job seekers. According to a recent review, Montenegro is the only country in the Western Balkans where PES profiles the unemployed upon registration (ETF 2011). This profiling

includes three categories of unemployed individuals, which encompass those illustrated in the classification framework above, albeit with a stronger emphasis on employability constraints: (a) persons with marketable skills who can immediately start a job search based on a professional plan drawn up between the unemployed person and a counselor; (b) persons who tend to need simple support measures such as vocational guidance, seminars on how to look for work, attendance at job fairs, and so on; and (c) the hard-to-place unemployed who need the most support. The existing practice of profiling is discussed in more detail in Section 4.2.

Advanced profiling of beneficiaries could further improve the targeting and cost-efficiency of activation measures and of social assistance itself. In many OECD countries such as Australia, Denmark, Germany, or the United States, the profiling of beneficiaries of unemployment insurance or of LRSA is an exercise integrated into the regular business process of case management.⁷ The main objective of “statistical profiling” is to improve the cost-efficiency and the effectiveness of activation services by reducing the “deadweight loss” associated with providing services to populations that would be likely to find a job without the need for intensified activation measures. The advanced analysis of administrative data and of the results of individual questionnaires that collect information on hard skills, behavioral skills, personal motivation, and constraints is used to predict the optimal timing and mix of activation measures based on past success rates for similar clients.

Statistical profiling could be particularly appropriate in countries where case management is still relatively underdeveloped. Statistical models have shown acceptable degrees of accuracy in predicting unemployment spells. A model for the United Kingdom could predict duration of unemployment in 70 percent of cases (Driskell 2005); similar rates were observed for Denmark and Sweden (Konle-Seidl 2011) and an even higher rate in Ireland (O’Connell et al. 2009). This technique can be particularly useful in countries, such as those in the Western Balkans, where case managers have high caseloads—a situation associated with poorer performance (Hainmueller et al. 2011)—and where case management practices are still being developed. Especially because the practice of profiling is still not fully institutionalized, staff may be more open to using sophisticated statistical techniques.

However, the available data for Montenegro, exploited in this note, can provide only an initial overview of the general beneficiary profiles and of the policies that could benefit those groups. Advanced profiling would require the analysis of administrative data, an improvement of the information collected at entry to also capture soft skills, and potentially the use of a classification system of skills that matches the one employers use to define skills shortages.

⁷ This section draws from the comprehensive assessment of statistical profiling in OECD countries conducted by Konle-Seidl (2011).

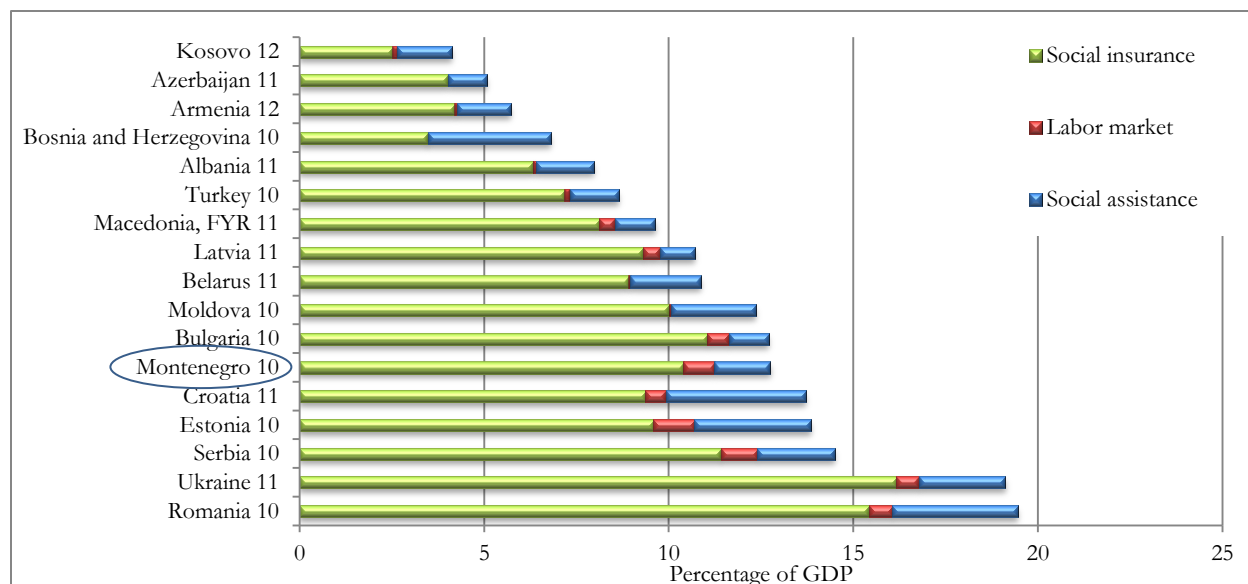
3. Incentives and Disincentives for Activation Arising from the Design of the Last Resort Social Assistance Program in Montenegro

This section complements the labor market profiling of beneficiaries with an analysis of the design of Montenegro's LRSA program from the perspective of whether it contains inherent (dis)incentives for work. The section starts with a brief description of the benefit's design, financing, and performance characteristics. Against this background, it identifies possible incentives and disincentives for work that are built into the design of the program, specifically in the eligibility criteria, benefit formula, definition of "able to work," required registration as unemployed, benefit generosity, and employment-related conditions to receive cash assistance. Furthermore, it looks at the interaction of these design features with the tax system, which may ameliorate or exacerbate any disincentives embedded in the design of social assistance programs.

3.1. Main Program Characteristics

Montenegro operates a comprehensive social protection system, but spending on noncontributory benefits represents a small share of the overall budget. Since 2000, spending on social protection (contributory and noncontributory benefits) varied between 9.4 percent and 11.6 percent of gross domestic product (GDP) (see Annex 1, Table A1.1 and Table A1.2), with about 80 percent of it allocated for contributory pensions, maternity, and unemployment benefits. The remaining part (about 20 percent of social protection expenditure) is allocated to noncontributory benefits, such as LRSA, the child allowance, veterans' and disability benefits, and social services. Generally, Montenegro's level of expenditure on social protection is comparable to EU member states such as Bulgaria or Croatia (as of mid-2013) (Figure 16) (World Bank 2013).

Figure 16: Structure of Spending on Social Protection in Montenegro and Selected Other Eastern European and Central Asian Countries, 2009–11



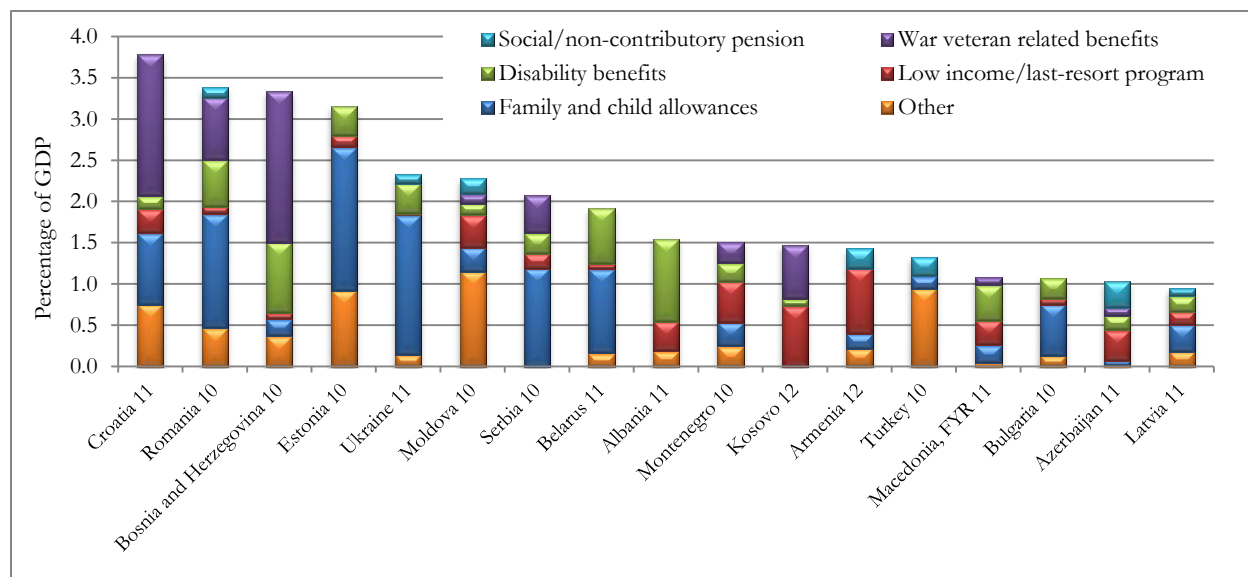
Source: Eastern Europe and Central Asia Social Protection Database, World Bank.

Note: Country-specific data are for the year indicated following each country's name in the y-axis (most recent year for which data are available). Social insurance includes pension and disability programs based on social insurance contribution payments. Labor market programs include both passive (unemployment) benefits and active labor market programs. Social assistance encompasses three main types of noncontributory benefits: last resort social assistance, family and child protection benefits, and noncontributory disability benefits. In some cases, including in the Western Balkan countries, social assistance includes region-specific war veteran-related benefits (World Bank 2011b).

The FMS/MOP program is the largest noncontributory program in Montenegro. There are 17 centrally financed noncontributory benefit programs in Montenegro. The FMS/MOP program is the largest noncontributory program in terms of spending and number of beneficiaries. Since 2005, spending on the program was in the range of 0.4–0.5 percent of GDP, which is comparable to spending on means-tested income support program and unemployment assistance in European Union (EU) member states, but generally higher than what is spent on such programs in most Eastern European and Central Asian countries (

Figure 17). The number of FMS/MOP beneficiaries was continuously increasing throughout the 2000s. In 2012, the number of recipients was almost three times higher than in 2000 (Figure 18).

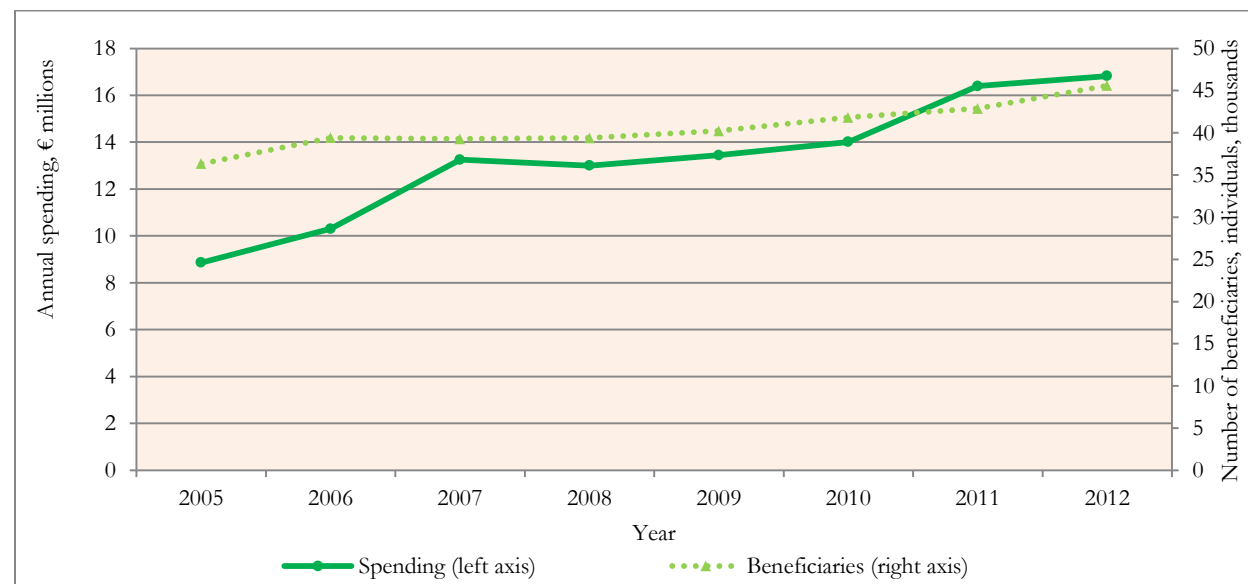
Figure 17: Social Assistance Spending in Montenegro and Selected Other Eastern European and Central Asian Countries, 2009–11



Source: Eastern Europe and Central Asia Social Protection Database, World Bank.

Note: Country-specific data are for the year indicated following each country’s name in the x-axis (most recent year for which data are available). Social assistance encompasses four main types of noncontributory benefits: last-resort social assistance, family and child protection benefits, noncontributory disability benefits, and war veteran-related benefits.

Figure 18: Spending on and Number of Beneficiaries of the Family Material Support in Montenegro, 2005–12



Source: Eastern Europe and Central Asia Social Protection Database, World Bank, based on Ministry of Labor and Social Welfare data.

Despite increases in the number of beneficiaries, coverage of the poor remains very low. Social safety net coverage of the poor is notoriously low in Western Balkan countries, and Montenegro is no exception (World Bank 2011b, 2012). Coverage of LRSA programs is lower, however, even for a sizable program like FMS/MOP. In 2001, only 12.6 percent of those in the poorest quintile received social welfare benefits, including FMS/MOP (see Annex 2, Figure A2.1).

The targeting accuracy of social assistance programs in Montenegro compares well with other Eastern European and Central Asian countries. Overall social assistance is accurately targeted to the poor because of the application of rigorous means testing of FMS/MOP and the monthly child allowance. Targeting of FMS/MOP remains strong, although now the program targets more of the second-poorest quintile than before, which could be partially a result of increased threshold levels in 2009 or as a result of the global economic crisis since newly unemployed may have joined the program (see Annex 2, Figure A2.3). In total, almost 90 percent of FMS/MOP and related social welfare benefits accrue to the bottom two quintiles, with three-fourths of that going to the poorest quintile.⁸

FMS/MOP benefit levels are not sufficient to stay out of poverty, but they make a non-negligible contribution to the consumption of beneficiaries. FMS/MOP and related benefits contribute, on average, about one-fourth of beneficiaries' consumption, while those in the poorest quintile derive about 30 percent of their consumption from the benefit. Interpretation of this share as adequate is problematic, however, because it may simply imply a lack of other income-generating opportunities for households receiving the benefit (and they have to “make ends meet” with what they receive from social assistance). Although there is no legal commitment to annual indexation or link to income or poverty benchmarks, the FMS/MOP levels were increased three times: in 2007 (10 percent), 2009 (10 percent), and 2011 (5 percent). As a result, the benefit was leveraged to provide more support during the crisis, but in the long run lack of regular indexation can lead to deterioration of thresholds and benefit levels (Isik-Dikmelik 2012). Relative to the absolute poverty line,⁹ FMS/MOP benefit amounts are quite low, contributing only about 35 percent to the amount needed to stay above the poverty line for a single person.

3.2 Work Incentives and Disincentives Associated with the Design of the LRSA Program

FMS/MOP benefit design could have explicit or implicit incentives or disincentives to actively search for jobs and take up employment. The choices of beneficiaries on whether to continue receiving benefits or make efforts to find and accept employment could be influenced by a number of program design characteristics, among them, but not limited to, the following:

⁸ Variability of targeting over time could be due to the small sample of beneficiaries in the survey data as well as imprecise wording in the questionnaire.

⁹ The national absolute poverty line (monthly, per adult equivalent) was 175.25 in 2012 (source: MONSTAT), while the basic FMS/MOP monthly benefit for a single person was €63.5.

- Design of the benefit formula, including its equivalence scales, indexation rules, benefit level, and duration of receipt
- Rules under which beneficiaries exit the FMS/MOP system to engage in activation activities and rules and legal guarantees for reentry
- Requirement for mandatory registration as unemployed or job seeker and responsibilities that follow from that
- Exemptions from job-search requirements
- Existence or absence of alternative pathways if and when the benefit is not received
- “Passporting” of FMS/MOP with other benefits and services (up to 10 additional benefits)

On the one hand, the FMS/MOP *benefit formula* is a key element of the benefit design that could discourage job-search efforts and working, particularly in low-paid or temporary jobs.

In the case of FMS/MOP, a person or family is eligible if their net income is below a predetermined eligibility threshold. The benefit amount is calculated as *the difference* between the threshold and household income. As a result, each additional euro earned under the benefit threshold will be subtracted from the benefit amount. It is a legal requirement that any additionally received income be reported to the CSWs. Such a benefit design discourages individuals from taking up low-paid, seasonal, or part-time employment if potential earnings from such work are lower or equal to the benefits received. Furthermore, because the whole benefit is withdrawn once a family’s income is above the threshold, this could deter some from accepting even full-time employment if the pay is not sufficiently high to compensate for the benefits lost and taxes and contributions that need to be paid on formal income. This will be discussed in more detail in Section 3.3.

Furthermore, certain conditions on eligibility are *not conducive to asset accumulation, which could be used to return to self-sufficiency.* The asset test used during verification of eligibility includes, for example, any movable assets by which the family existence is secured. Furthermore, a beneficiary may not own or use a business space. This could actually be counterproductive because depletion of such assets (such as their sale) could prevent beneficiaries from effectively looking for jobs as well as securing their own livelihood. Use of such exclusionary filters should be avoided to the extent possible.

On the other hand, benefit rules exclude from eligibility those able to work who don’t have any exacerbating circumstances. The Law on Social and Child Protection targets those who are “unable to work and in material need,” so technically those who are able to work should not qualify. In practice, the definition of “unable to work” is complicated. Importantly, those households with children under the age of 18 are not excluded from the benefit even if parents are able to work. This ensures that children are protected against extreme poverty and destitution. Other cases when a work-able person may be eligible include childless adult(s) in full-time higher education; pregnant women and children between 15 and 18, even if they are not studying; the elderly over 65 years old; people with a certified disability; single parents taking care of children; and one parent taking care of

a disabled child. The rules appear to be applied relatively consistently judging by a small share of singles and couples among all work-able beneficiaries.¹⁰

Application of these rules excludes from the safety net those who are “able to work” but who may require income support while they searching for jobs. Exclusion from any safety net of those who are “able to work” (singles and couples without any caretaking duties) but face significant labor market difficulties could lead to destitution. The coverage and generosity of the unemployment benefit is not sufficient to guarantee that all who require income support while they search for jobs get it. A more prudent approach would be to provide a basic safety net to such individuals along with rigorous participation requirements as well as employment services to connect them with employment opportunities or increase employability.

Although the FMS/MOP benefit itself is not very generous, “passporting” or “packaging” of other benefits on top of FMS/MOP can significantly alter the incentives of households. As noted earlier, the FMS/MOP benefit does not guarantee a minimum consumption standard, and benefit levels are not linked or indexed to a poverty line. For a single person, it covers slightly more than one-third of what is needed to stay out of absolute poverty. It is highly unlikely that the benefit itself presents a significant work disincentive. However, eligibility for FMS/MOP is also a qualifying condition for up to 10 other benefits and associated rights—an arrangement referred to as “passporting” or “packaging” of benefits. Eligibility for FMS/MOP is also a qualifying condition for receiving the child allowance, if the family has children, and a number of other benefits,¹¹ which creates a significant degree of overlap. More details on the ‘content’ of the current benefit ‘package’ and its possible impact on the overall generosity of receiving FMS/MOP are provided in Box 4. Those who are already in the safety net system receive a “package” of transfers and services that enhances the overall generosity.¹² At the same time, the package covers only a narrow group of all who are eligible. The generous package of benefits is arguably creating disincentives for earning income because losing eligibility for FMS/MOP leads to automatic and unconditional withdrawal of the associated benefits and rights.

Box 4: The ‘Packaging’ of the FMS/MOP benefit and welfare trap: an example

The benefit ‘package’ that is associated with eligibility for FMS/MOP makes this relatively generous program even more so. The ‘package’ could include up to ten benefits and rights altogether, among them monthly child allowance, if the eligible claimant has children, benefit for care by other person in case of disability, one-off assistance payment, electricity subsidy, free textbooks, free meals in kindergartens, cover of the costs for children’s summer and winter camps, funeral grants and municipal transfers. Also, all members of the beneficiary families are provided with health insurance as an associated right.

A “social welfare trap” would emerge when the difference in income from employment from social benefits cannot compensate for the additional costs arising from getting into employment. Here is an example. A

¹⁰ Singles are 8.1 percent of total work-able beneficiaries, and two-member families in which no one is a dependent or a child represent only about 4.5 percent of work-able beneficiaries, some of whom may be considered not able to work according to the program rules.

¹¹ FMS/MOP beneficiaries also qualify for a caregiver’s allowance in case of disability, funeral grants, a subsidy for electricity, free health insurance, and other benefits and services.

¹² See Box 5 in World Bank (2012) for an example of such a benefit package.

four-member FMS/MOP beneficiary family with two children who go to school, will be entitled to:

- FMS/MOP €108 (four members)
- Child allowance €19 x 2= €38

The same family will also be entitled to:

- Electricity subsidy paid in cash in the amount of €15 average per month
- Free textbooks - one set of textbooks for one grade costs on average € 55
- Recreation camps for children (summer and winter) - 7-day accommodation for one child would be €98.

The annual net income of such family from cash social benefits only will be €1,870. If one spouse gets employed at a low-paid job, for example in trade, which is one of very common occupations for people with lower education, where he/she can earn an average net monthly wage of €255, annual net wage income of the family would amount to €3,060. The difference in net income that the family would earn would amount to €1,310. This difference would go further down to €830 after accounting to the loss of right to textbooks and vacations for the children. This calculation does not quantify the costs associated with working – the cost of public transportation, clothes, meals outside home, etc. are not deducted. In addition, the decision on whether to work or stay on social assistance is influenced by the ‘light’ labor market related conditionality (mostly the monthly re-registration with the employment service) and the opportunity to work informally against getting the full-time job and losing the benefits.

Source: Calculations are made by J.Kaludzerovic and D. Radevic (2011).

The Government of Montenegro is proposing a gradual move away from such “passporting” to delink FMS/MOP eligibility from some of the benefits. The draft law limits the scope of benefits associated with FMS/MOP, thus lowering the overall generosity of the “package.” The FMS/MOP beneficiaries still remain eligible for health insurance, the funeral grant, and the monthly child allowance. Automatic eligibility for free textbooks, kindergarten fee waivers, and free summer and winter vacations for children are no longer linked only to FMS/MOP benefit receipt (and some have been eliminated). Overall, more discretion will be allowed in determination of benefit eligibility, and the monthly child benefit coverage is expanded beyond MOP/FMS families only.

The unlimited duration of the entitlement to FMS/MOP may discourage job searching. In most of the EU and OECD social assistance systems, the duration of last-resort benefits is unlimited as long as the applicant(s) qualify, but there is an emphasis on requirements for compliance with labor market conditionalities, including requirements for intensive job searching, participation in training, treatment with social services, work availability tests, and so on. A benefit formula might be designed with a *time limit* or in a way to deliver a *decreasing amount* over time or a decreasing amount for those who are able to work in an effort to limit incentives for a long-term stay on welfare. The current FMS/MOP design has no legal provisions for reducing the benefit level over time as a measure designed to promote incentives to work.

The Government of Montenegro is considering adopting a *time limit* for FMS/MOP. Several Western Balkan countries have introduced certain limitations on LRSA benefit receipt to discourage long-term dependency. The Former Yugoslav Republic of Macedonia, for example, has adopted a declining schedule for receipt of the monthly financial assistance for the poor. Over three years of

receipt, the benefit amount is reduced gradually to 70 percent and then to 50 percent of the initial amount. In Serbia, able-bodied LRSA recipients are eligible for nine months in one calendar year. The assumption behind this policy is that they can find seasonal or part-time jobs in the summer or early autumn. The Government of Montenegro is considering adopting a time limit for FMS/MOP that is similar to the approach in Serbia. The draft law proposes extending it to families with able-bodied recipients for nine months in one calendar year. The limitation does not affect able-bodied recipients with increased caregiving needs—for example, if parents have a child with special needs or a disability.

More support from CSWs and EOs will be needed for those not positioned to find employment on their own if time limits become effective. Introducing a time limit can encourage more active job-seeking behavior by able-bodied FMS/MOP beneficiaries, but a time limit alone will not ensure that all those who are able-bodied will be able to find seasonal or temporary jobs to complement their incomes for three months out of the year. Although, in principle, those engaged in activation, including training, will continue to receive LRSA and will not lose the associated monthly child benefit, the draft law does not explicitly make CSWs and EOs obligated to provide such opportunities to able-to-work beneficiaries during this period.

Time limits without a guaranteed safety net in the form of public works, training, or other activation opportunities could be detrimental to the welfare of the families affected, particularly of children. It would also be important to assess barriers to employment and to understand better whether some kind of informal employment or self-employment is a viable substitute for FMS/MOP and whether such opportunities are universally available.¹³ A “back to work” allowance may be required to cover additional costs associated with the job search or travel to places where there are employment opportunities. Several EU and OECD countries simply disregard such “marginal” employment,¹⁴ in whole or in part, for the purposes of benefit calculation. This ensures that recipients can maintain labor market attachment and have access to a basic safety net—particularly for other family members who may not be able to work and for children, who are especially vulnerable.

The FMS/MOP design requires able-bodied claimants to register with the employment office, but currently this requirement is not used effectively as an instrument for providing them with employment services. Applicants use the registration to get the unemployed status, but it is not an entry point for the provision of job search assistance, vocational counseling, or training. Apart from the mandatory registration as unemployed, the FMS/MOP beneficiaries are currently exposed to rather “soft” requirements to participate in activation-related activities, such as taking a job or training offer while still on the unemployment register. In case of noncompliance, they should

¹³ The poor are less mobile and less able to look for jobs outside the places where they reside. This will potentially limit the opportunities for seasonal jobs of those living in the northern parts of the country compared with the capital and especially the sea coast.

¹⁴ For example, Germany disregards €1,200 annually; the Slovak Republic disregards 25 percent of any net earnings, while France disregards 100 percent of earnings for three months after taking up employment.

be sanctioned with deregistration and with subsequent loss of eligibility for FMS/MOP, but sanctions are rarely applied because of slow data exchange between the employment offices (which track employment-related behavior) and the CSWs (where the FMS/MOP benefit is received). As a result, there is no notable attrition of able-bodied FMS/MOP beneficiaries due to noncompliance with employment conditions.

The new draft law introduces the “mutual obligation, mutual responsibilities” principle into the framework of engagement with FMS/MOP beneficiaries. In EU and OECD countries, the principle of mutual obligation implies mutual responsibilities on the part of both the beneficiary and the social welfare and public employment services toward the common goal of overcoming labor market difficulties and dependency on transfers. The new draft law defines social assistance as a combination of cash transfers, social care services, and employment support. For the first time, it brings the PES into the framework of social assistance by, among other things, legally defining “employer” and establishing a legal possibility of connecting LRSA or disability beneficiaries with employers. Moreover, it introduces the “*right to activation*” and the joint responsibility of the CSW and PES to offer jobs, training, and requalification opportunities to those who are able to work as well as to disabled persons when suited to their social situation. According to the draft law, CSWs should initiate and sign individual agreements with FMS/MOP beneficiaries to develop individual activation action plans.

The draft legislation enforces stricter job search and participation requirements. Under the new legislation, to qualify for FMS/MOP assistance, those who are able to work: (a) should not have refused any offer to work from the PES; (b) must participate in training, requalification, and additional qualification courses; and (c) must comply with the existing requirements to register with the PES as unemployed and not have terminated working under their own will. After registration with the PES, the FMS/MOP able-bodied beneficiary is obliged to take work offered by the PES. All of these requirements, along with the requirement on the part of PES to make activation opportunities available, reinforce the principle of mutual obligation. However, in the implementation phase it would be important to carefully evaluate application of these rules to ensure that they are not discriminatively used to strike work-able beneficiaries “off the rolls” by offering opportunities that are difficult or impossible to comply with (such as jobs in other parts of the country).

The FMS/MOP design does not specify the legal status and treatment of able-bodied beneficiaries when they participate in activation measures. It is not stated clearly whether they preserve the status of eligible beneficiaries and stay on the rolls, or whether they are deregistered and subject to new assessment after the activation initiative is over. Also, there are no legal guarantees for reentry into social assistance if the activation does not result in self-sufficiency and independence. This lack of clarity makes taking up activation risky and with unclear overall financial consequences. Recent experience from the region (for example, in Kosovo and Serbia) indicates that these risks can be significantly reduced if those who are taking different kinds of activation measures legally preserve their status as LRSA beneficiaries.

The FMS/MOP design does not specify the treatment of income from activation. It is not clear whether the additional income which they accrue from activation as wages, stipends, per diem, travel expenses, and so on will count in a future means test or whether it will be fully or partially disregarded. If the additional income from participants in activation is exempted, the risk of losing the benefit after taking up activation will be reduced.¹⁵

3.3 Work Disincentives Stemming from the Tax-Benefit System

To further assess financial incentives to work in Montenegro, a tax-benefit model was used. The model incorporates *legal rules* related to cash social assistance benefits, such as the FMS/MOP program and child benefits as well as income taxes and contributions. The tax-benefit model reflects the *combined* effect of taxation and benefit systems on the *net income* of individuals and other select types of households. Specifically, the “typical” household types available in the model are single, single parent with two children, one-earner couple without children, and one-earner couple with two children.¹⁶ The results presented here are based on a tax-benefit model developed following OECD methodology for Montenegro for the year 2012. For more details on the methodology, see annex 3.

There are unlikely to be significant financial work disincentives stemming from the unemployment insurance. Unemployment insurance benefits in Montenegro are unlikely to be a source of work disincentives as measured by the indicator of the “unemployment trap,” that is, the implicit tax on returning to work for unemployed persons receiving the unemployment benefit. In Montenegro, the average effective tax rate for moving from unemployment to work is consistently lower than in other countries in the region and EU10¹⁷ and EU15¹⁸ averages (see Annex 3, Figure A3.1). Recent reforms to the unemployment benefit have significantly reduced the generosity and duration of the benefit for most unemployed (ISSP 2012).

There are implicit work disincentives in the LRSA program design. Just as in many other countries in the Eastern European and Central Asian region, the FMS/MOP program is designed in a way that each additional euro earned by a beneficiary is subtracted from the benefit amount. As mentioned above, the benefit is calculated as a difference between a certain income threshold and net income of beneficiary families. As a result, below the threshold there is no financial incentive for a family to earn more income because it will be automatically reduced from the benefit they receive. This design has a 100 percent marginal effective tax rate (METR)¹⁹. This is clearly illustrated in

¹⁵ Annex 5 provides examples of financial incentives that influence behavior of social assistance beneficiaries and incentivize them to start working in selected OECD and EU countries.

¹⁶ Children in the model are assumed to be of preschool and school age. Although the standard model also includes simulations for two-earner couples, they were not considered in the analysis here. Simulated earnings of two-earner couples in the model start at 67 percent of the average wage for the first adult. At this level, in most simulations, households are not eligible for social assistance.

¹⁷ The EU10 comprises the following 10 countries: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia.

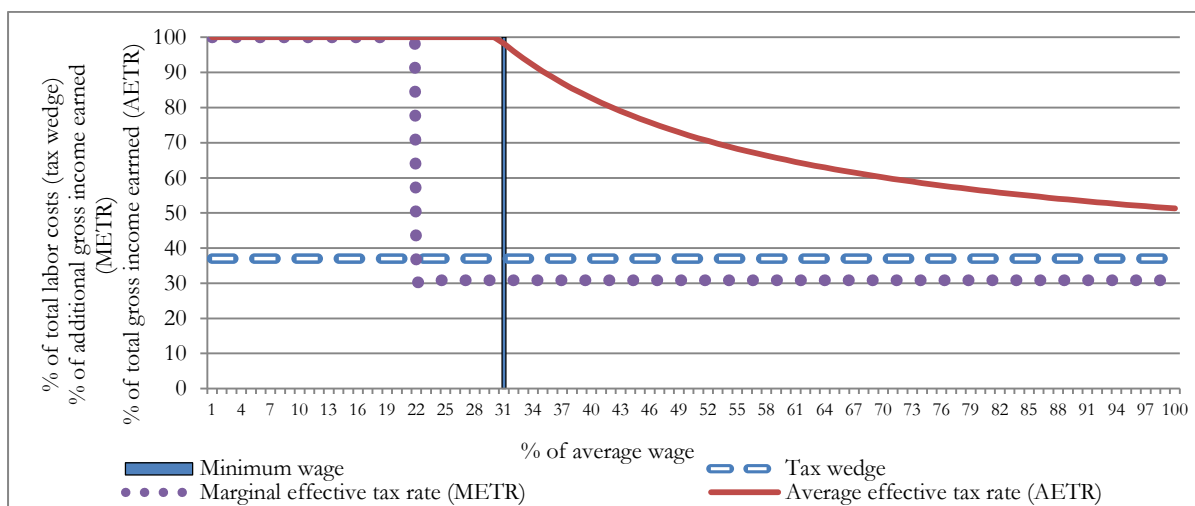
¹⁸ The EU15 comprises the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

¹⁹ The METR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household, where the marginal change is 1 percent of the average wage.

Figure 19,²⁰ which shows that the marginal effective tax rate is 100 percent for a one-earner family with two children until about 20 percent of the average wage, when such a family is no longer eligible for social assistance.

However, social assistance is withdrawn at very low earnings levels; hence, these high marginal effective tax rates are unlikely to have a significant impact on employment decisions. For a one-earner family with two children, social assistance is withdrawn at a level that is less than the full-time minimum wage.²¹ This is also the case for other household types. It is therefore unlikely that these high marginal effective tax rates have a significant impact on employment decisions, but, in theory, they could weaken incentives to take up part-time, temporary, or seasonal employment at levels below the social assistance threshold. Disregarding such earnings partially or fully for the purposes of the social assistance income test could significantly improve attachment of FMS/MOP beneficiaries to the formal labor market. In the absence of such a possibility, they are most likely to take such employment in the informal sector.

Figure 19: Tax Wedge and Effective Tax Rates for a One-Earner Couple with Two Children in Montenegro, 2012



Source: Calculations based on OECD tax-benefit model.

Note: Minimum wage corresponds to a value of approximately 30 percent of the average wage, which is the legal minimum for a person working full-time. The tax wedge is defined as the proportional difference between the costs of a worker to their employer (wage and social security contributions, i.e. the total labor cost) and the amount of net earnings that the worker receives (wages minus personal income tax and social security contributions, plus any available family benefits). The METR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household, where the marginal change is 1 percent of the average wage. The AETR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household, where the total change is from 0 to x percentage of the average wage (from 1 to 100 percent, as indicated on the x axis).

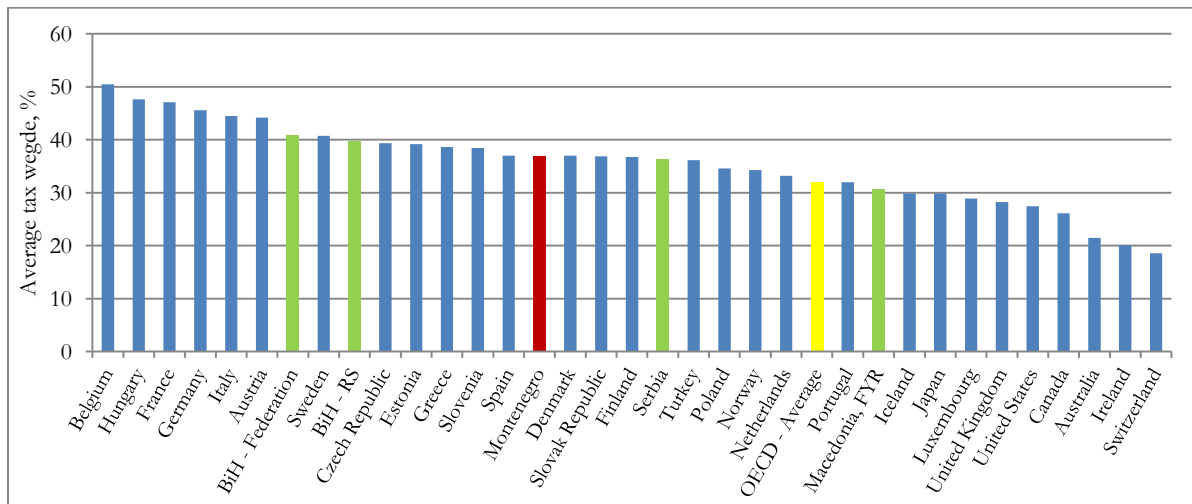
²⁰ See annex 3 for additional figures for other household types.

²¹ The minimum monthly (176 working hours) wage of full-time employed person cannot be lower than 30 percent of the average wage in the previous semiannual period. This is different from the minimum price of labor (minimum pay standard), which is €55.

Low levels of the core “benefit package” limit potential for “inactivity traps.” The average effective tax rates for taking low-paid jobs are moderate in Montenegro—significantly below the EU10 and EU15 averages. Only for a one-earner couple with two children, the average effective tax rates to take up a job for 67 percent of the average wage or less are somewhat higher than in other Western Balkan countries (except Serbia). Even in this situation, such a household stands to gain at least 40 percent more net income when a person takes such a job (annex 3). As a result, “inactivity traps” are not likely to present a significant problem in Montenegro. An important caveat is that these calculations include only the core “benefit package” (FMS/MOP cash assistance and child benefit). Any additional benefits (in cash or in-kind) that the FMS/MOP beneficiary may be eligible for are not taken into account. As noted above, such “packaging” of benefits conditional on receiving FMS/MOP can significantly undermine incentives to move from assistance for certain households.

However, incentives to take employment could be improved by lowering the tax burden on low wages. Withdrawal of social assistance benefits only partially contributes to participation tax rates. The combined burden of social security contributions and income taxes represents about half of the effective tax on earnings for families with children²² (annex 3). Labor taxes on low-wage labor are relatively high in Montenegro (**Error! Reference source not found.**), which are likely to contribute to incentives to work informally (Koettl 2011). Lowering or offsetting the high tax burden on low-paid or marginal (seasonal and temporary) employment can further strengthen incentives to take such jobs.

Figure 20: Tax Wedge for a Single with No Children at 67 Percent of Average Wage for Selected Countries (% of labor costs)



Source: OECD.Stat database; calculations based on OECD tax-benefit model for Western Balkan countries.

Note: OECD = Organisation for Economic Co-operation and Development.

²² In the tax-benefit model, families with no children are not eligible for FMS/MOP because they are assumed to be work-able. As a result, average effective tax rates on taking up employment are fully derived from taxes and social security contributions.

4. Institutional Readiness for Activation

This section analyzes the institutional capacity of the EOs to activate job seekers, particularly hard-to-employ persons, as well as the capacity of the CSWs to refer them effectively to employment services and to support them with social services. The analysis addresses several sets of issues, including (a) the institutional framework and business processes of the EOs, looking specifically at procedures and gaps with respect to profiling of job seekers, quality assurance, and outsourcing of employment services; (b) the capacity of the EOs to deliver employment services to all parts of Montenegro, focusing on distribution of staff and caseloads; (c) the availability of ALMPs, especially considering the strengths and weaknesses of their design, implementation, and financing from the perspective of meeting the needs of hard-to-employ EO clients; and (d) the coordination between EOs and CSWs.

4.1 Institutional Framework of the Employment Services and Administration of Social Assistance in Montenegro

Employment services, administration of social assistance, and provision of social services are not integrated in Montenegro. Public employment services are provided by the Employment Agency of Montenegro (EAM) while administration of social assistance is the responsibility of the CSWs, which are also responsible for the provision of social services. These two institutions operate largely separately, but both under the supervision of the MLSW. Employment services are responsible for keeping records of the unemployed persons and providing intermediation services, assistance for training, and professional orientation. They provide health insurance for the registered unemployed. They are also responsible for designing and implementing the ALMPs.

Montenegro's public employment services have the basic institutional infrastructure and certain financial capacity to provide passive and active employment services. The central employment office has seven branch offices (labor bureaus) and 14 extended services, which together cover all municipalities in the territory of Montenegro. The work of the employment services is financed from two sources: social insurance contributions and state budget transfers. The passive measures—payment of unemployment benefits and associated health insurance—are financed by payroll taxes. The ALMPs are financed through earmarked contributions from the state budget. The EAM's work is guided by the National Strategy for Employment and Workforce Development 2012–2015 and annual National Action Plans.

The institutional links between the CSWs that deliver FMS/MOP benefits and the EOs that activate the able-bodied unemployed exist in Montenegro, but they are weak. The CSWs and EOs are fully independent from one another, function separately, and pursue no common objectives even though their “clients” somewhat overlap. The “bridge” between the safety net and employment promotion is established mostly through the mandatory registration of the unemployed FMS/MOP applicants with the public employment services, which is per se the *referral* to services.

4.2 Treatment of the Registered Unemployed and LRSA Beneficiaries

Montenegro's EAM has a basic system of profiling for registered job seekers, but FMS/MOP status is not being taken into account. As was noted earlier, Montenegro, unlike other Western Balkan countries, has a system to classify the unemployed based on the following criteria: (a) compliance of market needs with the educational profile of the unemployed; (b) health and social situation of the unemployed; (c) duration of unemployment; and (d) motivation to actively seek employment. FMS/MOP status does not play a role in this assessment and identification of FMS/MOP beneficiaries in the unemployment register is currently not possible, but it is expected that these beneficiaries are overrepresented among those who require more intensive support. Based on these criteria, counselors may place job seekers into one of the following categories of unemployed:

- *Immediately employable persons* are unemployed; have knowledge, skills, or competences required in the labor market; have no health or social disabilities; are motivated to actively seek employment; and, based on an employment counselor's estimate, can be employed within three months from the date of registration on the unemployment register.
- *Conditionally employable persons* are unemployed; have knowledge, skills, and competence that are not highly demanded; have no health or social disabilities; are insufficiently motivated to actively seek employment; and, based on a counselor's estimate, can be employed within 12 months from the date of registration on the unemployment register.
- *Less employable or hard-to-serve persons* are unemployed; have knowledge, skills, and competencies that are not required in the labor market; have health or social problems; are not motivated to actively seek employment; and, based on a counselor's estimate, cannot be employed within 12 months from the date of registration on the unemployment register.

Profiling does not use any statistical techniques and, in essence, is based on a subjective assessment by the counselor. Profiling is performed during the first interview and is the result of assessing all the responses given by an unemployed person. Classification into one of the categories represents an assessment of the counselor who leads the interview. Currently, about a quarter of job seekers are classified as immediately employable, about 40 percent are conditionally employable, and 35 percent are hard-to-employ persons.

Beneficiaries of social assistance are treated equally with other job seekers when referred for job vacancies. To fill publicly advertised vacancies, the employment service selects from the registry all those who meet the criteria set by the employer, informs them of the vacancy, and helps them to apply for the position. However, even if the socially vulnerable individuals get priority access to job offers, the final decision on who gets the job stays with the employer. Anecdotal information from the employment offices suggests that employers might avoid employing representatives of vulnerable groups, acknowledging their lesser readiness and qualifications for the job. This suggests that equal treatment is not sufficient. FMS/MOP beneficiaries are harder to serve

and face higher barriers to employment relating to their skills, incentives, and employers' perceptions.

Importantly, unemployed young persons who may be FMS/MOP beneficiaries are not identified as a specific priority group for activation. As previously noted in the Section 2 profiling of SSN beneficiaries, a large share of work-able social assistance beneficiaries are young people between 15 and 24 years old—significantly higher than the proportion of beneficiaries in the general population (22 percent versus 10 percent). This can be partially driven by program rules, which consider those under the age of 18 as not able to work and, hence, families with children under 18 are more likely to be FMS/MOP beneficiaries. Nevertheless, this group is not considered a special target group for activation policies, even though they are likely to benefit most from measures that would provide them with work experience (such as internships or apprenticeships) or additional education or training, if needed. The definition of “work-able” in this case may need to be extended to those aged 15–18 who are not in education or training to facilitate their completion of education, additional training, or internships.

The mutual obligation principle is weak, although some formal arrangements exist. The offer of employment services to FMS/MOP beneficiaries is not customized to their barriers. Compliance monitoring and reporting on beneficiaries' response to work availability tests and job or training offers are inconsistent. If detected, noncompliance is subject to sanctioning (such as removal from the register) without strengthening the active support or providing incentives for compliance. In practice, however, deregistering seldom happens because the EAM staff has low capacity to monitor compliance.

Individual employment plans are required for each registered job seeker, but given high caseloads they are unlikely to be an effective instrument for all job seekers. The individual employment plan (IEP) is prepared for each registered unemployed within 60 days of registration. The plan is based on the information from interviews with the unemployed person, and the employment counselor supervises the activities set by the IEP. EAM staff believe that these plans help unemployed persons to get to work faster with the help of highly professional career guidance counselors, but the effectiveness of this instrument has not been rigorously assessed, and it is not clear how much attention a counselor can provide to each registered job seeker given high caseloads.

The caseloads of EAM staff are high, particularly for counselors, and have increased in the past few years. The EAM has 335 full-time employees.²³ The number of unemployed persons per EAM employee amounts to about 100, but counselors, who represent only about 50 percent of total staff, have an average caseload of around 200. These ratios are driven by past hiring freezes during the economic crisis and the increasing number of the unemployed.

The EAM staff members are highly qualified and receive additional professional training, but during the crisis these training opportunities became more limited. EAM employees are generally highly qualified, based on their educational attainment, with 60 percent having completed a

²³ As of March 8, 2013.

university degree and another 20 percent having finished high school. All counselors receive additional professional training, but because of budget constraints, training opportunities decreased. Counselors receive wages that are approximately 5–10 percent lower than the average wage.

4.4 Active Labor Market Programs

The EAM is responsible for designing and implementing ALMPs that take into account the profile of the unemployed. The basis for the creation of ALMPs is the “trriage”—that is, the classification of the unemployed into three main categories, as discussed above. ALMPs are supposed to be suited to each category of job seeker. To date, the main ALMPs included internships, public works, start-up credits, training, seasonal employment, and programs for persons with disabilities. In 2008–10, the ALMP budget was primarily spent on training and direct job creation programs (such as public works and seasonal employment) (ISSP 2012). Spending on employment incentives and start-up incentives totaled 20–25 percent of total spending each in these years (ISSP 2012).

Spending on ALMPs is being downsized significantly. Spending on ALMPs averaged about 0.5 percent of GDP between 2005 and 2010. In 2011, that share dropped to just 0.25 percent of GDP. Nominal expenditure was cut almost by half between 2011 and 2012, and in 2013 it is to be cut by another 40 percent (Table 2). The EAM applies for the EU’s Instrument for Pre-Accession Assistance (IPA) financing for projects, but available financing through these projects so far is not enough to cover reductions in the state budget, and the capacity of PES to raise additional financing is low.²⁴

Table 2: Budget of Employment Agency of Montenegro, 2009–13

	2009	2010	2011	2012	2013 ^a
Total budget (EUR, millions)	31.97	32.67	26.73	23.18	19.45
(% of GDP)	1.07	1.05	0.83	0.69	0.55
Unemployment benefits (EUR, millions)	12.63	15.18	13.97	14.50	12.50
(% of GDP)	0.42	0.49	0.43	0.43	0.35
ALMPs (EUR, millions)	13.37	11.76	7.80	4.07	2.77
(% of GDP)	0.45	0.38	0.24	0.12	0.08

Source: Law on Budget and Amendments on the Law on Budget, Government of Montenegro.

Note: GDP = gross domestic product. ALMP = active labor market program.

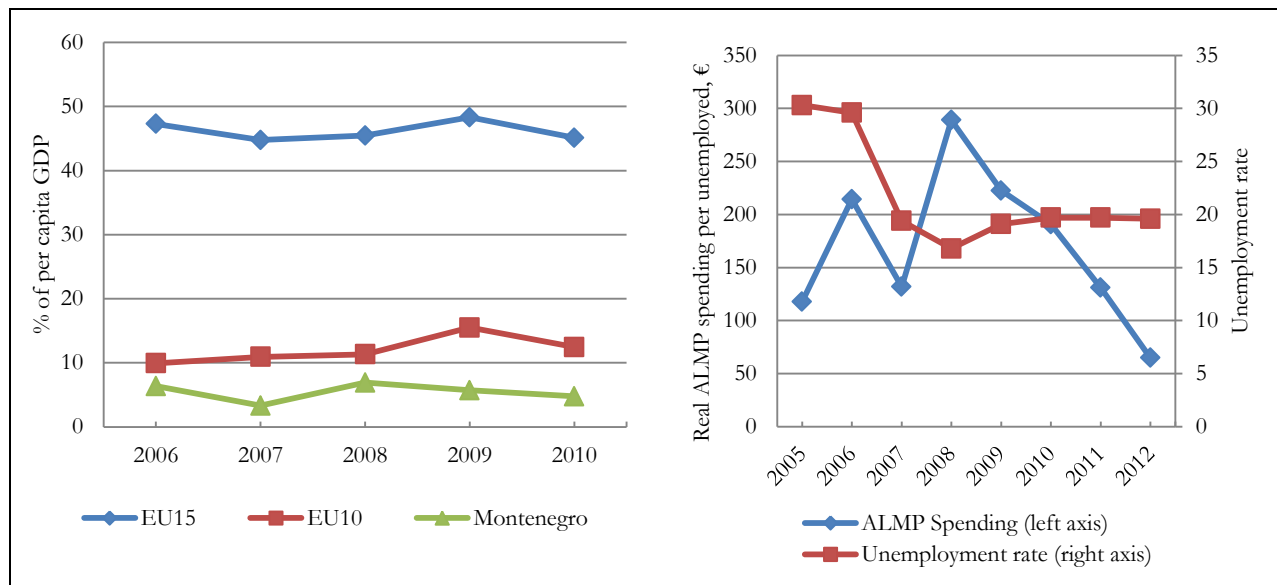
a. Law on Budget for 2013.

²⁴ There is no separate department responsible for preparation of different projects that could bring additional funds, such as the IPA funds, into the EAM. There is only one EAM employee in charge of writing grant applications for projects.

Even at its peak, spending on ALMPs was moderate by international standards. Moreover, spending on ALMPs taking into account the number of unemployed and GDP per capita was low by international standards (Figure 21). In 2012, real spending per unemployed was just a fifth of what was spent in 2008 and lower than what was spent per unemployed in any year since 2005 (Figure 22). In 2013, spending per unemployed is expected to drop further.

Figure 21: Spending on ALMPs per Unemployed in Montenegro Relative to EU, 2005–12

Figure 22: ALMP Real Spending per Unemployed Relative to Unemployment Rate, in Montenegro 2005–12



Source: Calculations from Eurostat and MONSTAT data.

Source: Calculations based on data from Law on Budget and Amendments on the Law on Budget and MONSTAT.

Note: GDP = gross domestic product. The EU10 comprises Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia. The EU15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom

Note: ALMP = active labor market program.

There is certain skepticism about the effectiveness of ALMPs in raising employment, but rigorous evaluations are lacking to guide policy making in this area. Although recent budget cuts could be primarily driven by the need for continued fiscal consolidation and further budgetary saving, another potential reason for cuts is dissatisfaction with the effectiveness of ALMPs in generating employment. Increases in ALMP spending during the crisis did not lead to improvements in the unemployment rate. Moreover, although ALMP spending per unemployed person increased during the crisis, the unemployment rate remained largely unchanged since 2007.²⁵ However, rigorous evaluations of ALMP cost-efficiency and effectiveness are still lacking in Montenegro.

²⁵ In 2008, the unemployed rate did decrease, but the extent to which it can be attributed to increased ALMP spending in that year is not clear. Coincidentally, 2007 and 2008 happen to be the years with the highest real GDP growth rates during the whole 2000s.

The EAM has low capacity to monitor and evaluate the effectiveness of ALMPs. According to the regulations,²⁶ monitoring of programs shall be based on reports of program organizers and monitoring experts, who are appointed by director of the EAM. The programs' success should be measured by the employment status of participants for six months after the program. In practice, the EAM monitors the number of participants on different projects, but monitoring usually stops after the program completion. Follow-up monitoring is weak, and reports on the employment status of the unemployed who participated in different programs subsequent to program participation do not yet exist. Lack of such monitoring and absence of any rigorous evaluations present a significant obstacle for developing more effective and efficient programs and policies.

The employment service does not design and implement specific ALMPs and services that target FMS/MOP beneficiaries specifically. As noted above, FMS/MOP beneficiaries are not identified as a specific target group which should be offered tailored employment services and ALMPs. A national study (Kaludzerovic and Radevic 2011) has not found conclusive evidence of whether the employment officers offer suitable jobs to the registered FMS/MOP beneficiaries, whether job acceptances or rejections are monitored consistently and whether some are deleted from the unemployment registries because of refusing to comply with employment or training-related conditionality. The employment office usually deletes those who do not re-register as unemployed regularly but do not follow on these actions with the CSWs, and it is not clear whether this is ultimately affecting the eligibility for benefits.

4.5 Capacity in the Welfare System

The welfare system in Montenegro is centralized in terms of design and financing, while implementation is delegated to the local level. The system of social and child protection in Montenegro is centralized, with the MLSW responsible for policy making, provision of finance, and supervision of CSWs as institutions that implement social and child protection at the municipal level. The CSWs make decisions about the rights to social and child protection, according to the Law on Social and Child Protection. Montenegro has 10 CSWs covering 21 municipalities. Although there is good communication between the CSWs and MLSW, the connection between various CSWs as well as between CSWs and other local institutions is rather limited.

Despite the MLSW's centralized financing and coordinating role, the CSWs vary greatly in how they operate. Each CSW has a different internal organizational structure. So far, no primary or secondary legislation governs organization of the centers' work, but regulations on the number and structure of employees in CSWs are in preparation.²⁷ Although discretion of CSWs in this area could lead to better matching of the needs of the community, it could also reflect lack of client service standards and lead to unequal access to services in communities with lower capacity.

²⁶ Regulation on Conditions, Manner, Criteria and Scope of the Implementation of Active Employment Policy.

²⁷ CSWs prepare their own internal rulebooks on internal organization and job scheme, which determines the number and structure of employees (UNICEF 2011).

The territorial organization of CSWs is not adequate and does not give citizens in all municipalities equal access to social services. CSWs and linked SSWs (Services for Social Work), which serve as branches for CSWs, are often located far from each other, especially in the central region where one CSW covers a quarter of Montenegro's total area. Such territorial dispersion and lack of funds complicates the realization of field work. In some field offices, field work is organized in such way that one car from the main CSW is used for field visits when there are a larger number of cases. This practice points to an untimely and routine approach because visits are not responding to the current needs of the beneficiaries but rather to those of the field office (UNICEF 2011).

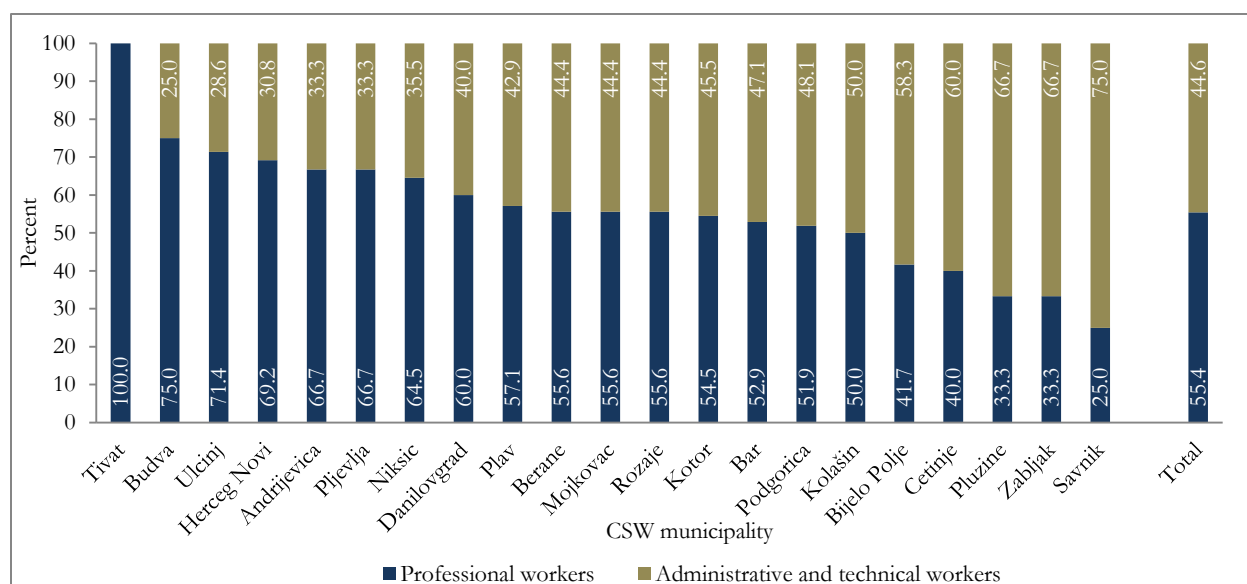
Cooperation between CSWs and other stakeholders, such as local governments, is limited. The lack of institutional links between CSWs and local governments inhibits their cooperation despite overlapping responsibilities. In recent years, local governments established different institutions that provide social services, such as home assistance for the elderly, day-care centers for children with disabilities, and so forth. CSWs are not involved in setting up those services, but in some cases they participate in managing boards of the service providers. Similarly, CSWs do not have cooperation agreements with other offices in their communities.

There is no unique database of beneficiaries, and there are no standardized rules for keeping files and records in CSWs. At the national level, the MLSW manages the database of FMS/MOP and child allowance beneficiaries based on the data from CSWs. However, the CSWs do not have continued access to this database. CSWs maintain a database about beneficiaries of other benefits and services, but the databases are not unified and coordinated among CSWs.

The numbers and profile of CSW employees are generally not adequate and vary significantly across CSWs. According to MLSW data, the CSWs have a total of 306 employees (of whom 289 are permanent employees). The structure of employees by profession varies among the CSWs. On average, 55 percent of the employees are professional workers,²⁸ while 45 percent are administrative and technical workers. This ratio varies significantly, however, across CSWs, some of which are primarily composed of administrative and technical personnel (Figure 23). Insufficient numbers of professional workers in some CSWs affects the quality of social services in those municipalities. Furthermore, among all professional employees, almost a quarter are lawyers. As a result, the number of professional staff members who work directly with beneficiaries as social workers is low.

²⁸ According to the Law on Social and Child Protection, professional workers in CSWs are social workers, psychologists, educators, special pedagogues, dialectologists, lawyers.

Figure 23: CSW Employee Structure in Montenegro, by Profession, 2012



Source: World Bank 2013

Note: CSW = center for social work.

Caseloads vary significantly across CSWs, leading to unequal capacity to offer personalized support to beneficiaries. The number of FMS/MOP beneficiaries per case worker varies significantly across CSWs. In general, the number of social beneficiaries per social worker often goes beyond the average, which points to lower quality of work. According to MLSW and CSW data, the average ratio of professional workers to FMS/MOP beneficiaries in Montenegro is 1 to 285, however the situation is significantly worse in some CSWs.²⁹ As a result, the capacity of CSWs to provide personalized service to SSN beneficiaries varies greatly across the country and is poorer in areas with worse economic conditions.

4.7 Referral of LRSA Recipients to Employment Services

There is a lack of cooperation between CSWs and the EAM. The flow of information between these institutions is slow and complicated. There are, however, plans to establish a Central Office of CSWs, which will enable easier communication between the EAM and CSWs. The CSWs would report to one central office, and the EAM would cooperate with only one institution.

Currently, referral of LRSA recipients to employment services is automatic but limited to obligatory registration as unemployed for work-able beneficiaries. A formal referral of FMS/MOP work-able beneficiaries to employment services happens when they are required to register as unemployed. However, cooperation is limited after that. Registration as unemployed gives

²⁹ The worst ratio is in Rozaje, where one professional worker provides social services for 410 families (or 1,330 FMS/MOP beneficiaries), while the best ratio is in Herceg Novi, where one professional worker provides services to 21 families (or 55 FMS/MOP beneficiaries). For more detailed data, see Table A4.1 in annex 4.

FMS/MOP beneficiaries the same rights as other job seekers, but they do not receive any special priority unless they are qualified as “less employable” or “hard-to-serve persons.” Even in those cases, they “compete” with other disadvantaged groups and are not guaranteed priority placement into activation programs.

The qualification as “unable to work” can potentially limit the access that some FMS/MOP beneficiaries have to activation services. Legally, the EAM is not obligated to provide services to those who are deemed unable to work. When such beneficiaries face circumstantial or other difficulties that potentially could be overcome with the help of social and employment services, they should not be excluded from activation requirements and opportunities. For example, those who are disabled but have work capacity or people who require child care but otherwise are capable of working should receive the activation opportunities and social support they may need to become self-sufficient unless they are fully not able to work.

The absence of clear rules for information exchange between the CSWs and the EOs can potentially limit the access of FMS/MOP beneficiaries to activation services. At this point, FMS/MOP beneficiaries are treated as all other job seekers, but they often need more intensive support because of their multiple barriers to employment and longer-term detachment from the labor market. Regular information exchange could help both CSWs and EOs to better understand employment constraints, coordinate their efforts, and address employment constraints in a more systematic manner. The MLSW is conceptualizing the architecture of a social assistance beneficiary registry. With time, this registry will be established and linked to other institutions including the EAM, which will improve, among other things, information exchange and coordination of activation efforts.

5. Summary of Analytical Findings and Recommendations for Future Reforms

Analysis shows that there is scope for activation of FMS/MOP beneficiaries, even though it is unlikely to significantly affect overall employment outcomes. Despite being a relatively large program³⁰ by regional standards, FMS/MOP covers only 4 percent of the work-able population in Montenegro. Among them, a large share of those who are neither in education nor disabled can be assumed to be work-ready and can be targeted for activation. Although the FMS/MOP program is not likely to significantly alter the high unemployment or inactivity rates in the country, it can be leveraged better to improve connection with the labor market for the long-term unemployed and those facing particularly high employment barriers.

As the Government of Montenegro is starting to embark on the reform of non-contributory benefits and introducing new activation approaches, several priorities emerge. First of all, coverage of the FMS/MOP program should be increased to include those who are currently not covered due to strict eligibility criteria or other barriers. Second, program design can be improved by delinking various benefits from FMS/MOP status, improving qualification criteria by avoiding exclusionary filters, and potentially introducing labor income disregards to increase incentive compatibility of the program. Third, existing support for those deemed “unable to work” due to child caring responsibilities should be increased to ensure that they have access to supporting services and have possibility to work. Finally, incentives to work can be further improved by lowering the tax burden on low-wage earners.

First, there is an urgent need to increase coverage of the program to cover more of the poor, particularly, those who are currently deemed able to find employment on their own. FMS/MOP coverage is currently limited and excludes those who can otherwise benefit from access to a basic safety net and activation opportunities. The program currently excludes those who are work-able but who do not have caretaking needs (such as caring for children). Although this ensures that welfare of children is prioritized, those who may be facing high barriers to employment but do not have children are currently excluded from any SSN coverage. Only 8 percent of the unemployed and 6 percent of the inactive work-able individuals receive some SSN transfer. 15 percent of the work-able population is poor and not covered by any safety net programs in Montenegro (Figure 6).

Second, there is room for improvement in the design of LRSA program in Montenegro. Design of the FMS/MOP program can be improved to facilitate better employment outcomes among the beneficiaries in the following ways:

³⁰ FMS/MOP is considered relatively large based on overall spending as percentage of GDP (0.5 percent). However, the coverage of the program is not large.

- *Introduce a more gradual labor income disregard* (that is, so the FMS/MOP benefit is not reduced 1:1 with the increase in earned income). This would reduce the marginal effective tax rate on labor income and would likely create an incentive to look for a job in the formal sector.
- *Avoid exclusionary filters that are not conducive to asset accumulation* so as to not exclude potential beneficiaries from opportunities to secure their own livelihoods.
- *Continue the governmental process of delinking multiple benefits and services to FMS/MOP status to decrease “passporting” of benefits.* Such “passporting” can lead to welfare dependency for certain households.

Third, additional support from employment and social services should be provided to FMS/MOP beneficiaries who face multiple barriers to employment. FMS/MOP beneficiaries have lower educational attainment and include a high share of younger people who are at high risk of unemployment relative to nonbeneficiaries. Furthermore, by design, FMS/MOP beneficiaries have a higher incidence of caretaking responsibilities. Currently, such responsibilities preclude beneficiaries from being considered “work-able,” and hence they are not required to actively seek for jobs. Such an approach, however, can promote longer-term detachment from the labor market for mothers with children. Instead, a supporting approach can be implemented whereas young mothers have an option to seek employment with their child care costs partially or fully compensated.

Finally, incentives to take up employment can be further improved by lowering the tax burden on low wages. Labor taxes on low-wage labor are relatively high in Montenegro, which likely to contribute to incentives to work informally. Lowering or offsetting the high tax burden on low-paid or marginal (seasonal or temporary) employment can further strengthen incentives to take such jobs.

On the other hand, some of the proposed reforms require a more gradual and comprehensive approach. For instance, introducing a time limit on program participation requires guarantee of placement into activation measures and increased support for finding opportunities for seasonal and temporary employment. In the short run, recent cuts on the ALMP spending need to be reconsidered and more advanced profiling techniques could be introduced to better target ALMPs. In the long run, capacity of PES and CSWs needs to be increased, as well as coordination among them improved. Finally, activation policies need to consider other target groups besides SSN beneficiaries to increase labor market participation and improve employment outcomes among larger groups of the inactive and unemployed.

The proposed time limits on FMS/MOP participation may need to be reconsidered until appropriate support is available to those who will be affected. The benefits of proposed time limits on benefit receipt for work-able beneficiaries need to be carefully weighed against the risk of further exclusion of those not able to find temporary or seasonal employment on their own. Such time limits should be accompanied with a guarantee of placement into activation measures and increased support for finding opportunities for seasonal and temporary employment, particularly in

regions where such employment is rarer. A back-to-work allowance or mobility stipend may need to be introduced for those traveling to other parts of the country in search for such jobs.

In the short run, it would be important to have an adequate budget for active labor market measures aimed at supporting reforms to the LRSA program. Recent cuts in spending on employment services and ALMPs, in particular, present a significant area of concern. The budget for ALMPs was slashed dramatically in the past few years. Because the monitoring and evaluation capacity of employment services is so low, it is not clear to what extent such cuts were based on a cost-efficiency and effectiveness analysis. The capacity of employment services to cope with the increased activation responsibilities envisioned by the draft law in such a constrained fiscal environment represents a significant area of concern.

Furthermore, more advanced profiling of job seekers, including FMS/MOP beneficiaries, could be introduced in the near future to further improve the targeting and cost-efficiency of activation measures. Montenegro's EAM has a basic system to profile the unemployed upon registration. Statistical profiling, used in many OECD and EU countries, could be adopted to increase the targeting and cost-efficiency of activation measures.

In the long run, improving cooperation between the EAM and CSWs and increasing the capacity of employment services would be necessary preconditions for the implementation of the new draft Law on Social and Child Protection. The draft law moves in the direction of increasing activation for LRSA beneficiaries. It enables their "right to activation" and envisions stricter enforcement of participation requirements and the mutual obligation principle, which is currently weakly applied. However, the capacity of employment services and their institutional cooperation with CSWs are currently not sufficient to successfully implement the new law. Moreover, the caseloads of EAM staff need to be lowered for instruments such as individual employment plans to be used effectively

Implementation of the FMS/MOP program and the capacity of the welfare system need to be improved. Currently, the CSWs' capacity to effectively work with beneficiaries is low and is unevenly distributed. Cooperation with other actors is also very limited. In addition to establishment of a coordinating body (a Central Office of CSWs), an integration of the CSWs' administrative procedures and upgrading of their information technology systems could streamline current processes, reduce the number of administrative staff, and enable employment of more caseworkers.

Successful activation requires better coordination between CSWs and the employment services. Employment services (EAM) operate independently of the CSWs in Montenegro. There is only a formal requirement for work-able FMS/MOP beneficiaries to register as unemployed with the EAM. Subsequently, they are not tracked separately in the system and, as a result, compliance with participation requirements is not strictly enforced. Moreover, they are not considered a special target group for activation and thus are not given priority access to activation measures.

In summary, the reform envisioned by the Government of Montenegro presents an opportunity to improve the design of social benefits to improve their incentive

compatibility, but implementation constrains, unless addressed, can undermine the reform progress. The new legislation institutionalizes social assistance as a combination of cash transfers, social care, and employment services and introduces several improvements to the design of SSNs to make them more incentive-compatible. However, significant scope for further reforms remains. Importantly, implementation capacity constraints would need to be addressed comprehensively for the new legislation to achieve its objectives.

However, FMS/MOP beneficiaries constitute a small fraction of the inactive, and activation measures that only target them will not bring significant improvements in labor market outcomes. The detailed analysis of the profile of social assistance beneficiaries, unemployed and inactive in Montenegro suggests that FMS claimants are only a small segment of all inactive. An activation agenda aiming uniquely at FMS beneficiaries would reach only a relatively small share of the work-able who are out of jobs. Analyzing the reasons for and barriers to activation of social assistance beneficiaries is however important due to the increasing sensitivity associated with unconditional social transfers, and ineffective use of public funds, which could lead to welfare dependency, albeit for a small fraction of the inactive population.

There is a much broader activation agenda than the one implied by a focus on addressing welfare dependency. While the note is focused largely on developing incentive compatible safety net in Montenegro and activation of FMS beneficiaries, most of the inactive and/or unemployed "work-able" population is outside the beneficiary population. The note provides entry points for further analysis and policy dialogue on the importance of a broader activation agenda. The knowledge of the profile of inactive and unemployed, along with the interaction of the enabling and demanding elements of activation can be applied to reduce work disincentives for larger groups of inactive. With limited fiscal space, a careful consideration of the cost-effective ALMPs with the right mix of services will be needed to maximize employment impact.

Finally, labor demand is an important factor for activation and employment. All of the activation measures discussed above are related to the supply side of the labor market. However, labor demand plays a key role in the process as well. Reduced demand for labor not only creates inactivity by discouraging job searching but also has negative fiscal implications, thereby limiting the scope for response because of financing constraints on the activation policies.

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Annex 1: Spending and number of beneficiaries of Family Material Support program, 2000-2012

Table A1.1: FMS/MOP Beneficiaries and Benefits (in December of the respective year)

	Number of families	Number of family members	Average per family in €	Average per family member in €	Average household size
2000	7,936	16,022	45.67	22.62	2.0
2004	10,733	31,721	64.61	21.86	2.9
2005	11,889	36,340	68.26	22.33	3.0
2006	12,695	39,403	69.14	22.27	3.1
2007	12,741	39,281	76.74	24.89	3.1
2008	12,830	39,383	77.32	25.20	3.1
2009	13,130	40,222	85.93	28.05	3.1
2010	13,746	41,816	86.05	28.29	3.0
2011	14,135	42,879	90.35	29.68	3.0
2012	15,065	45,600	93.04	30.74	3.0

Source: Ministry of Labor and Social Welfare, administrative data.

Table A1.2: Expenditure level of main Social Protection Programs, 2000-2010

Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
1. Social Insurance											
1.1 Pensions (incl. old age, survivors and disability pensions)	91.65	114.56	122.08	131.46	144.80	144.91	164.90	203.64	250.94	303.00	310.00
as a percentage of GDP	8.6%	8.8%	9.0%	8.7%	8.7%	8.0%	7.7%	7.6%	8.1%	10.2%	10.0%
as a share of total SP spending	64.0%	73.8%	69.4%	72.5%	74.8%	68.3%	64.7%	72.8%	71.6%	67.5%	74.5%
1.2 Maternity leave	4.00	4.51	4.14	5.40	6.00	6.14	6.56	6.38	6.85	9.36	12.79
as a percentage of GDP	0.4%	0.3%	0.3%	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	0.3%	0.4%
as a share of total SP spending	2.8%	2.9%	2.4%	3.0%	3.1%	2.9%	2.6%	2.3%	2.0%	2.1%	3.1%
1.3 Health protection of pensioners	18.92	9.17	21.73	22.67	16.49	20.01	23.66	24.73	28.94	32.98	-
as a percentage of GDP	1.8%	0.7%	1.6%	1.5%	1.0%	1.1%	1.1%	0.9%	0.9%	1.1%	0.0%
as a share of total SP spending	13.2%	5.9%	12.4%	12.5%	8.5%	9.4%	9.3%	8.8%	8.3%	7.3%	0.0%
2. Labor Market Programs											
2.1 Active labor market programs	4.52	5.31	5.71	n.a.	3.71	9.16	16.38	7.12	14.92	12.87	10.80
as a percentage of GDP	0.4%	0.4%	0.4%	n.a.	0.2%	0.5%	0.8%	0.3%	0.5%	0.4%	0.3%
as a share of total SP spending	3.2%	3.4%	3.2%	n.a.	1.9%	4.3%	6.4%	2.5%	4.3%	2.9%	2.6%
2.2 Unemployment benefits	0.68	0.48	0.97	n.a.	1.44	3.44	5.45	3.66	6.48	12.63	15.17
as a percentage of GDP	0.1%	0.0%	0.1%	n.a.	0.1%	0.2%	0.3%	0.1%	0.2%	0.4%	0.5%
as a share of total SP spending	0.5%	0.3%	0.6%	n.a.	0.7%	1.6%	2.1%	1.3%	1.9%	2.8%	3.6%

Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
3. Social Assistance											
3.1 Family Material Support	4.40	5.51	10.04	8.97	8.28	8.86	10.30	13.25	13.00	13.44	14.01
as a percentage of GDP	0.4%	0.4%	0.7%	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%
as a share of total SP spending	3.1%	3.5%	5.7%	4.9%	4.3%	4.2%	4.0%	4.7%	3.7%	3.0%	3.4%
3.2 Child Allowance	10.76	6.12	1.55	2.34	2.64	2.70	3.31	3.95	4.05	4.30	4.42
as a percentage of GDP	1.0%	0.5%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
as a share of total SP spending	7.5%	3.9%	0.9%	1.3%	1.4%	1.3%	1.3%	1.4%	1.2%	1.0%	1.1%
3.3 Foster Care	n.a.	n.a.	n.a.	n.a.	n.a.	0.40	0.46	0.62	0.77	0.78	0.94
as a percentage of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
as a share of total SP spending	n.a.	n.a.	n.a.	n.a.	n.a.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
3.4 Personal Disability Benefit	-	-	-	-	-	0.69	0.71	0.80	0.86	1.32	1.40
as a percentage of GDP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
as a share of total SP spending	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%
3.5 Other Persons Care	1.27	1.38	0.91	2.60	2.28	2.56	3.16	4.70	4.60	6.33	5.22
as a percentage of GDP	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	0.2%
as a share of total SP spending	0.9%	0.9%	0.5%	1.4%	1.2%	1.2%	1.2%	1.7%	1.3%	1.4%	1.3%

Source: ECA Social Protection Database

Note: * Preliminary execution data

Annex 2: Coverage and Targeting Accuracy of Last Resort Social Assistance in Montenegro and Selected ECA Countries

Indicators of performance of social assistance cash transfers include:

- a) **Coverage:** What share of the population and each quintile receives the transfers?
- b) **Targeting accuracy:** What share of social assistance transfers goes to each quintile? In other words, it indicates the transfer amount received by the group as a percent of total transfers received by the population.

Figure A2.1: Coverage of the Poorest Quintile

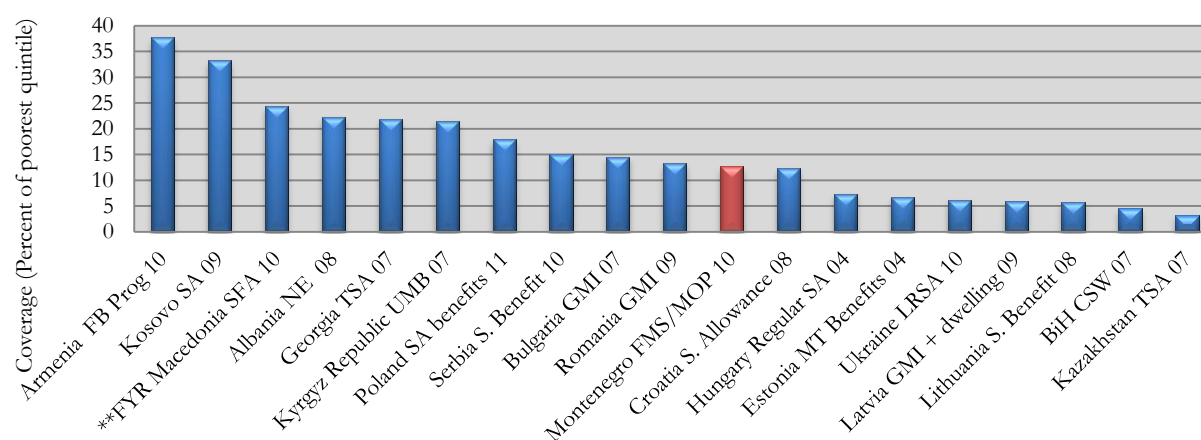
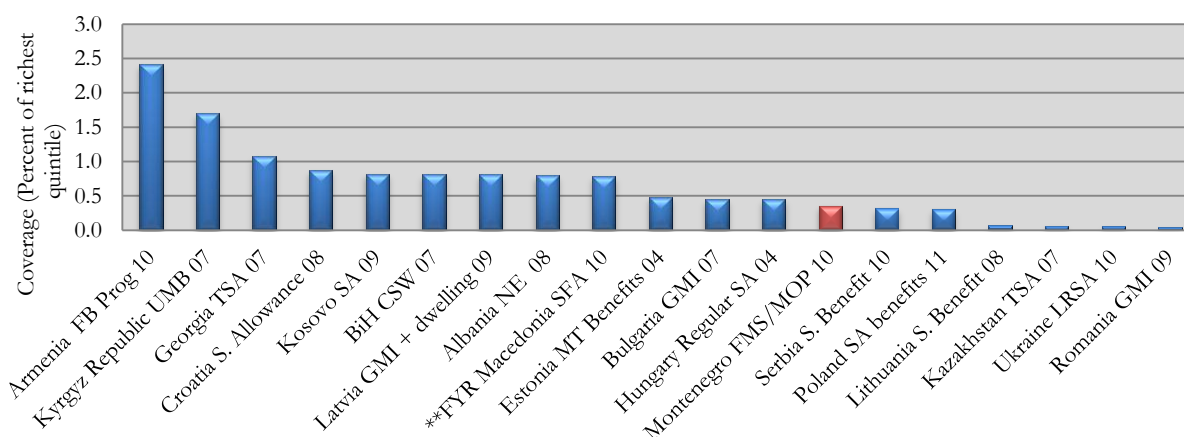


Figure A2.2: Coverage of the Richest Quintile



Targeting Accuracy of Last Resort Social Assistance Programs

Figure A2.3: Targeting Accuracy of the Poorest Quintile

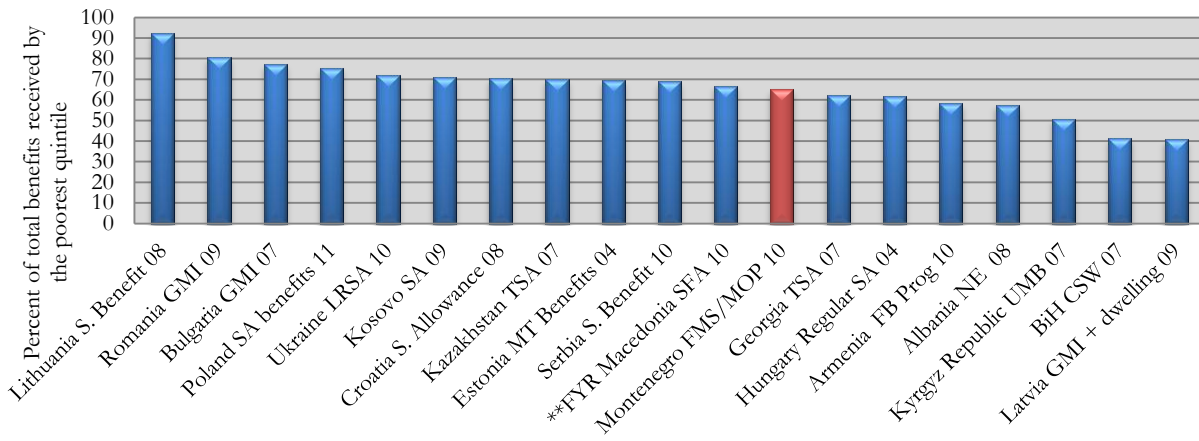
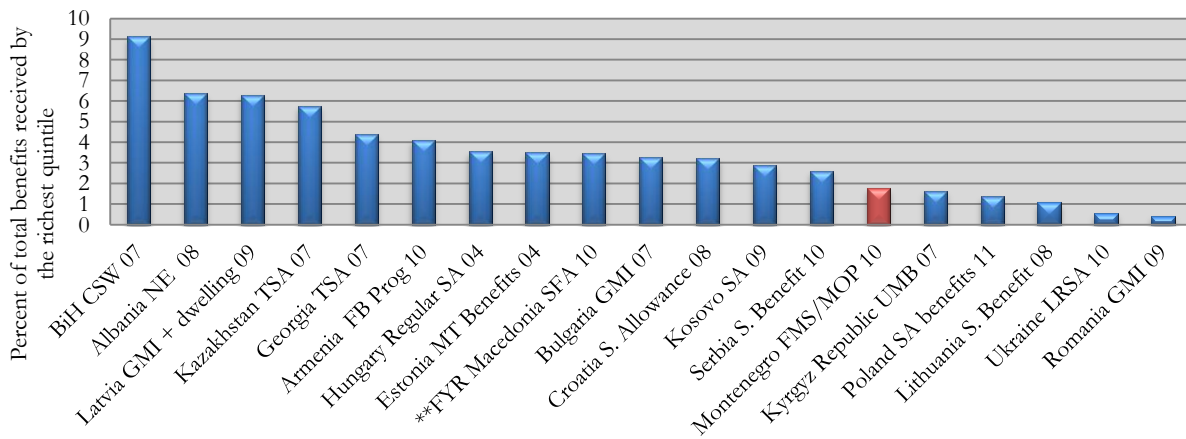


Figure A2.4: Targeting Accuracy of the Richest Quintile



** Performance indicators were generated in the context of analytical work supporting the Macedonia DPL program.

Source: Europe Central Asia Region Social Protection Database

Performance indicators are generated using a standardized methodology that includes the use of household surveys (HBS, LSMS, etc.) and harmonized consumption aggregates (developed by ECAPOV team). For the purpose of this analysis, individuals are ranked on the basis of per capita consumption before all social assistance cash transfers and then divided into five equally sized groups, representing 20 percent of the population (“quintiles”) to form the bottom, second, third, fourth, and top quintile. A standardized software (ADePT) developed by the World Bank's Development Economics Research Group is used.

Annex 3: Analysis of financial work incentives stemming from the tax-benefit system

Introduction

Possible adverse effects of taxes and social benefits on unemployment and inactivity levels present a widespread concern. In Montenegro, where unemployment and inactivity rates remain very high, it is of particular importance to assess whether the current design of social benefits and tax system could undermine financial incentives to work. This section employs a well-established methodology to calculate indicators of financial work incentives using the OECD tax-benefit model.³¹

Adequacy of incomes of those out of work is also important to consider in designing policies aimed at increasing work incentives. While lowering the level of social benefits could increase the gap between earnings and out-of-work benefits making work more desirable, it would do so at the cost of an increased risk of poverty for those families and individuals who are not working. The challenge is to design policies in a way that they promote labor market integration and return to self-sufficiency of those receiving social assistance benefits instead of merely cutting the level of benefits.

Measures of financial work incentives and benefit adequacy

To assess how the tax-benefit system in Montenegro can affect work incentives a tax-benefit model was used. The model incorporates *legal rules* related to cash social assistance benefits, such as the Family Material Support (FMP/MOP), child benefits, as well as income taxes and contributions. The tax-benefit model reflects the *combined* effect of taxation and benefit systems on *net income* of individuals and other select types of households. Specifically, the “typical” household types available in the model are: single, single parent with two children, a one-earner couple without children and a one-earner couple with two children³². The results presented in this annex are based on a tax-benefit model developed following OECD methodology for Montenegro for the year 2012.

The main features of the tax-benefit system in Montenegro include:

- **Income tax** – a flat income tax of 9 percent³³;
- **Social security contributions** – employee-paid social security contributions including minimum floor for payment of social security contributions;
- **Unemployment insurance** – contributory unemployment benefit;³⁴

³¹ See Carone G. et al (2004).

³² Children in the model are assumed to be of pre- and school age. Albeit the standard model also includes simulations for two-earner couples, they were not considered in the analysis below. Simulated earnings of two earner couples in the model start at 67 percent of the average wage for the first adult. At this level, in most simulations, households are not eligible for social assistance.

³³ Since February 2013, there is additional income tax for the gross income above 720 EUR which amounts to 15%. The increased rate on the income above 720 EUR is so-called "Crisis tax" (Law on Contributions for mandatory Social Insurance).

³⁴ The unemployment benefit recipient is assumed to be 40 years old with a long and uninterrupted employment history.

- **Family Material Support (FMP/MOP)** – means-tested last-resort social assistance program for low income households;
- **Child allowance** – means-tested social assistance program targeting families with children.

An important outcome of the tax-benefit model is the estimate of the financial incentives to work for different household types. Financial incentives to work are measured by the so called so called “unemployment trap”, “inactivity trap”, and “low-wage trap” (or “poverty trap”). The “trap” indicates that the change in disposable income when increasing work effort is small and, conversely, the work-disincentive effect of tax and benefit systems is large. The well-established definitions of these are the following³⁵:

- The **unemployment trap** is the implicit tax on returning to work for unemployed persons receiving the unemployment benefit. It measures the part of the additional gross wage that is taxed away in the form of increased taxes and withdrawn benefits such as unemployment benefits, social assistance and housing benefits, when a person returns to work from unemployment.
- The **low-wage trap** is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise due to an increase in working hours (or move into higher-paid employment). This kind of trap is most likely to occur at relatively low wage levels due to the fact that the withdrawal of social transfers (mainly social assistance and housing benefits, as well as any in-work benefits or tax credits), which are usually available only to persons with a low income, adds to the marginal rate of income taxes and social security contributions.
- The **inactivity trap** measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity and social assistance to employment.

In this note we will focus mainly on the potential **inactivity traps** due to our focus on incentives for social safety net beneficiaries to take up employment. The OECD tax benefit model allows calculating the quantitative measures of these traps conceptualized and calculated as tax rates. The main types of tax rates are the following:

- **Marginal effective tax rates (METRs)** are used to consider the financial disincentive for an already employed individual to increase the number of hours they work. METRs show, at a given wage level, how much of an additional small amount of gross income (usually 1 percent of average wage) earned is “taxed away”, either through income tax or social security contributions or as a result of withdrawal of social benefits³⁶. They provide an indication of the extent of poverty traps in OECD countries.

³⁵ See http://ec.europa.eu/economy_finance/db_indicators/tax_benefits_indicators/index_en.htm

³⁶ Technically, the METR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household.

- **Average effective tax rates (AETRs)** or participation tax rates (PTRs) are used to assess the financial disincentive to move into work. These show how much of the gross income earned from moving into work from either unemployment or inactivity is “taxed” away in the form of lost social assistance or unemployment benefits, and taxation of in-work income (personal income tax plus employee social security contributions). As such, they provide an indication of the extent of unemployment and inactivity traps.

The higher the METR, the lower the financial incentive for households to work additionally, which could reduce work efforts—at least, theoretically. Empirical findings show that many individuals work despite high METRs, suggesting that other factors can play a role on whether an individual decides to work or not.³⁷ Hence, “incentives” do not automatically translate into “incentive effects”, as employment levels, unemployment rates and total hours worked are not determined entirely by the size of benefits and extent of taxation. These can depend on the availability of suitable jobs, flexibility of the labor market and overall economic conditions. Additionally, a number of non-financial considerations can also play a role in the decision of whether and how many hours to work. Empirical studies have shown that financial incentives for some types of earnings changes are more relevant than other. For instance, a common result is that the incentive of whether or not to work at all (i.e., move from zero earnings to, say, the minimum wage) matter more than the incentives to work an additional hour for those who already have a job³⁸. The majority of evidence on incentive effects of social benefits and taxes comes from OECD and other developed countries. The evidence in low- and middle-income countries is still lacking.

One of the main limitations of the model is that full-take up is assumed. Further, in order to calculate METR, some assumptions and simplifications have to be made. One of the most significant assumptions is that everyone who is legally eligible gets their full entitlements and that take-up is 100 percent. Empirically, this has been shown not to be the case. For example, Hernanz et al. (2004) find that in OECD countries, for which data is available, take-up rates of social assistance and housing programs span between 40 and 80 percent. In Montenegro coverage of unemployment and social assistance benefits is low and non-take up, i.e. those potentially eligible who do not receive the benefit, is estimated to be quite high (for example, among unemployed only 5 percent receive LRSA (Figure 6)³⁹.

Hence, the share of the population affected by high AETRs or METRs could be very small. It is important to keep in mind that the population potentially facing high disincentives to work can be quite small – especially in countries with limited coverage of social safety nets. Nevertheless,

³⁷ At least partially, this could be due to future benefits associated with contributing to the social insurance schemes, such as pensions. The future benefits arising from such contributions are not incorporated into the tax-benefit model, thus decreasing the value of work compared to non-working.

³⁸ For review of the existing literature please see OECD (2005); Immervoll and Pearson (2009).

³⁹ Among the reasons for non-take up could be the so called legal barriers, i.e. program rules which exclude certain groups of income-eligible beneficiaries based on ownership of certain assets or other program requirements, but research finds that a rather high share of income-poor households does not know that the LRSA program exists (17.6 percent) and for many of them the administrative procedures are very complicated (13.1 percent). See Matković, G. and M. Petrović (2012).

important insights can be gained by looking into how the benefit design and taxes could contribute to work disincentives.

The design and relative generosity of other social benefits could affect individual's labor market decisions. On the other hand, other social benefits, which are not considered in the tax-benefit model calculations, could have an impact on the individual's work effort. For example, the design of maternity or parental leave benefits could in some cases impact labor market participation of women. Policies on early retirement or disability program rules could provide incentives for certain individuals to remove themselves from the labor force. The extent of work disincentives potentially stemming from these other programs is not considered below. Additionally, in cases when eligibility to certain monetary and non-monetary benefits (such as free health care or other goods and services) is tied to being eligible for any of the benefits incorporated into the model, the value of this benefits could potentially also affect household's decision making. Any such "passporting" is not reflected in the calculations below.

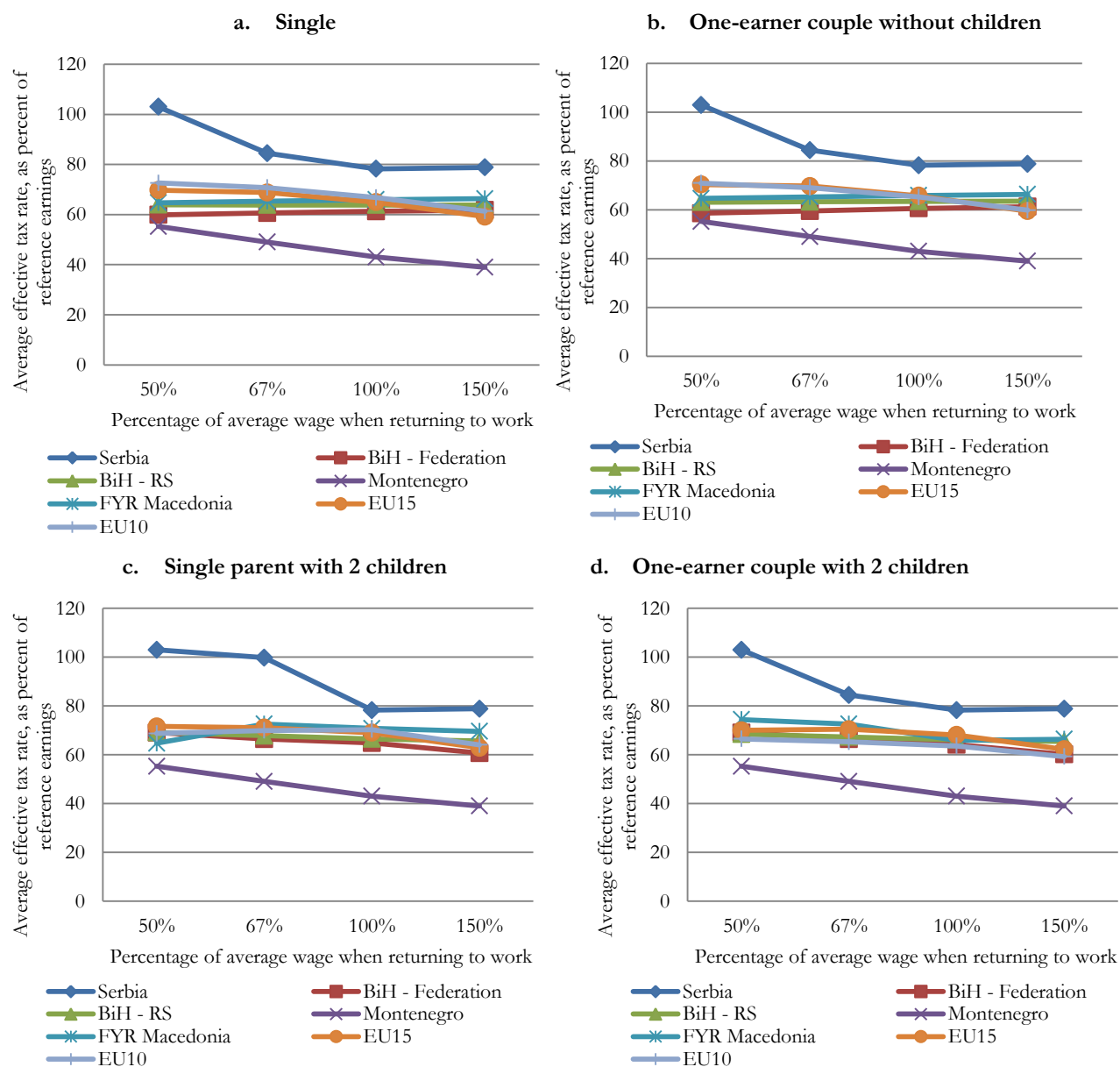
Unemployment benefit, as currently designed, is unlikely to weaken incentives to seek or accept low-paid jobs

There are unlikely to be significant financial work disincentives stemming from the unemployment insurance. Unemployment insurance benefits in Montenegro are unlikely to be a source of work disincentives as measured by the indicator of the "unemployment trap", i.e. the implicit tax on returning to work for unemployed persons receiving the unemployment benefit. In Montenegro, the average effective tax rate for moving from unemployment to work is consistently lower than in other countries in the region and EU10⁴⁰ and EU15⁴¹ averages (Figure A3.1). Recent reforms to the unemployment benefit have significantly reduced the generosity and duration of the benefit for most unemployed (ISSP 2012).

⁴⁰ The EU10 is comprised of the following 10 countries: Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, and the Slovak Republic.

⁴¹ The EU15 is comprised of the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

Figure A3.1: Unemployment trap (average effective tax rate for moving from unemployment to work at different wage levels as a share of average wage)



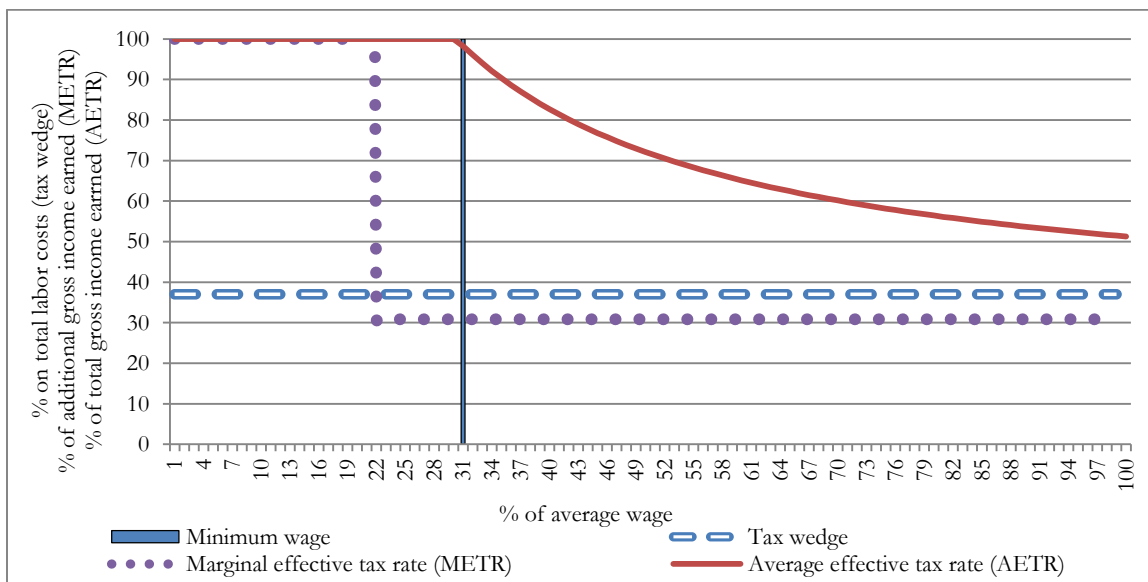
Note: EU10 data doesn't include Poland. EU10, EU15 are from 2011. Serbia, BiH - Federation, BiH - RS, Montenegro and FYR Macedonia data are from 2012. Initial phase of unemployment but following any waiting period. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situations. Any income taxes payable on unemployment benefits are determined in relation to annualized benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. See Annex A of the OECD series Benefits and Wages for details. For married couples the percentage of AW relates to one spouse only; the second spouse is registered as an unemployed with no earnings in a one-earner couple and to have full-time earnings equal to 67 percent. Children are aged 4 and 6 and neither childcare benefits nor childcare costs are considered.

Source: OECD/EU Tax and benefits indicators database. Author's calculations based on OECD Tax and Benefit model for Western Balkans countries.

LRSA program's design can be improved

There are implicit work disincentives in the last-resort social assistance program design. Just as in many other countries in Europe and Central Asia region, the FMS/MOP program is designed in a way that each additional euro earned by a beneficiary is subtracted from the benefit amount. As mentioned above, the benefit is calculated as a difference between a certain income threshold and net income of beneficiary families. As a result, below the threshold there is no financial incentive for a family to earn more income, as it will be automatically reduced from the benefit they receive. This design has a 100 percent marginal effective tax rate. This is clearly illustrated in Figure A3.2, which shows that marginal effective tax rate is 100 percent for a one-earner family with 2 children until about 20 percent of the average wage, when such a family is no longer eligible for social assistance.

Figure A3.2: The tax wedge, the marginal effective tax rate (METR), and average effective tax rate (AETR) for a one earner couple with 2 children in Montenegro (2012)



Note: Minimum wage corresponds to a value of approximately 30 percent of the average wage, which is the legal minimum for a person working full-time. The tax wedge is defined as the proportional difference between the costs of a worker to their employer (wage and social security contributions, i.e. the total labor cost) and the amount of net earnings that the worker receives (wages minus personal income tax and social security contributions, plus any available family benefits). The METR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household, where the marginal change is 1 percent of the average wage. The AETR is defined as $(1 - \Delta ne / \Delta ge)$ where Δne is equal to the change in net earnings, and Δge is the change in gross earnings experienced by the household, where the total change is from 0 to x percentage of the average wage (from 1 to 100 percent, as indicated on the x axis).

Source: Author's calculations based on OECD Tax and Benefit model.

However, social assistance is withdrawn at very low earnings levels; hence, these high marginal effective tax rates are unlikely to have a significant impact on employment decisions. For one earner family with 2 children, social assistance is withdrawn at a level which is

less than the full time minimum wage⁴². It is therefore unlikely that these high marginal effective tax rates have a significant impact on employment decisions, however, in theory; they could weaken incentives to take up part-time, temporary or seasonal employment at levels below the social assistance threshold. Disregarding such earnings partially or fully for the purposes of social assistance income test could significantly improve attachment of FMS/MOP beneficiaries to formal labor market. In the absence of such possibility, they are most likely to take such employment in the informal sector.

The extent of “inactivity traps” is limited in Montenegro

Low levels of the core “benefit package” limits potential for “inactivity traps”. The average effective tax rates for taking up low-paid jobs are very moderate in Montenegro— significantly below the EU10 and EU15 averages. Only for one earner couple with 2 children the average effective tax rates to take up a job for 67 percent of the average wage or less is somewhat higher than in other Western Balkan countries (except Serbia). Even in this situation such a household stands to gain at least 40 percent more net income when person takes such a job (

Figure A3.3). As a result, “inactivity traps” are not likely to present a significant problem in Montenegro. An important caveat is that these calculations only include the core “benefit package” (FMS/MOP cash assistance and child benefit). Any additional benefits (in cash or in-kind) which FMS/MOP beneficiary may be eligible for are not taken into account. As noted above, such “packaging” of benefits conditional on receiving FMS/MOP can undermine significantly incentives to move from assistance for certain households.

Reducing tax wedge for low wage earners can increase financial gains from work

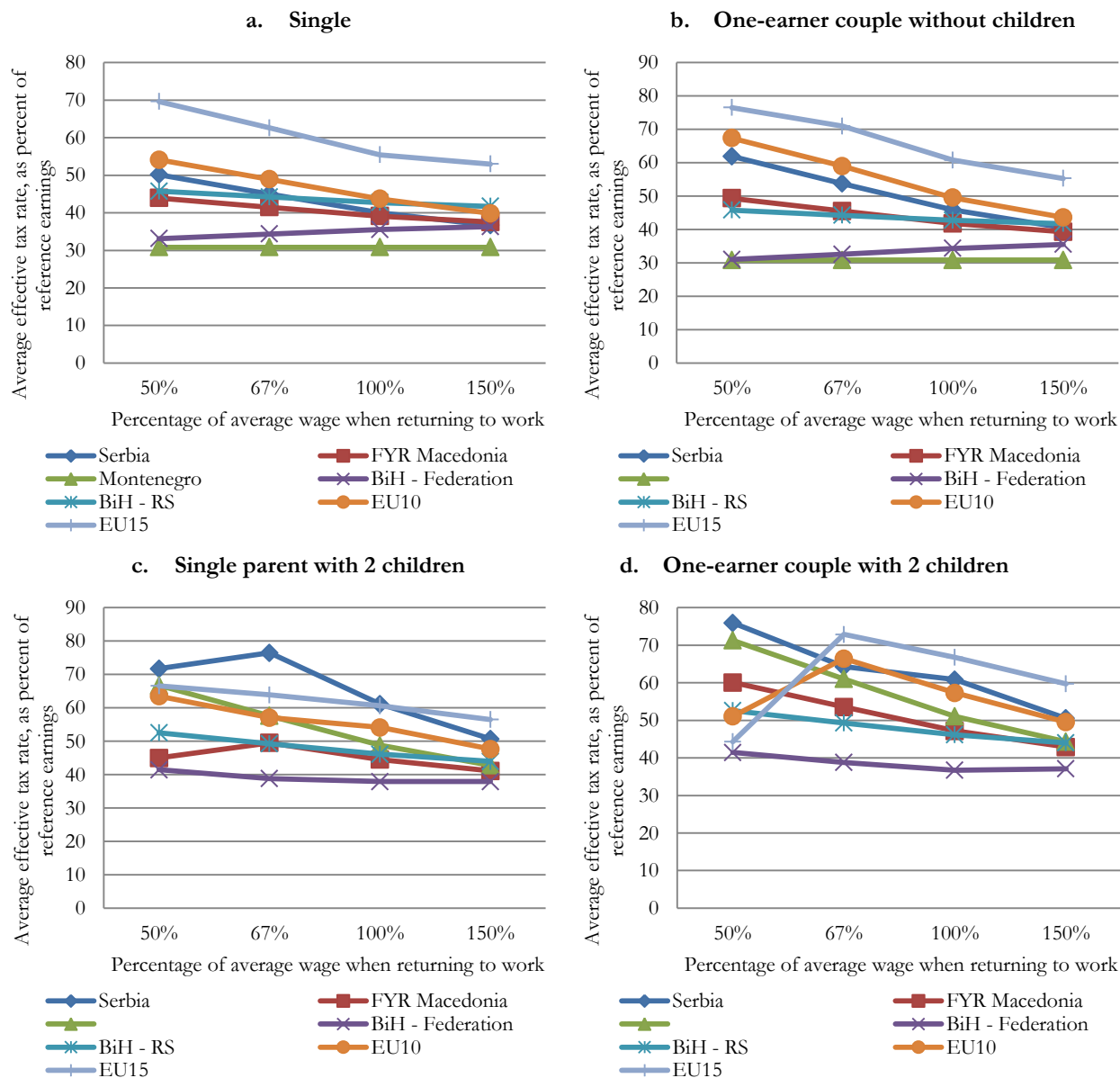
However, incentives to take up employment could be improved via lowering tax burden on low wages. Withdrawal of social assistance benefits only partially contributes to participation tax rates in Montenegro. The combined burden of social security contributions and income taxes represents about half of the effective tax on earnings for families with children⁴³ (

⁴² Minimum monthly (176 working hours) wage of full time employed person cannot be lower than 30% of average wage in previous semiannual period. This is different from minimum price of labor (minimum pay standard) which is 55 euro.

⁴³ In the tax-benefit model, families with no children are not eligible for FMS/MOP since they are assumed to be workable. As a result, average effective tax rates on taking up employment are fully derived from taxes and social security contributions.

Figure A3.4). Labor taxes on low-wage labor are relatively high in Montenegro (**Error! Reference source not found.**), which are likely to contribute to incentives to work informally (Koettl 2011). Lowering or off-setting high tax burden on low-paid or marginal (seasonal, temporary) employment can further strengthen incentives to take such jobs.

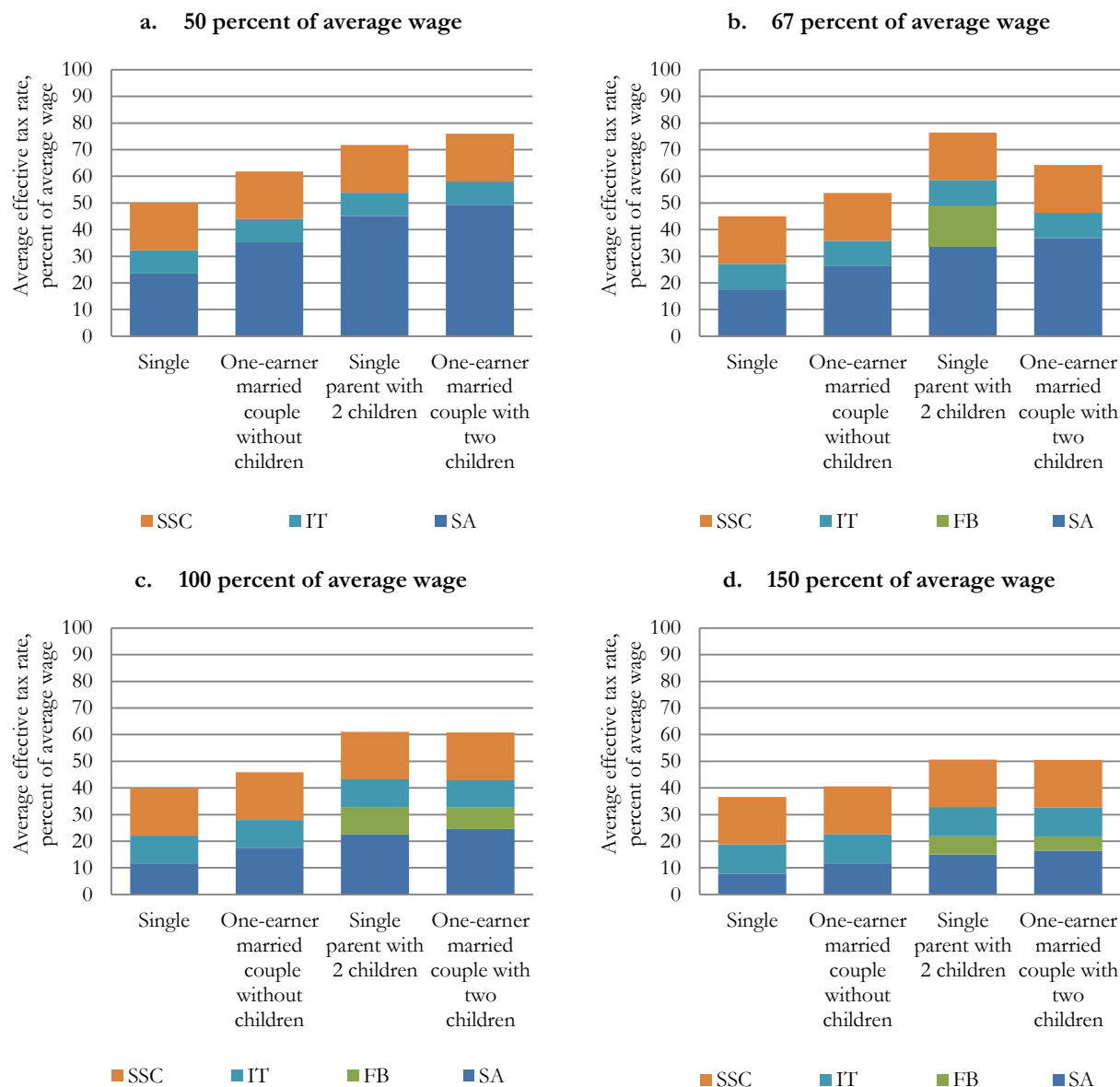
Figure A3.3: Inactivity trap (average effective tax rate for moving from inactivity to work at different wage levels as a share of average wage)



Note: EU10 data doesn't include Poland. EU10, EU15 are from 2011. Serbia, BiH - Federation, BiH - RS, Montenegro and FYR Macedonia data are from 2012.

Source: OECD/EU Tax and benefits indicators database. Author's calculations based on OECD Tax and Benefit model for Western Balkans countries.

Figure A3.4: Inactivity trap (average effective tax rate for moving from inactivity to work at different wage levels as a share of average wage)

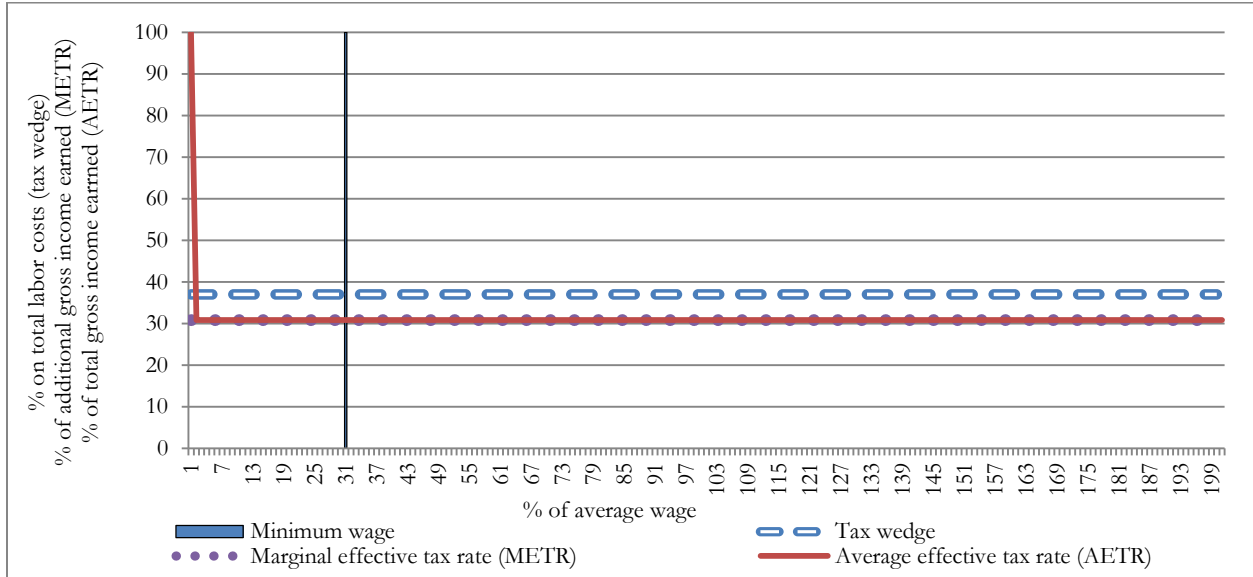


Note: FB: Family benefit (Child allowance), SA: Social assistance (FMS/MOP program), IT: Income tax, SSC: Employee-paid social security contributions. AW= Gross average wage.

Source: Author's calculations based on OECD Tax and Benefit model for Western Balkans countries.

Additional figures

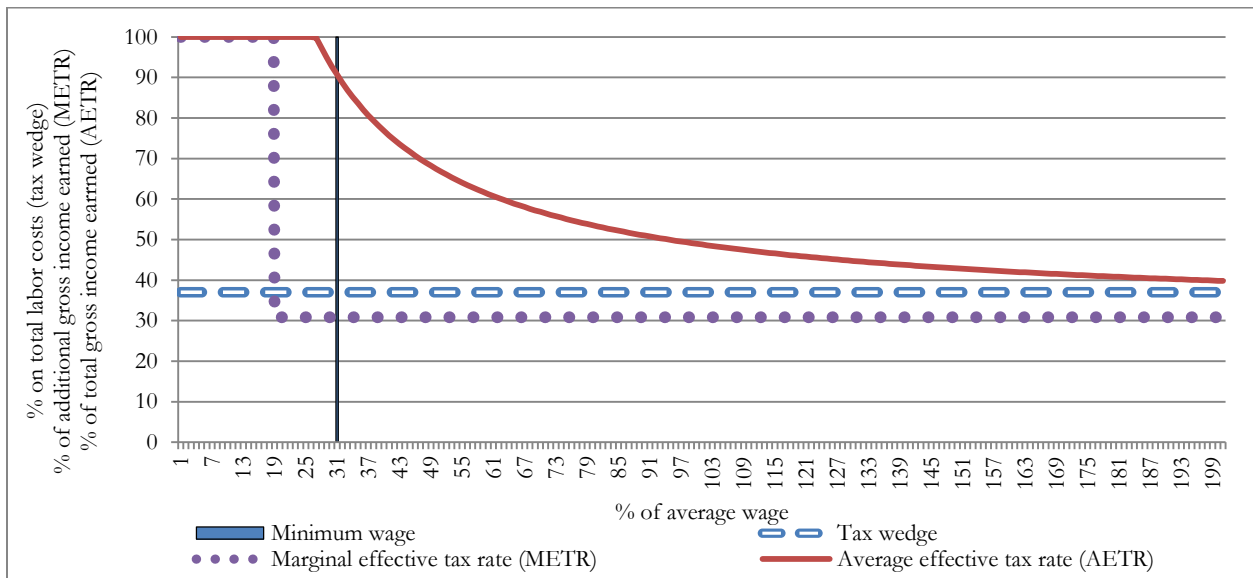
Figure A3.5: The tax wedge, the marginal effective tax rate (METR), and average effective tax rate (AETR) for a single person in Montenegro (2012)



Note: The figure is reflective of the situation when the household earnings are related to working days in a week. The rise of earnings from 0 to 100 percent of the average wage is linked to the increase of working days from 0 to 5 (full-time Minimum wage corresponds to a value of approximately 30 percent of the average wage, which is the legal minimum for a person working full-time).

Source: Author's calculations based on OECD Tax and Benefit model.

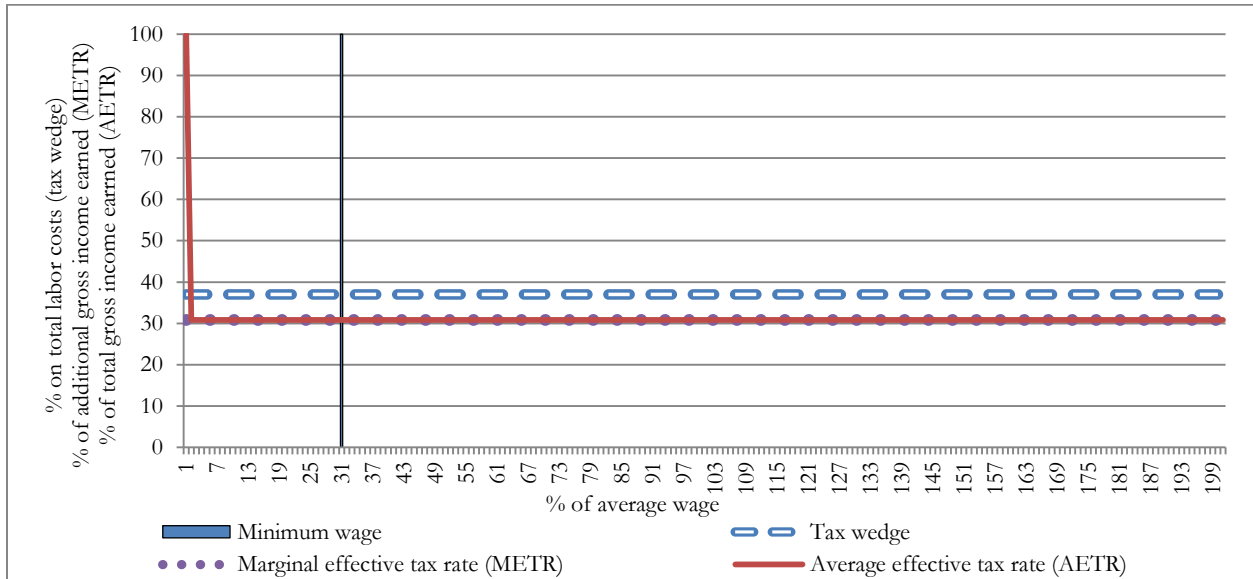
Figure A3.6: The tax wedge, the marginal effective tax rate (METR), and average effective tax rate (AETR) for a single parent with 2 children in Montenegro (2012)



Note: The figure is reflective of the situation when the household earnings are related to working days in a week. The rise of earnings from 0 to 100 percent of the average wage is linked to the increase of working days from 0 to 5 (full-time). Minimum wage corresponds to a value of approximately 30 percent of the average wage, which is the legal minimum for a person working full-time.

Source: Author's calculations based on OECD Tax and Benefit model.

Figure A3.7: The tax wedge, the marginal effective tax rate (METR), and average effective tax rate (AETR) for a one earner couple in Montenegro (2012)



Note: The figure is reflective of the situation when the household earnings are related to working days in a week. The rise of earnings from 0 to 100 percent of the average wage is linked to the increase of working days from 0 to 5 (full-time). Minimum wage corresponds to a value of approximately 30 percent of the average wage, which is the legal minimum for a person working full-time.

Source: Author's calculations based on OECD Tax and Benefit model.

Annex 4: Capacity of CSWs to Serve SSN Beneficiaries

Table A4.1: Number of FMS beneficiaries per number of professional/total workers in December 2012

CSWs	Number of families	Number of family members	Number of families which receive FMS per number of professional workers	Number of FMS beneficiaries per number of professional workers	Number of families which receive FMS per total number of workers	Number of FMS beneficiaries per total number of workers
Andrijevica	191	584	96	292	64	195
Bar	616	1769	68	197	36	104
Berane	1631	5148	163	515	91	286
Bijelo Polje	1764	5412	176	541	74	226
Budva	101	240	34	80	25	60
Cetinje	351	1057	88	264	35	106
Danilovgrad	291	902	97	301	58	180
Herceg Novi	193	497	21	55	15	38
Kolasin	321	820	107	273	54	137
Kotor	137	396	23	66	12	36
Mojkovac	288	787	58	157	32	87
Niksic	1997	5992	100	300	64	193
Plav	751	2303	94	288	54	165
Pljevlja	625	1711	63	171	42	114
Pluzine	86	163	86	163	29	54
Podgorica	2949	9436	72	230	37	119
Rozaje	2049	6652	410	1330	228	739
Savnik	104	213	104	213	26	53
Tivat	170	455	43	114	43	114
Ulcinj	345	880	69	176	49	126
Zabljak	105	183	105	183	35	61
<i>Montenegro</i>	<i>15065</i>	<i>45600</i>	<i>94</i>	<i>285</i>	<i>52</i>	<i>158</i>

Source: CSWs, MLSW

Annex 5: Behavioral Requirements and Benefit Sanctions in Selected EU and OECD Countries, and the Western Balkan Countries

Table A5.1: Behavioral Requirements and Benefit Sanctions in Selected EU and OECD Countries, and the Western Balkan Countries

Country	Registration as unemployed	Job search requirements	Job acceptance and exceptions	Work and / or social integration requirements	Implications of refusal / sanctions	Other behavioral conditions
Albania	Required	No	Required	Yes	Denial of benefit	n.a.
Australia	Required	Yes, proof every two weeks	na	Yes	From 'warning' to 100% benefit withdrawal	Behavioral requirements can be extended to other family members
Austria	Required	Yes	'Reasonable' work, exceptions related to age (men over 65; women over 60)	na	Denial of benefit	Cooperation with employment services
Belgium	Required	Demonstration of willingness to work, and evidence of job search	Obligation to accept 'suitable' job. Exceptions are possible for health reasons	Yes	Benefit (Integration income) can be denied to a person who is not willing to work	Participation in employment, social integration or individualized social integration project offered by the municipality
Bosnia-i-Herzegovina	Yes	No	No	Yes, focus made on social inclusion first, then labor activation	n.a.	n.a.
Bulgaria	Required for at least 9 months before claiming	To have not rejected any jobs offered or qualification	Exceptions for able-bodied with care responsibilities, health	Work - required	Denial of benefit to the person who have refused job or training, first refusal	Could be identified and included in the Individual Employment Plan

	social assistance	courses offered by the Employment Offices	conditions, full-time students and pregnant women		– 1 month; second – 1 year	
Canada	Required	Yes	Yes	Yes	Up to 100% withdrawal	Regular confirmation of circumstances; verification periods vary by provinces
Czech Republic	Recipients, unless employed, must register with the Labor Office as jobseekers	No specific independent job search requirement but willingness to work is basic condition for being treated as a person in material need	Accept any job, even short-term or less paid. Exclusions due to age, health status, disability or family situation (care responsibilities)	Yes	Participation is obligatory and is subject to verification. Refusal to participate results in exclusion from social assistance receipt	To actively look for a job, accept any employment, participate in active employment programs, public works, public service
Denmark	Required	Required for both spouses	Appropriate job	Work - required	Payment is suspended if the beneficiary or his/her partner refuses without sufficient reason to participate in activation measure or repeatedly fails to report on job search	Behavioral requirements are extended to other family members
Estonia	Required registration with the Estonian Unemployment Insurance Fund	Required	To be available for suitable work	Yes	Refusal to grant the benefit to those capable of work and aged between 18 and pensionable age, who are neither working nor studying and have repeatedly refused, without reason, training, or suitable work or have refused take up of social or employment	Fulfillment of other conditions and activities can be agreed in an individual job searching plan

					services	
Finland	Required	Required	Required, suitable job	Work - required	100% benefit withdrawal for 60 to 90 days	Action plans mandatory for certain groups; regular confirmation of circumstances
France	Required	Obligation to look for work	Suitable job	Work – required SI - required	na	To take the necessary steps to generate one’s own activity or to participate in integration activities
FYR Macedonia	Proof of no-work is required	no, only training and retraining	Required	Yes	Benefit suspension of 6-12 months claimant. Bigger for refusal to participate in public works than for not taking up active labor market measures	Monthly confirmation of circumstances
Germany	Required	Required for beneficiaries capable of working and persons living with them in a domestic unit	Take up of reasonable job Exemption for people with disability and those taking care for children under 3 years	Yes	From 10% to 100% withdrawal for 1.5 to 3 months	Specific conditions for (a) the basic security benefit - to take part in all work-oriented inclusion measures; to enter in integration agreement with the job center; (b) for occupational integration benefits; (c) for the starting allowance and loans for self-employed beneficiaries. Take up of services provided by the local authorities for the care of minor or disabled children and for home care of family members; debt counseling, psychological support and addiction counseling. Update of action plan every 6 months.
Hungary	Required for benefit for persons in active age / employment substituting benefit	Required	Suitable job	Work - required	The entitlement to the benefit is terminated if the person is deleted from the registry of job seekers due to his/her own fault, if (s)he refuses a proper job, works, cannot prove that in the previous year (s)he pursued a gainful activity, or took part in training or labor market program for at least	To cooperate with the public employment services; to participate in training programs, guidance, programs which help to prepare for work, etc. Proof of independent job search every 3 months

					30 days	
Ireland	Required	Jobseeker's Allowance recipients must be available for, capable of and genuinely seeking work	Required	Yes	100% benefit withdrawal for weeks	All persons unemployed for 3 months must participate in the National Employment Action Plan aimed at assisting them to enter or re-enter the labor market. Confirmation of circumstances – every 4 weeks
Japan	Not required	Required	na	Work – no SI - no	From warning to 100% withdrawal	Confirmation of circumstances every 4 weeks
Kosovo	Required	No	Required	Yes, participation in employment counseling, public works and other employment programs.	n.a.	Re-registration with unemployment office every 3 months. Re-application to benefit every 6 months.
Latvia	Required	Yes	Suitable job	Work – required SI - required	Total amount of benefit is reduced by the part of the person who has refused	Beneficiaries are obliged to co-operate with social workers in order to overcome the situation through provision of information, personal attendance, participation in measures promoting employment, acceptance of medical examination, participation in medical and social rehabilitation
Lithuania	Required registration with the local office of Labor Exchange or another EU MS employment service	Required	Required		Refusal of job offer, training, public duties or works supported by the Employment Fund may cause suspension of, or refusal to grant, social benefit	
Montenegro	Required	Required to access to services provided by	Not required by law	'Soft' requirements to participate in activation-related	From denial to participate in activation programs	Monthly confirmation of circumstances. There are no legal guarantees for re-entry into social assistance if the activation does not render self-sufficiency and independence.

		Employment Agency		activities, to take a job or training offer while still in unemployment.	to denial of benefit.	
Netherlands	Required registration with the Institute for Employee Benefit Schemes	Required. The partners of unemployed should also look for work	Required acceptance of suitable employment	Yes	Cut or reduction of benefit in case of non-cooperation. Medical and social factors are taken into account, and childcare obligations	The parent is however obliged to attend training courses. If the children are aged 5 or older, cases are examined individually to determine the exemption from this obligation. If all attempts are unsuccessful, the social services will help to find work or training
Poland	Required	Required	Obligated to undertake offered work	Work – required SI - required	Refusal to grant or withdrawal of social assistance benefit; reduction of integration allowance	Cooperation with social services; regular confirmation of circumstances; in certain cases proof of independent job search; individual plan
Portugal	Registration with job center is required	Required	Required, any offered job	Work – required SI – required, with exceptions	Cancellation of registration with the job center	To obtain the benefit, the claimant must accept the obligations stemming from the integration contract. The obligations contained in the integration contract include: accept proposed jobs and vocational trainings; attend courses; participate in occupational programs or other temporary programs stimulating labor market integration or meeting social, community or environmental needs; undertake professional counseling or training actions; take steps regarding prevention, treatment or rehabilitation of drug addiction and incentives to take up self-employment
Romania	Required	No	Acceptance of community work. Exemptions for non-prime age recipients, attending vocational training or professional or other activity	Work – required One family member is obliged to work in the interest of the local authority	Failure to comply results in suspension of the Social Aid	

Serbia	Required	Required	Yes, suitable job.	Yes	Sanctions exist for recipients who refuse a job offer or to do not participate in activation measures, but they do not apply to work-unable family members. Sanctions are rarely applied.	Assistance is granted for 9 out of 12 months a year. Eligibility must be recertified every 12 months.
Slovakia	Registration with the Office of Labor, Social Affairs and Family is mandatory for activation allowance	Required for activation allowance	Suitable work	Taking suitable work, training or community work is optional for the beneficiary but obligatory for getting the activation allowance	The person receives only the basic benefit in material need	The take up of activation allowance is conditional on participation in training, municipal works or other suitable work
Slovenia	Required	Required	Required acceptance of any job after receiving Social Assistance for a certain time, i.e. 9 times in the last 12 months		Refusal to grant the benefit or benefit withdrawal in case of voluntary termination of employment, refusal of job offer or refusal/ abandonment of ALMPs	
Spain	Required	Required	Yes, suitable job	Yes	100% withdrawal from 4 weeks to indefinite	Confirmation of circumstances every 3 months and intensive interviews every 3 months
Sweden	Required	Required	Required	Yes	Sanctions exist, they vary by municipality	Social assistance is conditional to participation in ALMPs; also on intensive interviews, regular confirmation of circumstances, individual action plans
United Kingdom	Required	Required	Required – to be available for ‘all	Yes	Termination of benefit from 2	For Jobseekers’ Allowance - must sign a Jobseekers’ agreement detailing the type of work, hours and activities to

			work'		weeks to 26 weeks	be undertaken by the jobseeker in their search for work; initial intensive interview with quarterly follow ups, confirmation of circumstances every 2 weeks, proof of independent job search every 2 weeks. Requirements can be extended to other family members after recognizing caring responsibility
United States	Required (for Food stamps)	Required (for Food stamps)	Required (for Food stamps)	Required (for Food stamps)	100% withdrawal for minimum of 1 month	Confirmation of circumstances rules vary by state, proof of independent job search can be required, requirements are extended to other family members as well

Source: Compiled by authors from European Commission (2012), July 2012 and national legislation