

SDG POLICY BRIEF



Poverty and Child Poverty
in Montenegro

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Smiling refugee girl, held by a woman, at the Reception Centre in Podgorica, Montenegro.

Photo: UNHCR Montenegro / Mimir Laban

Roma woman walking on a wet dirt road, among shacks in a Roma settlement Riverside in Berane.

Photo: UNHCR Montenegro



Foreword

By adopting the 2030 Agenda for Sustainable Development, global decisionmakers acknowledged that the reduction of poverty for all people, in all its forms, everywhere, is the most demanding challenge and *conditio sine qua non* for achieving social cohesion and prosperity.

Montenegro has witnessed numerous economic shocks that have hindered economic and social development. Having reached the mid-point of journey towards SDGs realization, it is time to remind ourselves of our pledge to build a world in which extreme poverty would be eradicated and where adequate and effective national social protection systems for all would be in place. In these endeavours, guarantees need to be made that children are placed at the front, especially those most disadvantaged, such as children living in income poverty, children with disabilities, Roma and Egyptian children, children without parental care, children living in precarious situations, affected by conflict, violence, exploitation, and abuse.

This paper in Montenegro is one of the United Nations contributions toward consolidating and analysing evidence on poverty and identifying areas where additional efforts need to be made toward achieving the SDGs in Montenegro. Like many countries in the region and globally, Montenegro is facing both social and economic challenges. Delivering on SDG1 is important for the entire Montenegrin society, and particularly for children, who are more likely than adults to live in poverty on the one hand, while on the other, the adverse impact of multiple overlapping deprivations on them will last a lifetime, with detrimental effects on their future. To make sure that our joint achievements so far are not reversed, Montenegro needs to define the reduction of multidimensional poverty as a national priority. To achieve this, Montenegro needs to have a strategic

approach to poverty measurement, informing the design of effective policies, and adequate public investments, and robust monitoring, evaluation, and reporting. Comprehensive data, gathered over previous years, demonstrate that adequate, accessible, and inclusive social protection system significantly increases income security in households, which in turn has multiplying effects on the society, breaking the cycle of poverty through positive impact on other areas of well-being (nutrition, health, education, child protection). In addition, specific shock-responsive solutions, particularly for addressing child poverty, need to be applied to avoid gains achieved from deterioration due to economic, environment and political shocks.

A strong political will, which sets a clear course towards poverty elimination, including early-warning mechanisms, is a fundamental requirement towards fulfilling the vision of the SDGs and honouring our promise of to leave no one behind and a bright future for Montenegro. The United Nations stands ready to partner and support national institutions to realize this vision.

Juan Santander
Resident Representative UNICEF Montenegro

Introduction

Poverty, in a broad sense, is the situation of not being able to meet one or all your basic needs. Historically it has been defined in relation to income. Income poverty is measured in terms of a line (or defined income) that is needed to meet all one's basic needs. Countries typically define their own poverty line, based on the domestic context, or use internationally defined poverty lines, such as those developed by the World Bank, which enable comparability globally. Often where income is not calculable, consumption will be used as a proxy to estimate a household's material situation. This is especially useful in countries with significant informal economies and where households engage in food production for their own consumption. However, the prioritization of globally comparable data is leading to an emphasis on income-based poverty calculations. The incidence of poverty is not the only important factor. The intensity of poverty, the distance from the poverty line, is equally as important as it enables an assessment of living standards for those in poverty. Poverty is captured under SDG 1 and its eradication is the central aim of some international organisations, such as the World Bank.

Poverty is not just important economically. The Committee on Economic, Social and Cultural Rights stated in 2001 that poverty was "a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights".¹ The lack of income can impact upon one's ability to benefit from health and education

services or limit one's potential to achieve their full potential. Those who are in poverty are less likely to have a healthy diet, equal opportunities to jobs (weaker social mobility) and quality housing. Plus, poverty has been linked through numerous studies to other challenges as issues, such as crime, violence, neglect, abuse, exploitation, and corruption and poverty disproportionately impacts children. Poverty is also deeply intertwined with the global existential threat of climate change, with many households in poverty reliant on agriculture for their livelihoods. Additionally, women are often more likely to be poor than men.² These additional deprivations are interlinked and so can exacerbate the intensity of poverty that households experience. However, the ways that an individual's life is affected by poverty and the various poverty contexts will vary from country to country.

The poorest are the most vulnerable to economic shocks. In the last few years, the World's poorest have been hit the hardest by the multiple economic shocks of the COVID-19 and then the consequences of the war in Ukraine. The COVID-19 pandemic has reversed progress on poverty and the inflationary pressures, from the war in Ukraine, have limited the potential recovery. The most vulnerable households' income losses were twice as high, relatively, as the world's richest, and global inequality rose for the first time in decades due to the pandemic. The poorest also faced large setbacks in health and education which, if left unaddressed by policy action, will have lasting consequences for their lifetime income prospects. The recovery since then has been uneven. Rising food and energy prices—fuelled

¹ E/C.12/2001/10, para. 8

² World Bank, 2018, Gender Differences in Poverty and Household Composition through the Lifecycle



in part by the war in Ukraine and by climate shocks and conflict—have hindered a swift recovery.³ The recent setbacks took place when the speed of progress toward poverty reduction was already slowing, in tandem with subdued global economic growth. Resultingly, the world is currently off-track to achieve its poverty aims on SDG 1 by 2030.

Recent inflationary pressures have pushed households into relative income poverty. According to a Research Brief⁴ issued by the UNICEF Innocenti in June 2023, the inflationary pressures have caused “an additional 3 million children in 26 EU countries to be living in conditions equivalent to relative income poverty”. The effects of the food inflation spread to the neighbouring countries, including Montenegro. As the report outlines, the actions undertaken by Governments, which mainly relied on cash benefits for households, have proven to be partially effective. However, some households with children remained without heating or and/or adequate nutrition, which will leave a negative impact on their long-term health and education outcomes. The Human Development Report provides a more comprehensive overview of the global incidence of poverty.⁵

This policy brief explores various aspects. It outlines the different measures of poverty that exist in Montenegro, the various aspects around those measures and what they can and cannot show, what drives poverty in Montenegro, its implications and concludes with recommendations. The policy brief has been developed through a collaborative process with colleagues from UN agencies resident and non-resident in Montenegro.

³ <https://www.worldbank.org/en/topic/poverty/overview>

⁴ Research Brief, June 2023, UNICEF Innocenti – Global Office of Research and Foresight, Children, and the Cost-of-living Crisis: How food and energy inflation has increased poverty in households with children in the European Union

⁵ UNDP Human Development Report 2023: <https://hdr.undp.org/system/files/documents/hdp-document/2023mpireporten.pdf>

Measuring poverty

There are several measures of poverty in Montenegro. Building a fuller picture of the situation of poverty in Montenegro requires understanding what the various measures are representing and what their positive and negative aspects. There are numerous measures that have been developed by institutions such as the World Bank, Eurostat, and UN agencies. These measures use different methodologies and so show different aspects of poverty or vulnerability.

The first measure that is commonly used is the World Bank's poverty line, which estimates the proportion of people below a globally set poverty line, based on income. Montenegro does not have a national poverty line. The last national poverty line was recorded in 2013. The World Bank uses a middle-income country poverty line of \$6.85 per day (at 2017 purchasing power parity (PPP)) in the case of Montenegro.^{6,7} The World Bank has three income poverty lines depending on the status of the country in terms of its per capita income. The other income poverty lines are \$2.15 and \$3.65 (both 2017 PPP per capita) for low-income and lower middle-income countries, respectively. Montenegro has seen declining poverty against this measure since 2013, barring 2020, where the COVID-19 reversed some progress made in poverty reduction and pushed some households back into poverty. From 2013 to 2023 poverty has declined from 26.3 percent to an estimated 16.7 percent (see Annex A, Chart 1).⁸ However, the rate of poverty

is still considerably high for children below 18 in Montenegro according to the World Bank international poverty lines. As per the latest data, according to the Policy Research Working Paper "Global Trends in Child Monetary Poverty According to International Poverty Lines", published by the World Bank Group in 2023, the percent of children in monetary poor households in Montenegro in 2022 at the \$6.85 line in 2017 PPP was 27.2 percent, at the \$3.65 line – 9.5 percent and at the \$2.15 line – 4.1 percent. One issue with this measure is that it does not include a gender disaggregation, nor does it disaggregate based on other factors, such as persons with disabilities. The vulnerable groups, outlined in the inaugural UN Common Country Analysis for Montenegro, are more likely to be in poverty.⁹

The second measure is the risk of poverty indicator which is calculated using Eurostat methodology. The measure was adopted when Montenegro discontinued using its own national poverty line. The measure is not a measure of how many individuals are unable to meet their basic needs. Rather, it is a relative poverty measure, or measure of vulnerability, in comparison to a household's peers. It is calculated as the percentage of individuals living in a household with an income below 60 percent of the median equivalised disposable household income.¹⁰ Montenegro's at risk of poverty rate has been on a declining trend since 2018, falling from 24.5 percent to 20.3 percent in 2021 (see Annex A, Chart 2).¹¹

6 PPP = The rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

7 <https://databank.worldbank.org/metadataglossary/world-development-indicators/series/SI.POV.UMIC>

8 World Bank databank: World Development Indicators

9 Common Country Analysis 2021 <https://montenegro.un.org/en/124464-un-common-country-analysis-montenegro-2021>

10 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At-risk-of-poverty_rate

11 Monstat: Survey of Income and Living Conditions

The risk of poverty also comes with sub-categories and disaggregation where some of the nuances of vulnerability in Montenegro are revealed. There is the child risk of poverty, which shows how many children are vulnerable as part of the greater category of risk of poverty. The child at risk of poverty has been declining since 2018, falling from 33.7 percent to 28.4 percent in 2022 (see Annex A, Chart 3). The risk of poverty is also disaggregated between men and women, by region, and by household composition. In terms of gender disaggregation male at risk of poverty has been higher than female at risk of poverty until 2020 and 2021. However, in 2022, as per the latest SILC for Montenegro, at-risk-of-poverty rate of men was somewhat lower (20.0 percent) than the rate of women (20.6 percent). There is often little difference between the two genders in terms of at risk of poverty; the maximum difference between genders has been in 2016 at 1.2 percentage points (see Annex A, Chart 4). However, despite the risk of poverty data, there is evidence in terms of other gender disparities, such as the gender pay gap¹² and female activity and employment data that lag the male equivalents. Both poverty and at risk of poverty are historically concentrated in the North of Montenegro rather than in the Central or Coastal regions (see Annex A, Chart 5). The North continues to have labour market indicators that lag those of the other regions. This is mainly down to the central region have Podgorica, the main population centre, and the coastal region having the majority of the tourism industry, meaning that economic activity is concentrated in those two regions. Similarly, risk of poverty is predominantly a rural rather than an urban phenomenon. Finally, risk of poverty appears to concentrate in certain household types; most notably single parent households or households with three or more children (see Annex A, Chart 6).

12 ILO, 2023, The Gender Pay Gap in Montenegro

A final type of measure is the multidimensional poverty index (MPI). Poverty is commonly understood as a lack of financial resources, when a focus is placed solely on income or consumption, it does not capture a complete picture of an individual's standard of living. However, although income poverty might not provide such a complete picture, it does capture a household's ability to meet critical basic needs in food, shelter, clothing, and other goods that are commonly obtained through market purchase. A focus on these other forms of deprivation can improve a decision-makers' understanding of a complex situation and policymaking to resolve it.

There are levels of complexity to these MPIs. Even in cases where a household is determined as being above the poverty line, they may struggle to access basic services, including education, early childhood education and care, healthcare, adequate housing conditions, internet connection, water and sanitation, and electricity. Although the degree of importance and how much a household values them varies. Such households are not classified as being poor in terms of a poverty line, but are facing other forms of deprivations. The deprivations in multiple dimensions of well-being have a particularly adverse impact on children hindering them from reaching their full development potential. In addition, the unequal distribution of household income may have additional negative effect on children, who suffer due to the allocation of resources for pressing household priorities, at the expense of their need. While the converse can also hold true that households can be classified as poor in terms of a poverty line, but have access to essential services, which can complicate our understanding of income poverty. According to the World Bank Group, "by comparing the income poverty dimension with indicators from other dimensions, it is possible to form a

picture of how many multidimensionally poor are not captured by income poverty, as well as which indicator deprivations most affect well-being in the different regions. Indeed, almost four out of 10 (39 percent) multidimensionally poor persons are not captured by income poverty because they are deprived in nonmonetary dimensions alone".¹³

UNDP periodically conducts Global MPI¹⁴ research in collaboration with the Oxford Poverty and Human Development Initiative. The UNDP MPI measures interlinked deprivations in health, education and standard of living that directly affect a person's life and wellbeing.¹⁵ The global MPI is a country-based index that measures overlapping deprivations in more than 100 countries and 1,200 subnational regions, providing an important perspective on SDG 1 while also including indicators linked to other SDGs. It uses a deprivation profile for each household and everyone in it, which tracks deprivations across ten indicators, ranging from health, education, and the standard of living. The most recent publicly available survey data for Montenegro's MPI estimation refers to 2018. According to it, 1.2 percent of Montenegro's population (around 8000 people in 2021) is multidimensionally poor, with an additional 2.9 percent classed as vulnerable to multidimensional poverty (18 thousand people in 2021).

This is computed using monetary poverty assessed by the percentage of the population living below the 2017 PPP of US\$2.15 per day. Montenegro has an average deprivation score among those living in multidimensional poverty of 39.6 percent. The MPI value, which represents the share of the population that is multidimensionally poor adjusted for the intensity of deprivation, is 0.005. In comparison, Serbia and North Macedonia had MPI values of 0.000 and 0.001, respectively.

There have been multidimensional child poverty indices developed in Montenegro. UNICEF Montenegro have produced an analysis of multidimensional child poverty; "Multidimensional Child Poverty in Montenegro – Understanding the complex realities of children in poverty using a mixed-method approach".¹⁶ The methodology used for the mentioned study is founded on the multiple overlapping deprivation analysis (MODA) methodology developed by UNICEF's Global Office of Research – "Innocenti". This methodology derives from the understanding that poverty encompasses other areas of wellbeing, thus preventing individuals, particularly children, to reach their full potential and live productive lives. Child poverty has been traditionally measured based on household income, but this approach has not drawn out the linkages with other forms of deprivations. The UNICEF multidimensional approach factors in deprivations related to health, nutrition, early childhood development (ECD) and education, neglect, and discipline (child protection), and child labour (domestic chores and other work performed).

13 World Bank Group, "Poverty and Shared Prosperity 2022 – Correcting Course", 2022 International Bank for Reconstruction and Development and The World Bank

14 UNDP (United Nations Development Programme). 2023. 2023 Global Multidimensional Poverty Index (MPI): Unstacking global poverty: Data for high impact action. New York

15 UNDP Global Multidimensional Poverty Index 2023

16 Multidimensional Child Poverty in Montenegro, UNICEF, 2021

Children in Montenegro face multiple deprivations. More than eighty per cent of children in Montenegro face deprivation in at least one domain of wellbeing. The figure for Roma children is ninety-six percent. Children living in remote and rural areas are in a worse position relative to those living in urban areas. Only twenty percent of children aged 0–5 years do not face any deprivation, while almost all Roma children, in this age bracket, experience deprivations in two or more dimensions of wellbeing. The importance of certain factors changes with age. For children under 23 months old, the most common deprivation was nutrition; not being exclusively breastfed. While for the older age categories, the deprivation related to protection is a larger factor. The analysis found that a child's risk of deprivation across most dimensions is linked to specific background characteristics: mother's education, household head's education and, for some dimensions, the gender of the head-of-household. Furthermore, a parent's education matters. Children living in households where mothers lack secondary education are more deprived in all dimensions; especially water and sanitation (by a factor of 6.5) and ECD (a threefold difference). Poverty also impacts an adolescent's ability to finish education and gain meaningful employment, which can create a vicious cycle of poverty. In June 2021, Montenegro introduced an age-limited, quasi-Universal Child Allowance (qUCA) to cover all children aged 0–6 years, instead of the vulnerability-targeted allowance for children with disabilities and those from low-income households, which was in place before. The rollout started in November 2021 and the 2022 SILC shows that the at-risk-of-poverty rate for children fell from 30 percent in 2020 to 28.4 percent in 2021, which was lower in relation

to the previous two years. The introduction of qUCA was followed by its expansion to all children up to 18 years of age, the roll-out started in 2022 and the next iteration of SILC should provide some indicator of its impact.¹⁷ The second largest group (25.8 percent) at risk of poverty is young people aged 18-24, who are in the process of transitioning from childhood to adulthood. Looking from a labour activation perspective, unemployed individuals were at the highest risk of poverty (40.3 percent), followed by other inactive individuals (27.2 percent).

Data around living standards have been conflicting in recent years. The context of poverty in Montenegro needs to be compared to how living standards have evolved in recent years to better understand the challenges that households face. When comparing indexed nominal net monthly wages data against indexed monthly CPI it appears that the average Montenegrin is better off today than prior to the COVID-19 pandemic.¹⁸ This is mainly down to the economic recovery since the COVID-19 pandemic and the increase in minimum wages (and shifting of the burden of tax) as part of the minimum wage – tax policy programme introduced in January 2022.¹⁹ Although living standards appear to have improved according to this data, the pace of poverty reduction does not reflect this. Nor do some data from the Survey of Income and Living Conditions uphold this analysis. Data from 2021 shows that, according to perceptions, around 85 percent of households surveyed state that they find some level of difficulty in making ends meet. However, it should be noted that this is based on perceptions rather than a statistical analysis, and year to year some indicators demonstrate

volatility. For example, the indicator on the inability to keep a home warm was 13.2 percent in 2019, before rising to 18 percent in 2020, before falling again to 13.9 percent in 2021. It is not clear what is the reason for the rise and fall in the rate of those claiming to have an inability, but it could be around the volatility of perceptions surveys or dependent on the weather, as milder winters do not require the same level of heating.

Albeit not a measurement of poverty, the Human Development Index (HDI)²⁰, developed by UNDP, gives an insight into human development. It represents a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. With the HDI value of 0.844, Montenegro ranks 50 out of 193 countries and territories (2023 data). Between 2003 and 2022, the HDI value in Montenegro has been increased from 0.749 to 0.844, which represents an increase of 12.7 percent. According to the latest HDR, life expectancy in Montenegro is 76.8, which is 2.8 years more than in 2003. Citizens of Montenegro have an average of 12.6 years of education, or 2.2 years more than in 2003. The gross national income per capita (GNI – purchasing power parity expressed in US dollars) has increased by around 65.4 percent and amounts to \$22,513 in 2022.

¹⁷ SILC risk of poverty is not definitive proof of its effectiveness due to other factors that can influence incomes and risk of poverty.

¹⁸ Based on data from Monstat: CPI data and Central Bank of Montenegro: Real economy data

¹⁹ An Evaluation of Montenegro's 2022 Minimum Wage and Income Tax Reform, 2023, International Labour Organisation

²⁰ UNDP (United Nations Development Programme). 2024. Human Development Report 2023-24: Breaking the gridlock: Reimagining cooperation in a polarized world. New York

ADVANTAGES AND DISADVANTAGES OF DIFFERENT MEASURES OF POVERTY

WORLD BANK \$6.85 PER DAY (PPP 2017)²¹

ADVANTAGES

- Allows cross-comparability with other countries.
- Internationally recognised measure of poverty.

DISADVANTAGES

- Not a context specific poverty line. Contexts vary and the middle-income measure will not reflect a national poverty line.
- Does not show intensity or distribution of poverty – the distance of certain households to the poverty line or where households fall in relation to the poverty line (as many household could be just above the poverty line and so still highly vulnerable to poverty).
- Households just above the poverty line are still vulnerable but are not captured in this type of poverty line measure.
- Only focuses on income/consumption. Fails to draw out the nuances of poverty such as food insecurity, access to services, and educational attainment.
- No disaggregation by gender, persons with disabilities or other vulnerable groups.

EUROSTAT AT RISK OF POVERTY²²

ADVANTAGES

- Shows relative poverty/a household's situation compared to their peers.
- Allows cross-comparability with EU countries.
- EU recognised measure of poverty.
- Regularly collected (on annual basis) and provides age, sex, and geographic disaggregation.

DISADVANTAGES

- Not a measure of poverty, but measure of vulnerability or household's position relative to their peers.
- Does not factor in living costs or minimum income needed to meet basic needs.
- Does not factor in a minimum threshold of income needed to get by.
- Does not assess non-monetary aspects of poverty or other types of deprivation.

MULTIDIMENSIONAL POVERTY MEASURES/INDICES^{23 24}

ADVANTAGES

- Draws out multiple facets of poverty – that are more complex than income/consumption alone.
- EU at risk of poverty or social exclusion indicator is based on income poverty, severe material and social deprivation, and very low work intensity. The multidimensional approach broadens the view of vulnerability, risk of exclusion and economic marginalisation.²⁵

DISADVANTAGES

- Not all indicators are equal. Multidimensional measures consider multiple indicators that are of differing importance and it is not easy to apply a unified method of their measurement in various contexts.
- Often multidimensional poverty measures do not place a weight on income poverty indicators which limits their utility.
- Limits cross-country comparability. And they also fail to draw out some of the nuances of poverty if not including income poverty.
- Variables can be subjective or not dependent on circumstance but behaviour. This can lead to confusion in how to interpret the results.
- The endogeneity of indicators means that there could be some multidimensional indicators that are also a consequence of income poverty, e.g. through lower tax revenues available to governments leading to lower coverage of services.

²¹ <https://data.worldbank.org/indicator/SI.POV.UMIC?locations=XT>

²² https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At-risk-of-poverty_rate

²³ <https://hdr.undp.org/content/2023-global-multidimensional-poverty-index-mpi#/indicies/MPI>

²⁴ Multidimensional Poverty Measure (worldbank.org)

²⁵ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_\(AROPE\)#:~:text=At%20risk%20of%20poverty%20or%20social%20exclusion%2C%20abbreviated%20as%20AROPE,a%20very%20low%20work%20intensity](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)#:~:text=At%20risk%20of%20poverty%20or%20social%20exclusion%2C%20abbreviated%20as%20AROPE,a%20very%20low%20work%20intensity)



Roma family outside their home in a settlement Riverside in Berane.

Photo: UN Montenegro

The context in Montenegro

Montenegro's poverty can be viewed through different lenses and from different sources, whether that be due to global, regional, or local factors. Ultimately, Montenegro's underlying social and economic vulnerabilities drive poverty, where poverty is a symptom of structural issues. Montenegro is not the best performer nor the worst performer when using measures that can be internationally compared despite Montenegro being the furthest along the EU accession process and having the joint-highest GDP per capita in the non-EU Western Balkans sub-region, according to IMF data. Even though their respective GDP per capita is equal with Montenegro's, Serbia has the lowest poverty rate in the region when using the World Bank's middle income poverty rate. It was estimated to be 8 percent in 2023. Montenegro's was the second lowest in the region at more than double Serbia's rate of 16.4 percent in 2023.²⁶ This is despite Montenegro having lower inequality than Serbia represented by a lower Gini coefficient (a measure of inequality).²⁷ According to Eurostat data, Montenegro's risk of poverty is higher than that in Serbia, but lower (by around 10 percentage points) than North Macedonia and Albania.²⁸

One means that Montenegro combats poverty is through the social protection system. However, its structure means that not all receive the support that they require to step out of poverty. Between 2015 and 2020, 32 percent of Montenegro's total Government expenditures were on efforts to reduce

poverty.²⁹ More than 75 percent of this expenditure related to contributory pensions schemes while the average pension in 2020 was 290 EUR. During this period poverty, according to the World Bank middle income poverty line, only reduced by 4.9 percentage points before the COVID-19 pandemic eroded most of the gains. Social assistance is also not always targeted to the most vulnerable reflected in the low coverage of poverty-targeted programmes; based on 2015 data, around only 15.7 percent of the poorest income quintile were recipients of social assistance programmes.³⁰ Total budget allocations for social and child protection from 2000 to 2015 remained stable in nominal terms, with negligible increases in budget allocations. One of the main factors in the low coverage are exclusion errors in targeting. However, analysis by UNICEF and the World Bank in 2022 highlighted capacity constraints in Centres for Social Work (CSWs). This is largely due to the low number of case managers in CSWs and the administrative burden of providing cash benefits which could be further reduced. CSWs use disproportionately more resources on cash benefit related affairs than on case management, which weakens the role of the CSWs as social and child protection agencies.

According to research conducted by UNDP³¹, since 2015 there have been several instances of introducing new rights to cash transfers or social benefits without proper prior analysis and its impact assessment. For example,

²⁶ World Bank Western Balkans Regular Economic Report Fall 2023: Toward Sustainable Growth

²⁷ Eurostat Gini Coefficient of equivalised disposable income

²⁸ Eurostat: at risk of poverty indicator *data do not exist for Bosnia and Herzegovina and Kosovo (whether the territory, institutions, or population, in this text shall be understood in full compliance with United Nation's Security Council Resolution 1244 and without prejudice to the status of Kosovo.)

²⁹ Montenegro SDG Policy Brief Quarter 3 2023: SDG Financing

³⁰ Systematic Country Diagnostic Update, 2021, World Bank

³¹ <https://www.undp.org/montenegro/press-releases/social-workers-highly-satisfied-e-social-swis>

in 2016, with the introduction of the right to compensation for parents or guardians of disability allowance right holders (around 1500 beneficiaries) and compensation for mothers with three or more children (22,140 beneficiaries), the budget allocation for cash transfers doubled from approximately €65 million in 2015 to €127 million in 2016, while the number of beneficiaries of the care allowance doubled from 2016 to 2018. During 2021-2022, compensation rights for former beneficiaries with three or more children, as well as partial regular adjustments for most cash transfers, total expenditures for social benefits significantly increased, while the number of beneficiaries increased approximately threefold. In 2023, there was a 50 percent increase in the care allowance beneficiaries registered compared to 2022. With approximately 200,000 individual payments to citizens monthly, 230 million EUR were spent on all social cash transfers in 2023 (See Annex A, Chart 7).

The combination of relatively rigid exclusionary criteria and means testing with a low threshold means that vulnerable households struggle to access material benefits. The introduction of universal benefits such as the universal child benefit has removed such exclusion errors in child benefits. Poorer households are receiving the same benefit as richer households, which limits the distributional benefits, where households of different income quintiles receive the same benefit. Households with children are receiving social assistance around 50 percent higher than household without. The amount of child benefits for various categories of children should be reconsidered according to the justified set of criteria, and the amount of child benefit should be also regularly aligned with the increased incomes and rising prices due to inflationary pressures.

The continued overall vulnerability of the economy is another driver of poverty. The vulnerability is manifested in internal and external imbalances that are driven by its reliance on low-value sectors to generate income and employment. Montenegro's small and open economy is highly dependent on tourism, which generates an estimated 25 percent of GDP and between 10 and 14 percent of employment. However, evidence suggests that the household incomes generated in the tourism sector are lower than in other service sectors and that there is lower job security, with a lot of employment being seasonal, reflected in the high seasonality of employment data in Montenegro's coastal region. Tourism is the economy's most important sector and the main source of service exports, an important factor in offsetting Montenegro's large current account deficit; the main external imbalance. The main internal imbalance has been the consistent running of primary fiscal deficits which has led to the highest debt to GDP ratio in the Western Balkans region. Conversely, economic growth is crucial for poverty reduction, but it needs to be inclusive and sustainable. Montenegro's economic growth averaged around 4 percent in the five years prior to the COVID-19 pandemic. The World Bank estimates that Montenegro will need to maintain much higher levels of real economic growth if it is to converge its living standards with that of the EU.

Montenegro is reliant on imports for essential goods. Therefore, Montenegro's inflation is driven by global and regional factors. While inflation is not necessarily a driver of poverty, it can erode real disposable incomes, complicating poverty reduction efforts. The consumer price index averaged 13 percent in 2022, and around 8.7 percent in 2023, limiting the progress on poverty reduction. An additional risk is that many households could be just above the poverty line but struggling to pay for essential things, such as housing, heating, electricity, and water. These households might not be classified as poor but are vulnerable to the effects of rising prices which could push them into poverty. Inflation is also a problem if it is higher and pensions or social assistance measures are not indexed to inflation. This is especially important when globally or regionally food and commodity prices are rising, since the poor and vulnerable will have to spend a disproportionately higher portion of their disposable incomes on fuel and food. The other issue with inflation is that often the measures of poverty assume that everyone's incomes rise in line with real economic growth. The evidence shown in a previous section demonstrates that the increase in nominal net wages has outpaced inflation. However, household incomes will rise at different rates in different income quintiles. And without an estimation of the elasticity of poverty reduction, it is not possible to estimate how much each income quintile benefits from economic growth.

The Montenegrin Government is aware of numerous challenges posed by the issue of poverty in the country. Following the participation of the Montenegrin Delegation led by Naida Nisic, Minister of Labour and Social Welfare in the 62nd session of the Commission for Social Development (5-14 February 2024) in New York, the official statement was released that curbing of poverty in Montenegro remains one of the largest challenges, since this "determination is aligned with the efforts of the international community, outlined during the Summit on Sustainable Development Goals, with the view of speeding up the implementation of Agenda 2030. Montenegro, as a dedicated UN member, actively works on the realization of the global SDGs".³²

Some factors that drive the multidimensional aspects of poverty are cultural or social in nature. These include factors that drive social exclusion. Cultural practices and social norms in various countries can contribute to expenditure patterns and how households cope with various challenges and deprivations, such as gender inequality. However, pervasive attitudes can also exacerbate and prevent households from exiting poverty. Constraining female economic empowerment can not only exacerbate poverty, but also exacerbate health and education outcomes. An analysis conducted by UN Women in 2018 demonstrated that the more women who have their own form of income, the lower their relative poverty levels.³³ However, the analysis did not definitively find a causal link between gender equality and poverty. Plus, research by the ILO found that the gender pay gap averages 78.4 percent of that of men.³⁴ UNICEF's MODA

³² RTCG - Radio Televizija Crne Gore - Nacionalni javni servis:: Društvo :: "Iskorjenjivanje siromaštva najveći izazov"

³³ UN Women, 2018, Discussion Paper: Gender Equality and Poverty are Intrinsicly Linked

³⁴ ILO, 2023, The Gender Pay Gap in Montenegro

analysis has highlighted that the gender of a household head has a significant impact on the likelihood that the children of the household in question will experience multidimensional poverty and that children aged 0-5 in female-headed households will be more likely to suffer deprivations in all dimensions of well-being, except child protection. In terms of the background characteristics that may increase children's risk of multidimensional poverty, the level of a mother's education has been identified as one of the factors. Namely, children whose mothers completed only primary education tend to be more deprived in all dimensions of well-being, and the additional risk factor, especially for Roma children, youth and persons with disability, is living in the northern region of the country.

However, the converse can also be true; that poverty can in turn drive social exclusion, discrimination, and stigma. These factors constrain the poor's access to essential services, limiting their ability to pursue opportunities and lead independent and active lives. The combination of these factors entraps poor households and their children in intergenerational poverty cycle, which is characterized by their reliance on social assistance, instead of developing and reinforcing their skills to attend education and find employment, as the essential paths for overcoming poverty. Poor households use various coping mechanisms to overcome such circumstances, such as assistance from the state, borrowing from relatives, involving older children in child labour, as well as limiting spending and consumption. Such coping strategies have a negative impact on the quantity and quality of available food, provision of adequate clothing and other essential commodities, which leads to poor nutrition

and clothing, school dropouts and, in turn, worse education and employment outcomes, which prolongs and deepens their deprivations. According to a UNDP study, 71 percent of beneficiaries of cash transfers are able to work.³⁵ Still, there are no specific, tailor-made measures to activate this group.

According to Katarina Carapic, a social worker from the NGO "Parents": "Growing up in poverty is not only a matter of the lack of finances, but also a permanent emotional burden carried throughout one's life. Being occupied by deprivation and challenges posed by hardship, those who are impoverished also face the change of mental consciousness. Such a change leaves long-term consequences on the entire family system, and particularly on children, by means of limiting their capability to advance and be equal to their peers. Poverty, in most cases, apart from the incapability to satisfy the basic needs of children, also implies social isolation, inequality in pursuing education opportunities, impossibility of realizing one's potential, which are all those rights that are guaranteed and should be fulfilled for all children."

Poverty, its drivers and consequences are interrelated; the vicious cycle(s) of poverty. Poverty has consequences but those consequences can then exacerbate poverty. This can be viewed at the macro and household level. For example, at the macro level if a country has a higher level of poverty, its tax revenues will likely be lower and, therefore, there will be less readily available finance for key expenditures such as education, which in turn will exacerbate poverty. At the household level the same holds true, less

income or income spent solely on getting by day to day means that a household can never purchase assets or pay for services that might lift them out of poverty. These vicious cycles show the endogenous relationship between the drivers, poverty, and its consequences.

Poverty can act as a drag on other SDGs. Widening inequality and poverty is known to act as a drag on economic growth, which could jeopardise the achievement of other SDGs. SDGs are mutually connected, implying that SDG 1 – "End poverty in all its forms everywhere", which calls on stakeholders to invest efforts towards reducing the number of people living in poverty, provide services and support to those in need, and ensure their resilience in times of crisis, cannot be achieved without improving health and education outcomes, mitigating climate change effects, reducing inequalities on different levels, etc. Evidence from the World Bank in 2018 showed that inequality and poverty have a negative effect on transitional growth and the long-run level of GDP per capita in middle-income countries.³⁶ In addition, and as evidenced above, poverty and inequality are known to have a detrimental impact on social cohesion and political polarisation and can drive greater gender inequality. Evidence from Latin America in 2012 highlighted that widening inequality and deeper poverty could have a detrimental impact on social cohesion and lead to social fragmentation, widening political polarisation and other societal issues such as gender inequality.³⁷

Therefore, in the words of Ida Kolinovic, Secretary a.i. of the Secretariat for Social Welfare of the Capital City of Podgorica - "The task of every state of social justice is not only to make the existence easier and alleviate the situation for the poor, but to help them be lifted out of poverty through education and employment opportunities and, thus, terminate the transgenerational cycle of poverty and dependency on the social welfare system."

³⁵ <https://www.undp.org/montenegro/publications/social-benefits-study-priority-amendments-law-social-and-child-protection>

³⁶ World Bank, 2018, Inequality and Economic Growth; The Role of Initial Income

³⁷ Koehler. G. .2012, Effects of social protection on social inclusion, social cohesion, and nation building

Considerations

There is no perfect measure of poverty; each poverty measure has its advantages and disadvantages as demonstrated by Table 1 above. The various measures sometimes either capture vulnerability rather than poverty, or do not completely capture all of those who should be classified as poor. Therefore, the different measures have implications for how we understand poverty in Montenegro and can and cannot show certain nuances. While measures such as the World Bank middle income poverty measure cannot draw out the various deprivations that households face, multidimensional poverty measures may tend to rely on indicators that are sometimes not able to quantify poverty. These trade-offs mean that triangulating the various poverty measures is important, but also setting them against other important indicators such as inequality, given that poverty can be low, but inequality high.

The multidimensional and interlinked nature of the types of poverty necessitate a multi-pronged response. Income measurements offer a constrained outlook on the living conditions of children due to several arguments, the two most important being that solely financial resources cannot meet all children's needs, such as access to education, health, safety, since their provision depends on the availability of services and that "many of the goods and services they need to flourish cannot be expressed in monetary equivalents". Another argument emphasizes that children do not have equal power to make decisions in a household, which may account for some inequalities in distribution of the available goods and services, such as essential commodities, labour, education, etc.

38 Montenegro PISA results 2022, OECD

within a household. All these factors speak in favour of addressing children's welfare in broader terms which go beyond monetary considerations. Such an approach can identify marginalized groups and various deprivations hindering their development, which would inform policymakers to design anti-poverty measures and prevent the intergenerational aspect of poverty. However, an alternative lens can be applied that looks at how the parents' circumstances can have a large impact on child poverty. Therefore, an alternative remedy for policy development could be ensuring decent jobs and developing childcare services so parents can work, while children are attending preschool.

Understanding what is driving the various aspects of poverty is important to ensure that we treat the causes and not the symptoms of poverty. The section above has highlighted some of the drivers of poverty in Montenegro. Poverty itself is a symptom of certain imbalances in the economy, socio-economic status and social exclusion that means that households cannot reach their full potential. Until 2023, the economy was not adding higher value jobs and in 2023 higher value jobs appeared due to the relocation and growth of the ICT in Montenegro. Emphasizing high-value sectors like ICT could create more stable, higher-paying jobs, which in turn would help lift people out of poverty. While the growth in this sector offers new opportunities, the economy is continuing to add jobs in the hospitality sector which predominantly have been lower income jobs. Added to the economy not adding higher value jobs, someone's socio-economic status closely correlates with their educational outcomes³⁸ and subsequently

their potential employment. Exacerbating this issue is the fact that Montenegro has a skills mismatch between the education that young Montenegrins are given and the skills they need in the modern jobs market. Similarly, social exclusion, mostly in the form of uneven service delivery prevents disadvantaged households from lifting themselves out of deprivation. Broader economic diversification can reduce Montenegro's vulnerability to economic shocks.

On the one hand, poverty appears to be declining, but on the other hand incomes have been squeezed by the higher inflation in recent years, jeopardising poverty reduction efforts. This means that while poverty data linked to incomes, such as risk of poverty, will appear to show that vulnerability or poverty is decreasing, the higher inflation means that those households will not be as materially well off as the data show. Data from an ILO study on the impact of the Minimum Wage – Tax Policy Programme showed that its impact covered 44 percent of wage earners.³⁹ While the average income has gone up, not all will have experienced the same benefits. Those not in formal employment may not have seen the same proportionate increase in their incomes meaning they are more vulnerable to the impacts of inflation. Plus, inflation has been driven by various factors. Average inflation in 2023 was 8.7 percent, but food price inflation averaged 11.1 percent. Higher inflation rates on essential goods such as food and fuel, disproportionately affect more disadvantaged households as they spend a higher proportion of their incomes on these goods.

39 An Evaluation of Montenegro's 2022 Minimum Wage and Income Tax Reform, 2023, International Labour Organisation

Recommendations

Based on these considerations, some actions can be taken to accelerate poverty reduction and address some of the aspects of deprivation in Montenegro. The analysis above has highlighted some of the symptoms, causes and approaches to take to address poverty. Below are some recommendations that articulate how various actors can support poverty reduction efforts.

In the short run the aim should be to ensure that the safety nets are in place to support those affected by the various aspects of poverty. Any actions should factor in the various multidimensional deprivations that are faced by households and address the root causes of poverty rather than the symptoms of poverty. These efforts should focus on improving service provision but also around improving the access to and targeting of social assistance to Montenegrins affected by poverty. This should explore the types of social services at community level that are required.

In the long run the aim should be to generate higher incomes and create jobs. Central to addressing poverty will be increasing incomes (while not increasing inequality) and shifting jobs to higher value sectors. There are various measures that can be taken to support job creation. More detailed recommendations are as follows:

Recommendation 1 – The Government of Montenegro should adopt a systemic and structured approach toward poverty reduction which would lay out evidence-based measures and activities toward lifting people out of poverty and reducing the impact of poverty on the lives of the Montenegrin poor.

Sub-recommendation 1.1 – In terms of strategic approach, it is recommended to account for multidimensional measurements of poverty in addition to the monetary ones, and introduce the practice of their regular assessment and monitoring. Reforming the last-resort income support would be an equitable and cost-effective way to tackle poverty in Montenegro. The high rates of poverty, including child and women poverty, cannot be tackled with the current rigid last-resort income support, the material support, as the program's current exclusionary eligibility criteria limit its expansion. Potentially Montenegro could introduce a new Poverty Reduction Strategy to articulate this approach.

Sub-recommendation 1.2 – continue to build evidence base that reinforce this approach by conducting regular surveys that will enhance policymaking and targeting of support.

Sub-recommendation 1.3 – The drafting process for the upcoming Social and Child Protection Bill should be data-driven, including gender- and disability-disaggregated data, to provide targeted social protection using data-driven solutions.⁴⁰

Recommendation 2 - Ministry of Labour and Social Welfare should intensify and accelerate the process of the social and child protection system reform through the preparation and adoption of the Strategy on the Development of Social and Child Protection System and the new Law on Social and Child Protection, with the focus on providing more effective response to the needs of the poor through the improved provision of material assistance and higher-quality social and child protection services to those in need ("cash plus approach", i.e. combining cash transfers with other programmes and/or activities so as to produce effects in a complementary manner).

Sub-recommendation 2.1 – The social and child protection strategic framework should set less strict criteria for the allocation of the material assistance to the poorest so that the provision of the family support would be more comprehensive, with the view of avoiding the present exclusion errors.

Sub-recommendation 2.2 – benefits, such as the qUCA, should be regularly aligned with the income increases and price changes, with the view of providing adequate and meaningful financial assistance, and increases in means-tested benefits to those who are the most vulnerable to poverty.

Sub-recommendation 2.3 – Introduce diversified measures for activation of eligible beneficiaries of cash transfers, in close collaboration with the social protection and employment sectors.

Recommendation 3 – Intensify the efforts toward the conceptualization and implementation of the EU Child Guarantee and EU Youth Guarantee to provide the essential services, such as education and health services, housing, and nutrition, to the most vulnerable children and youth, such as children with disabilities, children without parental care and those living in precarious situations, Roma and Egyptian children, children living in poverty, remote and rural areas, and to consider the gender aspects of poverty in Montenegro.

Recommendation 4 – strengthen private sector growth (outside of the tourism industry). The tourism industry has been the mainstay of the Montenegrin economy for the better part of 20 to 30 years. The need is to start creating jobs, either through investment, strengthening competition policy, privatisation/SOE reform, tax measures or regulatory changes, that will stimulate private sector growth and entrepreneurial opportunities.

40 Integrated Social Welfare Information System (ISWIS)/e-Social: <https://www.undp.org/montenegro/projects/e-social>

Annex A:

Time series charts of poverty measures

Chart 1: World Bank Middle Income Poverty Line⁴¹

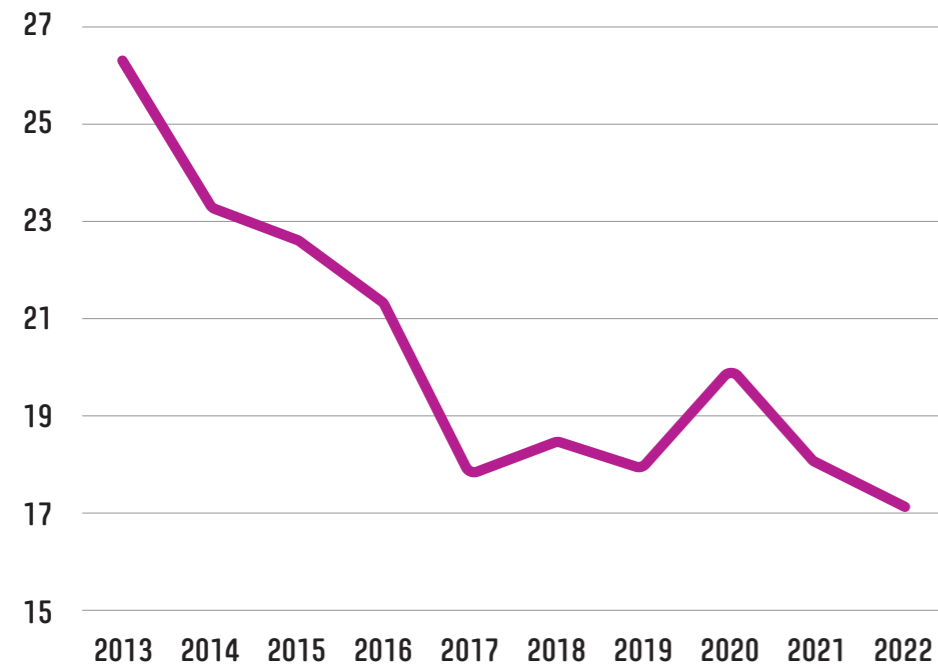


Chart 2: Risk of poverty⁴²

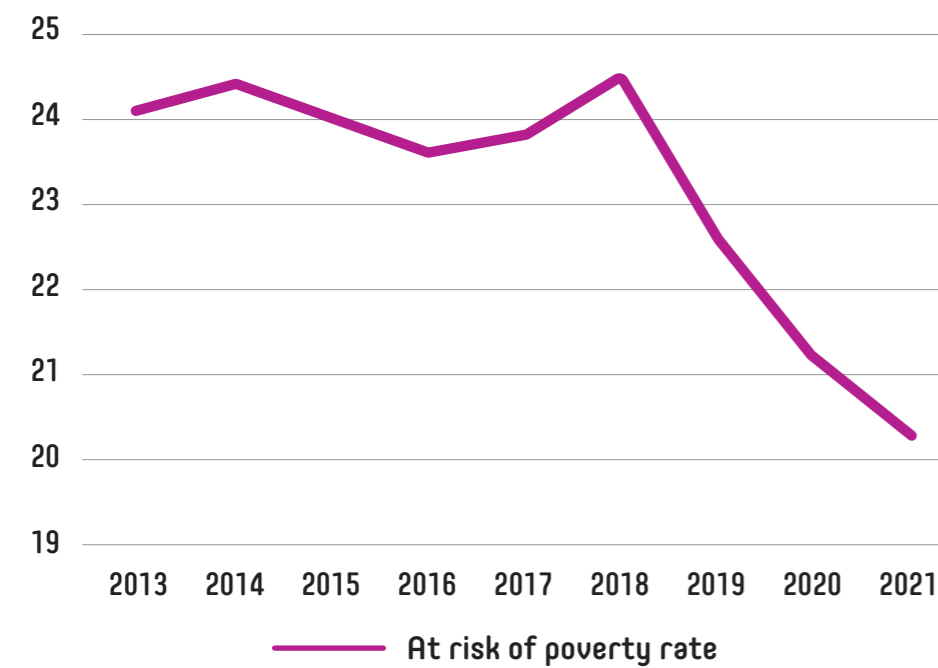


Chart 3: Child at risk of poverty⁴³

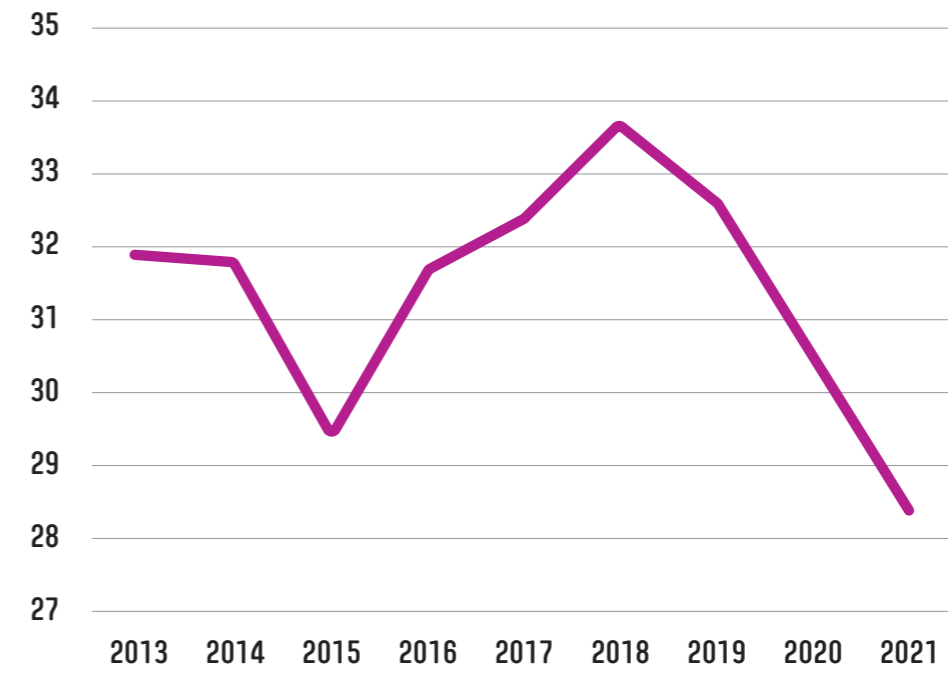
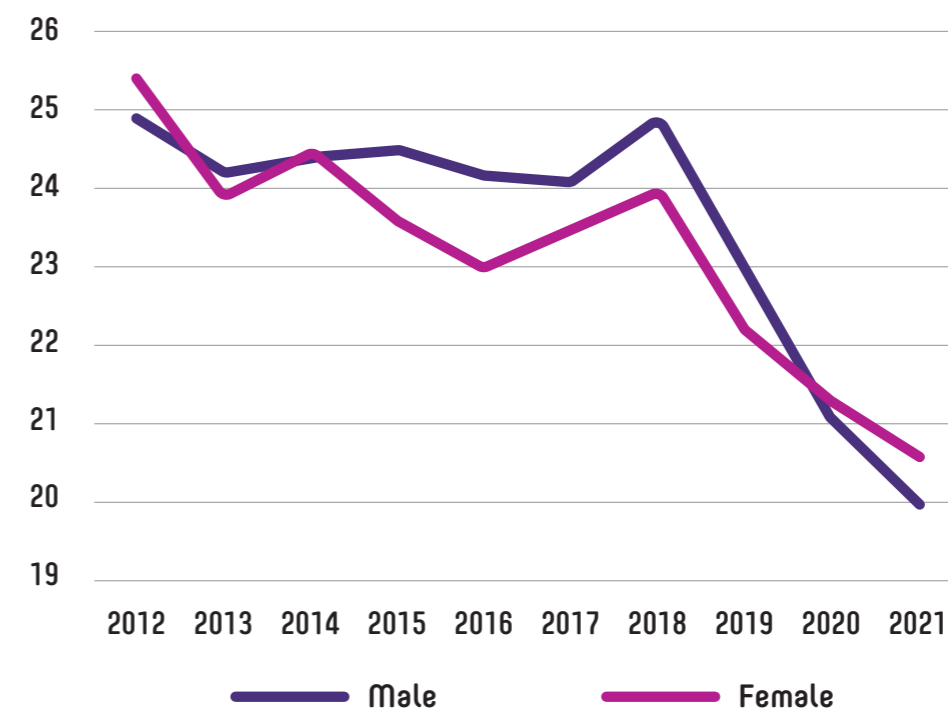


Chart 4: At risk of poverty by gender⁴⁴



41 World Bank Western Balkans Regular Economic Report Fall 2023: Toward Sustainable Growth
 42 Monstat: Survey of Income and Living Conditions 2023

43 Ibid
 44 Ibid

Chart 5: Sub National at risk of poverty⁴⁵

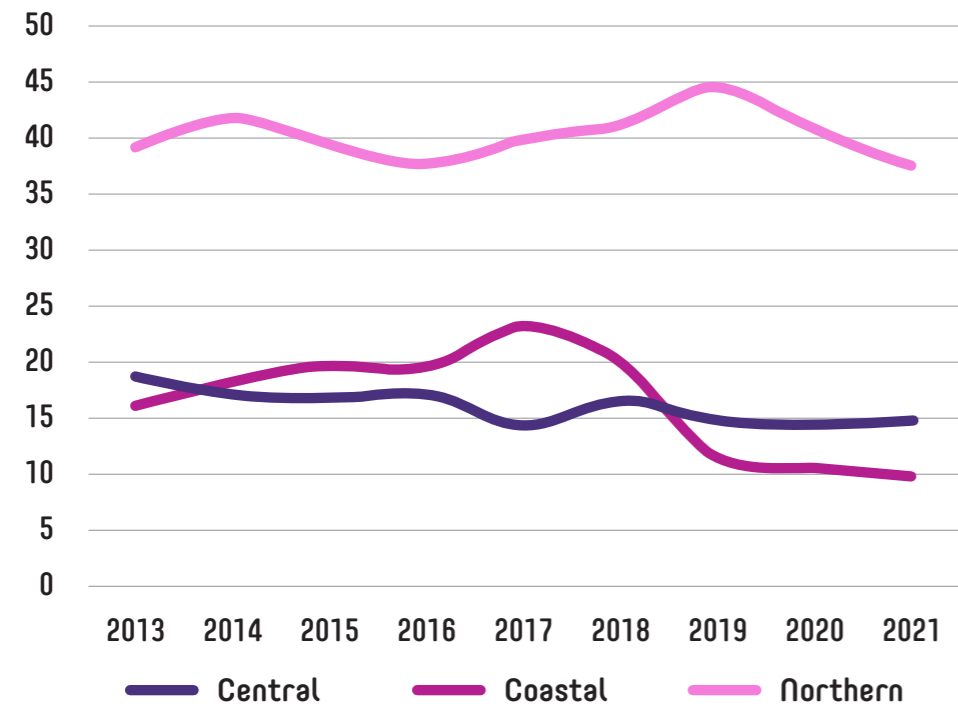
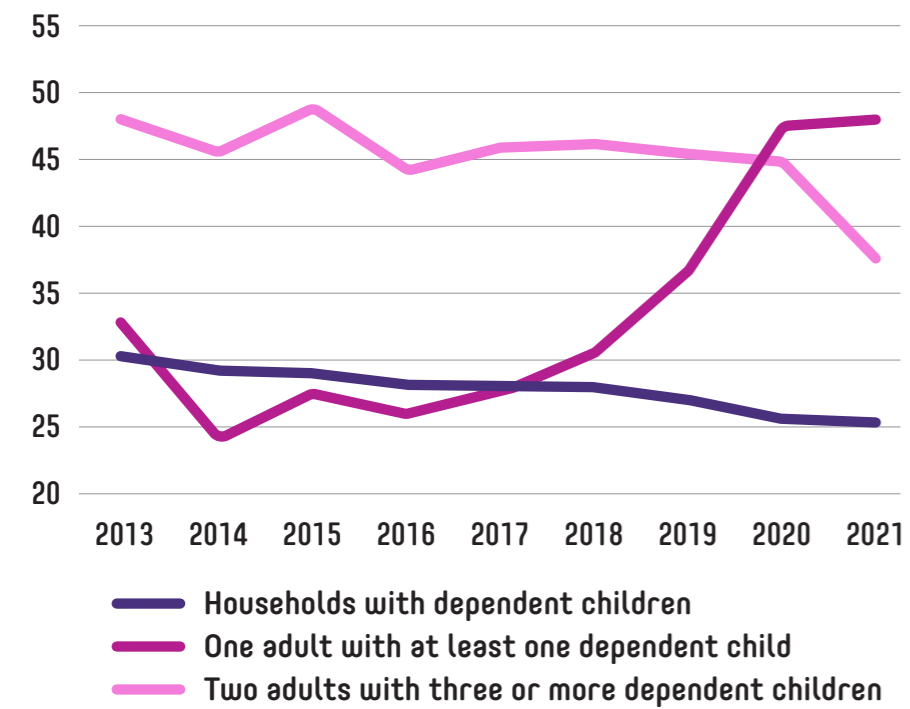


Chart 6: At risk of poverty by household composition⁴⁶

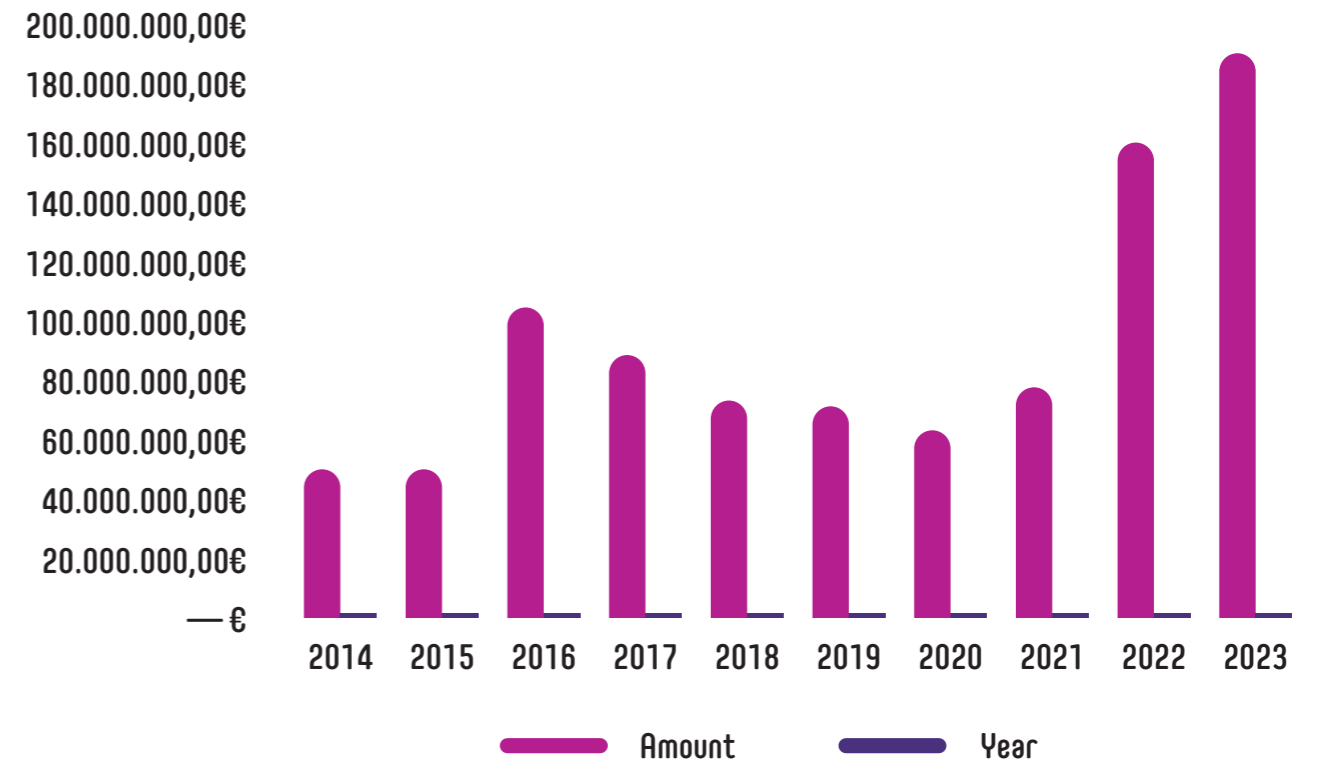


45 Ibid
46 Ibid

Chart 7: Overview of Social Protection Expenditures⁴⁷

Overview of cash transfers since ISWIS was introduced

The System is "responsible" for more than 200,000 individual monthly payments, totalling more than EUR 200 million per year



47 UNDP (United Nations Development Programme). 2023. ISWIS Satisfaction Survey. Podgorica



Three Roma boys playing in a refugee camp
Konik in Podgorica (2011).

Photo: UN Montenegro

