Protecting Montenegrin Children from Poverty during and after the Pandemic: A Call for a Multisector Approach
Protecting Montenegrin Children from Poverty during and after the Pandemic: A Call for a Multisector Approach

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>5</td>
</tr>
<tr>
<td>2. How the COVID-19 pandemic is affecting children’s wellbeing</td>
<td>6</td>
</tr>
<tr>
<td>3. Socio-economic context</td>
<td>7</td>
</tr>
<tr>
<td>4. Social protection of children in Montenegro</td>
<td>12</td>
</tr>
<tr>
<td>5. Government’s response to the COVID-19 pandemic and estimates of the economic and social effects</td>
<td>16</td>
</tr>
<tr>
<td>6. Recommendations</td>
<td>18</td>
</tr>
</tbody>
</table>
1. Introduction

As countries across the globe struggle to contain the spread of the COVID-19 pandemic, its adverse socio-economic effects are becoming more and more visible, threatening to stall, and in many instances reverse, the progress made in achieving the Sustainable Development Goals (Gates Foundation, 2020).

Recognizing the urgent need to protect the most vulnerable groups, especially children, during this unprecedented economic downturn, practically all countries in the world have implemented new social protection measures. According to the World Bank, by the beginning of July 2020, 200 countries and territories had put in place 1,055 emergency social protection programmes (Gentilini et al., 2020). As the pandemic is being curbed and as economic forecasts start to improve, social spending nevertheless remains at risk of being rolled back or even reduced compared to pre-crisis levels, especially in less affluent countries. This poses extra risks to child wellbeing. Experience from previous crises shows that public spending cuts often cause irreversible damage to children's development, far outweighing the short-term fiscal savings.

As part of its systematic advocacy and support to end child poverty, UNICEF Montenegro commissioned this discussion paper to analyse the new risks to children's welfare posed by the pandemic and propose measures for mitigating them. The paper draws on existing evidence generated by major international development organizations and the national statistics office (MONSTAT) to demonstrate that: (i) child poverty was already unacceptably high in Montenegro even before the crisis and, without strong public policy measures, this is very likely to increase further; (ii) direct financial support to vulnerable families with children has been insufficient to protect them from the crisis; and (iii) cuts in the budgets of social transfers for families and children would weaken the social protection of the most vulnerable children.

To prevent a further increase in child poverty, UNICEF Montenegro recommends that the Montenegrin Government extend the coverage of social assistance programmes for families and children in a fiscally responsible manner. UNICEF also recommends that the government adopt a comprehensive multisector strategy for tackling child poverty in the medium term and proposes a set of social protection, fiscal, active labour market and early childhood development measures.
Protecting Montenegrin Children from Poverty during and after the Pandemic: A Call for a Multisector Approach

2. How the COVID-19 pandemic is affecting children’s wellbeing

There are numerous ways in which the present pandemic is affecting children. In broad terms, these can be grouped into three main categories (Richardson et al., 2020). The first are health effects. While, compared to other age groups, children have been less vulnerable to contracting the COVID-19 virus, they are not fully immune and there have been many cases of child infections and some casualties. In addition, children may experience psychological stress, for example due to the fear of the virus or the illness/death of a family member. There can also be indirect negative effects on children’s health when overwhelmed health providers start to reduce the risk of infection, or delay routine immunization. The second are lockdown effects. In many countries around the world governments have been forced to close down schools and other public institutions for extended periods of time. In addition to the negative repercussions for education, lockdown measures have disrupted the daily routines and social networks of children, negatively impacting their psychological wellbeing. The extended periods of self-isolation are also contributing to substance abuse and family violence, of which children are often the primary victims. The third are economic effects – those will be potentially much more extensive and longer lasting than the previous two. There is no doubt that a global recession of this magnitude will destroy jobs and livelihoods, reduce incomes and remittances and force families to deplete their savings, as well as sell their productive assets in the most extreme cases. Reduced incomes, in turn, often translate into less and lower-quality food for children, withdrawal from education, deprivation of essential items such as clothing and footwear, reduced leisure activities and other detrimental consequences.

A rapid social impact assessment conducted by the United Nations in Montenegro with support and guidance from UNICEF and UNDP confirmed that these risks were already materializing in the April–June 2020 period (UN Montenegro, 2020). As early as the second half of April, nearly one-fifth of interviewed people reported that at least one of their family members had lost a job or stopped receiving a salary despite continuing to work. Almost a quarter of respondents said that at least one of their family members had experienced a decrease in their salary. Consequently, the share of families with children that stated they could afford paying for the clothes and footwear of their children fell from more than 90 per cent to 60 per cent. One-sixth of school-age children were found not to have a computer connected to the internet, thus being effectively excluded from distance learning. However, even among those children who had online access, by mid-June half were not following the video lessons. Shortly after the announcement of the lockdown measures in May, the helpline for the victims of gender-based violence saw a increase in calls of 32 percentage points. Between mid-March and the beginning of June, the Women’s Safe House reported a 46 per cent increase in calls from former clients requesting food or financial support.

At the individual level, how vulnerable or resilient children will be to these risks will depend on their conditions prior to the crisis (Richardson et al., 2020). Children living in crowded and hygienic dwellings will be more vulnerable to viral infections than children in adequate housing. Children who lack access to the internet and computers will be more severely affected by the closure of schools and disruption of social relations than those who have access to these utilities. Children whose parents were already struggling to make ends meet before the crisis are more likely to experience worse nutrition and the risk of dropping out of school to earn a living than those whose families have access to formal social protection and/or have some savings to fall back on. The rapid social impact assessment found major losses of income to be more common among single-parent families, recipients of social assistance, the Roma community and families with a history of substance abuse.

While the scope of the present pandemic is certainly unprecedented, deep economic recessions, both regional and worldwide, have been much more common. A key lesson learnt from these experiences is that the strategies that governments adopt can make a significant difference in mitigating the social effects of economic recessions. Where governments have primarily focused on resuming growth with little attention paid to the plight of the most vulnerable groups, social consequences have often been disastrous, contributing to longer and deeper recessions (Corin et al., 1967; Stiglitz, 2010; 2002). Acknowledging this fact, during the previous global financial crisis, most governments, especially in affluent countries, but also in many middle-income contexts, invested heavily in social protection measures. However, in some cases the expansion of social transfers was halted as countries resorted to austerity measures in later phases. In the present crisis, social protection seems to have been prioritized by many governments (Gentilli et al., 2020), especially in EU countries which have allocated tens of billions of euros to finance measures aimed at groups affected by the crisis (Eurostat, 2020).

3. Socio-economic context

Montenegro is a small, open economy which the World Bank classifies into the upper-middle-income category since the turn of the century. The country has experienced uneven, yet almost uninterrupted growth. The largest growth was recorded in 2006–2008, following the declaration of independence. With the onset of the global financial crisis, the Montenegrin economy contracted twice, mirroring the trend observed in the EU, which also experienced a double-dip recession. Since 2012, economic growth has been steady, though again with significant fluctuations. Growth peaked at 5.1 per cent in 2018 before decreasing to 4.1 per cent in 2019. At the end of 2019, Montenegro’s GDP was €4.95 billion, corresponding to €7,860 per capita.

While more affluent than most Southern and Eastern European economies that are not part of the EU, the Montenegrin economy faces a number of structural challenges (World Bank, 2018). Together with Kosovo it is the only economy in Europe (outside the EU) that does not have a currency of its own and uses the euro instead, which limits its monetary policy arsenal. Public debt before the crisis was relatively high (77 per cent of GDP), partially because of the large capital investments in the construction of the Bar–Boljare highway project in previous years (World Bank, 2020a). A disproportionately high reliance on foreign capital makes it vulnerable to sudden changes in investor preferences, as experienced during the global financial crisis. Apart from services (through tourism) its exports have often been disastrous, contributing to longer and deeper recessions (Cornia et al., 1987; Stiglitz, 2010; 2002). While more affluent than most Southern and Eastern European economies that are not part of the EU, the Montenegrin economy faces a number of structural challenges (World Bank, 2018). Together with Kosovo it is the only economy in Europe (outside the EU) that does not have a currency of its own and uses the euro instead, which limits its monetary policy arsenal. Public debt before the crisis was relatively high (77 per cent of GDP), partially because of the large capital investments in the construction of the Bar–Boljare highway project in previous years (World Bank, 2020a). A disproportionately high reliance on foreign capital makes it vulnerable to sudden changes in investor preferences, as experienced during the global financial crisis. Apart from services (through tourism) its exports have often been disastrous, contributing to longer and deeper recessions (Cornia et al., 1987; Stiglitz, 2010; 2002). As discussed later in the paper, these challenges exacerbate the economic effects of the COVID pandemic in the country.

Despite steady economic growth in the seven years preceding the COVID-19 pandemic, poverty remains widespread in Montenegro. According to data from the EU Survey on Income and Living (EU-SILC) for Montenegro, between 2013 and 2019, the at-risk-of-poverty rate has decreased only by 0.7 percentage points (Eurostat, 2020a).

In the present crisis, social protection seems to have been prioritized by many governments (Gentilli et al., 2020), especially in EU countries which have allocated tens of billions of euros to finance measures aimed at groups affected by the crisis (Eurostat, 2020).

1 Instead of the term “poverty”, the EU-SILC uses the term “at-risk of poverty” which nonetheless implies individuals/families’ limited financial capacities compared to the rest of the society. It is measured as having equivalized disposable income that is less than 60 per cent of the national median disposable income. In 2019, 60 per cent of the disposable median income corresponded to €395.60 per month for a four-person household including two adults and two children younger than 14 years. For easier reading of this document, the term “poverty” is used throughout the document as a synonym for both “monetary poverty” and “at-risk of poverty”.

2 All references to Kosovo shall be understood under UNSCR 1244.
In 2019, every fourth Montenegrin (24.5%) faced the risk of monetary poverty. Among the EU members and countries of the region, this is the highest rate (Figure 2a). Overall, an average Montenegrin person is 46 per cent more likely to be at risk of poverty than an average person living in the EU. The poverty gap is also high – the income of an average person who is at risk of poverty will need to increase by a third (33.1%) in order to come out of the risk zone. In addition, many families are just above the poverty zone. If the risk-of-poverty threshold is raised to 70 per cent of the median income, 30.6 per cent of families would be considered to be at risk.

One of the reasons for the high incidence of poverty in Montenegro is high inequality. For example, the average income of the richest fifth of Montenegrins is 6.7 times that of the poorest fifth (Figure 2b). This ratio is well above the EU average (6.1) – comparably high figures are found only in a handful of Eastern European countries, including Bulgaria, Lithuania, Romania, Serbia and Turkey.

Progress in reducing poverty between 2013 and 2019 has been limited and the extent of the problem is larger if one uses material deprivation as an alternative to the monetary measure of poverty. A frequently used method for measuring material deprivation is to identify a set of essential expenditures and items that all households require and then count the share of families that lack those. The EU-SILC identifies nine such necessities and considers require and then count the share of families that lack those.

Method for measuring material deprivation is to identify a

progress gap can lead to long periods of absence from school and often causes health problems among children, which in turn can lead to long periods of absence from school and

sobering findings. Almost all children were found to be deprived in at least two of the five dimensions and half of children were deprived in at least four dimensions.

The overlaps of deprivations varied considerably across age groups. Among children aged 6–23 months the most frequent combination of deprivations included nutrition, housing and protection, whereas among children aged 6–15 years the most frequent combination of deprivations included learning outcomes. For this reason, in recent years, UNICEF’s Innocenti Research Centre has developed a multidimensional approach to studying child poverty which focuses on simultaneous deprivations in key aspects of child wellbeing. This method was deployed in a recent study in Montenegro which provides deeper insights into the nature of child poverty in the country (UNICEF, 2020d). Using a participatory approach the study was co-designed with the representatives of the government, parliament, civil society and international donor organizations who jointly identified the key dimensions of child wellbeing in Montenegro: health, nutrition; early childhood development and education; neglect and discipline; and child labour.

The analysis based on the 2018 Multiple Indicator Cluster Survey (MICS) generated by MONSTAT data provides some

incomes have not been sufficient to lead to tangible improvements in material standards of living. Poverty rates vary considerably across locations, age groups, employment situations and ethnicities (Eurostat, 2020b). In the north of Montenegro, the poverty rate (41.2%) is considerably higher than in the central (16.6%), and southern (19.9%) regions. Alarming, every third Montenegrin child (33.7%) is facing monetary poverty and is therefore more vulnerable than any other age group. Particularly striking is the more-than-twofold difference in the poverty levels between children and people aged 65 and above (Figure 3a). The main reason for this disparity is that retired people receive relatively generous pensions, whereas most children are not covered by social transfers, as shown in Section 4.

There is an even larger gap in relation to the poverty rates between people with different employment situations. Forty-five per cent of unemployed people face poverty, whereas the same is true for only 7 per cent of people in salaried jobs (Figure 3b). Overall, children are particularly prone to facing poverty when their parents have not received education beyond secondary school, when their parents are unemployed or self-employed, when their families have three or more children and when they belong to the Roma community (Eurostat, 2020b).

What does living in poverty mean in practice for children in Montenegro? Child poverty is multidimensional and the deprivations in different aspects of child wellbeing tend to reinforce each other, thus effectively hindering children’s development and limiting their life chances. For example, a poor quality of housing often causes health problems among children, which in turn can lead to long periods of absence from school and

Figure 2a. At-risk-of-poverty rates in EU and Balkan countries, 2019

Source: Eurostat (2020b)

Figure 2b. Ratio between the incomes of the top and bottom quintiles in EU and Balkan countries, 2019

Source: Eurostat (2020a)
These multiple deprivations inevitably take a toll on children’s self-esteem and self-confidence. Many children interviewed in the study reported feelings of stigma, shame, inferiority and distress when their parents could not afford basic necessities, such as giving them one or two euros a day to buy lunch at school or providing them with new clothes for school.

The study also sheds light on families’ coping strategies in the face of financial constraints. Together with taking out formal or informal loans to temporarily cover financial gaps, cutting down on consumption, including food and clothing, is the most common coping strategy. Parents’ labour migration is another strategy which helps to mitigate financial problems, but one which deprives children of essential parental care and negatively affects their psychological wellbeing. Among the Roma community, child labour and child begging also appear to be rather common.

These multiple deprivations inevitably take a toll on children’s self-esteem and self-confidence. Many children interviewed in the study reported feelings of stigma, shame, inferiority and distress when their parents could not afford basic necessities, such as giving them one or two euros a day to buy lunch at school or providing them with new clothes for school.

The study also sheds light on families’ coping strategies in the face of financial constraints. Together with taking out formal or informal loans to temporarily cover financial gaps, cutting down on consumption, including food and clothing, is the most common coping strategy. Parents’ labour migration is another strategy which helps to mitigate financial problems, but one which deprives children of essential parental care and negatively affects their psychological wellbeing. Among the Roma community, child labour and child begging also appear to be rather common.
4. Social protection of children in Montenegro

Since the dissolution of the Socialist Federal Republic of Yugoslavia, the Montenegrin social protection system has undergone a number of reforms to adapt to the new realities of the market economy.

The present system consists of two main pillars – social insurance and social assistance schemes. As elsewhere in Europe, the main social insurance programme is contributory old-age pensions. Other social insurance programmes include: disability and veterans’ pensions, health insurance and unemployment insurance.

Social assistance programmes include a set of categorical and means-tested cash transfer schemes defined by the Law on Social and Child Protection. Several of these are explicitly targeted at children and/or families (Table 1). The programme with the highest coverage is Family Material Support (FMS), which is a means-tested transfer and in theory should cover all people in poverty. However, it is claimed by only five per cent of the population. Thus, even if all the beneficiaries of FMS scheme (28,338) were poor, the scheme would still miss almost four-fifths of everyone who falls into this category. Child Allowance is for beneficiaries of FMS and several other categories of vulnerable children. Similar to FMS, if Child Allowance were targeted perfectly (i.e. if all 13,981 children receiving this benefit were poor), it would still miss about two-thirds of all children in monetary poverty (45,481 children).

One of the reasons for the low coverage of family and child transfers may be the complex means-testing criteria. To qualify for means-tested benefits, applicants have to satisfy up to 15 criteria, such as: having income below a certain threshold, not owning business premises, land, vehicles, tractors, more than two productive animals or large housing, being unemployed and actively looking for employment if capable of work, and not having close relatives capable of financially supporting them. There is anecdotal evidence that these requirements discourage many potential beneficiaries from applying and instead they request one-off financial support provided by the Ministry of Finance and Social Welfare, as well most municipalities, on a discretionary basis.

In addition to low coverage, the amount of the transfers of these two programmes is rather low. The maximum amount of Child Allowance (which is for children without parental care) – €64 – comprises 8 per cent of the average net monthly salary (€515 in 2019). Similarly, a single person qualifying for FMS is entitled to €68, or 30 per cent of the minimum wage (€222), which in itself is considered to be insufficient to cover the cost of the minimum food basket with a minimum caloric intake – €724 a month (Golubovic, 2019). The combination of low coverage and low benefit implies that the social protection system contributes only marginally towards improving the conditions of the majority of poor children.

Social protection is financed through social insurance contributions and general taxation. In 2017, total spending on social protection transfers comprised 17.4 per cent of GDP. This is comparable to other transition countries, but is significantly lower than the EU average (Figure 4). The largest expenditure item is spending on elderly people, which accounts for nearly two-thirds of total social protection spending (39%) (Figure 5). It is followed by sickness and health expenditure (28%), veterans’ pensions (12%) and disability (9%). Expenditure on children and families (8%) and unemployment benefits (2%) together make up about one-tenth of the social protection budget, which is not surprising given the limited coverage and low levels of the benefits of most transfers aimed at families and children.

Furthermore, the structure of non-contributory social assistance expenditure has changed considerably since 2014 (Figure 6). In nominal terms, spending on non-contributory programmes increased from €38 million to €51 million. However, the bulk of increased spending has gone on Care and Support Allowances which increased from €9.8 million to €26 million. In contrast, spending on FMS decreased from €112.2 million to €13.5 million. Spending on Child Allowance also decreased, though less dramatically, from €4.9 million to €4.5 million. These changes reflect an increase in the levels of Personal

---

Table 1. Main social assistance programmes for children and families, 2020.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Average number of beneficiaries</th>
<th>Eligibility</th>
<th>Amount of transfer (£/per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Allowance</td>
<td>13,981</td>
<td>Means testing, categories</td>
<td>24.96–41.02, depending on category</td>
</tr>
<tr>
<td>Family Material Support</td>
<td>28,338</td>
<td>Means testing</td>
<td>68.30–129.84, depending on family size</td>
</tr>
<tr>
<td>Parental or guardian’s allowance of the personal disability beneficiary</td>
<td>2,332</td>
<td>Disability</td>
<td>200.14</td>
</tr>
<tr>
<td>Costs of nutrition in pre-school institutions</td>
<td>700*</td>
<td>Means testing</td>
<td>In-kind benefit</td>
</tr>
<tr>
<td>Benefit for a newborn child</td>
<td>471</td>
<td>All children under 12 months</td>
<td>113.10–135.71, depending on family status</td>
</tr>
<tr>
<td>Right to transportation costs for children and young people with special educational needs</td>
<td>276</td>
<td>Special educational needs</td>
<td>In-kind benefit</td>
</tr>
<tr>
<td>Maternity leave pay</td>
<td>3,552*</td>
<td>Employed women</td>
<td>Determined by number of months worked and average salary. Maximum amount capped at twice the national average salary.</td>
</tr>
</tbody>
</table>


---

4 In 2020, the population of Montenegro was 621,838 people, of whom 134,959 were under the age of 18 (INSTAT, 2020). Applying the at-risk-of-poverty rates to these figures, we estimate that 102,350 people, including 45,481 children, experience monetary poverty.

5 In February 2021, amendments to the Labour Law were submitted to the Parliament with a proposal to increase the minimum monthly wage to €250.

6 These figures are derived from Social Welfare Information System (SWIS) data and differ from the figures from budget execution reports, as the latter also include administration costs, which are not included in the SSO.
Disability Allowance and Care and Support Allowance\(^7\) and a decrease in the number of beneficiaries of Child Allowance and FMS. The latter seems counterintuitive given that no significant progress in reducing poverty has been recorded in this period. While children also benefit from Care and Support Allowances, most of the increased spending on these allowances will likely accrue to other groups in need.

\(^7\) Personal Disability Allowance is for persons with severe disabilities; Care and Support Allowance is for people who have less severe disabilities, but nonetheless require personal assistance to satisfy their various daily needs.

The ultimate test of how successful a social protection system is to measure to what extent it manages to reduce poverty. According to the EU-SILC, both pensions and other social transfers have a substantial effect on poverty (Figure 7). Without social transfers the poverty rate would increase from 24.5 to 29.5 per cent. And if there were no pensions either, the poverty rate would be much higher – 42.9 per cent. The stronger effect of pensions is not surprising given its high level and coverage. Even if most of the families lifted out of poverty by social transfers and pensions were not too far above the poverty line, on balance, the achieved progress is still significant.

\(^8\) EU-SILC at-risk-of-poverty indicator.
5. Government’s response to the COVID-19 pandemic and estimates of the economic and social effects

Measures to mitigate the COVID-19 effects

Since the start of the pandemic, the government has introduced four emergency economic packages to slow down contraction of the economy (Government of Montenegro, 2020). The total cost of these packages is estimated to be €764 million in 2020 and 2021, and the third package also envisages spending €940 million over the course of the next four years to stimulate and transform the economy. Each of the packages is heavily focused on supporting affected businesses, especially in the tourist sector.

Given the large volume of financial injections, the emergency economic measures must have helped save a significant number of jobs in the formal sector, thus benefitting some children indirectly. This is particularly true in relation to the wage subsidies which have also a significant number jobs in the formal sector, thus helping affected children – worsened nutrition, forgoing essential medical treatment, dropping out from education and an increase in domestic violence – will soon materialize. As all of these secondary impacts of the pandemic are bound to take a heavy toll on the economy, the longer-term adverse effects will be felt for many years to come unless mitigating measures are urgently put in place.

Forecast of economic and social effects

While the economic packages are expected to partially mitigate the recession, there is no doubt that the Montenegrin economy will experience a considerable contraction in 2020. The main drivers of recession will be the massive fall in incomes from tourism (which accounts for more than a fifth of GDP), lower domestic demand, reductions in remittances and the postponing of major infrastructural projects (including the Bar-Boljare Highway) (World Bank, 2020a).

The uncertainty about how the pandemic will evolve makes it very difficult to make a relatively accurate forecast of how deep the recession will be, but there are several prognoses produced by the government and international donor organizations. According to the World Bank, the Montenegrin economy contracted by 14.9 per cent in 2020 (World Bank, 2020b), while the IMF’s assessment is slightly worse – 16.2 per cent (IMF, 2020a). Both financial institutions expect that economic growth will resume next year: the IMF anticipates 9.0 per cent growth and the World Bank’s forecast is 7.1 per cent. This implies that the economy will not reach its 2019 level until 2022 at least.

As for the social effects, the ILO has estimated that in the second quarter of 2020 the reduction in working hours due to layoffs and temporary furloughs amounted to an equivalent of 31,000 full-time job losses (ILO, 2020). It also estimated that in the seven most affected sectors 36,000 jobs are at risk which could reduce the employment rate by 15 percentage points. According to the official statistics, between the end of 2019 and February 2021, 46,000 jobs have been lost (MONSTAT, 2021). The latest estimates of the crisis’s effects on poverty are offered by the World Bank in its spring report (2020b). The World Bank expects that up to 34,000 people may fall into poverty, wiping out the small progress made in the last few years. This would imply approximately 6,800 newly impoverished children. However, in its calculations the World Bank applied an absolute poverty threshold ($5.50 a day per person in 2011 PPP) which is lower than the relative one used by MONSTAT (60% of the median income). Hence the increase in poverty according to national statistics is likely to be considerably higher than according to the World Bank measurement.

### Table 2. New social transfers to mitigate the social effects of COVID-19

<table>
<thead>
<tr>
<th>Package</th>
<th>Target group and benefit level</th>
<th>Total spending (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12,012 pensioners on minimum pensions (€50)</td>
<td>628,700.00</td>
</tr>
<tr>
<td></td>
<td>8,593 families receiving FMS (€50)</td>
<td>429,650.00</td>
</tr>
<tr>
<td></td>
<td>Electricity subsidies for the fixed part of the electricity bill for 31,669 customers</td>
<td>50,700.00</td>
</tr>
<tr>
<td></td>
<td>Electricity subsidies of 20%–30% of the bill for 21,272 socially vulnerable customers (April 2020)</td>
<td>277,516.00</td>
</tr>
<tr>
<td>2</td>
<td>17,157 unemployed registered at the State Employment Agency (€50)</td>
<td>857,850.00</td>
</tr>
<tr>
<td>3</td>
<td>Families receiving FMS and veterans receiving financial support (€200)</td>
<td>1,800,000.00</td>
</tr>
<tr>
<td>4</td>
<td>48,638 pensioners receiving a pension not exceeding the minimum wage (€50)</td>
<td>2,431,900.00</td>
</tr>
<tr>
<td>5</td>
<td>8,354 families receiving FMS (€50 or €100, depending on family size)</td>
<td>687,950.00</td>
</tr>
<tr>
<td>6</td>
<td>2,767 beneficiaries of Personal Disability Allowance (€50)</td>
<td>138,350.00</td>
</tr>
<tr>
<td>7</td>
<td>27,739 unemployed persons registered at the Employment Agency who do not receive any form of cash assistance (€100)</td>
<td>2,773,900.00</td>
</tr>
<tr>
<td>8</td>
<td>16,352 families receiving FMS and veterans receiving financial support (€200)</td>
<td>101,311.51</td>
</tr>
</tbody>
</table>

**Total** | **10,177,830.51**

Source: Government of Montenegro (2021)

---

9 While not a part of the economic packages, prior to the parliamentary elections in August, important changes were made to the pension system – the formula for calculating the benefit levels has been made more favourable to retirees and the minimum pension level has been raised from €123 to €145.

10 In 2019, to buy the same amount of goods and services that one US dollar does in the USA, €4.416 was needed in Montenegro. Thus, $5.50 a day corresponds to €23.93 a day or €688.60 a month. This is nearly three times less than the €1,388.40 a month used by MONSTAT as the at-risk-of-poverty threshold.
Introduction of semi-universal child benefit

Even though extending the coverage of the FMS and Child Allowance programmes is at present the most effective way of reaching the most vulnerable families and children, in the long run means testing has a number of major disadvantages. It fosters distrust between welfare administrators and clients and generates a stigma for beneficiaries. Targeting of poor families and children can never be absolutely accurate, implying that some eligible families will not qualify, while some non-eligible ones will receive benefits. Administration of means testing also costs considerably more compared to other types of benefits. For these reasons, most EU countries have universal child benefits that ensure that every child receives financial support from the state irrespective of their family’s situation. Importantly, Montenegro also has a history of universal child benefits while it was part of the former Socialist Republic of Yugoslavia. Thus, while universal child benefits may be unaffordable in the present context of significant fiscal constraints, it is certainly an option that is worth giving serious consideration to in the future.

Meanwhile, an optimal option may be so-called affluence testing, which is a middle ground between means testing and universalism. The UK child benefit is a good example of this approach. In the UK, all children are entitled to a cash transfer as a matter of right, but if one of their parents earns more than £60,000 a year, she/he starts paying a Child Benefit Tax Charge. This tax charge increases progressively in line with income, so that when one of the parents’ incomes reaches £80,000, the child benefit is in effect fully withdrawn. The double advantage of this semi-universal benefit is that all UK children whose parents do not have a high income receive cash support without their families needing to prove their financial constraints, while substantial savings are made by not providing benefits to those children who need it the least. A similar approach is very likely to prove effective in Montenegro as well.

At the time of the writing of the paper, the government submitted a proposal to the parliament to introduce quasi-universal child benefits for all children aged 0–6 and to increase monthly pay-outs for existing child benefit categories. UNICEF considers this a movement in the right direction as long as it is fiscally sustainable and based on evidence. The critical gap which will remain is the coverage of children above 6 years of age.

6. Recommendations

In order to halt any further increase in child poverty and achieve substantial progress in improving the welfare of children and families in the coming years, UNICEF is urging the Government of Montenegro to adopt a multisector approach to addressing child poverty.

In practical terms, UNICEF is recommending that the government consider implementing the following short- and medium-term policy measures.

Extend the coverage of social assistance programmes

The immediate challenge to be addressed is the limited coverage of the two main programmes – Child Allowance and FMS. At present these are the most effective measures for reaching poor children and their families, as unlike other social assistance transfers these benefits are designed only for those with limited income and material resources. The cuts in the budgets of these two programmes in 2020 implied a further reduction in the coverage of the programmes and therefore was a movement in the wrong direction that most likely could have led to more poverty. Instead, UNICEF is urging the government to extend the outreach of these programmes by temporarily relaxing some of the means-testing criteria to take account of the present extraordinary circumstances. Extending the coverage will also require an immediate increase in programme budgets. In the 2021 budget proposal, the government announced a more than €2 million increase in the child allowance annual budget, while the budget for FMS decreased by €1.2 million. In addition, UNICEF recommends conducting a comprehensive real-time evaluation of the effects of the crisis on families’ incomes. This will enable identification of the groups that are most affected, who can then be targeted by new emergency cash transfers.

Removing potential disincentives for work

At the same time, there is a pressing need to support the integration of social assistance recipients into the labour market, as paid work provides the strongest defence against poverty. In this respect, several measures are important. At present, starting a new job, even a low-paid and temporary one, automatically leads to losing the entitlement to social assistance. While the level of FMS benefits is too low to discourage people from taking up stable, formal jobs with adequate remuneration, the reality is that often the jobs available to social assistance recipients are temporary tasks in the informal sector. These jobs cannot lift families out of poverty on their own, but can provide much-needed supplements to household income.

Yet, some respondents of the multidimensional overlapping deprivation study revealed that they are reluctant to take up such job offers lest they should lose their entitlement to low-level, but still stable, cash transfers and linked in-kind benefits. To remove the potential disincentive for generating additional income, UNICEF is calling for the establishment of a transition-to-work grace period for beneficiaries of FMS who find some form of employment. Under this arrangement, when starting a new job (irrespective of the sector), the beneficiaries will be able to maintain all of their entitlements for an extended period of time, preferably for a year. The benefits will be withdrawn only after the employment has proved to be stable. In addition, the beneficiaries must be guaranteed quick reintegration into the social assistance scheme if they lose their job for reasons beyond their control. Enhancing interagency cooperation between the employment agency and the Centres for Social Work will be essential for facilitating this.

Enhancing employability of vulnerable groups through active labour market policies and tax incentives for employers

Parallel to eliminating disincentives for work, it is important to improve the employability of social assistance beneficiaries. In recent years Montenegro has introduced a range of active labour market policies, such as job counselling, professional retraining, public works, on-the-job training and support for new start-ups. While the jury is still out on how effective each of these measures is, in principle they all have a potential for boosting FMS beneficiaries’ chances in the labour market. Hence, UNICEF recommends scaling up the provision of ALMPs to groups that are struggling with entering the labour market, such as the long-term unemployed, women, young people and beneficiaries of FMS. It is, however, of critical importance that the activation measures serve as a springboard for escaping poverty, and not as a disciplinary mechanism which can lead to the withdrawal of benefits if the beneficiaries do not comply with the activation requirements.

Increasing the employability of vulnerable groups can also be facilitated by providing extra tax incentives for employers. At present employers pay social insurance contributions amounting to 8.3 per cent of the gross wage. This is certainly not high in comparison to EU countries. However, granting temporary wavers (e.g. for 12–24 months) on social insurance contributions when employing people with no or limited work experience can increase the motivation of employers to hire them. Tax incentives should be considered especially for integrating young people into the labour market, as the rates of unemployment are
It should be noted that free textbooks are already provided to boost the local economy. For these reasons, major programmes use locally produced food they can also help save a significant portion of the family budget which can especially those with many children, and allow them to help promote healthy diets among children. Moreover, school feeding programmes increase enrolment and reduce absenteeism on these products can provide substantial relief to such as clothing and hygiene items, given the high prices of essential products for children, tax allowances can address this drawback. Furthermore, gross salary is slightly above the poverty line. Introducing tax allowances can address this drawback. Providing home-visiting services, perinatal care, immunization, screening and early intervention, support for breastfeeding, preschool education of Roma children, inclusive early education, support for parenting, protection from violence and prevention of family separation and institutionalization.

Increasing investments in children through ECD programmes

Global evidence shows that the period between conception and age 6 is the most important phase in an individual’s development. The extent to which children get a head start by realizing their potential fully during this period largely depends on policies and programmes that promote good health, adequate nutrition, responsive care giving, opportunities for early learning and security and safety. Beyond the human rights imperative, investment in early childhood development also has a very strong economic rationale. Numerous studies show that, of all public investments, ECD programmes generate one of the highest returns, as they enhance productivity in later life while also reducing expenditure on multiple public programmes, such as curative healthcare, unemployment assistance, and measures aimed at reducing crime. A study of early childhood development services in Montenegro commissioned by UNICEF also estimated that the rate of return on different ECD programmes ranges from a minimum of 4:1 to a maximum of 36:1 (ISSP 2019).

Montenegro is already investing considerably in early childhood development. The UNICEF study estimated that in 2016 Montenegro spent €55.6 million on ECD measures, an equivalent of 1.4 per cent of its GDP and 2.6 per cent of its budget. Even though it is lower than the 2.0 per cent of GDP recommended by the G20 Early Childhood Development Initiative, Montenegro’s spending on early childhood development is still substantial. The study also noted major achievements, such as universal health coverage for children, perinatal services through public, affordable preschool education and the availability of paid maternal and parental leave. However, the study also found that significant improvements are needed in all areas. To close the coverage gaps in the existing early childhood development services and programmes and to develop new types of services presently not available in the country, the study proposed an aspirational package of early childhood development services which was estimated to cost an additional €7.7 million a year just in operational costs, but this would be more than compensated for by a net annual return of €68.6 million in the long term. To take advantage of this investment opportunity, UNICEF recommends that the government prioritize implementing the proposed services in the coming years.

Enhancing coordination of development partners

Montenegro has a solid record of successful cooperation with international development organizations, including 12 The aspirational package includes: home-visiting services, perinatal care, immunization, screening and early intervention, support for breastfeeding, preschool education of Roma children, inclusive early education, support for parenting, protection from violence and prevention of family separation and institutionalization.
References

database.
- Investment in ECD: Case of Montenegro, upcoming report by ISSS prepared with UNICEF support.
- Law on Social and Child Protection.