FISCAL YEAR
January 1 - December 31

CURRENCY EQUIVALENTS
Currency Unit = Yugoslav Dinar
1 YUD = US$ 0.017
US$1 = 57.6 YUD
Currency Unit = Euro (€)
€ 1 = US $ 1.141
US$ 1 = 0.876

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CAD</td>
<td>Current Account Deficit</td>
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<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
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<tr>
<td>CEFTA</td>
<td>Central European Free Trade Agreement</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>CSW</td>
<td>Centers for Social Work</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<td>DEM</td>
<td>German Mark</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECA</td>
<td>Europe and Central Asia</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FRY</td>
<td>Federal Republic of Yugoslavia</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>HBS</td>
<td>Household Budget Survey</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IDP</td>
<td>Internally Displaced People</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>IFP</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>I-PRSP</td>
<td>Interim Poverty Reduction Strategy Paper</td>
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<tr>
<td>ISSP-CEED</td>
<td>Institute for Strategic Studies and Prognosis</td>
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<td>LFS</td>
<td>Labor Force Survey</td>
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<td>LMB</td>
<td>Labor Market Bureau</td>
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<td>MONTSTAT</td>
<td>Statistical Agency of Montenegro</td>
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<td>MOP</td>
<td>Mjesne Obvezbenje Porodice, program</td>
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<td>MOSA</td>
<td>Ministry of Social Affairs of Serbia</td>
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<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>PAYG</td>
<td>Pay as you go</td>
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<tr>
<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>SAA</td>
<td>Stabilization and Association Agreement</td>
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<tr>
<td>SAM</td>
<td>Serbia and Montenegro</td>
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<tr>
<td>SEE</td>
<td>Southeast Europe</td>
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<tr>
<td>SFRY</td>
<td>Socialist Federal Republic of Yugoslavia</td>
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<tr>
<td>SLS</td>
<td>Survey of Living Standards</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SMMRI</td>
<td>Strategic Media Marketing Research Institute</td>
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<tr>
<td>TA</td>
<td>Technical assistance</td>
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<td>UB</td>
<td>Unemployment Benefits</td>
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<td>WB</td>
<td>World Bank</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<td>YUD</td>
<td>Yugoslav Dinar</td>
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<td>ZOP</td>
<td>Agency for Accounts and Payments</td>
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</table>

Vice President: Shigeo Katsu, ECAVP
Country Director: Oralia Kalantziopoulos, ECCU4
Sector Director: Cheryl W. Gray , ECSPE
Sector Manager: Asad Alam, ECSPE
Team Leader: Ruslan Yemesev, ECSPE
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ACKNOWLEDGMENTS

This Poverty Assessment report is the first output of the poverty work program conducted in collaboration between Serbian and Montenegrin counterparts and the World Bank. On the Serbian side the team was led by H.E. Gordana Matkovic, the Minister of Social Affairs of Serbia, who played a prominent role in the successful implementation of the household survey project, the analysis of data and the dissemination of results. Mrs. Snezana Mijuskovic, Deputy Minister of Labor and Social Affairs of Montenegro and the Head of PRSP Management Unit was the key Government counterpart in Montenegro. On the World Bank side the team was coordinated by Ruslan Yemtsov (Senior Economist, ECSPE).

Data for this report were generated with the support of the Poverty Survey Project (No. P074904), co-financed by the Dutch Trust Fund. In Serbia, The Ministry of Social Affairs commissioned the survey in 2002 to feed into the social policy reform program and the PRSP. The survey was conducted by SMMRI (Belgrade) in May-June 2002. The ISSP-CEED (Podgorica) headed by Petar Ivanovic, achieved a similar result in Montenegro in August-November 2002. Our Serbian and Montenegrin counterparts initiated the analysis of data with pioneering papers by Gorana Krstic (poverty profile for Serbia), Bosko Mijatovic (social policy assessment and reform), Biljana Bogivevic (social protection), Branko Milanovic (inequality and social assistance analysis), Vladimir Vukojevic (social impact analysis) and Dragana Radevic (poverty in Montenegro). The team is indebted to many government officials from Serbia and Montenegro (SAM). The team also held numerous consultations with the PRSP working groups and benefited from discussions with various international organizations, including UNICEF, UNDP, EAR and DFID.

Key analytical inputs to the report were prepared as background papers by Cem Mete (health and poverty, education for poverty reduction), Cornelia Tesliuk (social protection), Kathleen Beegle and Dragana Radevic (Poverty in Montenegro) and Lazar Sestovic (macro policies). Jim Stevens (education), Loraine Hawkins (health), Mamt Murthi (social protection), Taies Nezam (IDPs and refugees), Henry Gordon (rural issues), Branko Jovanovic and Mihail Arandarenko (labor market) provided inputs. Emily Evershed was an editor of the report, Helena Makarenko, Judy Wiltshire and Jim Lynch undertook the report processing. Rory O’Sullivan and Marina Petrovic from the World Bank Belgrade office provided a link to policy dialogue. Zana Ivanovic seamlessly organized numerous missions and timely translations required for fully collaborative work. The team is wholeheartedly grateful to Nancy Cooke (Lead Country Officer for SAM) for her support and encouragement.

Asad Alam (Poverty and Gender Sector Manager, ECSPE) guided the entire process of preparing the report and provided crucial advice in conceptualizing the report and in finalizing its production.

The report was prepared under the guidance of Orsalia Kalantzopoulos (Country Director, ECCU4). The peer reviewers were Jeni Klugman (Lead Economist, PRMPR) and Salman Zaidi (Senior Economist, SASPR), who contributed substantively to the report’s analysis and presentation.
ABSTRACT

The Poverty Assessment is the first output of a multi-year program adopted by the World Bank to assist the Governments of Serbia and Montenegro in the development and implementation of their Poverty Reduction Strategies. The program relies on collaboration in joint data production and analysis. Key findings of the report represent a consensus view on poverty achieved in the process of collaboration with the Serbian and Montenegrin Authorities.

Based on data collected in 2002, the report finds that absolute material poverty affects every tenth person in both Serbia and Montenegro. For SAM's historical standards this is a very high incidence. Inequality remained moderate by regional standards, and as a result poverty is shallow with the poverty depth equivalent to around 1 percent of GDP. At the same time vulnerability—or exposure to negative shocks and inability to cope with them—threatens many currently non-poor individuals. At least as many suffer from deprivation in other dimensions of well being, such as health, education, housing, social inclusion or property rights. Material poverty, therefore, is not the only challenge for the Governments.

Four factors are most strongly related to poverty: low education attainment; joblessness; the location in rural areas and depressed regions, and the presence of socially disadvantaged members (such as IDPs or Roma). The poor are found to face serious problems of access to public services (health, education, sanitation) and suffer disproportionately from the deterioration in the quality of public service provision. Even though some of the social assistance programs, such as MOP in Serbia (Materijalno Obezbedenje Porodice), are among the best targeted programs in the region, the social protection system as a whole suffers from large exclusion errors.

Given the high level of vulnerability of the population and the shallowness of poverty, a broad-based growth strategy that ensures that the benefits accrue at least proportionately to the poor is central for accelerated poverty reduction. Improvements in the business climate will stimulate private sector growth and feed into employment generation—a necessary condition for pro-poor growth. Growth will increase fiscal revenues to remedy the problems of chronic underfunding, while structural and public administration reforms will strengthen the governance and the quality of services provided to the poor. The multidimensional nature of poverty requires concerted and well coordinated action in different sectors. The report argues for special programs to address the needs of socially excluded. PRSP requires institutionalization of poverty monitoring as a function of the statistical system.

The report is organized in two volumes. Volume One (Executive summary) summarizes the Report content. Volume Two (Main report) provides detailed results of poverty analysis. Due to data limitations sectoral part of the main report covers Serbia in greater details. An analysis of available data for Montenegro is presented in a background paper.
EXECUTIVE SUMMARY

1. There are about 2.2 million people living in absolute poverty in all countries and territories that once formed the single state of the Socialist Federal Republic of Yugoslavia (SFRY). About 41 percent of these people live in Serbia and Montenegro (SAM). This high share of the poor is a function not only of the larger share size of the population in SAM but also of country’s incidence of poverty, which is only next to that in Kosovo and Bosnia and Herzegovina. This report attempts to answer the question of how a country that enjoyed high standard of living at the dawn of the transition, has become impoverished relative to its neighbors, and to assess the implications of this situation.

2. This Poverty Assessment is the first output of a multi-year program of analytical, monitoring and capacity building poverty work adopted by the World Bank to assist the Governments of SAM in the development and implementation of their Poverty Reduction Strategies. The report was preceded by a two-year period of intensive cooperation and joint analysis of data collected by the Survey of Living Standards (SLS) in Serbia (commissioned by the Ministry of Social Affairs with the support of the Dutch Trust Fund to the SMMRI, a local research firm), and the Household Survey (HHS) in Montenegro conducted by ISSP-CEED (a local NGO supported by the EC Food Security Program and USAID). The first round of surveys was completed in 2002, generating baseline data for national Poverty Reduction Strategies and this report. Subsequent round of data collection is on-going.

3. This baseline Poverty Assessment proposes key policy conclusions and priorities for public action based upon the jointly developed detailed poverty diagnostics, and identifies key knowledge gaps that remain to be filled. As the situation in SAM is changing rapidly, this report will be followed by additional data collection and analytical work (See Box A).

---

1 If Kosovo is poor inside the borders of SAM are counted, this proportion rises to 66 percent.
BOX A: Programmatic Approach to Poverty Work in SAM.

The Poverty Assessment is the first product in a series of tangible outputs: analytical reports, poverty maps, information support for the national strategies for poverty reduction, series of background papers on key policy topics (labor, inequality, rural poverty, etc.). These outputs will be strategically timed to respond to the needs of the Governments. In particular additional efforts will be made toward further analysis to fully understand the causes of poverty, with a focus on labor market, its regional characteristics and ethnic dimensions, such as poverty situation of ethnic minorities (with an emphasis on Roma). These would also contribute to the future development and effectiveness of the Bank’s Transitional Support Strategy (TSS) and design of various operations.

This approach focuses on joint analysis, capacity building and continuous dissemination of results. At the next stage of the Poverty Assessment work the analysis will directly engage Statistical offices of both Republics, and a series of skills-focused training course will be offered to data producers and users in cooperation with WBI. The proposed set of key poverty analytical outputs for SAM for the medium-term is given below. This program will be revised and updated over time to reflect changing country situation and demands.

### Outputs of The Poverty Assessment Program.

<table>
<thead>
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<th>FY03</th>
<th>FY04</th>
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<td><strong>Poverty Assessment: Baseline Report</strong></td>
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<td>Background Paper: Poverty Profile for Montenegro</td>
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<td>Background Paper: Evaluation of Social Assistance System in Serbia</td>
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<td>Background Paper: Chronic Poverty and Social Exclusion in SAM</td>
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<td>Background Paper: Rural Poverty in Serbia</td>
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<td><strong>Poverty Update Report</strong></td>
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**Note:** FY – fiscal year i.e. FY 03 is July 2002-June 2003.

This program of work has been initiated by the joint World Bank-Government team in consultations with UNDP, UNICEF, DFID, SIDA, CRS, IFRC and Yugoslav Red Cross, WHO, UN WFP and UN FAO, European Commission Food Security Program and European Reconstruction Agency as well as with local researchers and NGOs in Serbia and Montenegro as partners in the development and implementation of the poverty reduction strategy. The work is closely coordinated with several on-going and planned operations and analytical studies undertaken by the World Bank: (i) TSS discussions and finalization, (ii) Social protection reform projects; (iii) Serbian Structural Adjustment Credit II; (iv) Health and education sectors reform work; (v) Public expenditure review (PEIR); (vi) Labor Leaning and Innovation Loan; (viii) Country Economic Memorandum.

### The PRSP Agenda and Background

4. The Governments of Serbia and Montenegro are keenly aware of the issue of poverty and associated social tensions. The social issues were in the forefront of change in Serbia (far-reaching pension reforms, the re-targeting of child benefits, programs to assist employment restructuring). Pension system reform and social policies were also among the key policy issues in Montenegro. But most of these reforms to date are being driven by the fiscal unsustainability
of old system and the need to keep social entitlements within manageable fiscal limits. Thus, there is an urgency in understanding the social and poverty impacts of ongoing reform.

5. The poverty focus was strengthened with the initiation of the PRSP in both Republics in early 2002 in an open, participatory fashion. The country completed an Interim Poverty Reduction Strategy Paper (I-PRSP) in July 2002. A series of broad-based consultations over 2002-03, and significant analytical and organizational efforts, led to the preparation of the draft of the full PRSP. The first drafts of the full PRSP were made public for consultations in Spring 2003, and final versions were adopted by the Governments in October-November 2003.

6. The paucity of data on poverty was a key stumbling block identified by the Transition Support Strategy of the World Bank dating back to 2001 (World Bank [2001a]), by the I-PRSP and by the Joint Staff Assessment of the I-PRSP (IMF/IDA [2002]). The poverty assessment itself and the preparatory work in producing the data required for the assessment (Poverty Survey TA Project) fill this critical gap. This assessment used the most recent data available for Serbia and Montenegro and stimulated a participatory process to analyze them, so as to arrive at a shared diagnosis of poverty.

7. This report was produced by a joint team comprising local experts and the Bank staff (see Acknowledgments section); it represents a consensus view on poverty in SAM. The high caliber of experts involved in the analysis on both sides ensured both the high quality of the diagnostics work and the status of both sides as equal partners. The key product of this joint team was the creation of a single data platform with the PRSP working group. This commonality of the data base means that a number of key conclusions presented in this report are fully reflected in the PRSP documents.

Economic Reforms and Poverty

8. The beginning of 1990s were the hardest years for the FRY in its short history owing to a number of internal and external political and economic shocks. The problems were accentuated by the pursuit of poor economic and social policies. These led to a deep and sharp output decline (to less than half of its pre-transition level), accompanied by hyperinflation, a rise in
unemployment, a huge increase in internal and external public debt, and an increase in the informal sector. The impact on the living standards was obvious – poverty increased significantly, as Figure 1 shows.

**Figure 1: SAM: Change in the Poverty Headcount 1990-1999**

(1990=100%)

Note: Using the FSO food basket and HBS data on household incomes; without Kosovo; data include both Serbia and Montenegro

9. In October 2000, a change of government in Serbia marked a turning point in the post-socialist history of the country. Reversing the negative trends of the past, an ambitious program of economic reforms was initiated with donor support. Future integration of the economy with the European Union provides a new anchor for policy. Monetary and fiscal policies have made a marked break with the past, achieving some measure of macroeconomic control (with inflation down to 14.2 percent in 2002 from 113.5 percent in 2000, and with the budget deficit within manageable limits). Major tax reforms were implemented, and wide-reaching reforms were started in some sectors (energy, social protection, labor market, banking, etc.).

10. The GDP grew by some 5 percent per year in 2000 and 2001, slowing somewhat to 4 percent in 2002. Growing wages and household incomes have stimulated increased consumption (which outpaced GDP growth), but little output response, as demands have largely been met by imports. Over 2001-02 there was little, if any, positive employment response, suggesting significant slack in capacity utilization. The labor force survey unemployment rate even

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2 A real change of power occurred when the previous regime first lost elections and then accepted election results owing to massive street protests. Reforms in Montenegro started earlier and were accompanied by strife for independence.

3 Based on this program the World Bank formulated its own country support program – TSS (World Bank [2001a]).
increased slightly, from 14 percent in 2000 to 15 percent by 2002. This has colored perceptions of the population as monitored through opinion polls.

11. New policies were implemented with little information available about the characteristics of the poor. From the start, reformers had highlighted their objective of promoting human welfare and life with dignity. Opponents of reforms had painted terrifying pictures of the population in misery and social unrest in response to any attempt at reform.

12. This report provides an objective assessment of poverty. It shows that most gloomy pictures are far from the reality. It also confirms that the focus of the reform strategy -- on sustainability, institutional reforms and an improved business environment -- is fully warranted by the accumulated domestic imbalances that harm future prospects for poverty reduction.

What Is Poverty In SAM?

13. The report is based on a multidimensional characterization of poverty. **Material absolute** poverty is defined as lack of consumption of essential food and non-food goods and services. The poverty lines for Montenegro and Serbia were established in a joint analytical work with our counterparts (Krstic in Bogicevic et al [2003], Beegle and Radevic [2003]). The decision while establishing these lines was to follow the actual consumption patterns of the population and to base them on objective evidence, not on judgment.

14. To anchor absolute poverty lines in the economic reality of each country, the approach was to take local cost of the minimum food basket that meets key nutritional requirements and follows the consumption patterns of the populations. This poverty line is used to identify the extremely poor.

15. To derive the full, baseline poverty line, the survey data were used to find out, based on actual consumption behavior, at which level of total consumption such minimum food

---

4 Registered unemployment grew even faster, from 26 to 29 percent between 2000 and 2002, but as shown in this report registration statistics are misleading. All former SFRY republics are known to have large discrepancies between survey and registered unemployment rates which are thought to reflect the incentives created for registration by the design of the social benefit system.
requirements of all household members will be met.\textsuperscript{6} This poverty line has a very clear meaning: all households with total consumption below the poverty line suffer from material deprivation, as either they lack adequate nutrition, or, to meet basic food requirements they must cut back on other essential needs. Such an assessment of the poverty threshold for mid-2002 yields a level of €2.40 a day in Serbia (at market exchange rate) and €3.50 a day in Montenegro as poverty lines.

16. To assess the vulnerability to poverty one needs panel data that follow same households over time. In the absence of panel data in SAM, the approach was to use two arbitrary cut-offs. The first, adopted by the Serbian PRSP team, was to set it at the level of the upper bound of the poorest quintile of the population. It was used to assess the characteristics of near-poor households. By definition, the incidence of vulnerability with this approach is always 20 percent. The second approach adopted in this report for Serbia and Montenegro was to set a vulnerability line that is 50 percent above the full poverty line.\textsuperscript{7}

17. To assess whether a household is poor or not, its current level of consumption per equivalent unit is compared to the poverty line. Consumption includes purchases, money value of in-kind transfers and own production of non-durable goods and services, imputed rent for owner-occupied housing, and flow of services from other durable assets owned by a household.

18. **Non-income poverty** is measured with the household survey data in several dimensions of well-being: education poverty, health poverty, housing poverty and employment poverty. In each dimension a minimum standard is established reflecting the level of development achieved in SAM. For example, education poor are defined as adults with only uncompleted primary schooling or less (in other countries education poverty may be defined as illiteracy), and housing poverty is defined as substandard housing (households not connected to tapped water and using latrines, households living in a building unsuitable as dwelling or living in overcrowded dwellings with more than 3 persons per room). To the extent it makes sense, these definitions

\textsuperscript{5} Using the World Bank methodology as outlined in Ravallion (1992), food poverty line is compared to total per capita consumption to estimate extreme poverty.

\textsuperscript{6} As discussed in Ravallion (1992), this approach establishes a consistent absolute upper-bound poverty line; as non-food costs represent a significant share of consumption in SAM, even for the poor, the variant to set the lower-bound line was judged to be not applicable.

\textsuperscript{7} Such practice is often used in the poverty analysis (see PRSP Source Book).
are made comparable to the set of indicators recommended by the Eurostat task force on social exclusion (see Atkinson et al. [2002]) and Millennium Development Goals.

**How Many Are Poor?**

19. **Around 10 percent of the population in Serbia and Montenegro were in absolute material poverty in mid-2002** (see Table 1). The assessment also finds some extreme poverty, which has been eradicated in all but two countries in this region (Kosovo and Albania). * 

<table>
<thead>
<tr>
<th>Table 1: Serbia and Montenegro: Estimates of Material Poverty in 2002. (Percent of Population)</th>
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<tr>
<td><strong>Extreme</strong></td>
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<td>Serbia</td>
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<td>Montenegro</td>
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*Source: SLS 2002 for Serbia and ISSP-CEED HHS 2002 for Montenegro*

*Note: Extreme poverty is defined as current consumption per capita without imputed housing rent below the cost of the food basket, absolute poverty is defined as full consumption below the cost of the poverty line, and the vulnerability line is set at the level 50 percent above the poverty line. See Krstic (2003), Beegle and Radevic (2003) for detailed definitions. The data presented in the table do not include information on certain vulnerable groups (such as Roma) or only partially cover them and therefore are biased downward.*

20. *Figures presented in the Table 1 must be taken as estimates of poverty.* First, certain groups are not covered by the household survey by design (institutionalized population). Such groups, for example, IDPs in collective centers, may be particularly poor. Second, some groups are extremely hard to reach in a general population survey. Different groups of Roma minority is a case in point, as well as some IDPs in private accommodations. New data for Montenegro demonstrated that the poverty rate for the entire country may be revised upward by as much as a fifth (from 9.4 percent to 12.2 percent), once these IDPs, refugees and Roma are fully incorporated in the survey sample (ISSP-UNDP [2003], see Annex I to Vol. II for details). These most recent data also show the presence of extreme poverty in Montenegro. The recent SLS data collection round (2003) in Serbia included a special survey of Roma, and its results need to be carefully assessed to arrive at a more accurate poverty estimate for Serbia. Fourth, numbers from any survey have a certain degree of precision. The statistical confidence interval around

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8 The extreme poverty estimate reported in Table 1 is based on the World Bank international methodology different from baseline nationally-specific approaches followed in SAM; the methodology is based on the insights from poor countries, where significant number of extremely poor allow an in-depth analysis of measurement assumptions.
the measured poverty rate for the SLS 2002 is ±1.2 percentage points and for HHS in Montenegro it is ±1.9 percentage points. Table 1 reports the exact figure; it would be more accurate to say, for example, that poverty in Serbia is estimated to be between 9.4 and 11.8 percent. This may affect the extreme poverty figures particularly strongly and call for careful use and interpretation of results. But even 9 percent for absolute material deprivation incidence produced with the data for the year 2002 tells that poverty is a very serious problem.

21. To assess the extent of poverty, one also measures its depth and severity. The poverty gap using the baseline definition of poverty in Serbia is equal to 2.2 percent and in Montenegro is equal to 1.3 percent; it means that the consumption of a poor person in Serbia on average falls 20 percent short of the poverty line (14 percent in Montenegro). Poverty therefore is shallow (especially in Montenegro), and the total poverty gap is around 1 percent of GDP. This is a reflection of moderate inequality (Gini index for consumption is around 0.3 – see Milanovic in Bogicevic et al [2003]).

22. As poverty is shallow it is very sensitive to the changes of the poverty line or incomes. More than 20 percent of the population in Serbia and over 25 percent in Montenegro have a consumption that is "just" above the poverty line, "just" meaning a maximum of 50 percent above the line. Increasing the poverty line by 10 percent raises poverty at both the household and individual levels by approximately one-third. Decreasing the poverty line by 10 percent lowers poverty at both the household and individual levels also by about 30 percent. This suggests that even small economic shocks can have potentially large effects on poverty. A positive shock (such as those associated with growth and good policies, for example) is associated with more-than-proportional declines in poverty; a negative shock (such as a recession) is associated with more-than-proportional increases in poverty.

23. Poverty in other dimensions (housing, health, education, employment, as aspect of social inclusion) is not negligible. Although the picture is mixed, the multidimensional indicators of poverty can be combined to provide further insights into the characteristics of the poor and the causes of poverty:

- Every sixth adult in both Serbia and Montenegro can be considered "education poor";
- Health poverty affects between 4 and 6 percent of the population in SAM;
• Housing conditions for 10-15 percent of the population in both Republics are below the poverty standard; in addition, as many as 5 percent do not enjoy clearly established rights on their housing;
• Over 3 percent of working age adults in Serbia are willing to work, available to work but were outside of work for more than two years continuously, and therefore fail in social inclusion.

24. On a more positive side, simultaneous deprivation in several dimensions is rare. This confirms that extreme poverty in the country is not widespread. But as poverty consists of non-overlapping, or only partially overlapping, groups (see Figure 2), a significant share of the population is poor at least in one dimension. As many as 30 percent of all adults are poor at least in one of the poverty dimensions: material consumption, education, health, employment, housing or property rights. This higher proportion of those affected by various aspects of poverty probably feeds the popular perception of widespread poverty in the two Republics.

Figure 2: Material and Non-Income Poverty

Note: size and overlap of circles are suggestive of the data on the number of people affected.

25. Material poverty, therefore, is not the only challenge, and is probably not the most daunting challenge, for the Governments in SAM. Many more people are found to be near-poor and in a fragile state just above the poverty line, and they are vulnerable to any economic fluctuation, downturn, or personal shock. Many people suffer from non-income forms of deprivation.

26. This diagnosis leads to the first conclusion: reducing multi-dimensional poverty in SAM requires coordinated action in many sectors. While economic growth is central to reduce both material poverty and vulnerability, other aspects of poverty have to be addressed simultaneously.
Who Are the Poor?

27. Four variables are most strongly related to poverty: these are education attainment; employment status; the location of the household; and the belonging to one of socially disadvantaged groups. Recognizing the differential poverty risk for different groups of the population can provide useful insights into which factors are associated with poverty, and thus help design potential policy responses.

28. First, the strongest and closest correlate of poverty is education. Poorly educated individuals make up the majority of the poor and have the highest poverty risk. They are also more likely to face problems of discrimination in the labor market. Table 2 shows the poverty rates by level of education in Serbia (very similar outcomes are observed in Montenegro).

Table 2: Poverty among Adults According to Education in Serbia in 2002
(population over 15 years of age, percent)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Extremely Poor, % of Population</th>
<th>Poor, % of Population Share in the Population</th>
<th>Share among the Poor Share Poverty Depth</th>
<th>Poverty Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncompleted elementary school</td>
<td>4.1</td>
<td>21.5</td>
<td>17.5</td>
<td>35.4</td>
</tr>
<tr>
<td>Elementary school</td>
<td>3.1</td>
<td>14.3</td>
<td>23.3</td>
<td>31.2</td>
</tr>
<tr>
<td>Secondary school</td>
<td>1.6</td>
<td>6.9</td>
<td>47.5</td>
<td>30.8</td>
</tr>
<tr>
<td>Jr. college</td>
<td>1.3</td>
<td>2.9</td>
<td>5.1</td>
<td>1.4</td>
</tr>
<tr>
<td>University</td>
<td>1.2</td>
<td>2.0</td>
<td>6.6</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total for adults</strong></td>
<td><strong>2.3</strong></td>
<td><strong>10.6</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Krstic in Bogicevic et al. (2003) and staff estimates based on SLS (2002).

29. Multivariate analysis of poverty risks suggests that lower education attainment is the key background factor explaining the higher incidence of poverty of some vulnerable groups, such as rural households or jobless households. For example, population in rural areas has a significantly lower educational attainment: 60 percent of working age adults in rural areas have not progressed beyond vocational school, as opposed to only 30 percent in urban areas. Once the effects of the lower education in rural areas are controlled for, the estimated poverty risks are equalized between urban and rural households.
30. Second, inactivity and joblessness\(^9\) are strongly correlated with poverty though the poor can be found in working families too. The absence of working members in working age households more than doubles their poverty rate, as Table 3 suggests (similar results are reported for Montenegro). But, equally important, not all jobless households are poor, and poverty is not only the lack of employment. The majority of the poor in Serbia – 74.6 percent -- are in working families.

**Table 3: Poverty According to the Employment of Household Members in Serbia in 2002**

<table>
<thead>
<tr>
<th></th>
<th>Extremely poor, % of population</th>
<th>Poor, % of population in a group</th>
<th>Share in the population</th>
<th>Share among the poor</th>
<th>Poverty depth</th>
<th>Poverty severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-active age household</td>
<td>2.4</td>
<td>15.4</td>
<td>8.1</td>
<td>11.8</td>
<td>3.26</td>
<td>1.11</td>
</tr>
<tr>
<td><strong>Jobless household</strong></td>
<td><strong>7.5</strong></td>
<td><strong>23.1</strong></td>
<td><strong>6.2</strong></td>
<td><strong>13.4</strong></td>
<td><strong>6.29</strong></td>
<td><strong>2.37</strong></td>
</tr>
<tr>
<td>Working household</td>
<td>1.9</td>
<td>9.2</td>
<td>85.7</td>
<td>74.6</td>
<td>1.85</td>
<td>0.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.3</strong></td>
<td><strong>10.6</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>2.2</strong></td>
<td><strong>0.80</strong></td>
</tr>
</tbody>
</table>

*Note:* “Working” categories are defined on the basis of the ILO standard definitions.


31. Working families are in poverty because each working adult in a poor household is earning significantly less than an adult from a better off group. Why? Partly because the poor live in the “wrong” places – regions affected by closure of enterprises, lay-offs, and a poor business climate, but mostly because their lack of skills makes them less productive. Therefore this disadvantage starts with the unequal access to education opportunities.

32. Third, in Serbia and Montenegro, regional disparities are found to be large. These disparities are most clearly reflected in the large differences in poverty rates across regions. It is striking that a country as compact as Montenegro had 1:2 differences in poverty rates between the poorest and the richest regions. It is also important that the Montenegrin North is not only the poorest region of Montenegro, but is also the home of 54 percent of the country’s poor.

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\(^9\) As the well being of individuals depends not only on their own labor market position but more broadly on the degree of contact of other household members with the world of work, the employment profile has to use accurate identification of the labor market status with the household survey as suggested by the definitions of “jobless households” proposed by the European Commission. The report on indicators for social inclusion prepared by the Social Protection Committee and endorsed in Laeken can be found on the web-site of Directorate General Employment and Social Affairs of the European Commission (www.europa.eu.int).

**11**
Regional differences in poverty rates in Serbia are even greater, exceeding 1:3 between better off Belgrade and the poorest rural areas of South Eastern Serbia.

33. Regional differences in poverty rates cannot be fully accounted for by labor market, education and demographic factors, as the multivariate analysis using the model of household consumption shows. This suggests that there are deeply entrenched disadvantages in certain regions that are likely to have a lasting impact on their poverty, such as the state of social capital in these localities, access to infrastructure and to public services.

34. Demographic characteristics of a household, including the age profile, number of children and family size, are important determinants of poverty risk under the baseline methodology, but their influence is very sensitive to even minor changes in measurement assumptions.

35. Refugees, IDPs, disabled and Roma have significantly higher poverty rates. War has also been an important factor affecting the higher poverty among refugees and IDPs. The presence of IDPs and refugees in a household significantly increases its risk to be poor. Same situation is observed for disabled. The ISSP survey in Montenegro found that the poverty rate among Roma exceeds 50 percent (using the same baseline definition), this is five times the average incidence (ISSP-UNDP [2003]). The on-going analysis of Roma survey by MOSA in Serbia will provide robust assessment of poverty for this minority. The existing data suggest significant problems of Roma families, especially IDPs, in accessing education.

36. Only a minority among poor households in SAM is characterized by a combination of four risk factors listed above. This analysis offers insights on how the policies can help the poor. Broad-based multi-sectoral programs combined with better targeting of focused programs helping the most unprivileged is likely to have an impact on all layers of the poor population.

Gender and Poverty

37. The report shows that in both Republics, female headed households have higher poverty risk. This contradicts the general perception of gender equity in SAM. Using multivariate techniques, the report also finds that for Serbia the observed slight disadvantage of female-
headed households can be fully accounted by a set of economic disadvantages that women face in the society. The summary of the results is given in Figure 3.

38. Figure 3 shows that a female-headed household faces a slightly higher observed poverty rate than does a male-headed household (by 14 percent). But once controls are introduced for demographics and location (region of residence, age profile and household size), one finds that this disadvantage disappears. It means that similar households headed by males also have much higher poverty risks than average. Thus, women are over-represented in households with unfavorable demographic structure (e.g., high dependency rate) located in depressed regions (rural areas). Thus, the observed higher rate of poverty among female headed households is in some part due to their specific demographic composition and unfavorable location. After controlling for human capital characteristics and employment status, it becomes clear that among these factors of disadvantage, education plays the most important role.

39. The disadvantage that women in SAM face is apparent in the labor market, as studies of gender gap in pay suggest. The disadvantage of female-headed households also spans the full spectrum of multidimensional poverty measures developed for this report.

Figure 3: Poverty Rate Relative to the Average Poverty Rate by Household Head Gender in Serbia
(Higher or Lower Poverty Compared to Average, Observed versus Simulated)

Source: Staff estimates based on SLS.
The Poor On The Labor Market

40. Labor is often the only asset a poor household has. Majority of the poor in SAM are in families where someone works. The situation in the labor market is therefore a key factor influencing the poor.

41. While assessing the situation of the labor market policymakers in SAM have relied on a limited range of indicators, overly focusing on the unemployment data provided by the Employment Bureaus. The report argues that this source gives inadequate reflection for the trends on the labor market. The regular Labor Force Survey (LFS) is by far more accurate and can be used to monitor changes in employment and unemployment according to the internationally accepted ILO standards; but LFS has not been exploited for policy purposes.

42. Using LFS data to arrive at more internationally comparable data presents a very different picture to the information from the register. The survey suggests unemployment levels in a range 10-15 percent for SAM\textsuperscript{10} compared with a registered unemployment level of over 30 percent. Unemployment is higher in Montenegro (above 20 percent of the labor force). The main household surveys used in this report (SLS and HHS) confirm the diagnosis based upon the LFS. Most of the registered unemployed are either economically inactive or work in the gray economy. At the same time, almost a third of the “true” unemployed are not registered by the labor offices.

43. LFS data comparable across time show falling labor force participation rates. Figure 4 provides a picture of the changes in the participation rates since 1995. Figure 4 confirms that the key flow in the labor market over the entire period was a flow of workers – both men and women - out of economic activity. Women in Montenegro, characterized by low labor market activity rates, were affected particularly strongly in the last two years. The figure also highlights significant gender and regional differences in activity rates. Despite GDP growth by some 5-4 percent per year in 2000-2002, there was no employment response, according to the Labor Force Survey. Overall, there are no signs yet of sizeable gains to employment as a result of reforms.

\textsuperscript{10} With a range accounting for survey precision and modifications of basic definitions to fit SAM realities.
44. This apparent paradox of no employment response to economic growth should not be taken as a surprise. Over the whole period of 1990-2000 significant imbalances have accumulated, due to the reluctance to openly lay-off redundant workers. As a result, despite the fall in output by over 50 percent in 1990-2000, the aggregate employment (ILO definition) fell by only 25 percent leading to a fall in productivity and a rising employment overhang. Consequently, the recent growth has utilized the excess employed rather than create new job opportunities.

45. The presence of significant residual excess employment (or hidden unemployment) means that the labor market indicators may show worsening before getting better. The analysis of labor adjustment practiced by firms in the report reveals that a significant share of workers (around 10 percent) were in various forms of reduced work. Their response to being not paid on time or being put on forced leave or shorter work schedules varied depending on the type of hours or pay reduction. About a third of them have already found alternative gainful employment, but those who did not faced an imminent threat of becoming unemployed, as they often are characterized by unmarketable skills.

46. These data suggest that it is not unemployment per se which is a key problem of labor market in SAM, but lack of employment and poor use of labor force. A large share of the working age population that is inactive or occupying themselves with low productivity,
occasional work is a cause of poverty. For the economy-wide perspective this represents output foregone and income lost. Moreover, the important goal of sharing the benefits of growth more equitably among groups and regions proves increasingly elusive when many citizens are trapped in long-term economic inactivity.

47. The relatively low level of "real" unemployment should not therefore be taken as a source of complacency. The analysis of social assistance reveals that there is no effective public safety net to protect workers against the risk of unemployment. At the same time, relatively low levels of unemployment do not mean that the labor market in SAM performs well. Behind relatively stable ILO unemployment rates, there were important structural changes with significant increases of unemployment rates for new entrants and pre-retirement workers.

48. One of the viable strategies for laid-off workers in other transition economies has been self-employment and own micro-enterprise start-ups (IFC 2000). These forms of employment outside agriculture are extremely underdeveloped in Serbia and accounted in 2002 for less than 2 percent of all non-agricultural employment (with a higher share in Montenegro, but still falling below that in more dynamic economies). Even special programs designed to stimulate micro enterprise formation (severance pay schemes) so far have not achieved any impact.

49. Based on the experience of other transition economies, the main impulse for employment generation will come from the sector of new, small and medium enterprises, whose development critically depends on business environment and restructuring of formerly state owned enterprises. The hostile business environment hurts the poor directly by limiting the coping strategies available to them (such as self-employment), and indirectly through a weak demand for their labor.

50. The prospects of the poor competing for salaried jobs are hampered by two barriers: the labor market discrimination against the most vulnerable (disabled, IDPs and refugees, Roma, women), and the inadequate skills of the poor.

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11 See, for instance, World Bank (2002b).
51. To make growth pro-poor and to make the labor market work for the poor, it is important therefore to “pull the strings” that seem to be outside of the immediate realm of labor market intervention: (i) to improve the business environment and the rule of law, and (ii) to rehabilitate the human capital of the poor. An analysis of actions needed for improving the investment climate goes beyond the scope of this report and will be addressed in forthcoming analytical work (Country Economic Memorandum for SAM and Investment Climate Assessment study). Human capital issues are discussed below.

The Challenge of Rehabilitating Human Capital

52. Serbia spends less than most other transition countries on education, -- in 2001, less than 3 percent of GDP; this item was twice as high in Montenegro (The World Bank [2002c]). And what was spent was not well spent in the sense that scarce public resources were used to subsidize those who can afford paying for education themselves, and little flew to the poor.

53. The report finds that children from poor families in SAM are disadvantaged because of a selective education system they have a greater tendency to drop out after primary school or to be streamed into vocational schools and to discontinue schooling upon graduation. Among the youth (15-17 years old) from poor families in Serbia, for example, as many as 23 percent are no longer at school and consider their education completed, and only 4 percent were able to enroll into higher education establishment. The disadvantage can be traced back to the unfavorable learning environment at home and to generally late start of schooling among children from poor families. Publicly subsidized kindergartens provide services to only 30 percent of children, almost exclusively -- from non-poor families. Children of the poor are likely to perform worse than pupils from better off families from the start of the schooling, and are screened out of the stream leading to tertiary education or acquisition of more marketable skills. In such an environment, low social mobility should not be a surprise: those who are poor now will remain poor across generations.

54. Public health expenditures in 2001 represented over 7 percent of GDP in SAM (The World Bank [2002c]), and the health financing required transfers from the State budget in addition to health insurance contributions to the health fund. Health indicators are generally better than in countries with similar incomes, reflecting the high levels of education and the
universal provision of comprehensive health care services in the past. Maternal mortality rates are low, and they declined between 1990 and 2002. Increases in the mortality rates of children under five years have largely been contained. However, universal access to health care is being seriously undermined by the inability of the poor—and some non-poor—to afford the charges now levied by many public institutions—officially or unofficially. As public spending on medical supplies, doctors’ wages, and maintenance of clinics becomes tighter, the burden shifts in many cases to patients. This has a clear impact on the poor, as this report documents.

55. The report shows that some emerging problems for poor accessing health and education services have yet to result in a full exclusion of the poor, but they represent a very worrying trend. The analysis of the draft of the PRSP for Serbia and Montenegro shows that most of the problems are well understood by the education and health professionals and policymakers. The PRSP follows a clear set of priorities developed by the Governments and civil society in SAM. The strategy is based on the premise that an increase in public expenditures generally is not a viable option given the overall budgetary constraints. Thus, significant efficiency gains should be achieved in each sector. Strategic objectives require some reallocation between sectors. Education is identified as a priority. The Government of Serbia projects an increase in the overall spending on education as a share of public expenditure, while the Government of Montenegro expects to maintain spending on education at its current high level. The report highlights the need for in-depth studies to increase the likely impact of this spending and monitor the impact of PRSP implementation.

Reducing Vulnerability: The Safety Net and the Poor

56. In 2001, public safety nets commanded over one-half of the general government expenditures in Serbia and Montenegro (The World Bank [2002c]). Not surprisingly, the effects of public safety nets on welfare were significant. The household survey data for 2002 allow in-depth analysis of their coverage and efficiency.

57. Social insurance programs (mainly pensions) channeled the bulk of spending on social protection (in Serbia 90 percent of social protection spending), and reached—directly or indirectly—more than half of the population in Serbia and about 45 percent in Montenegro. The
main goal of these programs is not poverty reduction but the management of selected social risks. However, these programs have an important poverty alleviation role. While only 16 percent of combined social insurance spending in Serbia went to the poor (pre-transfer), these transfers covered as many as 61 percent of all poor. For the recipients of social insurance the transfer covered over 70 percent of their consumption, playing a major role as an income source.

58. Social assistance programs, aimed at poor directly, have less resources, and are more numerous and heterogeneous in terms of their objectives, target groups, targeting mechanisms, sources of financing, and implementing agencies. In Serbia in 2002, all social assistance programs combined channeled around 2 percent of GDP to the beneficiaries. Social assistance benefits reached one in five households, directly or indirectly. In Montenegro, coverage and resources devoted to them were smaller with only 9 percent of population covered by any type of social assistance.

59. The report shows that for these modest amounts spent on social assistance in 2002, it achieved significant results. In Serbia, various social assistance programs combined covered every third poor person and achieved a reduction in the poverty gap by one-fifth (SLS, 2002). In Montenegro similar analysis of the social transfers is not possible given the data limitations, but the findings of the household survey suggest that the targeted programs (Family Material Support and Reformed Child Allowances) reached almost ten percent of the poor and transferred significant resources to them. Humanitarian assistance financed by donors significantly complemented Government's programs.

60. The report analyzes an array of social assistance programs in Serbia and finds that some of them perform particularly well in helping the poor. Figure 5 shows the comparative performance of various programs. From a poverty reduction perspective, more efficient programs would have higher coverage of the poor, less leakage to the non-poor and greater adequacy. 

A “perfect” program (never found in reality) would be located in the upper-right quadrant of Figure 5: it would have 100 percent coverage of the poor, and 100 percent targeting.

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12 Coverage of the poor is the share of the poor are covered by the program; targeting is the share of transfers that are captured by the poor; and adequacy reflects how important is the benefit transferred by a program in the consumption of the poor beneficiaries.
The targeting performance of Serbia's poverty benefit (MOP) is among the best in the region: as much has 70 percent of all funds goes to the poor (Milanovic in Bogicevic et al [2003]). For the recipients of MOP it represents a significant help, covering 57 percent of their consumption on average. The program is thus quite effective. But it has a minuscule coverage (only 4 percent of the poor pre-transfer received MOP in 2002), and the program outlay represented only 0.1 percent of GDP. These errors of exclusion are due to three reasons: (i) very stringent criteria for eligibility (income threshold is significantly below the poverty line developed for this report); (ii) minimal funding of the program; (iii) insufficient information on the program. As many as a third of the poor have not heard about its existence (Milanovic [2003] in Bogicevic et al [2003]); the simulation show that one half among those who would be eligible to receive the assistance under the current rules do not apply for the benefit (Mijatovic [2003] in Bogicevic et al [2003]). Increased funding, changing eligibility rules, and better information for the applicants may bring in many more poor households to participate in the program.

Figure 5 also demonstrates that there are other programs in Serbia which are less well targeted to the poor. Child allowances, which in 2001 absorbed over 80 percent of social assistance transfers from the budget, are a case in point. According to 2002 (SLS) data they covered just 20 percent of the poor and delivered only 20 percent of funds to the poor...
beneficiaries.\textsuperscript{13} The report recommends that continued effort be made to re-target this program (a process initiated by the Government in 2002). In Montenegro, the public resources for social assistance are almost equally split between the targeted programs (such as Family Material Support and Child Allowances) and non-targeted programs (Caregivers allowances and maternity benefits). The system as a whole covers even a smaller fraction of the poor compared to Serbia.

63. Low coverage of individual programs may not necessarily be a problem. If the social protection system is built on many programs that address narrow, specialized social risks, then the system as a whole may provide adequate coverage despite the low coverage of the individual components. In SAM social protection system does not come close to this ideal, since all of the programs combined cover only one-third of the without-benefit poor (in Serbia, even less in Montenegro). Overall coverage of the system is significantly lower compared to other countries in the region (for example, Bulgaria or Romania). In addition, there is only a weak coordination between programs. The eligibility criteria for receiving benefits differ a great deal across various programs (Mijatovic in Bogicevic et al [2003]).

64. Policymakers in Serbia insist on preserving the full array of existing programs as they cover very different types of social risks. The funding issue thus appear as a key constraint for improving the targeting: under the current allocation each of the programs is financed only at the minimum level, and it is really difficult to reallocate the funds between programs without sacrificing an integrity of those to be cut. To widen the coverage of the poor while preserving the resource constraint each program needs to be better targeted and the overlap between them reduced. The on-going reform of social assistance in Serbia is heading in this direction. To ensure the successful outcome of reform it is important to harmonize the overlapping programs. But increasing the resources available to better targeted programs may be as important. Withdrawal of donor support to the humanitarian programs calls for an increase in the public funding to compensate for the shortfall. Better data, more in-depth analysis and program evaluations can guide further efforts in safety net reform, as the recent comprehensive study produced in Serbia has demonstrated (Mijatovic in Bogicevic et al [2003]).

\textsuperscript{13} It must be noted here that the analysis contained in the report uses data collected prior to June 2002, when the child allowances program has been reformed in view of improved targeting. New 2003 data must be used to assess the impact of this reform.
The Regional Context

65. For this report, a special comparative work was undertaken to produce data on poverty for a number of countries in the region based on exactly the same methodology and definitions. The results, presented in Figure 6, further underline the conclusions on the reality of poverty in SAM. Thus, reducing poverty in SAM will affect positively the situation in the entire region and will provide significant momentum to poverty reduction efforts elsewhere.

Figure 6: Distribution of Region's Poor by Countries, Around 2000-02


Strategy for Poverty Reduction

66. The key finding from the household surveys in Serbia in Montenegro is very encouraging: the poverty gap is only around 1 percent of GDP. This figure might suggest that poverty could be dealt with through a direct transfer program. Examining one of the best performing Serbian social assistance programs (the MOP), one can estimate that with the current efficiency of its targeting it may take 2 percent of GDP (assuming MOP targeting efficiency but ignoring administrative expenses) to eradicate completely absolute material poverty. But such simplistic conclusions are misleading.

67. First, the report shows that poverty in Serbia and Montenegro is a much wider phenomenon than a simple deficit of material resources and lack of adequate consumption of
basic food and non-food goods. Equally important are other dimensions of deprivation, such as health and education. Thus, elimination of existing poverty may require more significant resources than estimates based on poverty gap may suggest.

68. Second, the report highlights the importance of vulnerability to poverty. Many among those who may not be poor at a given point in time in SAM, face risk to slip into poverty due to economic fluctuations or personal shocks. Elimination of vulnerability requires resources that exceed funds needed for elimination of absolute poverty by an order of magnitude.

69. The analysis of the report suggests that even fighting absolute material poverty through social programs is still beyond both the fiscal and the institutional means of the State. Given the very large exclusion errors and the failure to identify the “excluded” poor and their needs, it would be difficult to cover them by an efficient safety net even if more resources are made available to the system. An ongoing reform in Serbia’s social assistance system to increase outreach as well as to improve the quality of programs (which would increase the demand for them), will take time to produce results.

70. Several conditions have to be met before social protection system could make a more significant dent in poverty. First, economic growth is essential to deliver the means to run a more extended safety net. Second, the safety net has to build up a capacity to include all those in need. Moreover, to protect even larger numbers of the vulnerable population (potentially under treat to become poor), a growth-based strategy is the only mechanism for a general improvement in living standards, and of moving large section of the population above the dangerous proximity to the poverty line. However, also for those vulnerable to poverty, the growth based strategy needs to be supported by strengthening the institutional capacity to manage social risks associated with transition.

71. For the coming three years it is expected that Serbia and Montenegro will record a robust growth of GDP of approximately 4 percent per year. This projection depends upon: (i) maintaining macroeconomic stability; (ii) continuation of structural reforms; (iii) public administration reforms; and (vi) regional and international cooperation.
72. In particular, the Stabilization and Association process creates an important anchor for policy and boosts its credibility. In addition, significant resources made available as part of this process will help to improve the governance and business environment. The implementation of these policies should lead to the creation of a better business environment that would help to accelerate the growth of the existing private sector, to encourage the start of new private companies, mainly small and medium enterprises, and to attract more foreign direct investment.

73. These positive changes have to be fueled by redressing the saving–investment imbalance from the over-reliance on external sources, by increased investment, and by ensuring that this goes towards the rehabilitation of infrastructure. The analysis points to the fact that SAM currently has unsustainably high levels of consumption and current account deficit. Public sector deficits have to be brought down by reducing public spending in line with the requirements of fiscal sustainability (see World Bank [2003]).

74. Economic projections underlying the development strategy of Serbia show that despite GDP growth rate of 4 percent per year, the growth of total consumption in 2004-06 may vary between 1.4 and 1.1 percent per year, and that of private consumption would stay around 2 percent per year. The poverty reduction that can be achieved in the future will directly follow from this consumption growth.

75. Table 4 shows the outlook for poverty reduction. If private consumption increases at the implied rate of around 2 percent per year, with no change in the inequality, poverty will fall to 7.5 percent of the population by 2006. At this rate, poverty incidence will be reduced by more than a half by 2015, but poverty will not be completely eradicated.

76. Different growth paths offer dramatically different benefits to the poor. Table 4 shows that even slight worsening of the distribution during the period for projections will undo most of the growth effects on poverty, and it will fall by 2006 to only around 9 percent from its current level of 10.6 percent. When growth is combined with more than proportional gains to the poor poverty reduction is more noticeable (to the headcount index of 6.3 percent by 2006). In discussing the strategic objectives of poverty reduction and the means to achieve them, it is worthwhile to separate two related but nevertheless distinct issues:
How to maximize the growth potential while ensuring its economic sustainability

How to maximize the benefits of a given growth rate for the poor i.e., how to ensure its pro-poor character.

Table 4: Poverty Projections for Serbia, 2002-06

<table>
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<tr>
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<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td><strong>GDP growth rate</strong></td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
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<tr>
<td><strong>Growth rate of private consumption</strong></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Optimistic poverty projection, pro-poor growth</td>
<td>6.3</td>
<td>3.0</td>
<td>2.0</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Baseline poverty projection, equally shared growth</td>
<td>10.6</td>
<td>8.9</td>
<td>8.0</td>
<td>6.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Pessimistic poverty projection, pro-rich growth</td>
<td>10.6</td>
<td>9.4</td>
<td>8.7</td>
<td>8.1</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Notes:
- Improving distribution (Gini index falls by one percent per year, consumption of the poor grows by 17 percent against 10 percent on average).
- Distributionally neutral growth (consumption of an average poor grow as fast as the average, 10 percent over the 2003-06);
- Worsening income distribution (Gini index increases by one percent per year, consumption of the poor increases by only 2 percent over the entire period versus 10 percent average);
a actual; e in 2003, real GDP is expected to grow by about 3.5 percent, with the slight slowdown relative to 2002 reflecting the effects of drought and a modest fiscal contraction.

Source: Staff estimates based on SLS data and Government Serbia (PRSP 2003).

77. The country needs to generate a substantial GDP growth rate (over the currently projected 4 percent per annum) to allow more sizeable increases in personal consumption and faster reduction of poverty. Or it has to achieve a significant redistribution in favor of the poor – a scenario that is less likely given limited scope of instruments at the disposal of the Government. Under the current scenario of 4 percent growth of GDP, it means that poverty may not change over 2003-06 if the distribution worsens. Moreover, while the aim of reducing absolute material poverty is an important one, it is not the only aim of the strategy. Reduction of poverty in other dimensions and reduction of economic vulnerability requires a focus on policies that ensure: (i) stable GDP growth rate, (ii) that it translates into the gains to the poor and near poor at least at the rate of overall growth; and (ii) that the poor and near-poor are benefiting more than proportionately from the public expenditures.

78. The only way to meet these challenges is to consolidate the progress made in reforms to date, to focus on sustainability and stability, and to develop actions to make the growth pro-poor. The broad-based growth will provide sufficient resources to build up the human capital of the poor, strengthen the safety net and address the structural causes of poverty. Therefore, growth has to be accompanied by two types of change to be pro-poor: (i) employment growth, (ii) reallocation of public expenditure towards pro-poor programs.
79. These simulations also highlight the importance of accurately monitoring the distributional effects of growth and changes in the poverty rates over time. The implementation of the regular household survey so as to allow accurate monitoring of poverty will therefore be an essential part of the strategy.

Data for Policies

80. Policies based on bad data are misguided, or worse. To avoid the accumulation of problems that are not dealt with, proper monitoring and evaluation must become a routine part of the Government’s work.

81. The Poverty Surveys (SLS survey for Serbia and HHS in Montenegro) produced, for the first time in both Republics, a set of reliable and disaggregated poverty indicators. Very importantly, the initiative and leadership for these efforts in Serbia came from the leading PRSP agency – MOSA. The data were analyzed by local researchers and combined with a variety of other data sources. These efforts are fully incorporated in the PRSP. Thus, the first task of creating baseline data on poverty is successfully completed.

82. The first round or data collection in both Serbia and Montenegro is being followed by the panel survey in Serbia and the follow-up survey in Montenegro in 2003. The analysis of new data and feedback to policymakers will represent the next step in creating national monitoring and evaluation systems for the implementation of PRSP.

83. The following step will consists of institutionalizing poverty monitoring in the regular operations of data collection by State agencies. The poverty data used in this report and in the draft PRSP come from externally funded surveys implemented by NGOs. The ongoing official Household Budget Survey in Serbia is being reformed with the support of SIDA and Statistics Sweden to play a key role as the PRSP monitoring tool. Starting in late 2003 these data will become available for the analysis and monitoring of poverty. The reform of official survey in Montenegro considerably lags behind. After the completion of the Population Census in November 2003 efforts need to be stepped up to restart the Household Budget Survey.
84. For the statistical system to be able to collect, process, analyze, use and disseminate information on poverty and its key correlates, the survey data must be up to this task. In addition, Government action will be required for consolidating the consensus on the official poverty line (in Serbia) or building it (in Montenegro), to establish the poverty measurement methodology that the statistical agencies will follow. Finally, public access to household level data from official surveys will help to strengthen the link between policies and data on poverty.

85. In the analysis of poverty, several important issues are revealed in this report as requiring further investigation to improve the understanding of poverty:

- Chronic versus transient poverty  
- Constraints to rural incomes  
- Links between poverty and social exclusion.

86. Evaluations are the main uses for data to feed in the PRSP. The capacity needs to be strengthened (in Serbia) or built (in Montenegro) to forecast the impact of reforms on the poor, to develop recommendations on instruments that will mitigate the negative social consequences of the reforms, and to improve the targeting and efficiency of the social programs. The report notes pilot experiment on the social impact analysis of electricity tariff reform and the path-breaking ex ante analysis of options for social safety net reforms conducted by the PRSP working group in Serbia. Such work needs to become a part of the strategy design in all sectors. Mechanisms need to be built to ensure proper feedback from these studies into policies. Some areas require special attention in terms of the urgency of evaluation work:

- Labor market policies broadly, especially changes in regulations  
- Policies that facilitate the restructuring of enterprises  
- Pension reforms  
- The fiscal and social implications of changes in social contributions, taxes, and benefits geared toward the formalization of economic activities.
87. The Bank and other donors, notably DFID, the EU, SIDA, the Netherlands, Eurostat TA, the EC Food Security Program and the UNDP, are helping to improve statistical collection and develop capacity building training programs in Serbia and Montenegro. The IMF is providing continuing technical assistance for improvement in statistical methods. The Programmatic Approach to the World Bank's poverty work in SAM helps to ensure that the results of the poverty analysis and monitoring are used in the process of policy making.

Recommendations

88. The report puts forward a number of general and specific recommendation to support a strategic set of actions to implement the PRSP in the following areas: (i) macroeconomic policy; (ii) public expenditures; (iii) structural policies; (iv) labor market interventions; (v) education and health; and (vi) social protection. These are intended to supplement the efforts of the national Governments in the implementation of their Poverty Reduction Strategies.

89. Macroeconomic policies have to focus on reaching overall fiscal and balance of payments sustainability, and the ability to withstand the negative external shocks or exogenous changes of investor confidence. The goal for supporting the PRSP should be to help to raise domestic saving rates to secure resources for private sector growth, paving the way for productivity gains and employment generation; in the short to medium term this policy has to limit any increases in the overall private and public consumption levels and has to stick to tight targets for the public sector balances.

90. Structural reforms aimed at achieving a pro-poor character of growth need to focus at improving the investment climate for the micro, small and medium enterprises. This offers the best prospects for creating new jobs. Serbia in particular lags behind many countries in the region in the development of SMEs and non-agricultural self-employment. Reforms proposed in the PRSP aimed at improving the business climate will need to be carefully implemented. It will be important to shift the emphasis from special targeted financial incentives for microenterprises to more general policies aimed at improving the rule of law and level playing field. The ongoing Investment Climate Assessment (ICA) study will provide critical insights into the specific measures to assist in the implementation of PRSP in this area.
91. *Labor market policies* are strongly emphasized in the SAM PRSP. The donor support should be focused on improvements in the institutional framework. In its present form the employment service lacks the capacity to provide targeted support to specific groups and to facilitate the labor market transactions. It is clogged by large number of claimants who are not in search of jobs and are seeking the status of unemployed for the social benefits associated with it. It is essential for the success of the labor market reforms to ensure their close coordination with the education sector reform, especially the development of life-long learning. For the successful implementation of PRSP the labor market interventions in a narrow sense should focus on those who are likely to be left from the benefits of economic growth. A particular attention should be given to two groups of workers: the youth, especially those with only basic skills levels, and the pre-retirement age workers affected by enterprise restructuring.

92. *In education,* action should be focused primarily on key features of the system that discriminate against the poor: (i) exclusion of the poor from publicly subsidized kindergartens, (ii) low share of the poor in the general (gymnasium type) secondary school programs, and (iii) almost complete exclusion of the poor from heavily subsidized tertiary education. The general support of reform should consist of improving the quality of education for all and the efficiency of resources use. This can be achieved by helping the Government in removing the existing pro-rich bias in public spending, while providing for the poor better access to educational programs of better quality and relevance. Where there is a willingness to pay among the non-poor families, more emphasis should be put on fees especially in the pre-school and tertiary levels. At the same time, children from poor families should be helped by incentives, including financial, to continue their education. It is crucial to ensure successful implementation of the planned special programs to address the handicaps of children from poor families in the early years of schooling. In the secondary school, the general efficiency-improving direction will be towards increased emphasis on broad-based general secondary programs which increase graduate’s flexibility on the labor market.

93. *In the health care sector* the focus should be on improving the governance and finances of the system, and on addressing the issue of informal payments. The most direct way to improve the financial situation of the system is to reduce the level of entitlements, which is under
consideration in Serbia. The current package is very generous and includes coverage of treatment abroad and in military hospitals as well as a set of benefits that are non-health related such as sick leave. Public procurement of pharmaceuticals in Serbia has historically taken place in a highly controlled marketplace and is ridden by corruption. Despite relatively good health outcomes, SAM is very much at risk of deterioration of the quality and accessibility of health care and of a future outbreaks of HIV/AIDS, given existing transmission patterns in the Region. The strategy of donors will be to support the move to a system, where synergy between public and private providers ensure the population a health care delivery system, which within the framework of an effective organization and reasonable resources, gives equal access to services based on modern technology and up-to-date scientific methods supported by effective preventive and health promotion efforts.

94. The SLS 2002 data analyzed in the report provide clear evidence that people in Serbia are paying significantly more out of pocket for health care than official co-payments. Cost of such payments is deterring the poor, more than the non-poor from using the health care when they need it. This low utilization rate is especially striking for the rural poor. The co-payment system introduced to formalize widespread informal payments is rife with exemptions to the point that fewer than 20 percent of users are required to pay. On the other hand, private health care provision remains rudimentary and serves almost exclusively the non-poor. The direction of reform is to redefine health care providers’ roles and responsibilities, tighten eligibility of exemptions, define a package of basic health care services provided on an equitable basis, and increase cost recovery in the provision of health services outside the core package.

95. Support to the reform of the social safety net has to focus on assistance to ensure the successful outcome of on-going reform aimed at harmonizing the overlapping programs and increasing the resources available to better targeted programs. The key challenge for the social protection system is to widen the coverage and reduce the exclusion errors. The Government of Serbia may consider expansion of the MOP and strengthening the means testing for child allowances. In Montenegro, the resources for the targeted programs (FMS and child allowances) should be increased, while targeting needs to be further improved. Better coordination with NGOs and more pro-active partnerships with the non-profit sector have to be sought to address
the challenge of helping the excluded poor. Over the longer term, a thorough assessment of the poverty impact of pension reform options is needed to facilitate its planning and sequencing.

96. Cross-sectoral programs are being developed to address pockets of poverty and may need a significant support in the PRSP implementation. Among such programs, *regional development programs* focus on access to basic services, safety net efficiency, governance and the business environment in the poorest regions. *Problems of ethnic minorities and Roma* are being included into strategic priorities. *The integration of IDPs and refugees* is planned through better government/donor coordination in the cross-sectoral programs aimed at providing long-term solutions. Such programs have to address the livelihoods of displaced populations comprehensively, creating a better environment for employment, solving housing issues and delivering health and education services. Donors may also consider special support to help to mainstream *gender* in the process of policymaking.

*Conclusions*

97. For a country with a benchmark of no absolute poverty to now have every tenth person in material poverty -- and every third person with some non-income deprivation -- is a serious concern. On the basis of the nature of this problem, a cross-sectoral approach to poverty reduction is needed, with a focus on the pro-poor character of growth. There are worrying disparities between the poor and the non-poor in their access to opportunities to develop, protect and use their human capital. If action is not taken to address these problems, they can impede the prospects for poverty reduction in the future. It is only through sustained pro-poor growth, better targeting and greater efficiency of social protection programs, and an enhanced quality of human capital investment that SAM will have the greatest hope of improving living standards for all and of reducing economic risk and vulnerability.
# Matrix of the Report

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<td><strong>Chapter I</strong></td>
<td><strong>Living Standards: Developments in the Past, Current situation and Prospects</strong></td>
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<tr>
<td>1. There is a direct link between sound economy and poverty reduction: poverty in SAM in the past was extremely sensitive to macroeconomic fluctuations. Main threats to long-term sustainability also undermine long-term prospects for poverty reduction. Prospects for public expenditures and the looming challenge of foreign debt repayment call for extreme caution in fiscal policies.</td>
<td>1. Improve longer term sustainability by prudent fiscal and monetary policies. Increase efficiency of public spending in terms of impact on the poor. Reducing vulnerability requires more economic stability.</td>
<td>1. Macroeconomic performance, progress with structural reforms, monitoring public sector deficit, inflation; fully integrated MTEF projections in the PRSP</td>
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<td>2. Consumption has to decrease as a share of GDP to provide more resources for longer-term growth. This is difficult given the history: in the 1990s living standards were artificially kept higher and expectations boosted through means that undermined longer-term sustainability. Increase in inequality can undermine the pro-poor character of growth and further compromise prospects for poverty reduction.</td>
<td>2. To achieve any reduction in poverty, economic growth needs to be pro-poor. At the same time it is crucial to resist pressures to boost empty entitlements, while educating public and policymakers on the need for prudent macroeconomic policies, avoid new and clear old arrears, stimulate domestic savings by sound financial sector policies.</td>
<td>2. Monitor changes in inequality over time, public sector wages, minimum wage and minimum pension, pension and wage arrears: stock and flows. Changes in consumption as a share of GDP, dom. savings are intermediate indicators.</td>
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<td>3. Hostile business environment created artificially favorable conditions for a few well connected businesses and discouraged broad based investment, particularly SME development and FDI.</td>
<td>3. Implement structural reforms, improve business environment.</td>
<td>3. Monitor changes in SME number, start ups and employment; FDI to GDP is among key indicators.</td>
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<td>4. Inflow of refugees and IDPs in the past created significant pressures on public finances and local economies, and increased unpredictability of state finances.</td>
<td>4. Integrate refugees, IDPs, implementation of national strategy</td>
<td>4. Citizenship applications, monitor IDP/refugees as beneficiaries of Govt. programs.</td>
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<tr>
<td>Chapter II</td>
<td>1. Material poverty in absolute sense is significant. Among former SFRY Republics and territories it is higher only in Bosnia and Herzegovina and Kosovo.</td>
<td>1. Political consensus around poverty reduction strategy is crucial. Donor support will be required.</td>
<td>1. Finalization and reaching a consensus around full PRSP.</td>
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<td>2. Poverty in other dimensions is a problem and affects many people.</td>
<td>2. Poverty reduction strategy is multi-sectoral; dimensions of poverty have to be monitored</td>
<td>2. Monitor indices to trace changes in non-income poverty</td>
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<td>3. Vulnerability to poverty is a very big concern – a lot of people are concentrated just above the poverty line (+50% of poverty line). Poverty is very sensitive to economic fluctuations.</td>
<td>3. Ensure macroeconomic stability and growth as the only vehicle to move large sections of the population from dangerous proximity to poverty.</td>
<td>3. Develop and monitor indicators of economic vulnerability.</td>
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<td>4. Some groups (IDPs, Roma, etc.) of the population are very poor and in addition face multiple deprivations. Too few data are available for analysis of this issue.</td>
<td>4. Implement cross-sectoral program. Conduct data collection focused on vulnerable groups (over sample)</td>
<td>4. Compile and monitor poverty indices for IDPs/refuges, and ethnic groups.</td>
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<td>5. There are big regional differences in poverty; they cannot be explained by differences in human capital, employment or demographic structure—there are region-specific factors.</td>
<td>5 Implement special cross-cutting programs to address causes of handicap of depressed regions</td>
<td>5. Monitor regional differences and prepare regionally disaggregated public expenditure data.</td>
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<td>6. Rural areas have a significantly higher poverty rate, mainly a result of lower education attainment and demographic profile.</td>
<td>6. Implement strategy to improve access to education (see Ch.IV), measures to increase productivity in agriculture</td>
<td>6. Monitor changes in rural poverty in income and non-income dimensions.</td>
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<td>7. Controlling for regional factors, two main correlates of poverty are employment and education. They strongly reinforce each other for the poor (disadvantage) and for the non-poor (advantage).</td>
<td>7. Implement integrated education and employment strategy, especially with regional or marginal groups focus.</td>
<td>7. Monitor changes in the poverty profile for these key characteristics</td>
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<td>8. Informal sector is a coping strategy of the poor, but provides extremely unequal access to opportunities.</td>
<td>8. Sustain effort to bring lucrative business in tax net, but promote informal micro, family based entrepreneurship</td>
<td>8. Monitor changes in the informal sector through special surveys.</td>
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<td>9. Inequality as measured by Gini is low, but Gini index is inadequate an inequality measure as poverty dimension.</td>
<td>9. Pro-poor growth strategy needs to take into account some distributional gains to the poor.</td>
<td>9. Use of severity of poverty and other indices, monitor incidence of public expenditures.</td>
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<td>10. Gender is an important poverty dimension.</td>
<td>10. Develop cross-sector gender strategy, monitor gender-disaggregated data</td>
<td>10. Poverty of female headed HH</td>
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| **Chapter III**  | 1. The labor market is not yet "flexible" in terms of high efficiency in re-allocating resources for their optimal use. Self-employment outside agriculture and other active labor market coping strategies are non-existent or small. The unemployment rates among the youth are increasing and represent very serious concern.  
2. The gender dimension in the labor market is important. There is a clear gender gap, albeit small, and a fall in female participation rates from already low levels. There are signs of discrimination against minority groups.  
3. Data on registered unemployment provide misleading information on the situation on the labor market. Proper policies are hampered by the disconnect between policies and official data on the labor market.  
4. Employment hoarding created a significant hidden unemployment that potentially can inflow into the open unemployment. Even in 2002 forced leave and delayed wages were used to avoid layoffs. While not necessarily affecting poverty, the upcoming reallocation flow in the labor market is very significant.  
5. Serbia has lower open unemployment than Montenegro, but most problems are similar in the two Republics. The two labor markets are closely related. Studies on wage determination seem to indicate a spatially segmented labor market inside each Republic.  
6. Non-reformed education system (mainly secondary education) is a factor of unemployment and low labor mobility. | 1. Focus labor market policies on facilitating labor market operations. Shift the focus from redundant workers to new entrants. Improving business environment for micro enterprises is part of employment policies. Implement programs facilitating SME development  
2. Employment strategy should address gender discrimination, and develop incentives for women to participate and rule of law on labor market should be upheld.  
3. Policymakers should be given better advice on the reliability and accuracy of labor market indicators. Improve monitoring capacity of LMB. Special programs are needed to assist LM functions and to deal with large scale redundancies.  
4. Some increase in "real" unemployment is inevitable. But this inflow is not as serious problem as integration of new entrants, which should be given a priority.  
5. Strategy of employment generation should be coordinated. The implementation of the PRSP plans for active labor market policy intervention needs to be carefully monitored  
6. See Chapter IV | 1. Non-agro self employment rate, share of employment in SME, job creation and job destruction rates (currently not available), youth unemployment rate.  
2. Monitor gender gap (currently small), compile data on labor law violations.  
3. Use of registration data solely for internal LMB purposes. Upgraded LFS (with panel component), enterprise level data and tracer studies of redundant workers  
4. It is important to monitor accurately the situation on the labor market using LFS data, incidence of forced leave and wage arrears.  
5. Start collecting data on and conduct the evaluation of ALMP. Monitor the migration flows. Maintain common LFS. Monitor differences in wages across regions  
6. Monitor unemployment rates (LFS) by education level. |
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<td>Chapter IV</td>
<td>1. Education is critically important to ensure pro-poor character of development. Overall place of education in spending is alarmingly low, and they are biased against the poor.</td>
<td>1. Projected increase in public spending has to be conditioned on an improved incidence of publicly provided funds.</td>
<td>1. Education reform is considered to be a priority area for poverty reduction with corresponding increase in public finances.</td>
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<tr>
<td>Education Reform for Poverty Reduction</td>
<td>2. Almost complete exclusion of the poor from publicly subsidized kindergartens, especially in rural areas. Children from poor families are likely to delay their entry in the primary schools. This creates the handicap for poor children just at the start of their schooling.</td>
<td>2. Review kindergarten programs and develop a strategy to improve access to kindergartens. As expanding access to kindergartens to 100% of the population is fiscally too costly, consider development of remedial programs at early ages for children from poor families and focus on timely start of primary schooling.</td>
<td>2. Age of entry to primary school by socio-economic groups, regionally disaggregated indicators of kindergarten attendance, number of children in remedial programs.</td>
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<td>3. Low share of the poor in the general (gymnasmium type) secondary school programs, which have the better prospects, and highest - in the least marketable vocational training or outside secondary education. As much as 30 percent of adults from poor families aged 20-25 have completed only elementary or basic vocational</td>
<td>3. In the secondary school, the general efficiency-improving direction will be towards increased emphasis on broad-based general secondary programs which increase graduate’s flexibility on the labor market.</td>
<td>3. Changes in the number of children in general programs, share of funds allocated to the expansion of these programs.</td>
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<td>4. Almost complete exclusion of the poor from heavily subsidized tertiary education and virtual absence of training programs for adults.</td>
<td>4. Pro-poor reform needs a reduction in government subsidies to higher education (and substituting of these with increased fees charged to the non-poor students). Reform of stipends and introduction of means-tested grants. Develop concept of life-long learning</td>
<td>4. Monitor high school enrollment collect data on socio-economic background of children, number of learning grants beneficiaries. Enrollment in retraining etc. programs</td>
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<td>5. Deteriorating quality and learning outcomes, especially for marginalized groups.</td>
<td>5. Need to improve the learning experience, reform the curriculum and introduce standardized learning achievement assessments.</td>
<td>5. Collect and compile data on standardized assessment scores by schools..</td>
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<td>6. Existing data were not designed to address all relevant issues for education planning. Little is known about how to increase the effectiveness of schools because “inputs” cannot be linked to “outputs.”</td>
<td>6. Collect data on learning achievements in a manner that can be merged with household survey data sets.</td>
<td>6. Data collection and evaluation activities have to produce timely feedback to policymakers.</td>
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| Chapter V Health Care and the Poor | 1. Health poverty and health indicators are relatively better than other dimensions of poverty would suggest, but there is a threat of deterioration due to under funding and poor governance. Though immunization rates remain high, they dropped recently.  
2. Areas in which the poor fare significantly worse than the non-poor are mental health and disability. The highest (reported) health risk is associated with working in agriculture, controlling for other variables. It is unclear, however, what is the causality between poverty and health.  
3. People in Serbia are paying significantly more out of pocket for healthcare that is supposed to be covered by Health Insurance as official co-payments. Private health care is not reimbursed by the HIF in most cases. The costs of healthcare are deterring the poor, more than the non-poor, from using healthcare when they need it (as reflected in lower utilization rates for the poor for primary care and strikingly lower use by the poor of dental care).  
4. The rural population in general, and the rural poor in particular, have worse access than others to healthcare facilities. Marginal groups are reportedly facing problems of access as well.  
5. Overall low hospital utilization rates may suggest that even for the non-poor (who, as a category, include significant numbers of people at the margins of poverty) there may be barriers to access.  
6. Private health services are overwhelmingly serving the non-poor, and particularly those in the top consumption decile.  
7. Prevalence of some unhealthy lifestyles is very high (smoking, diets, etc.). | 1. Dramatically improve the governance of the health system, reduce wasting due to corruption, inefficiencies and poor management. Health indicators need to be monitored closely, as the system faces mounting problems.  
2. Conduct follow up analysis of health and poverty based on new data.  
3. Redefine basic health benefit package, reduce exemptions from co-payments and tighten the financial discipline. Develop strategy to coordinate private and public health provision while protecting access of the poor to the critical services.  
4. Develop sectoral strategy to improve delivery of services to poor groups based on examine constraints to rural population to use health care facilities  
5. Develop policies that make the hospital treatment more affordable, especially through HIF management  
6. Refrain from subsidizing the private health care directly or indirectly  
7. Public health program that takes seriously behavioral aspects. | 1. Restore financial balance of HIF, Follow on indicators such as health poverty or immunization rates and other MDGs on health;  
2. Use panel data, to enable exploration of some of the dynamics of the relationship between health and poverty over time  
3. Monitor out of pocket payments through surveys  
4. Additional data from some vulnerable groups to enable analysis of health and poverty as it affects Roma, IDPs and refugees.  
5. Monitor Hospital admissions; conduct beneficiaries assessments  
6. HIF budget data.  
7. As much as 30% all death toll smoking related. |
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<td><strong>Chapter VI</strong>&lt;br&gt;Social Protection and Poverty</td>
<td>1. Safety net resources are not adequate compared to the poverty gap and in addition are dispersed in an extensive array of programs. &lt;br&gt;2. Some programs targeted to the poor perform outstandingly well. Serbia has a very efficient, but very small poverty benefit program. Its key problem is exclusion error. Larger families tend to be excluded as rules to establish eligibility assume unrealistically high economies of scale discriminating against larger families. &lt;br&gt;3. Other programs, especially child allowances in Serbia – are quite expensive. They have recently been retargeted. In Montenegro Child allowances are targeted. &lt;br&gt;4. Unemployment benefits do not cover the most vulnerable workers (in the informal sector). &lt;br&gt;5. NGO sector is very active and played a very important role in humanitarian emergencies. As foreign aid recedes, there is a danger that a new gap will emerge. &lt;br&gt;6. There is a sophisticated and extensive informal safety net that however is not inclusive (operates in closed networks, families). &lt;br&gt;7. Pensions are the largest social transfer program and has the largest impact on poverty. Real pension incomes have fallen relative to employed, while their numbers have increased. The significant role of the informal economy with worsening demographics undermined position of pensioners. Current reforms offer some breathing space for maintaining solvency of the system. Elderly not covered by a pension represent a serious case.</td>
<td>1. Continue reforms of the social safety, increase the funding for targeted programs. Conduct a review of safety net programs and continue systemic reform. Harmonize the rules and eligibility criteria across targeted programs, esp. in Serbia. &lt;br&gt;2. Increase the role of targeted programs, and run a public information campaign. Review the equivalence scales used in the social assistance to establish eligibility. &lt;br&gt;3. Serbia: evaluation of child allowances reform and their re-targeting. Evaluate the experience of Montenegro in targeting child allowances. &lt;br&gt;4. Improve screening capacity of the LMB. &lt;br&gt;5. Build partnerships between state and NGOs. &lt;br&gt;6. Include assessment of “crowding out” and disincentive effects in the design of the formal safety net programs. &lt;br&gt;7. Continue pension reforms to strengthen the system. Pension reform proposals and options should contain the ex-ante analysis of poverty impact. Actions aimed at including non-covered elderly in the social assistance schemes.</td>
<td>1. Social assistance spending, social protection spending, of which targeted programs, change in the eligibility thresholds for social assistance. &lt;br&gt;2. Budget allocations and amendments to eligibility rules. Monitor inclusion and exclusion errors through general population surveys. &lt;br&gt;3. Changes in programs regulations, budget data and same as 2 &lt;br&gt;4. Same as 3. &lt;br&gt;5. Harmonize data on beneficiaries of NGOs and state programs and as 2. &lt;br&gt;6. Conduct studies of the informal safety nets and their interaction with formal. &lt;br&gt;7. The deficit of the pension fund to GDP Monitor elderly not receiving pension through surveys.</td>
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<td>Chapter VII Monitoring and Evaluation</td>
<td>1. Poverty monitoring remains outside the official systems of data collection. Official survey in Serbia HBS is being reformed with donors’ support to be used as an appropriate monitoring tool. Montenegro is significantly lagging behind and requires more attention from donors. 2. Serious problems remain generally in terms of data access to any data, and especially to household data. This prevents accurate measurement of poverty, improvement of methodology and quality of data. 3. Capacity in data use is limited. 4. Poverty and social impact analysis of some reforms shows that with SLS data some baseline estimates are possible. 5. Evaluation studies are new and need to become a part of the policymaking process. 6. Projections for poverty show that its path critically depends on the quality of growth. It is important to assess annual progress in poverty reduction to be able to correct the strategy implementation if the benefits sought for are not attained.</td>
<td>1. Continue with the reform the HBS in Serbia and initiate the reform in Montenegro, while keeping NGO directly involved in poverty monitoring. These efforts need to take into account PRSP requirements as well as Eurostat standards for quality. Accept a set of guidelines for monitoring poverty and monitor the current level ensuring over time comparability. Conduct analytical work to ensure comparability between data sources. 2. Conduct the expertise of the legal framework governing data access. Develop official policies to increase public access to data while addressing issues of confidentiality. 3. Training of users 4. Expand the PSIA to new areas and conduct follow up studies 5. Conduct labor market policies evaluation 6. Develop poverty projection, set of poverty projections needs to be expanded to include scenarios and identification of leading indicators</td>
<td>1. PRSP document or statistical publication with methodology guidelines for poverty monitoring. Annual reports on poverty dynamics based on new data. 2. Legal expertise, data available for PRSP 3. Courses for data users coordinated with PRSP 4. PSIA conducted for major areas of reform (focus on enterprise restructuring) 5. See Chapter IV. 6. Full set of poverty projections consistent with scenarios.</td>
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REFERENCES


GLOSSARY OF TERMS

Administrative costs
Costs associated with the identification of target groups and the delivery of program benefits

Adult illiteracy rate
The proportion of the population over age fifteen who cannot, with understanding, read and write a simple statement about their everyday life and do simple mathematical calculations.

Chronic poverty
A situation where an individual is poor as a result of long-term structural factors.

Consumption (income) smoothing
The reduction of fluctuations in a person’s (or household’s) consumption (income) over time

Dependency Ratio
Ratio of non-income earning (or dependent) to income-earning members in the household

Employed
Anyone who worked at all in the last seven days preceding the survey and anyone with a permanent job who has not worked for the following reasons: own illness, maternity leave, a household member sick, holidays, education or training, temporary work load reduction and strike or suspension.

Employment rate
Employed divided by Working Age Population

Exclusion errors
Errors in targeting where intended beneficiaries are excluded from program benefits

Family/child assistance (allowance)
Public cash transfer based on the number of children in a household

Full-time employment
Employment is considered full-time if an individual works 35+ hours per week.

Gini index
Inequality statistic for income or consumption distribution, showing how unequally these are distributed in the population. It ranges between 0 (perfect equality) and 1 (complete inequality).
In-kind transfers

Transfers in the form of goods or services, as opposed to cash

Immunization rate (i.e. against measles)

Percentage of children under one year of age who received measles vaccine. A child is considered adequately immunized against measles after receiving one dose of vaccine.

Inclusion errors

Errors in targeting arising out of inclusion of unintended (non-poor) beneficiaries in the program

Income generating programs

Programs designed to generate income that require some form of contribution (labor, or time, or repayment of loan). In this study it includes public works and credit-based livelihood programs

Infant mortality rate

The number of infants, out of every 1,000 babies born in a given year, who die before reaching age 1. The lower the rate, the fewer the infant deaths, and generally the greater the level of health care available in a country.

Informal economy

The exchange of goods and services not accurately recorded in government figures and accounting. The informal economy, which is generally untaxed, commonly includes goods and services including day care, tutoring, or black market exchanges.

Indicator of living standards

A numerical measure of quality of life in a country. Indicators are used to illustrate progress of a country in meeting a range of economic, social, and environmental goals.

Human capital

People and their ability to be economically productive. Education, training, and health care can help increase human capital.

Labor force

Sum of employed and unemployed

Labor force participation rate (LFP)

Labor Force divided by Working Age Population

Life expectancy at birth

The average number of years newborn babies can be expected to live based on current health conditions. This indicator reflects environmental conditions in a country, the health of its people, the quality of care they receive when they are sick, and their living conditions.

Maternal mortality ratio

The number of women who die during pregnancy and childbirth, per 100,000 live births. (Demographic and Health Surveys and other WHO sources, the United Nations Children's Fund)
Means test

Tests designed to identify and separate the poor and usually done on the basis of income.

Millennium Development Goals

Internationally agreed goals for development, derived from the World Summits and conferences of the 1990s, adopted by 189 nations in the Millennium Declaration in September 2000. Provide benchmarks for measuring progress in promoting human development and poverty reduction until the year 2015 and include eight goals: Eradicate extreme poverty and hunger; Achieve universal primary education; Promote gender equality and empower women; Reduce child mortality; Improve maternal health; Combat HIV/AIDS, TB, Malaria and other diseases; Ensure environmental sustainability; Develop a global partnership for development.

Net primary enrollment ratio

The ratio of the number of children of official school age (as defined by the national education system) who are enrolled in school to the population of the corresponding official school age. Primary education provides children with basic reading, writing, and mathematics skills along with an elementary understanding of such subjects as history, geography, natural science, social science, art, and music.

Out of labor force (inactive)

An individual is considered out of labor force if she is not employed and not looking for a job.

Poverty (material)

The percentage of the population living with consumption below the poverty line.

Poverty gap (depth)

The mean shortfall from the poverty line (counting the nonpoor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence.

Primary health care

Health services, including family planning, clean water supply, sanitation, immunization, and nutrition education, that are designed to be affordable for both the poor people who receive the services and the governments that provide them; the emphasis is on preventing disease as well as curing it.

Private transfers

Informal transfers made by individuals (households) without government intervention to other individuals (households). Such transfers could be in cash or kind.

Public transfers

Transfers made by the government or its agents to individuals or households.

Public works

Government-funded projects to develop or maintain physical infrastructure, largely labor-intensive in nature.
Screening (or targeting)
The process of sorting out those in need of a program from those that are not in need

Self-selection
Targeting through design features that ensure that only the target population makes use of the program, e.g. through setting a wage rate in public works that is lower than market rate – creating a disincentive for those who have employment options in the market

Social assistance
A range of benefits in cash or kind to provide protection for the most vulnerable persons in society. These programs are usually financed from government revenues

Social insurance
A range of programs (usually in cash) designed to protect individuals in the event of a decline in income (due to unemployment, retirement, illness). Benefits are financed through contributions that are usually earnings-related or collected through payroll taxes

Transient poverty
A situation where an individual is poor because of some temporary shock which could be reversed over time

Unemployed
An individual who has not worked in the last seven days preceding the survey, but has looked for a job in the last four weeks, and is available to work.

Unemployment rate
Unemployed divided by Labor Force

Under 5 child mortality rate
The probability that a newborn baby will die before reaching age five, if subject to current age-specific mortality rates. The probability is expressed as a rate per 1,000. (United Nations Statistics Division’s Population and Vital Statistics Report; country statistical offices; Demographic and Health Surveys and the United Nations Children’s Fund’s (UNICEF) State of the World’s Children 2000)

Working age population
In CEE countries, population of ages 15 to 64 years old is considered as working age population. Official statistics defines the working age as 15-54 years for women and 15-59 years for men.

Youth literacy rate
The percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life.