

# POVERTY IN SERBIA DURING TRANSITION – ARENDS, POLICIES, DILEMMAS

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## **POVERTY IN SERBIA DURING TRANSITION – TRENDS, POLICIES, DILEMMAS**

### **1. Poverty in Serbia after 2000**

Poverty in Yugoslavia rose dramatically during the nineties of the last century, the middle class disappeared, the number of poor doubled, with a mounting number of those just above the poverty line. According to national criteria, measured by income per consumer unit, in Serbia, in 2000, there was over one third or close to 2.8 million people living under the poverty line (Krstić, 2003). The decisive factors for the increase in poverty were definitely the collapse of the economy and the dramatic decline of the GDP that was halved during the nineties. Irregular income, and often work without pay, the disintegration of “socialist mammoth companies”, huge arrears in social assistance and pensions, dysfunctional healthcare and the need to pay for previously “free” services, shoved a large number of households under the poverty line.

During the 2000s decade up until the crisis at the end of 2008, living conditions in Serbia were marked with a significant reduction in absolute poverty<sup>1</sup>. This has been the trend documented by both the Living Standard Measurement Survey (LSMS)<sup>2</sup> and Household Budget Survey (HBS) data. According to the HBS data the headcount poverty index declined from 8.8 percent in 2006 to 6.1 percent in 2008. Poverty gap and poverty severity indexes were also low and they almost halved in the observed period. A rapid increase of wages, pensions and social transfers that comprise a bulk of the income of the poor improved their wellbeing before the crises (Matković, Mijatović, Petrović, 2010).

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<sup>1</sup> Absolute poverty measured by consumption

<sup>2</sup> For a detailed poverty analysis in Serbia based on LSMS data see (Republican Statistical Office, 2009)

In line with labor market trends, poverty slightly increased already in the last quarter of 2008 and the headcount poverty index reached 6.9 percent in 2009. Still, the poverty levels in 2009 were lower than in 2006 and 2007. According to preliminary results for the first 8 months, poverty, as well as unemployment, continued to increase steeply in 2010, reaching a rate of as high as 8.8 percent. It is obvious that the decrease in GDP in 2009 had an affected poverty increase with a time lag.

Relative poverty, according to income<sup>3</sup>, also decreased from 2006 from 20.9 to 17.7 percent in 2009 (Government of the Republic of Serbia, 2010). Contrary to absolute poverty, relative poverty according to income in Serbia did not show signs of increasing during the crisis, at least not during 2009.

#### Table 1

The poverty profile in Serbia has become clear-cut and does not significantly differ regardless of which data source or type of measurement is used - LSMS or HBS data; absolute or relative poverty, according to income or consumption. In Serbia the poorest are the children, elderly over 65, the less educated and the unemployed. Poverty is more widespread in non-urban areas and in Central Serbia, outside of Belgrade. Gender, however, has no significant impact on overall poverty incidence and does not play a substantive role in the explanation of the poverty profile.

In addition, all analyses show that the density of households just above the poverty line is high, and that a relatively small shifting of the poverty line results in a significant increase in the number of poor. Together with the decrease in absolute and relative poverty in Serbia there was

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<sup>3</sup> Income includes in-kind income

also a decrease in subjective poverty, which is, regardless of how it is measured, high and covers over 40% of the population.

In Serbia, the picture regarding vulnerable groups is also clear-cut although these groups are not captured by surveys of a general type. The vulnerable groups include Roma living in Roma settlements<sup>4</sup>, refugees and IDPs, especially living in collective centers, certain categories of individuals in residential institutions, social assistance beneficiaries, etc.

During the 2009 crisis, absolute poverty mostly increased precisely in those population segments where it had previously declined, and particularly in non-urban areas and among the less educated.

Figure 1

Figure 2

Qualitative studies suggest that families with children who are MOP beneficiaries are multiply affected by the crisis: through loss of formal employment, a decreasing demand for seasonal and ad hoc jobs (often in the informal sector) and decreased wages in the informal economy (Matković, 2009). In addition a number of respondents were additionally hit due to the decreased support from friends and family, who themselves were also affected by the crisis. Within this clearly vulnerable group there are obviously also those who are long-term vulnerable and who state that the crisis did not result in a worsening of their living standard (Box, Matkovic, 2009).

At the far end of the spectrum are respondents who state that the crisis did not have an impact on their situation. (*Not much can affect me*) or those who did not feel any improvement even before the crisis (*We are constantly in crisis. Now they are only calling it a crisis, but it was also difficult before*).

Even respondents who state that the crisis is not the reason they requested assistance, are

The primary coping mechanism adopted by the Serbian households during the crisis was to postpone or cut down on expenditures. Overall, almost half of the households postponed consumption of nonfood items. The other coping strategies included the use of savings, postponement of covering health costs, assistance from a friend or relative, the deferral of investments in the household's farming activity or the household's business... (Matković, Mijatović, Petrović, 2010)

For the poorest among the poor qualitative studies suggest that the most important coping strategy is work in the "grey economy" (usually seasonal jobs, cleaning, home assistance, and construction works), followed by the reduction in consumption. These households save on more expensive food items (meat, fruits, sweets) and increase the consumption of the cheaper ones (peas, potatoes, flour). The savings are also made on clothing and footwear, meeting the children's needs, and payment of utilities. Finally, they often opt for government transfers such

Questions on children, their needs and wishes that are unmet, and their deprivation are sometimes answered curtly (*They are deprived of everything, from food to clothing*), and sometimes they involve numerous and painful listings (*They have no bicycles, computers, they wear second-hand clothes and shoes, they eat grapes when someone brings them - this year only once. We don't buy fruit, chocolate, or meat. Hygiene is low, they bathe with laundry soap. They bathe in plastic hand basins. We don't buy milk.*) (Matkovic, 2009)

as child allowances and social assistance, as well as borrowing from relatives, friends, and neighbors. This ranking of existing coping mechanisms makes the vulnerable rather distinctive from the rest of the population (Matković, Mijatović, Petrović, 2010).

## **2. The System of Cash Benefits – the Most Important Legislative Changes**

The two main cash benefits that are targeted towards the poor in Serbia are social assistance (the so called MOP) and child allowance. Social assistance is a cash benefit paid out of the budget with the aim of protecting the poorest segment of the population. This benefit is defined as a social safety net of last resort and is a guaranteed minimum income type benefit. Child allowances are also a means tested social assistance instrument targeted towards poor families with children. The design of these two types of benefits was partially amended through legislative changes after the year 2000, while at the end of 2010 new changes are expected in the area of social assistance.

In mid 2002 *the Law on Financial Support to Families with Children* was adopted. One of the most basic features of this law is the clear distinguishing between social policy and population policy measures. In the previous legislation child allowance amounts differed depending on the birth-order of the child, where children of a higher birth order were eligible according to a universal right in regions with a low birth rate (in municipalities and parts of municipalities with a negative natural increase). Therefore, only child allowances for the first and second born child were aimed at the poor. The 2002 law defines child allowances exclusively as a social policy measure and the allowance amount is equal for all children. The entitlement however is limited to a maximum of four children per family, based on medical and sociological reasons, but also based on the principle that the total amount of social welfare benefits that a single family can receive needs to be limited.

The law also eliminated regional/municipal differences in the criteria, determining a single census for the entire Serbian territory. In the previous legislation the child allowance census was defined

according to decentralized criteria and depended on the employee average wage level in the municipality. The inadequacy of this criterion hindered the access to entitlements for the poor in “poorer” municipalities. The law also defined more precisely the income that is taken into account for eligibility, at the same time introducing savings and property as additional criteria. As opposed to the previous legislation where the census and child allowance amounts were determined as a relative category, as a percentage of the wage, the new law attempted to sustain the real value of the benefits, through indexation of the benefits/census with living costs. Another novelty in the new law is the continuous access to the benefit. Instead of the right to apply for the benefit only once a year, applying is now possible at any given moment during the entire year.

The new law provides a more favorable position to families with disabled children, single parents, and also foster parents and guardians in order to provide incentive for deinstitutionalization of children. The better position is manifest in a 20% increase in census and a 30% increase in child allowances.

For primary school aged children mandatory primary education attendance was introduced, while in the pre 2002 legislation only secondary school attendance was mandatory. Through these changes child allowance became more of a conditional cash transfer. In Serbia, in fact, primary education is mandatory, but different data show that among the poorest a significant number of children are early school leavers and never complete primary school (UNICEF, 2006). Although the intended outcome of these changes was to increase attendance in primary school, it could also result in the decrease in the number of child allowance beneficiaries.

*Amendments to the Social Welfare and Citizens’ Social Security Law* adopted in 2004 eliminated inter-municipal differences in the social assistance (MOP) eligibility criteria and introduced a single administrative poverty line at the level of the Republic, sustaining the real



value of benefits through indexation with the costs of living and with continued access in applying for benefits. For households with a majority of beneficiaries capable of work access to the benefit is limited to 9 months in one calendar year.

Introducing a single poverty line for all citizens regardless of the municipality they live in, in practice meant increasing the census level and benefit amounts for potential beneficiaries from municipalities with below-average wages (at that moment in 2004, 2/3 of the municipalities) and keeping an unchanged level, as in the previous legislation, for all other municipalities.

Although at the time of designing the above legislative changes, it was planned that a further set of changes proposed in various research papers (CLDS 2003; World Bank 2005) should be implemented quickly, it took a full 6 years for the new law on social protection to be proposed for adoption.

***The draft of the new law on social protection that is currently in government procedure*** presents an attempt to articulate ten years of reform and research in the area of social protection through new legislation that will in a more modern and suitable manner regulate these issues. Especially significant changes are foreseen in the institutional and regulatory sphere – introduction of a chamber of social protection, licensing of professionals and service providers, instituting public procurement in the commissioning of services, redefining control, monitoring and inspection functions... In the area of social welfare service provision, the new law should enable functioning of a system with clearly defined minimal standards for service provision, an equal treatment of government and non government service providers and shifting the focus from residential to alternative, non-residential care. In addition, the law foresees the introduction of earmarked transfers from central level for financing community based services in the mandate of local governments. Earmarked transfers are intended for less developed municipalities, for

municipalities on whose territory there are residential institutions in transformation, and for supporting innovative social welfare services. In almost all other parts of the law, changes are introduced with the aim of enhancing social protection in Serbia. Necessary changes have also been introduced in the area of cash benefits for the poor. The law foresees increased amounts of benefits for existing beneficiaries, but also expansion in the number of beneficiaries. The changes are designed to provide larger benefit amounts and a larger number of beneficiaries from multiple member households and also from households where all members are incapable of work.

The draft new law anticipates changes in equivalence scales that show which value is assigned to each additional household member. The proposal of a new, higher equivalence scale (0.5 for the second and each additional adult and 0.3 for the child) is similar to the modified OECD equivalence scale. Additionally, the maximum number of eligible household members has been increased from 5 to 6, and depending on the budget the Government can decide to assign values to additional members in households with more than 6 members. For households where all members are incapable of work, the law proposes a 20% increase in census/benefit amounts. The definition of persons incapable of work has also been changed to include youth attending college and university studies, carers of family members with serious and severe disabilities and pregnant women.

An important conceptual development is the emphasis on a pro-active role of beneficiaries and introducing the possibility for their activation. The draft new law stipulates the right and obligation of an individual capable of work to participate in activities that lead to his/her social inclusion. Following a preparatory phase, and where realistic, the law introduces the possibility for Centers for Social Work to sign contracts with beneficiaries for their activation (individual activation plans).

### 3. Beneficiaries, Benefit Amounts and Budget Expenditures

In conditions where there was a relatively high increase in household income and decrease in poverty, *the number of children who were beneficiaries of child allowances* continually decreased and from almost 500 thousand in 2003 reached the number of approximately 376 thousand in 2009 (Figure 3). During 2009 the falling trend almost halted, and in 2010 when the crisis exerted a greater impact on poverty, the number of child allowance beneficiaries started slowly rising (an average of nearly 380 thousand a month during the first 8 months of 2010). In Serbia, almost every fourth child receives this entitlement.

Figure 3

Among the beneficiaries, pre-school and primary school children dominate, with 30% of children from these age groups out of the total number of children in Serbia receiving this entitlement. Among households that are child allowance beneficiaries those receiving the benefit for two children or one child are dominant (over 80% in total). Approximately 15% out of the total number of beneficiaries are children with disability, children with single parents and children from foster and guardian families who are entitled to a higher benefit.

Child allowance in 2010 amounts to approx. 1900 dinars (19 Euro) per child, while the higher child allowance for special categories amounts to approx. 2500 dinars (25 Euro). For a family to become eligible for child allowances, among other conditions, the income per family member must not exceed 6300 dinars (63 Euro) per month. The expenditure share in GDP for child allowances is low (only 0.3% in 2009).

On the other hand, the number of *social cash assistance beneficiaries* almost constantly increased, but the increase in 2009 was even higher than in the previous years.<sup>5</sup> Compared to 2000 when the number of beneficiaries (households) amounted to just 34 thousand, in 2009 there were almost 60 thousand beneficiaries. Single member households dominate in the structure of social assistance (MOP) beneficiaries with a share of almost 40%, clearly demonstrating the inadequacy of the equivalence scales in the current legislation. Concurrently, among MOP beneficiaries there are a somewhat higher percentage of households without children (53.2 %). Among the beneficiaries there is a slightly higher number of women than men in line with the sex structure of the total population. Additionally, the poverty profile in Serbia, as already mentioned, also does not show a greater vulnerability of women than men. In the structure of beneficiaries over 15 according to work status there is a pronounced dominance of the unemployed (72%) and incapable of work (27%).

#### Figure 4

In 2009 the number of requests for MOP and one-off payments<sup>6</sup> increased simultaneously, as well as the number of beneficiaries of one-off assistance in almost all municipalities in Serbia. Research conducted on the impact of the crisis shows that a decrease in employment and wages, due to a decrease in the demand for part-time and seasonal jobs had a decisive influence on the deterioration of the position of the poorest (Matkovic, 2009).

In the first 8 months of 2010 the growing trend in the number of beneficiaries continues, reaching 66 thousand on average per month. Out of the total number of households in Serbia only 2% are

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<sup>5</sup> The number of beneficiaries slightly decreased in 2005 due to administrative back logs and tardiness in the implementation of the changed legislation

<sup>6</sup> One- off payments are in the mandate of municipalities

recipients of assistance. The amounts of benefits (census) range from 5700 dinars (57 Euro) for single member households to 11400 (140 Euro) for families with 5 members. The expenditure share in GDP is low, only 1.5% in 2009, which is significantly lower than in the new EU member states (World Bank, 2007).

Overall, Serbia spends relatively little on social assistance (World Bank, 2009). However, despite difficulties in financing budget expenditure in conditions of decreased revenue and a high deficit, Serbia did not decrease spending for programs aimed at the poorest households.

#### **4. Policy Dilemmas – Solutions, Arguments and Open Issues**

*The first group of dilemmas* The nineties left Serbia not only with a devastated economy and impoverished population, but also with demolished institutions, including a damaged validity of statistical research. The Household Budget Survey (HBS) that could previously provide answers regarding poverty and living standard became obsolete during the nineties, since the quality of this survey had deteriorated significantly and the data were no longer reliable. On the other hand, there was an evident need for analyzing poverty in order to have a solid basis for the forthcoming legislative changes in the social sphere. In addition, there was political demand to produce a clear or at least a sound estimate on the extent of poverty and particularly of the most vulnerable groups. This was especially important for monitoring the dynamics of poverty during the ambitiously designed transition process. In these circumstances a decision was made to conduct the necessary research and this in turn opened up certain conceptual and technical dilemmas<sup>7</sup>.

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<sup>7</sup> Decisions in this area were mostly reached based on recommendations from a working group which dealt with poverty issues in 2001. This working group was one of four that were set up in 2001 in the Ministry for Social Affairs with the aim of implementing social protection reforms.

Resolving them is still in a sense a challenge even today, and over time new dilemmas have emerged.

***Deciding on a poverty concept*** One of the first policy dilemmas was definitely the question of deciding on a poverty concept – what type of poverty are we talking about, what are we combating and what do we want to eradicate? And what type of poverty do we measure and monitor?

As in many other segments, in this area it was also legitimate, justified and logical to think long term and particularly to think within the context of Serbia's aspiration to harmonize its reforms with European goals. With these thoughts in mind, Serbia should have chosen the concept of relative poverty. This concept however was not even considered as a serious option. Despite potential ideological differences that emerge in the course of selecting a poverty concept, and consequently differences in formulating policies for poverty reduction, in those particular circumstances in Serbia it was not difficult to achieve a professional and political consensus. As long as absolute poverty is high and as long as there is a significant part of the population that cannot satisfy even the most basic needs, it was decided that it is necessary that both analytical and policy deliberations must be focused precisely on absolute poverty (Begović et al., 2008).

For purposes of comparability with the EU there were ideas to also officially monitor relative poverty. However, at the time, because of the solution to the second dilemma in this group (consumption/income), comparison with EU indicators was definitely not possible. Monitoring relative poverty according to income, only for comparison sake, with a full awareness that an income aggregate in Serbian circumstances is unacceptable would only cause confusion. That is why in the initial period it was decided to abandon official monitoring of relative poverty as it is monitored in the EU.

The report Monitoring Social Inclusion in Serbia (Government of the Republic of Serbia, 2010) formally introduces monitoring relative poverty according to consumption and according to income. From the policy aspect absolute poverty is still a priority.

The EU accession process obviously entails accepting the concept of social inclusion and beyond poverty indicators i.e. measuring social exclusion. However, the impression is that an extremely comprehensive concept is still being monitored according to segmented indicators (separately for financial poverty, separately for education, healthcare, etc.) which impede insight into the multidimensionality of the social inclusion phenomenon. From the viewpoint of Serbia it would be extremely significant if the list of social inclusion indicators would include some that are multidimensional, so that multiply-vulnerable groups could be defined more precisely and ranked according to vulnerability degree.

On the other hand, the problem is that surveys aimed at the entire population provide very little information on particular segments of extremely vulnerable groups, as are in Serbia for example the Roma in so called Roma settlements or children and persons with severe disabilities. Information on the vulnerability of these groups is still gathered through specific and specifically focused research that is not “unified” and cannot be inter-compared. This however is not such a problem in the case of vulnerable groups such as those mentioned above, since they are doubtlessly those to whom we need to target special inter sectoral policies and activities. However, problems emerge when the list starts expanding and it becomes difficult to select priorities. Perhaps a solution could be to annually, together with SILC that captures the situation based on core sample, conduct an additional survey with a booster sample that would capture in more detail the situation of a specific segment of the population (cash benefit recipients, pensioners with low pensions, Roma in Roma settlements, persons with disability, etc.). This

could potentially be important for evaluating policy impact that generally in Serbia needs to be closely monitored not only through SILC but through other statistics research as well.

Returning to the question of monitoring poverty, for Serbia it is extremely important to persist in monitoring absolute poverty until the time it decreases to a low level. The material deprivation indicator that was included since 2009 into the EU social inclusion indicators does not provide insight on the portion of the poor who cannot satisfy even the basic needs. Because of the need to make this EU indicator applicable in both the developed and less developed parts of Europe, the indicator includes certain items that are not completely adequate for gaining a fully realistic picture of the true level of deprivation.

***Consumption/income*** The second dilemma was also easily solved. Despite the fact that until 2000 poverty was monitored according to income, it was decided that poverty and living standard would in Serbia be measured according to consumption. Once again, a conscious decision was made, aware that comparison with EU indicators would not be possible. This decision was in part influenced by World Bank experience and recommendations that consumption is a better indicator of living standards in transition countries (World Bank, 2000). But even more so the reality in Serbia confirmed this – a widespread grey economy, significant remittances from abroad that entered the country through informal channels and went unreported, a high share of in-kind consumption, and vast irregularities in wage payments<sup>8</sup>. The assessment was that measurement based on income would not provide a realistic picture when the standard of a significant number of households depended on in-kind consumption and irregular or “illegal” income that could not be adequately captured by a survey. While the former could be overcome by introducing the concept of nonmonetary income, the latter was impossible to solve.

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<sup>8</sup> On the magnitude of each of these phenomena see (Bjeloglav et al., 2006)



In any case, at that time, the EU was still not joined by new member states so poverty and living standard indicators were primarily suitable for developed countries. The instructions that were given at a later stage, recommending that new member states can/should include in-kind income as part of the income, solved part of the problems that made it unacceptable for Serbia to select income as a living standard measurement.

Comparing relative poverty trends in Serbia according to consumption and income in the period between 2006 and 2009 in part illustrate the previous statements. While in 2009 relative income poverty continued to decrease, consumption poverty increased (simultaneously with an increase in absolute poverty) (Government of the Republic of Serbia, 2010).

In this context it could make sense to include a consumption module into the SILC in Serbia in order to simultaneously monitor poverty according to both consumption and income.

***Survey data sources – LSMS, HBS*** In 2001 out of very pragmatic reasons Serbia decided that the Living Measurement Survey (LSMS) will be the source of statistic data on poverty and living standards and not the Household Budget Survey (HBS). The data on poverty and living standard were needed as quickly as possible, both because of the need for preparing reform/legislative changes and for drafting the Poverty Reduction Strategy. Time could be gained only by adapting the World Bank LSMS model to Serbian specificities and outsourcing a private survey company. At the time it was impossible to enhance the HBS with the Statistics Office promptly due to various reasons, including specific political circumstances (federal/republic mandates). The SILC had still not been introduced in the EU.

The second important reason why the LSMS was more than welcome in Serbia is the fact that this research is wider in scope (comprises many more elements important for providing insight into the areas of healthcare and education, for example) and also because it is more precise in capturing individual population categories, such as cash assistance beneficiaries. At mid decade, justifiably, poverty and living standards started being monitored through an enhanced HBS, while the LSMS was conducted once more in 2007 in order to provide a clear picture on what happened in Serbia since the first poverty survey.

Although in reality there was no choice to begin with, over time certain weaknesses in shifting from one to the other survey as a data source emerged. First of all this resulted in creating confusion in the general public, who simply cannot make a distinction between the two data sources and the incomparability of their poverty findings. Second, although this is not an insurmountable technical issue, there is a lack of a continuous series of poverty data. It is true that this second problem was not overly pronounced since there was an unequivocal downward poverty trend, and also since the basic structural characteristics of the poor remained unchanged. It would have been much more adverse if the shift from one to the other survey had occurred when the poverty trend was upturning, as happened during the current crisis.

Today the best solution would be opting for SILC and its implementation in an official statistical institution. Currently when Serbia is preparing to introduce SILC and is in the process of changing the poverty data source once again in just ten years, it would be extremely important at least for some time to continue monitoring poverty (absolute consumption poverty) based on the HBS in order to have a clear picture on the trends.

Finally, it could be important to note, that due to the foreseen changes, not only in introducing a new data source, but also in introducing a new poverty concept, it would be important to

transparently communicate with the media and the general public. It would also be significant that the Republic Statistics Office officially publishes poverty data and not only the Social Inclusion and Poverty Reduction Team with the Deputy Prime Minister's Office.

***The second group of dilemmas*** The second group of dilemmas was related to certain legislative changes in formulating cash benefits for the poor. This group can be divided into more general dilemmas and those related to the design of specific policies. Some dilemmas emerged only during the process of formulating the first legislative changes in 2003, and some during the recent drafting of the new law on social protection. In this context, the paper will mention only those dilemmas that are still present to date, either because they were previously solved temporarily in line with the then existing circumstances, or because there was a need to re-open them.

***Consolidating social assistance and child allowances*** One of the dilemmas that emerged in conceptualizing cash benefits for the poor was the issue of merging social assistance and child allowances (as means-tested benefits targeted towards the poor) into one benefit. Although this option was seriously considered, and was even mentioned as an option in the PRS, regardless of its clear potential advantages, a decision was made not to merge these two benefits. Having in mind the likelihood that the issue of consolidating social programs will be revived again, the paper will present the arguments in favor of this idea, as well as the arguments that contributed to deciding against the merging of social assistance and child allowances.

In the existing system, as already mentioned, the administrative poverty lines for these two benefits are different, as well as certain other eligibility criteria. In addition social assistance is a top up benefit while the amount of child allowance is the same for all eligible households. The administration of these two benefits is also conducted in different local level institutions. Children

from social assistance beneficiary families receive child allowances if they attend school regularly.

One of the arguments that speaks in favor of consolidating social assistance and child allowances is the fact that a consolidated benefit would improve the targeting (excluding households that are better-off) and would increase their adequacy (increasing the amounts of the benefits to the poor). At the same time this would lead to an increased elasticity of the system on the income of the poor because of the elimination of child allowances that are provided in equal amounts regardless of the household income.<sup>9</sup>

The reasons for deciding against consolidation were, however, fundamental in nature. Keeping two separate benefits and two policy instruments provides more space for maneuver with the option of favoring poor families with children over the total poor population. Child allowances can cover a wider scope of families with children, not only “the poorest of the poor”. Additionally, at the same level of budget expenditure, with the introduction of a new benefit a significant number of children current beneficiaries would be excluded from state assistance – a fact that was confirmed by subsequent research (Matkovic, Mijatovic, 2009). Although these families are “better-off” compared to the poorest, they are definitely not well off. A different issue is the need to further improve child allowance program targeting, and this issue is still on the agenda.

Finally, the administrative consolidation of social assistance (MOP) and child allowances was also under discussion, but it was concluded that, except under specific circumstances - that are

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<sup>9</sup> For more information on consolidated benefits see the Poverty Reduction Strategy (Government of the Republic of Serbia, 2003, p.106-107)

difficult to achieve, this option would not result in substantial gains in terms of work efficiency and improved beneficiary targeting (Hurrell et al., 2007; Matkovic, Mijatovic, 2009).

***Indexation of benefits, defined in absolute amounts*** Serbia decided to discard the expressing of cash benefits in relative terms, as a percentage of the wage, and instead defines benefits in absolute amounts, indexed by the costs of living. This decision was based on both pragmatic and conceptual reasons. Firstly, this was in line with the adopted concept of absolute poverty and its reduction, as the primary and real challenge facing Serbia as a transition country. Secondly, due to constant technical changes in the concept of wages (shifting from net to gross wages, inclusion of hot meals and similar fringe benefits), and later due to statistical changes in the calculation of the average wage, the expenditures for cash benefits would not have been controllable. Additionally, there was the question of whether the average wage parameter and its trend are a true measure of the living standards of the poor in a country where a sizeable part of the living standards of numerous households does not depend on wages, but on in-kind consumption, remittances and income from the grey economy.

Without questioning these arguments and still respecting the previously stated facts, from today's perspective however, a new question poses itself. The social welfare program administrative poverty line in Serbia is not established in a way that it satisfies even the minimum needs, especially not those of a multimember household. The line was set at the earlier established level and in line with existing reality i.e. the available budgetary resources. The census for child allowance eligibility and the benefit amount were also determined in a similar manner, with the expectation that relevant research and improvement of the economic and budgetary situation

would enable an increase in benefits targeted towards the poor.<sup>10</sup> This battle though is very difficult to win in the reality of political circumstances. The poor who receive benefits are not influential, as are for instance pensioners or trade unions, and they do not represent a significant portion of the electorate.

Thus, in conditions of economic development the question is how to secure higher benefit amounts that would enable satisfying the minimum needs proclaimed by the absolute poverty concept i.e. how to secure higher budgetary allocations for programs targeted towards the poor. One possible solution could be some type of automatism in conditions of a rapid GDP growth or better yet budget revenues - meaning that after reaching a certain trigger it would be mandatory to re-examine the benefit/census amount.

***Decentralization of the cash benefit system*** Although the dilemma of decentralizing the mandate for cash benefits from central to the local level was non-existent at the time of the initial designing of the system, the issue of decentralization in terms of devolution was on several occasions placed on the agenda by different actors, including some international experts.

During the analysis and evaluation of the achieved level of decentralization in Serbia, at least two facts need to be taken into account. First, Serbia does not have regions, as a potential intermediary level of government and second, there are large differences in the level of development, size, fiscal and administrative capacity between municipalities and cities as the basic units of local government. This is particularly important for social welfare, since even in

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<sup>10</sup> The changes were already in 2002 planned to be implemented in two phases in order to avoid single large shock for the budget. Simultaneous savings in other areas were supposed to open up budgetary space for expanding the coverage of cash benefits as the most efficient social transfer. For example, although the child allowance program actually generated savings, this argument was not used for a further expansion of the social assistance program (MOP).

more developed municipalities/cities social welfare often loses the battle with other, politically more attractive areas (such as for instance education and healthcare). In these circumstances there was a concern that the decentralization of benefits could lead to the situation that social assistance or child allowances, as in some other countries in transition, are paid out only by the wealthiest local governments. Additionally, in Serbia it must not be overlooked that the democratization process is still in progress and that the design of cash benefit systems in certain local communities could be influenced by antagonistic attitudes towards specific beneficiary groups, including certain ethnic communities. These were the pragmatic reasons.

Essentially, the group that originally designed the changes in the system in 2001 was of the opinion that cash benefits, having a redistributive function should be legally defined at national level, at least in the minimum amount, as basic social rights. In Serbia, both the amounts and census for social assistance are defined at a level that enables only the satisfying of the most minimal needs and these amounts do not significantly differ between municipalities. Similarly, child allowance amounts cover only the basic/minimal needs of the child. However, the fundamental reason for keeping cash benefits at central level, is the conviction that these entitlements should be equally accessible to all citizens, regardless of which municipality they live in. According to the already existing legislation, local governments can decide to pay out additional entitlements and one-off payments from their own budgets.

***The status of social assistance beneficiaries capable of work*** Different views in Serbia related to the status of MOP beneficiaries capable of work range from opinions that they should be excluded from social assistance programs, through opinions that support the existing policy on limited duration of social assistance, to attitudes on introducing activation, that would by the very essence of this concept provide a solution to this dilemma.

The current legislation on the limited duration of 9 months to the entitlement to social assistance (MOP) for households where the majority of members are capable of work produced and is still producing controversies. This principle was only partly based on theoretical assumptions that those who are capable of work should not completely rely on social assistance. The idea for the most part stemmed from practice that was already being implemented in numerous municipalities. The existing law already gave social workers the discretionary right to estimate unregistered income (from the grey economy). This discretionary right was exercised by a significant number of municipalities, especially during the farming season. This could also be clearly seen at national level through the monthly fluctuations of beneficiaries during the year. In a number of municipalities however, due to beneficiary pressure, this right was not used, although there were many opportunities for finding work during the farming season and at the same time a lack of labor. In designing the changes to the law it seemed reasonable to provide uniformity in this area and avoid that practice throughout Serbia depends solely on discretionary rights.

The new draft law also retains this principle, but, as already mentioned, modified with a gradual introduction of activation programs. In the conditions of a still widespread gray economy, the limited duration of the social assistance for beneficiaries capable of work was retained since it cannot be expected that activation programs will provide quick results, for at least two reasons. First, the capacities of the Centers for Social Work and other relevant institutions is relatively low, especially in small and underdeveloped municipalities and time will be needed for them to become proficient in implementing this completely new concept. The second important reason is that in Serbia there is still high unemployment and in such circumstances it is questionable whether it is realistic that the capacity of the National Employment Office will be focused on MOP beneficiaries. Both the concept and the implementation of activation programs need to be



adapted to the fact that unemployment in Serbia is not just 3-4%, but rather over 20% according to the Labor Force Survey.<sup>11</sup>

During the past few years some type of MOP beneficiary activation programs have been implemented through public works, although insufficiently focused on this specific category of unemployed. An opportunity was lost, especially during the times of crisis, to enable the poorest of the poor to earn additional income. Research on the engagement of social assistance beneficiaries capable of work, however, did provide an insight into the advantages of activation and helped in removing at least part of the problems in designing the benefit program (Petrovic, 2009). Thus, for instance, it was noted that MOP beneficiaries, after finishing their employment, cannot directly return to receiving social assistance, and this problem was resolved in the new draft law.

Certain proposals to completely exclude beneficiaries capable of work from social assistance schemes and transferring them to the National Employment Office were discarded for several reasons. To begin with the National Employment Office is overburdened as it is and has neither the knowledge nor capacity to do means tested targeting and most importantly because families requesting social assistance in reality have multiple problems that would not be detected, nor solved if they were moved out of the Centers for Social Work. Additionally, in Serbia activation is conceptualized more as an instrument for inclusion than punishment, and thus leaving it in the hands of social workers makes more sense.

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<sup>11</sup> According to the National employment Office the unemployment rate is 25.6%, while there are over 835 thousand registered unemployed (National Employment Office, 2010).

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## Tables and figures

**Table 1 Poverty indicators in Serbia, 2006 – 2009.**

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Absolute poverty line per adult equivalent, in dinars	6,221	6,625	7,401	8,022
Percentage of the poor	8.8	8.3	6.1	6.9
Relative poverty line by consumption per adult equivalent, in dinars	7,171	7,747	8,923	9,583
Percentage of the poor	14.4	13.4	13.2	13.6
At-risk-of-poverty threshold, in dinars – one person household	8,388	9,900	11,520	12,828
At –risk- of- poverty rate	20.9	21.0	17.9	17.7
Self-perceived at-risk-of-poverty rate	50.0	43.6	43.4	42.2

Source: HBS data (Government of the Republic of Serbia, 2010)

### Figure 1

Source: HBS data (Government of the Republic of Serbia, 2010)

### Figure 2

Source: HBS data (Government of the Republic of Serbia, 2010)

### Figure 3

Ministry of Labour and Social Policy

**Figure 4**

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