

## **Serbia and Montenegro: Poverty Reduction Strategy Paper**

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# **Poverty Reduction Strategy of the Union of Serbia and Montenegro**

## Introduction

The Union of Serbia and Montenegro was formed in February 2003 following the signing of the Belgrade agreement in March 2002, out of the remaining parts of the former Socialist Federal Republic of Yugoslavia. The union of these two republics helped conclude a difficult period of wars, international sanctions and international military intervention which led to destroyed infrastructure and social and economic decline. There was a dramatic reduction of GDP by more than 50%, massive increase in unemployment, a drastic fall in salaries, pensions and other personal income caused by the politics of the previous authoritarian regime. Hundred of thousands of people came as refugees and IDPs, fleeing their traditional homes in search of a place to live without fear of ethnic reprisals. There was a general increase in crime and corruption, and a rapid growth of the “grey” or informal economy. All this led to the rapid impoverishment of the majority of the citizens.

Against this background, the Governments of the Union and both republics, during the last years have made major economic and political reforms, and have begun to address the problems of poverty and social exclusion. We have made major efforts to move from the socialist to a market-based economy, while moving at the same time to a democratic political structure. Economic reforms have included major privatisations of productive and financial assets, liberalization of the trade regime, reform of the social security system, judicial reform, and liberalization of labour laws. In general, steps have been taken to improve the environment for business by reducing unnecessary bureaucratic regulations and taxes. Discussions have begun that will eventually lead to the membership of Serbia and Montenegro in the WTO and the EU. These reform efforts began in Serbia only in 2001, with the emergence of a democratically elected republican government, but started somewhat earlier in Montenegro.

An Interim PRSP was discussed by the Boards of the IMF and World Bank in July 2002, and was prepared over the period during the negotiation process of the creation of the new union of the two republics. Thus, the I-PRSP gave only a vague sketch of our emerging poverty strategy. The current document represents the overall final poverty strategy for the union of the two member states, being composed of separate PRSPs each for Serbia and Montenegro.<sup>1</sup> Both papers analyse the latest available data on poverty, reflect challenges facing the governments in addressing the acute poverty situation and lay out policies and mechanisms for the sustainable reduction of the poverty over the medium term. The strategies adopted by the individual republics are consistent and form an overall strategy for the State Union.

A successful implementation of the Poverty Reduction Strategy will mean a reduction of poverty in the Union of Serbia and Montenegro to around 7 percent by 2010 with an average annual growth of around 4–4,5 percent and the same level of average inequality in society.

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<sup>1</sup> In Montenegro, the strategy is entitled Development and Poverty Reduction Strategy or DPRS.

## The Poverty Situation

The Governments recognises that poverty is a multidimensional economic, social and phenomenon, which crucially depends on incomes and employment opportunities as well as, social inclusion, access to education, health, quality of housing and other public services. Participation in social and political processes, protection of human rights, gender and ethnic equality are essential dimensions of a wider poverty definition. With such broad definition and limited resources the choice of priorities and the design of effective and targeted public actions gain critical importance in reaching the necessary balance between longer and shorter term needs and challenges.

Poverty analyses show that poverty in the Union. at about 11%<sup>2</sup>, approximately 800.000 in Serbia and 87.600 in Montenegro lives below the national poverty lines with consumption (per equivalent adult)<sup>3</sup> of less than 71 € per month in Serbia and 116.2 € in Montenegro, i.e. 2.4 € and 3.9 € per day.<sup>4</sup> Poverty is higher among vulnerable groups and in rural regions. Additionally in both Republics, many people are at risk of falling below the poverty line. Small changes in average income and external shocks would produce large changes in the poverty rate. For instance, in Serbia, a 22% fall in real income would double the poverty rate. In Montenegro raising the poverty line with 20 percent will double the number of poor.

In the rural regions of both Serbia and Montenegro, poverty is much higher than average. In northern Montenegro, poverty rates average 19%, while in southeastern Serbia poverty is estimated at 23%. Poverty is generally clearly correlated with a number of factors:

- unemployment,
- low levels of education,
- large family size,
- single-member and elderly households, and
- vulnerability.

The highest rates of poverty, however, are found among certain vulnerable and socially excluded groups, including displaced persons, refugees, the disabled, and the Roma population. Within the Roma<sup>5</sup> population, a recent survey in Montenegro found that 52% lived in poverty, they have an unemployment rate of 43%, and 70% have not attended secondary school. It is estimated that there is 32% illiteracy. According to official statistics there are around 120,000 Roma living in the Union territory but domestic and international estimates indicates that the actual number is around 370.000. In addition, according to the most recent estimates, there are over 600,000 refugees and IDPs<sup>6</sup> living in Serbia and Montenegro, who have severe deficiencies in housing, employment, health and education. According to assessments, around 22% percent of this category lives in poverty.<sup>7</sup> Another vulnerable group is the disabled.

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<sup>2</sup> Poverty headcount estimates are 10.6% for Serbia in 2002 and 12.2% for Montenegro in 2003. However, poverty estimates for Montenegro include Roma population and a larger portion of Refugees. which are excluded from the estimates for Serbia.

<sup>3</sup> Consumption per equivalent adult allows for the differences in the consumption of adults and children as well as for the joint costs of the households.

<sup>4</sup> 4 rate 63.225 dinars per €

<sup>5</sup> Technically RAE: Roma. Ashkaelia and Egyptian minorities. Internally Displaced Persons.

<sup>6</sup> Internally Displaced Persons.

<sup>7</sup> In Montenegro 38 percent and in Serbia 25 percent of Refugees and IDPs lives in poverty.

Although there are no precise figure, some estimates indicates that there are approximately 360,000 disabled in the Union. Only 13% of the disabled have the opportunity to work, and only one-third have a job adjusted to their needs.

The PRSP process in both republics included extensive consultations with all relevant stakeholders through established advisory committees (Civil Society, Parliamentary, Local Government, Media, Labour Unions, Experts, International Development Partners and Business sector). In these consultations, the problems faced by the poor were revealed. While each group often had different priorities, these discussions placed heavy emphasis on a few key factors; employment, rule of law, public services including infrastructure, health and education, housing and social services.

### Poverty Strategy

Integration into the EU is the strategic objective of the Union of Serbia and Montenegro. Consequently, the development of the society and the economy including the fight against poverty in Serbia and Montenegro is pursued with European values, EU norms and standards, as well as EU policies in mind.

Through the process of developing the Poverty Reduction Strategy, national indicators in line with the UN Millennium Development Goals (MDGs) have been identified. Hence, we have taken an important step forward in the process of reaching these goals by 2015.

Our overall poverty reduction strategy for the Union consists of three main pillars:

- establishing the conditions for dynamic and equitable economic growth, through the creation of a stable macro-economic environment and favourable investment climate, that will create employment and reduce economic vulnerability, as well as the establishment of key programs to directly promote employment among the poor;
- prevention of new poverty resulting from the modernisation and restructuring of the economy through targeted training and social measures enhancing this group's ability to take advantage of new opportunities created in the reformed market economy.
- improved access to social services by the poor, such as health, education, water and other key infrastructure needs, through improved targeting of existing programs, and actions that improve the efficiency and quality of services delivered, particularly to the most vulnerable groups in society. The goal of these activities is to initiate a long- term process of empowering vulnerable groups to move out of poverty, through the development of new market-oriented skills, and the provision of minimum standards of living.;

Additionally the Strategy call for the establishment of better systems for implementation of activities and for monitoring of key poverty indicators in close co operation and with active participation of all relevant governmental and non-governmental stakeholders.

### Key Implementation Measures

The Governments are fully committed to the implementation of this Poverty Reduction Strategy. It will require significant efforts on many fronts, both to extend and deepen the reform

efforts recently begun, and to undertake additional efforts in other areas. The principle directions of our efforts will be as follows:

**Integration.** During the recent period, Serbia and Montenegro has joined international economic and financial organisations including IMF, WB, UN, Council of Europe, negotiation regarding Partnership for Peace membership has started and we have taken some initial steps towards EU and WTO accession. Additionally we have been an active player in the development of the South East Europe Free Trade Area. This has created the basis for further integration of the Union into the Region, Europe and the wider world, with the aim of enabling faster economic and overall development. In August 2003. an Action Plan for the harmonisation of economic systems in Serbia and Montenegro was adopted. The plan aims at the creation of a common market and the removal of obstacles to the free flow of people, commodities, services and capital. Through the Stabilization and Association process (SAp) the EU has encouraged Serbia and Montenegro to prepare for full EU membership by working to achieve very high standards relating to the economy, the functioning of the rule of law, democratisation, and human rights. The Government will continue its efforts to speed up the above-mentioned integration processes that are so crucial to enhance the stability of both Serbia and Montenegro and the region.

**Macroeconomic stability.** The policies will be geared to support growth while narrowing the external current account deficit. Against the backdrop of relatively modest output and export growth, and a large current account deficit reflecting in part strong consumer demand, policies in 2004 will aim to strengthen external competitiveness while containing the growth in domestic demand and costs. The external **current account deficit** (before grants) is projected to narrow by ½ percentage point to 10.3 percent of GDP in 2004, and to decline steadily thereafter, as exports recover toward historical levels—reflecting improving domestic supply conditions and an upturn in foreign demand—and imports continue to be contained by the implementation of prudent policies. During 2004, the overall fiscal deficit including foreign financed projects will be targeted to decline to 3.8 percent of GDP. Growth in wage bills in state enterprises will continue to be limited to the projected rate of inflation. The Government recognises that stability is a critical condition for both economic growth and poverty reduction and is therefore fully committed to continue it efforts to achieve this.

**Economic Environment.** The Government will continue to maintain a stable macro economic environment, and take steps to increase the attractiveness of the economy for private investors, including improvements in the legal and judicial structures and assistance to small and medium scale entrepreneurs. The privatisation process will accelerate, particularly based on the limited restructuring of state/socially owned enterprises capable of being competitive in the market. The implementation of new Bankruptcy Laws will enable us to close down those enterprises that cannot be profitably restructured. A major tax reform has already reduced corporate taxation and implemented or will soon be implementing, a VAT. Further tax reforms will aim at simplifying and improving the system. Reform in the financial sector have already improved financial sector regulation and increased the role of the private sector. The privatisation of the remaining publicly owned banks are envisaged over the next three years.

**Public Sector.** The public sector will be strengthened through measures to improve budgetary, procurement and treasury functions. A major program of judicial reform is already underway, with the intention of bringing the judiciary up to EU standards Public administration reform is one of the priority tasks for the future, both to increase efficiency and to reduce the opportunities for corruption. Corruption in the public sector both discourages private investors,

and denies the poor access to essential services. The key will be the establishment of a professional civil service, free from political interference, with clear guidelines on ethical issues. In Serbia, an Anti-Corruption Council has been formed, and a group of anti-corruption laws are expected to be passed by in early 2004. The Government of Montenegro will soon adopt the programme for combating corruption and organised crime as well as the strategy for combating illicit people trafficking. Another key part of public sector reform is to strengthen local government structures, and decentralize the delivery of services to local municipalities, working with local NGOs. The Government recognises that well- functioning legal institutions, and a government bound by the rule of law, are important to economic and political development, and represent an important precondition for private capital investments and economic growth. The importance of the rule of law is enshrined in the principles of the EU.

**Social Sectors.** In general, the PRS envisions a continued improvement in all social services, including pensions and social protection programs, building on recent reforms. While programs of social protection have recently been improved in terms of targeting efficiency and program operation, a major issue remains the clearance of arrears accumulated from the past, particularly in Montenegro. A major effort will be made to improve the targeting of these programs to all eligible groups, particularly the most vulnerable and excluded, who often fail to participate. Special programs will be set up to provide social protection for the elderly. in the area of pension reform, the Governments will consider to move toward the establishment of the remaining two pillars of the reform: private mandatory and especially private voluntary systems. In the health sec/or, one of the main issues to be addressed includes the financing of the health system. At present. the benefits provided far exceed revenues from wage taxes. This requires redefinition of what services will be provided, and how they will be financed. The system itself needs to improve its overall efficiency in the use of resources, and shift its emphasis more toward preventative and primary care. A major focus of PRS reforms will be to include vulnerable groups, particularly the Roma, IDPs and refugees within the system. Support of the International Community is needed to achieve this. Greater efforts will be made to promote better public health through health promotion. in education, the major challenge is to improve the quality of education, to increase attendance in pre-primary programs, and to include vulnerable and excluded groups. A major problem is that existing vocational secondary schools are not aligned with contemporary market demands. A major reform of the curricula, and better coordination with the private sector, is required. Special programs will be designed to make schools more accessible to the Roma population, and to children with special needs, particularly the disabled.

**Rural Development.** The high rate of poverty in rural areas necessitates special attention to the needs of these areas. These include steps to improve productivity in both farm and non farm employment, as well as improvements in social services and rural infrastructure. To do this requires efforts to help support development of SMIEs, improve marketing and processing facilities for agricultural goods, and better development of forest resources, especially wood processing. Special emphasis has to be given to rural infrastructure needs, including reliable water supply at EU standards, better sewer and sanitation services, and improvements in rural roads that allow access to markets. During the coming period the responsibility and the capacity of the local self-governments needs to be strengthened to achieve this.

**Infrastructure and Environment.** A major effort will be made in the PRS to improve basic infrastructure throughout the country. Much of the present stock of infrastructure has deteriorated during the last decade due to a lack of investment and adequate maintenance. There is a major need to rehabilitate the existing stock of infrastructure, and make limited extensions.

This is particularly true in transport, where efforts need to be made to improve the operations of the railways, ports and marine transport. A major effort needs to be made to improve the safety of road transport, as well as to improve roads in rural areas. In energy, major efforts have been made to improve reliability of power supplies, restore and rehabilitate key assets, and improve cost recovery. For the future, greater efforts will be made to improve efficiency and collections of bills, and to work more closely with private investors in rebuilding capacities. In water supply, the major goals will be to improve the efficiency, management and financial operations of service providers, to enhance the accessibility and quality of water services, and to protect human health and the environment. The PRS is based on the concept of sustainable development and rational management of natural resources. In terms of environmental management, we will focus on establishing the appropriate legislative and institutional frameworks, improve the environmental management system efficiency, and implement priority projects to reduce pollution and environmental degradation. Furthermore, it is critical to continue the strengthening of the capacity of involved institutions and companies, with the objective to improve planning and implementation of externally financed projects. In this context, it is important to shift away from a mainly technical-focused approach to one emphasising cost-benefit and economic analysis. It is also important to speed up the restructuring process within these sectors, in order to prepare the companies for privatisation and external competition.

### The Cost of the PRSP

Both republics have undertaken detailed costing exercises to approximate the additional cost, beyond their present resources, needed to implement this Strategy. These costs are summarized in the table below, by sector. The overall cost for the period 2004–06 has an indicative total of € 1.5 billion (Serbia €1.1 billion, Montenegro € .4 billion). However, not all of these costs are additional, but would be partly met from reallocations within sectors and between sectors using currently available resources. In addition, some of these costs could be met from additional domestic resource mobilization. The balance would have to come from external assistance. In Montenegro, it is estimated that foreign financing would amount to about 60% of the total.

**Table I. Serbia and Montenegro: Breakdown of PRS Costs by Sector.**  
(millions €)

<b>Sector</b>	<b>Serbia</b>	<b>Montenegro</b>	<b>total</b>	<b>%</b>
Social Protection	157.2	54.7	211.9	13.9%
Education	333.2	96.7	429.9	28.2%
Health	170.2	47.4	217.6	14.3%
Employment	238.5	49.9	288.4	18.9%
Rural, Regional & Agriculture Dev.	64.3	64.9	129.2	8.5%
Environment	5.8	26.4	32.2	2.1%
Infrastructure/Urban	70.3	67.2	137.5	9.0%
Others	47.8	32.6	80.4	5.2%
total	1087.3	439.8	1527.1	100.0

While the PRS includes some spending for almost every sector, the priorities overall emerge from the greater weight given to certain sectors. The priorities clearly are education, employment, health and social protection, in that order. These four alone amount to 75% of the total. Priorities do differ slightly between the two republics, however, with Montenegro giving more weight to rural development and infrastructure, compared to Serbia.

## Implementation. Monitoring and Evaluation

The fight against poverty is a long struggle that will be facilitated by the implementation of the PRS. To maximise the future impact of the strategy, it is important to ensure an effective integration with and linkages to the overall reform process and the overarching European Integration agenda. It is also of central importance to align and link the implementation of the PRS with the yearly Budget process and the framework external resources.

With the adoption of the Strategy, the focus shifts from planning to action - a critical and challenging phase for most strategy processes. It is now necessary to develop effective implementation mechanism taking into account available resources and constraints. The Government of Serbia and Montenegro is committed to doing so.

Each republic has established a set of goals for monitoring purposes. These targets are closely aligned with the Millennium Development Goals, and include both ultimate objectives and process indicators. The next important steps that are required will be to improve statistical capacities to report on these indicators, and to establish working groups in the relevant ministries to be in charge of monitoring not only the indicators, but also the actual implementation of the strategy itself. We intend to carry out the monitoring of the PRSP in a participatory fashion, actively involving all relevant stakeholders, including the civil society, and the Parliament.



**Government of the Republic of Serbia**

# **Poverty Reduction Strategy Paper for Serbia**

**Executive Summary and Activity Matrices**

Belgrade, 2003

“A national poverty reduction strategy must tackle the causes, not only the consequences of poverty; it should be defined as a strategy of social development, aimed in the long run at building a successful but fair society governed by principles of solidarity and equal opportunity for all.”

A handwritten signature in black ink, appearing to read 'Zoran Đinđić'.

*Zoran Đinđić, PhD*

Belgrade, 18 December 2002

Conference “Poverty Profile in Serbia”

# POVERTY REDUCTION STRATEGY PAPER FOR SERBIA

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## II ACTIVITY MATRICES

# **POVERTY REDUCTION STRATEGY PAPER FOR SERBIA**

## **EXECUTIVE SUMMARY**

### **1. Origins of Poverty in Serbia**

Poverty, especially its extreme forms, was scarcely in evidence in Serbia until the beginning of the 1990s. Serbia, as a constituent part of the former SFRY, used to have a per capita GDP of more than 3,000 USD; it had developed commercial and financial relations with the West, and the economic system was largely based on market principles. Education, health care, social protection and other services were accessible to the majority of citizens. For these reasons Serbia, together with other former Yugoslav republics, was in a good position to make the transition to a modern market economy and a democratic society with much less difficulty than other countries in transition.

Instead, however, Serbia underwent a complete economic and social collapse in the 1990s, and the development of democracy remained at a standstill. There was a dramatic fall in GDP (of about 50%), massive unemployment, a drastic fall in salaries, pensions and other personal income caused by the policies of the previous authoritarian regime, international isolation of the country, strict economic sanctions, the breakdown of the market within the former SFRY, wars in the region, and the bombing of Serbia in 1999. The situation was additionally aggravated by the influx of 700,000 refugees and internally displaced persons from Bosnia and Herzegovina, Croatia and Kosovo, who now represent nearly 10% of Serbia's population.

All this led to the rapid impoverishment of the majority of citizens, and, on the other hand, to the enormous enrichment of a small group of people by means of corruption, economic crime and close links with the regime. The share of the "grey" economy during the unprecedented hyperinflation of 1993 exceeded 50% of GDP.

All this meant that the new democratic Government had to confront two equally difficult problems after the political changes in October 2000. On the one hand, it inherited the most difficult economic and social situation in which Serbia has found itself in its recent history. On the other hand, due to ten years of inaction, it was necessary to start immediately the crucial transitional and reform processes, in highly unfavourable circumstances. Many of these processes are painful, since they open up new social problems and emphasize new forms and areas of poverty, primarily as a consequence of the restructuring of the economy and the entire process of adjusting to the rules of a market economy and to international competition.

Finally, insufficient attention had previously been given to socially vulnerable groups (children, the elderly, persons with disabilities, refugees and internally displaced persons, Roma, the rural poor, and the uneducated) who are affected by the severest forms of

poverty. The reasons for this were above all financial, but also arose out of an attitude of ignorance towards the problems and the neglect of the basic human rights of these groups. Much more has been done in this area since the democratic changes in 2000, with significant contributions from non-governmental organisations, civil society and the international community.

Thus, poverty in Serbia is primarily a consequence of the dramatic falls in GDP, the level of employment, incomes and living standards in the 1990s. Although the situation has improved in the period between 2001 and 2003, mostly owing to the successful initiation of reforms and to international support which has enabled significant growth in GDP, salaries, pensions and other personal income, it is too short a period to make up for the downturn which took place in the previous decade. One favourable circumstance is that inequality in income distribution is still moderate. On the other hand, if measures to provide support for vulnerable and socially excluded groups do not succeed in Serbia, there is a real danger that new forms of poverty will result from the implementation of necessary economic and social reforms.

## **2. How many poor are there in Serbia and who are they?**

In 2002 there were approximately 800,000 people (10.6% of the population or 250,000 households)<sup>1</sup> below the national poverty line, with a consumption (by consumer unit)<sup>2</sup> of less than 4,489 Dinars or 72 USD per month, i.e. 2.4 USD per day<sup>3</sup>.

The poverty line was defined in two steps. The first parameter defined was the absolute poverty line, on the basis of a minimum consumer food basket and minimum daily calorie intake– 2,288 (in accordance with the nutrition recommendations of the FAO). The minimum consumer food basket for a four-member household<sup>4</sup> cost 7,605 Dinars a month. The second was the complete poverty line that, besides food expenses, also includes expenses for clothes and shoes, hygiene and household goods, transport, healthcare and education, etc. It was defined as the total consumption of the households whose food consumption equals the minimum consumer basket. In that way the poverty line for a four-member household was defined and it is 4,489 Dinars by consumer unit.

This basic empirical finding should be taken only as initial information for the formulation of a complete poverty reduction strategy, since a shift in the poverty line from 4,489 Dinars to 5,507 Dinars (that is from 2.4 USD to 2.9 USD per day) would

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<sup>1</sup> All findings are based on the most extensive Survey on the Living Standard of the Population to date (May – June 2002) on Serbian territory (excluding Kosovo and Metohija) which included 6,386 households, or 19,725 individuals.

<sup>2</sup> Consumer unit allows for the differences in the consumption of adults and children as well as for the joint costs of the households.

<sup>3</sup> Using the official exchange rate of the Dinar to the dollar.

<sup>4</sup> Four-member household includes two adults, one child of up to seven years of age and one child between 7 and 18 years of age.

increase the number defined as poor in Serbia to 1,600,000 (474,000 households), i.e. to 20%. It should also be noted that this analysis did not fully include refugees and internally displaced persons, nor Roma who are the most vulnerable (the risk of poverty for them is much higher than for the rest of the population)<sup>5</sup>.

Basic poverty indicators are shown in the following table:

### Poverty indicators in Serbia in 2002

	Population at risk of falling below the poverty line (poverty line = 5.507 din.)			The poor (poverty line = 4.489 din.)		
	Poverty index	Poverty gap <sup>6</sup>	Poverty severity <sup>7</sup>	Poverty index	Poverty gap	Poverty severity
<b>Urban</b>	16,0%	3,3%	1,1%	7,8%	1,5%	0,5%
<b>Rural</b>	25,1%	6,1%	2,3%	14,2%	3,2%	1,1%
<b>Total</b>	20,0%	4,6%	1,6%	10,6%	2,2%	0,8%

Source: SLSP 2002

Besides the basic indicators on the extent, depth and severity of poverty, the analysis pointed to the following characteristics of poverty in Serbia:

- **Poverty in Serbia is closely related to educational level.** The risk of poverty<sup>8</sup> for people who had not completed primary education was twice as high as for the general population. The depth and severity of poverty was significantly greater for this group than for those with more education. By way of comparison, only 2% of university graduates were poor.
- **The unemployed** (those participating in the formal labour market) were most at risk of poverty (59.4% higher than the population average) as well as being likely to experience the greatest depth and severity of poverty. The most vulnerable were the unemployed in rural areas, whereas the employed in urban areas were in the most favourable situation.

<sup>5</sup> If subjective criteria of poverty were applied, based on the individual's opinion on the level of income needed to satisfy basic needs, more than a half of Serbia's population would be classified as poor.

<sup>6</sup> The depth (gap) of poverty indicates the amount of resources (as a percentage of the poverty line) needed to bring the whole population above the defined poverty line (under the ideal condition of perfect targeting of financial transfers).

<sup>7</sup> Severity of poverty is an indicator which shows how far below the poverty line certain categories are.

<sup>8</sup> The risk of poverty is calculated as a percentage increase (fall) in the poverty index of an observed group compared to the average poverty index of the whole population.

- **The elderly (over 65)** make up almost a quarter of the total number of poor, 17.7% of the total population, with the most at risk being the elderly without pensions.
- **Children** also represent a category with an above average risk of poverty. 12.7% of this age group were poor, and their relative risk of poverty was 20% higher than the population average. Their poverty was relatively deep compared to other age groups.
- On the basis of household size, the most vulnerable were **households with five or more members** (poverty risk +26.3%). According to household composition, poverty is most prevalent in **single-person and especially two-member elderly households** where the risk of poverty is almost two thirds higher than the population average. Their depth and severity of poverty was much higher than the average, especially in rural areas.
- **Poverty in Serbia has become a rural phenomenon** (as in the majority of transition countries) primarily because of faster real growth of wages and pensions, which are the predominant source of income for the urban population. The poverty index of the rural population (14.2%) was almost twice as high as the poverty index of the urban population. Compared to the urban population, people in rural areas are confronted with higher risk, depth and severity of poverty.
- **The region with the highest level of poverty is Southeastern Serbia, especially rural areas** which are two times more exposed to a risk of poverty than the average population. Poverty in this region is deepest and most severe. 25% of the poor are from the rural population of the south-east and part of western Serbia.

***Poverty of particularly vulnerable and economically and socially excluded groups***

Policies and strategies for overcoming poverty among refugees and internally displaced persons, Roma, persons with disabilities, and for dealing with gender aspects of poverty have been included as a central part of the PRSP. In addition, these issues are considered in detail in the special Annex of the PRSP.

The most important poverty indicators pertaining to these groups are:

- According to economic and social position, **refugees and internally displaced persons belong to particularly vulnerable groups in Serbia**. People in collective centres (18,500) are in the most difficult position. Although the number of refugees has been decreasing (primarily through return to Bosnia and Herzegovina or through full integration in Serbia), it is still large, 278,000 according to the latest data. Due to the absence of security and other conditions for return to Kosovo and Metohija, the total number of internally displaced persons is still around 230,000. According to assessments and available data it is estimated that over 120,000 or around 25% of refugees and internally displaced persons belong to the category of the poor, which is twice the level in the local population. The situation is similar when it comes to employment and housing conditions.

- **Compared to other vulnerable groups, Roma are the poorest and most vulnerable.** According to the 2002 census there are 108,000 Roma in Serbia, but domestic and international estimates indicate that their actual number exceeds 300,000 (since in the census a certain number of Roma declared themselves as members of the majority nationality)<sup>9</sup>. Among Roma there is the highest risk of a continuing cycle of poverty and this is reflected in all crucial areas: employment, education, health care, and housing. According to estimates the unemployment rate among Roma is four times higher than in other groups. The 2002 census shows that 32.5% of Roma are without any education or have completed less than 4 grades of primary school. The life expectancy of Roma is estimated as considerably shorter than that of the overall population, which indicates that their living conditions present considerable health risks.
- **Persons with disabilities are also a particularly vulnerable group** (according to estimates the total number of persons with disabilities is about 350,000). According to 2001 NGO research, there is a large share of the poor within this group. The reasons for this partly lie in low educational levels and limited employment opportunities. Only 13% of persons with disabilities have the opportunity to work, and only one third have a job adjusted to their needs.
- The Survey on the Living Standard of the Population indicates an equal poverty rate for men and women. However, **a series of other indicators demonstrates the unfavourable economic and general position of women in Serbia:** a higher share of women without regular personal income; due to poorer qualifications and shorter service spans, women on average have 15% lower wages than men; they wait longer for jobs and it is more difficult for them to find one; there is a greater probability that women will be exposed to poverty in old age due to lower incomes; following divorce women predominantly or totally support the children, and they may also need to support children born outside marriage. Those most at risk from poverty are elderly women in rural areas, single mothers, housewives, Roma women, refugees, the uneducated and unemployed, the sick and women with disabilities, and victims of violence.

### 3. **Main Strategic Directions and Challenges in the Implementation of the Poverty Reduction Strategy**

Strategies for dealing with poverty in Serbia need to respond to its main causes, characteristics, and profile. On the one hand the Poverty Reduction Strategy must focus on economic development, because the main cause of poverty is the low level of GDP per capita (about 2000 USD in 2002) and the low proportion of the population who are employed and active in relation to those who are dependent on support. On the other hand

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<sup>9</sup> Certain Roma associations estimate the number of Roma to be much higher

the PRSP defines poverty as a multidimensional phenomenon that in addition to reflecting insufficient income for satisfying basic needs also includes the lack of employment opportunities, and inadequate housing conditions and access to social protection, health, education and utility services, particularly in the case of vulnerable and socially excluded groups, as well as an inability to exercise basic human rights and the right to a healthy environment. Such an approach directly links the PRSP with the realization of the key UN Millennium Development Goals and EU recommendations for the process of European integration.

The PRSP represents a holistic plan of activities aimed at reducing key types of poverty by creating financial and other preconditions and by offering everyone the opportunity to support themselves and their families. Serbia has sufficient human, financial and natural resources to eliminate – in a relatively short period of time and relying on its own strengths with the assistance of the international community – the most acute forms of poverty, which are particularly prevalent in underdeveloped regions and concentrated among the most vulnerable groups.

**The three main directions of the PRSP are:**

**In the first place**, a strategy of dynamic economic growth and development, with an emphasis on job creation. This implies the continuation of the policy of macro-economic stabilisation; the creation of an environment attractive to foreign investment and the mobilization of domestic investments; accelerated restructuring and privatisation which will revitalize those state/socially-owned enterprises capable of becoming market-oriented and competitive; development of a financial market; legal protection of property and contracts; creation of a business environment conducive to the development of entrepreneurship and faster development of small and medium enterprises; development of the control functions of the state which would legalize the so-called grey economy; strong efforts to combat corruption and organized crime; and efficient functioning of state institutions – legal, executive and judicial authorities. The increase in economic activities and the greater international competitiveness of the domestic economy will lead to an increase in GDP, creation of new jobs, higher incomes and real sources for financing social and other public needs. This is a key development direction and the priority for Serbia, and is the only way to improve the lives of the citizens and at the same time eradicate poverty permanently.

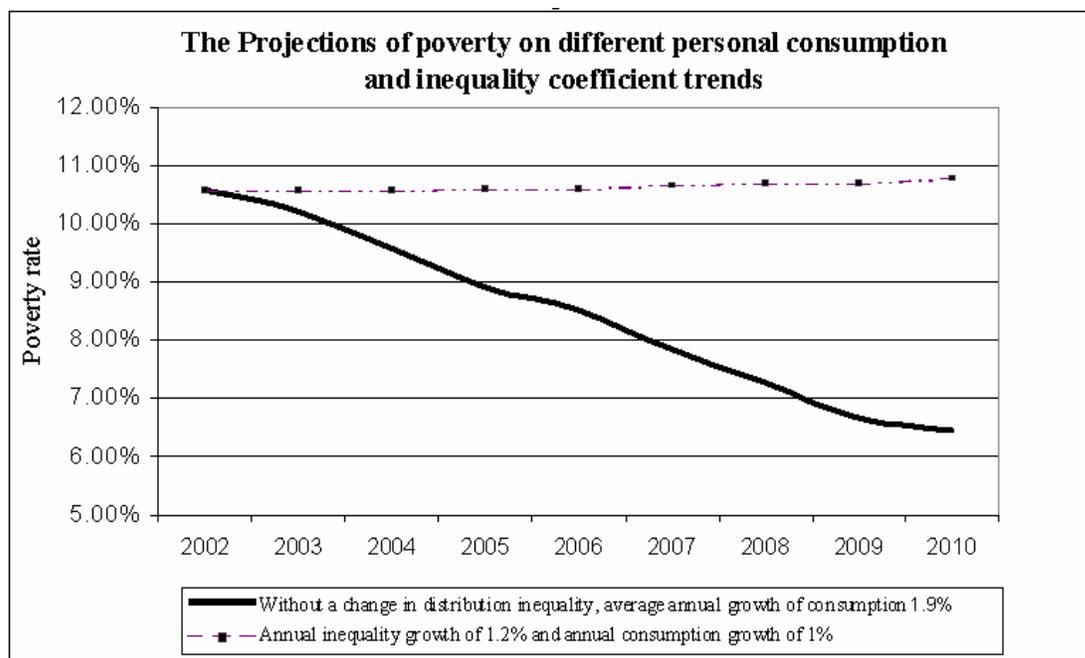
**The second strategic direction** is the prevention of new poverty that will result from the modernization and restructuring of the economy. A large number of people should be trained to work in the newly privatised economy on new jobs in the production and service sectors. Significant economic and social efforts will be required, particularly in regions with a traditional economic structure and with no market prospects. The availability of considerable financial resources represents a necessary, but not a sufficient condition. The state with its institutions in close cooperation with municipal authorities and local communities, through its own activities and the mobilization of non-governmental organizations, and with the anticipated assistance of the international

community, should offer economically and socially acceptable alternative work for the considerable number of employees who will become redundant as a result of the process of transition.

**The third strategic direction** involves the efficient implementation of existing programmes, as well as the development of new programmes, measures and activities directly targeting the poorest and the most vulnerable groups (children, the elderly, disabled people, refugees and internally displaced persons, Roma, the rural population and uneducated persons), particularly in the least developed regions. In relation to the most visible forms of poverty, this will enable not only the survival of these groups, but also their equal access to employment, health services, education and utilities. A permanent improvement in the economic and social status of the most vulnerable groups will, more importantly, prevent a continuing cycle of poverty within these groups.

**Successful implementation of the PRSP requires:**

- Determined continuation of market reforms which have been initiated and the building of modern and efficacious state institutions, based on the rule of law and the fight against corruption, as well as the inclusion of Serbia in the process of European integration.
- Dynamic and sustainable economic growth in the years ahead with the maintenance of macroeconomic (internal and external) stability and the current pattern of income distribution.
- Establishing priorities for solving the basic problems of poverty, related to faster employment growth, more efficient social protection, and better access to health and educational services and housing opportunities, taking account of the urgent needs of the most vulnerable groups and underdeveloped areas.
- Defining PRSP costs in the context of the available fiscal resources projected by the public expenditure plan for Serbia (2004-2006) and the level of support from the international community and donors.
- Creating an overall system for monitoring the implementation of the main activities of the Strategy and the realization of its key objectives with the active participation of all relevant stakeholders, in order for there to be effective national ownership of the PRSP and for it to be an efficient tool for poverty reduction in Serbia.



A successful response to these challenges will mean a reduction of poverty in Serbia to some 6.5% in the year 2010, with an average annual GDP growth of 4-5% and an increase in personal consumption of about 1.9%. The graph above also shows the pessimistic scenario; in conditions of slow economic growth (2-3%) and an increase in inequality of income distribution, poverty in Serbia will remain at the same level and there will be very limited resources available for helping the most vulnerable.

#### 4. Transition and Reform Framework for Poverty Reduction

After the democratic changes in October 2000 monetary and fiscal reforms were implemented, leading to macro-economic stability and the reduction of inflation to 9% in 2003. However, it is proving more difficult to implement comprehensive institutional reform and it faces greater resistance, both from those facing the loss of existing positions and privileges, and those who will suffer hardship in the first stage of transition such as the many workers in large socially or state-owned companies who will be made redundant.

According to all estimates, **privatisation** in Serbia has been carried out successfully and swiftly. From 2002 through to September 2003, 25 large companies had been privatised through tendering; the sectors they come from include cement production, chemicals, tobacco, iron and steel and pharmaceuticals. The purchasers were well-known international companies: Philip Morris, Lafarge, Holcin, Titan, British American Tobacco and Henkel. 692 small and medium-sized companies were privatised through auctions. The total sale value amounts to one billion and 83 million Euros; planned investments are 567 million Euros and social programmes (for redundancies) will amount to 253 million Euros. The restructuring and privatisation of large socially and state-owned companies and public companies is planned for the next phase. The new law on

bankruptcy (to be adopted in 2003) will enable the liquidation of enterprises which cannot be privatised because they are not economically viable and have an accumulation of debts. It is intended to use the proceeds from privatisation to generate employment and accelerate economic growth, through capital investments in infrastructure and agriculture (irrigation) etc.

It is anticipated that the share of the private sector in the economy will increase from 42.5% in 2002 to 75% in 2005.

**Development and reform of infrastructure activities** requires completely new legislation, a new regulatory regime, and institutions to implement this regime. Reforms in these areas should take place in 2004.

The Poverty Reduction Strategy sets out two strategic directions in this field.

The first is a major increase in investment in infrastructure, both at the national level (motorways, electro-industry, telecommunications) and at the local level (water supply, local roads etc.). A significant proportion of soft loans and donor funds have already been earmarked for the modernisation of infrastructure in Serbia. In addition to having general positive effects through attracting foreign investors, generating economic growth and contributing to poverty reduction, the creation of jobs associated with it (especially in construction) will contribute directly to improving the economic position of the low-skilled labour force.

The second is pricing policy relating to electricity, gas and water supply. In the case of the supply of electricity, which is a major problem for the poor, it is proposed to reform the tariff system to reflect actual costs, and to improve the position of the most vulnerable households through direct subsidies. At the same time, financial support to encourage switching to cheaper alternative fuels is also envisaged.

**Tax reform and public debt servicing has had a favourable direct impact on living standards and poverty reduction.**

Changes in consumption taxes (in particular sales tax) and taxes on salaries during 2001 have had a direct impact on living standards and poverty.

The initial list of products exempt from sales tax was subsequently expanded so that at the beginning of 2003 it included basic food products, utilities, basic medicines, etc.

A decrease in taxes and contributions on salaries by ten percent has led directly to an increase in average salaries of approximately 10%, and consequently an increase in pensions and social transfers.

The commencement of state debt servicing toward the population (old foreign currency savings, large debts towards pensioners) contributes to the alleviation of poverty, since a considerable part of these debts is paid to the elderly population (in 2003 the total payments for this purpose will be approximately 1.7% of GDP).

The **formulation of a radical tax reform** which should introduce significant changes into public finances in Serbia is in progress. The basic element of the reform is the introduction of Value Added Tax which will replace the sales tax as of 1<sup>st</sup> January 2004. In addition, this tax reform is expected to abolish a large number of taxes that are unfavourable in terms of allocation, lack transparency, and impose high administrative requirements, while at the same time fail to generate significant fiscal yields, such as taxes on financial transactions. Direct taxes, such as income tax, will be simplified and made easier to collect. New policies relating to property tax will increase fiscal revenues from taxes on real estate, whereby taxes on property such as securities will be abolished. Finally, it is expected that a large number of duties (as typical fiscal mechanisms inherited from socialism) will be abolished and replaced with appropriate taxes. These changes and other elements of tax reform will allow the creation of a modern tax system in Serbia, which will stimulate economic growth and thus create conditions favourable to the reduction of poverty.

### **Budgetary processes, public expenditure management and public procurement**

During 2002 a Law on the Budget System and a Law on Public Procurement were adopted.

The Law on the Budget System introduces a more rigorous professional and political (parliamentary) verification of demands made by budget users, as well as better linkages between spending plans and agreed social and macroeconomic goals. During budget implementation and planning for social insurance funds, the application of clearly defined procedures decreases the possibility of abuse and waste of resources.

The application of the Law on Public Procurement introduces competition into the purchase of goods and services, which, within the given expenditures, secures better supply and quality of services. The application of this law is especially important from the point of view of social protection because it secures better quality services in health and education within the given level of expenditure.

Significant progress in the management of public finances has been achieved by the introduction of long-term planning for the most important fiscal aggregates.

As a part of the regular annual budget procedure as of 2002 a Memorandum on Budget, Economic and Fiscal Policy has been prepared. The Memorandum sets out three-year projections of public revenues and expenditures, and the fiscal deficit, and proposes sources to cover the deficit and public debt. Apart from aggregate positions these projections also show planned changes in the tax system and in the structure of public expenditures. In addition, the Ministry of Finance and Economy has made internal projections of sustainable fiscal policy up to 2010. The policy also includes planned changes to the structure of public expenditure. These projections represent the analytical background for maximising the efficiency of public spending in Serbia.

**The reform of the banking system** has been continuing quite successfully. The four largest insolvent banks were liquidated, several domestic banks received injections of foreign capital, and several foreign banks started operating. This increased competitiveness in the market and reduced the price of capital. However, as far as SME development is concerned, conditions for obtaining loans for small and new entrepreneurs are still unfavourable. The situation has significantly improved with the recent adoption of the Law on Mortgage on Movable Property Entered in the Register (which reduces the risk attached to future due payments), and the previously adopted Laws on: guarantee fund, financial leasing and concessions and expected regulations in regard to their provision of crediting.

### **Continuation of institutional reforms**

The main task and challenge facing the Government and all other reform-oriented forces in Serbia lies in the implementation of thorough institutional reforms, primarily judiciary reform, together with the establishment of the rule of law and a determined fight against corruption. In parallel with this, the continuation of market reforms is necessary: the privatization and restructuring of the property and financial sectors and the creation of infrastructure and other incentives for the development of a market economy, to promote economic efficiency in resource utilization and encourage new private investments<sup>10</sup>.

**Judicial reform** must be accelerated to bring about the full establishment of the rule of law, protection of property and contract, and above all the protection of the rights of investors and creditors. It is very important that the fight against organised crime, which became a priority after the assassination of the Prime Minister, leads to a comprehensive reform of the judiciary, especially of those areas which are critical for regular and unhindered performance of business operations.

In early 2002 five laws relating to the judiciary were adopted; they are in accordance with European standards which protect basic rights and freedoms of citizens, secure full independence of the judiciary, and its separation from legislative and executive authorities. These are the Law on Courts, on Judges, on Judiciary High Council, on Public Prosecution, on Headquarters and Areas of Courts and Public Prosecutors. It is very important to restore public trust in the judiciary. This, among other things, implies affordable and simple access to the legal system, the reduction and final eradication of corruption, controlling the level of court tax (development of a free-of-charge legal help system), the exemption of socially vulnerable categories from the payment of court taxes (the institute of rights for the poor) and the adoption of the Law on Ombudsman.

A well organized and competent **public administration** is a key precondition for successful integration into the EU. The major feature of public administration reform in

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<sup>10</sup> See Annex for all reform laws adopted after October 2000, together with laws currently in parliamentary procedure and those that are being prepared.

Serbia is a transformation from authoritarian administrative decision-making to administration as a public service equally accessible to all. For this purpose laws on public administration and public servants, on general administrative procedures, on administrative disputes and on administrative courts are being drafted. These laws will abolish (or dramatically reduce) the discretionary rights of administrative bodies to grant or deny citizens the exercise of their rights. The immense task that lies ahead is to improve the qualifications of public administration employees at all levels and help them adjust to the requirements of reform. The PRS also envisages pilot participatory projects aimed at involving vulnerable groups in the modernisation of the administration of certain municipalities. The objective of the PRSP is to support the creation of a dynamic, efficient and transparent public administration in line with the new role of Government in the market economy, as well as with private sector development and stable legislation.

**Decentralisation of local government.** The new Law on Local Government (2002) only initiated decentralisation while the forthcoming constitutional reform (the new Constitution) will create the legislative basis for full decentralisation and the functional reform of all levels of government. Municipal authorities should acquire significant competences in the provision of improved living conditions and the promotion of poverty reduction. It is easiest to identify problems of poverty at the community level, where concrete programmes for poverty reduction can be developed based on proposals by members of the public, local organizations, and NGOs (the adoption of the Law on NGOs is also necessary in this respect). Local authorities can establish a more direct relationship with citizens and hence more easily stimulate partnership between the private and the public sector and create an environment which is attractive for investment and the launching of development and poverty reduction projects.

For this reason the PRSP envisages the strengthening of the role of socio-economic councils in municipalities and the establishment of mechanisms to stimulate comprehensive measures to protect the poor at the local level. The strategy also calls for the further strengthening of mechanisms such as the Social Innovation Fund, stimulating decentralization in the field of social protection. Partnership between government, local authorities and all relevant stakeholders will enable implementation of the PRSP at the local level.

### **Poverty Reduction Strategy Local Initiatives (PRSPLI)**

The objective of the PRSPLI pilot projects was to strengthen national ownership of the Strategy. This was accomplished by a series of “bottom-up” initiatives throughout Serbia, aimed at raising local community participation in the preparation and implementation of the PRSP. This mechanism will be continued during the implementation and monitoring of the PRSP.

**The fight against corruption.** Corruption adversely affects attempts to reduce poverty both directly and indirectly. The direct effect is that the poor are denied access to numerous public services (in public administration, health care and education) because

additional payment is often required. The indirect effect is that the extent of corruption greatly discourages foreign investors which in turn threatens economic growth and thus the scope for poverty reduction.

In the 1990s corruption was widespread in Serbia as a direct consequence of the authoritarian regime, extensive state intervention, and economic sanctions which blocked the development of a market economy and of a democratic society.

The new democratic Serbian Government placed the fight against corruption among its priorities and formed an Anti-corruption Council; the adoption of a set of anti-corruption laws is expected by the end of 2003. In 2001 the non-governmental sector made a significant contribution to the fight against corruption by proposing a comprehensive plan of actions. The Government of Serbia has already accepted some of the proposed policies such as the Law on Public Procurement; an Anti-monopoly Law is being drafted and some positive steps have been taken towards transparency in the work of state bodies, and the reform of the judiciary and police.

## **5. The International Integration of Serbia**

The fact that Serbia has joined international economic and financial organisations and made some initial steps towards EU and WTO accession has created the basis for Serbia's further integration into Europe and the wider world, with the aim of enabling faster economic and overall development.

In August 2003 an Action Plan for the harmonisation of economic systems in Serbia and Montenegro was adopted. The plan aims at the creation of a common market and the removal of obstacles to the free flow of people, commodities, services and capital. How soon the common market in Serbia and Montenegro will start operating depends most directly on membership of the World Trade Organisation and the signing of the Stabilisation and Association Agreement.

Membership of the WTO will have a number of effects on poverty reduction, including: an increase in national income through faster economic growth, reductions in the prices of some products, further foreign trade liberalization, and the according of privileged status to Serbia and Montenegro as a transition country.

Through the Stabilization and Association Process (SAP) the EU has encouraged Serbia to prepare for full EU membership by working to achieve very high standards relating to the economy, the functioning of the rule of law, democratization, and human rights. The Feasibility Study that is currently being prepared will show how ready Serbia and Montenegro are to sign the Stabilization and Association Agreement which is the key point of the SAP.

Serbia has prepared an Action Plan for bringing the laws of the Republic of Serbia into line with EU regulations and has drawn up a Plan of Activities for the implementation of EU recommendations relating to the European integration process.

Serbia's entry into European Integration and the PRSP are closely linked in the following ways:

- Through the assistance of EU CARDS, involving programmes and significant resources on each key sphere of the stabilization and association process.
- The EU has allowed Serbia asymmetrical trade preferentials which stimulate production and consequently employment.
- The Stability Pact for South Eastern Europe plays an important role in addressing problems of refugees as a particularly vulnerable group.
- The EU has allowed participation in so-called "twinning" programmes which help the creation of a European economic environment in Serbia.
- The European Strategy for the Reduction of Poverty and Social Exclusion (Lisbon, 2000) is compatible with the measures and activities envisaged by the PRSP.

## **6. Macroeconomic Framework and Factors of Sustainable Economic Growth**

Dynamic, sustainable economic growth is the key precondition for a successful PRSP. Policies which boost economic growth and employment without increasing inequality in income distribution are the main levers for poverty reduction.

When projecting economic growth rates for the years ahead it is necessary to be both ambitious and realistic. The low level of GDP per capita of about US\$ 2 000 in 2002 calls for higher growth rates. On the other hand, there are constraints and risks related to the sustainability of such growth in the long term.

In 2001 and 2002 Serbia had an economic growth rate of 5.5% and 4% respectively, while the rate for 2003 was projected at about 3%. At the same time, considerable macroeconomic stability has been achieved. Inflation dropped from 39% in 2001 (assessed at the annual level) to 14.8% in 2002 and to an expected 9% in 2003<sup>11</sup>. With price liberalization (eliminating the main price disparities), the foreign currency exchange rate was set at the market level; a flexible exchange rate regime was introduced followed by convertibility in current transactions (Article VIII, MMF). On average, monthly earnings rose considerably (from USD 98 in 2001 to USD 175 in 2003) while inequality in distribution has not risen significantly (the change in the Gini coefficient has been from 0.3 to 0.35).

As for growth factors – human, material and natural –the main limitations concerning low levels of domestic savings (only 2% of GDP in 2002) and to date an insufficient inflow of foreign direct investment need to be understood. These are key generators of growth and

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<sup>11</sup>By way of comparison, in 1993 Serbia and Montenegro experienced an unprecedented hyperinflation expressed in billions of percent.

new employment as well as necessary for maintaining the current balance of payments deficit below 10% of GDP.

The PRSP counts on an ambitious, but according to projections an achievable, average annual growth in GDP of about 4-5% until 2010. At such a rate Serbia would not achieve a per capita GDP of over USD 3 000<sup>12</sup> until 2007 (for comparison, Serbia had a GDP per capita of over US\$ 3 000 as long ago as 1990).

The main conditions for the attainment of this goal in the period 2004-2010 are:

- A significant change in the structure of GDP: domestic savings must rise from the current level of 2% to 19% of GDP, the share of investment (both domestic and foreign) must rise from the current level of 14% of GDP to 25% with a simultaneous drop in personal spending from 91% of GDP to 71% as well as the reduction of public spending from 18.6% to 15%.
- That an internal macroeconomic balance is achieved through gradual and moderate reductions of the share of public spending in GDP from 46% in 2002 to 43.1% in 2010. The total fiscal deficit would drop from the current 3.5 % of GDP to 1.9% in 2010, financed in the first phase primarily from the proceeds of privatization.
- That the sustainability of the external economic balance is possible with the decrease of the current balance of payments deficit from 12% of GDP to 8.8% in 2006 and 6% in 2010 (which is in the acceptable range according to international criteria). The main source for financing the deficit should be foreign direct investment from about 5% to 7% of GDP or 1.3 to 1.6 billion dollars a year. Such a large inflow is necessary to decrease indebtedness for the financing of the current deficit from 4% to 1% of GDP. In this way the foreign debt:GDP ratio will fall from 66% to an acceptable level of 51%.

The conditions outlined above will be difficult to achieve and entail various risks, but they are nevertheless considered to be achievable for the following reasons:

- There is a favourable circumstance that in the first years of the medium-term period it is possible to achieve economic growth with less investment per unit of production (since some of the capacities of the preceding period are still usable).
- From early 2001 there has been considerable success in the creation of a favourable environment for the growth of savings and investments. Public savings

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<sup>12</sup> The latest projections of the IMF (July 2003) project a somewhat slower growth: 4% for 2004 and 4.5% for 2005). These projections are basically sustainable for all rates between 4% and 5%. Maintenance of the external economic and fiscal balance is also mutually consistent in the two analyses.

in banks grew from EUR 20 million in 2001 to over EUR 1 billion in 2003. The remaining public savings of about EUR 3 billion which are at present outside the banking system will gradually be activated with the revival of public trust in the banking system as it becomes sound and competitive, and the development of new financial institutions (voluntary pension funds and similar bodies).

- In the real sector the first effects of the restructuring of the economy are evident – a rise in profits in some enterprises and a fall in losses in others – which increases potential savings. Privatization and better financial discipline (adoption of the Law on Bankruptcy) will further reduce losses and increase profits. It is estimated that overall investment into fixed funds have risen from about 12% of GDP in 2001 to nearly 16% of GDP in 2003.
- By the creation of the Guarantee Fund, the state partially provides banking credits to small and medium enterprises which makes for a considerable inflow of savings into this dynamic sector, supported by the activities of the Republican government as well as the regional agencies for SMEs.
- As a result of the reduction of the systemic risks there has been a drop in real interest rates from over 20% in 2001 to about 8% in the second quarter of 2003.
- Public investment is also expected to rise from the current 2% of GDP to 4% of GDP in the medium term.

Investment in infrastructure is one of the generators of growth in economic activity and employment and a vehicle for poverty reduction.

About one third of overall investment in the period from 2004 to 2006 is expected to be in the modernization of infrastructure (transport, energy, telecommunications, utilities, and irrigation). This will be financed from the funds of public enterprises, commercial credits, budgetary resources (central and local budgets) as well as from anticipated donor funding and soft loans.

From budgetary resources, in the period 2004 - 2006, about 2% of GDP is due to be spent on transport, energy and utility infrastructure and housing, while 1% of GDP is due to be invested in health, education, public administration and public order and security. Between 2004 and 2006 nearly 4 billion dollars in total will be invested in infrastructure, of which more than 3 billion would come from domestic funds, foreign investment and commercial credits while up to 800 million dollars would come from donor funding and soft loans.

Foreign direct investment is crucial for sustainable medium-term growth. The projected level of foreign direct investment ranges from 1.3 to 1.6 billion dollars a year, i.e. 5 to 7% of GDP. It is a large amount but it can be achieved through effective continuation of privatization and the creation of a favourable overall climate for investment in existing as well as new enterprises. Actual and agreed foreign direct investments of about a billion dollars just in 2003 demonstrates that the projection is realistic. A considerable

proportion of these funds is earmarked for development projects. The commencement of work on the Feasibility Study for the accession of Serbia and Montenegro to the EU together with the obligation to bring all legal regulations into line with European standards, the readiness of the state to join the Partnership for Peace, the declaration of a determined struggle against corruption and the fulfilment of all preconditions for functioning as a state governed by the rule of law offer a realistic possibility for the projected growth of foreign direct investment to continue in the years ahead.

Increasing imports from the current 19% of GDP to 35% in 2010 should be the main strategic direction of Serbia's economic development. The institutional framework for a strong expansion of imports is linked to the process of stabilization and the association of Serbia and Montenegro with the EU. The opening of the EU market to the Serbian economy, together with a phased liberalization of imports, should improve the competitiveness of the domestic economy. A similar boost to exports and foreign trade will be given by joining the WTO. Finally, foreign trade agreements with neighbouring states and initiatives for strengthening economic cooperation in the Balkans will give a further boost to the export orientation of the Serbian economy and thus to economic growth.

## **7. Strategic Directions for Reducing Poverty in Serbia**

The PRS supports a multidisciplinary approach to the problem of poverty. Thus, an orientation towards dynamic economic growth is a necessary but not a sufficient precondition for addressing the issue of poverty in its entirety; precedence needs to be given to the most important areas and the participation of socially vulnerable groups needs to be encouraged. For these reasons the implementation of the PRSP is linked to the attainment of the key UN Millennium Development Goals. It aims to abolish the worst forms of poverty by creating employment opportunities, improving health care, education, housing, and environmental protection, promoting gender equality, tackling regional, rural and urban aspects of poverty, and by working towards the realization of basic human rights.

In the attainment of these goals, the PRSP as a process is based on the reforms initiated in all key areas and on setting out measures and activities with special relevance for the reduction of poverty.

### **7.1 Creation of New Employment Opportunities**

- 1. In Serbia, the unemployed face the greatest risk of experiencing deep and severe poverty.** The official unemployment rate in Serbia is nearly 30%, that is, one million people. However, the actual situation is slightly better. A large number of those officially unemployed have been registered with the Labour Market Bureau in order to qualify for health care insurance and financial compensation while at the same time they work in the grey economy. According to the SLSP, in 2002 around a million people worked in the grey economy.

Features of unemployment which give rise to concern include the following:

- The prevalence of long-term unemployment - more than a third of the unemployed have been seeking work for over a year.
  - The predominance of the youngest age group (15 to 25) in overall unemployment (40.7%).
  - The higher level of unemployment for women than for men although women tend to have a higher level of education overall.
  - The level of unemployment among refugees and internally displaced persons, Roma, and persons with disabilities, which is twice as high as that of the rest of the population.
- 2. Alleviation of poverty as a basic strategic objective** requires a wide range of mutually consistent policies, measures and activities aimed at reducing the current level of unemployment and preventing the newly created surplus of labour from becoming permanently unemployed.

### **2.1. New employment opportunities**

Increased internal and foreign demand in the field of production and consumption represents the main lever for faster economic growth and employment. Increased internal demand will result from a combination of the following factors: an increase in foreign direct investment through privatisation, increased greenfield investments, a rise in purchasing power and domestic savings, and increased public investments. Increased external demand will mainly be driven by the following factors: liberalization of foreign trade, increase in exports, strategic localization, free trade agreements, participation in the WTO, and European Integration.

In the preceding section projections and basic presuppositions for achieving a yearly GDP growth rate of 4-5% in the coming period, which together with rise in work productivity, creates opportunities for faster job creation, were discussed.

In early 2003 the Government of Serbia adopted the Strategy for SME Development which projected a rise in the number of small and medium-sized enterprises from 270 000 to about 400 000 by 2008. This would create new jobs, first of all in the processing of farm products, and in light manufacturing and service industries. The Guarantee Fund of the Republic of Serbia and crediting by the Republican Fund for Development will facilitate the raising of funds.

It is of the utmost importance to create a legal framework for the operation of **institutions that provide micro-credits** under more favourable conditions and through simpler procedures. This is especially important for citizens and entrepreneurs who are not very well off. However, for the development of entrepreneurship the most important preconditions are: the creation of a favourable market environment, abolition of lengthy and unnecessary procedures

for setting up new businesses, and the development of business initiatives at the local level in cooperation with non-governmental organizations and other interested parties.

In view of the fact that the agricultural sector produces some 25% of GDP, the Government of the Republic of Serbia has included among its strategic development objectives the creation of a dynamic and sustainable **private agricultural sector** (see the chapter on rural development) that would on the basis of its own comparative advantages create new employment opportunities.

## **2.2 Creation of an efficient and flexible labour market**

Important institutional changes were introduced by the Labour Law (2001) and the Law on Employment and Unemployment Insurance (2003) which established relationships between employers and employees consistent with a market economy and private property relationships. The Law on Health and Safety at Work should be implemented in 2003 as well as laws on trade unions and employers' associations, on the peaceful settlement of collective and individual labour disputes, on strikes and on the employment of persons with disabilities. The active role of socio-economic councils at the Republican and local levels is of particular importance in resolving these issues.

Incentives for new employment. This refers to economic incentives where the state contributes to the improvement of the supply of labour of existing workers and the newly employed, involving changes in the structure of labour supply and its flexibility, as well as encouraging the demand for labour. These measures will be delegated to the regional and to the local level in order to direct the programmes as much as possible to the target groups. Budgetary funds (central and local) will as far as possible be redirected towards active measures.

Improving the value of human capital. Privatization and modernization of the Serbian economy will create a new economic structure in which trade, transport, and financial and other services will become increasingly important. For this reason, permanent programmes for retraining and additional training of those who are currently unemployed are of the utmost importance, as is educational reform. Cooperation with employers also needs to be improved. With this objective in mind, the programmes of the PRSP attempt to bring the skill structure in line with the future needs of the economy and society.

### Specific measures for supporting employment

- Employing the 'surplus' workforce – in 2002 the Government adopted the Social Programme which provides for the use of budgetary funds for various socio-economic policies for dealing with this problem. So far the most frequently used has been the one-off financial compensation (USD 100 for

each year of career service, or 10 average monthly salaries). Other possibilities for employment and obtaining additional qualifications are so far much less used.

- The PRSP includes programmes for granting subsidies to employers to partially reimburse the labour costs incurred through employment of the elderly, refugees and internally displaced persons, persons with disabilities and other vulnerable groups. The programmes would be financed from the central and local budgets as well as from donor funding.
- Self-employment is encouraged by the Government by directing grant funds to social programmes and severance payments.
- Public works are aimed at employment of socially vulnerable groups on works of public interest (dealing with public utilities, and humanitarian, social and other activities). This will be financed from central and local budgets.

The success of the employment policy facilitated by the new Labour Law depends on the establishment of a “broad partnership” of key stakeholders: the Government, employers, trade unions, the unemployed, local selfgovernment and intermediary services. In this process, social dialogue and the affirmation of tripartism represent particularly important elements.

Integration of the grey economy into legal channels will be gradual, taking into account the fact that a considerable proportion of the population, especially the poor, work in the informal sector. The PRSP supports the creation of conditions that will discourage workers and employers from taking part in the informal sector. It is therefore important that labour regulations should be further liberalised, the fiscal burden further reduced and the control of the collection of public revenues improved. In short, these measures will create circumstances in which it does not pay to work in the grey economy.

## **7.2 More Efficient Social Protection**

- 1. Two basic social protection programmes for the alleviation of poverty in Serbia are:** Material Support to Families (MOP), at present received by 125 000 beneficiaries; and children’s allowances, received by about half a million people.

Material Support to Families (MOP) is modest –about USD 20 per beneficiary. However, this is the best-targeted social transfer in Serbia (52% of the money goes to the 10% of the poorest citizens), primarily received by the unemployed and those unfit for work, and their children.

At the end of 2002 one child in every three in Serbia was receiving children’s allowance to the amount of USD 18. Children from single parent families and children with special needs receive 30% more.

An important part of social protection is directed at children without parental care, elderly persons who are unable to take care of themselves and persons with

disabilities. Most social security services are provided by the Social Welfare Centres that can be found in almost all municipalities.

In 2001 and 2002 special budgetary interventions and considerable donor funds helped to cover large arrears and to establish regular payment of social assistance. Conditions in the social welfare institutions were improved through the use of the same funds. (As a result of donor funding, in 2001 alone more was invested in equipment than in the whole of the preceding decade).

Another problem is that a considerable number of the poor do not take advantage of the social programmes they are entitled to, owing to a lack of information, the lack of a permanent address (as is often the case with the Roma), lack of skills necessary for dealing with red tape, geographical inaccessibility (with respect to institutionalised forms of social protection services). An additional problem is presented by poor refugees who do not have the right to basic financial transfers until they are granted citizenship.

**2. The main objective of the PRSP concerning social protection is the alleviation of poverty in the population as a whole and especially in vulnerable groups** such as children, the elderly and infirm, the Roma, persons with disabilities, poverty-stricken refugees and internally displaced persons.

The existing social protection system aimed at the alleviation of poverty is basically sound and modern. Further improvement in the social protection of the poorest will be ensured by the forthcoming amendments to the Law on Social Protection and Social Security of Citizens. The amendments proposed will lead to an increase in the carer's allowance and assistance for severe disabilities, the introduction of a unified income census covering 90% of the territory of Serbia and indexation of allowances to the cost of living. As for children's allowance, the coverage should still be broader than for social assistance benefits. The PRSP also proposes the introduction of a unified family allowance integrating social assistance and children's allowance, meaning more money for the poorest. This proposal needs additional research and confirmation.

The reform of the social services mainly concerns Social Welfare Centres (especially for services provided in institutions) as well as alternative forms of protection. The main objectives of the reform are: deinstitutionalization and the development of alternative forms of social protection, defining the roles of various institutions and their networking (health care, education, employment, the police, the judiciary), involving various actors in the provision of services – above all those from the non-governmental sector, – as well as giving precedence to day-care centres over institutional placements. These objectives are being pursued at the local level with the aim in due course of applying experiences from pilot projects at the national level. Although broader in concept, in the first phase these projects are mainly intended for children without parental care, children in conflict with the law, child victims of abuse, and for the protection of children from families at risk.

The PRSP also includes integrated reform projects: promotion of fostering and integrated model of social protection targeting children, the Roma, the elderly, and persons with disabilities.

The Social Innovation Fund was set up in 2003. At the local level it will finance projects which are in keeping with the PRSP and which incur transitional costs. Some projects will be defined in advance while the rest will be developed by local agencies and depend on local circumstances and problems. Projects requiring only initial financing will be given precedence, while further financing can be provided from local resources. This fund would not be oriented only towards NGOs - all social protection institutions would have access to it. This would provide an incentive for the reform of the system from within.

The project also includes the revision and improvement of areas of the social protection system dealing with persons with disabilities including issues concerning financial benefits (due to increased personal and family expenditures), institutional protection, technical aids, service providers for persons with disabilities, and similar aspects.

### **7.3 Improved Position of Pensioners and the Elderly**

- 1. The majority of elderly people in Serbia receive pensions** since old age pension insurance is mandatory for almost all employed citizens. In Serbia every fifth citizen is a pensioner.

The share of the poor is somewhat higher in pensioners than in the population at large (10.9% and 10.6% respectively) while the rate of poverty among all people over 65 years of age is 14.8%. The worst situation is in Southeastern Serbia where one in five pensioners is poor as well as one in three elderly people without a pension. In this group, at the highest risk are two-member elderly households or mixed households where an elderly person is the breadwinner. State assistance to the elderly and the infirm who cannot take care of themselves includes placement in homes for the elderly (about 9 000 beneficiaries) and financing carer's allowance (about 60 000 beneficiaries).

The main obstacle to providing broader support to poverty-stricken pensioners and to the elderly in general is the lack of budgetary resources. Pensions constitute about 12% of the GDP and about 40% of pensions are covered from the budget due to the insufficient inflow of funds in the mandatory pension funds.

The reforms implemented so far included changes in the pension indexation mechanism, introduction of a single minimum pension, lifting the retirement age limit by three years in a single move, and changes in pension calculation - taking account the whole career span, thus favouring the poor. In addition, the criterion of general disability was introduced as the eligibility requirement for a disability pension.

The reforms of the pension system are long-term by nature, including the introduction of voluntary and later (possibly) mandatory capital-based pension insurance as a supplement to the existing pay-as-you go system, and are only beginning. Finally, very unfavourable demographic trends also need to be taken into account since the over-65 elderly make up 16.6% of the overall population (according to the 2002 census) with further growth expected. This will create new and heavy financial burdens for the state through larger expenditure on pensions, health care insurance and social assistance.

**2. The main objectives of the PRSP concerning the elderly are:** alleviating poverty among pensioners and other elderly persons (both in absolute numbers and in proportion to the overall number of this population) as well as strengthening the institutional protection services for the elderly who are particularly vulnerable.

**3. The strategic policies in this area concern:**

- **The pension system reform** to include both state and private insurance, mandatory and voluntary, the pay-as-you-go system and a capital funded system. The adoption of the Law on Voluntary Private Pension Insurance is expected in 2004. The introduction of the minimum pension (now set at 20% of the average gross income), which is already in force, is of great importance for the alleviation of poverty. The introduction of a social pension for all elderly persons (over 65 years of age) is at present impossible due to financial limitations. The indexation of pensions (linked to inflation and salary increases) keeps pensions in line with general economic growth.
- For the medium-term period the PRSP supports **lifting the retirement age limit** to 65 years, which would have general positive effects both on economic activity and on regular payment of pensions.
- **Improving Social Protection of the Elderly**

The main aim of further development of support for elderly citizens is the improvement of home and community-based care. Such assistance is valuable both because the elderly prefer it to other types of support and because it is cheaper than institutional care:

- Day centers, which care for the elderly while members of their families are at work;
- Day rehabilitation centers for those who were discharged from hospitals but still need time to recuperate;
- Personal help at home including food, personal hygiene, washing clothes, cleaning and transport, and similar;
- Medical assistance at home intended for those who are sick, etc.

The PRSP supports additional activities concerning accommodation in the homes for elderly and carer's allowance as basic forms of assistance for the poor falling into this category.

The main changes concerning deinstitutionalized policies for placement of the elderly are: improving the quality of accommodation and services; improving home care; restructuring and expansion of the network of homes in broad areas of western, eastern and southern Serbia; conversion of a number of collective centres into homes for the elderly; involving the private sector in providing accommodation and care for the elderly.

As for carer's allowance, the PRSP supports the introduction of the income census into the eligibility criteria so that those who cannot pay for it themselves would get more.

Other programmes for the elderly and poor will be organised at the local level, through cooperation between municipalities, civil society and humanitarian organisations.

#### **7.4. Health Care as the Function of Poverty Reduction**

- 1. Deterioration in health in Serbia** is a result of the cumulative effects of the unfavourable events in the economic, political and social sphere to which the population was exposed in the 1990s. To this we should add aging of the population, a large number of refugees and internally displaced persons, pollution of the living and working environment, unemployment and social deprivation as well as the spread of risky life styles, especially among young people. The existing health care system cannot meet the challenges given its structural shortcomings, lack of a culture of and programmes for health promotion as well as the fact that little attention was paid to health risks in the living and working environment.

In Serbia there are not regular health statistics showing morbidity according to socio-economic status. The SLSP showed that vulnerable groups are at a higher risk of getting sick or dying from common causes including tuberculosis, AIDS, cancer, traffic accidents and violence. The SLSP also showed that among individuals below the poverty line there are 30.3% of those who have a diagnosed chronic medical condition as opposed to 26.6% in those above the poverty line.

- 2. The main objective of the PRSP in the health sector** is improvement in the overall health of the population and especially the reduction of inequalities through improving the health of vulnerable groups. The objective is to be achieved through health programmes aimed at vulnerable groups as well as through fairer redistribution of health care resources, as set out in the document "Health Policy in Serbia" (February 2002). The emphasis is placed on equal access to basic health services, which will be financed from the Republic Health Insurance Fund for those who are

insured and from the state budget for all other citizens regardless of their socio-economic status (including refugees and internally displaced persons).

### **3. Strategic Policies**

#### **Health Care Reform**

- The reform of the financing system – the basic package of health care services. It will define who, at what level and under which conditions provides certain medical services. This would finally narrow the gap between the formal, legislated entitlements of the users of medical services and the actual capacities for fulfilling these entitlements.
- Better distribution of resources (across health care levels and across regions) - preventive and primary health care will be given precedence in the future health care system. Financing by Republic Health Insurance Fund will uphold this principle through a basic set of services while the primary health care system will include the most important preventive measures such as antenatal protection, immunization as well as infant and child protection programmes, etc. Financing public health services, including prevention and suppression of diseases and early diagnosis, especially in cancers and cardiovascular diseases, is an important component of the health care system,.
- The role of local authorities in the provision of primary health care was addressed by the new Law on Local Self-Government and the draft Law on Health Care. The new Law on Concessions allows private medical practice to be integrated into the public system where the state and the local authorities would set standards and inspect the quality of services provided.
- Necessary changes in the institutional and legislative sphere – it is expected that the following laws and relevant sub-acts will be adopted by the end of 2003 and 2004: the Law on Health Care, the Law on Medications, the Law on Medical Workers Chambers and the Law on Health Insurance.

#### **Improved Accessibility of Medical Services to the Poor**

- The introduction of the health information system for monitoring the impact of transition on the poor and especially on vulnerable groups. Simultaneously there will be programmes adopted aimed at improving the accessibility of information and health care services to these groups.
- The PRSP focuses particularly on the development of national programmes for the poor and vulnerable groups. The following activities are considered to be of utmost importance:
  - Identification of specific medical and social needs of these groups the need for co-ordinated action at all levels of the community. For example, special programmes are envisaged for dealing with health protection of Roma women, women refugees and women in rural areas.

- Linking institutions of primary health care (medical centres) with social protection and educational institutions – through multi-disciplinary teamworking.
- Improving the accessibility, quality and effectiveness of services dealing with young people – setting up counselling services with a holistic approach to young people, whilst at the same time allowing access to parents and other adults:
- Organising programmes for promotion of responsible behaviour and healthy life styles.
- Taking into account the SLSP findings, special attention will be paid to mental health programmes.
- The PRSP emphasizes the need for NGOs to take part in this area since the poor often hesitate to turn to health services, since, among other things, they believe that they have to pay extra “under the counter” for every service, while providers of health services themselves often lack the resources to identify and fulfil the needs of the poor.

## **7.5. Education as the Function of Poverty Reduction**

**1. The importance of education for the alleviation of poverty** is convincingly demonstrated by the SLSP findings, showing that 69% of the poor in Serbia have only primary and uncompleted secondary education while only 2% of the poor have higher education. Low expenditures for education (3.14% of GDP) have a negative impact on the accessibility of education to children from poverty stricken groups and on the quality of education.

Although the official rate of enrolment in primary school is 98.3% (for 2000/2002) and the official dropout rate is 0.62%, the actual dropout rate is estimated to be nearly 15%. The problem is most prevalent among the rural population, the Roma, children with special needs, refugees and internally displaced persons. It is evident that the dropout rate is higher in girls from the most vulnerable groups: children with special needs, the Roma and the rural population.

Children with special needs constitute 7 to 10% of the overall number of school age children. However, only 1% of the whole student population of primary school age attend special schools. About 15% of the children with special needs attend special schools. The rest either attend regular schools but without any special support or are outside the education system. Only 1% of children with special needs of pre-school age are included in education and other forms of work.

32% of Roma population are illiterate or have less than 4 grades of primary school. The women’s share among the uneducated and the illiterate is higher due to early marriage and the orientation towards housework. Children from poor families often do not complete primary school, thus producing new generations of uneducated and poverty-stricken Roma. Estimates show that only about 4% of them finish secondary

schools (mostly vocational ones of lesser rank), while only 0.3% of the Roma attend high schools or universities.

Adult education is quite neglected in Serbia. Formal education is practically inaccessible to adults (at present there are only 19 schools for primary education of adults). Furthermore, they are not geared to meeting the needs of the labour market.

Causes of high unemployment in Serbia can partly be found in the existing educational structure, and in particular in the fact that secondary vocational schools are not in keeping with contemporary market demands. The curricula are too general, without enough vocational subjects, lacking a minimal or nonexistent focus on IT literacy and only basic entrepreneurship knowledge.

**2. The improvement in the effectiveness of the educational sector for the alleviation of poverty** includes the following objectives, measures and activities:

- The reform of pre-school school education includes programmes (for both children and teaching staff) aiming to cover as many children as possible through provision of regular, free of charge, pre-school education for at least one year. The programmes are intended for refugee and Roma children, children with special needs, those from rural areas as well as children from poor families.
- The new System Law on Education (2003) extends compulsory education to 9 years which, through new, goal-oriented programmes, ensures functional language skills, mathematics, scientific, creative and health literacy for the whole population. The abolition of physical fitness as one of the criteria for enrolment in a primary school will make the educational system more accessible to children from vulnerable groups. The Categorization Commission will have an advisory role.
- Raising the number of children with special needs included in the education system, especially into education of inclusive type will be effected through the following:
  - Adoption of the law and regulations concerning compulsory education of this category of children;
  - Establishing the National Centre for Care of Persons with Special Social Assistance Requirements, whose inputs will be used for the elaboration and implementation of education, health and material and social assistance policies;
  - Securing greater coverage of children with special needs, especially their greater inclusion in regular schools;
  - Teaching functional literacy to adult persons with disabilities;
  - Bringing education into line with the labour market requirements, together with legal provisions that a certain number of work places should be set

aside for this category and the provision of tax relief for employers who take on a person with a disability.

- Raising the general educational level of the Roma is of great importance for their employment, increases in their standards of living, social integration, and improved health and social protection for Roma children.

Broad inclusion of Roma children into all levels of education will be ensured through the support of Roma teaching staff, support for Roma university students at teaching faculties, integration of Roma culture into curricula, creating an atmosphere of acceptance and support of Roma children and young people with mutual tolerance and acceptance of differences.

These objectives will be achieved through the following measures and activities:

- professional and material assistance for Roma parents,
  - professional and material assistance for institutions and the employees,
  - cooperation with Roma community and developing partnerships in the implementation of programmes,
  - intersectoral cooperation with all relevant state and local institutions,
  - intercultural elements in educational programmes and institutions,
  - using the experience and best practices of NGO programmes for education of Roma as well as raising capacities,
  - developing relevant programmes of second chance education for children who have dropped out, as well as special support for the education of girls.
- Increased inclusion of adults in the educational system will be achieved through changes in legal regulations as well as the establishment of the Fund for Primary Education of Adults, offering a free of charge basic qualification for the first occupation or for professional training, thereby improving employment chances. Special programmes will be developed to suit the specific needs of the adults involved in education (distance learning, mentoring work, instruction and home consultations).
  - The PRSP also places great significance on the improvement of the working qualifications of the unemployed. At present there are 348 thousand unskilled workers in the labour market and a further 143 thousand employed. The formal school system needs to be adapted to help meet the needs of the market economy through the establishment of centres for education and training, additional qualification and re-training in keeping with the needs of the labour market. Priority is given to supporting young people who are at risk of dropping out. An alarmingly high number of primary and secondary school dropouts appear in the labour market as unskilled workers.

## 7.6 Regional, Rural, Urban and Housing Aspects of Poverty

### 7.6.1 Regional Aspects of Poverty Reduction

#### 1. Serbia is among the European states with the largest regional differences in development level.<sup>2</sup>

The emphasis on sectoral programmes over structural and territorial criteria during several decades brought about uneven development, inefficient regional distribution of economic activity and population, polarisation of broad areas, i.e. a significant disparity between municipal centres and rural areas concerning the level of development.

Underdevelopment and the overall backwardness of large areas of the Republic can be attributed to four main factors: a) rural depopulation; b) interregional differences in demographic factors; c) atomisation of settlements in underdeveloped rural areas; d) inadequate educational skills and qualifications (in underdeveloped areas almost half of the unemployed are unskilled labourers).

#### 2. The main strategic policies:

- The EU accession process requires new institutional policies in the area of regional development such as the establishment of the Republic Agency for Development of Southern Serbia. The existing Republic Development Fund may also be in a position to offer new ideas for the stimulation of regional development, including underdeveloped and poverty-stricken regions, providing wide technical assistance to such regions, creating conditions which will strengthen the economic interest of enterprises and entrepreneurs for investing in underdeveloped areas, improved access to credits for the SME sector that are expected to be the main lever for abolishing regional poverty.
- Local communities have important responsibilities for pooling local resources and creating a favourable environment for reducing underdevelopment and poverty, formulating development programmes and urban planning, stimulating the development of MSP and entrepreneurship, cost-effective management of space, development of communal/public utility services, land rent policy, construction and maintenance of local roads and improving the availability of social, health care, educational and cultural institutions to the citizens.

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<sup>13</sup> According to the Law on Underdeveloped Areas (UA) of the Republic of Serbia, 37 municipalities are considered to be underdeveloped regions, including the 12 least developed municipalities. A municipality is considered to be underdeveloped if it falls below the line drawn at 50% of the republic average concerning the following parameters: income per capita, employment rate, retail turnover per capita and the number of telephone lines per 100 citizens.

## **7.6.2 Rural Aspects of Poverty Reduction**

Almost half of the population of Serbia lives in rural areas, which constitute almost three quarters of the national territory. For decades, this part of the population has been living under conditions of economic and cultural stagnation, a situation which drastically exacerbates poverty. The poverty rate for rural areas is 14.2%, which means that one in seven people is poor. The rate of poverty in rural areas is twice as high as that in urban areas (7.8%). It is highest in Southeastern Serbia at 22.7%.

The main reasons for higher rates of poverty in rural areas are: the aging of the population through a reduced pool of active workers and the opportunity to generate income, relatively low educational achievement, as well as disadvantageous economic structure resulting in long-term unfavourable position of farming and difficulties in restructuring the agriculture sector.

In the preceding decades the position of farming on private landholdings was exceedingly unfavourable, due to the intentional policy of redirecting income from farming into other areas, principally into industry, and the effort of the authorities to protect the standards of the urban population through low food prices. This policy was abandoned two years ago through gradual liberalisation of the foreign trade regime and the abolition of state intervention in farm producer prices. However, this could not bring about significant changes in the poverty profile of farmers in the such term, principally because of the devastation farming has suffered as well as the ageing of farmers.

### **Objectives and strategic policies**

In addition to initiatives in the sector of agriculture, the reduction of rural poverty shall also include initiatives in various other sectors. The objective is to stimulate employment and economic growth and raise living standards in rural areas, especially in the depopulated border and mountain areas. Particular attention shall be paid to elderly agricultural workers and other vulnerable categories.

The National Rural Development Plan shall be prepared. The basic idea will include an emphasis on investment and local comparative advantage. The plan shall also consider the significance of non-agricultural employment in rural areas and distinguish between economic and social goals. Special efforts shall be put on including all line ministries, agencies and local government bodies in formulating plans, while implementation will require the co-operation and engagement of all local social partners.

An important principle will be the establishment of administrative capacities and procedures, consistent with the potential access to structural adjustment funds upon submission of formal application for EU membership.

Implementation of the abovementioned goals shall be carried out through the following activities:

Raising income and employment rate in rural areas. Support to development of SMEs; establishing producers' associations; securing market infrastructure; improved processing and marketing of agricultural products; development and diversification of economic activities; development of forestry (including afforestation and wood processing). The emphasis shall also be placed on professional training.

Improving health care, education and social services. The objective is to provide higher quality services in small towns to serve the inhabitants of neighbouring rural areas.

Improving infrastructure. The focus shall be on the improvement of public transport and securing reliable water supplies in rural areas, with a gradual improvement towards EU standards in terms of water quality; providing capacities for processing waste water (this will have a positive impact on environment protection) and the building of waste management plants (in household and industry).

### **7.6.3 Urban and Housing Aspects of Poverty Reduction**

According to the SLSP, the urban population of Serbia is has a lower poverty rate (7.8%) than the rural population (14.2%). The worst situation is in old industrial centres: Kragujevac, Bor and other larger cities. Here, the restructuring process and privatisation of large non-profitable companies have produced large redundancies and new pockets of poverty.

As previously discussed, urban poverty includes all significant forms of poverty: unemployment, limited access to health care, education, etc.. This is why the PRSP focuses on **spatial aspects of poverty**, covering housing poverty and poverty-affected city districts (quarters, localities) where many forms of poverty are concentrated.

Most poor people in urban areas do not have a safe roof over their heads since their apartments lie on public land, not intended for housing, built without building permits or rented without proper rental agreements.

#### **Alleviating Urban Poverty**

Every city in Serbia should formulate its own strategy for reducing poverty based on the republic strategy while at the same time taking into account specifics and the economic and social identity of each city.

It is necessary to adapt existing town plans and to develop new ones, integrating the strategy for reducing urban poverty in all of its aspects, as well as providing sufficient building land for future housing. Such a policy can help bring the prices of building plots down, making them accessible to the poor. At the same time it is also a way to reduce unplanned, illegal construction.

The new Law on Planning and Construction (2003), among other things, provides for simpler procedures for getting building permits and allows cities to set aside land for cheaper housing construction. The law also provides for the legalisation of all illegally erected buildings.

Small loans will be granted for phased construction or reconstruction of apartments. Providing for the safety of housing through establishing defined property, legalisation of the existing houses and setting aside cheap locations for new construction will ensure better conditions for the urban poor.

### **Housing as a Factor in Poverty Reduction**

Housing problems are closely connected to poverty since the poor have to pay for the most expensive housing in relative terms. The problem of the accessibility of housing to the poor should be dealt with through social housing programmes. The work on the 'National Housing Policy' is underway to include:

- construction of social housing for vulnerable groups which cannot buy or rent a flat on the market, with availability for accessing such housing based on income and means testing of households. These flats will be built more cheaply costs, with lower standards, modestly equipped and of modest size per an individual, intended for the poorest social classes.
- Subventions by the state for housing of the most vulnerable groups on the basis of income and means testing. Most subventions are intended for rental housing either in social flats or in privately owned housing.

### **7.7 Environmental Aspects of Poverty Reduction**

1. The poor, particularly women and children are most affected by environmental problems. These are the spheres where traditional environmental dangers play a key role: lack of drinking water and sanitation, indoor air pollution and exposure to illness-causing bacterial and viral agents. Among vulnerable categories, the Roma minority has the highest risk. The poor are also more exposed to risks of floods and earthquakes, first of all because they live in areas close to river banks and secondly because their living accommodation is poorly constructed.

2. Providing sustainability of the environment is one of the eight UN Millennium Development Goals (MDG). In Serbia there is a need to improve all spheres of development goals: sustainable access to drinking water and improved access to sanitation, sustainability of the environment concerning air pollution, use of land, management of forest resources and retention of biodiversity.

In 2002 the Government of the Republic of Serbia promoted the body in charge of environmental protection from the directorate level to the ministry level. The new Law on the Environment awaiting adoption, aims at the development of a consistent and updated

legal and institutional system of environment protection. The Law will be consistent with EU standards.

### **Strategic action, measures and activities**

#### *Improvement of the water supply system*

The Water Supply Strategy for Serbia defines the basic strategic aims and priorities for improvement in the water supply system.

The Ministry of Agriculture and Water Utilities sets the priorities for village water supply. The majority of investments are small and they include improvements in sanitary conditions or building of new wells, widening and repairing of water pipes, and the construction of a chlorinisation system.

In the last two years international financing institutions have initiated projects for water supply and wastewater in medium sized towns as well as in rural areas that will address the most serious problems.

The water resource sector is not financially independent. Nowadays income from water supply services are insufficient to meet operational costs. It is necessary to measure water consumption by metering, to implement price reform and to increase the basic tariff in order to address financial problems.

#### *Improvement of sewage system*

The level of connections to sewage system in towns is 87.5% and only 22.2% in villages. Villages mostly rely on septic tanks which are in most cases illegally built and located. In Serbia there are 37 central plants for the treatment of wastewater. 7 of them are for primary treatment and 30 are for secondary and biological treatments. Only 12% of wastewater is treated in Serbia.

#### *Cleaning black spots in Serbia*

Bilateral donors have contributed to the cleaning up of the environment in several black spots, above all in the places damaged by NATO bombing (Pančevo, Novi Sad, Bor, Kragujevac). About \$21 million are needed for project implementation. So far, donors have provided US\$12.5 million and 16 projects are being implemented. In addition, decontamination projects are underway in the South of Serbia where munitions with depleted uranium were used, as well as cleaning areas of cluster bombs.

In addition, ecological black spots that are not the result of the bombings have been registered (e.g. thermoelectric power stations) and significant funds and time for their repair are needed.

## 8. Costs of the Poverty Reduction Strategy

### 8.1. Ensuring a sustainable fiscal framework for poverty reduction

An effective public fiscal management process is critical for ensuring the success of PRSP implementation. In particular, the budget and fiscal management system should be the main tool through which public expenditure implications of PRSP policies are translated into budget activities.

Substantial fiscal adjustment has taken place in recent years within the context of the stabilisation programme begun by the government in 2001. Fiscal adjustment involves redefining the role of government (away from being the direct producer of goods and services towards providing social benefits, investing in and maintaining economic infrastructure and establishing a legislative and regulatory framework for private sector activity), incorporating all public sector expenditure into the budgetary process, reducing budgetary arrears and fiscal gaps in entitlement programme, as well as increasing revenue mobilisation.

The purpose of this fiscal adjustment has been to constrain the fiscal deficit. Subsidies to enterprises and capital investment have been reduced, whilst transfers to the population, in the form of social benefits, have increased in importance. Nonetheless, implicit subsidies to enterprises and the public remain partly in place, particularly in energy.

**Table 1. Consolidated public expenditures - functional classification**

	% GDP		
	2001.	2002.	2003.
<b>I Total expenditures (1.+.....+10.)</b>	39,3	45,9	45,9
<b>General public services</b>	4,4	5	5
<b>Defence</b>	3,6	3,4	3,3
<b>Public order and safety</b>	2,6	2,7	2,8
<b>Economic affairs</b>	3,8	4,3	3,5
<b>Environment protection</b>	0	0,1	0,1
<b>Housing construction and utilities</b>	2,6	3,6	3,4
<b>Health care<sup>14</sup></b>	4,6	5,2	5,3
<b>Recreation, culture and religion</b>	0,5	0,6	0,7
<b>Education</b>	2,7	3,4	3,8
<b>Social protection and pensions</b>	14,5	17,6	18

<sup>14</sup> According to the estimate of World Bank experts, the health care expenditure share in GDP exceeds 6%, if the additional forms (such as health care expenditures at the local level and within the defence system) were included. This is above the average for Central and East European countries set at the level of 4.7% of GDP. Precise estimates of out-of-pocket health expenditures are still missing, though some surveys conducted on a small sample indicate that these expenditures range between 2 and 4% of GDP.

At just over 45% of GDP, the share of public expenditures in Serbia closely corresponds to the level that successful countries in transition (Hungary, Czech Republic, Poland, Slovenia and Slovakia) had in the mid-nineties.

Total expenditures for the protection of the poor in Serbia equal approximately 4% of GDP, which is close to the average value of countries in transition

### **Maintaining Medium Term Fiscal Stability**

The Government's medium-term fiscal policy is to maintain fiscal stability through further fiscal tightening, ensuring better use of existing resources, increasing revenue mobilisation, and providing tax incentives and other reform measures designed to stimulate business activity.

PRSP priorities (e.g. increased share of expenditures for education) are reflected in the medium-term expenditure allocations.

**Table 2. Consolidated public expenditures – functional classification**

	% GDP							
	2003.	2004.	2005.	2006.	2007.	2008.	2009.	2010.
<b>I Total expenditures (1.+.....+10.)</b>	45,9	45,6	45,2	44,8	44,3	43,9	43,5	43,1
<b>1. General public services</b>	4,2	4,5	5	5,4	5,7	5,8	5,9	5,9
<b>2. Defence</b>	3,8	3,3	2,9	2,5	2,3	2,2	2,2	2,2
<b>3. Public order and safety</b>	2,8	2,7	2,5	2,3	2,2	2,2	2,1	2,1
<b>4. Economic affairs</b>	3,5	3,4	3,2	3	2,9	2,8	2,7	2,6
<b>5. Environment protection</b>	0,1	0,2	0,2	0,2	0,2	0,2	0,2	0,2
<b>6. Housing construction and utilities</b>	4,1	4,1	4,1	4,1	4,1	4,1	4,1	4,1
<b>7. Health care</b>	5,3	5,3	5,4	5,5	5,5	5,6	5,6	5,6
<b>8. Recreation, culture and religion</b>	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
<b>9. Education</b>	3,6	3,8	3,8	4	4,2	4,3	4,5	4,5
<b>10. Social protection and pensions</b>	18	17,8	17,6	17,3	16,7	16,2	15,7	15,4

### **8.2. Strategy costs, resources and priorities**

The total amount of consolidated Government expenditure to be allocated for PRSP priority sectors is approximately 1.9% of GDP annually (YUD 26.6 billion or 362 million euro on average) over the next three years, out of the approximately 45% of GDP

accounted for by public expenditure. The priority PRSP sectors include employment and SME development, education, health care, and social protection. Financing of these sectors for PRSP activities would take place through increases in planned allocation of budgetary resources in relation to GDP (e.g. education) and through cost savings made within the sector (e.g. savings on the wagebill, reallocation of existing resources and reductions in overall employment).

The allocations are intended to reflect the costs of meeting the highest priority of the newly prioritised activities contained in the PRSP which currently lack financing;<sup>15</sup> they do not represent the full cost of all proposed PRSP policies.

Since new PRSP activities will be financed largely within existing resource levels, including already committed or programmed external project financing, sector ministries and local administrations will need to restructure their existing budgets, reducing the

**Table 3. Poverty Reduction Strategy Costs in the period 2004 - 06**

	<b>Central and local budgets and donations % of GDP, yearly average</b>	<b>Central and local budgets and donations million EUR</b>	<b>PRSP cost structure by sectors</b>
<b>TOTAL</b>	1,91	1.087,3	100
<b>Social protection</b>	0,28	157,2	14,5
<b>Education – total</b>	0,58	333,2	30,6
<b>Health care</b>	0,30	170,2	15,7
<b>Employment and SME development</b>	0,42	238,5	21,9
<b>Decentralisation, local and public government</b>	0,05	30,0	2,8
<b>Regional development</b>	0,05	29,3	2,7
<b>Rural poverty</b>	0,06	35,0	3,2
<b>Urban poverty</b>	0,12	70,3	6,5
<b>Environment protection</b>	0,01	5,8	0,5
<b>Human rights and gender equity</b>	0,03	16,7	1,5
<b>Monitoring and evaluation</b>	0,00	1,0	0,1

<sup>15</sup> In other words, the stated costs are marginal costs, i.e. incremental costs required due to the expansion of current activities or to the introduction of new activities, not total costs in a certain sector (social protection, education etc.)

costs of some services (efficiency savings) and making cuts in other, lower priority services. However, this will be a difficult task. Thus, in the medium term, ministries and local administrations will aim to develop the tools and capacities to restructure their budgets in order to facilitate the achievement of PRSP objectives.

**The principles behind the allocation of resources shown in the costing section in the PRSP include:**

- Emphasis is placed on savings and rationalization in the functioning of ministries, local governments and other state bodies
- Stated are marginal costs, i.e. incremental costs due to the expansion of current activities or to the introduction of new activities, not total costs in a certain sector (social protection, education etc.)
- Allocations are defined in such a way as to enable gradual achievement of the set goals in line with the overall macro/fiscal framework.
- The share of domestic fiscal resources in the overall resources for PRSP implementation is rising, in accordance with the goal for Serbia to become able in the medium-term period (till the end of this decade) to solve the poverty problem on its own.
- The importance of maintaining balance between resources intended for mitigation of poverty consequences (social protection) and those earmarked for eradication of poverty causes (education, health, employment and SME development etc.).

**9. Implementation, Monitoring and the Consultative Process of PRSP Development**

**9.1 Implementation of the PRSP**

By adopting the PRSP Strategy, the focus shifts from planning to action – a critical phase which represents a challenge for most strategic processes.

An effective implementation system would encompass the following:

- Relevant line ministries, Government institutions and agencies will be responsible for the implementation of measures and activities included in the PRSP. The development of action plans and programmes in the coming time period will facilitate a more effective implementation process, clearer definition of responsibilities and easier monitoring of the process for all relevant stakeholders. It is necessary to strengthen communications amongst those in central and local government in charge of (i) the budgetary process; (ii) co-ordinating external assistance; (iii) the process of European integration; and (iv) public administration reform. Concrete steps discussed at the ministry level are linked to the creation of a team which would be in charge of PRSP implementation, strengthening

capacities for utilising the budgetary process in planning and developing programmes, the more efficient use of human resources, etc.

- Central functions / units for monitoring and managing the implementation of the PRSP will be developed within the cabinet of the Prime Minister / General Secretariat of the Government. The aim is to develop the function in accordance with a recently initiated process of strengthening the central coordination mechanisms of the government. The Government will be regularly informed of the development of the process, problems and challenges, changes in priorities, recommended actions, etc.
- In all parts of the Strategy the importance of involving local governments in the process of identifying problems and policies has been stressed, and the same applies to the process of planning and implementation. Although there have been initiatives for strengthening the local self governments there is still a long way to go in this regard. There is also a need for better coordination of the existing initiatives for the purpose of exchanging experiences for greater synergies effect.
- As was the case with the development of the PRSP, all interested participants will define their role in the implementation and in the monitoring and evaluation of the results of the PRSP.

The link between the PRSP and the criteria in the EU Stabilisation and Association Process, as well as the UN Millennium Development Goals, has been explicitly stated in the measures and activity matrices.

Having in mind the importance of a close connection between the PRSP, the process of European integration and use of budgetary resources and external aid, the possibility for developing joint mechanisms for managing the implementation of the Strategy will be explored.

## **9.2 Monitoring the Implementation of the Poverty Reduction Strategy**

Successful monitoring and evaluation of PRSP outcomes requires the following: firstly, defining the set of (outcome and process) indicators harmonized with Millennium Development Goals; secondly, modernization and reorientation of the existing statistical system to the new requirements; thirdly, organizing the monitoring of PRSP implementation; and fourthly, active participation of the Parliament, civil society, and other relevant stakeholders in the monitoring of the PRSP.

The number of the poor, as a basic poverty indicator, will be established based on the national poverty line according to the methodology applied in the SLSP. The basic set of indicators which bring out other (non-economic) dimensions of poverty (e.g. health, education, gender equality...) was harmonized with the Millennium Development Goals, and complemented by additional indicators of specific importance for Serbia. This provided international comparability and the possibility to apply international best

practice. Apart from the outcome indicators, process indicators, which enable the monitoring of the PRSP implementation, have also been included.

Successful monitoring of the PRSP requires further development and modification of the existing system of statistical research. The Republic Statistical Office, which is currently undergoing a process of modernization of the whole system of statistical research, will take on part of the work. The development of alternative systems for data collection, with the considerable participation of civil society and vulnerable groups, has also been envisaged.

It is envisaged that the relevant ministries will form sectoral working groups in charge of monitoring and evaluating the results of sectoral PRSP activities. It is also envisaged that a special working group as part of the Republican Statistical Office will be formed. At the local level, municipal working groups in charge of monitoring the PRSP will be formed and will involve representatives of civil society and vulnerable groups, as part of the socio-economic councils.

The formation of civil society and international development partners' working groups has been planned. Active inclusion of civil society in monitoring of the PRSP shall be secured through the creation of local NGO monitoring networks and the development of appropriate methods of participatory PRSP monitoring.

The Central Team for Monitoring PRSP Implementation. and Outcomes will have a special function (communication with the PRSP Implementation Management Unit, coordination of all monitoring working groups, collection of working groups' sectoral reports and preparation of synthesized reports on strategy implementation and results, coordination of sectoral teams, communication with the media, etc.). Working groups within the PRSP monitoring system shall each have a representative in the Central Team for Monitoring PRSP Implementation.

### **9.3 Poverty Reduction Strategy Consultative Process**

One of the important elements for formulating the PRSP was a widely established and flexible consultative process, including the participation of all relevant stakeholders. The institutional and organizational structure for the development of the PRSP in Serbia was open and included the PRSP Steering Committee (SC), composed of nine ministers and chaired by the Prime Minister, as well as seven representative Advisory Committees (AC), including representatives of the National Assembly, civil society, local government, labour unions, business community, inter - ministry and international development partners' Advisory Committee. An Advisory Board was also formed, consisting of representatives from the Advisory Committees, the Expert Task Force and the Government. Its main task was to disseminate information, coordinate and consolidate comments provided by the different Advisory Committees and to present recommendations and conclusions to the Steering Committee based on these. The Expert Task Force (ETF), consisting of 29 experts in different fields, was mainly in charge of drafting the PRSP, based on consultations with the Advisory Committees, outputs of the

consultative / participatory process and instructions from the Steering Committee and different ACs. The PRSP Management Unit was a specially formed Unit within the Ministry of Social Affairs with the aim of providing organizational support to the PRSP preparation process, and coordination of the work of the experts as well as the wider participatory process.

The PRSP development process consisted of five phases: 1) institutional set-up; 2) development of the framework for the PRSP; 3) first draft of the PRSP; 4) second draft of the PRSP; and 5) final draft and the full PRSP.

In addition to numerous bilateral meetings with representatives of relevant stakeholders in the process, the Strategy was presented in different forms and in a great number of cities and municipalities through around 80 meetings and forums with over 3,300 participants.

Serbia's experience in PRSP preparation has shown that a wide consultative process has provided an opportunity for social actors that have not previously been included in the preparation of strategic documents to contribute with their comments and suggestions to the creation of a joint, nationally owned Poverty Reduction Strategy.

### **PRSP Local Initiatives**

The aim of the Local Initiatives was to strengthen national ownership of the PRSP through pilot projects. During July and August, 2003, 27 local initiatives were implemented in Serbia with the aim of strengthening national ownership. This was realised through support to initiatives "from the local level" which implemented different activities in around 40 municipalities and over 100 country villages with the aim of enhancing local community participation in the process of development and implementation of the PRSP. This mechanism will be used in the implementation and the monitoring process of the PRSP.

## **10. Poverty Reduction Strategy – Priorities**

The PRSP process represents an integral part of the continuation of economic reforms and the establishment of rule-of-law state and democratic institutions. The strategy has a developmental orientation taking into account the numerous fiscal and other limitations and risks linked to the first phase of transition in Serbia.

Alleviation of poverty does not concern only material subsistence and the realization of human rights – it also includes the creation of equal opportunities for all in the field employment, education, health care and social protection. The PRSP therefore focuses on the efficient implementation of the defined poverty reduction programmes, both across different sectors and in relation to the most vulnerable groups which have been identified.

In view of the main strategic aims of the PRSP, poverty reduction priorities as early as 2004 will be:

- In the field of **employment**, the priority is improving the educational and qualification structure of the unemployed and youth, in addition to entrepreneurship and SME development.
- In the field of **social protection** an emphasis is placed on improving protection of vulnerable groups (both in terms of coverage and the amount of assistance) and expanding the range and quality of social protection services.
- In the **health sector** special health care programmes targeting vulnerable groups will be defined, together with a more efficient allocation of resources with a particular focus on primary and preventive health care.
- In the area of **education** the priority will be to implement educational reform in line with the requirements of the market economy and the development of the private sector alongside the full inclusion of the vulnerable groups into the formal education system.

The implementation of the PRSP will contribute considerably to reducing poverty in Serbia. The speed of poverty reduction will depend on the availability of fiscal allocations, which to a great extent depend on future economic growth (projected to be 4-5% per year). Under those conditions and assuming no growth of inequality in the distribution of incomes, the poverty rate in Serbia would drop to around 6.5% by the year 2010. On the other hand, greater external assistance, targeted to PRSP priority areas, would assist in a faster reduction in poverty.

Apart from considerable financial resources, the successful achievement of these PRSP objectives also requires the sincere willingness and readiness of all stakeholders to take an active and responsible role in the implementation of the Poverty Reduction Strategy.

## **ACTIVITY MATRICES**

**Situation Analysis, Policies and Activities, Timeframe, Likely  
Poverty Impact, Implications for Public Expenditure**

## Macroeconomic Framework and Factors of Sustainable Economic Growth

**Millennium Goal<sup>23</sup> 1: Eradicate extreme poverty**  
**Millennium Goal 8: Develop a global partnership for development**

Related SAP<sup>24</sup> Objectives:

N/A

Related PRSP Main Directions:

1. Economic growth

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Basis for medium-term macro stability put in place.                      Monetary policy directed towards controlling inflation.                      Fiscal policy directed towards fiscal stability and fiscal reform.                      Reform of sales tax (abolition of sales tax on basic items) and the incorporation of benefits in gross salary calculations have benefited the poor.                      Although still moderate, the degree of inequality has a</p>	<p>Maintain medium-term macro stability to underpin sustainable economic growth                      Continue fiscal reforms and ensure fiscal sustainability of public expenditure                      Maintain inequality at least at current levels                      Aim for growth rate of 4-5% in the period 2004-2006</p>	<p><b>Economic growth will depend on: (i) maintaining macro stability (limiting fiscal and current account deficits to less than 3% and 10% of GDP respectively); (ii) increasing the rate of investment and domestic savings; (iii) improving export performance; and increasing the levels of</b></p>	<p>MFIN<sup>25</sup>, NBS<sup>26</sup>, MEIR<sup>27</sup>/SIEPA<sup>28</sup>                      2004-2006                        2004-2006                        2004-2006</p>	<p>Indirect: macro and fiscal stability are preconditions for economic growth.</p>	<p>Macro and fiscal reform measures will need to be undertaken within the existing resource framework.</p>

<sup>23</sup> UN Millennium Development Goals

<sup>24</sup> Stabilisation and Association Process

<sup>25</sup> Ministry of Finance and Economy

<sup>26</sup> National Bank of Serbia

<sup>27</sup> Ministry of International Economic Relations

<sup>28</sup> Serbian Investment and Export Promotion Agency

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>negative impact on the poor. Similar level of inequality to that in neighbouring countries. Current macro position characterised by high unemployment rate, low domestic savings rate, poor export performance and a low level of investment. Large current account deficit (12% of GDP) Potentially risky public debt position, mainly from old external debt.</p>		<p><b>export-oriented foreign direct investment (FDI)</b>  Monetary policy to aim at further reductions in inflation and strengthening the external position through export promotion in areas where Serbia has a competitive advantage.  <b>Fiscal sustainability implies no increases envisaged in public expenditure/GDP.</b>  <b>Falling revenue/GDP ratio to be achieved partly through tax relief for businesses.</b>  <b>Reduced expenditure/ GDP ratio to come through cuts in subsidies and reduction of role of State in the economy.</b>  Harmonise customs, trade and indirect tax regimes with that of Montenegro, in preparation for SAA with EU.  Continue debt restructuring process – implementation of Paris Club, negotiations with London Club and regularisation of other debt, including restructuring of Russian short-term debt.  <b>Continue to implement fiscal reforms (see fiscal reform matrix).</b>  Promote export-oriented FDI</p>	<p>2004-2006  2004-2006  2004-2006  2004-2006</p>		

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		through privatisation, with receipts to finance budget deficit. Facilitate private sector to be engine of growth (see next matrix)			

**Ensuring a Sustainable Fiscal Framework for Poverty Reduction**  
**Millennium Goal 1: Eradicate extreme poverty**

**Millennium Goal 8: Develop a global partnership for development**

**Related SAP Objectives:**

Efforts should be made to ensure fiscal harmonisation and co-operation between the various parts of the state, in order to ensure that there are no obstacles to trade within the state.

Further efforts are needed to strengthen tax administration.

Harmonized approach, throughout the SM, to the introduction of VAT is needed.

Rapid adoption of an Organic Budget Law in Serbia. (completed)

Rapid adoption of a Treasury Law in Serbia. (completed as part of Organic Budget Law)

Tax legislation in the Republic of Serbia should be adopted rapidly with a view to enhancing transparency and improving the overall fiscal situation.

Double taxation of goods moving between Kosovo and the rest of Serbia and Montenegro must be avoided

Proposed fiscal reforms, throughout the SM, should be quickly adopted and/or implemented.

Achieving a sustainable fiscal position in Serbia and Montenegro over the medium term requires a further prioritisation of public spending to make room for new inevitable expenditure burdens (debt service, social costs of transition, necessary investments in infrastructure).

Security/police and military spending should be further reduced as a percentage of GDP and public sector wage spending should be contained.

An agreement of the Serbia and Montenegro authorities with the London Club creditors is essential to settle debt servicing obligations and relevant fiscal appropriations needed in both republics, as well as progress towards future sustainability of the balance of payments.

The overall financial viability of the state and the joint institutions must be ensured.

**Related PRSP Main Directions:**

1. Economic growth
2. Prevention of new poverty
3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Time-frame/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
Level of public expenditures is at just under 46% of GDP - salaries and pensions hold dominant share Increasing obligations for pension payments and debt servicing, potentially crowding	To support the implementation of the twin macro goals of rapid economic growth and economic stability Long-term sustainable fiscal policy and state solvency	<b>Sustainable fiscal policy: low tax rates, low fiscal deficit, decrease in deficit/GDP ratio (to less than 3% by 2010), and gradual reduction in</b>	MFIN 2004-2006	<u>Indirect:</u> Fiscal stability is a pre-condition for dynamic economic growth <u>Indirect:</u> Better utilisation of budgetary	The implementation of fiscal reforms will need to take place within the overall resource framework Fiscal reforms should lead to better utilisation of

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>out other expenditures</p> <p>Largest spending in consolidated public expenditures is in pensions, health, education and general public services.</p> <p>To maintain fiscal stability, Government has kept fiscal deficit low (below 4%) in recent years.</p> <p>Expenditures on social assistance for the poor total around 4% of GDP, covering child protection and families in poverty (MOP)</p> <p>The elimination of sales tax on basic products has had a beneficial effect on the poor.</p> <p>Programme of fiscal reforms initiated, including the complete adoption of Law on Budget System and on Public Procurement. Formation of Treasury and Public Procurement Agency. Better budget reporting required to Parliament and introduction of external audit of budget.</p>		<p><b>expenditure/GDP.</b></p> <p><b>Relative increases in the share of overall expenditure going to education between 2003-2010, with reductions in expenditure shares expected in defence, public order and safety, economic affairs and social protection (in order to improve the viability of the pension system). Detailed sectoral expenditure strategies needed for health, education, defence and internal security.</b></p> <p><b>Develop and analyse medium-term fiscal parameters consistent with sectoral and sub-sectoral priorities given in the PRSP and other priority Government strategies and reflect these in the Medium-term Expenditure Framework (MTEF)</b></p> <p>Low or zero-rating of VAT may be applied to basic products</p> <p>Lower tax rates to stimulate domestic and foreign investment</p> <p>Pursue negotiations on reducing remaining external</p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p>resources will enable resources to be targeted more effectively at priority services for the poor.</p> <p>Indirect: Improving the link between policies and budgetary allocations will enable the Government's priority poverty reduction programmes to be more consistently and more comprehensively funded.</p> <p>Indirect: Increasing the share of budgetary allocations to the education sector will help fund specific poverty reduction programmes in this sector</p>	<p>resources and improved linkages between budgets and policy policies.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		<p>debt.</p> <p>Use privatisation revenues to cover fiscal deficit.</p> <p>Continue to implement fiscal reform measures, covering:</p> <p>(i) payment reforms, including expansion of Treasury operations, (ii) reform of tax administration, including establishing regional Large Tax Payers office and preparing for the introduction of VAT, improved tax audits and introduction of self-assessment; (iii) public expenditure management reforms, including budgetary planning, resource allocation reviews.</p>			

**Transition to a Market Economy: Enabling Strong Private Sector Growth**  
**Millennium Goal 8: Develop a global partnership for development**

**Related SAP Objectives:**

N/A

**Related PRSP Main Directions:**

I. Economic growth

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Government is committed to strengthening the rule of law and improvement in business environment</p> <p>Reforms to date have included the passage of a number of laws designed to put in place the framework for a market economy (cf. separate legislative/ regulatory reform matrix for all sectors), initiating the privatisation programme and cracking down on organised crime</p> <p>However, implementation of new Laws has been weak.</p> <p>Good start to privatisation programme: in 2003 \$1 bn expected from privatisation in sectors such as chemicals, tobacco, petrochemicals and steel. This has included investment by multinationals.</p>	<p><b>Ensure that a transparent legal and institutional framework is in place to attract private investment</b></p> <p><b>Ensure strong market institutions to support private sector growth/ development</b></p> <p><b>Ensure provision of a conducive business environment for a dynamic private sector</b></p> <p><b>Increase the share of private ownership in the economy from 42.5% in 2002 to 75% in 2005.</b></p>	<p><b>Continue macro stability/fiscal reform (see previous matrix)</b></p> <p>Continue structural reforms in banking supervision, privatisation and enterprise restructuring</p> <p>Strengthening financial sector supervision through timely compilation of analytical information on bank liquidity and solvency</p> <p>Accelerate bank restructuring: implement a strategy aimed at restructuring 12 banks in which government holds significant stakes</p> <p>Acceleration of privatisation process during medium-term. Facilitating appropriate pace for privatisation, ensuring</p>	<p>MEP<sup>29</sup>, NBS, MIER, MoJ<sup>30</sup> 2004-2006</p> <p>2004-2006</p>	<p>Indirect: a dynamic private sector is necessary to provide the conditions for accelerating economic growth and increasing employment</p>	<p>Limited implications for public expenditure, as these structural/ institutional reforms will be carried out within existing resource framework.</p>

<sup>29</sup> Ministry of Economy and Privatisation

<sup>30</sup> Ministry of Justice

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Initial restructuring of banking sector took place but process has recently slowed down Improvements in basic infrastructure has been assisted by external loans and credits.</p>		<p>that all privatisation proceeds flow transparently through the budget and putting in place control mechanisms in banks prior to their privatisation Accelerate restructuring of 50 large state-owned enterprises in readiness for privatisation. Improve business environment through enactment of laws on enterprises (Company Law), bankruptcy, executive procedures, FDI, and SME agency and business registration, and amendments to laws on public procurement and financial markets/securities. Pass and implement set of anti-corruption/ anti-monopoly legislation and regulation and inspectorates. Remove administrative/ bureaucratic barriers to private sector economy. Continue infrastructural improvements, particularly in roads and telecoms in conjunction with already committed external grants, credits and loans.</p>	<p>2004-2006</p>		

## Transition to a Market Economy: Building Strong Public Institutions

### Millennium Goal 8: Develop global relationships of partnership for development

#### Related SAP Objectives:

Global assessment of the employment and social policy legislation of the state should be done to identify priority areas of intervention and a clear legislative and administrative action plan should be established.  
The definition and implementation of employment and social policy should be coordinated throughout the state, in order to support the functioning of a single economic space within the state and ensure coherence for employers and employees.  
Particular attention should be devoted to increased administrative capacity and efficiency in the implementation of legislation.

#### Related PRSP Main Directions:

1. Economic growth
2. Prevention of new poverty
3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Public Administration Reform</u> A number of new Laws are being prepared to modernise public administration, including Law on Public Administration and Law on Civil Servants</p> <p>A number of on-going initiatives within ministries have begun (e.g. HR management systems, project management, establishment of a change agent, building capacities in ministries, etc.), but they are not well-co-ordinated</p> <p>Not much achieved in carrying out reform of central co-ordination functions because initiatives and responsibilities have been fragmented and</p>	<p><b>Ensure the provision of a dynamic, efficient and transparent public administration which is well-suited to the appropriate role of Government in a market economy</b></p> <p><b>Develop the necessary capacity for successful integration into the European Union</b></p>	<p>Strengthen the central co-ordination mechanisms of the Government.</p> <p>Review and improve pay and grading system, including control and more efficient use of wagebill and expenditures in general.</p> <p>Improve human resources management, including introduction of transparent systems of review and appraisal, recruitment and promotion since strengthening capacity for state institutions is a precondition for successful SAA process</p> <p>Undertake restructuring based on functional reviews and use of resources for line</p>	<p>Government and relevant ministries 2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Indirect</u>: a more efficient public administration should improve the effectiveness and efficiency of poverty reduction programmes.</p> <p><u>Indirect</u>: reduced corruption, particularly in social services, should improve access of the poor to these services.</p> <p><u>Indirect</u>: an efficient, capable and transparent administration is a precondition for economic growth and the creation of new jobs.</p>	<p>Public administration reform should improve the cost effectiveness of public service provision.</p> <p>Limited implications for public expenditure; reform measures will need to take place with existing resource framework.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>reforms lack clear leadership or strategy.</p> <p>Staff in public sector institutions are underpaid and have capacity constraints relative to restructured role of government in a market economy</p>		<p>ministries and central functions</p> <p>Strengthen anti-corruption measures in order to improve service delivery (health and education etc)</p> <p>Introduce information technology to improve horizontal and vertical communications within the government service</p>	2004-2006		
<p><u>Judicial Reform</u></p> <p>Judicial system in process of establishing system of norms and regulations necessary to support a modern market economy;</p> <p>However, this has led to a proliferation of imprecise and conflicting legal regulations, open to interpretation and potential abuse;</p> <p>A number of reforms are currently under way, intended to align Serbia's legal system with that of European standards, and covering Laws on Courts, Judges, Judiciary High Council, Public Prosecution and Headquarters and Areas of Courts and Public Prosecutors. The reforms aim to provide a clear demarcation for, and thus independence of, the judicial branch of</p>	<p>Ensure access to justice for poor</p> <p>Increase independence of judicial authorities</p> <p>Improve efficiency and effectiveness of judiciary</p>	<p><b>Adopt new Constitution to protect basic human rights and judicial independence</b></p> <p>Further strengthen the independence of judicial branch</p> <p>Raise capacity, professionalism and efficiency and material/technical working conditions of juridical bodies.</p> <p><b>Modernise and rationalise civil procedure, penal code, bankruptcy act, etc.</b></p> <p>Introduce new legal sub-branches, including notary public, magistrate, judiciary police, bankruptcy commissioner and ombudsman.</p> <p>Codify professional ethics:</p>	<p>MPALSG<sup>31</sup>, MoJ</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>		<p>Reform of the judiciary will require limited additional public resources. The aim should be to investigate the possibilities of cost savings for public financing of the judicial branch.</p>

31 Ministry of Public Administration and Local Self-Government

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>government.</p>		<p>professionalise and strengthen ethic codex Improve relations between judiciary and citizens through addressing corruption in judicial branch</p>			
<p><u>Local Self-Government</u> Effectiveness of municipal service provision is affected by poorly equipped offices, discrepancies between municipal by-laws and legislation, inadequate structure and skills of staff, poor remuneration of staff and high staff turnover, poor project monitoring and low public participation. Process of decentralisation of government responsibility has been initiated with the passage of the Law on Local Self Government in February 2002. However, implementation has not moved forward in reality. Thus, there is a need to: (i) modernise the structure of local government; (ii) restructure the relationship between levels of government, including public finance (revenue and expenditure assignment); and (iii) strengthen the capacities of staff at lower levels of government, particularly in the area of social policy, on which inadequate attention is currently being paid at municipal level.</p>	<p>Reduce poverty through more locally appropriate measures and greater decision-making by lower levels of governments and communities themselves</p>	<p><b>Develop and implement a consistent strategy for poverty reduction at the municipal level, applying particularly in the area of social welfare/ assistance, education, health care and housing/turban development planning. Improve the relationship, including information sharing, between municipal authorities and other municipal services and organisations, including CSOs: (i) review and identify inter-sectoral problems and co-operation, and (ii) initiate strategic, developmental, inter-sectoral work with other areas in the municipality and across municipalities.</b> Continue to improve relationships with NGOs and CSOs through continued financial and logistical assistance in the</p>	<p>MPALSG 2004-2006 2004-2006 2004-2006 2004-2006 2004-2006</p>	<p><u>Indirect:</u> more decentralised and better-integrated services should increase the appropriateness of poverty measures to local populations. <u>Indirect:</u> Improved delivery and accessibility of services and better targeting of vulnerable groups <u>Indirect:</u> Local governments to have increased responsibility for economic growth</p>	<p>The introduction of greater decentralisation should be preceded by a comprehensive analysis of appropriate options for revenue and expenditure assignment to all levels of government. Cost savings in the provision of public services at all levels of government should be identified.  In the short term, the implications of the introduction of VAT on local government revenues should be studied.</p>

Assessment/ Situation Analysis		Objectives and Outcome Targets, where available		Related policies/strategies/ activities	implementation of poverty reduction projects.	Timeframe/ Responsible Institution		Link to poverty reduction/ likely poverty impact		Implications for Public Expenditure	

## Transition to a Market Economy: Global and Regional Integration

### Millennium Goal 8: Develop global relationships of partnership for development

#### Related SAP Objectives:

The institutional provisions for smooth relations with international financial and economic institutions and donors must be put in place urgently.

#### Related PRSP Main Directions:

1. Economic growth

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Serbia has programmes in place with the IMF (Extended Stand-by Arrangement), World Bank (IDA, due to expire in 2004), EBRD and EIB</p> <p>Co-operation between Serbia and Montenegro improved following adoption of new Constitution in February.</p> <p>Internal Market and Trade Action Plan commits Serbia and Montenegro to harmonise trade, customs and indirect tax regimes as a pre-condition for negotiating SAA with the EU.</p> <p>Due to lack of capacity, common market institutions are still not in place</p> <p>Serbia has Most Favoured Nation (MFN) status with the EU.</p> <p>Significant administrative barriers exist in trade relations. The Foreign Trade Law will be in place as of 1 January 2004.</p>	<p>Facilitate further foreign trade liberalisation</p> <p>Work towards establishing a common market with Montenegro in the free flow of people, goods, services and capital</p> <p>Progress towards closer association with the EU.</p> <p>Strengthen specific institutions necessary for Action Plan for SAA</p> <p>Pursue membership in WTO</p>	<p><b>Policy priorities: (i) follow Internal Market and Trade Action Plan; (ii) pursue SAA for European Integration</b></p> <p><b>Introduce legal framework for common market, particularly in terms of institutions to implement a Common Market.</b></p> <p><b>Pursue agreement on SAA with the EU.</b></p> <p><b>Strengthen administrative capacity, particularly in the sectors of justice and home affairs.</b></p> <p><b>Undertake feasibility study for European Integration</b></p> <p>Continue to follow the Extended Standby Agreement with IMF</p> <p>Undertake negotiation of status with World Bank re.</p>	<p>MEIR, Republic Government and responsible ministries, Union Government</p> <p>2003-2004</p> <p>2003-2004</p> <p>2004</p> <p>2004</p> <p>2003-2005</p> <p>2003-2005</p> <p>2003-2005</p> <p>2003-2005</p>	<p>Stability is precondition for economic growth in Serbia. Growth contributors are integration in European mainstream and further international integration</p>	<p>Limited implications for public expenditure.</p> <p>Institutional changes will need to be made within the overall resource framework.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		IDA Further support to reform process, including: CARDS, preferential status, Stability Pact on refugee issues			

## Increased Employment Opportunities

### Millennium Goal 1: Eradicate extreme poverty

### Millennium Goal 8: Develop a global partnership for development, especially develop and implement strategies for decent and productive work for youth

#### Related SAP Objectives:

Global assessment of the employment and social policy legislation of the state should be done to identify priority areas of intervention and a clear legislative and administrative action plan should be established.  
The definition and implementation of employment and social policy should be coordinated throughout the state, in order to support the functioning of a single economic space within the state and ensure coherence for employers and employees.  
Particular attention should be devoted to increased administrative capacity and efficiency in the implementation of legislation.

#### Related PRSP Main Directions:

1. Economic growth
2. Prevention of new poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Features: low level of employment, high unemployment rate and increasing trend, high hidden unemployment, low share of employment in private sector, low wages and low mobility of labour force</p> <p>Relative significance of non-standard forms of employment (e.g. temporary, seasonal, or occasional)</p> <p>Significant grey economy, including those more at risk of poverty</p>	<p>Creation of an efficient, competitive, open and liberal market economy, dependent on:</p> <p>More efficient and mobile labour market with a higher level of human capital</p> <p>New employment opportunities (reduction of grey economy and SMEs) in order to reduce unemployment</p> <p>Increased internal and external demand will be the engine for growth</p>	<p><b>Creation of new job opportunities</b></p> <p><b>Develop incentives for private sector to create new employment opportunities – elimination of obstacles for business and improving competitiveness, reducing the grey economy (see judicial reform matrix), stimulation of domestic and external</b></p>	<p>MLE<sup>32</sup>, MEP, SME agency, Employers' Association, trade unions, local communities</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Direct</u>: increased employment opportunities will help raise the living standards of the population, particularly those currently unemployed or facing unemployment.</p> <p><u>Direct</u>: direct employment training and job counselling services will improve the prospects of those with skills of limited</p>	<p>The introduction of labour market programmes will need to be phased in according to the availability of resources.</p> <p><b>The participation of the business community in the improvement of skills should be promoted.</b></p> <p>Legalisation of grey economy will lead to stronger control of public revenues and more resources available for</p>

<sup>32</sup> Ministry of Labour and Employment

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Qualification/skills of unemployed tend not to correspond to qualifications and skills required by market economy. Relatively low educational qualifications of unemployed.</p> <p>More than one-third of unemployed have been unemployed for more than 1 year</p> <p>Vulnerable groups (including women and youth) predominate over other groups in overall unemployment, e.g. unemployment rates amongst refugees, IDPs, Roma and disabled are double those of the population as a whole.</p>	<p>Increased employment opportunities for vulnerable groups</p>	<p><b>investments</b></p> <p><b>Stimulate economic growth and employment at local and regional levels, including export-orientated FDI and increased public and private investment (regional development matrix)</b></p> <p><b>Open up economy to regional and global markets through WTO, free-trade agreements and European</b></p> <p><b>Integration process (see Global and Regional Integration matrix)</b></p> <p><b>Develop SME sector: create framework for sustainable, internationally competitive and export-oriented SME sector</b></p> <p><b>Sustainable development of the private agriculture sector.</b></p> <p><b>Target employment measures to vulnerable groups, including social programmes such as public works, micro enterprises, and employer subsidies (see regional development matrix)</b></p> <p><b>Develop a more efficient</b></p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p>marketability.</p> <p><u>Indirect</u>: More efficient and transparent labour market will improve the efficiency of resource allocation, e.g. services, agriculture and certain industries</p> <p>Preconditions of growth are macro stability and a dynamic private sector for more rapid employment</p>	<p>priority areas.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		<p><b>labour market</b></p> <p><b>Promote active employment measures (targeted), improving quality of supply through vocational training, and increased labour mobility</b></p> <p><b>Begin development of a new Law on Employment regulating benefits for unemployed workers</b></p> <p>Improve system of counselling and mediation between employers and employed: annual job fair in each branch office of the National Employment Service</p> <p>Human capital development (linked to vocational training in education sector)</p> <p><b>Improved capacity of Labour Market Bureau (National Employment Agency)</b></p>			

## More Efficient Social Protection

### Millennium Goal 1: Eradicate extreme poverty

#### Related SAP Objectives:

Global assessment of the employment and social policy legislation of the state should be done to identify priority areas of intervention and a clear legislative and administrative action plan should be established.

The definition and implementation of employment and social policy should be coordinated throughout the state, in order to support the functioning of a single economic space within the state and ensure coherence for employers and employees.

Particular attention should be devoted to increased administrative capacity and efficiency in the implementation of legislation.

Legislation should be enacted to fully ensure the social security of migrant workers within the state, notably regarding the transferability of pension rights.

Reliable statistical data should be collected on poverty in order to assess the situation.

The efficiency of social security should be increased, notably through improved targeting of the neediest parts of the population

#### Related PRSP Main Directions:

3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Social assistance</u></p> <p>MOP</p> <p>The social assistance programme MOP has limited coverage, its regulations are restrictive, well targets the poorest people, favours small families and mainly covers those with a poor educational background, the unemployed, and persons with disabilities</p> <p>Increase in MOP recipients from 67,000 in 2000 to 125,000 in 2002, boosted by external grants and improving the timeliness of transfers</p>	<p>To widen the provision of social protection, through paying higher amounts of assistance and widening the social safety net to include those most vulnerable groups (e.g. Roma, ex-refugees) currently ineligible for social assistance</p> <p>Ensure access for all who are eligible for social protection but are currently not participating, including Roma, refugees who will become citizens, IDPs, etc.</p>	<p>Emphasise new government role in reformed social protection system: limited to developing legislative framework, oversight and provision of a basic safety net for social insurance and assistance.</p> <p><b>Enhance equity and coverage of MOP, child social assistance and other programmes through: (i) applying uniform income test line as criteria for social assistance; and</b></p>	<p>MoSA<sup>33</sup></p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Indirect:</u> Measures to increase economic growth expected to reduce number of poor and depth of poverty and thus reduce the number of people requiring social assistance.</p> <p><u>Direct:</u> Better targeting measures to increase access and coverage, and improved index linking of social entitlement programmes</p>	<p>Ensuring fiscal sustainability of social services provision will be a priority.</p> <p>Review of social assistance expenditures should facilitate improvements in efficiency use, generating budgetary savings and reallocating these resources to higher priority areas.</p> <p>Expansion of existing programmes or the introduction of new ones</p>

<sup>33</sup> Ministry of Social Affairs

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Child allowance</u> Child allowance is the largest programme of assistance to the poor, specifically to poor families with children. New Law on Financial Support to Families with Children (March 2002) allows more accurate targeting of poor families.</p>	<p>Improved targeting of social services and entitlement programmes to those most in need and maintain fiscal sustainability.</p>	<p><b>(ii) introducing improved targeting and streamlining criteria to provide assistance to the poorest and those not in a position to look after themselves.</b> Increase efficiency of social protection system through better use of resources within existing budget constraints (fiscal sustainability) Promote greater role of communities in the provision of social assistance, in partnership with humanitarian, NGOs and other organisations Introduce measures to mitigate the effects of expected increased energy prices</p>	<p>2004-2006</p>	<p>will aim to provide more resources to those with the greatest need. <u>Indirect:</u> Improving the efficiency of social assistance programmes will reduce costs and enable the better use of limited resources. However, a balance should be struck between increasing efficiency and reducing access to services, e.g. in rural areas.</p>	<p>will need to be phased in according to the availability of resources.</p>
<p><u>Assistance to Vulnerable Groups</u> Because of their status, many of the most vulnerable (refugees, IDPs and Roma) are ineligible for social assistance, either because they are not citizens or do not have appropriate ID documents (e.g. lack of a permanent address) Some of those who are eligible for social assistance do not receive it because they are unaware of the programme and/or of their right/ability to participate</p>	<p><b>Increase access to social protection to refugees, IDPs and other groups through implementation of the Refugee and IDP Strategy being developed. This will involve facilitating refugees to become citizens, and facilitating IDPs and Roma to obtain documents)</b> <b>Increase access to those currently eligible but not participating through improving public</b></p>	<p><b>Increase access to social protection to refugees, IDPs and other groups through implementation of the Refugee and IDP Strategy being developed. This will involve facilitating refugees to become citizens, and facilitating IDPs and Roma to obtain documents)</b> <b>Increase access to those currently eligible but not participating through improving public</b></p>	<p>MoSA, Commissariat for Refugees and IDPs, NGOs  2003-2006  2003-2006</p>	<p><u>Direct:</u> increased access and coverage will aim to provide more resources to those with the greatest need.</p>	<p>Ensuring fiscal sustainability of social services provision will be a priority.  Review of social assistance expenditures should facilitate improvements in efficiency use, generating budgetary savings and reallocating these resources to higher priority areas.  Expansion of existing programmes or the introduction of new ones will need to be phased in according to the</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Social services</p> <p>Insufficiently developed alternatives to institutional care, including foster care</p> <p>Insufficient capacities of network of day care centres and insufficient developed home help for vulnerable people</p> <p>Poor living conditions in some institutions</p>		<p>relations/ communications campaigns and investigating the cost-effectiveness of streamlining administrative procedures</p> <p><b>Continue process of de-institutionalisation and development of alternative forms of social services, including foster care. Greater reliance on day care instead of institutional placement. Alternatives to Institutional Care (AIC) should be linked to other issues, such as health services.</b></p> <p>Continue Social Innovation Fund (SIF) programme.</p> <p>Improve cross-sectoral linkages between social service delivery mechanisms, focusing on the relationship between CSW's and other stakeholders in the local community (schools, health institutions, courts, police, NGOs, media etc.), highlighting the need for an integrated approach to services and emphasising the role of CSW as coordinator and mediator.</p> <p>Continue to develop</p>	<p>MoSA, NGOs</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p>Direct: The development of programmes specifically geared to the needs of vulnerable groups should improve their conditions of care.</p> <p>Indirect: Improving the efficiency of social services will reduce costs and enable the better use of limited resources. However, a balance should be struck between increasing efficiency and reducing access to services, e.g. in rural areas.</p>	<p>availability of resources</p> <p>Ensuring fiscal sustainability of social services provision will be a priority.</p> <p>Review of expenditures on social services should facilitate improvements in efficiency use, generating budgetary savings and reallocating these resources to higher priority areas.</p> <p>Expansion of existing programmes or the introduction of new ones will need to be phased in according to the availability of resources.</p> <p>The participation of CSOs in the wider provision of social services provision, particularly to the most vulnerable groups, should be promoted.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		professional standards for Social Welfare Centres			

## Improved Status of Pensioners and Elderly

### Millennium Goal 1: Eradicate extreme poverty

#### Related SAP Objectives:

- N/A

#### Related PRSP Main Directions:

3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Time-frame/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b><u>Pensions</u></b></p> <p>Reform of pension system began in 2001 to close the fiscal gap between responsibilities and available resources, including: (i) reducing pension contribution rate from 32% to 19.6%; (ii) increasing retirement age by 3 years to 63 (men) and 58 (women); (iii) indexation of pensions by combined index of wage growth and cost of living; (iv) single minimal net pension introduced; (v) basis of pension calculations changed to a person's whole work history; (vi) possibility of voluntary insurance was introduced; and (vii) eligibility criteria for disability insurance were tightened, and an inspection of medical committees was introduced. During 2001 and 2002 pensions were increased in real terms (average increase of</p>	<p>Raise the standard of living of pensioners and other elderly persons in terms of the number, the share and the depth of poverty. Strengthen the institutional and service provision for particularly vulnerable elderly persons.</p>	<p>Continue the structural reform of the pension system. Further re-examination of conditions for equalising the retirement position of men and women, e.g. through abolishing the general privilege for women and adopting a wide privilege for mothers, subject to the number of children</p> <p>Re-examine the preferential status of certain categories of pension insurance, by restricting accelerated retirement only to special justified cases</p> <p>Reform the farmers' pension fund operation, e.g. by consolidating this pension fund and paying remaining arrears to promote participation by farmers</p> <p>Introduce voluntary private pension insurance, beginning with introducing relevant</p>	<p>MoSA 2004-2006</p> <p>2006</p> <p>2006</p> <p>2004-2006</p>	<p><u>Direct</u>: Accelerated collection of contributions and more regular payment of farmers' pensions will raise their standard of living.</p> <p>Continued payment of "old debt" to pensioners will improve their living standards.</p> <p>The change in the basis of pension contributions to take into account the whole of a person's working history will benefit the poor.</p>	<p>Ensuring future fiscal sustainability of pension provision will be a priority. The fiscal implications of proposed changes to the pension system, such as changes to the retirement age, should be investigated adequately.</p> <p>The introduction of social pensions or other programmes will need to be phased in according to the availability of resources.</p> <p>The participation of CSOs in the wider provision of assistance to the elderly should be facilitated.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>nearly 90% in real terms) and standard of living of pensioners increased significantly. No further arrears on pension payments are being built up. Pensioners have only a marginally higher poverty rate than the rest of the population, whilst those elderly without pensions have a higher poverty rate.</p>		<p>legislation.</p>			
<p><b><u>Social services to the elderly</u></b>  The de-institutionalisation process has begun (e.g. SIF project)  The process of turning collective centres into homes for the elderly has begun.</p>		<p>Continue de-institutionalisation process and support development of alternatives to institutional care, including day care services, personal home care provision, and other local community initiatives  Ensure appropriate provision of care for elderly in poorer regions  Continue conversion of refugee centres into homes for the elderly.  Increase patient contributions for institutional care, with the amount based on location and quality of accommodation.  <b>Enable private sector provision of private accommodation for elderly.</b></p>	<p>MoSA,  municipalities,  NGOs  2004-2006  2004-2006  2004-2006  2004-2006  2004-2006</p>		

## Health Care Towards Poverty Reduction

- Millennium Goal 3: Promote gender equality and empower women**
- Millennium Goal 4: Reduce child mortality**
- Millennium Goal 5: Reduce the maternal mortality ratio**
- Millennium Goal 6: Combat HIV/AIDS, malaria and other diseases**

### Related SAP Objectives:

**Reform the health sector and strengthen public health. Increase and improve the effectiveness of preventive programmes. Improve medicine management and establish a National Medicines Agency.**

Global assessment of the employment and social policy legislation of the state should be done to identify priority areas of intervention and a clear legislative and administrative action plan should be established.

The definition and implementation of employment and social policy should be coordinated throughout the state, in order to support the functioning of a single economic space within the state and ensure coherence for employers and employees.

Particular attention should be devoted to increased administrative capacity and efficiency in the implementation of legislation.

### Related PRSP Main Directions:

3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b>General Health Reform</b> Deterioration of the country's health status over the last ten years, due to difficult macro and budgetary position, ageing population, riskier lifestyles, and poor health promotion. This has led to a widening in health indicators between Serbia and Western European countries. At present, the health sector is characterised by an oversupply</p>	<p>Fair and uniform access to health care for all citizens of Serbia. Decrease in inequality in access to health care, particularly for vulnerable groups. Provide affordable health care services for vulnerable groups and improve the quality of this care. Raise efficiency and effectiveness in resource utilisation</p>	<p><b>Improve the distribution of resources by health care levels and districts. This will involve a systematic review and evaluation of current health services to identify areas to improve efficiency and effectiveness. Review the current geographic distribution of health insurance funds and the</b></p>	<p><b>MoH<sup>34</sup>, Republic Health Insurance Fund</b> 2004-2006</p>	<p><u>Indirect</u>: Improving the efficiency of health delivery reduces costs and enables better use of limited resources. However, a balance should be struck between increasing efficiency and reducing health access, e.g. in rural areas.</p>	<p>Modest increase in budgetary allocations to health (as % of GDP) planned over medium term  PEM reforms should facilitate the process of improving efficiency use, generating budgetary savings and reallocating these resources within the health sector to higher priority areas.</p>

<sup>34</sup> Ministry of Health

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>of staff with low salaries, significant deterioration of buildings and equipment, a dramatic fall in the quality of medical services, a decrease in their utilisation, lack of medicines and supplies, a culture of corruption, transfer of patients and equipment from the state to the private health sector.</p> <p>Utilisation rates are affected by inadequate adjustment of the structure of hospital beds to the changed needs of the population.</p> <p>There is a growing disparity between health care entitlements and related resources. Public health care expenditure per capita has fallen from \$121 in 1996 to \$74 in 2001. The gap has been taken up by increased direct expenditure by patients/families, which has adversely affected the accessibility of health care to the poor.</p>		<p><b>activities funded.</b></p> <p>Republic Health Insurance Office is responsible for most changes in resource allocation aimed at improved accessibility of health services for poor and vulnerable groups. In order to achieve PRSP objectives, the RHIO shall increase expenditures for some services and redistribute the existing expenditures based on savings and increased efficiency in some areas, e.g. reducing expenditures for non-medical staff, advancing the public procurement system for medicines and equipment, application of protocols for cost-effective health protection etc.</p> <p>Establish distribution criteria for redistribution of available resources from the highest to the lowest level of care.</p> <p><b>Develop a basic package of health services, focussing on primary/preventive care aimed at prevention of chronic wide-spread non-communicable diseases and promotion of healthy life-styles, for both the poor who pay health insurance contributions (services funded from the Mandatory health Insurance Fund), and</b></p>	<p>2004-2006</p> <p>2004-2006</p> <p>2006</p> <p>2006</p> <p>2006-2008</p> <p>2004-2006</p>		<p>The introduction of the basic package will require sufficient public resources, which should come from the reallocation of savings from reorganising and rationalising health facilities.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		<p><b>those who are not insured (services funded from the Republican budget).</b></p> <p>Reform of primary health care services and restructuring of hospitals, following development of a Hospital Master Plan.</p> <p>Introduce new model of payment for health service providers (capitation), based on the principle of the money following the patient and on actual results.</p> <p>Introduce concept of private practice under standards set by professional bodies.</p> <p>Introduce health information system</p> <p>Introduce appropriate legislative changes to enable these reforms to take place.</p> <p>These include laws on health protection, drugs and medical means, Chamber of Health Workers, and Health Insurance.</p>			

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b><u>Targeting Health Care for Vulnerable Population</u></b>  SLSP found that vulnerable groups have higher morbidity and mortality rates than the general population from diseases such as TB, AIDS, cancer, etc.</p>		<p>Develop and implement targeted national programmes for extremely vulnerable groups, including programs for health protection of women, children, Roma refugees and IDPs, rural population.  Integrate measures for protection of vulnerable groups with regular health care programmes.  Develop and implement programs of protection against certain infectious diseases – AIDS, TB, etc.  Facilitate multi-disciplinary approach, involving health care institutions, social welfare centres, and educational institutions</p>	<p>MoH  2004  2004-2006  2004-2006</p>	<p><u>Direct</u>: More direct impact on poverty reduction through the implementation of programmes for vulnerable groups</p>	<p>The implementation of other programmes should be phased in according to availability of resources, including those freed up by efficiency savings from other areas of the health sector.</p>

## Education Aimed at Poverty Reduction

### Millennium Goal 1: Eradicate extreme poverty

### Millennium Goal 2: Achieve universal primary education

### Millennium Goal 3: Promote gender equality and empower women

#### Related SAP Objectives:

SM should continue its effort to join the Bologna Process (declaration already signed)

Global assessment of the employment and social policy legislation of the state should be done to identify priority areas of intervention and a clear legislative and administrative action plan should be established.

The definition and implementation of employment and social policy should be coordinated throughout the state, in order to support the functioning of a single economic space within the state and ensure coherence for employers and employees.

Particular attention should be devoted to increased administrative capacity and efficiency in the implementation of legislation.

Develop and implement a vocational, education and training policy, improve the availability and quality of education and training. Enhance the higher education system and ensure mutual recognition of education systems to foster labour mobility.

#### Related PRSP Main Directions:

2. Prevention of new poverty

3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b>Education Reform</b></p> <p>General assessment</p> <p>Living Standards Study shows strong link between poverty and low educational profile.</p> <p>Significant reduction of total expenditures and in share of GDP for education from 1990 to present. This has adversely affected quality and access.</p> <p>Existing network of educational institutions does not correspond to demographic</p>	<p>To increase budgetary expenditures as % of GDP to 4.0% over medium term</p> <p>To improve material standard of education provision</p> <p>To improve efficiency and access of population</p> <p>To improve quality/training of teachers</p>	<p>Reallocate budgetary resources towards poorer regions/ municipalities (decentralisation process)</p> <p>Optimise school network: rationalisation of school use and reallocation of funds saved to building, material and equipment needs of other schools.</p> <p>Carry out education institutional needs analysis</p> <p>Provide scholarships to</p>	<p>MES<sup>35</sup></p> <p>2003-2007</p> <p>2003-2007</p>	<p>Indirect: Improving the efficiency of education delivery reduces costs and enables better use of limited resources. However, a balance should be struck between increasing efficiency and reducing education access, e.g. in rural areas.</p>	<p>Overall: increased budgetary allocations to education (as % of GDP) to 4% planned over medium term</p> <p>PEM reforms should facilitate the process of improving efficiency use, generating budgetary savings and reallocating these resources to higher priority areas.</p> <p>Budgetary resources will</p>

<sup>35</sup> Ministry of Education and Sport

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>and educational needs. Poor physical condition of buildings and equipment.</p> <p>Inefficiencies in education delivery hampering quality of education provision</p>		<p>students from poorer families</p> <p>Design and implement teacher training/ retraining programme based on current needs of sector. Introduce quality assurance measures.</p>			<p>need to be made available for improved teacher training and improved equipping schools. These could come from the reallocation of savings from reorganising/ consolidating educational institutions. This will be phased in according to availability of resources.</p>
<p><u>Pre-Primary</u></p> <p>According to general assessment, relatively limited participation of marginalised groups in pre-primary education.</p>	<p>To introduce compulsory pre-school education and development of system of early childhood development</p> <p>To increase coverage for all cohorts, particularly for excluded groups</p>	<p>Undertake critical review and needs assessment of pre-primary sector/ early childhood development, including detailed cost implications</p> <p>Provide legislative framework for further reform process, including Law on Pre-School Education</p> <p><b>Link state, private and NGO pre-school initiatives. Introduce good practice based on NGO experience. Study ways to improve inter-sectoral co-ordination</b></p> <p>Develop alternative half-day programmes for children aged 5-7. Focus on participation of vulnerable groups (see below).</p>	<p>MES, Serbian Gov't/Parliament</p> <p>2003-2004</p> <p>2003</p> <p>2003-2005</p> <p>2003-2005</p>	<p><u>Indirect</u>: through the correlation between poverty and educational attainment: increasing pre-primary and primary enrolment and completion rates lowers the risk of poverty.</p>	<p>Expanding pre-school education through public expenditure over the medium term will need to take place in line with the availability of resources.</p> <p>The participation of CSOs in the wider provision of pre-school opportunities should be investigated.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Primary</u> As general assessment Greatest number of poor are those with primary as highest level of education High enrolment rate</p>	<p>To prolong compulsory education from 8 to 9 years (initiated in 2003/04 school year) Ensure universal primary education coverage, particularly amongst marginalised/ vulnerable groups (see below)</p>	<p>Review primary education provision and curricula to improve focus on educational outcomes. Design and implement curricula reform, including relevant teacher training/ retraining. Extend primary coverage to 9 years. Review legislation related to primary education. Optimise school network (see above). Design and implement teacher training/ retraining programme based on current needs of sector. Introduce quality assurance measures (see above).</p>	<p>MES, Serbian Gov't/Parliament 2003-2007  2003-2004  2003-2004  2003-2007</p>	<p><u>Indirect:</u> through the correlation between poverty and educational attainment: increasing pre-primary and primary enrolment and completion rates lowers the risk of poverty.</p>	<p>Improving primary education through public expenditure over the medium term will need to take place in line with the availability of resources. Increased share of primary education in overall education expenditure</p>
<p><u>Secondary vocational</u> As general assessment Lack of connection between secondary vocational schools and needs of market economy Lack of openness towards population already employed</p>	<p>To reorganise vocational education system in line with needs of economy</p>	<p>Introduce graded system of secondary vocational education. Expand vocational education to non-formal education and link to work experience Strengthen job counselling services in Employment Bureau and secondary schools. Design and implement teacher training/ retraining programme based on current needs of sector. Introduce quality assurance measures (see above).</p>	<p>MES, Serbian Gov't/Parliament 2003-2007 2003-2007 2003-2007</p>	<p><u>Indirect:</u> through increasing the number of skilled workers in areas applicable to market needs. Should also be a focus on expanding completion rates of general secondary school to provide workers with general learning skills.</p>	<p>Expanding vocational education through public expenditure over the medium term will need to take place in line with the availability of resources.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Adult education</u> According to general assessment, adult education is marginalized Weak linkages to labour market</p>	<p>To provide systemic opportunities for adults to gain qualifications</p>	<p>Establish a Fund to finance primary education for adults, particularly adults &lt;25 and those in rural areas. Expand adult education programmes to include distance education, tutorial system, etc. Provide appropriate materials and equipment. Include the in-formal educational system in the official Establish centre for adult education and strengthen existing centres/institutions for vocational.</p>	<p>MES, Centre for Adult Vocational Education 2004-2006  2004-2006</p>	<p><u>Indirect:</u> through increasing the number of skilled workers in areas applicable to market needs.</p>	<p>Expanding adult education through public expenditure over the medium term will need to take place in line with the availability of resources.</p>
<p><u>Education of Vulnerable/ Marginalised Groups</u> <i>Children with Special Needs</i> As general assessment Children with special needs (7-10% of children) often excluded from education system. <i>Roma</i> Drop-out rate for girls from vulnerable population (e.g. Roma children with special needs) is higher than other groups A high rate of Roma is completely/functionally illiterate. Low percentage of Roma children are in formal education (20% in primary).</p>	<p>To widen coverage and participation of marginalised groups in educational system (increasing educational attainment of Roma and other insufficiently educated groups) To encourage integration of special needs students into regular schools as much as possible</p>	<p>Provide one year of fee-free pre-school to marginalised/ excluded children and those at risk. Strengthen legislation for compulsory education of marginalised groups. Establish inter-sectoral National Centre for Care of Persons with Special Social Assistance Requirements Increase access to adult education/ literacy courses for those with special needs and other marginalised groups Provide specific support to Roma teachers <b>Introduce Roma culture into curriculum. Learn from experience of CSOs.</b></p>	<p>MES, Centre for Professional Development of Teachers, MHMR, MSA, Centre for Education of Persons Needing Special Social Support  2003-2007</p>	<p><u>Direct:</u> Increased opportunity for quality employment, focussing on groups with low educational attainment</p>	<p>Budgetary resources will need to be made available for providing free pre-school education to marginalised groups. These could come from the reallocation of savings from reorganising/ consolidating educational institutions. This will be phased in according to availability of resources.  The participation of CSOs in the wider provision of educational opportunities for Roma and special needs children should be facilitated.</p>

## Addressing Regional, Rural and Urban/Housing Aspects of Poverty

**Millennium Goal 1: Eradicate extreme poverty**  
**Millennium Goal 7: Ensure environmental sustainability, especially achieve a significant improvement in the lives of slum dwellers**  
**Millennium Goal 8: Develop a global partnership for development**

**Related SAP Objectives:**

N/A

**Related PRSP Main Directions:**

2. Prevention of new poverty
3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b>Regional Poverty</b>                      Increased regional disparity between developed and underdeveloped regions in recent years.                      Trend towards rural depopulation in recent years in search of better economic opportunities.</p>	<p>Mitigate structural problems and regional differences through investment in human resources and infrastructure                      Ensure relevant institutional infrastructure in place for regions and local communities to develop and implement comprehensive, long-term and strategic regional development plans</p>	<p>Encourage/facilitate inter-municipality co-operation to stimulate regional economic growth                      Encourage municipalities to develop and implement their own regional development programme/policies. Capacity building for this.                      Formulate comprehensive set of regional policies  <b>Encourage partnerships between local communities and civil society.</b>                      Introduce measures to stimulate regional development, including a development plan for South Serbia region.                      Provide favourable framework for investors to</p>	<p>MIER, MSTD, RBD, local governments                      2004-2006                      2004-2006                      2004-2006                      2004-2006                      2004-2006                      2004-2006</p>	<p>Direct: improvements to the development of Serbia's regions will help raise the living standards of those living in underdeveloped areas.</p>	<p>The introduction and expansion of regional development programmes, including incentives for private investors to invest in less developed regions, will need to be phased in according to the availability of resources.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><b>Rural Poverty</b></p> <p>Rural areas contain 45% of the population</p> <p>Poverty in rural areas is twice the level in urban areas, due to greater numbers of elderly and relatively lower levels of educational achievements and the previous price system, which kept agricultural income low.</p> <p>Rural poverty has proved slower to reduce than urban poverty.</p>	<p>Sustainable economic growth of rural areas</p> <p>Reduction of rural poverty</p>	<p>invest in underdeveloped regions, including: (i) provision of micro-sites with adequate economic/utility infrastructure; (ii) financing the development of capital investment projects and documentation; and (iii) compensate part of expenses in early production period in newly constructed production facilities</p> <p>Develop and implement integrated rural development strategy, involving: national action plan for rural development, decentralisation of activities to regional and local levels and involving participation of rural population, improving social service provision for the poor, and improving local infrastructure.</p> <p>Consider establishing Rural Development Agency to identify, plan and monitor initiatives in rural development.</p>	<p>MCUP<sup>36</sup> MAWU<sup>37</sup>, MEP, MES, local governments, civil society 2004-2006</p>	<p>Direct: improvements to the development of rural areas, including economic and social programmes, will help raise the living standards of those living in these areas.</p>	<p>The introduction and expansion of rural development programmes will need to be phased in according to the availability of resources.</p> <p>The participation of CSOs in rural development at local levels should be promoted.</p>
<p><b>Urban poverty</b></p> <p>Urban population has a lower poverty rate than rural population</p> <p>Urban poor suffer from</p>	<p>Advance the economic and the overall development of cities by promoting economic activity and employment</p>	<p>At the city level, set up bodies to co-ordinate various administration sectors and carry out actions. Cities and local communities should formulate their own strategies</p>	<p>Municipal governments, local government services</p>	<p>Direct: improvements to the development of urban areas will help raise the living standards of those living in these areas,</p>	<p>The introduction and expansion of urban development programmes will need to be phased in according to the</p>

<sup>36</sup> Ministry of Construction and Urban Planning

<sup>37</sup> Ministry of Agriculture and Water Utility

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>unemployment, limited access to health care and education, and unsanitary or unhygienic settlements due to inadequate utility infrastructure and spontaneously developed settlements</p>	<p>Ensure that the needs of the poor are incorporated in urban planning.</p>	<p>for poverty reduction, based on the national strategy but taking into account specific economic and social characteristics.</p>	<p>2003-2006</p>	<p>particularly those living in vulnerable settlements.</p>	<p>availability of resources. The participation of CSOs in urban development at local levels should be promoted.</p>
<p><b><u>Housing</u></b> Housing crisis in large cities is exacerbated by the influx of refugees and IDPs, and the economic crisis which has slowed the maintenance and reconstruction of housing stock. It is expensive and difficult for the poor to have access to legal housing due to: obstacles to gaining access to land, outdated regulations and standards for housing, and the high cost of the right to use land</p>	<p>Develop and implement social housing programme, as part of National Housing Policy, currently being developed</p>	<p><b>Efficient application of the new Law on Planning and Construction (2003)</b> <b>Create legal, financial and institutional mechanisms for social housing</b> Promote construction of cheap housing units Establish credit institutions for smaller loans to be used for phased construction/ reconstruction of flats. Introduce defined priority rights, legalisation of existing flats and set aside cheap locations for new construction Design and implement pilot programmes for improving spontaneously developed settlements.</p>	<p>MUC 2003-2006 2003-2006 2003-2006 2003-2006 2004-2006</p>	<p><u>Direct</u>: greater availability of affordable housing will directly raise the living standards of both the homeless and those currently vulnerably housed.</p>	<p>The introduction or expansion of social housing provision will need to be phased in according to the availability of resources.</p>

## Environmental Aspects of Poverty Reduction

### Millennium Goal 7: Ensure environmental sustainability

#### Related SAP Objectives:

N/A

#### Related PRSP Main Directions:

1. Economic growth
2. Prevention of new poverty
3. Bringing people out of poverty

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Time-frame/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Poor living conditions and drinking water quality have adversely affected the health of those living in urban slums</p> <p>Critical levels of poor air quality may be found in some industrial settlements.</p> <p>Lack of proper waste management, including open waste dumps, leakage from waste dumps into groundwater and inadequate or inappropriate incineration, is creating health hazards for the urban poor, particularly for Roma, refugees and IDPs.</p> <p>Vulnerable groups lack access to electricity, water, sewerage and garbage collection, thus increasing the risk of</p>	<p>Sustainable access to improved water sources and access to improved sanitation</p> <p>Improved waste management</p> <p>Improvements in the condition of ecological black spots</p>	<p>Improve water supply in rural and urban water supply services</p> <p>Investigate ways to address major pollution issues in environmental hotspots</p> <p>Develop a consistent and modern legal and institutional system for environmental protection, harmonised with the EU's framework</p> <p><b>Improve public awareness of environmental issues</b></p> <p><b>Addressing hazardous waste management issues, including:</b></p> <p>Evaluate options for hazardous waste disposal, including potential location</p>	<p>MAWU,<sup>38</sup> MPNRE, local governments</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2010</p>	<p><u>Direct</u>: better living conditions for particularly vulnerable groups will be addressed through measures to improve water quality and hazardous waste management.</p>	<p>The introduction of additional environmental protection programmes will need to be phased in according to the availability of resources. The participation of CSOs in the management of environmental protection at local levels should be promoted.</p>

<sup>38</sup> Ministry for Protection of Natural Resources and Environment

<b>Assessment/ Situation Analysis</b>		<b>Objectives and Outcome Targets, where available</b>		<b>Related policies/strategies/ activities</b>	for hazardous waste storage facilities, solid waste disposal facilities, and waste water treatment plants Revised existing regulations on the transport of hazardous waste, and the capacities for the enforcement of such regulations developed.	<b>Timeframe/ Responsible Institution</b>		<b>Link to poverty reduction/ likely poverty impact</b>		<b>Implications for Public Expenditure</b>	
communicable diseases. Settlements on riverbanks and poor quality housing construction exposes the poor to flood and earthquake risks.											

## Monitoring PRSP implementation and evaluation of outcomes

Assessment/ Situation Analysis	Objectives and Outcome Targets, where available	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p>Serbia has a developed statistical system, including numerous regular statistical surveys and publications.</p> <p>Methodological problems include inappropriate or inconsistent standards, classification, coverage, and international comparability. These problems will be addressed through the application of the new Master Plan of statistical research and the ongoing reform of the statistical system.</p> <p>Numerous previous poverty studies/analyses were conducted using incomparable methodologies.</p> <p>Non-existing analysis of multidimensional nature of poverty.</p> <p>Lack of regular quality poverty analyses and participatory research that would enable affirmation of attitudes and opinion of the poor.</p> <p>There is a need for the development of alternative data collection networks (NGO sector, local communities, etc.).</p>	<p>Establishing an efficient system for monitoring and evaluation of PRSP outcomes.</p> <p>Active monitoring and evaluation of PRSP outcomes, enabling periodical revision of the PRSP based on the outcomes.</p>	<p>Further development of the PRSP monitoring and evaluation system, including consultations with all interested stakeholders</p> <p>Elaboration of the study on the availability of data sources for the proposed set of indicators.</p> <p>Revision of the set of indicators based on recommendations presented in the study.</p> <p>Formation of PRSP monitoring working groups and other elements of the PRSP monitoring system.</p> <p>Support to the development of civil society PRSP monitoring network, training for application of adequate monitoring and evaluation techniques.</p> <p>Revision of the existing research/data sources based on the recommendations of the study and on the availability of resources.</p> <p>Suggested set of research methods for PRSP monitoring and evaluation to be implemented through the civil society network (participatory, questionnaire methods as well as PETS methods for monitoring public expenditures on the local level).</p>	<p>Team for the coordination of PRSP implementation 2003 – 2004</p> <p>Central PRSP monitoring team, other actors in PRSP monitoring 2004</p> <p>All actors in the PRSP monitoring system 2004-2006. 2006.</p>	<p><u>Indirect:</u> efficient monitoring and evaluation system enables adjustment to the strategy in case of slow or no progress in achieving desirable outcomes</p> <p><u>Indirect:</u> PRSP monitoring and evaluation system is necessary to define responsibility and transparency in strategy implementation</p> <p><u>Indirect:</u> PRSP monitoring and evaluation system enables inclusion of local community and vulnerable groups in the monitoring of PRSP implementation</p>	<p>Financing of the PRSP monitoring and evaluation system has a very limited impact on public expenditures.</p>

Assessment/ Situation Analysis	<i>Objectives and Outcome Targets, where available</i>	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		Regular research and data collection, elaboration of reports and evaluations, publishing and media communication. Preparing final evaluation			

# **POVERTY REDUCTION STRATEGY PAPER FOR SERBIA**

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## I. INTRODUCTION

Towards the end of 2002, the Government of the Republic of Serbia initiated the development of the Poverty Reduction Strategy Paper (PRSP) for Serbia. The initial platform, strategic options and the preparation process of this strategy and its implementation were all defined in the Interim PRSP, approved and adopted by the World Bank and the International Monetary Fund.

The PRSP, together with the Republic of Serbia Reform Programme, represents part of the overall development strategy of Serbia, within the wider framework of Serbia and Montenegro's accession to the European Union.

The PRSP is also part of the Government's Framework for International Support and Developmental Cooperation, as well as a plan of activities for the achievement of the United Nations Millennium Development Goals.

The importance given to poverty reduction by the new democratic Government of Serbia has already been clearly expressed in its first reform document "A Reform Agenda for Serbia (2001)" featuring three main objectives:

- The establishment of a modern state based on the rule of law, including the fight against corruption and organized crime;
- The revitalization of the economy through the introduction of market-oriented reforms;
- The fight against poverty and the improvement of the social protection system for the most vulnerable groups.

In line with the UN Millennium Development Goals, the PRSP defines poverty as a multi-dimensional phenomenon that in addition to representing insufficient income to cover basic needs, also includes a lack of employment opportunities, and inadequate accommodation and access to social protection, health, educational and communal services. These aspects are particularly important in the case of vulnerable and socially excluded groups. The other key elements characterizing poverty are lack of access to a healthy living environment and natural resources, above all clean water and air.

The PRSP represents a holistic plan of activities aimed at reducing key types of poverty by creating financial and other preconditions and by offering everyone the opportunity to secure an existence for themselves and their families. Serbia has sufficient human, financial and natural resources to eliminate - in a relatively short period of time and relying on its own strengths with the assistance of the international community - the most acute forms of poverty, particularly present in underdeveloped regions and concentrated among the most vulnerable groups.

Poverty in Serbia, apart from having similarities with other countries in transition and developing countries, also has many specific features:

First, widespread poverty is a relatively new phenomenon, caused by the dramatic drop in GDP and the living standards of citizens in the 1990s, as a consequence of the former authoritarian regime, international isolation, severe economic sanctions, negative economic consequences evoked by the disintegration of the former Socialist Federal Republic of Yugoslavia, wars in the neighbouring countries, and NATO bombing.

Secondly, the latest research on the scope and causes of poverty clearly indicates that poverty in Serbia, besides being concentrated in the traditionally under-developed South and Southeast regions, due to dramatic economic and social changes in the 1990s, has spread to other regions as well. On the other hand, poverty mostly affects socially vulnerable groups (children, the elderly, persons with disabilities, refugees and internally displaced persons, Roma, the rural population and uneducated people). For that reason, the basic empirical findings that show that 10.6% of inhabitants or 800,000 individuals are poor, should serve only as a starting point for the development of the full PRSP, since only a small shift in the poverty line increases the percentage of the poor to 20% or 1,600,000 people.

Thirdly, under such highly unfavourable economic and social conditions, the new Government resolutely initiated a painful, but unavoidable process of transition towards a modern, market-oriented and open economy. The process of modernization, restructuring and privatisation of the economy as well as the rationalization of non-economic activities which is ongoing, has caused some additional social problems, through numerous redundancies and the creation of new “pockets” of poverty, which have been concealed up to now.

The characteristics and profile of poverty in Serbia point to the following three main directions in the formulation of the Poverty Reduction Strategy:

**In the first place**, a strategy of dynamic economic growth and development, with an emphasis on job creation in the private sector. The increase in economic activities and greater international competitiveness of the domestic economy will lead to an increase in GDP, the creation of new jobs, better incomes and real sources for financing social and other public needs. This is a key development direction and the priority for Serbia, and is the only way to improve the lives of citizens and at the same time eradicate poverty permanently. This implies the continuation of the policy of macro-economic stability, the creation of an environment attractive to foreign investment and the mobilization of domestic investments; accelerated restructuring and privatisation which will revitalize those state/socially-owned enterprises capable of becoming market-oriented and competitive; the creation of a business environment for the development of entrepreneurship and faster development of small and medium enterprises; development of the control functions of the state which would legalize the so-called grey economy; a resolute battle

against corruption and organized crime; and the efficient working of state institutions – legal, executive and judicial authorities.

**The second strategic direction** is the prevention of new poverty that will result from the modernization and restructuring of the economy and rationalization of the state and its basic functions. In line with the orientation towards market and other reforms, new employment opportunities need to be offered to these groups. The state with its institutions (including the National Employment Agency, the republic and regional agencies for SMEE development, and the education system) in close cooperation with municipal authorities and local communities, through its own activities and the mobilization of non-governmental organizations, and with the expected assistance of the international community, should offer retraining incentives and opportunities. Significant economic and social efforts will be required, particularly in the regions with a traditional and non-profitable economic structure. Considerable financial resources represent a necessary, but not a sufficient condition.

**The third strategic direction** implies an efficient implementation of existing programmes, as well as defining new ones and measures and activities directly targeting the poorest and the most vulnerable groups (children, the elderly, persons with disabilities, refugees and internally displaced persons, Roma, the rural population and uneducated persons), particularly in the least developed regions. The goal of these activities is to initiate a long-term process of empowering vulnerable groups to move out of poverty, through the development of new market-oriented skills, and the provision of minimum standards of living. From the aspect of the most visible poverty, this will enable not only the survival of these groups, but also their equal access to employment, health care, education and utilities, as well as protection of their basic human rights. The permanent improvement in the overall economic and social status of the most vulnerable groups will, more importantly, prevent the recurrence of poverty within the same social groups.

The PRSP will be financed from fiscal resources, budgetary savings and additional resources with the financial assistance of the international community. This will enable the indicative costs presented in the PRSP to be reflected within the Medium-Term Expenditure Framework. In this way, the fight against poverty will find its place among Government efforts and in the preparation of annual budgets. This will enable the setting of realistic fiscal targets within financial and other constraints, and the commitment towards maintaining macro-economic stability in the country. At the same time, the “resource gap” (missing funds) will be identified, in order to define alternative scenarios for poverty reduction and the prevention of basic forms of poverty depending on the extent of support offered by the international community.

The PRSP consultative and participative process, and its adoption and implementation, are characterized by an integrated approach, aimed at:

- National ownership of the PRSP;

Inclusion of all relevant stakeholders in the implementation of the PRSP;

- Efficient and transparent information dissemination;
- Efficient monitoring of the PRSP as a whole and in its individual aspects by means of adequate and internationally comparable indicators.

This multi-dimensional approach to the alleviation of poverty, apart from significant financial resources, requires great organizational efforts, coordination between the Republic and local levels, the definition of sectoral and other priorities, strong cooperation between state institutions, civil society and the international community, professional support, and above all, a sincere willingness and readiness of all participants to participate actively and responsibly in the entire process.

# **I SCOPE AND CAUSES OF POVERTY IN SERBIA**

## **1. Main Causes of Poverty in Serbia**

In the past decade (1990-2000), the fall in the living standards of the population and the increase of poverty in Serbia resulted in the first place from a great fall in economic activity. Gross Domestic Product (GDP) in 2000, both overall and per capita, was less than half the level achieved at the end of the 1980s. Such a fall in economic activity was a consequence of a ten-year general political and economic crisis.

The main non-economic factors in this crisis were the break-up of the former Yugoslavia, wars in the region, the international isolation of the country, and NATO bombing. The main internal crisis factors originated from the interruption of the process of social and economic transformation as a consequence of reviving traditional forms of social integration and the degradation of political culture with the crumbling of socialism. All this caused a lack of political will to carry out radical institutional reforms and, consequently, slowed down the development of market institutions and of a state based on the rule of law.

The secession of the former Yugoslav Republics led to the dissolution of the FRY single market and a drastic fall in the inter-republic and foreign trade of FRY (inter-republic trade between FRY and former Yugoslav republics accounted for 40% of GDP, while trade with other countries accounted for 20% of GDP<sup>39</sup>). In addition, a considerable proportion of the infrastructure and production capacities were destroyed by NATO bombing in 1999, which had an additional unfavourable impact in terms of a fall in production and employment. Poor economic results in this period were additionally aggravated by the inappropriate economic policy which caused high inflation rates in certain years of the previous decade and the so far unprecedented hyperinflation in 1993. The hyperinflation for its part led to great impoverishment of the population and the expansion of the grey economy which became the main means of survival for the majority of the population. The difficult economic and social situation was additionally aggravated by the great influx of refugees and internally displaced persons, whose number in some years reached 10% of Serbia's population. Apart from this, the living standards of part of the population were also affected by the (temporary) inability to dispose of their income and property in the former Yugoslav republics. The number of citizens with greater social needs grew, while the economic capacity of the state to meet these needs was in constant decline, so some of the most vulnerable groups had great difficulty coping with the consequences of the economic crisis.

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<sup>39</sup> This points to the great significance of the ending of the international blockade and the establishment of normal economic relations with the former Yugoslav republics

The most important factor in the growth of poverty was the fall in per capita income since inequality in income distribution was relatively stable during the previous decade. During this period, official unemployment increased. There was also hidden unemployment since the number of the employed decreased more slowly than the sharp fall in economic activity. At the end of the period, hidden unemployment reached the level of about one third of total employment. This situation in the labour market caused a fall in real incomes and arrears in their payment generating poverty for the majority of the population.

In the period 2000-2002, the establishment of macro-economic stability and the real increase of GDP (around 4-5% annually), as well as the increase in wages and other income in real terms, caused growth in consumption and living standards.<sup>40</sup> In spite of the elimination of price disparities in 2001 and 2002, prices remained relatively stable, living standards increased in real terms and poverty was reduced. Despite the falling trend, the level of poverty is still relatively high, with the percentage of the population near the poverty line being particularly critical.

The picture of poverty is additionally burdened with 480,000 refugees and internally displaced persons.<sup>41</sup>

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<sup>40</sup> These positive results were achieved owing to the adequate external assistance and realization of the succession and privatisation proceeds

<sup>41</sup> According to the latest data of UNHCR and the Refugees Commissariat of the Republic of Serbia, 280,000 refugees and 200,000 internally displaced persons were registered in the territory of Serbia and Montenegro.

### **Causes of Poverty**

#### **- Historical Outline -**

Folk tradition very clearly distinguishes the causes of the emergence of poverty, and treats them differently. These causes can be classified into several main groups: 1. fateful, 2. inherited, 3. personal and 4. general.

Fateful poverty is the consequence of “force majeure” and it is very difficult or impossible to eliminate. Whatever one did, worked hard, created things, the result would always be negative. Something will always happen that will devalue one’s efforts and leave the individual who had put his efforts into it without the rewards merited.

“Force majeure” that prevents one from getting away from poverty is called **Misery**. In the Slavic folk tradition it is represented as a supernatural being who travels around the world, attacking and torturing people. It is possible to eliminate this kind of poverty, “to take misery off one’s back”, as the saying goes, only if one’s own or one’s ancestors’ sins are tracked down and atoned for.

Inherited poverty is frequent, and folk tradition is full of data and stories about poor families. This kind of poverty was very much present among the Serbs and one can freely say that it can be applied to the majority of poor people in Serbia. However, the fact is that this poor stratum has decreased over time. “Escape from this kind of poverty” has always met understanding both from individuals and from the broader community. The “escape” was fully divergent, i.e. it developed in different directions. One could change residence, find a job, become educated, save, work hard or move to a richer environment. According to folk stories collected and published by Vuk Karadžić, one could run away from inherited poverty by working, getting educated, and acquiring knowledge and awareness.

Personal causes of poverty are numerous and very clearly classified in folk tradition. Idleness, irresponsibility, laziness, prodigality, alcoholism, and gambling are the main causes of one’s poverty. There is no understanding for such poverty and the common belief is that those individuals should not be given any material assistance because it is a futile effort. They are believed to be guilty for their own condition; therefore they have to find a way out by themselves. Miloš Obrenović had a similar opinion, and he did not consider poor “a good-for-nothing, a lazybones, a drunkard and the like, whom I never forgave and who are not to be forgiven for anything.”

General reasons for poverty are consequences of natural disasters, economic crises or political events (wars, loss of privileges and position, state robbery). They are usually temporary and related to persons affected by some of these events. For those who become impoverished under such circumstances, if they have no personal guilt, there is great understanding among people, because they are “guilty without guiltiness” and the common opinion is that they should be given necessary assistance by the broader community and the state. They do not lose their reputation and the common belief is that they should be helped as soon as possible; also, that they will soon recover.

In the 19<sup>th</sup> century, and in some places even later, there was an institution called the “village basket” in which everyone allocated certain amounts of wheat after harvest, according to their ability and yield. That wheat would be given to the poor to feed themselves during winter and spring or when crops failed. The village chieftain would decide with the most distinguished heads of households who would have the right to use the wheat.

In former times the state was usually not blamed for poverty, and it was not responsible for fighting poverty. The common belief was that it depended on the person himself whether he would be a poor or a rich man and that his success in life basically depended on his own efforts. Thus Čedomilj Mijatović advised the young that they would best succeed in life if they stuck to traditional virtues, such as honesty, diligence and thrift (1892).

## 2. Scope of Poverty in Serbia

### 2.1. Definition of Poverty and Basic Poverty Indicators

In this section, poverty in Serbia is analysed on the basis of the Survey on the Living Standard of the Population (SLSP) that was carried out in May – June 2002 on the territory of Serbia (without Kosovo and Metohija). The main sample comprised 6,386 households or 19,725 persons. This is the largest and the most comprehensive survey on living standards carried out up to now in Serbia.<sup>42</sup> In this section poverty is primarily observed as insufficient consumption, while other sections look at the multi-dimensional phenomenon of poverty relying on all available empirical and qualitative analyses.

In 2002, poverty in Serbia was for the first time defined by using household consumption as the main aggregate in poverty measurement.<sup>43</sup>

The poverty line was defined in two steps. In the first step the food poverty line was defined as the line of absolute poverty on the basis of a minimum consumer food basket and the minimum average daily calorie intake. This was based on the consumption structure from the Survey on the Living Standard of the Population (SLSP) and adjusted to the nutritional recommendations of the FAO (Food and Agriculture Organization), a daily average of 2,288 calories.<sup>44</sup> The minimum consumer basket for a four-member<sup>45</sup> household, defined according to regular standards, amounted to 7,605 dinars a month. The second step defined the complete poverty line that, as well as expenditures on food, included also expenditures on other things (clothes and shoes, hygiene and household goods, transportation, health, and education). It was defined as the total consumption of those households whose food consumption equals the minimum consumer basket. In that way the poverty line of 4,489 dinars by consumer unit was defined. Consumer unit allows for the differences in consumption of adults and children as well as for shared household costs.<sup>46</sup> Thus every individual whose monthly consumption by consumer unit is below

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<sup>42</sup> The survey sample comprises population with permanent residence in Serbia, so that refugees and internally displaced persons are only partly included in this research.

<sup>43</sup> Just for the purposes of general comparison of the 2002 survey with previous research into poverty in Yugoslavia/Serbia, poverty was defined on the basis of household income so as to enable the use of the same aggregate for poverty measurement as used in previous research.

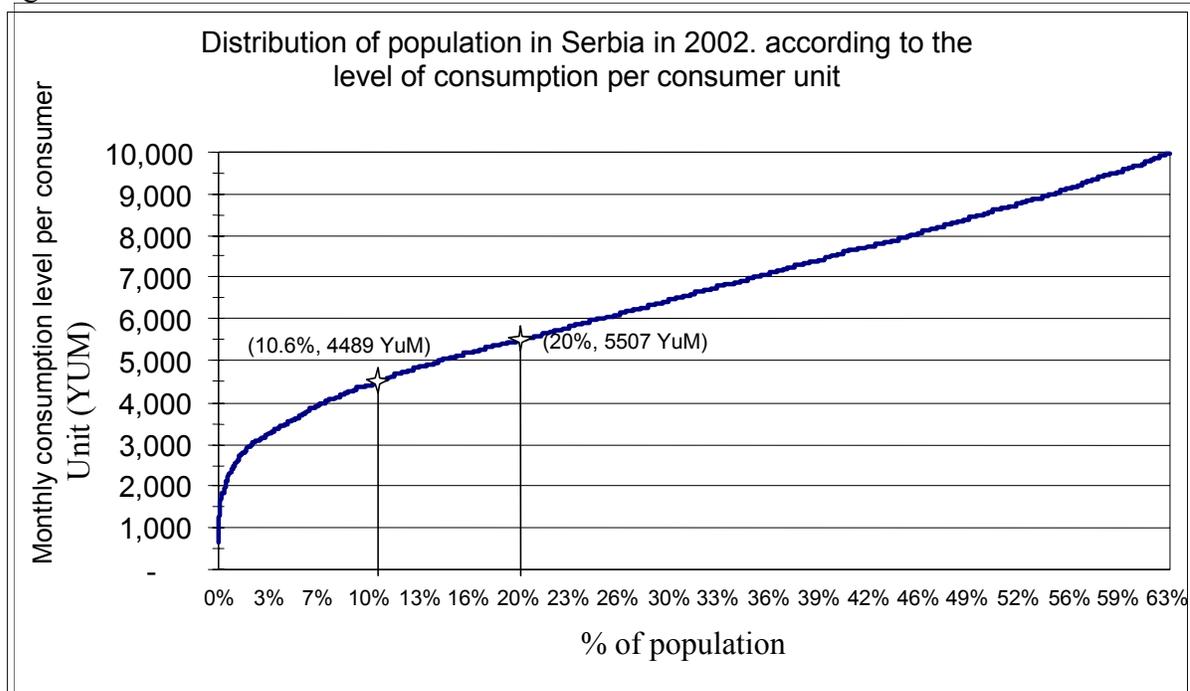
<sup>44</sup> This consumer basket reflects the current structure of consumption in Serbia. The consumer basket structure by each article equals or exceeds the consumption of the lowest decile.

<sup>45</sup> Four-member household includes two adults, one child younger than 7, and one child between 7 and 18 years of age.

<sup>46</sup> Consumer units in this study are determined empirically on the basis of SLSP data, using Engel's method. The equivalency scale used for expressing consumption of

(continued)

4,489 dinars is considered poor. About 10.6% of the population of Serbia or 800,000 individuals were below this poverty line in 2002, because their consumption by consumer unit was on average less than 4,489 dinars or 72 USD<sup>47</sup> a month, i.e. 2.4 USD a day (Table 1). The SLSP analyses show that the depth and severity of poverty are not high and that is consistent with the fact that inequality in income distribution in Serbia is not high<sup>48</sup>.



However, the concentration of population around the poverty line is high. Just a small shift of the poverty line upwards significantly increases the percentage of the poor. Consequently, the population group situated just above the poverty line is at risk of poverty, under the influence of external shocks, such as macroeconomic instability, job losses as a result of transitional economic reforms, etc. Because of that, the population situated just above the poverty line was also analysed since a small fall in real earnings

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household in terms of consumption by consumer unit is as follows: Serbian scale =  $(1 + 0.81 * (\text{Adults}-1) + 0.24 * \text{Children}(0-6) + 0.75 * \text{Children}(7-18))$ .

<sup>47</sup> The official Dinar-US dollar exchange rate was used.

<sup>48</sup> The poverty depth (gap) equalled 2.2%, which indicates the amount of resources (as a percentage of the poverty line) that the state theoretically needed to mobilize to bring the whole population above the poverty line and eliminate poverty. The severity of poverty, an indicator that takes into account that some people slide deeper into poverty, i.e. further than others below the poverty line (which gives them greater weight), reached 0.8%. The severity of poverty indicates the degree of inequality among the poor and basically depends on a comparison between groups and with the overall population (e.g. Table 1, the rural population has considerably greater severity of poverty of 1.1% compared to 0.5% for urban poverty)

and other revenues or the growth of real unemployment, could significantly increase the share of the poor in the coming period. For that reason, it is considered that the 20% of the population with consumption on average less than 5,507 dinars a month, is at risk of falling below the poverty line.<sup>49</sup>

**Table 1. Poverty Indicators in Serbia in 2002**

	Population at risk of falling below the poverty line (poverty line = 5,507 din.)			The poor (poverty line = 4,489 din.)		
	Poverty Index	Poverty gap (depth)	Poverty Severity	Poverty Index	Poverty Gap	Poverty Severity
<b>Urban</b>	16.0%	3.3%	1.1%	7.8%	1.5%	0.5%
<b>Rural</b>	25.1%	6.1%	2.3%	14.2%	3.2%	1.1%
<b>Total</b>	20.0%	4.6%	1.6%	10.6%	2.2%	0.8%

Source: SLSP 2002.

The SLSP shows that in 2002, about 800,000 people in Serbia were poor and about 1.6 million were at risk of falling below the poverty line. Observed by households, 10.3% or about 250,000 households in Serbia lived in poverty, and 19.5% or about 474,000 households were at risk of falling below the poverty line.

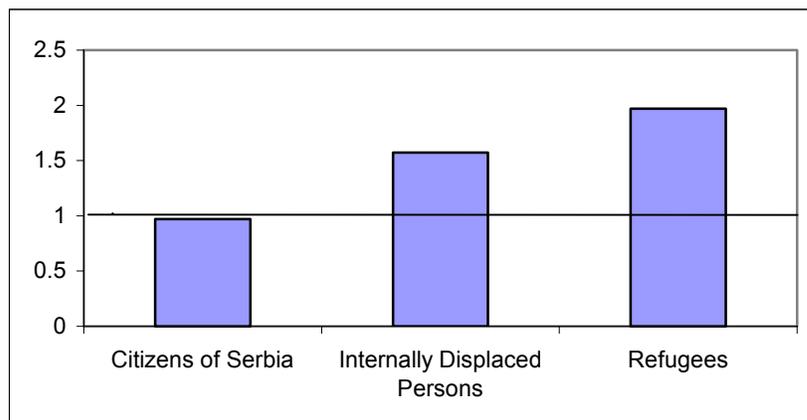
The picture of poverty in Serbia is even more sombre than this suggests, since the data discussed do not include all the refugees and internally displaced persons who are more affected and vulnerable than those with permanent residence in Serbia. Figure 1 illustrates this, showing clearly that refugees and internally displaced persons who are included in the SLSP are at much greater risk of poverty<sup>50</sup> than Serbian citizens. It is also necessary to mention that this survey does not include either Roma or the 25,000 people living in collective centres, who certainly belong to the most vulnerable group.

Arising from all these aspects, a rough estimate indicates that around a million people in Serbia are below the poverty line and more than two million are at risk.

<sup>49</sup> If a subjective measure of poverty is used, based on the understanding of an individual about the level of income necessary for meeting his/her basic needs, more than half the population in Serbia were poor.

<sup>50</sup> Relative poverty risk is calculated as the growth (fall), expressed as a percentage, of the poverty index of the reference group compared to the average poverty index.

**Figure 1. - Relative Poverty Risk of Refugees and Internally Displaced Persons in Serbia in 2002.**



Source: SLSP 2002.

**Poverty in Serbia has become a rural phenomenon**, as in the majority of other transition countries.<sup>51</sup> This can be explained by the fact that the growth of employees' earning and pensions in real terms, which represent a dominant source of income of the population in the urban areas, was relatively higher than the growth of other income sources. The other causal factor concerns difficulties in trying to encourage modern institutional practices in areas with a prevalence of traditional cultural patterns. The rural population was significantly poorer than the urban population since the poverty index of the rural population was almost twice as high as the poverty index of the urban population, while their relative poverty risk was about one third higher than the average of the total population. The depth (gap) and severity of poverty in rural areas was also higher than in urban areas. If the population at risk of falling below the poverty line is observed, it can be noted that the difference between the urban and rural population and the depth of their poverty are smaller.

## 2.2. Poverty Trends

**Comparison of the level of poverty in 2002 with previous years.** In order to form an adequate picture of the trend of poverty over a longer period, poverty in 2002 was measured in relation to income, since poverty surveys from 1995 to 2000 were also based on household income due to a lack of adequate information on consumption. For the sake of comparability, household income was defined in the same manner as previously. For the same reason the poverty line was established on the basis of the FBS consumer basket, as in former studies on poverty. The line was set at 3,560 dinars per consumer unit. HBS (Household Budget Survey) consumer units were applied to SLSP data. In this way, all three elements needed for the poverty trend analysis were made comparable. This

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<sup>51</sup> In the majority of transition countries, the reduction of urban poverty was much more successful than reduction of rural poverty.

did not, however, eliminate differences inherent in the data sources themselves (SLSP and HBS), namely, the differences in the sample and the questionnaire.<sup>52</sup> This is why a comparison of poverty in 2002 with previous years can only be used as an indication of possible tendencies.

**Table 2. Changes in poverty levels in relation to income in the period 1995-2002**

	1995	2000	2002
<b>Poverty income in %</b>	28.9	36.5	14.5
<b>Poverty depth in % of GDP</b>	4.1	3.1	3.5
<b>Average income deficit in % of the poverty line</b>	23.2	25.4	32.2

**Note:** The revenues of the population are defined in a comparable way for the observed period and expressed in terms of consumer units from the Household Budget Survey (HBS). The Consumer Basket defined by the Federal Bureau of Statistics was used as the poverty line for the whole period observed (1995-2002).

The data for 1995 refer to the Federal Republic of Yugoslavia according to: Posarac, S.: Human Development Report Yugoslavia (1997), while for the period 2000-2002, they refer to Serbia without Kosovo and Metohija.

**Source:** HBS for the period 1995-2000, SLSP for 2002.

Despite these methodological limitations, there are certain indications that poverty in Serbia has been reduced, since 14.5% of the population was poor according to their incomes in 2002, compared to more than a third of the population in 2000 (Table 2). The real growth in GDP, wages, pensions and other income has stimulated the growth of household income (and consumption) and a decrease in poverty. However, although the share of the poor in the total population has fallen, they need much more income to reach the poverty line. That means that the poor were much poorer on average than two years previously, and poorer than in 1995.

<sup>52</sup> For further comparability of HBS and SLSP see in Krstic (2003), The Poverty Profile in Serbia, Poverty in Serbia in 2002, Ministry of Social Affairs

### **Who is Poor?**

#### *- Historical Outline-*

*Classical poverty when one starves to death because one literally has nothing to eat or when an individual is not capable of providing for mere existence was very, very rare in the country of Serbia. Serbia was never a country in which people died from hunger; it has rather been a “paradise for a poor man” (Herbert Vivian, 1897).*

*There are many documents, starting from the Old Testament, that speak about poverty, the poor and their protection, but there are usually no concrete data on who is considered to be poor, where the line that divides the poor from others is and what it consists of. However, in the Byzantine document Prochiron (reference law), published in Constantinople in the 9<sup>th</sup> century, it is stated who is considered to be poor and thus not eligible to be a witness: “a poor man does not give testimony, and poor is the one who does not have property of fifty small coins.” This is one of the first documents that define the poverty line by monetary value.*

*At a later date, it was again property that served as a line that reflected poverty status. Thus Prince Miloš Obrenović, asking in 1837 that taxes “should not be difficult for the poor”, considered poor the one “who is really poor, who is honourable and diligent but has no land, the one who has children or is made poor in some other honourable way.” He freed from direct taxes poor people with small children, who had no land but had to feed their families by working as day labourers. So, not having land was for Miloš the necessary but not sufficient condition to consider someone to be poor; the additional condition was that he/she had small children.*

*From the above examples it can be seen that the line dividing the poor and non-poor was defined by having or not having land or property.*

### **2.3. Regional Component of Poverty**

**The region with the largest share of the poor is Southeast Serbia, particularly in its rural areas.** Rural areas of Southeast Serbia are twice as vulnerable to the risk of poverty compared to the average of the entire population, while the population of urban areas is in a much better position since their poverty risk is almost at the average level. Not only is the rural population of Southeast Serbia the poorest, but also poverty in that region is the deepest and most severe. Western Serbia is the next region with an above average poverty risk, particularly the rural areas in which the poverty risk is higher than the population average by more than a third (+35.8%). The depth and severity of poverty in the rural parts of Western Serbia are also greater than the average. The data lead to the conclusion that the population of the rural areas of Southeast and Western Serbia are the most vulnerable. It represents 14% of the entire population and one quarter of the total number of the poor. One of the reasons for such an unfavourable picture in these two rural areas of Serbia should certainly be sought, among other things, in the much larger share of elderly, one-person and two-member households that were significantly poorer than other households. When the category of the vulnerable is considered, a very similar picture of regional distribution of poverty is obtained.

## 2.4. The Most Vulnerable Categories of the Population

**Gender aspects of poverty.** Poverty was approximately equally distributed between men and women since the percentage of poor men and women is almost identical (see Annex). Accordingly, the structure of the entire population by gender represents at the same time the gender structure of the poor population. The situation is the same among the vulnerable. This means that economic discrimination against women (see Annex, Table A1) was not manifested among the poorest population (the average consumption of women below the poverty line was the same as the average consumption of men). However, a number of other indicators (see Annex ) point to the unfavourable economic and overall position of women.

**Observed by age, the elderly (65+) were the poorest.** Their poverty risk was 40% higher than the population average, and the depth of their poverty was also much greater than the average (Annex). They represented 17.7% of the total population and almost a quarter of the total number of the poor. Pensioners made up the largest share in the category of old persons (69%), particularly in urban areas, while other groups had smaller shares: supported persons (22%), agricultural workers (7%) and others (2%).

In considering poverty among pensioners, it is noteworthy that agricultural pensioners, particularly in rural areas, were much more affected than other pensioners, having a poverty risk twice as high as the general population average and facing significantly deeper and more severe poverty compared to other pensioners. Their situation worsens the overall picture of poverty among pensioners since their pensions are extremely low and were very much in arrears.

**Children and poverty.** The next category with an above average poverty risk is that of children. 12.7% of the population in this age group were poor, and their relative poverty risk was 20% higher than the population average. However, the share of children of this age group in the poor population is much lower than the share of the elderly, reaching 10.3%. Although children do not represent a significant proportion of the poor (because of their low share in the total population), their poverty was relatively deep in comparison to other age groups. The distribution of the share of the population at risk of falling below the poverty line in the total population according to age does not differ from the age distribution of the poverty index.

**Poverty was more present in households without children than in households with children** (Annex).<sup>53</sup> The poverty risk in households without children was above average (+8.5%), and they made up more than two thirds of the poor. The depth and severity of their poverty was close to the average. Observed according to the household size, the most affected were households of five and more members (poverty risk of +26.3%), while

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<sup>53</sup> The Roma population was not included.

observed according to household composition, poverty was most present among single-person and two-member elderly households.

The most affected were elderly two-member households since their poverty risk was almost two thirds higher than the general population average.<sup>54</sup> They made up 12.2% of the total number of poor households, and the depth and severity of their poverty was much greater than the average.

Finally, it is necessary to point out that the categories of households that were most exposed to poverty correspond to those whose economic and material situation was the worst (population at risk of falling below the poverty line).

**Link between educational level and poverty.** It is easy to draw the conclusion that the share of the poor falls with the rise in educational level. People who are at greatest risk of poverty are primary school dropouts. The poverty risk in the case of these people was twice as high as the general population average and the depth and severity of poverty was significantly greater than in the case of people with higher educational levels.

Highly educated persons (college and university level) were not subject to the risk of poverty as their poverty risk was below average. Only 2.9% of college graduates and 2% of those with a university degree were poor. Such a distribution of poverty related to education level demonstrates that education pays off, since it is rewarded by the labour market. A very similar picture can be seen when the category of the vulnerable are observed by educational level.

Table A3 in the Annex shows poverty by social and economic status according to self-declaration. The poverty indicators differ significantly according to socio-economic status and the type of settlement.

**Among participants appearing in the formal labour market, the unemployed were at greatest risk of poverty (59.4% higher than the population average), and also of the deepest and most severe poverty. Individuals employed in the formal labour market had a below-average risk of poverty.** When observed according to type of settlement, the unemployed in the rural areas were the most vulnerable, since their poverty risk was twice as high as the general population average or 39.4% higher than the average of the rural population. In contrast, those formally employed in urban areas whose poverty index was more than two times lower than the population average and 38.6% lower than the average of the urban population were in the most favourable economic position.

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<sup>54</sup> Elderly households are defined as households whose members are all 65 years of age and older

On the basis of these results, we can conclude that the categories of population in Serbia who are at greatest risk of poverty are:

- 1. The uneducated;**
- 2. Unemployed and supported persons;**
- 3. Elderly people (65+) and children;**
- 4. Households with five and more members;**
- 5. Elderly single-person and two-member households, particularly in rural areas;**
- 6. Agricultural pensioners, particularly in rural areas;**
- 7. The population of rural areas of Southeast and Western Serbia;**
- 8. In addition, various research and other analyses show that Roma, internally displaced persons and refugees, as well as persons with disabilities, belong to the vulnerable groups exposed to the highest poverty risk.**

## 2.5. Income/Consumption Inequality

### 2.5.1. Basic Income/Consumption Inequality Indicators in Serbia in 2002

Basic income and consumption inequality indicators are shown in Table 3. The Gini coefficient, based on per capita consumption and on the consumer unit, reached the value of 30, while it was somewhat higher when calculated for income.<sup>55</sup> The Decile Relationship shows that the consumption by consumer unit of the poorest person in the last decile was 6.7 times higher than that of the richest person in the first decile.

**Table 3. Basic Inequality Indicators in Serbia in 2002.**

	Gini Coefficient			Decile Relationship		
	Per capita	By Unit	Consumer	Per capita	By Unit	Consumer
<b>Consumption</b>	30.0	29.7		6.8	6.7	
<b>Income</b>	33.3	32.2		9.8	8.1	

Source: Branko Milanovic, Poverty in Serbia in 2002, Ministry of Social Affairs.

**Table 4. Income Inequality in Serbia in the period 2000 - 2002.**

	Gini Coefficient	
	Per capita	By Consumer Unit
<b>2000</b>	28.3	28.4
<b>2002</b>	34.4	33.9

Source: HBS 2000 and SLSP 2002.

<sup>55</sup> The Decile Relationship is defined as the relationship between the consumption (income) of the 90<sup>th</sup> percentage and 10<sup>th</sup> percentage. For this reason, the decile relationship is sensitive only to the changes at the ends of distribution, unlike the Gini coefficient which measures inequality over the whole consumption (income) distribution.

Income inequality in 2002, measured by the Gini coefficient, increased compared with the two previous years (Table 4) by about 6 Gini points (both per capita and by the consumer unit).<sup>56</sup>

Income inequality in Serbia corresponds approximately to the average value of the Gini coefficient for the group of selected transition countries (Table 5). In comparison with the countries of the former Yugoslavia, income inequality in Serbia is between the levels in Bosnia and Herzegovina, Macedonia and Slovenia, on the one hand, and Croatia, on the other. The value of the Gini coefficient in Serbia, equalling 33, is situated within the value span of these countries which range between 26 and 36.

**Table 5 Comparison between inequality of incomes in Serbia and selected East European countries (countries are ranked according to the Gini coefficient, on per capita basis)**

Country (year)	Income or expenditures per capita (USD)	Gini coefficient
Hungary (income; 1999)	1800	26
Slovenia (income; 1998)	4900	26
Bosnia (income; 2001)	1300	27
Macedonia (1998)	1000	29
Byelorussia (expenditures; 1999)	630	30
Ukraine (income; 1999)	820	30
Bulgaria (income; 1999)	820	33
Lithuania (expenditures; 2000)	1200	33
<b>Serbia (income; 2002)</b>	<b>1480</b>	<b>33</b>
Croatia (expenditures; 1998)	3200	36
Estonia (income; 2001)	1600	38
Russia (income; 2000)	1000	40
<i>Unweighted average</i>	<i>1360</i>	<i>32</i>

**Note:** For Bosnia, Croatia and Byelorussia - incomes without imputed rent.

**Source:** Branko Milanović, Poverty in Serbia in 2002, Ministry of Social Affairs.

In comparison with other countries in transition, inequality in Serbia is somewhere between the values recorded in the Central European countries that have an inequality level below 30, and the Republics of the former Soviet Union (Estonia and Russia - close to 40).

<sup>56</sup> Household income, for the purposes of this comparison, has been defined in the same way as in 2000, so income Gini coefficients in this and in the previous table differ. This means that household income does not include either income from durable consumables, or imputed rental value (for more details about other income components, see the discussion on inequality breakdown).

### **2.5.2. Breakdown of Income/Consumption Inequalities**

Labour earnings are the most important source of total income (45.5%) and represent the largest share in total income inequality (47% or 15 Gini points<sup>57</sup>). After labour earnings, a smaller share in total income is attributable to pensions (16.3%), natural consumption (12.8%) and incomes originating from agricultural property (11.4%). Pensions and natural consumption are characterized by lower inequality than total income, and their share in total inequality amounts to 12.7% and 11% respectively or 5.3 and 3.5 Gini points. Income from agriculture has a relatively high concentration index (46.1), so that it accounts for 16.5% of total inequality. Other income sources contribute to a far lesser extent to total inequality.

### **2.6. Transfers necessary for raising the consumption level of the poor**

Under the assumption of perfect targeting, and of the Government opting for the provision of (passive) social assistance to the poor as the only measure, it would have been necessary to provide 9.1 billion dinars (Table 6) or 1% of GDP<sup>58</sup> (not including administrative costs of payment of assistance) in order to eradicate poverty in Serbia in 2002. This is in addition to the amount of assistance already provided to the poor through material support to families (MOP). Since the assumption of perfect targeting is unrealistic, the actual funds necessary for the elimination of poverty might be several times higher than this minimum amount. If the targeting of social assistance to the poor were 70%-60%, it would be necessary to provide between 11.8 and 12.7 billion dinars for the elimination of basic poverty.<sup>59</sup>

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<sup>57</sup> The Gini coefficient corresponds to the sum of weighted average concentration indexes for each income source, whereby the weights represent the shares of corresponding income sources in the total income. The concentration index is calculated in the same way as the Gini coefficient, but the difference consists in the fact that it represents the distribution of a certain income source when the households (individuals) are ranged according to total income, and not according to the income source. (In the case of the Gini coefficient, the ranging criterion is a variable for which Gini – total income is being calculated.)

<sup>58</sup> GDP for the year 2002, which amounted to 948.3 billion dinars, was used for these calculations. The total population of Serbia was 7.45 million.

<sup>59</sup> In market economies, these resources are at least twice as high as the minimum amount necessary for the eradication of poverty in the case of perfect targeting. In transition countries, (Poland, Hungary, Bulgaria, Estonia and Russia) for 1 US dollar of assistance to the poor, between 1.5 and 8 US dollars were actually spent, not including the administrative expenditures related to the payment of these amounts (Braithwaite, J. Grootaert, C. and Milanovic, B. 1999, Poverty and Social Assistance in Transition Countries).

**Table 6. Passive transfers necessary for raising the consumption of the poor population to the poverty line level**

	<b>2002.</b>
Average spending of the poor	3,539
Poverty line	4,489
Average resource gap	950
Average deficit (in % from poverty line)	21,2%
<b>Budget necessary for eradication poverty</b>	
Perfect targeting, in billion dinars	9.1
70% -60% targeting, in billion dinars	11.8-12.7

**Source:** SLSP 2002.

However, a permanent solution to the problem of poverty in Serbia, as defined by the PRSP, requires an active and multi-dimensional response to this challenge, not a passive one.

It follows that the calculation of the minimum financial resources necessary for the elimination of basic poverty must include a wider range of measures including health care and educational measures, incentives for raising income and the employment rate, the creation of a favourable environment for entrepreneurship and private sector development, and proactive social support and social inclusion of vulnerable groups.

### 3. The influence of economic growth on poverty reduction

The projections of the poverty trend until the year 2010 are based on the assumption that inequality between spending and GDP growth in real terms of 5% per year will remain unchanged.<sup>60</sup> During the period, personal consumption, which is directly linked to the dynamics of poverty, would rise on average 1.9% a year in real terms (see section 1.3.1 on macroeconomic projections). During the first sub-period (2003 – 2006) real growth of personal consumption would be somewhat slower (1.4%) compared to the second sub-period (2.3% from 2007 to 2010). Such growth of personal consumption by 2006, with no change in inequality, would reduce the poverty rate by 20%, while the percentage of the vulnerable would drop by 18% (Table 7). The fall in the poverty rate would be accompanied by an improvement in the depth of poverty. A rapid rise in personal consumption in the second sub-period would accelerate poverty reduction. Thus the percentage of the poor and the population at risk of falling below the poverty line in 2010 would be almost halved compared to 2002, under the assumption of unchanged inequality.

**Table 7. Projections of poverty in Serbia 2003-2010**

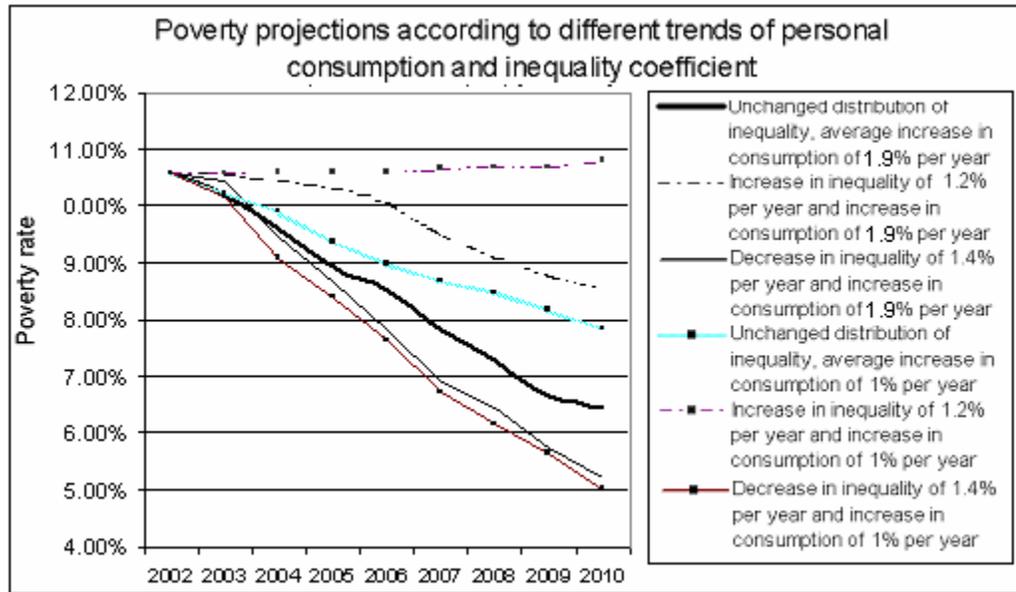
	Population at risk of falling below the poverty line		The poor	
	Poverty index	Depth of Poverty	Poverty index	Depth of Poverty
<b>2002</b>	20.0%	4.6%	10.6%	2.2%
Personal consumption rises on average 1.7% a year (2003 – 2006)				
<b>2006</b>	16.5%	3.8%	8.5%	1.8%
Personal consumption rises on average 2.3% a year (2007 – 2010)				
<b>2010</b>	12.6%	2.8%	6.5%	1.3%

**Note:** Consumption inequality remains unchanged.

**Source:** SLSP 2002

The graph below shows the possibility of a considerable decrease in poverty (from 10.6% in 2002 to 6.5% in 2010) with the assumption of an average annual growth in GDP of 4.5% and the growth of personal consumption of 1.9% a year, as well as the set of scenarios for the less ambitious growth of personal consumption of 1% a year.

<sup>60</sup> The poverty line remains unchanged.



The graph displays three basic scenarios of inequality of consumption and two scenarios of growth of personal consumption (1% and 1.9% a year). The first scenario of inequality exhibits no changes in the Gini coefficient of inequality (at the level of 0.31) in the period observed. The second predicts a moderate rise in the Gini coefficient to 0.34 in 2010; at 1.9% annual growth in personal consumption the level of poverty is 8.6%. The third predicts a drop in the coefficient to 0.28 in 2010; at 1.9% annual growth in personal consumption the level of poverty is 5.2%. The second set of scenarios predicts a less optimistic rise in personal consumption – at zero change in inequality the poverty rate in 2010 is 7.8%; at a rise in inequality of 1.2% a year, the rate is 10.8% and if inequality falls by 1.4% a year the poverty rate in 2010 will be 6.5%.

The assumption of unchanged inequality means that the poor benefit from economic growth in the same way as the average population. If the inequality in consumption dropped in the period observed, at the same rate of average growth of personal consumption of 1.9% a year, the alleviation of poverty would exceed that exhibited in Table 7. This means that the poor would benefit more from economic growth than the average population. On the other hand, a rise in inequality with the same rate of consumption growth would lead to a rise in poverty in Serbia.

## II TRANSITION AND REFORM FRAMEWORK FOR POVERTY REDUCTION

### 1. Macroeconomic Framework and Factors of Sustainable Economic Growth

Although a multidimensional definition of poverty has been used, the level of consumption is still a critical factor for determining the poor and the vulnerable. Because of this, increased consumption by the poor will reduce poverty, but also positively influence economic growth.

Because total national consumption is an important element of total production (GDP), consumption by the poor will probably increase with the growth of production as long as inequality in society does not increase, and the foreign, domestic and debt balances remain the same. In other words, economic growth will, under these conditions, ensure economic opportunities for the poor, in the form of employment or increased income, which will enable them to overcome poverty.

Achieving internal and foreign economic balance (getting the fiscal and balance of payments deficit under control) is not only a condition for the poor to benefit from economic growth. It is also a precondition for achieving sustainable economic growth, while a loss of control would lead to macroeconomic instability and would have a negative effect on economic growth.

#### 1.1. Macroeconomic Policy

During 2001-2002 **macroeconomic stability was established** and basic structural reforms were initiated. This is a firm base for the continuation of the reforms and establishing medium-term growth as a framework for poverty reduction. **Macroeconomic policy** was directed towards the removal of the basic misbalance and towards creating the basis for medium-term sustainable macroeconomic stability. Complete price liberalisation (except for infrastructure service prices) was introduced.

**Monetary policy** was directed towards controlling inflation which arose as a result of price liberalisation, and after that as a result of correcting price disparities and changes within the tax system. The money supply followed strong re-monetization and it was created mainly through foreign currency inflow. Only a small amount of currency emission was used to cover the fiscal deficit. The price liberalisation set foreign currency exchange rates at the market level, the flexible exchange rate was introduced, as well as convertibility on current transactions (Article VIII, IMF). By the NB policy, the nominal exchange rate was kept at a constant level during the last two and a half years, which led to considerable real appreciation of the Dinar.

One of the consequences of the real appreciation of the Dinar is that salaries have increased in Euros. On one hand, this lowered the competitiveness of the economy and on the other hand, it increased the purchasing power of the population in buying imported products. All

this obviously had an averagely good influence on the rich, but at the same time just a small effect on improvement of the status of the poor.

With the price liberalisation policy, one of the main sources of the inherited **quasi-fiscal deficit** was corrected. The prices of infrastructural services were increased, so now they mainly cover direct costs of production. The electricity price was increased four times and has reached the sum of 4 cents per kWh, which covers operating expenses. The price which will enable the Serbian power generation economy to work normally is 4.5 cents per kWh. A significant correction of the utility service price was also achieved. The correction of price disparity is a significant condition for medium-term sustainable macroeconomic stability, because it decreases public expenditures on direct and hidden subsidies. Establishing price parity of infrastructure services is significant for rational resource usage and for achieving sustainable medium-term growth. On the one hand these measures had a negative effect on the poor, but on the other hand they released budgetary resources, which enabled the government to increase the level of direct support through better targeted programmes such as social protection and pensions.

**Fiscal policy** was interwoven with fiscal reform, and their goal was to enable necessary adjustments and public revenue and expenditure reform, and to create the necessary institutions. The basic measures in that direction were the introduction of a single sales tax rate (20%), and so called gross salaries as a tax base. The single sales tax rate contributed to the removal of arbitrariness. Its introduction represents a good base for the planned introduction of value added tax in 2004.

During 2002-2003, because of the negative effects of these measures on the poor, the Government annulled sales tax on some of the most important food articles and communal services.

Gross salaries now include the total income of employees (lunch, vacation bonus, etc.) as a base to determine taxation and incomes, so the actual labour costs were stated, and labour taxes according to sectors were balanced. In the medium term, this measure should lead to better labour allocation and to the restructuring of inefficient sectors, which should encourage sustainable growth. In the short term, it had a negative effect on employees in non-productive sectors (textile etc.), because most of their low salaries were gained through items which were not previously included in the tax base

The basic changes in public expenditures were directed towards better management of expenditures (introduction of the non-budget items into the budget, explicit budgeting of subsidies, defining fund deficits and providing budgetary transfers to cover them, etc.), providing regular payments (including pensions) and the reduction of payment arrears (social assistance), introducing the transition fund to support the people most affected by the reforms, larger increases in salaries in the education and health sectors compared to the public sector in general, etc. Most of these measures improved the status of vulnerable groups.

## 1.2. Basic Macroeconomic Indicators

The following macroeconomic indicators should determine the relative position of Serbia regarding development and poverty, its macroeconomic performance during the first two years of stabilization and finally its initial position for future medium-term growth.

There are two basic factors which determine the level of poverty in a country: the spending p.c. (per capita) level and inequality in distribution. The spending level is closely linked to the level of the gross domestic product (GDP) p.c. defined according to purchasing power, while inequality in distribution is measured by the Gini coefficient.

Since there are no estimates of GDP by purchasing power in Serbia, GDP according to the current exchange rate will be used. See Table 1.

**Table 1**

	Serbia		Bulgaria	Romania	Croatia	Hungary
	2001	2002	2001	2001	2001	2001
<b>GDP pc in USD</b>	1409.0	1945.7	1675.0	1743.0	4385.0	5228.0
<b>Gross salaries USD</b>	143.0	217.0	106.0	143.0	535.0	360.0
<b>Net salaries USD</b>	97.6	151.0				
<b>Pensions USD</b>	81.0	108.5				
<b>Unemployment rate %<sup>*</sup></b>	28.6	30.5	16.3	10.8	16.1	6.5
<b>Investments / GDP %</b>	10.9	13.3	20.4	21.9	23.8	27.3

\* The unemployment rate is determined according to data from the Employment Bureau.

The GDP p.c. is the same as in Romania and Bulgaria, but is less than half that in Croatia and Hungary. The next indicators of spending are average salaries and pensions: salaries are higher than in Bulgaria and Romania, probably pensions as well because they are connected to salaries.

In spite of macroeconomic stabilization and the commencement of the reforms, during the first two years of transition the Serbian economy recorded significant GDP growth (Table 2), even if the high growth of agriculture in 2001 is excluded. The transitional recession affected only industry, which after the period of inactivity in 2001, began to grow in 2002.

This suggests that transitional recession should not be expected in future reforms, and it seems that Serbia can follow the path of sustainable growth. It is obvious that the major production decrease in the 1990s and the accompanying low level of capacity usage caused the already very low level of production to fall to the minimum.

**Table 2**

in %

	Serbia	
	2001	2002
<b>Growth rates :</b>		
<b>GDP</b>	5.5	4.0
<b>GDP without agriculture</b>	2.0	5.0
<b>Industrial production</b>	0.0	1.8
<b>Average salaries</b>	16.5	29.9
<b>Inflation:</b>		
<i>Average period</i>	92.0	19.2
<i>End of the period</i>	39.0	14.8

A very high real increase of average salaries was also recorded. Part of the increase was caused by the increase in unemployment (see Table 1), which excludes people with very low salaries. In addition we must take into account the effects of the decrease in contributions on salaries of 10% which turned into a rise in net salaries. Finally, mistakes in registering salaries happen very often, taking into account that the system of salaries that did not include benefits (for public transport, lunch bonus etc) was supplanted by the system which does include them. In the light of all this, previous official data certainly overestimate the real rise in salaries. But a real salary increase does exist, which means an improved status of employees. The above-mentioned average salary increase in foreign currency, should be also included.

After the price liberalisation at the beginning of the programme, and after correcting price disparity, inflation was brought under control, so its further medium-term decrease is possible.

In 2001 and 2002 there were relatively high growth rates together with a drop in employment, which, at first sight, seems paradoxical. This is mainly due to the fact that those who lost their jobs had hardly been working at all.

In the medium term, the sustainability of stabilization that has been achieved can be valued on the analysis of internal (basically fiscal) and economic trade imbalance. The review of basic indicators is given in Table 3.

**Table 3**

	Serbia	
	2001	2002
<b>Export/GDP</b>	25.3	19.3
<b>Payment deficit/GDP</b>	-10.3	-12.0
<b>External debt/GDP</b>		66.5
<b>Public expend/GDP</b>	39.5	46.1
<b>Public income/GDP</b>	38.0	42.5
<b>Fiscal deficit/GDP</b>	-1.5	-3.6
<b>Primary deficit/GDP</b>	-0.9	-2.6
<b>Public debt/GDP</b>	...	92.2

Public revenue and expenditure represent consolidated values in the Serbian territory; this includes the Republic, Federal, and local communities' budgets and funds. In 2001, there were already plans for significant fiscal adjustments with a deficit of approximately 3.5%. The actual deficit was less than half of that (1.5%), primarily due to the postponement of expenditures related to the servicing of foreign debt and the support of reforms. The result for Serbia was an unrealistically low level of public expenditures (39.5%). The total amount of public expenditures appeared in 2002, and it increased public spending to 46.1% of GDP, which represents a large sum for an economy in transition (see Table 7).

The fiscal deficit remained fairly moderate (3.6%) and by the standards of the EBRD represents a moderate risk. On the other hand, the existence of a relatively significant primary deficit (deficit that does not include interest payments for public debt servicing) presents a risk of unsustainable increases in public debt. Therefore, the primary deficit should basically be covered by non-credit resources (privatisation, donor funds and income from issued money), in order to prevent the explosion of debt. The public debt is very large (92.5 %), and for the most part it represents foreign currency debt: old foreign currency savings and foreign debt.

**It follows that mid-term fiscal sustainability does not leave room for the increase of public spending in GDP,** and requires that fiscal deficit be financed mainly from privatisation. This would enable a decrease in public debt to a sustainable level and, along with the expected moderate fiscal deficit, lead to medium-term internal sustainability, with low inflation.

**Serbia's external economic position looks critical for the maintenance of medium-term macroeconomic stability.** The current balance of payments deficit is high for both years (see Table 3). In 2002 the deficit equalled 12% of GDP, which in the medium term would be hard to maintain and falls into the critical zone according to the basic criteria of the EBRD. The main cause of the large deficit is the very low level of exports, which is now at half the level of Serbian exports in 1990; or between one third to one half of Bulgarian or Croatian exports relatively speaking (in terms of GDP) (see Table 8).

The foreign debt in comparison to GDP is fairly high, but not critically large (the borderline is 80%). However, with a high current balance of payments deficit and its coverage with new loans, the foreign debt could become unsustainable.

**Therefore, a critical problem with medium-term macroeconomic sustainability is represented by the size of the current balance of payments deficit and its financing.** This refers to the crucial role of export growth and foreign direct investment. The large real appreciation of the Dinar and the consequently high level of labour costs expressed in foreign currency certainly do not aid exports or foreign investment.

**Finally, medium-term growth will crucially depend on the rates of investment.** Serbia achieved very low levels of investment in 2001 and 2002, almost half that of the other economies compared to (see Table 1). Therefore, to achieve the desired growth, it is

necessary to provide conditions for a significant increase in rates of investment within the Serbian economy.

### 1.3. Medium-term sustainable growth

The analysis of sustainable growth should provide a consistent macroeconomic framework for the medium term, and examine the sustainability and risk of the projected growth, and the determinants that define its size.

#### 1.3.1. Macroeconomic projections and their sustainability

##### Rise in production, investments and savings

Keeping in mind the expected rate of growth of the real GDP of 4-5%, the medium-term macroeconomic implications are now considered.

The following Table projects the trends of the nominal GDP in Serbia and its possible structure.

**Table 4. - GDP and its structure**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>GDP current prices, billion Dinars</b>	931.0	1.118.2	1.263.0	1.402.4	1.535.9	1.677.2	1.831.5	2.000.0	2.184.0
<b>GDP, million USD</b>	14.592.5	19.280.0	20.441.2	21.634.3	22.909.1	24.301.9	25.779.5	27.346.9	29.009.6
<b>GDP pc, USD</b>	1.945.7	2.560.4	2.703.9	2.850.4	3.006.4	3.176.7	3.356.7	3.546.9	3.748.0
<b>GDP real growth</b>	4.0	3.1	4.1	4.5	4.5	5.0	5.0	5.0	5.0
<b>Structure, in % GDP:</b>									
<b>Domestic demand</b>	123.6	120.0	119.0	118.0	116.0	114.5	114.0	113.0	112.0
<b>Spending</b>	109.6	104.3	101.8	98.0	95.0	92.5	91.0	89.0	87.0
<i>Personal spending</i>	91.0	86.3	84.6	81.5	79.0	76.5	75.0	73.0	71.5
<i>Public spending</i>	18.6	18.0	17.2	16.5	16.0	16.0	16.0	16.0	15.5
<b>Investment</b>	14.0	15.7	17.2	20.0	21.0	22.0	23.0	24.0	25.0
<b>Net export of goods and services</b>	-23.6	-20.0	-19.0	-18.0	-16.0	-14.5	-14.0	-13.0	-12.0

Total spending (domestic demand): personal, public and investment, is larger than GDP for the sum of the export and import of goods and services deficit. This spending must be decreased over a period of time so as to provide foreign economic sustainability, i.e. to decrease the balance of the goods and services deficit. The basic structural change aimed at

involves the relationship between personal spending and investment. The rate of investment should significantly increase in the medium term, from 14% to 25% of GDP, and in that way attain a level comparable to the countries in transition (see Table 1). This requires a relative decrease in personal spending (to 71%) and a decrease in material expenditures for public spending (to 15%) of three percent. Consequently, personal spending should realistically grow at an annual rate of 1.8 %, and public spending at the rate of 2.2%, which is considerably lower than GDP growth.

The relationship between the share of economic (private) and public investments in fixed capital can be appraised based on the well-known structure of investment in 2002: from a total of 14% investments in GDP, 12.1% make up fixed fund investments, and from that 10.1% are economic (private), and 2% public investments.

In view of the fact that investments are financed by domestic savings and foreign influxes, domestic savings can be estimated by taking away the current balance deficit (meaning the influx of foreign resources) from the investment.

**Table 5. – Domestic savings**

%GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Investments</b>	14.0	15.7	17.2	20.0	21.0	22.0	23.0	24.0	25.0
<b>Current balance deficit</b>	12.0	11.5	10.0	9.5	8.8	8.0	7.0	6.5	6.0
<b>Domestic savings</b>	2.0	4.2	7.2	10.5	12.2	14.0	16.0	17.5	19.0

It follows that for sustainable medium-term growth it is necessary for the Serbian economy to achieve a higher level of investment supported by a large increase in domestic savings. With regained confidence in the financial and banking sector, the transfer of domestic savings will be initiated as well as the transfer of money currently engaged in the grey economy into the formal economy. This is a precondition for achieving the projected rise in domestic savings.

### **Mid-term Internal Balance: Fiscal Projections**

The medium-term internal balance is decisively determined by fiscal sustainability. Medium-term fiscal projections are given in Table 6.

**Table 6.**

%GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Income, consolidated</b>	42.53	42.4	42.0	41.8	41.7	41.7	41.6	41.4	41.2
<b>Expenditures, consolidated</b>	46.07	46.1	45.6	45.2	44.8	44.3	43.9	43.5	43.1
<b>Total deficit</b>	-3.5	-3.7	-3.6	-3.4	-3.1	-2.6	-2.3	-2.1	-1.9
<b>Primary deficit</b>	-2.6	-1.9	-1.5	-1.3	-1.0	-0.6	-0.3	-0.2	-0.1
<b>Public debt</b>	92.19	80.3	76.7	69.8	65.2	60.6	55.7	51.0	47.0

The projections take into account the above-mentioned imbalance. The share of consolidated public revenues in Serbia in GDP should decrease by 1.3 percentage points, to 41.2% in 2010. Public expenditures should drop by 3% down to 43.1% of GDP at the end of the period<sup>61</sup>. Consolidated revenue and expenditures in the medium term are acceptable in relative terms.

The fiscal deficit falls from 3.7% to 2% of GDP which is modest and acceptable. The primary deficit is eliminated in the medium term, although it is not negligible until 2006. The fiscal deficit is principally financed from the privatisation income projected at 2% to 3% of GDP. Since the incomes exceed the primary deficit, the share of public debt in GDP is considerably reduced to the level of 47% at the end of the period.

A comparative survey of public revenues, expenditures and deficits, displayed in Table 7, shows that the medium-term fiscal projections discussed above are reasonable.

**Table 7.**

%GDP

	<b>Bulgaria 2001</b>	<b>Romania 2001</b>	<b>Croatia 2001</b>	<b>Hungary 1999</b>
<b>Income</b>	37.7	31.4	38.7	42.3
<b>Expenditures, consolidated</b>	40.0	36.0	49.3	45.8
<b>Total Deficit</b>	-2.3	-4.6	-10.6	-3.5

The risks involved in medium-term fiscal sustainability are primarily tied to the projected income from privatisation and its use for the coverage of the deficit. That is, in the event that the primary deficit is covered by a new debt, this would lead to a non-sustainable growth of

<sup>61</sup> There have been announcements from government representatives that public expenditures and fiscal deficits will decrease faster than was stipulated in the previous table. However, these announcements have not yet appeared in the Budget Memorandum, nor in any other government documents.

public debt. Preliminary research indicates that projected income from privatisation is achievable.

Another risk originates from the question whether or not it is possible to maintain the scope of public spending within the projected framework. Aggregate comparisons between the initial state in 2002 and the confirmed budget for 2003 on the one side, and international comparisons on the other, suggest that that is possible. However, this should be confirmed by a more detailed analysis of public expenditures in Chapter II. The projected level of public income is achievable.

### **Medium-term external balance of payments equilibrium**

It has already been pointed out that the basic macroeconomic imbalance in Serbia's economy represents a large deficit in the current foreign balance of payments, caused by the disproportionately low level of exports. The projections of the current deficit have previously been used for calculating the amount of domestic savings. The sustainability of the projections is now discussed.

**Table 8.**

	%BDP								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Current deficit</b>	12	11.5	10	9.5	8.8	8	7	6.5	6
<b>Financing:</b>									
<b>Foreign direct investments</b>	6.0	7.5	7.0	6.0	5.5	5.9	6.2	5.4	5.0
<b>Donations</b>	2.0	1.5	1.0	0.5	0.5	0.2	0.2	0.2	0.2
<b>Indebtedness</b>	4.5	2.5	2.0	3.0	2.8	1.9	0.6	0.9	0.8

<b>Foreign debt/GDP</b>	66.5	58.8	60.6	62.6	61.1	58.4	56.0	53.5	51.1
<b>Rate of debt servicing (servicing/export)</b>	5.5	13.1	15.0	15.9	18.0	20.9	20.1	18.7	17.6

<b>Export of goods and services (%GDP)</b>	19.3	19.5	22.5	25.5	27.8	30.0	31.7	33.4	35.0
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A very high current deficit remains until 2006, and 10% of GDP (EBRD) can be taken as a critical limit of medium-term sustainability. Apart from the extent of the deficit, the length of its sustained existence also poses a risk.

Financing the projected current deficit should show whether it is sustainable to continuously produce a high deficit in the medium term. Sustainability demands that foreign direct investment should play a key role in financing the deficit. The share of such investment in GDP should range between 5% and 7%. In absolute amounts, these investments should range between 1.3 billion to 1.6 billion USD a year.

A high share of foreign direct investment is necessary to maintain the flow of loans for financing the deficit at an acceptable level in relation to the sustainability of the foreign debt. The projected debt for financing the current deficit thus drops from 4% to 1% of GDP.

All this makes the foreign debt sustainable. That is, the share of foreign debt in GDP falls from 66% to 51% (the critical level is 80%), while the debt servicing rate amounts to 20% at most (the critical value being 25%). This, of course, is possible since two thirds of the debt was written off by the Paris Club. It is also expected that debts to the London Club, and to Russia, China and others will be successfully reprogrammed, and this was taken into account in the above assessment.

#### **1.4. Sustainability of projected economic growth: sources of growth**

The previously outlined medium-term macroeconomic projections are based on the assumption of 5% real growth. A significantly lower rate would bring high risks because some basic factors, like the servicing of foreign debt and public spending, are almost independent of the scope of production. Therefore, slower growth of production would mean proportionally larger public expenditures and a higher fiscal deficit on the one hand, and a larger rate of foreign debt servicing on the other.

The latest projections of the IMF (July, 2003) basically assume the same rate of growth as does this analysis. A growth rate of 4% in 2004 and 4.5% in 2005 is predicted. Although our projections are given for a growth rate of 5%, they would in fact be sustainable for every rate between 4% and 5%. Two other important elements of the macroeconomic framework, external sector and fiscal, are also basically consistent with these two analyses.

In the following part of the document, we shall discuss how realistic the projected growth is in the wider context of the impact of the reforms on growth, based on the accumulated experience of transitional economies, as well as the question of whether the projected macroeconomic framework can serve as a basis for the projected level of growth.

The growth survey in 13 European countries over the transition period (1989 to 2001) brings out three basic points relevant to the assessment of the medium-term growth rate in Serbia. In the first place, all the countries have gone through a sharp transitional recession with a significant fall in production. Secondly, after passing through the transitional recession, a certain number of countries were able to achieve continuous growth in production (Hungary, Poland, Slovakia, etc) while others (Bulgaria, Romania, Czech Republic, etc) have entered into yet another recession. Finally, the highest level of medium-term growth achieved is approximately 5%.

The Serbian economy recorded a larger fall in production during the 1990s than took place in the transitional countries being considered.. With the start of stabilization and reforms Serbia achieved growth in production, while the recession was felt partly in industry (see Table 2). It follows that the economy has gone through transitional recession and that it can ascend onto the path of medium-term growth. A decisive element for the achievement of high medium-term growth is that the growth is continuous, that is to prevent either a balance

of payments or an exchange rate crisis, i.e. a fiscal crisis that would tip the economy into recession.

Comprehensive econometric research of transition economies shows that basic determinants of their growth were: a low inflation rate, a decrease in public spending, and reforms. A decrease in the inflation rate, i.e. establishment of macroeconomic stability, led to the increase in the growth rate. The influence of public spending on growth is shown in the relative (in terms of GDP) size of the fiscal deficit, i.e. moderate public spending. It was confirmed that a larger fiscal deficit, i.e. relatively higher public spending, causes a decrease in the rate of growth. Finally, structural reforms led to the acceleration of growth. The degree of liberalization, the index of small and medium enterprise privatisation, private sector share in GDP etc. were used as reform indicators. Empirical research also explained the phenomenon of transitional recession: reforms at first lead to a decrease in the growth rate, and later to its increase.

Based on the correlations for the sample set of transition economies, it is possible roughly to project the potential growth rate of Serbia's economy, bearing in mind the previously stated presuppositions on macroeconomic stabilization and public spending (Table 6), as well as on the corresponding dynamics of reforms. Since the largest part of the fiscal deficit will be financed from privatisation income, while only a small part will be covered by loans, i.e. non-inflationary sources, it follows that the inflation rate can be significantly reduced from 19% in 2002 (Table 2) to 5% after 2005. The reform dynamics are planned in such a way as to achieve the level of "weaker" EU membership candidates in 2006. Such dynamics of fiscal and macroeconomic adjustment on the one hand and of structural reforms on the other show, on the basis of the experience of other transitional economies, that medium-term average growth in Serbia of 5% a year is ambitious but feasible.

### **Public investments in infrastructure**

A part of the total investments, which are to support medium-term growth, are public investments. They are only a small part of overall investment, but apart from their direct impact on growth in production, they also have an indirect effect through creating a favourable environment for investment and growth in production. The share of capital expenditure in the public expenditure of Serbia is low. Therefore, above-average growth is planned for the medium-term period. There should be a relative increase from 2% to 4% in the share of GDP, thus achieving a level comparable to international standards.

It is estimated that around one third of the overall investment<sup>62</sup> in Serbia in the period 2004-2006 will be directed to infrastructure (transport, energy, telecommunications, postal service, utility infrastructure). These investments will be financed from:

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<sup>62</sup> Infrastructure share in GDP is relatively high due to its deteriorated state and the fact that these are actually capital intensive sectors.

- Resources of the enterprises in the above-mentioned sectors (their own resources and commercial loans),
- Budgetary resources (republic and local budgets), and
- Expected donor funds and soft loans.

It is estimated that the entire necessary resources for investing in telecommunications and the postal service will be provided from commercial sources (national and borrowed). Modernization and construction in other infrastructure activities will to a great extent depend on budgetary resources, donor funds and soft loans.

According to the assessments, the allocations from budgetary resources (republic and local budgets) for infrastructure (transport, energy and utilities) and housing in the next three years will amount to 2% of GDP on average, which equals around two thirds of the overall budgetary investments. Apart from infrastructure, some 1% of GDP will be allocated from budgetary resources for health care, education, public administration, and security.

The resources of enterprises from these sectors, as well as budgetary resources, are not sufficient investments, and the financial performance of enterprises and of the state do not allow for borrowing under commercial terms. The decrease in donor funding and soft loans would considerably slow down the investments, which would in turn hinder the modernization of these sectors. Besides infrastructure, housing also requires soft loans. Such loans would have multiple positive impacts on economic activity and employment. The share of donor funding and soft loans amounts to some 20% of the overall infrastructure investments.

### **Foreign direct investments**

Foreign direct investments are the crucial element for sustainable medium-term growth. They directly contribute to the growth of production, and they make it possible to establish external and partly internal balances in the medium term. Thus, in the previous projections foreign direct investments are the main source for covering the current balance of payments deficit. They also generate large growth in exports, as shown in the experience of transitional economies. A significant growth in exports and financing of the current balance are the main planks of the medium-term foreign economic sustainability of Serbia. Foreign direct investments, through tender privatisation, will represent a significant source of fiscal deficit coverage, which will contribute to the establishment of the internal balance in the medium term.

**Table 9. - Cumulative foreign direct investment (FDI) per capita (USD)**

		<b>FDI p.c. (USD) 1989-2002.</b>
1.	Czech Republic	3413
2.	Slovakia	1784
3.	Slovenia	1722
*4.	<b>Serbia and Montenegro</b>	<b>1610</b>
5.	Hungary	1336
6.	Poland	997

\*Cumulative FDI p.c. for Serbia and Montenegro pertains to the period 1997-2010.

		<b>FDI p.c. (USD) 1989-2002</b>
1.	Croatia	1568
*2.	<b>Serbia and Montenegro</b>	<b>903</b>
3.	Bulgaria	547
4.	Romania	405

\* Cumulative FDI p.c. for Serbia and Montenegro pertains to the period 1997-2006.

The projected level of foreign direct investment, as already mentioned, is approximately 1.3 – 1.6 billion USD, that is, around 5-6% of GDP. In order to assess the amount of foreign investment, we compare cumulative values per capita for the preceding period (1989 – 2002) in advanced transitional states with the projections for Serbia and Montenegro (1997 – 2010). We also compare investment planned for Serbia and Montenegro until 2006 with total realized investment in less advanced transitional economies.

**Table 10.**

%GDP

	<b>Bulgaria</b>	<b>Romania</b>	<b>Croatia</b>	<b>Hungary</b>
<b>Exports/GDP in 2001</b>	55.7	33.5	46.7	60.5

There is scope for many improvements in this area, taking into account the extremely low levels of Serbian exports. The projected considerable rise in exports from 19% of GDP to 35% in 2010 means, for example, that Serbian exports in 2006 should reach over 6 billion dollars, which roughly corresponds to the amount of exports achieved in 1990. Comparison with the neighbouring economies (Table 10) also shows that the planned rise in exports can be achieved and this, together with foreign direct investment, presents the main strategic option for Serbian economic development.

## **2. Fiscal Limitations in Poverty Reduction Strategy Implementation**

### Introduction

An effective public fiscal management process is critical for ensuring the success of PRSP implementation. In particular, the budget and fiscal management system should be the main tool through which public expenditure implications of PRSP policies are translated into budget activities.

## **2.1. Recent Trends in Fiscal Policy**

Substantial fiscal adjustment has taken place in the last two years within the context of the stabilisation programme begun by the government in 2001. Fiscal adjustment involves redefining the role of government (away from being the direct producer of goods and services towards providing social security, investing in and maintaining economic infrastructure, and establishing a legislative and regulatory framework for private sector activity), incorporating all public sector expenditure into the budgetary process, reducing budgetary arrears and fiscal gaps in social insurance funds, as well as increasing revenue mobilisation.

The purpose of this fiscal adjustment has been to constrain the fiscal deficit. Subsidies to enterprises and capital investment have been reduced, whilst transfers to the population, in the form of social benefits, have increased in importance. Nonetheless, implicit subsidies to enterprises remain.

## **2.2. Recent Trends in Public Revenues**

Consolidated public revenues in Serbia in 2002 reached the level of 42.7% of GDP which is somewhat higher than other countries in the region<sup>63</sup>. The share of consolidated public revenue in GDP in Serbia is probably somewhat over-stated due to the under-stating of GDP because of the incomplete inclusion of the private sector and the greater extent of the grey economy in relation to the comparison countries. Based on the share of the consolidated public revenues in GDP, one can conclude that the tax burden in Serbia, compared with other European transition countries, is moderate.<sup>64</sup> With the exception of the contribution on salaries, one can make the same conclusion by comparing tax rates of other transition countries. The uniform sales tax rate is 20% (considering exemptions, the average weighted rate amounts to 16%-17%), the rate of the tax on salaries is 14%, and contributions on employee and employer's salaries are 33.6%.

Within the structure of public revenue in Serbia, taxes and contributions on salaries dominate (approximately 15.5% of GDP) and consumption taxes (close to 15% of GDP). The share of corporate income taxes is substantially smaller than in other countries in transition.

In 2002 the share of public revenue in Serbia's GDP increased by five percentage points compared to the 2001 level. The main generator of this growth in the share of public revenue is the increase in payments made, which is especially evident with sales tax and excise

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<sup>63</sup> Less successful transition countries exhibit a lower level of public revenues in terms of GDP than more successful countries. This is due to the fact that, either these countries are less developed, or that the basic governmental functions, including the ability to collect public revenue, are at a very low level.

<sup>64</sup> As compared to the countries of Asia, Africa and Central America that are at the same development level, the tax burden in Serbia is high.

duties. In addition to the increase in the number of payments made, the abolition of discretionary exemptions and reductions in the tax base for particular sectors and companies also contributed to the growth of public revenue share in GDP. The increase in the share of customs revenues, despite the significant decrease in customs rates, is a consequence of the increase in the value of import share in GDP as well as the increase in the share of consumer goods in the imports.

The planned fall in the share of public revenue in GDP in 2003 is a consequence of fiscal relief of the economy that was implemented in the second part of 2002, and above all else includes:

- Significant decrease in tax rates on financial transactions and the exemption of loan transactions from payment of this tax;
- Decrease in tax rates on gain from 20% to 14% and the introduction of significant incentives for investment and employment;
- Expansion of exemptions from sales tax.

Furthermore in 2003 growth in the level of payment collection is expected, especially on retail sales tax, due to the introduction of the obligation to issue and receive bills as well as the introduction of fiscal cash registers.

**Table 1. Consolidated public revenues** % GDP

	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<b>Realization</b>	<b>Realization</b>	<b>Plan</b>
<b>Revenue</b>	38.0	42.7	42.4
<b>I Current revenue (1. +2.)</b>	38.0	42.7	42.4
<b>1. Tax revenue (1.1+...+1.10)</b>	36.2	40.6	40.2
<b>1.1. Customs</b>	2.0	2.6	2.3
<b>1.2. Personal income tax</b>	4.5	5.1	5.2
<b>1.3. Corporate income tax</b>	0.5	0.5	0.5
<b>1.4. Retail sales tax</b>	9.9	11.1	11.6
<b>1.5. Excises</b>	3.6	4.7	4.9
<b>1.6. Property tax</b>	0.3	0.4	0.4
<b>1.7. Financial transaction tax</b>	1.4	1.1	0.3
<b>1.8. Extra profit tax</b>	0.2	0.3	0.0
<b>1.9. Other taxes</b>	3.4	4.3	4.2
<b>1.10. Social insurance contributions</b>	10.4	10.5	10.7
<b>2. Non-taxable revenue</b>	1.8	2.0	2.1
<b>II Capital revenue</b>	0.0	0.0	0.0

## Recent Trends in Public Expenditures

The share of public expenditures in GDP in 2002 in Serbia closely corresponds to the level that successful countries in transition (Hungary, Czech Republic, Poland, Slovenia and Slovakia) had in the mid-nineties. Within the structure of public expenditure<sup>65</sup> by economic classification the most significant share was that of pension expenditures and social programmes, as well as expenditure for salaries. In comparison to successful countries in transition Serbia had an above average share in expenditure related to earnings and pensions, while the share of expenditures related to interest rates and capital investment was below average.

The share of consolidated public expenditures in GDP in 2002 increased by 6.4 percentage points compared to the previous year. Observed from the point of view of economic classification, the main generators of growth of public spending are the increase in pensions, salaries, reconstruction costs and servicing of debts.<sup>66</sup> In the case of pensions, the growth in share is the consequence of what is referred to as transferred growth<sup>67</sup>, while for salaries a significant factor is the slower growth of prices than projected (it was agreed with trade unions to increase salaries in accordance with the projected growth of prices).

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<sup>65</sup> The introduction of a system for evidence and classification of public revenues and expenditures in accordance with international standards started during 2002. Because there are still adjustments being made to the system, and at the level of local communities it is just being introduced, data regarding the structure of expenditures are still unreliable. For example, according to data from local communities expenditures for subsidies grew constantly from 2000-2002, despite significant elimination of the disparity of prices for utility services. It is assumed that in the case of local communities there is a significant part of capital investment that is shown as subsidies.

<sup>66</sup> The data on the public expenditure structure in 2001 and 2002, by economic and functional classification, have changed compared to the first version based on final data on execution of budget and funds for 2001 and corrected budget and funds reports for 2002. With the revision of the Serbian budget for 2003, which includes also expenditures of the whole SAM financed from public revenues in Serbia and Montenegro, the planned structure of public expenditure for 2003 was changed.

<sup>67</sup> The scope of implementation of the so-called Swiss formula for pension indexation was to provide slower pension growth than GDP growth. However, the average salary in 2002 grew twice as fast as GDP, resulting in faster growth of average pensions than that of the GDP.

**Table 2. Consolidated public expenditures – economic classification % GDP**

	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Total</b>	39.3	45.9	45.9
<b>1. Salaries</b>	8.7	10.1	10.3
<b>2. Purchase of goods and services</b>	6.7	7.0	7.0
<b>3. Pensions</b>	9.4	11.7	11.7
<b>4. Social protection</b>	3.2	4.1	4.0
<b>5. Subsidies and restructuring</b>	5.7	6.3	6.2
<b>6. Capital investment</b>	1.3	2.0	2.1
<b>7. Public debt servicing</b>	1.7	2.1	2.5
<b>7.1. Interest</b>	0.8	0.9	1.3
<b>7.2. Paying of debt</b>	0.9	1.2	1.2
<b>8. Other expenditures</b>	2.6	2.6	2.1

In comparison to other countries in transition, in 2002 Serbia had an above average share in expenditure for defence, while the education expenditure was below average<sup>68</sup>. Expenditures for health and social care are at the level of the average for the region.

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<sup>68</sup> By adding the expenditures for education that are financed from the budget of local communities this deficit would decrease, but probably would not be eliminated.

**Table 3. Consolidated public expenditures - functional classification**  
% GDP

	2001	2002	2003
<b>I Total expenditures (1. +...+10.)</b>	39.3	45.9	45.9
<b>1. General public services</b>	4.4	5	5
<b>2. Defence</b>	3.6	3.4	3.3
<b>3. Public order and safety</b>	2.6	2.7	2.8
<b>4. Economic affairs</b>	3.8	4.3	3.5
<b>5. Environment protection</b>	0.0	0.1	0.1
<b>6. Housing construction and utilities</b>	2.6	3.6	3.4
<b>7. Health<sup>69</sup></b>	4.6	5.2	5.3
<b>8. Recreation, culture and religion</b>	0.5	0.6	0.7
<b>9. Education</b>	2.7	3.4	3.8
<b>10. Social protection and pensions</b>	14.5	17.6	18

In the first two years of transition Serbia achieved a relatively low level of fiscal deficit in comparison to other countries at the beginning of transition. The low level of fiscal deficit in 2001 is a consequence mainly of the better collection of public revenue than planned and the absence of foreign debt servicing, while in 2002 the main cause of the low level of deficit is the commitment to solid fiscal policy, which creates a favourable base for macroeconomic stability and growth.

A slight increase in the deficit since 2001 has been facilitated by the increase in availability of external resources and receipts from the privatisation process. Nonetheless, government policy is to keep the deficit at or below 3% of GDP.

**Table 4. Total and primary fiscal deficit** % GDP

	2001	2002	2003
<b>Total deficit</b>	-1.3	-3.3	-3.5
<b>Primary deficit</b>	-0.5	-2.4	-2.2

The total estimated domestic and foreign public debt at the end of 2002 was approximately 14.2 billion USD, which is 92.2 % of GDP. This total includes the sum of the unregulated debts (London club, debts to other countries that are not a part of the Paris club as well as the total sum of foreign debt from the region of Kosovo and Metohija). It is estimated that, upon reprogramming, these debts will be partly written off whereupon the relation between the

<sup>69</sup> According to the estimate of World Bank experts, the health care expenditure share in GDP exceeds 6%, if the additional forms (such as health care expenditures at the local level and within the defence system) were included. This is above the average for Central and East European countries set at the level of 4.7% of GDP. Precise estimates of out-of-pocket health expenditures are still missing, though some surveys conducted on a small sample indicate that these expenditures range between 2 and 4% of GDP.

public debt and GDP will be 70-75%, depending on the reprogramming conditions. Furthermore economically consistent<sup>70</sup> servicing of the obligations of debtors from the region of Kosovo and Metohija would additionally decrease the ratio between the public debt and GDP.

### 2.1.1 Impact of Recent fiscal Trends on Poverty

Total expenditures for the protection of the poor in Serbia equal approximately 4% of GDP, which is close to the average value for countries in transition. The most significant item of social protection, not including pensions, is the expenditures for child protection. Following that are the expenditures for taking care of those who lost their jobs during the process of restructuring (transition fund), and the expenditures for assistance to the unemployed and families living in poverty.

**Table 5. Expenditure for protection of the poor in Serbia**

	% GDP		
	2001	2002	2003 (plan)
<b>Social protection total (1+2)</b>	3.2	4.1	4.0
<b>1. Social protection from Serbian budget</b>	2.3	2.9	3.1
<b>One off aid</b>	0.1	0.0	0.0
<b>Social protection for the poor</b>	0.3	0.3	0.5
<b>Child care</b>	1.4	1.4	1.4
<b>Protection for the disabled and war veterans</b>	0.2	0.2	0.2
<b>Pupils</b>	0.0	0.0	0.1
<b>Students</b>	0.1	0.1	0.2
<b>Refugees</b>	0.1	0.1	0.1
<b>Social protection of employees within the public sector</b>	0.0	0.0	0.0
<b>Benefit fund for protection from natural disasters</b>	0.0	0.0	
<b>Transition fund</b>	0.1	0.6	0.7
<b>2. Social protection at other government levels (1)</b>	0.9	1.2	0.9
<b>From that for the unemployed</b>	0.5	0.5	0.5

1) This includes social expenditures at the federal level, at the level of local communities and the unemployment fund.

Changes in sales tax and income taxes during 2001 have had a direct impact on living standards and poverty.

The introduction of a uniform sales tax rate at the beginning of 2001 caused a one time increase in prices of basic vital products that were previously taxable at lower rates, which temporarily worsened the living standard of poorer classes. At the time that the uniform sales tax rate was introduced the only exemptions were for the purchase of bread and public

<sup>70</sup> This assumes that the servicing of debts from the region of Kosovo and Metohija for the most part is carried out from GDP realised in the region of Kosovo and Metohija.

utilities. The initial list of products that are free of sales tax was later expanded so that at the beginning of 2003 this tax exemption list included basic food products, utilities, basic medicine, etc.

At the introduction of Value Added Tax (VAT) in the first half of 2004, a decision will be made on the number of VAT rates (one or several rates, a uniform rate with exemptions for a certain number of products etc).

Decreases in taxes and contributions on salaries by ten percentage points had directly allowed an increase in average salaries by approximately 10% along with unchanged expenditures on work units. The growth of average salaries due to the decrease in fiscal burdens on salaries on average had more than compensated for the increase of expenditures because of the transfer to a uniform sales tax rate.

The beginning of state debt servicing toward the population (old foreign currency savings, large debt to pensioners) contributes to the alleviation of poverty. The relevance of government debt servicing toward the population is noticeable through the fact that in 2003 the total payments for this purpose will be approximately 1.7% of GDP. The social implications of public debt servicing are especially important due to the fact that a significant part of these debts are paid off to the poorer and older part of the population.

In the period 2004-2005 the third tax reform phase should be carried out, with the purpose of harmonizing the tax system of Serbia with tax systems of EU member countries.

### **2.3 Medium-Term Expenditure Framework**

The Government's medium-term fiscal policy is to maintain fiscal stability through further fiscal tightening, ensuring better use of existing resources, increasing revenue mobilisation, and providing tax incentives and other reform measures designed to stimulate business activity.

The medium-term fiscal parameters are intended to be based on the Ministry of Finance's medium-term budgetary framework, set out in the Budget Memorandum which was approved in June 2003. These included, for the first time, sectoral expenditure ceilings for the 2004-2006 period, consistent with a realistic overall resource framework, within which sector ministries are expected to contain their budget requests.

The main objectives for the setting of the basic MTEF fiscal parameters for the medium term include:

- Lower recurrent spending to make more room for greater investment provision.
- Ensure no arrears and settle any existing arrears.
- Tax relief (expanding the list of vital products and services exempted from the sales tax).

- Tax relief to stimulate investment.
- Decrease subventions.
- Faster real increases in wages for priority sectors.

It is necessary for the level of public expenditure within the medium-term period to be defined in a way that supports<sup>71</sup> the implementation of the most significant macroeconomic goals - fast growth and economic stability. This implies lower tax rates to encourage domestic and foreign investors. Low taxes and a sustainable deficit imply a level of consolidated fiscal expenditures that could in the medium term, at best, reach the level of the regional average. More precisely, the medium-term framework should provide for the realisation of long-term sustainable fiscal policy and state solvency. State solvency is usually expressed through the condition that the discount value of future primary surpluses be larger or equal to current values of the public debt. Fulfilling this condition practically means that gradual decreases in the primary deficit and its transfer into the zone of positive values (primary surplus) must necessarily be planned within the framework of medium-term projections<sup>72</sup>.

The decrease in the share of the public debt to less than 60% of GDP represents an indication that long-term fiscal sustainability is secured. With the assumption that the existing debt toward the London Club and government creditors is written off to a significant extent and that the question of debt for the region of Kosovo and Metohija be solved in an appropriate manner, the public debt in the second part of this decade would fall below 60% of GDP. The realization of revenue from privatisation of 2-3% of GDP, would allow for the larger part of the fiscal deficit to be covered by non-credit resources in the next couple of years, primarily from privatisation revenue. Considering that foreign and domestic debts will be rapidly paid off within that time period, this would allow for the decrease in the absolute level of public debt.

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<sup>71</sup> It is mandatory that the projections of the scope and structure of public spending displayed in this document be treated as unofficial and preliminary. The Republic Ministry of Finance and Economy, in collaboration with other ministries, is developing a medium-term plan of optimisation of public spending in Serbia. It is expected that a draft version will be proposed by the end of April, and that the final version will be developed by the middle of 2003. Only after the adoption of the medium-term plan will it be possible to treat a specific level and structure of public spending as a goal from the aspect of state policy.

<sup>72</sup> According to the standard definition, primary deficit is equal to total deficit reduced by interest rate expenditures. When used as a measurement of long-term sustainability it is necessary to reduce the primary deficit by non-credit sources used for government financing - income from privatisation and donations.

The medium term fiscal framework includes the expected and planned changes in the structure of public spending. Changes in the structure of public spending are partly exogenously given. For example, adopting a Law on Domestic Public Debt Servicing (old foreign currency savings, Jugoskandik, Dafiment) as well as signing the agreement on reprogramming with foreign creditors as a whole defines the expenditures on the basis of current public debt servicing. Other changes reflect the priority changes (decrease in military share and increase in the share of education and capital investment in GDP), increase in productivity in the public non-profit sector (decrease in the share of labour costs in GDP), coordination of rights with economic possibilities and population (pensions), and progress in privatisation and economic restructuring (subsidy and restructuring expenditures). In some cases the contribution of specific sectors in GDP will remain fairly steady but within the future period there will be intensive changes within the sector itself. This is, for example, the case with health care whose total expenditures, financed by the state will increase by the same rate as GDP, but there will be significant changes within the sector that will result in better quality service and higher productivity (rationalization of institutional network, reducing number of employees, better equipment).

Basic changes within the structure of public expenditures considered from the point of view of economic classification are relative decreases in the share of salaries, pensions, subsidies, restructuring expenditures and social protection, and the increase in the share of capital investments and the expenditures related to public debt servicing.

**Table 6. Consolidated public expenditures - economic classification** % GDP

	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total</b>	45.9	45.6	45.2	44.8	44.3	43.9	43.5	43.1
<b>1. Salaries</b>	10.3	10.0	9.8	9.7	9.6	9.5	9.3	9.3
<b>2. Purchase of goods and services</b>	7.0	7.0	7.1	7.1	7.1	7.1	7.1	7.1
<b>3. Pensions</b>	11.7	11.8	11.5	11.2	10.9	10.6	10.4	10.1
<b>4. Social protection</b>	4.0	3.8	3.7	3.6	3.5	3.4	3.1	3.1
<b>5. Subsidies and restructuring</b>	6.2	5.0	4.5	4.0	3.5	3.0	2.8	2.8
<b>6. Capital expenditures</b>	2.1	2.5	3.0	3.2	3.3	3.6	3.8	4.0
<b>7. Public debt servicing</b>	2.5	3.5	3.6	4.0	4.4	4.7	4.9	4.5
<b>7.1. Interest payments</b>	1.3	1.6	1.6	1.9	2.0	1.9	1.9	1.8
<b>7.2. Paying off debt</b>	1.2	1.9	2.0	2.1	2.4	2.7	3.0	2.7
<b>8. Other expenditures</b>	2.1	2.0	2.0	2.0	2.0	2.1	2.1	2.2

With reference to the points outlined above it seems that the implementation of sustainable fiscal policy (low tax rates, low fiscal deficit, decrease of the ratio between GDP and public debt, larger expenditures for education, etc.) requires a gradual reduction of public expenditure intended for the social protection of the poor.

The reduction of social protection expenditure share in GDP in 2006 compared to 2003 would amount to 0.4 percentage points. Considering the estimated growth of GDP by 4-5% in the period 2003-2006, the above-mentioned reduction of expenditure for social protection

implies its real growth at the rate of 1.4% annually. Given that the most important rights within social protection are index-linked to the cost of living, the expenditure for social protection per beneficiary would remain unchanged in real terms. The increasing of the expenditure amount along with a constant level of expenditure per beneficiary (other conditions remaining unchanged) enable the growth in the number of beneficiaries (vulnerable groups identified in the Poverty Reduction Strategy), that is, the introduction of new types of social protection. The expected gradual reduction of transitional forms of social protection (transition fund, severance payments) makes additional room for new beneficiaries, that is, new types of social welfare. Regarding economic purposes of expenditures for Poverty Reduction Strategy implementation, the dynamics of pension expenditures are relevant. The plan is to cut the share of pension expenditures in GDP by 0.5 percentage points by 2006. The basic assumption that this plan is based on is that the average pensions will grow in real terms by 2.5% annually, while GDP will grow by 5%. To achieve this it is necessary to provide the appropriate pension indexation rule.

Changes in the structure of public spending according to functional classification include the decrease in the share of expenditures for defence, social expenditures and the growth of the share of expenditures for economic issues, education, health care and public services.

Concerning the implementation of the Poverty Reduction Strategy, changes in health care and education expenditure are relevant. According to the plan, by 2006 the share of health care expenditure in GDP will increase by 0.2 percentage points, while education expenditure will increase by 0.4 percentage points. Taking into account the projected growth of GDP of 5% annually, health care expenditure growth in real terms would amount to an average of 6.3% annually, while growth in education expenditure would amount to 8.6%. However, in terms of optimization of public expenditure and the reform of these sectors, the change of expenditure structure within them is decisive. The expenditure structure change means in the first place that average salaries grow in real terms as fast as GDP (that is 4-5% annually), and, on the other side, that total labour costs grow more slowly than GDP because of the necessary reduction in the workforce.<sup>73</sup> In addition to the control of the real increase in salaries, it is necessary to make significant rationalizations of the network of health care and educational institutions. Fast real growth of the level of public expenditure for education and the school system, along with strict control of labour costs and rationalization of the network of health care and educational institutions would enable significant growth in expenditure intended for implementation of reforms and improvement of equipment in institutions in health care and education. All of the above-mentioned changes would result in improved quality of and better access to services in education and the school system.

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<sup>73</sup> Employees in health care and education make up over 60% of the total number of employees in the public non-profit sector. Therefore, a significant reduction of employees in the public non-profit sector is not possible without a reduction of employees in these activities. According to the research carried out by the World Bank on the sample of single hospitals and schools, there is a significant surplus of labour, especially unskilled labour.

**Table 7. Consolidated public expenditures -functional classification** % GDP

	2003	2004	2005	2006	2007	2008	2009	2010
<b>I Total expenditures (1. +...+10.)</b>	45.9	45.6	45.2	44.8	44.3	43.9	43.5	43.1
<b>1. General public services</b>	4.2	4.5	5.0	5.4	5.7	5.8	5.9	5.9
<b>2. Defence</b>	3.8	3.3	2.9	2.5	2.3	2.2	2.2	2.2
<b>3. Public order and safety</b>	2.8	2.7	2.5	2.3	2.2	2.2	2.1	2.1
<b>4. Economic affairs</b>	3.5	3.4	3.2	3.0	2.9	2.8	2.7	2.6
<b>5. Environment protection</b>	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>6. Housing construction and utilities</b>	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
<b>7. Health care</b>	5.3	5.3	5.4	5.5	5.5	5.6	5.6	5.6
<b>8. Recreation, culture and religion</b>	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
<b>9. Education</b>	3.6	3.8	3.8	4.0	4.2	4.3	4.5	4.5
<b>10. Social protection and pensions</b>	18.0	17.8	17.6	17.3	16.7	16.2	15.7	15.4

**Table 8. Revenues, expenditures and deficit**

% GDP

	2003	2004	2005	2006	2007	2008	2009	2010
<b>Consolidated revenues</b>	42.4	42.0	41.8	41.7	41.7	41.6	41.4	41.2
<b>Consolidated expenditures</b>	46.1	45.6	45.2	44.8	44.3	43.9	43.5	43.1
<b>Total deficit</b>	-3.7	-3.6	-3.4	-3.1	-2.6	-2.3	-2.1	-1.9
<b>Primary deficit</b>	-1.9	-1.4	-1.3	-1.0	-0.6	-0.3	-0.3	-0.1

The implementation of the outlined scope and structure of public spending involves a number of risks and uncertainties. The uncertainties are related to the non-existence of the officially adopted reform programmes for some of the main spenders of budget resources: health, education, defence, and internal security. There is also a significant portion of existing foreign debts (London club, debts toward Russia, China, Kuwait, Libya, etc.), that is not regulated and as a result the conditions of their servicing are still not known.

The basic risks in the implementation of a sustainable level of public spending are related to the following:

- Slower average GDP growth rate than projected,
- Significant one-off devaluation of the currency exchange rate,
- Significantly smaller influx of foreign investments than projected and lower income from the privatisation process,
- Expansion of potential government obligations based on the loans for reconstruction and restoration of the infrastructure,

- Impositions for war damages.

Some of these risks are interconnected so that with their appearance together a large number of negative scenarios could develop. For example, the low level of foreign investments combined with small amount of revenue from privatisation could generate economic stagnation with preserved stability or alternating periods of growth and recession.

#### **2.4. Fiscal reforms**

Sustained fiscal stability will be made possible only by the continuation of the process of fiscal reforms. The Government initiated the process of fiscal reform in order to improve the use of scarce public resources and ensure that Serbia's public finance system is suited to a modern and efficient public service within a market economy. Measures undertaken have included:

- Adoption of a modern Law on the Budget System based on international best practice, covering: (i) budget comprehensiveness; (ii) the introduction of a strategic budget phase in the overall process (prior to the start of the annual budget process); (iii) requirement for budgetary parameters to be medium-term in nature; (iv) strengthening of the functional/programme-related classification to facilitate the link between policies and budgets;
- Specification of a longer budget calendar which allows more time for analysis and scrutiny by Parliament;
- Adoption of Law on Public Procurement and formation of Public Procurement Agency;
- Implementation of wide-ranging tax reforms, including rationalisation of tax structure and improvements in tax administration;
- Improved budget format, based on an international standard classification structure;
- Reform of the payments system, including introduction of Treasury system;
- Better budget reporting required to Parliament and introduction of external audit of the budget;
- Stricter Parliamentary review of the financial plans for the extra-budgetary social Funds.

Thus, the budget system is introducing more rigorous professional and political verification of demands made by the budget users, as well as better correlation between the plans for spending and accepted social and macroeconomic goals. In the phase of budget implementation and plans for social insurance funds, the application of regulations decreases the possibility of abuse and waste of resources. The application of the law on public

procurement introduces competition into the buying of goods and services, which, with the given expenditures, secures better supply and quality of services. The application of this law is especially important from the point of view of social protection because it secures better quality services in health and education within the given level of expenditures.

The Government is committed to undertaking further fiscal reforms in order to ensure sustained fiscal and macro stability and to facilitate implementation of the PRSP.

- Further payment reforms, including expansion of Treasury operations;
- Strengthen tax administration, including establishing regional Large Tax Payers office and preparing for the introduction of VAT, improved tax audits and introduction of self-assessment;
- Continuation of tax reform measures including: (i) abolishing a large number of taxes that are unfavourable in terms of allocation, lack transparency, and impose high administrative requirements whilst at the same time failing to generate significant fiscal yields, e.g. financial operations tax; (ii) simplifying direct taxes, such as the income tax; (iii) increasing receipt of periodic property taxes and abolishing taxes on securities; and (iv) abolishing significant numbers of compensations and replacing them by appropriate taxes.
- Improve budget formulation, including: (i) introducing/strengthening a Medium-Term Expenditure Framework (MTEF) based on a comprehensive resource framework and three-year sectoral ceilings; and (ii) undertaking resource allocation reviews
- Other public expenditure reforms, including: adopting a new Pension Law to introduce more appropriate indexation of benefits and increasing the retirement age

As is discussed below, the budget should be the main mechanism through which the priorities of the PRSP are translated into funded activities. This will require development of the explicit link between budgets and policies/activities at the sector level. In particular, sector ministries will need to restructure their budgets by: (i) undertaking a strategic policy review/analysis for each sector and sub-sector, setting out the key policy objectives and priority policies for the sector/sub-sector; (ii) carrying out a detailed review of key expenditure programmes within sectors/sub-sectors, including a comprehensive analysis of the activities currently supported by budgetary resources; (iii) identifying measures to improve efficiency of resource use; and (iv) strengthening capacities for budget analysis and planning.

### **3. Transition to a market economy**

#### **3.1. Establishing conditions for private sector development**

##### **3.1.1. Reform and Economic Growth**

Theoretical and empirical research has shown that there is a significant link between reform and economic growth. The nature of the link between these two phenomena is such, that radical and all-inclusive reform aimed at the creation of an integral market (creating a real market economy) is a precondition for rapid economic growth. The key to this is that all-inclusive reform creates a business environment which is attractive for private capital investment, especially for foreign direct investment.

There are two important types of reforms:

- The first includes economic policy reforms which will facilitate the development of the market economy, encourage efficiency in resource allocation and attract new private investment, both domestic and foreign.
- The second is institutional reform, which should create new and stable rules of the game and lead to their consistent and unbiased enforcement.

In short, this institutional reform should lead to the creation of market and democratic institutions and should also establish the rule of law. All this leads to the reduction of transaction costs, especially in capital transactions. If this takes place in Serbia, more new private direct investments (especially foreign) may be expected.

The link between reform and economic growth, and thus the link between reform and poverty is of key importance for overcoming poverty. That is why it is important to answer the question of the sources of political incentives for the initiation, formulation and implementation of reforms. The political economy of reform considers different configurations of political forces (for and against reforms) as well as their political and reform outcomes.

The existence of different political forces is natural and expected. Reform measures are not neutral, there are both winners and losers, and individual welfare is also influenced. Along with the changes of phases within reform, the roles of winners and losers also change – those who profited from the first phase of the reform may become losers in the second phase. There are at least two types of losers. The first type are influential losers and the second are the ones who are not (usually the poor). From this point of view, one should be aware of the fact that powerful resources are available to the influential losers, which can be used to stop the reform at a level far from a fully-fledged market economy.

The experience of East European transition has shown that the biggest winners and advocates of reform are private entrepreneurs and the middle class and that maintaining the course of reform depends on the ability to create coalitions of interest within these two

groups. However, this would not have been possible if social consensus and a new form of social solidarity had not been established – different from the statist and protectionist solidarity that existed under socialism. An important element of this new awareness, i.e. cohesion, was the resistance of East European countries to Soviet domination, which had not existed in FRY.

From the perspective of the political economy of the reform, compared to the situation in most East European countries, there are particular circumstances in Serbia. The problem is that some of the reforms were conducted during the 1990s, before democracy was established. Influenced by the impending collapse of the old (socialist) regime, they lacked a clear concept and a wish to create a fully-developed market economy. The real reform started with the democratic changes in October 2000. The most significant reform policies were based on the well processed experiences of East European countries in transition. The first phase of this reform, based on the reform of economic policies, has been carried out over the last two years.

The reform started by forming a large reform coalition, which in time began to crumble. However, regardless of all the pragmatism needed for the implementation of reforms within the limited resource framework, stable democracy is necessary for building mechanisms and institutions that will additionally advance and maintain the basic social consensus.

The recent events (since 12 March 2003) constitute a new political turning point for the reform in Serbia. The assassination of the Prime Minister and the government reaction that followed created new political incentives, removing the limitations on conducting a complete institutional reform and enabling the reform of the justice system, the introduction of the rule of law and a resolute fight against organised crime.

### **3.1.2. Privatisation and restructuring of the real sector**

#### *Privatisation of the Real Sector*

The privatisation of the real sector in Serbia is being conducted by applying a model based on sales conducive to good corporate governance, with increased efficiency, attracting new investment. The model itself is relatively complex and requires a long period of preparation, not only for conducting the whole process but for every single transaction as well. Besides this model, privatisation of the real sector should include the completion of the privatisation of enterprises partially carried out under previous privatisation models.

Full privatisation, effected by creating concentrated private ownership, leads to the increase of enterprise efficiency, but very often at the cost of a lot of people losing their jobs. This consequence of privatisation has made government make quite strict demands on the “social programme” when applying the model for tenders, namely that investors provide for the surplus manpower. It is clear that such a demanding policy has shown negative results in attracting foreign investors, though it represented a good transitional model in terms of

reaching a social consensus, so important for Serbia. Therefore the new policy (starting with the recent change of the Law on Privatisation), will not be so demanding.

Concerning the acceleration of the privatisation process in Serbia, with the fixed institutional costs being already borne (creation of legislation and constitution of institutions), an acceleration of the process may be expected, especially the acceleration in auctions. Over the next two years privatisation of the state-owned enterprises can be expected.

### *Restructuring of the Real Sector*

According to the current privatisation programme, a number of large enterprises in Serbia (especially socially-owned holding companies), which have a long track record of financial losses, should be restructured prior to privatisation. It is estimated that restructuring is a precondition for successful privatisation through sales.

This type of restructuring means the fragmentation of such enterprises, in order to form a number of smaller enterprises. The basic idea is to create smaller enterprises with some business opportunities, which can be privatised, while the rest would be liquidated. Studies on the restructuring of large enterprises are being carried out, and it can be expected that, following the recommendations of these studies, pre-privatisation restructuring will be conducted in 2004. Since the restructuring is often linked to considerable political problems (risks) and manipulations, good programmes and persistent collective negotiations are needed to carry out this process successfully.

Short-term considerations show that restructuring will slow down the increase in production and cause decreases in employment. A large part of the unemployment which will be created is just hidden unemployment as shown by research on the informal economy and a number of employees of those enterprises are actually employed within the informal sector. The important thing is that, by the restructuring process, a healthy economic core is preserved and the reform dynamic accelerated. The long-term considerations show that liquidation of some of the existing enterprises, which are being restructured, will release resources (real capital in the first place) that can be used for new enterprises, especially small and medium, which will favourably influence economic growth and employment. In this way, the sections of the restructured enterprises with business opportunities will be able to make faster progress.

The new law on bankruptcy (to be adopted in the end of 2003) will significantly further the restructuring process by enabling the liquidation of enterprises which cannot be privatised due to the lack of business opportunities and accumulated debts.

### **3.1.3. Infrastructure and private sector growth**

Infrastructure is a precondition for economic growth. Inadequate supply of infrastructure services discourages investment, thus lowering economic growth rates and, in turn, fostering poverty. The phenomenon can be observed both at the national level (national infrastructure

systems such as telecommunications, the electrical power industry and highways) and at the local level, whether it is local branches of national infrastructure systems (such as local telecommunications networks) or public utility systems (such as water supply or heating).

Apart from an overall increase in the supply of infrastructure services, the problem can also be addressed by making the process itself more flexible, that is, by allowing for investor participation in the construction of the infrastructure network in keeping with his own needs. In addition, urban planning control of the realization of the investment needs to be more flexible in order to encourage investment.

The reform of infrastructure services, investment in them and the increase in their supply has, as has already been argued, a favourable direct and indirect impact on poverty alleviation. Moreover, construction work stemming from investment in infrastructure services increases the demand for unskilled (unemployed) labour, and the proportion of the poor in this group is above average.

The reform of infrastructure services in Serbia has just begun, so investment work so far has been mainly carried out on the renovation of existing infrastructure, financed from public resources. The reform requires a completely new legislature, new regulatory regime and specialized institutions to carry it out. So far these issues have not been given priority in the reform process in Serbia.

Reform in the area of infrastructure services allows for private investment, thereby raising their supply. Taking into account the low amount and poor quality of infrastructure services in Serbia together with the neglect they sustained during the 1990s, investment of private capital (probably mostly foreign) is the necessary precondition for their further development.

Pricing policy in the field of infrastructure services (electrical power and gas supply, water supply) is an important issue for the poor. In the case of electrical power, which is a key problem for them, it is suggested that all the prices should be increased through the reform of the tariff system to reflect the real (market) costs, while the poorest households should be granted subsidies, provided that they rationalize their consumption. At the same time, financial support for switching over to cheaper means of heating is envisaged<sup>74</sup>.

### **3.1.4. Reform and Development of the Financial and Capital Market**

#### *Financial Sector*

Contemporary empirical research has shown that the development of the modern financial sector provides incentives for economic growth and enables a decrease in inequality in

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<sup>74</sup> See Annex for the Matrix of detailed objectives and activities for the reduction of energy poverty.

income distribution. This means that the development of the modern financial sector has a beneficial effect on poverty.

The inherited state of the banking sector in Serbia caused development to take place in two directions. One was bankruptcy and liquidation of the largest domestic insolvent banks. This was successfully accomplished and none of the predicted major problems occurred. The other was attracting foreign banks to establish new banks in our country. The entry of the foreign banks and the formation of completely new banks proceeded slowly. To some extent, this was because of the National Bank policy that insisted on the privatisation and possible take-over of the incumbent domestic banks.

Regardless of the results achieved, the supply of loans (under favourable conditions) for small and medium enterprises, i.e. small private entrepreneurs, is still modest. One of the causes is insufficiently developed mortgage legislation, which prevents the financial sector from obtaining solid security. This solid security would diminish investment risk, which would cause interest rates (risk dividend) to decrease. Adoption of the Law on Mortgage on Immovables entered into Registry, the Law on the Guarantee Fund, the Law on Financial Leasing, Law on Concession and their efficient application is very important for the further development of the financial sector and economic growth.

#### *Capital Market*

One of the basic preconditions for a fully operational market economy in Serbia is the creation of an efficient capital market. This means accelerated economic growth and a decrease in poverty. Creating an efficient institution of this kind enables efficient trade in stocks (securities), and efficient trade of property rights on capital. For the efficient allocation of capital as a factor of production, the protection of private property rights of a capital owner is crucial. This is also important for economic efficiency and dynamic economic growth. These two are the base for overcoming poverty.

It is also crucial that, as soon as possible, laws on investment funds and other laws regulating financial markets, as well as the new company law, should be enacted. These laws will enable better protection of capital owners (especially minority shareholders), and will improve corporate governance and capital investment.

### **3.1.5. Reform of the business environment**

#### *Establishing a conducive business environment*

With the aim of improving and stabilising the business environment, the Government of Serbia initiated an ambitious legal and administrative reform (see Annex – The Report on Legislative Activities of the Government of the Republic of Serbia). The main principle of the present reform is to bring Serbian legislation in line with European legislation, creating at the same time an environment conducive for economic growth within the private sector. The key elements of these reforms are securing and attracting foreign investment, increasing

local investment by removing legal and administrative obstacles to the establishment, registration and successful operation of businesses, including the simplification of the tax regime and inspection services. Full implementation of the Law on Public Procurement and adoption of the proposed set of anti-corruption and anti-trust laws are also important elements of this reform.

### *Foreign trade liberalization*

Theoretical works and voluminous empirical research have shown that liberalisation of foreign trade leads to real income increases and the acceleration of economic growth, and it has a neutral effect on income distribution. That makes foreign trade liberalisation an important element of the strategy for overcoming poverty.

Foreign trade liberalisation in Serbia has stopped somewhere in the middle. After the initial reforms in 2000 and 2001, which led to the cancellation of non-tariff import barriers, lowering of the tariff rate, and simplification of the foreign trade transaction procedure, everything has come to a halt, so the rate of duties is still quite high. One of the causes was political pressure by certain domestic producers, whose low efficiency made it impossible for them to face import competition successfully. Further liberalisation may be expected during the process of foreign trade harmonisation between Serbia and Montenegro, i.e. the implementation of the harmonized Action Plan in the next two years, as well as in the process of joining the World Trade Organization which has been initiated. The effective liberalisation has also been achieved through numerous bilateral agreements on free trade zones with neighbouring countries as well as with other trading partners (such as the European Union, Russia, etc).

Foreign trade liberalization, i.e. the removal of export and import barriers, represents the key precondition for the establishment and strengthening of regional economic cooperation. This process commenced with the signing of bilateral free trade agreements, and it would be further strengthened by the creation of a regional customs union (probably by accession to the EU), which would make this region increasingly attractive for foreign direct investment and thus increase the rate of economic growth in Serbia.

### *Product Market*

The most important reform of the Serbian product market is the introduction of new competition (antitrust) laws and the establishment of institutions to enforce these laws. This will enable the elimination of non-competitive market structures and behaviours (such as cartels), which will lower prices and increase the real income of all consumers, including the poor.

### *Labour Market*

Institutional reforms of the labour market in Serbia should enable more efficient interaction of supply and demand for this factor. The first among the planned reforms is the reform of the Labour Market Office and the establishment of a network of employment agencies,

which should improve information exchange. In the field of labour demand the timely circulation of information is very important, as well as the creation of incentives for employers to hire more people. In the field of labour supply, labour mobility and adjustment are crucial, that is, the unemployed should be encouraged to adjust to market needs.

The legal basis of this reform is a new Law on Employment (2003). After that comes the hard work of building institutions, especially creating the network of employment agencies. Strengthening the rule of law in the economic sector

The rule of law is an important precondition for the protection of private property rights and the supervision of the execution of contracts. Only in this way will conditions be created for private capital investment and the acceleration of economic growth.. It is crucial that the rights of investors and creditors should be protected and not the rights of debtors. The present sluggish, inefficient, and even biased judiciary gives privileges to debtors rather than to creditors.

### ***3.1.6. Reform of Public Finances and Poverty***

Reform of the public finance system affects poverty in two ways. Direct effects are: the increase in the efficiency of income redistribution efficiency, so transfers to the poor are also more efficient, which reduces poverty. Indirect effects are the successfully reformed system of public finances and the policy of relatively low tax rates, i.e. low burdening of economic subjects, which are a significant part of an environment suitable for private capital investment. This increases economic growth as a basic precondition for overcoming poverty.

During the last two years in Serbia, some important moves have been made in the area of public finance reform, which were directed towards increased efficiency of revenue collection, controlled money flows and efficient management of public expenditures. In the field of revenues, sales tax rates were unified. In the field of expenditures, control of subsidies to large enterprises was established, and quasi fiscal deficits were eliminated.

All-inclusive institutional reform is still to be conducted, together with capacity building of the tax administration and the implementation of the radical tax reform, based primarily on the introduction of value added tax, as the basic form of indirect tax, which should generate significant fiscal revenue and reduce the scope of the grey (informal) economy. The acceleration of this reform will create an environment conducive to private investment, so that increases in the economic growth rate can be expected. This will certainly have positive effects on poverty reduction.

*During 2003 the formulation of a radical tax reform that should introduce significant changes into public finances has been taking place in Serbia. The basic element of the reform is the introduction of the Value Added Tax that should substitute for the sales tax as of 1<sup>st</sup> January 2004. In addition, this tax reform is expected to abolish a great number of taxes that are unfavourable in terms of allocation, lack transparency, and impose high administrative requirements while at the same time failing to generate significant fiscal yields, as is the case with the financial operations tax. Direct taxes, such as income tax, will be simplified and become easily collectable. The new policies in the field of property tax will result in the increase of the receipt of periodic property taxes and the abolition of taxes on securities. Finally, a great number of compensations (typical fiscal mechanisms inherited from socialism) should be abolished and replaced by appropriate taxes. The aforesaid changes, together with other elements of tax reform in Serbia that have not been specifically mentioned here, will enable the creation of a modern tax system to stimulate economic growth and create conditions for poverty reduction in Serbia.*

## **3.2. Building Strong Public Institutions**

### **3.2.1. Public Administration**

#### **Present Status and challenges**

The previous regime left Serbia with a legacy of politicised and fragmented administration, ill-suited to performing the framework-setting role that public administrations are expected to play in modern democracies.

With Serbia's transition to a market economy, the role of the government sector has fundamentally changed from one of providing all economic and social services to that of:

- ensuring an appropriate legislative and regulatory framework for economic activity, particularly by the private sector;
- providing an enabling environment (e.g. through reducing unnecessary bureaucratic impediments) to facilitate the development of a vibrant private sector; and
- either contracting or being the direct service provider in areas in which the market fails to produce the right level of services at a socially acceptable price (e.g. public health services).

The new role of the public sector should be focused on the delivery of key services as well as ensuring that the necessary framework is in place for the market to function in a satisfactory manner. This implies a close partnership between all stakeholders in society including all levels of government, the private and civil sector including the media, labour unions, employer associations, NGOs, etc. Such a government needs to be results-oriented, transparent and accountable with respect to both the delivery of services and the effective use of public resources. This implies the need to set clear standards within each area of public activities and establish continuous monitoring of the implementation of activities and projects.

The main goal of activities in the public sector is to meet citizens' needs. This implies active participation by citizens in the process of design, implementation and monitoring of services. Therefore, there is a need to affirm the approach based on citizens' needs.

Successful functioning of the system as a whole requires partnership and collaboration at all government levels (central and local), as well as teamwork. These relations imply strong decentralization of competences and finances, strengthening the rule of law by the state, the market model of the economy, and market principles.

A number of challenges face the public sector "central and line ministries and local administrations" in adapting to the needs of the market economy. These include:

- Frequent changes at the top (ministry level) often lead to changes in the senior managerial ranks (e.g. assistant ministers / heads of sections and to a lesser extent department heads). It is difficult for senior management to propose and implement institutional reform if they (and their staff) do not know how long they will be in post.
- High turnover of staff, which results in ministries and agencies being unable to hold on to key skills, particularly in new skill areas. Highly skilled staff, particularly senior policy and managerial staff, tend to be tempted away by the private sector, aid agencies or technical assistance projects to work as consultants.
- There is a lack of appropriate technical skills to match the new roles required by market reforms. This shortage of skills is exacerbated by the high turnover of staff, where those with appropriate skills have tended to leave the public sector faster than other staff.
- Demoralisation of staff, caused by low salaries, lack of resources to carry out the task at hand; no delegation of clear responsibility; lack of professional development and career opportunities, and frequent changes of senior staff. This is exacerbated by the lack of a functioning and neutral staff recruitment and promotion process.
- Weak management in ministries and agencies, which tends to be dominated by a hierarchical and command-and-control approach and lack of transparency and coherence in decision-making processes. Poorly targeted staff training.
- Ministry structures ill-suited to the needs of the public sector in a market economy. Over-emphasis on technical work and relatively limited attention paid to the development of policy and strategy.
- Weak co-ordination of initiatives, projects and information flow within and across sectors, and between government agencies and ministries working within the same or related fields.

- Weak central government co-ordination mechanisms, and limited capacity within the General Secretariat to support the leadership functions of the Prime Ministers and the Government in their collective efforts as a united body. This makes it demanding to co-ordinate, oversee and to ensure accountability.
- Since it has been important to launch reforms quickly in many individual areas of the administration, adequate attention may not always have been given to how various measures would affect each other and their total effect. As a result, a large number of new bodies and agencies have been established in addition to the existing administrative structure, and it has not been restructured and adapted. Consequently, in some cases, this has resulted in more complex administrative structures.
- Ensure an efficient and rapid implementation of new and revised legislation and thereby ensure a sufficient and clear institutionalisation of the reforms.

### **Goals and strategic directions**

An efficient public administration reform is a key condition for the successful and rapid transition of Serbia to a modern society with a viable economy.

A well-organized and competent public administration is a key factor for a successful integration into the European Union. The SAp and the EIp are the single most vital catalyst for reform during the coming period due both to their importance and to the massive task of making all legislative and administrative procedures compatible with EU standards and the “*acquis communautaire*”.

In response to these challenges, the Government has begun a number of initiatives in recent years. In particular, a number of new laws have either been put in place or are being prepared in order to modernise the public administration, including, the Law on General Administrative Procedures, the Law on Administrative Disputes, the Law on Administrative Courts, the Law on Public Administration and the Law on Civil Servants. However, implementation of these laws is weak due to fragmentation of responsibilities and unclear leadership. As a result, a single strategy for the overall public administration reform in Serbia has not been adopted. Thus, there is a risk that some of aspects of the above-mentioned laws will have to be revised if they are to be adopted before a strategy.

At the same time, a number of specific reform projects are taking place within some ministries, including the introduction of human resource management systems, the development of project management skills, the establishment of a change agent, and limited capacity building in ministries. However, these initiatives are not well co-ordinated and are not supported by the strengthening of central co-ordination mechanisms.

It is necessary to ensure the provision of a dynamic, efficient and transparent public administration which is well suited to the appropriate role of Government in a market economy and which will support the development of an active private sector through the provision of a transparent and accountable legislative and regulatory framework.

The strategy on public administration reform is being prepared, and includes the following elements:

- Strengthening the central co-ordination mechanisms of the Government including the support function of the PM and the Government with the objective of facilitating the effective and efficient performance of the Government's collective duties.
- Improving the pay and grading system. This will involve changing the pay structure, rationalising and/or introducing the grading system and reducing the overall public sector wage bill.
- Improving human resource management. This will include introducing transparent and merit-based systems of recruitment and promotion, review and appraisal. It will also include modern management structures and the development of staff training programmes. Strengthening public sector institutions is an integral part of the EU's Stabilisation and Accession Process (SAP).
- Improving the efficiency and relevance of ministries and agencies through restructuring and improvements in human capital development. These will follow functional reviews of institutions to identify the main aims and activities of each remaining ministry/agency, set out the appropriate structure which best meets these functions and the most suitable level of staffing and skill requirements, and identify efficiency measures.
- Strengthening anti-corruption measures to improve the delivery of basic public services. This will involve regularising out-of-pocket payments for services through setting, monitoring and enforcing the list of such fees and charges. It will also involve gradual increases in the salary levels of key public sector workers, within the context of the overall reform of the public sector salary structure.
- Improving communications within and across ministries and agencies through appropriate use of information technology.
- Strengthening public procurement. Following the adoption of the Law on Public Procurement, there is the need to adopt supporting procurement systems and procedures.
- Identifying a public administration reform champion. The establishment of a State Administration Reform Council within Government to act as a political/strategic decision-making is in progress.

- Establishing the function of an ombudsperson to act on behalf of the public in relation to state institutions and public services.

### **3.2.2. Corruption and Poverty**

The direct influence of corruption on poverty lies in the fact that public services, which should be a public good, become a paid service. The purchasing power of the poor is small so they are especially sensitive to the existence of corruption. They cannot afford expensive public services that should be free. In other words, corruption discriminates against the poor and has direct negative effects on poverty.

Corruption prevents the proper functioning of legally prescribed procedures for exercising rights, by enabling those who are well-off to exercise even rights they are not entitled to, while the poor, regardless of entitlement, are prevented from exercising their rights. Additionally, this weakens public trust in the impartiality and independence of government bodies, and blocks the operation of institutions.

The indirect effects of corruption on poverty are far more significant. In the first place,, corruption does not only involve redistribution in favour of the person carrying it out, it also incurs its own costs since a corrupt deal calls for real resources. This inevitably leads to economic inefficacy (lowering the effectiveness of resource allocation), since it incurs considerable transaction costs. These are, in turn, transferred to end users which leads to rises in prices and falls in the purchasing power of all consumers, especially the poor.

Theoretical and empirical research has shown that corruption decelerates economic growth by lowering its rate, and dynamic economic growth is the precondition for overcoming poverty. The basic cause of this effect is in the fact that a higher level of corruption discourages foreign investors, and has a significant influence on the total amount of investment and the growth rate; this is especially true for developing countries and states in transition. Discouraging investment reduces the economic growth rate with considerable unfavourable effects on poverty.

Finally, a special kind of corruption is political corruption which leads to state capture. In such cases individuals misuse executive and legislative powers in a corrupt manner in order to influence policies and laws in keeping with their own private interests rather than the interests of society as a whole. Policies and laws adopted in this way actually hamper economic development and drastically increase poverty.

Although comparisons of the intensity and the extent of corruption across different states are methodologically questionable, it is certain that Serbia has inherited a high level of corruption from the period preceding the political change in October 2000. Among the main causes of corruption in Serbia can be listed strong and far-reaching state intervention as well as inadequate state administration, that is, under-qualified and underpaid state officials having broad discretionary powers in the application of regulations.

At the very beginning of its term of office (January 2001) the first democratic Serbian Government announced the fight against corruption to be one of its priorities, though over time the declared and the actual course of politics moved in different directions. This especially holds true for the operation of the Anticorruption Council as the principal body in the suppression of corruption as well as for the preparation of anticorruption laws. However, the state of emergency declared after the president's assassination and energetic measures undertaken by the Government broke the main levers of organized crime and intensified the fight against corruption.

The non-governmental sector plays an important role in the suppression of corruption. As an example of this we can quote an action plan offered to the authorities by a non-governmental organization.

## Action Plan

A successful anti-corruption struggle demands a comprehensive approach, consistent and sustained effort and energetic execution resting on predetermined responsibilities and regulations. The main elements of the anti-corruption programme are:

1. Commitment: the main precondition of the anti-corruption effort is the commitment of the political elite in the state and all its bodies together with the firm resolve to undertake the necessary steps, resting on a full understanding of the negative influence that corruption has on the effective and just operation of the state administration and thus on economic, political and social life;
2. Accountability of the Serbian Assembly: The Serbian Assembly, as the representative of the will and sovereignty of the people, should be a bulwark against corruption and a guarantee of good rule; it has two main functions: as a legislative body and as a supervisory body for the work of executive authority;
3. Accountability of the Government: The Government of the Republic of Serbia is responsible for the operative work on suppression of corruption: it is obliged to give precedence to the fight against corruption, to carry it out continuously both through state institutions and through proposals for institutional reform;
4. Break with the past: the Government of Serbia should enquire into all major, known and unknown corrupt affairs from the previous period, so that perpetrators can be punished and made an example of, to all potential perpetrators;
5. Transparency: the operation of all state bodies and officials should be made transparent and public through the presence of the media at sessions, publication of reports made by state and other bodies, and similar actions;
6. Accountability: make everyone within the state administration accountable, from the government and other state bodies, through political parties and their leaders to each state official;
7. Reducing discretionary powers: carry out maximal deregulation of regulations wherever possible in order to reduce the discretionary powers of the state administration and limit the scope for possible corruption.
8. Laws: adopt anti-corruption laws and amend the penal code in order to define precise sanctions for corrupt behaviour and attempted corruption;
9. Public procurement: adopt the law on public procurement based on competitive methods (tenders, auctions etc), applying to all institutions financed from budget and state funds as well as for state enterprises;
10. Independent central control body: establish Main Control, an independent body exclusively linked to the Serbian Assembly which would supervise and inspect financial transactions from all budgets and all public enterprises as well as other similar tasks; investigation and sanctioning would be independent from the Government and subject to public scrutiny;
11. Anti-corruption Agency: establish a special anti-corruption body within the Serbian Assembly to coordinate anti-corruption efforts;
12. Other anti-corruption bodies: establish separate anti-corruption bodies within certain branches of the state administration such as the police force, the customs, taxation office, health service and others;
13. Administrative reform: reform the state administration in accordance with new laws on state administration and on administrative procedure;
14. Change in personnel: replace a certain proportion of state officials, especially in sensitive services (the customs, the police, judiciary, administration);
15. Judiciary reform: reform the judicial system so as to extend its independence from executive authority and political parties and their leaders;
16. Police force reform: strengthen internal control, special training, code of ethics;
17. International law: join the OECD Convention for the Suppression of Bribery from 1997;
18. International cooperation: secure the cooperation of all state and other institutions and organizations of civil society with partners from abroad in a struggle against corruption;

19. Education: long-term and short-term training activities for specialized services, state officials and the public on the causes, consequences and methods of fighting corruption; introducing certain relevant matters into school programmes;
  20. Ethical standards: develop ethical standards of proper conduct and include them in regulations;
  21. Free media: free media play an important role in exerting anti-corruption pressure on state officials and fostering awareness of the manifestations, depth and consequences of corruption; media campaigns can be organized, as well as various panels, documentaries about corruption in society, reports by relevant bodies on their activities, findings of research and similar.
  22. Advertising and field campaigns: for the promotion of the fight against corruption (posters in relevant institutions, badges with appropriate messages, fliers and other promotion material “a week of fighting against corruption” and similar.
  23. Research: promotion of continuous research and professional work on the issues posed by corruption, symposiums, seminars, publishing; the special role of empirical research on determining progress in the struggle against corruption through occasional opinion polls.
- Source: CLDS: Corruption in Serbia, 2001

### **3.2.3. Judicial System and Justice**

The state of emergency, established upon the assassination of the Prime Minister Zoran Đinđić, provided certain political incentives and removed some obstacles to the reform process. However, it is important for reform not to relate only to the criminal judiciary, i.e. the fight against organized crime, which has naturally been given priority, but also to the civil procedure, i.e. those parts that are crucial for regular and unhindered performance of business activities.

The importance of the state being based on the rule of law entails the creation of a system of norms that would enable the establishment of modern state institutions, implementation of decentralization, protection of basic human rights and liberties, building of democratic relations and strengthening of the independence of judicial authority whose reform should be oriented towards higher professionalism, depoliticisation, strengthening of ethical codes and modernization.

Accessibility to justice is one of the key dimensions of social welfare and poverty reduction, and it has a strong impact on citizens' satisfaction and their identification with the legal, political and social system. This area represents a big reservoir to draw on for the humanization of society and its democratisation, but is also an area of strong conflicts of interests and power. Many obstacles and much resistance can therefore be expected regarding reforms in this area.

The authoritarian regime which ruled by abusing rights has left as its legacy long-lasting disorder and the absence of the rule of law, it disrupted the principle of the hierarchy and subordination of legal acts, and promoted a proliferation of legal regulations and imprecise and conflicting legal norms and loopholes in the law, which created a wide area for arbitrary decision-making, for great discretion in evaluations and thus also for abuse.

Many holders of judicial functions and activities agreed to political intervention and influence, departing from the rules of the profession, and thus reducing the law to the position of servant to daily politics and the political interests of the authorities.

Such a state of affairs has provoked a deep crisis in the law and the principles of justice. Long-standing negative experiences of citizens related to corruption in this sphere, to different abuses of the law and numerous injustices, resulted in a loss of confidence that values of freedom, equality and justice are attainable. Such a state of injustice has led to the decline of citizens' legal awareness. Citizens today have a poor knowledge of legal principles and procedures, they hardly know their rights and the methods and mechanisms they can use for exercising these rights.

**The strategy of judicial system reform** as a universal guarantor of constitutional values implies the adoption of the Constitution and positive laws in harmony with international standards by means of which the legal system is established and basic rights and liberties of citizens are protected, which indirectly means strengthening the principle of the rule of law. The reform includes separation of the judicial branch of authority from the legislative and executive branch, as well as strengthening the independence of judicial authority, raising the quality and effectiveness of the work of courts and other judicial bodies and the emancipation of the judicial professions. This would enable the exercise of rights guaranteed by international instruments that are linked to judicial procedure.

An important part of this reform is the protection of citizens by the Constitution and laws, modernization of the courts and simplification of the procedure, depoliticising of the work of the courts, professionalisation, and strengthening of the system of continuous professional training. Intensive training of judiciary representatives on the application of international norms would lead to the efficient implementation of these norms and improve public awareness of the significance of human rights.

Citizens become the focus of the judicial system and reform has to bring them improved access to courts, a rise in the quality and effectiveness of court proceedings, greater accessibility to justice, and sufficient scope for the evaluation of the performance of judicial bodies..

### **3.2.3.1. Range of judicial reforms**

In early 2002 a set of five laws relating to the judiciary came into force, designed with the active participation of experts and with respect for professional knowledge, principles and standards, as well as European standards. These Laws are the following: the Law on the Court System, the Law on the Judiciary, the Law on the Judiciary High Council, the Law on Public Prosecution, and the Law on Headquarters and Areas of Courts and Public Prosecutors. These Laws have regulated all-important issues in a new way, providing the basis for demarcation between judicial and other spheres of authority, and thereby reinforcing the independence of the judiciary.

The Law on Courts determines the network of courts, their competences, organization, and modernization. Together with the Law on Ministries, this Law draws a line between judicial authority and executive and legislative authority. The Law on Courts increases the competence of first level courts in order to reduce the excessive work load of second level courts; it introduces the Court of Appeals and Administrative Tribunal, which represents a specific rationalization and modernization of the system.

These Laws adequately regulate the status of magistrates' courts, which were abused for years as semi-court, semi-administrative bodies for restricting and threatening basic human liberties ( including draconian punishment and persecution of the independent media, with arbitrary assessments by the magistrate judge on what "the truth" was, etc.).

In July 2002 the Law on Changes and Amendments to the Law on Judges was adopted. The Constitutional Court of the Republic of Serbia brought in a decision on the annulment of certain provisions of the Law; in March 2003 a new Law on Changes and Amendments to the Law on Judges was adopted, introducing partial changes to some of the questionable provisions (in accordance with the decision of Constitutional Court), while some provisions remained the same. Since in the field of legislation dealing with the organization and functioning of the judiciary some issues are not regulated, there is room for arbitrariness in the interpretation of norms and the assigning of excessive discretionary rights to the executive authorities compared to the judicial authorities.

### **Status, election, dismissal and establishment of judges' accountability**

- The status of judges has been considerably strengthened and brought closer (although not made equal) to the status of parliamentarians or representatives of the executive authorities. The judges are guaranteed independence (real and material), job security (re-election is abolished and they are nominated for steady positions) . The new Laws have highlighted the principle of the political neutrality of judges and emphasized the ban on their party membership and involvement.
- The procedure for nominating presidents of courts and their deputies, judges, prosecutors and deputy prosecutors was set out, as well as the criteria and necessary qualities for their selection (expertise and worthiness), and it was put under the crucial influence of the legal profession. As in all developed states based on the rule of law, the right of candidacy was given to the High Judiciary Council as a body whose decisions guarantee the principles and criteria of expertise, since it consists of the most prominent judges, prosecutors, lawyers, experts and other representatives of the legal profession.
- The control of their work, disciplinary measures and dismissal of judges are specified by new Laws and put under the dominant influence of the legal profession, to prevent abuses of this extraordinarily important Law by everyday politics, which often happened previously (with imprecisely regulated conditions for dismissal, great discretion and arbitrariness in appraisal, dismissal without legal basis or explanation,

and application of shortened procedures for the dismissal of judges, etc.). The new Law introduced the Big Personal Council as an independent expert body consisting of 9 prominent judges from the Supreme Court; it is the main disciplinary body responsible for establishing the accountability of judges in respect of possible failings in performance and expertise, and to recommend adequate disciplinary measures.

- Partial restructuring has been carried out in a large number of courts; a great number of judges have been dismissed or resigned, as well as a number of prosecutors, with a public debate on procedures and methods of implementation and concerns about possible abuses.

### **Working Conditions of Juridical Bodies**

It is necessary to increase the independence of judicial authority in this sphere. The question arises regarding the conceptual place of the Prosecution and the Public Attorney's Office in the system, their attitude towards the Courts, the Executive authority and the Police, as well as their role in legal proceedings (increased efficiency, quality and independence in work). Many analyses pointed to the Prosecutor's Office as an operational bottleneck, which is exceptionally exposed to corruption.

The issue of greater material independence for the judiciary was also tackled making the judicial budget part of the state budget, with the active participation and greater influence of juridical bodies (High Judiciary Council) in determining its size in cooperation with the Ministry of Finance and the Government. Independent disposal of resources by juridical bodies will reduce the dependence of the judiciary on executive bodies that still have large competences in court financing, outlays, allotment of apartments, housing loans etc.

#### **3.2.3.2. Further steps**

- Adopting the new Constitution, and the forms of decentralization and regionalization, will require organizational and actual adjustment of judicial authority, but it will at the same time provide the best basis for full reform. Some of the most important issues are: the protection of basic human rights and independence of the judiciary, guaranteed also by the signed international agreements and declarations, as well as ensuring constitutionality and the rule of law with elaboration of the place of the constitutional judiciary in the system.

- Further strengthening of the independence of the judicial authority branch, raising the status of judges to that of parliamentarians and representatives of executive authority, introducing a judicial budget as a guarantor of greater material independence of the judicial authority, promoting a continuous process of education and training, as well as improving sensitivity about social issues and problems. In this context, the issue of the relationship between the Ministry of Justice and the judicial system (place, role and competences) should be dealt with consistently with standards appropriate for a state governed by the rule of law and with an independent judiciary.

- Improving the quality, professionalism and working efficiency, strengthening openness of work, improving material and technical working conditions of juridical bodies, creating anticorruption programmes. Introducing information technology (e-government) for increased transparency and higher accessibility to justice: automatic movement of documents, creation of functional databases accessible to citizens through websites for all areas (so far only the registry of companies has been organized as a functional database) etc.

- Reforms should encompass the entirety of process laws that would enable modernization and rationalization of work in this area (civil procedure, penal code, bankruptcy act, company act etc.) and simplify and accelerate these processes, along with strengthening the principle of parties' equality, banning discrimination in terms of the right to use one's native tongue in the court procedure, respecting the right to legal remedy etc. In these areas the interests of different groups often collide and therefore strong resistance is expected.

- The reform should introduce new professions, such as: notary public, magistrate, judiciary police, court crier, bankruptcy commissioner, and ombudsman. Their introduction requires the existence of schools for these professions, as well as permanent education and training.

- The codification of professional ethics is an exceptionally important part of this reform. It implies professionalisation, strengthening of ethical codes, and different attitudes towards citizens and parties as service users. Measuring the quality of work of juridical bodies, the satisfaction of citizens regarding "accessibility to justice", and continuous improvements to the quality and effectiveness of the work are important parts of this whole reform.

- Relations between the judiciary and citizens imply a restored public confidence in this branch of the authority. Cheap and easy access to the judiciary, the reduction and eradication of corruption, the control of the level of court fees (setting up the system of free-of-charge legal assistance) and exemption of socially vulnerable categories from payment of court fees (instituting rights for the poor) are some of the important principles of this reform. An important part of these processes is the continuous improvement in the public legal awareness along with disseminating knowledge about their rights and methods of exercising and protecting those rights.

#### **3.2.4. Decentralization of Local Self-Government**

The new Constitution of the Republic of Serbia is currently being prepared. It is expected that this process will result in the new distribution of competences between different levels of government (Republic of Serbia, potential regions, local government).

The Poverty Reduction Strategy project in Serbia cannot not be successfully implemented if the relationship of cooperation and partnership between the State and the local governments has not been established. The problems of poverty can be identified most easily in the local communities, while the poverty reduction programmes could be created in the best possible way on the basis of suggestions from citizens, local organizations and NGOs, including the most efficient way of implementing such projects. At the same time, it is very important for

central government to be responsible for the promotion and development of mechanisms and activities oriented towards the poor at the national level, including sharing experience with local self-governments.

Local government authorities can establish more direct relations with the citizens, they can more easily move them and motivate them for the creation of private and public arrangements and partnerships, they can create an environment attractive for capital investment and for initiating different development projects. These competences and functions of the local authorities are among their most important competences and give them the opportunity to be entrepreneurial.

#### **3.2.4.1. Current status**

There is a general impression that adequate attention is not being paid to issues of social policy and poverty reduction in society, and concretely in municipalities, and also that there is no consistent strategy in this area.

The key legal framework meant to govern the operation of local government bodies is the Law on Local Self-Government enacted in February 2002, and the municipal charters in compliance with the above Law have been passed. This Law has just initiated decentralization, while the forthcoming constitutional reform is to create the normative basis for a further decentralization and a functional reform of all the governmental levels. The process of modernization, and strengthening the status and functional capacities of local government imply a new distribution of competences, and a new type of partnership among the various levels of government, new forms of coordination and the establishment of new financial arrangements, together with the strengthening of local government financial autonomy (fiscal federalism). Regulations on municipalities and other types of territorial organization, public administration, property, local finances etc. are a precondition of reform in this area.

#### **Local Government Competences**

The set of local government competences comprises all the key dimensions necessary to ensure the conditions for a better life for citizens. The new Law on Local Self-Government has expanded the scope of the original competences of local government, and it has precisely defined both the original competences and those newly entrusted to it. The significant original competences of municipalities include the provision of utility services such as the supply of water and gas, sewage, sanitation, collection and disposal of garbage, the traffic infrastructure and the road network, in addition to the areas of elementary education and primary health care, cultural institutions and activities, social services, sports, recreation, ecology and environmental protection and finally, stimulating economic development.

In the area of social care, to which the reduction and prevention of poverty belong, the municipal competencies have been transferred from the State to the municipal level, and such jobs are carried out under the supervision of State bodies. Moreover, the original

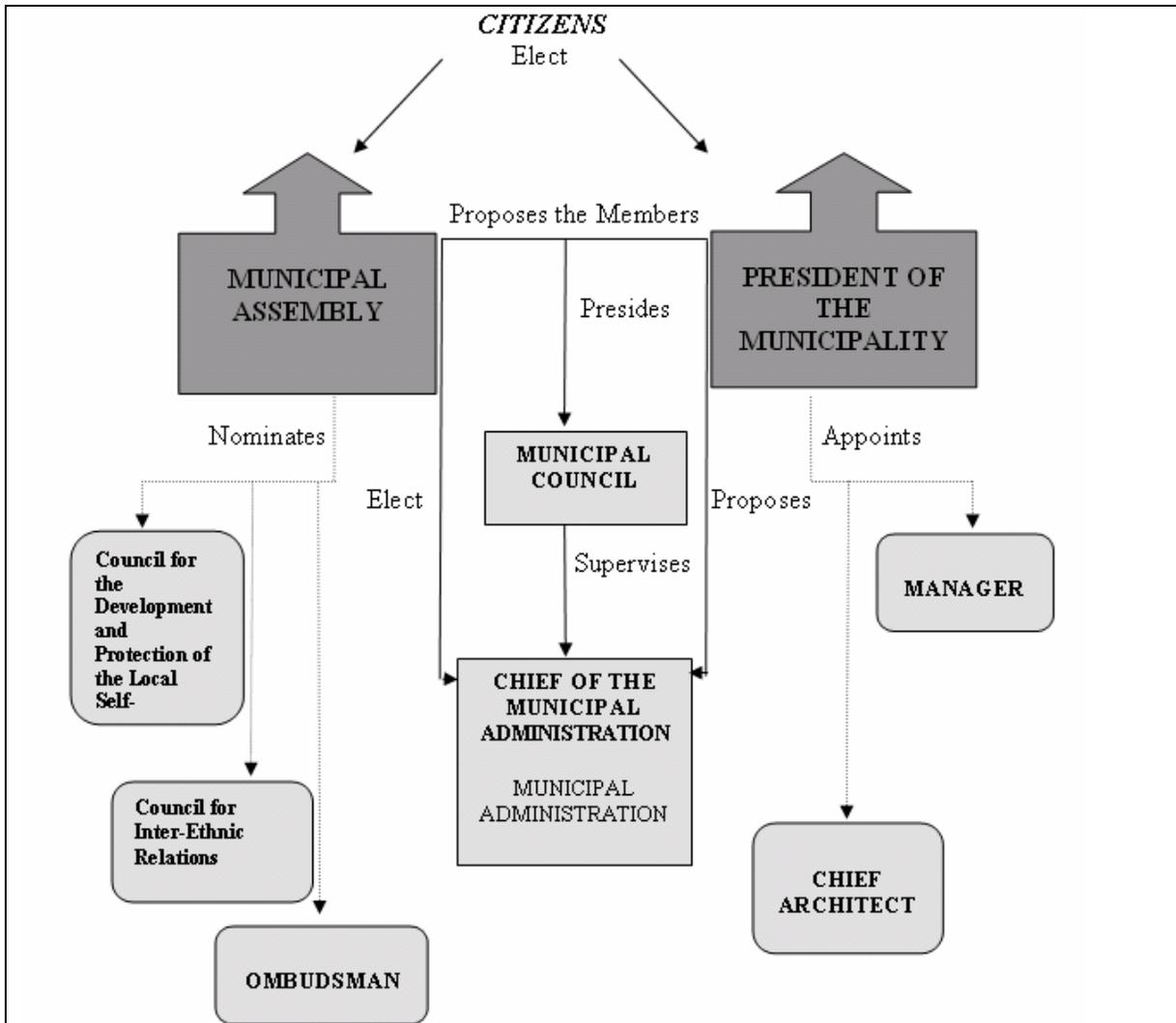
competencies of a municipality include the provision of the expanded entitlements of citizens, and also the development of specific forms of social care and protection. Substantial economic problems reduce the opportunities for major activities in that area.

The above range of competencies makes the local level an important starting point in the implementation of the Poverty Reduction project. The process of decentralization and transfer of competences to the local community level has an additional impact in terms of raising the responsibility of municipal authorities in the realization of human rights.

### **Organizational Structure and Functions of a Municipality**

The present organization of municipal authorities is a classical European assembly-mayor model, with strong elements of a system of unity of authority. The new Law on Local Self-Government, which will come into force on the occasion of the next local elections in 2004, provides for two new optional models of organization: the mayor-assembly model, and the assembly-manager model.

The following diagram illustrates the new organizational structure and relations among the most important bodies of a municipality.



*The Law on Local Self-Government introduces the city manager, civic defender (ombudsman) and chief architect (urban planner) as new institutions. The city manager proposes projects that stimulate economic development, increase chances for entrepreneurship at micro level to become reality, with constant empowerment of entrepreneurial initiative and creation of private-public arrangements and partnerships. His job would also be to encourage and coordinate investments and to secure the attraction of capital, as well as to initiate amendments of regulations which make the realization of business initiatives difficult. The Civic Defender (Ombudsman) protects collective and individual rights and interests of citizens and represents an additional institution for strengthening citizens' confidence in justice and the rule of law. Thereby necessary preconditions for the creation of an efficient control and monitoring mechanism are established. The job of the Chief Architect involves creation and control of construction standards and preserving urban spaces and their environment. These three institutes are optional and each municipality decides on a certain arrangement of authority, in conformity with its particular circumstances, assembly decision, statute and other acts.*

In this way a certain organizational flexibility of the local government model is introduced, and the functioning of the entire institutional framework has been strengthened. In many cases, municipal administration is still inefficient, with an inadequate qualification structure for public servants, poor equipment and outdated working methods. The new Law on Public Administration introduces its modernization.

## **Local Finances**

Traditionally, the Serbian municipalities used to have their own property, but it was taken away from them and transferred to the state following the Property Law of 1995. This act has seriously jeopardized the position of the municipality as a legal and economic entity.

Legal regulation of municipal property is linked to the passing of a set of laws that should solve some open questions (restoration of dispossessed property to private persons and public entities, registration into cadastral registries, and so on), but any further postponement would leave municipalities dependent on the central government and would interfere with the very essence of reforms. Nevertheless, the new laws have helped the course of reform in several ways. The municipalities have been given several new taxes, a portion of tax funds has been redistributed in favour of the local governments, and the municipalities have been given an opportunity to raise loans, which has resulted in an almost doubling of local self-government revenues in the period 2001-2002.

Some 35% of the total municipal revenues originate from resources partly or totally controlled by local government, which represents a considerable share, compared to other countries in the region. However, in order to create a more efficient system of local government financing, existing local government revenues need further strengthening.

One of the major problems is that the system of local government financing is to a large extent based on part of the sales tax (30% comes from this source), because Serbia is obliged soon to substitute this tax with the Value Added Tax (VAT), in accordance with EU standards. Upon the introduction of this tax, the system of local government financing will have to undergo radical changes, because VAT cannot be allocated according to the place of collection (as was the case with sales tax).

Further steps towards reform would imply the restoration and protection of local government property, and a greater financial autonomy of local government with the right to establish tax rates. That would secure an opportunity to the local governments, by creating an attractive tax environment and providing services of a better quality, to attract capital and investment to their territories, and thus to encourage economic growth as one of the ways of resolving the problem of poverty. Another part of the reforms would mean the establishment and strengthening of the partnership between the central and local governments in the distribution of goods and financial resources, which is indirectly a part of efforts to establish a developmental model of decentralized market re-distribution.

## **Direct Democracy and Participation of Citizens**

Regarding the immediate democratic institutions, the Law provides for a civic initiative, a citizens' open meeting and a referendum. However, in reality, the level of citizens' participation is very low: they have no information about most important municipal affairs, local authorities do not see citizens' participation as a prerequisite for successful work, there

is no transparency, and the scope for citizens' influence is too limited, which leads to great apathy and passivity.

### **3.2.4.2 Problems and Constraints**

Due to the lack of a strategic approach at the macro level, a consistent strategy for poverty reduction does not exist at the municipal level either. The majority of municipalities have so far performed such jobs just mechanically as assignments transferred by the State, and without a greater involvement in developing strategic plans, or towards creating and implementing new projects and programmes. In practice, the municipalities have reacted only from time to time and temporarily in assisting the most urgent and difficult cases. Such a state of affairs has primarily resulted from poor economic capacities which do not allow effective and efficient resolution of the problem, but also from insufficient democratic awareness, institutional weaknesses etc.

### **The Role of the Self-Government in priority sectors of the PRSP**

The municipal assembly is only to take over the role of leader and to initiate strategic, developmental, intersectoral work with other actors in the municipality, in several sectors: education, health care, the private sector, employers, labour unions, social welfare centres, labour market, Refugee Commissariat, NGOs etc. For the purpose of institutionalising sustainable strategic and intersectoral work more and more municipalities will establish socio-economic councils.

Social welfare and social assistance. The most significant implementers of social protection activities in municipalities are local governmental bodies, Social Welfare Centres, a certain number of social institutions, and the numerous humanitarian and non-governmental organisations.

A Social Welfare Centre is a municipal authority specifically established for the purpose of carrying out such assignments, and it is the main carrier and implementing agent of social policy at the municipal level. In the municipality, there is a number of typical humanitarian organizations (the Red Cross and others) and NGOs, which perform that type of activities. The Commissariat for Refugees and the Employment Bureau also collect some data, and carry out analyses that may be relevant in dealing with problems of poverty.

Education. Primary education falls within the new competences of local governments (provision of infrastructure and buildings, as well as foundation rights), for which local governments must prepare themselves. The new Law on Primary Education will specify the distribution of the competences and financing between the state and the local governments.

The most important stakeholders in the sphere of education are the municipal authorities (Assembly, executives bodies and the Secretariat for Education), as well as schools, professional educational organizations and NGOs dealing with educational issues. Users of services (students and parents) have an important place in the reform of the education

system. It is thought that the introduction of a per capita financing system for schools would raise the quality of their work.

The new laws create the possibility for alternative school programmes.

Health Care. Primary health care is included in the new competences of local governments (provision of infrastructure and buildings), which entails allocation of funds for carrying out such activities. The current status is slightly improved, but only *the new laws* in this area will provide for a more specific distribution of competences among various levels of government, as well as the manner of financing (see chapter “Health Care Towards Poverty Reduction”).

Housing and Urban Development Planning. A substantial part of the municipalities in Serbia suffer from chaos in both urban and architectural planning, with non-registered buildings and a lack of planning. There is no accurate data on subtenants and a substantial number of citizens live in inadequate flats (in respect of both conditions and size). See chapter “Regional, Rural, Urban and Housing Aspects of Poverty”.

Local governments have certain operational advantages in identifying both problems and realistic objectives, and creating adequate housing programmes together with citizens. In the area of urban planning, the city urban planner could play a useful role in preventing illegal construction and introducing standards in developing the urban areas.

### **Functional Relationships**

The relationship between the municipal and Republic authorities is satisfactory, but the information exchange from the Republic level to the local one is insufficiently effective and is inefficient. The practice of delivering information through political parties’ channels has not ended and the problem of symbiosis of the state and party (through their bureaucracies) should be raised as one of the obstacles to the implementation of reform processes and modernization.

The relationships between municipal authorities, services and organizations in this area are correct, but there is an evident problem of poor functional links among the actual and potential stakeholders. Furthermore, these relationships are burdened with all the weaknesses of the neglected local governments, such as offices poorly equipped for information technology,, a discrepancy between the municipal by-laws and legislation, inadequate skills among the staff, outdated knowledge, a primary focus on political and party issues, too large an influence of individuals and informal lobbies on the decision-making process, poor monitoring of the implementation of projects and activities, as well as the slow implementation of decisions, levelling of remuneration and generally low salaries of staff, poor transparency of work, and a culture of exclusiveness and quite a low participation of citizens. The practice of measuring the efficiency of the work of municipal authorities has not been established at all, so introducing qualitative and quantitative indicators would contribute to improving the quality of work in that area.

## **The Resources, Human Resources and Equipment**

The salaries, various services, equipment, and capital investments in buildings are financed out of the municipal budget, but the lack of financial resources needed for major projects is obvious.

The municipalities lack key experts, those who would deal with the strategy and the development, planning, decision making, organisation, coordinating and controlling of activities. Knowledge and skills are required in order to secure the municipality's own income (private public partnerships), to create an environment attractive for investments (entrepreneurship, marketing and information sharing), and to include in the development all potentials of the citizens. The training of new personnel (city managers) is of exceptional importance. The existing personnel also require a comprehensive and continuing education in order to understand the nature of social phenomena and the interconnection of the problems to be resolved. Through this training they would be able to develop a greater creativity in their work.

In most cases, municipalities have at their disposal very modest technological equipment, the purchase of which is provided for out of the municipal budget, and all of them lack the means to create a network for a single information system.

## **The Participation of Citizens and the Local Community**

Despite the recent changes and the fact that the current law foresees citizens' participation in governance and decision-making processes, this is rarely implemented in practice. In the course of the previous 15 years, the autocratic regime caused all the democratic mechanisms of government to deteriorate substantially. Municipal officials and municipal administrations have not yet developed ways of increasing and improving the quality of citizens' participation. Members of local assemblies and municipal authorities need to be educated on the ways to improve the dissemination of information and achieve higher transparency in their work. At the local elections votes are still predominantly given to political parties and less in response to the effects of the work of officials and their successes.

On the other hand, citizens rarely consider the municipality as a place and a mechanism whereby they could resolve their (in fact, general) problems. Consequently, citizens and municipal authorities remain distant and opposing parties, with separate needs and interests.

It is encouraging that in the majority of municipalities, the authorities have established good cooperation with non-governmental organizations by assisting them both financially and logistically in the implementation of various projects for poverty reduction or prevention, recognising in such projects both common and general interest.

### **3.3. Global and Regional Integration**

#### ***3.3.1. European Integration***

In addition to a greater degree of democratization, the European integration process represents a key factor for securing stabilization in Serbia. Stability is a precondition for the increase in foreign investment and domestic savings, which are also the preconditions for economic development. The inclusion of Serbia in European institutions in the next decades will be a crucial step for further social, economic and political development.

##### ***3.3.1.1. The Stabilization and Association Process***

The European Commission for the so-called countries of the western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Croatia and Serbia and Montenegro) which are not in the first or the second group of countries to become full members of the EU, has created a stabilization and association process (SAP). This process should gradually prepare these countries for membership of the EU, and should give their governments political encouragement to cooperate with the Commission/Union. In other words, for Serbia and Montenegro (and others as well) the Stabilization and Association process is a first step towards full membership of the EU.

In Serbia and Montenegro, this process has begun with the establishment of a Consultative Task Force FRY-EU which, through a series of meetings in 2001 and 2002 and other activities on preparing the Stabilization and Association Agreement, enabled information exchange, adjustments of local policies and reform of local institutions. One of the results is the establishment of the Office for European Integration at the federal level, i.e. at the level of the state union, in 2001. Now a feasibility study is to be prepared. This study will provide an evaluation of the readiness of the country to begin negotiations in 2004 on the policies that will be part of the Stabilization and Association Agreement. The parts of the agreement on foreign trade liberalization and on opening EU market for the domestic products export are of greatest importance for economic growth and overcoming poverty.

The commencement of work on the Feasibility Study is conditional upon the adoption of the Action Plan for the harmonization of economic systems, i.e. foreign trade policies and regimes between Serbia and Montenegro, which practically boils down to the defining of an Action plan for the creation of a customs union.

The CARDS programme, led by the European Agency for Reconstruction, which encourages reform and transition, is also a part of the process of integration into the EU. Generally speaking, such help creates preconditions for economic growth, and improves it as a tool for overcoming poverty. The CARDS programme itself does not deal directly with poverty or its eradication, i.e. with some specific vulnerable groups, but as the reconstruction requirements decrease, the CARDS funds are progressively used for sustainable economic development.

The focus of the CARDS programme is on building institutions, strengthening administrative capacities, the judiciary and internal affairs, which will basically help create a credible business environment and thus encourage further investment and so have an indirect favourable effect on the suppression of poverty, either through the stimulation of economic growth and job creation or through increasing real revenue of the country and real budgetary funds for the fight against poverty. The European Commission and the member states also provide macro-financial assistance (MFA) in grants and loans for direct budgetary support. This help has the same effects on poverty as World Bank budgetary support by loans for structural adjustment. The first MFA instalment included an amount for payment of arrears to the European Investment Bank.

European integration plays an important role in the successful implementation of the Poverty Reduction Strategy. In the first place, the Stability Pact for South-East Europe will significantly help the process of the return of refugees, which will have a direct positive impact in one difficult area of the poverty issue in Serbia.

Secondly, the European Union in Copenhagen in 2002 and in Brussels in 2003 affirmed “the European perspective” of the West Balkan States, which opened the way for Serbia and Montenegro to take part in the programmes of the Community, especially in the areas of education, professional training and the so-called “twinning” programmes for the transfer of administrative capacities into the European Community. This would directly contribute to the achievement of Strategy objectives, partly through direct financial support for the education system and partly through creating a recognizable European business environment playing a key role both in attracting strategically important investors and in improving the level of security for small enterprises – two cornerstones on which the economic growth of newly accepted members of the European Community rests. To that end, it would be advisable for the creators of the economic policy of Serbia and Montenegro to adopt the principles of the European Charter on small business enterprises, to which we are obliged as signatories of the Solun Declaration.

Thirdly, through direct asymmetric preferential trade arrangements, the European Union directly supports Serbia’s accession to EU market, and thus, indirectly supports employment; it carries out non-inflationary expansionary measures of economic policy towards the Serbian economy.

Fourth, it has been agreed, within the SAA, that cooperation with the West Balkan countries will follow the “step-by-step” principle which means that Serbia and Montenegro have a strong incentive to approach the European Union at the rate at which they are able to bring their regulations into line with the relevant principles and regulations of the EU, in order to further economic growth and indirectly aid the success of the Poverty Reduction Strategy.

Fifth, it should be borne in mind that in the Amsterdam Treaty ratified in Lisbon in March 2000, the Council of Europe came to the conclusion that the level of poverty and social exclusion in the EU itself is too high and that a determined effort must be made towards its eradication by the year 2010. The measures proposed for the implementation of the

European Strategy are completely compatible with the measures adopted in the Poverty Reduction Strategy in Serbia.

### *3.3.1.2. Harmonisation of Economic Policies with Montenegro in the light of the Stabilization and Association Process*

Future development of the international integration of Serbia and Montenegro crucially depends on harmonisation of their economic systems and economic policies. After the changes in October 2000, the international economic integration of FR Yugoslavia was not significantly disturbed by the existence of two economic systems, two monetary areas and two customs (foreign trade) areas. But since the new state union of Serbia and Montenegro has been formed, under the patronage of the European Commission, i.e. European Union, it is expected that there should be harmonisation of economic policies. This means that there should be a customs union and the adjustment of certain indirect taxes, especially excise tax. Two main directions of international integration: membership in the World Trade Organization (WTO) and the Stabilization and Association Agreement (SAA), depend on how fast the customs union, i.e. the common market of Serbia and Montenegro, materialises.

At the beginning of June 2003 the Action Plan for the harmonization of the economic policies of member states was adopted to eliminate obstacles to the free flow of people, goods, services and capital. According to the Action Plan, the republics reached a compromise by which Serbia would lower its customs rates, not at once but over the next 18 to 24 months and Montenegro would go on using non-tariff barriers; the foreign trade systems will be brought into line in the following 18 to 24 months. Meanwhile there will be two customs areas and two customs administrations. In addition, duty rates in Serbia will be reduced from 9.4% to 7.1%; the foreign trade system rests exclusively on tariff protection; there are virtually no non-tariff barriers and tariff rates are relatively high. On the other hand, Montenegro has substantial non-tariff protection; relatively low duty rates, but numerous non-tariff barriers (quotas and licences) which are not transparent and which will not be abolished by the Action Plan. The tariffisation of these barriers has not yet taken place, but according to some preliminary estimates, effective protection was lowered from over 20% to below 10%. As for the foreign trade regime, the member states will submit proposals on the Law on Foreign Trade by December 31 at the latest. As they are to be based on the regulations and practices of WTO, harmonization of these documents should not, in principle, pose a problem. The effects of harmonization on poverty should be viewed from the perspective of further liberalization of foreign trade, joining the World Trade Organization and the process of stabilization and greater integration with the EU.

### *3.3.2. International Financial Institutions*

After the political changes of October 2000, Serbia and Montenegro restored its membership in international financial institutions (the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, while membership of the European Investment Bank is related to European Union membership).

## **The International Monetary Fund (IMF)**

The membership of Serbia and Montenegro in the IMF was restored in December 2000, while the first Stand-by agreement was concluded in June 2001. At the moment an EFF (Extended Fund Facility) agreement is being conducted. Though the basic IMF role is to give support to the national currency by giving loans as a way of supporting the balance of payments of a country, the significance of the agreement with the IMF is far greater. These agreements are the preconditions for the macroeconomic stability of a country, and what is more important, they are the guarantee that this stability will be maintained. Because of the positive effects that macroeconomic stability has on poverty reduction, membership in the IMF, i.e. an efficient implementation of an appropriate IMF agreement, is a precondition for the reduction.

One of the preconditions for concluding any of the agreements with the IMF is a balanced budget, that is, the curbing of the fiscal deficit, which may limit the possibilities for income redistribution towards the poor. Since the basic strategy for overcoming poverty is the acceleration of economic growth and macroeconomic stability and not income redistribution, the agreement with the IMF is crucial, as it accelerates economic growth.

In the field of relations with the IMF nothing new is expected except the continuation of the implementation of the EFF agreement which will last until March 2005.

## **The World Bank**

Serbia's membership of the World Bank was restored in May 2001. At the same time, a three-year Transition Support Strategy (TSS) was harmonized and Serbia was admitted to the IDA (International Development Agency). This means that the credits provided by the World Bank will be under concession conditions (with respect to interest, grace period of the credit and terms of payment), which are better than market ones. It was anticipated that Serbia will receive 540 million USD, under TSS, 80% of which will be in the form of structural adjustment credits (SAC). This programme represents direct budgetary support linked to the implementation of planned reforms.

By means of this budgetary support, the budget balance will be maintained and macroeconomic preconditions for accelerated economic growth and consequently, poverty reduction, will be created. This creates preconditions for an increase in the available resources and for increasing the transfer to the poorest, which directly decreases poverty.

TSS expires in the first half of 2004 and will be substituted by the Country Assistance Strategy (CAS). There is a question whether Serbia will be allowed to keep IDA status or whether this status will be changed to IBRD (International Bank of Reconstruction and Development) status under the new CAS. Since IDA credits are granted under more favourable conditions than IBRD loans, it is important to try to keep the present status. The status will be negotiated with the World Bank taking account of the social, economic and political situation.

### **The European Bank for Reconstruction and Development (EBRD)**

Serbia has been a member of the EBRD since January 2001. Recent EBRD activities in Serbia were directed towards creating a business environment suitable for development of the private sector, i.e. creating economic growth. These activities therefore had only indirect effects on poverty. Some direct effects came from investments in infrastructure, especially in utilities, which provided improvements in the basic infrastructure services for the poor.

### **The European Investment Bank (EIB)**

The commencement of cooperation between the European Investment Bank (EIB) and Serbia and Montenegro, has been marked with loans for the rehabilitation of large infrastructure facilities, which have improved the general business environment and provided opportunities for future job creation, but without any direct effect on poverty reduction.

### **3.3.3 Membership of the World Trade Organization**

Membership of the WTO should be considered in the framework of further foreign trade liberalisation and its beneficial effects on poverty, either through the growth of real incomes of all consumers in one country, through encouraging economic growth without any changes in income distribution, or through decreases in the prices of certain products.

Apart from that, membership of the WTO brings most favoured nation status (MFN). This will increase export demands and beneficially affect economic growth. The most important benefit is that the WTO provides the most favourable transition framework.

Finally, membership in the WTO will lead to the conclusion and implementation of agreements on free trade zones, which are important for effective foreign trade liberalisation. These agreements have to be conducted according to WTO regulations. Though the obligation related to these agreements originated from the Stability Pact and not from membership of the WTO, members are obliged to remove any hidden barriers in such agreements.



### **III STRATEGIC DIRECTIONS OF THE REDUCTION OF POVERTY IN SERBIA**

The reduction of poverty in Serbia depends on the capability of achieving sufficiently high levels of sustainable economic growth, together with an effort to prevent inequalities in the distribution of the national revenue from deepening. Achieving social and economic stability is a precondition for the attainment of this objective. In such a context, the continuation of the process of democratisation as well as the process of European integration, along with maintaining the level of macroeconomic stability which has been achieved are key elements for increasing economic activity and employment, the growth of salaries and the reduction of poverty.

#### **1. Improved Employment Opportunities**

The unemployed faced not only the greatest risk of poverty but also the most severe and deepest levels of poverty compared to other actors in the labour market. The proportion of unemployed individuals in a household considerably reduces consumption and increases the risk of poverty.<sup>75</sup>

##### **1.1 Creation of new employment opportunities**

The main objective of the economic reforms in Serbia is the creation of a modern, export-oriented market economy dependent on the private sector and capable of achieving dynamic economic growth and job creation. In such an economy, new employment opportunities as well as opportunities for economic growth will result from increased internal and external demand with the improved competitiveness of Serbian companies and more efficient use of available resources.

To be successful in this task the economy needs a clear ownership structure, strong corporate governance, and better management. In this context the ongoing comprehensive reform of economic legislation and the efficient privatisation process are critical (see Annex for more information on the comprehensive legislative reform currently being undertaken in Serbia).

Through FDI, private investments, the development of an entrepreneurial spirit and the SME sector, it is the objective of the government to increase the share of private ownership in the economy from 42.5 percent in 2002 to 75 percent in 2005. This will result in a dramatic increase in the overall share of workers employed in the private sector where the average salary is higher.

Increased domestic and foreign demand is a mechanism for increasing economic activity and creating new employment opportunities.

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<sup>75</sup> For more on this methodology see in Krstic, G: The Determinants of the Consumption of the Poor, Poverty in Serbia in 2002, The Ministry of Social Affairs, 2003

## Increased internal demand

Increased internal demand will result from a combination of the following factors:

- increased employment and investment rates through an FDI driven privatisation process;
- increased employment and investments as a result of foreign direct Greenfield investments;
- increased purchasing power and domestic savings;
- increased public investments.

So far the privatisation process has resulted in **increased investments in privatised companies** at the pledged amount of EUR 567 million. The objective of the privatisation process is to sell up to 70 percent of state and socially owned companies via transparent auctions and tenders. By September 2003, out of 1074 companies offered for privatisation, 843 had been sold. In addition to the above-mentioned investments, this has resulted in a million euros of total privatisation revenue and 253 million EUR for social programmes (severance payment and retraining). A large proportion of the privatisation revenue has come in the form of FDI.

There is also an increase in Greenfield investment. Serbia is rapidly establishing a liberal investment regime. Although structural barriers still persist, the Government endeavours to remove impediments, reform business activity and open the economy to foreign participation.

FDI investments through privatisation and Greenfield investments have a **multiplier effect**. Demand for local goods and services will increase due to the actual investments and the need for inputs to the production process. In addition the employment of staff will result in increased personal consumption and investments.

The **increase in purchasing power** is linked to a real increase in salaries. The Serbian average monthly net salary increased to USD 151 in 2002 from USD 90 in 2001 and USD 45 in 2000. As of May 2003, the monthly net salary has further increased to EUR 170.<sup>76</sup>

As the average salary is higher in the private sector than in public and state owned companies, this trend is expected to continue with the continuation of the reforms towards a market economy based on private capital. The increase in purchasing power is expected to result in an increase in domestic savings.

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<sup>76</sup> The Republican Statistics Bureau and NBS

**Public investment** is expected to rise in the forthcoming period. This will be accomplished through the improvement of the management of public expenditures with the aim of redirecting budgetary funds which are now used for public spending into investment.

### **Increased external demand**

Increased external demand will mainly be driven by the following elements:

- liberalization of foreign trade
- increase in exports
- strategic position
- free trade agreements
- WTO and European Integration

### **Liberalization of Trade and Free Trade Agreements**

Although liberalization of foreign trade in the short term will have a negative effect on existing employment it will have a positive effect on employment in the medium to long term. Liberalization stimulates restructuring, so that companies that are not in a position to withstand the pressures of competition must either adjust or close down. This opens up the economy for the development of new and profitable enterprises which will create new employment opportunities and higher wages.

### **Increase in exports**

Serbia's integration into the international economic processes and the improvement in exports represents a prerequisite of its development, since it is a small country and therefore bound to have large-scale economic trade with the surrounding countries. Hence the increase in exports will be one of the main generators of economic growth.

### **Strategic position**

It is the objective of Serbia to become the major trading and market centre in South East Europe. It is strategically located within Central East Europe and borders new member states. Serbia is the natural gateway between South East, Western, and Central Europe, positioned at the intersection of Pan European corridors no. 10 and no. 7, on the banks of the Danube, one of the biggest and most important river routes. Together with a well-developed transportation network, this makes Serbia easily accessible.

## Free Trade Agreements

Serbia is in the middle of the South East Europe Free Trade Area that enables duty-free access to a market of 60 million people in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Moldova and Romania. The diversity of the eight countries in the area, in terms of their position, legal environment, growth potential, resources and prices, offers a great opportunity for companies and investors to improve their business performance through regional cooperation. A draft free trade agreement was signed in 2001.

The main points of the agreement are as follows:

- Liberalization of at least 90% of mutual trade by the end of 2008;
- An appropriate common set of preferential rules;
- WTO-consistent provisions for the application of anti-dumping, countervailing, safeguard measures and intellectual property protection;
- Transparent and non-discriminatory measures concerning public procurement, state aid and state monopolies;
- Harmonization of trade legislation with that of the EU (especially customs procedures, competition law, company law, company accounts and taxes and banking law).

Serbia and Montenegro is also the only country outside the Commonwealth of Independent States (CIS) that has a Free Trade Agreement with the Russian Federation allowing it access to the market of 150 million people.

In the preceding chapter we discussed European integration and joining the WTO.

Increased Competitiveness as a mechanism for creating new employment opportunities

The National Competitiveness Strategy, the preparation of which is drawing to a close, sets the following priorities:

- improving the productivity of the private sector, emphasising improvements in quality and added value rather than price-based competition;
- integration into the international business community so that Serbian companies can develop their business markets and strategic partnerships;

- building industry clusters in high priority sectors to improve the productivity of the sector and the enterprises, including research and development, human resources and capital markets;
- improving companies' access to and productive deployment of financing;
- attracting strategic foreign investors whose financial and intellectual capital can rapidly accelerate the restructuring of individual firms or provide the foundation for the development of new exporting clusters;
- actively searching for investors willing to make substantial, long-term investments in plant improvement, worker retraining, and research and development;
- increasing the capabilities for using existing technologies and innovations to create new competitive advantages;
- improving market and business skills.

“The comparative advantage of Serbia is reflected in its educated workforce, low wages, functioning infrastructure, cheap overheads, strategic position in the centre of the Balkans, as well as the potential for expanding to other Balkan countries through Serbia.” (The National Competitiveness Strategy).

### **Increased investments as a mechanism for creating new employment opportunities**

A significant determinant of the speed of medium-term growth and thereby the creation of new employment is the share of investment in GDP. From a very low level of 14% a significant increase is expected to a level of 25% as in comparable transition economies. The increase in investment share should mainly be achieved through increasing domestic savings from the current minimal level of 2% of GDP to 17% of GDP.

Improved utilisation of capacities together with a relatively low capital coefficient during the first years of the medium-term period should provide the projected growth rate and the increase in employment opportunities with lower investment rates.

In the 1990s production in Serbia was more than halved, which brought about a proportional fall in the use of capacity. Naturally, some of the capacity meanwhile became obsolete, but the infrastructure remained. Therefore only moderate investment is necessary to boost economic activity.

The aim of introducing tax incentives is to create a highly favourable tax system, encouraging investment, accelerating the development of underdeveloped regions and facilitating employment opportunities. Corporate profit tax is the lowest in the region at 14 percent. Incentives include ten-year tax holidays for investments in fixed assets over 100

million EUR and creating more than 100 work places. Investment in regions of special interest to Serbia is encouraged through a five-year tax holiday. There will be special tax benefits for investments of over 100 000EUR and the permanent employment of at least five workers. Moreover, VAT will replace sales tax in 2004.

### **Domestic savings and the banking sector**

The increase in domestic savings mentioned above will contribute to the development of a healthy banking sector. The first step in the restructuring of the banking sector was a necessary but difficult pruning of insolvent domestic banks. This resulted in the closure of 23 banks out of 98, including the largest four. During the same period a certain number of foreign banks have established themselves and foreign interest is still high. The next step is for the state to privatise nine banks in which it is a majority shareholder, as well as to sell minor holdings in seven other banks. The plan is that most of these banks should be sold to strategic foreign investors, leaving at least two strong domestic banks. This should all contribute to the creation of a healthy and competitive banking system.

Along with the privatisation of banks, it is envisaged that the supervision of the banking system will be strengthened through the adoption of the supervision development plan as well as through the establishment of a supervisory council. As for legal regulations, a law has been adopted requiring the use of international accounting and auditing standards. It is intended to provide necessary preconditions for a reliable banking system which would attract domestic savings and secure their rational use.

The development of the existing institutions (insurance and similar) and the establishment of new ones (voluntary pension funds etc) will open up new opportunities for collecting and augmenting domestic savings. This, together with the banking system, should mobilise the existing and future savings of the population, the sector which is traditionally a net saver. Total saving deposits within the Serbian banking sector have increased several times from a very low level in 2001 to over 1 000 million USD at the beginning of 2003. For the most part domestic savings will be invested in small and medium-sized enterprises which should be, together with foreign direct investment, the main generators of growth.

### **Public investments**

Even though only a small part of overall investments, public investments are important for medium-term growth. In addition to their direct impact on growth, they also have an indirect effect through the creation of a favourable environment for investment and growth. The share of capital expenditure within the budget of Serbia is low. Therefore, above average growth is planned for in the medium term. There should be a relative increase from 2% to 4% of GDP to reach a level meeting international standards.

It is estimated that around one third of the overall investment<sup>77</sup> in Serbia in the period 2004-2006 will be directed into infrastructure (transport, energy, telecommunications, the postal service, utility infrastructure). These investments will be financed from:

- Resources of the enterprises in the above mentioned sectors (their own resources and commercial loans),
- Budgetary resources (republican and local budgets), and
- Expected donations and soft loans.

*So far more than 1 billion EUR in concessionary loans have been directed into infrastructure: 449 million EUR to transport including 220 million EUR to the road, 127 million EUR to the railway and 127 million EUR to the aviation sectors; 346 million EUR to the energy sector and; 217 million EUR to local level infrastructure (water, central heating and local transport). In addition, around 95 million EUR in concessionary loans have been agreed for investments in the health and education sectors*

Investments will support the creation of a revitalised and reliable power sector which aims to become an important electricity exporter in a region with an overall deficit of energy. Currently a new energy law is being drafted which will provide for harmonisation with the EU and fast liberalisation. The creation of joint venture and concession enterprises is encouraged. Potential areas are the development of pipelines, gas storage facilities, and the modernisation of thermal and hydro electro power plants.

As regulatory and market reforms gather speed with the aim of building a modern telecommunications system that will meet the growing needs of a customer-based market economy, the level of investment is expected to increase. By 2005 it is expected that a fully digital network will be established.

It is estimated that the entire necessary resources for investing in telecommunications and the postal service will be provided from commercial sources (domestic and borrowed). Modernization and construction in other infrastructure activities will to a great extent depend on budgetary resources, donor funding and soft loans.

Investments by the state, domestic enterprises, and foreign investors in infrastructure will have direct and indirect impacts on the level of economic activity, employment and poverty reduction. Direct impacts will include GDP growth and higher employment. Multiple effects of infrastructure investment on economic activity result from the fact that in the building of infrastructure mainly domestic raw materials are used. Also, investments in housing and certain infrastructure investments are labour-intensive, which stimulates employment, particularly of the semi-skilled (poorer) labour force. An additional significant contribution

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<sup>77</sup> The share of infrastructure in GDP is relatively high due to its deteriorated state and the fact that these are actually capital intensive sectors.

to poverty reduction is increased accessibility and quality of services in infrastructure activities.

Construction of infrastructure contributes to reductions in costs and increased efficiency of economic activities in a particular location. Modern infrastructure stimulates commercial investments into the industry and service sectors. Implementation of these investments leads to the improvement of the overall level of development of certain areas which, in turn immediately alleviates poverty. In this context it can be said that investments in infrastructure represent one of the generators of economic activity and employment and therefore of poverty reduction as well.

All these investments will not only contribute to employment during the transitional period but also to laying the foundation for the future.

### **Foreign direct investments**

It is clear that there are still significant obstacles to the entry of new enterprises. These obstacles concern high political and regulatory risks. While significant improvements have been made, substantial legislative and institutional reform is still required. The most important part of this reform is linked to the reform of the legislative and justice system, since uncertainty in this area, including slow enforcement of court decisions, is one of the most important sources of risk for investors.

Serbia has enacted specific legislation outlining guarantees and safeguards for foreign investors. The former Federal Law on Foreign Investment (January 2002) has been formally incorporated into Serbian law (2003) and establishes the legal framework for investment in the Republic. The law eliminates previous investment restrictions; extends national treatment to foreign investors; allows for the transfer/repatriation of profits and dividends; provides guarantees against expropriation; and allows for customs duty waivers for equipment imported as capital-in-kind. In late 2002, the Government of Serbia promulgated new tax incentives for foreign investors.

Since foreign capital is vital to the restructuring of the real sector it is of vital importance to remove barriers and stimulate investor interest. Thus, reform efforts have not been limited to the promulgation of the two foreign investment laws. Rather, the government has understood the need to make reforms to a wide body of laws that will improve the overall business regulatory environment and enable private sector companies to grow and to compete.

Sustainable mid-term macroeconomic stability is another factor that should attract foreign direct investment. It has already been stated that inflation has been brought down to a very low level together with extensive liberalization of prices, that the Dinar was made convertible, foreign trade liberalized, and so on.

Although total FDI levels are still negligible compared to elsewhere in the region, Serbia could easily overtake other countries in Southeast Europe.

### **Total level of Level of FDI (million USD)**

2000	2001	2002	2003	2004	2005
60	160	550	1.000	1.300	1.600

FDI numbers for 2003, 2004 and 2005 are rough projections

*A stimulating investment environment is based on implementation of the so called «12 commandments»: a stable and predictable macroeconomic policy; an effective and honest (incorrupt) government; a large and growing market; freedom of activities in the market; minimum government control; reliable infrastructure; availability of high-quality factors of production; a strong currency; possibility to pay up profits, dividends and interest rates; a stimulating taxation climate; freedom to do business between the markets*

### **Privatisation and investments**

The direct effect of privatisation is an initial drop in employment in newly privatised enterprises. However, privatisation also creates preconditions for new, sound private investments. Such investments will lead to the creation of new jobs, though this will take some time. Over time it is to be expected that privatised enterprises will create significant new employment opportunities.

The Law on Privatisation, adopted in 2001, met with general approval as the best law on privatisation in all the former socialist states and has already won a considerable amount of trust concerning the privatisation process.

The sale of large socially owned enterprises is expected to be completed by the end of 2006. The privatisation of large public companies is expected to begin in 2005 depending on the completion of reconstruction, the adoption of relevant regulations and the establishment of regulatory institutions. The work on the draft legislation and setting up the institutions is under way.

Privatisation of small and medium-sized socially-owned enterprises through auction is a precondition for accelerated growth within the SME sector. It is expected that around 800 enterprises will be privatised in this way in 2003 and that in 2004 privatisation of almost all small and medium-sized enterprises will be completed.

During the coming period the state will sell its minority shares in companies that started the process of privatisation under the old regulations and thereby complete the privatisation of these enterprises.

The Ministry of Economy and Privatisation together with the Agency for Privatisation mostly carry out the comprehensive government plan concerning privatisation as well as working on strengthening capacities for this complex task.

## **Greenfield investments**

The experience with transition in Eastern Europe has shown that foreign direct “green field” investments and new direct private investments by domestic investors are the basic vehicle for accelerated economic growth and the creation of new employment.

New enterprises are not under the pressure of the past. They do not have inherited debts, and are organised to maximise profits and economic efficiency. Without these new investments, even the privatisation of existing enterprises cannot provide the projected economic growth and creation of new jobs.

*The largest Greenfield investment so far is Ball Packaging which has made a commitment to invest 75 million EUR . Merkator, with an investment of 38 million EUR and plans for further investments in other cities than Belgrade are the largest investor in the retail sector. So far, it has created more than 400 new jobs. Tetra Pack with the investment of 30 million EUR is among the most successful Greenfield investments. The workforce efficiency in this enterprise is high in a European context and they export to Bosnia and Herzegovina, Macedonia, Greece and Germany.*

So far the number of newly created enterprises has been smaller than expected. The Ministry of International Economic Relations endeavours to provide the necessary conditions for improvement in the area through an accelerated effort for the development of the investment environment as well as the development of the strategy for the promotion of investment which will be better targeted, based on active measures and simultaneously continuing the effort to enhance the competitiveness of Serbian economy. This will be done in close cooperation with the Ministry of Economy and Privatisation which undertook the task of drawing up the Industrial Strategy for the Republic of Serbia, which, as its essential component, should result in action plans for industrial growth in various sectors, including:

- The development of smaller industrial units.
- The sustainability of medium and large industrial units.
- Promotion of certain industrial sectors.
- The recovery of industrial enterprises with poor business performance.
- The development of entrepreneurship.
- Protecting the environment (promotion of environmentally friendly production).
- Equal employment opportunities.
- Promotion of exports.

## **The SME sector as a mechanism for creating new employment opportunities**

### **SME Strategy**

At the beginning of 2003, the Government of the Republic of Serbia adopted the document entitled “The Strategy of Development of Small and Medium-Sized Enterprises and Entrepreneurship in the Republic of Serbia for 2003 – 2008”. The primary objective of this strategy is to create a framework for the creation of a sustainable, internationally competitive and export-oriented sector of small and medium-sized enterprises and entrepreneurship (hereafter referred to as SME sector) in the forthcoming five-year period.

In this respect, the Government of the Republic of Serbia defined the development of SME sector till the end of 2007 as its main strategic goal with an increase in the overall number of SMEs from around 270,000 (in 2002) to around 400,000. This involves:

- Giving precedence to the sectors capable of significantly increasing employment and stimulating economic development: processing of agricultural products, industrial production, tourism, and electronic business (e-business).
- Strengthening the organized system of support to the SME sector by way of development of the capacities of the institutions of this system at all levels.
- Elimination of legal obstacles for the operation of enterprises and private entrepreneurs by creating a new legal environment that will facilitate and not hamper the development of the SME sector.
- Implementation of the reforms of public services in order to ensure more efficient provision of services and significantly reduce the administrative and bureaucratic obstacles encountered by the SME sector.
- Increasing the competitiveness of the SME sector through programmes for the development of enterprise management and the adoption of systems of quality and innovation.
- Strengthening links between the education system and the scientific and research system and the SME sector.
- Stimulating the sale of products and services of the SME sector in the local market through better links between large enterprises and SME activities, such as subcontracting, by creating conditions for greater participation of the SMEs in public procurement and greater sale of consumer goods from the SME sector.
- Channelling of the grey economy into legal flows.
- Promotion of activities related to assistance in the development of the SME sector by a continuous media campaign.

## **SME Financing**

The lack of financial resources is one of the most serious problems of small and medium-sized enterprises and entrepreneurs in the Republic of Serbia. Establishing an SME Guarantee Fund, with the aim of providing security to creditors for a part of the loans granted to SMEs which have growth potential but are not bankable will mitigate some of this problem. Therefore, it is important to capitalise this Fund as soon as possible, including with funds provided as international assistance.

The private sector remains a dominant source of financial resources for the development of the SME sector. Therefore as mentioned earlier it is critical that the banking reform is completed as soon as possible.

*The creation of a legal framework for the establishment and operation of microfinance institutions would secure greater accessibility of financial resources for poorer citizens and entrepreneurs, by way of microcrediting which allows for more favourable conditions and simpler procedures than bank credits, though the conditions are still strict. In most neighbouring countries, as well as in Montenegro, donors' willingness to provide resources for microfinancing, through NGOs and other institutions besides banks, has led to the creation of legal conditions for these activities. Microfinancing has also been supported through the "Strategy of Development of Small and Medium Enterprises and Entrepreneurship in the Republic of Serbia for 2003-2008".*

During 2003, access to capital for micro-enterprises and self-employment has significantly improved in certain regions in Serbia. There are now three big financial institutions offering micro loans: ProCredit Bank, Opportunity International and Nacionalna Stedionica.

## **Implementation of SME strategy**

In addition to the Ministry of Privatisation and Economy, the Republican Agency for Development of Small and Medium-Sized Enterprises and Entrepreneurship has national responsibility for the implementation of the strategy.

The regional SME agencies and centres will be providers and catalysts of concrete support to owners and managers of small and medium-sized enterprises and to entrepreneurs. It is therefore a priority to extend and strengthen this network as well as the quality and the variety of services provided. By the end of 2002, ten regional agencies and centres were opened in: Belgrade, Kragujevac, Kruševac, Niš, Novi Pazar, Novi Sad, Subotica, Užice, Zaječar, and Zrenjanin.

At the regional and local level, local authorities will have an important role in the stimulation of SME development, assisted by a network of regional agencies, centres, and offices for the development of SMEs providing information and advisory services and training programmes (either directly or indirectly through qualified business consultants) for the SME sector.

## **Legalisation of the grey economy and employment**

The share of the grey economy in Serbia is still very large. The government objective is gradually to integrate the grey economy into the formal sector. This will not be possible unless conditions are created which will discourage the public, enterprises and workers from operating in the informal market. An optimal strategy for the inclusion of the grey economy combines both incentives and penalties.

Wages in the grey economy are considerably higher than in the formal labour market, to some extent owing to tax evasion. The focus should be on the elimination of barriers to business, which have a destimulating effect and which contribute to the spread of the grey economy. Deregulation of economic activities and more transparent institutions will also have a positive effect on the level of corruption. Therefore the fight against the grey economy in many ways starts with the creation of conditions for a more dynamic development of the overall private sector. The introduction of VAT, the lowering of taxes and contributions together with the widening of the tax base and the improvement of public revenue collection and control (and stricter penalties) will reduce the attractiveness of the grey economy and raise operational expenses within this sector.

The development of small and medium-sized enterprises and entrepreneurship, as well as the increase in the economic efficiency of the enterprises, will bring about an increase in wages and the creation of new workplaces in the formal economy. This will also reduce the attractiveness of the grey economy.

In other words, the dynamics of reducing the grey economy will be closely linked to the dynamics of the completion of the transition policies.

## **Agriculture as a source of new employment opportunities**

Agriculture is of the utmost importance for Serbia since it makes up a quarter of GDP (25.1 per cent in 2001). The sustainable growth of the private agricultural sector will play an essential role in the alleviation of rural poverty. The vision of the future status of agriculture is clearly set out in the Law on Agriculture which provides guidelines for the adoption of programmes and policies, sets benchmarks for monitoring progress, and makes it possible for all within the agricultural sector to make long-term plans with a higher level of security.

It also provides a framework for the policy of agricultural support. Some of the relevant objectives are:

**Improving the profitability of the agricultural and food processing industry** will be achieved through applied research and the application of results; through improving the skills of present and future farmers; providing technical and business advice; promoting the exchange of market information.

**Health and environmental protection and achieving the status of a country which provides healthy food** for the needs of the Republic of Serbia in international trade will be achieved through the control of contagious animal diseases as well as diseases transmitted through food consumption; the control of agricultural pests and diseases; and reducing the side effects of pesticide use, veterinary medications and food additives. Full harmonisation with the EU is set as a long-term goal.

**Improving effectiveness and investment in production and processing** will be achieved through the completion of the privatisation of agricultural complexes and processing plants.

**Encouraging optimal and effective use of production resources yielding best economic effects** through the development of market-oriented agriculture and the membership of Serbia in the WTO and the European Union. This demands customs reform as well as various forms of support for agriculture.

**Promoting the optimal use of land** through the rent and sale system, encouraging the establishment of profitable farms. The rational use of water resources will be ensured through the creation of appropriate agencies and mechanisms ensuring effective management of main river systems, flood protection, maintenance of primary and secondary irrigation systems together with the allocation of rights for the use, management and distribution of water to agricultural producers.

**Creating competitive and effective markets for agricultural basic materials and produce**, setting prices in line with quality, establishing producers' marketing organisations, independent product quality assessments, and monitoring monopolistic behaviour in the farm produce markets.

**Protection of arable land, habitats, wildlife reserves and support for the production and sale of organic food.** Protection will be an integral part of agricultural and rural policies. The support for the production of organic food will be capitalised owing to the low level of use of artificial fertilizers in the preceding period. It will also include adequate standards and certification systems.

**Creating conditions for credit support for agricultural producers.** Assistance through reformed agricultural counselling services will be provided through help in drawing up business plans as well as creating conditions for the development of organisations and of microfinancing.

The attainment of these objectives will stimulate employment and economic growth, thus improving social well-being in rural areas (with special emphasise on border and mountainous regions which suffer from emigration).

**Local development strategies as a mechanism for creating new employment opportunities**

The regional differences in the type and structure of unemployment and in competitive advantages suggest the need to find different approaches and policies. Therefore, the overall changes in the economic system aimed at stimulating growth and new jobs should be supplemented by incentives at the local level.

Through local initiatives and measures municipalities can support the development of a conducive environment for the establishment and growth of economic activities, thus increasing the attractiveness of a municipality or a region for domestic and foreign investors.

Hence the Government of Serbia encourages individual municipalities or groups of municipalities to draw up a strategic plan for social, economic, and land development to facilitate business decision-making by potential investors. As of now, the majority of local governments have not developed strategies for the stimulation of employment. It is therefore necessary to draw up development plans on both a municipal and/or an inter-municipal basis that would build upon concepts and policies presented in national strategies and adapt these to local conditions. These planning tools should highlight concrete activities, needs and development goals. Such plans should take into consideration:

- direct investment into infrastructure with the aim of making the region more attractive for potential investors;
- self-promotion (activities whose purpose is not only to inform but also to attract interested investors);
- direct support of economic activities (renting land and facilities along with certain concessions to local and foreign institutions, banks, or insurance companies, setting up of industrial zones, incubator business centres, concessions, exemption from city and municipal taxes, etc.);
- incentives for the development of small and medium-sized enterprises and entrepreneurship.

Without these local level actions plans, the national PRSP employment strategy will most likely fail when it comes to the creation of new employment opportunities. Initiatives for concrete employment programmes should come from the regional and local level. Decentralization supports the identification of innovative and effective policies for a problem where there are no global recipes.

Local governments should also increase their co-operation with the aim of highlighting and building support for reforms and significant projects.

## 1.2. The Development of a More Effective Labour Market

### 1.2.1. Current status and problems

#### Formal Labour Market and Unemployment

The labour market is the main channel through which economic growth influences poverty, because income from work represents the main determinant of living standards.

The formal labour market in Serbia is has the following characteristics: a relatively low level of employment of the population; a high unemployment rate and its trend of continued growth; high hidden unemployment; a low share of employment in the private sector; low wages; and low mobility of the labour force.

Table 1 shows the participation rates and unemployment rates that are defined in two ways: according to the standards of the International Labour Organization (ILO) and according to self declaration of the respondents. The participation rate calculated as the proportion of the active in the total working-age population (men from 15-59 and women from 15-54 years old), according to the definition of ILO, amounts to 62.2% while, according to self declaration, it is somewhat higher and amounts to 65.2%. However, what is particularly important to emphasise is that the unemployment rate, as defined by the ILO, is considerably lower than the unemployment rate according to the statements.

**Table 1. - Participation and Unemployment Rates in Serbia in 2002**

	ILO	Self-declared
Participation rate	62.2%	65.2%
Unemployment rate	8.4%	23.3%

**Note:** ILO – International Labour Organization; the unemployment rate was calculated for men from 15 to 59 years of age and for women from 15 to 54 years of age.

**Source:** Survey on the Living Standard of the Population (SLSP) 2002

Where is the difference? The difference is in that that the ILO definition, which provides for international comparability, starts from the assumption that unemployed persons are those who did not work in the reference period, that they actively searched for a job, and were readily available to start working if someone offered them a job. There were 256 thousand such persons, while those who declared themselves as unemployed, a part of whom worked, were 745 thousand<sup>78</sup>. This means that only a third of the declared number of the unemployed represents the actually unemployed persons. Hence the unemployment rate, according to the ILO definition, which provides for the international comparability and more realistically mirrors the actual state in the labour market, amounted to 8.4%. It is important to mention that this unemployment rate is somewhat lower than the unemployment rate (defined in the same way) calculated using the data from the Survey on the Labour Force (SLF) dated 2002,

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<sup>78</sup> This datum on 745 thousand unemployed persons which was estimated on the basis of the Survey is very close to the number of the registered unemployed persons, and there were some 800 thousand of them in May 2002.

which amounted to some 11.9%. Also, according to the official data of the Republic Labour Market Bureau, there are more than 900,000 unemployed on the record, so the unemployment rate exceeds 27%.

The long-term trend of a moderate decline in overall employment and the growth of the unemployment rate from the previous decade also continued in the period 2000-2002. Despite the growth of GDP in real terms, overall employment dropped by 1.6% in 2002 compared to 2000. The decline in the overall employment rate in this period was predominantly due to reduced employment in the social and state sector, since the employment rate has grown in the private sector. Employment in the private sector grew in this period by 21.4%, and its share in overall employment grew from 23.8% in 2000 to 29.4% in 2002. In the same period the earnings of employees have grown in real terms by over 50%.

With regard to the trends and the structure of employment, it is important to point to the relative significance of the non-standard forms of employment, such as temporary employment, and occasional or seasonal employment. The data from SLSP indicate that these forms of employment are not negligible as in the previous period, because they represented 28.9% of overall employment<sup>79</sup>. These forms of employment provide for a higher flexibility in employment and more efficient satisfaction of the demand for work.

Hidden unemployment in government- and socially-owned enterprises, according to some former estimates, amounted to about one third of the employed. High protection of the employed caused inefficient utilisation of human resources, while the employed were protected from competition within their respective enterprises, as well as from competition between the employed and the unemployed. The high costs of dealing with the problem of redundancies of previous policies were borne by the enterprises, which were most often in a very poor financial situation, and therefore they postponed the process of dealing with the issue. Such conditions encouraged the spread of the grey economy among those employees who had full health and social insurance in the formal sector. In the process of structural adjustment, by dismissing those who are redundant, efficiency will be stimulated which will yield growth in the earnings of the actually employed workers, while the hidden unemployed will become really unemployed.

A large number of the unemployed, the those made redundant, as well as a large number of refugees and internally displaced persons, exerted strong pressure on the formal labour

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<sup>79</sup> According to the data from SLSP for 2002, temporary employment and short time employment had a marginal significance in view of the fact that their share in overall employment is only 5%, and 1%, respectively.

market, thus creating a big labour supply as opposed to the low demand for labour<sup>80</sup>. The big discrepancy between the labour supply expressed by the number of unemployed and the demand for labour expressed by the number of vacancies can be understood through the analysis of quantitative and qualitative factors. The quantitative factors can be analysed through the ratio between the unemployed and the vacancies. The number of actually unemployed in 2002 was on average more than seven times as high as the number of vacancies or the demand for labour. The qualitative factor of the discrepancy is reflected in the fact that, despite this large discrepancy between supply and demand, 16.8% of vacancies remained vacant in 2002. The disproportion between the supply and demand for labour is explained by inadequate qualifications among the unemployed, which does not fully correspond to the qualifications required. This unfavourable process of harmonization of the supply and demand was additionally aggravated by the low geographic mobility of the labour force, which is predominantly the result of unfavourable regional development of the economy and an undeveloped property market.

In line with the decline of the overall employment rate in Serbia, there has been a continuous growth of unemployment in the period 2000-2002. The total number of registered unemployed persons in 2002 was 843 thousand, which is 16.8% higher than in 2000. However, based on the data from SLSP, only one third of the declared number of unemployed represents the actually unemployed persons, in view of the fact that a major number of the registered unemployed persons are registered with the Labour Market Bureau because of their entitlement to health insurance (and pecuniary compensation), but they actually work in the informal labour market. For this reason, we shall proceed with the analysis of the characteristics of the actually unemployed persons based on the data from SLSP, and not of those unemployed who declared themselves as such, while they actively participated in the labour market.

The structure of unemployment is very unfavourable. Its most significant characteristics in Serbia in 2002 are:

**Long-term character** of unemployment, because over one third of the unemployed have been looking for a job for more than a year. Such a long-term character of the unemployment in Serbia represents a major economic and social problem which may have deep implications both with regard to the obsolescence of knowledge, and to the rate of use of the available human resources, and in particular to the social repercussions of unemployment.

**Dominant share of the youngest age group** (15-25 years of age) in overall unemployment (40.7%). This age group had an unemployment rate three times as high as the average unemployment rate (25.9% as opposed to 8.4%). This particularly high unemployment rate

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<sup>80</sup> According to UNHCR data, the overall number of the persons displaced from Kosovo and Metohija amounts to around 220,000, whereby about half of them represent a potential growth of the supply of the labour force in the labour market in Serbia.

indicates that young people in Serbia are in a considerably more difficult situation compared to the countries in transition, but it also implies the waste of human resources of those age groups which should give the greatest contribution to the economic and social development of the society.

*It is important to bring to attention another group of the unemployed who are especially at risk – young people. Stimulating economic growth and reducing poverty will also have a side effect of preventing the erosion of the existing labour resources as well as preventing young people from leaving the country. An estimated 300 000 have left the country in the last decade. The aggravating circumstance is the fact that a significant proportion of them are highly educated.*

**A relatively high share of the group having low educational qualifications** (below secondary school qualifications) in overall unemployment. Those unemployed with qualifications below the secondary school level represented 19.2% of the overall number of the unemployed in 2002. Dominant among them are unskilled and semi-skilled workers whose employment will be aggravated in the process of restructuring of the economy and labour force since modern industries require skilled labour. Additionally, the share of the unemployed who had previously been employed amounted to 44% in 2002, and it has been increased due to redundancies.

Compared to the countries in transition, the highest educational qualifications in Serbia, judged by their earnings, are relatively highly valued<sup>81</sup> and considerably higher compared to the countries in transition.<sup>82</sup> The wages of the formally employed with university qualifications compared to the wages of the employed with secondary school qualifications were higher, *ceteris paribus*, by 56.2% in 2002.<sup>83</sup>

On the basis of these results the conclusion may be drawn that investment in human resources, i.e. in education, is one of the ways of escaping poverty, in view of the fact that the labour market rewards higher levels of education.

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<sup>81</sup> The relative ratios between the wages of employees subject to their characteristics will be given on the basis of data from SLSP from 2002 based on Mincer's equation. Monthly earnings of employees in their main job expressed in Dinars are represented as a function of the following variables: gender, age, educational qualifications, location (urban/rural), region, activity, sector of property of the company in which they work and working hours.

<sup>82</sup> See Newell. A. and Reilly B. (1999), Returns to Educational Qualifications in Transitional Economies, Education Economics, Vol.14.

<sup>83</sup> In 2002, on the basis of data from SLSP, this difference in wages of the employees with the highest professional qualifications compared to the wages of the employees with secondary qualifications, provided that the other conditions are unchanged, was somewhat lower and amounted to 51.4%.

## Unemployment by Gender

The rate of unemployment among women was higher than the rate of unemployment among men (9.6% as opposed to 7.5%). Women in Serbia were harder to employ than men, although the educational status of unemployed women was better than of men (8.3% of the unemployed men and 14.8% of the unemployed women have above the secondary education).

Women in employment in 2002 earned less than employed men, *ceteris paribus*, by 24.5%. One part of this difference can be explained by the higher number of hours worked by men compared to women. The results indicate that the estimated differences in the earnings of men and women are among the lowest compared to the other countries in transition.

*Krstic explored wage determination and the evolution of the gender pay gap in Yugoslavia over the period 1995-2000 using the Labour Force Surveys<sup>84</sup>. Men had an average pay advantage over women of 9.3% in hourly measures in 1995 and 9.9% in 2002. However, the gender pay gap adjusted for productivity characteristics between men and women (i.e. education, labour force experience, skill level, etc.), appeared slightly larger relative to the unadjusted measure suggesting that characteristics of employed women are probably slightly better than men's. The ceteris paribus hourly gender pay gap amounted to 11.5% and 16.9% in 1995 and 2002 respectively indicating a significant rise of the ceteris paribus gender pay gap by about one-half. Thus, the slow process of transition to a market economy was not neutral to the wages between males and females. Although the adjusted gender pay differential increased considerably over the observed period, this pay gap is still one of the lowest among transitional countries.*

## Wages: State/Socially Owned Sector Versus the Private Sector

The wages of employees in the private registered sector compared to the social and state sector were higher, *ceteris paribus*, by 29.2% in 2002. This ratio between the wages of the employees in privately owned companies compared to the social and state sector is relatively high compared to the standards of other countries in transition<sup>85</sup> and can be significant for the attraction and keeping of a high-quality labour force in the private sector.

What are the effects of employment in the private sector on poverty? With a higher share of employed persons in a household, who work in a private registered company, it is noticed that their consumption rises compared to employees in the enterprises that are socially or state owned on average by 18%, and the poverty index is reduced. This effect rises if we go from the poorest to the richest section of the population. On the basis of these results, we may conclude that employment in the private sector is one of the ways to increase income and consumption of a household and take it out of poverty.

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<sup>84</sup> Krstic (2002), PhD. Dissertation, An Empirical Analysis of the Formal and Informal Labour Markets in FR Yugoslavia (1995-2000), University of Sussex, Brighton, the World Bank (2003), the Gender Pay Gap in the Transitional Countries, Mimeo, 2003.

<sup>85</sup> See Adamichik and Bedi, 2000, Wage differentials between the public and private sectors: evidence from an economy in transition, *Labour Economics*, 7, 203-224

## **The Grey Economy and the Grey Labour Market**

### Causes of the grey economy

In the ten years of deep economic crisis in Serbia, the grey economy was the main means of survival for a considerable part of the population, a phenomenon which was therefore tolerated by the state and became a deeply rooted pattern of behaviour.

The establishment of macroeconomic stability in Serbia between 2001 and 2003, together with concrete economic policy measures concerning the unification of the currency market, setting up a new banking system, tax reforms, especially reducing the burden on earnings, and deregulation of working relations reduced the impact of the generators of the grey economy in Serbia. However, widely spread corruption and criminality, that is, ineffective operation of the legal system, still stimulate the grey economy.

In Serbia, the grey economy is still one of the main means of survival of the poorest section of the population<sup>86</sup>, but is also a way to increase profits by avoiding government taxes by those sections of the population who are not at financial risk.

### *Scope and characteristics of the grey economy*

On the basis of data from SLSP, it has been estimated that about a million people in Serbia in 2002 were involved in the grey economy, which represents a little less than one third (30.6%) of those who actively participated in the labour market<sup>87</sup>. Apart from this, 10.8% of the persons that had a main job (either in the regular economy or in the grey economy) had an additional job in the grey economy. These figures certainly indicate that the grey economy in Serbia is still considerable. Examined by type of settlement, the grey economy was considerably less widespread in the cities (38%) than in other areas (62%), and examined by activity, it was most widespread in agriculture (49%), trade (13%), handicrafts, and services (10%). The grey economy was more widespread among those with lower educational qualifications as opposed to the formal sector, in view of the fact that 48% of people in the grey economy had the lowest educational qualifications, while in the formal sector this percentage is less than half that (22%).

The attractiveness of the hidden labour market lies in the fact that average earnings per hour were 28% higher than in the formal labour market, amounting to 83 Dinars or 1.3 USD. Higher earnings per hour in the informal than in the formal labour market, among other things, emanate from tax evasion. Another important characteristic of the grey economy is that it more adequately rewards educational attainment, in view of the fact that average

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<sup>86</sup> Avoiding payment of taxes to the state is not a primary motive, but a consequence of engagement in the grey economy by this poorest portion of the population.

<sup>87</sup> All categories of active population have been covered (except the unemployed).

earnings per hour of those with the highest educational qualifications were more than twice (2.7) as high as the earnings of those with secondary school qualifications, and more than twice as high as the wages of employees with university qualifications in the formal sector<sup>88</sup>.

*Influence of the grey economy on poverty*

The incidence of poverty was higher among those working in the grey economy than among those employed in the formal economy. The poverty risk of those employed in the grey economy (Table 2) was more than a third higher than the average poverty risk of the employed population, and the depth and severity of poverty is greater than among those employed in the formal economy. Such a large share of the grey economy among the poor employed clearly indicates that the grey economy is still the main means of survival of a major portion of the poor population.

**Table 2. - Grey economy and poverty in Serbia in 2002 (in %)**

	% Vulnerable	% of the poor	Relative poverty risk	Structure of those employed	Structure of the poor employed	Poverty depth	Poverty severity
<b>Employed in:</b>							
<b>Regular economy</b>	14.7	7.3	-16.4	69.4	58.0	1.4	0.4
<b>Grey economy</b>	22.7	12.0	37.1	30.6	42.0	2.5	0.8
<b>Total</b>	17.2	8.7	-	100	100	1.7	0.6

**Note:** Employed individuals are defined as persons who, in the reference week, did any job for money or any benefit in kind. The data refer to employees over 15 years of age. The relative poverty risk is calculated as a percentage growth (drop) of the poverty index of the reference group compared to the average poverty index of the employed.

**Source:** SLSP 2002.

The main characteristic of the labour market in Serbia is its segmentation into the formal labour market and the informal, i.e. ‘grey’ labour market. A relative inertia in the formal labour market, the recent rigid legislation in labour relations, and low wages and relatively high taxes and contributions on wages in the previous period were the main stimulants for the functioning and spread of the informal labour market. A high degree of discrepancy between the supply and demand for labour, a high hidden unemployment rate and the considerable size of the informal labour market, indicate that the formal labour market does not function adequately, i.e., that it does not allocate human resources optimally. Among poor employees, those involved in the grey economy represented 42% in 2002. Such a high share of the grey economy among poor employees clearly indicates that it is still the main means of survival of a major part of the poor population. The interconnections of the formal and informal components of the labour market confuse the real relationships in the market

<sup>88</sup> The earnings of those employed with university qualifications in the formal sector were higher by around 50% than the wages of those with secondary school qualifications.

and make it more difficult for the government to pursue an efficient labour market policy. A high degree of segmentation of the labour market into the formal and informal sectors is of particular importance for the forthcoming reforms and future policy in the labour market.

### ***1.1.2. Goals and Strategic Options for Employment Policy and the Labour Market***

#### **1.1.2.1. Starting Points**

The basis for the reduction of poverty is improved economic effectiveness and economic growth. More rapid and large-scale employment represents an important goal of this strategy because unemployment is one of the main causes of poverty and exclusion in Serbia. Stimulation of employment does not represent an isolated goal of economic policy but a project of society. For its implementation it is important to have a «wide partnership». Employment policy encompasses all the measures that either directly or indirectly influence the scope and the structure of employment and should not be reduced to labour market policy (labour legislation, passive and active measures). It is necessary that measures concentrating on the stimulation of employment be placed in the context of a global economic reform in order to establish the elements of a consistent employment policy, at the same time coordinated with other measures. Any partial approach would be counterproductive and would incur additional costs.

The employment policy is founded on «four strategic pillars»:

- development of entrepreneurship,
- upgrading of the working skills of unemployed labour,
- improvement of the adaptability of enterprises and the mobility of the labour market and the unemployed,
- provision of equal opportunities for employment of both women and men.

Such a policy ought to promote an array of work-related rights (the right to fair and favourable working conditions, protection from all kinds of discrimination, the right to belong to a trade union, safety at work) and improve the position of certain categories of population especially at risk of poverty (women, persons with disabilities, Roma, young people).

#### *The Structure of Existing Unemployment*

Unemployment in Serbia is neither frictional nor cyclical, it is rather transitional and structural. The large-scale long-term unemployment indicates that the major problems lie in economic growth. The fact that in 2002, despite a high unemployment rate, 77,888 vacancies remained unfilled indicates that the above-mentioned structural problem exists in the labour

market. The cause of these positions remaining vacant is partly because suitable people for them are engaged in the grey labour market.

#### *Prevention of large-scale new unemployment («redundancies»)*

Transitional unemployment is a special form of structural unemployment. It is not related to particular regions or branches of the economy, its causes lie in changes in the economic and social system and the process of structural adjustment.

Privatisation, deregulation, and the liberalization of the market, as well as a more consistent implementation of bankruptcy legislation, will increase existing unemployment. Structural adjustments will cause the loss of jobs for a part of the workers (the estimate is from 100 000 to 600 000 people). Those regions where «socialistic giants» were located and where the majority of workers were employed (around 60% of employees in industry are employed in large enterprises) will be particularly affected. It is of the utmost importance that those who lose their jobs in the process should not move into long term unemployment.

#### **1.1.2.2. Institutional Changes in the Labour Market with the Aim of Stimulating an Entrepreneurial Climate**

The establishment of a system of institutions that satisfy the requirements of the market economy and free enterprise also implies changes in the labour market. Any rigidity in this area, in the long run, results in unemployment and a decline in productivity. Labour market policy does not create new jobs, but rather assists in the development of an overall institutional climate, which stimulates new employment. The demand for labour also depends on the institutional characteristics of the labour market. This is usually neglected and it is considered that the only important thing is to stimulate economic growth and that the employment problem will thereby be solved. The situation is far more complex and the institutional policies that govern the labour market are of great importance for new employment. Economic growth is a prerequisite but it is not a sufficient precondition for new employment.

Change of the institutional framework in the area of labour market and labour relations should be concentrated on three goals:

- providing greater market flexibility with regard to wages and employment,
- stimulation of demand by entrepreneurs for labour,
- improving labour productivity..

The first step in establishing new regulation of relationships in the labour market was made by the Labour Law.

*The Labour Law became effective on December 13, 2001. It has considerably simplified the process of employment. The Law governs only the basic employment criteria (age, working ability, it prohibits discrimination on the grounds of gender, nationality, religious affiliation and the like) and states the basic rights and obligations of the contracting parties, while employers have the freedom to establish all other parameters of the contracts of employment. It also provides for different forms of flexible employment (employment of workers to work shorter hours, temporary employment, employment for work at home, work on contract). The dismissal procedure has also been simplified, and the amount of severance pay has been reduced. The minimum wage is agreed between the Government of the Republic of Serbia, representatives of labour unions and representatives of the association of employers. If a consensus cannot be reached, the minimum wage is determined by the government of the Republic of Serbia. It is determined for the full working hours and an average performance for a period of at least six months. Other wages are subject to collective negotiation. Sick leave criteria and penalties for employers who do not observe the regulations have been tightened.*

Despite the existence of formal preconditions for the operation of a more flexible labour market there are no notable changes in practice. The stipulations of the Law are not being applied because transformation of ownership has not yet been completed. The existing management structures in the companies not yet privatised do not provide incentives to change the scope and structure of employment.

An important step towards rounding off the institutional environment in the area of the labour market is represented by the new Law on Employment and Unemployment Insurance. Furthermore, it is planned to proceed to drafting the following: Law on Safety and Health at Work, Law on Trade Union Organisations and Employers' Associations, Law on Amicable Settlement of Collective and Individual Industrial Disputes, Law on Strikes, Law on Employment of Persons with Disabilities. It should be born in mind that these changes do not require additional finances.

### **1.1.2.3. Labour Market Mechanisms**

The key to a more effective labour market lies in the improvement of conditions for the functioning of the mechanisms of work. Measures aimed at improving conditions have two directions: improving the quality of the labour supply and changes in its structure in line with a modern market economy, as well as improved flexibility.

Active measures for the stimulation of employment should be delegated to regional and local levels which will develop their own employment programmes, in keeping, as far as possible, with target groups.

### **Change from passive to active measures**

Unemployment benefits<sup>89</sup> are received by only a small number of persons so that this measure does not fulfil its function as temporary social protection for the unemployed. According to the plan of the Republic Labour Market Bureau for 2003, the share of scheduled expenditures for insurance and servicing of entitlements of the unemployed in overall expenditures amounts to 85% and it should cover 81,000 of the unemployed. Such a distribution of allocated resources limits real possibilities for the use of active support to employment. Passive measures cannot do much to solve the social problems of the unemployed in Serbia, in view of the fact that unemployment is large-scale and long-term. This kind of financial assistance should be directed only to those who are really in the greatest need.

It is necessary to concentrate on active measures that involve the creation of prerequisites and opportunities for the easier employment of those made redundant and unemployed workers in new production programmes. For all active employment measures there are precise legal procedures specified. The Law on Employment specifies that the programme of active employment policy for the Republic is to be adopted by the Government, and that the relevant local self-government authorities can formulate the programmes for territorial autonomy and local selfgovernment. The funds for the financing of these activities are allocated from the budget of the Republic and from the budgets of local communities, as well as from other sources.

### **Raising the Value of Human Resources**

Transition towards a market economy changes the type of skills required. This is why professional training, retraining and additional qualification should run in parallel with privatisation.

Within the labour supply more than a third of the workers do not have professional qualifications, while around 30% have secondary school qualifications. This is a category for which the demand has been drastically reduced. Additionally, among the unemployed those looking for a job for the first time are dominant (69.8%) – the percentage is higher in Central and Southeast Serbia (the region in which poverty is the highest) – as well as those unemployed for extended periods of time who have lost contact with the labour market.

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<sup>89</sup> In accordance with the Law on Employment and Unemployment Benefits the right to compensation will be granted to an unemployed individual in the following circumstances: termination of the need for performance of work, bankruptcy, liquidation and all other cases when the employer ceases to operate, failure to meet projected objectives as well as confirmed inability to perform work, if the spouse has been relocated and if the individual has been working abroad.

Without additional education it is not realistic to expect that these workers can again permanently join the world of labour.

The acceptance of the principle of lifelong education is the only strategy that guarantees flexibility and adjustment of the labour resource to a dynamic environment.

*Refugees and internally displaced persons are in a specific position. They are allowed to register as unemployed, but a problem arises because a large number of these people cannot produce relevant evidence of their educational qualifications. This issue cannot be addressed in isolation from other former Yugoslav republics, but through governmental cooperation with the countries that these people fled from.*

*The problem of poor education is particularly prominent among the Roma. The low educational level of this group considerably impairs their opportunities for inclusion into the world of labour, thus creating a vicious circle of poverty. This circle could be brought to a halt only through education and training in the broadest sense of the words. The fact that this population is most numerous in the regions that are particularly affected with poverty adds weight to the problem.*

It is important for this process to be brought as close to employers and their needs as possible. All programmes of re-training, i.e. training in a wider sense, that are organised without the concrete participation of employers seldom result in new large-scale employment of the workers involved.

### **Upgrading of mediation**

It is necessary to improve the system of counselling and mediation between employers and the unemployed since counselling and mediation are activities that result in positive benefits.

*The Law on Employment and Unemployment Insurance was adopted on 10 July 2003. It aims at creating an institutional environment, which is significantly different from the existing one. The position of all the key stakeholders is radically changed. It plans the setting up of the National Employment Service, as well as the possibility of establishing private agencies. The intention is to encourage competition and consequently raise the quality of services. Private agencies will be concentrated, subject to their profit orientation, on employment of those groups of workers that are easy to employ. The importance of the National Employment Service will still be great, and the groups of workers for whom there is a low demand will quite certainly remain in the domain of the activities of the National Employment Service. Within the National Employment Service there will be a business centre, providing different kinds of assistance in self-employment, as well as a job club in which the unemployed will acquire knowledge, abilities, and skills for their job search. The Law also introduces an innovation: the obligation that the National Employment Service and the person who has been unemployed for an extended period of time (a long-term unemployed person is someone who has been on the unemployment register for over two years), as well as the unemployed who are entitled to pecuniary compensation, conclude an agreement on the conditions, procedures, and measures for finding employment.*

The intention is to bring those who offer and those who search for employment closer together (using employment fairs, the internet, etc.)

*Characteristic measures for the stimulation of employment*

In order to maximise their impact, the following measures should be brought in keeping with local circumstances.

**Employment of those made redundant:** The Ministry of Labour and Employment adopted, in 2002, the Social Programme for those made redundant through which measures for their re-employment are proposed.

- As unemployed, a worker may register with the Labour Market Bureau and be granted the same rights as all other unemployed.
- An employee may receive one-off cash compensation, which is not subject to taxation. The compensation amounts to ten average wages or 6,000 Dinars for each year of service.
- The third option is financial compensation accompanied by additional training.

So far about 90% of workers have taken the second option, the purpose of which is to stimulate self-employment. For the implementation of this Programme the Ministry of Labour and Employment has allocated funds for this year amounting to 7.5 billion Dinars (around 125 million USD ).

Although the problem of those made redundant is severe, it will not be dramatic for two reasons

- First: a great number of these workers have additional incomes, which are the result of their involvement in the informal economy, additional work in agriculture or some other activity. Some have even become entrepreneurs.
- Second, most companies employing large numbers of workers will not undergo privatisation and restructuring in 2003 and 2004, thus allowing sufficient time for the development of small and medium enterprises.

**Retraining:** There is no linear relationship between surplus labour and new employment opportunities. Because of this, together with the above-mentioned changes in the skills demanded, the workers who have lost their jobs may not automatically be those who will get a new job.

Privatisation and restructuring will most likely increase the number of least qualified unemployed, lacking the skills required by the new economy. This is why these groups need extensive retraining programmes – in order to be able to switch to those sectors of the economy that are expanding, both as employed and self-employed.

**Subsidizing a portion of the labour costs:** It is also planned to stimulate new employment by subsidizing employers during 24 months for contributions for pension and disability insurance, health insurance, unemployment insurance, when they employ an unemployed individual who has been waiting for employment for an extended period of time. If an employer employs a person who is over 50 years of age, then this subsidy can be obtained

for 36 months. It is not realistic to expect employers to employ a greater number of persons over 50 years of age in a situation when there is a huge number of unemployed who are under 40 years of age (66%). This measure can be applied in situations where targeting is simple, for example, for an especially depressed region or city.

These programmes also involve incentives for the employment of trainees (i.e. young people), as well as persons with disabilities and other groups at risk. In the past year there were 2 000 trainees, of whom half had university qualifications. The trend of employment of trainees has been declining for two reasons: lack of financial resources and the requirement that a person has to be already permanently employed in the phase of intern training. The second reason has significantly reduced the interest of employers.

At the end of 2002 there were 19 302 persons with disabilities on the unemployment register of the Republic of Serbia. The National Employment Service has significantly supported the opening of new job vacancies for persons with disabilities (the Bureau participated in financing 71 investment programmes). The wages of persons with disabilities are subsidized by 80%, and the other at-risk groups by 30%. This covers a small number of the unemployed due to the lack of funds.

*The drafting of the Law on Employment of the persons with disabilities is under way, and its passage is expected by the end of 2003. This Law focuses on the creation of a legal framework that would enable persons with disabilities to show their abilities and express their creative potentials, and acquire economic independence through active participation in the world of work. The goal to be attained is inclusion of persons with disabilities in society, rather than their exclusion. This law envisages the introduction of employment quotas for persons with disabilities. It will also provide for their special care, occupational rehabilitation and professional training (the Fund for Professional Training and Employment of persons with disabilities is to be set up), and safety at work.*

**Self-employment:** Self-employment can be stimulated by paying one-off cash unemployment compensation, subsidies, and additional education and training, assistance by business centres. There are also special incentives for self-employment of those made redundant. If ten or more persons who have been made redundant pool together, and set up a business partnership, a cooperative or a similar enterprise, they can obtain non-repayable funds amounting to 150 000 Dinars. The amount of severance payment varies from one enterprise to another, and not even very high severance payments (several dozens of thousands of Euros) have contributed significantly to the establishment of new enterprises, since they have mainly been spent for different forms of consumption. Therefore, self-employment should be stimulated by other measures.

**Public works:** The goal is to employ those categories of the unemployed who are most difficult to employ, persons in social need, and the unemployed over 50 years of age. Public works should be, according to the Law on Employment, organized for carrying out works of general interest (for example, in the area of social, humanitarian, cultural, and other activities). The funds for this purpose would be provided from the budget of the Republic, from the territorial budgets and from local selfgovernment, as well as from other sources of financing. Such programmes can be applied on a smaller scale for specially targeted groups

(with clearly emphasised social goals) with the necessary addition of different forms of education.

#### **1.1.2.4. The Labour Market – stakeholders and their roles**

Successful labour market reforms demand a wide partnership since the result of the above-mentioned measures will mostly depend on the overall economic environment along with the activities of all relevant participants.

Who are the main stakeholders in the process and what is expected from them?

**The Government and relevant ministries** should enable the establishment of an institutional framework that by its characteristics corresponds to the contemporary market economy and stimulates investments. The first step is to adopt key laws (among other things, to complete the initiated amendments in the labour legislation). The second part of the Government's jurisdiction is global economic policy which should encourage investment and economic growth. The third step consists of the above measures to actively stimulate employment. In the processes of institutional changes in the labour market the key role belongs to the Ministry of Labour and Employment. This Ministry will also implement the National Employment Strategy, as well as the Employment Action Plan. Apart from changes in legislation, this Ministry should also strengthen labour inspection.

*The Ministry of Labour and Employment anticipates the adoption of the following laws: the Law on Safety and Health at Work, the Law on Trade Union Organisations and Employers' Associations, the Law on Amicable Settlement of Collective and Individual Industrial Disputes, the Law on Strikes, the Law on Employment of Persons With Disabilities.*

The Ministry of Science, Technology and Development, the Ministry of Education and Sport, as well as all other stakeholders in the educational network, should actively participate in the process of the education of the unemployed for the purpose of achieving stronger and more functional ties between the requirements of the labour market and the educational system.

This process calls for a social dialogue. The establishment of socio-economic councils at national, regional and local levels will provide the institutional basis for a dialogue. In some municipalities socio-economic councils, planned to coordinate the activities of key local actors, are already being formed. This will also enable inter-sectoral cooperation. Apart from consultative activities and harmonization of measures, these councils will also perform evaluations of outcomes.

**Mediation services:** In the process of improving mediation, the key role lies with the Republic Labour Market Bureau and private agencies. It is necessary to undertake an organizational restructuring of the Bureau, its modernization and the upgrading of the quality of the work of its employees. Due to local specific problems of unemployment, the local employment services must be given greater freedom and authority to work out their own programmes to suit the situation in the field.

Familiarization with foreign experience and continuous training Bureau employees would professionally strengthen this institution and raise the quality of its operations. The business premises available to the Bureau are insufficient and inadequate. The number of employees should be increased (one counsellor works with some 2,500 unemployed persons), and the existing information system modernized.

**Local selfgovernment** is responsible for promoting local initiatives, the improvement of the entrepreneurial environment and the provision of public services. This also implies the need to establish strategies for regional and municipal development. Without these, efforts and resources will be dissipated, and the effects will not be concentrated on key aspects and on the most important areas.

*It is also necessary to create the relevant local infrastructure for the implementation of these measures, in order to be able to implement the programmes based on local conditions and requirements. For their implementation local self-government institutions should be put in charge, which also must be followed by a certain financial autonomy.*

For the undeveloped parts of the country (where the infrastructure as a whole is unsatisfactory) it is necessary to instigate concrete initiatives for the revival of production. This may also include giving special concessions to foreign investors with the aim of attracting them (the above mentioned «soft instruments»). It is necessary to create integrated models of professional adult education that link the labour market, the network of institutions for adult education, local authorities and the local economy. The social partnership that is a prerequisite of these activities on the local level involves the participation of the local labour market, enterprises, professional associations, trade unions, entrepreneurs and their associations, and institutions of informal education.

**The unemployed:** The unemployed are primarily responsible for their own employment and should assume a more active role concerning training, mediation and other relevant aspects. So far, some of the unemployed have demonstrated an extraordinary lack of action. According to the results of the Survey on the Living Standard of the Population, 45% of the respondents had not even tried to get a job, while 23% are not trying to get a job because they do not want to work (there are no major differences between the genders). The Law on Employment sets forth stricter regulations and the introduction of a measure whereby the unemployed who reject any adequate employment or participation in a programme of active employment measures offered to them are deleted from the records. Such a measure is justified. This is an attempt to make a distinction between the unemployed who are really looking for employment and others who are not. Thus, in a year, the picture of unemployment will be much more realistic.

**Employers and trade unions:** Employers and their associations should actively participate in these processes in different ways (particularly through cooperation in the process of training, as well as by informing the labour market of their actual needs). It is essential that parties taking part in collective negotiations should reach a consensus concerning new employment. The consensus ought to be reached and maintained both at the regional and at the local level. It is especially important to avoid a situation in which a union and an

employer agree on pay rise, shifting the problem of new employment to the state. It is important to create favourable circumstances for new employment through a consensus.

**Non-governmental organisations:** Non-governmental organisations are an important partner in the processes at all levels and especially at the local level. They are an agent which can provide considerable assistance in the inclusion of unemployed individuals who have not been registered with employment agencies into programmes and activities intended for them. On the other hand, non-governmental organisations will also play an important role in the review of the effects of the implementation of certain measures, especially at the local level.

#### *Limitations and necessary adjustments*

There are three key limitations to the successful implementation of the above measures.

The first is related to the overall economic environment. Without a major inflow of foreign investment it will not be possible to increase economic growth to any major extent.

The second limitation is the high unemployment rate. The process of overcoming this limitation cannot be the result of isolated efforts but of a global strategy of economic development. Active measures for stimulating employment are less efficient in the initial periods of transition, because unemployment is not predominantly the consequence of unsatisfactory labour supply and its structure, but of a very low demand for labour. On the other hand, the high unemployment rate makes more difficult the stimulation of employment of particularly vulnerable groups of the unemployed.

The third limitation is the financial constraints. The funds at the disposal of the Republic Labour Market Bureau are limited. The active programmes and measures have not been able to influence the change of the unfavourable situation in the labour market to any significant extent, because of the lack of funds.

*The funds allocated for the labour market ranged from 0.4% to 0.6% of GDP. The budget for 2003 amounts to around USD 199 million, whereby the planned share of expenditures for insurance and servicing of the entitlements of the unemployed in the overall expenditures amounts to 85.0% and the share of the expenditures for financing the active employment policy amounts to 8.7%. Certain problems have arisen regarding this disbursement. It has been delayed for five months now, while between 3.5 and 4 billion dinars are needed to cover the outstanding debts (in January 2003 alone, the debt amounted to 786,204,532 dinars).*

Not much can be done with the modest funds available and some measures that have already been introduced are at risk of being discontinued). It should also be noted that a part of these expenses is financed from the Transition Fund (for example, a one-off severance pay to redundant workers).

The costs of the existing measures cannot be financed by the funds at the disposal of the Labour Market Bureau, and it is necessary to include funds from government and local budgets (for the local programmes), as well as funds from foreign donors. The major portion of these funds should be allocated to the training of the unemployed and those made redundant (in the past year such programmes covered only 11,300 workers.), the

implementation of special programmes for persons with disabilities and those who are hard to employ, employment subsidies, programmes for active job search, stimulation of entrepreneurship, and other employment measures and programmes.

## 2. More Efficient Social Protection<sup>90</sup>

### 2.1. Current status and problems

#### 2.1.1. Current status

There are two main programmes of social protection dealing with the alleviation of poverty in Serbia. They are: social assistance ('material support to families' - MOP); and child allowances. Their purpose is to ensure a minimum income to the families in need, and particularly to families with children.

**Table 1** Number of beneficiaries of social transfers (in 000)

Year	2000	2001	2002
Social assistance (MOP)	67	115	125
Child allowances	494	665	497

**Note:** all the data are from December of the relevant year.

**Source:** the Ministry of Social Affairs

The number of citizens who receive **social assistance** is modest. During the nineties, it was reduced to 67 000 (December 2000), and this variation in the number of beneficiaries of social assistance was not the consequence of a reduction in poverty in Serbia, but of the restrictive policies in the system of social protection and of failure to finance even such modest support. In the past two years, the number of those entitled to social assistance has grown: from 115 000 in December 2001 to 125 000 in December 2002. The growth was partly the consequence of a supplementary programme of social assistance financed from donations (28 000 beneficiaries in December 2002), and partly of the regularity of transfers, which increased the formerly lost interest of the poor. The overall allocation for social assistance amounts to 117 million Dinars per month (December 2002).

The amount of social assistance is modest. In December 2002, an average amount per individual amounted to 1,092 Dinars (EUR 17). Such transfers can only to a limited extent improve the financial status of the poor.

Social assistance is based on the overall income available to an individual and a family and supplementing such income up to the poverty line, provided that additional criteria are fulfilled (small property, involvement in the labour market). The income test for an individual for entitlement to benefits is relatively low (at the same time it is the maximum amount of social assistance) and, in March 2003, it amounted to 2,447 Dinars (EUR 38) in more developed parts of Serbia; in municipalities with low average salaries, the income test

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<sup>90</sup> Social protection includes assistance to poor individuals or families to reach a minimum income level, care for the members of vulnerable groups (children without parental care, elderly persons who cannot look after themselves, diseased persons, etc.) and support the creation of young families, including encouragement of child-birth.

is even lower. The difficulties lie in the sensitivity of the methods to the grey economy, which is very widespread in Serbia, and the assumption of very high economies of scale within households, which discriminates against larger families.<sup>91</sup> The weakness of this programme also lies in establishing separate poverty lines in each municipality on the basis of average salaries, which means that the principle of the equality of the citizens of Serbia has been compromised and that the poverty line is relative. The latter weakness will be corrected by amendments to the Law on social protection which are currently in the parliamentary procedure - they set the single absolute poverty line (in Dinars) for the whole territory of Serbia, indexed to the cost of living.

Social assistance targets the poorest citizens relatively well. The analysis has shown that social assistance is the best targeted social transfer in Serbia and that the efficiency of targeting is higher than in some other countries in the region.<sup>92</sup>

Among those entitled to social assistance three categories are dominant: the unemployed, persons with disabilities, and their children. The other categories (employees, pensioners, farmers, etc.) have negligible representation among those entitled to social assistance. More than half of the beneficiaries have not completed elementary school. Examined by family size, single persons dominate (about half the total number), which is the result of excessively assumed economies of scale within households.

Basically, social assistance in Serbia has a small coverage, it is restrictive in terms of regulatory policy, pretty well targeting the poorest people, it favours small families and mainly covers those with poor educational backgrounds, the unemployed, and persons with disabilities.

*In the Law or "Krmčija" of Saint Sava dating from the 13<sup>th</sup> century, great attention was paid to the poor and their protection within various regulations which treat social issues of men's life in detail (family law, obligations of the society towards the individual etc.)*

*In close cooperation with the civil authorities, the church was in charge of the creation of "honourable homes" for: the elderly, the poor, children deprived of parental care, foreigners etc. These homes had their administrative and managerial staff, as well as real estate and other assets that were bestowed upon them. The operation of these charitable institutions was closely monitored by the overseers, who were in charge of advocating for the poor, comforting the mourners, defending the abused etc. Among the vulnerable were also those with physical disabilities: the blind, deaf, mute, lame, etc.*

*It is characteristic of the Law of Saint Sava that, apart from the material aspects of poverty, equal attention was paid to the legal protection and equality of all before the courts, regardless of their material status. This principle of universal legal equity was also included in the Law book of Tsar Dušan from 14<sup>th</sup> century, which states: "Every washerwoman must be as free as the priest"; "a poor soul who cannot represent herself at court, may send a representative to speak in her name".*

**Child allowances** represent the largest programme of assistance to the poor, financially 3-4 times as large as the programme of social assistance. Its purpose is assistance to poor

<sup>91</sup> However, there is compensation for the families with children in the form of child allowances.

<sup>92</sup>B. Bogicevic, G.Krstic, B. Mijatovic and B. Milanovic – *Poverty and the reform of financial support to the poor*, CLDS, 2003.

families with children, i.e. creation of equal conditions for the normal development of children.

**Table 2 Poverty among children**

	Total	Belgrade	Vojvodina	Western Serbia	Central Serbia	Eastern Serbia	Southeast Serbia
<b>Poverty rate in %</b>	10.4	6.8	7.6	14.5	11.2	9.7	16.8

Source: SLSP

Examined by region, the lowest number of poor children are in Belgrade and in Vojvodina, while the highest number are in western and southeast Serbia, while central and eastern Serbia are somewhere around the average. Children in families with several children are also in a less favourable position in Serbia. Thus children in households with one child have a poverty rate of 7.5%, children in households with two children – 8.7%, and children in households with three children – 18.9%. However, inequality among children is not particularly prominent – the Gini coefficient is 28.8, somewhat lower than for the whole population.

The new Law on Financial Support to Families with Children enacted in March 2002, allows a much more accurate targeting of poor families. This is accomplished through universal income testing as well as some moderate asset-testing. Similarly, differences in income thresholds between the communities in the poorer parts of Serbia have been eliminated. Finally, both child allowances and income thresholds were indexed to the cost of living in order to preserve their real value.

The child allowance is awarded on the basis of the income threshold that is set at a level of 3,030 Dinars per household member (March 2003), which is higher than for social assistance. This programme does not use an economy of scale, but applies the same threshold for all members of the household, which increases the number of families eligible for child allowance. This is a result of the view that this programme should cover wider strata of the population, i.e. include families with lower medium incomes as well. Child allowance for all children amounts to 990 Dinars (December 2002), i.e. 16 Euros. For single-parent children and children with special needs, this amount and the threshold are increased by 30%.

The number of children entitled to child allowance has grown from 494 000, at the end of 2000, to 665 000 in December 2001, i.e. by 35%, owing to the increased interest which was caused by regular payment and accelerated payment of the two year overdue child allowances. In the second half of 2002 there was a significant reduction in the number of children covered, which was due to the adoption of a moderate asset test and to the growth of incomes in real terms, which has placed numerous beneficiaries above the income test. In Serbia currently, every third child is receiving child benefits.

To the poor with new born children even the childbirth allowance is helpful, although it represents an almost universal transfer, except for the richest stratum. It has been paid since

the summer of 2002 to the amounts of 55 000, 98 000 and 130 000 Dinars for the second, third, and fourth child in a family.

Outstanding debts in the field of social protection were inherited from the period before October 2000. Starting with the assumption that the first years of transition will be the most difficult for the poor and that as high as possible an amount of assistance should be directed to them, avoiding large dependence on donor resources, first the regular payment of social protection benefits was secured from the Republic Budget, and for additional payments a One-off Fund was established. Donor resources were directed through this Fund and inherited arrears were paid off: 26-32 months arrears in payment of child allowance, social assistance and carer's allowance, as well as one-off benefits to all beneficiaries of child allowances, single parents whose children are entitled to child allowance, and two one-off benefits to beneficiaries' social assistance and carer's allowance. Besides, the One-off Fund has for a whole year regularly supported 12 thousand poor families who could not become eligible for social assistance only because of the decentralisation of the income testing by municipalities. From the budget resources, 46 thousand poorest families were additionally supported to cover the rise in electricity prices, while donor resources were used to cover several years arrears in electricity bills of beneficiaries of social assistance.

*The decision of Electric power company of Serbia on additional help to MOP users remains valid. They are entitled to a 30% discount to the value of spent electric energy up to 450 kw/h a month, on condition they pay their bills regularly.*

*The decision of EPS Managing board, with the consent of the republic Government, has approved another benefit. The households which were spending 70 – 300 kw/h a month in July, August and September, and which receive child allowance or whose total monthly income is under 6,000 dinars i.e. up to 2,500 dinars per household member did not pay the fixed part of the bill.*

**Social protection services** An important part of social protection in Serbia is to assist children without parental care and to enable elderly persons and persons with disabilities to look after their own needs. The existing system of providing support to these vulnerable groups is predominantly concentrated on institutional (residential) accommodation. In the network of homes in Serbia there are 77 institutions, which accommodate 17 thousand elderly persons, children without parental care, and persons with disabilities. As an alternative to institutional accommodation, within the system there is also accommodation in another (foster) family, as well as day care centres and allowances for home care. These alternative forms of social protection are, however, insufficiently developed. Among them, the most common is foster care as a form of protection for children without parental care. Out of approximately 10 thousand children without parental care, almost 6 thousand are accommodated in extended families, 2 thousand in Institutions for children without parental care, and 2 thousand in foster families. The network of day care centres and advanced home help exists, first of all, in big cities; their capacities are insufficient and they do not represent the appropriate option that would ensure that the most vulnerable are supported primarily within their families and in their own homes.

The services in the domain of social protection, apart from the programmes of protection of persons who cannot look after their own needs, also imply the establishment of of

entitlements to different forms of cash compensations (material assistance to families, allowance for providing assistance and care to another person), as well as providing assistance in the sphere of legal and family protection. In the past, a major part of the services were provided within the network of the Centres for Social Work, which cover all the municipalities in Serbia.

During the nineties, a large number of NGOs were providing care, but they were mostly engaged in the distribution of humanitarian aid targeting, first of all, refugees and internally displaced persons.

As with all other parts of the system, the system of service provision in social protection has been seriously damaged in the past period. The capacities of numerous institutions were destroyed, while the living conditions of beneficiaries were at an unacceptably low level. Social protection institutions dealt with their own problems, and being poorly paid, the employees were not in a position to provide adequate assistance to anyone. Development alternatives, new methods of work, and professional training were completely unavailable for the majority of the employees.

Progress has been made since 2000; the first steps were primarily aimed at the improvement of the living/material conditions in the social welfare institutions. With the assistance of the donors, just in 2001, much more was invested in facilities and equipment than in the previous decade. Even after three years, however, the situation is unsatisfactory in some social institutions for persons with disabilities (the mentally affected), which accommodate far more beneficiaries than they have capacity for.. At the same time, the paying back of debts and the beginning of regular payments of all social entitlements, as well as a slight, and yet evident improvement in the material status of the employees, have consolidated the system and created favourable conditions for simultaneous activities on the reforms in social protection.

**The problem of incomplete coverage.** Despite the fact that there are social protection programmes specifically intended for the poor, a not insignificant number of the poor are reluctant to use them even if they are entitled to them. The reasons for such reluctance vary and they include insufficient information about the entitlements, refusal of public welfare for psychological reasons (stigma), no permanent address (especially in the case of some Roma groups and the homeless), lack of skills to cope with the red tape, geographic inaccessibility (in the case of institutional forms of social protection), resignation to poverty, and the like.

A very special problem is poverty among refugees, who are not entitled to basic social transfers. This issue will have to be tackled through a comprehensive government policy for refugees, including the policy of granting citizenship.

### **2.1.2. Main problems and constraints**

Social welfare is caught between the growing demands for the provision of provision and support to vulnerable individuals and groups, on the one hand, and material and financial

constraints, on the other. The present status shows that the challenge exists and that it is a serious one. On the one hand, social welfare has deteriorated during the past decade, both with respect to the number of beneficiaries of social transfers and to the quality of the services in the institutions, and with respect to the available financial resources, despite the fact that the number of poor grew, that the wars and sanctions intensified the need for social protection of a growing number of people pertaining to the vulnerable groups. Additionally, the economic crisis limited the abilities of the state to finance those increasing needs, and therefore there appeared a great gap between what is necessary and what can be done. In other words, the legacy of the past is very unfavourable.

On the other hand, Serbia, which has not as yet recovered, is faced with the beginning of transition, which carries new risks and demands solutions to them. A wide economic liberalization, both internal and external, and privatisation are going to bring about restructuring of the economy, which will, at least in the short run, jeopardize the employment and incomes of a part of the population. The relative rise in the prices of the utility services have the same effect. Therefore, the social safety net gains importance, as a mechanism whose purpose is to provide basic living conditions to the citizens, as well as to those temporarily affected by the transition.

The major constraint is the financial in capability of Serbia to round off the financing of the required level of social protection. In the previous two years, the external funding (donations) represented supplementary financing of the local funds, but it is scaling down. The country's financial status directly affects the financing of basic social protection institutions – residential institutions. Their rehabilitation and modernization, especially reconstruction and equipping, was to a great extent financed from foreign grants.

## **2.2. Goals and Strategic Options**

### **2.2.1. Goals**

The goal of the Poverty Reduction Strategy in the area of social protection is to alleviate the consequences of poverty in the entire population and, in particular, among certain vulnerable groups. The programmes of social protection certainly cannot eradicate poverty, but they can and must be a support for the most vulnerable, for those who are not in a position to provide basic living conditions for themselves. So, social protection cannot influence the causes of poverty – this needs to be done in the area of other economic and social policies – but it can, to a certain extent, cope with the consequences of the prevailing poverty.

Children are the most important among the vulnerable groups. Although they do not have an above average risk of poverty, by the nature of things children are entitled to greater protection than others. Therefore, the policy of additional protection of children through social transfers should continue to be conducted in the future, with careful targeting.

The goal in the forthcoming period must also be the widening of the coverage of social protection to include other vulnerable groups, such as children without parental care, the elderly and the diseased who are unable to look after themselves, and the like.

### 2.2.2. Strategic Options, Measures and Activities

The struggle against poverty in Serbia certainly cannot rest predominantly on social protection; instead it must be based on economic progress as the soundest and most efficient means to reduce the number of poor and the depth of poverty. Economic growth usually yields increased earnings of all social strata, even of the poor, and by employment of the unemployed it leads to increases in the wages of employees, and increased government support to the poor from the increased tax base. Reduction of poverty with economic progress is inevitable if the distribution of income, i.e. inequality of that distribution, remains unchanged or if it is changed a little.

Although necessary and most important, economic growth is still not a sufficient condition for the elimination of poverty. Despite the growth of income, it is necessary, on the one hand, to pursue different policies that will support or, at least partially, enable growth and, on the other hand, to help those individuals who are still unfortunate or unable to participate in the results of the progress. Therefore, the state will pursue a stimulating policy in the entire social sector, including education and health care and the pension system and social protection in a narrow sense. While education and health care contribute to the growth through development of human resources (human capital), the pension system and social welfare should represent the mechanisms of provision of income to those who, for various reasons, do not directly participate in economic activities.

Transition certainly does not include only the changes in the economy and in policy, but also in the social sector as a whole. A society founded on limited opportunities, but also on low risks, is turning into a new society in which the risks are higher, but the opportunities are also greater, and consequently, so is the responsibility of individuals towards themselves and their families. The old socialist concept of social policy, according to which the paternalistic state regulates, finances, and provides social services, requires a thorough reform. Therefore the overall social policy concept will change, and the new one could be as follows:

- **Extended sovereignty of individuals**, who are not only payers and service beneficiaries, but also individuals who have the right to choose, to make their own decisions that very much concern them, but also to bear the responsibility for the consequences of their choices. In Serbia, the widespread habit of expecting the state to provide protection from all risks is not realistic.
- **Assistance to those who suffer and who are in need**. The principle of solidarity means that everyone should satisfy his/her basic needs, but also to look after himself/herself as much as he/she can. Solidarity must be expressed by targeted assistance directed exclusively towards the poorest and those who are not in a position to look after themselves and their families.
- **Competition** must exist between different forms of ownership and different mechanisms of coordination, and it is good for two important reasons: the first is exercising of the individual's right to choose, and the second is increased efficiency.

- **New role of the state.** The state would no longer organize, keep in possession and collect all the moneys for the operation of the social sector, but would instead predominantly have a role of developing legislative frameworks, oversight, and ultimately provision of ultimate insurance and assistance.
- **Greater role of local communities.** While the government would continue to manage the main programmes for the purpose of maintaining equal status of citizens, other programmes should be assigned to local communities and organized, if possible, on a partnership basis with humanitarian, donor and non-governmental organisations, churches and others.
- **Sound financing** should go without saying, but it was often sacrificed under the pressure of social rights, which were untouchable. Serbia must not go back to the inflationary financing of the budget and, therefore, it must design a social sector within budgetary constraints and not based on a wish list.

In line with such principles it would be necessary to work out the changes in the entire social sector, but also in the social protection in the narrow sense, particularly in times of transition.

The very limited resources for social protection must be used in the most efficient way, so that society, and particularly the vulnerable groups, could get the most possible. The existing system of social protection – based, as far as the struggle against poverty is concerned, predominantly on child allowances and social assistance – is basically a good and a modern one. All of its major elements should be retained in future as well: 1) the poverty line, which represents the basic landmark for definition of the entitlements to certain transfers, 2) establishment of household means test, by which the vulnerability level and entitlement to transfer are determined, 3) topping up of funds to cover the difference between the poverty line and available resources,<sup>93</sup> if it is positive, and 4) regulation of the entitlements and financing on the republic level.<sup>94</sup>

Since social assistance is far more successful in reaching the poor than other programmes, it would be good to earmark more public funds for social assistance in the future. This would help achieve the best possible ratio between the costs of the programme and the benefits to the poor.

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<sup>93</sup> This applies to social assistance only, and not to the child's allowances, in which case the amount is fixed.

<sup>94</sup> Local communities can additionally finance these transfers, which some of them actually do.

And yet, the system of social transfers aimed to alleviate poverty suffers from numerous flaws, which are less the result of conceptual weaknesses, and more of the operational control and implementation. Therefore, reform is needed, particularly in the area of the targeting of social transfers.

The required changes in the area of social assistance are as follows:

- **Absolute “poverty line”**, expressed in Dinars. The absolute poverty line would enable the number of poor who are entitled to social assistance to move inversely from the economic activities – the higher the economic activity and the higher the incomes are, the number of the poor would be smaller, and vice versa, the number of poor would grow with the decline of economic activity and reduction of income. The absolute poverty line must be based on the required level of consumption of individuals, and/or families, indispensable for basic needs, but also in accordance with the constraints of the budget of the Republic of Serbia, as the limiting factor which thwarts possible generosity. This would replace the existing relative poverty line in case of social assistance, which is linked to salaries in the economy and which, therefore, basically maintains the fixed number of the poor irrespective of the trends of the economic activities and incomes.
- **The new “poverty line” would be equal throughout the territory of Serbia.** Thereby, the existing differences between the municipalities would be eliminated and all the citizens of Serbia would be put in an equal position. The existing different poverty lines in different municipalities have no justification, because they cause discrimination against poor citizens who live in the poorer parts of Serbia.
- **Indexation** of the poverty line should be done with the cost-of-living index, which would preserve its real value, i.e. preserve the purchasing power at the time of inflation. This is already the case with the child allowances.
- **“The poverty line” should be raised with respect to the present one in the case of social assistance**, so that a larger number of citizens could be covered by the programme of state support to the poor. In that way larger number of the poor would be covered by social assistance programme.
- **Better respect of sustenance expenses of multi-member households** (coefficients of the economy of scale) is needed in order to relieve the current deprivation of those families; in other words, it is necessary to increase the current particularly low coefficients for the other members of a household when calculating the required funds for minimum living requirements.
- **For the working-age population, support by the state can only be a temporary means of survival.** Therefore, it should be necessary to specify that working-age

individuals are entitled to allowance/support only for a limited time period. The discouragement of employment of working-age persons, brought by any social assistance to a certain extent, should be avoided as much as possible. Serbia is not in a position to grant generous transfers to those who calculate whether it is better for them to work or to live on social welfare.

- **Reconsideration of the existing restrictive policies regarding the means test;** this means test should certainly be retained, but it should also be tied to the possibility of using property to earn income, because the existing policy thwarts entitlement to the rights to those who possess real estate, but cannot use it either for sale or lease (in mountain or depressed regions).
- **Strengthening field monitoring,** in order to be able to assess the actual poverty level by a closer, first-hand insight into the state of a family. This is required because of a considerable share of the grey economy in the income of citizens, which makes it impossible to evaluate income on the basis of formal records only.

Further advancement of the social protection of the poor will be enabled by the amendments to the Law on Social Assistance and Social Protection, currently in the parliamentary procedure. The suggested changes will include the 90% increase in the carer's allowance and assistance to persons with the gravest disabilities, as well as the introduction of the absolute "poverty line" and unique eligibility criteria for the whole territory of Serbia and their indexation based on the costs of living, restraint of entitlements of working-age people and the increase of the coefficient of the economy of scale.

In the reform of child allowances, the basic dilemmas are always of conceptual nature: 1) whether to put a stress on the population or social goals, 2) whether the desired goals are more easily achieved by the means of (almost) universal child allowance (with the same amount for all) or by targeting the poor (with a differentiated amount). In Serbia, child allowance was previously conceptualised as wide in coverage, emphasising the population policy component, but the reform in 2002 has shifted the emphasis from the population to social goals and to some extent narrowed the coverage of children to the poorer population strata, providing the same amount of child allowance regardless of family income.<sup>95</sup>

A more consistent policy for child allowance with the emphasized social function would be as follows:

- **Keeping the existing targeting of the poorer strata,** with the income and asset test; coverage with child allowances should still be wider than the coverage with social assistance, i.e. the citizens who do not belong to the poorest strata would also be

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<sup>95</sup> The exception are single parents, who are entitled to the amount increased by 30%

included; therefore, the eligibility criteria would be set higher than for social assistance, the same as now;

- **The amount of child allowance should be differentiated** depending on family characteristics and characteristics of a child; differentiation could be based on the family income level and/or the child's age; differentiation by family income would respect the social component of the programme, so the poorer would receive more than the less poor, while the differentiation by child's age (for example, 0-6 and 7-15) would respect the real difference in costs of raising children of different age.

In addition, the existing policies regarding eligibility criteria (in Dinars), which are unique for the whole territory of Serbia, and indexation based on the costs of living, should be kept. As for social assistance, the means test should be linked to the possibility of selling or leasing of property, in order to enable those whose property, though exceeding eligibility criteria, cannot be commercialised, to become eligible for child allowance.

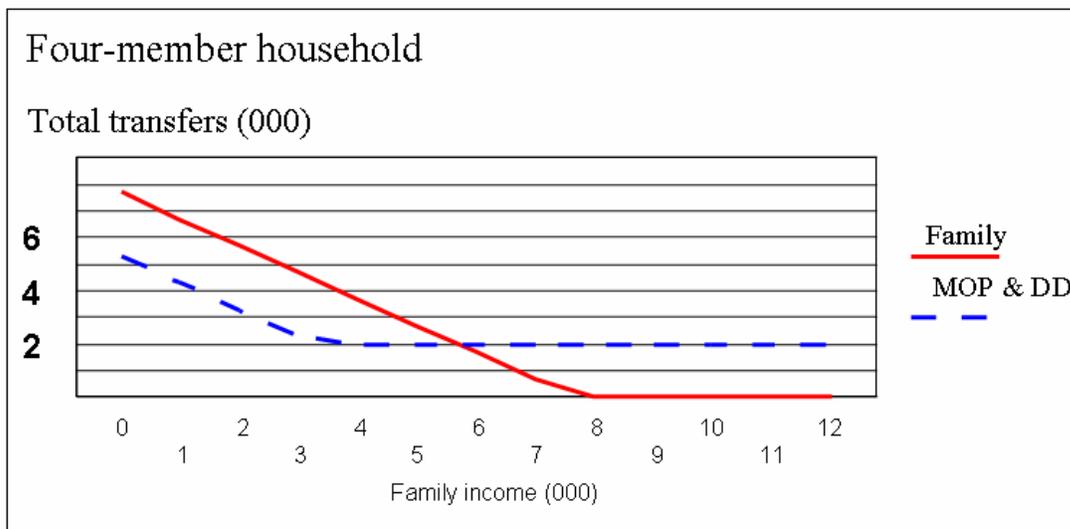
One of the options for further basic conceptual improvement in the area of transfers aimed at poverty reduction should be the *integration of the social assistance and child allowances* into a single unique transfer that could be called *family allowance*.

The main reasons for the integration are the need to increase the sensitivity (elasticity) of the system to the income of the poor,<sup>96</sup> so that those less poor would get less, and those more poor would get more, and improved targeting of the transfers.

On the following chart there is an illustrative comparison of the existing basic transfers to the poor – child allowances (DD) and social assistance (MOP) - with the family allowance, based on the presupposition of the equal level of transfers in both cases.

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<sup>96</sup> According to the existing policies, these two transfers are, considered together, very inflexible with regard to the movement of income of the poor, owing to the fixed (flat rate) child allowances.



The family allowance would allocate more transfers to the poorest, i.e. to those families with an income up to 6 thousand Dinars per month, while to those with a higher income it would allocate less or nothing. In other words, the coverage of the poor with the family allowance would be narrower than in the present system, and the resources saved would be distributed to the poorest.

The potential introduction of the family allowance requires additional research of different conceptual issues and the impact of this system change, as well as new complex technical policies that cannot be introduced in the short term.<sup>97</sup>

### **Reform of social services**

As early as 2001, the work on the reform was initiated in the domain of social services, particularly those provided within the Social Welfare Centres, and especially the ones provided in institutions (residential homes) and through alternative forms of protection. The main goals of the reforms are deinstitutionalization and development of alternative forms of social protection, definition of the role of different sectors and their inter-linking (health care, education, employment, police, judiciary), involvement of different stakeholders in the sphere of service provision, first of all those from the NGO sector and greater reliance on day care, organised within local communities, instead of institutional placement with the categories of beneficiaries where that is possible.

<sup>97</sup> For some issues see B.Bogićević, G.Krstić, B.Mijatović, B.Milanović, A. Pošarac - Poverty and financial Support to the Poor, CLDS 2003 (currently being prepared for editing)

*The reforms of social services are directed at putting the user and his/her needs in the focus of the social protection system. Basic guidelines in the reform process are deinstitutionalisation and development of open, i.e. alternative forms of protection*

- decentralisation;
- abolishing discrimination which exists with particular categories of users;
- development of professional standards, procedures, protocols and norms;
- establishing partnership between governmental and non-governmental sector;
- creating an environment for the involvement of the private sector;
- introduction of permanent education principles for the service providers.

As the result of this effort, by the end of 2001, 7 reform projects had been formulated, which deal with the development of an integral social protection on the local level, organization and standards of work in the Social Welfare Centres, promotion of foster care and adoption, transformation of the institutions, and screening of children with special needs. A number of these projects are under way, in concrete local communities, with the idea of, after the initial phase, of transforming the piloted experiences into the models that would be applied at the national level. Although they are more widely based, in the first stage the projects are mostly targeted on children without parental care, juvenile offenders, child victims of violence, as well as protection of children in families at risk.

*A special mechanism that should contribute to the reforms in the area of social services is the Social Innovation Fund. The Fund will finance on the local level those projects that are in compliance with the strategy and whose expenses are transitional in their nature. Projects that enable deinstitutionalization, either by offering support to the natural families or by way of the development of alternative services, will be given priority. A number of projects will be clearly defined in advance, while others will be the result of the innovation/inventiveness of the local stakeholders and based on local specific features and problems. Preference will be given to those local projects that require funds in the initial phase only, while the continuation of their financing can be provided from local sources. Additionally, this Fund would not only be concentrated on NGOs but all social welfare institutions would also have access to it., which would help to stimulate the reform of the system from »within«. Thus the Fund will at the same time be a mechanism for reforms and a mechanism for decentralization and of partnership (between governmental and non-governmental organisations). In the course of 2002, the idea of the Fund was piloted by way of allocation of funds to organizations of the persons with disabilities. There were 97 projects that were supported, including the opening of day care centres, the development of daily activities and the inclusion of persons with disabilities. The Fund started operating in 2003, and the financing of the initial projects is expected in mid 2003.*

In parallel with the reform projects, the amendment of the legislation is also expected in the course of 2003. By the end of 2002, the Government had adopted a draft of the amendments of the Law on Social Welfare. Within the framework of the proposed amendments a smaller number of them are related to the changes in the area of services (the possibility of formalizing foster care, inclusion of the beneficiaries in the management boards of the social welfare institutions, delegation of the authorities to set up shelters to the local level and so on). However, it should be pointed out that the specified change of the transfers for the care of the persons with disabilities by almost 90% should contribute to the provision of material support to the families, and thereby to deinstitutionalization as well. Apart from that, the

drafting of the Family Law is in the final stage; it should eliminate obstacles to the adoption of children without parental care, change the role of guardianship authority, introduce for the first time regulations related to violence in families, and harmonize the Law with the Convention on the Rights of the Child.

There is also a need to reconsider and improve the overall system of social protection of persons with disabilities, which would involve issues such as: allowances and social assistance (due to higher personal and family expenses), institutionalized care, technical aids, providers rendering services to persons with disabilities, and so on.

### 3. Improved Status of Pensioners and Elderly

#### **3.1. Current status and problems**

##### **3.1.1. Current status**

The majority of the elderly in Serbia receive pensions because the pension insurance of the majority of the working population is compulsory. The remaining number of the elderly either depend on informal, family arrangements or they are forced to work until an advanced age in order to be able to ensure for themselves the means of sustenance (particularly in rural areas, in elderly households).

Therefore the pension system of Serbia represents the basic method of ensuring income for old age, at the time when the capacity for work of an individual is significantly reduced. It has wide coverage: it covers not only those employed, but also the employers, self-employed (including the freelance professions) and farmers. It consists of three separate funds: of the employees, self-employed, and farmers. That ambitious approach that was intended to encompass all those who work has also resulted in the expected and worldwide known difficulties due to incomplete coverage of the self-employed and, in particular, farmers.

The 'maturity' of individual funds also varies: the fund of self-employed is still relatively 'young', with 5:1 ratio between the number of the active insured persons and pensioners and it easily finances the pensions of its pensioners despite the fact that the contributions are not so regularly collected; the fund of the employees is very, very 'mature', with a low 1.58:1 ratio (in 2002) between the number of the active insured persons and pensioners and suffers inevitable deficits; the farmers' fund has been in great difficulties since the beginning, so that the budget finances about one half of the farmers' pensions. The farmers have not accepted the compulsory old-age pension insurance in the best way and they pay their contributions very irregularly.

During the past decade, in times of numerous crises and hyperinflation, the pension system played a very positive role in provision of income to the elderly population and preventing it from falling into complete poverty. There were also political calculations by the former regime involved in this, which relied on the decisive votes of the pensioners in the elections. An average old-age pension was quite close to the average wage of employees and even reached it at times. The entitlements were granted very generously, starting from the low criteria for entitlement to old-age, disability or survivorship pension, a generous indexation mechanism, to a relaxed implementation of the system. However, it was too expensive, and the pensions became a great burden on GDP, reaching as much as 15%. On the other hand, the pensions were not paid up quite regularly or they were reduced by illegal tricks, which was the manifestation of the policy 'maximize the rights, and we shall see about the financing' at the time, not only with regard to the pension system, but also regarding medical care, social affairs, and education. For a long time the pension system had served as a solution to numerous and various social problems, unrelated to pension insurance in the usual sense. Thus it was used as a means to stimulate employment, by too early retirement of the elderly; or as insurance against the consequences of injuries outside the workplace, etc.

Pension system reform has been initiated. First (in June 2001) the pension contribution rate was reduced from 32% to 19.6%, for the purpose of lowering labour costs; it was the Serbian Budget that bore the burden of the decrease. In December 2001, the retirement age limit was raised by three years, so now it is set at 63 years for men and 58 years for women; indexation with wages was replaced by the so-called Swiss formula, i.e. by a combined index of wage growth and costs of living (with equal weight); a unique minimal (net) pension amounting to 20% of the average gross salary was also introduced. The purpose of these changes was to achieve the fiscal sustainability of the system. In March 2003, a new Law on Pensions and Disability Insurance was adopted by the Republic Parliament. Instead of the best ten years, the pension is now based on the earnings from the whole working career; the possibility of voluntary insurance was introduced; the mandatory pension obligations of farmers have been reduced, by narrowing the mandatory pension insurance to only one household member; certain benefits that do not belong in the pension system have been excluded; the eligibility criteria for disability insurance, which have previously generated one third of the total number of pensioners, have been tightened (now they are based on the principle of general disability), and a strict inspection of medical committees was also established, together with mandatory revision of disability pensions. The main data on the pensioners and their pensions are given in Table 1.

**Table 1**

Nov. 2002

	No. of pensioners, in 000	Average pension in Dinars
Fund of the employees	1,254.0	6,676
Fund of the self-employed	42.9	6,833
Farmers' Fund	212.2	1,801
TOTAL	1,509.1	6,078

The total number of pensioners in Serbia<sup>98</sup>, in November 2002, amounted to 1.509 million, which means that every fifth inhabitant of Serbia is a pensioner. The growth in the total number of pensioners in the period November 2000-November 2002 is 1.8%, and particularly owing to a considerable increase of the number of farmer pensioners – by 15.1%. The number of pensioners formerly self-employed was increased in the same period by 9.2%, while the number of pensioners of the fund of the employees has stagnated, i.e. it was reduced by 0.4%.

In the course of 2001 and 2002, pensions were considerably increased in real terms and the standard of living of pensioners significantly improved. Now the pensions are paid up regularly, and the former major delay in paying up of the farmers' pensions has been reduced. An average pension in Serbia has been increased in real terms by as much as 88.2%

<sup>98</sup> Without army retirees (53000 persons) whose pensions were financed from the federal budget.

in the past two years and, in November 2002, it reached 6,078 Dinars, i.e. USD 98.<sup>99</sup>

**Table 2. Poverty among the elderly persons**

	Poverty rates						
	Total	Belgrade	Vojvodina	Western Serbia	Central Serbia	Eastern Serbia	South-east Serbia
Pensioners	10.9	8.3	9.6	12.6	8.5	13.2	19.2
Elderly persons, 65+, without pension	19.8	23.0	20.2	13.7	18.7	9.4	32.7
All the elderly, 65+	14.8	12.7	13.7	12.1	13.6	12.0	26.1

Source: SLSP

Among the pensioners there are somewhat more poorer persons compared to the entire population (10.9% as opposed to 10.6%). On the other hand, among them there are considerably fewer poor persons than among the elderly persons (65+) who are not pensioners (10.9% as opposed to 19.8%), which confirms that the pension system is a strong obstacle to poverty. Among all the elderly persons of over 65 years of age, the poverty rate amounts to 14.8%.

Examined regionally, elderly persons have the lowest standard of living in southeast Serbia, and every fifth pensioner and every third elderly person without a pension are poor. It is unexpected to a certain extent that the poverty among elderly persons who do not receive a pension is higher in Belgrade and in Vojvodina, in the most developed regions, than in the wide stretch of the western, central, and eastern Serbia. The cause of this is probably the security the rural environment still offers in basic living conditions compared to urban environments.

**Table 3. Poverty among pensioners by the type of household**

Type of household	Poverty rate
Single-person pensioner's household	10.4
Two-member pensioners' household	9.0
Mixed households without employees, with pensioners as the main breadwinners	16.7
Other mixed households	8.1
Average	11.0

Source: SLSP

The analysis of poverty among pensioners subject to the type of household in which they live indicates that pensioners living in the single person or two-member pensioner households are in a somewhat more favourable position, measured by a lower poverty level, as well as in mixed households in which someone else also brings in some income. The most vulnerable

<sup>99</sup> Calculated by the estimated parity of the purchasing power, this is around USD 300 per month.

are the mixed households in which the pensioners are the main breadwinners (16.7% of the poor).

However, the consumption of the entire population of pensioners is moderately uneven: the Gini coefficient is 29.0 and it is insignificantly lower compared to the entire population. Of the elderly who do not receive a pension, the highest proportion are housewives (55.5%), and followed by farmers (21.5%) and the persons with disabilities (11.2%).

**Table 4. Poverty among elderly persons (65+) by type of household**

Type of household	Poverty rate
Single-person elderly household	13.7
Two-member elderly household	16.9
Mixed households*	13.8
Average	14.1

\* with at least one household member over 65 years of age

Source: SLSP

Among all the elderly persons those who live in two-member elderly households are in greater need compared to those who live in single-person and in mixed households. The cause of the lower risk of single-person compared to the two-member households is the predominance of pensioners (83%), who have an income and thus a lower poverty rate, in the first type of households. In the two-member households, there are fewer pensioners (64%) and more supported persons, which causes the higher poverty rate.

Considerably more vulnerable than the average of the elderly persons are certain narrow groups, such as two-member elderly households or mixed households in which the elderly person is the provider of the basic income.

Apart from them, there are groups of the elderly persons who need assistance from the state. Those are either elderly persons who have no one to look after them or diseased elderly persons who require constant care. State support for these persons does exist, and the most important forms are accommodation in institutions (homes for the elderly, gerontology centres) and financing of advanced home help. Home help is an insufficiently developed form of assistance and it should be developed further as a more favourable form of social service.

Around 9,000 elderly persons are accommodated in state-owned homes for the elderly, of whom as many as 60% are bed-ridden. Among them there are poor persons for whom accommodation expenses are paid by the state, relatives, or humanitarian organizations, but there are also citizens who are better off and who bear their own expenses. In the past two years, the homes for elderly have been equipped and generally refurbished with donor assistance. There have also appeared the first private, commercial homes for elderly. The programmes of funding of advanced home help cover around 60 thousand of the elderly, two thirds of them from employees' the pension fund, and one third from the

Republic budget. Payment of the allowances for advanced home help is not tied to the level of income, which results in poor targeting.

### **3.1.2. Main problems and constraints**

The main obstacle to more thorough and extensive government support to the poor pensioners and other elderly persons is certainly financial. At the present stage of development of Serbia, as a country with a low income, it is hard, even impossible, to allocate more. Now the share of pensions in the Gross Domestic Product (GDP) is already 11-12%,<sup>100</sup> and the very funds of pension insurance (except for the fund of the self-employed) to a great degree depend on budget donations. Thus the budget covers around 40% of the pensions from the employees' fund of the employees and about one half from the farmers' fund. More generally speaking, the existing budget deficit is not sustainable in the long run, because servicing of foreign debts will increase considerably in the years to come, while revenues from the privatisation and donations and favourable foreign credits will be reduced. Therefore it will most probably be necessary to reduce the share of public spending in GDP.

The second obstacle is the drawbacks of the existing pension system. The inherited system was too generous in granting rights and it was also badly managed, both with regard to the collection of contributions, and with respect to its relaxed method of granting rights. The result was too many young pensioners, particularly those with a disability, poor collection of pension contributions, too high a replacement ratio (ratio between the last salary and first pension), a high ratio between an average pension and an average wage on the macro level, high deficits of the pension system, and so on.

In the past two years a reform of the public pension system, based on the pay-as-you-go system, was initiated. The problem is, naturally, that the effects of the reform, due to a great inertia, are seen only in the long run, so that neither the reforms to date nor the forthcoming reforms will consolidate the pension system of Serbia in the near future. Therefore, neither can the goal – a smaller, but better financed public pension system – be achieved in the following years. For the next stage of the pension reform – introduction of voluntary and, probably, mandatory pension insurance based on capital funding – the initial preparations are only now being made.

The main problem still is the ageing of the population. Serbia is a country in which the fertility rate has been insufficient since the sixties (the fertility rate now ranges from around 1.5 to 1.6), so that the number of elderly persons also continually grows. The number of the elderly over 65 is, according to the 2002 census, 16.6%, with the trend of further growth. Rapid ageing of the population, expressed in the aggravated ratio between the number of the elderly and working persons, will certainly make the problems of the elderly and the

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<sup>100</sup> Without other transfers to the pensioners, expenses of administering of the funds and health care of the pensioners.

obligations the government has towards them more acute in the future, but also the possibility for the government to finance them in the conditions of a decreasing number of the younger generations of working persons.

### **3.2. Goals and Strategic Options**

#### **3.2.1. Goals**

The primary goals of government policy with regard to the elderly should be:

- Raising of the standard of living of pensioners and other elderly persons, in accordance with the growth of standard of the other citizens,
- Reduction of poverty among pensioners and other elderly persons, both with regard to the share of the number of the poor in the overall number of this population, and with respect to the absolute number of the poor,
- Reduction of the poverty depth among the remainder of the poor elderly persons, and
- Strengthening of the non-institutional and service protection of particularly vulnerable elderly persons.

The position of the older categories of citizen does not depend only, or does not even predominantly depend, on direct government policy in the given field (pension policy, protection of the vulnerable elderly persons), but also on other factors and policies (economic development, health care policy, support by an extended family, cooperation of different stakeholders, such as local communities, the Church, humanitarian organizations and NGOs and so on).

#### **3.2.2. Strategic Options, Measures and Activities**

Given that the pension system is the prime source of income of the elderly generations, the financial status of that part of the population to a large extent depends on the future features and performance of the pension system. The latest changes (dated December 2001 and March 2003) have to a considerable extent improved the pension system and made it not only more efficient and equitable, but also more financially sustainable. Yet, the process of its reformation has not been completed and there is a need for its further structural upgrading.

The main **goals of the structural reform of the pension system** should be:

- Providing of stable and sufficiently high pensions for all,
- Creating of a financially viable pension system,

- Increase of the local saving and acceleration of the economic development,
- Improving the equity of the pension system, and
- Extending the options for choice by the pension insured persons.

The above goals imply a thorough reform of the pension system, which would include both the government and private insurance, both compulsory and voluntary insurance, and the pay-as-you-go system and the system of capital funding. Such a combination would also bring a possibility of choice, and different answers to the different risks, and efficiency and equity, and higher pensions.

The pension reform of the public system should yield to the financial consolidation of the existing pension funds, primarily the fund of the employees, while setting up of the private pension insurance should ensure additional pensions and savings for a more rapid economic growth, as well as a long-term viability of the pension system in the unfavourable demographic conditions and better security in the old age than an “pay-as-you-go-system” can provide in the unfavourable demographic conditions.

From the standpoint of poverty reduction, there are two characteristics of the pension system that are important. The first is the redistributive component within the pension insurance, and the other is the mechanism of relatedness of trends of pensions and economic progress of a country.

The existing pension system carries out the basic redistribution in favour of the poor through the institute of the minimum guaranteed pension. Net minimal pension currently amounts to 20% of the average gross salary in Serbia.

The main issue of the redistribution nowadays is whether to introduce the minimum social pension also for those elderly persons who are not pensioners, as it is done in a number of developed countries. If a social pension were instituted for all the elderly persons of over, for example, 65 years of age who do not have a sufficient income from other sources, then the redistribution within the pension system would not be required, because this social pension would play that role in a more general and wider aspect than does a minimum pension. However, it is probable that in Serbia on such a low development level it is not possible to introduce a social pension owing to the serious budgetary constraints, so that the elderly persons who are not pensioners will still rely on the family arrangements, their own property and, ultimately, on a modest social assistance. Therefore, the redistribution through a minimum pension is for the time being going to remain the solution within the pension system.

The relationship between the pensions and the overall economic development depends on indexation mechanism for determination of the pensions. In Serbia the so-called Swiss formula is applied, where changes in pension amounts depend on changes in wages and inflation. The pensioners thus share the benefits of the development, but to a lesser degree

than the employees.<sup>101</sup> This indexation mechanism yields positive and balanced results and they should not be changed at least in the foreseeable future.

**Extending the retirement age limit.** Early retirement burdens the pension funds very much, because it thus reduces the number of those who pay contributions and increases the number of those who receive pensions. Therefore, in the long term, entitlements to full pensions should be given to both men and women of 65 years of age. This extension sometimes creates opposition from the older workers, since earlier retirement suits them more, and also of the young persons, because they believe that postponement of retirement affects the reduced opportunities for their employment. Some arguments in favour of raising of the age limit are:

*Currently employed retire too early;* average retirement years was 58 in 2001, which means that a large number of relatively young people retire. Raising the retirement age limit by three years by the end of 2001 will raise the average retirement age to around 60, but even that is a too early age, bearing in mind extended average life expectancy, the health status of the population, decreasing share of hard physical work, and the like. *In the whole world the retirement age limit is being extended;* in the developed part of the world it is minimum 65 years of age for men and 65 years of age or a year or so less for women and in some countries (the USA, Norway) it is being further extended; similarly, in the countries in transition there is the same tendency.

*Increasing of the productive capacity of the country;* later retirement means more labour and increased potential GDP.

*Financial unsustainability of the present pension system.* The system in which about 40% of the expenditures for the pensions are allocated from the budget of Serbia, even despite the high contribution rate of 20.6%, obviously requires a thorough reform; further increase of the pension contribution is not a good alternative, because it would additionally burden both the employers and the employees and it would endanger the competitiveness of Serbian enterprises in all markets.

The concept of unemployment reduction through early retirement has proven out to be a bad solution, both for fiscal and for economic reasons. In addition to that, annually, only about 2 percent of the overall number of the employees retire every year (some thirty thousand in the period of 1990-2000), which means that the problem of high unemployment (over 900 000 of unemployed) cannot be solved through early retirement.

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<sup>101</sup> Same as their pension is more slowly reduced at the time of reduction of the wages of the employees.

**Equalizing the position of men and women**, which means that the retirement criteria for men and women should be equalized both with respect to the retirement age and the years of service, as well as when determining the amount of pensions.

A compromise solution that would take into account the number of children (borne and/or raised), and that would thereby be stimulating from the standpoint of child-birth and increase of the fertility rate, should specify some kind of differentiation of the position of women, i.e. exercising of their right to retirement subject to the number of the children borne.<sup>102</sup> Thus it would be a combination of abolishment of a general privilege for women and adoption of a wide privilege for mothers, subject to the number of children.

Equalizing the position of men and women in the pension system should be carried out gradually, over a longer time period.

**Abolishment of the preferential status of certain categories of pension insurance.** So far, a significant number of insured persons were entitled to some form of accelerated retirement scheme, which has caused early retirement of insured persons in their middle years and increase of the expenditures of the pension insurance. The beneficiary (accelerated) retirement scheme should be retained only in special justified cases, i.e. only for those employees who are not practically capable of doing *any* job (for example, miner), but not for those who are no longer capable of doing *their* job. For certain categories of employees, mandatory supplementary pension insurance should be introduced, instead of the previous system of accelerated retirement scheme.

**Review of the farmers' pension fund operation**, which has been in great financial difficulties ever since it was established. The main problem with this pension fund is massive non-payment of the pension contributions by the farmers, despite their legal obligation. The cause is 1) belief of numerous farmers that they do not need the pension insurance because they possess the immovable property and produce their own food, confidence in traditional family, but also due to the delays in the payment of pensions, and 2) constant absence of will and attempts of the state authorities to ensure a more regular payment of the pension contributions, which directly stimulates further non-payment.

The new Pension Law from March 2003, introduced significant changes into the pension insurance of farmers: from now on only one household member must be insured. The future obligations of farmers towards the pension fund have been reduced, i.e. the degree of the pension system obligatoriness has been reduced, which means that some of the farmer's requests have been met. Also, the Law allows the farmers not to pay off their existing debt to the pension fund, which is large with the majority of insured farmers, under the condition

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<sup>102</sup> *The system of measures of the policy of the fertility rate in Serbia*, Economics Institute, Belgrade, 1999

that the exempted years are not calculated. This allows the farmers to start regular paying of contributions, without having paid off their arrears.

The system would have better chances of success if the government would invest the required (major) funds in the consolidation of this pension fund and provide for paying up the arrears (14 months), so that it could try, with a credible approach, to prove to the farmers that their pension fund functions and that it makes sense for them to join in, but provided that the government ensures far better collection of contributions from the farmers. The success of this program would counteract the idea of completely abolishing mandatory pension insurance of the farmers and of switching of those who wish to the voluntary insurance.

The above measures of the parametric reform of the pension system will still have a limited effect, mainly due to the unfavourable age structure. Therefore, the current way of financing requires continual parameter changes.

**Voluntary private pension insurance.** An important step in a long-term pension reform is the new regulation of the pension and financial system in order to enable setting up of private pension funds, based on individual savings and funded with capital.<sup>103</sup> In view of the fact that in this system it is probable to have a higher rate of return compared to the pay-as-you-go system, there is a probability of a positive influence on the national savings, labour supply and joining in pension insurance and that it is probable that politics would be less involved, the voluntary private funded pension insurance represents a good supplement to the existing public pay-as-you-go system.

The private pension insurance would be voluntary because such an approach imposes less complex requirements for regulation than the compulsory one. The usual incentive for insurance would be given by tax benefits. Contributions and returns to investments would be tax exempted, while the pension would be taxed through the standard personal income tax. That system actually represents a mandatory savings, whereby in the individual account the paid in contributions and returns to investments are accumulated, so that, upon retirement, pension could be paid up from the collected moneys.

In Serbia the preparations are under way for adoption of the Law on Voluntary Private Pension Insurance, funded with capital. It is necessary to resolve two main obstacles: firstly, there should be provided a serious and competent supervision over the operations of the private pension funds; and secondly, the development of this segment of pension insurance should be harmonized with the development of the financial markets, and due to the fact that private pension insurance, on the one hand, contributes to the development of these markets and emergence of new instruments, but that it also, on the other hand, depends on the development of the financial markets.

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<sup>103</sup> Any fund would be liable to have sufficient capital to cover the future pension related obligations.

**Stimulation of working activity.** Working activity of the members of the older generations that have become eligible for retirement is good not only for the preservation of their self-respect and vitality, but also for increase of their current income and avoidance of possible poverty, as well as for the financial position of the pension funds. The extension of possibilities for employment of the older generations is enabled by technological progress, which reduces the share of physically hard jobs, as well as by the improvement of health and life expectancy of the elderly persons.

The most direct way of extending the working life is increasing the retirement age limit, as already mentioned. The second option is voluntary postponement of retirement, even despite eligibility. The regulations in the area of labour relations and pension insurance go in favour of increased working activity of the elderly persons, since there is no mandatory termination of employment upon entitlement to the old-age pension. And yet, in the new Law on Pension and Disability Insurance there is an unfavourable solution: it sets forth that for the years of service over full career service one gets only half of the points for the pension definition with respect to the years of service up to the career service. Thereby deferred retirement will be significantly discouraged in favour of employment after retirement. Still, this is a step forward, since working after 40 years of service was not previously taken into account.

In view of the fact that the public pension funds have been in a long-term financial crisis, the state could, by changing the instruments of pension policy, influence the choice of the elderly workers as to the time of their retirement, i.e. stimulate them to opt for a later retirement instead of the early one and re-employment. Two suitable instruments are the pension accrual rate due to later retirement and additional pension contribution for the employed pensioners. By such a combined approach, on the one hand, postponement of retirement would be made more attractive and, on the other hand, employment after retirement would be discouraged.

**Strengthening of the social protection of the elderly persons.** To the elderly persons who do not receive pensions or who are not in a position to work any longer, the main support is rendered by their families. However, this is not enough, because there is an increasing number of elderly persons who live alone and do not have the support from the younger generations, and there are many persons who require care their families are not in a position to provide.

Basic direction of further development of support to elderly citizens should be deinstitutionalisation i.e., development of home help and in the local community. There are various forms of such help:

- day centres, which offer support to elderly citizens while the members of their families work,
- day rehabilitation centres, where the help is provided to the ones who were released from the hospital, but they need improvement in functional abilities;

- personal help at home, which includes feeding, personal hygiene, washing clothes and cleaning the house, transport and the like;
- medical help at home, intended for ill elderly people, etc.

These and similar forms of supplying services have two important advantages compared to having the elderly placed in an institution: the elderly prefer it this way, because they remain in their own environment and it's cheaper. These programmes for the elderly can be organised at local level, through the co-operation between municipalities, civil sector and humanitarian organisations.

The two most important forms of state support to the elderly citizens are accommodation in homes for the elderly and carer's allowance. These two programmes are of general nature, i.e. they are intended for all elderly persons, and not only for those who are poor.

In spite of the new orientation towards deinstitutionalisation, further development of accommodation institutions for the elderly is necessary. The main changes regarding the accommodation in the homes for the elderly should be the following:

- Upgraded efficiency and standardised quality of accommodation and services,
- Transformation and expansion of the network of the residential institutions (more smaller facilities), in the wide regions of the western, eastern, and southern Serbia,
- Conversion of the refugee centres into homes for the elderly, because of the particularly difficult situation of the elderly refugees ,
- Engagement of the private sector in accommodation of the elderly persons, primarily on a commercial basis.

## **4. Health Care towards Poverty Reduction**

### **4.1. Present Status and Problems**

#### **4.1.1. Present Status**

##### **Socio-economic environment for health**

The deterioration in health status has been a consequence of cumulative effects of a great number of critical events to which the population has been exposed during the last ten years, starting with the breakdown of the former Yugoslavia and the wars on its territory, the sanctions imposed by the international community, hyperinflation, and the NATO bombing of the FRY in 1999. Besides these effects, there has been significant aging of the population, a huge number of refugees and internally displaced persons, high pollution of the living and working environment, unemployment and social privation, as well as widespread risky lifestyles (smoking, alcoholism, drug addiction, risky sexual behaviour), particularly among adolescents and adult men.

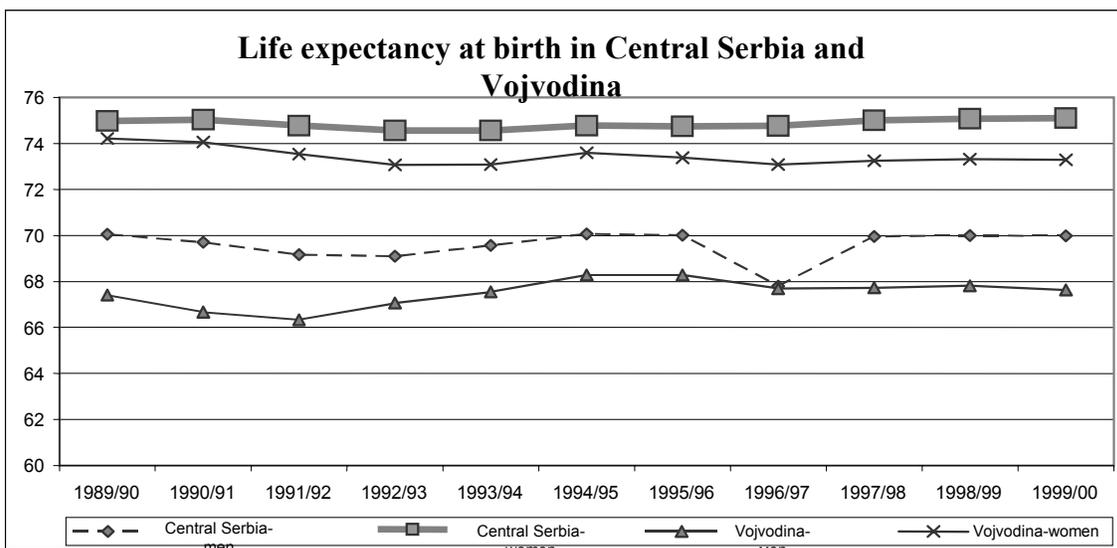
The health care system with its structural weaknesses, poor health educational outreach and health promotion, and with the insufficient attention that has been paid to health risks in the living and working environment, has not been able to meet all these challenges. Although Serbia has evaded the drastic deterioration in the health status of the population which occurred during the transition period in most Eastern European countries, all this has contributed to the widening of the gap between the health status of the population of Serbia and the population of European Union.

##### **Basic health status indicators**

In 1999/2000 life expectancy at birth was 75.16 years for females in Central Serbia and almost two years less in Vojvodina (73.46); the corresponding figures for men were 69.93 years in Central Serbia and over 2 years less in Vojvodina (67.86 years). As a comparison, life expectancy at birth in the European Union is 75.4 for men and 81.6 for women. In the period 1990/91 through 2000/01 the values of this indicator for male and female newborns in Central Serbia remained practically unchanged, while life expectancy increased in Vojvodina by almost a year for males and reduced by a year for females.

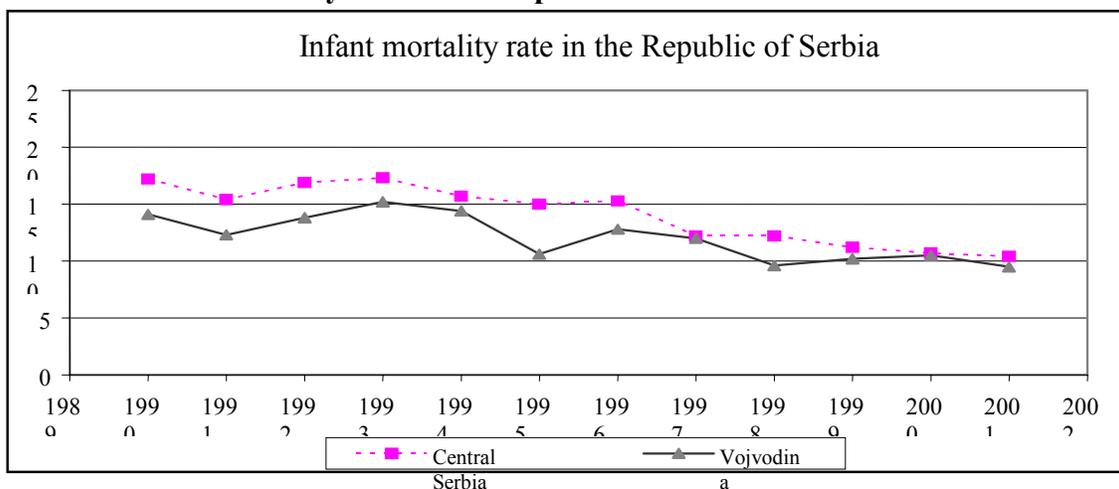
An analysis of the linear trend of life expectancy at birth in the ten-year period (1990 – 1999) shows one critical period in which the values of this indicator declined, 1992/93 and another somewhat less sharp in 1996/97 (Chart 1). The difference between the municipality with the highest value of this indicator for both genders (Sjenica, 77.65) and the municipality with the lowest value of in the indicators for both genders (Aleksinac, 65.94) in central Serbia is 11.71 years, whereas in Vojvodina the equivalent figure is half that at 5.60 (Sremski Karlovci, 72.57 and Nova Crnja, 65.97).

**Chart 1: Life expectancy at birth in Central Serbia and Vojvodina**



After a continuous decline in the seventies and eighties, in 1992 infant mortality started rising and in 1993 the infant mortality rate in Central Serbia and Vojvodina was higher by two infant deaths per 1000 live births. After a short decline, in 1996 it rose again (Chart 2). Despite the declining trend in the period between 1989 and 2001, the average rate still remains twice as high as the average in the European Union countries, which is 4.8 newborn deaths per 1,000 life births. In the mortality structure of the newborns neonatal mortality is predominant (from birth till the 27<sup>th</sup> day of life). It amounts to 72.2%, i.e. 59% of the newborns died during the first week of life. However, 27.8% newborns who died in the post neonatal period (from the age of one month to one year) show that there is still a great significance of the environment to the mortality of newborns.

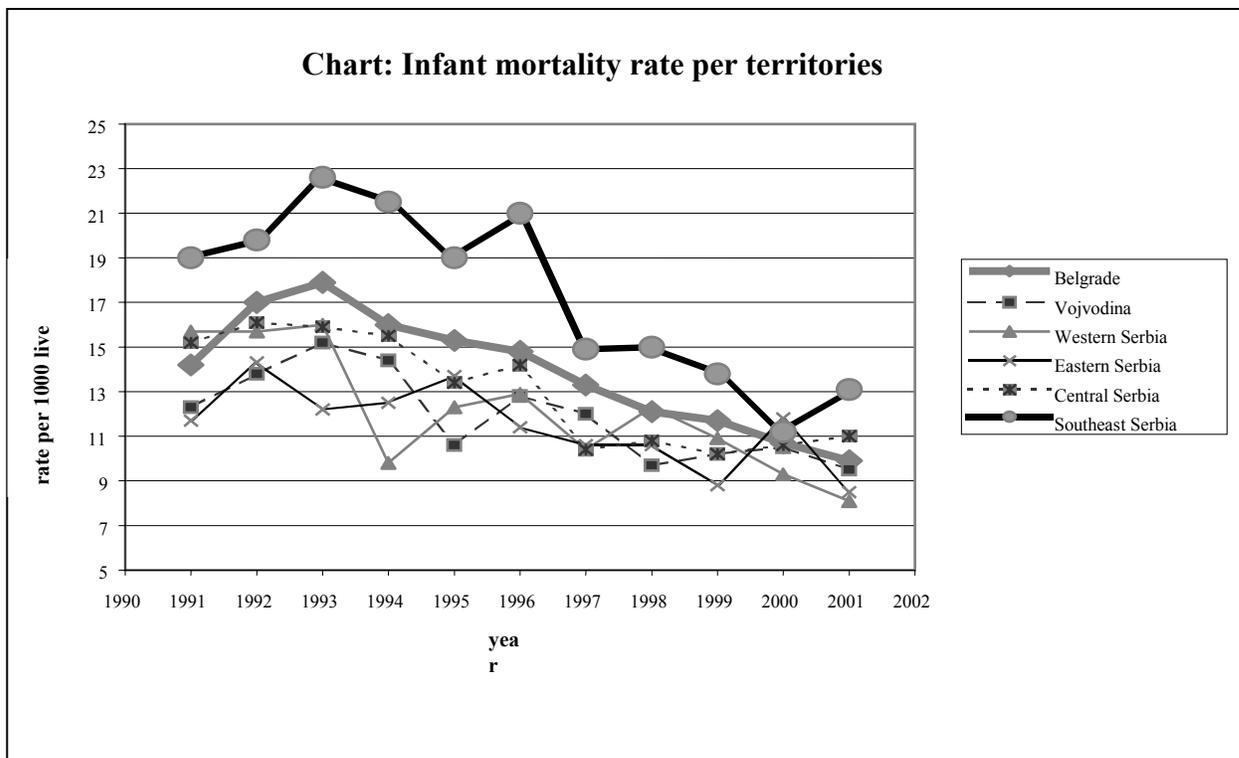
**Chart 2: Infant mortality rate in the Republic of Serbia**



An analysis of the infant mortality rate by region shows differences in the values of this indicator. Observing the period 1991-2001, we can see that the absolute difference in the infant mortality rates decreased (mainly because of the drop in the rate) but the relative

differences remained. There was the same rate ratio in the territories with the highest and the lowest infant mortality rates in 2001 (Chart 3).

**Chart 3: Infant mortality rate by territories**



In the ten-year period the average maternal mortality rate in the territory of Central Serbia was 14 maternal deaths per 100 000 live births, while the average value of this indicator in Vojvodina was 9, with significant variations from year to year because of the low probability of the occurrence of this event (see Chart 4 in the Annex).

The analysis shows that the structure of the causes of death in the ten-year period remained practically unchanged. In 2000 more than half of the population died from cardiovascular diseases (56.7% in Central Serbia, 58.4% in Vojvodina); malign diseases are in second place (17.1% in Central Serbia, 17.6% in Vojvodina), insufficiently defined illnesses and conditions are in third place (symptoms, signs, pathological clinical and laboratory findings), and injuries, traumas and consequences of the influence of external factors are in fourth place. Chronic widespread non-contagious diseases (heart diseases, vascular diseases, malignant tumours, diabetes, obstructive lung disease, injuries, mental health disorders and other diseases) have been dominating the national pathology for years. Just two groups, cardiovascular diseases and malignant tumours, account for over two thirds of all causes of death.

The high percentage of cardiovascular and malign diseases in the structure of the causes of death indicates a prevalence of behavioural risk factors (smoking, alcoholism, inadequate diet, insufficient physical activity) and external environmental factors (air, food and water

pollution). Insufficiently defined illnesses and conditions are in third place due to unreliable and improper reporting on the causes of death throughout the territory of the whole Republic, and the external factors, which take the fourth place in the structure of the causes of death, indicate inadequate protection at work, in traffic or at home.

Communicable and parasitic diseases do not represent a major health problem in Serbia, but they still occur sporadically or epidemically. For the territory of Republic of Serbia without Kosovo and Metohija the rate of incidence of these diseases was 1200.3 newly-registered cases per 100,000 inhabitants. During the same year 101 person died from the consequences of acute contagious diseases, with the mortality rate of 1.3 per 100,000 inhabitants, which is lowest in the last five years. The decline in the rate of people who were affected by or died from contagious diseases is the result of the decrease in the number of people affected by intestinal contagious diseases and sexually transmitted diseases.

Among communicable diseases HIV/AIDS and tuberculosis, in particular, deserve special attention. The occurrence of new cases of AIDS has stabilised during the last few years with 5 to 9 newly affected per million inhabitants. According to the latest data available on 1<sup>st</sup> December 2002 there were 1,189 cumulatively registered cases, out of which 80% were in Belgrade. There is no reliable estimate of the number of the HIV positive, but the WHO estimates that there are about 10,000 HIV positive, which is more than in other ex-Yugoslav republics and surrounding countries, apart from Rumania. We should mention that there is a tendency for a rise in HIV infection risk factors such as drug abuse, risky sexual behaviour, migration, and social and economic instability. The number of people affected by tuberculosis with an incidence of 37.2 per 100,000 inhabitants has slightly increased compared to the previous years.

- *Over 90% of the young report having tried various kinds of drugs, while 11.1% have used marijuana more than three times.*
- *34.5% of the young aged 15-25 are habitual smokers, while 18.5% smoke occasionally.*
- *Among the sexually active young, aged 15 through 19 yrs, 43% of girls and 20% of young men never use protection, while 51% of sexually active university students do not use a condom regularly.*
- *40% of young women aged 15 through 24 report having been pregnant at least once; one out of five had one or more abortions, and only 40% of the young women visited a gynecologist.*
- *One out of four adolescents reports not having proper information on HIV/AIDS.<sup>1</sup>*

Some population groups are more sensitive than others to socio-economic living conditions. They are normally referred to as vulnerable population groups. According to the existing legal regulations and the latest data available, identified vulnerable groups and marginalized persons make up a considerable proportion of the population of Serbia (Table 1).

It is normally considered that poverty and marginalization account for the specific pathology of such population groups and individuals. However, contrary to popular opinion, the research data show that there are no special poverty-caused diseases. It has been

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<sup>104</sup> Source: Brave New Generations – Young in FRY, UNICEF, 2002, PRONI, Youth Study

demonstrated that vulnerable and marginalized population groups are more likely to become ill and die from the usual causes, including tuberculosis, AIDS, malign diseases, traffic accidents, violence, etc. We have no data of the routine health statistics on morbidity according to socio-economic status.

The Survey on the Living Standard of the Population (SLSP) has shown that among the persons below the poverty line there are 30.3% of those with a diagnosed chronic disease, while this percentage is 26.6% among those who are above the poverty line. The percentage of persons declaring a mental health disorder as their most acute health problem is significantly higher among persons who are below the poverty line than among other population (18.9% versus only 9.4%).

**Table 1. Some groups of diseases in Serbia(Central Serbia and Vojvodina)**

Groups	No. of persons	% of total population	Data source
Affected HIV/AIDS	1,198 AIDS	0.02%	Federal register of the AIDS affected
Tuberculosis	7,065	0.09%	Health care statistics
Chronic renal insufficiency	15,000	0.20%	Health care statistics
Diabetes	200,000	2.67%	Health care statistics
Psychosis	28,117	0.37%	Health care statistics
Total population	7,498,001		Final census results

### **Inherited infrastructure and medical staff structure in the Health Care System**

A well-developed network of 275 independent health institutions (with legal entity status) was providing health care for the population within the state health sector in 2000.

The coverage of the population with medical staff is on the level of the developed European countries, with 390 inhabitants per medical doctor, 140 inhabitants per health worker with higher and secondary professional education, 2250 inhabitants per dentist, and 5760 inhabitants per pharmacist. While the coverage of the population with medical doctors and medical staff with secondary education remained practically the same during the last decade of the 20th century, the coverage with dentists and pharmacists in the state sector declined because many of them have gone over into the private sector. Considering the low national income, there is a surplus of the employed in the health sector, and serious problems are encountered in ensuring funds for their salaries and for covering other costs of such a developed health service.

The average number of inhabitants per medical doctor in primary health care is 621, ranging from 770 children under 6 years per medical doctor in the preschool child health service to 5390 women over 15 years of age per gynaecologist in the female health care services.

During the last ten years there has been a policy of preserving all the capacities and the employees in the health care system in Serbia as well as the legal rights of the insured. As the socio-economic situation dramatically deteriorated, the health care system spontaneously adjusted itself to these changes, but sustained significant deterioration of its fixed assets (buildings and equipment), a drastic fall in the quality of medical services, a decrease in their utilization, lack of medicines and medical material, bribery and corruption, transfer of patients and a part of equipment from the state to the private health sector, resulting in deteriorated accessibility of health services especially to the poor.

### **Utilization indicators**

The utilization of health services in primary health care varies, from more than 6 visits by a preschool child up to less than one visit by women over 15 years of age to a doctor of a corresponding health service per year, visits for curative services prevailing over prevention services, which include visits to counselling centres or early detection of growth and development disorders with children (regular systematic check-ups).

Inadequate adjustment of the structure of hospital beds to the changed needs of the population is also reflected in the differences shown in their utilization. Decreased utilization of beds (below 60% days per year) is marked in the wards for treatment of infectious and parasitic diseases, respiratory diseases, hospital treatment of children, gynaecological and obstetrical wards, ophthalmological, otorhinolaryngological and dermatological facilities. At the same time there is a shortage of beds for extended treatment and care of elderly, patients in terminal phases of their illness, or in specific institutions such as nursing homes. Also, due to the changed pathology of the population in the 20-year period, the number of patients hospitalised for cardiovascular diseases and endocrine disorders has increased by about 50%, because of problems with the nervous system and senses by about 35% and malign diseases by about 25%, and there are insufficient bed capacities for the treatment of such patients. Most of the capacities of the tertiary level facilities are above-averagely overloaded, and long waiting lists have been formed for those in which expensive imported materials are used, such as heart surgery facilities.

### **Funding of health care and the health insurance system**

The most important source of health care financing in Serbia is the institution of the compulsory health care insurance, through the Republic Health Insurance Office of Serbia. Additional sources of funding are, primarily the budget of the Republic of Serbia and the individual participation of the insured in covering the costs of health care services. Funds for the health care of the insured persons are provided from the Republic Health Insurance Fund, while funds for the health care of the uninsured citizens, health promotion, prevention of illnesses, special programmes and health protection measures for the whole population are provided from the Republic budget. The expenditures on health care per capita in the Republic of Serbia ranged from USD 121 in 1996 to USD 74 in 2001, including refugees

and internally displaced persons, and USD 81 in 2001 and USD 103 in 2002 without refugees and internally displaced persons (See Table B4 in the Annex).

Marked lack of funds has resulted in low salaries of medical workers, poor investment in the infrastructure and equipment of medical facilities and a large deficit in the Insurance Fund, created by health-care costs. All this has jeopardized accessibility, the basic principle of the health care of the population. The Survey on the Living Standard of the Population (SLSP) has shown that there is a significantly higher number of persons who are below the poverty line who say that the reason why they do not use health services is that these are expensive. As most of the income is spent on food, the poor can spare only minimum funds for additional payment for health services (10% of the poorest families allocate only 290 dinars or 3.3% for these purposes). The contents and the scope of the right to the health care, funded from the Health Insurance Fund, included nearly all health services. A great imbalance occurred between the rights to health care and the limited funds for meeting these rights but also the possibility of realizing such rights by the socially vulnerable groups.

#### **4.1.2. Problems and constraints**

Routine data on health status and on the utilization of the health services according to socio-economic status are not monitored in Serbia. Therefore, it is not possible to analyse health trends according to social status and health differences among different social groups. This makes it difficult to set and quantify targets for the improvement of health status and the reduction of differences in the health status of different social groups.

The existing data on the flow of the funds in the health sector are superficial and mainly focused on social expenditure. The flow of funds from the Health Insurance Fund to the providers of services is mostly well-documented, but information on expenditures for health care from the budget is incomplete and there is no reliable information on the out-of-pocket payments, and particularly on the informal fund flows (bribery, corruption, direct payments, etc.). Smaller funds, such as expenditures of private companies, NGOs and foreign agencies are not recorded at all.

### **4.2. Goals and strategic options**

#### **4.2.1. Goals**

The aim of the poverty reduction strategy in the health sector is to promote the health of the population and, particularly, to reduce inequalities in health by the improvement of the health of vulnerable groups of the population. This objective will be achieved by the development of health programmes adjusted to the vulnerable groups and fairer redistribution of resources in the health sector by geographic region.

In late 2000, the United Nations set the Millennium Development Goals, as an expression of the political dedication of nations to widely accepted international developmental objectives that could be used to direct countries towards their own long-term developmental priorities. Out of the eight Millennium Development Goals, four relate directly to improvement of the

health status of the population by the reduction of the under 5 mortality rate, reduction of the rate of maternal mortality and the prevention of the spread of HIV/AIDS, malaria and other diseases, as well as by providing a sustainable environment, while others are indirectly related to achieving better health and quality of life.

In 1998, the WHO Regional Office for Europe proposed a political framework "Health for All" on this continent with 21 objectives for the 21<sup>st</sup> century to be reached by 2020. The document highlights the importance of achieving fairness in health by reducing differences between socio-economic groups within the member countries by at least one quarter, and by significant improvement of the level of health of all vulnerable groups.

In the Government document entitled "Health Policy of Serbia" objective no. 2 also accentuates the importance of fair and uniform access to health care for all citizens of Serbia for the same needs, as well as the promotion of health care for all vulnerable groups. The aims within this objective relate to definitions of national targets for the reduction of inequality in health and the promotion of health care of disadvantaged groups of the population, which makes them particularly vulnerable. The third objective of the Health Policy proposes focusing the health care system on the beneficiary, i.e. the patient, which should contribute to better education of the population on their rights and their more active participation in decisions on health care issues.

The future system will enable equal accessibility of primary health care services and scope of health care for all insured citizens where the financial basis for these services will be provided by the Republic Health Insurance Fund. Financing of the basic package will be provided from the national budget for all other citizens, regardless of their social and economic status.

### **Providing financially accessible health care services for vulnerable groups**

The basic principle in the reform of the health care system is to provide access to necessary services of appropriate quality to the population at large, with no financial barriers. Health care services for the basic package will be selected on the basis of cost effectiveness to reduce the country's burden of disease, while the primary health care funded by the Republic Health Insurance Fund will be accessible and provided in an effective manner. The principle of reciprocity and solidarity in financing and providing health care will be preserved, where the mandatory health insurance will be the basis of the health care system. Budgetary share will be increased to cover the health care of uninsured individuals, while the sources of financing will be expanded by the development of additional forms of insurance, either non-profit or profit (private). Personal participation of people with insurance in the costs of health services will be reconsidered, and current exceptions which are very wide ranging will be reduced and focused exclusively on the people who really cannot participate in the expenses. Likewise for participation in the costs of expensive diagnostic and therapeutic procedures, which will reduce bribery and corruption in public health care.

## **Raising efficacy and effectiveness in resource utilization**

In the light of limited resources available for health care, efficacy and effectiveness in utilization of resources need to be improved. This objective can be achieved by better distribution of resources effected in the reform of primary, secondary and tertiary health care, development of health IT systems and improvement of managerial functions. The Serbian Health Policy points out that " primary health care as the basis of the health care system" will be based on individual doctors in primary health care and their teams who will be the "gate keepers" for entry to the higher levels of health care, while hospital capacities will be restructured according to the needs of the population, by redistribution of hospitals and/or hospital wards into hospitals for short-term hospitalization (for acute diseases and conditions), prolonged care and treatment (including patients in terminal stages of diseases), hospitalization of chronic diseases and conditions and specialized rehabilitation and continuation of hospital treatment.

## **Improving the quality of health care services for vulnerable groups**

The Government of the Republic of Serbia in the objectives of the Serbian Health Policy includes the need for improvement of the quality of health care provided, particularly for the vulnerable population. Socially disadvantaged persons frequently receive health care services of poorer quality than the rest of the population. Permanent improvement of the quality of work in the health care sector will be achieved by the development of the quality system, accreditation of health institutions and programmes, licensing (issuing and renewal of work licences) of medical professionals and strengthening of the role of professional associations of health workers (chambers) in the improvement and provision of high quality health services. Secondary medical schools and faculties will be included in continuing education, additional education and re-education of medical professionals, and will participate in their professional development. Special care will be paid to the acquisition of new knowledge and skills in the sphere of constant improvement of quality in health care, dealing with the quality and management of health care institutions.

### ***4.2.2. Strategic options, measures and activities***

#### **Reform of the funding system – basic package of health services**

The current system of health care is characterized by major disproportion between the formal rights of beneficiaries and the capacities to actually provide them. This results in the occurrence of corruption and different forms of informal modes of payment for the use of health care that particularly affect socially and economically disadvantaged groups. Therefore, it is necessary to design system solutions that precisely define the status of private practice, as well as the public sector role in the provision of health care services to the population.

In order to provide for a sustainable basic package of health care services, systematic review and evaluation of the current health services will be undertaken, including those that may be

included in the package of services of mandatory health insurance. In this way, the relevance of health services from the point of view of actual health will be evaluated together with the cost effectiveness of these services and other benefits resulting from evidence-based medical interventions, and information will be provided for decisions on the review of the existing law and the adoption of new legislation.

Defining the basic package will include the following considerations: who is going to provide these services, at what level of health care and under what conditions. The basic package of health care services should be formulated having in mind two vulnerable groups: those that pay health insurance contributions (but belong to the group of the poor) and the poor who are not even socially insured. Since the funds for the health care of uninsured individuals, internally displaced persons and refugees have been insufficient over the whole of the last decade, the Government of the Republic of Serbia has recognized this problem and in 2003 it has increased funds from the republic budget allocated to this purpose.

### **Better distribution of resources (by health care levels and districts)**

It is not sufficient to identify basic diseases responsible for the national burden of diseases; it is equally important to find the most cost-effective means of protection from these diseases. Very often, interventions such as early detection and treatment of these diseases in primary health care appear to be an obvious choice, but preventive, public health interventions over longer periods of time may also be profitable. Prevention and primary health care will be given top priority in the future health care system. The funding by the Republican Health Insurance Office will support implementation of this principle by the basic package of health services, while in primary health care the package will include the most important preventive measures such as alternative protection, immunization programmes, programmes for the protection of newborns, infants and children, etc. The preventive services will be formulated and promoted by the setting up of task forces in preventive health care and guidelines for providing these services to the population, as well as guidelines for good clinical practice in defining the role of preventive health care services.<sup>105</sup>

Sustainable funding of the health care system will be achieved by the establishment of a fairer distribution of health insurance funds. Activities on the review of the geographic distribution of funds for Belgrade and districts will be supported. In the light of the accessibility, availability, fairness, efficacy and quality of the required health care the

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<sup>105</sup> The Ministry of Health has supported the project of the International Red Cross Committee «Package of Basic Health Care Services in the Medical Centre in Kraljevo» which was initiated in July 2001 and deals with the planning, development, and operationalization of a unique package of basic health care services to satisfy the needs of the population of one municipality for primary health care, with the stress on the most vulnerable groups. After completion of the project and its evaluation, it is expected to develop and spread further with the support of the Ministry of Health.

distribution criteria will be established, and the distribution system elaborated in order to enable redistribution of available resources from the higher to the lower level of care.

Financing of public health services is an important part of funding of the overall health care system that will help to establish public health priorities relating to health promotion, prevention and treatment of disease and early detection, particularly of malignant and cardiovascular diseases. Public health includes community oriented programmes and activities that will either be beneficial to all (e.g. clean air and safe water) or only to some (screening programmes and counselling services for change of risky behaviour). In order to develop and implement mechanisms for the control of health related costs and provide the means for money to follow the patient and actual results, instead of the number of employees or modern equipment, a new model of payment of compensation to service providers for their work on a per capita basis will be introduced (capitation) (pursuant to the list of patients subscribed for treatment of one physician) in the primary care and prospective budgeting for hospitals, while tertiary care would be paid by the service.

### **Reform of Primary Health Care and Restructuring of Hospitals**

The guiding principle of the future system of health care stated in *Vision of the health care system of the Republic of Serbia* points out that the «health care system will be clearly organized on three functional levels in order to provide an acceptable and efficient health care of the population whereby it will be provided at the lowest possible level which has sufficient expertise and equipment».

Certain parts of primary health care fall under the new jurisdictions of local governments and are transferred to them by the new Law on Local Self-Government. Transfer of competences includes the opportunity to participate in decision-making related to the management of health institutions, formulation of local health care programmes accounting for local specificities, as well as the option to transfer funds for implementation of programmes and projects in primary health care. At the level of primary health care, specialist consulting services will be rationalised. At the same time the role of general practitioners and nurses will be encouraged and strengthened, primarily by adequate post graduate education, and subsequently by the introduction of new methods of funding.

***The new Law on concession opens the possibility of the inclusion of the private sector in the system in which the state and local self-government will set the standards and monitor the quality of work.***

***Adoption of accreditation and licensing***

*For the purpose of implementation of the instruments for control of expenses and the quality of the health care services, professional bodies for licensing of health workers and bodies for accreditation of health care institutions will be established. As far as issuing of operating licences is concerned, it is necessary to change the present method of licensing of health workers together with the doctors' and nurses' chambers. Licensing should develop into a system in which compulsory and continuous medical education will represent an integral part of licence renewal. Accreditation of health care institutions and health care programmes represents an important prerequisite for raising the level of the quality of services in health care. In order to establish the accreditation system it is necessary to set up the agency for accreditation as an independent body. Among the activities that should be undertaken for the purpose of implementation of the health care policy of Serbia which is related to the improvement of the professional staff base in health care (human resource for health) are the licensing and periodic assessment of professional competence.*

### **Development of national programmes for extremely vulnerable groups**

Recommendations of experts of the European Health Care Committee for protection and improvement of health care of marginalized individuals propose an inter-sectoral approach, preventive actions, and the creation of a supportive environment for social reintegration, avoidance of stigmatisation and increase of knowledge.

The Government document "Health Policy of Serbia" stresses the importance of the health care system in the preservation and improvement of health as well as in the prevention of diseases among the disadvantaged population groups. It pinpoints as the most significant activities the following ones:

Identification of special medical requirements of those groups as well as their relation to social needs and adoption of programmes for synchronized action at all levels of the community;

Liaising of the primary health care institutions – health centres, with the social welfare institutions – social welfare centres, and development of multidisciplinary, team work;

Liaising of the primary health care institutions – health centres, with educational and other institutions.

The measures for protection of such groups should be integrated into the regular health care services. It is necessary that the programmes aimed at improvement of the health status of the population and strengthening of the health potential of the nation reach persons who are in a deprived position. Disadvantaged individuals are often insufficiently informed. It is important to improve information to those groups with regard to existing programmes and services and possibilities of their use.

## Raising accessibility, quality and efficiency of youth-oriented services

- *Initiate and support foundation of Youth Counselling that would foster a holistic approach and be open for all relevant issues that could advance the quality of life of the young.*
- *Organize service providers and programmes that would support programmes of youth to the youth*
- *Open the doors of Counselling for parents and adults*
- *Organize actions promoting health, responsibility and healthy life styles*

The programmes should be planned with the active participation of target groups in order to ensure their acceptance. Apart from the programmes planned at the national level, it is necessary for local communities to engage in planning of programmes that would be tailored to local specificities.

*The Government of the Republic of Serbia has established the Republic commission for the fight against AIDS on the basis of a multi sectorial partnership. The main task of this body is to develop an adequate state response to the HIV/AIDS epidemic, at all levels, to set a strategy and action plan, to co-ordinate the existing ones and new initiatives and projects on the Republic territory.*

*According to the experiences of other countries, there is no prospect of stopping the epidemic, but it can be stabilised with good preventive measures. The severity of the illness can be reduced with well organised treatment, care and support to the HIV positive and AIDS affected persons. The Republic commission has started implementation of the project funded by Global fund of WHO.*

*The Ministry of Health has formed the National tuberculosis commission which applied to the Global Fund of WHO for the project of direct monitoring of the tuberculosis affected – DOTS (Directly Observed Treatment – Short course), which improves the successful and permanent recovery of affected people and reduces the resistance to tuberculostatics.*

Particular attention should be paid to programmes for the improvement of mental health because, according to international experience, as well as according to the data obtained from the Survey on the Living Standard of the Population, mental health problems are often present among persons living in unfavourable socio-economic conditions, poverty, and exclusion.

Persons from vulnerable groups are often reluctant to approach state institutions, including the health care services, which on their part are often insufficiently prepared to identify the needs of those groups and to meet them. NGOs have a significant role in the working out and implementation of programmes for disadvantaged individuals and in compensation for social inequalities in the health sector. NGOs have the capacities to create programmes tailored to particular situations of socially deprived groups in terms of content (they propose feasible measures), language (mother tongue, everyday language), organizational framework (outreach programmes), cultural sensitisation, activation of the target population (by including members of a group as trainers or facilitators in the programme), all of which has a positive influence on attitudes to health.

## **Introduction of Health Information System (Suited to Monitor the Influence of Transition on the Poor and Vulnerable Groups)**

In the recommendations issued by the Council of Europe, it has been stressed that governments should particularly focus on improvements in information on the health of people who live in poor conditions and their specific health needs. The need for regular, routine collection of standardized, comparable data based on common definitions has been recognized. The data recorded on a regular basis should include social and economic characteristics of monitored individuals in order to enable analyses of morbidity, mortality and utilization of health care services according to the socio-economic status of citizens. Along these lines, it is also important to change the way in which the data are collected and set up regularly updated public databases. It is also important to emphasise the need for co-operation between the health care sector with other institutions responsible for collection of data in order to include issues relating to health and payment for health care services in surveys based on sample households.

In order to avoid discrimination and provide protection, anonymity of patients has to be strictly respected, i.e. confidentiality has to be provided for information on the health status of beneficiaries in the databases or medical records.

### **Institutional and legislative changes required**

Amendments to the laws and by-law and regulations are currently being drafted in order to support all the above-mentioned goals and strategic options. The achievement of these goals requires a change in laws in the health system such as the Health Care Law, Health Insurance Law, Law on Medications and Medical Substances, as well as co-ordination with other sectors in order to modify laws concerning environmental protection, protection at work, workers' health and others.

## 5. Education and poverty

### 5.1. Current status and problems

#### 5.1.1. Current status

Low and inadequate levels of education have been identified as one of the main causes of poverty in Serbia. The link between education and poverty and the importance of education for the reduction of poverty, is best demonstrated in the following table. According to the Survey on the Living Standard of the Population (SLSP) the majority of the poor (over 60%) only have primary school education or are primary school drop-outs, while only 2% of the poor are highly educated.

**Table 1. - Poverty in relation to education level in Serbia in 2002.**

population over 15 years of age -

	% Population at risk of falling below the poverty line	% of the poor	Relative poverty risk	Structure of all Population over 15	Structure of the poor	Depth of poverty	Severity of poverty
<b>Unfinished primary school</b>	36.1%	21.5%	102.5%	17.5%	35.4%	5.1%	1.8%
<b>Primary school</b>	25.4%	14.3%	33.9%	23.3%	31.2%	3.1%	1.0%
<b>Secondary school</b>	15.1%	6.9%	-35.1%	47.5%	30.8%	1.2%	0.3%
<b>College</b>	7.8%	2.9%	-72.8%	5.1%	1.4%	0.4%	0.1%
<b>University deg.</b>	5.6%	2.0%	-81.4%	6.6%	1.2%	0.4%	0.1%
<b>Total</b>	20.0%	10.6%	-	100%	100%	2.2%	0.8%

Source: SLSP 2002.

The results of analyses carried out demonstrate that the economic status of education in general in Serbia is unfavourable. This is primarily a consequence of the situation deriving from the 1990s, when the country suffered a drastic fall in GDP. In 2000, compared to 1990, the GDP of the formal sector, calculated in USD<sup>106</sup>, was 70% lower.. This fall in GDP had the following consequences:

- A reduction of total expenditures for education by 74.5% – from USD 585 per primary school pupil in 1990, to USD 144 in 2000, from USD 832 to USD 179 per secondary school pupil and from USD 1581 to USD 333 per student in post-secondary and university education;
- A reduction of the share of education expenditure in the GDP from 3.62% in 1990 to 3.14% in 2000.

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<sup>106</sup> The World Bank methodology was applied in the calculation. Source: Federal Statistics Office.

Today, Serbia's system of education funding is to a great extent centralized. The budget share in total revenues of the education sector was 72.4% in 2001, which covers the gross salaries of those employed in the education sector. Direct contributions by the population accounted for 9.3% of the total revenues of the education sector, while donor funding accounted for 5.2% in 2001.

The low level of expenditures for education has a negative impact on the accessibility of education for poor children, on the non-compulsory levels of education (after primary) and on the quality of education. Municipalities with below-average GDP cannot provide even the legally prescribed obligatory share of funds for education.

The education sector includes pre-school, primary, secondary and university education.

Statistical data on primary and secondary education are contained in Table 2.

**Table 2. - Source: Statistics of primary and secondary education 2001. (Ministry of Education of Serbia)**

	Primary schools	Secondary schools
<b>Number of educational institutions (including detached classes)</b>	3,607	475
<b>Number of students</b>	711,954	323,490
<b>Number of teachers</b>	43,767	24,694
<b>Number of staff associates</b>	1,858	1,171
<b>Student/teacher ratio</b>	16.2	13.2

### **The legal basis of the educational system in the Republic of Serbia**

Serbian educational policy is in accordance with the United Nations Convention on the Right of the Child which guarantees the right to education of all children, in accordance with Millennium Goal no. 2 – Achieve universal primary education.

The legal basis of the education system in the Republic of Serbia includes: the Constitution of the Republic of Serbia, the System Law on Education, the Child Protection Act, the Law on Primary Schools, the Law on Secondary Education, the Law on Post-Secondary Schools and the Law on University Education. The Federal and Republic constitutions lay down the basic principles on which the education system in the Republic of Serbia is based. They guarantee equal access to education for all citizens. Primary education is compulsory. Citizens do not pay for regular schooling, which is financed from public revenues. Members of national minorities are entitled to education in their own language at all levels.

Current legislation represents a step towards decentralisation, democratisation and depoliticisation of the education system. Although the first step has been taken towards democratisation of the education system (e.g. the establishment of school board), it is necessary to take measures aimed at further strengthening of the capacities of these bodies by giving greater authority to parents and teachers in the decision-making process.

## **Lower education**

### *Enrolment and coverage*

The total preschool education coverage rate for children aged 0 to 7 years is approximately 22%. This figure applies to children enrolled in public preschool facilities. Data on the enrolment of children in private preschool facilities and various informal preschool programmes is not available and is not monitored. The highest preschool enrolment rate is recorded in Vojvodina, and estimated at 90%. The enrolment of children aged 0 to 3 is generally low throughout the country.

The official enrolment rate in primary schools in 2000/2001 was 98.31%, and the dropout rate was 0.62. However, as official statistics do not follow up pupils by cohorts, it is estimated that the dropout rate during primary school is about 15%. Dropping out is most frequent among the rural population, Roma, children with special needs and refugees and internally displaced persons. 7.46% of children do not continue their education after primary school. According to official statistics, the secondary education enrolment rate is 79.6%, with a total drop-out rate of 6.91%. Other research shows that some 30% of students enrolled in secondary schools do not complete their secondary education.

Even though the statistical variation in terms of boys and girls enrolled is insignificant, the drop-out rate for girls from the most vulnerable populations (the Roma, children with special needs, the rural population), is significantly higher (20-80%).

The reform of primary education is under way, and one of its main directions is curriculum revision and the extension of the duration of education. The need for this reform, among other things, has occurred as a consequence of the fact that under the old curriculum a large number of children needed private tuition (17.7% of students had private tutors) which had a discriminatory effect on poor families. The implementation of this reform will bring the system of primary education closer to European standards, and at the same time curriculum modifications will result in lowering the drop-out rate resulting from the previous demanding curriculum.

### *The existing network and equipment of educational institutions*

The existing network of educational institutions dates back to the 1960s, and no longer corresponds to demographic and educational needs. The main problems can be summarised as follows:

- pre-school institutions are organized as very large institutions, which limits their flexibility and their ability to adjust to local needs;
- the network of primary schools includes large schools on the one hand and small village schools on the other, which encounter completely different problems;

- the structure and focus of secondary education are completely inadequate for the needs of a modern economy;
- the network of pupils' and students' boarding facilities does not provide sufficient accommodation.

The condition of buildings and their equipment is still very poor, even though there has been much investment in reconstruction, construction and equipment of educational institutions during the last two years.

### **Post-secondary and university education**

The system of higher education includes the curricula of post-secondary schools as well as university education which leads to BA, MA and PhD degrees. There are 6 universities in the Republic of Serbia encompassing a total of 81 faculties and 158,525 students. There are 50 post-secondary schools with a total of 50,740 students. The traditionally highly respected professions (doctors, lawyers, economists, etc.) are oversupplied. In addition, the data show that current curricula do not satisfy the needs of modern society and the new market economy. The high percentage of dropouts and the fact that many students prolong their studies show that the general efficiency of the system is far from satisfactory.

#### **6.1.2. Education of children from marginalized social groups**

##### **Education of children with special needs**

Children with special needs requiring long-term assistance due to irreversible disability account for approximately 7%-10% of the total student body. The majority of children with special needs are usually not covered by rehabilitation programmes until their enrolment to primary education,

Pre-school education is organised in three forms:

1. special pre-school groups in special schools;
2. special development groups in regular pre-school institutions;
3. pre-school education undertaken together with other children in the same pre-school group, without a special programme.

Only 1% of pre-school children with special needs are covered by early childhood education and other preparatory programmes, whereas 22% of pre-school children in the general population are included in this form of education.

The current education system for children with special needs is organised in three basic forms:

1. special schools for children with mental, physical and sensory disorders and children with behavioural disorders (some 15% of children with special needs are enrolled in special schools);
2. special classes in regular schools;
3. classes in regular schools where children with special needs of all categories are educated together with other children, without special support.

There are 85 special schools in Serbia, of which 5 are in the territory of Kosovo. Excluding Kosovo, the capacity of these institutions is 8,829 students. 61 schools are for mentally challenged children. In terms of organization and space, primary and secondary schools are normally located together. In 8 students' residences serving schools for children with visual and hearing disabilities, accommodation is provided for 480 students. The available data show that special schools do not fulfil their basic functions. They isolate children with special needs and do not prepare children for inclusion in regular life.

**Table 3. – Number of students in special schools in Serbia, for the school year 2000/2001**

	Total number of students	Boys	%	Girls	%
<b>Primary</b>	7,560	4,488	59.37	3,072	40.63
<b>Secondary</b>	1,269	806	63.51	463	36.49
	8,829	5,294	59.96	3,535	40.04

The network of special schools and special classes in mainstream schools is not evenly distributed across the regions of Serbia. These schools are located in major cities so that rural children and children from small towns are separated from their families and placed in boarding facilities which are most often located with special schools.

There are several problems related to the education of children with special needs:

- There is no unified data concerning persons with special needs;
- Only 30% of children with special needs who have completed primary school continue their education, in comparison to 79% of the total population.

### **Education of Roma**

The lack of data not only on the educational status of the Roma population but also on the number of Romas in Serbia is the main obstacle to carrying out a precise analysis of the current state of education among the Roma population. Data quoted are often estimates and are not based on sound statistical information.

According to the 1991 census, the educational structure of the Roma population over 15 years of age was as follows: 78.7% had not completed primary school, 34.8% had no education or had completed fewer than four grades of primary school (these can be considered as illiterate), 17% have primary school, 4% have secondary school, and 0.2%

have post-secondary school or university education. The 2002 census data show that 62% had not completed primary school, 32% had no education or less than 4 grades of primary school, 29% had completed primary school, 7.8% had completed secondary school and 0.3% had post-secondary or university education.

The illiterate and the uneducated are mostly women because they marry young and are oriented towards housekeeping duties in their primary and secondary families. Poor families with numerous children cannot provide financial support for the education of their children and there is therefore a cycle of poverty and lack of education among the Roma.

### *Participation of Roma in education*

An insignificant number of pre-school children are covered by institutional and other educational programmes (0.5%).

It is not possible to determine precisely the number of primary-school age Roma children who do not attend school. However, available data indicate that it could be between 3 – 10% of the total number of enrolled children.

A great number of Roma children do not enrol in compulsory schools (80% of children are not included in primary education).

When tested for the enrolment in the 1st grade, many of these children are wrongly categorized due to language problems and sent to special schools (according to some data 50-80% of children placed in these schools are Roma children)<sup>107</sup>.

Children enrolled in 1<sup>st</sup> grade encounter considerable problems due to an insufficient knowledge of the language in which the lessons are performed and they do not attend school regularly. They start dropping out of school from the very beginning, while in higher grades the drop-out rate is very high, particularly in the case of girls. Due to late enrolment and poor achievement in school, Roma children are often sent to schools for the education of adults, which use methods inappropriate for children of that age, also resulting in dropping out.

The Roma covered by secondary education come mainly from families who are well off and already integrated into society. It is mainly two- and three-year lower-ranking secondary schools that are accessible to them.

There is an exceptionally small number of highly educated Roma who attend post-secondary schools and universities (0.3%). In some professions, there are no Roma graduates or Roma students. There has been an increased number of Roma students in the past few years as a

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<sup>107</sup> A Comprehensive Analysis of the Primary Education System in FRY, UNICEF, Belgrade, 2001.

result of scholarships provided by different organizations, but their number is still significantly lower in percentage terms compared to other populations.

### **5.1.1.2 Adult Education**

The educational structure of the adult population in Serbia is rather unfavourable. According to data from 1993 almost one quarter of the unemployed are unqualified or partially qualified, while 60% of the employed have completed secondary education. According to data from 2001, 40% of the unemployed are unqualified or partially qualified.

The major problem of adult education is its marginalization. It is not treated as a strategically important component of economic and social development. In educational policy adult education and learning are treated as a matter of personal interest. The formal education system is practically closed for adults. There are 19 schools for adult education at present (compared to several dozen during the 1970s) and they are attended mainly by adolescents with educational and behavioural problems, as well as by adults from marginalized social groups.

These schools work on the basis of the curricula of regular primary schools which do not take into account adult education criteria. There are no adequate textbooks, trained teachers or standardized programmes for these schools. There is no systematic monitoring of data on institutions, curricula, students or teachers.

Secondary education for the adults is organised sporadically, at the request of the Labour Market Bureau and companies, mostly in the form of a final exam for adult (non-regular) students. Neither the contents of classes, nor their organisation are in harmony with the needs of life and the working environment from which the adults originate.

The above discussion clearly shows that the existing educational system is itself a source of problems which are in a special way reflected in adult education. On the one hand, the education system is not adjusted to the needs of the labour market, and on the other hand it is not adjusted to the needs of adults – the labour force, whose education requires a different approach and different institutional arrangements.

Taking into account the position of marginalized groups, it is important to provide through the implementation of the PRSP measures of affirmative action aimed at the improvement of their status in educational system.

### **5.1.1.3. The link between the education system and the labour market**

An analysis of the unemployment rate, the number of unemployed and the length of their unemployment, shows very clearly that structural unemployment as the general characteristic of unemployment in Serbia is a result of the rigid and inadequate network of secondary vocational schools.

According to the unemployment records, there were on average 223,000 unemployed persons with who had completed three years at secondary vocational school (out of the total number of unemployed persons of 842,652), while there were on average 236,000 unemployed persons who had completed four years at vocational secondary school.

A possible cause for this can be found in the **lack of connection between** secondary vocational schools and the existing economic environment and its current and developing needs. Consequently, deprofessionalization – loss of knowledge and skills – is a feature of structural unemployment.

Specific characteristics of education in Serbia are as follows:

- There are a great number of educational institutions with planned enrolment capacities which do not reflect the needs of the labour market;
- the same number of students keep enrolling in the first grade of secondary schools, which shows that there is no adjustment to the needs of the economy and to the existing number of unemployed professionals;
- on the basis of the above, a number of profiles are classified as the so-called »homogenized diversified profiles with surplus professions«. This means: a high territorial percentage of the unemployed in these fields of work; long waiting periods for employment, equal to the schooling time period itself; a slow rate of employment take-up; the so-called poor concentration of the unemployed in large cities, poor mobility of the unemployed.

Education in secondary vocational schools is characterised by a high share of general subjects, fewer generally vocational subjects, and even fewer highly specialized vocational subjects as well as limited practical work in the curriculum, which by itself does not guarantee a good preparation of students for work. That is one of the basic comments by employers. The absence of technological innovations and information about modern work processes in the curriculum – in other words, obsolete programme content, as well as insufficient practical work skills, are another dominant characteristic of the curriculum, which affects the position of secondary school graduates in the labour market.

Most often local secondary technical schools are not open to the requests of the employers nor for the enrolment of adults ready to join the school in regular term-time, except for the usual cases of retraining or additional training organized at the request of the Republican Employment Bureau (and these requests are rare). Schools are also not open to the educational needs of those already employed and to educational innovations. At the same time, no serious effort has been made to introduce computer training and basic entrepreneurial training, which would modernize the curriculum at least to some extent, despite the fact that as much as five years ago, entrepreneurship and the development of small and medium-sized companies were defined as the main generators of employment during the period of transition and transformation of ownership in the economy.

## 5.2. Goals and Strategic Options

### 5.2.1. Goals

The strategic contribution of education to poverty reduction is twofold:

**First**, it increases the opportunity for high quality employment through an improved level of education of the population by gaining higher and more suitable qualifications (both for young people and adults) and by obtaining higher levels of education by the insufficiently educated groups (particularly Roma and children with special needs). In both cases investments are required for:

- prolonging compulsory education to 9 years;
- widening the education system to include marginalized groups;
- the reorganization of the system of vocational education in compliance with the new needs of the economy;
- the provision of systematic opportunities for adults to gain qualifications.

**Second**, it increases the efficiency of the education sector through:

- Greater effectiveness of teaching, by achieving higher quality of education. For that it is necessary to develop a system which will ensure teaching quality, a system of professional development for teachers and a reconstructed curriculum which will be focused on acquiring lasting and transferable knowledge and skills, and values and patterns of behaviour suited for a modern society;
- Strengthening the role of parents and students, by improving user services in the education system. ;
- Considering the possibility of introducing compulsory pre-school education. This is particularly important for the successful integration of vulnerable children into the regular education system;
- Optimisation of the primary and secondary school network, which should provide rational spending of resources in order to release funds for other material demands of schools;
- Proper equipping of schools, which provides efficient teaching and makes possible the acquisition and transfer knowledge.

However, the strategic contribution of education has been blocked by financial restraints in the education system itself. Another constraint is the poverty of a relatively large number of

parents, whose children therefore live in poor families and surroundings. The implementation of current social and economic reforms will have a positive impact on all these constraints.

### **5.2.2. Strategic Options for the Education System Reform from the Perspective of Poverty Reduction**

New System Law on Education

In accordance with European educational standards, the goal of the changes encompassed by this law, which was adopted in June 2003, is threefold:

1. Increased relevance of curricula and their adjustment to new social and economic needs at the republican and local level;
2. Increased coverage of children by education – by extending compulsory education to nine years while keeping 12 years of pre-university education;
3. Increase efficiency of the system through better use of existing investments and the professionalisation of human resources in education.

The reform package which aims to achieve these three goals by 2010 is contained in this law in the following ways:

- Optimisation of the current institutional network, in order to provide equal access to everyone, in the whole of Serbia;
- Establishing a new framework and procedures for the implementation of a new type of curriculum with an emphasis on results and the acquisition of applicable knowledge;
- In addition, the introduction into the system and the regulation of the possibility of approving other curricula at pre-school level and the education of adults through training and professional improvement;
- Introduction and regulation of professional standards concerning education, on-the-job training, work and the professional improvement of staff working in education;
- Compulsory attendance of a free-of-charge one-year preparatory programme prior to enrolment in first grade starting in 2007;
- The creation of basic legal conditions for the inclusion of marginalized children into the education system by establishing a centre to deal with their problems.

## **Pre-School Education Reform**

In view of the figures on the coverage of children by pre-school education, particularly those from marginalized, poor, and vulnerable families, the strategic activities for the development of pre-school education, from the aspect of poverty reduction, include several main trends:

- increasing the coverage for all age cohorts, in particular for the excluded groups.
- inclusion of all children in a pre-school preparation programme, lasting at least six months, for four hours a day;

Development of alternative half-day programmes for children aged 5 to 7 years.

The new System Law on Education provides a framework for compulsory and free-of-charge attendance at preparatory pre-school programmes starting in 2007. The implementation of such strategic options includes: linking state, private and NGO initiatives, participation of parents and local communities (in particular local self-governance authorities), introduction of good practice and experience gained from NGO programmes into the public system, and teacher-training courses in the form of action and intervention research.

Concrete tasks in the implementation of the strategic goals of poverty reduction would be:

- To review the current situation and problems in the government, private, and NGO sectors and to assess the needs (of children and parents on one hand, and of practice on the other).
- To provide the legislative framework for a further process of reform: the Law on Pre-school Education instead of the prevailing Children's Protection Act.
- To secure a framework for integrated early childhood development through inter-sectoral co-ordination and co-operation.
- To create preconditions (material, financial, human, and programme) for a greater coverage of the marginalized and excluded children and children at risk (child refugees, Roma children, children from poor and socially and educationally underprivileged and rural environments, children with special needs) by regular free-of-charge pre-school education, for a minimum of one year prior to enrolment in the first grade (up to 5 classes a day, 5 days a week).

## **Primary Education Reform from the Perspective of Poverty Reduction**

The reform provides a new framework in education as stated in the System Law on Education:

- Extension of primary education to 9 years aimed at achieving functional competence of the whole population in language, mathematics, science, and culture and health matters;
- curriculum reform aims at:
- focusing on educational outcomes – results and their transfer value in further education and in life.
- change of teaching/learning methods (teaching to think, analyze, communicate, acquire problem-solving skills, enabling integration into the labour market and further education - instead of learning by rote).
- flexible programmes based on personal experience, the needs and conditions of local community and the interests of the child.
- greater openness for the inclusion of marginal groups by excluding physical capacities as a criterion for enrolment in school.

### **Secondary Vocational Education Reform**

The system of vocational education should enable and offer both short-term and long-term flexible solutions that would enable pupils to qualify for a profession which would lead to employment, but also make it possible to continue schooling. In that respect, the proposed measures are as follows:

- The introduction of a graded system of secondary vocational education which means that certain levels of vocational education and the curriculum offer both a completion of education and the opportunity to continue education. In this way the principle of lifelong education is being implemented which includes both the embarkation of individuals into the world of labour and their return from the world of labour to education.
- Ensuring both vertical and horizontal flexibility within secondary education.
- Liaising with non-formal education and opening of vocational schools for non-formal education.
- Liaising with forms of work-based education. In that context a special emphasis will be placed on educational services and centres in enterprises, i.e. companies.
- Provision of professional orientation and strengthening of the role of the counselling service within the Employment Bureau and within schools themselves.

## **Higher education**

The process of reform and harmonisation of the higher education system in Serbia with European standards, as defined in the Bologna Declaration, has begun. In the coming period, the reforms should be strengthened with this as the main goal, and, at the same time, measures will be taken to link all activities of the university with the current needs of modern society, including the reformed economy.

It is necessary to increase the efficiency of the higher education system, by reducing the number of students who drop out of university and reducing the time necessary to graduate. Among the measures which are being discussed are various financial reforms and measures to encourage students to graduate on time.

With the goal of linking the university with economy reforms in Serbia, there is a need to move the focus from theoretical to practical, applied knowledge at lower levels of education. It is important to intensify applied research with the goal of supporting economic growth and development based on technological progress at higher university levels (MA, PhD) and among scientists/professors. This requires better integration and the strengthening of partnerships between the University and the private sector.

## **Adult Education within the Poverty Reduction Strategy**

The current system of financing adult education includes the financing of compulsory primary education only, for which adults are not motivated because for their professional and working status this level of education does not have any significance. Only a small number of schools in the formal system (146) organise some forms of adult education, but without clearly defined conditions on which the programme can be executed. It is necessary to consider setting up a fund for financing primary education for adults by means of which they could acquire the basic qualifications for their first occupation or professional training and greater opportunities for employment would thereby be provided. This would in turn provide a strong motivation for uneducated adults to resume education and acquire at least basic qualifications. For unemployed beneficiaries of material support to families who have only completed primary education, special programmes should be launched for additional education and re-training.

Legislation, particularly by-laws, should open the education system to these kinds of options (such as, for example, the possibility of completing primary education at the same time as acquiring qualifications for the first profession), obtaining a free-of-charge first qualification, the same quality of education for all those included in the system, support to informal forms of education and obtaining qualifications required for employment and poverty reduction.

For the purpose of optimal utilization, schools and other educational institutions should be equipped both with regard to the requirements of adult education and specific opportunities

for adults in the educational process (distance education, tutorial system, patronage teaching, consultative-instructional forms, etc.).

The issues of sufficient or insufficient qualifications, and qualifications that are or are not in demand, are addressed by the labour market. From the perspective of the poverty reduction strategy, this is one of the key factors for long-term strategic planning and planning actions.

In order to upgrade the qualifications of the unemployed (347,522 unskilled labourers) and provide for the qualifications of employees (143,272 unskilled labourers), it is necessary to improve the capacity of the education system so that:

- The formal education system provides regular opportunities for adult education and develops curricula and forms of education that satisfy the needs of adults who are insufficiently or inadequately qualified;
- The non-formal education system is included as a significant back-up to the educational curricula that support the poverty reduction strategy;
- A specific network of institutions for adult education is established and strengthened, particularly the centres for vocational and continuing education which continuously develop programmes for training, additional training, re-training, as a flexible and adequate response to the requirements of the labour market.

Established institutions, forms of education and educational programmes for adults should be networked with the formal institutions as a means of educational support to young people at risk of dropping out of school. Alarming numbers of pupils who do not complete primary and secondary education appear in a significant percentage on the labour market as unskilled labour. This target group and the problem of its lack of education should be given priority within the poverty reduction strategy.

In adult education, the underdeveloped regions are the priority, while support to the poor rural population requires practical education of adults for the purpose of raising their labour productivity.

## **Reform of the Education of Marginalized Social Groups**

### *Primary education of Children with Special Needs*

More efficient and greater inclusion of children with special needs in the education system, particularly in inclusive education, is necessary. Measures which can contribute to this include:

- Putting in place legislation for the compulsory education of this category of children.

- Establishing the National Centre for Care of Persons with Special Social Assistance Requirements, whose inputs will be used for the projections of education, health and material and social assistance policies. The aim of establishing an intersectoral government institution for the planning and coordination of all activities relating to the care and assistance of persons from marginalized and disadvantaged population groups is to treat simultaneously and comprehensively their educational, health and other special needs which have up to now been treated separately and in a fragmented manner and have been the responsibility of various line ministries. Such an approach ensures that these activities will be dealt with more economically and efficiently.
- Implementing reform of education for children with special needs with the focus on their integration in normal schools to the greatest extent possible.
- Ensuring wider coverage of children with special needs by early development programmes.
- Providing functional literacy courses and other education for adults with disabilities.
- Close liaison between the education system and the labour market, with legally binding provision of workplaces specifically allocated for persons with disabilities and benefits for employers who give them jobs.

*Children/young people with special needs in secondary education*

Strategic reform of secondary vocational education for students with special needs should take into account the following requirements:

- Vocational education for students with special needs must be based on the scope of their functional abilities, which represent the basic criterion for the selection of curricula intended for any one student or a group of students.
- There should be closer co-operation between the education sector and the labour market, to ensure the needs of the economy for particular types of workers are met. This can be achieved by a rapid restructuring of the education system.
- Within the structure of the curriculum, ensuring possibilities for the completion of a part of the curriculum through a training course, and for vertical mobility, but also keeping students back in lower grades if necessary.
- Creating the conditions for extended rehabilitation in school upon the completion of one year of vocational education, in cooperation with the Employment Bureau.
- Creating the conditions for a rational, efficient regional network of schools by linking primary and secondary vocational education in a unique educational institution.

- Providing adequate educational standards and adequate education of staff and their professional upgrading.

### *Education of Roma*

The emancipation of the Roma community is not possible without a major improvement in the educational level of the Roma population, although activities in the field of education alone are not sufficient to reduce poverty among the Roma. According to the draft Strategy for the Integration of the Roma in the education system in Serbia, it is necessary to:

- Provide the largest possible coverage of Roma children by pre-school educational programmes, particularly programmes preparing for school;
- Inclusion of Roma children of a specific age in regular compulsory schooling, with an adequate preparation for school even if they have not been included in pre-school education;
- Inclusion of a greater number of young people in secondary and higher education;
- Support to training of Roma teaching staff, through support of Roma students studying to become teachers and professors;
- Integration of Roma culture into educational programmes and the curriculum;
- Creation of an atmosphere of acceptance and support for Roma children and young people in addition to mutual respect and acceptance of differences.
- Through specific education, current and future teaching staff should be trained to carry out activities of relevance to the Roma community, which will facilitate and support educational integration.
- Supporting the inclusion of adults in formal and informal education.

Prerequisites for the accomplishment of the above goals include:

- Professional support to Roma parents;
- Professional support to institutions and employees;
- Co-operation with the Roma community and the development of partnerships in the implementation of programmes;

- Inter-sectoral co-operation of all relevant government and local institutions;
- Achievement of interculturality in the educational curricula and institutions;
- Learning from the experiences and results of NGO programmes dealing with education of the Roma, and utilisation of their capacities.
- Development of relevant second chance educational programmes for children who have dropped out of the system, particularly to encourage girls' education.

The benefits of implementing this strategy, in relation to poverty reduction among the Roma population, will be:

- Increased overall level of education of the Roma community;
- Greater opportunities for the employment of Roma, not only as unskilled workers; it is necessary to implement fully the guaranteed right to free choice of profession and accessibility of employment for everybody on equal terms;
- Raised living standards of the Roma;
- Greater integration of the Roma into society,
- Better social and health care of Roma children;
- Increased awareness of the existence and significance of specially guaranteed minority rights.

## **6. Regional, rural, urban and housing aspects of poverty**

### **6.1. Regional aspects of poverty**

#### **6.1.1. Status and problems**

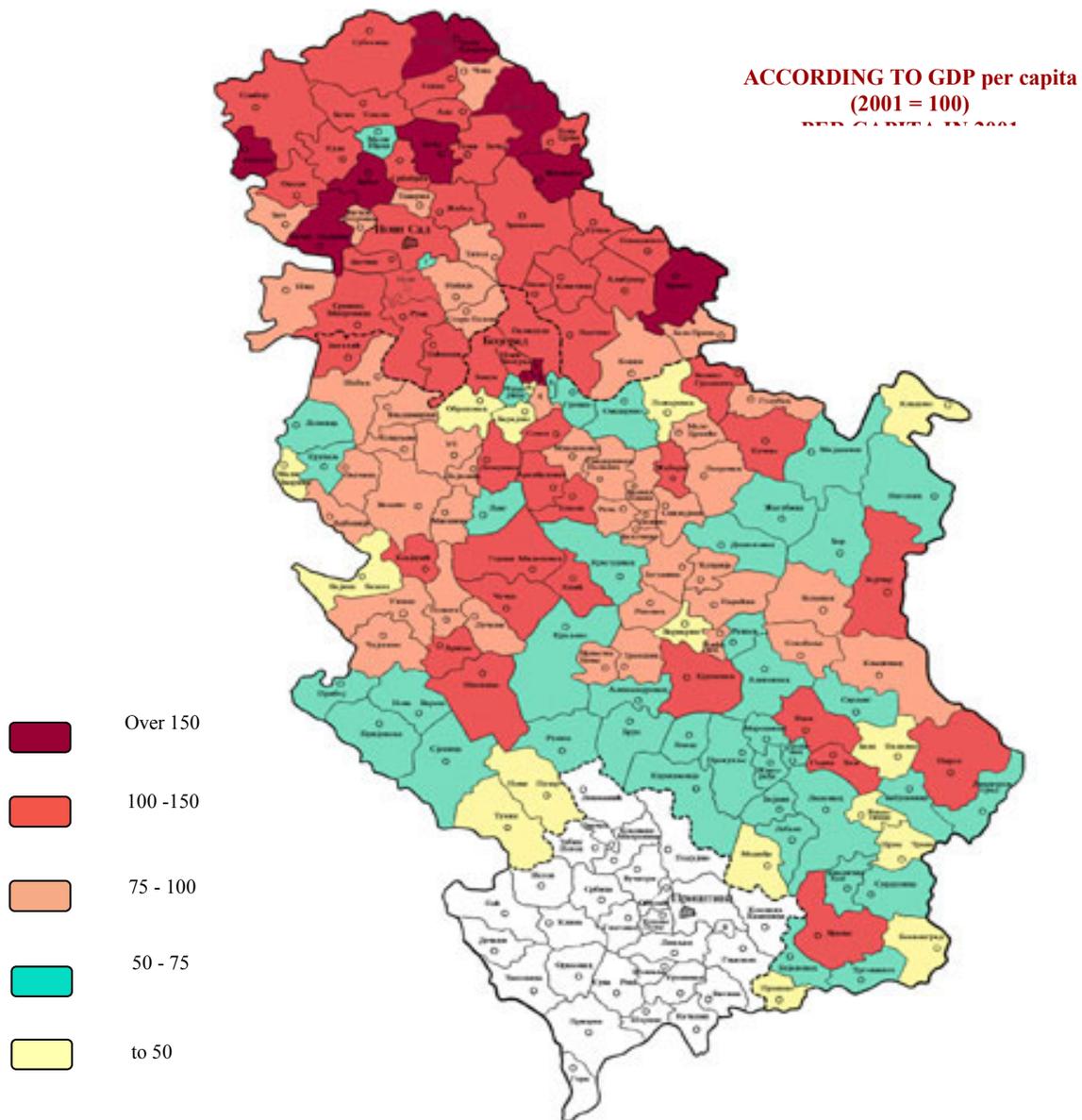
##### **The scope of regional differences**

The available data show that Serbia ranks among the group of European countries with the greatest degree of regional differences. Regional differences between developed and underdeveloped regions have deepened during the recent years<sup>108</sup>.

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<sup>108</sup> According to the Law on Underdeveloped Regions of the Republic of Serbia, 37 municipalities are defined as underdeveloped regions of Serbia, and out of those, 12 are defined as least developed. The following criteria were used for establishing the level of underdevelopment: GDP per capita, employment level, retail trade turnover per inhabitant and the number of PTT connections per 100 inhabitants. Municipalities whose development level does not exceed 50% of the Republic average are considered underdeveloped.

## Development level of municipalities (index)



The map shows the development level of municipalities in Serbia according to GDP per capita in 2001, so both traditional and new poor areas are clearly marked.

Regional specificities of poverty are not manifested only in the economic sphere. Inhabitants of under-developed and least developed areas have limited or no access to public services (educational, health, judicial etc), which results in their inability to exercise these rights. Vulnerable groups living in these areas are in the most unfavourable position.

The extent of regional urban and rural poverty is shown in Table 1 below.

**Table 1. Urban and rural regional poverty of Serbia (2002)**

	% Vulner- able	% of the poor	Relative poverty risk	Structure of all the population	Structure of the poor	Depth of poverty	Severity of poverty
<b>Belgrade - Total</b>	<b>15.0%</b>	<b>7.9%</b>	<b>-25.5%</b>	<b>21.1%</b>	<b>15.8%</b>	<b>1.5%</b>	<b>0.5%</b>
Urban	13.2%	6.9%	-34.9%	17.2%	11.2%	1.2%	0.4%
Rural	22.9%	12.2%	15.1%	4.0%	4.6%	2.9%	1.0%
<b>Vojvodina - Total</b>	<b>18.4%</b>	<b>8.8%</b>	<b>-17.0%</b>	<b>27.1%</b>	<b>22.5%</b>	<b>1.9%</b>	<b>0.6%</b>
Urban	16.0%	6.8%	-35.8%	15.4%	9.8%	1.3%	0.4%
Rural	21.5%	11.5%	8.5%	11.7%	12.7%	2.6%	1.0%
<b>Western Serbia Total</b>	<b>23.9%</b>	<b>13.5%</b>	<b>27.4%</b>	<b>11.2%</b>	<b>14.2%</b>	<b>2.8%</b>	<b>0.9%</b>
Urban	22.7%	12.1%	14.2%	4.3%	5.0%	1.9%	0.5%
Rural	24.7%	14.4%	35.8%	6.8%	9.3%	3.4%	1.2%
<b>Central Serbia Total</b>	<b>19.5%</b>	<b>10.2%</b>	<b>-3.8%</b>	<b>17.3%</b>	<b>16.6%</b>	<b>2.2%</b>	<b>0.7%</b>
Urban	15.2%	6.9%	-34.9%	8.5%	5.5%	1.4%	0.5%
Rural	23.7%	13.2%	24.5%	8.8%	11.1%	3.0%	1.0%
<b>Eastern Serbia Total</b>	<b>17.4%</b>	<b>10.1%</b>	<b>-4.7%</b>	<b>9.3%</b>	<b>8.9%</b>	<b>2.3%</b>	<b>0.8%</b>
Urban	14.3%	9.2%	-13.2%	4.4%	3.8%	2.0%	0.7%
Rural	20.2%	10.9%	2.8%	4.9%	5.1%	2.6%	1.0%
<b>Southeast Serbia Total</b>	<b>29.8%</b>	<b>16.6%</b>	<b>56.6%</b>	<b>14.0%</b>	<b>22.0%</b>	<b>3.6%</b>	<b>1.2%</b>
Urban	21.3%	10.0%	-5.7%	6.7%	6.3%	2.2%	0.7%
Rural	37.7%	22.7%	114.2%	7.3%	15.7%	5.0%	1.7%
<b>Total</b>	<b>20.0%</b>	<b>10.6%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>2.2%</b>	<b>0.8%</b>

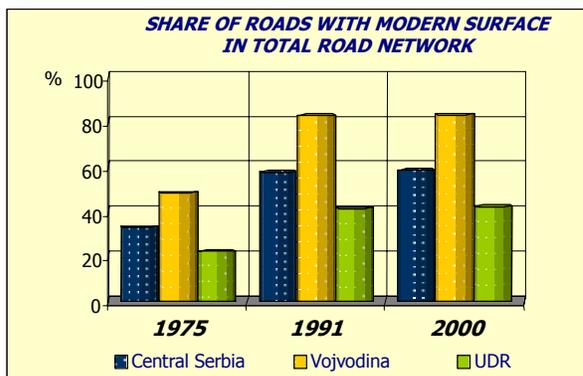
**Source:** SLSP 2002 (around 800,000 poor individuals, and around 1,600,000 vulnerable)

**Note:** Relative poverty risk is calculated as the percentage increase (decrease) in the poverty indices of each group in comparison with the average poverty index of the entire population.

Extensive development and the dominance of sectoral over structural and regional criteria, over a period of several decades, have contributed to: uneven development, uneconomic regional distribution of economic activities and population, and greater polarization between larger areas of the country, and between municipal centres and rural areas in their levels of development.

The interdependence of economic factors and the overall underdevelopment of large areas of the Republic of Serbia has resulted in three basic outcomes: (a) depopulation of rural areas; (b) interregional demographic differences; (c) atomisation of settlements in underdeveloped rural areas.

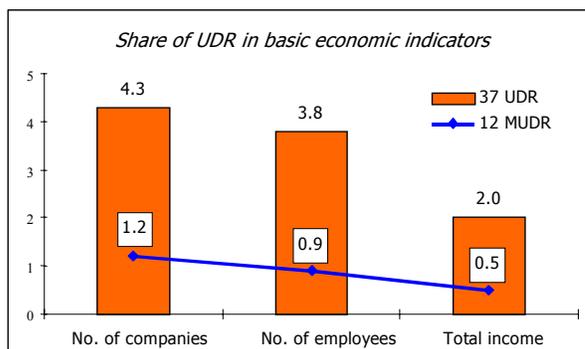
## Undeveloped infrastructure



Inadequate road infrastructure is one of the basic problems in underdeveloped regions. The structure of roads in the 37 underdeveloped municipalities includes mainly local roads - 66.6%, then regional roads – 24.7% and regional highways – 8.7%, which is below the Republic average (59.7% local roads, 27.7% regional roads, and 12.7% trunk roads). A modern road surface is applied on 42.4% of the road network in the underdeveloped regions, or

on 33.9% of the road network in the most underdeveloped municipalities, which is half that of the Republic average (62.6%).

## Imbalance of industrial capacities and development factors

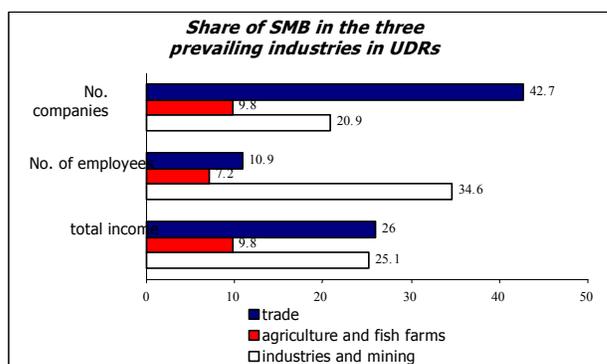


Only 4.3% of the total number of companies in the Republic are based in underdeveloped regions (37 municipalities) and only 1.2% in the most underdeveloped regions (12 municipalities).

Out of the total number of employed in Serbia, 3.8% work in companies in the 37 municipalities, and only 0.9% work in companies in the 12 most underdeveloped municipalities.

Relative regional economic strength is illustrated best by the low share of underdeveloped regions in the total income of the Republic (only 2%), while the most underdeveloped regions' share in total income of the Republic is only 0.5%.

## Importance of small & medium enterprises (SME)



The business results of small and medium businesses, which constitute 99% of active businesses in underdeveloped municipalities, employ 75.4% of all those employed in these regions, employ 71.9% of all capital, and account for 78.2% of total income and 82.2% of profit, have a decisive influence on the functioning of economy in the underdeveloped regions.

The cause of material devastation and impoverishment of particular regions may frequently be found outside the economic sphere, i.e. in inadequate education and technical training of the population. For example, within the structure of the unemployed in all the municipalities of the underdeveloped regions and in the south of Serbia, 45.5% are unskilled persons.

### **6.1.2. Goals and strategic options**

The basic method of reduction of regional poverty is integrated development, i.e. decentralized development that basically includes three interrelated tasks: mitigation of the structural problems and regional differences; rational use of the development factors of all the regions; suppression of the trends of excessive urban concentration of economic activities and population.

#### **6.1.2.1. Goals**

The main goals are:

- Competitive economy,
- **Investment in human resources** (increasing of the level of knowledge and employment, improving working and living conditions),
- **Improvement of infrastructure** (roads, telecommunications, utilities), particularly the building of regional development infrastructure (incubators, technological parks, entrepreneurial zones),
- **Relevant institutional organization** (development network of Republic, regional, and local levels) that would enable comprehensive, long-term, and strategic mobilization and channelling of the strategic potentials and development of the regions through national and international development programmes.

#### **6.1.2.2. Strategic directions**

The main strategic course of action for the regional poverty reduction strategy harmonized with EU principles includes:

- **Comprehensive formulation of regional policy** – the concept of the regional poverty reduction policy refers to the entire Republic, with different activities for stimulating development in individual regions in accordance with their specific developmental problems.
- **Partnership** – partnership between the local communities as social partners and civil society.
- **Subsidiarity** – implies gradual territorial decentralization, transfer from central government to the regions and municipalities.

- **Harmonization** – harmonization of activities between ministries, with the governments and legislation of the European Union, WTO, and other international partners.
- **Programme orientation** – harmonization of regional strategy and policies.
- **Support and Evaluation of Results** – necessity to establish a system of incentives for even regional development (through stable sources of funds) and monitoring and evaluation of results.
- **Co-Financing** – financing of development programmes and projects together with local communities.

## Legislation

The existing Law on Underdeveloped Regions of the Republic of Serbia (1995) should be amended, and new mechanisms, measures, and institutional solutions should be proposed for the purpose of stimulation and orientation of the development of poorer regions, especially Southern Serbia.

The EU accession process includes primarily harmonization of local regulations with the relevant regulations and programmes (European Charter on Local Government, European Charter on Regional and Minority Languages etc.), requiring institutional policies in the field of regional development such as those that have produced positive results in the majority of transition countries.

The possibility should also be investigated to offer new policies within the framework of the existing Republic Development Fund, for the purpose of stimulating regional development, including stimulating the development of underdeveloped, i.e. poor, regions.

In view of the current fiscal limitations, the new policies will mainly aim at stimulation and creation of favourable conditions, while more efficient instruments for helping enterprises in underdeveloped areas will be investigated:

- Capacity building through rendering of various forms of technical assistance to poor regions:
  - Preparation of development programmes,
  - Stimulation of professional staff to work in poor regions,
  - Opening business incubators in cooperation with municipalities.
- In partnership with local government, providing a favourable framework for private investments, including development of small and medium enterprises and entrepreneurship in underdeveloped areas

- Development of sites with adequate infrastructure for communal services and public utilities
- Technical documentation for elaboration of capital investment projects

Bearing in mind budgetary limitations, special programmes for development of underdeveloped regions could be selectively introduced, and until then such programmes could be financed from donor funds.

### **Financial Framework**

Financing of local self-government shall undergo substantial reform in the upcoming period. The core of this reform is the replacement of the sales tax that so far has represented the main source of income for the local level with a Value Added Tax (VAT). In view of the current democratization process and the increasing importance of including local level into economic and social development trends, it is important to set out the fiscal relations between the Republic and local government in such a way as to a secure reliable and sustainable level of income for the local level.

Greater availability of credits for the SME sector, as well as micro-enterprises, will present the main vehicle for overcoming regional poverty. Establishment of a Guarantee Fund of the Republic of Serbia presents an important step in the development of the private sector. External assistance in the following areas will also be very important:

- Financial assistance directed to the SME sector through the commercial banks;
- Non-financial assistance to government agencies for SME development;
- micro-credit support through commercial and non-commercial institutions.

The Agency for Municipal Infrastructure Development, recently established at the initiative of the Ministry of Finance, can also become an important instrument for raising investment in municipal infrastructure at the local level.

### **Incentive Mechanisms as a Function of Poverty Reduction**

It is indispensable that the Government stimulates regional poverty reduction through economic and systemic policies which would enable bring underdeveloped regions up to a similar level of development as other regions. One of the tasks for the PRSP is the reduction in the cost requirements for investment in the underdeveloped regions, i.e. giving incentives to enterprises that invest in those regions. The focus should primarily be placed on infrastructure development and stimulating tax policy.

## **Activities of the Local Communities in Reduction of Regional Poverty**

The primary responsibility of local communities is the mobilization of local resources and the creation of an environment to overcome underdevelopment and poverty. The priority tasks of the local communities are:

- Adoption of development programmes and urban development plans
- Stimulation of development of SMEs and entrepreneurship,
- Rational management of the development sites/premises,
- Development of communal/public utility services,
- Policy of land rental,
- Construction and maintenance of local roads,
- Improved access to social, health care, educational, and cultural services

### **6.2. Rural Aspects of Poverty**

Higher levels of poverty in rural areas represent a change compared to the nineties, when urban poverty was more prominent due to the deep economic crisis and the considerable drop in revenues from industry and other sectors of the formal, urban economy. On the other hand, the decrease in income in rural areas during the last decade was slower, thanks to the maintenance in the level of agricultural production, especially farming. During the last two years overall poverty in Serbia was reduced, both in urban and rural areas, and the faster decline in the number of poor in urban areas points to the fact that increased economic activity and external assistance were unequally distributed both territorially and by economic activities (i.e. between agriculture and other sectors).

#### **6.2.1. Status and causes of poverty of the rural<sup>109</sup> population**

Around 45% of the population of Serbia lives in rural areas<sup>110</sup>. Rural areas occupy nearly three quarters of the national territory. For decades, rural areas have economically and culturally been stagnating, a significant factor in increasing poverty. Possibilities for work outside agriculture are extremely limited. This stimulates migratory movements in which the most capable and most vital people are the first to leave. Hence, this negative spiral further

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<sup>109</sup> The character of settlements in the SLSP was determined according to the differentiation of settlements outlined in the Law on Territorial Organization of the Republic of Serbia, so smaller urban settlements were also included in rural settlements

<sup>110</sup> According to SLSP

results in problems of even deeper economic declines and further deepening of poverty, not just in rural areas as compared to urban, but much more within rural areas themselves.

Around 58% of all the poor live in rural areas. The share of the poor in the rural population in is around 14.2%, which means that every seventh individual is poor. This is higher than the rate for the whole population (10.6%). In accordance with this, poverty in rural areas is twice as high as with urban poverty (7.8%).

Observed by regions, rural poverty is most widely distributed in parts of Serbia which are most vulnerable in terms of overall poverty.

**Table 1. Rural poverty by regions in Serbia in 2002**

	Poverty rate	Structure of the poor	Poverty depth
Belgrade	12.2%	7,7%	2.9%
Vojvodina	11.5%	21,7%	2.6%
West Serbia	14.4%	15,9%	3.4%
Central Serbia	13.2%	19,0%	3.0%
East Serbia	10.9%	8,7%	2.6%
South-east Serbia	22.7%	26,8%	5.0%
<b>TOTAL</b>	<b>14,2</b>	<b>100</b>	

Note: poverty depth marks a lack of consumption in relation to the poverty line

Source: SLSP 2002

The rate of rural poverty is highest in south-east Serbia and amounts to 22.7%, followed by west Serbia (14.4%) and central Serbia (13.2%). It is also high in Belgrade (12.2%) and Vojvodina (11.5%), while it is at its lowest level in southeast Serbia (5%).

The basic cause of higher poverty levels in rural areas lies in the ageing of the population and the resulting reduced working ability and lower earning possibilities; the other factor is the lower level of educational achievement of the population, as well as the unfavourable economic structure, which results in longstanding unfavourable status of agricultural production and difficulties preventing its revitalisation in the short term.

Today around 60% of the active population in the agriculture sector is older than 60 and more than 15% belong to households with no active member on the estate. The result of these features is that, out of 159 municipalities of central Serbia and Vojvodina, 147 belong to the category of deep demographic old age, which presents a significant cause of rural poverty. Depopulation of rural areas due to industrialization has caused the decrease of the share of rural population in the overall population (from almost 80% at the end of World War II to around 45% in 2002).

Among the poor in rural areas<sup>111</sup>, at greatest risk are elderly one- and two-member households, with the poverty rates of 20.9% and 21.9% respectively, as shown in Table 2.

**Table 2 Poverty of elderly rural households in Serbia in 2002**

	Poverty rate	Structure of the poor	Poverty depth
Elderly one-person households	20.0%	17.5%	4.7%
Two-member elderly households	21.9%	14.7%	4.6%
Other households	12.8%	67.8%	3.0%
<b>Total rural</b>	14.6%	100%	3.4%

**Note:** Elderly households were defined as households with members who are all 65 years of age and older.

**Source:** SLSP 2002

Almost one third of the poor in rural areas live in elderly households, although there are elderly persons in the other two thirds as well. The process of ageing of the rural population will continue in the future, unfavourably affecting villages' vitality and poverty of the remaining population.

Poverty of the rural population according to their socio-economic status is shown in the following table.

<sup>111</sup> The rural poor are old, small producers (up to 2 hectares of land), small lease-holders, sharecroppers and day-labourers as well as other workers with or without land and their families.

**Table 3 Rural poverty in Serbia according to socio-economic status**

- self-declaring-

	Poverty rate	Structure of the poor	Depth of poverty
Employed	9.0%	14.5%	1.9%
Employers and self-employed	12.4%	3.6%	3.2%
Farmers	10.7%	8.6%	2.0%
Other active	15.4%	2.3%	3.3%
Unemployed	20.0%	17.1%	4.9%
Pensioners	15.7%	23.7%	3.6%
Other inactive	17.2%	30.2%	4.1%
<b>Total</b>	<b>14.3%</b>	<b>100%</b>	<b>3.3%</b>

Source: SLSP 2002

Around 70% of the poor from rural areas belong to the category of the inactive population, either due to their age or inability to engage in productive activities. Among the poor in rural areas the greatest share (30%) is of supported persons (elderly persons with no income, housewives, children). The share of pensioners share is also very high (23.7%), due to the low level of farmers' pensions, shorter working careers and lower qualification structure, which are often characteristic of rural areas. The next largest group is the unemployed.

One of the causes of rural poverty is also the distribution of production capacities. Agricultural land is most often fragmented, with a tendency to further fragmentize. The average estate in Serbia is around 3 ha in size, consisting of five to seven separate parts; this fragmentation significantly affects production capacities and often provides for the needs of one household only.

The position of agricultural production on private agricultural estates was very unfavourable during the last few decades, because of the deliberate policy of equalizing incomes between agriculture and other activities, primarily industry, and the tendency of authorities to protect the standard of living of the urban population through low food prices and the policy of increasing "social ownership" of agricultural production which led to the abolition of the private sector. This policy led to the economic lagging behind of the agricultural sector and the households which live from it, and thus of whole rural area in which agricultural production represented the dominant economic activity. The abandonment of such an agricultural policy over the last two years through gradual liberalisation of the foreign trade regime and the complete abolition of state intervention in regulating prices of agricultural products could not lead to significant changes in agricultural production, primarily because of the devastated countryside and elderly agricultural producers.

## **The new role of agriculture in the rural economy**

Viewed historically, agriculture dominated the rural economy and still represents the most important land user. However, technological progress enabled increases in work productivity and decreases in the number of people required in food processing, thus freeing the labour force for the industrial and service sectors . Agricultural production will in future employ fewer people, while a larger number of people will be engaged in agriprocessing and a more diversified rural economy. The goal of rural development is to facilitate this change and thereby contribute to solving social problems and other challenges of the transition process.

### ***6.2.2. Rural development and poverty reduction***

In addition to initiatives in the sector of agriculture, the reduction of rural poverty shall also include initiatives in various other sectors. The objective is to stimulate employment and economic growth and raise living standards in rural areas, especially in the depopulated border and mountain areas. Particular attention shall be paid to elderly agricultural workers and other vulnerable categories.

These goals will be achieved through:

- Higher income levels and employment rate in rural areas;
- Improved health protection, educational and social services;
- Improved infrastructure; and
- Protection and preservation of environment.

### **Implementation**

Achievement of these tasks will be supported through:

- Establishing the Agency for Rural Development, with capacities for identifying, planning, approving and implementing initiatives in the field of rural development, as well as performing financial management and control;
- Emphasizing the importance of *partnership* in the field of identification, planning and implementation;
- Engagement of line ministries and agencies in the preparation of programs and policies
- Establishing an adequate legislative framework.

The National Rural Development Plan shall be prepared. The basic idea will include an emphasis on investment and local comparative advantage. The plan shall also consider the

significance of non-agricultural employment in rural areas and distinguish between economic and social goals. Special efforts will be put on including all line ministries, agencies and local government bodies in the formulation of the plan, while implementation will require the engagement of all local social partners, in order to secure a transparent framework for development goals and selection criteria.

An important principle will be the establishment of administrative capacities and procedures, consistent with potential access to structural adjustment funds upon submission of a formal application for EU membership.

Implementation of the abovementioned goals shall be carried out through the following activities:

Raising income levels and the employment rate in rural areas, support to development of SMEs; establishing producers' associations; securing market infrastructure; improved processing and marketing of agricultural products; development and diversification of economic activities; development of forestry (including afforestation and wood processing). The emphasis shall also be placed on professional training.

Improving health care, education and social services. The objective is to provide higher quality services in small towns to serve the inhabitants of neighbouring rural areas.

Improving infrastructure. The focus shall be on the improvement of public transport and securing reliable water supplies in rural areas, with a gradual raising of water quality standards to those of the EU ; providing capacities for processing waste water (this will have positive impact on environment protection) and construction of plants for waste management (in household and industry).

Protection and preservation of environment. The measures to be adopted shall include preservation and development of villages; water management and preservation; and measures for the protection of agricultural production that at the same time include environment protection and preservation of village areas.

### **6.3. Urban and Housing Aspects of Poverty**

#### **6.3.1. Status and problems**

According to SLSP data, the urban population of Serbia has a somewhat lower poverty rate (7.8%) than the rural population (14.2%). As for urban poverty, former industrial centres present the greatest problem: Kragujevac, Bor and other larger cities. In particular, restructuring and privatisation of large loss-making companies create unemployment and new pockets of poverty.

Urban poverty includes: unemployment, limited access to health care, education and other services discussed above. Therefore, we shall discuss the **spatial dimension of poverty**

here, covering housing poverty and poverty-stricken city quarters (districts or localities) where numerous aspects of poverty come together.

**Urban segregation** denotes processes leading to territorialisation of social, ethnic, demographic and other differences in urban settings. However, in Serbia, which is at the beginning of the transition phase, a larger problem is posed by the process of pauperisation of the city population due to the loss of jobs and low income – leading to the inability to pay for public utilities and other services and therefore the potential for migration to other areas.

### **Housing and poverty**

Housing deteriorated in the 1990s due to: (i) around 600 000 refugees and internally displaced individuals moving to the cities, with most of these becoming permanent; (ii) privatisation of socially/state owned flats, which did not improve the situation of the homeless; (iii) economic crisis and fall in living standards halted the maintenance and reconstruction of the housing stock; (iv) several thousand housing units were destroyed during the NATO bombings in 1999; (v) the constant decline in housing construction; (vi) rising illegal housing construction (in Belgrade in 1996 the number of illegally built flats reached the number of legally built ones).

Changes in housing since the year 2000 point to the beginnings of a distinction made between social and economic policies in the housing sector, including attempts to fight against illegal construction as well as strengthening local self-government and its housing branch. However, the creation of other institutional preconditions of serious housing reform is slow, and various types of tenant status cannot be confirmed without this.

The housing crisis in large cities still exhibits four, inter-connected aspects: the shortage of flats (for example, Belgrade has a housing gap of 50 000 to 70 000 for the past few decades); housing is inadequate for individual and family needs (small, poorly equipped flats) and lastly, inequalities concerning housing status.

In addressing the various aspects of housing poverty one faces numerous problems.

- Limited financial resources of individuals and families;
- Limited access to finances (Bankruptcy Law);
- Limited resources of the Republic and town budgets;
- Housing has not been sufficiently taken into account in deciding on the eligibility criteria for social services;
- Non-existence of a law on social housing;
- The lack of data necessary for efficient, targeted support to social housing.

*A Survey conducted in 1995 showed that in 16 Belgrade municipalities, in 202 poverty-stricken localities there were 113 240 inhabitants, constituting around 7% of the population. To this number, we should add those who live in unsanitary basement and attic flats as well as the homeless who use the services of the only Centre for the Homeless in Belgrade. All together, about 15% of the population of Belgrade can be considered to be vulnerably housed.*

**Homelessness** is the extreme form of social exclusion. The homeless “who do not know where they will spend the night and where they will live tomorrow” are the smallest, but most conspicuous, group among the homeless population. Special research is needed to assess the extent of the phenomenon in Belgrade and other cities.

### *Housing Problems of the Poor*

Lack of adequate utility infrastructure due to:

- Illegally built temporary settlements
- Rural areas incorporated into the urban ones without provision of adequate infrastructure
- Urban development without urban planning and infrastructure

Most of the urban poor do not have a secure roof over their heads due to the fact that they live in a flat which:

- Lies on public land, not intended for residential purposes,
- Was built without building and urban planning permits or
- Is rented without an appropriate contract on renting

Many of the urban poor are forced to live in illegal flats because:

- Land policy does not provide simple access to land
- Urban planning methods are not adequate and cannot keep pace with the rapid pace of urbanization and therefore cannot provide accessible land. The result is the shortage of construction land and the consequential rise in prices.
- Regulations and standards concerning housing are outdated and inadequate.
- High costs of the right to use land, and the costs of infrastructure and construction make legal construction of cheap flats virtually impossible (urban land is public property).
- Complicated procedures concerning urban planning and technical documentation pose an obstacle to the poor.

- Financing is impossible since the poor are not eligible for housing loans due to low income and small or no savings.

### **6.3.2. Goals and Strategic Options**

#### **6.3.2.1. Reduction of Urban Poverty**

- Encourage local governments to take responsibility for the overall and sustainable economic and social development
- Initiate close cooperation with the civil society, including the poor, as well as with the private sector, for the improvements in the management and decision-making process
- Promote social cohesion through social and economic strengthening of society
- Initiate housing system reform with the purpose of
  - Securing affordable housing to the poor
  - Identifying innovative and efficient financing methods, including the pooling of resources (utilization and improvement in the existing housing fund), maintenance system, clearly defined housing policy for vulnerable groups.
- Provide precise definitions of minimum housing standards through adequate regulations.
- Advance urban planning and infrastructure by ensuring urban planning programmes and plans are in keeping with the needs of the poor.
- Learn from international best practice for the reduction of urban poverty

*The new Law on Urban Planning and Construction (2003), among other things, provides for simpler procedures for issuing building permits and gives cities the right to set aside land for cheaper housing construction. The Law also provides legalisation of all illegally built structures which will provide a clear picture of the legal status of the property of the poor.*

#### **Management and decision-making system**

Flexible programmes and plans should be defined at town and municipality level, including representatives of the poor.

Improved co-operation should take place between institutions responsible for providing services for health care, education, social protection and transport sector to improve access to urban services and reduce urban poverty.

Urban planning should deal with urban poverty within the overall strategy of city development, and not only tackle particular, isolated areas. It also must be more in keeping with the needs of the poor.

### **6.3.2.2 Social Housing**

Ensuring Government support through social housing programmes should address the problem of affordability of dwellings to the poor. The first draft of the document »National Housing Policy«, which will also include the social housing, is currently being prepared.

Social housing, which includes government's management of housing construction, is an important housing policy programme and it should be oriented towards:

- Construction of social flats for certain target groups of the population that cannot buy flats or rent them in the market, which are then rented on the basis of the means test of each household. These are cheaper flats for construction, built on more moderate standards, modestly equipped and of a smaller square area per individual, intended for the financially (most) vulnerable categories of population. Construction of flats for this purpose will enable the creation of a social rental sector which excludes the possibility of privatisation of flats and includes means testing of the beneficiaries, constant monitoring and assessment of the justification of renting the flats to the current tenants, in accordance with their prevailing material and social status;
- Government subsidizing of housing expenses to certain target groups, on the basis of the means test. With regard to the provision of housing subsidies, these flats would be either social flats or rented ones in private ownership;

### **Support to Affordable Rented Housing**

For numerous poor urban people, including young couples, single-parent households, settlers, refugees, and displaced persons, rented housing is practically the only form of housing available to them.

Thus, the availability of cheap rented housing is a vital element in any poverty reduction strategy. Support to the activities that stimulate rented housing should include:

- Allocation of building sites for development of low-cost rented housing units through lower investments;
- Revision of civil construction and planning standards that facilitate rented housing;
- Tax exemption for construction of rented housing units and provision of rental income;

## Improvement of Spontaneously Developed Settlements

Improvement of spontaneously developed settlements in many cases implies that the legal status of such settlements in general as well as of the buildings in them will have to be resolved<sup>112</sup>.

In solving the problems of such settlements it is necessary to coordinate the economic and social programmes as well as programmes for improvement of the environment.

Various types of poor urban areas (illegal, planned, spontaneous) need to be addressed in different manners, starting from re-settlement when necessary through constructing public utility infrastructure to full rejuvenation. Since projects such as these demand considerable amounts of time and money, it would be advisable to select a few localities in several cities in Serbia and to design programmes and provide funds for their reconstruction from domestic and foreign sources.

*The City Government of Belgrade invested nearly 10 million euro in the re-settlement of those living in unsanitary settlements in 2003. Construction of 1 500 small housing units for 6 000 poor residents of Belgrade in 40 new locations with public utility infrastructure is currently under way. The location of these new blocks will also facilitate access of the poor to social services and assist in their social integration.*

The programmes should be based on a combination of self-financing (household resources, voluntary taxes, credits) and additional financial aid (available government and town resources, public funds, external assistance, etc.).

Poor inhabitants should be engaged in the construction of housing infrastructure – this would provide an additional source of income for them and enable their participation in the improvement of their living and housing conditions.

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<sup>112</sup> Spontaneously developed settlements include “a group of settlements, dwellings, hamlets, Turkish Quarters, and the like, which has a number of common features that allow us to classify them in one group. Those common features are as follows: autarchic by origin and partly in development as well, absence or poor reliance on the legal system, location on the present or former urban fringes, self-constructed settlement (division into plots, detail planning, construction of buildings, not seldom construction of infrastructure and streets), with poor utilities, of low density of and low-rise buildings, predominantly intended for dwelling mixed with small businesses. The plots may be covered with several buildings/facilities, for dwelling or for other purposes. The building was predominantly carried out by households alone and often without the building licences” (Draft Master Plan of Belgrade, 2002).

## 7. Environmental Aspects of Poverty Reduction

### 7.1. Status and problems

As in the majority of transition economies, in Serbia causal linkages have been found between poverty and the status of environment, namely: a) health and environment; b) vulnerable social groups and environment degradation; c) poverty and natural resource degradation; and d) poverty and vulnerability to natural disasters.

#### Health and environment

*Water supply and sanitation.* Health status data indicate that in Serbia water related diseases are not a significant contributor to the burden of chronic or acute disease (WHO, 2000; UNICEF, 2001). Mortality among infants and children under five, a common indicator of water supply and sanitation conditions, has declined by one half during the 1990s and is associated with improved household sanitation and improved treatment for diarrhea and acute respiratory disease. The under-five mortality rate for diarrhea declined by 38.2% during the 1990-97 period (UNICEF, 2001).

However, there are some indications that the situation is changing. Deterioration in the quality of drinking water may well reverse the positive trend in the under five mortality rate. Recent epidemiological studies on health and the environment have found linkages between living conditions, drinking water quality and health. The situation is particularly acute for urban slums, populated by refugees, Roma and IDPs, as they lack the resources to purchase bottled water.

*Air Pollution.* High ambient concentrations of pollutants, especially particulate matter, have been associated by international epidemiological studies with various negative health impacts. The concentrations of particulate matter, soot and SO<sub>2</sub> in some Serbian industrial settlements are within the critical range that has been associated with negative health impacts.

Air pollution does not affect only the poor population, but, as in other parts of the world, it is certain that vulnerable and poor people are the least capable of protecting themselves from exposure by moving to cleaner and safer areas, and therefore suffer the highest consequences of such exposure.

Lack of proper *waste management* creates public health hazards for the poor in a number of ways. First, as described in the section on waste management, hazardous waste is not sorted out, but dumped without any prior processing on regular, mostly illegal, waste dumps. Urban poor, notably Roma, who make a living by scavenging on waste dumps without any kind of protection or training in the handling of waste, are exposed to risks of injury and infection from sharp material. Second, considering the lack of leachate collection and treatment plants in the dumps, leakage from waste dumps can contaminate groundwater, which constitutes the drinking water source for poor communities living nearby. Third, inadequate

incineration or incineration of unsuitable materials can result in the release of pollutants in the air and constitute a health hazard to nearby Roma, refugee or IDP communities.

### **Vulnerable social groups and environment degradation**

Roma, refugees and IDPs residing in special camps and / or near waste dumps in urban areas are among the most vulnerable social groups in Serbia.

The poor, especially women and children, are generally the most vulnerable to environmental problems, and traditional environmental risks – the lack of drinking water and sanitation, closed space air pollution, and exposure to routes of disease – have by far the most important role among those groups. The Roma minority is a key priority risk group in Serbia and Montenegro. Within Roma settlements, access to utility and public services is nonexistent or limited and the most serious problems are lack of access to electricity, water, sewage, and garbage collection. The prevalence of communicable disease associated with poor living conditions such as hepatitis and trachoma was confirmed<sup>113</sup>

### **Poverty and natural resource degradation**

The rural poor in southern Serbia are highly dependent on the quality of natural resources. Land degradation, as a result of overgrazing and deforestation, could be a significant cause of exacerbated poverty in these regions.

In addition to the effects suffered by the poor population as a result of environmental degradation, in specific circumstances, the poor can also be the cause of environmental degradation. One mechanism that could lead to that is the increased reliance of the rural poor on fuel wood for heating in the face of increasing electricity prices. As they are not serviced by district heating or natural gas networks and are unable to bear the burden of electric heating, they resort to uncontrolled woodcutting, exacerbating land degradation. Fisheries is another area where poverty can cause resource degradation through over fishing leading to a spiral of lower yields and increasing poverty.

### **Poverty and vulnerability to natural disasters**

Serbia and Montenegro are severely exposed to earthquakes and flood risks. During the 1990s, more than 200,000 ha were affected by floods, which resulted in significant economic, social and environmental losses.

The poor are particularly exposed to flood and earthquake risks notably due to the location of settlements on riverbanks and poor quality housing construction. The country lacks a

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<sup>113</sup> World Bank, 2002

comprehensive strategy, which would include preparedness, mitigation, recovery and reconstruction.

## 7.2. Objectives and strategic options

### 7.2.1. Objectives

Ensuring environmental sustainability is one of the eight UN Millennium Development Goals (MDG).

- **Sustainable access to improved water sources and access to improved sanitation.** While statistics indicate a very large part of the population had access to safe drinking water in 2000, there are unsatisfactory trends in quality, coverage and service, especially in rural areas and urban slums. Similarly, the majority of rural households have septic tanks, many of which have been found to be improperly situated.

**Table 1: Millennium Development Goals and the Environment**

Indicator	1990	1995	1999	2000
<b>Ensure environmental sustainability</b>				
Forest area (million ha)	2.995*	2.934*	N.A.	2.887**
National protected areas (% of total land area)	N.A.	3.24	N.A.	3.23***
GDP per unit of energy use (USD / koe)	1.85	1.28	1.28	
CO <sub>2</sub> emissions (MT per capita)	3.6 <sup>^^ 1</sup>	2.9		4.6***

Notes: <sup>1</sup> 1991 statistic

Sources:

<sup>^^</sup> Chapter 12, "Breaking with the Past: The Path to Stability and Growth", 2001

\* Statistical Yearbooks of Yugoslavia; Federal Statistical Office, "Bulletins Forestry"

\*\* FAO Global Resources Assessment, 2001, \*\*\* The Little Green Data Book, 2001.

- **Environmental sustainability.** GDP per unit of energy used declined from USD 1.85/cec in 1990 to USD 1.28/cec in 1999, showing a 13 % increase in energy intensity. This compares poorly with the ECA average of USD 2.4/koe and underlines the need for improved energy efficiency and reduced demand through the elimination of energy price subsidies. CO<sub>2</sub> emissions of 4.6 MT per capita were less than the ECA average in 2000. However, these emissions appear to have increased since the early 1990s, and should be reduced to their previous levels.

- **Sustainable use of land.** Soil pollution and eutrophication problems are connected with excessive application of fertilizers, as well as with uncontrolled effluents from livestock farms. The consumption of fertilizers in Serbia declined from 115 kg/ha of NPK to only 40 kg/ha in the period from 1991-2000. Some studies show low levels of analyzed pesticides in Serbia, and conclude that the soil is not contaminated with pesticide residues. While in central mountainous regions, the after effects of intensive (conventional) agriculture have caused water erosion, wind erosion is predominant in Vojvodina. The level of agricultural erosion is 3 to 4 times higher than that of erosion caused by natural processes. Evidence of moderate or high levels of erosion caused by other effects is visible on 26% of Serbia's territory. Such effects include open-cast mining and uncontrolled disposal of various types of waste. Larger areas in the vicinity of industrial complexes (Bor, Pancevo, Novi Sad, Smederevo, Belgrade and Kragujevac) are polluted with various toxic substances and have been declared environmental hot spots.
- **Sustainable management of forest resources.** Forests cover 28% of the land area. This percentage is lower than the ECA regional average of 40% and there has been a slight decline in forest coverage of 0.4% annually during the past ten years, mainly due to fires, pest infestation, illegal logging, reduced afforestation and over harvesting. While the annual reduction is not very dramatic, forest quality degradation, as a result of illegal cutting and the lack of suitable forest management, is neglected. There is a general need for improved and more sustainable use of forest resources.
- **Preservation of biodiversity.** Approximately 2.7% of the total land area in Serbia is protected in terms of conservation, which is above the ECA average<sup>114</sup>. Serbia is planning on increasing the percentage of land under protection. However, there is still room for the improvement of the management of Serbia's biodiversity, which is of global importance.

### *7.2.2. Strategic options, measures and activities*

#### **Upgrading the water supply system**

The household research shows that around 84% of the population of Serbia has access to water supply networks and sanitary utilities, as well as drinking water. There are observable differences between the coverage of urban and rural areas (97% and 68% accordingly). Despite almost full accessibility, this sector needs urgent repair. As a consequence of poor maintenance and insufficient investment in the past decade, the majority of water supply networks cannot provide regular water supply.

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<sup>114</sup> IUCN categories I-IV

Water quality is unsatisfactory. According to the findings of the Public Health Institute of the Republic of Serbia, 29% of samples from water supply systems did not satisfy physical, chemical or bacteriological standards in 2001. The main problem in central Serbia is that more than 40% of samples were bacteriologically contaminated and did not satisfy quality criteria. Only Belgrade has adequate water quality, with more than 90% of samples satisfying standards.

The document "Water Supply Foundation of Serbia" presents a strategy for water supply in Serbia for the period 2002-2012. In order to satisfy increased demand and raise the coverage by water supply networks, the document proposes the continuation of development of water supply systems, which was initiated in the eighties, for those regions that overused the capacities of local sources. It is also suggested that initiated construction on all accumulative lakes should be finalised. Comprehensive work on the protection, amelioration and revitalization of resources of underground waters and artificial induction and usage of modern technologies and treatments where needed is also envisaged. There are detailed suggestions for the advancement of water supply systems of Novi Sad, Vojvodina, Pančevo, Belgrade, Niš.

The Ministry of Agriculture and Water Utility, in charge of the construction of water supply systems in rural areas, has set the priorities regarding rural water supply. In southern Serbia, priority municipalities are Vranje, Bujanovac and Preševo, in eastern Serbia they are Bor, Doljevac and Bojnik. Most investments are small-scale and include repair or construction of new wells, expansion and repair of the pipeline network, as well as chlorifying systems. Most of these activities should be financed by municipalities, in cooperation with the Ministry.

Investment in the water supply sector should aim at achieving maximum efficiency of the existing system, with a special focus on reducing losses that often reach 30-50%.

The water resource sector is not financially independent. Nowadays the income from water resource services is insufficient to meet operational costs. It is necessary to introduce calculation of water consumption by metering, to implement price reform and to increase the collection rate in order to aim to resolve financial problems.

In the last two years international financial institutions have initiated projects for water supply and wastewater in medium sized towns as well as in rural areas that face the most serious problems.

#### Improvement of sewage system

The majority of the population (99.6%) lives in households with some sanitary utilities; 88.3% of the population is connected to sewage system or septic tanks. However, serious problems remain in rural areas. The connection level to sewage system in towns is 87.5% and villages only 22.2%. Villages rely on septic tanks which are in most cases illegally built and located.

Roma communities in Serbia most often have limited or no access to utility and public services, the most serious problem being lack of access to electrical power, water, sewage and garbage collection.

Construction of utility and industrial sewage systems over the last decade in Serbia was insufficient in terms of the development of water supply systems. There are significant regional differences in sanitary services, with 49% of the population of Vojvodina being connected to the public sewage network, compared to 66.9% in central Serbia, including Belgrade.

In Serbia there are 37 central plants for the treatment of wastewater. Seven of them are for primary treatment and 30 are for secondary and biological treatments. Seven plants are more than 30 years old and have considerably deteriorated, and three are not working at all. Belgrade does not have a plant for processing sewage water and relies on the self-purifying capacities of the Danube. Only 12% of wastewater is treated in Serbia.

This sector calls for reforms and fresh financing. The investments are most urgent in the poor urban quarters that are quickly expanding, especially those with large numbers of refugees and internally displaced persons. Regarding the disposal of faecal material, it is very important to identify places with unsatisfactory access to the sewage network. Regulations pertaining to septic tanks must be strictly implemented and the status of tanks must be monitored.

### **Cleaning black spots in Serbia**

Bilateral donors have contributed to cleaning the environment in several black spots, above all in the places damaged by NATO bombing (Pančevo, Novi Sad, Bor, Kragujevac). UNEP-UNHCS Balcan working Group has identified 27 projects aimed at resolving the post conflict environmental problems and the humanitarian problems caused by them. So far, donors have provided USD 12.5 million and 16 projects have been realized. In addition to this, projects of decontamination are under way in the South of Serbia where munitions with depleted uranium were used, as well as cleaning areas of cluster bombs.

Also, ecological black spots that are not the consequence of bombing have been registered (e.g. thermoelectric power stations) and significant funds and time for their repair are needed.

### **7.3. Necessary changes in the institutional and legislative spheres**

*Institutional and legal framework.* The existing institutional and legal framework in Serbia is undergoing constant changes as a result of the recently finalized phased devolution of legislative and executive powers from the federal level to the republics, and the review of a set of laws, undertaken simultaneously with the economic transition.

In June 2002, the Government of the Republic of Serbia upgraded the agency for the protection of the environment from a directorate to a ministry level.

The new Law on the System of Environmental Protection is being considered by the Republic Parliament. The Law is comprehensive and ambitious: its objectives are to develop a consistent and modern legal and institutional system for environmental protection, which is harmonized with the EU's framework, and will improve horizontal and vertical cooperation and raise responsibility and efficiency.

Institutional/policy reforms need to be undertaken in the following areas: strengthening institutional capacities for environmental management, and addressing environmental liabilities and privatization issues.

*Public information and participation.* Civil society, the private business sector and non-governmental organizations are still not sufficiently involved in the protection of natural resources. Within the business community, environmental protection issues are not among the top priorities. Business associations and environmental committees are still at the stage of being established. Currently, the participation of the private sector in the protection of the environment is not adequate, especially in the areas of waste water management, water supply and sanitation in major towns, forestry and national park management. The participation of local non-governmental organizations is limited mostly to public awareness campaigns, environmental education and information.

#### **7.4. Financing requirements and other necessary resources**

Areas requiring urgent investment include:

- Development of hazardous waste storage facilities in Serbia
- Improvement of solid waste disposal facilities
- Development of waste water treatment plants
- Addressing major pollution issues in the environmental hot spots
- Improvement of water supply in rural and urban water supply services.



## **IV COSTINGS OF THE POVERTY REDUCTION STRATEGY**

This chapter sets out an analysis of expenditure implications of the PRSP. As with other Government programmes, the activities described in the PRSP will be financed primarily through the budget process. These activities will be financed within the overall macro/fiscal resource framework set out by the Government; funding for these activities will result mainly from making budgetary savings and reallocating existing resources to higher priority activities.

The PRSP will be facilitated by recent changes in the budget system. For the first time, in the 2004 Budget Instructions from the Ministry of Finance, sector ministries were asked to identify in their budget submissions funding requirements for: (i) continuing existing level of activities; (ii) on-going activities which are not currently covered by budgetary allocations; (iii) planned capital expenditures; and (iv) new programmes. The costings set out in Table 1 represent the ministries' first attempts at identifying on-going or new priorities activities which are not yet funded but which they consider to be priorities under the PRSP.

This chapter begins by setting the costing analysis in context by discussing in more detail the medium-term resource framework within which PRSP activities will need to be financed. The discussion then moves on to describe the purpose of the costings and the future process of further strengthening the costing analysis before turning to a description of the costs themselves.

### **1. Medium-Term Resource Framework**

The budget is the main (fiscal) tool through which activities in the PRSP will be prioritised and thereby funded. In the medium-term consolidated macro/fiscal resource framework, within which PRSP priorities will need to be financed, total expenditures are projected to increase by 19% between 2004 and 2006 to YUD 688 billion by the end of the period.<sup>115</sup> This represents a slight decrease in the share of expenditures in GDP from 46.1% expected in 2003 to 44.8% by the end of the three-year period. The overall resource framework includes resources of: (i) the Republican budget; (ii) local budgets; (iii) extra-budgetary funds; (iv) grants and (v) external budget support credits.

### **Sectoral Priorities and Budgetary Allocations**

The budget should provide the link between policy activities and budgetary allocations. For example, the PRSP in the education sector indicates that budgetary allocations to the sector over the medium term will grow in relation to GDP.

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<sup>115</sup> See 2004-2006 Budget Memorandum, Ministry of Finance, Government of Serbia, May 2003.

The Ministry of Finance's Budget Memorandum includes for each sector the medium-term sectoral resource ceilings within the overall resource framework. In their 2004 budget submissions, ministries are expected to constrain their budget requests within their relevant ceiling whilst at the same time addressing PRSP policy priorities. Whilst some PRSP sectoral policy measures, e.g. passing legislation, can be undertaken with no or limited budgetary allocations, many of the activities will require the allocation of sufficient budgetary resources. The public expenditure implications for policy measures are identified in the sectoral policy matrices attached to the Executive Summary.

The table below sets out for each sector the PRSP policy priorities and the relevant sectoral expenditure ceilings contained in the 2004-2006 Budget Memorandum. These are consistent with the overall fiscal framework for the period.

**Table 1**

Sector	PRSP Policy Priorities	Medium Term Consolidated Sectoral Budget Allocations <sup>1</sup>					
		2004		2005		2006	
		Bn YUD	% GDP	Bn YUD	% GDP	Bn YUD	% GDP
Macro/fiscal framework, public admin, judicial decentralisation, international integration	Maintain macro stability. Maintain sustainable fiscal policy. Contain fiscal deficit to at or below 2% in the long term.	46.7	3.7%	53.3	3.8%	63.0	4.1%
Support to economic activity	Improved skills of unemployed. Development of SME and entrepreneurship	58.1	4.6%	61.7	4.4%	64.5	4.2%
Social protection, pensions, elderly	Greater efficiency in pension provision. Better protection of socially vulnerable groups. Widening of the range and quality of social protection services.	247.5	19.6%	267.9	19.1%	287.2	18.7%
Health care	Develop special programmes for most vulnerable. Improve allocation of resources (emphasis on primary/preventive care).	64.4	5.1%	72.9	5.2%	80.0	5.2%
Education	Increase total budgetary expenditures on education as a share of GDP to 4% by 2006. Inclusion of vulnerable groups in formal education. Improve efficiency of vocational training.	45.5	3.6%	53.3	3.8%	61.4	4.0%
Housing, communal services	Ensure relevant institutional infrastructure for local community development.	30.3	2.4%	33.7	2.4%	36.9	2.4%
Environmental protection	Sustainable access to improved water sources/ improved sanitation. Improved waste management and condition of ecological black spots.	1.3	0.1%	2.8	0.2%	3.1	0.2%
<b>TOTAL OF ABOVE</b>		<b>493.8</b>	<b>39.1%</b>	<b>545.6</b>	<b>38.9%</b>	<b>596.1</b>	<b>38.8%</b>

1. Includes Central budget, local budgets, extra-budgetary funds, grants and external budgetary support. PRSP sectors have been matched as closely as possible to the functional classification of the budget.

### *Purpose of the Costing Analysis*

The allocations are intended to reflect the costs of meeting the highest priority of the newly prioritised activities contained in the PRSP; they do not represent the full cost of all proposed PRSP policies. Rather, as indicated above, they focus on those new or restructured policies/activities which are affordable, are of the highest priority and are currently unfunded, rather than being comprehensive of the sector. They are intended to show sector ministries and local administrations the expenditure implications of meeting all PRSP objectives. In other words, the costing data attempt to show the extent of the trade-offs needed between “new” PRSP objectives and current existing national policy aims. Thus, in order to incorporate these new PRSP priorities in their spending plans, sector ministries and local administrations will need to reduce other, non-priority expenditures (i.e. make savings and reallocate existing resources between activities).

Since new PRSP activities will be financed largely within existing resource levels, including already committed or programmed external project financing, sector ministries and local administrations will need to restructure their existing budgets, reducing the costs of some services (efficiency savings) and making cuts in other, lower priority services. However, the way that the budget is currently structured (i.e. not by programmes or activities) means that it will be difficult for them to do so.

The total budgetary amount planned to be allocated to the highest priority PRSP activities is approximately YUD 27 billion per year, representing around 1.9% of GDP annually for the 2004-2006 period and less than 5% of the total consolidated budget for the period 2004-2006. This is consistent with the overall macro/fiscal resource framework set out in the 2004-2006 Budget Memorandum.

It is important to note that the process of decentralisation, which will be defined in the new Constitution to be adopted, with consequential changes to revenue and expenditure assignment between different levels of government is likely to have an impact on the relative share of PRSP budgetary financing undertaken by the different levels of government.

**Table 2. Funding allocations for PRSP priority areas, 2004-06 % GDP annually**

	<b>Central and local budgets and external finance</b>
<b>TOTAL</b>	1,91
<b>Social protection</b>	0,28
<b>Education</b>	0,58
<b>Health care</b>	0,30
<b>Employment and SME development</b>	0,42
<b>Decentralisation, local and public governance</b>	0,05
<b>Regional development</b>	0,05
<b>Rural poverty</b>	0,06
<b>Urban poverty</b>	0,12
<b>Environment protection</b>	0,01
<b>Human rights</b>	0,03
<b>Monitoring and evaluation</b>	0,00

*Challenges to the Preparation of More Detailed Costings*

The process of analysing the full cost implications of the long-term measures identified in the PRSP has just begun. At present, there is concern about the potential gap between the fiscal resources required to implement the whole PRSP programme of policy measures (long-term) and the funds available in the short- and medium-term. Indeed, the lack of comprehensive prioritisation and costing of policy measures can undermine the implementation of the PRSP. Given budget constraints and multiple goals, there is a need to prioritise among policy alternatives, making explicit the rationale underpinning choices, and acknowledging the trade-offs as well as spillover effects, particularly in terms of the most vulnerable categories of the population.

Thus, a number of challenges remain in the process of building more detailed cost analysis for the PRSP: (i) numerical targets have not yet been set out in sufficient detail to provide the basis for making very detailed costings; (ii) ministries have limited capacities to undertake such detailed costings; (iii) ministries have relatively limited information on existing actual expenditures by activity to determine their starting point; and (iv) the budget system, being based on input budgeting, does not facilitate the identification of priority activities and reallocation of resources towards priority activities. Ministries have made an initial start through classifying sectoral activities into four main groups, identifying priority measures not yet financed, and ensuring that they are consistent with the overall medium-term resource framework.

Experience from other countries in the region suggests that the development of detailed costings of the PRSP is likely to take some years and will have to be linked to procedures for reviewing and determining resource allocations, such as would be incorporated into an MTEF process. This is especially the case in situations where budgetary processes can provide only limited information on programme-level funding allocations and where there is a need for wide-ranging reform of sector and local expenditure programmes to ensure more effective and efficient use of public resources. Typically, in these countries the initial PRSP provides only a very limited costing of proposals, and has instead emphasised the importance of moving ahead with public expenditure management reform.

Over time, therefore, the Government will work towards developing a prioritised set of medium-term costed PRSP activities which is comprehensive and which fits within the overall macro/fiscal resource framework (i.e. that the activities can be financed) and which work towards core PRSP targets. This would be reflected in budget allocations being shown alongside activities in the policy matrices.

Thus, ministries and local administrations will aim to develop the tools and capacities to restructure their budgets in order to facilitate the achievement of PRSP objectives through the implementation of sectoral PRSP activities and making the relevant policy trade-offs. This will involve: (i) a strategic policy review/analysis for each sector and sub-sector, setting out the key policy objectives and priority policies for the sector/sub-sector; (ii) a detailed review of key expenditure programmes within sectors/sub-sectors, including a comprehensive analysis of the activities currently supported by budgetary resources; (iii) identification of measures to improve efficiency of resource use; and (iv) strengthening capacities for budget analysis and planning.

Sector ministries and local administrations will require assistance with this process, and it will take time. Detailed costings of sector PRSP policy measures should be undertaken in stages, in accordance with the implementation of wider public expenditure management reforms. As indicated above, the starting point for detailed sector expenditure work should be a review of current public expenditure patterns, followed by the identification of more efficient ways of undertaking current priority policy measures. As part of wider public expenditure management reforms, this process is also likely to require accompanying changes to the budget structure in order to be able to appropriately reflect the programmes and activities so that they can be planned, executed and reported against.

## 2. Costing Assessment of PRSP Priority Activities

As indicated above, the total amount to be allocated for PRSP priority sectors<sup>116</sup> is approximately 1.9% of GDP annually (YUD 26.6 billion on average) over the next three years. For comparison, the overall public expenditure for the period will amount to approximately 45% of GDP. The priority PRSP sectors include employment and SME development, education, health care, and social protection. Financing of these sectors for PRSP activities would take place through increases in planned allocation of budgetary resources in relation to GDP (e.g. education) and through cost savings made within the sector (e.g. savings on the wagebill through restructuring of ministry activities, reallocation of existing resources and reductions in overall employment).

The principles behind the allocation of resources shown in the costing section in the PRSP include:

- Emphasis is placed on budgetary savings and optimisation of the work of ministry, local and other government bodies.
- Allocations are defined in such a way as to enable gradual achievement of the set goals in line with the overall macro/fiscal framework.
- The share of domestic fiscal resources in the overall resources for PRSP implementation is rising, in accordance with the goal for Serbia to become able in the medium-term period (till the end of this decade) to solve the poverty problem on its own.
- The importance of maintaining balance between resources intended for mitigation of poverty consequences (social protection) and those earmarked for eradication of poverty causes (education, health, employment and SMEE development etc.).

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<sup>116</sup> As indicated above, the activities in the attached costings concentrate on the *highest priority* PRSP actions, not all activities, some of which are longer-term in nature or require other higher-priority activities to take place first.

**PRSP COSTING ASSESSMENT**

	<b>Central and local budgets and external finance % GDP</b>			<b>Central and local budgets and external finance mil EUR</b>
	<b>Million dinars</b>			<b>2004-06</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	
<b>TOTAL</b>	<b>24,179.3</b>	<b>28,247.9</b>	<b>27,510.5</b>	<b>1,087.3</b>
Social protection	3,923.7	4,343.1	3,242.8	157.2
Education-total	7,551.6	8,163.3	8,789.4	333.2
Health care	4,842.1	3,905.6	3,692.2	170.2
Employment and SME development	4,002.0	7,224.9	6,385.3	238.5
Decentralization, local and public administration	671.0	716.7	820.5	30.0
Regional development	587.3	715.0	862.7	29.3
Rural poverty	635.0	910.3	1,039.2	35.0
Urban and housing aspects of poverty	1,490.7	1,675.3	2,015.2	70.3
Environmental protection	134.8	141.6	146.3	5.8
Human rights	314.9	429.5	491.0	16.7
Monitoring and evaluation	26.2	22.7	25.8	1.0
<b>Social protection</b>	<b>3,923.7</b>	<b>4,343.1</b>	<b>3,242.8</b>	<b>157.2</b>
Assistance to poor families	2,000.0	2,026.3	1,994.7	82.0
<i>for IDPs</i>	585.0	526.5	460.7	21.5
<i>for Roma</i>	45.0	45.6	44.9	1.8
Extending the capacities of elderly homes and mental health institutions	175.8	73.8	0.0	3.5
Development of services for family support at the local level	262.5	283.5	297.7	11.5
Education for implementation of reforms in the area of family and social protection	70.3	73.8	0.0	2.0
Social Innovation Funds	281.3	221.3	114.5	8.5
<i>Social innovation Fund (improvement of social protection services)</i>	140.7	73.8	38.2	3.5
<i>Social Innovation Fund (direct poverty reduction)</i>	140.7	147.6	76.3	5.0
Specific needs of persons with disabilities	4.6	4.8	5.0	0.2
<i>Development and networking of databases for persons with disabilities</i>	2.5	2.6	2.7	0.1
<i>Measuring the quality of living environment of persons with disabilities</i>	2.1	2.2	2.3	0.1
Design of unified IT systems of pension funds (design, implementation training)	73.8	703.3	0.0	10.6
Equipping SWCs (IT technology,	70.3	36.9	0.0	1.5

training and other)				
Payment of farmers' pension arrears	600.0	629.5	651.0	25.6
Assistance to poor refugee families				
<b>(Commissariat for Refugees of the Republic of Serbia)</b>	385.0	290.0	180.0	11.8
<b>Education - total</b>	7,551.6	8,163.3	8,789.4	333.2
Reform of primary and secondary education	1,200.0	602.7	305.5	29.2
Preschool education	1,100.0	1,300.0	1,549.9	53.6
Adjusting secondary vocational schools to market requirements	600.0	609.7	623.1	25.0
Education of people with special needs	900.0	966.1	1,046.5	39.6
<i>Adjustment of educational facilities for children with special needs</i>	4.7	4.9	5.1	0.2
Education for Roma children and adults	1,000.0	1,139.2	1,309.4	46.8
Education of refugees	700.0	578.0	481.7	24.1
Adult vocational education	0.0	600.0	700.0	17.3
Pupils and students' standard	700.0	808.2	941.2	33.2
Reconstruction and equipment for schools	1,300.0	1,505.1	1,776.1	62.2
Educational development centres for excluded children	51.6	54.2	56.0	2.2
<i>Two pilot projects for children from urban areas</i>	15.6	16.4	16.9	0.7
<i>Two pilot projects for Roma children</i>	13.5	14.2	14.7	0.6
<i>Two pilot projects for children in rural areas</i>	22.5	23.6	24.4	1.0
<b>Health care</b>	4,842.1	3,905.6	3,692.2	170.2
Education of medical workers in transitional period	281.3	295.1	305.2	12.0
Raising work quality and strengthening health inspection	30.0	50.0	80.0	2.2
Introduction and development of IT system in primary health care	416.7	450.0	477.0	18.3
Programs of prevention of non-contagious diseases	1,000.0	600.0	648.0	30.8
Health care of refugees	410.0	700.0	350.0	19.9
Health care of IDPs from Kosovo and Metohia	90.0	351.5	298.0	9.9
Health care of uninsured individuals	800.0	864.0	915.8	35.1
Health care of farmers	464.0	108.0	114.5	9.6
Persons with disabilities -orthopedist aids	1,350.1	487.0	503.6	32.4
<b>Employment and SME development</b>	4,002.0	7,224.9	6,385.3	238.5
Training and retraining etc.	430.0	516.0	620.0	21.2

Training for active job seeking	25.0	30.0	36.0	1.2
Stimulation of entrepreneurship	353.0	423.0	506.0	17.4
New programmes (job clubs, virtual enterprises, public works)	7.0	8.4	10.0	0.3
Stimulating employment of vulnerable groups	400.0	180.0	210.0	10.9
Fund for launching of business	1,000.0	3,690.0	2,289.0	94.2
Information technology	50.0	60.0	72.0	2.5
Human resource development	1.0	1.1	1.2	0.0
Training of Ministry and Labour Market staff	5.0	5.5	6.1	0.2
Paying off unemployment benefit arrears	1,000.0	1,500.0	1,500.0	54.2
Employment of Roma	356.3	185.5	196.7	10.2
<i>Elaboration of programmes</i>	3.5	0.0	0.0	0.1
<i>Training-education</i>	17.6	0.0	0.0	0.3
<i>Public construction works</i>	300.0	147.6	156.4	5.4
<i>Legalization of collecting secondary raw materials</i>	35.2	38.0	40.3	1.5
Employing refugees	226.7	480.0	780.0	23.6
<i>Granting favourable loans</i>	141.7	300.0	600.0	16.2
<i>Public construction works</i>	85.0	180.0	180.0	7.4
Stimulating development of small and medium-sized enterprises	148.1	145.4	158.4	6.2
<i>Supporting work intensive sectors</i>	2.7	0.0	0.0	0.0
<i>Strengthening the Republic and regional SME agencies</i>	65.0	65.0	65.0	2.7
<i>Removing legal obstacles to business</i>	13.5	13.5	13.5	0.6
<i>Raising SMEs' competitiveness</i>	43.5	43.5	43.5	1.8
<i>Promoting SMEs' development</i>	6.4	6.4	6.4	0.3
<i>Reform of public services</i>	17.0	17.0	30.0	0.9
<b>Decentralization, local and public administration</b>	<b>671.0</b>	<b>716.7</b>	<b>820.5</b>	<b>30.0</b>
Decentralization and development of local government	93.3	125.5	160.3	5.1
Public administration reform and modernization of governance	200.0	216.0	229.0	8.8
Increasing accessibility of administrative services to the poor	200.0	216.0	229.0	8.8
Education of local government on stimulation of entrepreneurship	93.3	100.8	160.3	4.8
Regulating the status of refugees	84.4	58.4	42.1	2.5
<i>Elaboration of survey, study and policy program</i>	14.1	0.0	0.0	0.2
<i>Programme implementation</i>	70.3	58.4	42.1	2.3
<b>Regional development</b>	<b>587.3</b>	<b>715.0</b>	<b>862.7</b>	<b>29.3</b>
Stimulation of entrepreneurship	42.0	51.6	61.8	2.1
Construction of infrastructure	540.0	663.4	795.1	27.1

Poor areas	5.3	0.0	5.8	0.2
<i>Designing a map of poor areas</i>	2.0	0.0	2.2	0.1
<i>Formulation of a national programme for poor areas</i>	3.3	0.0	3.6	0.1
<b>Rural poverty</b>	635.0	910.3	1,039.2	35.0
Present status analysis and activity programme	35.0	25.8	29.4	1.2
Stimulation of entrepreneurship – business centres	300.0	442.3	504.9	16.9
Reform of the agrarian sector	300.0	442.3	504.9	16.9
<b>Urban and housing aspects of poverty</b>	1,490.7	1,675.3	2,015.2	70.3
Present status analysis and formulation of the social housing strategy	70.0	0.0	0.0	1.0
Formulation of laws and by-laws	10.0	10.0	10.0	0.4
Construction of affordable housing and state support to affordable housing	300.0	500.0	800.0	21.5
Slums – mostly Roma	1,110.7	1,165.3	1,205.2	47.4
<i>Project documentation for 600 settlements</i>	56.3	59.0	61.0	2.4
<i>Regulating and equipping of slums</i>	632.5	663.6	686.3	27.0
<i>Resettling 20 most vulnerable settlements</i>	422.0	442.7	457.8	18.0
<b>Environment protection</b>	134.8	141.6	146.3	5.8
Laws, regulatory mechanisms, education	29.3	30.9	31.8	1.3
Cleaning environmental “hot spots”	105.5	110.7	114.5	4.5
<b>Human rights</b>	314.9	429.5	491.0	16.7
Laws, institutions and education	105.5	147.6	190.8	6.0
Equality of women	139.1	193.4	198.5	7.2
Laws, education and legal help	52.7	73.0	76.3	2.7
Gender studies research	26.4	55.3	57.2	1.9
Programme for prevention of violence against women and children	60.0	65.0	65.0	2.6
Providing legal assistance to the poor	70.3	88.5	101.7	3.5
<b>Monitoring and evaluation</b>	26.2	22.7	25.8	1.0
Central and sectoral teams for M&E of the PRSP	11.8	15.6	18.3	0.6
Development of data sources, research, M&E trainings etc.	13.1	5.8	6.1	0.3
Evaluation	1.3	1.3	1.4	0.1

## PRSP COSTING ASSESMENT

	Central and local budgets and external finance % GDP			Central and local budgets and external finance
	2004	2005	2006	Average 2004-06
<b>TOTAL</b>	1.86	1.91	1.67	1.81
Social protection	0.30	0.29	0.20	0.26
Education-total	0.58	0.55	0.53	0.56
Health care	0.37	0.26	0.22	0.29
Employment and SME development	0.31	0.49	0.39	0.39
Decentralization, local and public administration	0.05	0.05	0.05	0.05
Regional development	0.05	0.05	0.05	0.05
Rural poverty	0.05	0.06	0.06	0.06
Urban and housing aspects of poverty	0.11	0.11	0.12	0.12
Environmental protection	0.01	0.01	0.01	0.01
Human rights	0.02	0.03	0.03	0.03
Monitoring and evaluation	0.00	0.00	0.00	0.00
<b>Social protection</b>	0.30	0.29	0.20	
Assistance to poor families	0.15	0.14	0.12	
<i>for IDPs</i>	0.04	0.04	0.03	
<i>for Roma</i>	0.00	0.00	0.00	
Extending the capacities of elderly homes and mental health institutions	0.01	0.00	0.00	
Development of services for family support at the local level	0.02	0.02	0.02	
Education for implementation of reforms in the area of family and social protection	0.01	0.00	0.00	
Social Innovation Funds	0.02	0.01	0.01	
<i>Social innovation Fund (improvement of social protection services)</i>	0.01	0.00	0.00	
<i>Social Innovation Fund (direct poverty reduction)</i>	0.01	0.01	0.00	
Specific needs of persons with disabilities	0.00	0.00	0.00	
<i>Development and networking of databases for persons with disabilities</i>	0.00	0.00	0.00	
<i>Measuring the quality of living environment of persons with disabilities</i>	0.00	0.00	0.00	
Design of unified IT systems of pension funds (design, implementation training)	0.01	0.05	0.00	

Equipping SWCs (IT technology, training and other)	0.01	0.00	0.00
Payment of farmers' pension arrears	0.05	0.04	0.04
Assistance to poor refugee families <b>(Commissariat for Refugees of the Republic of Serbia)</b>	0.03	0.02	0.01
<b>Education - total</b>	<b>0.58</b>	<b>0.55</b>	<b>0.53</b>
Reform of primary and secondary education	0.09	0.04	0.02
Preschool education	0.08	0.09	0.09
Adjusting secondary vocational schools to market requirements	0.05	0.04	0.04
Education of people with special needs	0.07	0.07	0.06
<i>Adjustment of educational facilities for children with special needs</i>	0.00	0.00	0.00
Education for Roma children and adults	0.08	0.08	0.08
Education of refugees	0.05	0.04	0.03
Adult vocational education	0.00	0.04	0.04
Pupils' and students' standard	0.05	0.05	0.06
Reconstruction and equipment for schools	0.10	0.10	0.11
Educational development centres for excluded children	0.00	0.00	0.00
<i>Two pilot projects for children from urban areas</i>	0.00	0.00	0.00
<i>Two pilot projects for Roma children</i>	0.00	0.00	0.00
<i>Two pilot projects for children in rural areas</i>	0.00	0.00	0.00
<b>Health care</b>	<b>0.37</b>	<b>0.26</b>	<b>0.22</b>
Education of medical workers in transitional period	0.02	0.02	0.02
Raising work quality and strengthening health inspection	0.00	0.00	0.00
Introduction and development of IT system in primary health care	0.03	0.03	0.03
Programmes of prevention of non-contagious diseases	0.08	0.04	0.04
Health care of refugees	0.03	0.05	0.02
Health care of IDPs from Kosovo and Metohia	0.01	0.02	0.02
Health care of uninsured individuals	0.06	0.06	0.06
Health care of farmers	0.04	0.01	0.01
Persons with disabilities -orthopedist aids	0.10	0.03	0.03
<b>Employment and SME development</b>	<b>0.31</b>	<b>0.49</b>	<b>0.39</b>
Training and retraining etc.	0.03	0.03	0.04
Training for active job seeking	0.00	0.00	0.00

Stimulation of entrepreneurship	0.03	0.03	0.03
New programmes (job clubs, virtual enterprises, public works)	0.00	0.00	0.00
Stimulating employment of vulnerable groups	0.03	0.01	0.01
Fund for launching of business	0.08	0.25	0.14
Information technology	0.00	0.00	0.00
Human resource development	0.00	0.00	0.00
Training of Ministry and Labour Market staff	0.00	0.00	0.00
Paying off unemployment benefits arrears	0.08	0.10	0.09
Employment of Roma	0.03	0.01	0.01
<i>Elaboration of programs</i>	0.00	0.00	0.00
<i>Training-education</i>	0.00	0.00	0.00
<i>Public construction works</i>	0.02	0.01	0.01
<i>Legalization of collecting secondary raw materials</i>	0.00	0.00	0.00
Employing refugees	0.02	0.03	0.05
<i>Granting favourable loans</i>	0.01	0.02	0.04
<i>Public construction works</i>	0.01	0.01	0.01
Stimulating development of small and medium-sized enterprises	0.01	0.01	0.01
<i>Supporting work intensive sectors</i>	0.00	0.00	0.00
<i>Strengthening the Republic and regional SME agencies</i>	0.00	0.00	0.00
<i>Removing legal obstacles to business</i>	0.00	0.00	0.00
<i>Raising SMEs competitiveness</i>	0.00	0.00	0.00
<i>Promoting SMEs development</i>	0.00	0.00	0.00
<i>Reform of public services</i>	0.00	0.00	0.00
<b>Decentralization, local and public administration</b>	<b>0.05</b>	<b>0.05</b>	<b>0.05</b>
Decentralization and development of local government	0.01	0.01	0.01
Public administration reform and modernization of governance	0.02	0.01	0.01
Increasing accessibility of administrative services to the poor	0.02	0.01	0.01
Education of local government on stimulation of entrepreneurship	0.01	0.01	0.01
Regulating the status of refugees	0.01	0.00	0.00
<i>Elaboration of survey, study and policy programme</i>	0.00	0.00	0.00
<i>Program implementation</i>	0.01	0.00	0.00
<b>Regional development</b>	<b>0.05</b>	<b>0.05</b>	<b>0.05</b>
Stimulation of entrepreneurship	0.00	0.00	0.00
Construction of infrastructure	0.04	0.04	0.05
Poor areas	0.00	0.00	0.00
<i>Designing a map of poor areas</i>	0.00	0.00	0.00

<i>Formulation of a national programme for poor areas</i>	0.00	0.00	0.00
<b>Rural poverty</b>	0.05	0.06	0.06
Present status analysis and activity programme	0.00	0.00	0.00
Stimulation of entrepreneurship – business centres	0.02	0.03	0.03
Reform of the agrarian sector	0.02	0.03	0.03
<b>Urban and housing aspects of poverty</b>	0.11	0.11	0.12
Present status analysis and formulation of the social housing strategy	0.01	0.00	0.00
Formulation of laws and by-laws	0.00	0.00	0.00
Construction of affordable housing and state support to affordable housing	0.02	0.03	0.05
Slums – mostly Roma	0.09	0.08	0.07
<i>Project documentation for 600 settlements</i>	0.00	0.00	0.00
<i>Regulating and equipping of slums</i>	0.05	0.04	0.04
<i>Resettling 20 most vulnerable settlements</i>	0.03	0.03	0.03
<b>Environment protection</b>	0.01	0.01	0.01
Laws, regulatory mechanisms, education	0.00	0.00	0.00
Cleaning environmental “hot spots”	0.01	0.01	0.01
<b>Human rights</b>	0.02	0.03	0.03
Laws, institutions and education	0.01	0.01	0.01
Equality of women	0.01	0.01	0.01
Laws, education and legal help	0.00	0.00	0.00
Gender studies research	0.00	0.00	0.00
Programme for prevention of violence against women and children	0.00	0.00	0.00
Providing legal assistance to the poor	0.01	0.01	0.01
<b>Monitoring and evaluation</b>	0.00	0.00	0.00
Central and sectoral teams for M&E of the PRSP	0.00	0.00	0.00
Development of data sources, research, M&E trainings etc.	0.00	0.00	0.00
Evaluation	0.00	0.00	0.00



## **V IMPLEMENTATION AND MONITORING OF THE POVERTY REDUCTION STRATEGY**

### **1. Implementation of PRSP programmes**

The fight against poverty is a long struggle that will be facilitated by the implementation of the Poverty Reduction Strategy Paper (PRSP). To maximise the future impact of the strategy, it is important to ensure an effective integration with and linkages to the overall reform process in Serbia and the overarching European Integration agenda. It is also of central importance to align and link the implementation of the PRSP with the Budget process and the Reform Agenda of Serbia since these establish the framework for the allocation of budget and external resources. The EIp, the Budget Process, RAoS and the PRSP, due to their multisectoral and comprehensive focus, are all key pillars of the reform process in Serbia.

With the adoption of the Strategy, the focus shifts from planning to action - a critical and challenging phase for most strategy processes. In the case of the PRSP this challenge is strengthened since two slightly diverging main considerations need to be taken into consideration when designing the implementation modality:

- First, due to the overall poverty situation in Serbia it is critical to ensure that policies and actions laid out in the strategy move into implementation in an efficient and rapid manner, taking into consideration sequencing and prioritisation. This indicates the need to build a strong central capacity to oversee and steer the implementation process. In the past, the Government has often chosen a model with a partly external unit or agency to meet these requirements due to the limited flexibility and constraints of the regular public administration.
- Second, due to the long-term dimension and the complexity of the strategy, it is necessary to develop sustainable institutional arrangements which will promote long-term ownership of the strategy and its implementation within both the public administration and the wider political leadership. This highlights the importance of ensuring that the implementation of the strategy is fully integrated in regular structures within the administration. Experiences from Serbia and other transitional countries have shown that it is a long-term and difficult task to achieve this for multi-sectoral and complex processes like the PRSP and the EIp. The reason for this is the diversity of interests and stakeholders involved, changing global and sector priorities, weak horizontal information flows and co-ordination, limited central co-ordination mechanisms, etc.

The task at hand is to develop an effective implementation mechanism taking into consideration the somewhat conflicting interests laid out above. The Government of Serbia is committed to doing so, building on the following elements:

- The relevant line ministries, government institutions and agency will be responsible for the implementation of the policies, measures and activities laid out in the PRSP. Different types of action plans and programmes will be developed during the coming period to facilitate implementation, to promote accountability and to make it easier for external and internal stakeholders to follow the process. As indicated above it will be necessary to strengthen the internal links between staff in central and local level government bodies which are responsible for the Budget process, Development and Aid Co-ordination, the European Integration process and Public Administration reform. Specific steps which are being considered at ministry level are: the creation of a strategy/policy implementation team, strengthening the ability to use the budget process for planning and programming, the sharing of human resources, etc.
- A central function/unit will be established within the Cabinet of the PM / General Secretariat of the Government to oversee and facilitate the implementation of the PRSP. It is the aim of the Government to develop this function in conjunction with the recently initiated process of strengthening the central co-ordination mechanisms of the Government. Regular progress reports will be prepared and presented to the Government identifying progress, problems and challenges, changing priorities, recommended actions, etc. These reports will be based upon data from the “Central Team for Monitoring and Evaluation ” as described in detail in the following chapter.
- The importance of involving the local level of the Government both in identification of problems and policies, planning and implementation has been emphasised throughout the strategy. Even though a number of initiatives are ongoing to strengthen the Local Self Government (LSG) much work is still needed. There is also need for closer co-ordination of ongoing initiatives to better exploit potential synergies and share lessons learned.
- As with the development of the PRSP, wider civil society will play a critical role both in implementation and in monitoring and evaluation. The Government welcomes the intentions of ACs to continue to develop and to play a pro-active role in the forthcoming implementation process. It is the Government’s intention to strengthen links to activities that are already ongoing such as Development and Aid Co-ordination, Social Innovation Fund, etc.

Bearing in mind the importance of ensuring close links between the PRSP, EIp and the use of budget and external assistance it is important to look into the possibility of developing joint steering and implementation mechanisms. In this context it would be natural to investigate the possibility of linking some of the above mentioned processes closer together. The linkage between the PRSP and the SAP criteria and the Millennium Development Goals has been explicitly highlighted in the policy / activity matrices. Through the PRSP process, Serbia has made significant progress in nationalising the MDGs. This process will continue and the Government is committed to using the MDGs as an integral part of the long-term development goals for Serbia.

The implementation of the PRSP will include a comprehensive Monitoring and Evaluation system. A draft system which comprises both input, output and process indicators is explained in the following sections.

## **2. Monitoring of Poverty Reduction Strategy Implementation**

The monitoring and evaluation system should cover all the phases in the implementation of the Strategy and, therefore, its basic tasks are:

- Monitoring efficiency in the implementation of the activities defined within the Strategy (Input, Process and Output Monitoring),
- Assessing the efficiency in the achievement of the basic and sectoral goals set by the Strategy (Outcome and Impact Monitoring and Evaluation),
- Monitoring the level, trend and profile of poverty for the purpose of timely redefining of certain elements of the Strategy (if necessary),
- Monitoring the participation of the poor in the strategy implementation process,
- Promoting stakeholder accountability in strategy implementation.

### **2.1. Poverty-related surveys/parameters used so far**

A principal source of data for monitoring the poverty level is the Household Budget Survey carried out by the Federal Statistics Office (FSO) and the Republic Statistics Office of Serbia (RSO). The Survey gives a detailed picture of household income and expenditures and general data on the demographic structure of households, with the possibility of quarterly monitoring.

The following definitions are usually used for the poverty line:

- Consumer basket for a four-member household (only food, published by FSO),
- Average consumer basket – RSO,
- Minimum consumer basket – RSO,
- Minimum subsistence basket of the World Food Program,
- Various USD amounts per capita (1, 2 and 4 USD), with or without PPP correction,
- Relative poverty measures (60% household income median).

The percentage and number of the poor, the degree of inequality in distribution, and the territorial distribution of the poor, were calculated on the basis of these parameters.

### **2.1.1. Participants engaged in collecting data required for poverty monitoring**

The main participants in data collection are:

- Statistics Offices
- The Health Care System
- National Bank of Serbia
- Records of line ministries (social welfare system, education system, etc.)

A number of polling agencies and research institutes are engaged in carrying out regular or occasional surveys on poverty and the economic status of the population, i.e. particular groups of population, economic trends or other parameters relevant to poverty monitoring.

Besides the above-mentioned participants, a number of international humanitarian and development agencies are also engaged either in collecting data in the field or in hiring local research agencies for the purpose of monitoring the poverty level and the state of the population in Serbia, and more often the poverty level and state of particular vulnerable groups. For example:

- The World Food Program and the United Nations High Commissioner for Refugees carry out regular surveys of the economic status of the refugee population and regular annual evaluations of humanitarian needs in food;
- From time to time UNICEF and the World Health Organization carry out (at intervals of several years) multiple-indicator surveys on the state of health of the population and particularly on the under-nourishment of children (Multiple Indicator Cluster Survey, MICS);
- Local NVOs (Report on Status of Human Rights in SCG, Center for Human Rights in Belgrade, Serbia in the 1980-s, 1990-s and 2000, Institute for Social Sciences, Service of personal assistants in Serbia, CIL).

### **2.1.2. Various poverty monitoring methodologies**

There are two types of basic problem related to monitoring poverty. The first is the methodological openness of defining poverty, arbitrariness in setting poverty line standards, and the complexity of establishing a system that will efficiently and unmistakably show poverty trends. The other problem is the availability and quality of data.

Public opinion is especially sensitive to various definitions and poverty levels that have appeared in recent poverty surveys. Expert consultations are required when establishing general definitions of the poverty line in order to minimize the possibility of manipulation, and to ensure openness and transparency in monitoring the level of poverty. Out of several

possible approaches and definitions it is necessary to select the one that is resistant to methodological manipulations and which can provide comparisons over time. It is desirable that the definition is not methodologically complex. A similar approach is also welcome in defining other key parameters for monitoring poverty and Strategy efficiency.

Special attention should be paid to the defining of poverty as a multi-dimensional phenomenon. Besides the economic approach, various aspects of poverty will also be included within the set of MDG indicators, as well as by specific participatory and sociological research.

### **2.1.3. Problems with the existing data sources**

The official statistics with its regular surveys is the principal regular source of data for monitoring the effects of the Poverty Reduction Strategy. The existing statistics system has suffered for years because of isolation, the unfavourable budget situation, and staff drain. In addition, quite a number of surveys are carried out according to a methodology which does not reflect current economic relationships (due to the transition and reform process, and an inadequate covering of private sector growth).

The lack of regular qualitative research (on the attitudes and expectations of the population, causes of poverty, etc.) is also evident. There is a need for regular participatory research that would throw more light on the qualitative aspects of poverty, which would at the same time encourage the poor to take part and express their attitudes concerning poverty issues.

The issue of the revision of the system of statistical surveys has been addressed through the preparation of the new Master Plan for Statistical Surveys and the development of a concrete action plan for making a revision of surveys (proposed by FSO and RSO of both republics). This plan takes account of most of the criticisms made so far and envisages the revision of quite a number of surveys. In addition, the plan also envisages general personnel and technological improvement of the statistical system. In the situation analysis and preparation of the plan, much assistance was provided by international statistical organizations (including EUROSTAT, and renowned statistical agencies of other countries). International expert and financial assistance will continue through the ongoing reform of the system.

Another significant source of poverty-related data is the network of municipal social welfare centres. A weak point is the lack of a uniform information system which would enable regular and prompt data processing and the preparation of specific reports on the current status of poor families and persons. There is also a need for better interconnection of the local centres and other local participants that collect or have relevant data required for monitoring the poverty level.

There is a noticeable absence of regular and comparative surveys focused on monitoring the status of particular vulnerable groups (refugees and IDPs, Roma, social transfer beneficiaries, etc.). In addition, official surveys and data sources are usually not representative of this population.

## 2.2. Defining the system for monitoring PRSP implementation and outcomes

### 2.1. Defining the basic set of poverty indicators

The basic set of outcome indicators should enable an insight into the effects of Strategy implementation, the poverty level and trends in various dimensions (economic status, education, health and others). The basic set of poverty indicators will be based on those set by the **Millennium Development Goals**. The Millennium Development Goals were globally defined by a UN General Assembly declaration and accepted by most countries of the world. Some of the indicators will require minor changes due to local characteristics (for example, yellow fever morbidity and mortality rates are not included). Poverty rates will be calculated according to several basic poverty lines (the national poverty line defined by the consumer basket, and the poverty line set at the 60% household per capita income median ).

Millennium Development Goals and the recommended set of indicators enable insight into and monitoring of poverty as a multi-dimensional phenomenon, since they include, in addition to the basic indicator of the number of the poor, various aspects of poverty (including those relating to education, health care, gender equity, and a healthy living environment) At the same time, MDG indicators affirm the human rights aspect. In drawing up the basic set of indicators, recommendations from the document “A Human Rights Approach to Poverty Reduction Strategies”, Office of the United Nations High Commissioner for Human Rights, were also used.

One of the basic indicators of Strategy success will be the number of persons below the national poverty line. This definition starts from the minimum food consumer basket, estimating other necessary articles and services by means of the Engel’s method, also used in the Survey on the Living Standard of the Population<sup>117</sup> (SLSP, Ministry of Social Affairs of the Republic of Serbia). For the sake of comparability with EU countries, the poverty line set at the 60% household per capita income median is also proposed.

Besides the basic indicators suggested by the Millennium Declaration, there is a set of important additional indicators that should be included. It is also very important to consider basic parameters grouping levels/types (by particular features, such as: sex, household type, and region). It is especially important to group the parameters and monitor them by particular especially vulnerable groups (including MOP beneficiaries, displaced persons and refugees, Roma, and persons with disabilities).

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<sup>117</sup> What is estimated is the average total consumption of households which consume food on the level of the previously defined subsistence food basket. In this way the unknown share of non-food stuff consumption and the total poverty line level are calculated on the basis of concrete data of the Household Budget Survey.

## **Defining sectoral indicators (process and outcome)**

In addition to basic outcome indicators suggested by the Millennium Declaration, specific outcome benchmarks for monitoring progress in achieving strategic and operational objectives in certain sectors also need to be defined.

Sectoral process indicators that would enable monitoring of strategy implementation should be defined. Process indicators and monitoring dynamics are derived from sectoral policy/activity matrices and include the monitoring of PRSP implementation phases.

*Process indicators include monitoring of strategy implementation from the initiation of a certain activity (level of investment in certain sectors that have a poverty reduction impact), to the monitoring of concrete reform trends (legislative changes...) and monitoring of implementation of concrete projects and activities within the PRSP, to the achievement of immediate activity results (e.g. «number of persons who attended training for professions that are in high demand»).*

*Outcome indicators are linked to the achievement of the declared Strategy objectives and to particular sectors (e.g. lower poverty rate among Roma population or lower unemployment rate of the population)*

Based on the numerous criteria that a set of indicators should generally fulfil, as well as many suggestions from relevant state institutions, civil society, international development partners, and other actors in the development of the PRSP, a preliminary set of indicators was proposed (see Annex). It is very extensive, with more than 100 outcome and more than 160 process indicators. The extensive scope of the set resulted from the need for multi-dimensional poverty monitoring and, particularly, from the complexity of monitoring that will include numerous sectors and institutions. It is estimated that some 60% of outcome indicators and around 80% of process indicators can be provided from existing data sources, with small modifications (for example, in a number of cases process indicators boil down to the needed changes and implementation of new regulations, which are easy to monitor). The list of indicators is not final. Following systematic analysis of data availability<sup>118</sup> (regularity, quality, relevance), the list will be updated.

### **2.2.2 Data sources and requirements from the statistical system, alternative sources**

#### **Revision of the existing Household Budget Survey, enabling the implementation of standard poverty monitoring methodologies**

Experiences of progressive methods of poverty analysis<sup>119</sup> should be incorporated into regular poverty monitoring mechanisms. The most efficient way would probably be a partial

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<sup>118</sup> The analysis of the proposed set of indicators and the existence of data sources, as well as alternative options, is being carried out.

<sup>119</sup> Survey on the Living Standard of the Population in Serbia (conducted by the Ministry of Social Affairs of the Republic of Serbia, with expert and financial support from the World Bank) demonstrated a very strong set of methods in poverty analysis.

modification of the existing Household Budget Survey (HBS)<sup>120</sup>. In this way the necessary regular periodic calculation of the poverty level according to the defined poverty line would be provided, as well as poverty distribution by specific features (region, household type, demographic and socio-economic characteristics of persons, gender, and vulnerable groups). It is also necessary to provide distribution and inequality analyses (decile analyses, Gini coefficient by different groups). In order to meet these requirements, a team of experts in statistics has been established. The purpose of this team is to carry out intensive research and present concrete suggestions and changes to be integrated into the regular statistical surveys (new HBS).

### **Analysis and revision of the present Master Plan of Statistical Surveys in accordance with demands for monitoring the achievement of the PRSP and Millennium Development Goals**

Since the basic set of output indicators mostly relies on recommendations and definitions from the set of the Millennium Development Goals, one of the important activities will be to consider the availability of data sources and capacities for the revision of current data sources, as well as the introduction of new ones. The above-mentioned team of statistics experts will also be in charge of designing a study on the availability of data sources for the purposes mentioned. The study should offer a concrete action plan for the revision of current statistical surveys for the purpose of quality monitoring of MDG and PRSP goals.

### **Encouraging development of alternative data collection networks**

The need for the development and use of alternative data sources has been confirmed through numerous discussions with representatives of the professional public. The statistical system has difficulties in monitoring those population groups who have not been integrated into society, with no permanent residence, as they are not easily covered by regular records and surveys. It is necessary to support local initiatives for establishing records of the poor, especially in municipalities with expected high poverty rates. Emphasis should be put on connecting the locally available data sources (local labour markets, social welfare centres, records of large companies that are being restructured, local governments, NVOs) and on creating a unique data base on poor families and persons in municipalities. The development of a uniform information system for the network of local Social Welfare Centres and more active field work by social workers should be encouraged.

It should be mentioned that the Institute of Public Health, together with UNICEF, is trying to organize a system for monitoring the growth and development of children, which would provide a uniform data source. A repeated UNICEF-organized MICS survey would be very

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<sup>120</sup> Household Budget Survey (HBS), a regular survey conducted by the Serbian Office of Statistics

useful for providing specific health care and educational information on the population of children and mothers in Serbia.

The monitoring of particularly vulnerable population groups (beneficiaries of social assistance, IDPs and refugees, Roma, persons with disabilities, etc.) is not possible without expert and financial support from international development partners and more active participation of non-governmental organizations with proven experience in such research and established contacts with these population groups. The NGO sector has the capacity to develop alternative data sources, and to organise a wide network for monitoring and the application of specific procedures such as participatory monitoring and specific forms of socio-monitoring, as well as monitoring of qualitative aspects of PRSP activities in the local community.

*The NGO network "Serbia Free of Poverty", established in 2001, includes 20 local non-governmental organizations from 14 towns across Serbia. One of the activities that they are engaged in is collecting data on poverty and vulnerable groups.*

Professional research agencies, capable of carrying out field research and implementing expert evaluations may also be engaged in certain cases.

### **Enabling participation of interested stakeholders, civil society and especially vulnerable groups in monitoring strategy implementation and outcomes.**

The success of the PRSP to a large extent depends on the efficient and active involvement of civil society, local communities and vulnerable groups (Roma, MOP beneficiaries, refugees and IDPs) in the PRSP implementation and monitoring process. There are several channels for the inclusion of these groups.

The first channel is the **local** organization of groups for monitoring Strategy implementation and outcomes within municipal socio-economic councils. The mandatory requirement regarding these groups would be the inclusion of representatives of civil society and vulnerable groups. Apart from this form of organization, local NGOs can significantly strengthen the capacities for monitoring PRSP implementation and outcomes by organizing special thematic monitoring groups (sociological aspects, budgetary/financial monitoring, participation of the poor, etc).

The other channel for the inclusion of civil society and vulnerable groups is **at the national level**, and includes their direct participation in the national non-governmental and civil society working group, as well as their direct participation in the Central PRSP monitoring and implementation team.

Support would also be provided for the organization of regular participatory research that would enable the collection and systematization of opinions of the representatives of poor population categories on PRSP implementation and outcomes. This research would point to innovative directions for Strategy development and implementation based on the participation and opinions of the poor.

## **Role of civil society and the NGO sector in monitoring Strategy implementation and outcomes**

In the preceding passages reference was made to the capacities of the NGO sector that can be mobilized for the organization of a research network to be used in certain forms of PRSP monitoring. In order to achieve better coverage, better quality and comparability of data provided by different actors, it would be useful to standardize and unify data collection procedures and report forms. This would result in greater transparency of PRSP activities and greater interest from the local community in taking an active part in Strategy implementation. Support is needed for the development of specific data collection and processing procedures and their adjustment to local actors.

*With a view to defining acceptable and efficient methods of inclusion of vulnerable groups and local communities in Strategy monitoring, four local NGO projects in the field of PRSP monitoring were supported (ARDI Belgrade, Resource Center Niš, Open University and Open Perspectives, Subotica). In addition, UNICEF is currently carrying out participatory research on children's poverty in Serbia. These efforts, building on previous experience, will provide a solid basis for the proposal of a set of participatory research and questionnaires on vulnerable groups in Serbia. The key role in the implementation of this research should belong to NGOs.*

Civil society and the NGO sector are interested in the process of monitoring budgetary prioritization and the spending of budgetary resources at the local level. The new Law on the Budget System provides for the standardization of the nomenclature and enables good quality reporting. It is necessary to advocate and enable a presentation of local budget spending by project principle, so that spending and investing of funds in concrete planned and executed activities in the local community could be monitored. Particular importance should be attached to Public Expenditure Tracking Surveys, in which the NGO network could take an active role.

*Public Expenditure Tracking Surveys (PETS) are research based on the monitoring of the financial flow of public expenditures to the end beneficiary of goods and services, ascertaining potential inadequacies or inefficiencies in the use of budgetary resources.*

### ***2.2.3. Evaluation of the implementation and success of the PRS***

A regular annual evaluation of PRSP implementation and outcomes is envisaged in all the previously defined sectors. Above all, Strategy implementation in terms of economic indicators, i.e. resources allocated and spent in certain segments/projects of the Strategy, should be monitored. The next step is the evaluation of the implementation of planned activities according to previously defined basic process indicators. In a considerable number of cases it is necessary to establish the level of institutional and legislative changes carried out (at the same time qualifying the implementation of adopted laws).

It is necessary to make a selection of areas and activities of special interest to be specially evaluated during or at the end of the Strategy implementation cycle. Bearing in mind the need for significant resources for each particular evaluation, it is necessary to prioritize and

schedule the areas that will be evaluated on the basis of defined criteria (high significance for poverty reduction, considerable investment in a specific activity, etc..).

Expert assistance from the World Bank is expected in the performance of quite a number of evaluations (Multi-dimensional quality of poverty in Serbia, Effects of the change in the electrical power tariff system on poverty, Evaluation of the social system reform, Map of poverty in Serbia). The assistance and participation of local experts in these evaluations is also anticipated.

It is very important to introduce testing practice, to simulate the effects of the implementation of new measures and policies that have an impact on poverty-stricken groups. The examples are the analysis of the impact of an increase in the price of electricity on the poverty level, and the analysis of changes in the number of MOP beneficiaries depending on the eligibility criteria.

An integrated plan for data collection and the performance of evaluations will be drawn up bearing in mind all the available data sources and needs for particular evaluations.

#### **2.2.4. Organization of the monitoring system**

It is planned that teams for strategy monitoring be organized by sector. The key line ministries (of social affairs, health care, education, etc.) would nominate individuals (or small teams if possible) in charge of monitoring strategy implementation and outcomes. This does not necessarily imply hiring new staff; the ministries are supposed already to have experts responsible for planning and analysis who would be the most appropriate members of a working group for strategy monitoring. The working group should also include experts from the official statistics system. In many countries, official statistics is the main body responsible for monitoring Millennium Goal indicators.

Experts from civil society would constitute a separate working group. The network of non-governmental organizations should be strengthened in order to cover local budget monitoring, participatory monitoring and questionnaires focused on sociological and psychological aspects of the strategy. The NGO working group would delegate one representative to the Central team for monitoring PRSP implementation and outcomes.

The establishment of local level working groups for Strategy monitoring, within socio-economic municipal councils, should be encouraged. It is desirable that working groups should comprise experts, together with representatives of civil society, vulnerable groups and relevant local institutions (employment bureaux, health care institutions. etc.).

*One way of organizing a working group for monitoring strategy implementation and outcomes has been suggested by the project «Active inclusion of the local community of Zvezdara in the process of monitoring PRSP implementation and outcomes». The project was carried out by a local NGO, ARDI, Belgrade, within the PRSP Local Initiatives project. The suggestion on the modus of local organization resulted from a series of consultative meetings with the representatives of relevant local institutions as well as of vulnerable groups.*

Local monitoring working groups would have their representative in the Local Government Advisory Committee, who would be, at the same time, a member of the Central team for monitoring strategy implementation and outcomes. In addition, the Central team would also include representatives of the main vulnerable groups.

The central team for monitoring strategy implementation and outcomes would have a special function. The basic structure of the team would include several members in charge of the coordination of sectoral monitoring and evaluation teams, collection of sectoral reports from working groups and the preparation of a synthesized report on strategy implementation and outcomes, covering specific segments of strategy monitoring and media communication, as well as communication with the PRSP implementation management unit. The wider composition of the team would include representatives of Advisory Committees, i.e. working groups (representative of the local government working group, civil society/vulnerable groups and several representatives of certain relevant stakeholder groups/institutions). The wider Central team would meet bi-monthly (if necessary, more frequently).

Regular quarterly reports on PRSP implementation should be submitted to the Parliament of the Republic of Serbia, together with an annual report on Strategy implementation and outcomes.

## ANNEXES

## **ANNEX 1**

### **Cross-Cutting Issues in The Poverty Reduction Strategy**

- 1. Poverty Reduction Among Refugees and Internally Displaced Persons**
- 2. Poverty Reduction Among Children**
- 3. Poverty Reduction Among Youth**
- 4. Poverty Reduction Among Persons With Disabilities**
- 5. Poverty Reduction Among the Roma**
- 6. Gender Aspects of Poverty**
- 7. Poverty and Human Rights**

## **1. Poverty Reduction Among Refugees and Internally Displaced Persons**

Given their social status, refugees and internally displaced persons (IDPs) fall into the category of the most vulnerable groups in Serbian society. An abrupt interruption of the cycle of renewal of economic, social, and cultural capital deprives them of access to all kinds of resources: earnings, property, social networks, and emotional security. The problem of poverty among these groups must also be considered from the perspective of basic human rights in view of their difficulties in exercising the right to freedom of movement, obtaining necessary documents, having freedom of disposal of their property, access to the formal labour market, adequate health care services, income support, quality education, and so on. Consequently, their problems can only be resolved through comprehensive measures, providing a legal status that would eliminate obstacles in their ability to exercise their guaranteed human rights and providing compensation and stimulating recovery of all the above mentioned resources.

### **1.1. Status and Prospects**

Around 278,000 refugees and more than 200,000 persons internally displaced from Kosovo live in Serbia (assessment of the Commissariat for Refugees, 2003). 18,500 IDPs are placed in collective centers. It is known that there are no up-to-date assessments of the rate and depth of poverty among refugees and internally displaced persons. The estimates and results from the research done by WFP and CES MECON in 2000 specify that the share of the poor among refugees and internally displaced persons is twice as high as that in the overall population. Similar estimates have also been provided by the Survey on the Living Standard of the Population and the household survival strategies from 2002. In all three surveys different methodologies were applied for measuring poverty, and in the last two mentioned refugees and internally displaced persons were not proportionately represented in their samples. A number of good quality findings in the reports of various international organizations and NGOs indicate significant regional disparities in the distribution of poverty among refugees and IDPs (it is higher in Central Serbia than in Vojvodina and in Belgrade), as well as differences in terms of age (it is higher among the elderly), with respect to type of accommodation (collective centres), and profession. The lack of recent information on these problems represents a major problem for an unbiased assessment of poverty among refugees and displaced persons. Nevertheless, the estimates are that the number of poor among refugees and internally displaced persons ranges from 120,000 to 140,000. As for likely future developments, the repatriation that has been announced of a large number of refugees and internally displaced persons who had sought asylum in the Western European countries (around 40,000 in Germany alone) indicates that the problem will at least remain at present levels, and may even increase. The majority of those who are to be returned from Germany are internally displaced Roma from Kosovo, most of whom fall into the category of the poor. A special problem is some 30,000 internally displaced citizens of Serbia, who are at present located in Montenegro.

## **The Status of Resources**

**The economic resources** available for dealing with poverty are diminishing. The budget inflow is too small for a problem of this size; the international organizations are announcing the phasing out or termination of their programmes. These are the circumstances that additionally reinforce the decision that the scope of direct transfers to all the poor should be reduced and thereby also to poor refugees and internally displaced, and that they should be encouraged to enter the labour market. Scarce economic resources among refugees and internally displaced persons are only partly the consequence of a high unemployment rate (almost twice as high as that of the local population). Another cause of their poverty is the loss of property (either because it was destroyed during the armed conflicts, or because it is impossible for them to freely dispose of it through use or sale). Elimination of obstacles to exercising their property rights can be a significant factor in the reduction of the scope of poverty and the change in the structure of poverty among these groups. In particular, scarcity of funds for housing, as well as particularly poor accommodation of poor refugees and displaced persons represent the most significant consequence of the lack of property rights and is a significant feature of their poverty.

**The institutional and organized coverage** of the problem of refugees and internally displaced persons is better than it is for some other vulnerable groups. In the first place, the Government of Serbia has established the National Strategy for Solving the Problem of Refugees and Internally Displaced Persons. The Commissariat for Refugees of the Government of Serbia has a network of Commissioners in all towns in Serbia in which there are large groups of refugees and displaced persons. All major international organizations dealing with refugees have now been actively working on this problem in Yugoslavia for years, and among a large number of NGOs and associations specialising in this problem there are several that were founded by or that employ refugees and internally displaced persons. However, these organisations providing assistance to refugees and the displaced make different evaluations of the quality and efficiency of mutual cooperation, which in itself indicates that there is a problem in that area. On the basis of opinions that have been stated, it seems that the key problem lies in insufficient coordination between different institutions and organizations and in particular in the absence of a centralized system of acquisition and distribution of information. The problem of inaccurate information on property, legal status, health care, etc., is relevant for refugees and displaced persons in general, and is even greater when planning measures for poverty reduction, particularly when it comes to planning and implementation of special measures.

**Social capital** as a special resource represented by the number of social networks and the strength of personal ties is closely related to household economic production. Poor refugees as a rule are in an unfavourable position in this respect: their access to social institutions and organizations is poor, their circle of friends is small, and many of them have broken family ties. They get little information and few services that could improve their status in life.

Relevant to social capital is also the **system of values and opinions** that prevails among refugees and in the local community and which to a large extent influences their degree of

integration in the local community. As far as this is concerned, it could be said that the attitude of the local population towards the refugees is positive, with the exception of Vojvodina<sup>121</sup>. The positive attitude of the local population towards refugees is often expressed through solidarity; however, to achieve better integration it is necessary to convert that solidarity into efficient actions, and for that it is necessary to coordinate the activities of government institutions and international organisations and NGOs. It should be borne in mind that with constraints on economic resources, the local community could represent a potential source of funds for the implementation of certain actions.

As far as **human capital**, i.e. knowledge, skills, and abilities, is concerned, the refugees are relatively well educated, which certainly represents an advantage in the labour market. On the other hand, the majority of them have undergone traumatic experiences due to the violent interruption of their former existence with abrupt economic, emotional, and other losses. Many of them have fallen into a state of apathy and value disorientation, which fundamentally affects their ability to work and adapt. The problem of human capital is even greater among internally displaced persons because their level of education is low, i.e. similar to the level of education of the local population. This indicates the need for a differentiated approach to refugees and internally displaced persons with regard to the strengthening of their human capacities.

## **1.2. Goals**

In formulating the poverty reduction strategy there are two main goals: reduction of the level of poverty and the poverty gap, and the shortening the average length of time an individual remains in poverty. Poor refugees and internally displaced persons are intensely exposed to the risk of long-term poverty and being trapped in a cycle of inter-generational reproduction of poverty related to it. The development of a culture of passivity and poverty plays a particular role in the initiation of this cycle and due attention should be paid to its prevention when formulating the programme for poverty reduction. Therefore, in order to achieve the above mentioned goals, the actions must also be focused, apart from providing a minimum of social production, on the motivation of individuals, households or communities to become economically independent. The problem of motivation is also related to two non-economic factors. One includes individual values and motivation for economic independence. Here, we should once again stress the problem of post-traumatic apathy. The other non-economic factor which very much affects the motivation of poor refugees and internally displaced persons in the labour market is the weakening of social capital, i.e. the breaking of social ties and difficulties in establishing new ones in the environments in which they now live.

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<sup>121</sup> In Vojvodina the ethnic minorities are afraid of the changes in the ethnic structure, and the old animosity of the original inhabitants towards the 'newcomers' is also present. And yet, the refugees in Vojvodina particularly relied on the concentration of 'colonists' in certain settlements.

### 1.3. Strategic Options, Measures, and Activities

In line with leading UN principles on internally displaced persons, the Convention on the Status of Refugees and the accompanying Protocol, the wider social community and in particular Government institutions bear responsibility for assistance to refugees and internally displaced persons. However, if the programmes of assistance treat such persons only as passive beneficiaries, the burden of responsibility of the state will only grow in time, and the problem will not be qualitatively resolved. Moreover, the majority of refugees and displaced persons and their households even under their new circumstances act as economic and social participants who attempt to formulate an optimal strategy using various resources to improve their economic position. While some realistically cannot succeed in escaping from dependence on support and transfers (e.g., elderly households), it is the case that for some others organized assistance from the community represents just one of the available resources. A thought-out strategy for dealing with the problem of refugees and internally displaced persons must take account of the following:

- a) How to maximize the efficiency of programmes enabling and encouraging economic independence and social integration, and
- b) How to avoid abuse of resources in social welfare programmes.

The problem of poverty among refugees and internally displaced persons should be solved in three ways:

- The overall effects of economic growth will also have an impact on this group. However, it should once again be stressed that due to poor integration and poor motivation, the poor among the refugees are less able to benefit from economic progress.
- A special strategy for assistance to refugees and internally displaced persons. As it is planned, the National Strategy is targeted to the restoration of the overall resources of such persons and would thereby to a considerable extent contribute to the reduction of poverty among them. The two main courses of action, return and integration, represent a good framework for economic recovery for a considerable number of the vulnerable.. However, in order to ensure that the two policies exclude each other and thus to achieve better overall targeting, it is necessary to completely update the information system on the targeted group.
- Special programmes, as already stated, should define the actions that would encourage the economic independence of those who are expected to remain socially dependent even after the implementation of the National Strategy.

*It is estimated that at the start of 2004 there will be around 8,500 refugees placed in collective centres in Serbia. The yearly cost of placement for one person is around USD 1000, while taking action to resolve refugees' status would require a one-off cost of USD 3,000 per person. That means that the budget required for a three-year placement of refugees in collective centres (USD 25 million) would be sufficient for the permanent resolution of this problem (construction of housing units, employment programme, one-off financial assistance, and conversion of collective centres into homes for the elderly). This would enable a yearly saving in the Republic's budget of USD 8,500.*

The poverty reduction strategy for refugees and internally displaced persons should be developed according to the following strategic options:

**The first strategic option** is aimed at the recognition of basic human rights. The measures defined within this option include removing certain obstacles that could impede the effectiveness of the general poverty reduction measures due to the unresolved legal status of refugees and administrative problems in providing the relevant documents by refugees and internally displaced persons, in particular:

- Conducting a new census of refugees and internally displaced persons, which would include more information about these two groups and serve as an improved basis for directing the programmes and monitoring their implementation;
- Facilitating the procedures for issuance of personal documents to refugees and internally displaced persons (ID cards, birth certificates, certificates of residence, citizenship certificates, and the like). To accomplish this, it will be necessary to conclude inter-governmental agreements on cooperation among municipal administrations (for refugees), and to adopt an ordinance allowing internally displaced persons to obtain their documents by mail. The information about procedures for obtaining the documents would be provided by the municipalities of their current residence;
- Issuance of new documents (or copies thereof) to persons who are left without them; for this purpose, an ordinance should be adopted regulating the procedure for issuance of new employment record books, ID cards, passports and other documents;
- Facilitating the procedures for issuing residence certificates to internally displaced persons; for this purpose, it is necessary to issue and distribute a letter to the relevant offices of the Ministry of Internal Affairs ordering more efficient issuance of these certificates; persons who live in unofficial collective centres should be permitted to register at the address of the relevant institution (e.g. a local office of the Commissariat for Refugees of the Republic of Serbia);
- Facilitating procedures for obtaining citizenship by refugees (more expeditious procedures and exemption of refugees from the citizenship registration fee);
- Establishing preconditions, through inter-country agreements, for facilitating repatriation procedures, for those who take this option;

- Introducing mandatory medical record cards for refugees and internally displaced persons at primary health care institutions in the places of their current residence; for this purpose, an ordinance applicable to refugees should be adopted, while the Ministry of Health should be approached with a request to be more efficient in providing the cards for internally displaced persons.

**The second strategic option** would involve several different sets of measures depending on the type of resource targeted:

- Provision of housing resources and closing down of collective centres represents an essential prerequisite (together with acquiring equal legal status and inclusion in the labour market) for the social integration of refugees and internally displaced persons. Low quality collective accommodation intensifies social isolation, makes access to information, to the labour market, and to various social institutions more difficult, and significantly contributes to the development and maintenance of a culture of poverty and inertness. Refugees and internally displaced persons who are accommodated in rented flats are in a somewhat better position, because this opens up more scope for the development of social networks and possible access to necessary information, but it places a considerable burden on the fragile economic subsistence of a family.
  - Accommodation within the social housing programme is intended for those who do not own a flat, whose property was destroyed and who live below the poverty line.
  - Subsidies for self-help housing and assistance for construction works which have already been initiated are intended for those who do not own a flat, who cannot dispose of their property in the country of origin, and who are below the poverty line.
  - Accommodation in social institutions is intended for internally displaced persons aged 65 or over, and refugees aged 60 plus who are not in need of another person's care and assistance, provided that their living standard is below the poverty line and that they are placed in collective centres or live as tenants.
  - Accommodation in health institutions is intended for persons with disabilities, the seriously chronically ill and mentally challenged persons from the collective centres, as well as for mentally challenged members of poor families.

The above programmes draw on the programmes planned by the National Strategy on Solving the Problems of Refugees and Internally Displaced Persons.

- The measures focused on asserting rights over existing property in the places of origin. Not only the return of refugees and internally displaced persons to their place of origin, but also the possibility of their more successful integration, which would be facilitated by the use once again of resources which had been abandoned, depends to a large extent on the degree of implementation of these measures. In this area, the Poverty Reduction Strategy Paper can only rely on international and inter-governmental agreements and diplomatic efforts of the Government of Serbia and Montenegro, and the Government of Serbia.

- The measures focused on employment, targeting primarily able-bodied individuals who come from highly vulnerable households (e.g. single-parent families, families with no employed members, and the like). Engagement of refugees and internally displaced persons in the implementation of poverty reduction programmes for these two groups could be introduced as special employment measure. The measures below are envisaged for the labour market:
  - subsidizing part of labour costs as an incentive to companies to employ refugees and internally displaced persons.
  - Individual and collective self-employment, on the basis of interest-free loans with favourable repayment terms.
  - Subsidized the purchase of years of service for refugees who need less than three years to fulfil the retirement eligibility criteria.
  - Employing semi-skilled or unskilled refugees and IDPs on construction works.
  - Enabling employment in the agricultural sector, by allocating arable land for permanent utilization or ownership and credits on favourable terms for mechanization and raw materials.
  - Providing severance packages to surplus workers employed in state-owned enterprises or administrations of Kosovo municipalities and their redirection to other labour market programmes.

**The third strategic option** should include programmes for the development of socio-cultural resources and human capital. In addition to basic educational programmes, this should include: the provision of information to refugees and internally displaced persons, raising their motivation, promotion of activism and the abandonment of passive attitudes of reliance on various forms of social assistance, education focused on the abandonment of some traditional values (particularly those regarding the employment of women), encouragement of mobility that would facilitate employment, and the like.

These programmes should also target the local population, i.e. stimulate solidarity and discourage discrimination towards refugees and internally displaced persons among them in order to encourage efficient integration. A significant role in the planning and implementation of such programmes would be played by the NGOs that already have developed networks, methodologies of work in the field, and built up relationships of mutual confidence with refugees and internally displaced persons. The training and education programmes should include the following:

- Additional training and re-training of unemployed and poor refugees, in keeping with the needs of the labour market;
- Mandatory pre-school education for the children of internally displaced persons in the form of a one-year preparatory programme for primary school (5 days a week, 5 hours a day);

- Scholarships for secondary school and university students from poor refugee and IDP households.

**The fourth strategic option** should be focused on a precise definition of target categories for social transfers. When formulating these measures, it is necessary to target accurately adequate types of transfers towards the beneficiaries, but at the same time also prevent possible abuses that would lead to the waste of resources and reduced efficiency in the targeting of various forms of material support. The main programmes within this option are as follows:

- "Material Support to Families" (MOP) for internally displaced persons and direct cash assistance for refugee households that qualify for MOP;
- Child allowance for children aged 0-14, for households of internally displaced persons and refugees who meet the requirements for child allowance;
- Carer's allowance for poor internally displaced persons and refugees who are in need of such assistance;
- Compensation of costs incurred in relation to orthopaedic and other aids for the relevant groups of persons with disabilities internally displaced persons and refugees.

To ensure that the precisely defined programmes and measures generate appropriate effects in the circumstances of the poverty of refugees and internally displaced persons with its multiple causes, it is necessary to set priorities among the planned measures. The goal is not only to deal with the major poverty hot spots among this population in the short term, but also to bring both individuals and families as fast as possible into the economic mainstream. In this respect, first and foremost, conditions should be created to make it possible for refugees and internally displaced persons to apply for all programmes on equal terms with the rest of the population. This means that the measures under the first strategic course of action are of the top priority, along with improved coordination among the programmes and unhindered flow of information. The next in priority are the programmes related to labour markets, through which a great number of people will be able to find jobs in a not very complicated way (subsidized employment, employment in the agricultural sector and public works), training and educational programmes, as well as housing and accommodation programmes enabling faster phasing out of collective centres (welfare housing, accommodation in nursing homes and medical institutions). Bringing these priorities to the forefront does not mean that MOP will be pushed to the margins. On the contrary, it is assumed that once the planned measures are effectively in place MOP will be relieved of a considerable burden.

In those municipalities and regions with a notable concentration of poor refugees and internally displaced persons, special action plans should be drawn up in order to better harmonize the planned programmes and achieve more efficient targeting.

#### **1.4. Institutional - Administrative Framework**

The institutional and administrative policies for the implementation of the measures and programmes of poverty reduction among refugees and internally displaced persons, as well as their monitoring, should bring together three groups of actors: the Republican Government (as the proponent of the Strategy), the local authorities, and relevant NGOs.

As far as the level of action is concerned, in view of the nature of the problems and resources, it seems that strategic planning as well as acquisition and channelling of information should be centralized, i.e. placed within the competence of the Government (the Commissariat for Refugees) in cooperation with certain international organizations and NGOs. For this purpose, it is necessary that a law be passed amending the mandate of the Commissariat so as to include responsibility for solving the problems of internally displaced persons, as for refugees. Better communication and exchange of information between the Commissariat and the line ministries is also necessary. Formulation and implementation of concrete programmes should be left to the institutions and NGOs and associations at the local level, while the local Commissioners of the Commissar for Refugees would be responsible for coordination and monitoring. In that respect the Commissioner must be answerable to the Commissariat, and not to the local administration. The funds could come from various sources (the budget, international organizations, local community, private sector). NGOs should play an important role in the implementation and monitoring of assistance programmes for poor refugees and internally displaced persons (the roles of the Commissariat and NGOs would be complementary in this respect). To enable monitoring to be carried out effectively, training programmes should be organised for NGO activists.

Most of the programmes proposed within the PRSP build on policies that have already been defined in the National Strategy on Solving the Problems of Refugees and Internally Displaced Persons. The obstacle, however, to closer interaction of the two strategies lies in the fact that the implementation of the programmes set out in the National Strategy has been limited, and the fact that the extent to which internally displaced persons are covered by these programmes has not been expressly specified. Nevertheless, in the course of their implementation the two strategies will have to be coordinated so as to ensure that once the programmes under the PRSP are completed they can relieve the relevant programmes envisaged under the National Strategy, and vice versa, once the conditions are met for the implementation of certain programmes under the National Strategy, they will as a priority include poor refugees and internally displaced persons, and thus relieve the burden of the respective programmes set out under the PRSP.

#### **1.5. Necessary Financial and Other Resources**

PRSP programmes will be partly financed from the Republican budget, and partly from loans, donations, and similar funds. Detailed cost assessments by programme and number of potential beneficiaries are given in a separate chapter.

The institutional and organisational network is well developed, but is poorly coordinated. It is necessary to improve communication between all the actors. For more efficient

development and implementation of the programmes at the local level it would be appropriate to establish coordinating bodies comprising representatives of the Commissariat, local self-government, international organizations, and NGOs.

### **1.6. Indicators and Monitoring**

In the course of monitoring the implementation of programmes outlined by the PRSP, key actors, methods and indicators should be defined. The nature of existing data sources and regular statistical procedures for data collection, as well as fragmentariness, lack of uniformity, absence of IT inter-linkage between data bases and monitoring procedures of various international and local NGOs call for significant interventions in this area. As stated above, better methods of data collection as well as the interconnection of different data bases are essential not only for monitoring of strategy implementation, but also for better targeting of individual groups and beneficiaries of specific programmes. Relevant local institutions should be entrusted with the monitoring of most relevant indicators of poverty among refugees and internally displaced persons. Therefore, in data collection conducted by statistics offices, line ministries and other relevant bodies, the instruments should be sensitised to distinguish between members of these two specific population groups.

Monitoring should include indicators of the number and type of programmes that have been launched; investments (in the broad sense of the word) according to the source and type of programme; the implementation process (regular reports to the organisation through which programmes are implemented); and programme impact according to reports (of institutions in charge) and general and specific indicators. The general indicators mean all relevant indicators specified in Chapter 7 of the strategy, showing changes in the status of poverty among refugees and internally displaced persons according to the same dimensions as those applied to the non-refugee/IDP population. The specific indicators relate to the specific dimensions of poverty in the said groups, i.e. to the implementation of the programmes targeting refugees and internally displaced persons under the PRSP. The key specific indicators include:

- The number of refugees who have returned to the countries of their origin;
- The number of internally displaced persons who have returned to Kosovo;
- The number of refugees who are entered in the register of citizens of Serbia and Montenegro;
- The number of internally displaced persons who have registered their new place of residence in Serbia;
- The number of internally displaced persons from the unofficial collective centres who have registered their place of residence in Serbia;
- The number of registered or unregistered collective centres that have been closed down;

- The number of social housing units that have been constructed in which refugees and internally displaced persons are accommodated;
- The number of loans granted for self-help housing or completion of construction works;
- The number of completed buildings for which loans were granted under the programme of self-help housing and programmes for completion of initiated construction works;
- The number of refugees and internally displaced persons placed in social institutions;
- The number of refugees and internally displaced persons accommodated in health care institutions;
- The number and employment status of refugees and internally displaced persons hired through the labour market programmes envisaged under the PRSP;
- The number of internally displaced persons who retired under the programmes of subsidized buy-off of years of service;
- The number of refugee and IDP households that were allotted arable land under the programme of employment in agricultural sector;
- The type and volume of production of these households;
- The number of internally displaced persons who received severance pay under the programme of employing redundant workers from state-owned enterprises in Kosovo and redundant civil servants from Kosovo municipalities;
- The number of beneficiaries of MOP and direct monetary transfers;
- The number of households receiving child allowance;
- The number of persons involved in the programmes of additional training and re-training;
- The number of refugees and internally displaced persons covered by these programmes who found jobs;
- The number of high-school scholarships;
- The number of university scholarships;
- The number of children of refugees and internally displaced persons covered by the programme of mandatory pre-school education.

A comprehensive picture of the effects of the PRSP on poverty among refugees and internally displaced persons should be presented in annual reports of the Commissariat, while close monitoring and independent reporting on PRSP implementation by the relevant NGOs is also encouraged.

## 2. Poverty Reduction among Children

### 2.1. Background

In the analysis of poverty among children it is necessary to understand that different measures of government policy (economic policy, fiscal policy, pricing policy, the transitional model, etc.) affect the population of different ages in different ways, and consequently, they affect children as well. It is even more important that, when developing various components of government policy, one should bear in mind that certain measures undertaken by the government affect different parts of the population of children in different ways. This is also valid for the analysis of poverty among children and it is also important for any poverty reduction strategy.

The struggle against poverty among children and youth is of a particular importance for a long-term poverty reduction strategy because only in this way is it possible to avoid trans-generational transmission of poverty and to break out of the vicious circle of poverty among some parts of the population.

The main problems in working out the strategy of poverty reduction among children emanate precisely from the fact that elimination of poverty among children is a long-term process.

### 2.2. Indicators of Poverty among Children and Families with Children

The manifestations of poverty among children are numerous and versatile and have a deleterious effect on the development of children and their chances for full inclusion in community life:

- **Under five mortality rate** – particularly among some parts of the population and in some regions of the country.
- **Low birth - weight** - which also includes numerous negative effects of ante-natal malnutrition, possible toxicity, etc.
- **Undernourishment** during childhood
- **Frequent illnesses**, chronic diseases and specific structure of diseases (higher incidence of diseases that are easier to control and more efficiently treated)
- **Problems in physical development** – stunted growth, deformities, consequences of chronic diseases
- **Certain problems in mental development** – higher incidence of mental retardation, more frequent physical infirmity and developmental disorders
- Certain forms of **socio-cultural disadvantages** – mental pseudo-retardation, language difficulties, etc.

- **Problems in education** – failure to enrol in school or late enrolment, early school drop-out, high repetition rate, school underachievement, completion of schooling without acquiring knowledge, far lesser access to secondary and higher education
- Certain forms of **socially deviant behaviour** – higher incidence of anti-social behaviour, juvenile delinquency, etc..

The above mentioned indicators of poverty sometimes appear as isolated factors but more commonly they appear in **combination** (i.e. as a complex poverty syndrome) and/or **cumulatively** over time whereby the early manifestations of poverty produce later ones and thus result in the continuation of the “vicious circle of poverty”, because the combined and cumulative manifestations of poverty thwart social integration and social promotion of the young generation and thus poverty continues into the next generation.

For understanding the nature of poverty among children and for defining the poverty reduction policies and strategies it is important to understand the **diversity of poverty manifestations** because the strategies for poverty reduction will have a different focus for different poverty needs (for example, in our country the problem of malnutrition of children can be solved in one way and prevention of the failure at school in another).

### **Particularly Vulnerable Categories of Children**

The above manifestations of poverty among children appear more frequently among certain special categories of children, i.e. among children from certain types of families and from certain social groups.

According to the data obtained in the Survey on the Living Standards of the Population, poverty has hit children hardest, particularly those aged 7-14 (12.71% of the poor) and children aged 15-18 (10.72%), mostly in multi-family households (16.05% of the poor) and in families where parents are unemployed (21.34%).

However, it is noteworthy that due to the structure of the sample covered by the Survey and due to insufficient disaggregation of the data, poverty amongst some categories of children (Roma, single mothers, refugees, etc.) is probably masked. The nature of the Survey is such that the problems of children's poverty are not sufficiently visible.

In order to understand the nature of poverty and differentiated measures for poverty reduction, it is important to bear in mind that some of the above mentioned manifestations of poverty are more often related to some of the specified categories of children. So, for example, the manifestations of socio-cultural disadvantages will be more frequent in the category of rural poor people, chronic diseases more frequent in the urban slums in which the ethnic group of Roma lives, the problems of undernourishment among the poor refugees, etc.

### 2.3. The Nature of Poverty among Children

The description of different manifestations of poverty among children and enumeration of the categories of children that are particularly vulnerable inevitably leads us to the definition of different categories of poverty among children.

**Low income** (low family income earnings or low income earnings per unit of consumption in a family, particularly those that are below some of the precisely defined poverty lines) is, naturally, the basic defining variable of poverty in general, and therefore, among children as well. But it is here also possible to differentiate **financial** poverty from a wider **economic** poverty. For the purposes of understanding the effects of poverty on children's development, this economic definition of poverty is necessary but not sufficient.

**Lack of access to social services** (health care services, social protection, education, culture for children) is a separate form of poverty. Namely, many categories of children do not have access to the the above-mentioned social services for various reasons (geographic unavailability, social marginalization, lack of information on the rights/entitlements, lack of parental awareness on its importance, payment of participation fees, families that are not entitled to some of those services, acceptance of the situation of poverty, etc.).

*Thus, for instance, pre-school institutions are inaccessible for children under the age of 3 because of their physical distance from these institutions, which on average are 6.4 km in East Serbia, 5.3 km in West Serbia and 4.9 km in Central Serbia. The same applies to ages from 4 to 6: the average distance from a pre-school institution is 6.3 km in East Serbia, 5.8 km in West Serbia and 4.2 km in Central Serbia.*

The coverage of children with pre-school education is very small: 11.8% of children under 3 years of age and 44.4% of children aged 4-6.

Children's participation in cultural, additional educational and sporting programs is extremely low (8.8% at the age of 4-6 and 10.6% at the age of 7-14).

In addition, the number of poor in rural areas is 25.0% and indicators on accessibility of these social services are even less favourable.

However, it is not just about the mere unavailability of these services. Significant aspects of this form of poverty are the **low quality of those services** to the poor (what is available to the poor is a small range of the lowest quality of these services), the matching **of the services with the characteristics and needs of participants** (this applies to all services, particularly for education and culture, and particularly to children in marginalized groups, such as rural children, children from certain national, ethnic, and cultural groups that live in poverty), and **efficiency of service provision** (in other words, it is not only about whether there is a possibility of medical treatment but also whether that treatment is efficient; not only whether the children that are poor are covered by some form of education but also whether they have learnt something).

This form of poverty is particularly important for the analysis of poverty among children because it has **great negative developmental effects**, which are the main mechanism of trans-generational transmission of poverty.

**Poverty of individuals vs. poverty of the environment.** The definition of poverty on the basis of family income or per capita is insufficient when we talk about the poverty of children in development. Theoretically and empirically, it is possible to find numerous situations when such income can be somewhat above the defined poverty line and yet the **poverty of the environment** (of the family environment, rural/urban dwelling, local community, region) can be so great as to produce all the negative effects of poverty in the development of children. When we speak about the poverty of environment, we then also bear in mind the poverty of the physical environment (in unsanitary settlements, overcrowded urban neighbourhoods), absence of utilities, lack of roads and communications (which causes social exclusion), absence of the above social services. However, here we should particularly point out **poverty of the cultural environment**, i.e. absence of the socio-cultural infrastructure (lack of pre-school institutions, educational and cultural institutions and programs, media, institutions for recreation and holidays, etc.). Such poverty of the environment can be hazardous both for physical development and it is particularly critical for mental development and it can contribute to underachievement and school failure which impedes the breaking out of the circle of poverty. Here we should picture traditional Roma settlements, a collective centre for refugees, a city slum, some illegal outlying housing developments or a poor isolated village in a mountainous region, in order to get a clear picture of the impact of a discouraging environment for development.

There are no accurate data on these categories of poor communities and the above general data on inaccessibility of various educational and cultural institutions for children indicate that a large number of communities have very unfavourable environments for child development

The significance of the above forms of poverty (unavailability of social services and poverty of the environment) among children is so great that the strategies consisting of rendering assistance to individuals (and even families) cannot be efficient in solving poverty and its effects on children if they are not supplemented by poverty reduction strategies in the local community, rural/urban settlements.

Generally speaking, different forms of poverty require different strategies for poverty reduction (temporary and occasional poverty as opposed to the lasting poverty, "new" as opposed to "old", rural as opposed to urban, financial as opposed to a wider economic, poverty with regard to income earnings as opposed to poverty of social services, individual as opposed to poverty of the environment, etc.).

#### **2.4. General Approach and Strategic Options in Poverty Reduction Among Children**

The general objectives of the Poverty Reduction Strategy from children's viewpoint are:

- to assist individual poor children and families; and
- to prevent the effects of poverty by interventions in those communities that, due to poverty, generate poverty transmission across generations

The nature of poverty among children determines the overall approach to solving the problem of poverty. Here we shall tackle first of the following approaches:

**Long-term prospects** (the main strategies must be long-term ones because we are faced with a phenomenon which affects the entire cycle of children's development).

**Perspective of human and children's rights.** This approach stems from a number of important international documents including the General Declaration on Human Rights, the International Covenant on Economic, Social and Cultural Rights, the Millennium Development Goals of the UN, the World Fit for Children (decisions of the UN General Assembly's special session) and, in particular, the UN Convention on the Rights of the Child. The approach from the viewpoint of human rights has several meanings:

- through the above international documents, the international community has opted for the elimination of poverty (as had been done with slavery and colonialism) because it threatens all human rights;
- the above international documents define a kind of international standard and value system in the treatment of human beings that serve as a normative orientation for actions;
- the human rights perspective in the treatment of poverty is the basis for international co-operation in poverty eradication;
- human rights perspective means that the poor (including poor children) are treated as equal human beings and must be empowered to participate themselves in poverty eradication (rather than as mere recipients of other people's aid) because that is the only way to ensure sustainability of anti-poverty measures;
- human rights perspective means that children, regardless of their social status, must be granted special rights, in view of their psycho-physical development;
- from the aspect of exercising the rights, it is necessary to foresee a special definition of a child so that various legal eligibility criteria for certain rights and responsibilities would not leave room for arbitrary interpretation and abuse.

**Strategies for reduction of poverty** among children necessarily stem from the nature of that poverty and from the above-mentioned general approaches.

In order to confront various forms of poverty and its particular nature, the following appropriate strategies are to be applied:

Assistance to individual families and individual categories of children that are below the poverty line

The data on these categories of families and children are available for some sectors (health care, education and social protection) and various assistance measures intended for these categories of families and children are included in the sectoral chapters of this document. It should be underlined here that records on these categories must be updated and measures must be applied also to the "new" categories of poverty, especially families of workers rendered jobless in the period of transition.

### **Improvement of accessibility, quality and efficiency of social services for children**

These strategies are also elaborated in the sectoral chapters of this document and mostly concern the reforms of these sectors (reform of the health care and social protection sector, educational reform). From the viewpoint of poverty-stricken children, it must be pointed out that reforms alone will not resolve specific problems of these children in each sector and that specific measures targeting poor children are required. (By its nature, e.g., the global program Education for All, for which a specific National Action Plan has to be developed, is such a measure).

### **Systemic, long-term, preventive and development strategy**

This is the only strategy that is in full agreement with the nature of poverty affecting children.

It has the following characteristics:

- it is a long-term Strategy
- it is oriented towards reducing poverty in the environments that generate transmission of poverty across generations
- it is multi-sectoral (includes the minimal improvement of communal infrastructure, environmental protection measures, health care and health education, provision of minimum conditions for educational, cultural, recreational and sports programs, various incentive programs especially at pre-school age, preparation of young people for first employment, etc.)
- it deals with causes rather the consequences of poverty, with the view to eradicating them
- it is based on active participation of the local community, family and children themselves

This strategy can be implemented through implementation of the following:

## **Institutional policies**

The existing Council for the Rights of the Child of the Government of Serbia needs to be strengthened in order to be able to accomplish the roles defined for it (to review all Government measures from the viewpoint of their consequences for children, particularly in connection with poverty generation and to draft a National Action Plan for children to help meet the standards in the basic international documents on the position of the child).

## **Development of the map of poor areas in Serbia unfavourable for child development, generating poverty and leading to social exclusion**

This map will serve as the information base for all poverty reduction activities in Serbia.

## **Development of the National Plan of Priority Action Areas for Poverty Reduction in Serbia**

Based on the Map of Poverty Areas, this plan would be used for initiating poverty reduction measures in Serbia and for mobilising national, local and private resources with the view to eradicating poverty in the poorest areas in Serbia. Operationalized projects for particular Priority Action Areas would be financed from domestic and foreign resources.

## **Pilot projects for Priority Action Areas**

Pilot projects in the first year of implementation would include:

- two already-existing Roma Development Centres in South Serbia that need to be made sustainable;
- two localities in poor rural areas that have the potential for revitalisation and where the existing local school would be transformed into a communal rural development centre;
- two localities in poor suburban settlements that do not have any infrastructure to encourage child development (absence of pre-school institutions and programs, absence of conditions for additional assistance to children in school learning, absence of educational, cultural and sports institutions and programs).

### 3. Poverty reduction among youth

Serbia has 1,512,646 young people, aged between 15 and 29<sup>122</sup>.

Young people are often declared to be the future of this country, but the actual possibilities and mechanisms for young people to truly become drivers of change and active actors in the society's development are still scarce. One of the reasons is that issues and problems relating to young people are often treated in relation to policies for children. The notion of the young, however, postulates a stage in the life cycle that has specific features deserving special attention. Another problem is that young people are mostly treated as a uniform category, whereby they are defined as a collective body, with insufficient space for manifestation and appreciation of their diverse needs and potential.

#### Indicators of poverty of young people

- *In the course of the 1990's, 250,000 young people, mostly university graduates, left the country (Educational Forum/UNESCO 2002). 17.9% young people are planning to leave the country, and another 31.5% would like to leave the country if they had the opportunity. The main reasons for which young people would leave the country: low standard of living, no prospects for the future, security reasons.*
- *54% of young people wish to live in big cities, believing that they provide better chances for life than small communities.*
- *72.3% of young people are still living with their parents and only 11.5% of the young aged from 15-25 live independently. 44.2% assess their current standard of living as average, but generally speaking, young people are optimistic and expect a better future.*
- *Around 80% of the young are dissatisfied with the quality and choice of educational opportunities. The rate of secondary school enrolment of young people is around 75%.*
- *31.8% of students believe that they never get their teachers' support and 24.8% believe that teachers are not willing to support them.*
- *Young people aged 19-25 account for 23.9% in the structure of the unemployed, 33.6% of them are unskilled.*
- *39% of young people expect to be consulted and to decide on how to spend their leisure time; 20% believe that they should be more involved in decision making at school.*
- *A significant percentage of young people, 60.7%, spend their leisure time with their friends, 39.6% listening to music and 38.8% watching TV. 10.9% is very satisfied with the ways in which they spend their leisure time, 55.9% are satisfied and 28.5% are dissatisfied.*
- *Over 90% of young people state that they have tried various kinds of drugs once, and 11.1% state that they consumed marijuana more than three times.*

<sup>122</sup>

- Children are persons younger than 18 years of age;
- Adolescents are persons aged from 10 to 19 (including early, middle and late adolescence);
- Young people are the group aged 10 to 24;

It is also noteworthy that due to mass poverty, high unemployment rate among young people, late marriages, as well as the influence of the broader community, young people in our country undergo the stages of change later in their lives and thus "stay young longer". The term "young", therefore, where relevant, includes the population aged up to 30 - Brave New Generation, The Young in the FRY, UNICEF 2002

- 34.5% of young people aged 15–25 smoke regularly and 18.5% smoke sometimes.
- Among sexually active persons aged 15-19, 43% of girls and 20% of boys never use any protection, and 51% of sexually active university students do not use condoms regularly.
- 40% of young women aged from 15-24 report that they have been pregnant at least once, among them one in five had one or more abortions and only 40% of young women have ever visited a gynaecologist.
- One in four young people say that they do not have the right information about HIV and AIDS.<sup>123</sup>

### 3.1. Problems and constraints

With respect to poverty amongst young people, in addition to the economic aspects and the situation nationwide, it is necessary to also mention the inadequacy, low quality and absence of respective services to deal with young people. The poverty of the cultural and social environment leaves little space to young people to express and often even to recognise their own needs, affinities, strengths and weaknesses.

The results of research undertaken in 2002 by Catholic Relief Services in a number of towns in Serbia indicated that there are no bodies at the municipal level that deal with youth issues. Issues of the youth are handled by the social services or *ad hoc* drug-prevention actions. Youth problems are treated from a narrow viewpoint only, and the measures proposed and implemented are restrictive and result in prohibitions and shortened working hours for cafes, etc. There are a number of NGOs in these towns but not many of them focus on young people.

Not even the somewhat more open civil sector in Serbia deals sufficiently with youth issues nor provides adequate opportunities for young people to be involved in the creation of programs, activities and decision making processes. According to the data of the NGO Policy Group, only 5.6% of non-governmental institutions in Serbia include young people in their programs and activities. The activities that are implemented are oriented at educational programs such as courses and to a lesser extent exchanges of young people primarily with the countries in the region.

Research has shown that there are considerable differences in the perception of youth problems from the perspective of parents, young people and secondary school students. Young people believe that their main problem is the lack of conditions and space for quality organisation of activities and spending leisure time, whereas parents and teachers believe that drugs are the main problem. Young people see the solution in the establishment of youth centres whose space and contents would be adjusted to meeting their needs. All three groups envisage progress only in the partnership of various actors. Interestingly, all three groups consider the role of an external facilitator or neutral partner beneficial. It is encouraging that young people see their own group as the one that should assume the leadership role.

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<sup>123</sup> Sources: Brave New Generations – The Young in the FRY, UNICEF 2002; Youth research / PRONI

Over the past decade young generations in Serbia grew up at the margins of society, isolated from the rest of the region and from Europe, as did the entire country. For most of those who are young today the time of childhood and growing up was marked by feelings of insecurity and powerlessness. The present experiences of the young are considerably different from the experiences of their parents and adults who grew up in different times.

Society cannot develop if young people are marginalized. Their participation at all levels of decision-making and activity is of crucial importance for the initiation of changes and further development.

In recent years, the European Union has urged that the development of national youth policies support the participation of young people in the society. Youth participation can be defined as participation and influence in processes, decisions and activities, especially those directly concerning them. This implies assuming an active role in the family, school, health services, social life and the authorities.

### **3.2. Strategic options**

- It is necessary to define a uniform approach to young people at the state level, but also to define regional, local strategies of development that will elaborate national policies and strategies and be based on specific conditions, needs and developmental objectives;
- The youth poverty reduction strategy must be treated as a long-term and developmental process;
- The main strategic orientation in combating youth poverty must be based on the perspective of children's and human rights;
- Youth poverty reduction must be undertaken through accessibility, quality and efficiency of social activities and services intended for young people: health care, education, social welfare;
- Youth poverty reduction must be addressed through the enrichment of the social and cultural environment.
- Youth poverty reduction must be addressed through the involvement and participation of young people in the decision-making system, at both local and national level.

### 3.3 Operational objectives, policies and activities

Objectives	Policies and activities
<b>Preparation of the National Strategy for Youth</b>	The Ministry of Education and Sports of the Republic of Serbia initiated in 2003 preparation of the National Strategy for Youth. The Strategy defines activities on the national and local level answering to the priority needs of youth. This process will include all interested stakeholders on the national and local level, primarily young people
<b>Elaboration of local development strategies</b>	Elaborate development strategies on the local level, in line with the National Strategy, while taking into account local community specificities and priority needs of youth. Local strategies must support the holistic approach towards young people and result from the joint work of all relevant actors and service providers: educational and health care institutions, NGOs, experts and above all, the youth. In order to ensure applicability of such strategies, they must be based on the participatory research on the needs of youth, while local teams must undergo certain trainings. Once they are adopted, local plans and strategies must be evaluated and permanently improved in accordance with the social changes and needs of youth.
<b>Creating social and cultural environment in keeping with the needs of youth</b>	Support and development of the new social and cultural forms that would lead to the enrichment of activities and environment. Encouragement and capacity building of young people to help them become active initiators of changes. Assist NGOs that support the youth and include them in their activities. Initiate and support the projects of cultural institutions that satisfy the needs of youth. Support and initiate the establishment of youth centers that would cherish different kind of activities for and with young people. Such centers would offer the opportunity to the young people to take the creative role and role of service providers and to be included in the decision-making and evaluation process. Such centers can promote different “youth for youth” programs.
<b>Participation of youth in the decision-making systems</b>	Open the space for participation of youth at all decision-making levels: local, regional and national. Also, develop mechanisms for the inclusion of youth in all the relevant institutions: schools, health care and cultural institutions, etc.
<b>Raising accessibility, quality and efficiency of services for youth</b>	<p><b>Health services:</b> Initiate and support establishment of youth counseling centers that would foster holistic approach and be open for all relevant issues that can improve the quality of living of youth. Organize services and programmes for the realization of “youth for youth” programmes Open the doors of counselings centers to adults and parents. Organize actions promoting responsible behaviour and healthy lifestyles.</p> <p><b>Schools:</b> Make room for the inclusion of youth in the decision-making system and build partnership relations between pupils, teachers and parents. Organize cultural, educational and sports events at schools Modernize extracurricular activities in line with the interests of youth.</p> <p><b>Social protection services:</b> Create programmes based on the more humane approach for the youth in residential institutions. Create programmes for resocialization of risky groups and include the youth in the creation and implementation of these programmes.</p>

## 4. Poverty Reduction among Persons with disabilities

### 4.1. Current Status

Poverty is one of the relevant features of the life of persons with disabilities. This is clearly indicated by the following data:<sup>124</sup>

**Incomes** of families whose members are persons with disabilities are very low and they can be justifiably considered to be disproportionately below the poverty line. According to the 2001 surveys, over 70% of persons with disabilities had a particularly low income and, according to the current criteria, they would be ranked among the poor.

The data on the sources of income confirm the origin of low incomes among families whose members have some type of disability. Over 50% of the income originates from transfers on the grounds of entitlements due to disabilities (14% disability benefit (benefit for bodily impairment), 26% advanced home help, and 14% social assistance).

**The causes of poverty** are, first of all, a low level of education and a low level of employment. The low level of education is, according to the results from this survey, one of the consequences of the unfavourable social environment for persons with disabilities. Thus 50% of them had no education or had primary education only, while only 7% acquired higher education degrees, while 10% completed their education in special schools.

The low employment rate and work places not adapted to the requirements of persons with disabilities provide the explanation not only for the low incomes but also for the very low employment rate among the persons with disabilities.

- Only 13% of persons with disabilities have the opportunity to work,
- Only one third of those employed have a workplace adjusted to their needs,
- Only 40% of those employed have appropriate working conditions (starting hours, number of working hours, scope of work and breaks).

**The specificity of poverty** among persons with disabilities is reflected in the undeveloped supporting services and provision of services, as well as in the inaccessibility of public services and cultural institutions:

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<sup>124</sup> The data were obtained in a survey conducted in May 2001. The results were published in the study titled “Disabled Persons and Environment” (editor Prof. PhD Viktorija Cucic), CPA, Belgrade, 2001. The application of more reliable methodological procedures that are not based only on verbal statements of respondents concerning income will provide more accurate and more reliable findings on their position with respect to the poverty line.

- Physical access to the educational and other services for persons with bodily impairments is unsatisfactory;
- Physical access to health care institutions and infrastructures of specific health care services for persons with disabilities is adequate. However, the effective availability of health care services is low, particularly when considering home visits, rehabilitation or home help;
- The dominant form of rehabilitation is medical rehabilitation while the share of occupational rehabilitation is small;
- Availability of services and service provision differs according to the level of education and work status of the persons with disabilities (there is full availability for 55% of the educated and only for 28% of the uneducated);
- Only 38% of persons with bodily impairments can use public transport;
- Shops are inaccessible to 53% of persons with disabilities;
- Other public services (municipality, post-office, Police) are inaccessible to 35% of persons with disabilities;
- Cinemas are accessible to only 20% of persons with bodily impairments;
- Libraries can be visited without problems only by 17% of persons with disabilities;
- Theatres are accessible to only 12% of the persons with bodily impairments.

**The consequence** of such a situation is a blockage in the development of needs. Low family income, inaccessibility of services, and public and cultural assets, with frequent unpleasant experiences in the social environment, have a negative influence on the level of aspirations of persons with disabilities. The result of this vicious circle is loneliness, isolation, and very limited social participation.

## 4.2. Problems and Constraints <sup>125</sup>

**The system of compensatory entitlements**, i.e. all the rights related to rehabilitation, technical aids and pecuniary benefits, in the period of crisis, isolation and, first of all, destruction of the economy and decline of the national income, had «atrophied» which resulted in low performance with limited effects. These problems and constraints have partly been compensated for through humanitarian aid. On the other hand, a part of the system of compensatory rights, first of all the passive pecuniary transfers, do not encourage inclusion.

**The education system** in Serbia is more exclusive (with »special education«) than providing support for the creation of equal opportunities for persons with disabilities. Isolated education and the kind of knowledge acquired in »special education« turn out to be a problem and a major constraint in some areas (labour market, for example) and processes (social integration and employment).

**The employment** of persons with disabilities is, according to experience so far, one of the biggest problems. In this area, there has been more discrimination (in employment), exclusions (with the predominance of passive transfers) and low participation in income earning (low employment or employment in difficult and poorly paid jobs) rather than the development of an active employment policy (with targeted programmes) and the creation of equal opportunities for persons with disabilities in the area of labour and employment.

**Supporting services** are generally developed within the system of social welfare, first of all as residential institutions for the long-term placement of children with developmental disorders. This network is both insufficient for the range of needs of persons with disabilities and inadequate from the point of view of the kind of needs to be met and possible responses to the demands of the beneficiaries. The undeveloped supporting services represent a major obstacle, making it difficult to improve the process of inclusion. There is a lack of alternative forms of support for persons with disabilities and their families.

**Inaccessibility and unadapted environment** are terms that include numerous obstacles and barriers that persons with disabilities encounter daily and that represent a major factor of discrimination, i.e. the denial of equal opportunities for exercising their rights.

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<sup>125</sup> After the change of regime on October 5, 2000, a positive attitude has been expressed and activities have taken place with regard to all the above problems and constraints. The delay has been compensated for and regular payment of pecuniary transfers has been established. In the reform processes and strategies of individual sectors the problems and constraints for the inclusion of persons with disabilities have been identified and included.

**Invisibility and insufficient understanding** of persons with disabilities is also one of the obstacles that make it more difficult to overcome the unfavourable social environment. The language used to label the phenomena in the area of disabilities stresses the impairments and constraints. The potentials and capacities of persons with disabilities and their human rights are still, at least among the wider public, insufficiently recognised and appreciated.

**Insufficiently reliable data** on persons with disabilities, and difficulties in establishing the scope, distribution, and main characteristics of disabilities (particularly from the aspect of interactive relationship between personal and environmental factors, as this phenomenon is now being determined) represent a serious problem and a major constraint in the planning and development of systematic measures in this area.

### 4.3. Goals

The main goal of the Poverty Reduction Strategy in this area is, by reducing poverty, to encourage inclusion and independent living of persons with disabilities. Priorities.<sup>126</sup>

- Social protection of persons with disabilities,
- Accessibility of the environment,
- Access to education,
- Employment of persons with disabilities.

### 4.4. Strategic Options, Measures, and Activities

In order to achieve a favourable outcome for persons with disabilities within the Poverty Reduction Strategy, it is necessary to accept and at the same time apply five main principles on which the policy for the creation of equal opportunities for persons with disabilities is based: **(1) dignity, (2) participation, (3) non-discrimination, (4) right to compensation, and (5) proximity.**

**The strategic option** should include the key areas for the creation of equal opportunities and inclusion of persons with disabilities as an important precondition for poverty eradication.

**Compensatory rights**, i.e. all the entitlements related to rehabilitation, technical aids and pecuniary benefits, represent a major factor in creating equal opportunities for persons with disabilities. However, they are a necessary but not a sufficient precondition. Therefore, it is necessary to take a new approach and take into account human rights and factors relating to

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<sup>126</sup> The priorities were identified by the focus group of persons with disabilities within the SSBS Network, March 6, 2003.

inclusion. From the human rights perspective, it is necessary to complement regulations pertaining to persons with disabilities, in order to improve their position through affirmative action and to enable them to participate in society. It is necessary to undertake revitalization, re-conceptualisation and harmonization with the international standards of the entire system of compensatory rights. **Revitalisation** means renewal of the system and the taking over of responsibility for rehabilitation, technical aids and pecuniary benefits by the State. It is necessary to include all persons with disabilities in the system of compensatory rights irrespective of the origin and characteristics of their impairments and constraints, differentiated according to the needs and conditions for equalisation of opportunities. **Re-conceptualisation** means the grounding of the system in human rights and on the responsibility of the State to create equal opportunities for persons with disabilities instead of the limited approach and rhetoric focused on “social security” and care of the State for the “social categories”. **Harmonisation** should enable the provision of sustainable standards in the process of transition and budgeting in real terms (in other words, adjustment to the available financial resources).

**Adaptation of space** to the needs of persons with disabilities and accessibility of public buildings is very important, because the possibility of their inclusion in different spheres of social life depends on it. Campaigns and successful projects in certain local communities have confirmed that better understanding of the needs of persons with disabilities and raising the awareness of citizens, town planners, and local authorities helps to create a more favourable environment. It is, however, also necessary to have clearer and more strict normative regulations and control of compliance with those norms.

**Education and access** to education and the acquisition of higher levels of knowledge and occupational skills is one of the key prerequisites for the development of individual capacities and inclusion in society. Elimination of obstacles to education (both physical barriers and other selective mechanisms, such as, for example, »screening« of children with developmental disorders)<sup>127</sup> and development of special educational curricula as a way to »adjust« the environment to the needs of persons with disabilities, should be the course of the reform of the present system of special education (»special schools«). Inclusive education should become a strategic goal in the reform of education, particularly in the transformation of special education. It is necessary to ensure full provision of education for children with disabilities. Therefore, it is important to provide versatile, tailored educational curricula that also offer opportunities to persons with severe mental impairments.

**Employment** and inclusion in work and paid income is also one of the major conditions for the eradication of poverty and the creation of conditions for independent living of persons with disabilities. The system of employment measures should include both support for

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<sup>127</sup> The work on the project “Improvement of Work of Screening Panels for Children with Developmental Disorders” is under way and its result should be a new model of assessment, monitoring, and referral of the children with developmental disorders.

employment through the labour market and for so-called “protected employment”, i.e. joining work programmes under special terms and conditions.<sup>128</sup>

**Supporting services** are also an important condition for the creation of equal opportunities for persons with disabilities. It is essential that supporting services exist in all the main areas where equal opportunities are provided for exercising human rights (education, administrative authorities, public services, judiciary, and the like) but also as informational and advisory services to individuals and families for the development and building of their own capacities to achieve their personal goals. The process of development of supporting services should be based on the needs and initiatives of the associations of persons with disabilities. The government and the developed civil society organisations should provide financial and technical support to these initiatives.

**Full participation** of persons with disabilities in everyday and social life is an essential condition for poverty reduction and adjustment of the social environment to enable inclusion. In view of the different forms and levels of participation, it is very important to take a comprehensive approach and to support different forms of participation. To achieve participation in social life, it is necessary to build the capacities of the associations of persons with disabilities but also to create equal opportunities for participation in various forms of involvement in civil society.

**Measures and activities** within the above strategic options are:

- When establishing the poverty line for material support to families, the specific expenses of the families with disabled members should be taken into account;
- The right to pecuniary benefit should be granted to all persons with disabilities irrespective of the cause and nature of disability;
- The existing forms of institutional social protection for persons with disabilities should be reformed;
- Services (service provision) to support persons with disabilities and their families should be developed;
- The production and servicing of technical aids should be renewed, improved, and regulated;
- Disability should be made visible in local communities and local resources should be mobilized.

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<sup>128</sup> A new Law on Occupational Training and Employment of Persons with Disabilities is being drafted, which will, on new grounds and principles, govern the equalization of opportunities for employment of persons with disabilities.

#### **4.5. Institutional and Legislative Sphere**

The issues of disability should be dealt with in the context of human rights, in accordance with international standards, and a unique legal framework should be established to deal with issues of disability comprehensively, i.e. an anti-discriminatory law should be adopted which would represent the basis for other legislative regulations in the area of disability. The constitutional framework is now more favourable since the Constitutional Charter of Serbia and Montenegro now includes the terms “non-discrimination” and “partnership”.

When defining the poverty line in social protection (minimum security for material support to families) the specific expenses of families with disabled members should be taken into account. These expenses can be direct (for specific needs of persons with disabilities), indirect (the expenses other households do not have), and specific (unrealised earnings of household members because of greater engagement with the disabled member). Institutional mechanisms should be provided for the participation of persons with disabilities in decision-making on issues that concern them, in all areas and at all levels.<sup>129</sup>

#### **4.6. Indicators and Monitoring**

Given a very low level of sources of data about persons with disabilities (poor primary records, data processing and statistical reporting), selection and definition of relevant indicators for the monitoring of the implementation of the PRS in the area of disability also implies a thorough revision and upgrading of the records and statistics that should enable their monitoring, including:

- The number of persons with disabilities below the poverty line;
- The level of inclusion (absolute and relative coverage) of persons with disabilities in the system of compensatory rights (rehabilitation, technical aids, pecuniary transfers and services);
- The number of persons with disabilities covered by education (regular and special);
- The number of persons of working age with disabilities (employed and unemployed).

Because access to public assets and services is one of the specific indicators of poverty among persons with disabilities, for good-quality monitoring that their needs are being met special periodic surveys should be established by means of which the “quality of the environment” would be measured for persons with disabilities (the disability monitor).

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<sup>129</sup> Establishment of the Council in charge of the issues of the persons with disabilities in the middle of 2002 provided the opportunity for inter-sectoral coordination and active participation of persons with disabilities in the consultative process.

## 5. Poverty reduction among the Roma<sup>130</sup>

### 5.1. Current Status

The overall social status of the Roma, not only in this country but also in almost all the countries in which they live, is particularly unfavourable. According to all indicators of social status (employment, education, social respect, living standards, and so on), the Roma are on the lowest level of the social scale.

Although it is not easy to explain the position of the Roma, it is still possible to specify several main factors.

The first factor, which seems likely, is that the Roma, since their arrival in Europe, have not been welcome due to their different social characteristics and that they have been, as “alien blood”, held in isolation. It is also probable that, as a nomadic tribe, their culture has been alien to the cattle-raising agrarian culture and the prevailing patterns of life. Regarding the Balkans, one should bear in mind that the Roma came together with the Ottomans – the conquerors – and that they were not welcome. For that reason the Roma have been exposed to contempt and prejudice from the dominant majority, which made them a socially powerless group. This has denied the Roma the opportunity to develop competitive and political power as an important means for mobilization to change, i.e. to improve their position.

The second factor is related to the type of cultural adjustment of the Roma. There are sufficient reasons to assume that this group, at least as far as our territories are concerned, adjusted itself to the traditional customs and the way of life and that it has today become a guardian of traditionalism. It seems that their process of cultural adjustment stopped at that level and so this is probably the reason that the Roma did not follow the processes that were followed by the majority population, which also had to change its values under the wave of industrialization and to harmonize them with the modern patterns of life. Among the Roma, however, the usual process of acculturation was disrupted. In the majority of cases the process of cultural adjustment starts with the behavioural aspects of a culture. However, the Roma accepted the religion of the majority group, its traditional customs, often the language as well, but they preserved *their way of life* and the external symbols of being different. This certainly intensified the prejudices of the majority people towards the Roma and the lasting segregation, on the one hand, but it also intensified the powerlessness of the Roma, on the other.

The Roma represent a separate social group (ethno – class), which has all the characteristics of a sub-proletarian stratum, which in a “vicious circle of poverty” reproduces poverty in

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<sup>130</sup> Due to the shortage of time, it was not possible to submit all the elements of this contribution, which will be done after consulting some experts (health care experts, for example) and the representatives of the Roma.

succeeding generations. Thus, the Roma are not included in work because they are not educated, and they are not educated because they are poor, i.e. they do not have adequate access to education. In order to improve their social position, which requires stable income earnings, the Roma, as well as the others, must at least complete primary education, and many of them cannot do so because they do not have the necessary means. And so they end up in a vicious circle. The results of numerous surveys indicate that the Roma, compared to the other poor groups, are *the poorest*.

## **5.2. Problems and limitations**

Just like other poor groups, the Roma have many problems. However, there are also problems that could be characterised as specific to the Roma, such as prejudices that are patent barriers especially when the exercise of rights in employment, education and health care is concerned. In addition, there is also residential segregation partly enforced and partly spontaneous, as a result of which the Roma now live in separate settlements (mahalas) characterised by a specific lifestyle. Spatial isolation makes communication with the rest of society difficult and certainly limits the possibilities of modernisation of their way of life.

As for problems that most directly generate poverty across Roma generations, these primarily arise in the spheres of *employment, education, health care and housing*.

### **Employment**

The main characteristic of the socio-economic status of the Roma is a low rate of economic activity and a high unemployment rate. This is vividly illustrated by the data from the 1991 Population Census:

- Only 27.2% of Roma are economically active,
- 58.2% of Roma are within the working-age contingent (15-64).

The level of economic activity of the Roma has not changed over the past fifty years.

Apart from the lack of socio-economic development and barriers to employment, the low rate of economic activity of the Roma is also the consequence of several demographic factors. The Roma population is particularly young, with an above-average share of the contingent of up to 15 years of age. The share of those 15 years of age and over in the overall Roma population is 58.3%. The rate of economic activity is an important indicator of the exclusion of the Roma from the economic and social mainstreams. The low economic activity of the population, a very young age structure of the Roma population, and a high share of supported population represent the key factors which maintain and deepen the differences and the socio-economic gap between the Roma and the majority population. The share of supported persons in the Roma population is 60.0%, while among the majority population it is 36.6% (Stankovic, V., 1992: 168).

The unemployment rate among the Roma is four times as high as that in the majority population and it has almost doubled in the past ten years (Stankovic, V., 1992: 167). When one looks at the activity of the population according to trades, it is evident that the Roma are mainly in those trades that are ranked lowest in the stratification scale. Over 40% of the Roma are in labour occupations, predominantly manual. The percentage of the Roma in the group of "labour in services" is also noticeable. A somewhat higher share in the group of "experts and artists" is due to the classification of musicians and other artists in this group irrespective of the level of their formal education. The Roma are, however, most represented in the occupations for which no professional skills are required: workers maintaining facilities and buildings, cleaners, porters, warehouse workers, construction workers, workers in cemeteries, etc.; as a rule, those are underpaid and stigmatised occupations. Employment of the Roma is constrained, first of all, by the low capacities of the labour they offer and by the still relatively high influx of labour into the secondary labour market. The intensive exodus of labour from agriculture into industry and the movement of women towards employment have produced a high level of competition in the secondary labour market. In addition to the other circumstances that should certainly include the prejudices and stereotypes concerning the working performance of the Roma, all this has given rise to the emergence of obstacles to their employment, and therefore, it is understandable that the unemployment rate among the Roma continues to grow (O Prokic, M., 1992: 106).

The expansion of the grey economy has contributed to the development of certain types of economic activity in which, to a somewhat larger extent, the Roma participate as well. The largest number of Roma are involved in the informal economy, which is denominated as "heterogeneous work": the sale of scarce goods in the streets, agricultural activity, and trade in convertible currencies.

## **Education**

The situation with respect to the level of education of the Roma has always been particularly unfavourable. Both compared to the overall population and to other ethnic groups in Serbia, the Roma have the lowest levels of literacy: according to the 2002 census, 62% Roma have not completed primary school, 32% have less than four grades of primary school or no education at all, 29% have completed primary school, 7.8% secondary school, while 0.3% of them have two-year post-secondary or university qualifications.

The Roma most often live in the regions and municipalities, which, in Serbia, fall among the economically underdeveloped, and their life takes place in the Turkish Quarters, separate neighbourhoods with little contact with others. Their children, from an early age, seldom have the opportunity to hear and learn any other language apart from their mother tongue; additionally, not even 10% of the children attend a pre-school institution and thus they lose the opportunity to learn the language in which teaching is carried out in schools (1991 Population Census).

Education is for the Roma a possible channel of social promotion which is, however, too long, expensive and uncertain, and requires much patience and effort. Roma children do not

have suitable conditions for learning in the environment in which they live and grow. Therefore their attainment is not satisfactory, but that is also due their experience of unkindness at school. The teaching staff are often overburdened with the curricula, and insufficiently motivated for any separate work with such children, but they are also burdened with prejudices towards the Roma and often and relatively easily they refer Roma children to special schools.

The problem of the inclusion of the Roma in the educational system is one of the most urgent, particularly in relation to their integration into society. A mere calculation of the duration of the consequences of exclusion of the Roma children from regular schooling indicates that in the forthcoming period generations will be born that will further continue the cycle of illiteracy, and thereby they will experience social handicaps which constrain their participation in modern society and social development (Mitrovic, A. "On the Bottom", 1990).

### **Roma Settlements and Housing**

The Roma usually live together in settlements –“Mahalas”- Turkish Quarters. The main characteristics of such settlements are insanitary and substandard dwellings, irregular legal status, a deprived environment and poor utilities, which is the consequence of exclusion from urban utility systems. The following data can at least to a certain extent illustrate the problem:

- According to some estimates , about two thirds of Roma live in the most difficult housing conditions and the worst living environment.<sup>131</sup>
- About 80% of Roma live in poor areas and settlements, worse in comparison to all other ethnic communities.<sup>132</sup>
- The worst and the most imperilled poor settlements – slums - are in most cases populated by Roma. They are settlements of extreme misery, with substandard and very insanitary housing, substandard or entirely lacking utilities, with completely deprived environments. In Belgrade alone, 41 slums have been registered, with a population of about 9,000, 6,500 of whom are Roma.<sup>133</sup>

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<sup>131</sup> Mitrovic, A., 1990: *On the Bottom - Roma on the verge of poverty*, Naucna Knjiga, Belgrade

<sup>132</sup> Macura, V., Petovar, K., Vujovic, S., 1997: *Poor Quarters of Belgrade - the situation and how to improve the living conditions*, IAUS, Belgrade

<sup>133</sup> Petrovic, M., 2002: *Possibilities for resolving the problem of slums*, Draft Master Plan of Belgrade, City Planning Institute, Belgrade

- It has been assessed that of about 600 Roma settlements in Serbia 35% have no water supply, about 65% have no sewerage, about 45% have no maintained streets, and about 10% have no electricity network.<sup>134</sup>
- Most Roma settlements do not have a regulated legal status, are outside urban systems and are not adequately covered by planning regulations.<sup>135</sup>

Resolving the housing problem requires not only major material resources but also the elimination of the numerous constraints on taking necessary action; these include:

- Lack of systematized urban development data on the poor regions and the Roma settlements on the level of Serbia,
- Inadequate regulatory policies for practical actions to improve the Roma settlements,
- The inherited authoritarian model for dealing with the poorest settlements, which is based on unilateral direct intervention (by introducing temporary measures which most often become permanent), without a development concept or the participation of all stakeholders,
- Lack of formal structures that would deal with this problem in a practical way, as well as a lack of trained experts who understand the concept of the integrated development of poor regions,
- Low level of awareness of the Roma community itself about opportunities to improve their own living conditions.

It is also necessary to point out that the highest concentration of the Roma is in those regions and municipalities that are most underdeveloped, in the Southeast of Serbia. The percentage of Roma in the overall population in those municipalities ranges from 2 to 12%. This certainly completes the picture of the Roma Turkish Quarters, i.e. of the living conditions in them.

### **Health Problems**

Demographic data most vividly illustrate the health status of the Roma population. The Roma are one of the youngest populations in Serbia. The most numerous age group among Roma are children up to 14 years of age (40.7%). If we bear in mind that one fifth of the Roma are 15 to 24 years of age, then the initial statement is clear. More than half of the Roma population are under 25 years of age (62%), while the elderly only make up 4.1%.

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<sup>134</sup> Laksic, B., Basic, G., 2002: *Roma settlements, living conditions and possibilities for integrating Roma in Serbia*, Centre for Ethnicity Research, OXFAM

<sup>135</sup> Petrovic, M., Macura, V., 2002: *Overview of Roma Settlements in Belgrade*, Association for the Improvement of Roma Settlements, Belgrade

Such an age structure is the consequence, first of all, of the high birth and high death rates and of the relatively low average age of the Roma. The population growth rate of the Roma is more than twice that of the overall population.

The demographic situation among the Roma is the consequence of several interrelated factors. The results and analyses of a small number of surveys indicate that the life span of the Roma is not only short, but that they are also, from birth and throughout their lives, exposed to hazardous situations, so that their quality of life is particularly low.

Their quality of life and health are affected, first of all, by their physical environment. The majority of Roma do not have even basic living conditions because they live in insanitary settlements and in inadequate housing. Because they are either unemployed or they have very low incomes, their nutrition is meagre and inadequate.

Large families are not planned because ignorance is high, and there is no family planning information. The following health problems are the most common among the Roma population:

- A considerable number of births still take place at home,
- A very large number of children have not been inoculated,
- Among the chronic diseases, TB has been more frequent as of late,
- Skin diseases are present among the children,
- Asthma is present both among adults and children.

### **5.3. Goals**

#### **Qualitative:**

In the context of the general measures specified in the Draft of the Strategy for Integration and of providing new empowerment to the Roma, the priority goals related to the reduction of Roma poverty should be targeted at:

- Elimination of all forms of discrimination to which the Roma are exposed,
- Regulation of relationships related to the system of employment (and self-employment),
- Providing access to educational institutions at all levels,
- Regulation of housing problems,
- Solving the problems of primary health care,

- Application of principles of affirmative action in all of the above areas.

### **Quantitative:**

In view of the limited resources (material and others), and on the basis of positive experiences in neighbouring countries, it is reasonable to target certain goals, first of all those related to education, towards those regions or municipalities in which the concentration of the Roma population is the highest. Those are the municipalities in the Southeast of Serbia in which certain programmes have been initiated, whose results could be encouraging and could serve as a “model” for solving the complex problems of Roma poverty (Niš, Leskovac, Pirot, Bela Palanka, Vlasotince, Prokuplje, Žitorađa, Bojnik, Lebane, Vladičin Han and Surdulica).

### **5.4. Strategic Options, Measures, and Activities**

The National Council of the Roma National Minority was selected on 24 May and established in July 2003. According to the Law on Protection of Rights and Freedoms of National Minorities, it represents the Roma minority in the areas of information, education, culture and official use of language. Regarding the implementation of the PRSP, certain competences, as well as financial resources required for performing of some activities, may be transferred to this Council.

Strategic directions of the PRSP related to alleviation of poverty among Roma should be carried out through the following measures and activities:

#### **Employment**

Since employment is closely related to education, actions whose aim is to increase the level of employment of the Roma should be planned and undertaken in a synchronized way. But since the educational process is long, certain measures should be undertaken immediately. This includes, first of all, acquiring relevant data on the market for the products the Roma traditionally produce, and then establishing small workshops in those areas where the Roma can engage in such handicrafts.

One of the measures that require relatively few resources is training in some of the skills that do not require high qualifications.

#### **Education**

Some particularly important measures for Roma that should be undertaken urgently, since the reform of the schooling system has started, are to:

- enrol children in pre-school institutions
- introduce compensatory programmes in primary schools

- train teachers to work with Roma children
- prepare tests for enrolment of children in the first grade
- analyse causes and consequences of enrolment and attendance of special schools by a large number of Roma children
- direct older Roma children who have dropped out of school to take craft and vocational courses
- provide scholarships for students, especially for future pre-school and primary school teachers
- teach adults, especially women, to read and write (literacy courses)
- provide a daily snack and free transport for poor children.

These measures should be coordinated with the Strategy on Education of Roma.

### **Roma Settlements and Housing**

In the area of housing the priority tasks are as follows:

- Resolving the legal status of sustainable autochthonous Roma settlements by the implementation of an adequate legal framework;
- Creation of statutory grounds, layout plans and relevant regulatory rules for the inclusion of the Roma settlements within urban systems and their further development;
- Assisting the most vulnerable part of the Roma population, especially in South Serbia, through support and co-ordination of the existing as well as development of new models for improving Roma settlements, based on real resources, needs and possibilities of the community, participation, partnership, co-operation and integrated development;
- Providing utilities and infrastructure in Roma settlements - electricity, water supply, sewerage systems, streets, waste disposal;
- Increasing the participation of all stakeholders in the process;
- Resettlement of and help to the most vulnerable urban slums, which are mostly populated by Roma and other vulnerable groups.

Measures and actions aimed at the attainment of priority tasks include:

- Undertaking an urban-architectural study and assessing the existing situation of poor areas and settlements in Serbia;
- Undertaking a study on the resources for the improvement of poor settlements and areas;
- Working out the Recommendations for Work on the Development of Poor Settlements that will ensure their sustainable development, with full respect for the specific characteristics and lifestyle of the Roma population, in keeping with domestic<sup>136</sup> and international<sup>137</sup> documents and standards;
- Providing targeted policies through the implementation of pilot projects, architectural open competitions, campaigns, etc. that may be implemented as a form of aid to the most vulnerable population and poorest municipalities, especially in South Serbia, where the concentration of Roma is highest;
- Drafting new and revising old Roma urban plans, that will ensure their formal integration in town and infrastructure systems, integrated improvement and further development, while respecting their specific characteristics and lifestyle;
- Improving the quality of life in Roma settlements through the development of public facilities, landscaping and social standard buildings, with a view to supporting social and economic development;
- Educating local authorities and all relevant services to better understand the problems and training professionals to work on the improvement of Roma settlements;
- Educating the Roma population on the opportunities for improving their own standard of living and housing conditions, and encouraging the participation of the local community through practical activities in the settlements;
- Resettling the most vulnerable unsustainable settlements, building new ones and introducing programmes of socio-economic support for their inhabitants. This particularly applies to unsustainable urban slums - the most vulnerable settlements located in central areas of big cities, mainly Belgrade. The decision to resettle or keep any individual settlement is a sensitive and costly undertaking, with a number of complex aspects, and thus has to result from a detailed and professional analysis. If such a decision is necessary, it must be implemented in accordance with particular rules and standards, with the involvement of all parties concerned;

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<sup>136</sup> Draft National Strategy for Roma Integration, 2002, Ministry for National and Ethnic Communities

<sup>137</sup> Memorandum on Problems Facing Roma/Gypsies in the Field of Housing, MG-S-ROM (2000)3, Council of Europe

- Operationalisation - formation of an agency or another service, to develop the basis and framework for resolving the problems of poor settlements, with a task force for Roma settlements which account for a vast majority of these areas. The Agency should gather experts and train professional staff to work on these complex problems. The Agency should have experts of various profiles (urban planners, architects, economists, sociologists, lawyers), as well as Roma representatives, because its work has to be multidisciplinary and integrated and must provide solutions to real problems and needs of the local Roma communities. The Agency's tasks would be the following:
  - Developing the basis and framework for resolving the problems of poor settlements;
  - Raising funds from domestic sources for the improvement of poor areas (from the respective ministries, services, business sector and local resources);
  - Raising external funds for the resolution of housing problems in Roma settlements (from UN Habitat, the World Bank, the European Commission, Stability Pact for South Eastern Europe, etc.);
  - Co-ordinating the activities of various players in this field;
  - Creating, initiating and implementing specific programmes - models for the improvement of Roma settlements with visible results.

## **6. Gender Aspects of Poverty**

### **6.1. Current Status**

Poverty among women should be understood, first of all, as a problem of the social discrimination of women which takes place through ignorance of the actual, real, working contribution of women and non-payment or underpayment of their work, as well as the constantly lower esteem accorded to 'women's' occupations, aggravated professional promotion, or as of late the 'flexibilization' of work which often marginalizes women in a new way. Women's work is either not recognised, or not paid for, or insufficiently paid for. In that respect poverty among women is equally determined by factors that affect the scope of poverty in the population as a whole, as well as by those factors that are related particularly to women. Hence the strategy against poverty of women also necessarily includes the entirety of the Poverty Reduction Strategy, but also specific, additional measures related to women, so as to avoid increased inequality and to ensure its reduction. It is important to stress that there is no automatic link whatsoever between the reduction of poverty and of gender inequalities: poverty can be reduced but gender inequalities can increase and, vice versa, poverty can grow, and gender inequalities can be reduced.

On the basis of the Survey of the Living Standard of the Population (SLSP) and other surveys, the indicators of the unfavourable economic status of women are:

- Over 40% of women over 15 years of age do not have any regular personal income (as opposed to less than 30% of men in the same age group);
- The unemployment rate (self-declared) is higher (26%) among women as compared to that among men (20%);
- On average, women's wages are 15% lower than men's;
- More demanding requirements for the employment of women;
- Longer time spent waiting for employment by women;
- Open and hidden discrimination in workplace promotion (the higher the level, the smaller number of women);
- Higher probability that women will be exposed to poverty as single parents because, after divorce, they either predominantly or entirely support their children, and also due to births outside marriage;
- Higher probability of poverty in old age as a consequence of a smaller relative number of retired women and lower pensions (due to higher unemployment and inequality in wages);
- Lower qualifications and levels of education, particularly among the older age categories of the population;

- Inequality in ownership of property (only 17% of women possess apartments, as compared to 31% of men);
- Inequality in inheritance as a result of common law practices;
- The proportion of female employers (owners/co-owners of enterprises or shops) is only 30%;
- Low participation of women in ownership transformation;
- Women much more often fall into the category of employees than the category of employers, compared to men (at least twice less);
- A particularly high share of women in the category of 'helping household members' (up to three quarters);
- A particularly high difference in unpaid housework between men and women (about 4-5 hours difference per day);
- The spread of the 'sex industry' which results in intensification of the negative stereotypes about women in general and 'legitimises' their sexual exploitation.

Economic status is closely linked to political power, and the unfavourable status of women in institutions is a good reflection of that. Women are particularly under-represented in political institutions: in the Parliament (11.2%), in the Government, at local levels of government, in political parties, and in trade unions.

Poverty among women is very much related to their family and marital status. So, for example, it is more severe when they are single parents. It is also worth mentioning that household consumption, as a unit of measure, in no way means that women in families, either as parents or children, obtain an equal share and have their needs satisfied in the same way as the male members of the household.

The vicious circle of poverty is also often reinforced by violence against women, both within families and outside them. There is quite a clear relationship between economic independence and opportunities for dealing with the issue of violence in families. But violence can also be the grim side of economic dependence. The prevalence of violence in families, which reaches dramatic levels in Serbia, also has its economic price (it is neither socially nor economically rational to undertake anything because, in any further cycle, in the circle of violence, the costs will grow, and the social price will become unbearably high, including the consequences to the younger generations). Finally, trafficking of women and poverty are also directly related, but, for the time being, this is manifested rather as a relationship between the economic situation of a state and the probability that women will be the object of trafficking, than as a clear relationship at a group or individual level.

### **6.1.1. Legal status**

Although the legislative framework contains presuppositions on gender equality in different fields, the practice largely deviates from the formal regulations. As a country signatory to the Convention on Abolishing All Forms of Discrimination against Women, and the optional Convention Protocol, this country is obliged not only to harmonize its regulations with the rules set out by the Convention, but also to secure their active implementation. These guarantees are currently contained in the highest legal acts and relevant laws.

The current situation results from the inefficient implementation of rules that guarantee gender equality. A particularly aggravating factor is the traditional view on women's status and role in society.

In order to secure actual gender equality it is necessary to undertake adequate measures aimed at raising public awareness of the importance of women's rights (as an integral aspect of human rights), strengthening the capacities of immediate beneficiaries of these rights, and also empowering and informing the representatives of institutions in charge of the protection of human rights.

### **6.2. Problems and Constraints**

The **particular constraints** in establishing the economic equality of women can be identified as:

- Low level of general knowledge on gender inequality;
- Lack of gender sensitive statistics that would include the time-budget;
- The burden of childcare is predominantly in the private sphere and predominantly on women (also, care for the elderly);
- Insufficient representation of women in the political decision-making bodies and insufficient sensitisation or readiness of women in politics to protect the interests of women;
- Continued gender segregation in education and as a result by occupation ;
- Non-integrated knowledge on gender inequalities in the regular education system;
- Accelerated deterioration of female human resources, of health first of all, due to an economy of 'survival' and inadequate health protection;
- Lower participation of women in ownership, which is aggravated by the transformation of ownership;

- Administrative obstacles for establishing cooperatives and encouraging the entrepreneurship of women;
- Non-existence of institutional mechanisms that would ensure that women are paid equally for a job of the same value, that they are equally promoted under the same criteria, and are not exposed to discrimination at work, including sexual blackmail and harassment.

The greatest poverty risks exist with the following categories of women; individuals can be in more than one category, resulting in greater levels of marginalisation:

- Single mothers (particularly of small children with special needs);
- Housewives;
- Elderly women;
- Diseased and women with disabilities (persons with special needs);
- Some rural women (the elderly and without property);
- Refugees;
- Women who are “helping members” of family firms ;
- Roma women;
- Uneducated women;
- Unemployed women;
- Women who are the victims of violence.

From the experience of countries in transition, two categories are the most vulnerable: elderly rural women and single mothers. At the same time, they also represent two completely different challenges to programmes of assistance . Additional surveys should be conducted in Serbia on this issue.

### **6.3. Goals**

In respect of gender equality, the Poverty Reduction Strategy involves, first of all, the reduction of the scope of poverty and the elimination of specific barriers that produce women's poverty. In that sense, it is important to completely clarify the relationship between unpaid housework and competitiveness of women in the labour market. The goal of the strategy targeted on women should be to establish a clear functional distinction between those who need income support and those who, apart from income support, need specific measures of assistance to help them realise their potential and which would empower them to break out of the circle of poverty.

### Qualitative Goals:

- Reduction of gender inequalities;
- Economic and political empowerment of women at all levels, in all areas, simultaneously;
- Incorporation of these goals in all development programmes, including the PRSP;
- Greater concrete responsibilities of all the social stakeholders in achieving this goal in addition to monitoring;
- Raising gender awareness in all social and state institutions;
- Incorporating gender aspects into the budget, i.e. establishing transparent and gender-sensitive indicators on the effects of financing certain areas;
- Establishing gender-sensitive statistics in all fields;
- Better dissemination of information about the problems and possibilities of achieving gender equality.

In view of the fact that poverty among women cannot be reduced to the overall problem of poverty, it is necessary to incorporate specific elements into the process of implementing the strategy, by including relevant measures, such as:

- Measures against the discrimination of women (in employment and work and desegregation of education);
- Assessment of the overall working contribution of the female population, including both paid and unpaid work, as well as formal and informal work, i.e. productive work and work related to children and the family;
- Assessment of the quality of human resources of the female population (level of education, knowledge, skills, and technological/engineering literacy, business ambitions);
- Analysis and monitoring of changes in legislation and their effects on gender inequality;
- Stimulation of women's cooperatives and women's entrepreneurship.

### **6.4. Strategic Options**

There are two dominant, complementary approaches in dealing with poverty among women. The first is focused on the problem of discrimination against women and on poverty among women as a consequence of various cumulative discriminatory processes, past and present. Discrimination is a cause of poverty, but it is also a frequent consequence of poverty, the

problem of exercising human rights, i.e. women's human rights, and is a specific form of social exclusion, which is in the most direct relationship with other forms of exclusion (educational, economic, political). Such an approach insists on the moral justification for working towards the economic equality of women.

The second approach is more pragmatic and explicitly establishes a relationship between development and female human resources. Economic discrimination against women, as well as any other form of discrimination, is counterproductive in terms of the use of their human resources, in particular at a time when the economy relies on human resources and knowledge as the key resource. Women in the countries in transition, and even in Serbia, have very good educational qualifications, but more so in terms of quantity than quality, because a severe segregation by educational profiles has been retained.

The relationship between poverty among women and development is not totally straightforward and linear. Thus, it is not possible to affirm that intensified development will necessarily lead to more proportionate inclusion of women in 'profit sharing', or that pauperisation of women will not favour one specific type of 'development', which is actually taking place in the process of 'transition'. Public services in which women are most often employed and which are also particularly important for the quality of life of women can be most affected particularly in transition. Therefore, political pressure will decide how much a part and which part of the population will gain, i.e. how high a price will be paid by which part of the population.

However, it is possible to establish a relationship between development and female human resources, whereby both the strategy of development and the improvement in the position of women will go in the same direction. The idea of sustainable development needs to take into account the specific accumulated discrimination that has produced and reinforces the unfavourable position of women, and at the same time needs to set free female economic potential for future development. It is particularly important that there will be no sustainable demographic growth, i.e. simple replacement of the population, if women cannot achieve economic security and conditions for raising children that correspond to the expectations of civilised society. The low birth-rate in Serbia is predominantly the consequence of the heavy responsibility of parenthood, in particular mothers towards their children, which requires adequate conditions (Blagojevic, 1997).

In order to better tackle the issue of poverty among women, it should be differentiated. Women's poverty originates from different sources and that is why specific measures should be formulated for each vulnerable group.

## **7. Poverty and Human Rights**

### **7.1. The Current Status**

During the last two and a half years, Serbia has achieved significant results in improving human rights. Progress in the areas of institutional reform and legislation on human rights, the protection of minorities, freedom of the media and the introduction of reforms of the justice system and the police has been particularly significant.

The commitment and determination exist to establish the necessary conditions for further progress towards democracy, multi-party society, the rule of law, a market economy, and the observance of human rights and the rights of minorities.

As a result of progress made in human rights, and their current overall state in Serbia, at the end of 2002 the Third Committee of the UN GA decided they were no longer a cause for concern, and there has been a similar decision at the 59<sup>th</sup> Session of the Commission for Human Rights. The removal of Serbia from the mandate of the Special Representative Mr. J. Cutillero represents an expression of support for plans to work intensively in future for the improvement of human rights, and to create conditions for the full implementation of internationally accepted obligations in this area.

In addition to national measures, further improvement of human rights in Serbia will be achieved by means of technical assistance projects and programmes to be secured by the Office of the UN High Commissioner for Human Rights. In this context, the Memorandum of Understanding on Technical Co-operation with the UN High Commissioner for Human Rights has been signed. One of the projects to be implemented in the next year is the implementation of economic, social and cultural rights with a particular emphasis on poverty reduction.

Serbia has demonstrated its commitment to further improve human rights by signing and ratifying a majority of the international conventions in this area.

On the basis of the successor's statement of 12 March 2001, Serbia's membership in all the major conventions on human rights has been resumed. These conventions are the so-called core conventions, including the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the International Convention on Elimination of all Forms of Racism and Racial Discrimination, the International Convention on the Elimination of all Forms of Discrimination against Women, the Convention on the Rights of the Child, and the Convention against Torture. The only one of the so-called core conventions which has not yet been ratified is the Convention on the Protection of Migrant Workers and their Families.

In the past two and a half years, both Optional Protocols to the International Pact on Civil and Political Rights (relating to consideration of individual appeals and the abolition of the death penalty) have been ratified. A Statement was issued recognising the competence of the

Committee on the Elimination of Racial Discrimination (CERD) to consider individual claims pursuant to Article 14 of the Convention on the Elimination of Racial Discrimination. Moreover, the Draft Law on the Ratification of the Optional Protocol to the International Convention on the Elimination of Discrimination against Women has been drawn up and it provides for the possibility of resolving individual claims. The two Optional Protocols to the Convention on the Rights of the Child have been ratified and they ban the abuse of children in wars, as well as child prostitution and pornography. Since the Optional Protocol to the Convention against Torture was adopted in December 2002, the process required for its signature, namely accession to the Protocol, should commence soon. Membership of the Council of Europe commits Serbia to ratifying the European Convention on Human Rights and the accompanying Protocols, as well as all other human rights instruments, including the European Convention on Abolition of Torture and Humiliating Treatments and Punishments, the European Charter on Languages of Regional or Minority Groups, the European Charter on Local Self-Government, the European Social Charter, etc. This process will be neither simple nor easy, because it involves harmonisation of domestic legislation with European standards. Deadlines for fulfilling these obligations (on average one to three years from the day of accession to the Council of Europe) represent an additional stimulus for the acceleration of legislative reform in the field of human rights.

Great improvement has undoubtedly been achieved in terms of government commitment to the respect and advancement of human rights. However, there is still a lot more to be done in order that the human rights guaranteed by these conventions (of which Serbia is a signatory), become a reality and are implemented in practice. Most assessments concern a lack of information, such that the rights that are guaranteed by the conventions are not implemented. This requires the whole society to implement measures towards further the strengthening of norms and the legal framework (legislative reform), which becomes particularly important after admission to the Council of Europe. Entry to the CoE and the ratification of the European Convention on the Protection of Human Rights and Freedoms means that Serbian citizens will be able to enjoy the system of protection of human rights that is guaranteed by the Convention. This at the same time means that they will be able to seek legal remedy for violations of human rights before the European Court for human rights.

Apart from the obligations arising from the Conventions, as a UN member Serbia has a political obligation to implement Action programmes and Declarations adopted at numerous UN conferences.

The lack of adequate national capacities necessary for the protection and strengthening of human rights is to be dealt with by passing the Law on the Ombudsman in the Serbian Parliament as soon as possible, as well as by establishing that institution (the Law has gone through the procedure of the Government of the Republic of Serbia), since the ombudsman will be responsible for dealing with the problems of marginalized groups and the victims of human rights violations.

The National Action Plan on human rights has not yet been drawn up, although it is a requirement under the Vienna Declaration on Human Rights adopted in 1993. Such an

action plan would be of the great significance for the overall development of society, particularly with regard to the poverty reduction strategy. In the plan special care is to be taken in creating a culture of human rights and education on human rights. Ignorance of obligations under the Conventions demonstrates the need for education at all levels including for members of Parliament and those employed in the judiciary, police, media, and pupils and students. Furthermore, a national strategy for education on human rights, which is an obligation under the UN Action Plan for the Decade of the Education on Human Rights, 1995-2004, is not yet in place. The national strategy should be comprehensive (in terms of its range and objectives), participatory (including all relevant stakeholders – both governmental and non-governmental), and efficient (in terms of education methods, including seminars, the integration of human rights into the curricula of primary and secondary school, and of the graduate schools). Educational reforms that have already been initiated are taking this into account.

In addition to the obligations under the Conventions on human rights, Serbia as a member of the UN has a political obligation to implement the Action Programmes and Declarations adopted at numerous UN Conferences and the special sessions of the UN GA. These include decisions made by the World Social Summit, the World Conference on Sustainable Development, the Fourth UN Conference on the Advancement of Women, the Special Session of the UN GA on children, the UN Congress on the Elderly, and the Special Session of the UN GA on AIDS. In the documents of all these conferences, the member states were requested to develop their national action plans with precise goals and short-term and long-term deadlines for their implementation and to report on them to the UN annually or every four years. In Serbia, these action programmes have not yet been drafted. Work on the Action Plan for Children is under way.

## **7.2. Poverty and the Framework of the Applicable Human Rights**

Poverty has multi-dimensional effects on the ability to exercise human rights. It jeopardizes all aspects of human existence, whether they are political, economic, social or cultural. A negative impact in one area of human rights, for example economic rights, has a domino effect on all other human rights. This reinforces the principle outlined in the Vienna Declaration on Human Rights that all human rights are universal, interdependent and integral. The integrity of human rights is particularly expressed in the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Rights of the Child and the Convention on the Elimination of Discrimination against Women. The implementation of obligations based on these conventions, involving the further promotion and protection of human rights, together with democratisation and the rule of law, are key elements of the development process and thus also of poverty eradication.

The negative impact of poverty, especially on vulnerable groups, is regarded as a violation of a wide range of human rights guaranteed by the four above-mentioned conventions. This particularly holds true for enjoyment of basic aspects of the rights to life, freedom from inhumane and degrading treatment (which includes rights to adequate nutrition,

accommodation and clothing), the right to a high standard of physical and mental health, the right to work, and also a whole range of rights pertaining to labour relations, freedom of association and assembly, the right to collective contract, and so forth..

The Committee for Economic, Social and Cultural Rights has in its general comments on the nature of the obligation taken a stand that states that signatories have concrete legal obligations arising from Article 2. They are therefore obliged to provide minimum standards related to all rights from the Agreement, using all available means in an efficient manner. The guidelines from the Maastricht Treaty of 1997 on the violation of economic, social and cultural rights represent further elaboration of states' obligations to observe, protect and realize rights. Core obligations in this area are set out in the guidelines and they must be fulfilled regardless of any obstacles.

The relationship between poverty and human rights has not always been unidirectional (with poverty resulting in deprivation of human rights). In fact, poverty has often arisen from the failure of mechanisms to ensure the realization of human rights. There are numerous examples of individuals finding themselves in poverty because they have not been able to exercise their rights in respect of state bodies and institutions (especially rights relating to employment, the peaceful disposal of property, health care and social protection, freedom from discrimination etc.). It is therefore necessary to deal simultaneously with poverty and human rights in order to take account of the way they interact.

### **7.3. Poverty – the Approach Based on Human Rights**

During the last two years, the UN system has been dealing intensively with issues relating to poverty and development through an approach based on human rights. That approach is clearly expressed in the programme of reforms of the UN Secretary-General within the UN Strategy for the Reduction of Extreme Poverty by Half by 2015. Human rights are recognised as the key strategic and essential component, while Conventions and Declarations on human rights (particularly the Declaration on the Right to Development) provide a framework of reference for resolving problems of poverty and development, for the progressive implementation of human rights, and for making the poor aware of their rights.

While poverty primarily emphasizes multi-sectoral issues, for which it is not easy to find simple solutions, the application of the normative frameworks contained in the international conventions on human rights to poverty helps to ensure the inclusion of basic elements of strategies against poverty, such as:

**Universality and inalienability of human rights** – this includes the responsibility and obligation of all social actors to undertake adequate measures to guarantee and protect human rights. The principle of universality means that every person possesses these rights based on the fact that he/she was born as a human being. Inalienability directly means that the state cannot deprive an individual of these rights, and indirectly, that human rights are not proscribed, but guaranteed by the highest acts of the state.

**Interdependence and the integrity of human rights** – the starting point of every poverty reduction strategy is the interdependence of civil, political, economic, social and cultural rights. Thus the purpose of a strategy is to develop a framework be based on internationally guaranteed rights, covering all sectors including health, education, housing, administration of justice, personal safety, political participation and others.

**Accountability** –this relates to the obligations of all relevant stakeholders, including individuals, government agencies, local governments and organizations, private companies, civil society, donors and international institutions. Such an approach also involves the development of appropriate laws, policies, institutions, administrative procedures and practices, as well as mechanisms for dealing responsibly with violations of human rights (courts, administrative panels, special commissions, ombudsman). This requires the transformation of universal standards into locally adopted benchmarks for evaluating the development and strengthening of accountability.

**Training** – priority should be given to training strategies instead of charity actions and exclusive reliance on humanitarian aid. This will give the poor an opportunity to develop their own capacities and potentials in order to change their lives and the life of their community. The poor should be seen as capable of making an active contribution to poverty reduction as part of the overall development of society, and not just as passive recipients.

**Participation** – the human-rights-based approach requires a significant level of participation, including by local communities, civil society, minorities, and vulnerable categories (such as women, children, persons with disabilities, and others). Moreover, it implies the implementation of projects in such a manner that they are closely involve both the partners and the beneficiaries.

**Right to freedom from discrimination and vulnerable groups** –particular attention needs to be paid to issues of discrimination, equality and justice in respect of the vulnerable categories of people (women, children, refugees, IDPs, persons with disabilities, the elderly, and others). It is also necessary to disaggregate the data concerning the vulnerable categories. National priorities include the Law on Freedom from discrimination, the Law on Gender Equality, and the Law on Refugees, in order fully to observe the provisions of the Convention on Refugees of 1951.

#### **7.4. Poverty and its Impact on Human Rights**

For many years, issues relating to poverty and the poverty reduction strategy have been prominent in the UN system. The authorities dealing with human rights, particularly the Committee on Human Rights and the treaty bodies established following the conventions on human rights, have taken the initiative on this. In the struggle against poverty, the emphasis is on good governance, the functioning of the legal and justice system, initiatives in

education and health care, the reduction of debts and, of particular relevance to Serbia, the fight against crime and corruption.

In the preparation of the poverty reduction strategy, the approach based on human rights must take into account the fact that poverty deeply affects a series of human rights. The list of human rights being violated under conditions of poverty is not final, and the experts dealing with this issue are extending the scope of rights in relation to poverty.

Of particular relevance in the preparation of the poverty reduction strategy are the rights guaranteed by the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Rights of the Child, the Convention on the Elimination of Discrimination against Women, numerous Conventions of the International Labour Organization (ILO), and the strategies adopted by the World Health Organization (WHO). Since the Poverty Reduction Strategy represents a long-term process, accession to the European Social Charter needs to include harmonization of anticipated measures with the obligations that arise from it.

Poverty affects the implementation of the following human rights:

**The Right to an Adequate Standard of Living** – guaranteed under Article 11 of the International Covenant on Economic, Social and Cultural Rights. In General Commentary No. 3, the starting point of the Committee on Economic Social and Cultural Rights has been the obligation of the signatory states to secure basic rights, primarily in providing food, health care, accommodation and education.

**The Right to Adequate Accommodation** - This right is of crucial importance for the realisation of other human rights. It is guaranteed by Article 11 of the International Covenant on Economic, Social and Cultural Rights. It is also included in Article 27 of the Convention on the Rights of the Child, and the Committee has declared it an essential component of the right to a standard of living necessary for a child's development. This right is also directly linked to the right to freedom from discrimination, the right to life and the right to participation. Insecure accommodation for the poor arises from legal or arbitrary evictions or their inability to pay even minimum rents regularly.

**The Right to Education** – this is guaranteed in Articles 13 and 14 of the International Covenant on Economic, Social and Cultural Rights, and the Convention on the Rights of the Child. The World Declaration on Education adopted by UNESCO commits the signatories to preparing national action plans, in which Serbia is behind schedule.

**The Right to Work** – Articles 6, 7, 8 and 9 of the International Pact on the Economic, Social and Cultural Rights stipulate everyone's right to work under fair and favourable conditions. This right is guaranteed by numerous Conventions adopted by the ILO, of which Serbia is a member (please refer to the Attachment).

**The Right to Health** – stipulated in Article 12 of the International Covenant on Economic, Social and Cultural Rights. There is still no national strategy on health, which was an obligation under the WHO Global Strategy. The right to health is an inclusive right, which in addition to health care and protection includes provision of drinking water, sanitation, safe and healthy food, healthy working and environmental conditions, access to information, sexual and reproductive health care, etc. Health care reform is necessary to enable the provision of comprehensive, continuous and accessible health services, as well as the development of the health improvement concept directed at those factors which have the greatest impact on health. The principles of equality, justice and solidarity in health care need to be taken into account with the aim of decreasing the differences between urban and rural areas, various social and economic groups, and diverse vulnerable categories.

**The Right to the Protection of the Family** – stipulated in Article 23 of the International Covenant on Civil and Political Rights, as well as in related articles of the Convention on the Rights of the Child. It needs to be borne in mind the assistance of the social services is often considered as an obstacle to taking on of responsibility by the family, though one should not disregard the cases where inefficiency of these services prevents the realization of rights.

**The Right to Privacy** – stipulated in Article 17 of the International Covenant on Civil and Political Rights. In this case, the actions of the social services are also considered as those, which jeopardize privacy and it is, therefore, important to determine legislative, ethical and professional standards. It is also necessary to provide efficient implementation of the guaranteed principle of protection of personal data from potential abuses by government bodies and public institutions.

**The Right to Recognition of a Personality in Court and the Right to Registration** – Difficulties relating to the exercising of this right are particularly associated with the Roma population, as well as IDPs and refugees because of problems of documentation, though the procedures for obtaining citizenship have been made somewhat easier by the latest changes in the Law on Citizenship.

**The Right to Life and Physical Integrity** – this is guaranteed under Article 3 of the Universal Declaration on Human Rights and Article 6 of the International Covenant on Civil and Political Rights. The interpretation of this right cannot be restrictive, and its exercise requires the State to adopt positive measures, such as steps for reduction in general mortality, reduction in child mortality, increasing life expectancy, elimination of malnutrition, and so on. There has been progress in the realization of civic and political rights through the ratification of some international instruments (Second Optional PGP Protocol, Convention Against Torture and Other Humiliating Treatments and Punishments, Convention Against Transnational Organized Crime and the accompanying Protocol, etc); the death penalty has been abolished, measures against human trafficking and organized crime were introduced into domestic legislation, and there has been an increasing emphasis on the ban on unauthorized use of force in the work of government bodies.

**The Right to a Fair Trial** – key principles related to the judiciary were introduced by ratification of the Pact on Civic and Political Rights. The prerequisite for the realization of these rights is, primarily, an independent and impartial judiciary (see the chapter on judiciary reform). Among the principles mentioned, special significance is attached to those related to the equal treatment of parties before the court (and before other government bodies on whose decisions depend the realization of rights), the right to use one’s own language, the prohibition of the retroactive application of laws, the right to an efficient legal cure, the right to compensation (not only material, but also moral), the presumption of innocence (in criminal proceedings), etc. From the time of ratification of the European Convention on Human Rights, citizens have an additional guarantee for the protection of their human rights – namely, they will be able to start proceedings before this body if deprived of the protection by local courts.

**The Right to Participate in Political, Social and Cultural Life** – This is quite a broad area, and it includes the interaction and interdependence of numerous rights as listed above and guaranteed by the four Conventions listed. Illiteracy, lack of education, lack of personal documents, and even social discrimination, are the main obstacles to the responsible exercising of political rights. The situation is most aggravated in the field of electoral rights, since certain categories of population are deprived of the right to vote and to be candidates in elections. During the World Decade for Cultural Development, UNESCO advocates the renewal of the right to culture for the poor, through the cultural dimension of anti-poverty and developmental efforts.

## **7.5. Exercising of Human Rights in the Area of Employment and Work**

### **7.5.1. Strategic Options, Measures and Activities**

In order to eliminate factors that are an additional cause of poverty, *the ILO’s Conventions and Recommendations are to be adopted as soon as possible*, particularly those directly referring to unemployment, protection for those made redundant, employees’ earnings, working conditions and development of human resources, i.e. education of employees, and those with regard to conducting the social dialogue.

*The implementation of international labour standards* (Conventions and Recommendations provided by the International Labour Organization (ILO) in Serbia has only been carried out to a modest degree so far. Out of 184 Conventions in total, 67 have so far been ratified, and it is necessary to ratify other important Conventions as soon as possible.

### **7.5.2. Changes in the Institutional and Legislative Spheres**

International labour standards as determined by ILO documents should be fully regulated by labour legislation and other laws that regulate appropriate areas, and which are currently being prepared (*Law on Employment, Law on Employment of Persons With Disabilities, Law on the Guarantee Fund, Law on Private Entrepreneurs, Law on Safety and Health Protection at Work, Law on Amicable Resolution of Collective and Individual Disputes, Law*

*on Trade Union, Law on Strikes*). Furthermore, these laws, other regulations, and the collective agreements need to be harmonized with the current rules of the European Union.

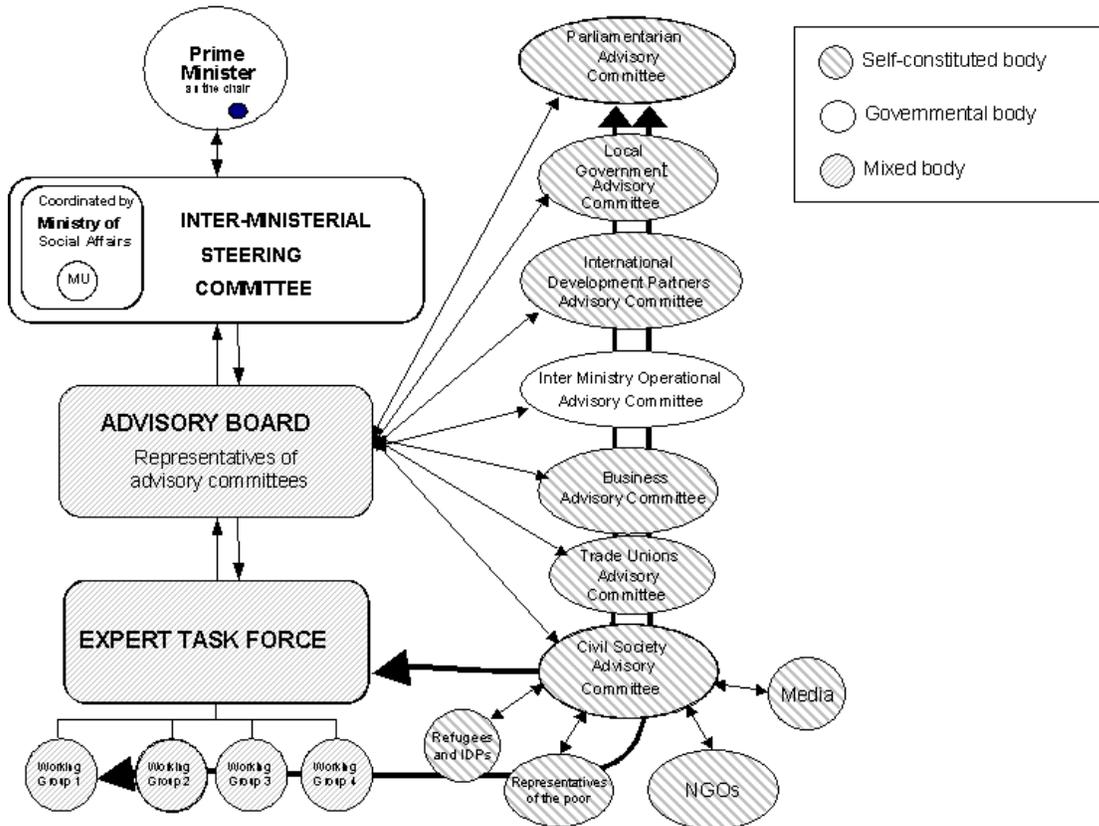


ANNEX 2

**Consultative process of the poverty reduction strategy preparation**

As already outlined in the Interim PRSP, one of the key preconditions for the efficient formulation and implementation of the consultative-participatory process in preparing the PRSP is a clear organizational structure for the process. At the same time, to ensure the active involvement of all interested stakeholders in the process of consultation and preparation of the PRSP, the PRSP formulation was designed and implemented to be open and flexible.

**I Institutional Set-Up and Organizational Structure**



The institutional and organizational structure for strategy formulation was as follows.

**1. The PRSP Steering Committee (SC)** coordinated by the Ministry of Social Affairs and chaired by the Prime Minister, was responsible for policy guidance and strategic decision-making regarding the full PRSP. The Committee was formed at the Government’s session held on September 13, 2002. The Inter-ministerial Committee is comprised of the ministers from the Ministries of Social Affairs, Labour and Employment, Education and Sports, Health, Economy and Privatisation, International Economic Relations, Trade, Tourism and Services, and Finance and Economy. In addition, other ministries, e.g. the Ministry of Public

Administration and Local Government, Ministry of Agriculture, etc., will be also involved when required.

**2. PRSP Management Unit** – is a Unit set up specially within the Ministry of Social Affairs, in charge of organizational support for PRSP preparation. Apart from the Head of Unit the MU consists of the following staff: Strategic Communication Expert, Coordinator in the PM’s office, nine experts for Sectors / Consultative process, Communication and PR Expert, Translator and Office Administrator as well as the International Advisor.

**3. Advisory Board (AB)** – was formed on 19 June 2003. It consists of representatives from Advisory Committees, Expert Task Force and Government. Its main task is to disseminate information, coordinate and consolidate comments provided by the different Advisory Committees and to present recommendations and conclusions to the Steering Committee concerning the full PRSP. At the start of PRSP preparation, it was planned that the AB should meet regularly throughout the PRSP process, but due to delays in constitution of Advisory Committees (ACs) and time limitations, the AB was not constituted until the end of the formulation process. Therefore, members of the AB feel that their main activity is not limited to commenting on PRSP drafts, but will also include active participation in strategy monitoring and implementation.

#### **4. Advisory Committees (AC)**

In connection with the PRSP process, seven representative Advisory Committees have been established:

- ***Poverty Reduction Committee of the National Assembly of the Republic of Serbia*** – on 22 October, a group of 15 MPs submitted the “Proposal for the Decision on Changes and Amendments of the Rules of Procedure of the National Assembly of the Republic of Serbia”, requesting that it be put on the agenda. The National Assembly of the Republic of Serbia reached a decision on the establishment of the Poverty Reduction Committee at the Eighth sitting of the First Regular Session, held on 30 May 2003. The Poverty Reduction Strategy Management Unit held several meetings with MPs, to inform them on the progress of the PRSP preparation, while MPs in turn regularly attended all consultative meetings.
- ***The Local Government Advisory Committee*** – after a series of meetings with the representatives of the Standing Conference of Towns and Municipalities of Yugoslavia (SKGOJ), it was concluded that this national association of the representatives of local authorities represents a good basis for the PRSP consultation process. The SKGOJ Committee for Social Affairs, which was formally established as the Local Government Advisory Committee within the PRSP process on 25 February 2003, is in charge of coordinating the process at the local level. The Local Government Advisory Committee is comprised of the representatives of the following municipalities / towns: Bor, Bujanovac, Zemun, Zrenjanin, Kragujevac, Kraljevo, Priboj, Ruma, Užice and Šabac.

- ***The Civil Society Advisory Committee*** was established on 5 December 2002 and consists of representatives of 11 local non-governmental organizations. The establishment and work of this AC was significantly supported by the United Nations Development Program (UNDP) and Catholic Relief Services (CRS). In the PRSP process, the representatives of the Civil Society Advisory Committee see their role as: communicating with the Government, prioritisation of PRSP sectors in which the comments of civil society are needed, and communication with other civil society actors (forwarding information, collecting comments etc.)
- ***Labour Unions Advisory Committee*** – representatives of three labour unions (Confederation of Autonomous Trade Unions of Serbia; Trade Union Confederation “Nezavisnost” and Association of Free and Independent Trade Unions) were at first members of the Civil Society Advisory Committee, but due to differences in priorities/interests and approach between civil society and labour union organizations, they set up a separate Labour Unions Advisory Committee on 29 April 2003
- ***The International Development Partners’ Advisory Committee*** was established on 11 February 2003 and consists of the representatives of 6 bilateral / multilateral donors, 3 UN agencies and 5 representatives of international non-governmental organizations. The meetings of the AC are organized on a rotational basis and attended by representatives of all the above-mentioned sub-groups.
- ***The Business Community Advisory Committee*** - at the session held on 3 April 2003, the Business Community Advisory Committee was formally established, with the purpose of taking active part in the PRSP preparation and consultative processes. The Advisory Committee consists of the representatives of: the Employers’ Union, the Entrepreneurial Council at the Ministry of Economy and Privatisation, the Association of Economists of Serbia, the Association of Joint-Stock Companies of Serbia, the Bakers’ Union, the Regional Centre for Development of Small and Medium Enterprises, and the Council for Foreign Investments.
- ***The Inter - Ministry Operational Advisory Committee*** – during October / November 2002 every ministry delegated one representative to the Inter-Ministry Operational Advisory Committee.

Representatives of faith communities, supported by the Government of the Republic of Serbia, decided to take active part in the preparation and implementation of the PRSP. After the conference “Serbia Free of Poverty – the Role of Faith Communities in Poverty Reduction”, representatives of various faith communities suggested that the Religious Council on Poverty Reduction be formed, in charge of concrete activities related to poverty reduction in accordance with PRSP priorities.

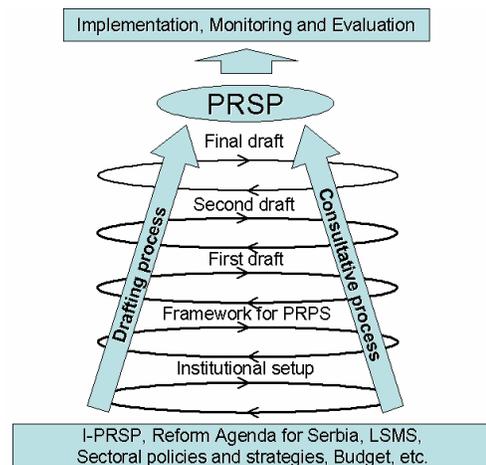
**5. Expert Task Force (ETF)** – The main task of the Expert Task Force was to draft the full PRSP, based on consultations with and instructions from the Steering Committee and different ACs, and the outputs of the consultative / participatory process. In this process the

ETF relied on the capacities of the governmental sector, civil society, academic bodies and think tanks, as well as on the support of international organizations. The ETF actively participated in the policy dialogue between the Government and key stakeholders. The ETF also participated in the identification and establishment of institutional and operational links between the PRSP and the Medium-Term Expenditure Framework (MTEF).

## II Preparation of the PRSP

The PRSP process in the Republic of Serbia can conceptually be seen as two parallel vertical processes linked together by a number of parallel horizontal processes, each with a specific starting point (starting date) and an end result (deliverable). The two parallel vertical processes are:

- The **drafting process**, i.e., writing of the Strategy,
- The **consultative process**, i.e., the process of including all relevant stakeholders in Strategy preparation.



The **horizontal process** included the following five phases:

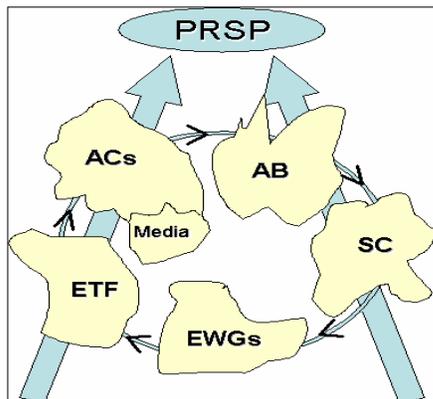
- Institutional set-up
- Development of the Framework for the PRSP
- First Strategy draft
- Second Strategy draft and the PRSP conference
- Final draft and Full PRSP

The horizontal process of PRSP preparation was defined as follows:

Phases	Activities	Outputs
1. Institutionalisation of the PRSP process	1.1. Institutional set-up of the PRSP process discussed and agreed on with stakeholders 1.2. Basis for the operational manual discussed with stakeholders	1.3. All bodies participating in the PRSP process established 1.4. A draft Operational Manual is distributed 1.5. A draft Communication Strategy prepared by PRSP MU is distributed
2. Formulation of the framework for the PRSP	2.1. Draft Operational Manual reviewed and commented on by stakeholders 2.2. Framework for the PRSP developed by the experts and then discussed with relevant	2.4. Operational Manual and Communication Strategy are endorsed by Steering Committee 2.5. Framework of Strategy accepted by the

	stakeholders 2.3. Provisional list of contents of PRSP is designed	Government
<b>3. First draft of the PRSP</b>	3.1. Framework for the strategy is further discussed through the consultative process 3.2. Written sectoral analysis defining the starting point, poverty and social situation across sectors is prepared 3.3. Detailed sectoral strategies, including initial costing, are developed and discussed with stakeholders 3.4. Overall development goals (Serbia in 5-10 years), initial sectoral priorities drawn up	3.5. The SC reviews the elaborated framework (backbone) for the strategy and identifies priority measures 3.6. The SC reviews the first draft and suggest improvements
<b>4. Second draft of the PRSP</b>	4.1. Sectoral strategies and interventions finalised 4.2. Sectoral and individual interventions developed into programmes, and the costing of these finalised and reviewed by relevant government experts, including developed cross sectoral priorities (with options, if applicable) and initial overall costing presented and discussed by stakeholders	4.3. The SC reviews the second draft and suggests improvements 4.4. The SC prioritises different versions of priority interventions and programmes based on results of cost-benefit analysis 4.5. A tentative list of interventions approved 4.6. Draft PRSP submitted to WB and IMF
<b>5. Final draft and approval of full PRSP</b>	5.1. The draft, which was presented and discussed extensively in the consultative process, is submitted to WB and IMF 5.2. A final version of the PRSP is prepared by the experts and discussed with stakeholders. 5.3. Final comments of PRSP bodies forwarded to ACs together with the final PRSP	5.4. The SC reviews the final document and makes a recommendation to the Government. 5.5. The full PRSP is approved by the Government

All vertical processes follow a certain pattern when it comes to sequencing and communication:



Based on outputs from the previous phase (in most cases, Advisory Board recommendations and Steering Committee assessments), the Expert Working Groups will continue working on the drafting process, staying in regular contact with representatives from the Advisory Committees (ACs).

The Expert Working Groups forward their written input to the Expert Task Force, which consolidates the received input into one product.

The ETF will then forward the consolidated draft to the ACs. The Advisory Committees review and discuss the consolidated draft and prepare recommendations to the Advisory Board.

Based on the AC comments, the AB presents recommendations to the SC.

The Steering Committee will review drafts, comments, suggestions, and other inputs, and make policy choices and decisions regarding the preparation of the full PRSP.

### **III Consultative process**

In the period **October 2002 – April 2003** the representatives of the PRSP Management Unit made more than 10 presentations to the representatives of different ACs, to present the organizational structure, the PRSP process and its stages. Also, at the invitation of the ACs, representatives of the PRSP Management Unit attended their internal meetings and clarified the dilemmas concerning the PRSP formulation process.

At the **end of October 2002** the AC representatives (who were formally elected in the later stage), participated, together with the Government representatives, at the Balkan Poverty Forum for Albania, BiH and FR Yugoslavia, which was organized by the World Bank and UNDP in Baden, Austria. At the end of **May 2003**, the AC representatives together with government representatives also participated at the regional PRSP conference in Sarajevo, organized by the Government of Bosnia and Herzegovina in cooperation with the government of Austria.

In **November 2002**, the Government of the Republic of Serbia – PRSP Management Unit, in cooperation with the Centre for the Development of Non-Profit Sector, Civic Initiatives and UNDP held a two-day seminar with the purpose of presenting the PRSP process, as well as the role of non-governmental organizations and the media in the PRSP, to the representatives of national and local media.

Also, at the beginning of **November 2002** the Government of the Republic of Serbia – PRSP Management Unit organized a one-day seminar «BiH Experiences in the PRSP Process» with the goal of learning more from the representatives of the BiH PRSP Management Unit, civil society, donors and the media in BiH on the activities, problems and challenges they encountered in the PRSP process. Apart from the representatives of the PRSP Management Unit, the representatives of the Civil Society AC, donors and the private sector in Serbia also took part in the seminar.

In mid-**December (18.12.2002)**, the Government of the Republic of Serbia organized a conference «Poverty Profile in Serbia», to present the findings of the *Survey on the Living Standard of the Population*, which provides the basis for PRSP formulation. At the beginning of **June (2.6.2003)** The Government of the Republic of Serbia, in cooperation with “Čovekoljublje” – Charity Fund of the Serbian Orthodox Church and Catholic Relief Services, organized a conference “Serbia Free of Poverty – the Role of Faith Communities in

Poverty Reduction”. Representatives of the Government, civil society, local governments, the private sector, international development partners and experts from the public attended both conferences.

In the period **13.3.2003 – 3.4.2003**, with the purpose of commenting on the PRSP Framework, the following thematic meetings were held: poverty analysis in Serbia; the grey economy, the labour market, employment; social protection and pensions; rural development; health; education; decentralization; local and public governance; reforms, integration and creation of the market economy institutions; the macroeconomic framework, fiscal aspects; and the monitoring and evaluation system.

In the period **March-May 2003**, there were also thematic meetings concerning cross-cutting issues: persons with disabilities; children; refugees and internally displaced persons; human rights; gender equity; and Roma and other ethnic minorities.

The meetings were primarily attended by representatives of experts from the public, but representatives of line ministries, civil society and international development partners also participated.

In cooperation with the local authorities in the period **April/May 2003** 11 thematic tables were organized in the following towns: Kikinda, Novi Sad, Šabac, Kragujevac, Kraljevo, Novi Pazar, Požarevac, Užice, Bor, Niš, Vranje, Belgrade. The themes were defined based on local specificities, and the meetings were attended by the representatives of the local authorities and institutions, local NGOs, labour unions and international development partners.

During **June 2003**, representatives of labour unions organized three round tables on labour regulations, the Law on Employment and reform of the Pension Law; labour market reform, transferring the grey economy into legal channels, entrepreneurship and role of social cooperatives; and social and educational policy. Apart from labour unions, representatives from other Advisory Committees, line ministries and experts also attended the meetings.

In addition to numerous bilateral meetings with representatives of different relevant stakeholders in the process, the Strategy was also presented in different forms in around 80 meetings and forums with approximately 3,300 participants.

At the end of this chapter there is a tabular review of relevant data on meetings, seminars and conferences held within the consultation process on the First PRSP Draft.

#### **IV Local Initiatives of the Poverty Reduction Strategy**

The objective of PRSP Local Initiatives was to strengthen national ownership of the PRSP.

During July and August 2003, 27 local initiatives across Serbia were realized for the purpose of strengthening national ownership over the PRSP through pilot-projects. This objective

was accomplished by strengthening various “bottom-up” initiatives in more than 40 municipalities and 100 rural settlements, aimed at raising the participation of local communities in the formulation and implementation of the PRSP.

Specific objectives of the PRSPLI were as follows:

- **Inclusion** of relevant stakeholders at the local level, including local civil society organizations, professional associations, citizen groups, and other stakeholders;
- **Dissemination of information and education** of local stakeholders about the PRSP process in a transparent manner;
- **Participation** in the consultative process with inputs on: a) identification of poverty reduction priorities at the local level; b) the costs of poverty alleviation measures; c) implementation mechanisms at the local level; and d) the monitoring and evaluation of the implementation of poverty reduction measures.

Activities necessary for achieving the objectives outlined above fall into three areas:

**PRSP-related consultative activities** were implemented by 16 organizations: 3 local self-governments, i.e. municipal assemblies, 1 municipal Red Cross organization and 12 NGOs. These consultative activities were various: printing and distributing brochures, pamphlets and leaflets for the purpose of raising general public awareness on the PRSP, organizing panel discussions, round tables, seminars and educational meetings, as well as conducting of research. Local media expressed considerable interest in these activities (more than 30 local TV and radio stations and local printed media), and there was also coverage by local branches of the national media. At the majority of panel discussions and round tables a considerable number of local government representatives participated, including important local institutions such as social welfare centres, refugee commissariats and labour market bureaux, business sector representatives, numerous NGOs, and civil society representatives. Apart from numerous recommendations and suggestions, these activities resulted in very concrete plans:

- a. A working group for mobilization of economic sectors with business potential was established in the municipalities of Mladenovac and Sopot;
- b. A working group for solving the problems of the Roma was formed in four municipalities in the south of Serbia;
- c. An internal communication PRSP network was formed in Valjevo (between 4 NGOs, regional branch of the labour union “Nezavisnost” and the local self-government);
- d. Research on vulnerable groups was conducted in the municipal assembly of Knjaževac;
- e. A seminar “New initiatives for overcoming poverty in the municipalities of Bojnik in Žitorađa” was planned

- f. The establishment of the school of traditional crafts was planned in cooperation with the city assembly of Kragujevac, the Ministry of Education and Sport and the Labour Market Bureau;
- g. Projects were initiated: “Help towards self-help” targeting the Roma population and facilitating access to public services (in the municipalities of Vladičin Han, Bela Planka and Lebane) and “Roma – parents and children in the education process” (in the municipalities of Prokuplje, Surdulica and Pirot).

**Creation of Models for Local Level PRSP Implementation** was the objective of activities undertaken by 7 local organizations: 1 municipal red-cross organization, 1 municipal administration and 5 NGOs. These projects included a combination of educational activities, research, surveys and consultations with all relevant local community actors, so the majority of the proposed models included mixed working groups to be in charge of preparation of local action plans, creating an institutional framework. This kind of activity was primarily targeted at vulnerable groups: single mothers in Niš, elderly, unemployed over 50 years of age and persons with disabilities, poor rural population in 18 remote villages, and so on. One of the recommendations issuing from these projects is that **decentralisation of responsibilities and resources** should be undertaken at the local level, while the partnership between the governmental and non-governmental sector turned out to be an extremely important issue (the creation of a local action plan was *the first* project of the town administration of Kragujevac implemented in partnership with a local NGO).

**Defining the role of different stakeholders in monitoring and implementation of the PRSP** was the objective of activities undertaken by 4 NGOs. Trying to respond comprehensively to the project requirements, they focused on finding efficient ways of monitoring and evaluating PRSP outcomes at the local level, through the participatory contribution of all local stakeholders, designing strong incentives for active participation in the process and defining conditions and mechanisms for the inclusion of as wide a range of participants as possible. The survey (questionnaires and focus groups) and meetings/discussion groups were also based on a professional and systemic approach to solving the poverty problems by direct field data collection. Apart from the recommendation that it was necessary to urgently form a working group to monitor the PRSP continually at the local level, these activities also resulted in concrete plans (to continue poverty research in other regions with the network of resource centres and include the whole network in the PRSP monitoring and implementation process).

The overall impression upon the implementation of all local initiatives is the following:

- That immense efforts were put in by all organizations in trying to answer the project task, which was manifested by the fact that though 90 activities were originally planned, there were 117 carried out by the end of the project and within the previously approved budget;

- That a great degree of inclusion was achieved among all the local level actors within all kinds of activities;
- That within the realization of these activities, a large coverage of the territory of Serbia with local initiatives as well as high media coverage was achieved;
- That, as acknowledged by almost all the organizations involved, they considerably improved and advanced their capacities both in terms of programmes and finances, regardless of time limitations; and
- That local initiatives for the first time offered the opportunity for the poverty problem to be discussed at the local level jointly by institutions engaged in poverty and by the poor themselves.

In view of the very short deadline for implementation of the PRSPLI, it is of utmost importance to transform best practices from this project into a sustainable programme of local initiatives that would become an integral part of implementation, monitoring and evaluation of the PRSP, both at local and national level.

#### **V Lessons learned from the PRSP preparation process**

The opinion shared by all the participants is that PRSP process in Serbia included from the very beginning efforts to introduce changes in the usual practices of preparation of strategic documents and therefore was also marked by the problems that these changes entailed. Although occasionally burdened by uncertainties and unclarified issues, this process provided a good foundation for establishing good relations between the Government of the Republic of Serbia and other actors in the society.

For the sake of clear review of comments received from different Advisory Committees (ACs) and government representatives, all lessons learned from the PRSP process were classified into four categories:

1. lessons learned from the internal operation of ACs/Government
2. lessons learned from the consultative process
3. lessons learned from the full PRSP
4. lessons for further work on monitoring and implementation of the PRSP

#### ***Lessons learned from the internal operation of ACs and ministry representatives***

The process of internal consultations occasionally included conflicts of interest between AC members, but these conflicts in most cases were caused by differences in their starting positions and level of inclusion, as well as by the short deadlines imposed. The need to reach consensus on the main causes of poverty and the main directions proposed for overcoming it required balancing of social, economic and institutional interests of different stakeholders in

the PRSP process, which in most cases led to resolution of these conflicts. The recommendation for overcoming differences in the starting positions of AC members in the monitoring and implementation process is to organize regular informational/educational meetings to keep all the members updated on all present and planned activities within the AC and the overall PRSP process.

Extensive everyday obligations of AC members resulted in their uneven contribution to the joint work, and occasional internal coordination problems. Since this kind of approach to the preparation of strategic documents was new not only to the Government but to the other stakeholders as well, in the next period focus should be placed on strengthening the capacities of local government, NGOs, labour unions, parliament and the business community for active participation in the formulation and implementation of strategic projects. Technical expertise from international development partners in this and other relevant areas is more than welcome.

In the work of expert working groups and ministry representatives there was a need for the promotion and application of advanced techniques of strategic planning such as group work, and the establishment of multidisciplinary groups in order to reach optimal solutions through dialogue etc. Although every ministry delegated two focal points to work on the PRSP, the fact that ministries are engaged on several important projects simultaneously and that consequently, there is not enough time to devote just to the PRSP, meant that the comments of line ministries did not at every point reflect the work and attitudes of all the ministry sectors. Clear definition of roles and responsibilities of ministry focal points and improvement of internal communication mechanisms between ministry employees should help to overcome this problem in the PRSP monitoring and implementation phase.

The Poverty Reduction Strategy Management Unit established within the Ministry of Social Affairs, significantly contributed both in the consultative process and in the writing of the PRSP to better coordination of the process, dissemination of information, organizing local level consultations and preparing the final PRSP. Representatives of Advisory Committees were satisfied with successful communication with PRSPMU members and their swift and concrete reactions in terms of providing additional information and clarification on the process and activities.

### ***Lessons learned from the consultative process***

The PRSP formulation process offered the opportunity for those social actors who have not traditionally been involved in the preparation of strategic documents to contribute with their proposals and suggestions to the formulation of the national PRSP. Participation of different ACs reflected on the one hand the degree of interest expressed in different areas and on the other, the different level of “know-how” in the consultative work method.

The active involvement of civil society representatives in all phases of PRSP preparation contributed to better understanding of the everyday problems encountered by the poor at the

local level, and consequently, to adequate suggestions on how to satisfy their needs in the most appropriate way.

Due to procedural constraints and irregular sessions, parliamentary representatives, though kept informed on the PRSP from the very beginning, did not set up their AC until the finalisation of the PRSP preparation process. They are to be fully engaged in the process of PRSP monitoring and implementation.

In general, consultations with all the ACs provided additional insight into the problems of vulnerable population groups and in that way contributed to the improvement of proposed policies and activities.

Dialogue between experts and other stakeholders in the process led to a better understanding of sectoral needs and priorities on the expert side and to a better understanding of economic constraints, financing mechanisms etc. by other stakeholders.

A great number of participants contributed with their thorough critiques to the PRSP process and drafts. Not all the critiques were equally logical and useful, but the great advantage lay in the inclusion of actors experienced in particular areas as well as in the spirit of openness and the opportunity that was presented to influence the substance of the PRSP. These comments enabled immense improvements in the quality and operationalization of the PRSP document.

### ***Lessons learned from the final PRSP***

In the preparation of the final PRSP, experts endeavoured to include as many comments received from ACs as possible.

The reasons for not including some of the critiques and comments were the following: 1) certain suggestions basically dwelled on theoretical conceptions or common place ideas, without clear explanation as to how the obviously desirable outcomes could be reached; 2) the extreme complexity of the problem observed and insufficient reliability of the suggestions proposed.

Representatives of different ACs consider that the greatest contribution of their joint work within the AC lies in lobbying for a multidimensional approach to poverty, i.e. efforts to view the poverty problem from all aspects, which led to a relatively successful balance in the final PRSP between the purely economic perspective and the human rights approach.

### ***Lessons for further work on monitoring and implementation of the PRSP***

The shared opinion of all the stakeholders in the PRSP preparation process is that in the monitoring and implementation phase the following principles should be observed:

- transparency and regular information exchange;

- inclusion of the relevant actors in all the monitoring and implementation phases;
- continuation of the consultative process throughout the implementation of the PRSP;
- monitoring of the PRSP should be coordinated by the representatives of the existing ACs;
- the multidisciplinary approach to the poverty problem should be maintained, as well as multidisciplinary work on poverty reduction;
- prepare regional action plans for poverty reduction, since it is insufficient to implement the PRSP on the national level only, while the local level lacks both the capacities and financial resources

• *Thematic meetings by sectors*

	Meeting	Date	Attendance
1.	Grey economy, employment, labour market	13.02.2003.	36
2.	Social protection and pensions	17.02.2003.	17
3.	Regional and rural development	18.02.2003.	24
4.	Urban aspects of poverty and social housing	20.02.2003.	14
5.	Educational aspects of poverty	21.02.2003.	24
6.	Decentralization and local government	24.02.2003.	20
7.	Macroeconomic and fiscal framework	26.02.2003.	29
8.	Monitoring and indicators	27.02.2003.	18
9.	Implementation of reforms, creation of market economy institutions and European integration	28.02.2003.	20
10.	Health care and poverty	03.03.2003.	28
11.	Strategic goals concerning the most vulnerable - Roma	19.03.2003.	31
12.	Ensuring equal opportunities for persons with disabilities – way out of poverty	24.03.2003.	30
13.	Poverty and children	25.03.2003.	36
14.	Gender equity	27.03.2003.	27
15.	Refugees and internally displaced persons	28.03.2003.	26
16.	Environmental protection and poverty	31.03.2003.	16
17.	Human rights	20.05.2003.	13
<b>TOTAL:</b>			<b>409</b>

• *Local thematic meetings:*

	Town	Date	Attendance
1.	Vranje	14.04.2003.	30
2.	Novi Pazar	15.04.2003.	27
3.	Kragujevac	16.04.2003.	39
4.	Bor	17.04.2003.	44
5.	Niš	18.04.2003.	32
6.	Kraljevo	21.04.2003.	24
7.	Užice	22.04.2003.	37
8.	Šabac	23.04.2003.	27
9.	Novi Sad	07.05.2003.	26
10.	Kikinda	08.05.2003.	25
11.	Požarevac	26.06.2003.	30
<b>TOTAL:</b>			<b>341</b>

• *Presentations to SKOGOJ-local government representatives:*

	Meeting	Date	Attendance
1.	Committee for Utilities and Housing		On average

		14.05.2003	15
2.	Committee for Local Self-government and Local Finances	15.05.2003	On average 15
3.	Committee for International Cooperation	16.05.2003	On average 15
4.	Committee for Services to Membership	27.05.2003.	On average 15
5.	Committee for Social Affairs	25.02.2003 28.05.2003	On average 30
6.	Committee for Culture, Youth and Sports	29.05.2003	On average 15
7.	Committee for Economic Development	30.05.2003	On average 15
<b>TOTAL:</b>			<b>around 120 (out of that around 80 local governments)</b>

• *Meetings with labour union representatives:*

	Meeting	Date	Attendance
1.	Labour regulations; Employment Law; Reform of the Pension Law	9.06.2003	On average 70
2.	Labour market reform; Transferring grey economy into legal channels; Entrepreneurship and role of social cooperatives	12.06.2003	On average 50
3.	Social policy and educational policy	30.06.2003	On average 50
	<b>TOTAL:</b>		around 170

• *Other PRSP presentations (to different partners):*

	Presentation held	Date	Attendance (Approximately)
1.	SKGOJ Conference on citizens' participation (organized by Council of Europe + SKGOJ)	October, 2002.	100
2.	Press conference (org. UNDP, CRS, ARDI)	October, 2002.	20
3.	International organizations coordination meeting (org. HRH Princess Katarina)	October, 2002.	50
4.	UNHCR human rights contact group	November, 2002.	30
5.	CRS Network 'Serbia Free of Poverty', monthly meeting	November, 2002.	30
6.	PRSP presentation to the media and NGO sector at the seminar in Palić	December, 2002.	30 (media representatives)
7.	Yearly SKGOJ conference	December, 2002.	200
8.	Conference 'Poverty Profile in Serbia'	December, 2002.	210
9.	Meeting of International Development Partners and NGOs (org. ICVA)	December, 2002.	30
10.	Meeting of International Development Partners in UNICEF	January, 2003.	30
11.	Presentation to Serbian parliamentarians	January, 2003.	50
12.	Presentations on seminars 'Children and PRSP' in Novi Pazar, Belgrade and Niš (org. Center for Children's Rights and UNICEF)	March, April 2003.	15 x 3
13.	Presentation to DFID country team	March, 2003.	20
14.	Presentation to USAID/CRDA (org. MIER/DACU)	March, 2003.	25
15.	Presentation to UNICEF staff	May, 2003.	15
16.	UNICEF seminar (Novi Pazar, Tutin, Sjenica, Raška)	May, 2003.	15
17.	Presentation to Labour Unions AC	May, 2003.	20
<b>TOTAL:</b>			<b>approximately 920</b>

- *Seminar, workshops, conferences and meetings (bi- and multilateral) attended by PRSP MU representatives:*

	Event	Date	Attendance
1.	Conference 'Strategy on Modernization of Public Administration of the Republic of Serbia'	October, 2002.	150
2.	Seminar on BIH Experiences in PRSP Preparation	November, 2002	25
3.	UNDP workshop 'Local Economic Development in FRY'	December, 2002	90
4.	UNHCR round table 'Role of Politicians and Media in Promotion of Human rights in Serbia'	December, 2002	50
5.	Meeting with representatives of American Embassy (econ. dept.)	January, 2003	2
6.	Meeting with Serbia and Montenegro CRS Team and representatives from USA	January, 2003	7
7.	Handicap International round table 'New experiences in development of supportive services for persons with disabilities: processes and results'	February, 2003	50
8	Constitutive conference FENS (Federation of NGOs of Serbia)	February, 2003	400
9	WB seminar 'Selection and Employment of Consultants'	February, 2003	40
10	Seminar 'Tripartite Social Dialogue in the Republic of Serbia' (Ministry of Labour and Employment)	February, 2003	50
11	Meeting with NDI representatives (National Democratic Institute)	February, 2003	10
12	UNDP workshop 'Including the Gender Aspect into the PRSP'	March, 2003	30
13	Meeting with representatives of AFL-CIO (American Center for International Labor Solidarity)	March/April, 2003	10
14	Round table 'Housing Policy of Vulnerable Population in Serbia' (Ministry of Construction)	March, 2003	60
15	Meeting of the Association of Shareholders' Enterprises of Serbia	March	40
16	UNDP regional conference in Bratislava on MDG statistics	March	40

17	OXFAM/CAHY conference on Roma settlements in Serbia	March, 2003	150
18	Meeting with representatives of International Education Club (org. Finnish Embassy)	April, 2003	10
19	Meeting with the representatives of Embassy of Finland and the Finnish Orthodox Church	April, 2003	8
20	Meeting with ICRC Poverty Research Group	April, 2003	5
21	Meeting with Red Cross representatives	May, 2003	5
22	'484' Conference on Inclusion of Refugees and IDPs in the PRSP'	May, 2003	40
23	WB/CEU seminar in Budapest on poverty statistics	May, 2003	30
24	DRC seminar 'Final evaluation of Projects Helping Refugees and IDPs'	June, 2003	40
<b>TOTAL:</b>			<b>approximately 1,342</b>

## ON POVERTY IN SERBIA

### - Historical Outline –

Classical poverty when one starves to death because one literally has nothing to eat or when an individual is not capable of providing for mere existence was very, very rare in the country of Serbia. Serbia was never a country in which people died from hunger; it has rather been a “paradise for a poor man” (Herbert Vivian, 1897).

#### **Who Is Poor?**

There are many documents, starting from the Old Testament, that speak about poverty, the poor and their protection, but there are usually no concrete data on who is considered to be poor, where the line that divides the poor from others is and what it consists of. However, in the Byzantine document Prochiron (reference law), published in Constantinople in the 9<sup>th</sup> century, it is stated who is considered to be poor and thus not eligible to be a witness: “a poor man does not give testimony, and poor is the one who does not have property of fifty small coins.” This is one of the first documents that define the poverty line by monetary value.

Stojan Novaković writes that in the Middle Ages “there were different people in villages. It can be imagined that there were slaves, new settlers without property, but free, poor people with very inadequate and small property, people who left their property somewhere and came to a richer country or a better master... In that diversity of settlers there was a ready supply of the proletariat and homeless people, on the one hand, while on the other a question was raised: what should these good people have done in order to obtain property?” It can be seen from this quotation that a poor person was considered to be one who had no property or property so small that it could not support even the most modest lifestyle.

At a later date, it was again property that served as a line that reflected poverty status. Thus Prince Miloš Obrenović, asking in 1837 that taxes “should not be difficult for the poor”, considered poor the one “who is really poor, who is honourable and diligent but has no land, the one who has children or is made poor in some other honourable way.” He freed from direct taxes poor people with small children, who had no land but had to feed their families by working as day labourers. So, not having land was for Miloš the necessary but not sufficient condition to consider someone to be poor; the additional condition was that he/she had small children.

Lack of land or its insufficiency is the cause of poverty, wrote Jefta Dedijer later, and claimed that traditionally “the synonym of the adjective rich is honourable,” while “the shame of being poor is so big that children of poor farm labourers run away into the world out of shame as much as for hunger.”

From the above examples it can be seen that the line dividing the poor and non-poor was defined by having or not having land or property. There are many synonyms for the poor and poverty in the Serbian language: **poor devil, the poor; misery, miserable, penurious; pauper, charity case, bare-assed, needy, indigent** etc.

One does not necessarily have to become a pauper; one can just become poorer and feel miserable. Thus Archibald Peton, who stayed in Serbia in the mid 19<sup>th</sup> century, wrote about his encounter with the Turkish agha in Šabac: “I watched him sitting in his lonesome tower, the last member of a once rich and powerful nation, now living in misery... the times have changed, poor man; his salary now amounts to 250 piasters per month, while his family used to be like small kings in Šabac.” At that time, 250 piasters were for many people of Šabac an unattainable amount, but for an agha who had lost his authority and power, it was like being poor.

### **Causes of Poverty**

Folk tradition very clearly distinguishes the causes of the emergence of poverty, and treats them differently. These causes can be classified into several main groups: 1. fateful, 2. inherited, 3. personal, and 4. general.

**Fateful poverty** is the consequence of “force majeure” and it is very difficult or impossible to eliminate. Whatever one did, worked hard, created things, the result would always be negative. Something will always happen that will devalue one’s efforts and leave the individual who had put his efforts into it without the rewards merited.

“Force majeure” that prevents one from getting away from poverty is called **MISERY**. In the Slavic folk tradition it is represented as a supernatural being who travels around the world, attacking and torturing people. There is a related belief in Serbian folk tradition, too: the saying “misery found him” clearly shows that misery itself finds the one to cause trouble. A similar statement is given in the following proverbs: “One does not invite trouble, it comes by itself.” “Force is temporary, while trouble comes successively.”

People believe such poverty to be doom or punishment for one’s own sins, or for sins that some ancestors committed in the past.

It is possible to eliminate this kind of poverty, “to take misery off one’s back”, as the saying goes, only if one’s own or one’s ancestors’ sins are tracked down and atoned for.

The most picturesque description of such a situation is given in the folk story “Destiny” recounted by Vuk Stefanović Karadžić.

The story tells about the different destinies of two brothers. The first is diligent and hard-working, but his property does not improve; the more he works the poorer he gets, and eventually he fails. The other brother leads an easy life of abundance; he does not work on

his property himself, but his holdings are still growing. Therefore, the first brother decides to go round the world and find out why he has nothing despite hard work and diligence, while his lay-about, do-nothing brother has everything. After various trials and tribulations he meets a hermit who tells him where **Destiny** lives and gives him advice on what to do when he arrives there.

“When you arrive at Destiny’s place, do not say anything, just do whatever he does, and wait till he poses a question,” the hermit told him.

When the brother arrived at a magnificent mansion, he did as advised by the hermit. He sat down at the table with Destiny, he had dinner with Destiny, and he went to sleep when Destiny went to bed, too. In the dead of night he was woken up by loud cries: “Oh, Destiny, today were born such and such number of souls, give them whatever you want to give them!” Destiny woke up, got up, opened his case with money and started throwing around golden coins saying: “As it is for me today, let it be for them all their lives.”

The next morning, when the brother woke up, the magnificent mansion became smaller, but it still looked rich. The story was repeated at midnight, and in the morning the house became smaller again, until one morning the brother and Destiny woke up in a very poor hut. That night the voice called again, and Destiny threw only a few breadcrumbs and a lost iron coin. The next morning, when the brother woke up, instead of the poor hut there again stood the mansion from the beginning of the story.

Then Destiny asked him why he had come. When the brother told him, Destiny answered: “You saw how I threw golden coins on the first night and what happened later. As it was for me on the night when someone was born so it will be for this person all his or her life. You were born on a poor night, so you will be poor all your life. Your brother was born on a lucky night and he will be lucky as long as he lives.”

The story ends with Destiny’s advice on how it could be changed, but the brother had to accomplish a rather difficult task and stick to it all the time, never disclosing to anyone why he did it.

Besides Misery, folk tradition also tells about the Fairies who determine one’s destiny at birth, which is difficult to change later.

The Fairies come three days after the child’s birth and foretell his or her destiny. The common belief is that what these Fairies determine that day, can by no means be changed at a later date.

The broader community is helpless against such poverty, but it also does not truly want to offer assistance fearing that punishment could be transferred to it as well. There is tacit understanding for the poor person, but fear of supernatural force is stronger and everybody simply avoids offering any assistance in order not to bring Misery’s wrath on themselves.

Only an individual can change his or her own destiny, as the story about “Destiny” clearly tells.

**Inherited poverty** is frequent, and folk tradition is full of data and stories about poor families.

This kind of poverty was very much present among the Serbs and one can freely say that it can be applied to the majority of all poor people in Serbia. However, the fact is that this poor stratum has decreased over time.

“Escape from this kind of poverty” has always met understanding both by individuals and the broader community. The “escape” was fully divergent, i.e. it developed into different directions. One could change residence, find a job, become educated, save, work hard or go to a richer environment.

According to folk stories collected and published by Vuk Karadžić, one could run away from inherited poverty by working, getting educated, and acquiring knowledge and awareness.

The stories usually start with “*Once upon a time there was a poor man*” or “*One poor man lived in a cave*”, and when the story develops one finds a way to defeat poverty. In the story “*The Devil and His Apprentice*” a poor son says to his even poorer father: “*I can’t live like this; I shall go abroad to learn a craft. You see how it is today: if one is skilled even a little in some craft he lives better than any farm labourer*”. The son learned a craft and became a rich man.

One can see to what extent knowledge or information can help in the stories “*Animal Language*” and “*Evil Woman*” where information or knowledge obtained for a good deed enables a person to get rich. In the story “*One Cannot Hide Real Trouble*” it is shown how hard work can help one escape from poverty.

By posing the question “What should these good people do in order to acquire some land?”, i.e. to get rid of poverty, Stojan Novaković quotes examples from Byzantine laws on share-cropping (renting land or estates) that were practically in force during the Turkish administration of the Balkans and were implemented in the 19<sup>th</sup> century as well. He says that “this method stands in the Slavic translations of the same laws, where it is stipulated that arable land or vineyards can be rented on a share-cropping basis, on which occasion the first seed is spared for the one who gave it, and the crop is thereupon shared in two parts...”

In some areas it is the custom to give one third instead of one half, and there are some more differences in negotiations. In other areas labourers are given a house, some money, some salt and a piece of land for their own crops. The name of the land given under such conditions, for crops as salary, in the Old and New Zagora and around Čustendil was called **paraspor** or **paraspur**, and labourers hired in that way were called **paraspurdžije**. These labourers were hired for one year or every six months, on St George’s Day and St Demetrius’ Day. In the villages of the Old Zagora District they were paid 300-500 groschen

in cash and 15 to 18 kg of wheat, seed for sowing, salt and footwear. Share-cropping remained as a method throughout the 20<sup>th</sup> century.

In the old times the state was usually not blamed for poverty, and it was not responsible for fighting poverty. The common belief was that it depended on the person himself whether he would be a poor or a rich man and that his success in life basically depended on his own efforts. Thus Čedomilj Mijatović advised the young that they would best succeed in life if they stuck to traditional virtues, such as honesty, diligence and thrift (1892).

**Personal causes of poverty** are numerous and very clearly classified in the folk tradition.

The very beginning of the story “Bekri-Mujo” gives the best description of people’s views of this phenomenon. It starts as follows: “The story goes that once upon a time in Constantinople there was a Turk called Bekri-Mujo, who inherited an enormous fortune from his father, but he turned to drink and drank away and squandered everything. So, he had no other clothes but one blanket and he walked the streets cloaked in it, with an old cap on his head through which hung his pigtail.”

The story “Going for the First Time with My Father to the Morning Service” by Laza Lazarević tells about the distinguished head of a household and father of the family who is sunk in gambling and alcohol, and who gambles away his whole property, taking his family to disaster. He eventually becomes aware of it and decides to stop gambling. The moral of the story is that the one who has brought himself into an unpleasant situation must become aware of his responsibility and guilt; he must change and try to solve the problem by himself.

Idleness, irresponsibility, laziness, prodigality, alcoholism, gambling are the main causes of one’s poverty. There is no understanding for such poverty and the common belief is that those individuals should not be given any material assistance because it is a futile effort. They are believed to be guilty for their own condition; therefore they have to find a way out by themselves.

Miloš Obrenović had a similar opinion, and he did not consider poor “a good-for-nothing, a lazybones, a drunkard and the like, whom I never forgave and who are not to be forgiven for anything.”

A folk saying goes “Neither acquire from a clever person nor leave to a fool”, while in the Property Code for the Principality of Montenegro by Valtazar Bogišić it is stipulated: “The Court can also proclaim as prodigal those who squander their property and do not want to improve, and they can be put under guardianship.” They should therefore not be freed from taxes nor given any other facilities.

**General reasons for poverty** are consequences of natural disasters, economic crises or political events (wars, loss of privileges and position, state robbery).

They are usually temporary and related to persons affected by some of the said events.

For those who become impoverished under such circumstances, if they have no personal guilt, there is great understanding among people, because they are “guilty without guiltiness” and the common opinion is that they should be given necessary assistance by the broader community and the state. They do not lose their reputation and the common belief is that they should be helped as soon as possible; also, that they will soon recover.

In the 19<sup>th</sup> century, and in some places even later, there was an institution called the “village basket” in which everyone allocated certain amounts of wheat after harvest, according to their possibilities and yield. That wheat would be given to the poor to feed themselves during winter and spring or when crops failed. The village chieftain would decide with the most distinguished heads of households who would have the right to use the wheat.

Unlike those who are impoverished in such situations, those who get richer experience reproach and contempt because they are considered to have become rich on account of the misfortune of others. Such wealth is considered to be doomed. Those who become rich in an immoral way and on account of someone else’s misfortune will experience misfortune sooner or later, or their closest family members will experience misfortune, and will lose these riches.

## **ATTACHEMENTS**



## I SCOPE AND CAUSES OF POVERTY IN SERBIA

**Table A1. Poverty by gender and age groups in Serbia in 2002.**

	%Vulnerable	% of the poor	Relative poverty risk	Structure of the total population	Structure of the poor	Depth of poverty	Severity of poverty
<b>Gender</b>							
Men	20.1%	10.6%	0.2%	48.6%	48.7%	2.3%	0.8%
Women	19.9%	10.6%	-0.1%	51.4%	51.3%	2.2%	0.7%
<b>Age</b>							
Children 0-6						1.4%	
	14.2%	6.9%	-34.5%	6.0%	3.9%		0.5%
Children 7-14	22.2%	12.7%	20.1%	8.5%	10.3%	3.0%	1.1%
Children 15-18	19.7%	10.7%	1.3%	5.1%	5.2%	2.4%	0.8%
Adults 19-25	18.6%	9.6%	-9.6%	9.5%	8.6%	1.8%	0.6%
Adults 26-45	17.3%	9.1%	-14.2%	26.4%	22.7%	1.9%	0.6%
Adults 46-64	19.1%	9.7%	-8.0%	26.8%	24.6%	2.0%	0.7%
Elder 65+	27.2%	14.8%	40.0%	17.7%	24.8%	3.2%	1.1%
Total	20.0%	10.6%	-	100%	100%	2.2%	0.8%

**Note:** The relative poverty risk is calculated as the percentage growth (fall) of the poverty index for each group compared to the average poverty index of the whole population.

**Source:** SLSP 2002.

**Table A2. Poverty by household type in Serbia in 2002**

	%Vulnerable	% of the poor	Relative poverty risk	Structure of the total population	Structure of the poor	Depth of poverty	Severity of poverty
<b>Households</b>							
<b>Without children</b>							
	20.6%	11.2%	8.5%	63.5%	68.9%	2.3%	0.8%
<b>with children</b>							
	17.6%	8.8%	-14.8%	36.5%	31.1%	1.9%	0.6%
<b>Number of family members</b>							
one member	20.4%	11.3%	9.1%	17.4%	19.0%	2.4%	0.8%
two members	21.0%	10.9%	5.8%	24.7%	26.1%	2.4%	0.9%
three members	16.5%	8.6%	-16.9%	19.8%	16.4%	1.7%	0.5%
four members	15.4%	8.4%	-18.6%	21.6%	17.6%	1.6%	0.5%
five members and more	25.3%	13.0%	26.3%	16.5%	20.9%	2.9%	1.0%
Total	19.5%	10.3%	-	100%	100%	2.2%	0.8%

**Note:** The relative poverty risk is calculated as the percentage growth (fall) of the poverty index for each group compared to the average poverty index of the whole population.

**Source:** SLSP 2002.

**Table A3. Poverty by socio-economic status in Serbia in 2002 (based on respondents' statements)**

	% Vulnerable	% of the poor*	Relative poverty risk	Structure of the whole population over 15	Structure of the poor*	Depth of poverty	Severity of poverty
Employed	12.7%	6.2%	-42.0%	30.6%	17.7%	1.2%	0.4%
Employers and self-employed	16.3%	9.2%	-13.3%	5.1%	4.4%	1.6%	0.5%
Farmers	23.3%	10.6%	-0.5%	5.3%	5.3%	2.0%	0.7%
Other active population	23.1%	13.2%	24.6%	1.4%	1.7%	2.7%	0.8%
Unemployed	29.2%	16.9%	59.4%	11.9%	19.0%	3.6%	1.2%
Pensioners	22.0%	10.9%	2.9%	24.1%	24.8%	2.4%	0.8%
Other non-active population	23.7%	13.3%	25.2%	21.7%	27.1%	2.9%	0.9%
<b>Total</b>	<b>20.2%</b>	<b>10.6%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>2.2%</b>	<b>0.8%</b>
Employed	10.2%	4.8%	-38.6%	36.4%	22.3%	0.8%	0.2%
Employers and self-employed	13.6%	7.4%	-4.9%	5.7%	5.4%	0.7%	0.2%
Farmers	13.3%	8.6%	10.6%	0.5%	0.5%	1.5%	0.5%
Other active population	22.3%	8.8%	14.1%	0.8%	1.0%	1.4%	0.2%
Unemployed	26.9%	14.4%	86.1%	11.6%	21.6%	2.6%	0.7%
Pensioners	18.0%	7.9%	1.3%	26.0%	26.3%	1.5%	0.5%
Other non-active population	19.2%	9.3%	19.9%	19.0%	22.8%	1.8%	0.5%
<b>Total - urban</b>	<b>16.2%</b>	<b>7.8%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>1.4%</b>	<b>0.4%</b>
Employed	17.8%	9.0%	-37.2%	23.1%	14.5%	1.9%	0.6%
Employers and self-employed	20.9%	12.4%	-13.5%	4.2%	3.6%	3.2%	1.2%
Farmers	23.9%	10.7%	-25.5%	11.6%	8.6%	2.0%	0.7%
Other active population	23.5%	15.4%	7.7%	2.1%	2.3%	3.3%	1.0%
Unemployed	32.0%	20.0%	39.4%	12.3%	17.1%	4.9%	1.8%
Pensioners	28.1%	15.7%	9.6%	21.6%	23.7%	3.6%	1.4%
Other non-active population	28.3%	17.2%	20.2%	25.1%	30.2%	4.1%	1.4%
<b>Total - rural</b>	<b>25.4%</b>	<b>14.3%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>3.3%</b>	<b>1.2%</b>

\* The relative poverty risk is calculated in relation to the poverty index of the referential population.

**Note:** Categories referring to socio-economic status are defined based on respondents' statements.

**Source:** SLSP 2002

**Table A4 Comparison between inequality of incomes in Serbia and selected East European countries (countries are ranked according to the Gini coefficient, on per capita basis)**

Country (year)	Income or expenditures per capita (USD)	Gini coefficient
Hungary (income; 1999)	1800	26
Slovenia (income; 1998)	4900	26
Bosnia (income; 2001)	1300	27
Macedonia (1998)	1000	29
Byelorussia (expenditures; 1999)	630	30
Ukraine (income; 1999)	820	30
Bulgaria (income; 1999)	820	33
Lithuania (expenditures; 2000)	1200	33
<b>Serbia (income; 2002)</b>	<b>1480</b>	<b>33</b>
Croatia (expenditures; 1998)	3200	36
Estonia (income; 2001)	1600	38
Russia (income; 2000)	1000	40
<i>Unweighted average</i>	<i>1360</i>	<i>32</i>

**Note:** For Bosnia, Croatia and Byelorussia - incomes without imputed rent.

**Source:** Branko Milanović, Poverty in Serbia in 2002, Ministry of Social Affairs.

**Table A5. Breakdown of income inequalities according to source, Serbia 2002**

	(1)	(2)	(3)	(4)
	Share in Total Income (%)	Concentration Coefficient	Gini Coefficient Share (1)*(2)	Share of Total Inequality (in %) (3)inc. Gini
Labour earnings	45.5	33.0	15.0	47.0
Property-based Income	3.8	55.3	2.1	6.6
Net Income from an Agricultural Property	11.4	46.1	5.3	16.5
Pensions	16.3	24.9	4.1	12.7
Unemployment Allowance	0.4	-13.6	-0.1	-0.2
Social Protection	0.3	30.8	0.1	0.3
In-kind Consumption	12.8	27.3	3.5	11.0
Scholarships	0.2	12.8	0.0	0.1
Health Assistance	0.2	27.8	0.1	0.2
Imputed Income from Durable Goods 1/	4.7	30.0	1.4	4.4
Imputed Rent	4.4	10.4	0.5	1.4
Total Gross Income	100.0	32.2	32.2	100.0

1/ Also includes depreciation of durable consumables.

Source: Branko Milanovic, Poverty in Serbia in 2002, Ministry of Social Affairs.

## II TRANSITIONAL REFORM FRAMEWORK FOR POVERTY REDUCTION

### Fiscal Limitations in the Implementation of the Poverty Reduction Strategy

#### Consolidated public revenues - million yum

	Realized	Realized	Planned
Revenue	275.343,8	404.467,5	473.924,3
I Current revenue (1.+2.)	275.340,5	404.467,5	473.674,3
1. Tax revenue (1.1+...+1.10)	262.626,9	385.359,0	449.951,2
1.1. Customs	14.331,0	24.648,1	26.195,9
1.2. Personal income tax	32.927,2	48.658,9	57.773,3
1.3. Corporate income tax	3.422,6	4.306,5	4.353,1
1.4. Retail sales tax	72.112,1	105.427,7	129.756,3
1.5. Excises	26.091,2	45.040,0	57.243,1
1.6. Property tax	2.533,9	3.755,1	4.562,3
1.7. Financial transaction tax	10.014,0	10.066,7	3.800,0
1.8. Extra profit tax	1.228,1	2.901,8	0,0
1.9. Other taxes	24.651,6	41.154,4	46.967,5
1.10. Social insurance contributions	75.315,0	99.399,8	119.299,7
2. Non-taxable revenue	12.713,6	19.108,6	23.723,1
II Capital revenue	3,2	0,0	250,0

#### Fiscal deficit - million yum

	2001	2002	2003 (plan)
Total deficit	-11.116,2	-31.073,4	-44.033,6
Primary deficit	-6.811,2	-22.432,4	-30.547,6

#### Consolidated revenues and deficit - million yum

	2004	2005	2006	2007	2008	2009	2010
Consolidated public revenues	542.536,1	612.306,2	679.866,5	749.552,8	824.400,2	904.531,5	992.428,4
Total deficit	-46.906,5	-49.755,7	-49.990,6	-47.451,2	-45.928,1	-45.867,0	-45.406,8
Primary deficit	-26.577,2	-26.216,5	-19.015,9	-12.066,4	-7.791,1	-5.293,5	-2.015,2

**Consolidated public expenditures - economic classification** - million yum

	2001	2002	2003
Total	286.460,00	435.540,90	513.757,9
1. Salaries	62.930,90	90.291,30	115.561,9
2. Purchase of goods and services	53.550,00	72.326,50	84.244,9
3. Pensions	68.385,90	111.205,00	130.981,4
4. Social protection	23.052,70	38.781,00	44.598,2
5. Subsidies and restructuring	39.346,60	62.801,10	68.942,9
6. Capital expenditures	9.187,90	14.911,70	19.976,6
7. Public debt servicing	10.992,00	19.965,00	26.452,0
7.1. Interests	4.305,00	8.641,00	13.486,0
7.2. Paying off debt	6.686,60	11.323,50	12.966,0
8. Other expenditures	19.014,40	25.259,90	23.000,0

**Consolidated public expenditures - economic classification** - million yum

	2004	2005	2006	2007	2008	2009	2010
Total	589.442,6	662.062,0	729.857,1	797.004,0	870.328,3	950.398,5	1.037.835,2
1. Salaries	129.175,3	143.555,1	158.146,4	172.558,9	188.264,5	205.376,7	224.019,0
2. Purchase of goods and services	151.854,1	167.798,8	182.061,6	195.716,3	210.395,0	226.174,6	243.137,7
3. Pensions	151.854,1	167.798,8	182.061,6	195.716,3	210.395,0	226.174,6	243.137,7
4. Social protection	49.058,0	52.982,6	56.161,6	58.969,6	61.918,1	65.014,0	68.264,7
5. Subsidies and restructuring	64.587,6	65.918,1	65.215,0	61.114,6	59.451,9	61.176,0	67.446,6
6. Capital expenditures	32.293,8	43.945,4	52.172,0	61.114,6	71.342,3	83.024,6	96.352,3
7. Public debt servicing	45.395,5	52.136,6	65.974,8	79.335,9	92.316,1	106.032,1	107.533,6
7.1. Interests	20.329,4	23.539,2	30.974,8	35.384,8	38.137,0	40.573,6	43.391,6
7.2. Paying off debt	25.066,2	28.597,5	35.000,0	43.951,2	54.179,1	65.458,6	64.141,9
8. Other expenditures	20.196,9	25.861,8	27.847,6	33.382,3	38.010,5	39.736,0	50.420,8

**Consolidated public expenditures - functional classification** - million yum.

	2001	2002	2003
I Total expenditures (1.+.....+10.)	286.460,20	435.540,90	513.757,9
1. General public services	26.161,30	33.722,90	41.625,2
2. Defence	26.049,00	32.688,00	39.144,0
3. Public order and safety	18.090,30	21.146,80	24.939,7
4. Economic affairs	22.717,20	48.076,20	55.920,0
5. Environmental protection	0	124,7	1.118,4
6. Housing construction and utilities	16.490,30	22.860,70	26.961,0
7. Health	34.466,40	48.807,40	58.679,9
8. Sport, culture and religion	2.940,90	4.696,30	5.538,6
9. Education	19.392,30	30.653,00	38.387,7
10. Social protection	120.152,50	192.764,90	221.443,3

**Consolidated public expenditures - functional classification - million yum.**

	2004	2005	2006	2007	2008	2009	2010
I Total expenditures (1.+.....+10.)	589.442,6	662.062,0	729.857,1	797.004,0	870.328,3	950.398,5	1.037.835,2
1. General public services	48.004,6	55.551,9	66.224,0	71.581,6	75.155,3	87.483,6	96.106,7
2. Defence	41.336,1	43.945,4	39.129,0	41.342,2	43.598,1	45.882,0	48.176,1
3. Public order and safety	28.805,3	32.665,3	36.356,4	40.083,0	44.191,5	45.882,0	50.584,9
4. Economic affairs	63.295,9	67.383,0	73.366,9	79.089,5	85.214,4	91.764,1	101.169,9
5. Environmental protection	2.583,5	4.394,5	4.891,1	5.392,5	5.945,2	6.554,6	7.226,4
6. Housing construction and utilities	31.139,9	33.691,5	37.498,6	41.342,2	45.579,8	48.066,9	52.993,7
7. Health	69.067,0	79.786,9	90.433,2	98.861,9	110.977,0	122.352,1	134.893,2
8. Recreation, culture and religion	6.397,1	7.254,3	8.074,1	8.901,7	9.814,1	10.820,0	11.929,1
9. Education	46.921,3	56.138,5	65.742,9	76.076,5	87.196,2	98.318,6	108.396,3
10. Social protection	251.891,8	281.250,7	308.140,9	334.332,9	362.656,8	393.274,6	426.358,8

**Expenditures for social welfare (without pensions) - % GDP**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Serbia									3,2	4,1
Bulgaria	4,2	3,3	2,8	2,1	2,6	2,4	3,3	4,0	3,7	...
Croatia	...	...	...	...	3,7	3,2	3,1	3,4	3,6	...
Hungary	...	...	...	...	6,7	7,0	5,9	5,5	...	...
Slovakia	...	...	6,8	7,8	6,3	6,7	6,8	6,1	...	...
Macedonia	...	...	...	...	3,3	3,1	4,2	3,7	2,6	2,3
Albania	5,0	3,2	2,7	2,6	2,4	1,9	1,7	1,6	...	...

### 3. Transition to a market economy

#### Reduction of energy poverty

**The Millennium Goal 1: Eradicate extreme poverty and hunger**  
**The Millennium Goal 2: Achieve universal primary education**  
**The Millennium Goal 3: Promote gender equality and empower women**  
**The Millennium Goal 4: Reduce child mortality**  
**The Millennium Goal 7: Ensure environmental sustainability**  
**The Millennium Goal 8: Develop a global partnership for development**

<b>Strategic objectives</b>	<b>Operative objectives</b>	<b>Activities</b>	<b>Implementation period</b>	<b>Responsible institution</b>
Provide sufficient heating for all	Overcome extreme energy poverty	National strategy for reduction of energy poverty	2003 – 2005	NGO Association of consumers Serbian Government
		Put in place the system for direct assistance in form of facilities, equipment, and materials having in mind the role of women in energy supply for households	2004 – 2010	NGO
		Reform the subsidies system in terms of directing subsidies towards vulnerable families	2003-2004	Municipal administrations MFE MEM MoSA
		Incentives for substituting electrical heating with other forms of energy	2003-2004	Municipal administrations MFE MEM MoSA
		Raise awareness among energy consumers	2003 – 2010	Association of consumers NGO
		Raise awareness among women in respect to efficient use of energy	2004-2010	NGO Association of consumers
	Re-direct subsidies towards the poor	Reform of tariff systems in electricity and district heating so that all costs reflect actual expenditures	2003-2005	Regulatory agency (to be founded three months upon adoption of reform energy law)

		By improved measurement and other measures reduce cross subsidies in district heating networks	2004-2010	MEM Agency for measurements and standards The judiciary
		Improve protection of rights and equality of consumers	2003-2006	Association of consumers Ministry of Justice
Reduce energy consumption per unit of national product	Reduce energy consumption in residential and public buildings	Upgrade the system of construction standards	2003-2004	MCUP SEEA <sup>138</sup>
		Reduce transaction fees in allocating residential space	2003 - 2004	MFP
		Apply construction standards on the ground	2004-2010	MCUP Municipal administrations
		System of assistance and subsidized micro credits to improved energy efficiency of buildings	2004-2010	MCUP Banks
		System of training the unemployed for trades related to improving energy efficiency	2004-2010	Labor market bureaus Ministry of Labour
	Radically reduce energy consumption in passenger traffic	Improving public transport	2004-2010	The City of Belgrade Ministry of Transport
		Reform of direct taxes and customs duties for motor vehicles	2005	MFE Municipal administrations
		Reform of the subsidies system in public transport	2005	MFE Municipal administrations

<sup>138</sup> SEEA – The Agency for Energy Efficiency was established in line with the Decree on the general secretariat and services of the Government of the Republic of Serbia. Based on the proposed Energy Law, an Agency for Energy Efficiency will be established with greater authorities which will then include the activities specified herein.

Improve environmental protection relative to energy generation activities	Reduce environmental impacts of traffic	Adopt a national strategy for abandoning motor vehicles on lead containing fuel	2005	MEM Ministry of Transport
		Abandon the use of motor vehicles running lead fuel	2004-2010	MEM Ministry of Transport
	Reduce environmental impacts of energy generation	Identify and put in place the program of measures for direct reduction of emissions from power generating plants based on the existing technology	2004- 2005	Ministry of Environment MEM Chamber of Commerce
		Feasibility study for accession to the Kyoto Protocol	2004	MRE, MPNRE Chamber of Commerce
		National CDM strategy	2004	NGO MRE, MPNRE Chamber of Commerce
		Adopt and implement the national strategy of forestation	2004 2004-2010	MRE, MPNRE Ministry of Labour and Employment
Improve efficiency in the energy sector	Increase effectiveness and safety in energy supply	Program of joining REM, UCTE and other strategic networking	2004 -2006	MEM
	Increase effectiveness in conversion of primary into final energy	National energy strategy	2003-2004	Serbian Government MEM NGO Professional organizations Chamber of Commerce
		Work out an energy balance and a system of energy statistics	2003-2004	Agency for Statistics MEM Chamber of Commerce
Introduce process supervision and monitoring	Establish a measuring and monitoring system	Questionnaires concerning energy consumption	2004-2010	Agency for Statistics Association of consumers
		Standards and indicators of energy efficiency	2004-2006	Agency for standardization Association of Consumers

**THE REPORT ON LEGISLATIVE ACTIVITIES OF THE  
GOVERNMENT OF THE REPUBLIC OF SERBIA<sup>139</sup>  
LAWS OF IMMEDIATE IMPORT FOR THE LIVING STANDARDS OF THE  
POPULATION IN THE REPUBLIC OF SERBIA**

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
<b>1. Law on Consumer Protection</b>	Ministry of Trade, Tourism and Services	End of 2003	<b>Note:</b> The issue of customer protection will be regulated within the context of the relevant trade laws.	Establishment of basic customer rights and method for exercising the rights
<b>2. Amendments to the Law on Social Protection and Provision of Citizens' Social Security</b>	Ministry of Social Affairs	<b>Preparation finalized</b> The Government of the RS adopted Law Proposal on December 5, 2002 and submitted it to the Parliament	In parliamentary procedure	Improvement of the living standard of the population in vulnerable financial position
<b>3. Law on Pension and Disability Insurance</b>	Ministry of Social Affairs	Enacted on April 4, 2003		-more equitable, more stimulating and a simpler method for the calculation of pensions; -more equitable burden distribution among the contributors; - creation of a possibility for pension increase;
<b>4. Law on Mandatory Social Insurance Contributions</b>	Ministry of Social Affairs	Third quarter of 2003  Working document finalized	<b>Note:</b> the implementing agency is the Ministry of Finance and Economy	Uniform regulation on mandatory social insurance system financing

<sup>139</sup> Ministry of International Economic Relations of the Republic of Serbia, Belgrade, July 2003

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
<b>5. Law on Voluntary Pension and Disability Insurance</b>	Ministry of Social Affairs	End of 2003	<b>Note:</b> the implementing agency is the Ministry of Finance and Economy <b>Problem:</b> extending timeline for the implementation and adoption of the Law due to the lack of appropriate financial conditions and institutions	Insurance providing a greater scope of rights than the mandatory pension and disability insurance
<b>6. Law on Confiscated Land Restitution and Compensation</b>	Ministry of Finance and Economy	Drafted	<b>Drafted – public discussion with all the relevant institutions to follow in July and August</b>	
<b>7. Law on Pledge of Registered Movables</b>	Ministry of International Economic Relations	<b>Enacted (effective from January 1, 2004)</b>	<b>Note:</b> establishment of a pledge registry is a necessary condition for the commencement of implementation of the Law. Unification of pledge registry, leasing registry, accounting registry and the registry of commercial entities into a single registry is planned (cooperation with the Ministry of Economy and Privatization, the Ministry of Finance and Economy and the National Bank)	-ensuring a high degree of legal security in debtor-creditor relations; -ensuring conditions for efficient and smooth credit transactions in the country
<b>8. Law on Mortgage</b>	Ministry of International Economic Relations	End of 2003	Cooperation with the National Bank and line ministries. First draft completed.	-ensuring favourable conditions for obtaining mortgage secured loans; -fast and reliable registration of mortgaged real estate and mortgages in public books; -efficient mortgage creditors settlement procedure.

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>9. Law on Free Access to Public Information</b>	Ministry of Culture and Public Information	<b>Law Proposal adopted by the Government of the RS on July 11, 2003</b>		-providing citizens with free access to information to ensure transparency and accountability in the operation of state bodies; -minimizing risk of the abuse of power of public administration bodies.
<b>10. Law on Drugs and Medical Items</b>	Ministry of Health	July 2003 In parliamentary procedure	<b>Law Proposal adopted by the Government of the RS</b>	
<b>11. Law on Health Protection</b>	Ministry of Health	Second half of 2003	Law Proposal completed, public discussion in progress. Proposal to be submitted to the Parliament in October 2003	
<b>12. Law on Health Insurance</b>	Ministry of Health	Second half of 2003	Law Proposal completed, public discussion in progress. Proposal to be submitted to the Parliament in October 2003	
<b>13. Law on Passenger Road Transport</b>	Ministry of Transport and Telecommunications	End of 2003	In preparation	Regulating the overall area of inland and international passenger road transport, with a clear definition of all forms of such transport
<b>14. Law on Telecommunications</b>	Ministry of Transport and Telecommunications	<b>Enacted on April 24, 2003</b>		
<b>15. Law on Postal Services</b>	Ministry of Transport and Telecommunications	2003		

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>16. Law on Tertiary Education</b>	Ministry of Education and Sports	In progress		-Increased efficiency of the tertiary education system; - Harmonization of the tertiary education system with European trends, especially through introduction of lecturing process control mechanisms
<b>17. Amendments to the Law on Personal Income Tax</b>	Ministry of Finance and Economy	<b>Enacted on November 26, 2002</b>		
<b>18. Law on Mandatory Social Insurance Contribution Bases and Rates</b>	Ministry of Finance and Economy	End of September 2003. Draft Law to be submitted to the Government of the RS	<b>Note:</b> cooperation with the Ministry of Social Affairs	Uniform regulation on mandatory social insurance system financing
<b>19. Law on Financial Assistance for Families with Children</b>	Ministry of Social Affairs	<b>Effective from June 1, 2002</b>		The Law has ensured more accurate targeting of the poorest families with children, abolished regional differences in terms of criteria, ensured maintenance of the real value of benefits and their continuity. The change in the procedure has allowed for budget savings of over 200 million dinars at annual level.

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>20. Law on Pension and Disability Insurance</b>	Ministry of Social Affairs	<b>Enacted on April 1, 2003</b>		
<b>21. Law on Health Insurance</b>	Ministry of Social Affairs	<b>October 2003</b>		
<b>22. Law on Employment and Unemployment Insurance</b>	Ministry of Labour and Employment	<b>Enacted on July 10, 2003</b>		

### **LAWS OF IMMEDIATE IMPORT FOR ECONOMY AND INDUSTRY**

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>1. Amendments to the Law on Privatization</b>	Ministry of Economy and Privatization	<b>Enacted on February 28, 2003</b>		-establishment of a clear ownership regime; -establishment of the optimum environment for strong foreign capital inflow; - establishment of strong corporate management; - establishment of an open, liberal economy; - supporting development of financial markets

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>2. Law on Privatization Agency</b>	Ministry of Economy and Privatization	<b>Enacted</b>		Establishment of the Agency as a legal entity which would promote, initiate, implement and control the privatization process, enable efficient privatization through its services, inform public about the results and the method of privatization
<b>3. Law on Shares Fund</b>	Ministry of Economy and Privatization	<b>Enacted</b>		Establishment of the Shares Fund as a legal entity representing the state in the privatization process during a specified period that will not exceed 6 years, obliged to sell the shares transferred to it under the Law, with the aim of stimulating financial markets
<b>4. Law on Chambers of Commerce</b>	Ministry of Economy and Privatization	<b>Enacted on November 21, 2003</b>		-unified definition of the chamber of commerce system in the RS; -ensuring equal treatment of all members and harmonizing the regulations with the relevant regulations in other European countries

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>5. Law on SME and Entrepreneurship Development Agency</b>	Ministry of Economy and Privatization	<b>Enacted on November 19, 2001</b>		Assistance for the start-up of small and medium enterprises and entrepreneurs, permanent education and informing SMEs and entrepreneurs
<b>6. Amendments to the Law on Public Companies and Activities of Public Interest</b>	Ministry of Economy and Privatization	<b>Enacted on May 15, 2002</b>		Allowing local self-governance units as the founders of public enterprises full freedom to initiate the foundation of public companies if in their economic interest
<b>7. Amendments to the Law on Private Entrepreneurs</b>	Ministry of Economy and Privatization	<b>Enacted on June 20, 2002</b>		Liberalization and simplification of the procedure for the registration of stores and retail outlets
<b>8. Law on Guarantee Fund</b>	Ministry of Economy and Privatization	<b>Enacted on May 27, 2003</b>		Promotion of SME and entrepreneurship development

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>9. Bankruptcy Law</b>	Ministry of Economy and Privatization	<b>Law Proposal adopted by the Government of the RS</b>		Streamlining bankruptcy procedures, and harmonizing them with the procedures for restructuring of legal entities in the course of privatization, and the reorganization and liquidation of enterprises in bankruptcy procedures, as a model of the implementation of the privatization of enterprises
<b>10. Law on Business and Entrepreneurship Registration</b>	Ministry of Economy and Privatization	July 2003	Law Proposal adopted by the Government and submitted to the Parliament. Proposal put on the agenda of the Parliament.	Establishment of a Central Registry of all commercial entities in the RS
<b>11. Company Law</b>	Ministry of Economy and Privatization	September 2003		

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
<b>12. Law on Foreign Investments</b>	Ministry of International Economic Relations	<b>Enacted</b>	Law adopted by the Federal Parliament	Establishment of a legal framework and a regime open to foreign investments, with the aim of efficient development of economy, strengthening its competitiveness, modernization of business activities, import of new equipment and modern technology, expanding export, harmonization of national regulations with the regulations of developed market economies
<b>13. Law on Concessions</b>	Ministry of International Economic Relations	<b>Enacted May 27, 2003 Official Gazette No. 55/2003</b>		-ensuring conditions for efficient implementation of concession activities, with a high level of legal security; -equal and just treatment of all participants in the procedure of giving concessions; -free market competition

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>14. Law on Pledge of Registered Movables</b>	Ministry of International Economic Relations	<b>Enacted (effective from January 1, 2004)</b>	<b>Note:</b> establishment of a pledge registry is a necessary condition for the commencement of implementation of the Law. Unification of pledge registry, leasing registry, accounting registry and the registry of commercial entities into a single registry is planned (cooperation with the Ministry of Economy and Privatization, the Ministry of Finance and Economy and the National Bank)	-ensuring a high level of legal security in debtor-creditor relations; -ensuring conditions for efficient credit transactions in the country
<b>15. Law on Investments and Export Facilitation Agency</b>	Ministry of International Economic Relations	<b>Preparation finalized The Government of the RS adopted Law Proposal on April 18, 2002 and submitted it to the Parliament</b>		The Agency is established in order to promote the economic development of the country, direct foreign investments and the export of goods and services.
<b>16. Law on Financial Leasing</b>	Ministry of International Economic Relations	<b>Enacted on May 27, 2003</b>		Enabling domestic commercial entities lacking funding for the purchase of equipment to obtain the equipment under favourable conditions, by means of repaying leasing installments.
<b>17. Law on International Trade Arbitration</b>	Ministry of International Economic Relations	October 2003	Draft prepared January 2001. Due to problems at the level of Federal Ministry of Justice not submitted for public discussion to date	Adoption of modern, liberal and simple rules regarding international trade arbitrage

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>18. Law on Mortgage</b>	Ministry of International Economic Relations	End of 2003	Cooperation with National Bank and line ministries. First draft completed.	-ensuring favourable conditions for obtaining mortgage secured loans; -fast and reliable registration of mortgaged real estate and mortgages in public books; -efficient mortgage creditors settlement procedure
<b>19. Law on Foreign Trade</b>	Ministry of International Economic Relations  Ministry of Trade, Tourism and Services	September-October 2003	Draft completed	Liberalization of foreign trade regime in the direction of its harmonization with the WTO requirements and the EU directives, taking into account the actual situation and the optimum requirements of domestic economy. Enactment of the identical versions of the Law in the RS and in Montenegro.
<b>20. Anti Trust Law</b>	Ministry of Trade, Tourism and Services	September-October 2003	Draft completed	Ensuring efficient competition allowing for maximum customer benefits
<b>21. Amendments to the Budget Law</b>	Ministry of Finance and Economy	<b>Enacted on April 2, 2003</b>		
<b>22. Law on Confiscated Land Restitution and Compensation</b>	Ministry of Finance and Economy		Drafted – to be followed by a public discussion with all the relevant institutions in July and August.	

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>23. Law on Local Self-Governance Infrastructure Development Agency</b>	Ministry of Finance and Economy	<b>Law Proposal adopted by the Government of the RS</b>		
<b>24. Law on Counter Guarantees Issued by the RS to the Federal Republic of Yugoslavia for Borrowing of the Cities Novi Sad, Kragujevac and Nis</b>	Ministry of Finance and Economy	<b>Enacted on February 28, 2003</b>		
<b>25. Anti Corruption Law</b>	Ministry of Finance and Economy		In preparation	
<b>26. Law on Value Added Tax</b>	Ministry of Finance and Economy	<b>In preparation January 1, 2004</b>	<b>In preparation Law Proposal to be submitted to the Government of the RS by September 30, 2003. Implementation planned to start from January 1, 2004.</b>	
<b>27. Amendments to the Law on Corporate Income Tax</b>	Ministry of Finance and Economy	<b>Enacted on April 22, 2003</b>	<b>New amendments November 2003</b>	Harmonization with VAT – November 2003
<b>28. Amendments to the Law on Excise</b>	Ministry of Finance and Economy	<b>Enacted on April 22, 2003</b>	<b>New amendments November 2003</b>	Harmonization with VAT – November 2003
<b>29. Amendments to the Law on Property Tax</b>	Ministry of Finance and Economy	<b>Enacted on November 26, 2002</b>	<b>New amendments November 2003</b>	Harmonization with VAT – November 2003
<b>30. Amendments to the Law on Financial Transactions</b>	Ministry of Finance and Economy	<b>Enacted on April 22, 2003</b>		Harmonization with VAT – November 2003
<b>31. Amendments to the Law on Sales Tax</b>	Ministry of Finance and Economy	<b>Enacted on July 10, 2003</b>	The Government adopted Law Proposal on July 19, 2003, and submitted it to the Parliament in urgent procedure. <b>New amendments November 2003</b>	Harmonization with VAT – November 2003
<b>32. Amendments to the Law on Personal Income Tax</b>	Ministry of Finance and Economy	<b>Enacted on November 26, 2002</b>	<b>New amendments November 2003</b>	Harmonization with VAT – November 2003

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>33. Law on Trade</b>	Ministry of Trade, Tourism and Services	End of 2003	<b>Note:</b> new republic law in preparation	Market operations, conducting business based on market principles, implementation of the RS trade development strategy and policy
<b>34. Law on Electronic Sales</b>	Ministry of Trade, Tourism and Services	Mid 2003	<b>Drafted. Public discussion finalized</b>	Determining conditions for electronic business i.e. electronic sales and control methods
<b>35. Law on Tourism</b>	Ministry of Trade, Tourism and Services	September 2003	<b>Proposal in parliamentary procedure</b>	Establishment of normative and legal conditions for the development of an integral tourist product, requiring a planning system, identified sources of financing and the promotion of the development of tourism.
<b>36. Law on Prices</b>	Ministry of Trade, Tourism and Services	End of 2003		Implementation of the concept of free price formation for goods and services, implying freedom of commercial entities to form prices based on full competition, i.e. market economy principles

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>37. Law on Advertising (Marketing)</b>	Ministry of Trade, Tourism and Services	Mid 2003	<b>Law Proposal drafted and will be submitted to the Government of the RS in July 2003.</b>	Regulation of the area of advertising, promotion of market competition and market conduct of commercial entities
<b>38. Law on Goods and Services Market Inspection</b>	Ministry of Trade, Tourism and Services	End of 2003		Determining the competencies of market inspection and a more clearly defined segregation of competencies with respect to other inspection services, determining competencies, rights and duties of market inspectors, prescribing inspection and supervision measures
<b>39. Law on Tobacco</b>	Ministry of Trade, Tourism and Services in coordination with Ministry of Finance and Economy	<b>Enacted on February 25, 2003</b>		
<b>40. Law on Public Skiing Venues</b>	Ministry of Trade, Tourism and Services	Mid 2003	<b>Draft completed, in the procedure before the Government of the RS</b>	Defining the term public skiing venue and all measures relating to the performance of activities, determining conditions for planning, development and marking of skiing venues, safety on public skiing venues

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>41. Law on Roads</b>	Ministry of Transport and Telecommunications	Mid 2003	Draft completed – public discussion to follow	Implementation of a new strategy of the regulation of the area of public roads in compliance with the EU legislation, taking into account changed international position of our country
<b>42. Law on Transport and Road Safety</b>	Ministry of Transport and Telecommunications	End of 2003	In preparation	Improvement of road safety by modernizing the existing law and the harmonization of legislation with the legislation applicable in the EU
<b>43. Law on Cargo Road Transport</b>	Ministry of Transport and Telecommunications	End of 2003	In preparation	Comprehensive regulation of inland and international cargo transport and limiting grey economy in this area
<b>44. Law on Hazardous Substances Transport</b>	Ministry of Transport and Telecommunications	End of 2003	Drafting initiated in cooperation with the Ministry of Internal Affairs and the Ministry for Protection of Natural Resources and Environment.	
<b>45. Law on Passenger Road Transport</b>	Ministry of Transport and Telecommunications	End of 2003	In preparation	Regulating the overall area of inland and international passenger road transport, with a clear definition of all forms of such transport
<b>46. Law on the Annulment of the Law on the Foundation of Public Air Transport Company</b>	Ministry of Transport and Telecommunications	Mid 2003		Harmonization with the Law on Public Companies from 2000.

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>47. Law on Internal Navigation</b>	Ministry of Transport and Telecommunications	End of 2003	Drafted	
<b>48. Law on Telecommunications</b>	Ministry of Transport and Telecommunications	<b>Enacted on April 24, 2003</b>		
<b>49. Law on Postal Services</b>	Ministry of Transport and Telecommunications	2003		
<b>50. Law on Health Protection</b>	Ministry of Health	Second half of 2003		
<b>51. Law on Health Insurance</b>	Ministry of Health	Second half of 2003		
<b>52. Law on Physical and Technical Security</b>	Ministry of Internal Affairs	<b>Preparation finalized</b> The Government of the RS adopted Law Proposal and submitted it to the Parliament		Regulating terms, scope and conditions for performing the activities of physical and technical security, prescribing greater degree of control by relevant state authorities, especially taking into account that many developed countries have separate laws regulating the above issues

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
53. Law on Energy	Ministry of Energy and Mining	<b>The Government of the RS adopted Law Proposal, currently in parliamentary procedure</b>		Providing a single development policy and creating conditions for constant and balanced development of strategically important activities in this area. Inclusion of all areas with the aim of satisfying the needs of the economy and the population for energy products and services. More efficient operation of all entities performing energy activities and harmonization with the EU regulations.

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>54. Amendments to the Law on Mining</b>	Ministry of Energy and Mining	Draft Law to be submitted to the Government of the RS in the second half of 2003		Providing a single development planning policy in the area of mining, harmonization with the needs of market-based operations, as well as with the EU regulations. Decreased influence of the state in the planning process in the area of mining, stimulation of private sector growth, and domestic and foreign investments. Environmental impact and protection.
<b>55. Law on Republic Administrative Fees</b>	Ministry of Justice	<b>Enacted on April 22, 2003</b>		
<b>56. Amendments to the Law on Securities and Other Financial Instruments Markets</b>	Ministry of Finance and Economy	<b>Enacted on May 30, 2003</b>	<b>Implementation deferred, new amendments to follow In parliamentary procedure – September 2003.</b>	
<b>57. Anti Money Laundering Law</b>	Ministry of Finance and Economy	<b>Parliament September 2003</b>		
<b>58. Law on National Housing Credit Corporation</b>	Ministry of Finance and Economy	<b>Parliament September 2003</b>		
<b>59. Law on Deposit Insurance</b>	Ministry of Finance and Economy	<b>Parliament September 2003</b>		
<b>60. Law on Bank Rehabilitation, Bankruptcy and Liquidation</b>	Ministry of Finance and Economy	<b>Parliament September 2003</b>		
<b>61. Law on Deposit Insurance Agency</b>	Ministry of Finance and Economy	<b>Parliament September 2003</b>		
<b>62. Law on Rail</b>	Ministry of Transport and Telecommunications	<b>Law Proposal in parliamentary procedure (July 2003)</b>		

## SYSTEM LAWS

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
1. Company Law	Ministry of Economy and Privatization	September 2003	Being drafted	
2. Law on Bankruptcy	Ministry of Economy and Privatization	Law Proposal adopted by the Government of the RS		Streamlining bankruptcy procedures, and harmonizing them with the procedures for restructuring of legal entities in the course of privatization, and the reorganization and liquidation of enterprises in the bankruptcy procedure, as a model of the implementation of the privatization of enterprises
3. Law on Business and Entrepreneurship Registration	Ministry of Economy and Privatization	July 2003	Law Proposal adopted by the Government of the RS in July 2003. On the agenda of the session of the Parliament.	Establishment of a single electronic registry of all commercial entities in the RS
4. Law on Pledge of on Registered Movables	Ministry of International Economic Relations	Enacted On May 30, 2003	Note: establishment of a pledge registry is a necessary condition for the commencement of implementation of the Law. Unification of pledge registry, leasing registry, accounting registry and the registry of commercial entities into a single registry is planned (cooperation with the Ministry of Economy and Privatization, the Ministry of Finance and Economy and the National Bank)	-ensuring a high degree of legal security in debtor-creditor relations; -ensuring conditions for efficient and smooth credit transactions in the country

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
5. Law on the RS Aviation	Ministry of Transport and Telecommunications	In the final stage of preparation	<b>Note:</b> worldwide experiences which are primarily based on the maintenance and improvement of air transport safety set an imperative that air transport be single and unified	Establishment of a single aviation authority as the executive authority in the area of air transport, easily recognizable to all domestic and international air transport entities, in accordance with the worldwide accepted practice and the recommendations of ICAO
6. Law on Ministries	Ministry of Public Administration and Local Self-Government	<b>Enacted on April 2, 2003</b>		Overall administration system building and the creation of the preconditions for its functioning on new, reformed bases, harmonization with modern comparative law standards and solutions of the EU legislation, and defining conditions for the establishment of public administrative bodies and redefining the functions of officials and staff in public administration.
7. Law on Agriculture	Ministry of Agriculture and Water Management		<b>Drafting of the law planned upon the finalization of the national strategy</b>	Comprehensive regulations pertaining to current and development incentives in agriculture, terms and conditions for agricultural land development, terms and conditions for use of the state owned agricultural land,

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
				etc.
<b>8. Law on Veterinary Medicine</b>	Ministry of Agriculture and Water Utility	End of 2003	<b>Drafting in progress</b>	Harmonization with the EU and the proposal of a new concept for public veterinary service to provide more rational and efficient performance in this area.
<b>9. Amendments to the Law on Primary Education</b>	Ministry of Education and Sports	In progress		Creating space for active participation of all the stakeholders in the education process, promoting the autonomy of schools, respecting the principle of accessible education, and exercising rights to universal high-quality education, unifying teaching courses into educational segments
<b>10. Amendments to the Law on Secondary Education</b>	Ministry of Education and Sports	In progress		Creating space for active participation of all the stakeholders in the education process, promoting the autonomy of schools, respecting the principle of accessible education, and exercising rights to universal high-quality education, unifying teaching courses into educational segments
<b>11. Law on Tertiary Education</b>	Ministry of Education and Sports	In progress		-increasing efficiency in tertiary education; - harmonizing tertiary education system with

LAW	RELEVANT MINISTRY	TIMELINE FOR PREPARATION	NOTES/POTENTIAL PROBLEMS	OBJECTIVE
				European tendencies, primarily by introducing teaching process control mechanisms
<b>12. Amendments to the Law on Sports</b>	Ministry of Education and Sports	In the course of 2003	In preparation	System upgrading, elimination of identified shortcomings, raising financial discipline, harmonization with international standards, harmonization with new republic regulations under the Autonomous Province and local self-governance authorities, associations and private entrepreneurship
<b>13. Law on Privatization in Sport Industry</b>	Ministry of Education and Sports	Second half of 2003	<b>Potential problem:</b> lack of awareness about the advantages of new property and organizational structure of sports, opposition of the existing management in major sport organizations	Transformation and privatization of socially owned capital in the non-profit sector as a necessary step in the conditions of accelerated privatization of economy, establishment of autonomous privatization regime in the area of sports, regulation of ownership relations in sport and financing
<b>14. Law on Public Information</b>	Ministry of Culture and Public Information	<b>Enacted on April 22, 2003</b>		
<b>15. Family Law</b>	Ministry of Social Affairs	End of 2003	Drafting in progress, to be followed by public discussion	Ensuring the implementation of major international instruments applicable in our situation, and the harmonization of solutions with the

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
				European legislation, modern perceptions of family relations and the position of children in light of the overall social changes.
<b>16. Amendments to the Law on Health Protection, and the Law on Health Insurance</b>	Ministry of Health			
<b>17. Amendments to the Law on Health Protection, and the Law on Health Insurance</b>	Ministry of Health		Drafted	
<b>18. Law on Police</b>	Ministry of Internal Affairs	In preparation	With the enactment of this Law, following the recent enactment of the Law on Criminal Procedure and the Law Security Intelligence Agency, the obligations of our country pertaining to legislation regulating this area would be fulfilled.	Police reform, redefining police competencies, implementation of the European Police Code of Ethics, establishment of governmental and parliamentary supervision over the police.
<b>19. Law on Police Education Institutions</b>	Ministry of Internal Affairs	In preparation	This Law would regulate only the issues pertaining specifically to police education, and all other issues would be governed by the regulations regulating the overall education system.	- establishment of a single organizational basis for a comprehensive reform of police education; - ensuring positive legal conditions for such reform and a legal framework which would provide for an adequate development of police education in a long-term period.
<b>20. Law on Social Protection System</b>	Ministry for Protection of Natural Resources and Environment	<b>Law Proposal adopted by the Government of the RS on May 15, 2002</b>		Harmonization with the EU regulations. Comprehensive regulation of the area of the sustainable exploitation of

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
				natural resources, natural values and environment covering all factors: air, water, land and flora and fauna.
<b>21. Law on Waste Management</b>	Ministry for Protection of Natural Resources and Environment	September 30, 2003	Drafting planned for the period following the finalization and the enactment of the National Waste Management Strategy (in the final stage) March 1, 2003	Comprehensive management of various categories of waste by hierarchy: collecting, segregation, recycling, disposal treatment, and compliance with the EU regulations.
<b>22. Law on Academic Research</b>	Ministry of Science, Technology and Development	End of 2003	Direct impact on the economy and industry and indirect impact on the living standard of the population	Harmonization with the EU standards and regulations.
<b>23. Law on Innovation System</b>	Ministry of Science, Technology and Development	End of 2003	Direct impact on the economy and industry and indirect impact on the living standard of the population	Harmonization with the EU standards and regulations.
<b>24. Law on Electronic Business Transactions and Digital Signature + bylaws</b>	Ministry of Science, Technology and Development	<b>Law Proposal adopted by the Government of the RS</b>	Direct impact on the economy and industry and indirect impact on the living standard of the population	Harmonization with the EU standards and regulations.

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>25. Law on Planning and Construction</b>	Ministry of Construction and Urban Planning	<b>Enacted on April 22, 2003</b>	The text of this Proposal unifies four laws regulating this area, namely: - Law on Constructions - Law on Planning and Physical and Urban Development - Law on Construction Land - Law on Special Conditions For Issuance of Construction, i.e. Use Permit for Specific Facilities	Ensuring conditions for: - investment of local and foreign capital in the construction of facilities to promote economic growth - sales and legal security in terms of construction land - conditions for the development and updating of real estate cadastre - elimination and prevention of illegal construction - legalization of illegal constructions -deregulation and acceleration of procedure in the process of planning and construction of all types of facilities
<b>26. Law on Election of MPs into the Parliament of Serbia and Montenegro</b>	Ministry of Justice	<b>Enacted on February 13, 2003</b>		
<b>27. Amendments to the Law on the Organization and responsibilities of State Agencies in Anti Organized Crime Activities</b>	Ministry of Justice	<b>Enacted on March 19, 2003</b>		
<b>28. Law on Terms and Procedures for Amending the Republic of Serbia's Constitution</b>	Ministry of Justice	<b>Enacted on April 11, 2003</b>		
<b>29. Amendments to the Federal Republic of Yugoslavia's Penal Code</b>	Ministry of Justice	<b>Enacted on April 11, 2003</b>		
<b>30. Law on</b>	Ministry of Justice	<b>Enacted</b>		

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>Republic Administrative Fees</b>		<b>on April 22, 2003</b>		
<b>31. Amendments to the Law on Central Registry</b>		<b>Enacted on May 30, 2003</b>		
<b>32. Framework Law on Education System</b>	Ministry of Education and Sports	<b>Enacted on June 17, 2003</b>		
<b>33. Amendments to the Law on the Republic of Serbia's Budget for 2003</b>	Ministry of Finance and Economy	<b>Enacted</b>		
<b>34. Law on the National Bank of Serbia</b>	Ministry of Finance and Economy	<b>Enacted</b>		
<b>35. Customs Law</b>	Ministry of Finance and Economy	<b>Enacted</b>		
<b>36. Law on Public Debt</b>	Ministry of Finance and Economy	<b>Proposal to be submitted to the Parliament in September 2003</b>		
<b>37. Law on the Republic of Serbia's Budget for 2004</b>	Ministry of Finance and Economy	<b>Autumn 2003</b>		
<b>38. Law on the Level of Funding and the Shares in Payroll Tax and Sales Tax by Municipalities and Towns for 2004</b>	Ministry of Finance and Economy	<b>Autumn 2003</b>		
<b>39. Law on Insurance</b>	Ministry of Finance and Economy	<b>Proposal to be submitted to the Parliament in September 2003</b>		
<b>40. Amendments to the Law on Payment System</b>	Ministry of Finance and Economy	<b>Proposal to be submitted to the Parliament in September 2003</b>		
<b>41. Amendments to the Law on Foreign Currency Transactions</b>	Ministry of Finance and Economy	<b>Proposal to be submitted to the Parliament in September 2003</b>	Law will be proposed as a result of proposing the Law on Public Debt	
<b>42. Amendments to the Law on Tax Procedure and Tax Administration</b>	Ministry of Finance and Economy	<b>Enacted on July 10, 2003</b>		
<b>43. Amendments to the Law on Excise</b>	Ministry of Finance and Economy	<b>Enacted in July 2003</b>		

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>	<b>NOTES/POTENTIAL PROBLEMS</b>	<b>OBJECTIVE</b>
<b>44. Amendments to the Law on Banks and Other Financial Institutions</b>	Ministry of Finance and Economy	<b>Enacted in July 2003</b>		
<b>45. Law on Political Parties Financing</b>	Ministry of Finance and Economy	<b>Enacted</b>		
<b>46. Law on Counter Guarantees Закон Issued by the Republic of Serbia to Serbia and Montenegro as a Guarantor of a Loan from the European Bank for Reconstruction and Development for the Republic Directorate for Roads</b>	Ministry of Finance and Economy	<b>Enacted on July 10, 2003</b>		

#### **OTHER LAWS**

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>
<b>1. Law on Medical Workers' Chambers</b>	Ministry of Health	<b>Law Proposal adopted by the Government of the RS and submitted to the Parliament in July 2003</b>
<b>2. Law on Biomedical Artificial Insemination</b>	Ministry of Health	Draft Law to be submitted to the Government of the RS in October 2003
<b>3. Law on Harvesting and Transplantation of Human Organs</b>	Ministry of Health	Draft Law to be submitted to the Government of the RS in October 2003
<b>4. Law on Health Safety of Food Stuffs and General Goods</b>	Ministry of Health	
<b>5. Law on Sanitary Inspection</b>	Ministry of Health	
<b>6. Law on the Rights of Veterans, Military Invalids, Civilian War Victims and their Survivors</b>	Ministry of Social Affairs	Drafting in progress, closing date for preparation being end of 2003
<b>7. Law on Records, Development and Maintenance of Memorial Sites and Serbian Veteran Cemeteries in the Country and Abroad and Foreign Soldiers Cemeteries in the territory of the RS</b>	Ministry of Social Affairs	
<b>8. Law on the Protection of the Family Members of the Military</b>	Ministry of Social Affairs	

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>
<b>Service Conscripts</b>		
<b>9. Law on Cultural Heritage</b>	Ministry of Culture and Public Information	Drafting in progress
<b>10. Law on Cinematography/ Law on Cinematography Fund</b>	Ministry of Culture and Public Information	Second half of 2003
<b>11. Law on Publishing</b>	Ministry of Culture and Public Information	Working document in preparation
<b>12. Law on Libraries</b>	Ministry of Culture and Public Information	
<b>13. Amendments of the Law on Artistic and Other Activities in the Area of Culture</b>	Ministry of Culture and Public Information	<b>Law Proposal submitted to the Parliament on November 15, 2002</b>
<b>14. Law on Preprimary Education</b>	Ministry of Education and Sports	Mid 2003
<b>15. Law on Student Associations</b>	Ministry of Education and Sports	Mid 2003
<b>16. Law on Prevention of Doping in Sport</b>	Ministry of Education and Sports	<b>In parliamentary procedure</b>
<b>17. Law on Public Skiing Venues</b>	Ministry of Education and Sports in cooperation with Ministry of Trade, Tourism and Services	Mid 2003
<b>18. Civil Service Labour Code</b>	Ministry of Public Administration and Local Self-Government	
<b>19. Law on Political Organizations</b>	Ministry of Public Administration and Local Self-Government	
<b>20. Law on Inspection Supervision and Administrative Inspection</b>	Ministry of Public Administration and Local Self-Government	In progress
<b>21. Law on Spas</b>	Ministry of Trade, Tourism and Services	2003
<b>22. Amendments to the Law on Terms and Conditions of Approving Rights and Restituting Land Transferred in Social Ownership on the Basis of Agricultural Land Fund and Confiscated on the Basis of Unfulfilled Obligations of Mandatory Buyout of Agricultural Production</b>	Ministry of Finance and Economy	Drafted, to be followed by a public discussion
<b>23. Law on Financing of Political Organizations</b>	Ministry of Finance and Economy	<b>Law Proposal adopted by the Government of the RS in July 2002, and submitted to the Parliament</b>
<b>24. Law on Prevention of the Conflict of Public and Private Interest in Performance of Public Functions</b>	Ministry of Finance and Economy	
<b>25. Law on Agency for Rural Development</b>	Ministry of Agriculture and Water Utility	Preparation planned
<b>26. Law Against Violence and Improper Conduct in Sport Events</b>	Ministry of Internal Affairs	<b>Enacted on July 1, 2003</b>
<b>27. Law on Protection Against Non-ionizing Radiation</b>	Ministry for Protection of Natural Resources and Environment	<b>Law Proposal adopted by the Government of the RS on November 14, 2002</b>
<b>28. Law on Fisheries</b>	Ministry for Protection of Natural Resources and Environment	November 2003

<b>LAW</b>	<b>RELEVANT MINISTRY</b>	<b>TIMELINE FOR PREPARATION</b>
<b>29. Law on Forest Trees Reproductive Material</b>	Ministry for Protection of Natural Resources and Environment	November 2003
<b>30. Geology Law</b>	Ministry for Protection of Natural Resources and Environment	First half of 2004
<b>31. Law on Agency for Serbian Academic Computer Network</b>	Ministry of Science, Technology and Development	End of 2003
<b>32. Amendments to the Law on Misdemeanour Penalties</b>	Ministry of Justice	<b>July 2003. In parliamentary procedure</b>
<b>33. Law on the Rehabilitation of Political Convicts and Prisoners</b>	Ministry of Justice	July 2003
<b>34. Amendments to the Law on Court Organization</b>	Ministry of Justice	<b>Enacted on March 19, 2003</b>
<b>35. Amendments to the Law on Judges</b>	Ministry of Justice	<b>Enacted on March 19, 2003</b>
<b>36. Amendments to the Law on Public Prosecutors' Office</b>	Ministry of Justice	<b>Enacted on April 11, 2003</b>
<b>37. Amendments to the Law on High Judicial Alliance</b>	Ministry of Justice	<b>Enacted on April 11, 2003</b>
<b>38. Amendments to the Law on Court and Public Prosecutors Seats and Districts</b>	Ministry of Justice	<b>Enacted in April 2003</b>
<b>39. Law on Terms and Conditions for Performance of Court Expertise</b>	Ministry of Justice	July 2003
<b>40. Amendments to the Law on Arms and Ammunition</b>		<b>Enacted on April 11, 2003</b>
<b>41. Law on the Annulment of the Law on Yugoslav Chamber of Commerce</b>	Ministry of Economy and Privatization	<b>Enacted on May 27, 2003</b>
<b>42. Law on Accountability for Human Rights Violation</b>		<b>Enacted on May 30, 2003</b>
<b>43. Law on Narcotic Precursors</b>	Ministry of Health	<b>End of 2003</b>
<b>44. Law on Production and Trading of Narcotics</b>	Ministry of Health	<b>End of 2003</b>



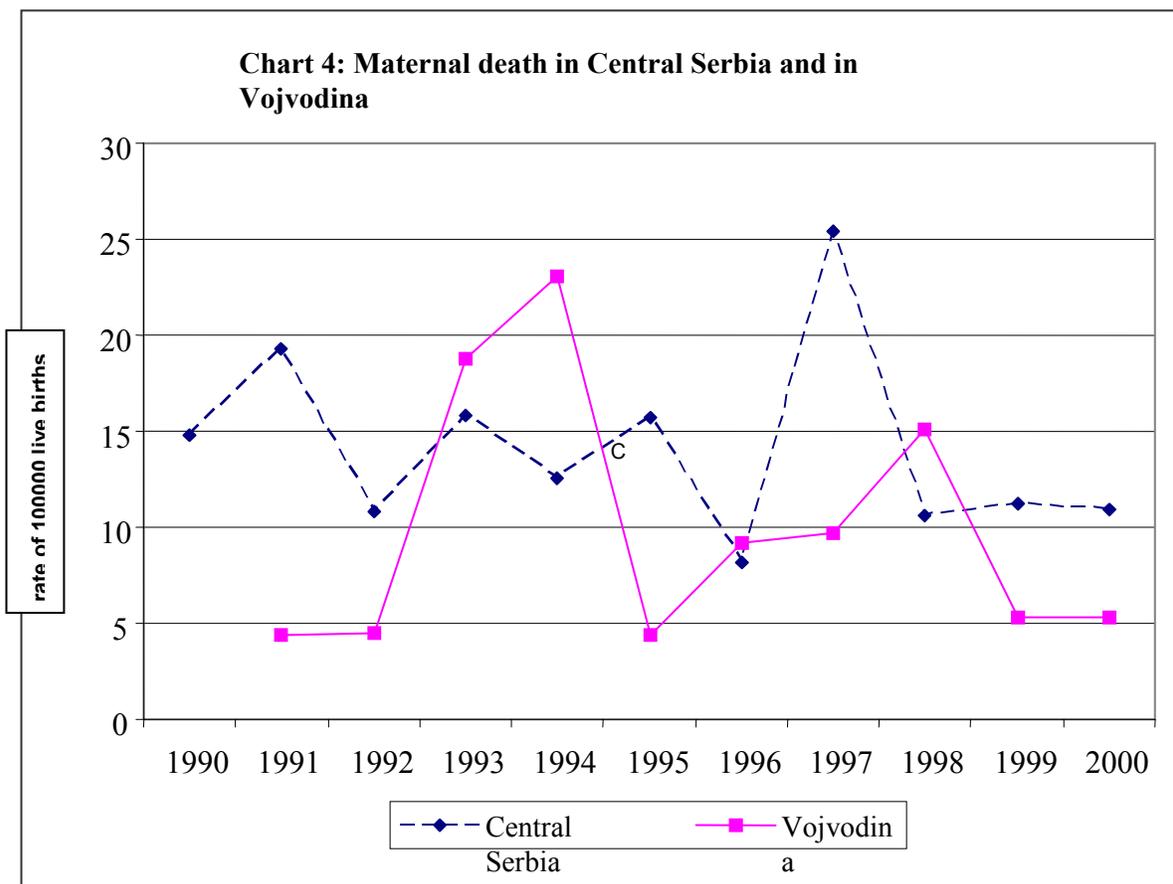
### III STRATEGIC OPTIONS FOR POVERTY REDUCTION IN SERBIA

Health aspects of poverty reduction

**Table B1: Changes in life expectancy at birth in Central Serbia and Vojvodina**

Changes in life expectancy at birth by gender	Central Serbia	Vojvodina
Changes for male newborns 2000/1991	0,29	0,95
Changes for female newborns 2001/1991	0,07	-0,76
Difference between male and female newborns 2001	5,23	5,60
Best levels for male newborns during the observed period	11,71	5,60
Best levels for female newborns during the observed period	1994/95 70,06	1994/95 68,29
Worst levels for male newborns during the observed period	1992/93 69,10	1991/92 66,33
Worst levels for female newborns during the observed period	2000/01 75,16	1994/95 73,59

#### Maternal death in Central Serbia and in Vojvodina



### Medical coverage and utilisation of primary health care services in the Republic of Serbia in 2000

Service	Number of citizens per		Average number of visits per capita per		Average number of visits during a working day	
	physician	medical nurse	physician	medical nurse	physician	medical nurse
General practice (19 +)	1864	1056	2.6	2.8	23.5	35.2
Preschool child health care (0 – 6 years)	769	438	6.5	4.7	18.3	7.6
School child health care (7 – 18 years)	1950	1350	2.9	1.7	21.1	23.0
Women health care (15+)	5390	3300	0.6	0.4	11.8	4.5
Occupational medicine (working force)	2804	2068	1.7	1.1	17.5	8.4

### Expenditures for the health care per capita (USD), Republic of Serbia, Kosovo and Metohija excluded

Year	Expenditures for health care in thousands YUM <sup>1)</sup>	Population of the Republic of Serbia, Kosovo and Metohija excluded <sup>1)</sup>	Number of refugees	Total number of population (column 2+3)	Expenditures for health care per capita in YUM	Expenditures for health care per capita in USD	
						According to the official exchange rate of the NBJ <sup>5)</sup>	According to the market exchange rate of the NBJ <sup>6)</sup>
1996	5643275	7844000	705622 <sup>3)</sup>	8549622	660,06	132,90	121,00
1997	7655534	7828000	705622 <sup>3)</sup>	8533622	897,10	156,70	128,20
1998	8877799	7807000	705622 <sup>3)</sup>	8512622	1042,90	111,60	98,80
1999	10891415	7822795	615000 <sup>4)</sup>	8437795	1290,78	117,30	53,40
2000	19438498	7747000	615000 <sup>4)</sup>	8362000	2324,62	139,20	41,60
2001	40968165 <sup>2)</sup>	7727000	615000 <sup>4)</sup>	8342000	4911,07	74,00	74,00

**Source:**

<sup>1); 3)</sup> Statistic Year Book of the Republic of Serbia 1998- 2002 Belgrade: Republic Statistic Bureau

<sup>2)</sup> Decision on adoption of the annual financial statement for 2001 - Official Gazette of the Republic of Serbia number 10/02.

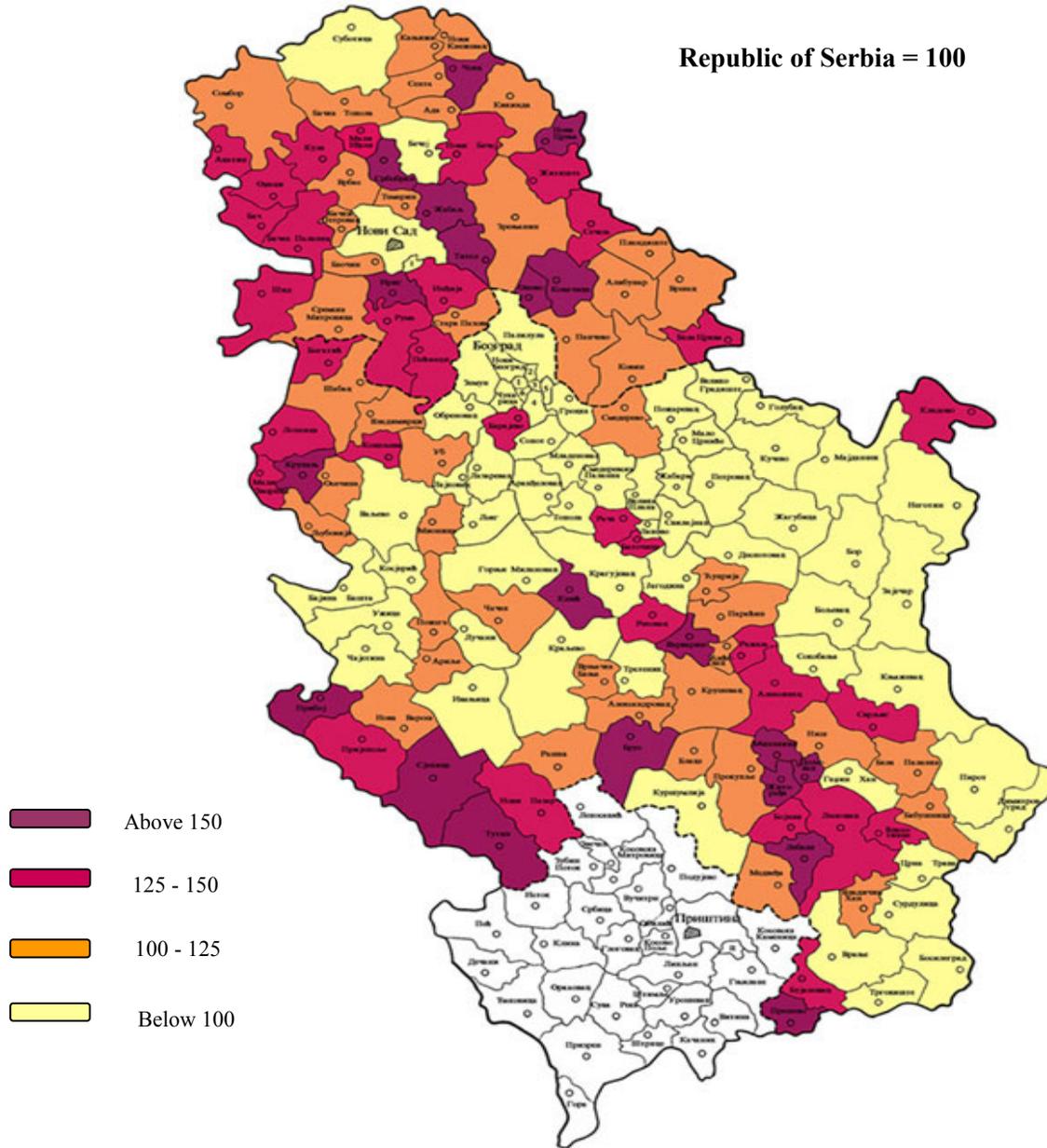
<sup>4)</sup> Commissariat for Refugees of the Republic of Serbia

<sup>5)</sup> Bulletin of the NBJ XXIII year, number 11, November 2002; Bulletin NBJ XXII year, number 11, November 1995.

<sup>6)</sup> Fluctuation of market rates. NBJ Publication, 2001.

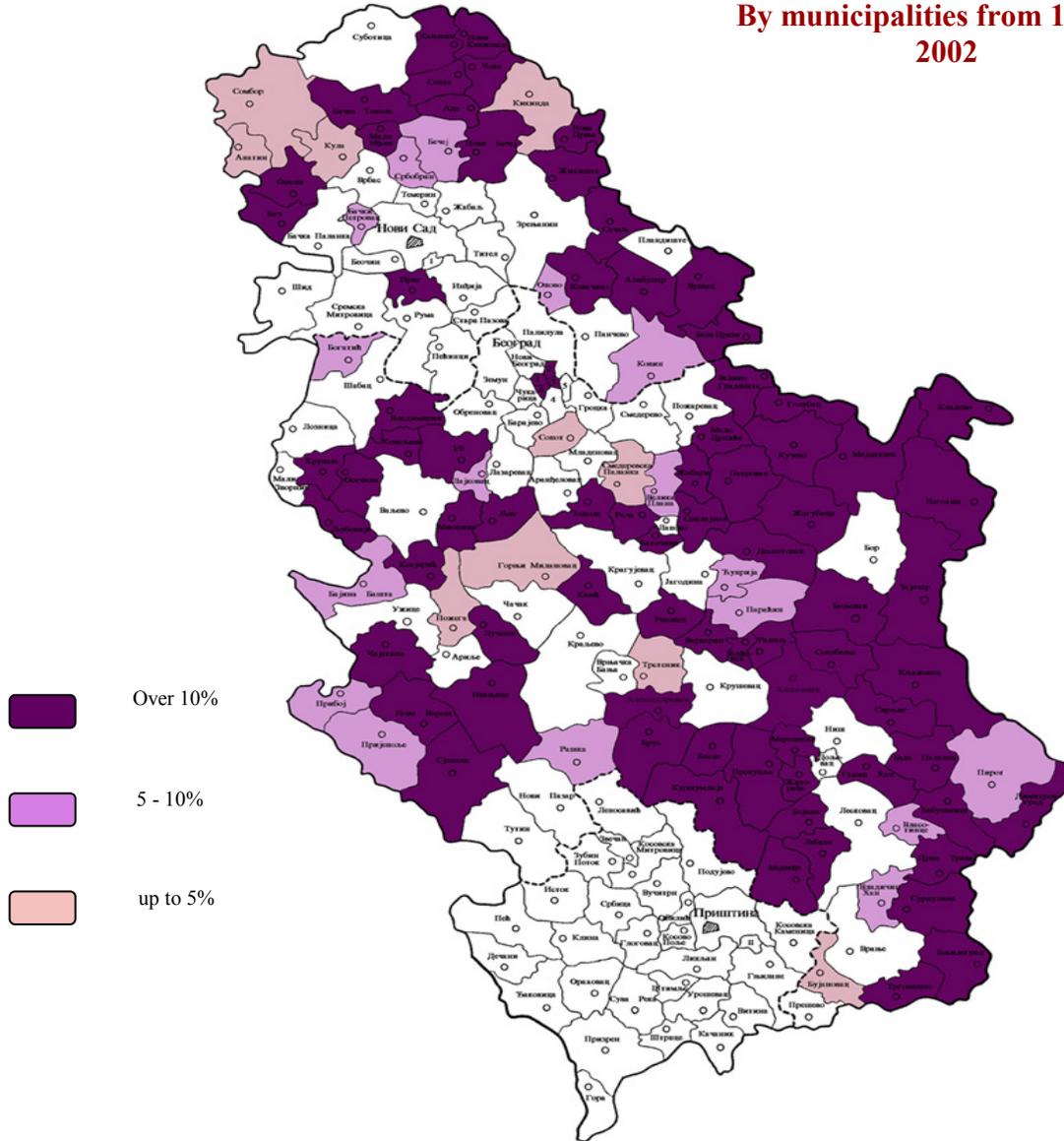
## Regional aspects of poverty reduction

### Regional poverty, unemployment in 2002



## Decrease in number of inhabitants

By municipalities from 1971 till  
2002



### Categorization of areas, tools and priorities

Region	Tools of development and regional policies	Programme and development priorities
<b>UNDERDEVELOPED REGIONS</b>		
Tutin, Presevo, Zabari, Malo Crnice, Zitoradja, Doljevac, Vladimirci, Razanj, Bujanovac, Petrovac, Golubac, Bojnik, Zagubica, Kucevo, Osecina, Mali Zvornik, Mionica, Sjenica,	Establishing a Fund for development aimed at stimulating underdeveloped regions in Serbia (or transforming of the existing Fund for development); Adoption of the law on tools for stimulation of development of underdeveloped regions in Serbia; Creation of a special Agency for	Institutional frame; Defining stable financial sources; Programme-development preparation and staff training; Providing necessary economic and social infrastructure; Structural changes;

<p>Koceljeva, Krupanj, Prijepolje, Ljubovija, Rekovac, Vlasotince, Merosina, Trgoviste, Surdulica, Bosilegrad, Lebane, Medvedja, Gadzin Han, Babusnica, Blace, Kursumlija, Brus, Crna Trava, Zitiste.</p> <p>37 municipalities ( 702.729 inhabitants)</p>	<p>development of Southern Serbia with a head office in Leskovac; Selective measures aimed at the realization of programmes for revitalization of villages in highland areas; Selective measures for the realization of credit, tax and stimulative policies aimed at realization of programmes of development of border areas; Direct support to programme and development preparation in support to municipalities; Protective measures and improvement in environmental protection, especially concerning forests and water sources; Financing of staff training, regional and town planning, scientific and geological research; Set of measures stimulating faster development of SMEs: Deregulation – simplification of conditions and procedures for establishment of SMEs (establishment of a Centre for Deregulation); Linking and establishing cooperation between SMEs and big enterprises; Including SMEs in public procurement of various goods, for example, uniforms, school furniture, hospital supplies, construction materials , etc. ; Realization of sets of measures for demographic revitalization.</p>	<p>Selective agricultural development; Development of SMEs and entrepreneurship (council centres, removal of legal barriers); Organization and urban planning and rationalization of housing network; Environmental protection and preservation; Selective revitalization of villages; Redirection of demographic flows; Development of tourism at Golija and in spas.</p>
<b>THE MOST UNDERDEVELOPED REGIONS</b>		
<p>Bosilegrad, Bujanovac, Medvedja, Presevo, Crna Trava, Gadzin Han, Trgoviste, Bojnik, Zitoradja, Kursumlija, Tutin, Zagubica</p> <p>12 municipalities ( 216.106 inhabitants)</p>	<p>Best conditions for usage of all stimulating mechanisms; Significant changes in market conditions for investments; All types of financial support; The most favourable conditions for granting credits to SMEs; Creation of municipal funds for development of SMEs; Infrastructural equipment for micro locations; Grants for construction of housing for IDPs and refugees; Construction of official housing; Incentive income for staff who decide to come to and work in this region for a certain period; Grants aimed at development of regional and town plans, scientific and geological researches.</p>	<p>Adoption of operative programmes aimed at development of all municipalities with specified responsibilities and time frame; Complex programme of demographic development; Complementary development of industry, agriculture, infrastructure and social standards; Selective revitalization of villages.</p>

<b>SOUTHERN SERBIA (COMPACTLY UNDERDEVELOPED REGION)</b>		
<p>Medvedja, Presevo, Zitoradja, Doljevac, Bujanovac, Bojnik, Vlasotince, Meresina, Trgoviste, Surdulica, Bosilegrad, Lebane, Crna Trava, Blace, Babusnica, Kursumlija, Prokuplje, Dimitrovgrad, Vladicin Han, Vranje, Leskovac.</p> <p>21 municipalities (632.543 inhabitants)</p>	<p>Creation of a special Agency for development of Southern Serbia; Combination of different types of direct and indirect support; Establishing municipal Funds for SME development; Tax facilities for enterprises that invest in productive activities in this region; Grants for construction of housing for IDPs and refugees; Construction of official housing; Incentive income for staff who decide to come to and work in this region for a certain period; Financing of staff training, regional and town plans, scientific and geological research; Realization of sets of measures of the demographic revitalization.</p>	<p>Adoption of a programme for development of Southern Serbia; Complementary development of industry, agriculture, infrastructure and social standard; Selective revitalization of villages; Selective agricultural development; Development of SMEs and entrepreneurship; Organization and urban planning and rationalization of housing network; Redirection of demographic flows.</p>
<b>NEWLY DEVASTATED REGIONS - real income decrease higher than 80% (1990-2000)</b>		
<p>Majdanpek, Pozarevac, Kragujevac, Raska, Zrenjanin, Nova Varos, Priboj, Medvedja, Dimitrovgrad, Bela Palanka, Senta, Svrlijig, Bor.</p> <p>13 municipalities (619.356 inhabitants)</p>	<p>Facilities for the realization of programmes concerning exploitation of raw materials and mineral resources; More severe economic criteria for investments; Set of measures aimed at encouraging faster SME development and above all: - Establishment of a Centre for Deregulation; - Linking and establishing cooperation between SMEs and big enterprises; - Including SMEs in public procurement.</p>	<p>Structural changes; Selective industrial development; Faster development of SMEs and entrepreneurship; Tourism and catering; Better valorisation of mineral raw material; Programmes of revitalization of villages.</p>

<b>DEMOGRAPHICALLY MOST ENDANGERED REGIONS</b>		
<b>- decrease in number of inhabitants higher than 10% (1971-2002)</b>		
<b>- negative rate of natural increase of population more than <math>-10\text{‰}</math></b>		
<p>22 municipalities (345.649 inhabitants)</p>	<p>Combination of various forms of direct and indirect support;  Economic support to young households (fiscal policy, equipping with objects and mechanization, etc.);  Special encouragement for agricultural programmes;  Realization of sets of measures aimed at demographic revitalization:  Different maternity leave for third and fourth child, additional child allowance, financial aid to be received during pregnancy;  Credits provided to families at child birth;  Subsidies for housing credits, encouraging tax relief (income tax, abolition of sales tax on baby carriage, cribs and diapers), sanctions if children do not attend elementary school;  Harmonizing system of measures of social, tax and development policies.</p>	<p>Family planning;  Active labour market programmes;  Health and social welfare programmes;  Increase of social safety;  Selective agricultural programmes;  Priority – support selected village centres in support to municipalities.</p>



## V IMPLEMENTATION AND MONITORING OF THE POVERTY REDUCTION STRATEGY

**Preliminary indicator set.** The indicator set is very extensive, with more than 100 outcome and more than 160 process indicators. The extensive scope of the set resulted from the need for poverty monitoring and implementation to allow for its multidimensional nature. According estimates, some 60% of outcome indicators and around 80% of process indicators can be provided from existing data sources, with small modifications (for example, in a number of cases process indicators boil down to necessary changes and the introduction of new regulations, which is easy to monitor). The list of indicators is not final. Upon systematic analysis of data availability<sup>140</sup> (regularity, quality, relevance), the list will be updated annually.

**Outcome indicators are in normal letters, process indicators in italic**

*Process indicators include monitoring of strategy implementation from the initiation of a certain activity (level of investment in certain sectors that have a poverty reduction impact), to the monitoring of concrete reform trends (legislative changes...) and monitoring of implementation of concrete projects and activities within the PRSP, to the achievement of immediate activity results (e.g. «number of persons that attended training for professions that are in high demand»).*

Outcome indicators are linked to the achievement of the declared Strategy objectives and to particular sectors (e.g. lower poverty rate among Roma population or lower unemployment rate of the population)

Strategic goals, policies/strategies/ activities and description of indicators		By region	By household type	By gender	By age group	By vulnerable groups	Institutions responsible for monitoring/activity
<b>Basic poverty reduction outcome indicators</b>							
Millennium Goal 1: Eradicate extreme poverty and hunger							
A1	Percentage of population below the poverty line (basket of commodities - RSO, national poverty line, 60% of household income median)	*	*	*	*	*	1
A2	Poverty deficit	*	*	*	*	*	1
A3	Share of the 25% of the poorest in the national consumption	*					1
A4	Household income and expenditure level by consumption unit	*	*	*	*	*	1
A5	Gini inequality coefficient (by income and expenditures)	*	*	*	*	*	1
A6	Poverty gap and severity	*	*	*	*	*	1
A7	Percentage of household consumption for food	*	*			*	1

<sup>140</sup> The analysis of the proposed set of indicators and the existence of data sources, as well as alternative solutions, is being carried out.

<u>Transition to a Market Economy: Enabling Strong Private Sector Growth</u>							
Millennium Goal 8: <b>Develop a global partnership for development</b>							
<b>Related PRSP main direction: 1. Economic growth</b>							
<i>Strategic goal: Ensure that a transparent legal and institutional framework is in place to attract private investment · Ensure strong market institutions to support private sector growth/ development · Ensure provision of a conducive business environment for a dynamic private sector</i>							
<b>Related policy/strategy/ activity: Privatisation of real sector</b>							
B1	Number and percentage of privatised enterprises	*					18
B2	Number and percentage of privatised banks	*					18
B3	Private sector share in GDP						12
<b>Related policy/strategy/ activity: Restructuring of real sector</b>							
b4	<i>Restructuring of the banking system</i>						21
b5	<i>Financial system reform and development</i>						21,13

<u>Transition to a Market Economy: Global and Regional Integration</u>							
Millennium goal 8: <b>Develop a global partnership for development</b>							
<b>Related PRSP main direction: 1. Economic growth</b>							
<ul style="list-style-type: none"> <li><b>Strategic objective:</b> · Facilitate further foreign trade liberalisation · Work towards establishing a common market with Montenegro in the free flow of people, goods, services and capital · Progress towards closer association with the EU · Strengthen specific institutions necessary for Action Plan for SAA · Pursue membership of the WTO</li> </ul>							
<b>Related policy/strategy/ activity: Joining the WTO</b>							
C1	Joining the WTO						22
c2	<i>Defining body in charge of communication with the WTO</i>						22
c3	<i>New law on customs tariff, tariffication of non-tariff barriers</i>						22
c4	<i>Offering tariff concessions for goods and services, second round of providing additional information</i>						22
<b>Related policy/strategy/ activity: EU accession</b>							
C5	EU accession						22
c6	<i>Adoption of the Action plan for harmonizing economic policies with Montenegro</i>						22
c7	<i>Elaboration of harmonized foreign trade laws in Serbia and Montenegro</i>						22
c8	<i>Adoption of feasibility study and accession to EU</i>						22

<b>Public administration, judiciary and local self-government</b>							
Millennium goal 8: : Develop a global partnership for development							
Related PRSP main directions: 1. Economic growth 2. Prevention of new poverty 3. Bringing people out of poverty							
<b>Strategic goal:</b> · Ensure the provision of a dynamic, efficient and transparent public administration which is well-suited to the appropriate role of Government in a market economy · Ensure access to justice for poor · Increase independence of judicial authorities · Improve efficiency and effectiveness of judiciary							
<b>Related policy/strategy/ activity: Modernization and reorganization of public administration and governance</b>							
d1	Adoption of the Law on Public Administration and Law on Public Servants						24
d2	Adoption of the Law on Administrative Disputes and Law on Ministries						24
<b>Related policy/strategy/ activity: Judicial control of administration and introduction of the administrative court</b>							
d3	Adoption of the Law on Administrative Procedure						23
<b>Related policy/strategy/ activity: Training of local government employees, PRSP implementation on local level</b>							
d4	Number of city managers that have passed professional training	*					23,20
d5	Number of municipalities covered by strategic management training courses	*					23,20
d6	Number of municipalities that have developed local PRSPs	*					23,20
<b>Related policy/strategy/ activity: Development of judiciary, strengthening independence</b>							
d7	Adoption of the Law on Prosecution, Law on Public Attorney's Office and Law on Ombudsman						24
d8	Adoption of the Law on Courts and Law on Court Budget						24
d9	Development of free-of charge legal aid (PRSP project)						24
<b>Related policy/strategy/ activity:</b> · Reduce poverty through more locally appropriate measures and greater decision-making by lower levels of government and communities themselves							
d10	Preparation of legal regulations on local self-government, public administration and territorial organization						23
d11	Preparation of legal regulations on municipal property, local finances						23,13
<b>Related policy/strategy/ activity: Municipality takes the leadership role in strategic management, transparency of local government's operation, increased level of citizens' participation</b>							
d12	Number of municipalities covered by participatory activities (participation of poor and vulnerable groups), number of implemented activities (meetings, referendums, initiatives...)	*					10,20
d13	Adoption of the Law on NGOs						10,23

Increased Employment Opportunities							
<b>Millennium goal 1: Eradicate extreme poverty and hunger</b>							
<b>Millennium goal 8: Develop global partnership for development</b>							
<b>Related PRSP main directions: 1. Economic growth</b>							
<b>2. Prevention of new poverty</b>							
<b>Strategic goal: · More efficient and mobile labour market with a higher level of human capital · New employment opportunities (reduction of grey economy and SMEs) in order to reduce unemployment</b>							
<b>· Increased employment opportunities for vulnerable groups</b>							
E1	Unemployment rate (by qualification structure, duration of unemployment)	*	*	*	*	*	2
E2	Number of non-registered employees	*					2
<b>Related policy/strategy/ activity: Creating a supportive institutional environment</b>							
e3	<i>Enforcement of the Law on Employment and Unemployment Insurance (creation of institutions foreseen by the Law)</i>						2, 26
e4	<i>Drafting and adoption of the Law on Health and Safety at Work</i>						2, 26
e5	<i>Drafting and adoption of the Law on Labour Unions and Employees' Associations, Law on Peaceful Settlement of Collective and Individual Rights and Law on Strike</i>						2, 26
e6	<i>Drafting and adoption of the Law on Employment of Persons with Disabilities, Law on conditions of Employment of Foreign Citizens and Law on Protection of Citizens of the Republic of Serbia Working Abroad.</i>						2, 26
<b>Related policy/strategy/ activity: Determining strategic directions (dynamics and structure) of new employment</b>							
e7	<i>Elaboration of the National Employment Strategy and National Action Plan</i>						2, 26
<b>Related policy/strategy/ activity: Raising the value of human capital</b>							
e8	<i>Total budget, number of projects, municipalities covered and persons without work experience that have passed the training</i>	*					2
e9	<i>Total budget, number of projects, municipalities covered and persons that have passed the training for professions in high demand</i>	*					2
e10	<i>Total budget, number of projects, municipalities covered and refugees and IDPs covered by training and retraining programs</i>	*					2,17
e11	<i>Total budget, number of projects, municipalities covered and persons with disabilities and special needs covered by retraining programs</i>	*					2,10
<b>Related policy/strategy/ activity: Incentives for increasing employment opportunities for vulnerable groups</b>							
e12	<i>Budget for financing and employment of interns</i>	*					2
e13	<i>Budget for financing and employment of elderly persons (women over 45 and men over 50)</i>	*					2
e14	<i>Budget for financing the employment of persons with disabilities (subsidizing part of labour costs)</i>	*					2
e15	<i>Budget for financing public construction works</i>	*					2,13

<b>Related policy/strategy/ activity: Improved performance of mediating institutions</b>							
e16	Establishing unique database	*					2
e17	Number of employed from the Labour Market Bureau that have passed additional training	*					2
e18	Number of new workers employed at the National Employment Office						2
e19	Number of opened «employment clubs» and number of unemployed persons involved	*					2,20
<b>Related policy/strategy/ activity: Creating a conducive business environment</b>							
E20	Number of newly established small and medium-sized enterprises and entrepreneurs	*					11
E21	Number of business incubator centres, number of municipalities covered	*					11,20
E22	Number of industrial zones established, number of municipalities covered	*					11,20
e23	Elaboration of yearly programmes for implementation of the strategy for SMEE development						18
e24	Setting up a Guarantee Fund of the Republic of Serbia (SMEE)						18
e25	Drafting and adoption of Law on Trade Associations						18
e26	Drafting and adoption of the Law on Bankruptcy						18
e27	Drafting and adoption of the Law on Registration of Business Entities						18
e28	Drafting and adoption of the Law on the Agency for Economic Registers						18

<b>Macroeconomic Framework and Factors of Sustainable Economic Growth</b>							
<b>Millennium goal 1: Eradicate extreme poverty</b>							
<b>Millennium goal 8: Develop global partnership for development</b>							
<b>Related PRSP main directions: 1. Economic growth</b>							
<b>2. Prevention of new poverty</b>							
<b>3. Bringing people out of poverty</b>							
<b>Strategic goal: Macroeconomic stability and sustainable economic growth, long-term sustainable fiscal policy</b>							
F1	GDP, GDP per capita						12,13
F2	Average salary	*		*	*	*	12
F3	Assessment of the grey economy GDP share						12,13
F4	Net development aid/external assistance	*					22
F5	Net/percentage of development aid/external assistance aimed at poverty reduction	*					22
F6	Market dinar-euro exchange rate						21
F7	Consumer price index	*					14
F8	Level of foreign direct investment and its share in GDP	*					13
F9	Level and share of investment in GDP	*					13
<b>Related policy/strategy/ activity: Medium-term fiscal sustainability</b>							
F10	Public revenues/GDP, public expenditures/GDP						13
f11	Level of subsidies to the economy, % of GDP	*					13

f12	Number of employed in public non-profit sector	*						12,2
F13	Fiscal deficit (primary and total)/GDP, structure of public deficit financing							13
F14	Public debt/GDP							13
f15	Tax rate levels by type, tax structure by type							13
<b>Related policy/strategy/ activity: Medium-term external economic sustainability</b>								
F16	Balance of payments deficit/GDP, financing structure of balance of payments deficit							13
F17	Export, import/GDP							12
F18	Foreign debt/GDP							13
F19	Rate of foreign debt servicing							13

<b>Social protection</b>								
<b>Millennium goal 1: eradicate extreme poverty</b>								
<b>Related PRSP main direction: 3. Bringing people out of poverty</b>								
<i>Strategic objective: · To widen the provision of social protection, through paying higher amounts of assistance and widening the social safety net to include those most vulnerable groups (e.g. Roma, ex-refugees) currently ineligible for social assistance · Ensure access for all who are eligible for social protection but are currently not participating, including Roma, refugees who will become citizens, IDPs, etc. · Improved targeting of social services and entitlement programmes to those most in need and maintenance of fiscal sustainability.</i>								
<b>Related policy/strategy/activity: Reform of social assistance and children's allowance, improved targeting and information</b>								
G1	Number of beneficiaries and level of social transfers (overall and per beneficiary, by social transfer type, including number of children receiving children's allowance and number of children in households receiving other social transfers)	*	*	*	*	*	*	3
g2	Structure and level of social protection budget, GDP share							3,13
G3	Number of elderly persons covered by social protection	*		*		*		3
G4	Percentage of social transfers (by type) targeted at the first and second decile of the poor population	*						3
g5	Testing/piloting lifting of poverty line for social assistance, testing and introduction of reduced household economy of scale in social protection eligibility criteria							3
g6	Analysis of improved children's allowance targeting							3
g7	Further improvement of children's allowance targeting (differentiating children's allowance according to socio-demographic status of the household)							3
<b>Related policy/strategy/ activity: Empowering people to exercise their legal rights</b>								
g8	Number of municipalities covered by service providers (RC and NGO) supporting realization of social protection rights	*						3,10,20
g9	Number of beneficiaries of these services (rendered by RC and NGO service providers)	*		*	*	*		3,10,20
g10	Capacities and number of persons placed in homes for the elderly and mental health institutions	*						3

<b>Related policy/strategy/ activity: Improved institutional and alternative forms of social protection</b>							
g11	Number of alternative forms of protection of the elderly developed						3,10,20
g12	Number of collective centres transformed into homes for the elderly	*					3,17
g13	Analysis of carer's allowance system elaborated, implementation of proposed improvements						3,9, 10
g14	Preparing the strategy for support and taking care of elderly persons						3
<b>Related policy/strategy/ activity: Setting the framework for further development of social and child protection</b>							
e15	Total budget, number of projects of the Social Innovation Fund, number of municipalities covered	*					3
g16	Total budget, number of reform projects implemented (foster care, transformation of institutions, work standards and organization of SWC, integral social protection model)	*					3
g17	Analysis of implementation of the Convention on the Rights of the Child in the system of social and family protection						3,9, 10
g18	Analysis of needs and legal rights of persons with disabilities						3,9, 10
G19	Setting up a unique software in SWCs, local networking and training						3
g20	Number of children covered by alternative forms of social protection	*		*	*		3

<b>Pension insurance</b>							
<b>Millennium goal 1: eradicate extreme poverty</b>							
<b>Related PRSP main direction: 3. Bringing people out of poverty</b>							
<i>Strategic objective: · Raise the standard of living of pensioners and other elderly persons in terms of the number, the share and the depth of poverty · Strengthen the institutional and service provision for particularly vulnerable elderly persons.</i>							
<b>Related policy/strategy/ activity: Reform of the mandatory social insurance, advancement of the information system and introduction of private insurance</b>							
H1	Average pension (by sectors)	*		*		*	3
h2	Budget structure and level of pension funds, share in GDP	*					3,13
h3	Pension funds sources and deficit level of pension funds						3,13
h4	The employed /pensioner ratio	*					3
h5	Pension/earnings contribution rate						3,13
H6	Number and share of pensioners by type of insurance (including private insurance)	*					3
h7	Implementation of programme for unifying the existing pension funds						3
h8	Enforcing a new Law on Voluntary Pension Insurance						3,13
h9	Design of unified IT systems of pension funds						3

<b>Health care</b>							
<b>Millennium Goal 3: Promote gender equality and empower women</b>							
<b>Millennium Goal 4: Reduce child mortality</b>							
<b>Millennium Goal 5: Improve maternal health</b>							
<b>Millennium Goal 6: Combat HIV/AIDS, malaria and other disease</b>							
<b>Related PRSP main direction: 3. Bringing people out of poverty</b>							
<ul style="list-style-type: none"> <li>• <b>Strategic goal: · Fair and uniform access to health care for all citizens of Serbia. Decrease in inequality in access to health care, particularly for vulnerable groups · Provide affordable health care services for vulnerable groups and improve the quality of this care · Raise efficiency and effectiveness in resource utilisation</b></li> </ul>							
I1	Health service utilization indicators by levels, both within and outside of hospitals	*	*	*	*	*	5
I2	Coverage of population by health protection						5
<b>Related policy/strategy/ activity: Reform health care financing system</b>							
I3	Structure of health care expenditures and their share in GDP						5,13
I4	Per capita health care expenditures	*					5,12
I5	Share of «out-of-pocket» payments for health care in household consumption	*	*			*	5,12
i6	<i>Level of donations for health care</i>						5,22
i7	<i>Development of the basic package of health care services, adoption of the Law on Health Insurance</i>						5
i8	<i>Adoption of new Law on Contributions</i>						13
i9	<i>Adopting a Decision on personal participation of insured persons in health protection expenditures</i>						5
i10	<i>Introduction of new models of compensation to the health service and supplementing for the expenditures of farmers' health care</i>						5
i11	<i>Supplementing for the expenditures of farmers' health care</i>						5
<b>Related policy/strategy/ activity: Reform of the primary health care system</b>							
i12	<i>Introduction of family medicine specialization course</i>						5,9
i13	<i>Separating specialist-consultative service from primary health protection</i>						5
i14	<i>Development of health care information system in primary health protection</i>						5
<b>Related policy/strategy/ activity: Reform of the secondary health care system</b>							
I15	Structure of hospital beds	*					5
I16	Number of hospital beds per 1.000 individuals	*					5
i17	<i>Development of Hospital Master Plan for redistribution and reduction of hospital capacities</i>						5
i18	<i>Development of hospital information system</i>						5
i19	<i>Number of restructured hospitals and hospitals equipped with modern facilities</i>	*					5

<b>Related policy/strategy/ activity: Development of human resources in health care</b>							
I20	Number of primary health care medical doctors per 1.000 citizens	*					5
i21	<i>Adoption of the National plan of specialisations and sub-specialisations in health care</i>						5
i22	<i>Number of health workers included in continuing education, training/retraining</i>	*					5
i23	<i>Number of medical doctors and nurses that passed health management training</i>	*					5
<b>Related policy/strategy/ activity: Raising the quality of health care services, particularly for vulnerable groups</b>							
I24	Satisfaction of beneficiaries by health protection	*		*	*	*	5,10, 20
I25	Lethality for certain diagnostical entities	*					5
I26	Incidence of infections within hospitals	*					5
<b>Related policy/strategy/ activity: Accreditation of health care institutions and programmes, issuing licences for medical and associate staff</b>							
i27	<i>Setting up an Agency for accreditation of institutions and programmes</i>						5
i28	<i>Adoption of the Law on Health Workers' Chamber -licensing</i>						5
<b>Related policy/strategy/ activity: Programme for promotion of healthy lifestyles and prevention programmes targeting vulnerable population groups</b>							
I29	Under 5 mortality rate	*	*	*		*	5
I30	Infant mortality rate	*	*	*		*	5
I31	Proportion of undernourished children under 5 (underweight, stunting, wasting)	*	*	*		*	5,9 10
I32	Proportion of children immunized against measles	*	*	*	*	*	5,9 10
I33	Maternal mortality rate	*	*		*	*	5
I34	Proportion of births attended by qualified medical workers	*	*		*	*	5
I35	Number of HIV infected	*	*	*	*	*	5,9, 10
I36	Rate and number of TBC ill/dead	*	*	*	*	*	5
I37	Life expectancy at birth	*	*	*		*	5
I38	Prevalence of risk factors (alcohol, smoking...)	*	*	*	*	*	5,9, 10
I39	Coverage of women by contraception	*	*		*	*	5,9 10
I40	Standardized morbidity and mortality rates for malignant diseases	*	*	*	*	*	5
I41	Standardized morbidity and mortality rates for injuries and accidents	*	*	*	*	*	5
I42	Standardized morbidity and mortality rates for cardiovascular diseases	*	*	*	*	*	5
I43	Number of women with iron-deficiency anaemia	*	*		*	*	5,9
I44	Number of persons suffering from iodine deficiency disorders	*	*	*	*	*	5,9
i45	<i>Development/existence of programmes for prevention of cardiovascular diseases, malignant diseases, injuries and accidents</i>						5,9
i46	<i>Development/existence of special programmes for care of Roma women, refugee women and women living in rural areas</i>						5,9 10

i47	Development/existence of programmes for promotion of mental health and prevention of mental disorders						5,9 10
i48	Number of beneficiaries covered by special programmes for promotion of health and prevention of diseases	*	*	*	*	*	5,9 10

<b>Education</b>							
<b>Millennium goal 1: Eradicate extreme poverty</b>							
Millennium goal 2: Achieve universal primary education							
<b>Millennium Goal 3: Promote gender equality and empower women</b>							
<b>Related PRSP main directions: 2. Prevention of new poverty</b>							
<b>3. Bringing people out of poverty</b>							
<b>Related policy/strategy/ activity: · increase budgetary expenditures as % of GDP over medium term · improve material standard of education provision · To improve efficiency and access of population · improve quality/training of teachers</b>							
j1	Education budget by education structure/levels, education share in GDP, level of external assistance						4,13
<b>Related policy/strategy/ activity: reform preschool education - implementation</b>							
j2	Development of system of support to integrated early childhood development						4,9, 10
j3	Number of pre-school institutions applying systems for support to integrated early childhood development, number of trained staff, number of municipalities covered, number of children covered	*					4,10, 20
j4	Preschool education legislation changes						4
<b>Related policy/strategy/ activity: Reform of primary education</b>							
J5	Primary school enrolment rate	*	*	*		*	4
J6	Proportion of the illiterate	*	*	*	*	*	4
J7	Proportion of children that reached the fifth grade	*	*	*		*	4
j8	Primary school education legislation changes						4
j9	Implementation of the school curriculum reform						4
j10	Implementation of teacher education reform						4
j11	Pupil/teacher ratio	*					4
j12	Per capita expenditure for primary education	*	*			*	4,12
j13	Budgetary indicators (level of primary education financing, share in GSP, level of external assistance)						4,13
<b>Related policy/strategy/ activity: Reform of secondary vocational education</b>							
J14	Secondary school enrolment rate	*	*	*		*	4
j15	Introducing flexible forms of crafts education						4
j16	Elaboration of pilot programmes in the priority areas, elaboration of training and counselling programmes						4,9, 10
j17	Pupil-teacher ratio	*					4
j18	Number of pupils receiving scholarships	*					4
j19	Per capita expenditure for secondary education	*	*			*	4,12

j20	Budgetary indicators (level of secondary education financing, share in GDP, level of external assistance)						4,13
<b>Related policy/strategy/ activity: Reform of adult and second chance education</b>							
j21	Number of persons covered by training (retraining) programmes and number of children covered by second-chance education	*			*	*	4,10,20
j22	Legislation changes						4
j23	Implementation of programmes for acquiring first qualifications for the unemployed (aged 18 - 30)						4,9, 10
j24	Implementation of programme for primary education of children 12-18 that are out of the system						4,9, 10
<b>Related policy/strategy/ activity: Inclusion of Roma in education system</b>							
J25	All the above-mentioned main education indicators grouped for the Roma population	*			*	*	4
j26	Elaboration of school preparation programmes and compensatory programmes						4,9, 10
j27	Number of Roma teachers	*					4,10
j28	Number of assistant teachers helping Roma students	*					4,10
j29	Level of financial assistance earmarked for the education of Roma population (transfers to households/pupils)	*	*				4,10,12
<b>Related policy/strategy/ activity: Reform of education of children with disabilities</b>							
J30	Percentage/number of children with special needs covered by primary and secondary education	*			*	*	4,10,20
j31	Implementation of projects Toward Better and Higher Quality Living and Toward World of Labour						4
j32	Number of teachers/teachers trained for inclusion of children with special needs	*					4
<b>Related policy/strategy/ activity: Integrating gender perspective into educational programmes</b>							
j33	Adjusting school curricula, programmes and text books and training of staff						4,9, 10
<b>Related policy/strategy/ activity: Reconstruction and equipping of schools</b>							
j34	Optimisation of schools' network						4

<b><u>Regional aspects of poverty</u></b>							
Millennium goal 1: Eradicate extreme poverty							
Millennium goal 8: Develop global partnership for development							
Related PRSP main objectives: 2. Prevention of new poverty							
3. Bringing people out of poverty							
<ul style="list-style-type: none"> <li>Strategic objective: · Mitigate structural problems and regional differences through investment in human resources and infrastructure · Ensure relevant institutional infrastructure in place for regions and local communities to develop and implement comprehensive, long-term and strategic regional development plans</li> </ul>							
	All so far defined outcome indicators for which regional display of data has been foreseen						

<b>Related policy/strategy/ activity: Vertical and horizontal coordination</b>							
k1	Establishing government inter-sectoral working group for regional development						19
k2	Establishing National Regional Development Agency						19
k3	Setting up a network of regional development agencies						19,20
<b>Related policy/strategy/ activity: Formulation of strategic documents</b>							
k4	Preparing a strategy of regional development for Serbia						19
k5	Regionalization of areas						19
k6	Elaboration of the policy of regional development for Serbia						19
k7	Elaboration of the new Law on Under-Developed Areas						19
<b>Related policy/strategy/ activity: Financial incentives</b>							
k8	Elaboration of the Law on Financing Development of Under-developed Regions						19
k9	Level of financing and professional training, spatial and urban plans, scientific and geological research in under-developed regions						13
k10	Application of the set of fiscal incentives						13
k11	Application of special incentives for border areas						13
<b>Related policy/strategy/ activity: Encouraging the development of SMEs in underdeveloped regions</b>							
k12	Implementing local deregulation						19
k13	Inclusion of SMEs in public procurement						11
k14	Setting up municipal funds for SME development						11,20
<b>Related policy/strategy/ activity: Demographic revitalization of underdeveloped regions</b>							
k15	Implementing special incentives for agrarian programmes						6,13
k16	Implementing special incentives for water supply and road network in under-developed areas						6
k17	Regional demographic trends	*					12
<b>Related policy/strategy/ activity: Development of incentive mechanisms</b>							
k18	Implementing special financial incentives for enterprises						13
k19	Implementing special incentives for staff, overall amount and number of the employed receiving incentives						19
<b>Related policy/strategy/ activity: Development priorities in South Serbia</b>							
k20	Elaboration of programme for development of southern Serbia						19
k21	Establishing an Agency for the Development of Southern Serbia						19

## Rural aspects of poverty

**Millennium goal 1: eradicate extreme poverty**

**Related PRSP main directions: 2. Prevention of new poverty**

**3. Bringing people out of poverty**

• <b>Strategic objective: · Sustainable economic growth of rural areas · Reduction of rural poverty</b>							
	All outcome indicators defined so far, planned for grouping by household type (rural/urban)						
L1	Poverty rate in rural areas, gap and severity of poverty	*					12
L2	Rural demographic trends	*					12
k3	<i>Average size of land properties</i>	*					12, 6
k4	<i>Number of families and individuals who have received humanitarian aid, overall yearly amount of assistance</i>	*	*	*	*	*	3,9, 10,20
<b>Related policy/strategy/ activity: strengthening performance of local self-government, civil society and business sector</b>							
k5	<i>Establishing an Agency for Rural Development</i>						6
k6	<i>Number of municipalities that have formed expert developmental units for elaboration of rural development plans</i>	*					6,20
k7	<i>Number of municipalities that have established rural development funds</i>	*					6,20
<b>Related policy/strategy/ activity: Translating business ideas into sustainable projects</b>							
k8	<i>Number of business projects in the agro-business sector</i>	*					6,20
k9	<i>Number of business projects in organic farming</i>	*					6,20
k10	<i>Number of micro-credits approved for agribusiness, average and total amount of credits</i>	*					6,20
<b>Related policy/strategy/ activity: Creation and improvement of local business association capacities</b>							
k11	<i>Number of business associations in rural areas</i>	*					20
k12	<i>Number of agricultural and crafts women cooperatives</i>	*					20,10

<b>Urban and housing aspects of poverty</b>							
<b>Millennium Goal 7: Ensure environmental sustainability, especially achieve a significant improvement in the lives of slum dwellers</b>							
<b>Related PRSP main directions: 2. Prevention of new poverty 3. Bringing people out of poverty</b>							
• <b>Strategic goal: Ensure that the needs of the poor are incorporated in urban planning · Develop and implement social housing programme, as part of National Housing Policy, currently being developed</b>							
	All previously mentioned outcome indicators for which grouping by household type is foreseen (rural/urban)						
L1	Poverty rate in urban areas, gap and severity of poverty	*					12
L2	Urban demographic trends	*					12
L3	Number of constructed apartments (by structure)	*					15
L4	Number of individuals/households living in slums	*	*	*	*	*	15
L5	m <sup>2</sup> of apartment per capita	*	*			*	15, 12
L6	Infrastructure expenditures per capita	*					15,12
L7	Price of a square metre of the apartment (price median, newly built apartments etc), in relation to the median of household income	*					15,12

L8	Number/percent of vulnerable households that have a telephone	*						15,10
<b>Related policy/strategy/ activity: Integrate poverty reduction programmes into all plans and programmes of urban development and devise operative plans for mobilization of resources (land, credits, assistance, expert support) on the national and local level</b>								
l9	Number of municipalities with urban plans integrating Poverty Reduction Strategy aspects	*						15
l10	Evaluation of settlements/facilities with regulated legal status	*						15
<b>Related policy/strategy/ activity: Government support to the social housing programme</b>								
L11	Number of poor families - beneficiaries of housing subsidies, average and overall amount of subventions per year	*						15,12 10,20
L12	Availability of long-term crediting for buying of apartment (payment term and interest rate)							15
L13	Number of constructed «social» housing units	*						15
l13	Number of municipalities with urban plans incorporating aspects of the Poverty Reduction Strategy	*						15
l14	Adoption of Law on Social and Affordable housing							15
l15	Adoption of Law on Establishing National Agency/Fund for Social and Affordable Housing							15
<b>Related policy/strategy/ activity: Supporting affordable rental housing</b>								
L16	Monthly housing expenditures (nominal and as a share in overall household expenditures)	*	*					15
l17	Maximized level of housing rent							20,10
l18	Number of families/individuals beneficiaries of housing credits and premiums for housing construction	*	*					15,12 10,20

<b>Human rights, gender equity and particularly vulnerable groups</b>								
<b>Millennium Goal 3: Promote gender equality and empower women</b>								
Human rights present the basis of all other Millennium goals as well								
<b>Related PRSP main directions: 3. Bringing people out of poverty</b>								
<b>Strategic objective: Realization of human rights</b>								
	All the above-mentioned indicators for which grouping by vulnerable groups (and gender) has been foreseen							
<b>Related policy/strategy/ activity: Strengthening norms and legal framework for protection of human rights, Implementation of political obligations arising from UN decisions, Realization of the right to be acknowledged as a person before the courts and of the right to justice</b>								
M1	Rate of criminal acts, observed in poor and non-poor population (as victims)	*	*	*	*	*		25,16
M2	Number of police actions aimed at preventing violence or investigating criminal acts against the poor	*						25,16
M3	Percentage of the poor that have access to legal help in lawsuits	*						10,9 20,16
M4	Number of citizens per judge/court	*						24
M5	Average duration of procedure before civil courts	*						24,10 9

<b>Related policy/strategy/ activity: Prevention and reduction of violence and help for female and child victims of abuse, reducing violence, protection of women from trafficking</b>							
M6	Number of victims' retreats	*	*				20,10 9
M7	Number of cases of violence against women and children	*	*	*	*	*	16,20 10,9
m8	<i>Adopting comprehensive action plan for preventing violence against women and children</i>						16,20 10,9
m9	<i>Number of officers trained for provision of help and prevention of violence against women and children (number of police officers trained, social workers, judges)</i>	*					16,20 10,9
<b>Strategic objective: Realizing gender equity</b>							
M10	Proportion of girls in primary, secondary and higher education	*	*			*	4
M11	Proportion of illiterate women	*	*		*	*	4,12
M12	Proportion of employed women	*	*		*	*	2,12, 10
M13	Proportion of women MPs						1
<b>Related policy/strategy/ activity: Raising awareness for problems of women, integration into development strategies, establishing legal preconditions for gender equity, building institutional network for improvement of position of women</b>							
m14	Preparing law on gender equality						24
m15	<i>Preparing law for ban on discrimination</i>						24
m16	<i>Establishing National Committee for Advancement of Women's Position</i>						10
m17	<i>Number of local committees established for advancement of women's position</i>	*					10
<b>Other aspects in monitoring status and rights of particularly vulnerable groups</b>							
M18	Degree of inclusion of persons with disabilities into the system of compensatory rights (rehabilitation, technical aids, money transfers and services)	*		*			3
M19	Number of refugees with disabilities covered by special education	*		*	*		3,4
M20	Number of refugees who returned to the countries of their origin	*		*			17
M21	Number of IDPs who returned to Kosovo	*		*			17
M22	Number of IDPs who are entered in the register of citizens of Serbia and Montenegro	*		*			17
M23	Number of IDPs who registered their new place of residence in Serbia and Montenegro	*		*			17
M24	Number of collective centres	*					17
M25	Number of apartments for refugees and IDPs built under the programme of social housing, number of loans granted and objects completed	*					17,15
M26	Number of refugees and IDPs placed in social institutions	*		*	*		17, 3
M27	Number of refugees and IDPs accommodated in health care institutions	*		*	*		17, 5
M28	Number of refugee and IDP households/persons who were allotted arable land (under the programme of employment in agricultural sector)	*		*			17, 6
M29	Number of youth centres, number of youth counsellings	*					10,20
M30	Number of children without parental care	*		*			3
M31	Number/rate of the poor appointed to public positions	*					10,20

M32	Number of public meetings, demonstrations and strikes organized by the poor or on behalf of the poor	*						10,20
M33	Number of public informative activities organized by the government that directly concern the poor	*						1
M34	Number of media programmes relating to the poor	*						1

<u>Environmental aspects of poverty reduction</u>								
<b>Millennium Goal 7: Ensure environmental sustainability</b>								
<b>Related PRSP main directions: 1. Economic growth 2. Prevention of new poverty 3. Bringing people out of poverty</b>								
<ul style="list-style-type: none"> <li>• <b>Strategic objective:</b> · Sustainable access to improved water sources and access to improved sanitation · Improved waste management · Improvements in the condition of ecological black spots</li> </ul>								
N1	Proportion of woodland territory	*						6
N2	GDP level per unit of consumed energy							7
N3	CO2 emission level per capita							7,8
N4	Number/percentage of households located less than 5 km from dangerous location (toxic waste, waste disposal sites)	*	*					8,15
<b>Related policy/strategy/ activity: Improve the water supply system</b>								
N5	Proportion of water-supply systems with satisfactory quality of water	*						6
N6	Number and percentage of the population with access to clean and safe drinking water	*						6
n7	<i>Number of newly-built water-supply systems</i>	*						6
<b>Related policy/strategy/ activity: Improve the management of waste waters</b>								
N8	Proportion of settlements equipped with sewage systems	*						6
n9	<i>Number of industry waste water processing plants</i>	*						6,8
n10	<i>Formation of an urgent sanitation team</i>							8
<b>Related policy/strategy/ activity: Improve the management of communal waste</b>								
n11	<i>Number of repaired and newly built regional waste disposal sites</i>	*						8

## Millennium Development Goals

### Goal 1. Eradicate extreme poverty and hunger

**Target 1:** Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day

**Target 2:** Halve, between 1990 and 2015, the proportion of people who suffer from hunger  
Goal 2: Achieve universal primary education

**Target 3:** Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

**Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015

Goal 4. Reduce child mortality

**Target 5:** Reduce by two thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: Reduce maternal mortality ratio

**Target 6:** Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6. Combat HIV/AIDS, malaria and other diseases

**Target 7:** Have halted by 2015 and begun to reverse the spread of HIV/AIDS

**Target 8:** Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

Goal 7: Ensure environmental sustainability

**Target 9:** Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

**Target 10:** Halve by 2015 the proportion of people without sustainable access to safe drinking water

**Target 11:** By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers

Goal 8: Develop a global partnership for development

**Target 12:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction - both nationally and internationally

**Target 14:** Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)

**Target 15:** Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

**Target 16:** In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

**Target 17:** In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

**Target 18:** In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Basis Millenium Development goals Indicators, the existing levels

The table bellow displays the basic set of MDG indicators i certain relevant macroeconomic indicators and their levels in 2002 (or teh previous year for which the data are available).

**Basic MDG indicators, the existing levels**

	2002
<b>Goal 1. Eradicate extreme poverty and hunger</b>	
<b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	
<b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger	
Percent of population whose consumption is below the poverty line	10.6%
Gini inequality coefficient (by consumption)	30
Proportion of moderately/highly undernourished children	2000: 1.9%
<b>Goal 2: Achieve universal primary education</b>	
<b>Target 3:</b> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	
Primary school enrolment rate (net enrolment) <sup>141</sup>	98.5%
Proportion of children that reached the fifth grade	2000: 95.9%
Proportion of children enrolled in primary schools that completed primary education	97.7%
Proportion of population over 15 without primary education or with less than 4 grades of primary education	12.4%

<sup>141</sup> Generally speaking, national indicators of primary education enrollment and attendance are at the enviable level, special attention shall be paid to the monitoring of specially vulnerable groups in which the mentioned indicators are unfavourable.

Proportion of Roma population over 15 without primary education or with less than 4 grades of primary education	32.5%
Proportion of Roma children included in primary education	20%
<b>Goal 4. Reduce child mortality</b>	
<b>Target 5:</b> Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	
Girl/boy ratio in primary education	2001: 94.8
Proportion of employed women	42.1%
Proportion of women MPs	2001: 10.8%
<b>Goal 4. Reduce child mortality</b>	
<b>Target 5:</b> Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	
Under 5 mortality rate (per 1.000 livebirths)	2001: 11.8
Infant mortality rate (per 1.000 livebirths)	2001: 10.2
Proportion of children immunized against measles	2001: 90.5%
<b>Goal 5: Reduce maternal mortality ratio</b>	
<b>Target 6:</b> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	
Maternal mortality rate (per 100.000 livebirths)	2001: 8.9
Proportion of births attended by qualified medical workers	2001: 98.8%
<b>Goal 6. Combat HIV/AIDS, malaria and other diseases</b>	
<b>Target 7:</b> Have halted by 2015 and begun to reverse the spread of HIV/AIDS	
<b>Target 8:</b> Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	
Number of HIV infected	1189
<b>Goal 7: Ensure environmental sustainability</b>	
<b>Target 9:</b> Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	
<b>Target 10:</b> Halve by 2015 the proportion of people without sustainable access to safe drinking water	
<b>Target 11:</b> By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers	

Proportion of woodland territory	1999: 25,6%
Proportion of water-supply systems with satisfactory quality (physical/chemical) of water	2000: 57,0%
<b>Goal 8: Develop a global partnership for development</b>	
Level and share of investment in GDP	14,0%
Total deficit, % of GDP	3,5%
Export/GDP	19,3%
Level of foreign direct investment, % GDP	6,0%
Foreign debt share in GDP	66%
<b>Other indicators, macroeconomy and budget</b>	
GDP per capita (USD)	1.946
Retail price index, inflation	14,2%
Unemployment rate (National Employment Service)	30%
Public expenditures / GDP	46%
Education expenditure share in GDP	3,4%
Health expenditure share in GDP	5,2%
Social protection expenditures share in GDP	4,1%
Pension insurance fund expenditures in GDP	11,7%

## **Institutions responsible for monitoring Strategy implementation and outcomes**

- 1 Central PRSP Implementation Team
- 2 Ministry of Labour and Employment
- 3 Ministry of Social Affairs
- 4 Ministry of Education and Sports
- 5 Ministry of Health
- 6 Ministry of Agriculture and Water Utility
- 7 Ministry of Energy and Mining
- 8 Ministry for Protection of Natural Resources and Environment
- 9 Working Group of International Development Partners
- 10 Working Group of Civil Society and NGOs
- 11 Republic Agency for the Development of Small and Medium-Sized Enterprises and Entrepreneurship
- 12 Republic Statistical Office
- 13 Ministry of Finance and Economy
- 14 Ministry of Trade, Tourism and Services
- 15 Ministry of Construction and Urban Planning
- 16 Ministry of Human and Minority Rights
- 17 Commissariat for Refugees
- 18 Ministry of Economy and Privatisation
- 19 Republic Bureau for Development
- 20 Local municipality working groups for PRSP monitoring
- 21 National Bank of Serbia
- 22 Ministry of International Economic Relations
- 23 Ministry of Public Administration and Local Self-Government
- 24 Ministry of Justice
- 25 Ministry of Internal Affairs
- 26 Socio-economic Council



## ABBREVIATION LIST

AB	Advisory Board
AC	Advisory Committee
AFL-CIO	American Federation of Labour - Congress of Industrial Organizations
AIDS/HIV	Acquired Immune Deficiency Syndrome / Human Immunodeficiency Virus
ARDI (ASID)	Association for Spiritual and Intellectual Development
BiH	Bosnia and Herzegovina
CAS	Country Assistance Strategy
CDM	Crisis and Disaster Management
cec	Coefficient of Energy Consumption
CERD	Committee on the Elimination of Racial Discrimination
CES MECON	Centre for Economic Studies
CIDA	Canadian International Development Agency
CIL	Centre for Independent Living
CLDS	Centre for Liberal-Democratic Studies
CoE	Council of Europe
CPA	Centre for Policy Alternatives
CRS	Catholic Relief Services
DD	Child Allowance
DFID	Department for International Development (with the U.K. Government)
DOTS	Directly Observed Treatment, Short-course
DRC	Danish Refugee Council
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Energy Communities Alliance
EFF	Extended Fund Facility
EIB	European Investment Bank
EPS	Serbian Electric Power Industry
ETF	Expert Task Force
EU	European Union
EU CARDS	Community Assistance for Reconstruction, Development and Stabilisation
FAO	Food and Agriculture Organization
FBS	Federal Bureau of Statistics
FDI	Foreign Direct Investments
FENS	Federation of Non-Governmental Organizations of Serbia
FRY	Federative Republic of Yugoslavia
FYR	
Macedonia	Former Yugoslav Republic of Macedonia
GA UN	United Nations General Assembly
GDP	Gross Domestic Product
GDP	Gross Domestic Product
HBS	Household Budget Survey
HRH	Her Royal Highness
IAUS	Institute of Architecture and Regional & Urban Planning of Serbia
IBRD	International Bank for Reconstruction and Development
ICRC	International Committee of the Red Cross
ICVA	International Council of Voluntary Agencies
IDA	International Development Agency

ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information Technologies
IUCN	International Union for Conservation of Nature and Natural Resources
LFS	Labour Force Survey
MAWU	Ministry of Agriculture and Water Utility
MCM	Ministry of Culture and Media
MCUP	Ministry of Construction and Urban Planning
MDG	Millennium Development Goals
MEM	Ministry of Energy and Mining
MEP	Ministry of Economy and Privatisation
MES	Ministry of Education and Sport
MFA	Macro-financial Assistance
MFE	Ministry of Finance and Economy
MG-S-ROM	Council of Europe Specialist Group on Roma/Gypsies
MH	Ministry of Health
MIA	Ministry of Internal Affairs
MICS	Multi-Indicator Cluster Survey
MIER	Ministry of International Economic Relations
MIER/ DACU	Ministry of International Economic Relations / Development and Aid Coordination Unit
MJ	Ministry of Justice
MLE	Ministry of Labour and Employment
MOP	Material Support to Families
MOP	Material Support to Families
MPALSG	Ministry of Public Administration and Local Self-Government
MPNRE	Ministry for Protection of Natural Resources and Environment
MR	Ministry of Religions
MSA	Ministry of Social Affairs
MSTD	Ministry of Science, Technology and Development
MTEF	Medium-Term Expenditure Framework
MTT	Ministry of Transport and Telecommunications
MTTS	Ministry of Trade, Tourism and Services
NAP	National Action Plan
NATO	North Atlantic Treaty Organization
NBS	National Bank of Serbia
NGO	Non-governmental organizations
NPK	Nitrogen (N), Phosphorus (P) and Potassium (K) fertilizers
OECD	Organization for Economic Cooperation and Development
OXFAM	GB development, advocacy and relief agency
p.c.	per capita
PIO	Pension Disability Insurance
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
PR SPLI	Poverty Reduction Strategy Local Initiatives
PRSPMU	Poverty Reduction Strategy Management Unit
PTT	Public Enterprise of PTT Traffic Serbia
RBD	Republic Bureau of Development

RBS	Republic Bureau of Statistics
REM	Regional Electricity Market
RHIO	Republic Health Insurance Office
SAA	Stabilisation and Association Agreement
SAC	Structural Adjustment Credit
SANU	Serbian Academy of Arts and Sciences
SAP	Stabilisation and Association Process
SC	Steering Committee
SEEA	Serbian Energy Efficiency Agency
SFP	Serbia Free of Poverty
SFRY	Socialist Federative Republic of Yugoslavia
SIEPA	Serbian Import and Export Promotion Agency
SIF	Social Innovation Fund
SKOGOJ	Standing Conference of Towns and Municipalities of Yugoslavia
SLSP	Survey on the Living Standard of the Population
SM	Serbia and Montenegro
SME	Small and Medium-sized Enterprises
SMEE	Small and Medium-sized Enterprises and Entrepreneurship
SWC	Social Welfare Centre
TB	Tuberculosis
TSS	Transitional Support Strategy
UCTE	Union for the Co-ordination of Transmission of Electricity
UDR	Underdeveloped regions
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United National High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USA	United States of America
USAID	US Agency for International Development
VAT	Value Added Tax
WB	World Bank
WB/CEU	Central European University (Budapest)
WFP	World Food Program
WHO	World Health Organization
WTO	World Trade Organization
YuM	Yu Dinar

# **POVERTY REDUCTION STRATEGY PAPER MONTENEGRO**

**November, 2003**

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## INTRODUCTION

In September 1999, following an initiative by the G7 leaders, the World Bank (WB) and the International Monetary Fund (IMF) initiated the **Poverty Reduction Strategy Paper** process, which represented a new approach to assisting developing countries, especially those burdened by debt. This Strategy articulates the national development plan of a country, by defining achievable goals for poverty reduction, integrating social, macro-economic and structural elements, and identifying measures for evaluating progress made to achieving agreed objectives. These strategies are to be country-owned and are based on a consultation process involving the poor and other key stakeholders in society.

The Strategy represents a national development vision of a country, and all potential donors, international organizations and international financial organizations are expected to coordinate their assistance and loans within the framework of this document. This approach is recognized as a favorable model for linking debt relief, poverty reduction efforts, and civil society participation in pro-poor policy development.

The expected outcome of the DPRS and its effective implementation, will be visible progress made in terms of the poor, that is, the population below and around the poverty line. Progress will be seen both in terms of the poor's participation in the advantages of growth, where their well-being can best be improved, as well as in the reduction of vulnerability to different types of risk.

\* \* \*

Montenegro decided to define its poverty reduction strategy, following proposals made by international financial institutions. The preparatory work on strategy development started in May 2002. The Government of Montenegro adopted the Interim Poverty Reduction Strategy on 19<sup>th</sup> July. This document was approved by the WB and IMF boards following a joint assessment process, on 22 July 2002.

In August 2002, the Government of Montenegro established an Inter-ministerial Steering Committee, to be coordinated by the Ministry of Labor and Social Welfare. This Committee included the ministries of: Education and Science, Health, Finance, Environmental Protection and Urban Planning, Agriculture as well as the Minister for Economic Affairs and European Integration and the Secretary of the Development Secretariat. A few months were spent on defining the Strategy's Terms of Reference, training the Working Group members, responsible for compiling and developing the actual document, and donor negotiations. Support for developing The Poverty Reduction Strategy was obtained from the WB, DFID and UNDP.

The Poverty Reduction Strategy Management Unit was established in January 2003 within the Ministry of Labor and Social Affairs, while the Working Groups started working on the Strategy in March 2003.

In March 2002, the Government of Montenegro adopted a strategic development document entitled: The Agenda of Economic Reforms. The Poverty Reduction Strategy for Montenegro is complementary to this document, as well as to other Government strategy documents.

During April and May, consultative meetings were held with the project's Advisory Boards (parliament, local authorities, international development partners, private sector, business sector and civil society). The results obtained from research on poverty indicators in Montenegro, household income and expenditure surveys, as well as results obtained from additional participatory research involving vulnerable groups and communities facilitated by the NGO sector, were presented at the first Poverty Reduction Strategy Conference held on 16<sup>th</sup> May 2003. The Strategy obtained its full name just before the Second Conference (held 30<sup>th</sup> July), and it is now referred to as The Development and Poverty Reduction Strategy (DPRS). This name is believed to reflect the necessity of taking

a single approach to both stimulating growth and reducing poverty, which has become increasingly present in Montenegro following many years of transitional recession.

The DPRS draft has gone through a wide participatory process including the holding of a series of consultative meetings in all Montenegrin municipalities. Consultations, recommendations submitted, additional research on the poverty profile and intensive work of the expert working groups in close cooperation with the competent ministries, have all had a key impact on increasing the quality of the final version of the document.

The DPRS for Montenegro was approved by the Project Council on 31st October 2003. The Document was adopted by the Government of Montenegro on 6<sup>th</sup> November 2003 and thus has obtained legitimacy to be represented at the Serbia and Montenegro donor meeting.

## I A POVERTY PROFILE FOR MONTENEGRO

**1. Complex causes of poverty** – The fall in living standards and the rise in poverty in Montenegro over the last decade is primarily a consequence of a significant drop in economic activity. This in turn, was caused by numerous political and economic crises, wars in the region and the international isolation of the country. The most evident indication of the recession was the drop in production levels; GDP in 2002 was merely 63% of the level attained in 1989. As a result, unemployment rose by 50%, employment fell by 30%, and deterioration of the overall relations between export and import. Between 1990 and 2002, imports have been nearly doubled, and exports reduced by 65%. Depressed economic conditions, the destructive impact of the inflation (and hyperinflation), and impact of economic sanctions, all helped contribute to the creation of a unique »survival strategy«, embodied in a large informal sector (over 30%), which further weakened institutions and the financial power of the state in the field of social policy. Economic recovery and revitalization of the system show important indicators of progress in 2003, even though the growth dynamic is still unsatisfactory (See chapter 3, Box on economic indicators for 2003) and many citizens of Montenegro, who are located under or around the poverty line, are affected.

**2. Roma, refugees and IDPs** – During the conflicts in the region, the impoverished Montenegrin economy and society were host to all refugees and IDPs who sought refuge in Montenegro. At one point the number of those seeking refuge from neighboring countries and republics, amounted to 20% of the total population of Montenegro. After the conflicts were over and with the assistance of international humanitarian as well as republican level organizations, many succeeded in returning to their homes. Nevertheless, a large number of IDPs and refugees are still in Montenegro, without much hope of return, and with a desire to become full citizens of Montenegro. At present, it is estimated and that in Montenegro there are around 20000 Roma, out of which 5000 are from Kosovo, around 13300 refugees from former Yugoslav Republics, and around 28000 IDPs from Kosovo, which, in total, represents an estimated 8% of the population.

**3. A multi-dimensional poverty profile** – The poverty profile of a country is most often tied to the insufficient income to obtain the minimal basket of goods and services to fulfill basic needs. It has, however become clear that poverty is manifested in different ways, including the following: insufficient income and resources needed to secure a sustainable existence; hunger and malnourishment; poor health, limited or no access to education and other basic services; lack of energy and a degraded environment; increased mortality, including mortality caused by illness; homelessness and inadequate living conditions; insecure environment, social discrimination and isolation. Lack of access to participation in decision-making, and in the civic, social and cultural life of the community; the negation of human rights are also crucial. The multi-dimensional nature of poverty enables us to think about poverty as a state characterized by chronic lack of sufficient resources, capabilities, access to choice, security and power that are needed to ensure adequate living standards and the achievement of other civil, economic, political, cultural and social rights.

**FIGHTING AGAINST POVERTY THROUGH PARTNERSHIPS FOR DEVELOPMENT** - The main message from the first PRSP conference, should be the uniform commitment of all representatives of Montenegrin society to jointly fight against poverty in all its manifestations. The joint work on the development of the Strategy for development and poverty reduction is proof that we can truly do so.

*From the first Conference dedicated to poverty indicators in Montenegro – the joint conclusions,  
Podgorica, 16th May 2003*

**4. Poverty indicators and population vulnerability: the source of the research** – this chapter gives an overview of poverty assessments and assessment of living standards in Montenegro written on the basis of surveys on household expenditures conducted by ISSP<sup>1</sup>, the joint report on living standards and poverty in Montenegro completed by ISSP and the World Bank<sup>2</sup>, and research on household income and expenditure of Roma<sup>3</sup>, IDPs and refugees in Montenegro<sup>4</sup>, completed by ISSP and supported by UNDP.

#### 1. Poverty defined through expenditure

**5. How many poor people are there?** The study has shown that **12.2% of the population of Montenegro is poor**<sup>5</sup>. The absolute poverty line is defined as the total expenditure below the expenses of the minimal consumer basket for a standard household (€ 116. 2 per consumer unit) and the line of defining the economically vulnerable population is set 50% above the poverty line (€ 173.4). Assessments of poverty are sensitive to the poverty line: **more than one third of the population is classified as economically vulnerable** or without access to sufficient resources, because they live below the level of 150% of the poverty line. Poverty assessments are particularly sensitive around the poverty line (the concentration of the population around the poverty line is big, in other words, a slight moving of the poverty line upwards, significantly increased the % of poor people). According to research from June 2003, raising the poverty line for 20% would double the poverty rate. Therefore, a significant part of the population living in the zone immediately above the poverty line is vulnerable in the sense that it is sensitive to any form of economic instability or drop of personal income. Positive changes in income (those cause by growth or good economic policy) would lead to more than the proportional reduction in poverty; on the other hand, negative trends (recessions) would lead to an increase in poverty far above proportion.

**6. Variations in poverty by population groups** - given that this study includes research by population group, there are clear variations in poverty. The poverty rate is largest among RAE<sup>6</sup> (52.3%); it is equal among refugees and IDPs (slightly below 40%) and smallest among the standard population (9.6%). Nevertheless, the majority of poor in Montenegro are its own residents (72.5%), while the percent of RAE among the total poor is 11.7%, refugees 5.9% and IDPs is 9.9%.

**7. The regional poverty distribution**<sup>7</sup> - the most vulnerable are the residents of northern Montenegro, which has an overall poverty rate of 19.3%, and where 45% of the total poor are located. This region also includes 9.7% of

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<sup>1</sup> ) Institute for Strategic Studies and Prognosis, Podgorica.

<sup>2</sup> ) ISSP& World Bank, Living Standards and Poverty in Montenegro, Jun 2003;

<sup>3</sup> ) This refers to the Roma, Ashkaelia and Egyptian minority.

<sup>4</sup> ) ISSP, Research on Household Income and Expenditure of Roma, Refugees and IDPs in Montenegro, October 2003.

<sup>5</sup> ) The ETF for the needs of this analysis is based on the assessment of the total population being 718.790, which consists of 660.000 domestic residents, 20.000 Roma (out of which 5.000 are IDPs from Kosovo and are perceived as a homogenous category), 13.300 refugees from former Yugoslav republics and 28.000 IDPs from Kosovo (according to data from 2002 there were 29.132 in Montenegro, but according to preliminary results from the census in July 2003, only 18.000, with the assumption that the largest number of these persons shall register in Serbia, because of the announced activities related to easier access to the social welfare system of Serbia, whose nationals they are. The census of IDPs in Serbia is expected to take place at the end of 2003).

<sup>6</sup> ) RAE – The Roma, Aškelja, Egyptian minority

<sup>7</sup> ) The traditional division of Montenegro into three regions: the northern region (N), consisting of 11 municipalities (Andrijevića, Berane, Bijelo Polje, Kolašin, Mojkovac, Plav, Plužine, Pljevlja, Rožaje, Šavnik, Žavljak), the central region (C) (Cetinje, Danilovgrad, Nikšić and Podgorica) and the southern region (S), consisting of 6 coastal municipalities (Bar, Budva, Herceg Novi, Kotor, Tivat and Ulcinj).

the Roma, 10.4% of the refugee and 51.6% of the IDP populations. Around 35% of the poor live in the central region, which has a poverty rate of 10.8%. The central region also contains 52.3% of the Roma, 51.1% of refugee and 36.6% of the IDP populations. Around 19% of the poor population lives in the southern region, which has the lowest regional poverty rate of only 8.8% (see Table T1).

### T1. Indicators of Poverty and Population Vulnerability in Montenegro (2003)

	Montenegro			Regular population			RAE*			Refugees			IDPs**		
The assessed size of the population	100% (718.790)			92,4% (663.843)			2,7% (19.534)			1,9% (13.308)			3,1% (22.105)		
<b>Absolute poverty:</b> Expenditure/expenses under the absolute poverty line (€ 116,2 per month per person)	<b>12.2%</b> (87.641)			<b>9.6%</b> (63.728)			<b>52.3%</b> (10.216)			<b>38.8%</b> (5.164)			<b>38.6%</b> (8.532)		
<b>% poor by group</b>	<b>100%</b>			<b>72.5%</b>			<b>11.7%</b>			<b>5.9%</b>			<b>9.9%</b>		
Number of total poor per regions(%)	N	C	S	N	C	S	N	C	S	N	C	S	N	C	S
	45	35	19	53	31	16	9,7	52,3	38	10,4	51,1	38,5	51,6	3,6	11,8
Regional poverty rates	N	C	S	N	C	S	N	C	S	N	C	S	N	C	S
	19.3	10.8	8.8	14.9	6.5	6.8	77.6	39.4	82.5	30	62.4	27.3	51.1	50.4	13.8
<b>Economic vulnerability and absolute poverty:</b> Expenditure/expenses below the absolute poverty line +50% (€173.4 per month per person)	<b>34.4</b>			<b>31.1</b>			<b>75.6</b>			<b>68.9</b>			<b>73.2</b>		
<b>Poverty gap</b>	3.6			2.7			23.2			12.1			10.2		
<b>Severity of poverty</b>	1.5			1.0			13.8			5.5			3.8		
<b>Average deficit</b> of the poor as a percentage of the poverty line	29.9			28.0			44.4			31.2			26.4		
<b>Extreme poverty:</b> expenses for food < the poverty line for food	4.7			3.5			24.6			17.0			15.3		
The share of food expenses > 0,6	26.7			23.9			79.3			44.5			52.4		
<b>Poverty with respect to education:</b> 16 to 24 years old that are not in school and did not attend secondary school	17.2			4.7			70.0			29.3			8.0		
<b>Poverty and health:</b> Any illness/injury in the last 30 days which prevented or disabled standard activity	6.1			6.2			9.3			3.3			3.2		
<b>Poverty with respect to employment</b> 16 to 65 years old that are not working, but ready to work if employment opportunities are identified	17.4			17.0			43.3			32.5			30.4		
<b>Poverty with respect to living conditions</b> The source of drinking water in the flat/house is not from the water network or the flat/house does not have a bathroom	18.6			16.0			74.7			28.5			39.9		
Less than 10m <sup>2</sup> per person in the flat/house	11.3			8.2			85.8			54.5			50.1		

Source: The ISSP survey on household expenditure of Roma, refugees and IDPs, October 2003 and ISSP&WB Research on Poverty and Living Standards in Montenegro, June 2003; (Regions: N- Northern, C-Central, S-Southern)

\*Total RAE population consists of both domestic RAE (14 856) and internally displaced RAE (about 4.680).

\*\*Without RAE from Kosovo;

8. **The poverty gap** – With the integration of data obtained from the research completed so far, the poverty gap index, which is a measure of the depth of poverty, amounts to 3.6%<sup>8</sup>. The consumption of the average poor person is about 29.9% below the poverty line. With a poverty line of € 116.2 per month, this implies an income gap of €37.4 million, or 2.7% of GDP. This means that if the state would mobilize financial resources equivalent to 2.7% of GDP and direct this to the poor with perfect targeting every year, in theory, absolute poverty would be eliminated. The necessary financial resources, assuming perfect targeting, for eliminating absolute poverty among the domestic population amounts to € 24.7 million, for RAE to € 6.5 million, for refugees to € 2.2 million and for IDPs € 4 million, per annum (See chapter 8 for further details). **The severity of poverty** is a measure closely linked to the depth of poverty, but which gives those who are located furthest away from the poverty line – the poorest – greater “weight” when grouping the data, from those who are closer to the poverty line. The severity of poverty is 1.5%, and particularly characterizes the RAE population where it amounts to 13.8%. Extreme poverty<sup>9</sup> is significantly eradicated, with respect to the domestic population (3. 5%), but is present among the RAE minority, where it amounts to 24..6%, and among the refugees and IDPs it amounts to 17% and 15.3% respectively.

## 2. The multi-dimensional nature of poverty

9. **Living conditions** – poverty is a multi-dimensional concept, which incorporates diverse types of welfare. Poverty related to expenditure is only one type of poverty. There is no single indicator, which entails all the dimensions of poverty. There are other types of poverty apart from those expenditure-related, such as poverty linked to employment, living condition, and health. Research has demonstrated that more than a third of the population has low living standards and living conditions, which especially characterizes the Roma. Around 16% of the domestic population does not have access to piped water or a bathroom. In terms of the Roma, ¾ of their homes have no access to piped water and in terms of the refugees and IDPs, the figure is 30% and 40% respectively. Over 50% of both refugees and IDPs, as well as 86% of RAE live in cramped living conditions with less than 10m<sup>2</sup> per household member (this indicator for the domestic population is 8.2). Among the most vulnerable groups are the Roma, Ashkaelia and Egyptian minority (RAE) irrespective of whether they are domestic, refugees or IDPs. In the majority of cases, the RAE live in ethnically homogenous settlements that are illegally built and located on the outskirts of the towns and cities. The poor quality of the overall living conditions has not surpassed with refugees and IDPs who lost everything they had acquired. In the majority of cases, the refugees and IDPs (excluding the RAE) lived a 'normal' life in their countries of origin, which included a regular job, good living conditions, security and an active social life. The psychological pressure, which is experienced by members of these communities, represents an additional problem. The majority of refugees and IDPs came to Montenegro because of their family links, as well as because of the proximity of their former homes. The percentage of those who now live independently (in their own or in rented accommodation) has increased. Nevertheless, the majority have still not resolved their housing problems: there are no legal basis for sale of their real-estate in countries of origin, and the properties which have been sold in the previous period, are done so under 'irregular' conditions: property has been sold for next to nothing

10. **Education and poverty** – Around 4.7 % of adults in Montenegro can be considered “educationally poor”, meaning that they are not attending school or have not completed secondary school (16-24 year olds). However, the most prominent challenge in terms of education in Montenegro is not entry into secondary education, but the

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<sup>8</sup>) In the previous research, the sample studied included only the domestic population, and poverty was not deep as it amounted to 1,3 (and for the northern region 2,2).

<sup>9</sup>) **Poverty in terms of food** is defined as including those households whose expenditure for food is below the food basket cost (which amounts to 41 Euros per person per month). Food expenses < the poverty line for food.

quality of education, as well as the level to which required skills in the educational system reflect the needs of the market. Among the refugees this indicator is around 30%, and among IDPs it is 8%. Educational poverty is most prominent among the Roma and amounts to 70%. Only 7.1% of the RAE population is currently attending an educational institution. Nearly 50% of RAE in Montenegro do not speak domicile language, and very few have elementary education. Their work usually reflects the use of self-taught skills, and not formally acquired knowledge. The RAE in Montenegro, share the destiny of RAE in the region; the transition from centrally planned to market economies has had a particularly detrimental effect on this group. The low level of education and the high presence of those in low paid jobs puts them in an undesirable position in the labor market. Expectations with respect to employment are negligible. According to the research, the poverty rate among the RAE households in Montenegro is 4.5 times higher than the national poverty rate. that is 5.5 times higher than the poverty rate among the domestic population.

**11. Income and expenditure** – In terms of the **income sources** of the regular population, the majority of households acquire income through employment (75.7%), in the second place are pensions (45.5%), and in third are private transfers received from relations and friends in-country and abroad (19.3%). Among the RAE, this income source is more significant (27.6%), followed by humanitarian aid (18.7%) and income acquired through unemployment (16%). Among the refugees and IDPs, income from employment is most significant for the majority of households (54% and 43.3% respectively). In terms of the **structure of expenditures**, food expenses dominate in all the population groups: 49.4% among the standard population, 66.7% among the REA, 51.9% among the refugees and 53.6% of total expenditure among IDPs. The second largest expenditure represent accommodation expenses. RAE households have expressed dissatisfaction with their living conditions. Furthermore, 80.7% of REA households believe that food security represents a major problem over the long-term.

**12. Health and poverty** – Access and quality of health services is an important element of a poverty profile of a given society. In the research analysis, the percentage of the population, which was unable to conduct its regular activities in the last 30 days, as a consequence of illness/injury, was used as a key indicator. Around 6.2% of the domestic population had experienced an illness or injury, which limited their capacity to carry out regular activities. Even though the RAE live in significantly poorer living conditions, they are not significantly more affected by health-poverty. Around 10% of RAE, in comparison with 3% of refugees and IDPs consider themselves poor in terms of their health. – which means that they have experienced an illness/injury, which has prevented them conducting their regular activities in the 30 days, which preceded the time, the survey was implemented. On the other hand, the research showed that the majority of RAE children (94.5%) are vaccinated, which confirms the success of the joint activities of NGOs and health institutions with respect to prevention and child immunization?

**13. Labor market and employment opportunities** – The issue of the volume of (registered) employment is closely linked to poverty levels. The volume of the informal sector in 2002 is estimated at 30%. The economic recession, is having detrimental impacts on both the domestic population and the refugees and IDPs: the labor market is inflexible, even workers with many years of experience are left without jobs, and education no longer guarantees employment. Among the domestic population, within the 16 to 65 age-group, 17% of those surveyed is not working, but is ready to work if employment opportunities emerge. At the same time, the unemployment rate is 43.3% among RAE, 32.5% among refugees and 39.4% among IDPs. RAE in many cases conduct work that no one else wants to do and work that is least paid. The largest number of RAE engage in gathering and selling recyclable materials, trade and craftsmanship. In a majority of cases, RAE children who do not have access to education because they do not have the financial resources necessary to buy books and necessary equipment, as well as because of the need to contribute to the household budget, beg on the street. The majority of refugees and IDPs are involved in trading, mostly within the grey economy.

**14. Social transfers** – Montenegro is engaged in improving its social welfare system primarily by improving targeting measures and addressing fiscal sustainability (reform of the social welfare system). Currently, five main programmes for social welfare represent nearly 2% of the GDP. (Family support, child benefit, home care, pregnant women, veteran compensation). With maintaining the total budget constant in the nominal sense from

2000, the reforms have led to major changes in budgetary expenditure through larger social welfare programmes. With the legislation adopted in 2001, the volume of family support has increased. Even though all families entitled to this form of support do not receive it, the number of families receiving this form of benefit is reflected in the increased ratio of family support in the overall social benefit system – from 18 to 37 percent of the total budget. Whilst family support has increased, the amendments to child-benefit regulations adopted in 2001, only families receiving family support are eligible to child-benefit. At the same time the assistance to families with children with special needs has increased irrespective of their income.

**15. Social welfare and poverty** – To what extent do social welfare programs impact on poverty? The extent to which poverty is alleviated shall depend not only on the size of the benefit, but also on the level of effectiveness in terms of targeting. Social projection can entail social welfare programs (such as family support) and programs of social insurance (including pensions and assistance to the unemployed). The links between poverty and social welfare is assessed by researching the changes in measures for combating poverty, if there are no available social benefits, assuming a marginal bias to expenditure of 50%. For example, in the research of June 2003, it is stated that poverty would increase by 34% among the domestic population, if there was no social welfare program.

**16. Humanitarian aid** - RAE, IDPs and refugees represent vulnerable categories of the population in Montenegro and they have been continuously monitored by international humanitarian organizations over the last few years. Many of them, however, continue to live in poor quality accommodation, with insufficient income to secure three meals a day and secure a basic diet. Despite the desire to work, they are very often denied the opportunity to secure an income. As time passes, assistance from international humanitarian organizations is being reduced, and the over-burdened budget does not have the means for providing more generous support. Furthermore, refugee households and IDPs do not have the right to apply for family support, child benefit or compensation from the Office for Employment, whereas the state covers healthcare costs. The education system is accessible to all. In addition, refugees and IDPs do not pay utility charges, and if they live in collective centres, they do not pay for electricity charges. The domestic RAE are users of the states social welfare system, however, they often lack information about application procedures, their benefits are irregular, and given that the number of households in this category is large, the income obtained in this way does not resolve the problem. The participatory process reinforced the importance of access to education, as a long-term solution to poverty alleviation.

**17. Perspectives** – Refugees and IDPs are under much more psychological pressure than RAE, because of a sudden decrease in living standards. The traditional saying “it is most difficult to have and have it taken away” best explains this problem. During their stay in Montenegro, many have managed to integrate into society, which is demonstrated by the number of households that live in their own or rented accommodation, in comparison to when they first registered. The highest number of IDPs is active in the trading sector within the gray economy, which is obviously a short-term solution. The Commissariat for IDPs has announced the development of a national strategy, which is to offer long-term solutions for caring for refugee and IDPs persons. It is certain that RAE and IDPs want to be part of the society in which they live and that they wish to contribute to its development through their work. Only development projects in the area of employment and well-defined social policy can secure the achievement of this goal. Until then, research is needed to adequately monitor the effects of measures taken on the poor and marginalized population in Montenegro. According to surveys implemented, the majority of RAE plans to seek citizenship in Montenegro (67.7%). In terms of the status of refugees, 40.7% of those who do not have citizenship of Serbia and Montenegro has applied for it; 2.5% has obtained citizenship, but still has not processed the papers; 47% plans to apply for citizenship of Serbia and Montenegro, while 9.8% of the refugee population does not plan to seek citizenship. When asked whether they would return to their countries of origin, 34.8% answered ‘yes’; 15.8% replied that they would return if it was secure for them; 23.4% does not think about return because their property has been destroyed, 3.2% have sold their property and cannot return, and just over one fifth of those questioned (22.8%) would not return, because after spending 10 years in Montenegro, they have managed to integrate economically and socially. More than half of the IDPs who are in Montenegro, sees its future here: according to the survey, one fifth (19.6%) of IDPs has submitted an application for obtaining Montenegrin citizenship, while 46.3% plans to do so.

### 3. Inequality

18. Inequality measures give implications of how benefits of growth are distributed over time. The Gini coefficient in Montenegro is 0.29, which is in the range of other transition countries in Eastern Europe. Including marginalized populations does not change the Gini coefficient figure; 90/10-decile ratio coefficient<sup>10</sup> has increased and demonstrates a higher level of inequality in Montenegro in comparison with other transition economies (7.0). In terms of inequalities within the marginalized groups, inequality is greatest among the RAE, both in terms of the Gini coefficient, as well as when we take into account the decile ratio. As demonstrated in the analysis, the average monthly expenditure per person within the RAE population is 2.3 times lower than the average expenditure per person in the country as a whole. Given these figures, the poorest RAE spend over 15 times less than the RAE who have the highest expenditures. Inequality is least present among the IDPs, but even within this group it is very high.

Table 2: Inequality measures

Inequality	The total population	The standard population	RAE	Refugees	IDPs
<i>Gini coefficient</i>	0.29	0.28	0.38	0.31	0.27
<i>Decile ratio</i>	7.0	6.5	15.4	7.8	5.7

### 4. Poverty risks

19. Within the total population of Montenegro, those who are more likely to be poor, have the following characteristics: they live in families with four or more members (15.1%); the head of the household is a person who is older than 50 (1.5.3%); the head of the household is a woman (18.9%); they live in households whose household-heads have completed only primary education (30.8%); they live in households in which the household-heads are unemployed or non-pensioners (23.8%). Even though these categories battle with high poverty risks, they do not represent the majority of the poor in Montenegro, because they represent a small proportion of the total population.

20. With respect to analyzing the **RAE population's** poverty profile, the situation is somewhat different; as the poverty rate is high, all categories are more or less affected. An average RAE household has 5.7 members. It is clear that the majority of this population (92.3%) lives in households with more than four members, and their poverty risk is higher (55.1%) in comparison with those who live in small households (up to 3 members 0 18.5%). Household members whose household-heads are less than 50 have a higher poverty risk (54.1%); the case is the same with RAE households headed by males (53.9%). Household size plays an important role in the poverty levels for RAE, and this is probably because households headed by males usually have more members. Also, the poverty rate is larger with households headed by persons with elementary education (54.4% in comparison to

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<sup>10</sup> The decile ratio (90/10 coefficient) represents the coefficient of average expenditure in 10% of the richest population and the average expenditure in 10% of the poorest. Even though the 90/10 coefficient does not utilize information on the income distribution between the upper and lower deciles, it is sometimes much more appropriate than the Gini coefficient which can fully predict changes which impact on the poor.

36.9% of households whose househeads attended secondary school). It is interesting that the poverty risk is higher when the head of the household is employed (53.1%).

21. The poverty risk rises within the RAE group, when the following indicators are taken into consideration: the average size of the RAE household is 5.72. The average age of those participating in the RAE survey is 21.6 years. 88.6% of the members of this population live in urban or suburban areas, and only 11.4% live in rural areas. The majority of RAE (47.6%) live in shacks; 30.5% live in houses, while 7.8% live in one room flats. The majority of RAE live in accommodation made from hard material (50.2%); 42.8% live in homes made from wood, 4.5% in homes made from mixed materials, 1.2% in homes made from earth combined with other materials. Living conditions of RAE households are made additionally worse due to the environmental problems, which characterize their immediate surroundings. Namely, 47.5% of RAE households live in close proximity to a dump, 22.3% live in settlements where waste waters flood, 17% live in areas where the air is polluted, and 12.8% have problems with mud. Furthermore, the survey results show that the birth rate among Roma women is very high, with 85% of women having five or more children. 7.8% RAE households receive family support. 18.7% of RAE families receive support from humanitarian organizations.

### T 3. Poverty profile: Poverty rates by group

	Montenegro			The standard population			RAE			Refugees			IDPs		
	% of pop.	% poor		% of pop.	% poor		% pop.	% poor		% of pop.	% poor		% of pop.	% poor	
<b>Household size</b>															
1-3 members	26.9	4.2	(2.3)	27.5	3.4	(2.4)	7.7	18.5	(5.9)	26.0	24.6	(5.9)	27.3	12.7	(3.7)
4+ members	73.1	15.1	(3.6)	72.5	11.9	(3.9)	92.3	55.1	(3.8)	74.0	43.8	(5.7)	72.7	48.3	(4.7)
<b>By age of household head</b>															
Less than 50 years	45.2	15.3	(4.4)	42.1	8.3	(1.3)	77.2	54.1	(4.0)	50.0	30.0	(6.4)	59.1	46.1	(4.9)
50-64 years	42.0	11.9	(4.4)	41.5	9.0	(1.5)	19.9	46.6	(8.5)	39.2	42.1	(7.3)	27.3	25.7	(6.8)
65+ years	12.8	2.3	(0.8)	16.4	13.5	(2.9)	2.9	41.8	(15.3)	10.8	67.8	(11.0)	13.6	31.8	(9.1)
<b>By sex of household head</b>															
Male	86.5	11.1	(2.8)	86.4	8.4	(3.0)	90.6	53.9	(3.8)	82.0	37.9	(5.1)	82.3	38.2	(4.2)
Female	13.5	18.9	(8.9)	13.6	16.9	(9.8)	9.4	35.9	(9.4)	18.0	43.1	(10.3)	17.7	40.3	(8.4)
<b>By educational level of household head</b>															
Elementary	19.0	30.8	(8.9)	16.9	25.1	(3.8)	88.0	54.4	(3.8)	24.7	72.1	(8.7)	15.2	59.2	(9.5)
Partially completed or completed secondary educat	81.0	7.8	(2.5)	83.1	2.6	(9.6)	12.0	36.9	(9.6)	75.3	27.9	(4.4)	84.8		(4.0)
														34.8	
<b>By employment status of household head</b>															
Not employed and not retired	11.9	23.8	(9.2)	10.4	17.0	(11.4)	42.6	50.0	(5.5)	17.9	74.6	(8.3)	22.4	47.6	(7.6)
Employed	64.5	6.6	(2.2)	65.0	4.1	(2.3)	55.2	53.1	(4.9)	68.8	31.4	(5.7)	55.7	33.6	(5.0)
Retired and not employed	23.6	22.3	(8.3)	24.6	21.6	(8.8)	2.2	37.4	(18.8)	13.3	30.6	(9.9)	19.9	41.3	(8.3)

Source: ISSP/UNDP Survey on income and expenditure of households. Note: Standard errors are in parentheses; the 95% confidence interval is approximately  $\pm 2$  standard errors.

22. Some of the general conclusions on poverty risks apply also to **refugees**, but there are other poverty risk indicators that are specific for this group. The poverty risk is higher for: households with four or more members (43.8%); households headed by an older person – age 65 or older (67.8%); households headed by females (43.1%); households headed with persons who have completed only elementary school (72.1%); and households headed by persons who are neither employed nor pensioners (74.6%).

23. The average size of a refugee household in Montenegro is 3.92. The average age of the survey respondents was 31.9 years. From this we can conclude that the large majority (more than 90%) sees their future within Montenegro. With respect to type of accommodation, the majority of refugees live in one-room apartments (32.5%), 27.7% live in houses, while 16.9% of refugees live in shacks. 13.3% of refugees live in two-room apartments. The majority of refugees included in the survey sample live in collective centers (39.2%), 19.3% live in their own accommodation, 20.5% live in rented accommodation and 4.8% in homes of relatives or friends. 65.8% of households live in homes made from hard material; 7.6% live in homes made of wood, while 25.9% of households live in homes made from mixed materials. The majority of refugee households (51.3%) did not have enough money for food during the month preceding the survey.

24. **IDPs** are at a greater risk of being poor if they live in households with four or more members (48.3%); with households headed by persons younger than 50 years of age (46.1%); in households headed by women (43.1%); in households headed by persons with only elementary education (59.2%); and by persons who are neither employed nor retired (47.6%).

25. The average size of a **refugee** household in Montenegro is 3.92. The average age of survey respondents was 33. Out of the total number of surveyed IDPs, the largest percent (26.2%), live with friends/relations who were the main reasons of their coming to Montenegro; 24.3% live in rented accommodation; while 15.6% live in homes they own. Nearly one fifth of the IDP households (17.5%) live in collective centers, 10.3% in specialized institutions. The majority is in accommodation made from hard materials (83.4%); 12.4% live in homes made of wood, while the remaining 4.3% live in homes made from mixed materials.

## II. THE OBJECTIVES OF THE DEVELOPMENT AND POVERTY REDUCTION STRATEGY (DPRS)

The DPRS aims to make spending projections for the next three-year period (2004-2006). The DPRS is to be implemented as an integral part of the overall development and reform strategy in Montenegro, which is complementary with the Agenda of Economic Reforms and other development strategies, and which presents a framework for the development of other development documents. The periodical report on the progress on the Strategy's implementation will include progress on the SAP process, as well as achievements towards the Millennium Development Goals (MDGs).

	<b>OBJECTIVES</b>	<b>STRATEGIC DIRECTIONS / ACTIVITIES</b>	<b>INDICATORS</b>
1.	Create the conditions for self-sustainable and equitable economic growth, which will reduce the rate of the economically vulnerable population	<ul style="list-style-type: none"> <li>▪ Create a stable macro-economic environment for dynamic economic growth, while ensuring the private sector plays a crucial role.</li> <li>▪ Harmonization of legislation and policy with the EU</li> <li>▪ The promotion of Montenegrin potential, especially in areas where Montenegro holds a comparative advantage</li> <li>▪ Pro-active policies in creating employment opportunities</li> <li>▪ The protection of the environment and the sustainable management of resources.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The GDP growth rate</li> <li>▪ The employment growth rate</li> <li>▪ The growth in exports</li> <li>▪ A reduction in imports</li> <li>▪ A growth in foreign direct investment</li> <li>▪ Progress on SAP</li> <li>▪ A reduction in the economically vulnerable population rate</li> </ul>
2.	Ensure social stability and reduce the poverty rate	<ul style="list-style-type: none"> <li>▪ Improved targeting of social welfare measures especially those directed at children, older people and the disabled.</li> <li>▪ Improved access to and quality of education</li> <li>▪ Improved access to and quality of health services</li> <li>▪ Improved quality of environmental protection</li> <li>▪ Development of infrastructure in the function of poverty reduction</li> <li>▪ Implementation of regional development policies for poverty reduction in least development and rural areas</li> <li>▪ Implementation of activities for enabling the realization of the Strategy for repatriation of persons who wish to return to their former homes.</li> <li>▪ Improved quality of social integration and poverty reduction of refugees, IDPs and RAE, for those persons who wish to remain in Montenegro.</li> <li>▪ Achieving gender equality and human rights</li> </ul>	<ul style="list-style-type: none"> <li>▪ A reduction in the poverty rate</li> <li>▪ Improved multi-dimensional poverty indicators</li> <li>▪ A reduction in regional development gaps</li> <li>▪ The level of social integration of marginal groups.</li> </ul>
3.	Define key poverty indicators, in line with the Millennium Development Goals (MDGs) and assess them through an integral system of monitoring and evaluation, during the DPRSP implementation period.	<ul style="list-style-type: none"> <li>▪ Develop an integrated monitoring system</li> <li>▪ The quality of change to be measured through key indicators, that is, through their gradual reduction, as the proposed measures are implemented.</li> </ul>	<ul style="list-style-type: none"> <li>▪ MDG indicators</li> </ul>

Further elaboration of the above objectives, is given, by sector, in the Performance and Policy Matrix.

### III THE MACRO-ECONOMIC FRAMEWORK FOR ACCELERATED ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

#### 1. The Program of Economic Reforms

1. The top priority for macroeconomic policy is the **achievement of economic stability and sustainable growth**, as the basic instrument and prerequisite for improving living conditions and achieving poverty reduction. (The Government of Montenegro defined its strategic development directions and set out a program of economic reform in the document – The Agenda of Economic Reforms, representing a baseline for the DPRS). Macroeconomic stability is one of the key factors impacting on poverty alleviation. A stable domestic environment, together with low inflation, stable fiscal policy and external liquidity are the crucial macro stability factors for establishing a favorable business climate, while at the same time providing the most favorable conditions for poverty reduction. Providing such conditions is a key goal of economic policy makers.

#### SELECTED ECONOMIC INDICATORS FOR MONTENEGRO FOR THE FIRST 9 MONTHS OF 2003

Selected comparative data of the first 9 months in 2002 and 2003 are as follows:

- The assessed GDP has nominally risen by 10.27% (the realistic growth is estimated at 2.52%, which is more than the planned 1.5% for the year).
- industrial growth has been achieved in value of 6%
- production of food goods and beverage has increased by 22.1%
- The trade balance deficit has been reduced by \$ 50 million (28.5%) and an increased coverage achieved of imports by exports from 57% to 70%.
- The total volume of trade exchange with other countries has increased by 5.9%.
- Retail prices have risen by 6.6%
- Montenegro has been visited by 571.000 tourists and had 3 852 878 over-night stays (a growth in the number of tourists by 13.2% and overnight stays by 9%)
- The registered unemployment rate has been reduced by 18% (66.277 persons)
- 24.766 new employment positions have been registered and an additional 19.230 employment positions registered among nonresidential persons.

2. According to a realistic-conservative scenario, real growth rates in the future **medium term period (2004-2006)** are envisaged to range from 2.5% in 2004 to 4% in 2006, although actual recovery and growth could be realized more rapidly. Planned economic growth is based on improvement of the overall legal-economic environment, escalation of export-oriented sectors, achievement of fiscal and monetary balance, and political and institutional stability. Steps taken and reforms implemented by the Government so far (2000--2002) have been successful in establishing a stable macro environment, and laying the basis for future medium term growth. These activities included actions to reduce and remove distortions within the economic system through price liberalization, changes in the foreign trade regime, reduction in public expenditures, tax system reform, stabilization of inflation, financial and fiscal system reforms, and privatization and restructuring in the productive sector.

3. The key to sustainable growth in Montenegro should be based on **export-oriented private sector development**, considering the small domestic market. Exports at present are characterized by an insufficient volume of goods exported, and a lack of a range of goods exported (export of raw aluminum is close to 70% of total merchandise exports). Export-oriented sectors in Montenegro at present include tourism, agriculture (wine, beer, medical herb, lamb meat, and other food products), transportation, and wood products. Intensifying these activities, in which Montenegro has a comparative advantage, will encourage economic growth, increase employment, and help alleviate poverty.

4. Export-oriented growth assumes greater **investments**. The investment share of GDP in the next medium term period is projected to be 19.5% in 2006, compared to 18.9% in 2002. Domestic savings, are expected to grow from 2.9 % of GDP in 2003 to 4.3% GDP in 2006, are to represent the basic resource for local investments. Despite the significant growth of domestic savings, future growth depends on a significant increase in foreign investments. Thus, it is important that, the Government of Montenegro continue efforts in creating a favorable business

environment, including property right protection, the rule of law and business development based on market principles. These measures will, hopefully, contribute the realization of the projected foreign investment increase (direct investments) from 6.8 of GDP in 2002 to 11.1% of GDP in 2006.

**5. Monetary policy and Banking** – The desire of Montenegrins to establish monetary stability led to the introduction of a stable European currency the DM at the end of 1999, and the Euro in 2002. However, despite the introduction of the Euro, inflation is still present in Montenegro above its level in Euro zone countries. Taking into account that the Central bank of Montenegro does not conduct an emission function, Montenegrin inflation has its roots primarily in non-monetary policy trends (expansive fiscal policy, level of local wages and pensions especially during 2001, introduction of VAT). A number of measures being applied by the Government such as fiscal policy and wage stabilization, further price liberalization and monopoly removal, will have positive effects for inflation stabilization. The anticipated inflation level in 2003 is around 8%, and further reduction is expected in forthcoming years.

**6.** Significant progress has been made within **banking sector** reform and recovery. The overall strategy for the financial sector had two aspects: restructuring and reform of the existing financial institutions (banks), as well as creating conditions to involve new banks, especially foreign ones, within the financial market. A new institutional framework was the starting point for banking sector restructuring, which has been performed successfully (by additional capitalization, acquisition and bankruptcy of those banks which did not meet basic conditions prescribed by the Law on banks). The private capital share in the banking sector, with successful completion of Montenegrobanka privatization, is now 75%, and will increase with the further privatization of state banks (Podgoricka banka). With the appliance of the Basel principles on bank supervision, successfully carrying out by the Central bank, banking business has been significantly improved. In order to return confidence in the banking system, the Government has prepared a Law according to which confiscated foreign currency savings should be returned to the citizens in the period from 2004 to 2017.

**7.** In spite of the institutional support and strengthening of the banking sector, there remains a high disparity of credit between deposit interest rates. When it comes to **credit structure**, most bank loans are given to private companies and citizens, but have mainly a short term character. Reduction and stabilization of inflation should reduce risk perceptions, and lead to a decline in credit interest rates. A new Law on deposit insurance will help promote the safety of deposits, and increase liquidity of the banking system.

**8. Fiscal policy** in the forthcoming medium term period, should support development and Government's programs for poverty reduction. In the future medium term framework, a slight growth of **public revenues** is projected, so that the overall projected consolidated revenues will grow from 36.0% of GDP in 2003 to a level of 38.5% of GDP in 2006. Public revenue projections in 2003 were based on planned effects of new tax laws: the Value Added Tax Law and Personal Income Tax Law, as well as on changes within tax collection system for foreign trade and transactions. Likewise, revenue projections are conservative, but take into account the effects of VAT and other taxes introduced during 2003.

**9.** Several factors impacted on the level of **public expenditures** during the period 2002. Public expenditure in 2002 was 41.6% of GDP. During 2003, despite considerable measures aimed at decreasing expenditures (reduction in the number of employees by 1000), planned expenditures have increased to 42.3% of GDP. This increased percentage in public expenditures is partly a result of inclusion of funding to support the Union Government, which is 2.8% of GDP, as well as additional expenditures of about € 11.6 million or 0.7% of GDP aiming at funding entrepreneurship and small business, and for reducing illegal employment. Stabilization of public expenditures of about 38.4% of GDP is expected in 2004, which will slightly increase, up to 40.7% of GDP in 2006. Beside the Union transfers, the structure of expenditures within 2004-2006 will also comprise payment of the old foreign currency savings to citizens amounting to €145 million in the next 13 years, including € 8.1 million in 2004. Slight growth in project funding from 1.4% to 1.7% of GDP is also projected in the same period, which will raise capital expenditures and directly impact on poverty reduction. Considering that the level of public

expenditures in Montenegro is mainly determined by the level of wages in the public sector, budget projections for 2004 also include further reduction in these expenditures by € 5.2 million, which means further reduction in number of employees.

**10.** Given these changes in public expenditures and revenues, the **projected public sector balance** during 2004-06 will reach -5% of GDP (before grants and assuming no additional foreign financing that is presently foreseen as available (see Table 1). This deficit includes an average of 2.6% from foreign loans and grants, and 1.7% for domestic financing. Privatization revenues are projected to gradually decrease over time. However, this budget projection does not include the projected public expenditures needed for the poverty reduction strategy (PRS) implementation. These additional funds average about 9% of GDP during the 2004-06 period, of which 40% would come from non-inflationary domestic sources, and 60% from foreign financing. If such foreign financing were obtained, it would raise the deficit by an additional 5.6% of GDP (assuming all foreign assistance goes through the public sector), for a total of 10.6%. However, the true deficit excluding grants, on the assumption that 50% of new foreign financing is on grant terms, would be 6.8%.

**11. International economic relations** are characterized by the presence of considerable deficit within the balance of payments. Predicted current account deficit in the next medium term period, will be around 15% of GDP, excluding additional financing needed for the DPRS. Despite the changes in the customs regime, the share of imported goods within total output (especially in tourism) is still high. In order to reduce deficits, the Government aims to define an institutional framework to stimulate exports and investment. Although it was expected that the share of foreign trade balance of goods and services would be decreased to 28.6% by 2005, in fact, this percentage has already been cut to below 25% in 2003 (30.1% of GDP was envisaged). Such a considerable drop of this indicator was positively influenced by changes in the dollar/euro exchange rate, as well as by the reduction of imports by Serbia through Montenegrin territory.

**12. Creation of favorable business environment** is one of the important prerequisites for economic recovery. Obstacles imposed by the rules, procedures for getting licenses, taxes, waiting time and inconsistency within procedures and processes, obstruct the establishment of new companies and the development of existing ones. It is necessary to analyze formal and informal barriers systematically, and develop a plan to reduce or remove them, as well as a system for monitoring progress. In the last two years progress has already been made through: liberalization and removal of certain regulations in foreign trade and investments, simplification of customs system, improved employment legislation, and improvements in company registration. A new Law on Bankruptcy will facilitate the closure of unviable firms, while the new Law on Private Sector Participation in Service Delivery will enable the larger participation of the private sector, using concessions and other approaches.

**13. Privatization** in Montenegro was carried out through the process of mass voucher privatization, direct tender sale and auctions. **MVP** has completed the phase of so-called «populist» privatization, involving around €1.4 billion or 29.19% of totally estimated capital in Montenegro. In spite of the effect of privatization, a great deal of capital is still owned by the state. Around 40% of the industry sector is owned by the state and the Government plans to **sell several large corporations** by the end of 2003 or early 2004. 54% of Jugopetrol Kotor shares were sold. The large aluminum factory, KAP, had been put up for sale in 2002, and the process of selecting financial advisors has started. Final negotiations on the purchase of the Niksic Iron Works (Željezara Nikšić) are in progress. Negotiations with respect to tenders for the Tobacco Combine (Duvanski kombinat) are currently taking place as is the case with a number of hotels (nine hotels have already been sold). The tender for Telecom is expected to be announced next year. In the majority of cases SMEs have many owners, which is a result of the MVP program and has disabled corporate level change and made finding strategic investment difficult. Many of the enterprises are still either directly or indirectly under the state control, through the privatization and other funds. The Government will undertake a program to continue the privatization process through intensifying sale and the sale of the remaining capital within republican funds through auctions and stock exchange sale.

**14. Reform of the Judiciary system** – The Montenegrin judiciary system is not fully compliant with EU standards. There is a growing number of cases, in terms of their volume and complexity, but there is a lack of staff and financial capacity, and a huge number of cases that have not been solved, in particular when it comes to civil suits. There is an obvious lack of modern judicial administration and management. For these reasons, the Government adopted the Strategy for Judicial Reform in 1999. The overall reform on judiciary system requires: i) changes in constitutional and legal framework, which will lead to greater independence of the judiciary system ii) changes within the structure and functioning of judiciary system in accordance with the regulations of recently adopted Law on Courts iii) strengthening the expertise of judges, prosecutors, employees in Courts and other key personnel; iv) improvement of administration and management in Courts; v) encouraging civil sector participation in the reform; vi) reliable, effective application of new economic and legal framework, which as a consequence raises confidence among investors. The main objective of the reform is independent, impartial, transparent, efficient, flexible judiciary system that guarantees protection of the rights of both physical and legal entities, consistent with the constitutional and legal framework, and EU standards.

**15. Strategy on administration reform in Montenegro** – public administration reform is one of the priority tasks of the Government in the forthcoming period. Administration reforms assume creation of the holistic democratic atmosphere in Montenegro. In that sense, state administration reform and building the institutions of the system must rely on the principles of parliamentary democracy, the rule of law and the participation of civil society. Reform activities comprise the following areas: state administration, local self-government and public service, as well as other functional elements of the administration system.

**16. Reform on state administration** – good management implies state administration capable of delivering good and reliable services to clients. To achieve this goal, it is necessary to adopt policies characterized by: full transparency in operations, performance-based management, merit-based selection of the staff, training and development, and salaries and remunerations linked to performance. Bad management practices do not clearly specify actors and their responsibilities, limit innovations and increase administration costs. Some donors are already providing technical support for institutional and process reforms, while the EAR is providing assistance in drafting the legal framework for state administration and trainings. To make the reform successful, it is necessary to improve the structure of state administration. The Law on State Administration and the Law on inspection have been adopted. The rationalization of public administration is ongoing. Training of public sector employees and programs for "change management" is required to create a culture that will permit the implementation of the reforms. The overall objective is good management of state administration services, which are politically impartial, qualified, ethical, professional, with staff selected on its merits and responsible for the performance of the activities of state authorities. Goals, targets, directions and activities of the reforms will be defined by a Strategy on Administration Reform in Montenegro.

**17. Local self-government reform** – The Parliament of Montenegro adopted the Law on Local Self-governance and the Law on Financing Local Authorities in 2003. (This includes the appointment of municipal mayors through direct election). The main objective is to provide a democratic, decentralized, professional, local self-government system, which will welcome citizen participation in decision making and contribute to local socio-economic and cultural development as well as help create a healthy business environment. The Government of Montenegro is pledged to adopt a set of system laws designed to regulate financial and political institutions at the local level, regulate fully the decentralization process and immediately start with local self-government reform. To be completely realized, this activity calls for willingness and determination of key state authorities, in particular, Ministry of Finance and Ministry of Justice. Their active support and coordination in the process of local self-government reform is of crucial importance for efficient implementation.

**18.** The strategic priority of Montenegro and Serbia is a gradual harmonization with EU standards and systems, i.e. initiatives linked to the **EU Stabilization and Association Process**. The harmonization action plan for two economic systems of the members of the State Union was adopted by the Parliament of Serbia and Montenegro in August 25, 2003, half a year after the constitution of the State Union and the adoption of the Constitutional Charter (February 4,

2003), enabling the free flow of people, goods, services and capital. The process of drafting the Feasibility Study is ongoing and represents the basic prerequisite for intensifying the SAP process, meeting the Copenhagen criteria and leading to the final signing of this important Agreement with the EU. With respect to international economic relations, the priorities in the medium-term are **WTO** membership, the establishment of the Balkan free trade zone as well as increasing regional trade.

**Table 1. Basic macroeconomic indicators 2002-2006**

	2002	2003p	2004p	2005	2006
<b>Real economy</b>					
GDP nominal (mil Euros)	1.250	1.375	1.475	1.587	1.717
GDP in millions of EUR (prices in 2002)	1.250	1.279	1.317	1363.3	1417.8
GDP per capita	1.823	1.909	2.191	2.345	2.525
	(percentage change)				
Real GDP growth	3.6	2.3	3.0	3.5	4.0
Nominal GDP growth	19.1	10.0	7.3	7.6	8.2
Implicit GDP deflator	15.0	7.6	4.9	4.0	4.0
Poverty		12.2	12.0	11.8	11.5
Agriculture	3.0	3.0	4.0	4.5	5.0
Industrial production	0.6	1	-	-	-
Retail Price index	19.7	7.8	5.0	4.0	4.0
Unemployment rate	23.25	22.00%	21.00%	20.0	19.0
	u% GDP				
<b>Invetmnet</b>	18.9	19.2	19.3	19.4	19.5
Domestic savings	1.4	2.9	3.4	3.8	4.3
Foreign direct investment	6.8	8.7	10.2	11.03	11.7
<b>Consolidated Government Finances</b>					
Consolidated revenue	36.5	36.0	36.5	37.5	38.5
Tax revenue	34.2	34.1	34.6	35.6	36.5
Consolidate expenditure	40.6	42.3	38.4	39.2	40.7
Curent spendings	38.3	36.4	34.4	34.2	37.2
Capital spendings	1.6	2.1	2.6	3.0	3.0
Union transfers	0	2.8	2.8	2.8	2.8
Corrective fiscal measuremnts		1.9			
Overall balance before grants	-4.0	-5.3	-4.7	-5.0	-5.0
Foreign grants	2.2	1.5	1.0	1.0	1.0
Domestic financing	-3.5	1.0	1.7	1.7	1.7
Net Foreign Financing	0.6	1.8	1.4	1.7	1.8
Project financing	0.6	0.4	0.9	1.3	1.3
Privatization receipts	5.1	1.0	0.7	0.6	0.5
<b>Balance of payments</b>	millions of USD <sup>11</sup>				
Current account before foreign grants	-305	-169	-172	-165	-167
(% of GDP)	-22.1	-10.9	-10.3	-9.2	-8.6
Foreign debt <sup>12</sup>	570	548	509	474	440
Foreign debt (% of GDP)	41.3	35.3	30.6	26.4	22.7

<sup>11</sup> The exchange rate used was 1,13 USD for 1 EUR

<sup>12</sup> Approximation refers to the old debt and the new debt for years 2003 and 2004, but does not include the liabilities to the London Club, and does not include the projected future loans for years 2005 and 2006.

## T 2. Consolidated Government Finances including DPRS projects 2002-2006

(in % GDP)

	2004	2005	2006
DPRS projects	9.1	10.4	8.2
Domestic resources <sup>1)</sup>	3.6	4.2	3.3
International financing	5.4	6.3	4.9
: grants	2.7	3.1	2.5
Overall balance before grants (including DPRS)	-10.1	-11.3	9.9
Foreign grants	3.7	4.1	3.5
Overall balance after grants (including DPRS))	-6.4	-7.2	-6.4
Financing			
Domestic Financing	1.7	1.7	1.7
Net Foreign Financing	4.1	4.8	4.3
Privatization revenues	0.7	0.6	0.5

1) Planned activities, reallocation of budget, growth of budget revenues;  
Prepared by DPRS ETF, 2003

### 2. Creating new employment

1. **Employment** is, as a rule, the indicator of economic, cultural, and social prosperity of a certain community, the source of livelihood for the majority of the population and a stabilizing force for the socio-economic status of individuals and the community. **Unemployment** is often associated with social exclusion, marginalization and the non-utilization of human resources, particularly in terms of knowledge, labor, and time. Employment status is highly correlated with the risk of poverty. During the consultation process, the issue of employment arose as the single most important issue on the minds of the poor. This included the lack of jobs, the lack of adequate remuneration for jobs, and the uncertainty of the duration of employment.

2. The overall number of employees in Montenegro in 2002 according to the official records amounted to 113827 persons, while, according to the Labor Survey for the same period, it amounted to 177617 persons. The official data shows that there were 80584 persons registered as seeking work with the Labor Market Bureau of Montenegro in 2002 while, according to the Survey, that figure was 57688 persons. The employment rate, in the period of 1990-2002, dropped annually by about 2.9% on average according to the data of the official statistics<sup>13</sup>.

3. Women's share in the overall number of employees (Survey 2002) was 39.95%. Given that women account for 51% of the labor force, this data demonstrates a degree of gender inequality in the labor market.

4. According to the data from the **Labor Survey**, in the course of 2002, the share of labor employed in privately owned enterprises, amounted to 26%, of those in mixed ownership to 14.7%, and those in state ownership to 59.3%. In the period between 1995 and 2002, the number of private enterprises grew by 44.6%, and the number of enterprises in mixed ownership by 84.3%, which is a logical consequence of privatization. The share of the number of employees in small and medium-sized enterprises in the overall number of employees is around 20% (according to the assessments of the Labor Market Bureau), which is still far below the average required for stable growth and development. With reference to type of employment activity, in the course of 2002, according to the Labor Survey, the largest is the share of employees in the sector of wholesale and retail trade (16.3%), then in civil engineering

<sup>13</sup> On October 6, 2003, 67407 unemployed persons were registered with the Employment Bureau, i.e. 13423 less than a year before, which demonstrates the successful application of the Government program for legalizing informal employment and opening new employment positions (a reduction in unemployment by 18% in comparison to the December 2002).

(11.7%) and in hotels and restaurants 10.3%, while the smallest shares of employees are in the sectors of the fishing industry (1.0%), processing industry (1.6%) and real-estate business (1.4%).

**5. The unemployment rate** in Montenegro, in 2002, viewed through the ratio between the number of the unemployed and the number of those constituting the active population, was 30.4 % (according to the official records) while, according to the data from the Labor Survey, this rate was 20.7 %. The difference is accounted for by “unemployed” workers registered with the labor market bureau who also hold jobs in the “gray” economy. This strategy enables these employees to qualify for health insurance, which is extended to those who register as “unemployed”, meaning that they do not hold jobs in the formal sector. The average unemployment rate, according to the Survey, calculated as an average of the unemployment rate with and without technological and economic redundancies, amounts to around 24%.

**6. The basic characteristics of unemployment** in Montenegro are:

- **Unfavorable ratio between the number of employees and the unemployed.** The ratio between the number of the unemployed and employees (based on official records) was **1:1.4**, while, according to the Survey, it was **1:3.3**;
- **Durability** is one of the main characteristics of unemployment in Montenegro. According to the official data from 2002, 82.3 % of the unemployed have been waiting for employment for over a year (58.8 % in 1990). According to the data from the Survey, long-term unemployment participates with 85.9% in the overall unemployment. **Presently, the average waiting for employment in Montenegro is 4 years** (2.8 years in 1990);
- **Gender inequality.** According to the official data, in the course of 2002, the unemployment rate among men amounted to 20.6%, and among women to 40.4%, while in terms of the Survey statistics, unemployment amounted to 14.2% and 26.3 % for men and women respectively;
- **High share of unemployment among young persons. According to the official records, 24% of persons under 25 years of age wait to be employed** (49.6 % in 1990), and according to the Survey, that percentage is 29.3%. Average age of presently unemployed persons is 33 years (29 years in 1990);
- **There is a clear disproportion between labor supply and demand.** In the previous year, the labor supply was 6 times higher than the demand, while in case of certain occupations with secondary school qualifications that ratio exceeds even 10 to 1.
- **Regional disproportions.** In the course of 2002, the share of the number of unemployed in the northern region was 45% in relation to the overall number of the unemployed in the Republic. In the central part of the Republic that share amounted to 35.3%, and in the South it was 19.7 %;
- **High level of hidden unemployment** is estimated to have reached 39000 people.
- **High share of persons with disabilities are unemployed.** According to the available data from 2002, there are about 67700 **persons with disabilities** living in Montenegro, out of which 2563 are unemployed receiving benefits, which represents 3.16% of the overall number of registered unemployment. Registered with the Bureau there are 569 categorized young persons (categorized young persons are entitled to financial compensation for the entire period of waiting for employment).

**7. The informal economy** in Montenegro, as in the majority of transitional countries, increased in correlation with the rise in poverty. This parallel economic activity represented one of the main survival strategies for a major part of the population in a socio-economic environment characterized by a “lagging transition”, UN sanctions, war in the region, and inability to ensure more stable income in the formal sector. According to the analytical assessments of the Republican Secretariat for Development, the gray economy has accounted for 30 to 35% of the GDP in the past few years. In Montenegro, the informal economy appeared in almost all forms that feature economic systems in transition. The most frequent and the most widespread forms of the gray economy in Montenegro were: illicit employment of labor, illegal imports, transfer of goods in-transit for sale on the internal market, channeling goods intended for export – for sale on the internal market, interim crediting of citizens outside the legal framework, illegal logging and illegal building construction, etc.

**8. Unprotected labor** in Montenegro did not have any major share or presence in the Montenegrin economy before the end of the nineties. Up to then, informal employment was common only in seasonal work and work through student's labor employment agencies. After the continuously deteriorating socio-economic situation, illicit employment started expanding throughout the Republic, and has characterized the labor market over the last ten years. After the UN sanctions had been imposed, illicit work became increasingly more common and more tolerated by the state, just as the gray economy in general.

**9. The most common forms of unprotected labor in Montenegro are:** inaccurate registration and recording of the employed workers by the employers, non-payment of lawful liabilities for taxes and social insurance from wages of the employees, registering of employees and payment of fiscal liabilities on the grounds of employment for the basic rate of the guaranteed wages, long-term employment of labor through student's employment agencies, employment of interns and their "illicit employment" upon expiry of internship, payment of the guaranteed wages and taxes and contributions by the state for employees who are made redundant, and the like.

**10.** Differing surveys completed over the last couple of years and other research, give different estimates of the presence of the gray economy and these estimates range from 40 000 to 85 000 persons. Coverage of just some of the categories (laid off workers, officially unemployed persons, pensioners, refugees and displaced persons, etc.) points to the presence of a **minimum of 50 000 - 70 000 illicitly employed persons or those in the zone of, "informal economy" in the formal (official – legal) and informal (unofficial - illegal) sector.** It is estimated that out of the overall specified number of those illicitly employed about 60% relates to the formal sector. The informal sector is to the greatest extent related to the areas of trade, catering, civil engineering, agriculture and handicrafts. Illicit employment within the formal as well as informal sector, (i.e. without adequate paying taxes and contributions for the wages) is seen as more "acceptable" by the younger population (from 20 to 30 years of age).<sup>14</sup> Additionally, rates of net earnings of illicit employees are (by around 30 %) higher than the net earnings of the legally employed, for which the employer pays the necessary taxes and contributions.

**11. The level of earnings, types of sources of earnings, and coverage of the consumer basket by average net earnings** are among the main indicators of the poverty level of an economy. Assessments of average net earnings in Montenegro vary. According to the assessment of MONSTAT, the level of average net earnings in Montenegro, in June 2002, amounted to €118.57, while the level of average net earnings, according to the assessment of ISSP from Podgorica, in the course of 2002, amounted to €199. The coverage of the consumer basket by average earnings, according to the official statistics, in June 2002, amounted to 46.72% and, according to ISSP data, the coverage by the earnings of the average monthly consumption of the population for food and beverages, in the course of 2002, amounted to 46.2%. The presented indicators show that the regular income earnings are on a very low level and that they barely satisfy about 40% of the needs of the population. This indicates that a significant part of the population is faced with a high poverty risk, dealt with through obtaining additional incomes through the informal sector. The data on the poverty profile<sup>15</sup> in Montenegro specify that around 33% of the household expenses in Montenegro are covered from income earned through the gray economy. These indicators additionally confirm the duality of the Montenegrin labor market in which, according to the ISSP data, 27% of employees are engaged the gray economy sector. According to the poverty profile research, 42% of average net earnings are obtained through the gray economy.

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<sup>14</sup> In view of the fact that „unemployed” persons have health insurance, which they currently need and utilize, while payments on the grounds of pension and disability insurance are, by the employed population generally treated as a future resource, rather than something currently utilized.

<sup>15</sup> ISSP, Survey on household expenditures in Montenegro, 2003;

12. The level of average net earnings in Montenegro in the informal sector, in the course of 2002, amounted to €200 – 250 per month. This level of earnings corresponds to the average level of earnings in the regular sector increased by the amount of around 30% representing, in-effect the fiscal liabilities, that are not paid to the state, but are paid up 'in cash' to the employee<sup>16</sup>

13. The level of earnings of the workers with university qualifications in the formal and in the informal sectors are by 50-70% higher than the level of earnings of the workers with secondary school qualifications. Therefore, families with employed household members with lower qualifications are likely to have lower income earnings, and thus battle with higher poverty risks compared to families with higher qualifications.

14. Reduction in the level of unemployment and unprotected labor is a long-term and complex socio-economic process and, as a rule, includes a whole range of systemic measures. Taking into account the above facts, the Government of Montenegro, in April 2003, adopted the program of »**Legalization of Existing Jobs and Job Creation**«, as well as the “**Program of Restructuring of Enterprises and Support to Development of Institutions**” (hereinafter referred to as the Government's employment projects), which are the programs specified in the Agenda of Economic Reforms adopted by the Government on March 20, 2003. The programs should enable accomplishing the goals and tasks defined in the Agenda of Economic Reforms, which include supporting economic growth with the private sector playing a decisive role, addressing the problem of informal employment and reducing the level of illicit work, as well as job creation. **These projects particularly focus on the following:** a) creating a favorable environment for successful privatization, b) enabling the growth of self-sustainable companies which shall in turn stimulate greater employment and which shall be able to produce concrete goods for the domestic and foreign market, c) stimulating the expansion of existing enterprises, able to attract (primarily) foreign investment and able to increase competitive standards of products and services d) increasing employment opportunities, solving the problem of technological and economic redundancies, legalization of illicit work, and the like.

15. **Expected effects from the Legalization of Existing Jobs and Job Creation projects** are: legalization of around 20000 illegally employed persons (deadline is April 2004), increased fiscal revenues on the grounds of labor to the amount of around €10 mil, reduction of the unemployment rate from 23.5% in 2002 to 19% in 2006, achievement of economic growth that will enable creation of about 5000 jobs a year, establishing of a modern education system tailored to the realistic needs of the community and development of a system of informal education as complementary to formal education. The overall budget earmarked for the implementation of this project by April 2004 amounts to € 29.719 million, out of which 70% of the funds are allocated for strategic loans which will ensure continuity of the program in the long run. The sources of the funds are: revenues from privatization: €12.00 million, from the budget € 4.3 million, Labor Market Bureau and Development Fund € 9.1 million, and from international support € 4.319. **Expected effects from the Program of Restructuring of Enterprises and Support to Development of Institutions** are: to advance all business practices in companies, to become more competitive, to reach an optimum level of organization and number of employees, to attract foreign investment. The financial costs of implementing this program are: € 23.14 million (income made from privatization amounts to € 11 million, budget contributions to € 2 million, participation of companies to € 2.4 million and donations € 7.7 million).

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<sup>16</sup> For details, see: Informal Economy and unprotected labor in Montenegro, ILO, SSSCG, April 2003, Podgorica.

**15.1.** In accordance with the Program of »Legalization of Existing Jobs and Job Creation» dated April 2002, the Government has adopted the following Decrees: the Decree on Tax Deductions for Newly Employed Workers that came into force on April 7, 2003, and the Decree on Employment of Non-Residential Persons, which became effective on May 5, 2003. With the implementation of those two Decrees, up to October 6, 2003, 24 766 persons were registered as newly employed as well as 19 230 non-resident persons registered as employed. The effects of the implementation of the Decree on Tax Alleviation for Newly Employed Workers, is best demonstrated by the number of unemployed, namely, on October 6, 2002, there were 80 830 unemployed persons registered with the Labor Market Bureau. On October 6, 2003, 67 407 unemployed persons were registered with the Bureau, i.e. 13 423 less than a year before, which if, expressed in percentages, is 18% less. Implementation of this method of legalization of informal work puts in a more unfavorable position on the employers who, in the past period, used to regularly and for all their employees pay income tax and contributions. Therefore, there are grounds for, the reduction and redistribution of income tax and contribution rates. It is also necessary to adopt new statutory regulations that directly or indirectly, to a greater or a lesser extent, influence labor and employment.

**16. Institutional reform of the labor market** – Montenegro is faced with the need for further radical amendments to the labor and social welfare legislation (labor relations, pension system, health care system) if it is to continue implementing the envisaged reforms. The central issue in the forthcoming period is how to implement the necessary transitional changes, as quickly as possible and with as little consequences as possible, in the area of labor and social legislation, since it represents a major restricting factor for continuing the transitional processes. Therefore, it is necessary, as soon as possible, to amend a series of laws and bylaws in this area (a more detailed description of the laws that should be adopted in the forthcoming period is given in the Policy Matrix).

**16.1.** The new **Labor Law**, which came into force on July 29, 2003, has enabled more flexible practice in terms of employment contracting. Flexible forms of work have been introduced (work at home, work on weekends, part-time work, self-employment, and the like), the procedure of dismissal of employees has been simplified and the amount of compensation paid to workers who become redundant has been reduced. Certain problems in the cases of concrete implementation of these regulations in practice can be expected. (The area of flexibility of work is only generally specified, so that difficulties can be expected in the practical its practical application, especially in terms of insurance.

**16.2.** The new **Law on Employment**, adopted last year, has provided a better quality statutory and institutional framework for regulation of mediation in employment in the labor market. The Law governs the procedures of employment, unemployment insurance, rights of the unemployed, the methods of securing unemployment benefits, as well as a series of other issues of relevance for "organized and productive employment". In general, increase State's financial support responsibility in terms of its support to job creation. This Law specifies the setting up of the **Labor Fund** as a new legal entity, whose founders are the Government, the Association of employers and the authorized trade union organizations. The Labor Fund will be engaged in the problems of employees who become redundant as a consequence of technical, economic and organizational changes. However, such a fund, due to the lack of financial resources has not as yet, in operation. The new Law sets forth the **co-financing of public works** with the aim of stimulating job creation and developing capacities of the unemployed, **co-financing job creation** for the purpose of creating stimulating measures for the State with respect to employers, as well as **active employment policy measures**.

**16.3. The General Collective Agreement in Montenegro** is an all-purpose agreement adopted at the national level. The agreement is concluded on the level of the Republic, i.e. the State. It applies to all employees and employers. The existing General Collective Agreement came into force on November 15, 1995 ("Official Gazette of the Republic of Montenegro", No. 35/95). The entities between whom the General Collective Agreement is concluded in Montenegro are: the Confederation of Independent Trade Unions of Montenegro, the Government of the Republic of Montenegro and the Chamber of Economy of Montenegro. The subject of the General Collective Agreement are the labor relations of employees in the Republic and obligatory relations of the parties to the

Agreement, i.e. the Government, the Chamber, and the Trade Unions. The new Labor Law specifies the obligation to conclude a new General Collective Agreement within three months. The working version of this document has been elaborated by the Confederation of Independent Trade Unions of Montenegro, and has been forwarded to the Government of the Republic of Montenegro and to the Chamber of Economy of the Republic of Montenegro for comment and finalization. The Proposed new Collective Agreement elaborates on the area of labor relations, wages and compensations, responsibility for duties at work, safety at work as well as the work of trade unions. A new chapter on conciliation and arbitration has been introduced.

Further to the provisions of the General Collective Agreement, 26 **professional-separate collective agreements** have been concluded in Montenegro, since mid 1996 until the beginning of 1998. Although **professional** collective agreements are the most important kind of collective agreements in the world, their real significance is yet to be demonstrated with the development of market relations and business partnerships, as well as following application of the new Labor Law. According to the proposed collective agreement, professional trade unions will sign the agreement with relevant ministries, and not with the associations of employers within the Chamber of Economy, as has been the case so far.

The new Labor Law defines the **collective agreement with the employer** (concluded in an enterprise or institution) between the authorized trade union organization and the body of the employer. Individual collective agreements are not typical, because the interests of employers are not represented by the association of employers, but by the employer himself as a legal person. In the area of public services, no individual collective agreement has been signed, which is explained by the fact that there is only one employer for all the public institutions.<sup>17</sup>

The Law specifies the obligation of the employer to conclude the **Contract of Employment** with the person he employs before he/she starts working. After conclusion of the contract of employment, the employee is entitled to start working and to respect the rights, obligations and responsibilities emanating from the labor relations. Bearing in mind the obligatory character of the contract of employment and its significance for establishing of a higher level of security and protection of employees, it is necessary to make its significance and applicability statutory and institutionally better grounded. A general principle applied in labor relations is that a more concrete legally binding document cannot reduce workers rights that defined in a legal document higher up the hierarchy. The relationship between the General, Professional, Individual Collective Agreements and the Contract of Employment has been established on that principle in Montenegro.

**16.4. The minimum wage** in Montenegro, as of July 2002, amounted to € 50. There is no automatic way of establishing the minimum wage, but rather the level is established through negotiation by a body comprised of the authorized representatives of the General Collective Agreement on the basis of the Methodology for Establishing of the Minimum Wage ("Official Gazette of the Republic of Montenegro", No. 35/95). The labor rate for a particular job is set by taking the minimum wage and multiplying it by the coefficient of complexity of operations for that particular job, or taking the base labor rate, as well as taking into consideration working conditions if unfavorable, as well as level of responsibility. The lowest labor rate is established, inter alia, on the basis of the needs of an average four-member family, i.e. the value of indispensable foodstuffs for such a family, through the "monthly consumer basket", which is established by the official statistics office. The value of the above consumer basket is established based on the quantities and prices of 65 items of food and beverages. The proposed General

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<sup>17</sup> In the Confederation of Independent Trade Unions of Montenegro there are no precise data about how many individual collective agreements have been concluded and how many employers and employees they involve.

Collective Agreement specifies a new method of establishing the minimum wage in accordance with the increase of the costs of living.

**16.5.** In the past few years, workers strikes have been used as a method for improving the professional and economic position of employees, and there is a clear absence of the use of dialogue and negotiation. Often the demands are financially unrealizable, and long strikes merely aggravate an already financially difficult situation for companies. The new **Law on Strikes** has, to a great extent, been harmonized with international standards that are related to this issue, particularly in the part that is related to the organization of strikes. However, the law is not useful in terms of lack of a social dialogue, which is, actually, the key political cause of strikes. In conditions where strikes are predominantly caused by the delayed payment of wages, an inability for qualitative social dialogue is present, which includes the inability to practice the rights of employees to information about the actual situation in the given company.

**16.6.** Following the model for the majority of countries in South-East Europe, Montenegro has established the **Economic and Social Council**. This tripartite institution in Montenegro was founded with the adoption of a Government decree in 2001. The Council has formed seven sections. The Chairpersons of those sections make up the Chair Officers of the Council. The Council numbers a total of 38 members, of whom 35 were elected at the constitutional session (in 2001), while three have not as yet been elected. The method of setting up and the structure of the Economic and Social Council points to certain composition errors that prevent this body from influencing the processes of social and economic development. Hence it will be necessary to adopt a separate Law on the **Economic and Social Council** further to which this institution can function in compliance with international standards and the requirements of the new labor legislation in Montenegro. This Law should contain the **criteria of representation** of social partners in order to timely prevent future conflicts within the trade union movement and the growing numbers of organizations of employers in Montenegro. Additionally, the new Law should set forth the conditions, methods, and **models of civil society participation** (NGOs) in the debates on economic and social development of Montenegro.

**17.** The problem of unemployment as a complex and dynamic process demands a whole range of synchronized activities that will reduce the level of unemployment, legalize illicit work, and prevent further growth of shadow employment that emanates as a result of economic restructuring. The priority task of the transformation of the Montenegrin labor market is **strengthening active measures** and gradual abandoning of the passive measures in the labor market. The active measures are targeted towards two goals and those are the upgrading of the quality of labor and stimulation of labor demand.

**17.1.** One of the most efficient ways of reducing poverty is by creating new jobs. **Stimulation of new job creation is one of the priorities of the Government of Montenegro**, and it is carried out through the »**Legalization of Existing Jobs and Job Creation**«. The following programs have been identified as addressing the issue of job creation:

1. The Program for continual stimulation of employment and entrepreneurship in Montenegro.
2. Establishing legal protection of entrepreneurs and producers
3. Industrial parks
4. Agro-parks
5. Internet parks
6. The Work Fund
7. The program for employing redundant workers in the government sector
8. The program for employing redundant workers in private companies.
9. The program for employing redundant workers in the public sector.
10. Employment of people who are disabled through work
11. Employment of apprentices
12. Public work projects

- 13. Stimulating dynamic entrepreneurship
- 14. The Diaspora Fund
- 15. Large companies, creating small ones
- 16. Mediators in employment

Sectoral projects include: employment in agriculture, tourism, maritime and other economic sectors including building construction.

**17.2. The development and strengthening of small and medium-sized enterprises.** SMEs should become the leading force in economic development and thereby in the reduction of poverty. SMEs stimulate private ownership and entrepreneuring abilities. They are flexible and can be quickly adapted to market changes in demand and supply. They create employment, promote diversification of economic activity, support sustainable growth and can significantly contribute to raising exports and increasing trade.

**17.2.1.** The Government of the Republic of Montenegro has adopted the “**Strategy for Development of Small and Medium-sized Enterprises**”. The main strategic courses of development of SMEs are to:

- Increase the number of small and medium-sized enterprises registered in the private sector that officially operate.
- Achieve greater diversity and integration of economic activity by increasing the share of small and medium-sized enterprises that are based on production and non-trading services.
- Significantly increase the share of small and medium-sized enterprises with respect to micro-enterprises in the overall structure of enterprises.
- Increase the competitive activities of small and medium-sized enterprises in the economic sectors in which the Republic of Montenegro depends on imported goods
- Increase the share of small and medium-sized enterprises in the foreign strategic alliances and joint venture arrangements.
- Increase the share of small and medium-sized enterprises in the Gross Domestic Product.
- Increase the share of small and medium-sized enterprises in overall employment.

A successful implementation of this strategy demands joint, coordinated efforts by the Government, international crediting institutions, foreign donors, NGOs, businesses and representative organizations, business consulting and advisory services, as well as small and medium-sized enterprises.

**17.2.2. Priority goals in the development of SMEs in Montenegro are:**

- 1. Promotion of entrepreneurship.** The level of entrepreneurship activities in Montenegro is, according to international standards, very low. In order to enable Montenegro to become competitive in the international market economy, it is necessary to undertake the steps aimed at supporting the development of entrepreneurship. Apart from undertaking measures that would make it easier for citizens to set up and manage their businesses, it is also necessary to establish close cooperation with the media and others influencing public opinion in order to stress the advantages of entrepreneurship and private initiative;
- 2. Providing business education.** The competitive sector of small and medium-sized enterprises does not simply demand the creation of a “business culture”, but also the development of advanced business skills in management, finance, accounting, marketing and human resources development;
- 3. Securing fair competition.** In order to enable full realization of business potential, it is of vital importance to have fair competition and equal conditions for doing business;

**4. Reduction of the regulations for and administrative barriers to the development of businesses.** Extensive, poorly conceived, and frequently subject to amendments, the statutory regulations thwart entrepreneurship and prevent economic development. This increases the administrative burden on the businesses and encourage their “escape” into the informal sector.

**5. Simplification of the system of business taxation.** A simple, transparent and predictable taxation system which takes into account the specific features of SMEs represents one of the main preconditions for market economy growth;

**6. Stimulate the foundation of private business associations.** In the developed market economies, business associations play an important role in expressing the requirements of SMEs and influencing the Government to adopt important policy measures. Professional business associations play a relevant role in disseminating information to their members, provide specialized education and establish and help maintain quality standards;

**7. Improve access to business information.** The trends of developed market economies are evidence that access to information (on new products and processes, competition, trends, new markets and clients/customers) has become increasingly important in increasing competitiveness. In order to assist the enterprises in this process a network of Regional and Local Business Centers has been established as well as the Euro Info Center, an institution of the European Union;

**8. Improve business services.** Compared developed market economies, rendering of business services in Montenegro is very much limited. Services, such as accounting, tax planning, legal advice, information technologies, and consultative management are an indispensable assistance when setting up and expanding a business while, at the same time, also being important sources of employment;

**9. Facilitated access to available financial resources.** Limited sources of financing represent one of the main obstacles for SMEs that wish to invest and expand or need to borrow money for periods exceeding one year. In order to facilitate access to financial resources the »**European SMEs Fund for Montenegro**« (EFM) has been established by foreign donors (the European Union, the German Government and the Swiss Government and the Government of the Republic of Montenegro) with a capital of **€15 million**. The project is implemented by KFW (Bank for Development of Germany) and the Montenegrin banks (Crnogorska komercijalna bank and Euro - market bank), as well as the Agency for Development of Small and Medium-Sized Enterprises. The implementation of this project will enable design of a more efficient model of financing, as well as transfer of knowledge to the institutions that issue loans and that provide the resources. It is particularly important for this project to fully correspond to the main principles of the role of the state in the market economy.<sup>18</sup>

**17.2.3.** Coordination of the application of the strategy for Development of SMEs as well as of the monitoring process are the primary responsibilities of the **Agency for Development of Small and Medium-Sized Enterprises**, which was founded in December 2000. In order to meet these obligations, the Agency for Development of Small and Medium-Sized Enterprises will increasingly cooperate with the emerging organizations that will represent the private sector in Montenegro.

One of the priority program activities of the Agency for Development of SMEs is also the organization of institutional support to the development of SMEs on the local and regional levels, i.e. **forming of local/regional business centers**. According to the plan of activities of the Agency, 7 regional centers shall be set up, and within them, networks of local business centers, covering all the municipalities.<sup>19</sup> Setting up of the Regional/Local Business Centers will enable the citizens to have easy access to all the necessary information about setting up a business, the possibilities for taking out a loan, the training provided. These centers shall also provide advisory services and facilitate in communication with all government authorities. **Euro - Info Centers** are specialized institutions of the EU in the area of business that assist SMEs in joining EU programs and initiatives. The Euro - Info Center, which has been set up within the Agency for Development of SMEs, represents important institutional support to SMEs and provides support to enterprises wishing to adapt to EU standards.

**17.2.4.** Within the »Legalization of Existing Jobs and Job Creation« the Agency for Development of Small and Medium-Sized Enterprises, is targeted towards the implementation of the following **projects**:

- |                                      |                                       |
|--------------------------------------|---------------------------------------|
| 1) Industrial park                   | 6) Development of SMEs in Agriculture |
| 2) Agropark                          | 7) Development of SMEs in Tourism     |
| 3) Internet Park                     | 8) Stimulation of the Successful Ones |
| 4) Increased Competitive Abilities   | 9) Fund for the Diaspora              |
| 5) Big Enterprises Create Small Ones | 10) Made in Montenegro                |

A more detailed description of the above projects is given in the Matrix of the Labor Market Goals.

**18.** Traditional financial institutions<sup>20</sup> most often do not provide adequate financial services to part of the population facing problems of poverty<sup>21</sup>. The key to the success of the **program of micro crediting** lies in the setting up of specialized financial institutions for crediting of the poor sections of society<sup>22</sup>, which render quality services to their clients. It is widely known that prompt and safe access to credit is one of the important preconditions for business success. A successful micro credit program aims to support small businesses to the stage of their development at which they can become interesting to commercial banks.

**18.1. Micro financing in Montenegro** is relatively new. The Decree of the Government of the Republic of Montenegro adopted at the end of 1998<sup>23</sup> regulates the basic legal requirements for functioning of the micro financing program and as early as the second half of last year the three most important micro credit programs were initiated that still exist and render support to micro-entrepreneurs, and include: "**Opportunity Bank**"<sup>24</sup>,

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<sup>19</sup> Regional Business Centers have been set up in Podgorica, Bijelo Polje, Bar and Pljevlja and local offices in Rožaje and Cetinje.

<sup>20</sup> Commercial banks.

<sup>21</sup> The most frequently mentioned reasons are high expenses of processing of small loans, lack of standard forms of guarantees, geographic isolation or simply prejudices that the poor are not capable of regularly paying back loans.

<sup>22</sup> Microcredit financial institutions can have various legal forms, such as, for example, credit unions, non-banking financial institutions, NGOs, and the like.

<sup>23</sup> "Decree on the Method of Granting of Credits of Non-Governmental Foreign Organizations to Natural and Legal Persons in Montenegro", Official Gazette No. 32/98.

<sup>24</sup> Supported by USAID, the international organization "Opportunity International", in cooperation with the then newly founded local NGO "Microcredit Montenegro" offered microcredits to the population of Montenegro throughout its territory and, in the course of 2002, it transformed into a bank and thereby extended the range of financial services to cover traditional banking services but, at the same time, it still provides a strong support to micro-entrepreneurs.

"Agroinvest"<sup>25</sup> and "Alter Modus"<sup>26</sup>. Today, these institutions operate in accordance with the newly adopted "Decision"<sup>27</sup> of the Central Bank of Montenegro which has, owing to the principles of participation<sup>28</sup>, provided a favorable environment for further development of micro credit activities as well as the possibility of efficient control by the Central Bank authorities. The above programs offer short-term credits<sup>29</sup> ranging from € 400 to 5.000 with a monthly rate of interest of 3% calculated on the remaining principal balance, or 1.5% per month calculated on the principal only. These institutions offer 50% higher loans to existing clients, thereby increasing access to larger loans. Their programs include other credit products, with the aim of adapting their services to demands in the market<sup>30</sup>. The above three institutions have, in the past period<sup>31</sup>, cumulatively implemented in excess of **30000 loans** in value of over **€ 50 million**. It is particularly important to note that there is high demand for access to credit in these institutions and that the demand is continually growing.

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<sup>25</sup> The international organization "World Vision", in cooperation with the newly formed local NGO "Agroinvest", with the support of the national Agencies for International Development of Canada and Sweden (CIDA and SIDA) offers microcredits to the population living in the rural areas of the central parts of the Republic, as well as to the population living in the north of the Republic. The microcredits of "Agroinvest" are also intended exclusively for "agro businesses" - agriculture, cattle breeding, fruit growing, processing and sale of agricultural and dairy products.

<sup>26</sup> The local NGO "Alter Modus", with the financial support of the High Commissioner for Refugees of the United Nations (UNHCR), the Netherland's Agency for International Cooperation and Development (NOVIB), the US Department of Agriculture (USDA), and others, offers microcredits to the entire population in the territory of the Republic, and in its work pays great attention particularly to the vulnerable categories – the refugees and displaced persons and women (whose share in the credit activities of the organization exceeds 60%).

<sup>27</sup> "Decision on Microcredit Financial Institutions", Official Gazette No. 01/03.

<sup>28</sup> The process of elaboration of the "Decision" has, apart from the representatives of the Central Bank, also involved the parties that implement the microcredit programs – "Agroinvest" and "Alter Modus", with the professional assistance of the consultants from "KPMG".

<sup>29</sup> Up to 18 months.

<sup>30</sup> For example, in the offer of Alter Modus there are credits amounting to € 5.000 – 7.500 Euros with the repayment period of 24 months and the interest rate of 1.25% per month, intended exclusively to the former clients.

<sup>31</sup> Somewhat less than four years.

## **IV ECONOMIC DEVELOPMENT, INFRASTRUCTURE DEVELOPMENT AND THE ENVIRONMENT (PRIORITIES)**

The Agenda of Economic Reforms, identified the following sectoral priority areas: tourism, agriculture, forestry and energy. The DPRS includes these areas, and additionally covers the environment, transport and water supply.

### **1. AGRICULTURE AND RURAL DEVELOPMENT**

**1. Overview.** In Montenegro, there is approximately 0.80 ha of agricultural land per capita, of which 0.29 ha is suitable for cultivation, a figure significantly higher than in most European countries. However, these resources are inadequately used, and thus still remain a potential for increased agricultural development. Human resources present another area of unutilized potential, as there is a long tradition in engaging in agricultural activity and an interest of young entrepreneurs in the area of food production. At the same time, there are certain factors limiting agricultural development: stagnation in development for over a decade, negative effects of total economic situation, fragmented ownership, negligence of the private sector during the previous period, poor technical knowledge among producers, insufficiently built infrastructure in villages, inadequate application of modern technologies in the production process as well as a lack of processing capacities.

**2. Goals.** The agriculture priority goals are to:

- ensure food security for Montenegrin citizens;
- meet the food consumption needs of tourists in Montenegro;
- increase exports significantly;
- increase the competitiveness of domestic food producers;
- promote the balanced development of different Montenegrin regions;
- create better living standards in rural areas; and
- develop policies in line with regional, European and international integration processes.

**3. Key parameters.** The overarching goal is to promote agricultural development by focusing on private sector production and building the potential of family businesses..

### **4. Specific Initiatives**

**a) Use of incentives in agriculture.** Policies defining incentives in agriculture, are implemented through numerous programs defined by the “Agro-budget” and represent the most important source of financial support to key stakeholders in agriculture and rural development. In accordance with the overall reforms and the introduction of market principles and liberalization in agriculture, the largest part of the “Agro-budget” is spent on financing programs of wider, general importance.

Long-term priorities of the policy of providing incentives are the following:

- Addressing the problem of market surpluses and improving the quality of marketing of Montenegrin products.
- Rural infrastructure development,
- Strengthening technical-expert capacities and inspection services,
- Provision of social security for farmers through old-age compensations and a young farmers program,
- Support to increasing exports

**b) Redefining measures to protect domestic agriculture.** The key challenge identified is how to adequately regulate the market position of local food products that need to be competitive with goods from other countries, which heavily subsidize their production; both through direct subsidies to farmers as well as export subsidies. Harmonisation of customs policies between Serbia and Montenegro will lead to increase of customs rates for

agricultural and food products, which will take place as the Action plan is implemented. Strengthening the «agro-budget» and the finalization of the Distribution Centre for Purchase and Food Processing of agricultural goods in Podgorica, are key stimulative measures for advancing domestic production, and boosting exports (through tourism-attractive products and return to the regional market).

**c) Credit policy reforms.** The reform assumes the transfer of credit activities from the Ministry to the banks and other adequate credit institutions. The Ministry shall play an active role in setting strategic goals and the adequate spending of resources from revolving donor funds. For that purpose, specific criteria will be prepared for agricultural credit, including continued cooperation with The Employment Agency and The Agency for the Development of Small and Medium Sized Businesses.

As agriculture is an area with huge unutilized potential, the task of the Government is to fund quality sources of financing to credit entrepreneur-ideas and business plans in this economic branch. Such initiatives are expected to lead to a significant increase in employment and value added would be created in other industries (services, tourism etc).

**d) Strengthening agricultural institutions (Inspection and technical services).** It is necessary for the state of Montenegro to have an efficient inspection service for food products, which is fully under the authority of the Ministry of Agriculture and completely financed from the budget. To achieve that goal, activities will be undertaken to continue the modernization of veterinary and agriculture inspection services (covering all food products from both animal and plant origin). Special emphasis will be put on improving the technical-knowledge capacities of inspectors and securing better equipment for laboratories. The second important segment includes the provision of professional/technical services in agriculture, without which there is no accelerated agricultural development. The reality is that a certain number of activities of those services have been financed from the budget, but only with precondition that they work efficiently and that their work is visible in practice.

As part of this process, the restructuring of the Public Veterinary Institutions will follow and the further strengthening of private veterinary practice will take place. An advisory service for herb-production will be created, which, together with the service for the cattle selection, represent the main services provided for farmers. The new concept of provision of technical services will lead to significant change in the role of The Bio-technical Institute, as the only scientific and research institution in the area of agriculture.

**e) The development of an organic agricultural product trademark.** Montenegrin agriculture is significantly compatible to the principles of organic agriculture due to the low consumption of synthetic chemicals in animal feeding, and in fruit and vegetable production. A system of certification of products needs to be developed, in order to have a commonly accepted criteria for the definition of “organic” foods.. Thus, it is necessary to engage an agency for issuance of certificates with international reputation to enforce the movement of organic agriculture. The development of organic agriculture is a great opportunity for Montenegro and represents part of Montenegro’s aspirations for becoming an ecological state. Concrete steps to developing certification for organic agriculture will be established through cooperation with international institutions (UNDP, IFOAM, etc) as well as bilateral cooperation with Italy and other interested countries.

**f) The modernization of existing and construction of new processing facilities.** Current capacities for food processing do not satisfy the needs of the domestic market and domestic production. Therefore, the main goal of the Ministry of Agriculture together with The Agency for the Development of Small and Medium-sized Enterprises will be to promote this sector for foreign donors and investors, which would lead to new employment opportunities and stimulate further development of food production. The areas of preparing, packing and processing of vegetables, fruits, forest fruits and medical herbs, has been identified as having particular potential. In addition, increased dairy production, also presents a development opportunity. One of the main conditions for exporting surplus lamb and baby-goat meat is the construction of meat processing plants, which would be compliant with EU standards. The completion of a distribution center in Podgorica, with a facility for processing fruits and vegetables, also represents part of the same strategy. Construction of modern processing facilities, including those in small and medium size enterprises throughout Montenegro can act as a catalyst for promoting agriculture, particularly in

those areas where large-unutilized land resources exist. At the same time, development of food processing, includes expanding employment opportunities, which would help reduce poverty both by raising incomes for the presently unemployed, and reducing the cost of food, which is the main expenditure item in the consumption basket of the poor..

## **2. TOURISM**

**1. Overview.** Tourism is recognized as one of the Government's main development priority areas. When taking into consideration the vast potential provided by Montenegro's natural environment, the present position in tourism is weak. The tourism sector is faced with the following challenges: financial investment, lack of a market oriented approach, lack of diversified products, insufficient accommodation facilities, qualified staff and a well functioning infrastructure network. Since the 1980's the number of hotel nights has dropped from 11 million to current levels of less than 5 million. Demand from foreign markets exists, but Montenegro has difficulty fulfilling this demand, because of the limited capacity of quality tourist services. Holiday demands from Serbia are concentrated in a six week summer period per year. The tourism sector is characterized by low salaries, unutilised capacities and poor conditions and services that do not satisfy tourists' expectations. Only 3,000 out of 26,000 available hotel beds are suitable for foreign tourism consumption. Tourism income in 2002 was 111 million euros, of which 54 percent was earned from foreign tourists, representing an increase of 24.8 percent, in foreign tourism participation in income generation. At the end of the main tourism season in 2003, a positive trend was noted and an increase in income of 7% in comparison to the same period in 2002.

These initial results are encouraging, but further increases in foreign tourism will not take place, unless key barriers to development are removed and the following initiatives develop: creation of a legal framework that promotes better quality and provides incentives for quality improvement; water supply and waste water treatment improved; solid waste disposal improved; better traffic connections; increase in the use of qualified labour; support for private entrepreneurship. The key challenges of the strategy are as follows: the financing of large infrastructure projects in the public sector to be supported by international financial institutions; speeding up the pace of privatization; creating the conditions for direct foreign investments within the shortest possible timeframe. Having in mind economic, ecological, social and cultural consequences brought about by tourism development, and taking into consideration all the challenges to be met, very close cooperation on the inter-ministerial level (tourism, urban development and culture), as well as regional and local level is necessary, as is social dialogue, attitudinal change, strategic planning and implementation.

**2. Goals.** A sustainable tourist product that attracts gradual growth in the number of guests, fast growth in income and creates new employment opportunities

### **3. Key parameters**

Tourism development is to take place in accordance with the Tourism Development Master Plan  
Development of tourism needs to be sustainable and contribute to environmental protection and promotion of cultural heritage

### **4. Specific Initiatives**

#### **4.1. Initiatives related to the tourism development framework and process coordination**

**a) Completion of Legal and institutional framework.** It is necessary to work continuously to provide an adequate environment for the tourism development. The codification of the legal regulations is to take place. To achieve competitive advantage Montenegro must offer approximately same or higher quality conditions than competitive destinations.

The adequate promotion of cultural heritage needs to be undertaken and conditions made for this heritage to be included in tourism services provided. To initiate the process of creating an attractive environment for direct foreign investments a costing analysis will be completed, as well as reinforcing transparency principles and increasing security levels for investments and providing other stimulating investment measures.

**b) Creation of conditions for the full implementation of the new Law on tourism adopted in July 2002.** This includes over 30 regulations, rules and registers (on tourist agencies, nautical tourism, ski terrains, guides, animators, agro-tourism etc.) in the next 2 year period. Implementation of the new Rules on private accommodation classification, setting minimum standards and the categorization of restaurants and hotels are urgent matters.

**c) Foundation of the Council for tourism of Montenegro** by the Government of Montenegro, which would present the widest institutional framework for creation of the tourism policy.

**d) Creation of the preconditions for introduction of the system of integral management of the coastal area.** IUOP together with The Coastal Management Company (Plc Morsko dobro) will be implementing these activities. This includes changes in legislation.

**e) Implementation of the Program for reorganizing the complete system of promoting Montenegro as a tourist destination.** Drafting of the following new laws: The Law on promotion of Montenegrin tourism, Law on tourist tax (membership fees) and Law on the visitor's tax and the Rule book for the categorization of tourism destinations. Additionally, the role of the Ministry for tourism in managing tourist policy needs to be redefined;

**f) Full membership in the World Tourism Organization** including preparation of satellite evaluation of the tourist industry in Montenegro by the World tourism-trade Council

#### **4.2. Initiatives related to Marketing: Development of Tourism Services**

**a) Further promotion of the new marketing concept**, especially on foreign markets.

The focal point is the market of Western and Northern Europe. A special strategy will be defined for the area of Serbia, Vovodina and Kosovo. **Development of regional strategies for** Velika plaza, Skadarsko lake and Boka Kotorska. These projects will entail active participation of several Ministries, local administration, and educational tourism institutions. Within these projects the problems of water supply will also be treated, as well as electricity supply, treatment of solid waste and waste waters, spatial planning, environmental protection, traffic infrastructure, target markets, education and production of new services, representation in target markets and sale of products.

**c) To analyze and develop special tourism projects.** This includes analysis of Montenegro's competitive advantage. Projects include: development of village tourism; development of nautical tourism; building of golf terrains; health tourism (including finalization of announcement of Igalo and Vrmac as health resorts in accordance with the Law on tourism);eco-tourism (including preparation of project of development of eco-tourism jointly by the Ministry for ecology and UNDP and activities of the Council for sustainable development);. Religious tourism (by presenting heritage of Montenegro with focus on Cetinje and the icon of Filermona, Monastery Ostrog, St.Thripun Chatedral, Mosque in Pljevalje); agro-tourism (including continuation of initiated activities on preparation and implementation of two pilot projects (Tourist villages with the Ministry for agriculture); youth tourism (including defining priorities in cooperation with the Student Vacation Association of Montenegro to implement their Study of development of youth tourism, especially the project Euro-26, and the school of tourism for primary and secondary schools.)

**d) Restructuring of existing services** Implementation of new standards for hotel accommodation, camps and private accommodation (weekend houses, private apartments) in accordance with international standards. Evaluation and categorization of the existing hotel capacities, camps and private accommodation (weekend houses, private apartments), in accordance with the established deadlines.

**Work on Upgrading:** conduct program in accordance with the new standards and realistic possibilities for hotels and camps. **Preparation and printing of the guide** for accommodation capacities in Montenegro, in accordance with the new standards. In accordance with the previous, efficient registering of the turnover from tourism and realization of payment of residence tax.

- e) Program of urgent measures to improve hotel accommodation and services** To identify measures (furniture, decoration, technical equipment, new sources for entertainment, etc.) and costs , to provide for more attractive hotels for the next season, to identify adequate investments; to put the management of a number of hotels, out to tender provide intensive training for improved services
- f) Support to small and medium-sized businesses in tourism. Provision of credit** for small business projects in the area of in cooperation with German KfW bank and banking sector, as well as other donors. Means for reducing interest rates and increasing access to favorable credit should be sought.
- g) Campaigns to improve the quality of tourist municipalities** An on-going campaign organized addressing public awareness of the need to keep tourist destinations clean, both in terms of removal of litter in urban areas and in terms of removal of illegal dump-sites. A campaign directed at improving services on beaches (including access to drinking water and toilets) Regionally targeted campaigns to improve quality of tourist municipalities are also to be implemented. A media campaign focusing on informing citizens of the tourism master plan priorities and updates on implementation is also to be implemented.
- h) Program: Setting standards in private accommodation** (rooms, houses, apartments, villas) and identification of highest quality accommodation to satisfy the demands of the foreign market. Organization of promotions and marketing activities to enter foreign markets. This effort will entail classification of private accommodation, payment of taxes,
- i) Adopt the symbols of World Tourist Organization (WTO)** Begin by placing of international tourism signs on highways in Montenegro and certain tourist municipalities (Budva, Bar, Cetinje, Podgorica etc.). *The funds and technical assistance for this project are provided by the German Ministry for International Cooperation.*
- j) Increase in air-traffic.** Montenegro is clearly a charter destination. It is necessary to start activities immediately to modernize the airports and initiate meetings with air companies to contract flights for the future period. Ministry of tourism in cooperation with the Tourist organization will be engaged in establishing with tour-operators
- k) Modernization of education curricula of** the Faculty for Tourism Development and of tourism secondary schools Support the establishment of private educational institutions in cooperation with the Ministry for Education and Science and foreign organizations.
- l) Develop strategies for attracting "frequent individual travelers" (FOT) through appropriate marketing channels; and for encouraging tourists to return.**

### 3. TRANSPORT

1. Montenegro is a transit area, which emphasizes the need to develop an efficient and functional transport system. Efficient transport is a prerequisite for the development of important economic sectors (such as tourism, trade and agriculture), which are expected to considerably contribute to GDP growth. **Transport is, at the same time, very important for balanced regional development.** However, there are numerous factors that hinder desired development: from the specific configuration of the terrain to the accumulated organizational, management and financing problems, and poor conditions of transport infrastructure.

2. Investments in new roads were very low during the course of the previous decade. A similar case was with regular maintenance, where interventions have been reduced to bare minimum due to the lack of funds. Participatory processes initiated by the non-governmental sector in support preparing the DPRS showed that **insufficiently developed infrastructure was believed to be one of the important poverty causes.**

3. Characteristics of the **road network** of approximately 1,800 km of main and regional roads are underdevelopment, old road surfaces, the lack of by-passes around larger settlements and towns, numerous mountain ridges without side lanes for slow moving vehicles, insufficient road equipment, signs and markings, etc. These make movements of goods and people more difficult, and the road transport itself slow, expensive and unsafe. The underdeveloped transport services and local roads in rural areas (particularly in the northern region) have a negative impact on utilization of mountain agricultural potentials and opportunities of transport to urban

centres. The underdeveloped road network also acts a limiting factor for tourism development, both in areas that are traditional tourist destinations and in those areas that are being gradually included in the tourism offer.

4. Problems of the **railway transport** operations managed by the Public Company Railways of Montenegro (PCRM) are numerous. The railway transport recorded a drastic decline of passenger and particularly of freight transport during the previous decade: passenger transport dropped from 370 million in 1989 to 200 million passenger kilometres in 2000, while freight transport dropped from 570 million of ton kilometres to as little as 51 million. Due to the geography and terrain configuration, both maintenance and functioning of the railway network are very expensive, and problems with securing sufficient funds are on the rise.

5. The state of **marine transport** is also worrying. The Port of Bar operates with only 30% of its capacity, while the marine fleet, having had 41 ships with the total capacity of over a million tons in 1989, nowadays practically does not exist.

6. Significant investments are required for the reconstruction of Podgorica and Tivat **airports**, where the most important problems are safety and signalling equipment/devices, short runways, the lack of accompanying infrastructure, and so on.

7. In addition to the above mentioned problems, **the following groups of issues also require full attention**, as they significantly affect quality of life and individual economic prospects on one hand, and the overall development of the society on the other hand: (i) inadequate safety (particularly in road traffic) due to run down infrastructure, improper traffic signs and markings, depreciated transportation means and non-compliance with traffic regulations; (ii) inefficient public transport system; (iii) growing pollution from transport (primarily air pollution in urban centres and pollution of the coastal areas and sea) and ever more frequent incidence of traffic congestions in larger towns; and (iv) inability to meet the obligations pursuant to international maritime conventions.

8. The basic source of financing the construction and the maintenance of transport infrastructure (particularly in case of road and railway transport) are the state budget and financing based on the "cost recovery" principle. Budgetary restrictions in the previous decade considerably contributed to a standstill of the transport development and deterioration of the transport infrastructure. Investment requirements of the transport sector by far exceed funds available from the available sources, including the state budget, loans granted by international organizations and/or financial institutions and donations. Careful selection of priorities and the estimation of costs and benefits of chosen interventions is therefore of the utmost importance.

9. **Fundamental principles of the new transport policy** include efficiency, access to transport services and networks, and support to sustainable economic development. Moreover, the transport policy will be based on the principle of equal and equitable distribution of benefits from transport interventions among all segments of the society.

10. **Strategic objectives of the transport sector** include the integration in the European transport network (trans-European corridors V or X), upgrading of links with countries in the region, and creating of an efficient transport system. The Strategy objectives are: (i) to start harmonizing domestic legislation and regulations with the EU one, create conditions for transport sector development and enhance transport efficiency and safety; and (ii) to upgrade the road infrastructure and its maintenance, primarily in the northern region.

11. **Priority measures regarding accomplishment of the first objective include** adoption of new laws on railways, navigation, road transport and roads. In the area of institutional adjustments, transport administration is to be reformed in order to support sector transformation and introduction of economic management principles. The next priority measures refers to the improvements in the management and efficiency of public companies, along with incentives for involving private sector and for diversifying financing instruments for transport infrastructure.

Furthermore, it is necessary to establish the Marine Safety Agency and to provide equipment to its services in conformity with current international regulations.

12. **Preparation of the transport sector development strategy** is another priority. The strategy is to be based on principles of adequate pricing of transport services and the use of infrastructure, as well as on the principles of sustainability and participatory planning. Pricing based on the "cost recovery" principle is essential, but special attention must be paid to the ability of the poor to pay the prices set in such a manner. At the same time, it will be necessary to propose measures for reducing pollution from road (fuel quality control) and maritime transport (reduction of pollution in port, marinas and ship overhaul areas).

13. In respect to the improvement of road infrastructure and its maintenance, rehabilitation of main roads Kolašin - Ribarevina –Berane – Špiljane, and Podgorica – Bioče – Kolašin, is a priority. Another priority is modernization of rural roads in the northern region (Velika – Čakor – Bjeluha, Gornje Polje – Krstac, and Plužine - Trsa – Virak). Other measures that will contribute to the accomplishing of this objective are upgrading of the existing road side slopes and improvements of the regular road maintenance.

14. Investments in new roads, power-supply system facilities, and water supply and sewage networks were very low during the course of the previous decade. A similar case was with regular maintenance, where interventions have been reduced to bare minimum due to the lack of funds. Inadequate maintenance and insufficient investments in new facilities have led to a substantial degradation of infrastructure networks, which are nowadays in quite a bad state and do not represent an adequate basis for further growth and development. **The participatory process initiated by the non-governmental sector in support to preparing the DPRS showed that insufficiently developed infrastructure was believed to be one of the most important causes of poverty.**

15. Significant investments are needed in order to enhance the state of infrastructure and quality of services it provides to the population and the economy, thus creating conditions that will provide for GDP growth and contribute to poverty reduction. In the forthcoming mid-term period, the Government of the Republic of Montenegro will undertake a set of reform measures aimed at creating more favourable conditions for financing infrastructure activities. Infrastructure development will be supported to the greatest possible extent through adequate public expenditure policy. At the same time, additional sources of financing including favourable international loans and donations will be relied on to a significant extent.

#### 4. ENERGY

1. In 2002, around 4.3 TWh of electricity, 1.6 million tons of coal and 290,000 tons of oil products were consumed in Montenegro. Annual domestic production of the single most important energy source – electricity – ranges between 2.5 and 3 TWh. During the past few years, electricity imports accounted for between 30 and 35% of total consumption. Montenegro is a modest exporter of coal, which is almost entirely produced at the open pit Pljevlja Coal Mine (around 95% of total production).

2. The **most significant electricity consumer** is the Aluminium Plant Podgorica (KAP), whose share in the overall consumption amounts to approx. 45%. The second-largest consumer are households, where consumption has almost doubled during the course of 1990s. Electricity is used as a source of heating by almost half of the population.

3. **Financing of the electric power system** as the most important segment of the energy sector in Montenegro is rather problematic. For a prolonged period of time, electricity tariffs were not sufficient to cover the real costs of supplying energy to the population and the economy. This has led to a permanent shortage of funds, which in turn poses a risk to normal operation and maintenance of the system. Moreover, low prices of electricity have also

affected macroeconomic circumstances due to significant budgetary and quasi-fiscal support to the sector. During the course of a few past years, international financial assistance has played an important role in providing necessary funds for electricity imports.

4. **The financing problems are interrelated** with other inefficiencies of the sector, such as high and unreasonable consumption, high technical and commercial losses and low collection rates. In 2002, power transmission and distribution losses amounted to 11.7%, while it has been estimated that total losses (including commercial ones) exceeded 20% of the total consumption. **The energy consumption and energy efficiency indicators** show a very high consumption compared to the countries of a similar GNI level, and a low level of GDP generated per unit of energy use.

5. A high share of **hydro-energy** in domestic electricity production (around 75% of installed capacity) coupled with a substantial electricity deficit has a negative impact on power supply reliability. In the mid-term period, some increases in production are feasible through enhanced efficiency in existing power plants and better utilization of renewable energy sources (small hydro-power plants, solar and wind energy).

6. **Production of coal** is also facing complex problems, including the lack of investments necessary for modernization of technology, efficiency improvements and extension of mines.

7. By adopting the new **Energy Law** in July 2003, an important step has been made towards reforming the sector. The establishment of an independent Regulatory Agency is currently in progress, and restructuring of energy sector enterprises (Electricity Company of Montenegro - ECM, Pljevlja Coal Mine) has commenced. Tariffs are approaching market levels, and problems of subsidies for the key consumer (KAP) are being addressed. These reforms are a precondition for the sustainable development and self-financing of the sector, and are therefore a basis for attracting necessary investments and ensuring fiscal sustainability.

8. **Basic principles of the reform** are security and reliability in power supply under fair and reasonable prices, protection of interests of the economically and socially least privileged categories of population, and environmental protection. This in fact calls for the introduction of economic or market principles on one hand, and integration of the principles of social and environmental policies into energy sector on the other.

9. Based on the Agenda of Economic Reform, the strategic **objectives for the energy sector include**: (i) improving general conditions for the functioning of energy sector, (ii) increasing the power supply reliability, and (iii) increasing energy efficiency and improving energy sector environmental performance.

10. **Measures for improving general conditions** for the functioning of energy sector primarily comprise the institutional capacity building (Regulatory Agency, Energy Efficiency Office), as well as opening the market for private sector/independent power producers and connecting with regional energy market. As a part of the efforts to build statistical capacity for monitoring Strategy implementation, it is necessary to strengthen Monstat and Ministry of Economy capacities in order to ensure precise and continuous monitoring of consumption data for all types of energy sources (overall consumption and by sector). Energy consumption data should be collected and kept in accordance with definitions and methodology of the International Energy Agency (IEA).

11. Regarding the sector's policy and management, priority measures refer to preparing the energy strategy and continuation of enterprise restructuring (ECM, Pljevlja Coal Mine). ECM restructuring will lead to increased efficiency, functional unbundling, and achievement of positive cash flows, and eventually to privatisation of company's segments. Continuation of tariff reform, namely introducing of tariffs that cover actual costs for all the consumer categories, is of the essential importance.

12. **The program of protecting the poor**, i.e. introduction of targeted subsidies in order to cover a portion of their consumption will be developed concurrently with the social policy reform. The subsidy program will be designed

and monitored based on household surveys, that is on the data about the share of electricity expenses in the budgets of households below and/or around the poverty line (heating method and quality of heating will be also monitored).

13. As for the **measures for increasing reliability of power supply**, undertaking the most feasible and necessary investments in production, transmission and distribution of power will have priority. Such investments include rehabilitation and replacement of equipment in some of the power plants, construction of priority transformer stations and the increase of transforming power, as well as necessary upgrading of the distribution network. Moreover, measures aimed at decreasing technical losses in production, transmission and distribution of power are very important, as well as continuation of activities aiming to reduce commercial losses.

14. Finally, **measures for increasing the energy efficiency** and reducing adverse environmental impact of the energy sector consist of: (i) preparing the national plan on energy saving and efficiency, (ii) educational campaigns for saving energy and increasing efficiency (as to both population and industry), (iii) increasing of energy efficiency in the public sector (incl. schools, hospitals, institutions, street lighting), (iv) promoting of renewable types of energy, and (v) implementing priority projects for environmental protection in Pljevlja TPP.

## 5. WATER SUPPLY AND SEWAGE

1. Around 72% of the Montenegrin population is supplied through public, and another 11% through their own water supply systems. On the other hand, as little as 39% of the population is connected to public sewage system. More than one fifth of the population experiences interruptions in water supply, while problems with inadequate quality of drinking water quality occur in some municipalities.

2. **The water supply and sewage system is characterised by:** (i) unreliable water supply, particularly in coastal and some of the municipalities in the central region during the summer season; (ii) substantial disproportion in the water supply and sewage systems coverage of urban and rural areas; (iii) high depreciation of water supply network, which results in large losses and contributes to deterioration of drinking water quality; (iv) the lack of reservoir capacities and of the equipment for automatic control and management of the water supply system; (v) inadequately protected extraction of water from almost all the water sources, and (vi) low rate of connection to sewage network.

3. One of the key problems of the sector is associated with prices of water supply and sewage services. For a prolonged period of time, these prices have been set at a lower level than what the actual economic cost of water supply and wastewater disposal. Such a **pricing policy** has led to a constant lack of funds for maintenance and investments on one hand, while on the other it has contributed to excessive consumption. Despite the significant investments in the rehabilitation of infrastructure facilities for water supply and sanitation in the previous few years, the situation in water supply is still unsatisfactory, especially in the coastal municipalities. At the same time, management and financial operations in the public utility companies as the only service providers in this field have deteriorated significantly. Negative trends were also observed with the collection rate, which has dropped by almost 20% in the period from 1998 to 2000.

4. Current circumstances in water supply and wastewater disposal can have a negative effect on both economic opportunities and human health. Reliability and quality of water supply and sewage disposal are, for instance, one of the basic preconditions of further tourism development in the coastal region. Thus far efforts towards sector's commercialisation and the creation of opportunities for new funding mechanisms (e.g. public-private Partnerships) have not led to a noticeable improvement.

5. **The underlying principles of changes in water supply and sewage sector** will be equitable access to drinking water (as per both quantity and quality) and principles of water resources preservation and environmental

protection. The introduction of market conditions will proceed along with changes in legislative and institutional frameworks, where the state will act as a regulator and protector of interest of the economically most deprived population categories (through well structured tariff and subsidy policy). Moreover, the application of “user” and “polluter pays” principle, and the EU accession process are crucially important for sector’s reform.

6. **Basic objectives of the DPRS regarding water supply and sewage are:** (i) to improve the legislation framework and to start the process of harmonizing it with the EU legislation, (ii) to improve the efficiency, management and financial operations of service providers, (iii) to enhance the accessibility and quality of water supply services, and (iv) to protect human health and the environment.

7. **Priority measures** include opening of the process of harmonizing domestic legislation with relevant EU Directives, and completion of legislation needed for restructuring and commercialisation of public utility companies and the involvement of private sector.

8. Furthermore, necessary measures comprise capacity building of public utility companies and strengthening of regional cooperation, as well as preparation of sector investment strategy based on existing and future strategic documents. Concurrently, it is necessary to gradually increase prices of utility services up to the cost recovery level, to create incentives for rational water consumption and to improve the collection rate.

9. Share of water supply costs in the overall expenditure of poor households will be monitored through household surveys (part of the monitoring and evaluation process), and an adequate subsidy program will be defined. **Subsidies** will be realized through direct transfers to public utility companies and will cover part of water consumption costs of the poor. In addition to **targeted subsidies, measures intended to improve the access and quality of drinking water include:** (i) measures for improving water supply systems in rural areas, (ii) measures for improving water supply to urban locations where some socially marginalized groups live, (iii) decreasing water supply interruptions, particularly in the southern and central regions, and tourist municipalities through construction of the regional water supply system, (iv) measures to reduce water losses in the network and to improve the drinking water quality, and (v) measures to protect currently used and potential drinking water springs.

10. As for the **measures aimed at protecting human health and the environment**, priorities include support to construction and reconstruction of sewage systems in the parts of settlements where marginalized social groups live, and in the coastal tourist centres.

## 6. ENVIRONMENT, DEVELOPMENT AND POVERTY

1. In the context of economic development and poverty reduction, key environmental challenges are: (i) control and prevention of environmental degradation in order to thwart negative impacts on human health and natural ecosystems, and (ii) preservation of a good-quality resource base for a country’s long-term development.

2. **The existing environmental management system has numerous weaknesses.** The most significant ones are:

- i. The legislative framework is inadequate and deficient, while the existing regulations are poorly enforced; the institutional capacity (including human resources) is insufficient to address environmental issues in an effective manner, while sector strategy and policy are underdeveloped;
- ii. The information and monitoring systems are underdeveloped, and they do not represent a reliable basis for monitoring the situation and for decision-making; particularly linkages between state of the environment and human health, sustainability in the use of natural resources and similar;
- iii. Existing mechanisms for public participation in environmental decision-making are inadequate;

- iv. Financing of the sector is insufficient, since spending for environmental protection programs accounts for less than 0.1% of GDP;
- v. Pressures on biodiversity and natural resources (such as space, land, water, forests) are evident, while adequate control mechanisms are lacking;
- vi. Environmental quality is being impaired through inadequate treatment and disposal of municipal waste and wastewater, pollution from industry, mining and transport, while pollution prevention and control measures are not developed to a satisfactory level;
- vii. The level of integration of environmental concerns into other sectors is unsatisfactory.

3. The **air pollution** levels exceed permitted standards in certain municipalities. **Major pollution sources** include thermal-power plant and Pljevlja Coal Mine, power plants of large industrial facilities (Aluminium Plant Podgorica, Iron and Steel Works in Nikšić), motor vehicles, and fuel combustion by households.

4. About 45% of **municipal waste** is collected in an organized manner, while there are no waste disposal sites that meet sanitary requirements. Separation of wastes and recycling are only done on a small scale; separation is often done improperly, and in a manner harmful to human health. Existing waste disposal sites pose risks for groundwater and soil contamination, and present a health hazard for the people who live in their vicinity. A particular source of risk is inadequate treatment of non-hazardous and hazardous wastes generated by industry and mining.

5. Prior to their discharge to natural recipients, municipal wastewaters are treated for as little as 11% of inhabitants. The lack of adequate treatment of industrial wastewaters is also common, regardless of whether they are discharged directly or into the public sewage systems. As a result of inadequate treatment of wastewater, some watercourses (rivers and coastal sea) fall below prescribed water quality standards.

6. **Incidence of excessive and uncontrolled exploitation of natural resources** was evidenced during in the past years. Examples primarily include: (i) illegal use of forests, mineral raw materials and fish stock, (ii) conversion of agricultural land, and (ii) illegal construction and negative impact on the environment. Evidence of the many-fold pressures on biodiversity and protected areas (incl. destruction of habitats, pollution, illegal hunting and fishing, uncontrolled collecting of plants) raises serious concerns related to sustainability .

7. The right to a healthy environment and sustainable development principles are rationale for the environmental and natural resources management activities. **The Strategy objectives include:** (i) improvements in the legislative and institutional frameworks for the environmental management, (ii) improvements of the environmental management system efficiency, (iii) implementation of priority projects aimed to reduce pollution and environmental degradation, and (iv) strengthening of policies and practices for sustainable use of natural resources.

8. **Priorities** for achieving the first objective include activities for harmonizing the legislation with EU directives on waste and air, revising the existing regulations on environmental impact assessment and economic instruments, as well as adopting new regulations on the environmental protection in privatisation process. Equally important are measures for capacity building of the Ministry of Environmental Protection and Urban Planning (MEPUP) and the local government administration, along with activities aimed at improving the inter-ministerial cooperation.

9. For the **purpose of enhancing the environmental management efficiency**, the following measure will be undertaken: (i) establishment of the Environmental Agency, (ii) establishment of the Environmental Fund, (iii) strengthening the environmental policy measures and instruments, (iv) raising public awareness on sustainability issues, (v) including environmental protection in educational curricula, (vi) strengthening the information and monitoring systems, (vii) reform of the urban planning system, (viii) preparation of strategic documents and action plans, (ix) preparation of the cadastre of polluters, and (x) preparation of categorization and inventory of hazardous and industrial wastes. Among the environmental policy measures and instruments, special attention will be paid to

the improved use of the existing, and the introducing of new, economic instruments (e.g. product charges related to waste, incentives for the environmentally friendly activities).

10. **Priority projects** aimed at pollution reduction and prevention of environmental degradation include: (i) preparation of feasibility study for rehabilitation of Mojkovac and Gradac mining tailings, (ii) improvement of degraded areas and regulation of Jagnjilo and Grevo dump sites in Pljevlja, (iii) rehabilitation and expansion of the wastewater treatment plant in Nikšić, and (ix) rehabilitation of the existing waste disposal sites and construction of new ones in coastal municipalities (Kotor, Budva, Bar, Ulcinj).

11. Finally, **priority measures to foster policies and practices of sustainable resource use include:** (i) revision of legislation on biodiversity protection and conservation, (ii) preparation of biodiversity strategy and action plan, (iii) improvement of management plans and practices for national parks and other protected areas, and (ix) promotion of projects based on sustainable use of natural resources (eco-tourism, organic agriculture).

## 7. FOREST AND WATER RESOURCES MANAGEMENT

1. Forest and water resources are among the most important natural resources in Montenegro, and are very important from the standpoint of future economic development. Furthermore, these resources are exposed to manifold pressures, which are likely to cause or have already caused their unsustainable use. The pressures primarily include unplanned and excessive exploitation of forests and watercourses, as well as plant and animal species whose habitats are either woods or waters.

2. Out of the overall Republic territory, forests cover 620,872 hectares, or approximately 45% of the territory. Out of this number, about 212,000 hectares is covered with high economic forests that can be used as raw materials for wood-processing industries. A substantial portion of the forest resources is placed in the underdeveloped northern region. Out of the overall forest area, 67% are state owned forests, and remaining 33% are privately owned.

3. **Problems in forest management are multiple and they include:** (i) small size of privately owned forests, (ii) unplanned cutting (wood is mainly used as timber or firewood) and a poor enforcement of regulations, and (iii) unfavourable forest exploitation methods and poor technical equipment. Wood-processing industry is in a very bad condition, and is closely associated with problems in forest management. Particularly important are incidence and damages from forest fires, along with forest illnesses caused by the air pollution, pathogenic micro flora and vermin. In 2000 only, more than 250 forest fires occurred, in which almost 2,000 hectares were burnt down, and around 150,000m<sup>3</sup> of wood was destroyed or damaged. There are no accurate data on the scale of forest illnesses and affected areas.

4. **Situation with water resources varies significantly across Montenegro** – from areas without any springs or surface watercourses to those where water is in abundance. Generally, Montenegro falls into the group of countries rich with water resources, where average run-off is 614m<sup>3</sup> of water per second. An average intensity of rainfall amounts to 2,000mm, while maximum rainfall reaches as high a figure as 5,000mm per square meter. Rivers belong to Adriatic (southern region or 47.5% of the territory) and Black Sea (northern region or 52.5% of the territory) catchments areas. Lakes are relatively numerous, and the largest and the most important is Skadarsko Lake.

5. **Problems of water resources management are numerous,** and they mainly relate to the irrational use of water and surface and groundwater pollution due to unsatisfactory disposal and treatment of wastes and wastewater. Moreover, problems of excessive and illegal exploitation water resources are present, including the fish stock and the extraction of gravel and sand from the riverbeds. At the same time, floods and torrents risk

management needs to be improved, along with improvements of surfaces that have already been degraded due to negative water impacts.

**6. The improvement of forest and water resources management** requires significant changes to both legislative and institutional frameworks. In the case of water resources management, for instance, harmonization with the EU standards and introduction of the river-basin integral management will bring about major modifications. The legislation and institutional reform process relevant to forest resources is more advanced, but some major changes still lie ahead. One of the key issues in financing area is the need to set concessions and other forms of compensations in a manner that will provide for the sustainable resource use.

**7. Strategy objectives for forest and water resources management include:** (i) improvement of the legislation and institutional frameworks; enhancement of measures and instruments used in forest and water resources management, (ii) strengthen sustainable management of forests and other forestry resources, and obtain certificate for sustainable forestry, (iii) provide support to the development of economic sectors and activities based on controlled and sustainable use of forest and water resources, and (ix) strengthen sustainable management of water and other water resources.

**8. Measures aimed at improving the legislative and institutional frameworks** include adoption of the new Law on Water (in conformity with requirements of the EU Water Framework Directive) and establishment of the Water Regulatory Agency. Moreover, establishing of administrative bodies at the level of river basins is foreseen, as well as their capacity building and improvements in the law enforcement, especially in the cases of illegal resource utilisation.

9. In order to obtain certificate on sustainable forest management, priority measures comprise preparation of the forestry development strategy and introduction of geographical information system. Furthermore, it is necessary to implement measures aimed at preventing forest withering and illnesses, to upgrade the fire protection system, rehabilitate some of the degraded forests and afforest cleared areas.

**10. Incentive measures for economic sectors and activities include:** (i) providing support for restructuring of wood cutting and wood processing enterprises, (ii) developing production of seeds and seedlings, (iii) utilization and protection of wild growing mushrooms, (iv) promotion of the use of non-timber forest products, and (v) promotion of fish farming and mari-culture.

**11. Measures aimed at strengthening sustainable management of water and water resources** refer to preparations for introduction of water information system and provision of incentives for efficient and multipurpose use of water. In order to improve eroded surfaces and regulate torrents in endangered areas, the priorities are to analyse existing conditions and prepare feasibility study, and to implement a pilot project for Tara and Lim river basins.

## V SECTORAL PRIORITIES

### 1. SOCIAL PROTECTION SECTOR

#### 1.1. Social protection and child protection

1. Social protection in Montenegro is primarily comprised of a **social welfare system, which includes elements of a social security system**. Its primary purpose is to provide a basic level of security to poor and vulnerable parts of the population, and this makes social protection the most important mechanism in alleviating the impacts of poverty. Namely, social protection is defined as the organized activity of the state and local government providing a basic level of security to citizens who are unable to work, have no access to financial resources or whose basic needs are not met. The right to social protection is achieved through meeting the social-protection criteria, i.e. on the basis of the defined basic needs characteristics (incapacitated or temporary lost ability to work and sustain an income, the lack of any legally answerable entity responsible for care, property census and other specific features of social vulnerability).

2. Social protection is implemented in the form of **basic social protection**, which is regulated, secured and financed by the Republic, pursuant to the Act on Social and Child Protection and associated by-laws. According to the Act on Social and Child Protection, the beneficiaries of social and child protection are as follows: children without parental care, children with no access to education, children whose development is affected by family circumstances, disabled people including those with developmental and physical disabilities, people lacking access to basic financial resources, people incapable of work, the elderly without family care, persons with socially unacceptable behaviour and persons and families whose basic needs are not met, and who call for an appropriate form of social protection. The most recent legislation amendments, carried out in 2001, were aimed at reducing the effects of an increase in unemployment and rise in the number of vulnerable families, so that social protection now covers some families with members capable of work if they have under-age children who are legally under their care.

3. The basic rights to social protection, have been outlined in the Law and include the following: access to family support, a right to building one's capacities for increasing employment opportunities, access to accommodation in a social protection institution or in a family environment, support for covering costs of in-home care, access to health care, coverage of funeral expenses, access to services of social welfare centres, and one-time financial support disbursements.

4. Municipal authorities, represent a part of the local governance structure, and provide access to **extended rights within social protection**, such as: provision of home care and home assistance to elderly and disabled people, resolving housing problems and other additional forms of social protection for persons with basic needs are not met. The data obtained from the field, point out that this segment of social protection is under-developed, and that it included only a few hundred beneficiaries, which is insignificant in comparison to real needs.

5. In the field of social protection, child allowance, which was formerly universal, is now available only for children in households receiving family support, and this resulted in a decrease in the number of beneficiaries from 152 000 to 13 000 children. This Law also regulates the rights to one-time support following childbirth.

6. The provision of social protection services to beneficiaries (major part of them are the poor) depend on the available budget sources of the state and municipalities. Shortages of budgetary resources in recent years has resulted , in a **delay of benefit payments**. The delay in payment of benefits varies – it is 3 months for institutional accommodation, 6 months for family support and housing, 9 months for care/assistant services and almost one year for maternity leave allowance. Since for the majority of those receiving benefits, this presents the only or main

source of financial resources, the key challenge becomes ensuring stability and sustainability of the social protection system, as the benefit payment delays bring into question the main function of the system with respect to poverty. As shown in Table 1, below, unsettled arrears in payments from the years 2001-2003 now total 18 million Euros.

**II. TABLE 1. SUMMARY OF UNSETTLED PAYMENTS OF THE MINISTRY OF LABOR AND SOCIAL AFFAIRS**

**with reference to social welfare benefits in October 31, 2003.**

Type of benefit	Debt from 2001	Debt from 2002	Debt from 2003	Total debt by October 31, 2003 given in Euros
Social Welfare				
Child Allowance	6.489.855,7		1.622.479,2	8.112.335
Family Support			3.126.511,4	3.126.511,4
Maternity leave benefit		1.073.066,6	4.097.635,2	5.170.701,8
Allowance for care/assistant services			1.522.629,7	1.522.629,7
Support for institutionalized persons			380.428,29	380.428,29
Support for institutionalized persons			76.000	76.000
Support for persons in Family accommodation			254.596,55	254.596,55
Support for persons who are beneficiaries of social welfare but are outside Montenegro			49.831,74	49.831,74
Food for the children in preschool institutions			139.959	139.959
Recreation expenditures for children from the poorest families			77.700	77.700
One-off financial support			218.892	218.892
<b>TOTAL:</b>	<b>6.489.855,7</b>	<b>1.073.066,6</b>	<b>11.186.235</b>	<b>18.749.157</b>

**7. A key problem in social protection** is the impossibility of the existing system to cover the whole vulnerable population.. Despite that there are different forms of benefit provided, the dominant ones being family support and child benefits, these benefits are below the level of fulfilling basic needs of poor families, to whom they are often the only source of income. This is contributed by the lack of functioning of the Allowance Adjustment Mechanism in social welfare (which uses the average wage in the Republic as a reference), as these data have not been officially updated for some time. The system of family support includes some categories of the population which are capable of work, and whose basic social security should be met through other benefits (unemployment benefit) and employment measures.

8. The dominant role of the state in social protection does not encourage the inclusion of other welfare actors, for example municipalities and other local level authorities, civil society, non-governmental and humanitarian organizations, families and citizens, in contributing to the achievement of the goals and rights within this area. Many forms of social protection are poorly developed at the municipality level, and so the provision is mainly limited to the measures and activities carried out by the Ministry of Labor and Social Affairs, and the institutions for social care under the auspices of the Ministry. Most municipalities do not use their financial, institutional and personnel capacities to perform these roles. Alternative projects within social protection are rare and mainly developed with the support of international institutions and organizations.

9. Most of the services in the area of social protection are carried out through the institutional system, i.e. through institutions providing social protection (centers for social work, home for retired and other elder people, The specialized centre for children and Youth, The Children's Home and the Children's Holiday Recreation Centre), so that out-of-institution forms of support are rather undeveloped. The situation is similar with respect to family care, which includes just a small number of beneficiaries, only children with no parental care. Types of out-of-institution foster care for the elderly without family care and so as for severely disabled adults are especially weak (particularly in rural areas). In both cases the situation is quite similar between the refugee and domestic population. The

institutional social protection system is insufficiently developed, in relation to the volume of social protection needs.. Even though the network of centres for social work covers all municipalities, the lack of their staffing and technical capacities and other available resources limit their work effectiveness, especially with respect to overcoming the consequences of poverty. The majority local authorities do not consider the Centers for Social Work as important municipal-level institutions, and this requires a revisiting of their status and functions within the social policy framework.

10. Despite limited capacities, the institutions for foster care of the elderly (mentally disordered and frail elderly people) and people with special needs accommodate various categories (children, the adults and the elderly) which makes it impossible to develop specialized forms of support and care and its application to the diversity of status and needs. The institutional system of social protection especially lacks the capacities, housing facilities and adequate social and health care services for mentally disordered elderly and elderly persons without family care (both refugees and domestic population).

**11. An Under-developed system of monitoring of the needs and activities of social protection**, excluding those related to achieving rights, as well as the **lack of an information system** represent a serious limiting factor for more effective poverty reduction through social protection initiatives. Things get even more complicated by the fact that information systems within other segments of social policy are not developed and neither are they interconnected.

12. In addition to the lack of developed social protection services, especially out-of-institution ones, there are no standards for certain kind of services, thereby raising the question of their quality control. The under-developed supervision and quality control system, needs developing if both sectoral areas and service delivery sectors (private sector, civil society) are to be expanded.

13. All social protection institutions lack professional personnel to perform their complex and responsible roles in beneficiary protection. The fact that there is no modern staff training program weakens even more the capacities of these institutions, in particular, the Centers for Social Work, pointing out the need for strengthening professional competence of the staff in social institutions. This also includes the need for specific trainings and training of volunteers and NGOs for service delivery and other activities in social and child protection.

### **Poverty reduction priorities, goals and activities within social protection**

14. With the aim of increasing efficiency of social protection in poverty reduction and overcoming its most difficult consequences, as well as achieving goals and activities planned in this part of the PRSP document, it is necessary to secure some basic assumptions. These assumptions are related to those goals, activities and priorities in social protection combined with the activities of other poverty reduction players in the fields of economic and social policy as well as other areas, i.e. they require a multidisciplinary approach and "inter-sectoral" linking and cooperation.

15. Additionally, the competent state authorities and other responsible actors for socio-economic development, would need to undertake the following:

1. A National Employment Strategy including regional, municipality and local-level Employment Action Plans;
2. A National program on social protection of the elderly, which would be in compliance with regional, municipal and local action programs on protection of the old;
3. Policies and key principles towards the family and children;
4. Strategy on population development;
5. Strategy for refugees and IDPs;
6. Strategy on social protection of people with special needs, and

## 7. Program on social inclusion of the Roma and improvement of their position

16. Implementation of the part of the DPRSP covering social protection should be based on some basic ground principles, which can increase the impacts and successfulness of the achievement of objectives and harmonize these systems with some basic international standards. Here we have in mind the following principles:

1. Decentralization of the functions, responsibilities, funding and social and child protection practice;
2. Personal responsibility of the citizens for social and economic security and family needs, as well as responsibility of the family for security and protection of its members;
3. Ensuring a multiplicity of responsible stakeholders, forms of support, methods of service provision in social protection;
4. The competitiveness of different actors and service providers and the incorporation of market criteria in funding parts of the service or types of services in these areas, and
5. Promotion of partnership and networking between the different actors engaged in programs and initiatives, especially at municipal and local level.

## 1.2. Pensioners and the elderly

17. Until recently the system on pension and disability insurance in Montenegro has been regulated by the Law on principles of pension and disability insurance (Official Gazettes of the Republic of Montenegro no. 30/96), Republic Law on pension and disability insurance, as well as by-laws based on these two laws. In September 2003, the **new Law on pensions and disability insurance** was adopted, regulating this area differently, and is going to be applied from the beginning of 2004. Analysis of the functioning of the existing pension system in Montenegro in last five years identified the following problems:

1. Unfavourable ratio of pensioners to employees (1:1,3 ),
2. Large share of the expenditures of the PIO Fund in GDP ( 17% in 2002)
3. High fiscal burdens in the economy,
4. Avoidance in paying pension contributions,
5. Inadequate expenditures patterns of the PIO Fund (just one third of the expenditures is assigned to beneficiereis over 65) and
6. Lack of financial sustainability in short and long term

**18. The lack of financial sustainability of the pension system** in Monenegro is caused by the decrease in number of contribution payers compared to the number of pensioners. This ratio did not meet international standards since 1995, when the proportion was one pensioner to 1,7 employee. This ratio is even more unfavorable now, so that single pension contribution is paid by only 1,35 of the employed. According to the data received by the PIO Funds, there is only 40% of age-based pensioners, while the share of expenditures for age-based pensions is 48%. According to the existing law, the pension-base was determined on the basis of the highest average wage earned in successively in a ten year period. For the maximum employment period (35 years for women and 40 for men), the ensured received 85% of the pension-base or average wage. Selection of the best successive 10 years was benefiting those who, achieved career progress or a higher wage only within 10 a year period. That resulted in inflating wages for the best ten years in purpose of receiving the highest possible pension. This system meant that those who didn't get the chance to advance in their career, shift to better paid jobs or manage to increase their 10 years salaries in any way, received considerably lower pensions than those who had those opportunities. Those are the pensioners now receiving the lowest pensions.

**19. Number of pensioners in Montenegro** at the beginning of 2003 was **88.300**, with average pension amounting to 112,24 Euros per month. Out of this number, there were 35.809 old-age pensioners with average pension of

137,19 Euros, 27.118 disability-based pensioners with average pension of 99,39 Euros and 25 373 pensioners receiving survivor family pension whose average pension was 90,77 Euros.

**20. Pension system reform.** In order to solve the identified problems and bring the pension system to a level of financial sustainability, a radical and all-encompassing set of reforms is needed, a part of which has already been undertaken (first pillar). The overall plan includes:

1. Restructuring the existing obligatory insurance system on the basis of generational solidarity (current financing or first pillar) which represents the base of the existing system;
2. Introduction of obligatory insurance on the basis of capitalized savings for the the insured (second pillar) and
3. Introduction of voluntary insurance (third pillar).

The new law on pensions, passed in 2003, restructured the obligatory insurance on the basis of generation solidarity based on:

1. Implementing stricter criteria for access to age-based, disability and family pensions, including a gradual increase in the age for eligibility of pensions by five years;
2. Changes in calculations made to determinize pension size;
3. Change in the calculation of the average salary from the ten most favourable years, to including total working years (gradually);
4. Implementing stricter criteria for determining disability status; and
5. A reduction in the opportunities for entitlement.

**21.** Following a concept used worldwide, the new Law envisages a pension and disability insurance system in Montenegro consisting of three parts (three pillars). The first part relates to obligatory an pension and disability insurance based on generation solidarity carried out by the PIO Fund, which is regulated by proposed Law. This system provides minimal pensions to the insured people and represents the basic level of age-based and disability insurance. Second part is related to obligatory pension and disability insurance based on individual capitalized savings. This form of pensions will enable individuals to save their money for the retired days and provide larger differences among pensions depending on income level. The Government is in the preparatory phase of starting a public debate about this form of insurance. Third pillar is the voluntary insurance. The retirement age limit was raised for five years, and now it is 65 for men and 60 for women. The percentage that will be used for adapting pensions is a half of the sum of the inflation percentage (or deflation) and a half of percentage of the increase (or decrease) of the average gross income. The lowest age-based pension cannot be less than 45 Euros.

**22.** The average age in Montenegro is 37, average life expectancy is 71, while the number of citizens over 80 is around 13.000. The above mentioned, points out that this is a rapidly aging society, and places Montenegro among the first thirty countries, by this classification. In Montenegro more than a fifth of the population are over 60, which means that there is an obvious problematic trends that this population (over sixty) is nearly the same in number as the youngest population. The average natality rate hardly reaches the level of simple reproduction, and in a number of more-developed municipalities, this rate is negative. The number of elderly living alone on small pensions is a growing trend in Montenegro, as their number ranges between 7.000 and 7.500 ,most, of whom are poor.

**23. The main objectives** of the Development and Poverty Reduction Strategy (DPRS), **relevant to the elderly** include poverty reduction among retired and other old persons, and strenghtening out-of-institution service delivery. These will be developed through the following:

- The building of facilities for caring for mentally disordered elderly (both refugees and domestic population);
- Day care centers for the elderly;
- Day rehabilitation centers; and

- Establishment of teams providing home care.

### 1.3. Children and youth

24. Poverty impacts differently on different age groups. Naturally, children and youth represent the most sensitive groups. It should be taken into consideration that poverty has different impacts on different groups of children and youth. Especially vulnerable categories are: children without parents, children whose upbringing was disturbed by family circumstances, children – victims of violence, children with special needs, single-parent family children, RAE children, refugees and IDPs, children with unacceptable behavior. Combating poverty among children and youth is crucial for poverty reduction in the long-term, because this is the only way of avoiding the inter-generational reproduction of poverty.

25. **Manifestations of poverty, among children and youth**, are numerous and diverse and can have a severe impact on their development and integration into regular socio-economic trends. They include:

- Infant and child mortality rate
- Underweight at birth
- Malnutrition
- Frequent disease
- Problems in physical development
- Problems in mental development
- Socio-cultural handicaps
- Problems in education
- Social deviations

The poverty indicators for children and youth occasionally appear independently, but mainly appear combined and thus have a cumulative effect, which has major poverty implications.

26. The **objectives** of the DPRS **with respect to children and youth** are:

- Support to particular children and youth as well as their families, that are poor
- Ensure access to social services (health, education, social and cultural services)
- Alleviate the impact of poverty, especially in areas where generational reproduction of poverty is common.

In order to achieve these goals, it is necessary to:

- Define a national level strategy on supporting children and youth at state level, but also design regional and local strategies which are developed within the national framework
- The strategy for the reduction of poverty among children and youth should be treated as a long-term, development process,
- The main strategic directions in combating poverty among children and youth should be based on respecting children's rights and human rights.
- Poverty reduction among children and youth should be impacted through access to quality services benefiting children and youth
- Poverty reduction among children and youth should be carried out by including them into decision-making systems both at national and local level

### 1.4. Disabled persons

27. Disabled persons, i.e. persons with physical, mental or sensory disabilities have special needs or they require a specific way of meeting their needs compared to the general population. These persons face numerous physical and social obstacles making them unable to meet basic biological, psychological and social needs. Many of them are surrounded by discrimination, prejudice, lack of access to knowledge and information, and are unable to meet

their basic needs. Disabled persons and their families, as a rule, have low incomes (these are mainly social allowances and support for disabled persons received on monthly basis). Causes of poverty among the disabled result from very low education levels, as well as a low employment rate. Lack of access to public services and cultural institutions is often combined with under-developed services designed to provide assistance to these groups.

28. It is estimated that there are 7 to 10 % of disabled persons in Montenegro. We have no precise and reliable data on disabled persons, especially on the character, types and level of their disabilities. Ten causes of poverty among disabled persons have been selected in the recommendations to Montenegrin DPRS received by the Association of the persons with special needs during the consultation process. These are: unemployment – both among disabled persons and their families, low and irregular incomes, inappropriate economic policy, inadequate social and housing policy, a lack of understanding within society of the problems of disabled, inadequate and incomplete health care, inappropriate legislation dealing with this area, collapse of economy, low level of consciousness, inadequate and unavailable education system.

29. Having defined five **basic principles** to guide policy development for creating equal opportunities for disabled persons (being: dignity, participation, non-discrimination, the right to compensation and closeness), the **main objectives of the DPRS applicable to the disabled are as follows:**

- Establishing an adequate social protection system for disabled persons including the application of compensatory rights and development of varying types of support services.
- Ensuring physical access to buildings
- Providing access to adequate education system
- Providing employment opportunities to disabled persons

The implementation of these objectives should ensure social inclusion and stimulate independent living of disabled persons.

30. When drafting legislation, which applies to persons with disability, we should keep in mind that families with a disabled individual have additional costs. These can be direct costs – caused by specific needs of the disabled person, indirect costs – expenses that other families do not have, and specific costs – the lack of employment activity by household members, as a result of day-care responsibilities around the disabled household member. In terms of policy development with respect to disabled persons, it is necessary to provide mechanisms for inclusion of disabled persons in decision-making processes.

## 1.5. Refugees and IDPs

31. The Government of the Republic of Montenegro is to **develop an all-encompassing strategy**, which is to **address the question of refugees and IDPs in Montenegro**, in line with the protection of their basic right – the right to return to their former homes. The policy matrix and costings tables cover activities and necessary financial resources for meeting the needs of refugees and IDPs until the total resolution of their status. More detailed information on these social groups is given in the Survey on household expenditure from September 2003, as well as in the DPRS additional materials.

## 1.6. Romi, Ashkealia and Egyptians

32. This category of the population represents the most vulnerable group, and this includes both domestic RAE and Roma IDPs. Their poverty profile is given in Chapter 1, and the anticipated projects addressing the issue of their integration are given in full in the costings section. In addition, a separate overview of the costs for refugees, IDPs and RAE is included. Additional information on this group is given in the Survey on household expenditure from September 2003, as well as in the additional materials, which accompany the DPRS.

## 2. EDUCATION

### 2.1. Education and Poverty

1. Montenegro has made significant progress in meeting its educational objectives. However, significant education deficiencies exist among minority groups, and there are serious questions about the quality and appropriateness of the education received.

2. According to the 1991 Census, only 8.9% of the population aged 15 or more are without education, those with incomplete primary education are 16.3 %, and those with only completed primary education are 29.5%. Persons with secondary education dominate - 35%, while those with two or more years of higher education represent 8.8% of the total population. According to the Household Survey (HHS, 2003) about 5% of adults aged 16-24 in the standard population may be considered "educationally poor", considering that they are not in school and never attended secondary school. For the RAE population, the figure is 70%; for refugees 29%. These poverty groups are characterized by high dropout rates.

3. Poverty influences education, and vice versa. Gifted children often have to give up their education due to poverty problems in the family. On the other side, poverty itself is often the result of inadequate education, such as unemployment caused by inadequate formal education, i.e. insufficient level of knowledge and skills, to be competitive in the labour market. This points out the importance of the connection between education and competences for work with a need for continual education (i.e. lifelong learning). Lack of education of the head of family is connected with a greater risk of poverty. About 17% of households whose family heads did not attend secondary school have a three times higher rate of poverty in comparison with families whose heads have completed secondary education. While the education of the family head is connected to a greater risk of poverty, it is also true that many families with low educational levels are not poor.

4. However, graduates of the regular system of education are not trained enough for practical work. Many students complete high school, and then are employed in the public sector. Weaknesses in the educational process lead to production of an unskilled and uncompetitive workforce. The most relevant challenges for Montenegro, considering education, are: (i) increase of the quality of the educational system, and (ii) the need to develop standards, which relate to the knowledge and skills needed in the labour market. In addition, highly trained people often leave the country in search of better employment opportunities, or additional education.

#### LACK OF HARMONIZATION WITH THE LABOUR MARKET:

- In Montenegro there are 3952 identified professions. According to the data from the Employment Agency, there are 922 various professions registered, but there is an announced need for only 750 of them.
- There is an announced need for 262 professions, but they cannot be found in the register of the unemployed
- There is no need announced for 435 professions listed in the registers: religious professions, army officers (VII degree), operational tourist organizers, fine arts teachers for primary schools, biology teachers for primary schools (VI degree), teachers and assistant teachers, laboratory technicians for biology, clothing technicians, textile technicians, technicians for the construction of machine elements (IV degree).
- In case of 487 types of professions the needs are satisfied with the supply in the labour market.
- In terms of qualification levels: in case of the III degree (qualified) and IV degree (high school degree) there is a surplus of approximately 167 types of professions (465:298), while in case of high qualifications (university degree) there is a deficit of approximately 86 types of professions (238:152).

5. Apart from problems caused by out of date curricula, the existing educational system is not effective in delivering quality educational services that meet European standards. Problems are evident in the low participation

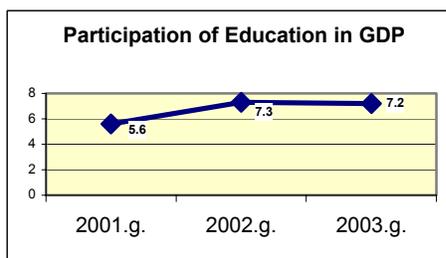
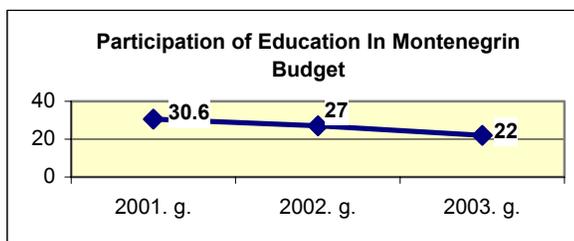
of children of appropriate age in pre-school education, »overloaded« school capacities in towns and unused capacities in rural schools, a reduced number of children in primary schools in the North of the Republic, inadequate conditions for training in vocational education, and a lack of organisation and provision for adult education.

6. The Constitution of the Republic of Montenegro regulates usage of language and writing. In Montenegro, the official language is Serbian, and both Cyrillic and Latin alphabets are used. In municipalities, where a significant part of the population are Albanians, their language is officially used as the language in which the curricula is taught in. Pre-school education is being performed in official language, but the legal framework exists for it to be performed in Albanian as well.

7. Although compulsory education is free, this does not include private expenses for required textbooks, supplies and other materials. These expenses represent an important cost for the poor, especially in the North of the Republic, in rural areas, and for certain groups such as RAE population and refugees. It is often a basis for their exclusion from the education system, or a reason for high drop-out rates. Parents on average spend €87 for one school year for textbooks and supplies for one child. Textbooks in secondary education alone cost on average €66 per child. Costs for additional workbooks, supplies, and other material etc, for various occupations within vocational schools further increase costs that parents have to provide. These costs are in spite of the fact that the Ministry of Education and Science subsidizes textbooks so that parents pay only 60% of the actual cost.

8. The needs for overall public education are financed from the Budget of the Republic of Montenegro. Ministry of Education and Science, within funds dedicated in the Budget, plans expenses according to: gross salaries of employees (76% of total), material expenses, funds for investments and reconstruction of facilities, funds for financing needs of education, and for financing programs and equipment of University of Montenegro. Legal regulations in previous period defined a centralized way of financing education and did not oblige local communities to participate in expenses for education. This led to often unaccountable spending.

9. Participation of expenses for education in the Budget of the Republic of Montenegro was reduced, from 30.6% in 2001, to 22% in the Budget for 2003. Participation of education in GDP increased from 5.3% in 2001, to 7.3% in 2002, to 7.2% in 2003. In the Budget projection for 2003, education expenditures are projected at 7.2% of GDP.



10. Budget funds planned for education are allocated to institutions according to the number of employees, which corresponds to the number of pupils, teachers' scope of work, legal framework and other demands, level of education, network of educational institutions and other conditions. Within the Montenegrin Budget for 2003, 22.8% is allocated for education. Out of that 55.6% is allocated for compulsory and pre-school education. Average

annual cost of education per pupil in compulsory education for 2001/02 was €492, and for 2002/03 it was €601. Annual cost of education per pupil in secondary education for 2001 was €684, and for 2003 it is €630.

11. The number of pupils involved in the education system is: 11432 in kindergarten, 119360 pupils attend compulsory and secondary schools and around 11000 students attend higher education. Females account for 56% of total enrolments. The ratio teacher-pupil is 14 pupils per one teacher, and teachers represent 70% of the total number of employees in education. Since 1999, the number of employees in education has increased by more than 12%, despite the fact that the number of pupils in primary and secondary schools was reduced by more than 3% in the same period.

12. The network of pre-school institutions in the Republic includes 20 institutions that have 69 facilities. Employees in pre-school institutions account for 10% out of all employees in the educational system. Percentage of participation in pre-school education in Montenegro is low, first of all due to insufficient number of facilities and poor services. In the school year 2002/03 the number of participants in pre-school institutions was by only 22% of those eligible.

13. Percentage of enrolment in primary schools, in comparison with the total population of children in 7 to 14 age group, in 2002 was 96.9%. Starting from school year 1999, the number of pupils in primary schools fell by about 2% per annum. In communities in the North of the Republic there was a decline in the number of pupils in primary schools, while there was a constant increase of pupils in bigger towns, where there is a clear lack of school facilities. Percentage of girls in population of pupils in compulsory education is 49.6%. In Montenegro there are 168 primary schools with 309 satellite units in rural areas. Out of all primary schools, 22% of them have less than 60 pupils that is less than 2% of all pupils in primary schools. In these schools about 8% out of all employees are employed in primary education. Of the total number of 478 primary schools, 280 have less than 30 pupils, 145 have less than 10 pupils, and in 10 of them there is only one pupil.

14. In the total population of Montenegro 3.3% are members of the RAE ethnic community. RAE families have relatively high birth rates, a low percentage of children that attend school and a high illiterate amounting to 76%. During year 2002, regular primary school contained only 1% of pupils of RAE nationality, and part-time education about 0.5% pupils. Inclusion of RAE children in the educational system is problematic due to illiteracy and problems of poverty, lack of facilities and inadequately trained teaching staff. Due to the difficult economic situation a lot of RAE families have poor living conditions, children in some areas do not have access to running water or conditions for normal psychophysical development. Out of 21 municipalities in Montenegro RAE children attend primary school only in 12 of them. There is a high dropout of the RAE children following initial entry into primary education.

15. Ministry of Education and Science encompasses 612 school facilities with 567381 m<sup>2</sup> of space that is in functional use and 153 facilities of 18695 m<sup>2</sup> that is not in functional use. In the facilities where teaching process is being performed, conditions are generally not satisfactory. Problems all school facilities face include poor conditions of roofs, breakdowns of heating system, water supply and sewage system.

16. In municipalities in the North of the Republic there has been a continual reduction in the number of pupils, creating a problem of maintaining relatively large facilities for a very small number of children. There is continual increase of pupils in big cities, and in some of them the lack of school facilities is a concern. However, the number of pupils in primary schools in some towns is actually decreasing, so in period of two to three years existing facilities will be sufficient (for example in Plužine, Pljevlja). In terms of investments and maintenance, certain school warrant upgrading of facilities and building extensions over flat roofs. In cases when reconstruction of big facilities is not cost-effective due to small number of pupils, the building of uniform prefabricated facilities of 40 to 60 m<sup>2</sup> that would solve the problems for such satellite units is envisaged.

## 2.2. Education Reform Process

17. The education reform process that has started in mid-1999 encompasses all levels of education. The objective of the reform is to build a system of education that will enable quality education for all children and expand opportunities in adult education that will enable improved livelihoods. The reform of the educational system is being implemented on the following principles: decentralisation of the system, equal rights to education of all individuals (irrespective of gender, social and cultural origin, religion, physical and psychological characteristics), and the provision of greater choice. It also includes the introduction of standards and quality assurance system, development of human resources in introduction of the concept of lifetime education, flexibility, enabling vertical and horizontal transfer through the system, inter-culturalization and the gradual introduction of changes.

18. The new educational system will be designed to respond to individual needs of each child, and to the needs of different target groups, particularly those that are affected by social discrimination. Groups with high risk, whose members are in unfavourable position to achieve adequate educational levels, include refugees, children from rural areas, RAE population, children with special psychological and physical needs, and those under care. Until now, activities that have been undertaken include: establishing new institutions and capacities for functioning of reformed system of education, improvement of quality in education, preparation of new curricula, preparation of new textbooks, development of occupation performance standards to guide curricula changes, expansion of adult education. The reform includes the extension of compulsory (primary) education from eight to nine years.

19. The **reform objectives** include both social and educational objectives. The social objectives include enabling citizens to make a contribution to economic growth (increase of GDP, employment, improvement of living standards etc.), have responsible attitudes based on principles and norms of a civic and democratic society, and be ready for life long learning in order to adjust to changes on the labour market. The educational objectives are: (i) increased rate of passing exams of pupils and students, along with increased quality of knowledge; (ii) increased enrolment and completion of post-primary education; (iii) higher understanding use of achieved knowledge and civic values, and (iv) satisfied and motivated teachers.

20. **The goal of the reform** is an increased rate of enrolment of children in pre-school education, of about 2,5% annually, with greater involvement of poor groups in all parts of Republic, especially RAE children and children with special needs. This would be undertaken by: (i) intensive building of infrastructure facilities, (ii) giving facilities as concession (expanding capacities of existing kindergartens), and (iii) stimulating the opening of private kindergartens. Special attention will be directed on preparation of teachers and other personnel for work with RAE children in native language in pre-school education. Their early inclusion in the educational system would enable greater access to primary schools and integration into society as a whole. Activities on building infrastructure should adjust to demographic trends and take into consideration access of vulnerable groups. Efforts of state authorities and NGOs should be directed at enabling poor backgrounds to whole-day stay in educational institutions.

21. **Enabling successful completion of primary school and continuation of education will be realised through:** defining special stimulus conditions for children from poor families, additional support for RAE families that educate children, providing additional conditions for children of refugees. One type of support would be provision of free textbooks, purchase under favourable prices or in several instalments, as well as borrowing textbooks from school libraries. One free meal will be provided in schools that are situated in regions with high poverty. Transfer with school buses for children whose home is far from school should be provided for free. Building and rehabilitation of school facilities will enable improvement of quality of teaching and includes the equipping of schools with necessary didactical equipment, and intensifying of extracurricular activities.

22. Including the RAE children into pre-school programs has to be provided through building facilities in appropriate places, near to the RAE population, which will be an important precondition for their further inclusion in primary education. Activities have to be directed to raise the share of RAE children in programs of compulsory

education by 0.5% per year. These activities would eventually raise the participation of RAE children to 3% in the total number of pupils in compulsory education.

23. Ministry of Education and Science and local communities should support schools to provide conditions for the new 9-year compulsory education program, and to increase enrolments from 96.9% starting from 2002, to 100% by 2010. It is necessary to provide adequate training/preparation for teachers for the appropriate implementation of the new 9-years primary school program.

24. According to last census in Montenegro, 5.9% of population was illiterate of which 82.8% were women. Activities directed at providing functional literacy are aimed at reducing illiteracy to less than 1% by 2010, and within persons aged 15-24 years to below 0.2%.

25. There is a clear need for building a much better level of co-ordination between education policy, the labour market and employment policy. Emphasis will be given to adult education, particularly focusing on surplus workers and unemployed persons. Financial support of the State will be used to develop mechanisms of social partnership between private enterprises, the labour market and educational institutions.

26. The Government will support education and training in occupations related to agriculture, tourism and services, as well as provide qualitative professional education through building of new school facilities and reconstruction of existing ones.

27. **A strategic plan is needed for a system of continuous professional development** of all professionals in education, including both teachers and managers. The training process has to be connected with the policy of remuneration. Salaries have to be adjusted to reflect training received, and to reward those that adopt innovative technologies or work with RAE, in rural areas, or with children with special needs. Emphasis has been given to the improvement of management skills for managers in schools, their connection with local communities and their role in curricula development. For teachers that work directly with children with special needs, especially RAE children, there must be both planned initial training, and after that compulsory education and training.

28. Funds for financing the education part of the DPRS can be derived from savings in the Montenegrin Budget. It is envisaged that in next three years the share of education expenditures will be reduced by one percentage point, and can come from such areas as: (i) rationalisation of school network, (ii) increased efficiency of administration and financial effectiveness of education system, (iii) reduced employment in education, (iv) rational organisation of classes and groups of pupils within teaching process, (v) rational maintaining of facilities and equipment, and (vi) rational use of energy, supplies, etc.

29. Qualitative education and the adoption of relevant knowledge and skills have to be provided through preparation and adoption of new curricula for all subjects and all levels up to University. This includes the preparation and printing of new textbooks, training of teacher staff and introducing IT in schools.

30. The implementation of information technology in educational system will enable: (i) establishing better management in IT education, (ii) establishing computer network for the process of education.

31. Structural changes, building of capacities and development of human resources have to be directed to: reforming of Ministry of Education and Science, preparation of legal regulations and bylaws that make new laws in education more precise, establishing and functioning of institutions (Bureau for Education Services, Centre for Vocational Education and Examination Centre of Montenegro).

32. Having in mind the unfavourable pupil – teacher ratio, it is necessary to reduce number of employed teaching staff by 10% by 2004, as well as the number of other employed persons.

33. Much of the knowledge and skills that pupils achieve during vocational education and training do not correspond to the demands of the market place. **The implementation of a new concept of vocational education will take the following directions:** (i) vocational education programs will have to introduce types of work and teaching methods that build permanent and applicable knowledge; (ii) the education given has to offer knowledge and competences that will enable fast adjustment to changing relationships in the work process; (iii) curricula have to be prepared according to modular principles; (iv) adopt legislation that provides establishing of certificate system; (v) include social partners and the private sector in the management process, decision making process and financing of vocational education.

34. Having in mind that there are a great number of vocational schools with a variety of educational programs in all communities in Montenegro, it is not justified to invest in workshop-equipment for all the individual schools. Rather, regional training centres are to be founded, with priority of providing training of the highest technical level for identified areas of the market. The Centres will be organized to cover the more complex parts of the training process, for certain occupations, which demand equipment of high technical-technological level. The system of vocational education, through the training process has to function to satisfy demands of the labour market. A substantial program of evaluation of vocational education will be implemented by monitoring of the employment of recent graduates.

35. It is necessary to expand capacities of pupils` and students` accommodation, in order to provide accommodation for pupils from poor families and vulnerable groups, and enable them easier access to educational institutions, irrespective of the location of schools and faculties.

36. **Reform of university education encompasses:**(i) introduction of European Credit Transfer System (ECTS), (ii) development of scientific and professional criteria for gaining academic qualifications, as well as benchmarks and criteria for academic promotion, (iii) increasing quality of education services (iv) membership in COBES (Computer Based Environmental Studies), (v) teacher training education, (vi) equipping of workshops in schools, classrooms and computer rooms.

### 3. HEALTH SECTOR

**1. Health conditions of the population** – Since 1950, significant changes have been recorded in health indicators that are important for presenting progress in the health conditions of the Montenegrin population. There is a clear increase in life expectancy at birth, a reduction in the mortality rate with respect to infectious and parasite-based diseases, as well as a reduction in the child mortality rate. Positive trends continued until the last decades of the past century. Disintegration of former Yugoslavia, wars in the region, sanctions imposed by the international community, hyperinflation, the NATO bombing, has all contributed to the termination of the progress in improving health conditions. The challenges healthcare is faced with include provision of health services to a large number of refugees and IDPs, the increasing levels of unemployment and poverty, as well as a rise in risk-associated behavior, have all contributed to increasing difficulties in health service provision.

**2. Vulnerable population groups** – Vulnerable groups within the population are particularly sensitive to the socio-economic environment, and thus have special health needs. Vulnerable groups make up a significant part of the Montenegrin population (Table 1) and put considerable pressure on the Montenegrin Health Fund to provide health services to them. During the Kosovo crisis in 1999, Montenegro was faced with an influx of over 100000 displaced

**Table 1. Vulnerable population groups in Montenegro**

Population groups	No. of persons	% of population	Sources
Children (under 19)	191156	28.59%	Vitalna statistika SZS (SZS Vital Statistics)
Women (pregnancy, delivery, puerperium)	9713	1.45%	Zdravstvena statistika (Health Statistics)
Unemployed, with ability to work	80584	12.05%	ZZZCG
Welfare families	10351	1.55%	MRSS
65 years and older	75550	11.30%	Vitalna statistika SZS (SZS Vital Statistics)
Refugees	14688	2.39%	UNHCR
Internally displaced persons	29132	4.74%	UNHCR
Roma population	20377	3.05%	UNDP
Handicapped persons	60000	9%	NGO
HIV/AIDS patients	41	0.006%	Epidemiology Center, Montenegrin Health Institute
Tuberculosis	42	0.006%	
Chronic kidney insufficiency	422*	0.06%	Zdravstvena statistika (Health Statistics)
Diabetes	428*	1.11%	
Psychosis	11539*	1.73%	
Total population	668584		Vitalna statistika SZS (SZS Vital Statistics)

\* Number of registered cases in outpatient and in-patient public health institutions

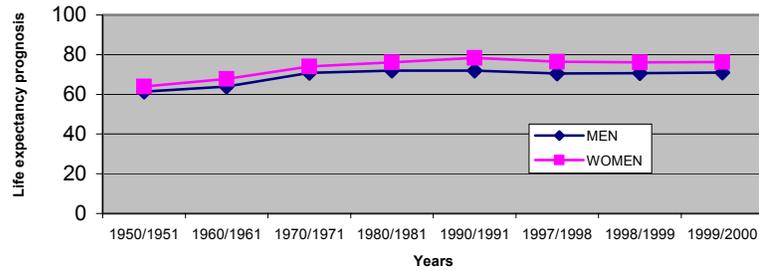
persons that had fled from Kosovo. The EU provided € 1.75 mil. as support for health service costs of IDPs and refugees. These population groups have access to full health services, financed by the Health Fund, and their rights in this respect are the same as those of the Montenegrin population. For these reasons, the Montenegrin budget must provide compensation for the costs of health service provision for this group. By including budget support, the conditions for reducing the general contributions to health insurance can be met.

3. On the basis of standard health statistics, correlations between registered morbidity and mortality and socio-economic status, have not, as yet, been identified. There are no official health data on specific vulnerable categories of the population. In addition, research has shown that there are no specific diseases caused by poverty itself. Surveys have shown that the percentage of monthly expenditure for health care reduces as income increases, and those with an income of up to € 100 spend the highest percentage of their income on healthcare (approximately 8%).

### 3.1. Basic health indicators

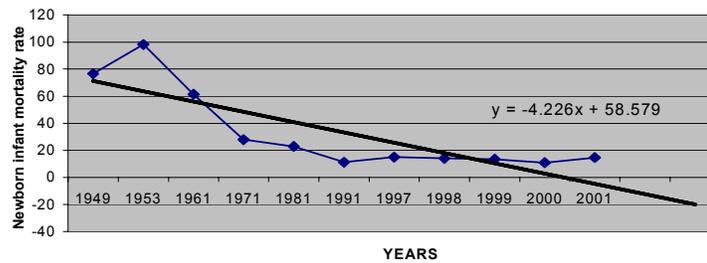
4. Basic health indicators are included in Poverty indicators and the MDGs table included in the annexes. **Life expectancy at birth** (number of years of life that a newborn child is expected to reach on the basis of the same mortality risks that have been present at birth and calculated according to actual age-specific mortality rates) is a comprehensive indicator of the health status of a population. In the period 1999-2000, life expectancy prognosis at birth in Montenegro was **76.3 years for women, and 71.1 years for men** (Graph 1). An analysis of the trends in life expectancy prognosis at birth since 1950/1951 show continual increases, excluding the period 1997-1998 when values dropped, and then in 1999/2000 the indicator values started to increase again. In the period between 1950 and 2000, this indicator was higher for women than for men.

Graph 1. Life expectancy at birth in Montenegro - by gender



**5. Infant mortality** The analysis of infant mortality in Montenegro shows a decreasing tendency since 1950, but there are certain oscillations in values of this indicator. The lowest value of infant mortality was noted in 2000: 10,9 infants died per 1000 newborns (Graph 2). Infants mostly die in the perinatal period (this rate represents the ratio between the sum of stillborn babies and death during the first week of life per 1000 births). The infant mortality rate in the perinatal period (for 2001) was 13.5‰, in the neonatal period – 11.2, whereas the infant mortality rate in the post neonatal period was 4.5‰. Main causes of death of infants were linked to the conditions at birth (72.9%).

Graph 2. Infant mortality rates in Montenegro 1949-2002



**6. Maternal mortality** (number of women per 1000 births who died following complications during pregnancy, at birth or in the puerperium period, i.e. six weeks after giving birth). The rate of maternal mortality reflects all the risks for the health of a mother during pregnancy, at birth and in the puerperium period (six weeks after birth). Maternal mortality is directly linked to socio-economic standards, the health state of the mother prior to pregnancy, complications that have occurred during the pregnancy and at birth, as well as the accessibility and the frequency of use of health services, especially with respect to pre-natal and obstetric healthcare. The rate of maternal mortality is not registered separately, but according to the Vital Statistics data, in 2001 there were two women who died due to the consequences of pregnancy, labor and childbirth.

**7. Leading causes of death.** The list of basic causes of death of the Montenegrin population has remained largely the same over the last ten-year period (Table 2).

Table 2. An overview of the leading causes of death of the Montenegrin population in 2001

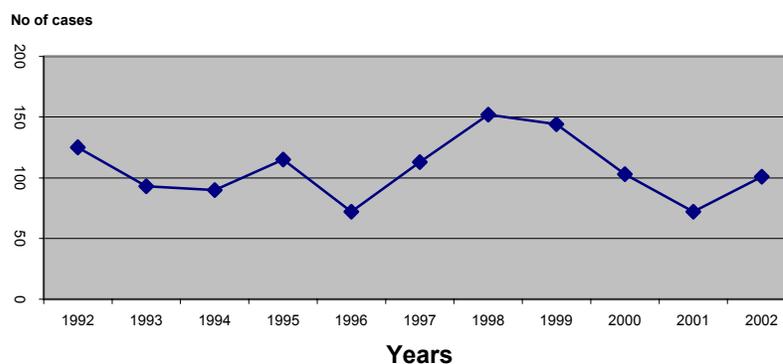
Groups of diseases	No of deceased	% of participation in the no. of deceased	Mortality rate
Circulatory system diseases	2872	52.88%	4.34
Tumors	896	16.49%	1.35
Symptoms, signs and abnormal clinical and laboratory findings	629	11.58%	0.95
Injuries, poisoning and consequences of external factors	297	5.47%	0.45
Respiratory system diseases	266	4.90%	0.40

The stated groups of diseases participate in the mortality structure with over 90%, while the diseases of the circulatory system, together with malignant diseases, represent more than two-thirds of the causes of death of persons above 65 years of age in Montenegro. The dominant participation of the cardio-vascular and malignant diseases in the mortality structure reflects the presence of unhealthy behavioral practices of the population (e.g. smoking, alcoholism, improper diet, insufficient physical activity), as well as the influence of external risk factors (polluted air, food and water). The insufficiently defined health conditions with respect to the third cause of death are a result of unclear reports on the causes of death. Injuries, poisoning and consequences of external factors demonstrate poor protection policies at work, at home and in the streets.

**8. Morbidity rate.** The analysis of morbidity in Montenegro shows that contagious and parasite diseases are present in Montenegro individually or as epidemics (flu epidemic), but these diseases do not represent a significant health problem. Some contagious diseases have important implications on the general health condition of the population, point to directions of healthcare development and have a significant impact on healthcare costs. Due to the specific characteristics of tuberculosis and AIDS, including their correlation with the socio-economic characteristics of the population, we have separately presented trends related to these diseases.

**9. The analysis of the number of persons suffering from tuberculosis,** in the period from 1992 to 2002, shows that there are two critical periods, with the increase of the number of persons with tuberculosis in 1998 and 1999 (Graph 3). Monitoring trends in tuberculosis, a disease linked to lower socio-economic conditions, is particularly important because, of danger that the disease spreads among vulnerable categories of the population. The tuberculosis morbidity rate was 15.25 per 100.000 inhabitants in 2002.

No. of deceased from tuberculosis, 1992-2002



**10.** A priority in the group of contagious diseases represents combating **HIV infection/AIDS**, due to the increase in risk-associated behavior among youth. Although the registered number of HIV-positive/AIDS cases is small, the characteristics of the country, such as poverty, unemployment, prostitution, etc., can result in a rapid increase in

the number of infected persons with HIV. According to the latest data for 2002, there are a total of 13 HIV positive persons in Montenegro, and 12 persons with AIDS.

**11. Coverage of the population with healthcare facilities.** Healthcare, in the domain of basic health protection is provided through municipalities and includes 18 health centers and three health stations. In-patient healthcare is provided to the Montenegrin population in seven general hospitals, five dispensaries located within the health centers, three special hospitals, the Institute for Physical Medicine and Rehabilitation in Igalo and the General hospital of Montenegro. Full health protection is provided to 45 thousand displaced persons and refugees through these institutions.

An overview of the health institutions network in Montenegro (i.e., distribution of health institutions by regions and by level of protection) is presented in the Annex.

**12. The coverage of the population with health workers** in Montenegro in 2001 was 565 inhabitants per one physician, and in 2002 – 549 inhabitants per physician. At the same time, in 2001 there were 166 inhabitants per one health worker (160 inhabitants in 2002), 2453 inhabitants per one dentist (2463 inhabitants in 2002) and 6458 inhabitants per one pharmacist. Hence, there were 1,71 physicians per 1000 inhabitants, with a slight tendency to further increases. Demand for and pressure on physicians has been reduced in the past ten years, but the demand for dentists and pharmacists in the public sector is large, due to increasing transfers of these health workers from the public to the private sector.

**13. Access to healthcare in Montenegro** is quite satisfactory. However, although existing capacities are adequately maintained, due to changes socio-economic standards, a reduction in the quality of health services is evident, which has led to an increase in the utilization of private sector services as well as increasing levels of corruption and use of bribery in the public sector.

**14. Basic health care.** Within the units of basic health protection during 2002 the following goals have been achieved: In the department for health protection of pre-school children there were 8.4 visits per child under 6 years of age, or 6571 visits per physician. In the school department for health protection – 2.5 check-ups per schoolchild, or 6215 visits per physician, were made. In the department for health protection of women – there were 0.63 of visits per woman of childbearing age. In the department for workers' health protection – 3.5 check-ups per worker were made. In the department for general medicine and home health care – 2.8 check-ups per inhabitant, or 7176 check-ups per physician were made.

**15. Hospital treatment.** In 2001, bed occupancy in stationary facilities was 75.7%. There was particularly strong pressure on capacities of the Special Hospital for lung disease treatment in Brezovik. If we compare the utilization of available beds with their planned aim, there is a great disparity in the use of hospital beds by department. Occupancy ranges from 105.7% at the neurosurgery to 50.4% at the ophthalmology, which proves that the structure of hospital capacities is not harmonized with the needs of the population. Thus, this fact indicates a need for rearranging hospital capacities by purpose and by hospital.

### **3.2. Financing health care**

**16.** Organization and financing of health care in Montenegro is based on the predominant role of the public sector, both in providing and financing healthcare services. The most important source of financing healthcare is the **Republican Fund for Health Insurance**. Contributions are paid (presently, at the level of 15% of the salary) on gross income of the employed persons, self-employed persons and the employers, according to the existing legal regulations. The Pension and Disability Insurance Fund (PIO) finances healthcare of retired persons, and the Employment Agency, via a budget allocation, pays fees for the unemployed.

**17.** In the last few years, the difficult socio-economic situation has resulted in the fall of the domestic product, increasing unemployment (30%) and problems related to healthcare financing by the PIO and from the budget.

These changes caused difficulties in providing necessary financial means for the health sector. Additionally, expenditures for medication and medical material in the Fund's total expenditure structure amounts to almost 30%, which exceeds the percentage of many other countries. The area of drug supplies, prescriptions and drug-use needs rationalization. Direct support for health from the Government provides funding for health promotion, and preventative health programs. More importantly, expenditures for **healthcare and health insurance of displaced persons and refugees**, that are not covered by contributions by the participants, led to **a deficit of € 7.1 million** in 2000-2003 in the Fund. which had to be covered by donor program.

**18. The private health sector** is underdeveloped and not included in the mainstream system of healthcare and health insurance. Personal participation of the insured persons in expenses related to the healthcare, represent less than 1% of overall expenditures for health services.

**19.** The basic problem in presenting the health condition of the population according to their social status derives from **inadequate and underdeveloped data** on health conditions and on the use of health services by different socio-economic categories of the population. The lack of an illness registry makes it impossible to obtain data on vulnerable groups (the diabetics, chronic kidney insufficiency patients, patients with psychosis). Due to this fact, it is difficult to monitor the use of health services and provide information to service users among vulnerable groups. The existing Law on Healthcare and Health Insurance (adopted in 1990, i.e. in the former socialist regime) did not follow changes in the social and economic system. Therefore, a **gap between the standards set by the health insurance system and the ability of the system to provide these services** arose.

**20.** Financial flows in the health sector service are clearly defined, but the information about direct payments made by users (to the private institutions, pharmacies), and especially about informal financial flows (bribery, corruption, direct payments in cash, etc.) are unknown. Research data collected in 2001 by the Ministry of Health supported by UNICEF shows an **increasing level of corruption over the past ten years**, which is correlated to the general fall in living standards and the destruction of a commonly accepted system of values. Survey results have shown that 90% of citizens believe that corruption and bribery are one of the biggest problems in the health sector.

**21.** Additionally, the redistribution of assets in the health sector is mainly directed at meeting hospital needs, rather than financing preventive-education measures, even though these measures are a more efficient and cheaper form of healthcare. The lack of clear goals and lack of a development strategy at the level of the Republic have led to hospital care dominating overall costs, and thus a problematic distribution of health spending.

**22. The quality of health protection** has not been researched as an indicator of healthcare efficiency. Due to the lack of professional standards, a poor information system, as well as the lack of overall health program evaluation practices, the system of quality control in the health sector is inadequate. Additionally, the private sector is not integrated into the health system, and therefore is not subject to quality control mechanisms.

### **3.3 Strategic trends, measurements and activities**

**23. The DPRS goals in the health sector in Montenegro** are harmonized with the Millennium Development Goals and WHO goals, defined in the „World Health Declaration“ and in „Health for All in 21<sup>st</sup> Century“. The health policy strategy defined in these documents is primarily based on **access to health services and achieving this right**. The main DPRS goal in the health sector are primarily related to:

- Protection and improvement of health standards of the population,
- Reduction of inequality in healthcare, through the improvement of access to healthcare with respect to sensitive categories of society, and this includes a reduction of health care inequality, and
- Promotion of healthcare for vulnerable population groups

24. The DPRS foresees equal access to basic healthcare services, respecting the principle of equitable access for all. The basic health services for the insured persons will be financed by the Health Fund and for the remaining population from the budget, regardless of the socio-economic status of a person.

25. The essential concept of **health sector reform** will be based on the promotion of basic healthcare, which should be strengthened by offering quality healthcare at the local level, directed at the family unit. This will be the core of the Republic's health system. The main reform goals are:

a) Development of a sound public policy centered on the concept of citizens' own responsibility for their health – **which involves:**

- Change of attitude towards health and access to health services as a basic human right;
- Improvement of public health through health promotion;
- Establishment of professional and ethical standards for the medical profession;
- Building health awareness of citizens and access to health information;
- Encouraging a professional attitude and training medical staff.

b) **Improved equitable access to healthcare services** – Health improvement, prevention of disease and treatment of ill persons are the priority tasks of the health service. There are differences in health conditions and access to health services between the different social groups. It is especially important not to deepen, but to reduce the differences through targeted active measures aimed at improving access to health services with respect to vulnerable population categories.

c) **Increased effectiveness and efficiency of healthcare through rational use of resources available** – namely:

- Improved planning, management and better resource distribution, and allocation of resources on the basis of the priorities.
- Focus on basic health protection and the general practitioner/physician and his team, with support from a flexible hospital system, with a redistribution of hospital beds in line with demand;
- Gradual introduction of a well-structured and fully integrated information system;
- Support to privatization of health services, with strictly defined quality control mechanisms in the private sector.

d) **Improved quality of healthcare, especially for vulnerable groups**, which must include equitable access. This goal will be achieved through the introduction of a quality control system, the introduction of accreditation of private institutions, the strengthening of professional associations and expanding their role, the licensing of health workers, etc.

e) **Financial stability of the system.** For the realization of this goal it is necessary to re-organize the Republic's Health Fund, with the task of financing and administering the basic package of healthcare, as well as the introduction of economic mechanisms in the sphere of financing of healthcare, introduction of the possibility of additional financing of the health system, which would increase the funds available for coverage of expenses related to healthcare of non-insured persons.

26. **Reform of healthcare provision – Strengthening preventative and basic healthcare.** The Montenegrin health system must offer the optimum level of health protection for each individual through measures of health improvement, health protection, prevention of disease, medical treatment and patient rehabilitation. The implementation of the above, calls for the clear organization of three functional levels. Reform will define the lowest levels as places where health services are offered, ensuring adequate expertise and equipment is provided at the local level. In the aim of provision of adequate healthcare services, the following projects are to be defined:

a) **The project for improvement of structural organization of healthcare** should enable the improvement and equipping of the basic healthcare system, the re-allocation of resources and re-orientation of the system

towards increased use of services at the first level of healthcare provision. At this level, special attention needs to be paid to ensuring access for the most vulnerable groups.

**b) The health promotion project** will be focus on increasing the health standards of the population, a change of attitudes towards health, provision of a safe and healthy living environment, promotion of healthy lifestyles and increasing personal responsibility for one's own health. According to recommendations of the European Committee, healthcare and health improvement of vulnerable groups is to be achieved primarily through measures of health promotion. These measures include taking a multi-sector approach, preventative action, and community involvement, avoiding stigmatization and increasing access to information about health.

**c) The „New Public Health“ strategy** should enable access to public health and health promotion information, with adequate reorganization of the existing services, improvement of institutional management at all levels and development of the public health information system. In addition, it is necessary to develop human resources in accordance with public health principles, based on strengthening human capacities and skills and respecting the basic principles of a multidisciplinary and inter-sectoral approach. The fundamentals of the “New Public Health Strategy are based on health promotion, coordination of inter-sectoral programs in the community and creation of institutional networks which shall contribute to creating a healthy environment, where priority is given to the involvement of as many partners from the community as possible.

**d) The hospital restructuring and rationalization of hospital capacities project** relates to the adjustment of the structure of hospital capacities to actual needs, and to re-distribution of hospital institutions or hospital departments in accordance with their level of use. This project should enable improvement in the organization of public hospitals in Montenegro, secure the categorization and accreditation of hospitals, introduce modern management structures and increase work efficiency.

**27. Health services quality control.** The three functional parts that represent the health system must meet standards in terms of healthcare quality. A system of evaluating results will be established at all levels, which will assess the impact of measures undertaken. All the health institutions will introduce and implement a methodology of results-based evaluation, and the main indicator will be the impact of undertaken measures, related to the quality of life. Within the legal regulations that will be adopted in order to harmonize the system with EU standards, a system of monitoring and assessing progress will be introduced, as well as the adoption of work standards and approval of health institutions by a special approving agency. Financing health institutions will be tied to the outcomes of the introduced health measures.

**Apart from certifying health institutions and health programs**, it is necessary to provide **professional bodies for licensing health workers**. The measure is expected to increase the level of quality of health services and improve expenditure control. Compulsory and continuous medical education should be a precondition for renewal of licenses. Professional standards are instruments that will determine the division of labor, as well as the Knowledge and Performance Standards that need to be clearly defined for various profiles of health workers. Implementation of the standards will provide criteria for quality control, for staff assessment and appraisal, as well as for implementing measures of patient safety in the process of healthcare provision. In order to improve the quality of services, it is also necessary to strengthen the role of **professional organizations**, medical associations and medical professional societies, which are governed by special rules and legal mechanisms aimed at protecting the interests of the medical profession.

**The Human Resources Management Master Plan** envisages several projects, such as the Professional training project, Specialization plan, Training for licensing plan, Nurse training project and Management training. These projects entail changes in the content and methods of training of health workers, especially medical assistant level staff. This is to be achieved through the continuous training of health workers, in order to create a human potential that will improve the quality of service provision in the health sector. „Setting ethical standards“ is a special project that should provide the establishment of codes of conduct for health workers, codes of responsibility for work and quality of health services, on one side, and greater responsibility of citizens in protecting their own health, on the other. **“Setting technological standards”** is a project aimed at improving technical capacity and providing technical equipment with the aim of increasing the overall quality

of provided health services. In order to achieve better quality health protection, the **Project of technological health sector research** will also be developed.

**28. Information system development.** Information system development will enable the standardization of information, its use and better management at all levels of the health system. According to the recommendations of the Council of Europe, the IT system should be adjusted to follow the impact of transition on the poor and especially vulnerable groups. Information about the health standards of vulnerable individuals and their special needs is especially important. Marginal groups are not sufficiently informed about the health services provided, the possibilities for their use, possible health protection programs dedicated to them, and so on. Regularly collected data should include socio-economic background of users (to be able to show morbidity and mortality indicators according to group, illnesses common in vulnerable population groups), as well as indicators of access to health services, of different groups.

**29. Activities related to improvement of healthcare provision for vulnerable persons.** In order to protect and improve the healthcare standards and prevent disease of persons who are continuously in a vulnerable position, or persons who are temporarily in vulnerable positions, it is necessary to work on development of national programs for highly vulnerable groups. In future, these programs should be integrated into every-day activities of the health service, primarily within primary healthcare. In order to increase quality of health provision, and health prevention, with regard to the above-mentioned categories of the population, it is necessary to take a multidisciplinary approach at all levels of the community. Namely, basic healthcare institutions will be connected to social protection institutions and educational institutions, and connections will also be established between healthcare centers and local community authorities in joint programs designed to respond to needs of specific local communities.

**30.** A range of programs are currently being prepared which are directed at health protection and improvement, especially with regard to vulnerable categories of the population. Such programs include the following projects: "Reduce Tobacco Consumption among Youth", „Action Plan for Preventing Drug Addiction among Children and Youth“, „Violence and Health“, „HIV Prevention in Montenegro“, „Mental Health Development and Protection in Republic of Montenegro“.

**31. AIDS.** Due to an increased level of population vulnerability and the presence of factors, which could ease the spreading of an epidemic, there are concerns of a possible HIV/AIDS epidemic occurring. Expert calculations suggest that the actual incidence of HIV/AIDS may be six to eleven times higher than the current value. Because of a strong need for coordinated action in order to prevent spreading of this lethal disease, the Montenegrin Government has founded the **AIDS Commission**. The Commission has defined a joint framework for a general national policy towards HIV/AIDS, with cross-sector cooperation between governmental and non-governmental sectors. The main tasks of the Commission include preparing a preventative **Strategy in Combating AIDS** and devising a national-level action plan. The Strategy will define responsibilities for each particular segment in the community, aiming at reducing HIV-infection and improving living standards of the HIV-infected persons. The HIV/AIDS issue is therefore placed within in a wider concept of social justice, equity and human rights. Anticipated financial means necessary to implement the Project amounts to € 3 mil, of which € 2,2 mil are expected from Global Fund financing.

**32. Project "Violence and Health".** The Montenegrin Government's representative is a member of the coordinating body for violence prevention at the regional level. In line with this work, the Ministry of Health has established a Commission for designing a project on „Violence and Health“. The Commission produced a Draft national program for violence prevention and, after consulting the competent Ministry, forwarded the Draft to the Government for adoption. The Ministry of Health has also founded Coordination Council for the National Program for Violence Prevention. The National program demonstrates the longer-term commitment of the Republic to implement the WHO Recommendations on Violence and Health. The National Program has established the

fundamental principles of the state policy for combating violence and, following a situation analysis, outlines priority actions for the next 3,5 years, with activities focused primarily on local level initiatives and establishment of multi-sector cooperation. The project budget amounts to € 700.000, and it is anticipated that it shall mainly be funded through donations.

**33. Mental health improvement project.** Research conducted in a range of countries has shown that a population, in difficult socio-economic circumstances, faces increased mental health problems. Hence, the need for a mental health improvement strategy on the national level has been identified. The Strategy will define measures and activities oriented towards the improvement of mental health in order to ensure conditions for social cohesion, prevention of certain diseases, adequate treatment of patients, and respect of patients' rights. This document includes a special action plan for achieving priority a goal in the field, operational plans for resolving important problems within the wider scope of mental health services, as well as an evaluation process. Additionally, the Project foresees the foundation of a Mental Health Institute and the launching of series of action plans linked to the prevention of addiction diseases.

#### **34. Project "Reduction of Tobacco Consumption among Youth"**

Tobacco consumption is becoming increasingly more common, especially among young people. The recognition of the health effects of passive smoking, have led to the development of a project aimed at reducing smoking among young people in Montenegro. This project is modeled according to similar projects in other countries and has been developed in coordination with WHO, the Canadian Association for Public Health and the Association for Combating Cancer. Part of the project, concerning the level of tobacco consumption in elementary schools has been completed. It has been established that smoking is present in schools and that children start smoking at an early age. The next step is the establishment of a smoking prevention strategy, with the purpose of defining diseases and deaths caused by smoking, regulating inter-sector cooperation, defining registration methods, etc.

**35. The Role of the NGOs.** Experiences in our country and the region show that NGOs have an important role in planning and implementing programs for vulnerable groups thus compensating for the social inequalities present in the health system. NGOs often have programs that are adjusted to the needs of specific marginal groups and have greater access to vulnerable communities, and can therefore play an important role in attitudinal change in terms of healthcare.

**36. Reform of the legal framework - Measures in the sphere of laws/regulations and responsible institutions.** The adoption of laws that will be directed towards increased efficiency and quality, will create conditions for improvement of healthcare and health standards, especially for vulnerable groups, as well as enable the stable functioning of the health system in general. These are the following laws: Law on the health system, Law on health insurance and Law on obligatory record keeping in the health sector. By-laws will regulate the activities of institutions and entities in the health system in a standardized manner, in order to provide equal access to healthcare, equal working conditions and an adequate system of quality control. These regulations will include special attention to socio-economically vulnerable categories of the population. In addition, the development of a set of laws dedicated to health improvement and prevention is currently being processed.

**37. Health sector financing and management – Necessary financial and other resources.** Financing the project of improving structural organization of healthcare, primarily improvement of basic healthcare provision is identified as a priority. In order to prevent leading diseases, financial resources are needed for health education for the whole population, but with special focus to information access for vulnerable groups. Provision of healthcare for the poor (abolishment of healthcare participation, development of the basic package of health insurance, finding ways to make paid services more accessible to the poor).

- Funds reserved to finance restructuring of hospitals and rationalization of hospital capacities.

- Funds for the financing of the projects dedicated to healthcare for vulnerable categories of the Montenegrin population.
- Funds for introduction of IT systems, especially the adjustment of IT systems to monitoring the DPRS implementation.
- Funds for the renovation of facilities and provision of equipment.
- Financing the program of staff training on new healthcare structure and organization.
- Financing programs especially targeting vulnerable groups (from the budget).

**38. Potential savings in healthcare.** The planned measures and activities should lead to the optimum use of resources and system-savings, especially in terms of provision of facilities for public health institutions. Surplus of facilities at the secondary level will be offered for possible joint investment for the purposes of health-tourism development. In addition, IT development will ensure better health care expenditure control, especially in terms of medication costs. The management of sales of medication and prevention of proper implementation of planned legal regulations in the pharmaceutical field will ensure 30% savings (over € 7.5 million) of expenses for medications through a transparent supply system, new on-call medications list, and improved medication distribution management.

**39.** Main goals and activities with reference to health sector development and poverty reduction are given within the integrated **policy matrix**, while main projects are listed in **DPRS Costing chapter**.

## **VI HUMAN RIGHTS**

### **1. HUMAN RIGHTS AND POVERTY**

1. The poverty analysis and research completed as part of the DPRS process, emphasize the multi-dimensional nature of poverty and the need for inter-sectoral solutions. International frameworks on human rights, are important in this context, as they take into account the complex ways poverty manifests itself.

2. Poverty jeopardizes all the aspects of human existence, whether they are political, economic, social or cultural. The negative impact economic rights, has a domino effect on most the other human rights. Consequently, it strengthens the principle outlined in the Vienna Declaration on Human Rights that all human rights are universal, interdependent, and integral. The integrity of human rights is particularly revealed in the International Convention on Civil and Political Rights, the International Convention on Economic, Social and Cultural Rights, the Convention on Rights of the Child and the Convention on the Elimination of Discrimination against Women.

#### **Poverty – the human rights based approach**

3. While the analysis on absolute poverty and sectoral studies on poverty emphasize complex multi-sectoral issues, for which it is not easy to find simple solutions, the application of normative frameworks contained in the international conventions on human rights, assist in ensuring the basic elements of the poverty reduction strategy. The basic principles in this respect include:

- interdependence and integrity of human rights
- responsibility of all stakeholders
- pro-active involvement vs. passive waiting for assistance provided by someone else
- active participation in the institutions that affect one's life,
- right to non-discrimination and improvement of the position of vulnerable groups (children, the disabled, the elderly, refugees, displaced persons).

4. For the DPRS preparatory process and final document , especially important are the rights guaranteed by the International Convention on Civil and Political Rights, the International Convention on Economic, Social and Cultural Rights, the Convention on Rights of the Child and the Convention on the Elimination of Discrimination against Women, numerous Conventions of the International Labor Organization (ILO), as well as the strategies adopted by the World Health Organization (WHO).

**The poverty level of a country significantly affects the achievement of basic human rights.**

**The poorer the country, the lower are the chances for it's citizens, especially the poor, to exercise their rights, which include:**

- **The right to an adequate standard of living**
- **The right to education**
- **The right to work**
- **The right to health**
- **The right to protection of the family**
- **The right to privacy**
- **The right to the recognition of a personality in Court and the right to registration**
- **The right to life and physical integrity**
- **The Right to equal access to justice**
- **The right to participate in the political, social and cultural life**

- The right to freedom of thought, conscientious expression and religious expression
- The right to freedom of expression and access to information
- The right to social organization and association

4. For the DPRS preparatory process and final document, especially important are the rights guaranteed by the International Convention on Civil and Political Rights, the International Convention on Economic, Social and Cultural Rights, the Convention on Rights of the Child and the Convention on the Elimination of Discrimination against Women, numerous Conventions of the International Labor Organization (ILO), as well as the strategies adopted by the World Health Organization (WHO).

### The Human rights system in Montenegro<sup>1</sup>

5. There are several important characteristics of the **human rights system in Montenegro**, which are particularly important in the context of poverty analysis:

- Historically speaking, **Montenegro does not have a strong tradition of civil awareness concerning human rights;**
- The second important element is **a reduced awareness about the structure of government, and the obligations and rights of citizens to participate in decision-making.**
- Thirdly, the period of socialist self-management **did not recognize the concept of human rights**, and at the same time, it almost completely eliminated the creative ability of individuals to actively participate in the decision making process;
- Fourthly, the rebuilding of institutions during **the period of transition** generated **a negative perception the country's ability to bring prosperity**, particularly in terms of the use of the market, with the state as an active participant in the regulation of market principles.
- And finally, **the period of confrontation with the international community at the time of complete isolation only speeded up the destruction of living standards in all spheres:** from basic living needs, through to access to science and education, to the international credibility to participate in the wider integration processes.

6. In the ethical and psychological sense, the unfavorable economic and social circumstances in Montenegro during the past few years of the transitional recession, resulted in the abandonment and weakening of traditional Montenegrin values, especially the sense of solidarity between the members of the community, with the parallel affirmation of more problematic behaviors. Overcoming such a situation requires formulation and implementation of a completely new concept of economic development and macroeconomic policy that should enable the creation of the necessary preconditions for market economy, **protecting at the same time economic and social rights**. This includes the creation of the conditions for citizens to sustain their livelihoods through their own work, for themselves and their families. Instead of the so-called neo-liberal concept, Montenegro needs to adopt the **concept of a social trade economy**<sup>2</sup>, which prevails in most of the prosperous countries in the world. This

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<sup>1</sup> With the use of materials from the Center for human rights, University of Montenegro, 2003;

<sup>2</sup> Concept social trade economy vs. free trade economy. More details about the conflict between these two concepts, poverty and contradictions of globalization, in the book by Nobel-prize winner, Josef Stiglitz "Contradictions of globalization", Filip Višnjić, Belgrade, 2002; Also, in the book by Nobel prize winner Amarti Sen: Development as freedom, Belgrade, 2003;

concept involves a primarily active, but limited and balanced role of the state in providing the equilibrium between the economic and social functions of property, regulations that will secure equal legal treatment and protection of all the participants in the market. This concept assumes the provision of equal opportunities for all and an active role in resource and capital allocation in order to provide the investments for the creation of new jobs. However, it should be noted that even the most liberal approach to market economy involves the rule of law, equality before the law and equal legal protection of all the entities in the market, including the regulation of anti-competitive behavior, such as price fixing and monopolistic power by private entities.

7. Apart from economic categories, poverty includes some other aspects that determine the position of an individual in the state. So, the lack of **political and civil human rights** is another ring in the chain that can hold people in poverty. It primarily involves active participation of the citizens in decisions that affect them directly, but also in the creation of the political environment that will enable free and undisturbed development of every individual.

8. **Principles of equality** – in terms of enjoying political and civil rights, the principle of equality before the law and the judicial authorities, especially the prosecution authorities, is not always respected. The negative consequences of this include the **distrust in the institutions** that have the task to protect human rights. Despite the very good provisions of the Constitution of the Republic of Montenegro about special/additional rights of the representatives of the minority **ethnic groups**, not much has been done in practice in relation to the real implementation of these provisions. This includes the lack of implementation of provisions concerning the proportionate participation of the representatives of these groups in the authorities, police and judiciary.

9. It can be concluded that there exist the **following groups of problems that aggravate adequate achievement and protection of human rights in Montenegro, thus directly or indirectly stimulating poverty:**

- **Insufficient level of practical constitutional protection, that is, the limitation and control of power at all levels**, and, as a logical consequence of that, a dissatisfactory level of implementation of the rule of law, especially in terms of equality before the law in all segments and spheres of society;

- **a high level of politicization** of the state and the society; the centralization of institutions and the public administration;

- Frequent lack of functioning or poor functioning of the **state apparatus and institutions of power** at all levels;

- **Presence of certain form of criminalization of the society**, as well as corruption, in almost all the spheres of the society (the feature of almost all transition economies), which directly stimulates inequality before the law and discrimination, that is, it aggregates or completely prevents the processes of transition reforms;

- **General lack of education, knowledge, collective and individual awareness** about the content, significance and values of the human rights concept, among the state authorities and political decision makers, as well as among the citizens.

10. In the domain of functional protection of human rights, it is also important, apart from the **Ombudsman**, to consistently implement the **right to constitutional appeal** and promote it's significance, due to the fact that citizens rarely used this right in the past.

11. As Serbia and Montenegro have become full members of the Council of Europe, this will lead to the Government's ratification of the European Convention on Human Rights and the European Social Charter. The **recognition of the jurisdiction of the European Court for Human Rights and granting the right to the citizens to turn to that Court**, will speed up the implementation of the proposed measures, the adoption of necessary laws and their implementation, but also improve the general conditions for the protection of human rights in Montenegro.

12. In that sense, it is necessary to undertake serious educational activities at the state level, as well as within the NGO sector, in order to train all the segments of the state and the society to fulfill the obligations imposed by the international measures of human rights. This relates especially to the **system of reporting to international bodies about the state of human rights**, and training legal and other experts to represent our citizens before these bodies, especially the European Court for Human Rights in Strasbourg.

13. The very important reform activities for development and strengthening overall human rights are the following:

a) The realization of the **Strategy of public administration reform in Montenegro**<sup>3</sup>, b) **The program of Legalization of Existing Jobs and Job Creation**, c) **The Combating Corruption Initiative – a contribution to poverty eradication**. The relationship between corruption and poverty is such, that corruption can have a direct and indirect impact on poverty. The direct impact of corruption on poverty includes the informal introduction of payments in the public administration sector, a sector that is supposed to serve a common good. Given that the purchasing power of the poor is small, this group is particularly sensitive to such forms of corruption, because they cannot afford the state administration services, which are officially free of charge. In other words, corruption, by its very nature, is discriminatory towards the poor, and as such has negative effects on the poor. The indirect impact of corruption on poverty is much more significant. Theoretical analysis and empirical research have shown that corruption slows down economic growth, and dynamic economic growth represents a pre-condition for poverty alleviation. The main cause of such effects of corruption lay in the fact that a higher level of corruption negatively impacts on potential investments and this has a decisive influence over the total investments made and thus on the rate of economic growth, d) **Legislation for Combating Monopoles** – the verification of economic freedoms and the enabling of the uninterrupted flow of goods, services, people and capital in Montenegro, in Serbia and Montenegro and on the international market.

14. In addition to the above, the following legislation is planned to be adopted by the end of 2003: **The Law on Criminal Charges, The Law on the State Prosecutor**, as well as the **Law on the Amendments to the Law on Conducting Criminal Penalties**. The Law on the State Prosecutor anticipates the establishment of a new institution in Montenegro – the special prosecutor, which is introduced in an effort to combat organized crime. The **Law on the Protection of Witnesses** is also in preparation. The **Law on the Police** and the **Law on the National Security Agency** have entered parliamentary procedures. These laws create a new regulatory framework, which is expected to facilitate the more effective combating of organized crime. The Government of Montenegro is soon to adopt the **Program for combating corruption and organized crime**, as well as the **Strategy for combating illicit people trafficking**. The listed activities of the Government are fully compatible to the outcomes of the participation process.

## 2. GENDER POVERTY

1. The gender poverty problem can be treated as an issue of reducing poverty among women, irrespective of whether the poverty is a consequence of general factors or gender discrimination. The problem of gender equality in Montenegro cannot be adequately quantified in terms of statistics alone. Here are the conclusions that can be drawn based on certain statistical data, facts presented in the media, NGO experience, and some surveys:

- There is a high rate of gender discrimination against women, in traditional inheritance practices,

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<sup>3</sup> Strategy of public administration reform in Montenegro, March 2003, p. 5-11.

- There is gender discrimination in terms of career-opportunity. It is particularly present in the textile industry, medical institutions, schools, governmental institutions, and so on, where women in most cases hold lower paid jobs.
- There is an obvious gender discrimination in jobs that are at the decision-making level, i.e. in politics, managerial and governance positions,
- No direct gender discrimination is evident in the educational system; however, there is a stereotyped division of jobs into 'male' and 'female' jobs,
- Violence against women, whether physical or mental abuse, represents another easily recognized form of discrimination in Montenegro,
- Negative societal changes accompanying transition, poverty in particular, led to the destruction of personal dignity in the form of reducing women to a sexual object.
- Gender discrimination in family is reflected through both the choice of job and engagement intensity and also in inferior status regarding family planning.

2. Pursuant to various surveys, **indicators of unfavorable economic status of women** in Montenegro are as follows:

- In Montenegro around 53% of women are employed, 31% of women work in informal sector or are seeking employment, while 16% have never worked. The most popular jobs are those in administration or trade;
- Women have on average 18% lower income than men;
- Women's unemployment rate is higher than that of men and is about 38%;
- Women have a more difficult time finding job, and thus spend longer periods of unemployed;
- There is evident and hidden discrimination in making professional progress, with fewer women in higher positions. Only 7,2% of women cover managerial positions in enterprises;
- There is a higher probability that women will be exposed to poverty for the reason that after divorce, as single mothers, they support their children either partly or entirely by themselves, or are the heads of single-parent families;
- There is a higher probability of being exposed to poverty at old age as a result of the smaller number of retired women and lower pensions (due to higher unemployment rate and inequality in salaries);
- Lower qualifications and educational levels, characterize older women, while young women are more determined to continue their education;
- Women are more often employees than employers, compared to men (about double);
- Extremely high share of women belongs to "supporting household members" category
- Women undertake a much larger amount of unpaid domestic work compared to men
- The expanding "sex industry" is resulting in intensifying negative stereotypes about women in general and makes sexual exploitation of women more acceptable.

Since economic status is closely connected to political power, the unfavorable status of women engaged directly in politics is quite a good immediate indicator. Women are hardly present in political and public institutions: in Parliament (10%), in Government (10%), at local government levels, in political parties, trade unions etc.

3. **The greatest risk of poverty** exists within the following groups of women, where in some cases the categories overlap:

- Single mothers (especially mothers of the children with special needs)
- Housewives
- Old women
- Ill and disabled women (women with disability)

- Women living in villages (especially older women without property)
- Refugees
- Women who are supporting members of the family
- Roma women
- Uneducated women
- Unemployed women
- Women – victims of violence

4. The Development and Poverty Reduction Strategy should, not only impact on the volume of poverty, but also attempt to remove barriers, which cause poverty among women. **DPRS objectives within gender equality are:**

1. Employment growth;
2. Intensifying and strengthening female entrepreneurship;
3. Eliminating discrimination in getting employed, lay offs, and progress in career;
4. Reduction in sexual harassment;
5. Development of services that fulfill the needs of the contemporary working woman;
6. Improving knowledge in the area of gender studies; and
7. Creating legal prerequisites to achieve gender equality.

## **VII THE DPRS IMPLEMENTATION ACTION PLAN**

**MONTENEGRO: POLICY AND PERFORMANCE MATRIX 2004.-2006.**

Objectives	Public priority measures (Required actions)	Responsible Ministry/ Agency	Deadline / Target dates	Sources of financing/ budget implications	Monitoring Indicators
<b>FISCAL POLICY</b>					
Fiscal sustainability	Management and control of expenditure (external and internal) and establishment of National audit Institution	Prime Minister's Cabinet, Ministry of Finance (MF), Public Revenue Office, Customs, Ministry of Labour and Social Affairs (MLSA), Funds	2004-2006	GMN, USAID, EAR, US Treasury, WB, EU	- Consistency established between fiscal & monetary policy and the objectives of IMF and WB  - Harmonization with EU directives
Planning	Improve GFS-consistent reporting system at all levels Reform of taxing system: Annual review of taxing policy				
Transparency	Medium Term Expenditure Framework (MTEF) Implementation of program budgeting Develop Treasury and Single Treasury Account Reorganize MoF along functional lines Include extra budgetary funds in budgetary process				
<b>FINANCIAL SYSTEM</b>					
Development of banking system	Institutional reform of the banking sector in line with the Basel Principles II and EU directives Privatization of state banks Instruments for lowering and standardizing interest rates Introduction of schemes for insuring deposits The closing down of the Office for Payment Operations and reform of the payment operations system	Central Bank of Montenegro (CB), MF, Privatization Council, Securities Commission, Agency for Combating Corruption, Agency for Foreign Investment	2004-2006  2004  2004-2006  2004  2004-2005  2004-2006	GMN, USAID, DFID, WB, EAR, UNDP, EU	- Application of international banking standards - Strengthening of licensing process and regime for prevention of money laundering in line with FATF recommendations - Implementation of prudential and subsequent control  - Lower transaction tariffs, increase international banking payment operations, solvency - Increase in savings of population
Monetary control	Adoption and implementation of a regime for prevention of money laundering in line with the FATF recommendations Regulate the payments operations system for international transactions Regulating the money market Further development of cooperation with international financial organizations				
<b>INTERNATIONAL ECONOMIC RELATIONS</b>					
Finalization of institutional framework in the area of foreign trade and foreign investment	- The Act on Foreign Trade - The Act on international current and capital transactions - The Act on Free Zones - The Act on Concessions	Ministry for International Economic Relation and EU Integration (MIEREU), , CB	2004  2004	GMN, IMF, USAID OECD/Investment Compact	- Increase in foreign trade - Decrease in current account deficit - Increase foreign direct investment in GDP
Joining the WTO	- Preparatory activities for negotiation with WTO including the work of working groups and working committees (information, new legislation) - The negotiation process	MIEREU	2003-06	GMN WTO	- Level of harmonization with WTO standards
Creation of a	Signing of the Agreement on free trade between the signatory countries	MoI ERaEU	2003-2006	GMN	- Strengthening of regional economic cooperation

Balkan free-trade zone	of the Memorandum of understanding on liberalization and trade relief measures and its implementation.					<ul style="list-style-type: none"> <li>- Level of openness</li> <li>- Volume of foreign direct investment</li> <li>- Lowering of transaction costs</li> <li>- Growth of foreign trade</li> <li>- Decrease of current accounts deficit</li> <li>- A rise in the participation of direct foreign investment in GDP</li> </ul>
Stimulate investments and export	<ul style="list-style-type: none"> <li>- Strengthening of institutional support for investments and promotion of export through the establishment of an Agency for Export Promotion</li> <li>- Improve the efficiency of the customs administration</li> <li>- Strengthen the institutional capacity for adopting international rules in trade including the use of trade preferential measures.</li> </ul>	MoERaEU	December 2004	GMN WB-MIGA		<ul style="list-style-type: none"> <li>- Harmonization of legislation with EU standards</li> <li>- Strengthen regional economic cooperation (especially in the area of free trade, combating organized crime, cooperation between customs offices etc)</li> <li>- Application of relevant EU recommendations from annual SAP reports, consultative task-force recommendations and enhance continual dialogue.</li> <li>- Indicators of increase in trade exchange with EU countries</li> </ul>
<b>EUROPEAN INTEGRATION</b>						
The EU stabilization and association process SAP	<ul style="list-style-type: none"> <li>- Establishment of Council for European integration</li> <li>- Establishment of Commission for European integration, including 31 working groups to cover all areas defined by SAP (Acquis community)</li> <li>- Development of an EU Communication Strategy</li> <li>- Further development of the cost-benefit analysis</li> <li>- Development of Action Plan on Priorities for Harmonizing Legislation with the EU in line with the obligations set in SAP</li> <li>- Activities for development of Strategy for Joining the EU</li> <li>- Activities on preparing position papers for negotiations on concluding the SAA</li> <li>- Development of annual programs for the implementation of Acquis community</li> <li>- Implementation of obligations defined in the interim agreement between Serbia and Montenegro and EU</li> </ul>	MoERaEU in coordination with line ministries and competent institutions  Commission for European Integrations	2003-2006	GMN  EU		
<b>PRIVATE SECTOR DEVELOPMENT</b>						
Privatization	<ul style="list-style-type: none"> <li>Accelerate the sale of state-owned shares in companies and banks</li> <li>Resolve requests for real-estate restitution</li> <li>A Programme for restructuring of companies and support to institutional development</li> <li>Well-regulated capital markets</li> <li>Protection of real-estate rights and economic freedoms</li> <li>Amendments to Act on Real-Estate Restitution</li> <li>Economic-related regulations</li> </ul>	GMN, Commission for Economic Policy, Privatization Council, The Commercial Court, Secretariat for Legislation, MF, The Securities Commission Min. of Justice, Min. of Economy	2004-2005  2004  2004-2005  2004-2006 2004-2006  2004-2005	GMN, EU, USAID  EAR, WB, DFID		<ul style="list-style-type: none"> <li>- Increase in private ownership</li> <li>- Decrease total government claims towards private sector</li> <li>- Increase the index of economic freedoms</li> </ul>
<b>PUBLIC ADMINISTRATION REFORM</b>						
State administration reform	<ul style="list-style-type: none"> <li>Adopt and implement The Act on The State Administration</li> <li>Development of structure and ethical code of conduct of state employees</li> <li>Introduction of staff appraisal system for state employees</li> <li>Training and development for state employees</li> </ul>	Prime Minister's Cabinet, Ministry of Justice, Ministry of Finance The Public Relations Bureau	2004-2006  2004  2004-2006	GMN, EAR,  EU USAID DFID, WB, UNDP		<ul style="list-style-type: none"> <li>- The Act on the State Administration</li> <li>- Harmonization with EU standards</li> </ul>

Local authority reform	Internal communication campaign		2004-2006			<ul style="list-style-type: none"> <li>- Harmonization with Council of Europe Charter on local self-governance</li> <li>- Harmonization with international accounting standards</li> <li>- Harmonization with ISO standards on the quality of state-public services</li> </ul>
	Systemic laws		2004	GMN, Parliament, Ministry of Justice, Ministry of Finance	GMN, USAID, OEBS and OSI	
	Establishment of a professional state service with defined standards at the local authority level		2004-2005	Ministry of Internal Affairs,	EU,	
	The introduction of a stable and sustainable system for financing local authorities		2004-2005	Treasury, municipal administrations	WB, KFW	
	Improve the quality of services		2004-2005			
	Simplified procedures for carrying out business transactions		2004-2005			
<b>JUDICIAL SYSTEM REFORM</b>						
Efficient, transparent and flexible judicial system	Reform of constitutional and legal framework		2004	Ministry of Justice, Min. of Internal Affairs, The High Court and the Court Council, The Centre for Training of Judges, Commercial Court, The Secretariat for Development	GMN, USAID, CoE, OSCE, EAR, FOSI	<ul style="list-style-type: none"> <li>- Consistent with constitutional and legal framework</li> <li>- Consistent with EU standards</li> </ul>
	Specialized training		2004			
	Develop administration and management structures in courts		2004-2006			
<b>DEVELOPMENT OF CIVIL SOCIETY</b>						
Develop regulatory framework	Amendment to legal framework with respect to NGOs		2004	Ministry of Justice, MF, Network of NGOs	GMN, USAID, COE, OSCO, OSI	<ul style="list-style-type: none"> <li>Best international practice implemented: <ul style="list-style-type: none"> <li>- Tax deductions for companies providing financial assistance to NGOs</li> <li>- Tax exemption for NGOs</li> <li>- Open competition between NGOs</li> <li>- Development of NGOs</li> </ul> </li> </ul>
<b>E-GOVERNMENT</b>						
Development of IT in state administration	Set up of IT network in administration		2004	Commission for Economic Policy, The Secretariat for Development	GMN, USAID, EAR, Stability Pact EU	<ul style="list-style-type: none"> <li>- National strategy for the development of IS harmonized with Initiatives of Europe and SEE</li> <li>- Working with international IT standards</li> </ul>
	Legislative work in the area of IT		2004-2006			
	Internet trading					
<b>STATISTICAL REFORM, DEVELOPMENT OF M&amp;E SYSTEM FOR DPRS</b>						
Analysis and reporting in line with international standards	Introduction of methodology and standards for national accounting systems		2004	MONSTAT, MF CB, Customs administration, Public Revenue Office,	GMN, EAR, USAID	<ul style="list-style-type: none"> <li>- Balance of production aggregates in line with SNA methodology</li> <li>- Consistency with IMF methodology in the area of fiscal</li> </ul>
	Improvement of monetary and external statistics					
	MMF standards for fiscal statistics					

Development of monitoring and evaluation system during the PRSP implementation period	Monthly reporting Participation in the IMF system of GDDS and SDDS	Privatiz.Council, The Agency for Investment, Nat. Coordinator Ministry of Labour and Social Affairs, MONSTAT	2004-2005	GMN, Donors	monetary and external statistics
Establishment of monitoring and Social Welfare Training of staff for the implementation of surveys on household expenditures Monitoring of key poverty indicators	Establishment of Monitoring Unit within the Ministry of Labour and Social Welfare Training of staff for the implementation of surveys on household expenditures Monitoring of key poverty indicators	GMN CCE Ministry of Labour and Social Affairs (MLSA) Labour Employment Bureau of Montenegro (LEBMN) MF, Union of employers of MN, Chamber of Commerce of MN	2004	GMN, ILO	- Periodic reports on the PRSP implementation and the achievement of the Millennium development goals
<b>LABOUR MARKET DEVELOPMENT AND CREATION OF NEW EMPLOYMENT</b>					
The adoption of laws related to the regulation of labour in line with the needs of transition and the development needs of the labour market. Legislation, which has so far been adopted at the federal level, needs to be adapted and adopted at the Republican level.	Amendment of present and adoption of new laws: The Act on Labour Inspection The Act on records in the area of labour The Act on protection of the citizens of the Republic of Montenegro (RMN) working abroad The Act on the employment of foreigners The Act on public holidays of the RMN The Act on the celebration of religious holidays The Act on health-care and health insurance The Act on the sanitary inspection The Act on Inspection Controls The Act on civil servants The Act on salaries in non-profitable fields The Book of rules on employment identification cards Amendments and modifications of the Act on social security contributions The Building of a new system of collective decision-making and social partnership The general collective agreement The specific collective agreements	GMN CCE Ministry of Labour and Social Affairs (MLSA) Labour Employment Bureau of Montenegro (LEBMN) MF, Union of employers of MN, Chamber of Commerce of MN	2004	GMN, ILO	- Unemployment rate, -Spread of budgetary revenues based on labour, -Level of informal employment
Ratification of international conventions related to labour regulations	Ratification of European Social Charter Ratification of International Labour Organization Conventions	MLSA	2004	GMN EU, ILO	-Degree of conformity with international standards -Rate of EU integration
Secure higher level of cooperation of MLSW with ILO	Initiate a department for cooperation with ILO within the MLSW	MLSA	2004	GMN ILO	-Increase efficiency in resolving unemployment problems
Secure higher level of social partnership	Legislation on the Economics and Social Advisory Board of Montenegro Initiate the establishment of local economic and social advisory boards	EKOSOC, Trade Union	2003-2004	GMN ORT MAP ACLS	- The quality of social partnerships in solving the unemployment problem
Reform of LEBMN	The qualitative and efficient implementation of active	GMN, LEBMN, Trade	2004	GMN	- A decrease in the structural disproportions in the labour

	employment policies, staff capacity building for the realization of informal education programmes. Addressing institutional barriers to access to employment of people with special needs.	Union CCMN MLSA			Donors	market
Adoption of special regulations related to the status of disabled persons			2004		GMN Donors	-Unemployment rate of disabled persons, -Employment -rate of disabled persons,
Continuous stimulation of employment and entrepreneurship	Project has been designed for the persons listed in the records as unemployed, redundant labor, disabled persons, farmers, entrepreneurs and legal entities. Amount of asset allocation for each newly created work place is minimum 3.068 € (in cash or commodities), projects for 5 posts at the most are financed. - Preparatory programmes (training, additional training, retraining, specialization, and other) for the same or different employer, - Provision of credits for micro, small and medium, and both for present and newly established entrepreneurships, to individual and group holders of entrepreneur activities, -Financing and co-financing of a portion of the salaries in case of takeover of redundant labour by other employer, for a given time-period (from 1-3 years), -in case of the existence of business premises and equipment that are not in use, provide resources (in the form of grant or loan) for renovation. - Development of programme for resolving problems linked to special categories of redundant labour (disabled workers, elderly and harder to employ persons etc), -Various types of business training shall be organized needed for conducting particular types of business. -Preparatory programmes for the labour market,	GMN CCE	An on-going project		GMN LEBMN Banks	-Employment growth rate, -Rate of credit recovery
The Programme of actively resolving the problems linked to 'covert' unemployment		GMN CCE	An on-going project		GMN LEBMN Banks	- Decrease in the amount of 'covert' employment - Decrease in the number of employed that are not registered.

Employment of disabled persons	- The foundation of Labour Fund. - The opening of enterprises for employing disabled persons <sup>1</sup> , - The opening of workshops for the disabled within the existing enterprises, -Opening of enterprises for the disabled for vocational training, rehabilitation and employment, -The issuing of micro-credit for the employment of the disabled under favourable conditions <sup>2</sup> , - Provision of refunds of disabled persons' salaries for a given time-period and provision of one-off assistance to employers who hire disabled persons.	GMN CCE LEBMN	2004-2006 and on-going	GMN LEBMN Banks Donors	- Unemployment rate among the disabled as compared with the aggregate unemployment rate - A reduction in the unemployment rate of disabled persons
Programme of public works	Employment of persons through programme of public works	GMN, CCE, LEBMN	An on-going project	GMN LEBMN Banks	-Rate of unemployment
The Programme for employing apprentices	-Creation of conditions for hiring persons who are to complete regular education.	GMN, CCE LEBMN	An on-going project	GMN LEBMN	-Unemployment rate of young people
Other active employment policy measures	-System of additional training, re-training and additional schooling, -Seasonal hiring, -Employment abroad.	GMN, CCE LEBMN	An on-going project		-Reduction of average waiting time for employment, -Rate of unemployment
Increase competitiveness of local production	-Provision of conditions for market extension (increase of exports, substitution of import). The project covers development of agriculture, the wood-processing industry and tourism.	GMN, CCE, Agency for Development of SMEs (ADSME)	2003-2006.	GMN Banks	- Decrease of external deficit, -Unemployment growth rate,
Made in Montenegro	The promotion of a "Made in Montenegro" brand name as a recognizable and quality product ensuring the successful marketing of Montenegrin products on the local and foreign market.	GMN, CCE, ADSME		GMN Banks	-Rate of export increase, -Growth of local production

<sup>1</sup> The first enterprise of this nature shall be launched in Podgorica, as a pilot project. A location for its construction has already been approved and the development of the project design is in progress. The company is anticipated to employ 180 staff, and the estimated cost is 1.5 mil €. The Bureau in the amount of 10% shall support financing, and the balance shall be secured out of donations made by international humanitarian organizations. In this respect, the non-governmental organization FALKON has been established and has already started to raise funds.

<sup>2</sup> The issuing of micro-credits in value of 350.000€ for employing 70 disabled individuals in 2003 is planned. Within the same time period 20 youth and 20 individuals who are disabled through work are to be employed. For the employment of the former group 81.600€ needs to be allocated, for refunding salaries for a period of two years. The same amount needed for refunding salaries for one year for those disabled at work.

Encouraging success	Support to the most successful entrepreneurs and SMEs, which have been most responsible in regularly fulfilling their commitments in compliance with the laws (with reference to tax payment and registration of labour). Industrial Parks (IP) representing homogenous production systems characterized by a high concentration of industrial enterprises, mainly SMEs that are highly specialized.	GMIN, CCE, ADSME	2003-2006	GMIN Donors	-Decrease of scope of grey/shadow economy, -Growth of budgetary revenues
Industrial parks	Creation of an agriculture development model in a particular region (organization of production, training, management, financing, and sales). Development of the applicable use of IT, development of new modalities within the very technology.	GMIN, CCE, ADSME	2003-2006	GMIN Banks	-Growth of industrial production, -Increase in participation of the employed in the industrial production sector in relation to aggregate employment -Increase in number of agricultural enterprises
Agricultural park	Attracting investments from Montenegrin emigrants, in order to involve the Montenegrin Diaspora in new investment initiatives, new businesses and job creation.	GMIN, CCE, ADSME	2003-2006	GMIN Banks	-Growth of participation of employed in ICT in relation to aggregate number of employed -Increase in number of newly established enterprises the owners being Montenegrin emigrants
Internet park	Develop a model to develop cooperative relationships between large systems and private sector.	GMIN, CCE, ADSME	2003-2006	GMIN Association of Diaspora	-Increase in number of small entrepreneurs originated from large ones.
Fund for the Diaspora	Development of agricultural producers (e.g. development of greenhouse production, herbs production).	GMIN, CCE, ADSME, MAFWS	2003-2006	GMIN Banks	- A growth in the share of employed in agricultural production in relation to aggregate employment.
Large enterprises create small enterprises	Development of private sector tourist facilities, especially in the area of non-accommodation services: accommodation services, use of existing recourses for tourism development in rural areas.	GMIN, CCE, ADSME, MT	2003-2006	GMIN Banks	- A growth in the share of employed in tourism in relation to aggregate employment.
Employment in agriculture	Stimulate the development of production related business activities (promotion of existing natural and production resources).	GMIN, CCE, ADSME, ME	2003-2006	GMIN Banks	-Decrease in unemployment rate
Employment in other sectors of production	Business consulting services for 10 private enterprises located in less developed regions in Montenegro to contribute to their competitive advantage and sustainability, in the area of marketing, financial management and other areas related to business performance.	GMIN, CCE, ADSME	2003-2004	GMIN EAR	-Increase in number of employed in SMEs - A growth in the private sector GDP (especially in SMEs)
Initiative for entrepreneurship support	Stimulate innovativeness and creativity of young people and engage their interest in working in SME sector. This project consisted of three sub-projects: a) Selection of best business ideas; b) Foundation of consulting companies for development of entrepreneurship (business knowledge) and) c) Women in business	ADSME	2003-2006	GMIN	- A growth in the share of young people employed in relation to aggregate employment. -Rate of unemployment of young people
Young people in business	TAM (Turn around management) – regeneration of	GMIN, CCP	2003-2004	GMIN	-Increase in number of small and medium-sized
The Tam Bas project					

	management– a project aimed at building management skills, i.e. improving management in Montenegrin companies. BAS (Business advisory services) – an advisory services programme for SMEs			EAR	enterprises, -Increase in number of employed in small and medium-sized enterprises.
<b>AGRICULTURE</b>					
Subsidiary policies in Agriculture	<ul style="list-style-type: none"> <li>- Solving the problem of placement of market surpluses and improving marketing position of Montenegrin products.</li> <li>- Building of infrastructure in villages,</li> <li>- Strengthening of expert and inspection services,</li> <li>-Modernizing labs for quality control</li> <li>- Provision of social security of farmers through old age compensations and program for young farmers,</li> <li>- Support for export activities</li> <li>-Subsidies for production in less acceptable conditions (production of lamb, baby-goat and calf meat)</li> <li>- Removing non-customs barriers especially contingencies on the import of agricultural products</li> <li>-Harmonizing rates of customs with respect to domestic producers demands.</li> <li>-Transformation of levy's in to custom rates</li> </ul>	MAFW, MF	2004-2006	GMN, USAID, EAR, bilateral help (Holland, Germany Luxembourg and other)	<ul style="list-style-type: none"> <li>-Surplus of goods can be placed without difficulties at domestic and foreign markets at competitive prices.</li> <li>-New roads and water supply systems built in villages and rural areas</li> <li>-Much more of the youth becomes involved in Agriculture and stays in the villages</li> <li>-Accomplished planned growth of Primary agriculture of 5% annually.</li> </ul>
Redefining measures of protection for domestic Agriculture	<ul style="list-style-type: none"> <li>- Removing non-customs barriers especially contingencies on the import of agricultural products</li> <li>-Harmonizing rates of customs with respect to domestic producers demands.</li> <li>-Transformation of levy's in to custom rates</li> </ul>	MAFW,	Jun 2004	GMN, USAID WTO	<ul style="list-style-type: none"> <li>-Montenegrin market well supplied with all goods, and Montenegrin farmers without many difficulties produce their goods.</li> <li>-All of the unnecessary trade barriers are removed</li> <li>-Montenegrin agricultural production has been properly protected against unfair foreign competition</li> </ul>
Reforms in crediting policies	<ul style="list-style-type: none"> <li>-Dislocation of credit activities from the Ministry of Agriculture</li> <li>-Founding joint commissions-boards with banks on allocation of financial means from current revolving donation funds.</li> <li>-Establishing a criteria for Agricultural credits</li> <li>-Cooperation with Montenegrin Employment Agency</li> </ul>	MAFW, Emp. Off. MN Agency for SME	2003-2005	GMN, Donors	<ul style="list-style-type: none"> <li>-Revolving funds are used in the most efficient manner for good business ideas in Agriculture.</li> <li>-Banks invest significant portion of their funds in Agricultural sector</li> <li>-Creation of new jobs and increased newly-formed values regarding Agriculture.</li> </ul>
Establishing new institutions with in the Agriculture (Inspection and expert departments)	<ul style="list-style-type: none"> <li>- Continued work on equipping Veterinary and Agricultural inspections</li> <li>-Transformation of Public Veterinary Service</li> <li>-Continued efforts on capacity building of Counselling Service for Herb Processing and Service for livestock selection.</li> <li>-Investment in new laboratories (Veterinary and phito-sanitary)</li> </ul>	MAFW,	2004-2006	GMN, EAR	<ul style="list-style-type: none"> <li>-Secured Consumers safety through successful internal and border control from Veterinary and Agricultural inspectors</li> <li>-Farmers receive expert advices at their farms.</li> <li>-Successful transformation of Public Veterinary Service in to institution, which would take care health of the animals.</li> <li>-Equipping current and forming new laboratories for quality control of the products.</li> </ul>
Building of trademark of organic agricultural products in Montenegro	<ul style="list-style-type: none"> <li>-Continuation of educational campaign on benefits and value of organic products and Montenegrin opportunities in that area.</li> <li>-Creation of laws and regulations – laws on organic</li> </ul>	MAFW ,, International Agency for Certification	2004-2006	GMN, UNDP- Program of sustainable	<ul style="list-style-type: none"> <li>-Proper laws and regulates set in place in regards to Organic Agriculture</li> <li>-Creating agency for certification</li> <li>-New farmers are included in Organic Agriculture</li> </ul>

	<p>agriculture and rule book which closely defines certain areas</p> <ul style="list-style-type: none"> <li>-Creation of unique joint trademark or logo for Montenegro products</li> <li>-Founding agency for inspection and certification of organic agriculture</li> <li>-Budgetary support for programs regarding production of organic products</li> <li>-Construction of small facilities for drying and packing fruits, forest fruits and medical herbs.</li> <li>-Completion of the Distributive Centre</li> <li>-Construction of a new processing lines for highly nutritious dairy products</li> <li>-Set up meet processing capacities for export.</li> </ul>	MAFW,, Agency for SME	2004-2006	development Italy	<p>-Many more products of Organic Agriculture found at Montenegrin Markets.</p> <p>-Organizing appropriate channels for exporting these products</p> <p>-Opening a new facility for drying and packing fruits, forest fruits, and medical herbs.</p> <p>-New facilities for processing, function in different sectors and place new and competitive product on the foreign and domestic market</p> <p>-Established a role of Distributive Centre as a central point for purchase and placement of fruits and vegetables which are market surplus</p>
Modernizing current and establishing new processing facilities					
<b>TOURISM<sup>3</sup></b>					
Framework for development of tourism and coordination of the process	<p>- Completion of Legal and institutional framework: Creation of preconditions for the full implementation of the new Law on tourism; Foundation of the Council for tourism of Montenegro; Creation of the preconditions for introduction of the system of integral management of the coastal area; Realization of the Program of reorganization of the complete promotion system in 'Montenegro; Full membership in the World Tourism Organization</p>	Ministry of Tourism, Min. of Justice, Min. of Culture, Tourist Agency of MN, PC for management of the state sea property	2004-2006	GMN, DEG, GTZ, USAID, UNDP	<p>- Growth in the number of tourists</p> <p>- Growth in income</p> <p>- Job creation</p>
Marketing: Formation and Development of Tourism Offerings	<p>Further implementation of the new marketing concept; Completion of expert analyses and pending projects; To analyze and develop projects of specific types of tourism; Restructuring of the existing offerings); Program of urgent measures to improve hotel accommodation and ser; Support to SMEs in tourism; Campaigns to improve the quality of the tourist municipalities; establishing and unifying of quality offers of private accommodation; Adopt the symbols of World Tourist Organization (WTO); Increase in air traffic; Modernization of the education programs;</p>	MN Gov., Min. of Tourism, MES, municipalities, NGOs	2004-2005	GMN, DEG, GTZ, USAID, UNDP	<p>- Growth in the number of tourists</p> <p>- Growth in income</p> <p>- Job creation</p>
<b>TRANSPORT</b>					
To start harmonizing the	- Adoption of new legislation (Law on the Railroads, Law		2004	GMN,	

<sup>3</sup> ) Creation of new jobs in tourism is included in employment sector: also, infrastructural investments important for tourism development are included (DPRSP costing chapter).

<p>legislation and regulations with the EU legislation; to create conditions for transport sector development, and to increase the transport efficiency and safety</p>	<p>on the Road Transport, Navigation Act, Road Act)</p> <ul style="list-style-type: none"> <li>- Establishing of the Marine Safety Agency and equipping of required services</li> <li>- Improvements of the management and efficiency of public companies</li> <li>- Diversification of instruments regarding traffic infrastructure financing (e.g. tolls and concessions) and creation of incentives as to the private sector involvement</li> <li>- Preparation of the transport development strategy based, among others, on principles such as: <ul style="list-style-type: none"> <li>a) Adequate pricing of transport services and of the use of infrastructure</li> <li>b) Sustainability (reduction of pollution, promotion of the efficient public transport and non-motorized modes of transport)</li> <li>c) Participatory planning (including needs of the poor and marginalized groups)</li> </ul> </li> <li>- Proposal of measures to curtail pollution from road (fuel quality control) and maritime traffic (reducing the pollution in ports, marinas and at ship overhaul areas)</li> </ul>	<p>MMT, MIA, MEUP</p> <p>Railroads of Montenegro,</p> <p>Coastal Management PC (Morsko dobro)</p>	<p>2004-2006 and on</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2005</p> <p>2004-2005</p>	<p>Loans</p> <p>Donations</p>	<ul style="list-style-type: none"> <li>- Percentage of the transport expenditures being used for interventions in underdeveloped areas</li> <li>- Lead concentrations in air (urban centers)</li> </ul>
<p>To upgrade the road infrastructure and its maintenance, particularly in the northern region</p>	<ul style="list-style-type: none"> <li>- Rehabilitation of the existing asphalt roads: <ul style="list-style-type: none"> <li>a) Kolašin - Ribarevina –Berane – Špijane</li> <li>b) Podgorica – Bičće – Kolašin</li> </ul> </li> <li>- Modernization of crushed stone pavements: <ul style="list-style-type: none"> <li>a) Velika – Čakor – Bjeluha</li> <li>b) Gornje Polje – Krstac</li> <li>c) Plužine - Trsa – Virak roads</li> </ul> </li> <li>- Improvements of existing road side slopes</li> <li>- Maintenance of the road infrastructure in winter and off-winter seasons</li> </ul>	<p>MMT, Road Directorate</p>	<p>2004-2006</p> <p>Continuously</p>	<p>GMN,</p> <p>Own Sources of Financing</p> <p>Loans</p> <p>Donations</p>	<ul style="list-style-type: none"> <li>- Number of inhabitants who are deprived of an access to roads throughout a year (being fully cut-off in a winter period)</li> <li>- Kilometres of modernized roads in rural areas</li> </ul>
<p><b>ENERGY</b></p>					
<p>To improve general conditions for the functioning of energy sector</p>	<ul style="list-style-type: none"> <li>- Institutional capacity building (Regulatory Agency, En. Efficiency Office)</li> <li>- Opening the market for private sector/independent power producers</li> <li>- Connecting with regional energy market</li> <li>- Preparation of the energy strategy</li> <li>- Restructuring of enterprises in the energy sector, and increasing efficiency of their operations; functional unbundling of Electricity Company of Montenegro (EPCG) and its financial consolidation</li> <li>- Continue the tariff system reform by introducing rates,</li> </ul>	<p>ME, Regulatory Agency</p> <p>ME, Electricity Co. of Montenegro (EPCG), Coal Mine</p> <p>MLSW, ME</p>	<p>2004-2005</p> <p>2004-2006</p> <p>2004-2005</p> <p>2004-2005</p> <p>2004-2006</p>	<p>GMN,</p> <p>Own Sources of Financing</p> <p>Electricity Co. of Montenegro &amp; Coal Mine</p> <p>Donations</p>	<ul style="list-style-type: none"> <li>- Price of electricity</li> <li>- A share of electricity expenses in a household budget, particularly for the poorest 10% of the population</li> </ul>

	which will cover costs of all the categories of consumers (block tariff system for the population) - Protection program covering poverty stricken population (targeted subsidies for part of their consumption) - Measures for technical losses reduction in all the segments - power production, transmission and distribution - Continuation of activities aimed at cutting down commercial losses - Implementation of the most affordable and necessary investments in the power production, transmission and distribution - National saving and energy efficiency plan - Launch educational campaigns to improve the energy saving and efficiency (as to both population and industry) - Enhancing of the energy efficiency in public sector (schools, hospitals, institutions, street lighting) - Promotion of the renewable energy, and implementation of projects for small hydro-power plants, solar and wind energy utilization - Environmental protection projects regarding Pljevlja thermal power plant			2004  2004-2006  2004-2006 2004-2006 2004-2006			
To increase reliability of the power supply		EPCG		2004-2006 2004-2006 2004-2006	Own Sources of Financing Electricity Co. of Montenegro Loans Donations		- Power-supply system losses
To increase the energy efficiency and to improve energy sector performances in relation to the environment		ME, EE Office  Local Government  EPCG		2004-2005 2004-2006  2005-2006  2004-2006 and on  2005-2006	GMN, Own Sources of Financing Electricity Co. of Montenegro Private Sector Donations Loans		- Electricity consumption per capita  - GDP per energy unit  - A share of renewable energy sources in domestic production
<b>WATER SUPPLY AND SANITATION</b>							
To improve the legislation framework and to commence the process of harmonizing it with the EU legislation		MEPUP		2004-2005  2005-2006	GMN, Donations		
To increase financial operations, management and efficiency of services providers		MEPUP, PUC, Local Government PUC, Association of Municipalities, Local Government MEPUP		2004-2006 2005  2004-2006	GMN, Local Government Budgets PUC Donations		- Water price and wastewater treatment / disposal charge  - Collection rates  - Investments in water supply and sewerage
To improve accessibility and		PUC		2004-2006 2006	GMN, Local		- A share of water expenses in a household budget.

<p>quality of water supply services</p>	<p>among the poorest households</p> <ul style="list-style-type: none"> <li>- Water supply improvement measures in rural areas, incl. involvement of the local population</li> <li>- Water supply improvement measures regarding locations where some marginalized social groups live – such as Roma, IDPs, and illegal settlements</li> <li>- Decrease interruptions in water supply, particularly in the southern and central regions and in tourist municipalities through construction of regional water supply system</li> <li>- Measures regarding reduction of water supply network losses and improvement of water quality</li> <li>- Measures of protecting currently used water springs, as well as potential springs of drinking water</li> </ul>	<p>Government, MLSW MEFWRM, Local Government Regional PUC</p>	<p>2004-2006 2004-2006 2005-2006 and on 2004-2006 and on 2004-2006</p>	<p>Government Budgets PUC Loans Donations</p>	<p>particularly for the poorest 10% of the population</p> <ul style="list-style-type: none"> <li>- Water losses</li> <li>- Drinking water quality</li> <li>- Water consumption per capita</li> <li>- Share of population connected to public water supplies</li> </ul>
<p>To protect human health and the environment</p>	<ul style="list-style-type: none"> <li>- Support the construction/reconstruction of priority sewage systems, particularly in: <ul style="list-style-type: none"> <li>a) Parts of settlements where some marginalized social groups live – such as Roma, IDPs, and illegal settlements</li> <li>b) Coastal tourist centres</li> </ul> </li> </ul>	<p>Local Government, PUC, MEPUP</p>	<p>2005-2006 and on</p>	<p>Local Government Budgets PUC GMN, Loans Donations</p>	<p>- Share of population connected to public sewage system</p>
<p>ENVIRONMENTAL PROTECTION</p>					
<p>To improve the legislation and institutional frameworks of the environmental management</p>	<ul style="list-style-type: none"> <li>- Identification of legislation areas requiring changes for the purpose of harmonizing with the key EU Directives on waste and air</li> <li>- Revision of the Decrees on Environmental Impact Assessment and Pollution Charges</li> <li>- Adoption of regulations on responsibilities for the clean-up of past pollution and for environmental degradation when privatizing enterprises</li> <li>- Capacity building of the MEPUP and local government services (particularly PUC in charge of waste)</li> <li>- Strengthening inter-ministerial cooperation (National Council for the Sustainable Development, establishing of thematic bodies)</li> </ul>	<p>MEPUP, ME Local Government NCS</p>	<p>2004-2005 2004-2005 2004 2004-2006 2004-2006</p>	<p>GMN, Donations Local Government Budgets</p>	<p>- Number of newly established inter ministerial bodies</p>
<p>To improve the environmental management system efficiency</p>	<ul style="list-style-type: none"> <li>- Establishing of the Environmental Protection Agency and integration of relevant expert institutions</li> <li>- Establishing of the Environmental Protection Fund</li> <li>- Strengthening environmental policy measures and instruments (law enforcement and compliance with</li> </ul>	<p>MEPUP, CETR, Nature Conservation Institute MF</p>	<p>2004-2006 2004-2005 2004-2006 2004-2006</p>	<p>GMN, Donations Assets from privatization Local Government Budgets</p>	<p>- A share of public expenditures for the environment in GDP - Concentrations of major air pollutants in the areas with excess air-pollution</p>

	<p>regulations, environmental impact assessment, access to information and public participation, economic instruments, incentives for the introduction of cleaner technologies)</p> <ul style="list-style-type: none"> <li>- Raising the public awareness of sustainability issues, environmental and natural resources management</li> <li>- Including environmental protection issues in educational curricula</li> <li>- Strengthening the information / monitoring systems</li> <li>- Reform of the physical planning system</li> <li>- Preparation of strategic documents and action plans (NEAP, LEAPs, the National Strategy for the Sustainable Development, NEHAP)</li> <li>- Preparation of the cadastre of polluters</li> <li>- Preparation of the categorization and inventory of hazardous and industrial waste</li> </ul>	<p>NGOs, expert institutions</p> <p>MES</p> <p>Expert institutions Local Government, LCC, Non-Governmental Sector</p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004</p> <p>2005-2006</p>	<p>- Biological oxygen demand in watercourses with the worst water quality</p> <p>- Quantity of hazardous and industrial waste generated annually</p>
<p>To implement priority projects of reducing pollution and prevention of environmental degradation</p>	<ul style="list-style-type: none"> <li>- Feasibility Study on improving the Mojkovac and Gradac mining tailings</li> <li>- Improvement of degraded areas and dump sites in Pijevlja; regulation of Jagnjilo and Grevo dump sites</li> <li>- Rehabilitation and expansion of the wastewater treatment plant in Nikšić</li> <li>- Rehabilitation of the existing waste disposal sites and construction of new ones in coastal municipalities (Kotor, Budva, Bar, Ulcinj), and upgrading waste collection</li> </ul>	<p>MEPUP, Coal Mine</p> <p>PUC, Local Government, Montenegro Coast PC</p>	<p>2004-2005</p> <p>2004-2006</p> <p>2005-2006</p> <p>2004-2006 and on</p>	<p>- Share of population with access to wastewater treatment</p> <p>- Share of population with access to waste collection and proper disposal</p>
<p>To strengthen policies and practices for the sustainable use of natural resources</p>	<ul style="list-style-type: none"> <li>- Revision of regulatory framework for biodiversity protection</li> <li>- Preparation of biodiversity strategy and action plan</li> <li>- Improvement of plans and practices regarding the national parks and other protected areas management</li> <li>- Promotion of the projects based on the sustainable utilization of natural resources (eco-tourism, organic agriculture)</li> </ul>	<p>MEPUP</p> <p>Nature Protection Institute NP</p> <p>MAFWRM, NP, Non-Governmental Sector</p>	<p>2005</p> <p>2004-2005</p> <p>2004-2006</p> <p>2004-2006</p>	<p>- Number of endangered, rare and protected plant and animal species</p> <p>- Percentage of protected territories</p>
<b>FORESTRY AND WATER RESOURCES</b>				
<p>To upgrade the legislation and institutional frameworks; to advance forestry and water resources management measures and instruments</p>	<ul style="list-style-type: none"> <li>- Preparation of the new Law on Water in compliance with the EU Water Framework Directive</li> <li>- Establishing of the Water Regulatory Agency and its capacity building</li> <li>- Establishing of administrative river basin bodies and capacity building of such bodies</li> </ul>	<p>MAFWRM, MEPUP</p> <p>Water Regulatory Agency</p>	<p>2004 – 2005</p> <p>2004-2006</p> <p>2005-2006</p>	<p>Future Regulatory Agency</p> <p>Donations</p>

	<ul style="list-style-type: none"> <li>- Improvements in the enforcement of regulations, particularly with a view to illegal utilization of resources (such as illegal wood cutting and the extraction of materials out of river beds, poaching, etc.)</li> <li>- Preparation of the forestry development strategy based on the participatory planning and sustainability principles</li> <li>- Introduction of the geographical information system</li> <li>- Undertake analyses of the forest withering and disease occurrence and relevant protection measures</li> <li>- Upgrading of the fire protection system</li> <li>- Program for improving degraded forest areas and reforestation of the cleared areas</li> <li>- Provision of support to restructuring wood-cutting and processing enterprises</li> <li>- Development of seeds and seedlings production</li> <li>- Utilization and protection of wild growing mushrooms</li> <li>- Promotion of the use of non-timber forest products</li> <li>- Promotion of fish farming and mariculture</li> <li>- Preparations to introduce the water information system</li> <li>- Stimulating rational and multi-purpose utilization of water</li> <li>- Improvements of eroded areas and torrents regulation in endangered areas: <ul style="list-style-type: none"> <li>a) Analysis of present conditions / Feasibility Study</li> <li>b) Pilot Project in the Lim and the Tara river basins, integral risk management</li> </ul> </li> </ul>			<p>2004-2005</p> <p>2004 -2005</p> <p>2004 - 2006 and on</p> <p>2004 – 2005</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2005</p> <p>2004-2006 and on</p> <p>2004-2006</p> <p>2005 – 2006</p> <p>2004-2006</p> <p>2004-2005</p> <p>2005-2006 and on</p>	<p>MAFWRM, Forestry Directorate</p> <p>Bio-technical Institute, Forestry Institute</p> <p>Forestry Directorate</p> <p>MAFWRM Forestry Directorate</p> <p>NP, Nature Protection Institute</p> <p>Local Government, NGOs</p> <p>MAFWRM, Regulatory Agency</p> <p>Control Agency</p> <p>MAFWRM</p>	<p>GMN, Forestry Directorate</p> <p>Donations</p> <p>GMN, Forestry Directorate</p> <p>Private Sector</p> <p>Donations</p> <p>GMN, The Regulatory Agency, Donations</p>	<ul style="list-style-type: none"> <li>- Territory covered by forests being affected by diseases</li> <li>- Territory covered by forests having been destroyed in fires</li> <li>- Afforested areas</li> <li>- A share of revenues generated from the publicly-owned natural resources (woods, pastures, fish stock) in the personal income of inhabitants</li> <li>- Assessed damages of adverse water impacts (erosion, torrents, floods)</li> </ul>
<b>SOCIAL AND CHILD PROTECTION</b>							
To strengthen sustainable management of forests and other forestry resources, and to provide for obtaining sustainable forestry certificate							
To support the development of economic branches and activities based on the controlled and sustainable utilization of forestry and water resources							
To strengthen sustainable management of water and other water-resources							
1. Main objective in social protection sector (SP) is providing and ensuring minimum funds necessary for the living of social and children protection beneficiaries						<p>GMN, Donors</p>	<ul style="list-style-type: none"> <li>- Regular payment of all social protection allowances</li> </ul>

2. Reduction of family material support (FMS) beneficiaries based on temporary impediment to work (unemployed)	- Active employment policy - Limiting the extent of right benefit	- MLSA - Employment Bureau of the Republic of Montenegro	2004-2006	GMN, Donors (details given in the employment chapter)	- Reduction of the number of FMS beneficiaries by 30% by the end of 2006
3. Increasing the responsibility of municipalities for financial position of social care beneficiaries	- Passing the new legal acts on social protection of residents in municipalities - Establishing committees for social and children protection in municipalities	- Municipalities	2004	Budget of municipalities	- Increasing the number of extended rights beneficiaries - Committee constitution - Financial coverage of rights in municipality budget
4. Monitoring of poverty and necessities of socially vulnerable population	- Development of indicators for monitoring material vulnerability - Development of integrated and unique information system of social and children protection in Montenegro - Vertical expansion of information system in municipalities - Establishment of the research, evaluation and supervision unit within MLSA	- MRSS MONSTAT Municipalities	2004-2006	GMN, Donors Creditors	- Defined and adopted indicators - Information system established at MLSA level - Information system established at municipality level - Unit formation and quarter analysis preparing
5. Improving quality of social protection service by developing service standard	- Drafting the Social Centers service standard - Geriatric institutions service standard - Setting up service standards for children's homes - Setting up service standards for persons with disabilities - Setting up service standards for other service deliverers in the field of social and children protection	- MLSA - CSW - Social and children protection institutions - NGO	2004-2006	GMN	- Adopted standards
6. Development of family accommodation and foster care for children without parental care, children with disabilities and other children	- Selecting, motivating and training foster care families - Selecting persons with disabilities and families	- MLSA CSW Municipalities NGO	2004-2006	GMN, Donors	- Increasing the number of children in family accommodation - Provided funds in the budget per each year
7. Improving professional competence of the staff in social protection	- Training CSW staff for development of the social protection services in a local community - Training old people's homes staff for delivering out of institution protection services - Training children's homes staff for delivering out of institution services - Training home for people with disabilities staff for delivering out of institution services - Training associates of the home for juvenile delinquency for work on delinquency prevention in a local community	- MLSA Social science faculties in Montenegro CSW Institutions NGO	2004-2006	GMN, Donors	- Development of new services in municipalities and local communities - Developed plan of out of institution services for the elderly, children, persons with disabilities, delinquency prevention in a local community
8. Building capacity for accommodating the elderly with mental disorders (both locals and refugees)	- Drafting project proposal of the institution - Preparing project documentation and permits - Getting the funds to implement the project - Start of institution construction works	- MLSA	2004 - 2007	GMN, Donors Creditors	- Accepted project proposal - Accepted project documentation and permits - Signed agreements on funding - Initial construction works

9. Building capacity of the institution for accommodating the elderly (both locals and refugees) in Podgorica	- Drafting project proposal of the institution - Preparing project documentation and permits - Getting the funds to implement the project - Start of institution construction works	- MLSA and Municipality of Podgorica	2005.– 2007.	GMN, Donors Creditors	- Accepted project proposal - Accepted project documentation and permits - Signed agreements on funding - Initial construction works
10. Development of family accommodation for the elderly without parental care	- Analyze the needs, acceptability and motivation of the beneficiaries and foster care families for this kind of protection - Selecting and preparing the elderly and families	- MLSA CSW NGO	2004-2006	GMN, Donors	- Report on proposal of measures - Number of the elderly in family accommodation
11. Development of mobile team network for urgent health and social protection of the elderly without parental care in remote villages	- Making the study on the needs for urgent protection - Selecting and training professionals and volunteers - Forming mobile teams in municipalities	- MLSA, MoH, CSW, health centres (Dom zdravlja) and NGO	2004-2006	GMN, Donors	- Completed study and proposals - Selection and trainings carried out in all municipalities including more than 15% of the elderly in villages - Mobile teams formed in all municipalities including more than 15% of the elderly in villages
12. Development of family accommodation for the elderly with disabilities who are in need of permanent shelter and who have no parental care	Analyze the needs, acceptability and motivation of the beneficiaries and foster care families with the development of this protection - Selecting and preparing the elderly and families	- MLSA CSW NGO	2004-2006	GMN, Donors	- Report with proposals of measures - Number of persons with disabilities in family accommodation
13. Economic and social empowerment of adults with disabilities	- Drafting the educational program for persons with disabilities in compliance with market demands and possibilities of getting a job - Revising the effects of obtaining the right to assistance in acquiring skills - Drafting the program on acquisition of additional skills for a better position and learning a new trade designed for persons with disabilities in line with labor market demands - Establishing the fund for support to self-employment and forming production, serviceable, or any other kind of association or cooperative for persons with disabilities - Defining incentive measures of support to self-employment of persons with disabilities under protected conditions	- Ministry of Education - Special education institutions NGO and assns - MLSA - Employment Office Special education institutions NGO and assns - MLSA	2004-2006.	GMN, Donors	- Program made and ready for implementation - Amended Law on social protection and its implementation - Programs made and ready for implementation and provided funds for starting the work - Adopted the program of measures
14. Support to families in crises and to single parents	- Creating staff and technical conditions for formation of four advisory councils for families - Selection and training of associates	- MLSA CSW Municipalities NGO	2004- 2006.	GMN, Local community Donors	- Concepts made, staff selected, provided premises for the start of the work of advisory council
15. Forming safe houses for abused children and women in Podgorica	- Drafting project proposal and a concept - Selection and adaptation of the premises - Selecting and training professionals and volunteers in safe houses	- MLSA and MoH NGO Municipality	2004-2005.	GMN, Donors	- Concept accepted - Premises adapted - Start of safe house operating
16. Support to programs on	- Support to the projects on motivating the children and their	- MLSA, ME,	2004-2006	GMN,	- Increasing number of children starting school to 95% by

Roma children inclusion in community	<ul style="list-style-type: none"> <li>parents to attend the school</li> <li>- Provide assistance to children with school related tools and equipment</li> <li>- Support in textbooks and school tools</li> <li>- Psychological and social support</li> </ul>	CSW Red Cross NGO		Donors	2007	
17. Forming the fund of innovations in social and children protection	<ul style="list-style-type: none"> <li>- Support to the implementation of programs planned in social and children protection sector for all social and children protection service providers (CSW, Institutions of social and children protection, NGO)</li> <li>- Development of criteria for funds allocation</li> </ul>	- MLSA - NGO	2004-2006	GMN, Donors	<ul style="list-style-type: none"> <li>- Developed criteria for fund allocation</li> <li>- Number of grants</li> </ul>	
18. Improving urban and residential aspects of poverty	<ul style="list-style-type: none"> <li>- Building adequate apartments for domicile population, the Roma, IDPs and refugees</li> </ul>	- MLSA Commissariat for for displaced persons NGO	2004 – 2006	GMN, Donors	- Number of provided residential units	
19. Supporting socially vulnerable Roma families	<ul style="list-style-type: none"> <li>- Establishing of family material support to Roma population</li> </ul>	- MLSA - NGO	2004 – 2006	Donors	- Number of FMS beneficiaries	
20. Supporting socially vulnerable IDPs and refugees	<ul style="list-style-type: none"> <li>- Establishing of family material support for IDPs and refugees</li> </ul>	- MLSA - NGO - Red cross	2004 – 2006	Donors	- Number of FMS beneficiaries	
<b>PENSIONERS AND ELDERLY</b>						
1. Providing stable pension system and improving living standard of the pensioners and elderly	<ul style="list-style-type: none"> <li>- Implementation of the new pension law</li> <li>- Passing necessary by-laws for implementation of the new law on Pension Insurance Fund (PIO)</li> <li>- Implementation of the new law on PIO</li> </ul>	- Ministry of Labor and Social Affairs (MLSA)	2004 -2006	GMN, Donors	- Regular payments	
2. Providing adequate role of PIO	<ul style="list-style-type: none"> <li>- Revising the role and organization of PIO</li> </ul>	- MLSA - Ministry of Finance - Directorate of Public Revenues - Pension Insurance Fund	2004	GMN, Donors	- Successful management of the pension system	
3. Comprehensive analysis and debate on second pillar introduction	<ul style="list-style-type: none"> <li>- Analysis and creation of institutional conditions for second pillar introduction</li> </ul>	- MLSA - Ministry of Finance - Privatization Council	2004 -2006	GMN, Donors	- Introduction of capitalized savings in PIO system	
4. Introduction of pension funds on voluntary basis - third pillar	<ul style="list-style-type: none"> <li>- Building legal framework for creation and regulation of the market of voluntary pension funds</li> </ul>	- MLSA - Ministry of Finance - Securities Commission	2004 -2006 and on	GMN, Donors	- Created and regulated market of voluntary pension funds	
5. Strengthening institutional and other services for the most vulnerable pensioners and the elderly	<ul style="list-style-type: none"> <li>- Development of alternative forms of institutional protection including programs of daily centers, service delivery, home assistance and other initiatives of the local community.</li> </ul>	-MLSA - Municipalities - NGO	2004 -2006	GMN, Donors	- Number of implemented programs	

PROTECTION OF WAR VETERANS					
1. Improving the plight of the beneficiaries of war veterans protection	- Passing the new law on protection of war veterans - Providing stable resources for realization of rights	- Ministry of Labor and Social Affairs (MLSA)	2004 -2006	GMN,	- Regular payments
GENDER EQUALITY					
1. Establishing gender statistics	- Passing new laws referred to this area - Introducing gender equality dimensions into statistic standards	Government Office for gender equality (Office) and "MONSTAT" NGO	2004 - 2005	GMN, Donors	- Quality of the data base
2. Improving knowledge on gender equality	- Encouraging education and research within gender studies - Integrating gender equality into development strategy	Office University of Montenegro and line ministries NGO	2004 -2006	GMN, Donors	- Number of analyses, researches and programs from the aspect of gender equality - Public opinion
3. Passing new laws as prerequisite for reaching gender equality	- Passing a Republic Law on gender equality - Developing National action plan on achieving gender equality - Introducing gender equality concept while developing all legislative solution	Office and line ministries NGO	2004	GMN, Donors	- Number of laws harmonized with the Law on gender equality - Effects of the monitoring laws implementation and national plans affecting in any way plight of women in Montenegro
4. Women health protection	- Eliminating avoidable maternal and child mortality - Eliminating gender inequality when accessing health protection - Providing all men and women of reproductive age with the access to safe and efficient contraceptive methods - Education on gender communicable diseases - Strengthening prevention and education	Office and line ministries NGO	2004 -2006	GMN, Donors	- Maternal mortality rate; mortality rate of the children under 5; infant mortality rate; percentage of the children under five vaccinated against contagious diseases; percentage of child births attended by full medical staff; percentage of mothers having access to medical institutions prior to and after delivery - Percentage of women receiving treatment in medical institutions, number of years lost for men and women due to disability - Rate of the usage of safe contraceptive methods among poor men and women of reproductive age
5. Overcoming discrimination in education	- Integrating gender equality principles in school curricula and textbooks - Eliminating gender disparity in education	- Ministry of Education - Office	2004 -2006	GMN, Donors	- Number of analyses, curricula and textbooks, as well as number of changes initiated by gender equality integration - Ratio of girls to boys in primary schools; ration of girls to boys in secondary school as well as in faculties; ratio of number of literate female to male aged 15-24 as well as those aged 24
6. Overcoming discrimination in employment	- Eliminating gender inequality in access to work - Eliminating gender inequality related to work reimbursements	Ministry of Labor and Social Affairs, Employment Bureau, Office,	2004 -2006	GMN, Donors	- Rate of female and male labor force - Average salaries of females and males in various sectors; percentage of poor people who are employed,

	<ul style="list-style-type: none"> <li>-Eliminating compulsory work (work under some commitment)</li> <li>-Introduction of affirmative measures for less present sex in employment</li> <li>-Providing adequate protection at work and before the state bodies as well as setting up control</li> <li>-Finding the way for adequate appraisal of unpaid work at home</li> </ul>	NGO	2004 -2006	GMN, Donors	<ul style="list-style-type: none"> <li>-Number of women who have attended the training, acquired additional skills and learned a new trade</li> <li>-Number of extended credits for women entrepreneurship as well as number of credits for self-employment in particular to vulnerable groups, disaggregated by gender</li> <li>-Number of women entrepreneurs whose businesses are supported</li> <li>-Number of newly employed, disaggregated by gender, based upon initiation of women businesses.</li> </ul>	<ul style="list-style-type: none"> <li>-Percentage of compulsory workers in labor force disaggregated by gender</li> <li>-Number of implemented affirmative measures in employment</li> </ul>
7. Economic empowerment of women and strengthening women entrepreneurship	<ul style="list-style-type: none"> <li>-Training, acquiring additional skills for a better position or learning a new trade</li> <li>-Creating data base of entrepreneurs disaggregated by gender</li> <li>-Establishment of incentive funds for economic empowerment of women</li> <li>-Trainings for women entrepreneurship</li> <li>-Provide credit lines for women</li> <li>-Providing support to women entrepreneurship</li> <li>-Supporting women entrepreneurship within the Agency for small and medium-sized</li> <li>-Facilitating self-employment in particular to vulnerable groups</li> </ul>	Office, line ministries NGO, Agency for small and medium-sized enterprises University of Montenegro NGO	2004 -2006	GMN, Donors	<ul style="list-style-type: none"> <li>-Number of women who have attended the training, acquired additional skills and learned a new trade</li> <li>-Number of extended credits for women entrepreneurship as well as number of credits for self-employment in particular to vulnerable groups, disaggregated by gender</li> <li>-Number of women entrepreneurs whose businesses are supported</li> <li>-Number of newly employed, disaggregated by gender, based upon initiation of women businesses.</li> </ul>	<ul style="list-style-type: none"> <li>-Number of women who have attended the training, acquired additional skills and learned a new trade</li> <li>-Number of extended credits for women entrepreneurship as well as number of credits for self-employment in particular to vulnerable groups, disaggregated by gender</li> <li>-Number of women entrepreneurs whose businesses are supported</li> <li>-Number of newly employed, disaggregated by gender, based upon initiation of women businesses.</li> </ul>
8. Eliminating family violence and violence over women	<ul style="list-style-type: none"> <li>-Amending legislation</li> <li>-Training multi-sector teams for support to the victims of violence</li> <li>-Establishing shelter network</li> <li>-Ensuring financial support to women victims of violence</li> <li>-Making action plan for violence prevention</li> </ul>	Line ministries Office NGOs	2004 -2006	GMN, Donors	<ul style="list-style-type: none"> <li>-Number of teams who passed the training</li> <li>-Public opinion</li> <li>-Number of cases reported</li> </ul>	<ul style="list-style-type: none"> <li>-Number of teams who passed the training</li> <li>-Public opinion</li> <li>-Number of cases reported</li> </ul>
9. Active women inclusion in the process of planning, decision-making and implementing of the programs on environmental protection	<ul style="list-style-type: none"> <li>-Raising awareness among both male and female citizens regarding the issue of ecology through various professional and public debates and workshops</li> <li>-Drafting by-laws</li> <li>-Removing physical barriers and preventing building new ones for disabled persons, with special attention to the needs of women with disabilities</li> </ul>	Ministry of environment Office NGOs	2004 -2006	GMN, Donors	<ul style="list-style-type: none"> <li>-Number of female participants in environmental protection activities</li> <li>-Number of activities promoting principles of preventive protection</li> <li>-Women obtaining the right to clear and healthy environment.</li> </ul>	<ul style="list-style-type: none"> <li>-Number of female participants in environmental protection activities</li> <li>-Number of activities promoting principles of preventive protection</li> <li>-Women obtaining the right to clear and healthy environment.</li> </ul>
<b>CHILDREN AND YOUTH</b>						
Children and youth poverty reduction	<ul style="list-style-type: none"> <li>- Providing support to poor families with children and youth</li> <li>- Providing access to social services</li> <li>- Development of quality services adapted to</li> </ul>	- Government of Montenegro - Ministry of Labor and Social Affairs (MLSA) - Municipalities	2004 -2006	GMN, Donors	<ul style="list-style-type: none"> <li>- Reducing the number of poor families with children and youth</li> <li>- Increasing the number of services and programs dedicated to children and youth</li> </ul>	<ul style="list-style-type: none"> <li>- Reducing the number of poor families with children and youth</li> <li>- Increasing the number of services and programs dedicated to children and youth</li> </ul>

	children and youth - Providing the realization of children rights - Developing preventive and curative programs as well as repressing socially unacceptable behavior of children and youth - Drafting the National Strategy for Children - Drafting the National Strategy for Youth	- NGOs				- Monitoring children rights realization - Development of specific preventive programs
<b>PEOPLE WITH DISABILITY</b>						
1. Providing adequate social protection for people with disability	- Development of support program for disabled persons and their families	- MLSA - Municipalities - NGOs	2004-2006	GMN, Donors		- Number of implemented programs
2. Providing access to environment	- Performing the activities providing disabled persons with better access to environment - Development of urban standards for physical barriers removal	- MLSA - Ministry of Environment Protection and Spatial Planning (MSP) - Municipalities - NGOs	2004-2006	GMN, Donors		- Number of implemented programs - Developed standards
3. Providing education	- Development of specific education programs for disabled persons	- Ministry of education - NGOs	2004-2006	GMN, Donors		- Number of implemented programs - Number of people with disability included into system of education
4. Providing employment to disabled people	- Development of employment programs for disabled persons	- MLSA - Employment office - NGOs	2004-2006	GMN, Donors		- Number of employed people with disability

<b>EDUCATION</b>						
Providing legal framework as a condition for making education development promoter, together with the science and technology and also to provide conditions for inclusion of the children with special needs into the education system	Adoption of the Law on University (October 2003) and passing by-laws Drafting Law on Certification system Drafting Law on Children with Special Needs	Parliament, GMN, MES, VTC, MLSA	March 1, 2004.	GMN, Donors		- Raising the quality of studying - Provision of conditions for reform laws implementation - Introduction of nationally acknowledged certificates - Defining responsibility level for inclusion of the children with special needs
Increasing preschool education enrollment rate of the children	Inclusion of preschool children, poor children, Roma children and those with special needs Inclusion of the poor, coming from all parts of the Republic, Roma children, and children with	MES, NGO, MLSA, MoH MES, LC,	January 2004. - January 2007.	GMN, Donors		- Number of children in preschool institutions - Capacity of preschool institutions - Number of Roma children and other vulnerable groups

	<p>special needs</p> <p>Inclusion of local self-government, beside ME, into public preschool institutions funding system in Montenegro, in particular as far as material expenses and investment maintenance are concerned</p> <p>Network renewal and extension of the capacity of the existing public kindergartens to include as many children as possible</p> <p>Encouraging private initiative</p>	MES, LC, Donors			<ul style="list-style-type: none"> <li>- Number of vulnerable children who continue their education</li> <li>- Participation of Local Community in funding preschool education</li> <li>- Number of preschool children within private kindergartens</li> </ul>
Building new preschool institutions premises	<p>Drafting a Project proposal for the institutions</p> <p>Drafting Project documentation and licenses (Loans, donors' funds)</p> <p>Starting building the institution</p>	MES GMN, ME;	January 2004. January 2007	GMN, Donors	<ul style="list-style-type: none"> <li>- Increasing number of children in preschool institutions</li> </ul>
Providing children from the poor families and vulnerable groups with the access to education institutions	<p>Working out payment scale based on material and social status of the family ranging from complete free of payment status to defined maximum payment</p>	GMN, MES, MLSA	January, 2004 – June, 2004	GMN, Donors	<ul style="list-style-type: none"> <li>- Efficiency of support to keeping vulnerable children within education system</li> <li>- Contribution</li> <li>- Number of beneficiaries</li> </ul>
Inclusive education	<p>Provision of schooling of the children with special needs in the less limiting places to be able to appropriately make a progress and overcome their problems</p> <p>Establishing the data base on the children with special needs so as to ensure monitoring of those children during the schooling and after it.</p>	GMN, MES, NGO, Institutions MoH, MLSA	During the whole implementation period	GMN, Donors	<ul style="list-style-type: none"> <li>- Establishing the data base</li> <li>- Number of children receiving specific kind of support in education purpose</li> </ul>
Making possible successful completion of the primary school and continuation of schooling	<p>Integration and special care for the students with special needs</p> <p>Raising the percentage of Roma children attending primary school</p> <p>Providing all the children with the access to primary education</p> <p>Providing all the children with the education related to respect for national values, history and culture</p>	MES, Institutions, NGO, LC	During the whole implementation period	GMN, Donors	<ul style="list-style-type: none"> <li>- Number of students who enroll in primary schools</li> <li>- Number of students according to sex, vulnerable groups, and so on.</li> <li>- Number of students by grades and those who are about to complete education</li> <li>- Average education duration</li> </ul>

Giving priority to quality of education instead of quantity of knowledge	Provision of conditions for further education of the teachers and training of principals Ensuring the usage of management informative system in compliance with the standards of highly developed countries within management and evaluation of quality in education system Evaluation of all education segments Education of new generation of managers and investments in human resources	MES, SB, VTC  IC	During the whole implementation period	GMN, Donors	<ul style="list-style-type: none"> <li>- Segments included in evaluation</li> <li>- Evaluation procedures</li> <li>- External knowledge testing</li> </ul>
Building new primary schools premises	Developing project proposals for schools Developing project documentation and getting licenses (Loans, donor funds) Starting building the institution	GMN, MES	01.2004 – 01.2007	GMN, Donors	<ul style="list-style-type: none"> <li>- Building capacity of primary schools in Podgorica and southern municipalities</li> </ul>
Providing conditions for adjusting and modernizing vocational training to social changes, requirements of modern, democratic and economically developed society, market economy, technical and technological progress and information technology.	General knowledge should be integrated into vocational subjects to a greater extent Problem approach should have advantage over vocational classification when carrying out training Educational programs should be disaggregated to modules so as to ensure that by acquiring certain module one gains vocational qualifications Increasing the incidence of the population attending vocational education after primary school Introduction of selective subjects in four years lasting vocational schools Increasing the extent of practice courses in three years lasting vocational (50-60%) Building the evaluation system of informally acquired knowledge and skills Inclusion of social partners into the process of management, decision-making and funding vocational education	GMN, MES, VTC, EB, MCC, AITUM, MLSA, IC,	Continuous work	GMN,	
Building new secondary school premises	Drafting a Project proposal for the institutions Drafting Project documentation and licenses (Loans, donors' funds) Starting building the institution	GMN, MES	January, 2004 –January, 2007	GMN,	<ul style="list-style-type: none"> <li>- Number of students in vocational training institutions</li> <li>- Vocational material drops-out</li> </ul>
Establishing Training Center	Agreement with social partners Providing spatial conditions Purchase of modern technical and technological equipment	GMN, MES, MCC, AITUM, EB, MLSA,	January 2004. - January 2006.	GMN, Donors	<ul style="list-style-type: none"> <li>- Training centers established</li> <li>- Number of trained candidates</li> <li>- Capacities for training of the adults</li> </ul>

School network rationalization	Training of teachers Adjustment of number of schools to demographic movement and standards of educational process Reduction in the number of employees Participation of local community in funding the part of education system	MES, Institutions LC	2003. – December 2004.	GMN, Donors	- Reduction of the share in budget by 0,75 % on annual basis up to 2006.
Providing ICT overmastering to all of the students and ensuring education system amangement based on IT	ICT inclusion into curricula Make possible for all of the students to acquire basic ICT skills by 2005. Provide ICT training program Ensure inclusion of the poorest groups, students with special needs as well as those with special needs in less developed areas Supplu all the schools with multimedia PC with internet access by 2010. Train teachers and trainers for using modern techniques in teaching ICT appliance Provide training and equipement for children in special schools to use ICT	GMN, MES, VTC, SC	January 2004. – January 2007.	GMN,	- Number of institutions involved in Montenegro Education Network - Number of students per PC - Percentage of Curricula realized through IT appliance - Number of teachers involved into training process - Efficiency of education system management based on IT
Providing economic efficiency together with sustainability of education system	Rationalization of the Ministry Establishing new institutions of the system School network rationalization Establishing Examination Center	GMN, MES, SB, VTC, IC	During the whole implementation period	GMN,	- Education share in the budget
Education of the adults	Development of the Strategy for education of the adults Strengthening educational institutions for the adults Inclusion of the employers into permanent education organizational process	GMN, MLSA, EB, VTC	During the whole implementation period	GMN, Donors	- Number of institutions and their capacity - Number of the enrollees completing training program - Certificates issued - Employment rate of the unemployed enrollees who completed training course
Providing conditions for acquiring basic literacy education	Strengthening educational institutions for the adults Training of teachers and trainers to work with the adults Definition of motivating measures for involvement into this process Acquiring basic literacy education Raising the level of formal education	MES, MLSA, EB, Institutions	During the whole implementation period	GMN,	- Number of institutions and their capacity - Number of the enrollees who complete training programs - Realization of training resources
Institutional support to education system	Providing support for establishing Schooling Bureau and Vocational Training Centers in purpose of improving education process and monitoring of labor forces movements, poverty,	GMN, MES, Donors	January 2004. – January, 2006.	GMN,	- Creation of standard vocations - Production of curricula - External knowledge testing - Training of teachers and school principals

<p>Increasing accommodation capacity in dormitories</p> <p>Providing the access to education institutions regardless the place of living</p> <p>Reducing average time of studying</p>	<p>jobs and the like</p> <p>Increasing accommodation capacities by 20% until 2006. Drafting a Project proposal for the institutions Drafting Project documentation and licenses, starting building the institutions Improving the conditions of the accommodation within the existing dormitories</p> <p>Adjustment of public education institution network to population needs Motivation of private initiatives within education, respecting and monitoring the standards of skills and vocations Increasing dormitory capacities Providing the high quality accommodation in dormitories</p> <p>Make possible for students to complete their studies within envisaged period of time Motivate the students who meet the deadlines</p>	<p>GMN, MES, credits, donors funds</p> <p>GMN, MES, UoM</p> <p>MES, UoM, Institutions</p>	<p>June 2004 – February 2006.</p> <p>During the whole implementation period</p> <p>During the whole implementation period</p>	<p>GMN, Donors</p> <p>GMN,</p> <p>GMN,</p>	<p>- Numbers of students in dormitories</p> <p>- Accommodation capacity</p> <p>- Number of students</p> <p>- Average study duration at the University and respectively by faculties</p>
<p>HEALTH</p>					
<p>- Provide institutional basis for the health system reform</p> <p>- The health system reform with regard to financial relations and creating stable conditions for financing the health care as well as optimal allocation of funds</p> <p>- Provide necessary records on functioning of the health system, on monitoring the state of health and on establishing a basis for information system development</p>	<p>- Health Care Law</p> <p>- Health Insurance Law</p> <p>Act on obligatory records in health care field</p>	<p>Ministry of Health</p>	<p>2003</p> <p>2004</p>	<p>Minimal expenses. Completion in field of work of the following three institutions: Ministry of Health, Health Fund and the Montenegrin Health Institute.</p>	<p>Laws adopted</p> <p>Scope of data for selected indicators within defined timeframe</p>

<p>Provide for functioning of all subjects of the health system, with equal rights for all the Montenegrin citizens and access to health care benefits, as well as equal opportunities in achieving their rights; provide quality functioning of health institutions and control system in health services. Provide quality and accessible health care to all vulnerable categories of population.</p>	<ul style="list-style-type: none"> <li>- Medicine production, sale and control regulations</li> <li>- Lists of medicines and guidelines for their supply and use</li> <li>- Basic health care measures</li> <li>- Rule book on health care servicing conditions</li> <li>- Rulebook on exercising rights in the field of health care.</li> <li>- Rule book on right to health care abroad</li> <li>- Rule book on participation of insured persons in health care costs</li> <li>- Rule book on professional control in health care institutions</li> <li>- Categorization and accreditation of hospitals and other health institutions</li> <li>- Health institutions network</li> </ul>	<p>Ministry of Health</p>	<p>1<sup>st</sup> quarter of 2004</p>	<p>GMN, EAR, USAID, World Bank (WB)</p>	<ul style="list-style-type: none"> <li>-Medicine market supply.</li> <li>-Rationalization of consumption</li> <li>-Health care accessibility to the population, especially to vulnerable categories.</li> <li>- Indicators of quality health service. Clinical guidelines and good practice guides</li> <li>- Technological standards</li> <li>- Development level of health service. Health care accessibility.</li> </ul>
<p>Increase efficiency and effectiveness in using resources in health care field</p>	<p>Establishing a Health Council</p>	<p>Ministry of Health (MH)</p>	<p>1<sup>st</sup> quarter 2004</p>	<p>GMN,</p>	<p>Mortality rates and birth rates among main causes of death and preventable diseases. Mortality rates among children under five. Disease and mortality rates among children under five with regard to contagious diseases. Maternal mortality rates.</p>
<p>Promote public health in order to advance health and develop preventive medicine programs</p>	<p>Establishing Public Health Institute, which is to promote and coordinate public health activities at the national level</p>	<p>Ministry of Health</p>	<p>2004, 2005</p>	<p>GMN, Greek Government</p>	<p>Proportion of vaccinated children. Disease and mortality rates with regard to tuberculosis and HIV. Rate of HIV positive women. Proportional figure of disease rate and mortality rate provoked by risky style of life.</p>
<p>Medicine registration</p>	<p>Medicines Board</p>	<p>Ministry of Health</p>	<p>First half of 2004</p>	<p>GMN,</p>	<p>Monitoring reports on unwanted effects of certain medicines.</p>
<p>Promote quality health care</p>	<p>Quality Health Service Control and Accreditation Board at the territory of the Republic</p>	<p>Ministry of Health</p>	<p>4<sup>th</sup> quarter of 2004</p>	<p>GMN,</p>	<p>Consumers' satisfaction. Standardization of services</p>
<p>Reform in health services system – promote and prepare primary health care system</p>	<p>Promotion program of primary health care structural organization</p>	<p>MH, the Montenegro Health Institute, Health centres, Mental Care Institute</p>	<p>2004</p>	<p>GMN, WB</p>	<p>Basic health care expenses. Indicators of basic health care use and health improvement of all citizens, especially vulnerable categories of population, as well as using other health care levels.</p>
<p>Reform in health services providing system</p>	<p>Projects of rationalization in health care field at secondary and tertiary level</p>	<p>MH, Health Fund, public health institutions</p>	<p>2005</p>	<p>GMN, Donors, Creditors</p>	<p>Public health expenses at secondary and tertiary level. Hospitalisation rate. Average period of hospital treatment. Overload of hospital resources.</p>

Introduction of new methods in financing health care, which is to ensure adequate stimulation of health care workers as well as to promote quality health care	Project of establishing criteria for financing health care	MH, Health Fund, Health Care Institute	First half of 2004	GMN, WB credit	Health care expenses per capita, by levels, by regions and by kinds of services
Ensure a principle of solidarity and eliminate inequality in providing access to health care (for categories of population that receive public welfare)	Defining and adopting obligatory services and rights package in the field of health care	MH, Health Fund, Health Care Institute	First half of 2004	GMN, WB credit	Accessibility of health care to the Montenegrin population without financial obstacles.
Health care programs planning at the national and local communities level. Planning special programs and activities in decreasing risks in health care and health promotion of vulnerable categories of population.	Producing a methodology of planning	MH, the Montenegrin Health Care Institute	2004	GMN, WB credit	Indicators of the population's state of health. Incidence and prevalence rate of main groups of diseases directly tied to social and economic status.
Establish division of labour, catalogue of knowledge and skills that health workers are due to achieve, ensure criteria for quality service control, professional evaluation of individuals, adequate evaluation and recompensation for a service, as well as carry out a patient security measures.	Project of establishing professional standards and clinical guidelines	MH, the Montenegrin Health Care Institute, Quality Service Control and Accreditation Board	2004, 2005	GMN, WB credit	Standards and norms, guidelines
Quality health service improvement, especially for vulnerable categories of population	Quality health service improvement program	MH, Quality Service Control Agencies, professional chambers, Ombudsman, Health Care Institute, health care centres, Health Fund	2004, 2005	GMN, WB credit	Level of satisfaction of users of health care and health service workers. Indicators of the state of health.
Optimal increasing of number of employees in public health institutions	Analyse of employees in health services and possibilities of retraining non-medical personnel	Ministry of Health, MRSS, Health Care Institute	2004	GMN, WB credit	Relations between medical and non-medical staff. Medical staff coverage of population and overloading of medical workers

<p>Planned development of overall health capacities necessary to achieve public health development goals. Establish human resources management strategy and define needs for planned period of time. Establish training and education aimed at improving skills and knowledge of health service professionals.</p>	<p>Master Plan of Human resources management</p>	<p>Ministry of Health, professional chambers, MIN, Health Care Institute,</p>	<p>2004</p>	<p>GMN, WB credit</p>	<p>Accessibility to health care with regard to necessary number of physicians, qualified health personnel and regional accessibility. Proportion of cadres with regard to certain kind of education within general cadre structure in Republic of Montenegro.</p>
<p>Improve health quality of the population, with emphasis on vulnerable categories, change attitude towards health, ensure healthy and safe environment, promote healthy way of life and strengthen responsibility for one's own health</p>	<p>Production of "New Public Health" strategy. Health promotion development project in order to prevent major group of diseases.  Legal regulation project in the field of health food.</p>	<p>Ministry of Health, Health Care Institute, other responsible spheres of activity, local community</p>	<p>2004, 2005</p>	<p>GMN, Donors, Stability Pact</p>	<p>Maternal mortality rate among children. Proportion of delivery of children with low physical weight. Proportion of children who take nourishment exclusively at the breast. Malnutrition of children under five. Scope of vaccination. Disease and mortality rate among children with regard to contagious diseases. Lifetime prognosis after birth. Rate of HIV positive women. State of oral health. Number of orphans whose parents died of AIDS. Proportion of children and adults who take PAS. Disease and mortality rates and proportion with regard to addiction diseases.</p>
<p>Improve health and quality of life of the aged, as well as the vulnerable categories of population. Rationalisation of expenses for health and social care of the aged.</p>	<p>Project of integration of social and health services for the aged people.  <ul style="list-style-type: none"> <li>• Homes for the aged</li> <li>• Daily centers</li> <li>• Geriatrics centers</li> </ul> </p>	<p>Ministry of Health, MRSS, the Montenegrin Health Care Institute</p>	<p>2004-06</p>	<p>GMN, WB, Donors</p>	<p>Expected lifetime. Mortality rate with regard to death causes that can be prevented. Potentially lost years of life. Measuring ability to function.</p>
<p>Decrease level of inequality in public health and improve health care for vulnerable population groups. Prevent diseases and improve health of vulnerable population groups.</p>	<p>Project of health protection and health improvement of persons in marginal conditions  <ul style="list-style-type: none"> <li>• Project "Violence and Health"</li> <li>• Project "HIV/SIDA Prevention"</li> <li>• Project "Tuberculosis prevention"</li> <li>• Handicapped persons' health improvement proj.</li> <li>• Project "Smoking Control of Youth"</li> </ul> </p>	<p>Ministry of Health, Montenegrin Government, Montenegrin Health Care Institute</p>	<p>2004-06</p>	<p>GMN, WB, UNICEF, Imperial College, Donors</p>	<p>HIV/AIDS and tuberculosis incidence and prevalence. Mortality level with regard to tuberculosis and AIDS. Rate of HIV positive mothers. Number of orphans whose parents died from AIDS. Measuring ability to function. Measuring social network and social support.</p>

Determine impact of environmental factors to health; primarily eliminate environmental factors that have a negative impact.	Research project of determining environmental impact to overall health of the Montenegrin population.	Ministry of Health, Ministry of Area Planning, Health Care Institute	2005-06	GMN, Japan Government, Donors	Contagious diseases' incidence and prevalence, with regard to causes provoked by water-supply system and inadequate disposal of dangerous waste. Mortality rate caused by diseases that can be prevented and provoked by environmental factors.
Health preservation and health improvement of above mentioned population groups.	Mother and child health improvement project	Ministry of Health, Health Care Institute, Children's Disease Institute	2004, 2005	GMN,, UNICEF	Mortality rate within babies and children under five. Maternal mortality rate. Vaccination scope and contagious disease mortality rate and proportion of disease. Overall fertility rate. Proportion of delivery of children with low physical weight. Malnutrition of children under five.
Health preservation and health improvement of above mentioned population groups.	Mental health improvement strategy and Investment Project for the Mental Health Institute. Action plans in preventing addiction diseases.	Ministry of Health	2004, 2005	GMN, Greek Government, Donors	- Mental disease incidence and prevalence rates. - Rights protection, health care and mental care accessibility in the community. Indicators whether psychiatrist are overloaded.
Ensure standardization of information and better data processing at all public health levels.	Information system project	Ministry of Health, Health Fund, Health Institute	2004	GMN, WB	- Data accessibility for creating health indicators, financial indicators, management decisions and planning.
School children health protection and improvement, as they are particularly vulnerable population group. Incorporate educational health programs into educational system.	Establishing coordination and cooperation between health sector and educational sector	Ministry of Health, MPIN, Montenegro Health Care Institute	2004, 2005	Funds not necessary	- School children vaccination scope. Disease and mortality rates among school children, caused by contagious diseases, injuries and external influences. School children's malnutrition. Incidence and prevalence addiction rate.
Improve public health work	- Technological standards project – Technical assistance - Project of scientific and technological development in public health	Ministry of Health, Health Fund, Health Oriented Scientific and Research Institution	2004-06	GMN, Donors	- Standards - Level of scientific and technological development



## VIII THE DEVELOPMENT AND POVERTY REDUCTION STRATEGY COSTINGS STRUCTURE

### 1. Current public sector resources

1. The DPRS in Montenegro is a multi-dimensional and multi-faceted strategy, characterized by numerous needs on the one hand, and limited financial resources to meet those needs, on the other. The financial sources include both domestic fiscal sources and international assistance, while domestic financing is a pre-condition for obtaining international financial support. Therefore the link between fiscal policies and poverty is recognized as one of the key elements of the DPRS strategy.

2. Consolidated government income in Montenegro in 2002, reached 36.5% of GDP, while the consolidated expenditure has varied between 40.6% of GDP in 2002 and 38.4% of GDP in 2003. These levels are characteristic of successful countries in transition.

Table 8.1 gives the figures for the participation of public income and expenditure in the GDP in the period from 2002 to 2004.

**Table 8.1. Consolidated Public Income and Expenditures**  
( % of GDP)

	2002	2003	2004
	Achieved	Planned	Planned
Overall income	36.5	36.7	36.5
Income from taxes	34.2	34.1	34.6
Including: turnover tax, VAT	8.7	8.4	8.9
Overall expenditures	40.6	38.4	39.2
Current expenditures	38.3	37.4	34.4
Capital expenditures	1.6	36.4	34.4
Reserves	1.0	0.6	0.6
Net lending	0.7	1.3	0.8
Union transfers	0	2.8	2.8
<i>Overall balance before grants</i>	-4	5.7	-4.7
Grants	2.2	1.5	1.0
<i>Overall balance including grants</i>	-2.1	-3.8	-3.7
Financing	-2.1	-3.8	3.7
GDP (€ millions)	1,250	1,375	1,475

Source: IMF County Report No 03/151, June 2003.

3. In the structure of public income, revenue obtained through taxes dominates, and is around 36% for the period analyzed. The stable influx of revenue from tax, as well as the possibility of a gradual increase in the medium-term, is expected as a consequence of the introduction of new taxing laws. These include The Act on Value Added Tax, The Act on Income Tax, as well as the administration and monitoring of tax collection on international trade and transactions.

4. The level of public spending in the 2002-2004 period is characterized by oscillations and a trend in a reduction in spending. In the structure of consolidated costs, the current expenditure amounts to 90% of the total public expenditure, whilst the capital expenditure which can be used for different poverty reduction projects, participates with only 2% of GDP. The structure of current public expenditure points to the significant participation of spending on salaries of employed as well as different household transfers. The expenditures whose ratio in overall spending has been reduced includes expenses for purchase of goods and services, subsidies provided to companies and social welfare (household transfers).

5. An important element in the budget expenditure, apart from the spending on gross salaries and other personal income for the employed, are transfers and social benefits. According to the suggested medium-term budget expenditure plans, there is a clear increase in financial resources allocated for this purpose.

6. The total budget **spending intended for the protection of the poor** in Montenegro was 3.89% in 2003, and the percentage in the 2004 budget remains the same, which means that in the period between 2002 and 2004, an average of 3.50% of GDP is allocated for the protection of the poor. In 2003 as well as in 2001, the most significant resources were allocated for the Republican Employment Office, for redundant workers and for apprenticeship employment.

## 2. Cost of DPRS implementation

7. The total costs of the DPRS in Montenegro are € 439,8 million for the three year period from 2004 – 2006, which amounts to € 146 million per year. The given costing does not include all the proposed projects, which are directed at poverty reduction, but only those, which represent high priority incremental DPRS expenditures. Necessary infrastructure projects, which significantly impact on poverty levels, and call for significant financial investment, are not included in these calculations, because of the need to attract large financial resources, and they are separately calculated (Table 8.6).

8. The sectors included in the Strategy are: agriculture, education, health, energy, employment, social protection, transport, water supply, forestry and the environment. In the spending structure, the priority sectors are: education 22%, agriculture and rural development 15%, social protection 12,5%, employment 11% and health 11%. The high ratio of total spending allocated for agriculture and rural development, is due to the fact that different projects are covered under this budget line including, the social protection of agricultural producers (allowances for the elderly), projects stimulating employment in agriculture, as well as rural infrastructure development. The total costs of the DPRS, including a breakdown, are given in Table 8.2.

**Table 8.2. The Breakdown of DPRS Costs  
in € millions and % of GDP**

	2004	2005	2006	2004-2006	
<b>DPRS Costs</b>	<b>133.4</b>	<b>165.2</b>	<b>140.5</b>	<b>439.77</b>	<b>100.0</b>
	in € millions				u%
Agriculture and rural development*	20.0	21.5	23.4	64.9	14.8
Education	32.3	31.8	32.6	96.7	22.0
Health	8.4	31.8	7.2	47.4	10.8
Energy	4.7	9.6	7.5	21.8	5.0
Employment	18.4	15.7	15.8	49.9	11.4
Social protection	17.1	17.3	20.4	54.7	12.5
Transport	10.0	10.9	10.8	31.7	7.2
Water Supply	4.5	4.8	4.4	13.7	3.1
Forestry	10.6	13.3	8.2	32.1	7.3
Environment	7.4	8.6	10.4	26.4	6.0

\* Includes social protection, employment and rural infrastructure

9. The proposed sectoral projects included in the Strategy, mainly represent new initiatives of special importance in poverty reduction, but which call for the securing of additional financial resources. The necessary amount of resources for these needs, amount to around 9% of GDP per year. However, part of this increase will come from relocation and savings within the present budget. Therefore the volume of consolidated expenditure which include DPRS costs reaches around 45% of the GDP.

10. The financial resources for DPRS projects need to be secured from existing domestic and foreign sources. The part of the resources from domestic sources amounts to around 40% of the total costs, which on average amounts to approximately € 58 million per year. While these resources will be secured largely within existing fiscal sources, a small amount is envisaged to come from revenue growth.

11. Foreign financial assistance is projected to cover around 60% of financing DPRS projects, that is with around € 88 million per year. Half of these resources shall be made available through grants, while the rest shall be obtained through loans. The total breakdown of the planned DPRS financing structure is given in Table 8.3.

**Table 8.3.**  
**The Breakdown of the DPRS project financing structure**  
**In € millions and % of GDP**

	2004	2005	2006
Consol. Public Sector Expend	566	622	699
Participation % in GDP	38.4	39.2	40.7
DPRS Expenditures, Total	133.7	165.5	140.5
Less: budgetary savings/relocations	42.8	53.0	45.0
Total public expenditure including DPRS	656.9	734.5	794.5
participation % in GDP	44.5	46.3	46.3
Total DPRS Expenditures	133.7	165.5	140.5
Domestic sources <sup>1</sup>	53.5	66.2	56.2
Foreign financing	80.2	99.3	84.3
of which: grants	40.1	49.7	42.2
	participation % in GDP		
DPRS Expenditures	9.1	10.4	8.2
Additional resources necessary for DPRS/GDP	6.1	7.1	5.5
New domestic sources <sup>2</sup>	0.7	0.8	0.6
Foreign financing	5.4	6.3	4.9
of which: grants	2.7	3.1	2.5
GDP	1.475	1.587	1.717

<sup>1</sup> Resources from budget savings, reallocation and revenue growth.

<sup>2</sup> Resources from new revenue measures.

### **3. An assessment of the financial resources needed for the elimination of poverty**

12. While the DPRS costs may seem to be very large, they can be put in the context of the poverty gap analysis of Chapter 2. From the analysis of poverty and the poverty gap, the necessary financial resources needed to eliminate absolute poverty in Montenegro in 2003 are calculated to be € 37.5 million. This assumes with perfect targeting of social welfare benefits, an annual transfer to the poor of this amount would be sufficient to eliminate poverty. However, the assumption of «perfect» targeting of social welfare is unrealistic, and the real resources needed for eliminating poverty are likely to be a few times higher than the minimal amount.

13. The real resources needed to eliminate poverty are definitely significantly higher, especially when the multi-dimensional nature of poverty is taken into account such as education, infrastructure, accommodation and health, where perfect targeting is impossible. In market economies, these resources are at least two times higher than the minimum amount needed to eliminate absolute poverty in condition of perfect

targeting. In countries in transition, for \$1 of assistance to the poor, between \$1.5 and \$8 have been spent, excluding administrative costs of assistance distribution<sup>179</sup>.

**Table 8.4. Financial resources necessary for eliminating absolute poverty in Montenegro in 2003**

	Total	Domestic population	RAE	Refugees	IDPs
Average expenditure of the poor <sup>1</sup>	81.45	83.7	64.6	79.9	85.5
% in poverty (poverty line = €116,2 per month)	12.2	9.6	52.3	38.8	38.6
The average income gap in €	34.7	32.5	51.6	36.3	30.7
The average deficit from the poverty line (%)	29.9	28.0	44.4	31.2	26.4
Necessary resources needed for eliminating absolute poverty <sup>2</sup>	37.4	24.7	6.5	2.2	4.0

<sup>1</sup> per month

<sup>2</sup> Assuming perfect targeting in € millions, per annum

14. Starting from the amount needed to eradicate absolute poverty and including the associated manipulative costs, an amount of the necessary resources at the annual level has been determined. And so the necessary resources for priority projects in 2004 amount to € 134 million, and €165.6 million and €140 million for 2005 and 2006 respectively. The amounts are about four times higher than the income gap identified above, which implies a targeting efficiency of around 25% would be required.

15. These projected expenditures imply a significant increase, with a doubling of current levels of foreign financing. The program is ambitious, and may strain implementation capacities. However, the expenditure program defines a strategy and an envelope of priority needs. If financial and constitutional constraints are binding, the planned program could well be extended beyond the 2004-06 period, and be carried out over a period of five or more years. The importance of the program is not so much the financial amounts, but the establishment of priorities that provides a framework for the harmonization of foreign assistance.

16. The total value of the proposed projects is € 440 million, out of which € 172 million will be secured through domestic funding, and € 267 million is anticipated from international donors during the upcoming three year period (2003-2006). The average domestic financial resources per year are € 54 million, and the anticipated average foreign support is € 76 million. The total costings for DPRS implementation, by sector, including all individual projects, is given in Table 8.5.

17. The costings for infrastructure projects which are important for poverty reduction and eradication efforts, are given in a separate table (Table 8.6), because of their high costs (€ 166 million).

18. The most urgent costs of the DPRS, which particularly relate to RAE, refugees and IDPs are given in an additional table (Table 8.7). It is anticipated that these projects shall receive international financial support.

<sup>179</sup> Braithwaite, J. Grootaert, C and Milanovic, B. 1999, Poverty and Social Assistance in Transition Countries

Table 8.5 Proposed DPRS Project Costings

	Costs			
	2004-2006	2004	2005	2006
<b>Total DPRS Expenditures</b>	<b>439.77</b>	<b>133.74</b>	<b>165.55</b>	<b>140.47</b>
<b>LOCAL FUNDING</b>	<b>172.51</b>	<b>49.08</b>	<b>55.59</b>	<b>56.89</b>
<b>INTERNATIONAL FUNDING</b>	<b>267.24</b>	<b>76.31</b>	<b>78.16</b>	<b>76.37</b>
<b>1. SECTOR OF SOCIAL CARE- TOTAL EXPENDITURES</b>	<b>54.75</b>	<b>17.13</b>	<b>17.26</b>	<b>20.36</b>
<b>LOCAL FUNDING</b>	<b>5.38</b>	<b>2.03</b>	<b>1.7</b>	<b>1.65</b>
<b>INTERNATIONAL FUNDING</b>	<b>49.37</b>	<b>15.1</b>	<b>15.56</b>	<b>18.71</b>
<b>SOCIAL AND CHILD PROTECTION</b>				
<b>The Budget for social welfare for the year 2004 was set at 24.54 million. Euros. Overdue financial obligations ranging from 200-03 are 18.7 mill Euros.</b>				
Providing minimum funds necessary for the living of social and child protection beneficiaries	0	0	0	0
Passing the new law and by-laws on social protection	0.05	0.05	0	0
Passing the new legal acts on social protection of residents in municipalities	0.21	0.21	0	0
Establishing committees for social and child protection in municipalities	0	0	0	0
Development of indicators for monitoring financial vulnerability	0	0	0	0
Development of integrated and unique information system of social and child protection in Montenegro and vertical expansion of information system in municipalities	3.00	1.00	1.00	1.00
Establishment of the research, evaluation and supervision unit within MLSA	0.15	0.05	0.05	0.05
Development of service standards	0	0	0	0
Development of family accommodation and foster care	1.50	0.50	0.50	0.50
Improving professional competence of the staff within social protection	0.30	0.10	0.10	0.10
Building shelter capacities for the elderly with mental disorders (locals and refugees)	3.20	0.10	0.10	3.00
Development of family accommodation for the elderly without family care	0.60	0.20	0.20	0.20
Development of the mobile team network for urgent health and social protection of the elderly without family care in remote villages	0.60	0.20	0.20	0.20
Development Day-care centers for children with special needs	1.20	0.30	0.40	0.50
Development of family accommodation for disabled adults without family care, who are in need of permanent shelter	0.30	0.10	0.10	0.10
Economic and social empowerment of adults with disability	1.50	0.50	0.50	0.50
Establishing four family advisory councils	0.80	0.10	0.30	0.40
Establishing safe house for abused children and women in Podgorica	0.60	0.50	0.05	0.05
Programs on social inclusion of Roma children in community	3.00	1.00	1.00	1.00
Establishing the fund for innovations in social and child protection	1.50	0.50	0.50	0.50
Improvement of urban and housing aspects of poverty (Construction of affordable apartments for domicile population, RAE, IDP's and Refugees)	3	1	1	1
Family Material Support for RAE (2000 families)	6.72	2.24	2.24	2.24
Family Material Support for refugees and IDP's (4000 families)	12	4	4	4
<b>1. Total</b>	<b>40.23</b>	<b>12.65</b>	<b>12.24</b>	<b>15.34</b>
<b>2. Local funding</b>	<b>1.46</b>	<b>0.46</b>	<b>0.50</b>	<b>0.50</b>

2.1 Budget of the Republic	1.46	0.46	0.50	0.50
3. International funding	38.77	12.19	11.74	14.84
3.2. Donations	38.77	12.19	11.74	14.84
<b>PROTECTION OF VETERANS AND DISABLED PEOPLE</b>				
<b>Budget for provision of support to veterans amounts to to 8.2 mill Euros</b>				
Passing the new law on protection of veterans and disabled people	0.02	0.02	0	0
Providing stable resources for realization of rights	0	0	0	0
<b>1. Total</b>	<b>0.02</b>	<b>0.02</b>	<b>0</b>	<b>0</b>
<b>2. Local funding</b>	<b>0.02</b>	<b>0.02</b>	<b>0</b>	<b>0</b>
2.1 Budget of the Republic	0.02	0.02	0	0
<b>PROTECTION OF RETIREES AND THE ELDERLY</b>				
<b>Annual budget of PIO fund comes to 180 mill Euros. Portion missing for 2004 is 52 mill Euro and it will be provided by the budget of MN.</b>				
Providing necessary funds for regular pension payments	0	0	0	0
Passing the by-laws necessary for implementation of the new law	0.05	0.05	0	0
Staff education and technical training	0.1	0.1	0	0
Reform of the Pension Insurance Fund System	0.1	0.1	0	0
Analysis and formulating institutional assumptions for introduction of second pillar	1.05	0.05	0.5	0.5
Establishing legal framework for forming and regulating the market of private voluntary pension funds	1.05	0.05	0.5	0.5
Strengthening institutional and other services for most vulnerable retirees and elderly people	0	0	0	0
<b>1. Total</b>	<b>2.35</b>	<b>0.35</b>	<b>1</b>	<b>1</b>
<b>2. Local funding</b>	<b>0.35</b>	<b>0.35</b>	<b>0</b>	<b>0</b>
2.1 Budget of the Republic	0.35	0.35	0	0
<b>3. International funding</b>	<b>2</b>	<b>0</b>	<b>1.00</b>	<b>1.00</b>
3.1 Loans	2		1.00	1.00
<b>GENDER EQUALITY</b>				
Annual Budget for Gender equality office is 140 thousand Euros in 2004.				
Passing new laws providing the establishment of gender statistics	0.15	0.05	0.05	0.05
Stimulating education and research within gender studies domain	0.06	0.02	0.02	0.02
Passing the law on gender equality	0.02	0.02	0	0
Drafting the National Action Plan for achieving gender equality	0.02	0.02	0	0
Conducting educational campaigns on women health protection as well as gender equality	0.15	0.05	0.05	0.05
Performing activities related to elimination of gender disparity in education, as well as inclusion of gender equality principle into school curricula, programs and textbooks	0	0	0	0
Providing gender equality regarding achievement of the right to work	0	0	0	0
Performing activities related to economic empowerment of women and women entrepreneurship strengthening	0	0	0	0
Activities related to elimination of family violence and violence over women	0	0	0	0
Activities related to women inclusion into the process of planning, decision-making and implementing environmental protection programs	0	0	0	0
<b>1. Total</b>	<b>0.40</b>	<b>0.16</b>	<b>0.12</b>	<b>0.12</b>
<b>2. Local funding</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

3. International funding	0.40	0.16	0.12	0.12
3.2. Donations	0.40	0.16	0.12	0.12
<b>POVERTY REDUCTION AMONG CHILDREN AND YOUTH</b>				
Providing support to poor families with children and youth	1.80	0.60	0.60	0.60
Providing access to social services	1.50	0.50	0.50	0.50
Development of quality services adapted to children and youth	0.90	0.30	0.30	0.30
Developing preventive and treatment programs as well as repressing socially unacceptable behavior of children and youth (substance abuse, delinquency...)	6.00	2.00	2.00	2.00
Drafting the National Strategy for Children	0.00	0.00	0.00	0.00
Drafting the National Strategy for Youth	0.00	0.00	0.00	0.00
<b>1. Total</b>	<b>10.20</b>	<b>3.40</b>	<b>3.40</b>	<b>3.40</b>
2. Local funding	3.00	1.00	1.00	1.00
2.1 Budget of the Republic	3.00	1.00	1.00	1.00
3. International funding	7.20	2.40	2.40	2.40
3.2. Donations	7.20	2.40	2.40	2.40
<b>PEOPLE WITH DISABILITY</b>				
Development of support program for disabled persons and their families	0.00	0.00	0.00	0.00
Performing the activities providing disabled persons with better access to public facilities	1.50	0.50	0.50	0.50
Development of urban standards for physical barriers removal	0.05	0.05	0.00	0.00
Development of specific education programs for disabled persons (education budget)	0.00	0.00	0.00	0.00
Development of employment programs for disabled persons (employment budget)	0	0	0	0
<b>1. Total</b>	<b>1.55</b>	<b>0.55</b>	<b>0.50</b>	<b>0.50</b>
2. Local funding	0.55	0.20	0.20	0.15
2.1 Budget of the Republic	0.55	0.20	0.20	0.15
3. International funding	1.00	0.35	0.30	0.35
3.2. Donations	1.00	0.35	0.30	0.35
<b>2. LABOUR MARKET AND EMPLOYMENT (Without funds to be provided through banking sector)</b>				
<b>LOCAL FUNDING</b>	<b>27.86</b>	<b>9.56</b>	<b>8.99</b>	<b>9.31</b>
<b>INTERNATIONAL FUNDING</b>	<b>22.06</b>	<b>8.86</b>	<b>6.75</b>	<b>6.45</b>
<b>5.14 mil Euros is allocated for new employment positions (Republican Employment Office and ADSME). Additional resources shall be provided by Fund for development and obtained through privatization</b>				
<i>Institutional reform (total):</i>	<b>1.65</b>	<b>0.65</b>	<b>0.50</b>	<b>0.50</b>
Passing Republican Laws within labor legislation	0.03	0.03	-	-
Ratification of International Conventions	0.05	0.05		
Development of business and other partnerships	0.04	0.04		
Reform of Employment Bureau	1.50	0.50	0.50	0.50
Strengthening cooperation between competent Ministry and ILO	0.03	0.03		
<i>Programs of stimulation of new employment (total)</i>	<b>29.60</b>	<b>10.70</b>	<b>9.45</b>	<b>9.45</b>
Programme of running stimulation of employment and entrepreneurship	4.50	1.50	1.50	1.50
Programmes of active solving of hidden employment issues	5.00	2.00	1.50	1.50
Programme of employment of disabled persons	3.00	1.50	0.75	0.75
Programme of public works	0.90	0.30	0.30	0.30
Program of apprentices employment	10.50	3.50	3.50	3.50
Other programmes as a stimulation of new employment (system of	4.50	1.50	1.50	1.50

additional training, re-training and additional education, seasonal employment, employment abroad and similar)				
Employment programmes for RAE- Manufacturing centers	1.20	0.40	0.40	0.40
<i>Programs of development of SMEs (total)</i>	<b>18.68</b>	<b>7.07</b>	<b>5.79</b>	<b>5.81</b>
Growth of competitive capacity of local production	3.70	1.23	1.24	1.23
Stimulating the successful project	2.59	0.86	0.86	0.87
Industrial parks	0.65	0.22	0.22	0.21
Agricultural parks	0.40	0.13	0.13	0.14
Internet park	0.20	0.07	0.07	0.06
Fund for Diaspora	1.35	0.45	0.45	0.45
Large enterprises generate small enterprises	0.25	0.08	0.08	0.09
Employment in agriculture	3.07	1.03	1.02	1.02
Employment in tourism	3.51	1.17	1.17	1.17
Employment in other production sectors	1.10	0.36	0.36	0.38
Initiative for support of entrepreneurship	0.07	0.07	-	-
Entrepreneurship clubs in elementary schools	0.20	0.07	0.07	0.06
Young people in business	0.40	0.13	0.13	0.13
Tam Bas project	1.20	1.20	-	-
<b>1. Total</b>	<b>49.93</b>	<b>18.42</b>	<b>15.74</b>	<b>15.76</b>
<b>2. Local funding (Budget, Montenegrin Employment Office)</b>	27.86	9.56	8.99	9.31
<b>3. International funding</b>	22.06	8.86	6.75	6.45
3.1. Donations	12.06	4.86	3.75	3.45
3.2. Loans	10.00	4.00	3.00	3.00
<b>3. EDUCATION</b>	<b>96.74</b>	<b>32.32</b>	<b>31.87</b>	<b>32.55</b>
<b>LOCAL FUNDING</b>	<b>22.19</b>	<b>4.37</b>	<b>6.54</b>	<b>11.28</b>
<b>INTERNATIONAL FUNDING</b>	<b>74.55</b>	<b>27.95</b>	<b>25.33</b>	<b>21.27</b>
<b>Budget for education sector for 2004 is 89 mil Euros</b>				
Increased enrolment rate of children in preschool education	<b>10.80</b>	3.60	3.60	3.60
Reconstruction and adjustment of facilities in areas with a high poverty rate, with inclusion of Roma children and children with special needs	<b>1.70</b>	0.60	0.60	0.50
Media campaign and promotion of projects for including children from poor families, children with special needs, and Roma children in kindergartens and primary schools	<b>0.50</b>	0.10	0.20	0.20
Training of teachers and other staff for work with Roma children in native language in institutions for preschool education.	<b>1.87</b>	0.62	0.62	0.63
Enlargement of capacities of primary schools in order to increase quality of education and increase in number of children due to implementation program of 9-year education	<b>12.00</b>	4.00	4.00	4.00
Construction adjustment of facilities according to needs of children with special needs	<b>2.40</b>	0.80	0.80	0.80
Providing additional conditions for children of refugees and dislocated persons, and support to Roma families that educate children	<b>2.50</b>	0.75	0.75	1.00
Preparation of programs for additional education of Roma children including additional lessons for learning language of local population	<b>1.20</b>	0.40	0.40	0.40
Equipping of classrooms and workshops of existing primary schools and purchase of didactic material in order to increase quality of teaching process	<b>2.50</b>	0.50	1.00	1.00
Providing free and subsidized textbooks for pupils from poor families	<b>1.60</b>	0.50	0.50	0.60
Planned initial training for teachers in compulsory education and training for realization of new curricula, and preparation of teachers for new procedures of evaluation and assessment	<b>1.80</b>	0.60	0.60	0.60
Preparation of new curricula in primary schools	<b>1.50</b>	0.50	0.50	0.50

Providing facilities, equipping of laboratories, classrooms and purchase of didactic material	<b>3.22</b>	2.30	0.45	0.47
Preparation and realization of external examination system	<b>0.60</b>	0.10	0.20	0.30
Reconstruction of existing school facilities and equipping of schools	<b>0.90</b>	0.30	0.30	0.30
Preparation of new curricula for general secondary schools and teacher training	<b>0.65</b>	0.38	0.19	0.08
Construction of new school facilities for education of young and adult participants	<b>4.60</b>	-	2.30	2.30
Establishing and equipping Training Centers	<b>3.00</b>	1.00	1.00	1.00
Adjusting vocational school curricula to labor market demands and improving harmonization between education and employment policies	<b>1.50</b>	0.40	0.50	0.60
Preparation and realization of programs for functional literacy of population	<b>2.00</b>	0.50	0.50	1.00
Equipping classrooms of music and art schools	<b>0.98</b>	0.35	0.35	0.28
Providing teaching aids and equipment for realization of programs in vocational education	<b>1.70</b>	0.55	0.55	0.60
Reconstruction of existing school facilities	<b>1.10</b>	0.30	0.40	0.40
Introduction of upper vocational education	<b>1.00</b>	0.20	0.40	0.40
Preparation of programs and providing stimulus measures for enrolment of pupils in education and training programs for occupations in agriculture, tourism and service area	<b>0.90</b>	0.30	0.30	0.30
Preparation of teachers of vocational subjects and training for realization of programs according to new methods and with new teaching aids	<b>0.90</b>	0.20	0.30	0.40
Preparation of new curricula in secondary schools	<b>1.50</b>	0.30	0.50	0.70
Preparation of programs and realization of training for unemployed persons and surplus workers	<b>1.00</b>	0.25	0.25	0.50
Preparation of law on national qualifications	<b>0.02</b>	0.02	-	-
Support of institutions in realization of training programs and training of working population without qualifications (poor, Roma population, etc.)	<b>1.40</b>	0.40	0.50	0.50
Preparation of adjusted literacy programs for Roma population, and children who did not start compulsory education on time	<b>1.20</b>	0.40	0.40	0.40
Establishing system of quality in education through development and equipping of Center for Vocational Education, Bureau for Education Service and Examination Center	<b>5.00</b>	2.70	2.00	0.30
Preparation of programs and realization of training for teachers and school managers through the project "Permanent Professional Development"	<b>1.00</b>	0.20	0.40	0.40
Introduction of external assessment system	<b>0.90</b>	0.20	0.20	0.50
Enlargement of capacities of students` and pupils` dormitories	4.20	2.10	-	2.10
Establishing adequate system of advancement that motivates teacher on continuative improvement	0.80	0.25	0.25	0.30
Equipping of selected schools and establishing informative network for education process – II phase	<b>3.00</b>	2.50	0.50	-
Establishing administrative network and management in education, and further equipping and connecting schools in educational network – III phase	<b>2.00</b>	-	1.00	1.00
Education of teachers for realization of educational programs, using IT	<b>0.90</b>	0.30	0.30	0.30
Preparation and publishing textbooks for compulsory and general secondary education	<b>3.14</b>	1.00	1.00	1.14
Publishing textbooks for vocational education, adult education	<b>1.76</b>	0.35	0.66	0.75
Preparation of textbooks in Roma language	<b>0.50</b>	0.10	0.20	0.20
Improvement of conditions for realization of education process, and equipping schools for children with special needs with equipment and other aids	<b>1.00</b>	0.40	0.40	0.20

Quality system on University	4.00	1.00	2.00	1.00
<b>1. Total</b>	<b>96.74</b>	<b>32.32</b>	<b>31.87</b>	<b>32.55</b>
<b>2. Local funding</b>	<b>22.19</b>	<b>4.37</b>	<b>6.54</b>	<b>11.28</b>
2.1 Budget	13.37	2.84	4.05	6.52
2.2. Local community	6.02	1.07	1.69	3.26
2.3. Another	2.8	0.5	0.8	1.5
<b>3. International funding</b>	<b>74.55</b>	<b>27.95</b>	<b>25.33</b>	<b>21.27</b>
3.1.Loans	31.5	10	10.5	11
3.2. Donations	33.37	10.00	11.01	12.36
<b>4. AGRICULTURE AND RURAL DEVELOPMENT</b>	<b>64.87</b>	<b>20.00</b>	<b>21.51</b>	<b>23.36</b>
<b>LOCAL FUNDING</b>	<b>31.50</b>	<b>10.00</b>	<b>10.50</b>	<b>11.00</b>
<b>INTERNATIONAL FUNDING</b>	<b>33.37</b>	<b>10.00</b>	<b>11.01</b>	<b>12.36</b>
<b>Agricultural budget for 2004 is 9 mil Euros</b>				
Building institutional capacities and support for cattle farming	8.83	2.80	2.94	3.09
Implementation of obligatory measures in veterinary service provision	3.94	1.25	1.31	1.38
Building institutional capacities and support for honey processing	0.63	0.20	0.21	0.22
Building institutional capacities and support to fish production (fresh water and sea fish)	1.58	0.50	0.53	0.55
Building institutional capacities and support for plant production (vegetable, fruit and wine production)	4.10	1.30	1.37	1.43
Organic food production	1.26	0.40	0.42	0.44
Provision of agricultural subsidies/credits	0.47	0.15	0.16	0.17
Implementation of the international support to agriculture program	0.95	0.30	0.32	0.33
Rural infrastructure development	4.73	1.50	1.58	1.65
Improving market access for Montenegrin agricultural products	6.34	2.01	2.11	2.22
The organization of agricultural fairs	0.95	0.30	0.32	0.33
Reform of cooperatives and stimulation of other forms of association	0.25	0.08	0.08	0.09
Project and feasibility study development with participation of consultants	1.58	0.50	0.53	0.55
Human resources development	0.47	0.15	0.16	0.17
Provision of equipment for inspection services	0.63	0.20	0.21	0.22
Introduction of old people's allowance	6.94	2.20	2.31	2.43
Young farmers support program	1.42	0.45	0.47	0.50
Provision of equipment for secondary schools and laboratory equipment for institutes	0.63	0.20	0.21	0.22
Enable functioning of mycology center	0.16	0.05	0.05	0.06
Establishment of Information system and registry in agriculture	1.58	0.50	0.53	0.55
Publishing, public relations, provision of literature	0.63	0.20	0.21	0.22
Resources for compensation of damage and other <i>ad hoc</i> measures	0.50	0.16	0.17	0.18
Program for increasing land cultivation	2.52	0.80	0.84	0.88
Provision of credits for new farms, greenhouse production, wine production and seedling production	13.80	3.80	4.50	5.50
<b>1. Total</b>	<b>64.87</b>	<b>20.00</b>	<b>21.51</b>	<b>23.36</b>
<b>2. Local funding</b>	<b>31.50</b>	<b>10.00</b>	<b>10.50</b>	<b>11.00</b>
2.1 Budget	28.50	9.00	9.50	10.00
<b>2.2. Local community</b>	<b>1.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
<b>2.3. Associations of agricultural producers</b>	1.50	0.50	0.50	0.50
<b>3. International funding</b>	<b>33.37</b>	<b>10.00</b>	<b>11.01</b>	<b>12.36</b>
<b>5. ENERGY</b>	<b>21.75</b>	<b>4.7</b>	<b>9.55</b>	<b>7.5</b>
<b>LOCAL FUNDING</b>	<b>7.75</b>	<b>1.675</b>	<b>3.41</b>	<b>2.665</b>

<b>INTERNATIONAL FUNDING</b>	<b>14</b>	<b>3.025</b>	<b>6.14</b>	<b>4.835</b>
Institutional capacity building for the Energy Regulatory Agency	0.8	0.4	0.4	0
Establishing of the Energy Efficiency Office within the Ministry of Economy and its capacity building	0.7	0.35	0.35	0
Restructuring the Electricity Company of Montenegro: decentralizing of production, transmission and distribution, increasing efficiency, achieving positive financial flows and privatization	1.5	0.6	0.6	0.3
Program of measures aimed at reducing commercial losses (improving collection and enforcement of current regulations)	0.4	0.1	0.3	0
Program of targeted subsidies for the poorest categories of the population	2.1	0.6	0.7	0.8
Preparation of energy strategy	1.8	0.6	1.2	0
National plan on energy saving and efficiency	0.8	0.3	0.5	0
Educational campaigns on energy saving measures and increasing energy efficiency (for population and industry)	0.5	0.1	0.2	0.2
Pilot project: increase of energy efficiency in the public sector (schools, hospitals, institutions, street lighting) in selected municipalities	1	0	0.4	0.6
Urgent measures for decreasing technical losses at all stages of electricity production, transmission and distribution	3	1	1	1
Pilot project: energy from wind	0.65	0.65	0	0
Pilot project: enhancing solar energy use in central and southern regions	1	0	0.4	0.6
Reconstruction of electrostatic precipitators at TPP Pljevlja	3.5	0	1.5	2
Replace/reconstruct ash and slag discharge at Pljevlja TPP	2	0	2	0
Remediation/stabilization of the current dumpsite and finding a permanent solution for ash and slag disposal for TPP Pljevlja	2	0	0	2
<b>1. Total</b>	<b>21.75</b>	<b>4.7</b>	<b>9.55</b>	<b>7.5</b>
<b>2. Local funding</b>	<b>7.75</b>	<b>1.675</b>	<b>3.41</b>	<b>2.665</b>
2.1 Budget	3.56	1.045	1.505	1.01
2.2. Own resources	3.64	0.63	1.685	1.325
2.3. Local community	0.25	0	0.1	0.15
2.4. Private sector	0.3	0	0.12	0.18
<b>3. International funding</b>	<b>14</b>	<b>3.025</b>	<b>6.14</b>	<b>4.835</b>
3.1 Loans	6.125	0.75	2.625	2.75
3.2. Donations	7.875	2.275	3.515	2.085
<b>6. TRANSPORTATION</b>	<b>31.65</b>	<b>10</b>	<b>10.85</b>	<b>10.8</b>
<b>LOCAL FUNDING</b>	<b>29.49</b>	<b>8.965</b>	<b>10.025</b>	<b>10.5</b>
<b>INTERNATIONAL FUNDING</b>	<b>2.16</b>	<b>1.035</b>	<b>0.825</b>	<b>0.3</b>
Adopt new legislation:	0.1	0.1	0	0
a) Law on Railway				
b) Law on Road Transport				
c) Law on Marine Transport				
d) Road Act				
Improve management and efficiency of public companies that provide transport services	1.2	0.4	0.4	0.4
Prepare transport strategy based on sustainability and participatory planning principles	1.5	0.75	0.75	0
Regular maintenance of main and regional roads during off-winter season	15.8	4.7	5.3	5.8
Regular maintenance of main and regional roads during winter season	12.5	3.7	4.2	4.6
Fuel quality control analysis and measures (% content of sulphur, content of lead)	0.2	0	0.2	0
Control measures and pollution reduction in ports, marinas and ship-	0.35	0.35	0	0

overhaul areas				
<b>1. Total</b>	<b>31.65</b>	<b>10</b>	<b>10.85</b>	<b>10.8</b>
<b>2. Local funding</b>	<b>29.49</b>	<b>8.965</b>	<b>10.025</b>	<b>10.5</b>
2.1 Budget	29.49	8.965	10.025	10.5
2.2. Own resources	0	0	0	0
<b>3. International funding</b>	<b>2.16</b>		<b>0.825</b>	<b>0.3</b>
3.1 Loans	0	0	0	0
3.2. Donations	2.16	1.035	0.825	0.3
<b>7. WATERSUPPLY AND SANITATION</b>	<b>13.75</b>	<b>4.525</b>	<b>4.825</b>	<b>4.4</b>
<b>LOCAL FUNDING</b>	<b>6.675</b>	<b>2.1375</b>	<b>2.2575</b>	<b>2.28</b>
<b>INTERNATIONAL FUNDING</b>	<b>7.075</b>	<b>2.3875</b>	<b>2.5675</b>	<b>2.12</b>
Undertake analyses of the existing legislation and identify areas that need to be harmonized with the EU Directives on Drinking Water (98/83 EC) and Urban Wastewater (91/271 EEC)	0.15	0.075	0.075	0
Finalizing the legislation needed for public utility companies restructuring and commercialization and the private sector involvement	0	0	0	0
Capacity building of public utility companies (selected municipalities) through:	2	0.4	0.8	0.8
a) Assistance with functional separation of companies in charge of water supply and sewage				
b) Staff training programs covering public utility companies				
c) Technical assistance in project preparation				
d) Improve operational and financial management of PUCs				
Prepare strategy for raising the funds necessary to improve water supply and sewage (based on the existing studies and forthcoming wastewater strategic plans)	0.5	0	0.5	0
Introduce water consumption subsidies for the poorest households	0.4	0	0	0.4
Urgent measures to decrease water losses and improve services (priority to be given to municipalities with highest losses in water supply):	4.5	2	1.25	1.25
a) Reduction of losses in water supply systems				
b) Construction of water reservoirs in order to increase reservoir capacity to approx. 30-35% of the max. daily water intake from water springs				
c) Provide automatic control equipment and devices for water supply systems				
Introduce water supply system projects for urban areas where some socially marginalized groups live – such as Roma, IDPs, illegally built settlements	3.75	1.25	1.25	1.25
Improve water quality in municipalities where there is a high incidence of water samples that do not meet standards (Andrijevica, Plužine, Tivat, Ulcinj)	0.6	0.3	0.3	0
Improve water supply in rural areas and involve local population in such projects	1.2	0.4	0.4	0.4
Protection measures for water springs that are currently not used, as well as for potential springs of drinking water	0.3	0.1	0.1	0.1
Provision of sewage disposal facilities at urban locations where some socially marginalized groups live – such as Roma, IDP and illegal settlements	0.35	0	0.15	0.2
<b>1. Total</b>	<b>13.75</b>	<b>4.525</b>	<b>4.825</b>	<b>4.4</b>
<b>2. Local funding</b>	<b>6.675</b>	<b>2.1375</b>	<b>2.2575</b>	<b>2.28</b>
2.1 Budget	3.385	0.9775	1.0325	1.375

2.2. Own sources	1.64	0.605	0.6025	0.4325
2.3. Local authority	1.65	0.555	0.6225	0.4725
<b>3. International financing</b>	<b>7.075</b>	<b>2.3875</b>	<b>2.5675</b>	<b>2.12</b>
3.2. Donations	7.075	2.3875	2.5675	2.12
<b>8. FORESTRY AND WATER MANAGEMENT</b>	<b>32.06</b>	<b>10.585</b>	<b>13.325</b>	<b>8.15</b>
<b>LOCAL FUNDING</b>	<b>19.976</b>	<b>7.356</b>	<b>8.515</b>	<b>4.105</b>
<b>INTERNATIONAL FUNDING</b>	<b>12.084</b>	<b>3.229</b>	<b>4.81</b>	<b>4.045</b>
Preparation of the new Law on Water in compliance with EU Water Framework Directive and harmonization of other regulations	0.25	0.15	0.1	0
Establishing of the Water Regulatory Agency and its financing	3	0.7	1	1.3
Capacity building of Water Regulatory Agency	0.8	0	0.5	0.3
Establishing of river basin administrative bodies and their capacity building	1	0	0.6	0.4
Support for restructuring of wood cutting and processing enterprises	8.5	4.5	4	
Strengthening of information systems:	0			
a) Introduce geographic information system for the forestry sector	4.5	1.5	1.5	1.5
b) Prepare for the introduction of water information system	1.5	0	0.75	0.75
Campaigns for improving enforcement of regulations, particularly as to unacceptable utilization of natural resources (such as illegal wood cutting and extraction of river-bed materials, poaching, etc.)	0.05	0.025	0.025	0
Prepare forestry development strategy based on participatory planning and sustainable management principles	0.8	0.4	0.4	0
Analysis of forest withering and diseases and prevention measures (Part I of the IFI Program)	1	0.5	0.5	0
Upgrade fire protection systems (incl. equipment provision, training, public campaigns)	1.5	0.8	0.4	0.3
Develop seeds and seedlings production, including licensing of seedling facilities, revitalization of the existing nurseries and construction of new ones	3	0.9	0.9	1.2
Program for improving degraded forest areas and reforestation of the cleared areas	1.26	0.06	0.6	0.6
Utilization and protection of wild mushrooms as a forest resource	2.7	0.7	1	1
Sanitation of eroded areas and torrents regulation in endangered areas:	0			
a) Analyze the present conditions / feasibility study	0.7	0.35	0.35	
b) Pilot Project - Lim and Tara river basins, integral risk management	1.5		0.7	0.8
<b>1. Total</b>	<b>32.06</b>	<b>10.585</b>	<b>13.325</b>	<b>8.15</b>
<b>2. Local funding</b>	<b>19.976</b>	<b>7.356</b>	<b>8.515</b>	<b>4.105</b>
2.1 Budget	14.293	6.0405	6.2425	2.01
2.2. Own Resources	4.033	0.9655	1.6325	1.435
2.3. Local community	0.15	0	0.07	0.08
2.4. Private sector	1.5	0.35	0.57	0.58
<b>3. International funding</b>	<b>12.084</b>	<b>3.229</b>	<b>4.81</b>	<b>4.045</b>
3.1 Loans	0	0	0	0
3.2. Donations	12.084	3.229	4.81	4.045
<b>9. ENVIRONMENTAL PROTECTION</b>	<b>26.37</b>	<b>7.4</b>	<b>8.6</b>	<b>10.37</b>
<b>LOCAL FUNDING</b>	<b>10.741</b>	<b>2.99</b>	<b>3.65</b>	<b>4.101</b>
<b>INTERNATIONAL FUNDING</b>	<b>15.63</b>	<b>4.41</b>	<b>4.95</b>	<b>6.27</b>
Undertake analysis of the existing legislation and identify areas that need to be harmonized with relevant EU directives on waste and air	0.20	0.10	0.10	0.00
Revise Decrees on Environmental Impact Assessment and	0	0	0	0

Environmental Pollution Charges				
Revise legislation framework for biodiversity protection	0	0	0	0
Adoption of regulations on responsibilities for the clean-up of past pollution and for environmental degradation when privatizing enterprises	0.05	0.05	0	0
Capacity building of the MEPUP and local government services in charge of environmental protection (particularly of PUCs in charge of waste)	2.10	0.50	0.50	1.10
Establishing of the Environmental Protection Agency, integrating relevant expert institutions	0.70	0.10	0.10	0.50
Strengthening inter-ministerial cooperation (National Council for Sustainable Development, establishing of thematic bodies)	0.45	0.25	0.10	0.10
Establishing of the Environmental Protection Fund (privatizations funds)	2.20	0.20	1.00	1.00
Improving efficiency of the environmental management system through:	1.80	0.60	0.60	0.60
a) Improvement in practices and quality of environmental impact assessment studies				
b) Improvement in law enforcement and compliance with regulations				
c) Strengthening the role of economic instruments and gradual application of 'user' and 'polluter pays' principles				
d) Improvement of access to information and public participation in environmental decision-making				
e) Incentives for introduction of cleaner technologies and sustainable use of natural resources				
Strengthening of the monitoring / information system as a basis for decision making (special attention for the linkages between environment and human health)	2.0	0.4	0.7	0.9
Preparation of National Environmental Action Plan	0.5	0.5	0.0	0.0
Preparation of Local Environmental Action Plans for municipalities where pollution hotspots have been recognized	1.4	0.4	0.4	0.6
Prepare the National Strategy on Sustainable Development	0.3	0.1	0.2	0.0
Prepare the National Action Plan on Health and Environment	0.4	0.0	0.0	0.4
Include the environmental protection in educational curricula at all levels	0.2	0.1	0.1	0.1
Feasibility study for rehabilitation of Mojkovac and Gradac mining tailings	0.7	0.4	0.4	0.0
Improvement of degraded areas and dump sites in Pljevlja; regulation of Jagnjilo and Grevo dump sites	2.2	0.7	0.7	0.8
Rehabilitation and expansion of the wastewater treatment plant in Nikšić	1.1	0.0	0.5	0.6
Rehabilitation of the existing waste disposal sites and construction of new ones in coastal municipalities (Kotor, Budva, Bar, Ulcinj), and upgrading waste collection	7.0	2.0	2.2	2.8
Compilation of a Registry of polluters	0.2	0.2	0.0	0.0
Prepare the categorization and inventory of hazardous and industrial waste	0.4	0.0	0.2	0.2
Preparation of biodiversity strategy and action plan	0.4	0.2	0.2	0.0
Improve plans and practices as to national parks and other protected areas management	0.9	0.3	0.3	0.3
Reform of the physical planning system	1.2	0.4	0.4	0.4
<b>1. Total</b>	<b>26.37</b>	<b>7.40</b>	<b>8.60</b>	<b>10.37</b>
<b>2. Local funding</b>	<b>10.74</b>	<b>2.99</b>	<b>3.65</b>	<b>4.10</b>
2.1 Budget	5.40	1.69	1.80	1.91
2.2. Own Resources	3.07	0.85	1.00	1.22
2.3. Local community	0.51	0.14	0.14	0.23
2.4. Privatization revenues	1.76	0.31	0.71	0.74

<b>3. International funding</b>	<b>15.63</b>	<b>4.41</b>	<b>4.95</b>	<b>6.27</b>
3.1 Loans	6.03	1.50	2.00	2.53
3.2. Donations	9.60	2.91	2.95	3.74
<b>10. HEALTH</b>	<b>47.35</b>	<b>8.35</b>	<b>31.8</b>	<b>7.20</b>
<b>LOCAL FUNDING</b>	<b>10.95</b>	<b>1.70</b>	<b>8.60</b>	<b>0.65</b>
<b>INTERNATIONAL FUNDING</b>	<b>36.40</b>	<b>6.65</b>	<b>23.3</b>	<b>6.55</b>
Passing law and legal regulations in the field of health care	0.30	0.30	0.00	0.00
Basic health care measures	0.05	0.05		
Establishing Public Health Council	0.15	0.05	0.05	0.05
Establishing Public Health Institute	3.10	1.50	1.60	
Medicines Board	0.15	0.15		
Quality Health Service Control and Accreditation Board	0.15	0.05	0.05	0.05
The structural re-organization of primary health care development program	5.90	2.40	3.50	
Rationalization programs at secondary and tertiary levels	14.2	0.2	14	
Projects of criteria in funding health care services	0.15	0.1	0.05	
Defining and adopting obligatory public health services	0.05	0.05		
Creating methodology of planning	0.10	0.10		
Professional standards and clinical guidelines project	0.20	0.15	0.05	
Quality health services improvement project	0.15		0.15	
Public health employment structure analysis and possibilities of retraining non-medical staff	0.05	0.05		
Human Resources Management Master Plan	0.20	0.10	0.10	
Working out „New public health“ strategy	0.35	0.2	0.15	
Development of legislation in the area of safe food	0.10	0.10		
Project of health improvement of the aged	4.20		2.00	2.20
Project of health protection and health improvement of persons in marginal conditions	3.00		2.00	1.00
· Project “Violence and Health”	0.70	0.10	0.30	0.30
· Project “HIV/SIDA Prevention”	3.00	0.50	1.00	1.50
· Disabled persons’ health improvement project	0.15	0.05	0.05	0.05
“Reduction of Tobacco consumption among Youth” project	0.15	0.05	0.05	0.05
Mental health institute project + addiction disease prevention projects	2.65	0.15	2.50	0
Information system project	3.50	1.50	2.00	0
Mother and child health improvement project	0.25	0.15	0.10	0
Research project of determining environmental impact to health	4.00	0.10	1.90	2.00
Technological standards and scientific/technological development project	0.40	0.20	0.20	0
<b>1. Total</b>	<b>47.35</b>	<b>8.35</b>	<b>31.80</b>	<b>7.20</b>
<b>2. Local funding</b>	<b>10.95</b>	<b>1.70</b>	<b>8.60</b>	<b>0.65</b>
2.1 Budget	10.35	1.10	8.60	0.65
2.2. Health Fond	0.50	0.50	0.00	0.00
2.3. Local community	0.10	0.10	0.00	0.00
<b>3. International funding</b>	<b>36.40</b>	<b>6.65</b>	<b>23.3</b>	<b>6.55</b>
3.1 Loans	9.55	1.45	5.65	2.65
3.2. Donations	26.85	5.20	17.55	3.90
<b>11. MONITORING AND EVALUATION IN DPRS IMPLEMENTATION PERIOD</b>	<b>0.55</b>	<b>0.32</b>	<b>0.22</b>	<b>0.02</b>
<b>LOCAL FUNDING</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>INTERNATIONAL FUNDING</b>	<b>0.55</b>	<b>0.32</b>	<b>0.22</b>	<b>0.02</b>
Strengthening capacity of MONSTAT	0.50	0.30	0.20	0.00
Establishment and work of DPRS Monitoring Unit in Ministry of Labor	0.05	0.02	0.02	0.02

and Social Affairs				
<b>Total</b>	<b>0.55</b>	<b>0.32</b>	<b>0.22</b>	<b>0.02</b>

**Table 8.6. ADDITIONAL INFRASTRUCTURAL PROJECTS**  
(In Million €)

<b>INFRASTRUCTURE PROJECTS - ENERGY</b>	<b>Costing</b>			
	<b>2004-2006</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Programs &amp; Subprograms</b>				
Support for Pljevlja Coal Mine restructuring	1,2	0,4	0,4	0,4
<i>Production Projects</i>				
Improve grouting aprons of HPP Perućica	1,3	0,6	0,7	0
Replace turbine regulation systems for both aggregates of SHPP Glava Zete	0,16	0,08	0,08	0
Upgrade electrical- and mechanical-engineering equipment of SHPP Rijeka Mušovića	0,45	0	0,25	0,2
Construct SHPP Otilovići	2,5	0	1	1,5
<i>Transmission Projects</i>				
Provide Tivat-Kotor 110 kV transmission line to Kotor 110/35/10 kV TS	4,6	1,8	2,8	0
Introduce two 110 kV transmission lines to Podgorica 400/110 kV TS: Podgorica 1–TS Bar and Podgorica 1–TS Budva	0,3	0,3	0	0
Execute zero protection for 35 kV power-transmission network	0,9	0,3	0,3	0,3
Increase transformer power of Bar, Herceg-Novi and Budva 110/35 kV TSs (6 x 31.5 MVA)	1,5	1,5	0	0
<i>Distribution Projects</i>				
Introduce modern power consumption measurement and reading equipment in 1 – 1.5% of TS areas	3	1	1	1
Virpazar – Podgor 35 kV transmission line	0,4	0,4	0	0
Podgor – Cetinje 35 kV transmission line	0,5	0,5	0	0
110/35 kV TS of Bijela	2,5	1	1,5	0
Andrijevica-Kuti-Gusinje 35KV transmission line	1,2	0,6	0,6	0
Execute zero protection for 10 kV power-transmission network	2,4	0,8	0,8	0,8
<b>1. Total</b>	<b>22,91</b>	<b>9,28</b>	<b>9,43</b>	<b>4,2</b>
<b>2. National Funding</b>	<b>7,693</b>	<b>2,344</b>	<b>3,144</b>	<b>2,205</b>
2.1. Republic Budget	0,18	0,06	0,06	0,06
2.2. Own Sources of Funding	5,513	2,284	2,284	0,945
2.3. Local Self-Government	0	0	0	0
2.4. Other*	2	0	0,8	1,2
<b>3. International Funding</b>	<b>15,217</b>	<b>6,936</b>	<b>6,286</b>	<b>1,995</b>
3.1. Loans	11,85	5,65	5,05	1,15
3.2. Donations	3,367	1,286	1,236	0,845
<b>4. Required International Funding (1-2-3)</b>				

<b>INFRASTRUCTURE PROJECTS - TRANSPORT</b>				
<b>Programs &amp; Subprograms</b>	<b>Costing</b>			
	<b>2004-2006</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Establish Marine Security Agency:				
a) Establish and equip the marine search and rescue service	9	3	3	3
b) Establish the sea cleaning service	7	2	2,5	2,5
Rehabilitation of existing asphalt roads:	0			
a) Kolašin - Ribarevina –Berane - Špiljane	41	13,9	15,5	11,6
b) Podgorica – Bioče – Kolašin	36,87	11,005	11,665	14,2
Upgrading of the crushed stone pavements:	0			
a) Velika – Čakor - Bjeluha	4,5	0	2	2,5
b) Gornje Polje - Krstac	9,6	3,2	3,2	3,2
c) Plužine - Trsa - Virak roads	3	0	1,5	1,5
Improvements of existing road side slopes	6	2	2	2
<b>1. Total</b>	<b>116,97</b>	<b>35,105</b>	<b>41,365</b>	<b>40,5</b>
<b>2. National Funding</b>	<b>23,394</b>	<b>7,021</b>	<b>8,273</b>	<b>8,1</b>
2.1. Republic Budget	21,684	6,701	7,603	7,38
2.2. Own Sources of Funding	1,71	0,32	0,67	0,72
2.3. Local Self-Government	0	0	0	0
2.4. Other	0	0	0	0
<b>3. International Funding</b>	<b>93,576</b>	<b>28,084</b>	<b>33,092</b>	<b>32,4</b>
3.1. Loans	55,285	16,5525	19,5825	19,15
3.2. Donations	38,291	11,5315	13,5095	13,25
<b>4. Required International Funding (1-2-3)</b>				

<b>INFRASTRUCTURE PROJECTS – WATERSUPLY AND SEWAGE</b>				
<b>Programs &amp; Subprograms</b>	<b>Costing</b>			
	<b>2004-2006</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Construction of Regional water supply system	20	0	10	10
Construction of Tivat sewage system	5,5	0	2,5	3
Reconstruction and expansion of Kotor sewage system	3	0	1,5	1,5
<b>1. Total</b>	<b>28,5</b>	<b>0</b>	<b>14</b>	<b>14,5</b>
<b>2. National Funding</b>	<b>8,55</b>	<b>0</b>	<b>4,2</b>	<b>4,35</b>
2.1. Republic Budget	1	0	0,5	0,5
2.2. Own Sources of Funding	3,7	0	1,8	1,9
2.3. Local Self-Government	1,85	0	0,9	0,95
2.4. Other*	2	0	1	1
<b>3. International Funding**</b>	<b>19,95</b>	<b>0</b>	<b>9,8</b>	<b>10,15</b>
3.1. Loans	19,95	0	9,8	10,15
3.2. Donations	0	0	0	0
<b>4. Required International Funding (1-2-3)</b>				

\* Private / business sector

**Table 8.7. An overview of projects dealing with RAE, Refugees and IDPs (part of the Tabele 8.5.)  
requiring international financial support**

Programs	Costs			
	2004-2006	2004	2005	2006
Improvement of urban and housing aspects of poverty (Construction of affordable apartments primarily for RAE, IDPs and Refugees)	3,00	1	1	1
Family Material Support for RAE (2000 families)	6,72	2,24	2,24	2,24
Family Material Support for refugees and IDPs (4000 families)	12,00	4	4	4
Employment programs for RAE- Manufacturing centres	1,20	0,4	0,4	0,4
Media campaign and promotion of projects for including children from poor families, children with special needs, and Roma children in kindergartens and primary schools	0,50	0,1	0,2	0,2
Training of teachers and other staff for work with Roma children in native language in institutions for preschool education.	1,87	0,62	0,62	0,63
Providing additional conditions for children of refugees and dislocated persons, and support to Roma families that educate children	2,50	0,75	0,75	1
Preparation of programs for additional education of Roma children including additional lessons for learning language of local population	1,20	0,4	0,4	0,4
Preparation of textbooks in Roma language	0,50	0,1	0,2	0,2
Introduce water supply system projects for urban areas where some socially marginalized groups live – such as Roma, IDPs, illegally built settlements	3,75	1,25	1,25	1,25
Provision of sewage disposal facilities at urban locations where some socially marginalized groups live – such as Roma, IDP and illegal settlements	0,35	0	0,15	0,2
Project of health protection and health improvement of persons in marginal conditions	3,00	0	2	1
	<b>36,59</b>	<b>10,86</b>	<b>13,21</b>	<b>12,52</b>

## IX MONITORING AND EVALUATION

1. In order to be effective, a monitoring and evaluation system is required to monitor the DPRS implementation, in particular poverty reduction achievements through identified indicators. For this purpose it is necessary to establish an efficient M&E Team to conduct these activities.

2. The authorities responsible for the monitoring process are:

- MONSTAT
- Ministries
- CB of Montenegro
- Institute for Public Health
- Research institutions (University, NGOs)
- International organizations

3. With reference to **supervising the M&E process**, it would be beneficial to re-structure the Management Unit into a Monitoring Team within the Ministry of Labor and Social Affairs, consisting of at least two people who would be in charge of coordinating M&E activities, in particular the activities carried out in the Ministry of Labor and Social Affairs, the Ministry of Finance and the Ministry of International Economic Relations. (See organizational scheme on the following page).

4. **The starting point** in defining required indicators is the set of indicators given in the Declaration on the Millennium Development Goals, which have to be adjusted to the present circumstances in Montenegro making them more relevant and achievable (**LIST OF MDGs WITH 84 POVERTY INDICATORS IN ANEX**).

5. Apart from quality management, i.e. establishing the Monitoring Team, the **M&E system** is comprised of identified goals, indicators and objectives.

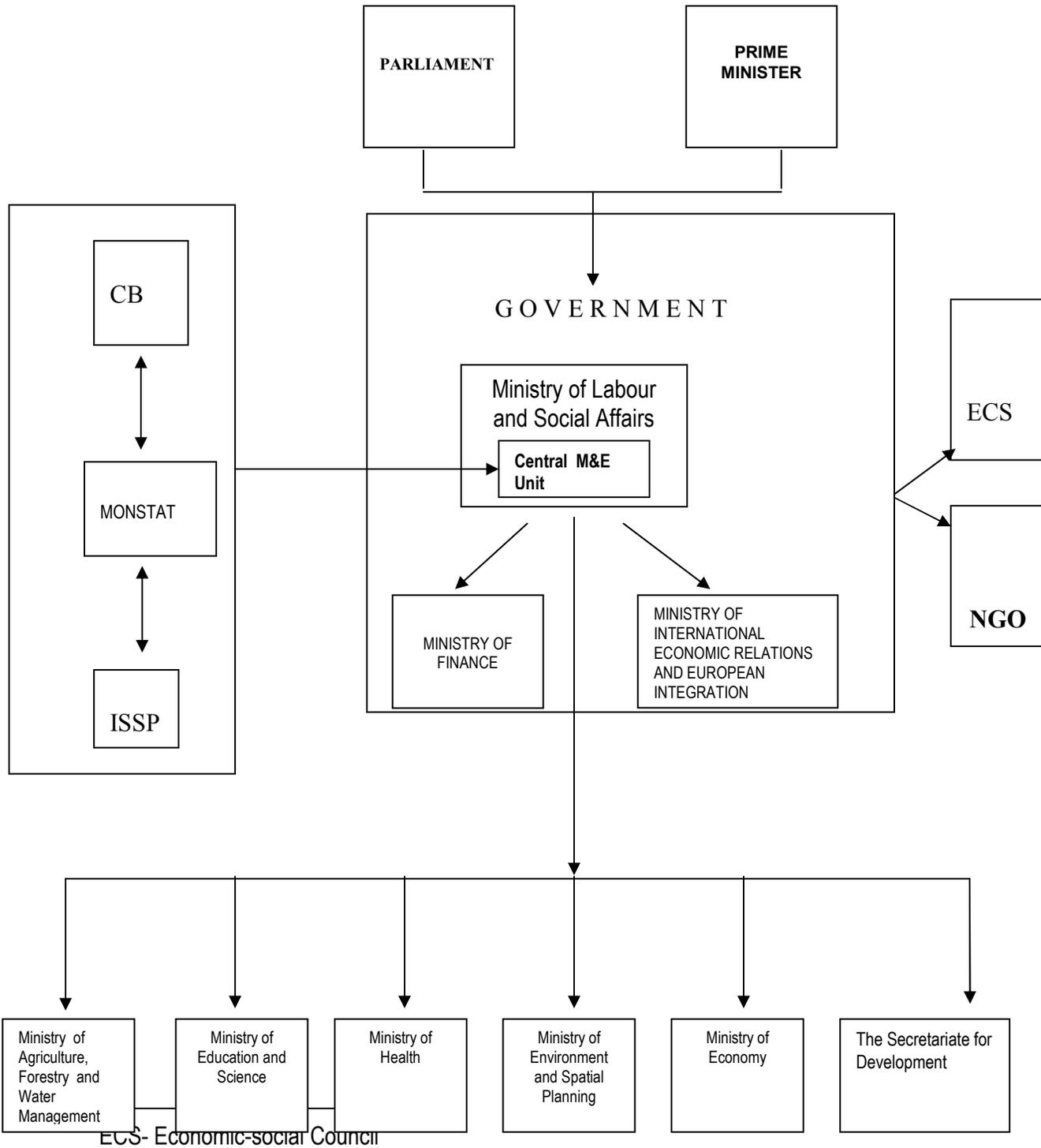
- Goals have to be defined in an objective manner in accordance with the top priorities of the state
- Indicators are variables used to measure progress in achievement of goals.
- Objectives are the planned steps to be taken by year 2015, which lead to the goal and are in line with MDGs.

*What is a Good Indicator?*

- *Direct and unambiguous progress measures*
- *The variables identified are relevant*
- *An indicator which is sensitive to changes in program policies and institutional programs taken by the Government*
- *An indicator which is sensitive to changes of in Government policies that are not relevant to the objectives*
- *An indicator which can be monitored with as little financial resources as possible (e.g. on the basis of easily accessible data)*

The Statistics Office is the main institution that is in the possession of the database needed for M&E process.

**ORGANIZATIONAL SCHEME OF THE MONITORING AND EVALUATION PROCESS  
FOR THE PERIOD OF IMPLEMENTATION**



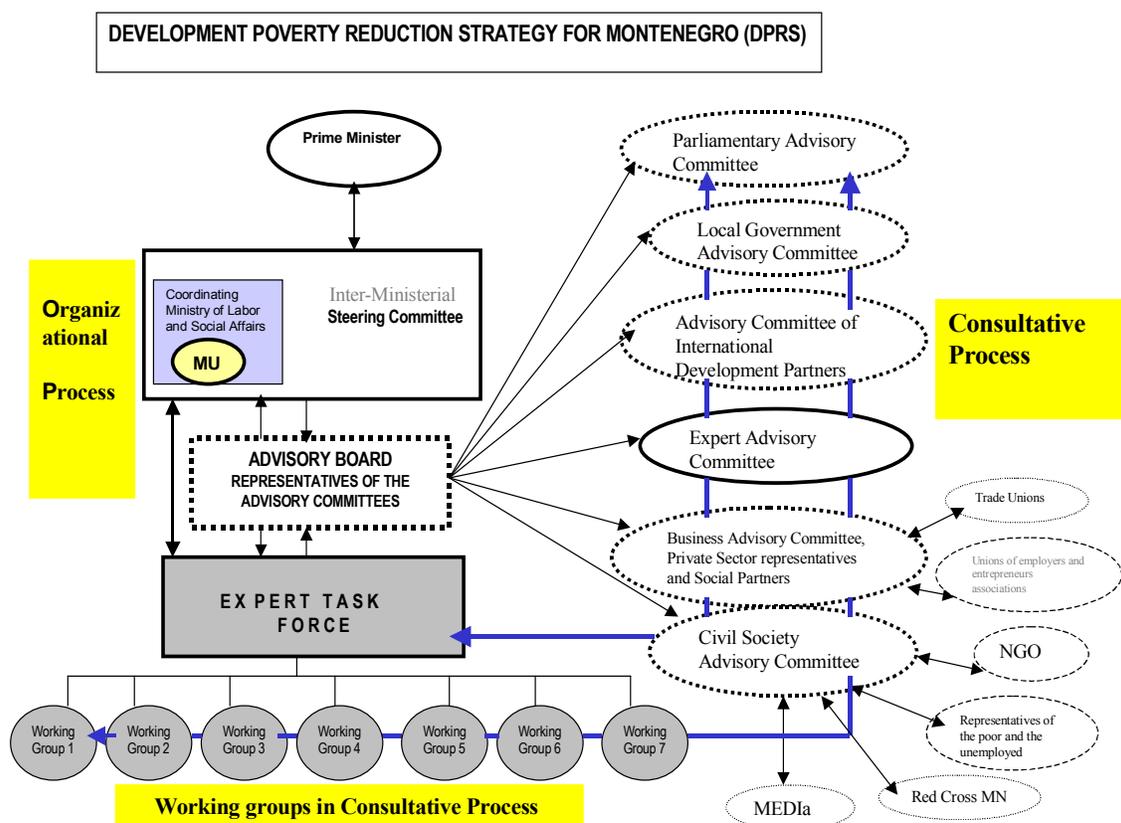
6. The following indicators were devised by taking into consideration regional experiences in developing indicators and completing thorough analysis of the Montenegrin context, i.e. by measuring implementation progress of the strategy within the medium term (defined priorities and MDGs that the DPRS is harmonized with).

	<b>Indicator</b>	<b>Goal</b>	<b>2002</b>	<b>2006</b>
1.	GDP/pc	Economic growth (GDP/pc growth)	1832	2379
2.	Share of public expenditure of GDP (Consolidated public expenditures)	Macro-management quality (Reduce the share of)	42.3%	40.7%
3.	Rate of debt return	Loan sustainability	4.8	4.5
4.	Unemployment rate	Reduce	30.4	19%
5.	Grey economy	Reduce	30%	11%
6.	Time needed to register a company	Reduce bureaucracy		
7.	Agriculture production growth rate	Strengthen domestic production and export growth, regional development (Increase rate)	6	8
8.	Population below the poverty line	Reduce percentage of population living below the poverty line	12.2	11.2
9.	Infant mortality rate	Reduce	14.7	under10
10.	Maternal mortality rate	Eradicate	2 women	0.00
11.	Percentage of the newborn under 2.5 kg	Introduce as an obligatory indicator, reduce		
12.	Net enrolment ratio in primary school	100%	96.93%	100%
13.	Coverage of organized preschool education	Increase	22%	30%
14.	GDP per energy consumption unit (USD per kg of oil equivalent)	Increase	1.29	1.42
15.	Part of population whose sewage is treated by processing plants before these are released in to natural receptors	Increase	11%	25%
16.	Share of the private sector in GDP	Increase	(37% in 2001)	55%

## X THE PARTICIPATORY PROCESS

### 1. Institutional arrangements for the preparation of the full DPRS

One of the key prerequisites for devising a high quality DPRS and ensuring an effective consultation process entailed establishing a clear and well-structured organizational scheme.



As presented in the scheme above, this threefold process comprised of the following:

1. Organizational Process
2. Working Groups in Consultative Process
3. Consultative Process

The stakeholders involved in this process were: the Government of Montenegro including competent authorities, local government, international development partners, trade unions, private sector, local research institutions and civil society.

1. The **INTER - MINISTERIAL STEERING COMMITTEE** is a Government entity coordinated by the **Ministry of Labour and Social Affairs**. The whole process was chaired by the **Prime Minister**. The **Committee** was responsible for guiding policy and making the strategic decisions related to the full DPRS. The Inter-ministerial Steering Committee is comprised of various **Ministers**, (Minister of Labour and Social Affairs, Minister of Education and Science, Minister of Health, Minister of Finance, Minister of International Economic Relations and European Integrations and Secretary of the Republican

Secretariat for Development - 6). Other ministries e.g. the Ministry of Tourism, Environment and Spatial Planning, Economy, Agriculture etc. have also taken part in the process when required.

**2. MANAGEMENT UNIT (MU)** consists of Head of Unit<sup>1</sup>, Coordinator of Management Unit, 3 Sector Coordinators, PR Manager, Project Translator, Project Secretary, and Web site Officer) and is established within the Ministry of Labour and Social Affairs. The Unit is responsible for organizational activities throughout the whole DPRS drafting process. The Management Unit provided technical support to the Inter-ministerial Committee and coordinated the consultative process with civil society and local communities.

The Inter-ministerial Steering Committee made strategic decisions on the full DPRS providing the guidelines for its implementation.

**3. The ADVISORY BOARD** was established to coordinate, consolidate and present recommendations and conclusions given by different Advisory Committees regarding preparation of the full DPRS. This Board held meetings regularly throughout the process and was in permanent contact with the **Inter-ministerial Steering Committee** and the **Expert Task Force**. The Board also played a crucial role in developing monitoring strategies and procedures. The Board organized regular multi-stakeholder meetings, providing transparency to the strategy development process. The Advisory Board consists of **the representatives of six Advisory Committees (6), the Expert Task Force Leader, the National Advisor and the Head of MU**. The National Advisor chaired the Advisory Board meetings. The Advisory Board coordinated the consultative/participatory process with six Advisory Committees:

- **A. The Parliamentary Advisory Committee** is comprised of the representatives of certain Parliamentary Committees (such as the Economic Committee, the Committee for financial, educational, environmental issues, the Committee for gender equity, etc.) and is responsible for sensitive issues raised through both the preparation and the implementation processes. The Parliamentary Advisory Committee also met the representatives of vulnerable groups, thus strengthening the participatory process and receiving the recommendations directly from the poor the poor.
- **B. The Local Government Advisory Committee** consists of local community representatives who regularly held the consultations at the local level and. This Committee was responsible for channelling the local level DPRS inputs into the full DPRS. The Association of Montenegrin Municipalities also took part in this Committee.
- **C. The Expert Advisory Committee** includes the representatives of specific research institutions in Montenegro dealing with economic and social development issues (and “think-tank” organizations), the Economic and Social Council representatives, as well as the representatives of the Ministries involved in the DPRS preparation and implementation processes. By being involved in the participation process through this Committee, the Government of Montenegro **raised its institutional capacity in order to implement the future Strategy**, particularly when it came to future policy design, increase of understanding of potential sources of growth and poverty trends as well as social impacts of key policy reforms;

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<sup>1</sup>) Head of Management Unit is the representative of the Ministry of Labor and Social Affairs (Deputy Minister);

This is expected to result in better budget management, as well as in improving the monitoring and reporting of poverty trends. This will be very important for DPRS implementation and its **integration into budget priorities**. Better linkage between the DPRS and the key decision-making processes, in particular with reference to national budgets, contributed to the design and prioritization, and helped make the proposed programs and goals more realistic.

- **D. The International Development Partners' Advisory Committee** consists of international community representatives operating in Montenegro and SAM: the World Bank representatives, UN Agencies, USAID, EAR and all **donors** that have expressed interest in contributing to the elaboration of the full DPRS. Representatives of foreign investors operating in Montenegro were also invited to join this Committee. In addition to financial support, expertise in the development and monitoring of the full DPRS process was very valuable. The international community representatives were at the same time members of particular Working Groups in charge of designing the DPRS draft.
- **E. The Private Sector, Trade Unions and other Social Partners Advisory Committee** has very significant role in the whole participatory process, especially considering the importance of the SME sector in Montenegro and the demands for creating a competitive labour market. This Committee is in charge of consulting with the Economic and Social Council, which consists of representatives from different business-related organizations and institutions.
- **F. The Civil Society Advisory Committee** is "the most heterogeneous" committee in the scheme of the participatory process for developing DPRS. It is comprised of representatives from the nongovernmental sector, media, humanitarian organizations (the Red Cross) and associations of particular marginal groups. Through developing the DPRS, the Civil Society Advisory Committee organized additional consultations on specific issues in relation to particular marginal groups (disabled persons, gender equity, the Roma population, refugees and displaced persons, children's rights, lodging and care for the elderly, etc.), in cooperation and with the DPRS Management Unit.

The Advisory Committees have significantly contributed to the work of expert working groups established within the **Expert Task Force**. They disseminated messages provided by different stakeholders.

**4. The EXPERT TASK FORCE (ETF)** mainly consists of local experts, representatives of line ministries and nongovernmental sector. The ETF Leader coordinated all the research activities and the DPRS process. ETF work is organized through seven working groups chaired by WG leaders in charge of completing sectoral strategies and integrating them into the final document. Some representatives of UN Agencies and other international organizations participated in particular WGs, providing expertise with regard to specific fields.

**WORKING GROUPS:**

1. **Poverty assessment and Social protection**
2. **Macroeconomic stabilization policies**
3. **Health sector development**
4. **Education sector development**
5. **Labour market and employment**
6. **Economic development and regional development**
7. **Environment and infrastructure development**

The ETF submitted **the first DPRS draft**, including individual sectoral strategies with their respective researches and analysis sections.

ETF and DPRS MU organized **thematic debates on issues raised through the participation process**, and after broad-based consultations with all of the representatives of specific categories of Montenegrin society were carried out, ETF submitted the final version of the Document to the Government and the World Bank.

## **2. Main characteristics of the DPRS**

### **A. Four basic principles applied in the strategy drafting process were:**

1. Participation: The Strategy drafting process was managed by the state relying on the participation of civil society.
2. This is a result oriented-strategy, aiming at achieving effective outcomes and concrete activities, including the process of monitoring within the implementation period.
3. Partnership with donors (joint work and consultations)
4. Long-term perspective of poverty reduction.

### **B. Three phases:**

1. Definition of poverty profile in Montenegro and the analysis of poverty causes.
2. Action plan together with the implementation costs – combined strategies and best measures in reducing poverty (harmonization of macroeconomic and structural policies with social measures).
3. Development of benchmark indicators and mechanism to monitor progress.

### **C. Two basic deliverables:**

1. Clear development vision and action plan for development and poverty reduction
2. Recommendations for devising a medium-term public expenditure framework and the strengthening of the safety net.

### **D. Message:** We can impact on our own development

#### **Key components raising the quality of the whole process:**

- The strategy was managed by the Government together with permanent participation of all of the relevant stakeholders: Parliament, civil society, local community, private sector etc;
- Intersectoral approach in poverty reduction process;
- Comprehensiveness in terms of recognizing a multidimensional nature of poverty;
- Precisely defined priorities, fiscally and institutionally achievable;
- Result-oriented and pro poor strategy;
- Cooperation with local and international development partners

- Long-term poverty alleviation (The strategy should include a detailed Action plan and policy measures for the period of 3 years).

### 3. From the Interim PRSP, via the draft version to the final DPRS document

Following proposals made by international financial organizations, Montenegro decided to define its poverty reduction strategy. Work of preparing the strategy started in May 2002. The Government of Montenegro prepared and adopted the Interim Poverty Reduction Strategy, and the same document was approved by the boards of the WB and IMF in a joint assessment process on 22nd June 2002.

The Interim poverty reduction strategy identified the following priority activities:

- macroeconomic stability,
- combating the gray economy,
- economic development and the labour market,
- improved targeting of social welfare and regional development.

Work on the draft document started in March 2003 with the support of the WB, DFID and UNDP. Given that poverty reduction is primarily based on promoting growth, this strategy was given the following name: The Development and Poverty Reduction Strategy (DPRS).

In the DPRS draft (July 2003.), through the work of expert working groups, as well as through the participatory process, the priority areas have been developed further, expanded, harmonized with the Millennium Development Goals and existing strategic documents of the Government. The proposed draft had around 370 pages. Having invited all key stakeholders to look at the document, comments were received from international development partners as well as unions, NGO networks, specific local communities, the Economic and Social Council as well as other stakeholders. Many comments and recommendations found their place in the final DPRS version, which justified the participatory process and the information campaign accompanying it.

Most of the comments were integrated in the final DPRS, which confirmed the importance of organizing the participatory process and the public awareness campaign.

**THE MAIN MESSAGES FROM THE PARTICIPATION PROCESS INCLUDED IN THE FINAL DPRS ARE:**

- to add separate sections on agriculture and tourism
- to reduce the document and developed an integrated action plan
- to define main projects, i.e. priorities with regard to regional development
- to define projects dealing with all vulnerable groups
- to strengthen job creation as the main tool for achieving poverty reduction
- to define the share of international development support to future projects ( global partnership)
- to define the poverty indicators as well as the development indicators used to monitor progress in the DPRS implementation

During the participatory process, after the publication of the draft and the work of the expert working groups, the document received its final structure as a **strategic document**, with clearly defined objectives, a policy matrix, priority activities, a presentation of all key projects and the associated costs, budgetary implications and macro-economic projections. Additional sections were added including sections on agriculture, rural development and tourism.

Additional information covering the participation process (NGOs reports, ETF reports) and sector priorities are given in a separate publication entitled "**Background Information to the DPRS**".

## **ANNEXES**

## ANNEX

### I. THE PARTICIPATORY PROCESS AND REVIEW OF ACTIVITIES IMPLEMENTED IN DEVELOPING THE DPRS

#### 1. Report on activities of the DPRS Expert Task-force and Management Unit

The strategy development process included a whole range of consultative activity led by the expert working groups, which included both research-based and participatory-based initiatives. The seven Working groups held on average 16 meetings each, in the period between 1 March and 1 November 2003, in addition to the 8 Task-force meetings. As part of the strategy development process, there were 5 meetings with the Inter-ministerial Steering Committee, as well as two meetings of the Advisory Board.

**Three RPSP conferences were held:**

- I DPRS Conference – Poverty Indicators in Montenegro, May 16, 2003,
- II DPRS Conference – Draft Development and Poverty Reduction Strategy for Montenegro, July 30, 2003
- III DPRS Conference – Finalizing the DPRS for Montenegro, November 12 2003

#### Meetings of major significance, working visits, presentations, conferences attended by the members of the DPRS Team

	Event	Date	Those present
1.	Meeting of the DPRS team with the representatives of NGOs (CRS, MANS, CRNGO) – Familiarization with initiated activities and agreement on future cooperation	January 30, 2003	14
2.	DPRS presentation for the representatives of the World Bank Portfolio Review)	February 6, 2003	60
3.	DPRS presentation for the representatives of the UN agencies in Montenegro	February 11, 2003	18
4.	Meeting with Mr. Ruslano Yemtsov, the representative of the World Bank	February 11, 2003	4
5.	DPRS presentation for the representatives of the USAID and implementing agencies in Montenegro	February 19, 2003	10
6.	Working visit – Mr. Lars Andre Skari, advisor on the DPRS in the Government of the Republic of Serbia.	February 20 /21, 2003	15
7.	Meeting with Ms Eileen Browne, the representative of the US Treasury Department	February 25, 2003	4
8.	DPRS presentation for the representatives of the World Bank – First work meeting of the Management Board of the DPRS Creditors' Fund, Belgrade	March 21, 2003	7
9.	Working visit of the RSP team of B&iH – Mr. Zlatko Hurić and Ms Belma Ejupović – Elaboration of action plan	March 30 /April 1, 2003	18
10.	Signature of the Agreement on performance of the <i>Agreement on Cooperation in the Development and Poverty Reduction Strategy for Montenegro</i> between the Government of Montenegro and the United Nations Development Program	May 9, 2003	
11.	First DPRS conference – Poverty profile in Montenegro	May 16, 2003	140
12.	Participation of the Montenegro DPRS representatives in the Regional DPRS Conference in Sarajevo, Bosnia and Herzegovina	May 22/23, 2003	40

13.	Signature of contract on performance of DPRS between the World Bank and Serbia & Montenegro	June 3, 2003	
14.	Meeting with the representatives of the World Bank – Ms Loraina Hawkins, the Health Care Consultant	June 17, 2003	7
15.	Topical consultations on gender equality with the students of the Faculty of Economics	June 18, 2003	30
16.	Meeting with the representatives of the World Bank– Mr- Rory O'Sullivan, the National coordinator of the World Bank for Serbia and Montenegro and Ms Nancy Cooke, Acting Director for Serbia and Montenegro and Regional Coordinator for South-East Europe	June 24, 2003	9
17.	Signature of Contract on performance – financial management of the Project between the Government of Montenegro and the United Nations Development Programme	June 24, 2003	
18.	Meeting with the representatives of the World Bank – Mr. James Stevens, Education Consultant	July 14, 2003	5
19.	Adoption of the first provisional version of the <i>Development and Poverty Reduction Strategy for Montenegro</i> by the Project Board	July 23, 2003	39
20.	Second DPRS conference – <i>Presentation of the initial draft document "Development and Poverty Reduction Strategy in Montenegro"</i>	July 30, 2003	100
21.	Five-day training seminar of UNICEF and CRVNO: Participatory Research of Poverty among Children in Montenegro	August 7-12, 2003	20
22.	Working visit of the World Bank consultant– Mr. Norman Hicks, Consultant for DPRS cost estimate	September 8-12, 2003	
23.	Presentation of the report of the UN agencies <i>Joint estimate of state of affairs in Montenegro</i>	September 9, 2003	50
24.	Working visit of Prof. Milosav Milosavljević, Ph.D., the Consultant for Social Welfare – Creation of Welfare Policy	September 30-October 3, 2003	9
25.	Working visit of the consultants from Albania – Messrs. Adrian Civici, Ina Kraja and Ilda Bozo – Monitoring and Evaluation	October 2/3, 2003	15

▪ **Constitutive meetings of the DPRS Advisory Board and Advisory Committee**

	<b>Meeting</b>	<b>Date</b>	<b>Those present</b>
1.	Meeting of the Advisory Committee of the international development partners	May 5, 2003 October 27, 2003	22
2.	Meeting of the Advisory Committee of the civil society	May 8, 2003 October 29, 2003	24
3.	Meeting of the Advisory Committee of the local (self) government	May 9, 2003 October 28, 2003	25
4.	Meeting of the Advisory Board	May 12, 2003 October 28, 2003	17
5.	Meeting of the Parliamentary Advisory Committee	May 14, 2003 October 24, 2003	16
6.	Meeting of the Advisory Committee of social partners	June 11, 2003 October 29, 2003	18
7.	I Session of the Advisory Board for the Project – <i>Adopting the first DPRS draft for Montenegro</i>	July 23, 2003	39
8.	II Session – Final DPRS document	October 31, 2003	35

▪ **Report. analysis – Cooperation with the NGO sector**

	<b>Report</b>	<b>Date</b>
1.	<i>Report on poverty causes and recommendations of civil society for Development and Poverty Reduction Strategy for Montenegro</i> , compiled based on 30 meetings held in 21 municipalities, NGO Network in Montenegro; (CRS, MANS, CRNGO, Humanitarac, Public House and Modus Akvirendi)	April, 2003
2.	<i>Report on the receipts and expenses of households in Montenegro No. 7</i> (ISSP/WB)	June, 2003
3.	<i>Standard of living and poverty in Montenegro in 2002</i> (ISSP/WB)	July, 2003
4.	Results of public opinion research <i>Poverty in the perception of the citizens</i> (Public opinion research agency DAMAR, Podgorica)	June – July, 2003
5.	<i>Report on receipts and expenses of the Roma households, refugees and internally displaced persons in Montenegro</i> (ISSP/UNDP)	October, 2003
6.	<i>Position of persons with special needs– recommendations for elaboration of the Document</i> (MANS)	August, 2003
7.	<i>Messages of civil society on DPRS, MANS</i>	October, 2003

▪ **DPRS participatory process by municipality**

	<b>Meeting</b>	<b>Date</b>	<b>Those present</b>
1.	Rozaje	September 15, 2003	49
2.	Berane	September 15, 2003	35
3.	Pljevlja	September 15, 2003	30
4.	Zabljak	September 15, 2003	17
5.	Plav	September 16, 2003	25
6.	Andrijevica	September 16, 2003	20
7.	Šavnik	September 16, 2003	20
8.	Plužine	September 16, 2003	17
9.	Bijelo Polje	September 17, 2003	28
10.	Mojkovac	September 17, 2003	31
11.	Herceg Novi	September 17, 2003	24
12.	Kotor	September 17, 2003	27
13.	Ulcinj	September 18, 2003	51
14.	Bar	September 18, 2003	34
15.	Cetinje	September 18, 2003	36
16.	Budva	September 19, 2003	22
17.	Tivat	September 19, 2003	24
18.	Danilovgrad	September 19, 2003	21
19.	Kolasin	September 19, 2003	15
20.	Niksic	September 23, 2003	47
21.	Podgorica	September 24, 2003	66

- **Seminars, training workshops for Government officials from sectoral ministries in monitoring the implementation of the Strategy and developing a monitoring and evaluation system**

	III. EVENT	Date	Those present
1.	IV. SEMINARS FOR JOURNALISTS – ROLE OF MEDIA IN THE DPRS PROCESS IN MONTENEGRO	March 12, 2003	19
2.	V. DPRS WORKSHOP FOR DETERMINATION OF PRIORITIES IN THE FIELD OF ENVIRONMENTAL PROTECTION AND INFRASTRUCTURE	June 16, 2003	28
3.	Seminar for journalists – <i>Media In The DPRS Process In Montenegro</i>	July, 1, 2003	30
4.	Workshop on evaluation of poverty and standard of living in Montenegro – Presentation of ISSP/WB report on <i>Standard Of Living And Poverty In Montenegro In 2002.</i>	July 16, 2003	70
5.	Workshop for government officials – Importance of regional policy: Impressions gained in the Participatory process and analysis the of received comments on the first draft of the <i>Development and Poverty Reduction Strategy for Montenegro</i> document	September 29, 2003	18
6.	Workshop for government officials – Working group for assessment of poverty and social welfare: <i>Action Plan In The Field Of Social Welfare</i>	September 30, 2003	15
7.	Workshop for government officials – Working group for labour market and employment: <i>Problem Of Unemployment With Special Reference to Young And Disabled Persons.</i>	October 2, 2003	15
8.	Workshop for government officials – Working group for macroeconomics stabilization policy: <i>Harmonization Of Economic Systems Of Serbia &amp; Montenegro And EU</i>	October 2, 2003	15
9.	Workshop for government officials – Working group for development of economic and regional policies: <i>Significance And Measures Of Regional Policy</i>	October 2, 2003	15
10.	Workshop for government officials – Working group for assessment of poverty and social welfare: <i>Position Of Disabled Persons And DPRS</i>	October 3, 2003	15
11.	Workshop for government officials – Working group for development of economic and regional policy. <i>Prospects Of Development Of Rural Regions In Montenegro</i>	October 3, 2003	15
12.	Workshop for government officials – Working group for development of education sector: <i>Reform Of Elementary Education</i>	October 6, 2003	15
13.	Workshop for government officials – Working group for labour market and employment: <i>Development Of Small To Medium-Sized Enterprises In Montenegro</i>	October 6, 2003	15
14.	Workshop for government officials – Working group for development of health care sector: <i>Priority Projects In The Field Of Health Care</i>	October 8, 2003	15

15.	Workshop for government officials – Working group for development of health care sector: <i>Indicators For The Health Care Sector And Development Of Monitoring System</i>	October 8, 2003	15
16.	Workshop for government officials – Working group for development of environmental protection and infrastructure: <i>Financing Of Activities In The Field Of Infrastructure Development</i>	October 8, 2003	15
17.	Workshop for government officials – Working group for development of education sector: <i>Development Of Monitoring System In The Field Of Education; Millennial Development Goals</i>	October 9, 2003	15
18.	Workshop for government officials – Working group for macroeconomics stabilization policy: <i>Development Of Medium Term Budget Framework</i>	October 9, 2003	15
19.	Workshop for government officials – Working group for development of environmental protection and infrastructure: <i>Indicators In The Field Of Environmental Protection</i>	October 10, 2003	15

## 2. MDGs and monitoring poverty indicators for Montenegro

	Indicator	Source/note	Value
<b>GOAL I: Eradicating Extreme Poverty and hunger</b>			
1.	Population below poverty line <sup>182</sup> (Absolute poverty) 107 Euro MDG	ISSP research (2003)	12,2 %
2.	Food poverty line (Extreme poverty)	ISSP research	4,7 %
3.	Economically vulnerable population 173,4 Euro	ISSP research	33,7 %
4.	Depth of poverty	ISSP research	3,6%
5.	Severity of poverty	ISSP research	1,5%
6.	Gini coefficient	ISSP	0,29
7.	Decal ration (90/10) <sup>183</sup>	ISSP	7
8.	Participation of the poorest 20 % in National Expenditure MDG	ISSP	10,7%
9.	<b>Malnutrition of children up to 5 years old</b>	<b>Research from 1998)</b> (by sample of 8% of the population)	1,2% <sup>184</sup>
9.	Coverage of Consumer Basket by average income	<b>MONSTAT</b> <b>June 2002.</b>	46,72%
10.	Coverage of Consumer Basket by average pension	MONSTAT June 2002	43,34%

<sup>182</sup> Research on household consumption of refugees, IDPs and Roma population is ongoing. Basic data on their poverty profile according based on the latest ISSP and NGO researches will be included afterwards.

<sup>183</sup> Average consumption quotient of 10% the poorest and 10% of the richest population, (

<sup>184</sup> 0,6% of children lapsed in body weight, as well as 2,3% of children lapsed in growth. There are more than 10% of obese children (the same percentage as in other developed European countries). Research from 1997/98 at the sample of 3 569 children i.e. 8% of this part of population (standard WHO is 5%)

11.	Coverage of Consumer Basket by average monthly FSO	<b>MONSTAT Ministry of Labor and Social Affairs</b>	32,80%
12.	Number of beneficiaries and a level of social transfers	<b>Ministry of Labor and Social Affairs</b>	10.351 families 657.100 Euro/Month
13.	Social welfare and social protection as planned in the public expenditure	<b>Ministry of Labor and Social Affairs</b>	9,31%
14.	Number of refugees and IDPs	International Red Cross Comity	IDP 18.030 Refugees. 13.318
<b>Goal II: Achieved universal primary education</b>			
15.	Net enrollment ratio in primary school	MONSTAT	96,93
16.	2.7. Proportion of pupils starting grade 1 who reach grade 5	Data on existing statistical review are not consistent with statistical categories, which means that calculations and estimations are needed	99,1 %
17.	Coverage of organized pedagogical preschool education	Data base from Ministry	22 %
18.	Proportion of children with special needs in preschool education		0,5 %
19.	Proportion of Roma population children in preschool education		0,6 % 3 %
20.	Ratio of pupils who complete primary school to the number of enrolled pupils	Monstat, statistical data, Data base from Ministry	98 %
21.	Proportion of 1-15 years old children with special needs	This data should be worked out in cooperation with health and social protection	
22.	Proportion of children with special needs in primary education	To be enquired	
23.	Proportion of Roma population children in primary education	To be enquired	1,2 %
24.	Enrolment ratio in secondary education <sup>185</sup>	Monstat, Data base from Ministry	72,90% <sup>186</sup>
25.	Proportion of pupils who enrol in gymnasium	Monstat, Data base from Ministry	32 %
26.	Proportion of pupils who enrol in vocational education	Monstat, Data base from Ministry	68 %
27.	Ratio of avocation needed in labor market to avocation the participants are trained for in vocational education	Monstat, Data base from Ministry	
28.	Enrolment rate in high school education <sup>187</sup>	Ministry	36%
29.	Proportion of attendants in adult education		
30.	Employment ratio in education to total number of employed people in Montenegro	Monstat, statistical data, Data base from Ministry	8,66 %
31.	Number of pupils per teacher in primary education	Data base from Ministry	14

<sup>185</sup> Ratio of number of pupils who complete primary education to those who continue their education at both common and vocational high school education

<sup>186</sup> This data does not include Military, Police and Religious school

<sup>187</sup> Ratio of pupils who complete high school education to number of enrolled pupils

32.	Participation of education sector in budget of state (2003)		22 % (16%)
33.	GDP proportion for education		Estimation <b>7,2</b>
34.	Cost of Education in total budget	Ministration	22% <sup>188)</sup>
35.	Education as a part of GDP	Estimate	7,2%
36.	Costs per pupil on educational level	a) Primary school with more than 60 pupils b) 37 school with less than 60 pupils c) Secondary education	a) 680 € annually/pupils b) 3500 € annually/pupils c) 650 € annually/pupils
<b>GOAL III: Promote gender equality and empower women</b>			
37.	Ratio of girls to boys in primary, secondary and tertiary education	Monstat, Ministry of education and science	<i>Prim. 1,07</i> <i>High. 0,97</i> <i>Univ. 0,77</i>
38.	Ratio of illiterate females to males among 15 and 25 years	Monstat Census from 1991, 20 - 34 years,	38%: 62%
39.	Share of women i wage employment in the non agricultural sector	Monstat, 2000	41,6 %
40.	Proportion of seats held by women in Parliament	Monstat, 2002	10,3%
<b>GOAL IV: Reduce Child Mortality</b>			
41.	Under five mortality rate	Vital statistics (2001) (per 1000 live-births)	3,09
42.	Infant mortality rate	Vital statistics (2001) Available (per 1000 live-births) (2002)	14,7
43.	Proportion of vaccinated children	Immunization registration Available	72% - 100% depending on kind of vaccine
<b>GOAL V: Improve Maternal Health</b>			
44.	Maternal mortality rate	Vital statistics Available	Two women died in Montenegro (2001)
45.	Proportion of births attended by skilled health persons	Vital statistics Available	99,05 (2001)
46.	Life expectancy at birth	Vital statistic (1999/2000)	m. 71,05 ž. 76,27
47.	Rate of fertility	Vital statistic	54,96 (2001)
48.	Pregnant HIV women age from 15 to 25	Morbidity statistics	No women age 15-Which are HIV positive
<b>GOAL VI: Combat HIV/AIDS, malaria, tuberculosis and other diseases</b>			
49.	HIV prevalence among 15-24 years old pregnant women	Morbidity statistics available	No HIV affected pregnant women among 15 - 24 years old
50.	Contraceptive prevalence rate	Purposed research needed	-
51.	Number of children orphaned by HIV/AIDS	Morbidity statistics Available	Two children in Montenegro

<sup>188</sup> Real participation is approximately 16 %, due to lower range of planned realization

52.	Prevalence and death rates associated with tuberculosis	Morbidity statistics Available	2 (two) registered cases in 2001
53.	Proportion of TB cases detected and cured under DOTS	Morbidity statistics Not available <sup>189</sup>	
<b>GOAL VII: Ensure Environmental Sustainability</b>			
54.	Surface under forestry	Available: official statistics (Spatial plan)	543 353 ha or 39,3%
55.	Land area protected to maintain biological biodiversity*	Available: official statistics (Spatial plan)	98 570 ha or 7,14%
56.	BDP/unit of consumed energy (energetic efficacy indicator)	Not available: Montenegro is to carry out this indicator during the Strategy drafting	1.536
57.	CO <sub>2</sub> emission (in tons <i>per capita</i> )	Not available; there are some estimations in international sources, but only for SAM	1,29
58.	Access to safe water (% of population)	Not available: according to WDI** definition, it is suggested substitutive indicator– ex. Access to water system (given by official statistics)	83% (access to public and own water supplies)
59.	Access to improved sanitation objects among urban population	Not available: according to WDI** definition, it is suggested substitutive indicator– ex. Access to sanitation system (given by official statistics)	39% (Access to public sanitation system)
60.	Deforestation per year (Changes in percentage)	Not available	–
61.	Freshwater resources <i>per capita</i> (in m <sup>3</sup> )	Some data available, but there is a problem with definitions harmonization – Official Statistics	–
62.	Electricity consumption <i>per capita</i>	Available; Official Statistics	5 573 kWh (2002)
63.	Covered roads (% of total number)	Statistics follows % of roads with modern surface in relation to total number of roads	63% (2000)
64.	Airplane departures <sup>190</sup>	Available; Official Statistics	3 475 (national) 885 (international)***
64.	Part of population whose sewage is treated by processing plants before these are released in to natural receptors.	MEPUP	11%
65.	Usage of water per capita	MEPUP	

<sup>189</sup>) In Special hospital for curing lungs diseases there is no accurate data on the number of patients being cured by this method, in introductory phase.

<sup>190</sup>Data refer to number of departures of Montenegroairlines and JAT

66.	Total loses in Water Supply	MEPUP	
67.	Percentage of population who has organized collection of waste	MEPUP	45%
<b>GOAL 8: Create Global Partnership for development</b>			
73.	Net Official Development Aid as a percent of DAC	Needs to be calculated	
74.	Part which ODA has in basic social services (elementary education, basic health service, food, clean water and sanitary measures)	Needs to be calculated	
75.	Average customs tariffs and quotes on Agricultural products, textile and clothes.	Will be available after adopting a new Customs guide as planed by new Action Plan	
76.	Domestic and Exporting subsidies for agricultural products in countries of OECD	Needs to be calculated	
77.	Portion of debt which has been bilaterally written off HIPC (Debtor sustainability)	Needs to be calculated	
78.	Servicing a debt as a percentage of Exporting goods and services	Needs to be calculated	
79.	Portion of ODA secured as a debt write-off	Needs to be calculated	
80.	Rate of unemployment in ages 15 to 24 years	Survey on a labor force	
84.	BDP growth rate	MF	
85.	FDI in Montenegro	MF	

## LIST OF ABBREVIATIONS

AMP	Annual Management Plan	IDA	International Development Agency
AWP	Annual Work Plan	IDG	International Development Goals
BP	Bank Procedure	IDPs	Internally Displaced Persons
CAS	Country Assistance Strategy	IDS	Institute of Development Studies
CBO's	Community Based Organization	IFI	International Financial Institutions
CCA	Common Country Assessment		
CCEP	Coordination Committee for Employment Program	ILO	International Labour Office
CCRP	Coordination Committee for Restructuring Program	IMF	International Monetary Fund
CDF	Country Development Framework	INGO	International Nongovernmental
CDF	Comprehensive Development Framework		
Organizations		IPRSP	Interim Poverty Reduction Strategy
CDNPS	Center for Development and Non-profit Sector Paper	IT	Information Technology
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women	ITO	International Trade Organization
CEE	Central and Eastern Europe	JSA	Joint Staff Assessment
CEFTA	Central European Free Trade Agreement	LDC	Least Developed Countries
CESI	Community Empowerment and Social Inclusion	LM	Line Ministries
CGPRS	Comprehensive Growth and Poverty Reduction Strategy	LSMS	Living Standards Measurement Survey
		MANS	Network for Affirmation of Non-Governmental Sector
CI	Civic Initiative		
CLP	Community Level Partnership	MD	Millennium Declaration
COE	Council of Europe	MDGs	Millennium Development Goals
COPRS	Country Office Annual Reports	M&E	Monitoring and Evaluation
		MAFW	Ministry of agriculture, forestry and
watersupply			
CP	Country Programme	MIER	Ministry of International Economic
Relations			
CPD	Country Programme Document	ME	Ministry of Economy
CRC	Convention on the Rights of the Child	MES	Ministry of Education and Science
CRNVO	Center for Development of non-governmental Organizations	MF	Ministry of Finance
CRS	Catholic Relief Services	MH	Ministry of Health
CSCE	Commission on Security and Cooperation in Europe	MPO	Master Plan of Operation
CSEED	Central and Southern Eastern Europe Department	MTEF	Medium Term Expenditure Framework
CSO	Civil Society Organization	NBY	National Bank of Yugoslavia
CSW	Center for Social Work	NGO	Non-governmental Organization
DEC	Development Economic Department	NORAD	Norwegian Agency for Development Cooperation
DFID	Department for International Development	NRM	Natural Resource Management
DPRS	Development and Poverty Reduction Strategy		
Humanitarian Affairs		OCHA	Office for Coordination of
DSG	Deputy Secretary General		
EBRD	European Bank for Reconstruction and Cooperation and	ODA	Official Development Assistance
	Development	OECD	Organization for Economic
EAR	European Agency for Reconstruction		Development
EB	Education Bureau	OEEC	Organization for European Economic
Cooperation			
EC	European Commission	OESC	Organization for European Security
and			
ECHR	European Court of Human Rights		Cooperation
EEC	European Economic Community	OHCHR	Office for High Commissioner for
Human Rights			
EFTA	European Free Trade Association	OP	Operational Policy
EIB	European Investment Bank	PA	Privatization Agency
EMS	European Monetary System	PA	Poverty Assessment
EMU	European Monetary Union	PEAP	Poverty Eradication Action Plan

ERP	Economic Reform Program	PEM	Public Expenditure Management
ERTP	Economic Restructuring and Transition Program	PER	Public Expenditure Review
ETF	Expert Task Force	PF	Policy Framework Paper
EU	European Union	PIT	Personal Income Tax
FBS	Federal Bureau of Statistics	PLS	Program Logistical Support
FDI	Foreign Director Investment	PRA	Public Revenue Agency
GATT	General Agreement on Tariffs and Trade		
GMN	Government of Montenegro	PRSP	Poverty Reduction Strategy Paper
GNP	Gross National Product	PSID	Private Sector and Infrastructure Development
		QoL	Quality of Life
GDP	Gross Domestic Product	QPR	Quarterly Project Report
GPRS	Growth and Poverty Reduction Strategy	Reg. Comm.	Regional Commission
HBS	Household Budget Survey	RDPs	Refugees and Displaced Persons
HDN	Human Development Network	ROAR	Result Oriented Annual Report
HH	Household Head	SAA	Stabilization and Association
HIF	Health Insurance Fund Agreement		
HIPC	Heavily Indebted Poor Countries	SAC	Structural Adjustment Credit
HR	Human Rights	SAF	Structural Adjustment Facility
IBRD	International Bank for Reconstruction and Development	SAP	Structural Adjustment Program
SDG	Sustainable Development Governance	SC	Steering Committee
SFF	Supplementary Financing Facility for Women	UNICEF	United Nations Children Fund
SG	Secretary General	UNIFEM	United Nations Development Fund
S&H	Simplification and Harmonization Program	UNPROFOR	United Nations Protection Force
SIC	Severely Indebted Countries International	UN WFP	United Nations World Food
SIDA	Sweedish International Development Agency		
SMEs	Small and Medium Enterprises	USAID	United States Agency for Development
SP	Strategic Partnership		
SPDC	Social Policy Development Coordination	VAT	Value Added Tax
SSR	Social and Structural Review	VET	Vocational Education and Training
SWA	Sector Wide Approach Development	WBI	World Bank Institute
SWC	Social Welfare Center	WHO	World Health Organization
TA	Technical Assistance	WSSD	World Summit on Sustainable
ToR	Terms of Reference		
TSS	Transitional Support Strategy	WTO	World Trade Organization
UNCT	United Nations Country Team		
UNDG	United Nations Development Group		
UDHR	Universal Declaration of Human Rights		
UNDAF	United Nations Development Assistance Framework		
UNDGO	United Nations Development Group Office		
UNDP	United Nations Development Program		
UNEP	United Nations Environmental Programme		
UNESCO	United Nations Educational, Social and Cultural Organization		
UNFIP	United Nations Fund for International Partnership		
UNHCR	United Nations High Commissioner for Refugees		

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