



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, reading "Zoran Đinđić". The signature is fluid and cursive, with the first letter 'Z' being particularly large and stylized.

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

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)¹ below the national poverty line, with a consumption (by consumer unit)² of less than 4,489 Dinars or 72 USD per month, i.e. 2.4 USD per day³.

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 household⁴ 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 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)⁵.

¹ 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.

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

³ Using the official exchange rate of the Dinar to the dollar.

⁴ 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.

⁵ 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.

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 ⁶	Poverty severity ⁷	Poverty index	Poverty gap	Poverty severity
Urban	16,0%	3,3%	1,1%	7,8%	1,5%	0,5%
Rural	25,1%	6,1%	2,3%	14,2%	3,2%	1,1%
Total	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 poverty⁸ 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.
- **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

⁶ 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).

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

⁸ 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.

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)⁹. 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

⁹ Certain Roma associations estimate the number of Roma to be much higher

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 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.

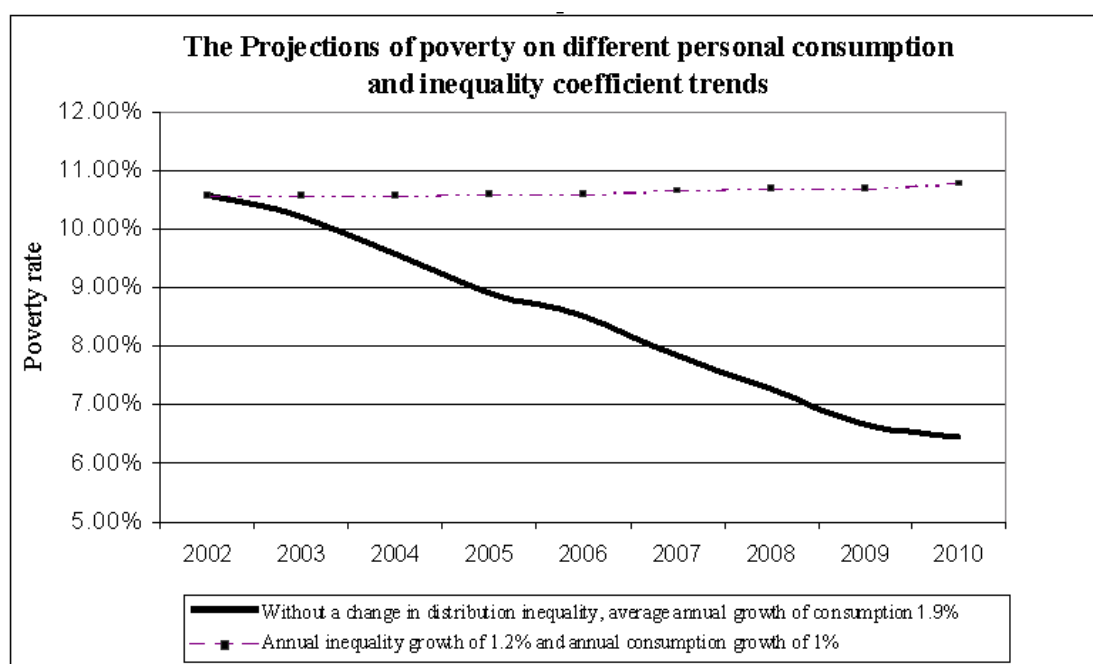
The second strategic direction is the prevention of new poverty that will result from the modernization and restructuring of the economy. A large number of people should be trained to work in the newly privatised economy on new jobs in the production and service sectors. Significant economic and social 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, Holcim, 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 1st 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 investments¹⁰.

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 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

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

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 (PR SPLI)

The objective of the PR SPLI 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 2003¹¹. 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 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 000¹² 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

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

¹²The 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.

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 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.²

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

² 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.

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.

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

1. 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.

2. 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.

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.

Table 1. Consolidated public expenditures - functional classification

	% GDP		
	2001.	2002.	2003.
I Total expenditures (1.+.....+10.)	39,3	45,9	45,9
1. General public services	4,4	5	5
2. Defence	3,6	3,4	3,3
3. Public order and safety	2,6	2,7	2,8
4. Economic affairs	3,8	4,3	3,5
5. Environment protection	0	0,1	0,1
6. Housing construction and utilities	2,6	3,6	3,4
7. Health care¹³	4,6	5,2	5,3
8. Recreation, culture and religion	0,5	0,6	0,7
9. Education	2,7	3,4	3,8
10. Social protection and pensions	14,5	17,6	18

¹³ 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.

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.
I Total expenditures (1.+.....+10.)	45,9	45,6	45,2	44,8	44,3	43,9	43,5	43,1
1. General public services	4,2	4,5	5	5,4	5,7	5,8	5,9	5,9
2. Defence	3,8	3,3	2,9	2,5	2,3	2,2	2,2	2,2
3. Public order and safety	2,8	2,7	2,5	2,3	2,2	2,2	2,1	2,1
4. Economic affairs	3,5	3,4	3,2	3	2,9	2,8	2,7	2,6
5. Environment protection	0,1	0,2	0,2	0,2	0,2	0,2	0,2	0,2
6. Housing construction and utilities	4,1	4,1	4,1	4,1	4,1	4,1	4,1	4,1
7. Health care	5,3	5,3	5,4	5,5	5,5	5,6	5,6	5,6
8. Recreation, culture and religion	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
9. Education	3,6	3,8	3,8	4	4,2	4,3	4,5	4,5
10. Social protection and pensions	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;¹⁴ 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 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.

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

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

¹⁴ 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.)

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 Goal¹⁵ 1: Eradicate extreme poverty

Millennium Goal 8: Develop a global partnership for development

Related SAP¹⁶ 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.</p> <p>Monetary policy directed towards controlling inflation.</p> <p>Fiscal policy directed towards fiscal stability and fiscal reform.</p> <p>Reform of sales tax (abolition of sales tax on basic items) and the incorporation of benefits in gross salary calculations have benefited the</p>	<p>Maintain medium-term macro stability to underpin sustainable economic growth</p> <p>Continue fiscal reforms and ensure fiscal sustainability of public expenditure</p> <p>Maintain inequality at least at current levels</p> <p>Aim for growth rate of 4-5% in the period 2004-2006</p>	<p>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 export-oriented foreign direct investment (FDI)</p>	<p>MFIN¹⁷, NBS¹⁸, MEIR¹⁹/SIEPA²⁰</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Indirect</u>: 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>

¹⁵ UN Millennium Development Goals

¹⁶ Stabilisation and Association Process

¹⁷ Ministry of Finance and Economy

¹⁸ National Bank of Serbia

¹⁹ Ministry of International Economic Relations

²⁰ 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>poor.</p> <p>Although still moderate, the degree of inequality has a negative impact on the poor. Similar level of inequality to that in neighbouring countries.</p> <p>Current macro position characterised by high unemployment rate, low domestic savings rate, poor export performance and a low level of investment.</p> <p>Large current account deficit (12% of GDP)</p> <p>Potentially risky public debt position, mainly from old external debt.</p>	<p>the period 2004-2006</p>	<p>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.</p> <p>Fiscal sustainability implies no increases envisaged in public expenditure/GDP. Falling revenue/GDP ratio to be achieved partly through tax relief for businesses. Reduced expenditure/GDP ratio to come through cuts in subsidies and reduction of role of State in the economy.</p> <p>Harmonise customs, trade and indirect tax regimes with that of Montenegro, in preparation for SAA with EU.</p> <p>Continue debt restructuring process – implementation of Paris Club, negotiations with London Club and regularisation of other debt, including restructuring of Russian short-term debt.</p> <p>Continue to implement fiscal reforms (see fiscal reform matrix).</p> <p>Promote export-oriented FDI through privatisation, with receipts to finance budget deficit. Facilitate private sector to be engine of growth (see next matrix)</p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>		

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	Timeframe/ 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	To support the implementation of the twin macro goals of rapid economic growth and economic stability	Sustainable fiscal policy: low tax rates, low fiscal deficit, decrease in deficit/GDP ratio (to less than 3% of GDP)	MFIN 2004-2006	<u>Indirect</u> : Fiscal stability is a pre-condition for dynamic economic growth	The implementation of fiscal reforms will need to take place within the overall resource framework

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>Increasing obligations for pension payments and debt servicing, potentially crowding 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>stability</p> <p>Long-term sustainable fiscal policy and state solvency</p>	<p>by 2010), and gradual reduction in expenditure/GDP.</p> <p>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.</p> <p>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)</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 debt.</p> <p>Use privatisation revenues to cover fiscal deficit.</p> <p>Continue to implement fiscal reform measures, covering: (i) payment reforms, including expansion of Treasury operations, (ii) reform of tax administration, including establishing regional Large Tax Payers office and preparing for the</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><u>Indirect:</u> Better utilisation of budgetary resources will enable resources to be targeted more effectively at priority services for the poor.</p> <p><u>Indirect:</u> 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><u>Indirect:</u> Increasing the share of budgetary allocations to the education sector will help fund specific poverty reduction programmes in this sector</p>	<p>framework</p> <p>Fiscal reforms should lead to better utilisation of resources and improved linkages between budgets and policy policies.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, <i>where available</i>	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		introduction of VAT, improved tax audits and introduction of self-assessment; (iii) public expenditure management reforms, including budgetary planning, resource allocation reviews.			

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:

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>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</p>	<p>Ensure that a transparent legal and institutional framework is in place to attract private investment</p> <p>Ensure strong market institutions to support private sector growth/ development</p> <p>Ensure provision of a conducive business environment for a dynamic private sector</p> <p>Increase the share of private ownership in the economy from 42.5% in 2002 to 75% in 2005.</p>	<p>Continue macro stability/fiscal reform (see previous matrix)</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</p>	<p>MEP²¹, NBS, MIER, MoJ²²</p> <p>2004-2006</p>	<p><u>Indirect</u>: 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>

²¹ Ministry of Economy and Privatisation

²² Ministry of Justice

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></p> <p>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>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</p> <p>Develop the necessary capacity for successful integration into the European Union</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</p>	<p>Government and relevant ministries 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>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>co-ordinated</p> <p>Not much achieved in carrying out reform of central co-ordination functions because initiatives and responsibilities have been fragmented and 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>process</p> <p>Undertake restructuring based on functional reviews and use of resources for line 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>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</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><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</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>Adopt new Constitution to protect basic human rights and judicial independence</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>Modernise and rationalise civil procedure, penal code, bankruptcy act, etc.</p> <p>Introduce new legal sub-branches, including notary public, magistrate, judiciary police, bankruptcy commissioner and ombudsman.</p> <p>Codify professional ethics: professionalise and strengthen ethic <i>codex</i>.</p>	<p>MPALSG²³, 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>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>

²³ 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
branch of government.		codex Improve relations between judiciary and citizens through addressing corruption in judicial branch	2004-2006		
<p><u>Local Self-Government</u></p> <p>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.</p> <p>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.</p> <p>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>	Reduce poverty through more locally appropriate measures and greater decision-making by lower levels of governments and communities themselves	<p>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/urban development planning.</p> <p>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.</p> <p>Continue to improve relationships with NGOs and CSOs through continued financial and logistical assistance in the implementation of poverty reduction projects.</p>	<p>MPALSG 2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Indirect:</u> more decentralised and better-integrated services should increase the appropriateness of poverty measures to local populations.</p> <p><u>Indirect:</u> Improved delivery and accessibility of services and better targeting of vulnerable groups</p> <p><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.</p> <p>In the short term, the implications of the introduction of VAT on local government revenues should be studied.</p>

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. 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. 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.</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>Policy priorities: (i) follow Internal Market and Trade Action Plan; (ii) pursue SAA for European Integration</p> <p>Introduce legal framework for common market, particularly in terms of institutions to implement a Common Market.</p> <p>Pursue agreement on SAA with the EU. Strengthen administrative capacity, particularly in the sectors of justice and home affairs.</p> <p>Undertake feasibility study for European Integration</p> <p>Continue to follow the Extended Standby Agreement with IMF</p> <p>Undertake negotiation of status with World Bank re. IDA</p> <p>Further support to reform process, including: CARDS, preferential</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>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 <i>and Outcome Targets</i> , <i>where available</i>	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
The Foreign Trade Law will be in place as of 1 January 2004.		status, Stability Pact on refugee issues	2003-2005		

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
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	Creation of an efficient, competitive, open and liberal market economy, dependent on: More efficient and mobile labour market with a higher level of	<u>Creation of new job opportunities</u> Develop incentives for private sector to create new employment opportunities – elimination of obstacles for business and improving competitiveness,	MLE ²⁴ , MEP, SME agency, Employers' Association, trade unions, local communities	<u>Direct:</u> increased employment opportunities will help raise the living standards of the population, particularly those currently unemployed or facing unemployment.	The introduction of labour market programmes will need to be phased in according to the availability of resources. The participation of the business community in the improvement

²⁴ 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>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>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>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>Increased employment opportunities for vulnerable groups</p>	<p>reducing the grey economy (see judicial reform matrix), stimulation of domestic and external investments</p> <p>Stimulate economic growth and employment at local and regional levels, including export-orientated FDI and increased public and private investment (regional development matrix)</p> <p>Open up economy to regional and global markets through WTO, free-trade agreements and European Integration process (see Global and Regional Integration matrix)</p> <p>Develop SME sector: create framework for sustainable, internationally competitive and export-oriented SME sector</p> <p>Sustainable development of the private agriculture sector.</p> <p>Target employment measures to vulnerable groups, including social programmes such as public works, micro enterprises, and employer subsidies (see regional development matrix)</p> <p><u>Develop a more efficient labour market</u></p> <p>Promote active employment measures (targeted), improving quality of supply through vocational training, and increased labour mobility</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>unemployment.</p> <p><u>Direct:</u> direct employment training and job counselling services will improve the prospects of those with skills of limited 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>of skills should be promoted.</p> <p>Legalisation of grey economy will lead to stronger control of public revenues and more resources available for priority areas.</p>

Assessment/ Situation Analysis	Objectives and Outcome Targets, <i>where available</i>	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		<p>Begin development of a new Law on Employment regulating benefits for unemployed workers</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>Improved capacity of Labour Market Bureau (National Employment Agency)</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
<u>Social assistance</u> MOP 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	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	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. Enhance equity and coverage of MOP, child allowance and other	MoSA ²⁵	<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.	Ensuring fiscal sustainability of social services provision will be a priority. Review of social assistance expenditures should facilitate improvements in efficiency use,

²⁵ 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>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><u>Child allowance</u></p> <p>Child allowance is the largest programme of assistance to the poor, specifically to poor families with children.</p> <p>New Law on Financial Support to Families with Children (March 2002) allows more accurate targeting of poor families.</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>Improved targeting of social services and entitlement programmes to those most in need and maintain fiscal sustainability.</p>	<p>MOP, child allowance and other social assistance programmes through: (i) applying uniform income test line as criteria for social assistance; and (ii) introducing improved targeting and streamlining criteria to provide assistance to the poorest and those not in a position to look after themselves.</p> <p>Increase efficiency of social protection system through better use of resources within existing budget constraints (fiscal sustainability)</p> <p>Promote greater role of communities in the provision of social assistance, in partnership with humanitarian, NGOs and other organisations</p> <p>Introduce measures to mitigate the effects of expected increased energy prices</p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Direct</u>: Better targeting measures to increase access and coverage, and improved index linking of social entitlement programmes will aim to provide more resources to those with the greatest need.</p> <p><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>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><u>Assistance to Vulnerable Groups</u></p> <p>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)</p> <p>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>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)</p> <p>Increase access to those currently eligible but not participating through improving public relations/ communications campaigns and investigating the cost-effectiveness of streamlining administrative procedures</p>	<p>MoSA, Commissariat for Refugees and IDPs, NGOs</p> <p>2003-2006</p> <p>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.</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 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
					availability of resources
<p><u>Social services</u></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>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.</p> <p>Continue Social Innovation Fund (SIF) programme.</p> <p>Improve cross-sectoral linkages between social service delivery mechanisms, focusing on the relationship between CSWs 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 professional standards for Social Welfare Centres</p>	<p>MoSA, NGOs 2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Direct</u>: The development of programmes specifically geared to the needs of vulnerable groups should improve their conditions of care.</p> <p><u>Indirect</u>: 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>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>

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	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
<p><u>Pensions</u></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.</p> <p>During 2001 and 2002 pensions were increased in real terms (average</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.</p> <p>Strengthen the institutional and service provision for particularly vulnerable elderly persons.</p>	<p>Continue the structural reform of the pension system.</p> <p>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</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>increase of nearly 90% in real terms) and standard of living of pensioners increased significantly. No further arrears on pension payments are being built up.</p> <p>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>insurance, beginning with introducing relevant legislation.</p>			
<p><u>Social services to the elderly</u></p> <p>The de-institutionalisation process has begun (e.g. SIF project)</p> <p>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</p> <p>Ensure appropriate provision of care for elderly in poorer regions</p> <p>Continue conversion of refugee centres into homes for the elderly.</p> <p>Increase patient contributions for institutional care, with the amount based on location and quality of accommodation.</p> <p>Enable private sector provision of private accommodation for elderly.</p>	<p>MoSA, municipalities, NGOs 2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>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><u>General Health Reform</u></p> <p>Deterioration of the country's health status over the last ten years, due to difficult macro and budgetary</p>	<p>Fair and uniform access to health care for all citizens of Serbia.</p> <p>Decrease in inequality in access to health care, particularly for</p>	<p>Improve the distribution of resources by health care levels and districts. This will involve a systematic review and evaluation of</p>	<p>MoH²⁶, Republic Health Insurance Fund</p>	<p><u>Indirect:</u> Improving the efficiency of health delivery reduces costs and enables better use of limited resources. However,</p>	<p>Modest increase in budgetary allocations to health (as % of GDP) planned over medium term</p>

²⁶ 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>position, ageing population, riskier lifestyles, and poor health promotion. This has led to a widening in health indicators between Serbia and Western European countries.</p> <p>At present, the health sector is characterised by an oversupply 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>vulnerable groups.</p> <p>Provide affordable health care services for vulnerable groups and improve the quality of this care.</p> <p>Raise efficiency and effectiveness in resource utilisation</p>	<p>current health services to identify areas to improve efficiency and effectiveness. Review the current geographic distribution of health insurance funds and the activities funded.</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>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 those who are not insured (services funded from</p>	<p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2006</p> <p>2006</p> <p>2006-2008</p>	<p>resources. However, a balance should be struck between increasing efficiency and reducing health access, e.g. in rural areas.</p>	<p>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> <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, <i>where available</i>	Related policies/strategies/ activities	Timeframe/ Responsible Institution	Link to poverty reduction/ likely poverty impact	Implications for Public Expenditure
		<p>the Republican budget).</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. These include laws on health protection, drugs and medical means, Chamber of Health Workers, and Health Insurance.</p>	2004-2006		

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>Targeting Health Care for Vulnerable Population</u></p> <p>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.</p> <p>Integrate measures for protection of vulnerable groups with regular health care programmes.</p> <p>Develop and implement programs of protection against certain infectious diseases – AIDS, TB, etc.</p> <p>Facilitate multi-disciplinary approach, involving health care institutions, social welfare centres, and educational institutions</p>	<p>MoH 2004</p> <p>2004-2006</p> <p>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
<u>Education Reform</u> General assessment	To increase budgetary expenditures as % of GDP to 4.0% over medium term	Reallocate budgetary resources towards poorer regions/ municipalities (decentralisation	MES ²⁷	<u>Indirect</u> : Improving the efficiency of education delivery reduces costs and	Overall: increased budgetary allocations to education (as % of GDP) to 4% planned over

²⁷ 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>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 and educational needs. Poor physical condition of buildings and equipment.</p> <p>Inefficiencies in education delivery hampering quality of education provision</p>	<p>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>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 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>2003-2007</p> <p>2003-2007</p>	<p>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>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 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>Link state, private and NGO pre-school initiatives. Introduce good practice based on NGO experience. Study ways to improve inter-sectoral co-ordination</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
<u>Primary</u> As general assessment Greatest number of poor are those with primary as highest level of education High enrolment rate	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)	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).	MES, Serbian Gov't/Parliament 2003-2007 2003-2004 2003-2004 2003-2007	<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.	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
<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	To reorganise vocational education system in line with needs of economy	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).	MES, Serbian Gov't/Parliament 2003-2007 2003-2007 2003-2007	<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.	Expanding vocational education through public expenditure over the medium term will need to take place in line with the availability of resources.

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></p> <p>According to general assessment, adult education is marginalized</p> <p>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 < 25 and those in rural areas.</p> <p>Expand adult education programmes to include distance education, tutorial system, etc. Provide appropriate materials and equipment.</p> <p>Include the in-formal educational system in the official</p> <p>Establish centre for adult education and strengthen existing centres/institutions for vocational.</p>	<p>MES, Centre for Adult Vocational Education</p> <p>2004-2006</p> <p>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></p> <p>Children with Special Needs</p> <p>As general assessment</p> <p>Children with special needs (7-10% of children) often excluded from education system.</p> <p>Roma</p> <p>Drop-out rate for girls from vulnerable population (e.g. Roma children with special needs) is higher than other groups</p> <p>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)</p> <p>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.</p> <p>Strengthen legislation for compulsory education of marginalised groups.</p> <p>Establish inter-sectoral National Centre for Care of Persons with Special Social Assistance Requirements</p> <p>Increase access to adult education/ literacy courses for those with special needs and other marginalised groups</p> <p>Provide specific support to Roma teachers</p> <p>Introduce Roma culture into curriculum. Learn from experience of CSOs.</p>	<p>MES, Centre for Professional Development of Teachers, MHMR, MSA, Centre for Educ of Persons Needing Special Social Support</p> <p>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.</p> <p>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><u>Regional Poverty</u></p> <p>Increased regional disparity between developed and underdeveloped regions in recent years.</p> <p>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</p> <p>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</p> <p>Encourage municipalities to develop and implement their own regional development programme/policies. Capacity building for this.</p> <p>Formulate comprehensive set of regional policies</p> <p>Encourage partnerships between local communities and civil society.</p> <p>Introduce measures to stimulate regional development, including a development plan for South Serbia</p>	<p>MIER, MSTD, RBD, local governments 2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p> <p>2004-2006</p>	<p><u>Direct:</u> 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
		region. Provide favourable framework for investors to 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	2004-2006		
<u>Rural Poverty</u> Rural areas contain 45% of the population 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. Rural poverty has proved slower to reduce than urban poverty.	Sustainable economic growth of rural areas Reduction of rural poverty	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. Consider establishing Rural Development Agency to identify, plan and monitor initiatives in rural development.	MCUP ²⁸ , MAWU ²⁹ , MEP, MES, local governments, civil society 2004-2006	<u>Direct:</u> improvements to the development of rural areas, including economic and social programmes, will help raise the living standards of those living in these areas.	The introduction and expansion of rural development programmes will need to be phased in according to the availability of resources. The participation of CSOs in rural development at local levels should be promoted.
<u>Urban poverty</u> Urban population has a lower poverty rate than rural population Urban poor suffer from unemployment, limited access to health care and education, and	Advance the economic and the overall development of cities by promoting economic activity and employment Ensure that the needs of the poor are incorporated in urban	At the city level, set up bodies to coordinate various administration sectors and carry out actions. Cities and local communities should formulate their own strategies for poverty reduction, based on the national strategy, but taking into	Municipal governments, local government services	<u>Direct:</u> improvements to the development of urban areas will help raise the living standards of those living in these areas, particularly those living in vulnerable settlements.	The introduction and expansion of urban development programmes will need to be phased in according to the availability of resources.

²⁸ Ministry of Construction and Urban Planning

²⁹ 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
health care and education, and unsanitary or unhygienic settlements due to inadequate utility infrastructure and spontaneously developed settlements	planning.	national strategy but taking into account specific economic and social characteristics.	2003-2006	settlements.	The participation of CSOs in urban development at local levels should be promoted.
<p><u>Housing</u></p> <p>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.</p> <p>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>	Develop and implement social housing programme, as part of National Housing Policy, currently being developed	<p>Efficient application of the new Law on Planning and Construction (2003)</p> <p>Create legal, financial and institutional mechanisms for social housing</p> <p>Promote construction of cheap housing units</p> <p>Establish credit institutions for smaller loans to be used for phased construction/ reconstruction of flats.</p> <p>Introduce defined priority rights, legalisation of existing flats and set aside cheap locations for new construction</p> <p>Design and implement pilot programmes for improving spontaneously developed settlements.</p>	<p>MUC</p> <p>2003-2006</p> <p>2003-2006</p> <p>2003-2006</p> <p>2003-2006</p> <p>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>	The introduction or expansion of social housing provision will need to be phased in according to the availability of resources.

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	Timeframe/ 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</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>Improve public awareness of environmental issues</p>	<p>MAWU, MPNRE³⁰, local governments</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2007</p> <p>2003-2007</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.</p> <p>The participation of CSOs in the management of environmental protection at local levels should be promoted.</p>

³⁰ Ministry for Protection of Natural Resources and Environment

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>Roma, refugees and IDPs.</p> <p>Vulnerable groups lack access to electricity, water, sewerage and garbage collection, thus increasing the risk of communicable diseases.</p> <p>Settlements on riverbanks and poor quality housing construction exposes the poor to flood and earthquake risks.</p>		<p>Addressing hazardous waste management issues, including:</p> <p>Evaluate options for hazardous waste disposal, including potential location for hazardous waste storage facilities, solid waste disposal facilities, and waste water treatment plants</p> <p>Revised existing regulations on the transport of hazardous waste, and the capacities for the enforcement of such regulations developed.</p>	2003-2010		

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>Regular research and data collection, elaboration of reports and evaluations, publishing and media communication</p>	<p>Team for the coordination of PRSP implementation</p> <p>2003 – 2004</p> <p>Central PRSP monitoring team, other actors in PRSP monitoring</p> <p>2004</p> <p>All actors in the PRSP monitoring system</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
		communication. Preparing final evaluation	2004-2006. 2006.		