



GOVERNMENT OF SERBIA

Second Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia

August 2007



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Looking forward: rapid transition and more solidarity for the poverty reduction in Serbia

Poverty Reduction Strategy represents the plan of the Government for taking Serbia swiftly through the transition while at the same time taking into consideration the needs of the poorest and the people who are not able to use the opportunities that transition brings. The Strategy was adopted in 2003 and is aiming at reducing by half the poverty in Serbia by 2010. In that sense the Poverty Reduction Strategy is an ambitious but realistic plan.

Herewith we have the Second Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia. The Report gives an overview of results which have been achieved as joint efforts of the Government, local self-government, National Assembly, non-governmental organizations and international partners, as defined by the Strategy. Besides, the Report points out the impact of the aforesaid programmes and activities on the quality of life of the citizens of Serbia and outlines recommendations for the following period.

Many things have been achieved, many more initiated, but there is still a lot of work ahead of us. We cannot accept the fact that have been 9% of the Serbia population lives in poverty and especially the fact that poverty in central Serbia is 2.5 times higher than in Belgrade. Therefore, we have to continue with the rapid implementation of the Poverty Reduction Strategy recommendations.

Božidar Đelić
Deputy Prime Minister
Government of Serbia



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Acronyms

ABR	Agency for Business Registers
AIDS/HIV	Acquired immune deficiency syndrome/Human immunodeficiency virus
AJS	Active Job Search
AP	Autonomous Province
APV	Autonomous Province of Vojvodina
B&H	Bosnia and Herzegovina
BOS	Belgrade Open School
CARDS	EU Community Assistance for Reconstruction, Development and Stabilisation
CEDAW	The Convention on the Elimination of All Forms of Discrimination against Women
CEVES	Center for Advanced Economic Studies
CIDA	Canadian International Development Agency
CSIO	Compulsory Social Insurance Organization
CSW	Centre for Social Work
DFID	UK Department For International Development
EAR	The European Agency for Reconstruction
EBRD	The European Bank for Reconstruction and Development
EIB	European Investment Bank
ETF	The European Training Foundation
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FDI	Foreign Direct Investments
FIC	Foreign Investment Council
FREN	Foundation for the Advancement of Economics
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
GOP	Annual Operational Plan of Line Ministry
GTZ	German Association for Technical Cooperation
GVA	Gross Value Added
HBS	Household Budget Survey
HSE	Housing in Supportive Environment
ICT	Information and Communication Technology
IDA	The International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	The International Organization for Migration
IRI	International Republican Institute
ISCED	The International Standard Classification of Education
IT	Information Technologies
LEAP	Local Environmental Action Plan
LFA	Less Favourable Areas
LFS	Labour Force Survey
LPA	Local Action Plans for Children
LSMS	Living Standard Measurement Survey
MAFWM	Ministry of Agriculture, Forestry and Water Management
MDG	Millennium Development Goals
MES	Ministry of Education and Sports
MICS	Multiple Indicator Cluster Surveys
MIPD	Multi-annual Indicative Plan Document of the European Commission
MOLESP	Ministry of Labour, Employment and Social Policy
MOP	(FFC) Family Financial Support
NBS	National Bank of Serbia



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NEAP	National Environmental Action Plan
NES	National Employment Service
NGO	Non-governmental Organisation
NHA	National Health Account
NIP	National Investment Plan
NUTS	EU Nomenclature of Territorial Units for Statistics
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PA	Personal Assistance
PC	Public Utility Companies
PD	Persons with Disabilities
PDI	Pension and Disability Insurance
PHC	Primary Health Care
PPP	Preparatory Preschool Programme
PRS	Poverty Reduction Strategy
RATEL	Republic Telecommunications Agency
REF	Roma Education Fund
RIC	Roma Information Centre
RIHI	Republic Institute of Health Insurance
RS	Republic of Serbia
RSD	Serbian Dinar
RSO	Republic Statistical Office of Serbia
SCG	Serbia and Montenegro
SCTM	Standing Conference of Towns and Municipalities
SEE	South-East Europe
SFRY	Socialist Federative Republic of Yugoslavia
SIF	Social Initiative Fund
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SMEE	Small and Medium Enterprises and Entrepreneurs
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Conventions on Climate Change
UNHCHR	United Nations High Commission for Human Rights
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization



1 Introduction and Background



1.1. Background

- 1.1.1 This document represents the Second Progress Report on the Implementation of the Poverty Reduction Strategy (hereinafter: PRS) in Serbia which is submitted by the Government to its citizens and international development partners.
- 1.1.2. The report covers the period from mid-2005 until the end of the first quarter of 2007¹.
- 1.1.3. The social and political context in which the report was developed was marked with a few important events which significantly influenced the speed and scope of reform processes. May 2006 was characterized by the suspension of negotiations on the Stabilizations and Accession Agreement, as well as the dissolution of the State Union of Serbia and Montenegro and the establishment of two independent countries. Furthermore, this year saw the adoption of the new Constitution of the Republic of Serbia and the announcement of elections for the National Assembly of the Republic of Serbia. Parliamentary elections were held in January 2007; but the Government was not established until mid-May.
- 1.1.4. The Government adopted the PRS paper for Serbia in October 2003. The new Government confirmed its commitment to the implementation of the PRS in February 2005, when the then Deputy Prime Minister was tasked to regularly inform the Government on the implementation and coordination of the PRS implementation process in cooperation with the Deputy Prime Minister's Poverty Reduction Strategy Implementation Focal Point (hereinafter: PRS IFP). The same decision and competency of the newly appointed Deputy Prime Minister was ratified by the newly elected Government in May 2007.
- 1.1.5. The PRS is complementary with the objectives and efforts within the European Integrations process in the Republic of Serbia. The Multi-annual Indicative Planning Document of the European Commission 2007-2013 recognizes the PRS implementation process as complementary with the European Integrations process and in particular focuses on the EU support for the PRS implementation at the local level.
- 1.1.6. The Second Progress Report on the Implementation of PRS in Serbia refers to the Report on the Progress in Achievement of Millennium Development Goals in Serbia 2006.
- 1.1.7. The main **objective** of the Poverty Reduction Strategy is to reduce poverty in Serbia by half by the year 2010. The main recommendations/strategic directions towards this aim are as follows:
- Dynamic economic growth and development with an emphasis on job creation within the private sector;
 - Preventing the emergence of new poverty as a consequence of economic restructuring and rationalization of public administration;
 - Efficient implementation of existing and development of new programs, measures and activities directly targeting the poorest and most vulnerable social groups of the population.
- 1.1.8. The principle of wide participation characteristic of the PRS drafting process has lived through the implementation process as well. The implementation of the PRS has involved the key actors, and the line ministries are bearing the highest responsibility as the main implementation partners.

¹ The First Progress Report on the Implementation of Poverty Reduction Strategy in Serbia was adopted by the Government in October 2005 and covered the period from the beginning of 2004 until the second half of 2005.



1.2. Principles and Main Indicators of the PRS of the PRS Implementation Process

1.2.1. The Poverty Reduction Strategy Paper for Serbia is implemented in line with the following **principles**:

- Mainstream poverty reduction efforts, i.e. become an integral part of the regular work of the Government (line ministries, central government institutions and bodies, local self-governments) and its partners according to their respective mandates and responsibilities.
- Active involvement of all stakeholders in the PRS implementation process, relying on the success of the consultative process characteristic of the PRS preparation process, emphasizing active involvement of civil society organizations, private and public sectors, as well as the representatives of vulnerable groups into implementation, monitoring and evaluation processes.
- Ensure the consolidation of European Integration and PRS implementation processes as the main pillars of Republic of Serbia's overall reform framework, in order to consolidate efforts primarily within public administration bodies.
- Change the way the Government „does business“ by achieving transparency through a well-defined planning process (including more efficient coordination and prioritization).
- Implementation of the PRS at the local self-government level: through the participation and cooperation of representatives of local self-governments, the non-government and private sectors and donors as one of the preconditions for the successful implementation of the PRS at the local self-government level in accordance with public administration reform and the decentralization process.
- Support partnership building in the PRS implementation with the aim of improving coordination and information sharing, in order to ensure the synergic effects of activities directed at poverty reduction.

1.2.2. The main success indicators of the PRS implementation process in the previous period have been:

a) **PRS indicators have been integrated in:** Memorandum on Budget and Economic and Fiscal Policy; plans and budgets of key line ministries through the development of Annual Operational Plans (GOP Process); National Investment Plan; Needs of the Republic of Serbia for International Assistance 2007-2009; local strategic plans²; Multi-annual Indicative Plan Document of the European Commission (MIPD 2007-2013); as well as in the key donor-supported projects (European Commission/European Agency for Reconstruction, United States Agency for International Development, World Bank, UK Department for International Development, Kingdom of Norway, and Swedish International Development and Cooperation Agency).

b) **Involvement of key partners and an established network of partners:** a wide network of partners in line ministers; established a mechanism for cooperation between the Government and the NGO sector through the programme titled Civil Society Focal Points; support has been provided to municipalities in relation to PRS implementation through developing and implementing local strategic plans; cooperation has been established and impact with regard to programmes of key international donors; the Corporate Social Responsibility (CSR) concept has been promoted as a means for involving businesses in the PRS implementation; cooperation has been established with key Committees in the

² 87% municipalities have developed a strategic plan – 65% take into account the PRS recommendations



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National Assembly and the PRS Implementation Forum of the National Assembly has been initiated.

c) The PRS is a **widely recognized document**³; 75% municipal officials are fully or partially acquainted with the contents of the PRS⁴; 5,000 partners regularly receive updated information (1-2 times a month) on the PRS implementation and activities of various partners (line ministries, donors, MPs, journalists, NGO, local self governments); Newsletters on the PRS implementation which promote activities of all partners are distributed in 180,000 copies every two months; quarterly surveys are conducted on the visibility of the PRS implementation process⁵; the Review of Potential Domestic and Foreign Funding Opportunities has been prepared and is updated on a quarterly basis (review of calls for proposal, programmes).

d) Improvement of **the planning, budgeting and reporting processes** through: establishing the mechanism of developing Annual Operational Plans as a basis for planning at the level of six pilot line ministries; planning at the central Government level and preparation of the outcome-oriented Annual Work Programme of the Government; initiating the introduction of budget development based on programme classification through clear linkages between programs and budget allocations in five line ministries; initiating the harmonization of international assistance programming with the budget calendar; synchronizing the preparation of the Annual Report on the Work of the Government with the preparation of the Second Progress Report on the PRS Implementation in Serbia in the data collection stage.

e) **Improved monitoring and reporting system:** The revision and redefining of PRS indicators, in order to meet the requirements linked to monitoring of the PRS implementation process, as well as the Millennium Development Goals and the social inclusion process. The indicators have been integrated in the annual plans of ministries as a basis for monitoring the progress with regard to PRS policy implementation. The Government has adopted the Framework for Monitoring National Millennium Development Goals in Serbia.

1.3. Contents of the Report

1.3.1. The Report represents outcomes of the PRS implementation in the course of 2006, as well as the statistical poverty indicators and the analysis of budget resources and international assistance.

1.3.2. Outcomes of the PRS implementation achieved by the Government of Serbia are presented through sector reports which are based on the reports submitted by state institutions, as well as on the reports of various independent, non-government institutes and organizations. The Report has been organized in such a way as to follow the structure and recommendations of the PRS document. An overview of economic trends in the previous period has been provided in the chapters which deal with macroeconomic indicators, fiscal policy and measures linked to transition towards market economy. The priority PRS areas in the previous period - employment, social policy, health and education - have been covered in the respective chapters. The report takes into account the regional, rural and urban poverty aspects, as well as the impact of environment to the quality of living. An analysis of bud-

³ 29% of Serbian population was aware of the PRS in September 2006, in comparison to 13% of population in September 2005 (Strategic Marketing, September 2005/6).

⁴ Strategic Marketing, April 2007.

⁵ IRI and Strategic Marketing



get and donor resources is provided in order to assess the scope of resources allocated for the implementation of measures linked to poverty reduction.

- 1.3.3. The Report was prepared over a period of six months and included consultations with public administration representatives, independent experts, representatives of civil society and international partners. A wider public had the opportunity to comment the first and second drafts of the Report. The preparation and consultation process included the organization of focus groups, workshops and web-based consultations in order to provide an opportunity for a wider group of stakeholders to share their views of the achieved progress.
- 1.3.4. The density of data is not consistent in all the chapters of the Report, due to the lack of availability of certain data. There was an effort during the preparation of the report to name the key projects implemented by means of international assistance resources as illustrative examples of joint work of various actors. A lot of good examples had to be omitted since there is a large number of initiatives and due to the limited space available. Furthermore, the Report is not written with gender-sensitive language, since official administration and legislation still do not recognize it.

1.4. Summary of the Report

1.4.1. Macroeconomic Framework and Factors of Sustainable Economic Growth

Macroeconomic stability and medium-term balance are the prerequisites of stable economic development, hence poverty reduction as well. In the reporting period, the following results within the macroeconomic sector have been achieved: macroeconomic stability was sustained in 2006, which is in line with the targets of the 1st Pillar of the PRS.

A relatively solid economic growth reflected in 5.7% GDP growth was achieved in 2006. Inflation rate was reduced to 6.6% at the annual level at the end of 2006, which represents a significant drop when compared with 17.7% at the end of 2005. The budget was in balance during most part of the year. Towards the end of the year budget expenditures grew expansively, primarily through spending of privatization proceeds used for National Investment Plan-related projects and rebalance of the 2006 budget. The current account deficit deepened in 2006 despite the fact that export rates grew higher than import rates.

The year 2006 saw a high level of foreign investments, the largest part being from privatization and additional capitalization of the banking sector. Net direct foreign investments reached the amount of 4,387 billion USD in 2006. The privatization of the banking sector has almost been finalized, wherefore the reform of this sector enters the final stage. The significant real and nominal appreciation of the Dinar together with potential fiscal imbalance could affect the competitiveness of economy rendering imports cheaper and exports more expensive, thus negatively affecting the balance of the current account in the forthcoming period.

In the medium run, risks lie in insufficient exports growth, insufficient domestic savings, large rise of foreign debts and a low level of investments compared to GDP.

1.4.2. Fiscal limitations in PRS implementation

The extensive reform of public finances in Serbia commenced at the outset of transition, in the year 2001. Significant tax reforms have been carried out in the area of revenues, and modern models of income and expenditure taxation have been introduced. When it comes to expenditures, important legal and operative steps have been taken towards achieving a trans-



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parent fiscal system, aligned with European standards, and towards rationalizing the public administration. Conditions for further development of a decentralised fiscal system in the Republic of Serbia have been created as well. The reform of public finances resulted in their consolidation, both on the level of the republic budget and on the level of the consolidated state sector.

Despite these achievements the public expenditure management system of the Republic of Serbia needs to be improved by strengthening the link between policies and allocation of budget resources and by introducing the performance dimension by applying the improved programmatic budget classification across Government.

In the forthcoming period, the greatest fiscal challenges will be: further rationalisation and modernisation of the public sector and redistribution of public expenditures in favour of economically more efficient expenditures, which would stimulate stronger dynamic economic growth and development. Since the most important tax reforms have already been carried out, parameter reforms of tax rates can be expected regarding revenues aimed at achieving a stimulating and regionally competitive tax system and at sustaining the achieved fiscal stability.

1.4.3. Building Strong Public Institutions

The new Constitution of the Republic of Serbia was ratified in the referendum held in October 2006 and introduced a number of novelties, primarily in view of regulating the issues of courts, selection of judges, status and authorities of the High Judicial Council, and territorial regulations, primarily the local government. The adoption of the new Constitution resulted in the demand for adoption of some new and revision of some of the existing systematic laws in the following period.

The implementation of the public administration reform and the judiciary reform was continued as key priorities of the European Partnership 2006. The Law on Civil Servants came into effect in 2006. This law should ensure employment and promotion of civil servants on the basis of their performance, i.e. it will lead to the creation of a public administration in which the principles of professionalism and depolitisation are strengthened. The High Commissioner Council was established, tasked with defining the level of professionalism, knowledge and skills evaluation in the course of engaging new employees, stipulating the methodology of their testing and criteria for their appointment, as well as elaboration of the code of conduct for civil servants. A Human Resources Department was established to perform all tasks related to human resource management and professional development (1,358 civil servants attended different training sessions in the course of 2006). The Anti-corruption Council and the Government did not meet in 2006 and the Council lacked information whether the Government considered the Council's reports.

The Government passed the Draft Law on Anti-corruption Agency in October 2006. The Agency should be an independent and autonomous body accountable to the National Assembly. This Draft Law was withdrawn from the parliamentary procedure by the Government Conclusion 05 number: 06-3159/2007-001 dated June 14th, 2007. The Law envisages closing down of the Republic Board for Resolving on Conflicts of Interest, since its competences are taken over by the Anti-corruption Agency. The Government, being the founder of the Anti-corruption Council as a temporary advisory body, is responsible to determine relations between the Council and the Anti-corruption Agency. The status of the Council is not regulated by the Law since it is an advisory body established by the Government decision; accordingly its status is defined by the Government decision and not by the law.



The adopted Law on Ombudsman for Citizens establishes the Ombudsman as an independent state institution tasked to defend citizens' rights and control the work of the state administration institutions. With a certain delay the institution of Ombudsman was established on June 29th 2007 (previously defined deadline for the selection of the Ombudsman was March 2006). The adopted Law on State Audit Institution establishes this independent state institution accountable to the National Assembly, and the State Audit Institution is expected to perform wide range of auditing the work of state institutions, local self-governments, political parties, and to a certain degree even individuals. This institution should have been established by May 2006 at the latest. The Government passed the Draft Law on Ombudsman for Children.

The National Judiciary Reform Strategy was adopted in May 2006, and was followed by the adoption of the Law on the Training of Judges, Public Prosecutors, Deputy Public Prosecutors and Judge and Prosecutor Assistants that envisages mandatory training for the newly elected judges, judge and prosecutors assistants has been introduced, which was not the practise so far. The level of the judiciary system efficiency is still not satisfactory in 2006 according to the European Commission⁶ - above all in conducting and resolving in civil proceedings. The data related to the Public Prosecutor's Office are more satisfactory, where in more than half of the cases the time elapsed from the moment when the criminal charges have been filed until the moment the charges are finally brought, is not longer than three months. The delay in the establishment of the Administrative Court and the Appellate Court, introduced in the judiciary system by the Law on organisation of courts, adopted in 2001, had a negative effect on the efficiency of the court proceedings, in particular of the Supreme Court of Serbia.

In the domain of local self-government the most important event in 2006 was the adoption of the Law on Financing Local Self-governments and respective decentralization preparatory activities i.e. transfer of competencies in three important areas: education, primary health care and social welfare protection.

1.4.4. Transition to a Market Economy: Establishing Conditions for Private Sector Development

When comparing the transition process of the Republic of Serbia with relevant countries it becomes obvious that the Republic of Serbia has been able to catch up with some of the other Balkan countries (Bosnia, Albania, Montenegro) in the post 2000 period, while candidate countries (Croatia and Macedonia) are well advanced in this process. The transition process in new EU member states has come significantly further in most areas (the exceptions are small-scale privatization and price liberalization). The biggest problems represent the areas of competition policy, financial markets and infrastructure regulation.

According to the official statistics, economic growth expressed through the estimated growth of real GDP amounted to 5.7% in 2006. This was in accordance with the foundations and the objectives of the Strategy, which had projected the economic growth rate at 4-5%. However, the growing economy has not resulted in increased employment opportunities so far, at least for a very wide range of demographic groups. The growth is primarily the result of the increased productivity fuelled by strong domestic demand and increase in exports. Since 2001, exports have grown strongly from a low base and increased its share in GDP. However, exports remain low relative to GDP and their growth reflects activity only in a few sectors. Problems with competitiveness are preventing a much broader use of potential. Furthermore weakening the competitive advantages, total labour costs are high in the Republic of Serbia, according to the International Monetary Fund, seen in the regional context.

⁶ The European Commission Annual Report for 2006 on the Progress of Serbia in the Process of Stabilisation and Association



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Foreign direct investment reached the record influx of over four billion EUR in 2006, but there was still insufficient Greenfield investment as the strong driving force of economy, employment and small and medium enterprises (SME) development. In 2006, a total of 337 companies were privatised with 58,811 employees, which represents a slight drop in comparison with the previous year, when 342 companies employing 63,619 people were privatised. Four public utility companies were privatised. In spite of being recognized as one of the priorities in the previous report there was no positive progress in restructuring and privatization of socially-owned companies.

The trend of SMEE sector taking over a part of the lost employment with predominantly large enterprises continued, but there will be no considerable increase of employment rate before the restructuring and privatization process of socially and state owned enterprises is finalized. This can be seen from the comparative analysis of the performance ratio of private enterprises to the rest of the economy (according to the Republic Statistical Office data, the private enterprise sector reached 61% of the GDP in 2005, having gone up from 38% in 2004 as a result of the privatization process). The structure of the economy has been changing rapidly, with the services sector reaching almost 63% of GDP in 2006, with strongest growths in trade, transportation and telecommunications and financial intermediation.

The 2006 the World Bank's Doing Business Report shows a considerable increase in the Republic of Serbia's international trade and borrowing, while the employment rate and business start-ups dropped in comparison with the previous period. According to the European Bank for Reconstruction and Development, Serbia made progress during 2006 in the auctioning and privatization of state and socially owned companies as well as in competitiveness developing policies. Corruption still represents a serious problem and is largely the result of weak protection of ownership rights.

Two important strategic documents were adopted during 2006: the Strategy for Encouraging and Developing Foreign Investment and The 2006-2012 Serbian Economic Development Strategy.

When relating to the legislative changes, the new Constitution created legal possibility for private ownership of urban building land, which was not the case before; the institution of debt write-offs has been introduced (Amendments to the Privatization Law and the Bankruptcy Law); a number of laws concerning creating conditions for economic growth and improved business climate were passed; with the establishment of the Commission for Protection of Competition the Republic of Serbia started meeting the criteria of the European Commission regarding competition protection.

1.4.5. Increased Employment Opportunities

According to the basic employment indicators Serbia is at the very bottom of the European scale. In 2006 there was a 21.6%⁷ unemployment rate, which represents a slight drop by 0.2% in comparison to 2005. Only 27.2% of the total population (2,028,854 people⁸) or 53.5% of the active labour force is employed, which is 2% lower than last year. The administratively recorded total unemployment rate⁹ continues to rise (28, 05%), which is approximately 3.2% higher than at the end of 2005.

⁷ The rate of unemployment among the group aged 15-64 is comparable to the EU rate. According to LFS, the rate of unemployment of the total population is 20.9%

⁸ Annual average, except for individual farmers

⁹ According to the National Employment Service (NES) methodology



The structure of the unemployed continues to be unfavourable - it is characterized by long-term unemployment which has deepened in recent years; the dominant share being the young population and women, especially among the unemployed (with secondary school education), the unemployment rate of vulnerable groups (Roma, refugees and IDP, disabled) is twice that of other population groups, and additional problem represents big regional differences at the labour market. One of the major causes of the large growth of the unemployment rates were the lay-offs of surplus employees in the process of privatization and restructuring of state and socially-owned companies, which can be expected in the next period as well.

Structure of unemployed persons, 2004-2006 ¹⁰					
%	Unemployment rate	Long-term unemployment (over 1 year)	Share of young (15-29) in total unemployment	Unemployed females	Unemployed males
2004	19.5	76.6	43.4	24.1	15.9
2005	21.8	77.8	40.9	27.4	17.6
2006	21.6	80.6	39.0	25.5	18.6

In order to create new employment opportunities, considerable support was provided to the development of the private sector and creation of new jobs through: various credit lines for small and medium enterprises (Republic Development Fund, „Start-up“ programme for beginners, micro credits for employment, credits for support of women entrepreneurship), establishment of business incubators, financial support and counselling services to future entrepreneurs by organizing seminars, providing consultancy services, organizing business stock exchanges, supporting their participation at the Fair of Entrepreneurship etc. However, although there are positive economic results and a notable increase in employment rate in the private sector, the growth of the private sector is not yet strong enough to create a sufficient number of employment opportunities in order for the influx of redundant workers to be absorbed, and at the same time to influence the decrease of the unemployment rate.

The active labour market policy measures contributed to the development of a more efficient labour market due to the effects of newly introduced measures. In 2006, the measures covered approximately 80% of the total number of unemployed people registered at the National Employment Service (NES), while approximately 40% more people found new employment than in 2005, in spite of the fact that the investments in active measures in 2006 were reduced to 0.3% of the total budget expenditure from 0.33% in 2005.

In order to align the education system with the economic needs, additional training programmes are implemented which are focused on the needs of a particular employer. The functional primary education of adults requires more flexible forms of a retraining system as well as consultations with employers in order to increase the number of people included in the system. The NES reform continued, and basic principles of the new organization were defined. A model and indicator for monitoring the effects, and the effectiveness of the NES operation were developed, which also envisions monitoring consumer satisfaction with the services.

In 2006, the Government of Serbia adopted the *Amendments to the Law on Income Tax* and the *Amendments to the Law on Mandatory Social Insurance Contributions*, in order to correct structural anomalies which were caused by the regressive income taxing, and the most important result of new tax regulations is removing the regressive tax for 98% of the employed. These changes in legislation provide strong incentives for employers to employ young workers (less than 30 years of age) and people over 45 and women over 50 years of age.

¹⁰ Source: RSO, Labor Force Survey



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Improved employment opportunities for vulnerable groups resulted in 208 people with disabilities employed, 90 unemployed Roma received self-employment subsidies, solutions were found for 1613 employees before they were made redundant and 13 transition centres were opened. A public works program was introduced, and a total of 1.500 people registered with NES were engaged on public works.

1.4.6. More Efficient Social Protection and Better Status of Pensioners and the Elderly

The previous period was marked by the implementation of the Strategy of Social Welfare Development. Strategies aiming at vulnerable target groups were adopted as well: the National Ageing Strategy, the Strategy of Improvement of the Status of people with Disabilities and the Strategy for Combating Trafficking in Human Beings. Also, the National Strategy against Violence, the Strategy for Birth Promotion, the National Plan of Activities for Improvement of the Status of Women and the Promotion of Gender Equality (2007-2010) have been developed.

The institutional framework for the improvement of professional work and the quality of services in social protection was set up by establishing and operationalising the Republic Institute for Social Welfare and the Institute for Social Welfare of AP Vojvodina.

Some of the important elements of reform, such as building of the control mechanisms, defining standards, as well as regulating the issue of licensing and accreditation in social protection, have not become systematically regulated yet and remain challenges in the forthcoming period.

Preparatory activities have been undertaken and the financing of the projects from National Investment Plan (NIP) funds has started. Realisation of projects which support local self-government units in developing the social protection services has started. The support is aimed at helping in local level social policy planning (drawing up strategic plans), creation of plans, establishing implementation bodies which will be in charge of development and realisation of social protection strategy and monitoring its implementation. Up until now, only 14 municipalities have adopted strategic documents pertaining to the social protection area.

Criteria for exercising the right on Family Financial Support (MOP) relatively well target the poor, but coverage with this type of assistance is relatively limited, as 73% of the poorest are not entitled to MOP. It is necessary to redefine the amount of MOP in the year 2007, in order to make it sufficient for satisfying the basic essentials.

In 2006, work on de-institutionalization and transformation of residential institutions has continued, which has been significantly contributed by development of family residence. From 2005, children accommodated in foster families outnumbered the institutionalised children and amounted to 3,196 children. In 2005 and 2006, around 460 children left social protection institutions, in order to be accommodated in foster families and returned to biological families, or to become self-sustainable for life in the community. However, the problem of insufficient accommodation in foster families of children below the age of three and children with developmental problems still exists. A high percentage of Roma children and youth accommodated in social care institutions (30%) causes worry and calls for the development of special measures of support to families from this target group.

Obvious progress has been made in improving the status of disabled people (financing of supported independent living projects, daily activities in a protected environment, etc, from the Ministry of Labour, Employment and Social Policy, as well as from the Social Innovations Fund), but a systemically regulated support service directed at the inclusion of the disabled is



still lacking (thus far, support services such as personal assistance and housing in a supportive environment have been ensured only in the form of pilot projects). The *Law on Prevention of the Discrimination of the People with Disability*.

The year 2006 was marked by an increased number of registered cases of family violence, for which social protection does not yet have adequate professional capacities and modalities of temporary accommodation of the victims of family violence. When the victims are women living in poverty, without free legal representation and material assistance to cover the costs of court procedures (amounting to RSD 40,000 on the average) and without fast (efficient) procedures, there is no effect in their protection.

Only 9% of the elderly aged 70 or more use some of the rights/services/programmes of the out-of-institution support programme, because the existing capacities for providing for this type of service are still insufficient. They are used to a greater extent by chronically ill elderly people and by interviewees with higher incomes. Services of out-of-institution protection of the elderly, financed/co-financed by local self-government units are provided in 58 municipalities in the Republic of Serbia.

The process of consolidation and integration of three funds for pension and disability insurance is under way. The Law provides for the administrative consolidation to be completed by 1 January 2008 and financial consolidation is to be completed by 1 January 2011. Amendments to legal regulations which came into force on 1 January 2006 introduced mandatory financing of the difference between the lowest pension and the pension calculated in accordance with general regulations (provided it is lower than the lowest pension) from the budget of the Republic of Serbia. Application of amended regulations resulted in a reduced share of direct subsidies from the budget (which are being used for covering scarce funds for the payment of Republic Fund for Pension and Invalid Insurance for Farmers) from 58% of total fund revenues in year 2005 to around 24% in year 2006, while the share of direct subsidies in the total expenditure of the Republic Fund for Pension and Invalid Insurance for Employees amounted to 36% in 2006. Republic. The payment of the public debt to beneficiaries of pensions from the Republic Fund for Pension and Invalid Insurance for Farmers started in November 2006. The debt is being paid in four equal annual instalments and shall be completed in 2010, including an 8.5% annual interest rate. The payment of public debt to beneficiaries of pensions from the Republic Fund for Pension and Invalid Insurance for Employees started in December 2005, with the same annual interest rate. Payment of the last, sixth instalment of the public debt was envisaged for February 2008.

1.4.7. Health Care towards Poverty Reduction

Many citizens' health status indicators show positive trends in comparison to the '90s but life expectancy at birth, as one of the basic indicators of citizens' health, is unfortunately still considerably lagging behind the European Union average. In addition to that, some unacceptable differences can be observed between health indicators of particularly vulnerable groups and general population.

In late 2005 a set of system laws was adopted: the Law on Health Protection, the Law on Health Insurance, the Law on Chambers of Medical Workers. In early 2006, a number of bylaws were passed relating to the healthcare institution network plan, detailed conditions for performing medical services in healthcare institutions and other forms of healthcare, and internal organization of healthcare institutions, etc.



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Towards the end of 2006, the manner and the procedure of exercising rights pertaining to health insurance were defined as well as the content and the scope of the right to health care. Partial rationalization of the number of employees in the health sector contributed to a better efficiency of health care service delivery, and the work on the Strategy for the Development of Human Resources in Healthcare continued together with the activities concerning development and implementation of guides to good clinical practice, development of the quality control system and the pilot project on accreditation that started in hospitals. New models of financing of primary and secondary health care using models of capitation and diagnostically similar groups, were worked out in detail, but their application, even though recognized as a priority in the previous period, is still applied as a pilot project and remain a challenge for the near future.

A number of strategic documents were adopted: the Development Strategy for Youth Health in the Republic of Serbia, the Strategy for Controlling Tobacco, the Strategy for Improving Mental Health and the Strategy for the Improvement of the Position of people with Disabilities in the Republic of Serbia. Development of local plans of actions according to the needs of the local communities and establishment of implementing coalitions would contribute to more efficient implementation of national strategies at the local level.

The RIHI investments in primary health care were reduced, but it should be noted that the budgetary funds earmarked by the Ministry of Health for primary health care went up from 15% to 36% in the same period. This reduction in the RIHI investments in primary health care were achieved due to the rationalization of medicaments used at the primary health care level, rationalization in use of diagnostic, specialised-consultative and other services as well as reduced number of health and non-health workers engaged.

First preventive medical centres for early diagnostics of diseases by way of carrying out integrated activities of primary health protection. Accessibility of healthcare services, especially among the poorest stratum of the population, is limited due to the considerable payments required from the beneficiary. Serbia is one of the countries where „paying out of the pocket“ comprises the largest part of private health costs (85%), and the share of health costs in the total household final consumption expenditures registered an upward trend. For the first time a set of National Health Accounts (NHA) was produced with a view to enable the monitoring of health care costs for the vulnerable and the poorest groups of population.

The ratio of the poorest to the general population is much higher when it comes to not using medical services because they have to be paid for. The *Law on Health Insurance* from 2005 recognises different categories of people whose mandatory health insurance is paid from the budget of the Republic of Serbia: population groups that are at higher risk of contracting diseases, individuals that require treatment aiming at preventing, eradicating early diagnostics and treatment of diseases of higher socio-medical importance, as well as individuals within the socially vulnerable population groups (for the first time the Republic of Serbia is obliged to pay mandatory health insurance for these categories of beneficiaries providing them status of the health insurance beneficiary and rendering them equal rights and obligations as other health insurance beneficiaries in the Republic of Serbia have). However funds allocated for this category of beneficiaries are not sufficient¹¹. In spite of the fact that the legislation acknowledges the needs of vulnerable groups, part of the population still does not exercise the rights that are guaranteed by law, and a specific problem represents the inclusion in the health care system of

¹¹ There was 1.129.999 beneficiaries registered in 2007 within the above mentioned category which required the total of 17.588.503 dinars for their health insurance from the Budget of the Republic of Serbia. However the Budget Law for 2007 earmarked only the amount of 3.100.000 dnars for this purposes



people without residence. Important improvement can be seen in allocation of budget funds earmarked for the realization of programmes aiming at improvement of health status of vulnerable groups. Programmes targeting the Roma population are realized in cooperation with non-governmental organizations.

On the other hand, the number of people who buy medications in pharmacies has dropped, and the number of those obtaining medications on prescription went up.

The National Investment Plan provided 311 million EUR, which was earmarked for investments in infrastructure and procurement of equipment in the health sector, and part of the funds were earmarked for refurbishment of medical centres in Serbia.

The new Law on Financing Local Self-Governments that came into force on January 1st, 2007 stipulates competencies of the local self-government in providing primary health care, which should in addition to additional sources of financing, contribute to the more even distribution of funds across various levels of health protection. The corruption index in the area of health care services has slightly dropped in comparison to 2005, but it is still very high (3.9 out of 5).

1.4.8. Education and Poverty Reduction

Despite the fact that the number of illiterate people halved in between censuses, thus being reduced to 3.4%, and that there is a trend of a significant decrease in the number of illiterate youth aged 15-24, overall, the educational structure of the population is still inadequate. The educational level of women from rural areas and the Roma population is especially inadequate.

The Preparatory Preschool Programme (PPP) has been introduced for the first time into the Republic of Serbia education system as mandatory and a free-of-charge programme for all children in the year preceding entry into primary school. The programme covers around 78,000 children, but, unfortunately, no data is available on the participation of children from vulnerable groups. The coverage of children with total preschool education is still low and it will represent a formidable challenge in the forthcoming period. Only 14.4% of rural children, 7.0% of the poorest and 3.9% of children from Roma settlements, aged three to five, have been covered. The network of preschool institutions is unequally distributed on the territory of Serbia and it is inadequate for the needs of the country.

Despite the legally provided, mandatory, universal and free-of-charge primary education, 5% of children do not enrol elementary schools at an adequate age. Only 66% of the Roma children enrolls elementary schools at an adequate age and it is estimated that only 30% of them completes the primary education. The dropout rate is high for other vulnerable groups as well, therefore it is necessary to develop mechanisms preventing dropout of children from schools and providing for their return into the regular schooling system.

The secondary school coverage of the young population aged 15-18 amounts to 76%-86%. The coverage of children from vulnerable groups, especially from the poorest population and those living in Roma settlements, is significantly lower.

The Strategy of Development of Secondary Vocational Education in the Republic of Serbia and Strategy of Development of Adult Education in the Republic of Serbia, adopted in the end of 2006, have a special importance for the Poverty Reduction Strategy, as they create conditions for productive employment. The introduction of new educational profiles into secondary vocational schools is being continued. The possibility of accreditation of schools for implementing



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adult education programmes has been given, and five regional centres for continual education have been established. The informal education system is still insufficiently recognised, utilised and linked with the formal education system.

After adoption of the new Law on University Education, in the end of 2005, the implementation of the Bologna process has continued. The National Education Council and the National University Education Council have been established and started to work.

Working documents, which are by their nature instruments for quality insurance in education, have been adopted at all educational levels, such as: instruments for self-evaluation and external evaluation, standards of pupils' results at the end of the primary school, standards for accreditation of faculties.

Progress has been made in developing the system of educational statistics and tools for monitoring the implementation of strategic documents. Preparations are being finalized for the introduction of Information System in the educational system of Serbia, implementation of which will provide for increase in the efficiency and effectively of the educational system, the DevInfo system has been upgraded, national indicators for monitoring the realisation of Millennium Development Goals (MDGs) have been defined and indicators for PRS implementation monitoring have been revised. Established systems should be supplemented by data on vulnerable children groups, which are not available at the moment (Roma children, children with developmental problems, displaced children and children of readmission returnees).

The professional advancement of teaching staff for work with children from vulnerable groups has continued. Funds from the National Investment Plan have been earmarked for IT equipment and Internet connections, for professional advancement of teachers and for improvement of conditions in schools.

There is a discrepancy between the existing network of educational institutions and demographic, socio-economic and educational needs of the population, therefore its optimisation along with safeguarding the rights of all segments of the population to quality education is still ahead of us.

The upward trend of budget resources allocated for education did not go at an expected pace, and in 2006, the share of education in GDP amounted to 3.5%, so scarce financing of education remains one of the main impediments to development of the sector.

1.4.9. Regional, Rural and Urban Aspects of Poverty

Article 94 of the new Constitution expresses commitment of the state to „take care of regional development.“ The Government has adopted the National Strategy of Economic Development of Serbia for the period 2006-2012, which contains basic guidelines of the regional development of the Republic of Serbia's, and afterwards the Strategy of the Regional Development of Serbia for the period 2007-2012. The recommendations are aimed at the removal of regional disproportions which are now 1:7 at the district level and 1:17 at the municipal level. The population of rural areas is 2.5 times poorer than the city population and it is in a much worse situation regarding physical and social infrastructure.

Key resources of regional policy in the Republic of Serbia are the Serbian Development Fund, allocated to local self-governments pursuant to the Law on Financing Local Self-Governments, incentive funds distributed by the Ministry of Agriculture, Forestry and Water Management and, as of 2006, the National Investment Plan.



Incentive funds from the Serbian Development Fund are granted under more favourable conditions in undeveloped municipalities in which the national income amounts to 50% of the Republic average, and the most favourable conditions are given to municipalities in which the national income is below 1/3 of the Republic average.

Fiscal decentralisation is one of the possible solutions for the problem of undeveloped municipalities. The Law on Financing Local Self-Government envisages RSD 29.7 billion, to be transferred to cities and municipalities in 2007. The Law prescribes stabilisation of the transfer scope by connecting to percentage of GDP, thus providing for predictability in the forthcoming several years, as well as the more equal income disbursement. This Law authorizes local self-government units to establish the tax rate and collect the property tax.

One of the necessary steps to be undertaken by municipalities is the drawing up of local development strategies. Results of mapping existing local strategies and bodies for their implementation in all municipalities in the territory of the Republic of Serbia have shown that 140 municipalities have developed strategic plans, while 27 have not yet started this process. The total number of strategic or action plans which have been developed or are being developed by municipalities is 396, out of which 157 have been adopted.

Two important laws in the domain of rural development were adopted - the Law on Farmland and the Law on Organic Production, while the Agriculture Law and the Law on Plant Health are being drafted and they should be adopted by the end of the year. Adoption of the new Agriculture Development Strategy of Serbia marked transition from the price support to credit support, investment support, subsidizing input and rural development. Income support measure for non-commercial farms was adopted in 2006. Its objective was to reduce the discrepancies between farmers who can be competitive and contribute to their own income and those who, due to their old age or because they live in areas that are less suitable for farming cannot significantly produce for the market. In 2006, marginal or less favourable areas were defined and beneficiaries from these areas were given the opportunity to have a higher share of grants when using funds through the measures for rural development, which increased the investment in these areas. The amounts of grants are increasing every year and they reached 2.6 billion RSD in the year 2006. In addition to the funds of the Republic, AP Vojvodina and many other local self-government units have formed their own agrarian budgets.

The National Investment Plan identifies 17 key sectors and nearly all of them are also covered by the Poverty Reduction Strategy. Out of 1.6 billion EUR, envisaged for spending on projects in 2006 and 2007, 824 million EUR can be identified per municipality.

Housing is an acute problem for many citizens of the Republic of Serbia, especially for socially vulnerable population groups. The 2005 Housing Sector Study has depicted the situation of housing sector in the Republic of Serbia and represents a necessary basis for future housing policy. Adoption of the Law on Social Housing will represent the first step towards the systemic regulation of this area.

1.4.10. Environmental Aspects of Poverty Reduction

The largest number of laws pertaining to the environment has still not been harmonized with EU regulations and the implementation of the adopted regulations is inefficient, this being the result of insufficient and inadequate institutional capacities. The level of investments in the environment is low (0.3% of the GDP in 2004 and 2005, while the projections for 2006-2009 are 0.4% of the GDP), while financing from the industry and private sector is insufficient. The



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system of economic instruments is still insufficiently developed and does not provide a sufficient enough stimulation for the reduction of pollution.

The new legal framework for environmental protection, which is in harmony with the EU Directives, was established in 2004 with the adoption of the Law on Environmental Protection, the Law on Strategic Environmental Impact Assessment, the Law on Environmental Impact Assessment and the Law on Integrated Environmental Pollution Prevention and Control. The proposed National Program for Environmental Protection is undergoing the adoption procedure in the National Assembly. Its realization will be carried out according to action plans, whose drawing up is under way. The National Strategy for Sustainable Development is being drawn up and is expected to be completed by autumn 2007. Also in process is the drafting of the National Strategy for the Sustainable Use of Resources and Goods and the National Strategy for the Introduction of Cleaner Production.

The Environmental Protection Fund and Environmental Protection Agency have been established within the Ministry for Environmental Protection and have started working. Funds for financing programs and projects of importance for APV have been established at the level of Executive Council of AP Vojvodina. They also include projects in the area of environmental protection.

Access to the water supply and sewage infrastructure is still insufficient for the general population, especially for vulnerable groups, which causes health problems, especially in poor city districts, often located near poorly maintained waste dumps. Around 30% of the drinking water supply in the territory of the Republic of Serbia does not satisfy the quality standards (67% in Vojvodina), while 76% of the Belgrade population and only 15% of rural population has a connection to the public sewage system.

The sewage systems have been inadequately maintained over a longer period of time, without adequate investments. Out of the total amount of sewage waste water, only 5.3% is released to the recipients following adequate purification. The largest cities in the country - Belgrade, Novi Sad and Nis, do not have a plant for the purification of utility waste waters. In 2006, systems for the collection, transport and purification of waste water were built and they form parts of regional systems. Collectors and waste water purification devices were constructed in 20 municipalities.

In 38 municipalities, inhabited by 16.5 of the Serbia's population, waste dumps are located at 500m or less from settlements. There is also a large number of illegal waste dumps, which are not being controlled. The National Waste Management Strategy envisages the closing down or re-cultivation of the existing waste dumps and the construction of 29 regional (for a number of municipalities) sanitary waste dumps, with recycling centres and transfer stations. Only around 60% of generated communal waste is collected in an organized manner, only in urban environments. In 2006, the Environmental Protection Fund co-financed the drawing up of projects for the rehabilitation of waste dumps in 22 municipalities, as well as the performing of works in seven municipalities. The Fund also co-financed the drawing up of projects for regional waste dumps and participated in the financing of three projects for the construction of regional sanitary waste dumps for a number of municipalities.



2 Poverty Statistics



2.1. Poverty Measuring

- 2.1.1. A detailed poverty profile represents a key data source for developing strategic measures directed at reducing specific poverty phenomena and facilitates the social inclusion of the most vulnerable groups.
- 2.1.2. The Republic Statistical Office (RSO) has taken over the formal responsibility for monitoring poverty statistics, and the new role of the RSO in the domain of poverty statistics is regulated in the Draft Law on Official Statistics.
- 2.1.3. There have been two stages linked to poverty measurement activities in the Republic of Serbia. The first stage was characterized by two consecutive Surveys on the Living Standard of the Population (SLSP) conducted in 2002 and 2003 at the request of the Government and with professional assistance provided by the World Bank. The Poverty Reduction Strategy was drafted in the period 2002/2003 based on the key poverty-related findings obtained from the SLSP.
- 2.1.4. In order to collect a set of data fully comparable with the 2002/02 data, an agreement has been reached between the Government and international partners that the Republic Statistical Office conduct the Survey on the Living Standard of the Population in 2007. The data were collected in May and June 2007. The first results are expected towards the end of 2007 and shall constitute a foundation for assessing the impact of PRS and revision of PRS measures and activities.
- 2.1.5. The second stage was initiated with the adoption of a strategic decision in 2004 to base poverty statistics on the data obtained from the Household Budget Survey (HBS) which is regularly conducted by the Republic Statistical Office. The decision ensures full national ownership and indispensable long-term continuity in monitoring the poverty data.
- 2.1.6. Poverty in the Republic of Serbia was analyzed in 2006 based on the household consumption. It is widely accepted in countries undergoing transition that consumption is a best indicator of living standards¹². The analysis represented in the report represents results of the work of the Poverty Measurement Working Group established by the Republic Statistical Office.

¹² In the first place, in conditions of widespread grey economy, income is often understated and households are not willing to reveal their "illegal" income sources. It is similar with some other revenues, such as remittances from abroad which are rarely reported as an income source. Furthermore, consumption represents a more effective indicator, since expenditures tend to be more stable over a period of time in comparison to revenues, primarily due to irregularity of salary payments. Finally, one of the main reasons for represents a significant share of own agricultural food production of a number of households which may not be expressed through financial revenues. Household consumption is defined as a sum of food expenditures and other current expenditures which include purchased products, own production and presents. Imputation of the value of services by using durable consumer goods, as well as the imputation of rent for flat or house owners was left out from the analysis due to deficiency of necessary data in HBS for their calculation. Thus defined consumption was deflated by regional indexes of food prices which were obtained from HBS. Since the consumption data was collected at the household level in order to determine the level of the welfare of the population, the total household consumption has to be distributed between household members on the basis of certain criteria in order to obtain units of equal consumption and/or consumer units. The report relies on the modified OECD scale according to which an adult household member represents a consumer unit, another adult 0.7, and children up to 13 years of age have a ponder of 0.5 (represent half a consumer unit).



2.2. Poverty in 2006 based on Household Budget Survey

In 2006, 8.8% of the population in the Republic of Serbia was categorized as poor, in view of the fact that their consumption per consumer unit was, on the average, below the poverty line which amounted to 6,221 Dinars a month per consumer unit. The poverty depth was 2.1%, which indicates that if the state were to mobilize funds to the amount of 914.5 million CSD on a monthly basis (2.1% of the poverty line for each person, either poor or not) and direct them towards the poor, poverty would be eliminated, provided that assistance to the poor is impeccably targeted. The population of other regions in comparison to urban regions is considerably poorer. The region with the largest share of the poor is central Serbia¹³. Most vulnerable are households with six or more members, children up to 18 years of age, the elderly (65 and over), households whose primary wage earner is the woman and where the primary wage earner has finished only primary school or has not graduated primary school.

Main Poverty Indicators in 2006

- 2.2.1. Poor is considered every person in the Republic of Serbia whose income is below poverty line amounting to CSD 6,221 a month per consumer unit (existential minimum required for satisfying the minimum living needs)¹⁴.
- 2.2.2. In 2006, 8.8% of the population of Serbia was categorized as poor (Table 2.2.5.), in view of the fact that their spending per consumer unit was on average below the poverty line which amounted to CSD 6,221 a month per consumer unit¹⁵.
- 2.2.3. The poverty depth was 2.1%, which indicates that if the state were to mobilize funds in the amount 2.1% of the poverty line for each person, either poor or not, and direct them towards the poor, poverty would be eliminated, provided that assistance to the poor is impeccably targeted.
- 2.2.4. Poverty severity, an indicator taking into account the fact that a number of the poor population have fallen deeper into poverty and/or further below the poverty line than others, accounted for 0.8%.
- 2.2.5. It can be concluded on the basis of this data that the poverty depth and intensity are not high, which is in accordance with the relatively low inequality in Serbia.

Table 2.2.5. - Poverty indicators in the Republic of Serbia in 2006 (%) ¹⁶ (standard errors are presented in brackets)			
	Poverty line = 6221 dinars a month per spending unit		
	Index (R0)		
Urban areas	5.3 (0.66)	1.3 (0.27)	0.5 (0.16)
Other areas	13.3 (1.15)	3.1 (0.39)	1.2 (0.22)
Total	8.8 (0.63)	2.1 (0.23)	0.8 (0.13)

¹³ Due to the fact that there is no official legal regional division for the purpose of this Report we use territorial division of the Republic of Serbia into Autonomous province of Vojvodina, Belgrade and Central Serbia (comprising Serbia without Autonomous provinces and Belgrade). There are mainly no data available for Kosovo and Metohija.

¹⁴ Detailed overview of calculating the poverty line is given in Appendix 1.

¹⁵ If the standard poverty index error is taken into account, the real poverty index ranges between 7.5% and 10.1% (with a 95% statistical certainty).

¹⁶ The source of data provided in all the tables in the chapter is the Household Budget Survey 2006.



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Poverty by Regions

2.2.6. The population of other regions is significantly poorer in comparison to the population of urban regions¹⁷. The poverty index of other regions was almost two and a half times higher than the poverty indexes of the urban population (13.3% to 5.3% respectively), and was around 50% higher in comparison to the average of national average.

2.2.7. Poverty depth and severity of other regions was also statistically higher in comparison to urban regions.

2.2.8. The region with the largest share of the poor is central Serbia (Table 2.2.10.). The poverty risk in this region is 21.6% larger than the average poverty risk of Serbia's population¹⁸. Within this region, a considerable difference in the poverty of urban and other areas is noticeable.

2.2.9. The situation is similar in the Autonomous Province of Vojvodina whose poverty index is somewhat below the national average.

2.2.10. Other areas of central Serbia and AP Vojvodina are exposed to a high risk of poverty compared to the average for the entire population (60.9% and 53.9% respectively), while the populations of urban areas in both regions are in a much more favourable position since their poverty risk is below the national average.

Table 2.2.10. - Poverty indicators by regions in the Republic of Serbia in 2006 (%)

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
Belgrade	4.3	-51.2	21.4	10.5
Urban areas	3.8	-56.6	17.2	7.5
Other areas	6.3	-28.9	4.2	3.0
AP of Vojvodina	8.7	-0.9	26.7	26.5
Urban areas	4.9	-44.2	14.9	8.3
Other areas	13.6	53.9	11.8	18.2
Central Serbia	10.7	21.6	51.9	63.0
Urban areas	6.6	-24.8	23.8	17.9
Other areas	14.2	60.9	28.1	45.1
Total	8.8	-	100.0	100.0

2.2.11. The population of other areas of central Serbia, which was the most vulnerable, accounted for 28.1% of the total population and for almost half of the overall number of the poor (45.1%).

2.2.12. The population of urban areas in Belgrade, Vojvodina and central Serbia were in the most favourable position, since their poverty risk was much lower than the national average.

¹⁷ According to the RSO, all settlements are divided into urban and other settlements (which are not urban, whose centre of the settlement is not built according to the urban plan)

¹⁸ The relative poverty risk is the ratio between the poverty index for various groups and the poverty index for the entire population, expressed in percentage points. When the poverty risk for various groups of the population is examined, it is possible to learn which groups of the population are the most vulnerable.



Poverty by Type of Household

2.2.13. When poverty is observed according to the size of the household, it can be noticed that poverty does not increase with an increase in the number of household members, save in the case of households with six or more members which are the most vulnerable (poverty risk of 96%).

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
One member	8.6	-2.5	5.7	5.5
Two members	8.7	-1.8	14.8	14.5
Three members	5.2	-41.6	17.4	10.1
Four members	5.7	-35.8	27.1	17.4
Five members	8.3	-6.1	15.9	14.9
Six members and more	17.3	96.0	19.1	37.6
Total	8.8	-	100.0	100.0

Poverty by Age

2.2.14. When observed according to age, the percentage of the poor is largest among children up to the age of 18 (some 12%). Their poverty risk was by almost a third higher than the national average. They accounted for 23.7% of the total population and for almost a third of the total number of the poor.

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
AGE				
Children up to the age of 13	11.6	31.4	16.8	22.7
Children 14 - 18	11.7	32.5	6.9	9.1
Adults 19 - 24	7.2	-18.1	9.2	7.9
Adults 25 - 45	8.4	-5.2	28.3	28.1
Adults 46 - 64	7.0	-21.0	24.7	18.9
Aged 65 and more	10.0	13.4	14.1	13.3
TOTAL	8.8	-	100.0	100.0
CHILDREN/ADULTS				
Children	11.6	31.7	23.8	31.8
Adults	8.2	-7.5	76.2	68.2
TOTAL	8.8	-	100.0	100.0

2.2.15. The following category with an above average poverty risk are the elderly (65 years of age and over). Namely, 10.0% of the elderly (65+) lived below the poverty line of 6,221 dinars by consumer unit, so that their relative poverty risk was by 13.4% larger than the national average.



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Poverty by Gender and Marital Status of the Head of the Household

2.2.16. Households with the woman as the head of the household were somewhat more vulnerable than other households, since their relative poverty risk was slightly higher than the average (9.3%).

Table 2.2.16. Poverty indicators according to gender and marital status of the head of the household in the Republic of Serbia in 2006 (%)

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
GENDER				
Male	8.6	-2.4	79.5	77.6
Female	9.6	9.3	20.5	22.4
MARITAL STATUS				
Single	8.8	-0.8	3.0	3.0
Married	8.7	-1.1	76.1	75.2
Divorced	9.9	12.4	4.4	4.9
Widowed	9.0	2.0	16.5	16.9
Total	8.8	–	100.0	100.0

2.2.17. The households whose head is divorced are under a somewhat higher poverty risk than the average (12.4%), but their share in the overall structure of the poor population is relatively small (4.9%).

Poverty by Education of the Head of the Household

2.2.18. Households whose head have not finished primary school are under higher poverty risk. The households whose heads have finished primary school are also under a high poverty risk, 55.5%. These two groups account for 66% of the overall poor population.

Table 2.2.18. Poverty indicators according to the education level of the head of the household in Serbia in 2006 (%)

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
Unfinished primary school	21.0	138.1	16.6	39.5
Primary school	13.7	55.5	17.0	26.5
Secondary school	5.5	-38.0	51.3	31.8
Two-year post second. school	0.6	-93.3	7.0	0.5
University education	1.8	-79.1	8.1	1.7
Total	8.8	–	100.0	100.0

2.2.19. Only 0.6% of the households where the head has finished post-secondary school education, i.e. 1.8% of the households whose head had university education, were poor.

Poverty by Socio-Economic Status of the Head of the Household

2.2.20. The percentage of the poor according to the socio-economic status of the household head considerably differs, as seen in Table 2.2.20. The largest percentage of the poor was registered among households whose head was inactive, but was not a pensioner. The households whose head was unemployed had a relatively high poverty risk (66.4% above average).



Table 2.2.20. Poverty indicators by the socio-economic status of the household head in Serbia in 2006 (%)

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
Self-employed	10.2	15.4	15.3	17.7
Employed	5.2	-40.9	36.9	21.8
Unemployed	14.7	66.4	7.1	11.8
Pensioners	8.8	-0.7	36.9	36.7
Inactive others	28.2	219.8	3.8	12.0
Total	8.8	—	100.0	100.0

Poverty by Main Source of Income of the Household

2.2.21. Households whose main source of income derives from agriculture activities are exposed to a considerable poverty risk. The next category according to the vulnerability level includes households whose main source of income is pension.

Table 2.2.21. - Poverty indicators by to the main source of household income in Serbia in 2006 (%)

	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
Public sector	4.8	-45.9	29.0	15.7
Private sector	7.1	-20.1	27.4	22.0
Agriculture	11.5	29.8	11.7	15.2
Pensions	10.2	15.8	26.2	30.2
Other	26.3	198.2	5.7	16.9
Total	8.8	—	100.0	100.0

2.2.22. Household members who live in a housing space of less than 10 m² have a poverty index of 30.6%, which is considerably above the national average (247.1%). Their share in the total structure of the poor is 26%.



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- 2.2.23. When observing the type of heating, it may be concluded that households using solid or liquid fuel for heating are under an above average poverty risk. The largest share in the structure of the total population is that of households using solid fuels (60.4%), which account for the largest part of the structure of the poor (85.4%).

Table 2.2.23. - Poverty indicators according to certain housing characteristics and the possession of durable goods in Serbia in 2006 (%)				
	Percentage of the poor	Relative poverty risk	Structure of overall population	Structure of the poor
M² PER HOUSEHOLD MEMBER				
Less than 10	30.6	247.1	7.5	26.0
More than 10	7.1	-20.0	92.5	74.0
TYPE OF HEATING				
Central heating	2.7	-69.8	17.5	5.3
Electricity	3.5	-60.1	7.9	3.2
Solid fuel	12.5	41.4	60.4	85.4
Liquid fuel	13.5	52.9	0.5	0.7
Combined	4.4	-50.2	6.5	3.3
Gas	2.7	-69.1	7.3	2.3
TELEVISION SET				
Possesses	8.5	-4.0	97.5	93.6
Does not possess	22.9	160.1	2.5	6.4
TELEPHONE				
Possesses	5.6	-36.4	84.2	53.5
Does not possess	25.9	193.9	15.8	46.5
WASHING MACHINE				
Possesses	5.9	-33.5	87.4	58.2
Does not possess	29.3	232.9	12.6	41.8
TOTAL	8.8	–	100.0	100.0

- 2.2.24. Households that do not possess a television set, telephone and washing machine were exposed to a much larger poverty risk than compared to the households that possess the mentioned goods. Households in possession of a telephone and a washing machine are under a poverty risk which is by a third lower than average.

Relative Poverty

- 2.2.25. The relative poverty line has been set at 60% of the median of the average spending per consumer unit, and amounted to CSD 7,171 on average a month per consumer unit in 2006. According to this poverty line, in 2006, 14.4% of the population of the Republic of Serbia was poor, since their monthly spending per consumer unit was below 7,171 dinars.

Table 2.2.25. - Poverty indicators in the Republic of Serbia in 2006 (%) (standard errors are presented in brackets)			
	Poverty line = 7,171 dinars a month per spending unit		
	Index (R0)	Gap (R1)	Intensity (R2)
Urban area	9.5 (0.80)	2.1 (0.31)	0.8 (0.19)
Other areas	20.6 (1.45)	4.9 (0.47)	1.9 (0.27)
Total	14.4 (0.77)	3.3 (0.27)	1.3 (0.16)



Inequality Measures

- 2.2.26. The most frequently used inequality measure is the Gini coefficient whose value is calculated according to spending per consumer unit and amounted to 28 in the Republic of Serbia in 2006.
- 2.2.27. The inequality level in the Republic of Serbia is close to the average for the group of East European economies in transition¹⁹. Especially interesting for us are comparisons with neighbouring countries which also conducted household surveys that were very similar to the Serbian survey according to the manner in which they were conceived and the definition of the welfare aggregates. Bosnia and Slovenia have a lower inequality level (27 and 26 respectively), while in Macedonia, Bulgaria and Croatia (29, 33 and 26 respectively) this level is higher than in Serbia.
- 2.2.28. Another inequality measure is the share of 25% of the poorest households in the population's total consumption, which amounted to 11.1%.

¹⁹ Source: Biljana Bogicevic, Gorana Krstic, Bosko Mijatovic, Branko Milanovic - *Siromastvo i reforma finansijske podrške siromasima* (Poverty and Reform of Financial Support to the Poor), 2003



Implementation of the Poverty Reduction Strategy related activities continued in the year 2006. Support to the PRS implementation was provided, apart from the public administration institutions at the national and local level, by international development partners and civil society organizations. The aim of this part of the Report is to present the main achievements and results of the implementation process, but also to provide an analysis of areas which require further improvements. Furthermore, this section of the Report identifies the key challenges in the forthcoming period with regard to the PRS implementation process.

The report findings are based on the reports of the responsible public institutions but also on a number of independent surveys and reports produced by public institutions, international funding institutions, donors and civil society organizations.

Significant progress has been achieved in systematising and mapping PRS indicators and data sources, capacity building within public administration in relation to monitoring and reporting, which together provided for results-based reporting processes. However, further efforts need to be invested into building monitoring and reporting capacities which are to enable a functional system based on impact assessment. An additional weakness is the lack of a sufficient number of reports that deal with analyzing the impact of different policies and legislative interventions.

The contents of chapters presented have different level of data density and space given depending on data availability and importance given to particular topics recognized as priorities for PRS implementation.



3 Transition and Reform Framework for Poverty Reduction



3.1. Macroeconomic Framework and Factors of Sustainable Economic Growth

Economic Growth

3.1.1. Official estimates show that Serbia's **economy grew 5.7%** during 2006. This GDP growth is somewhat lower than in 2004 and 2005 when it amounted to 8.4% and 6.2% respectively. The achieved growth in 2006 is in line and even exceeds the rate envisioned by medium-term sustainable framework from the PRS which envisions real growth by 4.5% in 2006.

Table 3.1.1. - Production and Investments²⁰

	2001	2002	2003	2004	2005	2006 *
GDP, in million Euros	13186	16812	18009	19724	21108	25262
GDP per capita, in Euros	1757	2242	2407	2643	2837	3354
GDP, annual growth rate	5.1	4.2	2.5	8.4	6.2	5.7
Investments, GDP percent share	-	13.4	14.4	19.6	18.7	17.9

* RSO estimates

3.1.2. However, as the employment data does not indicate the increase in new employment, it can be concluded that the economic growth was achieved predominantly through **productivity growth**. This productivity growth stems in a large part from the restructuring of the ineffective part of economy.

Investments Share in GDP

3.1.3. From 2001 to 2006, the investment level compared to the GDP has experienced an upward trend. **Nevertheless the level of investment has been below the target specified in the PRS and level needed to ensure stable growth in the medium term.** In 2006, according to RSO estimates, the investment level increased to 17.9%²¹ of GDP, which is below the target of 19.5% specified in the PRS (the strategy target is that by 2010 the level of investment compared to GDP should reach 25%).

Table 3.1.3. - International relations²²

	2001	2002	2003	2004	2005	2006
Current Account Balance Deficit, in million EUR	-354.1	-1339.9	-1355.5	-2197.1	-1804.8	-2891.6
Current Account Balance Deficit, as % GDP	-2.7%	-8.0%	-7.5%	-11.1%	-8.6%	-11.4%
Exports worth, in million EUR ²³	1809.4	2337.9	2607.0	2991.4	4006.2	5146.2
Imports worth, in million EUR ²⁴	-3531.3	-5753.9	-6414.7	-8302.1	-8285.1	-10096.3
Exports/Imports coverage ratio	51.2%	40.6%	40.6%	36.0%	48.4%	51.0%
Exports share, in % GDP	13.7%	13.9%	14.5%	15.2%	19.0%	20.9%
Imports share, in % GDP	-26.8%	-34.2%	-35.6%	-42.1%	-39.3%	-40.9%
FDI, in million EUR, net	184.3	501.5	1197.8	773.4	1248.0	4077.0
FDI, in % GDP ²⁵	1.4%	3.0%	6.7%	3.9%	5.9%	16.1%
Foreign debt, in million EUR	12608.85	10767.5	10906.99	10354.51	13064.02	14884.6
Foreign debt, in % GDP	95.62	64.05	60.57	52.50	61.89	58.92
Of which: foreign private debt, in % GDP	17.84	13.83	13.98	16.44	25.35	33.51
Of which: foreign public debt, in % GDP	77.78	50.21	46.59	36.06	36.55	25.41

²⁰ Republic Statistical Office of the Republic of Serbia

²¹ According to FREN's estimate the investment level is 19.5% of GDP



Payment Balance-Current Account

- 3.1.4. The **current account balance deficit** in 2006 was **11.4% of GDP which is extremely high** and exceeds the deficit of 8.8% of GDP envisaged in the PRS. The deficit deepened during second half of 2006 due to accelerated rise in import. The exports are also marked by a higher, very solid annual growth rate, but applied on a lower base. In the exports structure a large part constitute the raw materials.
- 3.1.5. CSD appreciation during the second part of 2006 did not have any major impact on the rise in imports, but it is possible to have had an effect on imports increase towards end 2006 and on the medium term. Within the next period, due to a large influx of foreign capital, Dinar appreciation will continue to be a realistic possibility. This could influence adversely the competitiveness of Serbia's economy and result in the deepening of foreign trade deficit. **An important factor for improving exports in the future is to attract foreign direct investments in the field of export-oriented activities.**
- 3.1.6. In the medium term, even a large deficit can be sustainable if funded from foreign direct investments (FDI) and grant assistance from donors, and not by taking loans abroad. In 2004 and 2005 FDI was not sufficient to cover the payment deficit, while in 2006 this was the case. However, FDI inflow during 2006 is predominantly related to the sale of successful privately-owned and state-owned enterprises, and not Greenfield investments which would have been far more desirable from the aspect of medium-term sustainability of payment deficit.

Foreign Direct Investments

- 3.1.7. Significant FDI influx started in 2003 when foreign strategic partners invested a total of 1200 million Euros worth into large industrial complexes by means of privatization. During 2003 and 2004 there was a slowdown in FDI influx: € 770 million in 2004 and € 1,250 million in 2005. **The year 2006 was a record year for FDI influx since the beginning of transition, amounting to € 4.08 billion or 16,1% of GDP.** This influx exceeds by far the 5.5% target in the PRS, thus representing a positive boost to Serbian economy. Still, most of the increase in FDI inflow came from the privatization of banks and a few large enterprises, as well the takeover of control package of shares of successful privately-owned enterprises through the portfolio investments market.
- 3.1.8. The **Greenfield investments**, i.e. investments into completely new capacities, constituted a small part of the FDI for 2006. In the short term Greenfield investments are in most cases more attractive than privatisation since it generates new employment opportunities faster. The competitiveness in attracting Greenfield investments in the region is very high so the Republic of Serbia needs to make substantial efforts in this regard.
- 3.1.9. **The Foreign investors' perception** of the Republic of Serbia as a politically risky investment country is one potential cause for the lack of Greenfield investments. Serbia's credit rating with international rating agencies, which also indicates that particular coun-

²² The source: RSO, NBS

²³ According to the RSO, the exports of goods are worth EUR 5102.4 million. The difference is caused by foreign exchange differences and corrections for Montenegro which were conducted according to the NBS data

²⁴ According to the RSO, imports of goods amounted 10462.6 mill EUR. The difference is caused by foreign exchange differences and corrections for Montenegro which were conducted according to the NBS data

²⁵ According to data from Ministry of Finance FDI share in EUR is 17,6% and FDI gross is 4.436 billion Euro. The difference is caused by foreign exchange differences and corrections for Montenegro which were conducted according to the NBS data



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try's level of risk for foreign investments, has retained the BB- status in 2006 according to the credit rating agencies Standard & Poors and Fitch. Serbia was assigned this credit rating in 2005.

- 3.1.10. The protection of **property rights and effective judiciary system** are also of great importance to improving conditions for the influx of foreign investments. According to the *White Paper for 2007*, which was prepared by the Foreign Investors Council, the foreign investors in the Republic of Serbia face the lack of qualified personnel with modern skills. In view of this, in order to boost the capacities for the absorption of foreign investments, it is necessary to identify those educational areas which need strengthening in order for the educational structure of the available human resources to be more in keeping with the market demands.

Foreign Debt

- 3.1.11. Serbia's foreign debt at the end of 2006 **reached a level of 58.9% of GDP** which represents maintenance in the relative level of overall foreign indebtedness in comparison with the previous two years. The Strategy envisages the level of foreign debt of 61.1% GDP share, which is insignificantly higher than the achieved towards the end of 2006. The Strategy also envisages a reduction to 51.1% GDP share by 2010. The main reason for a rise in foreign debt in 2006 is the rise in private debt (through banks and local enterprises taking loans abroad) - reaching 33.5% in 2006 (while in 2005 it was 25.4%). The public foreign debt has been reduced from 36.6% in 2005 to 25.4% of GDP at the end of 2006.
- 3.1.12. **The rise in private debt** is to a large degree fuelled by liberalization of capital account and entry of foreign banks that improved access to loans through domestic banking systems as well as through direct cross border lending to domestic enterprises.

Monetary Policy, Prices, Foreign Currency Exchange Rate

- 3.1.13. During 2006 the NBS maintained a **rather restrictive monetary policy** directed at the main goal the NBS was tasked with - stability of prices. The measures undertaken by NBS in the first half of 2006 with the aim of reducing the money supply, as well as the strong nominal appreciation of the Dinar (in particular in the second half of 2006), resulted in the reduction of inflation and inflation expectations, wherefore **inflation amounted to 6.6% by the end of 2006**. Another factor for successful curbing of inflation lies in the fact that still a large share of prices is under administrative control in total prices (around 50% of total prices). The cost of electric power, which is in Serbia half the price of the cost in the region, is especially important from the aspect of influence on other prices and the standards of living. It is realistic to expect that the rise in price will be approved in the forthcoming period. The release of administratively controlled prices, first of all the price of power in the forthcoming period, can have a negative effect on the poverty rate, but on the other hand it is inevitable from the aspect of efficacious functioning of power systems.
- 3.1.14. Curbing inflation is important from the aspect of macroeconomic stability and raising the level of new investments. It is also important from the aspect of poverty as high inflation rates normally have the largest negative impact on the living standard/consumption of the poor and socially vulnerable categories of the society.



Table 3.1.14.a - Foreign currency exchange rate and prices²⁶

	2003	2004	2005	2006
Dinar currency exchange rate to EUR, annual average	64,9743	72,6215	82,9188	84,1879
Dinar currency exchange rate to EUR, end of period	68,3129	79,8900	85,5000	79,0000
Currency exchange rate index, 12-month nominal	107,1	111,8	114,2	101,5
Currency exchange rate index, 12-month real	97,8	103,8	103,9	103,0
Retail prices, year on year rate	7,8	13,7	17,7	6,6
Life costs expenditures, year on year rate	-	13,1	17,0	6,0

Table 3.1.14.b - Monetary sector²⁷

	2003	2004	2005	2006
M2, 12-month real growth rate, in %	18,7	16	20,8	29,8
Loans to non-government sector, 12-month nominal growth rate, in %	25,1	44,3	51,3	17,8
Loans to non-government sector, in % of GDP	20,3	23,9	29,6	29,5
Loans to households, in % of GDP	2,5	4,7	7,6	10
Loans to enterprises, in % of GDP	17,8	19,2	22	19,5
NBS foreign currency reserves, net, in EUR millions	1833	2237	3995	8352
New foreign currency savings, in EUR millions	1021	1386	2224	3300
Foreign currency deposits to M2 (indicator of 'eurization')	49,0%	54,7%	58,1%	55,7%
Share of state owned banks in total assets of banking sector	50,09%	37,37%	25,06%	14,09%

3.1.15. On 31 August 2006, the National Bank of Serbia switched the monetary policy framework from exchange rate peg to the so called **inflation targeting policy of which was introduced**. This framework entails an increasing use of referential interest rate of the Central Bank - interest rates on 14-day repo transactions - as a basic means for reaching the targeted goal for the annual inflation. Unlike former framework which relied on a more active role of NBS on the foreign exchange market, the new monetary policy announced much more floating of the exchange rate and successive retiring of NBS from interventions on the foreign exchange market (except in cases of preventions of destabilizing irregular fluctuations).

3.1.16. **The targeted inflation** was established within a 7-9% interval in 2006 and set to 4-8% in 2007. The new framework for implementation of monetary policy entails a high level of credibility in the National Bank's goals and boosting the public's expectations regarding the attainment of the set inflation goal.

3.1.17. During 2006 **the NBS** has improved its capacity for implementing responsible monetary policy and for supervising the banking sector. At the same time the introduced policies entails further strengthening of capacity within the central bank for developing corresponding models for forecasting and monitoring the effects of monetary policy measures. More specifically **there is the need to develop analytical capacities** by developing quality mod-

²⁶ Source: Republic Statistical Office, National Bank of Serbia

²⁷ Source: National Bank of Serbia



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els for projections and for the analysis of monetary policy's transmission on real value and prices. Administrative measures (obligatory reserves and prudential measures with the view of monetary policy) should be used cautiously only when market instruments have been exhausted since they lead to unwanted consequences - such as circumventing the domestic banking system and direct foreign loan taking for domestic economy.

- 3.1.18. Even in 2006 **Serbia's economy remained highly „euroized“**. Foreign currency deposits make 50% of the total monetary mass. High level of „euroization“ reduces the achievements of monetary policy as the effects of its measures are limited to dinar component of the monetary mass.
- 3.1.19. **New foreign currency savings shows stable growth in 2006 as well**. Its level has reached € 3.3 billion which represents an increase by 1.1 billion compared to the end of 2005 reflecting continuous rise in the trust in the home banking sector.
- 3.1.20. For successful monetary policy and maintaining macroeconomic balance **the relation between fiscal and the monetary policy** is of great importance. Should the fiscal policy envision be greater expenditures than the current budgetary revenues, inflationary pressures ensue, especially if that fiscal expansion is directed at expenditures (and not investments). In order to curb inflationary pressures, the monetary policy can by means of its restrictiveness curb the growth of economy's private sector. In this respect the public should be aware of possible consequences of excessive public expenditures.

Financial Sector Reform

- 3.1.21. During the year 2006 **a total of 3 state-owned banks were privatized** (Vojvodjanska Bank, Panonska Bank, Niska Bank) and the privatization of the Kredi Bank is ongoing. Thus the state ownership over the banking sector was reduced down to 14.9% of total active capital at the end of December 2006. Based on this it can be concluded that the bank privatization procedure is in its final stage, since only several smaller banks remain to be privatized which is likely to be performed on the stock market instead in tender procedures, as has been the case. A considerable amount of state ownership remains in the capital of a large bank - Komercijalna Bank. In 2006 the Komercijalna Bank entered into strategic partnership with the European Bank for Reconstruction and Development (EBRD) by means of additional capitalization. Around 80% of total liquid assets of the banking sector are owned by foreign banks. The majority of the private share of the banking sector is favourable from the aspect of financial efficiency of financial intermediation and the banks' market activities. It is considered that it improves the stability and credibility of the banking system. An efficient banking system, however, enhances the economy results.
- 3.1.22. **The reform process in the financial sector has made the greatest advancement** and is making final crucial moves and establishments of the necessary legal and regulatory framework. However, in the forthcoming period, it is necessary to work actively on improving the implementation of the legislation and the strengthening of capacities within the banks and NBS to achieve high-quality monitoring of: credit risk, operative risk and currency risk. Effective legal system, which is the protection of creditors' rights and respecting private property, is of extreme importance for a better functioning of the financial sector.
- 3.1.23. In the previous period, a separate department was established within the NBS which was tasked with **supervising and controlling insurance companies and voluntary**



pension funds. The Securities Commission is in charge of the supervising of private investment funds. The expanding insurance and non-banking financial services market will represent a challenge to regulatory bodies in the forthcoming period.

- 3.1.24. In order to achieve better functioning of the banking sector, and to prevent emergence of bigger risks of non-payment of debts it is necessary to raise the public awareness through better knowledge and understanding of financial services and functioning of financial markets. The former contributes to strengthening market discipline of actors on the financial market, thus **reducing the risk of debt overload of citizens and bankruptcy of companies.** In the previous period, the NBS invested efforts in this field by establishing the Consumer Protection Centre targeting beneficiaries of financial services, which became operational in 2007.

Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Continue negotiations for signing the Stabilization and Association Agreement and negotiations for accessing the World Trade Organization (WTO).
- Maintain macroeconomic and fiscal stability:
 - Sustain the achieved level of stability through harmonized monetary and fiscal policy.
 - Strengthen institutions and better protection of private property and creditors.
 - More active policy for attracting foreign direct investments, in particular Greenfield investments.
- Improve the Republic of Serbia's credit rating with international rating agencies.
- Increase competitiveness and reputation of the Republic of Serbia among potential FDIs by reducing administrative and operational burden of foreign companies already operating in the Republic of Serbia in order to encourage further investments.
- Strengthen the institutional capacities for implementing a responsible macroeconomic policy including evaluate impact of implemented policies in order to identify and review different policy options aimed at avoiding unforeseen and unwanted effects
 - more focus to be paid to the design of institutions.
- Strengthen the capacities within NBS for the implementation of efficient monetary policy within the newly established framework (The Path to Targeting Inflation).
- Within the financial sector reform, special emphasis should be on strengthening competition between financial intermediaries, transparency of their operation as a precondition for strengthening market discipline.
- Strengthen the information base for the analysis of macroeconomic framework and its interaction with other sectors. Coordinated management of data bases and the work of all institutions collecting economic data to improve the quality of the data and improving the methodology.



MID-TERM PRIORITIES

- Following becoming a member of the WTO and signing the Stabilisation and Association Agreement with the EU to start negotiating for full membership of the EU.
- Strengthen the legal system, especially in the domain of liquidation procedures and the protection of property rights and creditors' rights.
- Improve conditions for new Greenfield FDIs by developing a stable and understandable legal framework, good transport infrastructure, corresponding physical infrastructure, labour force which possess up-to-date and competitive skills and knowledge, low work costs, low taxes and an understandable tax system.
- Create a conducive environment for attracting foreign investments as a precondition for further increase of capital base of economy and development of production potentials, as well as the technological level; improve the absorption capacities²⁸ for FDIs; develop and implement strategy for attracting FDI, focusing on comparative advantages within identified sectors.

²⁸ The absorption capacity is related to the level of employment capacity level of the labour force.



3.2. Fiscal limitations in PRS implementation²⁹

Tax System in Serbia from the Standpoint of the PRS

3.2.1. By the end of 2006, the most important **tax reforms** have been carried out in the Republic of Serbia and a modern tax system which includes taxation of expenditures with value-added tax, corporate income taxation in line with international standards and income taxation based on the gross salary concept has been completed³⁰. In comparison with neighbouring countries and the EU, the present level of tax rates in Serbia is competitive; it stimulates FDI and dynamic economic growth, thus supporting the objectives of the 1st Pillar one of the PRS³¹.

Table 3.2.1. - Tax rates in specific countries³²

Country	Value-added tax rate	Corporate income tax rate	Fiscal burden on salaries ³³
AUSTRIA	20%	25%	38.6%
BULGARIA	20%	10%	34.9%
GREAT BRITAIN	17.5%	30%	26.4%
GREECE	19%	22%	34.4%
ESTONIA	18%	22%	38.9%
ITALY	20%	37%	27.8%
IRELAND	21%	12.5%	15.7%
LATVIA	18%	15%	40.0%
POLAND	22%	19%	41.9%
HUNGARY	20%	16%	41.5%
GERMANY	19%	25%	45.4%
SLOVENIA	20%	25%	39.8%
SLOVAKIA	19%	19%	38.8%
TURKEY	18%	20%	41.8%
FRANCE	19.6%	33.3%	32.6%
CROATIA	22%	20%	39.8%
CZECH REPUBLIC	19%	24%	41.9%
SPAIN	16%	35%	33.6%
SWEDEN	25%	28%	46.2%
SERBIA	18%	10%	38.5%

3.2.2. Successful introduction of the **Value-Added Tax (VAT)** in the year 2005 represented a significant step towards improving the environment for achieving sustainable and dynamic economic growth and development of entrepreneurship, key objectives of the 1st Pillar of PRS, because the system of the sales tax has been replaced by an economically more efficient system. However, from the standpoint of the PRS, there is a negative aspect of introducing the VAT: consumption of 'social' goods (food items, medicines) that have not been taxed by sales tax are now being taxed by reduced rate in the VAT system, thus additionally burdening the budgets of vulnerable population groups. This kind of taxation of the above mentioned goods is justifiable from the point of taxation efficiency, and potential alleviation of the consequences of this kind of taxation could be achieved by increased transfers from the budget to the most vulnerable population groups.

²⁹ The institution that bears greatest responsibility for implementation of PRS objectives with respect to fiscal restrictions is the Ministry of Finance of the Republic of Serbia.

³⁰ System reform which is yet to be done is the eventual replacement of a cedular income tax system with a synthetic one, provided that the necessary preconditions for successful introduction of the synthetic system are created.

³¹ Dynamic economic growth and development represent PRS Pillar 1 objectives

³² Source: Ministry of Finance

³³ Calculated by using OECD method, as a total amount of taxes and contributions in relation to total employer's expenditure (gross salary + contributions paid by the employer).



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3.2.3. In the year 2006, a **decrease in direct income** tax rates has continued, with the aim of achieving an economically more efficient tax system, able to support economic growth and objectives of the 1st Pillar of the PRS to a greater degree. In that way, the average fiscal burden of employees' salaries has been reduced from 73% to 62% of net salary³⁴. Likewise, newly introduced tax exemptions for employment of vulnerable unemployed population groups (young, invalids, transition losers) support the realization of objectives of the 2nd and 3rd Pillar of the PRS³⁵.

3.2.4. **The Law on Financing Local Self-Governments**, adopted in 2006, established an exact and predictable system of transferring funds to local self-governments and enabled local authorities to conduct services falling within their competency in a more efficient manner. From the standpoint of the PRS, the most important element of this law is the introduction of the 'equalizing transfer' which should earmark additional transfer funds from the republic budget to small and underdeveloped municipalities in Serbia that have so far has received less transfers per capita than most other municipalities. Since a significant portion of vulnerable population around the poverty line is concentrated in underdeveloped municipalities, these transfer assets should make possible the definition and implementation of wider local development and poverty reduction strategies and more efficient realization of objectives of the PRS. Also, adoption of **the Law on Public Debt** in the year 2005 enabled local self-governments to incur long-term debts for the purpose of infrastructural investments.

Public Expenditures in the Republic of Serbia from the Standpoint of the PRS

3.2.5. In April 2006, a detailed analysis of projects and central government expenditures (Republic Budget and compulsory social insurance organizations) from the standpoint of the PRS has been made, in order to determine **the percentage of public expenditures which supports realization of PRS objectives**. Based on results of this analysis, total expenditures of the consolidated state sector³⁶ which support PRS objectives³⁷ have been estimated.

Table 3.2.5. - Share of PRS Expenditures in GDP and Public Expenditure³⁸

	Previous public expenditure			Projected public expenditure		
	2004	2005	2006	2007	2008	2009
Pillar 1- % GDP	7.6	7.4	7.5	8.3	8.1	8.1
Pillar 2- % GDP	7.6	7.3	7.5	7.3	7.3	7.2
Pillar 3- % GDP	14.8	14.5	14.2	13.4	13.3	12.9
Total PRS % GDP	30.0	29.2	29.3	29.1	28.8	28.3
Pillar 1 % public expenditure	18.8	19.4	19.7	22.1	22.2	22.7
Pillar 2 % public expenditure	18.9	19.1	19.5	19.6	20.0	20.2
Pillar 3 % public expenditure	36.7	37.8	37.1	35.8	36.4	36.0
Total PRS % public expenditure	74.4	76.2	76.3	77.5	78.6	78.9

³⁴ Alongside the tax cut, efforts have been made to try to dampen the regressive nature of fiscal burden on wages in the Republic of Serbia.

³⁵ Prevention of new poverty is captured under PRS Pillar 2 objectives. Efficiently dealing with existing poverty and vulnerable groups are the objectives of PRS Pillar 3

³⁶ Foreign aid and donations realized parallel to the republic budget and local self-governments' budgets have not been included in expenditures of the consolidated state sector.

³⁷ Dynamic economic growth and development represent PRS Pillar 1 objectives, while prevention of new poverty is captured under PRS Pillar 2 objectives. Efficiently dealing with existing poverty and vulnerable groups are the objectives of PRS Pillar 3.

³⁸ Source: Revised Memorandum on Budget and Economic and Fiscal Policy for 2007 with Projections for 2008 and 2009



- 3.2.6. It can be noticed that the share of public expenditures which supports the achievement of objectives of the **First PRS Pillar** has been constantly rising over the years. Namely, by rationalizing the state administration and decreasing non-discretionary spending, public resources have been freed for increasing public investments has been opened, thus creating preconditions for faster economic growth and supporting the objectives of the First PRS Pillar. Due to planned realization of the NIP, continuation and acceleration of this trend is expected.
- 3.2.7. A modest **growth of expenditures of the Second PRS Pillar** over the years comes as an effect of transition acceleration and restructuring process, which demanded additional assets to provide for redundant workers in the social and public sector.
- 3.2.8. In spite of the expected lowering of the poverty level, due to planned greater scope and more significant social welfare funds in the years to come, **significant expenditure reduction of the Third PRS Pillar cannot be expected in the forthcoming period**. In order to identify risks and challenges in the realization of planned PRS expenditures from Table 3.2.5, it is necessary to analyse planned public expenditures in the forthcoming period in more detail.

Table 3.2.8. - Consolidated Public Expenditures - Functional Classification, in %GDP³⁹

	Previous public expenditure			Projected public expenditure		
	2004	2005	2006	2007	2008	2009
Total expenditures	40.3	38.2	38.4	37.5	36.7	35.9
1. General public services	3.5	3.0	3.1	2.7	2.2	2.1
2. Defence	2.8	2.4	2.3	2.4	2.4	2.4
3. National security	2.7	2.4	2.3	2.2	2.0	1.9
4. Economic affairs	3.9	3.7	4.1	4.1	4.1	4.1
5. Environmental protection	0.3	0.3	0.3	0.4	0.4	0.4
6. Building and communal Services	2.0	1.7	1.7	1.9	1.9	1.8
7. Health	6.3	6.1	5.9	5.7	5.4	5.1
8. Recreation, culture and religion	0.7	0.7	0.6	0.5	0.6	0.6
9. Education	3.2	3.2	3.5	3.5	3.6	3.9
10. Social welfare	15.0	14.8	14.5	14.0	14.0	13.6
<i>Net pensions</i>	11.0	10.9	10.6	10.4	10.1	9.8
<i>Social welfare</i>	3.2	3.3	3.7	3.6	3.8	3.9
<i>Capital investments</i>	2.6	1.9	2.9	4.4	4.8	5.2

- 3.2.9. A planned decrease in **the share of public expenditures in GDP** primarily stems from of the rationalization of the public administration, especially in the sectors of general public affairs, health and national security. This rationalization opens the room for increasing public expenditures and raising the quality of services in some other areas, such as education. Planned realization of the NIP shall make possible more significant scope of public investments in the forthcoming period, which should support economic growth and a more balanced regional development.
- 3.2.10. The World Bank identified **Family Material Support („Materijalno obezbedjenje porodice“ - MOP) as the most efficient social welfare programme in the Republic of Serbia** and suggested increased reliance on this programme as a priority in the forthcoming period, as opposed to other untargeted and inefficient social welfare forms in Serbia. However, due to the poor current coverage with this programme (only 3% of

³⁹ Source: Revised Memorandum on Budget and Economic and Fiscal Policy for 2007 with Projections for 2008 and 2009



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poor families in the year 2005) and low level of compensation, in order to implement more efficiently the objectives of the Third PRS Pillar, an increased amount of social welfare funds will be necessary in the forthcoming period, together with the rationalization in the social welfare sector.

- 3.2.11. Although **the pension system** is part of the social insurance system, not social welfare, state pensions are of great importance for Third PRS Pillar, because more than one half of households that receive them are socially vulnerable. Planned decrease in the share of pensions in the public expenditures in the forthcoming period, in spite of demographic ageing of the population, comes as an effect of changes to the Law on Pension and Invalid Insurance, adopted in the year 2005. It is expected that the share of average net pension in the average net salary (65,8% in 2005 and 64.7% in year 2006) is for the first time going to be less than 60% in the year 2007. Also, strict indexation of pensions based only on the costs of living, would lower this rate to 50% in the year 2010 that is 40% around the year 2015. This development would endanger a significant part of the elderly population in the Republic of Serbia. For that reason, the presumption of sustainable decrease in public expenditures for pensions is the greatest unknown fact when it comes to planned public medium-term expenditures.

Implications of Fiscal Balance to PRS

- 3.2.12. **The position of public finances** in Serbia has been significantly strengthened in the last six years: big fiscal deficits from the beginning of transition period have been transformed into surpluses, while total share of state sector in Serbian economy has been decreased - thus opening the way to a stronger growth of private entrepreneurship⁴⁰. Economic structures of public revenues and expenditures have also become better: scope of economically inefficient expenditures, like subsidies, has been lowered, while the share of economically more efficient indirect taxes in public revenues has been increased. The level of foreign public debt has decreased drastically - from 78% of GDP in the year 2001, to 25% of GDP by the end of the year 2006. Realized fiscal results and plans for the period to come significantly exceed minimum medium-term fiscal results identified in the PRS.

Table 3.2.12. - Consolidated revenues, expenditures and balance of the Republic of Serbia⁴¹

	REALIZATION					PROJECTION		
	2002	2003	2004	2005	2006	2007	2008	2009
Revenues	39.9	40.3	41.2	40.1	39.7	38.3	36.8	36.7
Expenditures	43.0	41.4	40.3	38.2	38.4	37.5	36.7	35.9
Balance	-3.1	-1.1	0.9	1.9	1.3	0.7	0.1	0.8

⁴⁰ The expansion of fiscal spending and decrease in projected surpluses in the medium-term is primarily the result of the introduction of National Investment Plan.

⁴¹ Source: Revised Memorandum on Budget and Economic and Fiscal Policy for 2007 with Projections for 2008 and 2009



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- To establish a management framework capable of supporting more responsible management of public finances, incorporating the performance dimension to public programmes and be results and objectives driven.
- Sustain achieved fiscal stability - especially on the level of the republic budget - which is of key importance for the continuation of the PRS implementation. From the aspect of fiscal planning, beginning of new and the expansion of existing projects, within Pillars Two and Three of the PRS, represents discretionary public expenditures, which are the first to be targeted in the case of fiscal instability and lack of revenues.
- The challenge in the year 2007 will be a significant loss of revenues based on decreased fiscal burdening of the salaries, in parallel with an increase in legal scope of transfer funds to local self-governments and AP Vojvodina.

MID-TERM PRIORITIES

- Incorporate the extent and scope of National Investment Plan expenditures into a sustainable macroeconomic and fiscal environment.
- Finance the socially acceptable level of pension insurance and social protection in the Republic of Serbia.
- Establish enhanced system of the public expenditure management with dominant role of the systems for planning and control of public expenditure and evaluation of all expenses related to the Government policies including the PRS.



3.3. Transition to a Market Economy: Building Strong Public Institutions

- 3.3.1. **The new Constitution of the Republic of Serbia** was ratified in the referendum held in October 2006. In the context of this section of the Report, the Constitution has introduced a number of novelties, primarily in view of regulating the issues of courts, selection of judges, status and authorities of the High Judicial Council, and territorial regulations - primarily the local government.
- 3.3.2. Having welcomed the fact that a new constitution in the Republic of Serbia has finally been adopted, the European Commission for Democracy through Law (**Venice Commission**) indicated in its opinion issued on the Constitution of the Republic of Serbia that there are gaps regarding the procedures for adopting and amending the wording of the Constitution, the position of representatives, the role of the National Assembly in judiciary appointments, as well as the complexity of regulations relating to territorial organization. With regards to this opinion, the special attention should be paid in the following period to the legislation stipulating these issues in compliance with the Constitution.
- 3.3.3. The adoption of the new Constitution resulted in the demand for the prompt (by the end of 2007 if possible) adoption of some new and revision of some of the existing systematic laws relevant for this Report - e.g. legislation related to the territorial organization, local self-government, local elections, status of the capital city, ombudsman for citizens, citizens rights to be informed, courts and judges, public prosecutors⁴². System legislation regarding territorial organization and local self-government as well as the legislation regulating local elections and status of the capital city will be fully aligned with the Constitution of the Republic of Serbia⁴³. According to the Article 5 of the *Constitutional Law for the Implementation of the Constitution of the Republic of Serbia*, the *Amendments to the Ombudsman for Citizens* was adopted⁴⁴.
- 3.3.4. The implementation of the **Public Administration Reform Strategy** - phase 2 continued in 2006, aiming at: creating a better institutional environment and framework for policy coordination supporting the Strategy implementation; raising the awareness of civil servants and a wider public awareness regarding the priorities and advantages of the public administration reform; securing management and organizational development through analyses and recommendations and support to the development of administrative districts.
- 3.3.5. In December 2005 the **Department for Monitoring and International Cooperation** was established within the General Secretariat of the Government, tasked, among other things, to coordinate the development of the Annual Work Programme and the Report on the Work of the Government. The Work Programme for 2006 was prepared, as well as the Report on the Work of the Government for 2005, according to the Instructions for the Preparation of the Annual Work Programme and the Report on the Work of the Government.
- 3.3.6. Towards the end of June 2005, the Twinning Project lasting for 2 years was initiated in **the General Secretariat** of the Government, financed by the European Union (France and Lithuania as partners in the Project). The Project should support the strengthening of

⁴² Constitutional law for the implementation of the Constitution of the Republic of Serbia, *Official Gazette of the Republic of Serbia*, No. 98/06.

⁴³ *Official Gazette of the Republic of Serbia*, number 98/06

⁴⁴ *Official Gazette of the Republic of Serbia*, number 54/07



capacities for enhancing the Government decision making process, establishment of the direct links between policy priorities and budget as well as upgrading the quality of laws and other regulations. The project produced a Report on the Situation Analysis with Recommendations (*Blue print*), resulting from the assessment of the current organisation, with recommendations for strengthening functions of strategic planning, monitoring and evaluation of the work of the Government, as well as the policy coordination and decision-making processes.

- 3.3.7. The **Law on Public Administration**, pursuant to the Public Administration Reform Strategy recommendations, came into effect in 2005. After the referendum for independency of Montenegro held in May 2006, and the dissolution of the state union of Serbia and Montenegro, a number of public administration institutions and bodies were transferred from the federal level to the level of the Republic of Serbia. For example, together with a dozen of other renamed bodies and institutions established by the Government⁴⁵, the new Office for Human and Minority Rights was established (instead of the previous Ministry for Human and Minority Rights). However, due to the lack of the parliamentary majority needed to pass the amendments to the Law on Ministries, the Ministry of Defence and the Ministry of Foreign Affairs operated without a legal basis in the period from June 2006 to May 2007.
- 3.3.8. The **Law on Civil Servants**⁴⁶ came into effect on 1 July, 2006. This law should ensure employment and promotion of civil servants on the basis of their performance, i.e. it will lead to creation of a state administration in which the principles of professionalism and depolitisation are be strengthened. The Law distinguishes between civil servants, whose jobs are related to the scope of work of state institutions, and employees who are entrusted with supporting and technical jobs. During 2005 and 2006 the Government of Serbia passed a number of by-laws⁴⁷ in order to enable the implementation of the Law on Civil Servants and all the state administration bodies were required to adopt new Rulebooks on Internal Organization and Systematization of Jobs, entailing new job descriptions and thereon classification of jobs related to specific tasks and not individuals.
- 3.3.9. The same Law provided for the establishment of the **High Commissioner Council**, a body tasked with: defining the level of professionalism, knowledge and skills evaluated in the course of engaging new employees, stipulating the methodology of their testing and criteria for their appointment, as well as elaboration of the code of conduct for civil servants. The Council comprises nine members appointed by the Government for the period of 6 years - four of them are experts in the fields related to the work of state administration and five are civil servants. The Council was established in May 2006.
- 3.3.10. By the Government Decree⁴⁸ and with a view to improve human resource management the **Human Resources Department** was established. The Department performs all tasks related to human resource management: among other activities it publishes and conducts the internal and external recruitment procedures for filling in senior and executive posts, prepares and monitors proper implementation of HR plans, provides expert assistance to administrative bodies related to HR management and internal organisation, maintains Central Human Resources Registries on civil servants and employ-

⁴⁵ Decree on the status of certain institutions of Serbia and Montenegro and services of the Council of ministers, *Official Gazette of the Republic of Serbia*, No. 49/2006.

⁴⁶ *Official Gazette of the Republic of Serbia*, No. 79/05, 81/05 –correction, 83/05 – correction)

⁴⁷ More information available on the website of the Human resource management office (www.suk.sr.gov.yu).

⁴⁸ *Official Gazette of the Republic of Serbia*, No 106/05.



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ees, assists civil servants in issues related to their deployment and their work in project groups and assist the administrative bodies in recruitment procedures, prepares draft proposals for general professional advancement training programme of civil servants and organizes trainings in line with the adopted curricula.

- 3.3.11. Article 180 of the Law on Civil servants stipulates that **public recruitment processes** for senior employees should be finalized by July 1, 2007. The National Assembly of the Republic of Serbia adopted the **Amendments to the Law on Civil Servants**⁴⁹ establishing May 31, 2008 as the new deadline for the public recruitment processes for the senior employees.
- 3.3.12. With a view to **professional advancement of civil servants**, **41** training sessions for employees in the public administration sector were attended by **1,358** civil servants, and was organised in the period from May '06 - December '06. Special attention was paid to trainings for the implementation of regulations (Law on Civil Servants, Decree on Preparation of HR Plan in Public Administration, Decree Conducting Internal and Public Recruitment of Posts in Public Administration and the Decree on Appraisal of Civil Servants), capacity building for categorization and systematisation of job posts and trainings for human resources management.
- 3.3.13. The **Law on the Salaries of Civil Servants and Employees**⁵⁰ came into effect on 1 January 2007. The starting point of the Law is that a salary being the fundamental employment right should reflect both the complexity and level of responsibility of the tasks performed (as per the new concept of posts linked to jobs and not to individuals), as well as the work performance (as per the concept of job promotion). The Law regulates all types of remuneration (salaries, benefits and other receipts) of civil servants and employees⁵¹.
- 3.3.14. **The Anti-corruption Council** continued working in 2006 dealing with privatization, granting the use of radio and TV frequencies, liquidation and commercial courts, National investment plan, etc. Most of the citizens' petitions were related to privatization (35%) and liquidation (36%). In the report for 2006⁵² the Council gives disturbing information that in the course of that year they did not have a single meeting with the Government of Serbia which means that the Council had no information whether the Government was considering the Council's reports.
- 3.3.15. The **Draft Law on the Anti-corruption Agency** was adopted in October 2006. The Agency should be an independent and autonomous body accountable to the National Assembly. It is tasked with: monitoring of the Anti-corruption Strategy implementation, conflict of interest resolution and maintenance of the registry of political appointees and their property, issues related to financing of political parties, on civil servants and employees, deals with petitions related to the corruption, etc. The Law envisages closing down of the Republic Board for Resolving on Conflicts of Interest.

⁴⁹ Official Gazette of the Republic of Serbia, No 64/07

⁵⁰ Official Gazette of the Republic of Serbia, No 62/06, 63/06 – correction.

⁵¹ The salary of civil servants and employees consists of two elements: the base salary and the allowances. The novelty introduced by the Law relates to the coefficients calculation: for salaries of civil servants deployed at higher level it is determined by the salary category of the position and for the executive level it is defined by the salary group of the salary category of the job post. The positions are categorized into salary categories ranging from 1 to 5, while the executive posts are categorized into salary categories ranging from 6 up to 13. The base salaries of staff are also categorized into salary categories – a total of six.

⁵² More information on the website of Anti-Corruption Council www.antikorupcija-savet.sr.gov.yu.



- 3.3.16. The Serbian European Integration Office (SEIO) initiated the project „**Strengthening of Institutional Capacities in the Process of European Integrations**“. The analysis of institutional capacities of the state administration bodies was conducted within the framework of this project and the capacity building needs identified for civil servants in the process of EU integration. The plan of training has been prepared and implemented since December 2006. Within the same framework an Action plan for strengthening the institutional capacity of the Republic of Serbia for EU the integration process has been developed. The Action plan identifies the following institutional priorities in the field of state administration: strengthening the Serbian European Integration Office, reinforcement of EI units in the line ministries, special organizations and other Government institutions and finally improvement of the cooperation between various structures in charge of EU integration. Other priorities are related to the strengthening of institutional capacities of services dealing with the civil servant system. Finally, institutional priorities related to the judiciary system require full implementation of legal provision on the organisation of courts, implementation of the anti-corruption strategy, strengthening of the autonomous prosecutors and improvement of the jail conditions and training of the staff working in juvenile delinquent homes. The Public administration reform and the Judiciary reform both represent key priorities of the European partnership from 2006⁵³.
- 3.3.17. In order to ensure a more successful and efficient implementation of the reforms, the Government launched the initiative to implement the project: **Towards a More Efficient Implementation of Reforms**, the so-called **Joint Project**⁵⁴ in January 2005. The project aims to enhance the capacities of the line ministries for annual operational planning (GOP) as well as medium term planning that links strategic goals with available resources and clear indicators for monitoring the realization and impact of Government policies. This will provide conditions for an improved system for objective based planning and budgeting and results based monitoring and reporting. In 2006 six line ministries prepared the GOP for 2007 and four out of these prepared the budgets for 2007 based on programmatic classification. These plans were used as a basis for the preparation of the Annual Work Programme of the Government and for the „Needs assessment of the Republic of Serbia for international assistance in the period 2007-2009“. More than 200 civil servants have been trained in implementing the new planning methodology. It is intended that all line ministries use the new methodology and prepare their GOP for 2009.
- 3.3.8. In 2006 two independent institutions established in 2004, continued with their work - **Republic Board for Resolving on Conflicts of Interest** and **Commissioner for Information of Public Importance**⁵⁵ - their mandate is partially or fully linked with the monitoring and control of the work of state institutions. While the Republic board will be closed down upon passing of the Law on Anti-corruption Agency, as mentioned above, the Constitutional Law envisages revision of legislation on public information accessibility and selection of the Commissioner at the first session of the National Assembly of the Republic of Serbia after the elections.

⁵³ The translation of the EU Council decision of January 30, 2006 on principles, priorities and conditions of the European partnership with Serbia and Montenegro including Kosovo can be found on the website of the Serbian European Integration Office (www.seio.sr.gov.yu).

⁵⁴ The implementation of pilot projects was initiated by the Deputy Prime Minister's PRS Implementation Focal Point, the Serbian European Integration Office, the General Secretariat of the Government, Ministry of Finance, Ministry of International Economic Relations and the Ministry of Public Administration and Local Self-Governments. The line ministries involved in the project as of 2005: Ministry of Health, Ministry of Trade, Tourism and Services, Ministry of Economy, Ministry of Labor, Employment and Social Policy; Ministry for Capital Investments and Ministry of Education and Sports have been working on annual operational planning as of 2006.

⁵⁵ For more information see: www.poverenik.org.yu



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- 3.3.19. The adopted **Law on Ombudsman for Citizens and the Law on State Audit Institution** has not been fully implemented⁵⁶. The deadline for the selection of the Ombudsman, tasked to defend citizens' rights and control the work of the state administration institutions as an independent state institution, was in March 2006. The Supreme state audit institution is expected to perform wide range of auditing the work of state institutions, local self-governments, and political parties, and to a certain degree even individuals. This institution should have been established by May 2006 at the latest. The **Amendment to the Law on Ombudsman for Citizens was adopted**, aligned with the Constitution of the Republic of Serbia. National Assembly of the Republic of Serbia passed the Decision on the selection of the Ombudsman for Citizens on June 29, 2007.
- 3.3.20. The draft/final model of the **Anti-discrimination Law**⁵⁷ has been drafted, which is of great importance for the human rights aspect and represent a main anti-discrimination law.
- 3.3.21. Towards the end of 2005, the airport-based **Readmission Office** was established and the Draft Strategy for Reintegration of Returnees was developed based on the readmission agreement⁵⁸. The airport office, which was established in order to provide the returnees with the most important information immediately upon returning to the country, was planned to comprise a legal expert and a social worker, who are to inform the returnees of their rights in regard to the legal and social systems and ways to get engaged in society. In the course of 2006, 375 returnees arrived to the country through Nikola Tesla airport, 150 arriving in March alone. It is interesting that only 30% of returnees seek assistance with the airport office, which indicates an unfavourable position of the office which is located in the transit area, wherefore returnees are not able to return to the Readmission office once they have checked in at the passport control office. The highest number of returnees comes from Germany, and 61% are from Central Serbia by origin, 21% from Kosovo and Metohija, 18% from the territory of AP Vojvodina. There are more men (71%) among returnees than women (29%). Children account for as much as 26% of returnees and, according to ethnical structure, Roma account for the highest number of returnees (59%), then Serbs (13%), Albanians (13%) and representatives of other nations and ethnic minorities⁵⁹. Furthermore, the Manual for Acting within the Integration of Returnees⁶⁰ and the Brochure for Returnees upon Readmission⁶¹.
- 3.3.22. **The Fund for the Development of the Non-Profit Sector** in the Autonomous Province of Vojvodina continued to provide support throughout 2006 to civil society organizations. Since it was established in 2003, four competitions have been organized and over 126 projects submitted by citizen associations at the territory of AP Vojvodina. They have been implemented in the area of employment, civil society promotion and civil rights affirmation, as well as the implementation of activities envisaged in the Action Plan for Youth Policy in Vojvodina⁶².
- 3.3.23. In July 2006 the Government adopted the **Draft Law on Ombudsman for Children**, envisaging that this should be an independent state institution in charge of protecting and promoting the children rights. The Law is currently in the parliamentary procedure.

⁵⁶ Law on Ombudsman for Citizens (*Official Gazette of the Republic of Serbia*, No 79/05), Law on supreme state audit institution (*Official Gazette of the Republic of Serbia*, No 101/05).

⁵⁷ Competent institution is the Service for Human and Minority Rights in cooperation with the UNDP.

⁵⁸ The document was drafted with support of SIDA.

⁵⁹ According to the data of the SCG Ministry of Human and Minority Rights of January 2006.

⁶⁰ Both have been developed with support of the Migration, Asylum, and Refugees Regional Initiative (MARRI).

⁶¹ The document development was supported by the Embassy of the Netherlands and the UNDP.

⁶² For more information visit www.fondmrs.org.yu



- 3.3.24. As mentioned above the new Constitution of the Republic of Serbia envisages a number of improvements in regulation of courts and the selection of judges. The Constitution specifies the establishment of **High Judiciary Council (further referred to as Council)** as an independent and autonomous body that provides and guarantees independence of courts and judges. According to the Venice commission, the fact that the National Assembly plays a crucial role in the selection of the Council members could represent a threat in the sense that political parties could control the courts. Bearing this in mind, special consideration should be given to the process of selection of the Council members. The public attention was drawn by the Constitutional solutions regarding the election and re-election of judges that can have a negative influence on the independence of courts, in spite of the fact that it can be interpreted as a means of lustration in courts.
- 3.3.25. The **National Strategy of Judiciary Reform**, adopted in May 2006 by the National Assembly, is aimed at establishing the rule of law and legal security, and regaining the public confidence in the judiciary system through the principals of independence, transparency, accountability and efficiency. The Strategy foresees a standardized system of education and professional development for court functionaries stipulated by the Law on Training of Judges, Public Prosecutors, Deputy Public Prosecutors and Judge and Prosecutor Assistants⁶³ that was adopted in mid 2006. The Law provides preconditions for organised obtaining and improving of theoretical and practical skills and knowledge needed for independent, expert and efficient performance of the court functions. The mandatory training for the newly elected judges, judge and prosecutors assistants has been introduced, which was not the practise so far. The training program is prepared and the training delivered by the Judiciary Centre for Training and Professional Advancement, but the Strategy foresees establishment of the National Institute for Judiciary Training by 2008. The institute will provide a standardized elementary and constant multi-level professional development training system for judiciary employees.
- 3.3.26. With the support of the **Programme for the Reform of the Court Administration of the Commercial Courts** in the Republic of Serbia⁶⁴ the Commercial Court in Belgrade and Novi Sad started using the software for the full processing of cases (ABP). This enables direct access to all the necessary information follow up of individual suit status. The aim is to lessen any delays in settling the suit, improve the transparency of the work of courts and considerably reduce the opportunities for negligence and corruption. This would lead to increased public confidence in the judiciary system providing better conditions for foreign and domestic investments.
- 3.3.27. The Law on the Organisation of Courts⁶⁵, adopted in 2001, introduced the **Administrative Court and the Appellate Court** to the judiciary system. These courts should have become functional on January 1, 2007. Nevertheless, due to the fact that required conditions were not provided in 2006, the Government of Serbia submitted in July 2006 the Draft Amendments of the Law on the Organization of Courts to the National Assembly of the Republic of Serbia delaying the deadline for the establishment of the courts until September 2007. The abovementioned Draft Amendments were withdrawn from the parliamentary procedure⁶⁶, and in accordance with the Article 6, paragraph 1. and 2. of the Constitutional Law of the Republic of Serbia⁶⁷, courts continue with their work until the

⁶³ Official Gazette of the Republic of Serbia, No 46/06.

⁶⁴ Project financed by the US Agency for International Development (USAID).

⁶⁵ Official Gazette of the Republic of Serbia, No. 63/01 – the Law was revised and amended five times (Official Gazette of the Republic of Serbia, No. 42/02, 27/03, 29/04, 101/05, 46/06)

⁶⁶ Government Conclusion 05 No: 06-3159/2007-001 of July 14, 2007

⁶⁷ Official Gazette of the Republic of Serbia, No 98/06



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legislation stipulating their organization and competencies are aligned with the Constitution. The courts that have not started working until the Constitutional Law came into force will start with their work in accordance with the above mentioned legislation. The new Law on the Organization of Courts is expected by the end of 2007 and the beginning of the work of the Administrative and Appellate Court by the beginning of 2009. This delay had a negative effect on efficiency of the court proceedings, in particular of the Supreme Court of Serbia, which is additionally burdened with 4300 cases from the Court of Serbia and Montenegro that ceased to exist.

- 3.3.28. **Legal assistance** is a means of providing efficient access to justice for all, which represents one of the human rights and as such is being carefully protected in the practice of the European court for human rights. The national Strategy for judiciary reform sets provision of legal assistance in civil and criminal proceedings according to clearly set criteria of the financial capacity of the client, as one of its main long-term objectives (2010-2011). In the meantime the comprehensive legislation on legal assistance was not adopted, in spite of the fact that the respective specialized organisations have designed models of such legislation. In September 2006, the Secretariat for the Implementation of the Strategy published a comparative legal analysis of the institute of legal assistance with an overview of international legal sources and current legal practise in Serbia.
- 3.3.29. Aiming to provide access to justice for the poor, the Ministry of justice, in cooperation with the UNDP, launched the project „**Establishment of Effective and Sustainable System of Free Legal Assistance in the Republic of Serbia**“⁶⁸. The projects objective is to establish an effective and economically available system of legal assistance, financed and managed by the state, for those who can not afford to pay for legal services.
- 3.3.30. The European Commission annual report for 2006 on the progress of the Republic of Serbia in the process of stabilisation and association points out that **the level of the judiciary system efficiency is not satisfactory** - above all in civil court. The listed causes were: lack of sufficient financial resources and limited judiciary capacities.
- 3.3.31. The data related to the average duration of the law suits for some specific suit - e.g. pronouncing of measures for the fight against domestic violence⁶⁹ - show that decisive and concrete measures have to be taken in the following period in order to improve the efficiency and effectiveness of judicial proceedings.
- 3.3.32. The data related to the Public Prosecutor's Office⁷⁰ are more satisfactory, where in more than half of the cases the time elapsed from the moment when the criminal charges have been filed until the moment the charges are finally brought, is not longer than three months, and in almost 75% of cases it is not longer than 6 months.
- 3.3.33. The most important event in 2006 in the domain of local self-government was the adoption of the **Law on Financing Local Self-governments**⁷¹, which came into force at the beginning of 2007. The new system of financing of local self-governments requires: stable transfer limits linked to the GDP percentage, thus providing financial predictability in the following couple of years; fair distribution of revenues, as a direct support to

⁶⁸ Programme financed by the Swedish Agency for International development and cooperation (SIDA) in the amount of over 1.2 million USD for the period 2007-2009.

⁶⁹ *Duration of the proceedings in pronouncing measures for protection against domestic violence – inefficient and expensive process* (Tanja Ignjatovic, Vanja Macanovic, Autonomous Women Centre, 2007)

⁷⁰ *Status of public prosecutors – statistical analysis: Role, efficiency and overall activities of the public prosecutors seen from the statistical perspective*, Centre for peace and democratic development, June 2006.

⁷¹ *Official Gazette of the Republic of Serbia*, No. 62/06.



the small and undeveloped municipalities; defining property taxes as a basic source of revenue for the local self-government; establishment of the Commission for financing local self-government, the first consultative body that comprises of representatives from both central and local government level. The consultative process of the preparation of this Law - where the Ministry of finance worked together with the Standing Conference of Towns and Municipalities, the national associations of local self-governments - can be taken as a model case on how reform oriented strategies and regulations should be prepared.

- 3.3.34. On the other hand the new Constitution and the Constitutional Law require revision and **alignment of all systematic laws** in this field - laws on territorial organization, local self-government, local elections and the capital city. Two additional regulations should be added to this list - regulations on the local self-government property and the position of local employees. These regulations were awaiting adoption in the Assembly even before the Constitution was ratified.
- 3.3.35. The Ministry for Public Administration and Local Self-government has initiated the following projects „Support for drafting of the Law on Local employees“, „Support to the establishment of Ombudsman office, as a special support to the work of local self-government administration“ and „Engagement of experts in order to conduct training for the classification of job posts“. Unfortunately these projects have so far not resulted in development of relevant regulations.
- 3.3.36. **Preparations for decentralisation** i.e. the transfer of competencies in three important areas: education, primary health care and social welfare protection were conducted during the period covered by this Report. Since the beginning of 2007 towns and municipalities have taken over the right to establish institutions in these areas. However there is still a considerable influence of the central level predominantly through mandatory approval for nomination of the directors of these institutions and providing financing of the staff salaries.
- 3.3.37. Finally, the Government of Serbia passed the **Draft Law on Territorial Organization in December 2006**, giving the town status to 12 municipalities. In January 2007 the same Law was amended giving the town status to another 3 municipalities. However, the public experts stress that these two Laws together with other legislation related to the local self-government should not be passed by the National Assembly before a clear and comprehensive decentralization strategy is designed, giving guidance as to what is to be the desired system of local self-government - in particular the number of levels and types of local self-governments - aligned with the European standards in the same area. It is worth mentioning that Serbia is one of the five member countries that have not ratified European Charter on Local Self-government, the most important European document in this area. In May 2007 by the Government Conclusion the **Draft Law on Territorial Organization of the Republic of Serbia was withdrawn** from the parliamentary procedure. It is worth mentioning that the Republic of Serbia is one of five member countries of the Council of Europe that have not ratified **European Charter of Local Self government**, the most important European document in this field. The Law on Ratification of the European Charter of Local Self - government, as the most important European document in this field, is in the parliamentary procedure and is expected to be adopted by July 2007.



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Harmonize legislation with the provisions of the new Constitution
 - primarily in the field of justice and territorial organization
 - and find legal solutions to overcome possible deficiencies.
- Strengthen the existing independent institutions for monitoring and control of public administration institutions and establish new institutions (primarily the Ombudsman for Citizens and Supreme State Audit Institution)
- Develop management and strategic planning skills. Advocate for active cooperation between various ministries and various cross-sector projects with emphasis on the clearly defined analysis of achieved outcomes. A rigid and strictly sector-based distribution of work is predominant, resulting in overlapping and inefficient usage of resources. Furthermore, the quality control is quite weak and formal and there is no cost-benefit analysis (analysis of costs in regard to the achieved impact) based on ex-ante defined objectives and priorities.
- Strengthen institutional capacities for the EU integration process, especially within the line ministries and other state institutions and offices. Special attention should be paid to the principles of the European partnership in the field of public administration and judiciary.
- Adopt the Law on Associations.

MID-TERM PRIORITIES

- Continue reforms in areas of public administration, judiciary and anti-corruption and the start up of the comprehensive local self-government reform. It is essential that all legislation deriving from the adopted reform strategies are passed and that they provide conditions for full implementation of the existing legislation (primarily Law on Civil Servants, Amendments to the Law on Civil Servants and Draft Amendments to the Law on Organisations of Courts). Special attention has to be given to the efficiency and effectiveness of the judiciary system and equal access to justice for all.
- Improve central policy coordination and coordination of activities at the central Government level and between different levels of governance and application of appropriate mechanisms for consultation of relevant stakeholders in the process of designing and implementing reform related strategies and regulations.

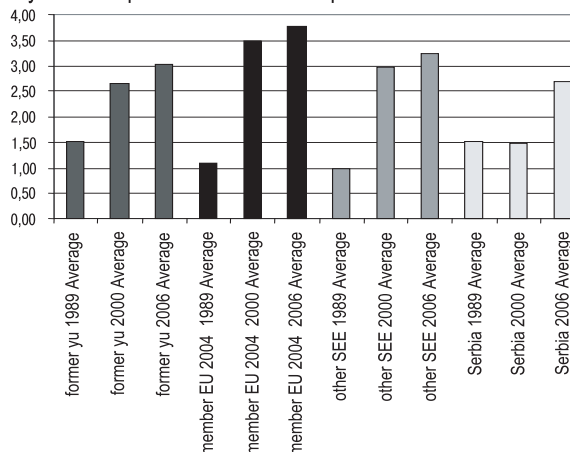


3.4. Transition to a Market Economy: Establishing „Conditions for Private Sector Development“

Progress in Transforming the Serbian Economy

3.4.1. **Transition**, to a large degree, represents the deregulation of the economy and the transformation from the state-owned and state-planned economy to the privately-owned economy. This process however depends critically on many aspects beyond simple privatization, such as zoning and construction regulations, taxation policy, labour regulations, removing the obstacles for foreign trade and investments, development of sound financial system, development of infrastructure, modern educational system etc. A significant progress in all of these and other fields is needed if the creation of sound, prosperous and dynamic economy is wanted.

Graph 3.4.a - Data from the Transition Report
by the European Bank of Development and Reconstruction



3.4.2. Serbian transition is to a large degree specific, taking into account the wars and the overall heritage of the 90's. In addition, the history prior to 1990 is very different from other socialist countries. Although cross country comparisons are always biased to some degree, it is valuable to look at how far the Republic of Serbia has gone in the past six years and to compare that progress with other transition countries by using two generally accepted sets of indicators - EBRD's Transition Report and the World Bank's Doing Business Report.

3.4.3. Data from the EBRD Transition Report shows that the Republic of Serbia and other former Yugoslav republics had a much better **Transition Score** in 1989 than any other region. Although the average score in South East Europe and Central East Europe countries has increased in the 1989-2000 period from 1.21 to 3.09, the Republic of Serbia has actually experienced reduction in the score from 1.52 to 1.48 in the same period. In the post 2000 period the Republic of Serbia has caught up with other transition countries: while average growth in 2000-2006 has been from 3.09 to 3.6, the Republic of Serbia has experienced growth from 1.48 to 2.7. The Republic of Serbia has been able to catch up to some of Balkan countries (Bosnia and Herzegovina, Albania, Montenegro) in the post 2000 period, while candidate countries (Croatia and Macedonia) are still around half a point away. New member states are full point away. It should be noted that this one point is a lot on a scale where maximum difference is three points.



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Graph 3.4.b. - Gaps - Data from EBRD Transition Report⁷²

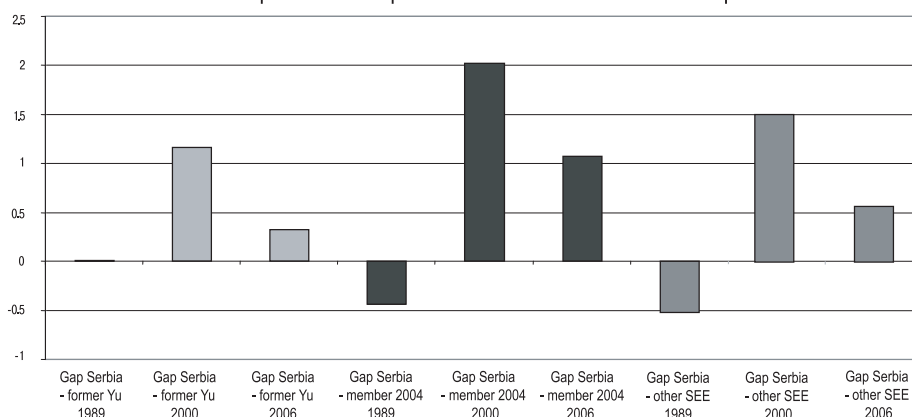


Table 3.4.3. - The sector breakdown in 2006

Region	Large scale privatisation	Small scale privatisation	Enterp. restructuring	Price liberalisation	Trade & Forex system	Comp. Policy	Banking reform	Securities markets & non-bank financial institutions	Overall infrastr. reform	Average
Former YU 2006 Average	3.13	3.73	2.53	4.07	4.00	1.93	3.07	2.27	2.53	3.03
Member 2004 2006 Average	3.86	4.33	3.43	4.33	4.33	3.24	3.81	3.43	3.24	3.78
Other SEE 2006 Average	3.56	3.89	2.56	4.33	4.33	2.45	3.11	2.11	2.78	3.23
Serbia 2006 Average	2.67	3.67	2.33	4.00	3.33	1.67	2.67	2.00	2.00	2.70

3.4.4. Comparing the Republic of Serbia to the group of countries that joined the EU in 2004, it can be concluded that the republic of **Serbia is more than one point behind them** on almost every issue (the exceptions are small scale privatization and price liberalization). The biggest problems are in the areas of competition policy, financial markets and infrastructure regulation. Another way to look at the progress of Serbia is to compare it with the score of other countries in 1997, in their seventh year of transition.

Table 3.4.4. - The sector breakdown - seventh year of transition

Region	Large scale privatisation	Small scale privatisation	Enterp. restructuring	Price liberalisation	Trade & Forex system	Comp. Policy	Banking reform	Securities markets & non-bank financial institutions	Overall infrastr. reform	Average
Former YU 2006 Average	2.20	3.53	1.87	3.47	3.27	1.47	2.07	1.60	1.73	2.36
Member 2004 2006 Average	3.62	4.24	2.86	4.19	4.14	2.57	3.14	2.76	2.43	3.33
Other SEE 2006 Average	2.67	3.44	2.11	3.89	4.00	2.11	2.45	1.89	1.67	2.69
Serbia 2006 Average	2.67	3.67	2.33	4.00	3.33	1.67	2.67	2.00	2.00	2.70

⁷² Ex Yugoslav republics: Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Slovenia. EU member countries 2004: Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Slovak Republic. Other South East European countries: Albania, Bulgaria, Rumania.



3.4.5. The Republic of Serbia is better than former YU republics in 1997 but this is to be expected since the whole region and especially Bosnia and Herzegovina and Croatia was recovering after conflicts. Compared to other SEE countries at that time Serbia is slightly in front. However, new member states were on average more than 0.6 points ahead of Serbia.

3.4.6. **Doing Business Report which is being produced by the World Bank** does not allow for the same kind of historical comparison. However, data from 2006 are

somewhat indicative. The Republic of Serbia is ranked better than former Yugoslav and other SEE countries. However, it seems that more progress is needed before the Republic of Serbia catches up with the new member states. It should be noted that the high average score for new EU member states is driven by an exceptionally high score for Baltic countries, so that the Republic of Serbia is actually comparable to the Czech Republic (52), Slovenia (61), Hungary (66) or Poland (75).

Table 3.4.6. - From the WB Doing Business Report	
Country	Ease of Doing Business Rank
Former YU Average	88
Member 2004 Average	41
Other SEE Average	74
Serbia Average	68

Overview and Analysis of Changes in Strategic Frameworks

3.4.7. As regards to the seminal strategic documents, two strategies were passed in 2006: **the Strategy for Encouraging and Developing Foreign Investment** and **The 2006-2012 Serbian Economic Development Strategy**.

3.4.8. **The Strategy for Encouraging and Developing Foreign Investment** (adopted on 9th March 2006) clearly and in detail explains the problem of insufficiently developed and defined legal framework related to the foreign investors, and addresses actual laws and articles of the laws that required amendments in order to improve the investment climate in Serbia. In the areas that are still not legally regulated respective laws and bylaws were suggested. The Action plan, as integral part of the Strategy, states precise deadlines for adoption of the required legislation as well as other measures needed in order to improve the condition in the above mentioned areas (corruption, definition of required education profiles). The Strategy describes in detail introduction of the “One-stop Shop” primarily aiming at reducing the field of opportunities for corruption at national and local level.

3.4.9. **The Strategy for Economic Growth of Serbia** (adopted on November 9, 2006) creates the solid basis for the Government economic growth policies. The strategy defines three fundamental development priorities: i) creation of investment ambience to attract foreign, primarily Greenfield investment; ii) development of infrastructure, i.e. transport, energy and telecommunications networks; and iii) strengthening the connection between education and the demands of the labour market. In late 2006, the Implementation Action Plan was adopted.

3.4.10. **The Draft Strategy for Steady Regional Development** was developed in January 2007 and the Draft Law on the Support to Steady Regional Development has been prepared and is awaiting formal approval. More information can be found in chapter on Regional, Rural and Urban Aspects of Poverty.



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Overview and Analysis of the Changes in Legal Framework

- 3.4.11. The new Constitution created a legal possibility for private ownership of **urban construction land**, which was not the case before. New regulations concerning urban building land will considerably increase the offer and, consequently, the competition on this market, which used to be under the exclusive monopoly of the state. In addition, this will lead to a significant development of the building sector and higher influx of FDI. During 2006, **the Strategy for Privatisation of Farmland and Construction Land** was produced and the Task Force is drawing up the text of the Law.
- 3.4.12. In the first half of 2006, significant progress was made in cooperation between The Republic of Serbia and the European Union. Negotiations concerning trade liberalisation under the Stabilisation and Association Agreement finished in mid 2006. Liberalisation of the import of oil derivatives remains an outstanding issue, though. Also, following four rounds of negotiations, CEFTA was signed on 19 December 2006. It is expected to enter force in the autumn 2007.
- 3.4.13. With a view to **improving the business climate**⁷³ in Serbia, the following laws were passed: the Law on the Market of Securities and Other Financial Instruments, the Law on Company Takeovers, the Law on Investment Funds, Amendments to the Law on Financial Leasing, Decision on the Establishment of Serbian Accreditation Body and the Decision on the Establishment of the Institute of Standardisation.
- 3.4.14. Amendments to the Privatisation Law and the Bankruptcy Law allow for faster and more efficient process of the restructuring of large state owned companies. The **institution of debt write-off** has been introduced (for the claims due by 31.12.2004) as a legal obligation of state creditors. This increased the interest of foreign investors in privatisation in Serbia and improved its effects.
- 3.4.15. The following laws concerning creating conditions for economic growth⁷⁴ were passed: the Law on Special Authorisations Concerning Efficient Protection of Intellectual Property Rights and the Law on Arbitrage. Based on the Law on Foreign Trade Operations, regulations concerning anti-dumping measures, compensatory measures and safeguard measures against excessive exports have been passed. In addition, the following documents have been prepared: the Draft Law on Industrial Parks, the Direct Investment Bill, the Draft Law on Factoring, the Draft Law on Property and Other Real Rights, the Draft Law on Building Land and Construction, the Draft Law on Denationalisation (including privatisation of urban building land), the preliminary Draft Law on Space and Urban Planning and a Model solution concerning work procedures of interconnected institutions.
- 3.4.16. Although it was passed in 2005, the Law on Protection of Competition really came into effect in 2006, when members of the **Anti-Monopoly Commission** were appointed. With the establishment of the Commission for the Protection of Competition⁷⁵, the Republic of Serbia started meeting the criteria of the European Commission regarding competition protection. Effective application of the Law should be based on the comprehensive Government regulations that are still pending. Serbia still lacks bylaws that represent the basis for effective implementation of this law as well as the amendments

⁷³ At the initiative of the Ministry of Economy

⁷⁴ At the initiative of the Ministry of International Economic Relations

⁷⁵ Envisaged under the Law on Competition Protection (Official Gazette of Republic of Serbia, No. 79/05, of 16 September 2005), and constituted by the election of its bodies on 3 April 2006, which was three months overdue.



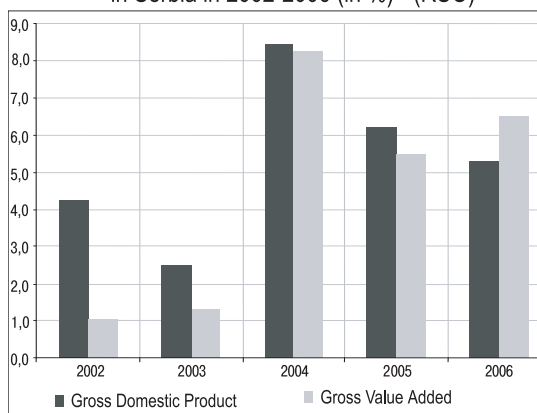
to the Law laying down the measures to be taken against the agreements that are restricting competition. The amendments should also impede the abuse of the dominant position in all cases where competition is threatened. The Government passed a Regulation on the relevant market criteria assessment and the Regulation on the content and manner of submitting application to obtain authorisation for merger (concentration). The Commission lacks financial resources and its statutory authorities are so broad that instead of focusing on important issues of competition protection at a broader level, it risks spending significant resources on numerous cases of marginal importance.

- 3.4.17. A new **Law on Mortgage** was adopted in 2006. It introduces certain useful novelties but also gives rise to dilemmas that need to be clarified. The Law introduced possibility to use „the right to land“ as security/subject of mortgage in cases where the land is of free legal disposal to the borrower i.e. the right of construction, pre-emptive right of construction, or disposal in state/social ownership. This gives a significant flexibility and extends the possibility of financing on the basis and rights related to real property owned by a natural or a legal person. However, although this idea is good, it will be difficult to implement in practice. Namely, the Law provides for a new legal form as a basis for mortgage: not the right of ownership, but the right of construction or the right to pre-emptive construction. Therefore, it is the right to create something in the future. This provision is correct in as much as these rights have a certain value that may be converted into financial parameters. The problem is that mortgage is levied on real estate and not on rights. Therefore, this relevant new element of the Law is difficult to apply in practice on the basis of other regulations stipulated for by the Law. Even though this idea is good per se, it should be realized in some form of securities or derivatives based on the future construction of real estate.

Economic Growth and Structure of Economy

- 3.4.18. According to the official statistics, **the economic growth** expressed through the estimated growth of real GDP was 5.7% in 2006. This was in accordance with the foundations and the objectives of the strategy, which had projected the economic growth rate at 4-5%. In 2004 GDP reached 8.4%, whilst it was 6.2% in 2005. The apparently slower growth of GDP was most likely the result of the suspended increase in the VAT tax credit, so the tax minus subsidies component of GDP underperformed in 2006⁷⁶. If value added tax is used as an indicator of economic development, its growth can be observed, as it reached 5.5% and 6.5% rates in 2005 and 2006, respectively. This leads to the conclusion that the economic growth was faster in comparison to 2005 (Graph 3.4.c).

Graph 3.4.c. - Real GDP and GVA growth rates in Serbia in 2002-2006 (in %) - (RSO)





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- 3.4.19. **The economic growth was primarily due to the increase in productivity** caused by improved organisational processes and greater investment in capital assets, rather than by increased employment, which is why the relation between economic growth and employment is different from the one envisaged in the Strategy. Economic development caused the growth of salaries and salary mass, resulting in the increase in tax collection and social contributions in 2006, and consequently creating bigger opportunities for implementing policies aimed at redistribution.
- 3.4.20. The growth was fuelled by **strong domestic demand and increased export** - rough estimates indicate that about two thirds of growth is due to domestic demand and about a third due to increase in exports.
- 3.4.21. The structure of the economy has been changing rapidly, with **the services sector reaching almost 63% of GDP in 2006**, with strongest growths in trade, transportation, telecommunications and financial intermediation.

Table 3.4.21. - Share of all sectors in GVA (%), 2000-2006 ⁷⁷							
Structure of Gross Added Value, %	Year						
	2000	2001	2002	2003	2004	2005	2006
Agriculture, forestry and fishing	13.6	15.5	14.9	13.6	15.0	13.5	12.9
Industry	26.1	24.5	23.7	22.4	22.1	21.2	20.8
Mining	1.9	1.7	1.7	1.7	1.6	1.6	1.6
Manufacturing	20.5	19.2	18.5	17.1	17.2	16.3	16.1
Production and distribution of electricity, gas and water	3.7	3.6	3.5	3.6	3.3	3.3	3.1
Civil Engineering	4.5	3.7	3.4	3.7	3.6	3.4	3.5
Services	55.8	56.3	58.1	60.2	59.3	61.9	62.8
Retail and wholesale trade; maintenance	6.6	7.1	8.1	8.9	9.6	11.1	11.5
Hotels and restaurants	1.1	1.1	1.1	1.0	1.0	0.9	0.7
Transportation, stocking and telecommunications	7.0	7.9	8.0	8.6	9.2	10.8	12.9
Financial intermediation	5.6	5.1	5.6	6.0	6.1	6.8	7.5
Real estate, renting	15.8	15.6	15.7	15.9	14.9	14.6	14.1
Other public utility, social and personal services	19.6	19.5	19.7	19.7	18.5	17.6	16.1
Gross Added Value	100	100	100	100	100	100	100

- 3.4.22. **The share of individual sectors in the economic growth** is observed as the share of all sectors in the growth of non-agricultural Gross Value Added (GVA), making just under three-quarters of GDP (Tables 3.4.22. and 3.4.24.).

⁷⁶ As defined by law, VAT performance in Serbia is measured using cash flow method. In the first year of its implementation, most of the companies that overpaid the VAT opted for tax credit instead of cash payback, so stock of tax credit accumulated throughout the year. In the second year of VAT implementation, stock of tax credit stabilized and companies started to opt more for cash payback. Since cash flow method is used, the performance of VAT in the first year apparently looked better than it actually was, while in the second year it looked worse than it was. If accrual method is used for measuring VAT performance, we see that the difference in VAT performance in the first and second year is very small. See Quarterly Monitor of Economic Trends and Policies, issue 7, published by FREN (www.fren.org.yu) for detailed analysis of this issue.



Table 3.4.22. - GDP in constant prices in 2002 and the share of selected components⁷⁸

	GDP in constant prices in 2002	Share in GDP, in (%)		
		GVA	Non-agricultural GVA	Taxes minus subsidies
2002	1,020,117	85.5	72.8	14.5
2003	1,045,570	84.5	73.0	15.5
2004	1,133,833	84.4	71.7	15.6
2005	1,204,210	83.8	72.5	16.2
2006 *	1,267,741	84.8	73.7	15.3

*estimate

3.4.23. The sector of *Transport, warehousing and connections*, led by the excellent performance of the telecommunications sector, had the largest share in the economic growth in 2006. Although this sector had a share in the non-agricultural GVA of about one-quarter, it was responsible for nearly a half of its total growth (Table 10). Also, the sector of *Retail and wholesale trade and Financial intermediation* have made a significant contribution to the growth. The share of *Processing industry* in the non-agricultural GVA was about one-fifth and, unlike the year before, it contributed significantly to the total growth. On the other hand, the share of the sector *Other services*, including public administration, health, education, utility services etc, was negative in 2006.

3.4.24. As discussed earlier, the data clearly indicate (Table 3.4.24. and 3.4.25.) that **the sector of services** contributed significantly to Serbia's economic growth despite that Serbian public still pays great attention to the industrial production. During the 1990s, a considerable portion of industrial production that used to be the carrier of Serbia's economic growth (textile industry, automotive industry, engineering, etc.) was shattered by international sanctions and isolation. In the same period, there were global changes in the international distribution of labour (Asian countries, especially China, became leaders in the industrial production in the aforementioned branches of industry).

Table 3.4.24. - Real growth of GDP and selected components⁷⁹

	Gross domestic product	Non-agricultural GVA	Mining and quarrying	Manufacturing industry	Electricity, gas and water production and supply	Construction industry	Wholesale and retail trade; repairs	Hotels and restaurants	Transportation, storage communications and	Financial brokerage	Real estate business, lease	Other community, social and personal services (health care, education and government administration)
	Real growth rate (percentage)											
2002	4.2	1.8	-0.2	-2.9	-1.6	-7.4	14.9	0.6	2.3	11.8	1.8	1.7
2003	2.5	2.8	5.1	-6.0	3.1	10.8	11.6	-1.8	9.5	9.1	2.5	1.5
2004	8.4	6.6	1.3	8.8	0.1	3.5	17.0	-0.6	15.8	9.9	1.4	1.8
2005	6.2	7.3	3.4	-0.1	5.2	2.0	22.0	-2.8	23.4	17.4	3.5	0.5
2006*	5.3	7.1	4.0	5.2	2.1	12.4	9.1	-2.9	26.5	14.6	2.2	-2.7

* estimated

3.4.25. Research conducted by Centre for Advanced Economic Studies (CEVES) and FREN⁸⁰ found that various service providers in Belgrade (small and medium enterprises, not including state-owned companies) generated about 11% of Serbian GDP. What was particularly important was that these companies recorded high productivity - about twice as high as the average of the total domestic economy. The productivity of the information and communication technology (ICT) companies and engineering companies was three times as high as the overall domestic economy average.

⁷⁷ Source: RSO

⁷⁸ Source: RSO

⁷⁹ Source: RSO

⁸⁰ Understanding Belgrade Services Sector, Belgrade, January 2007



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Table 3.4.25. - Share of selected components in non-agricultural GVA and the share in growth of non-agricultural GVA⁸¹

	Non-agricultural GVA	Mining and quarrying	Manufacturing industry	Electricity, gas and water production and supply	Construction industry	Wholesale and retail trade; repairs	Hotels and restaurants	Transportation, storage and communications	Financial brokerage	Real estate business, lease	Other community, social and personal services (health care, education and government administration)
	Share in non-agricultural GVA (percentage)										
2002	100.0	2.0	22.7	4.3	4.4	8.4	1.3	9.3	6.0	18.4	23.1
2003	100.0	2.0	21.7	4.1	4.0	9.5	1.3	9.4	6.6	18.4	23.1
2004	100.0	2.0	19.8	4.1	4.3	10.3	1.2	10.0	7.0	18.4	22.8
2005	100.0	1.9	20.2	3.9	4.2	11.3	1.1	10.9	7.2	17.5	21.8
2006*	100.0	1.8	18.8	3.8	4.0	12.8	1.0	12.5	7.9	16.9	20.4
	Share in growth of non-agricultural GVA (percentage)										
2002	100.0	-0.2	-36.0	-3.6	-17.6	67.6	0.4	11.8	38.2	18.2	21.1
2003	100.0	3.7	-47.1	4.6	15.7	40.0	-0.8	32.5	21.9	16.7	12.9
2004	100.0	0.4	26.5	0.1	2.3	26.5	-0.1	23.9	10.6	3.8	6.1
2005	100.0	0.9	-0.3	2.8	1.1	34.0	-0.4	34.9	17.2	8.3	1.6
2006*	100.0	1.0	13.9	1.1	7.0	16.6	-0.4	47.0	16.4	5.2	-7.8

* estimated

3.4.26. **A comparative analysis of the performance ratio of private enterprises to the rest of the economy** is shown in Table 3.4.26. According to the RSO data, the GDP of the private enterprise sector reached 61% in 2005, having gone up from 38% in 2004. Such a high rate is mostly a result of the privatisation process. When agriculture and entrepreneurs are added to the private sector, its share is even higher, but the available data used below does not include these values.

Table 3.4.26. - The performance ratio of the private sector to the rest of the economy⁸²

	Number enterprises	Number employees	Employees per enterprise	GVA at basic prices ¹⁾	GVA per employee ¹⁾	GDP at market prices ¹⁾
2004						
Total	75,477	1,182,944	15.7	571,950,059	483	766,793,331
Private ownership	66,411	407,700	6.1	202,963,581	498	293,296,000
State ownership	455	162,908	358.0	111,296,858	683	109,346,997
Other ²⁾	8,611	612,336	71.1	257,689,620	421	364,150,334
2005						
Total	75,430	1,117,892	14.8	723,653,521	647	986,393,377
Private ownership	68,495	607,030	8.9	416,562,903	686	599,848,956
State ownership	485	183,076	377.5	166,479,294	909	201,698,470
Other ²⁾	6,450	327,786	50.8	140,611,324	429	184,845,951

1) in thousands of dinars

2) public, mixed and cooperative ownership

Growth without Increased Employment

3.4.27. **The growing economy has not resulted in increased employment opportunities**, at least for a very wide range of demographic groups. The following table summarizes the main trends⁸³.

⁸¹ Source: RSO

⁸² Source: RSO

⁸³ Republic of Serbia Selected Issues, IMF Country Report No. 06/382, October 2006



Table 3.4.27 - Employment by ownership ⁸⁴							
Republic of Serbia - Employment by ownership							
	Sep-01	Sep-02	Sep-03	Sep-04	Sep-05	Apr-06	Diff 2006/2007
Total Employment	2,787,858	2,736,087	2,710,161	2,678,509	2,654,136	2,600,776	-187,082
Non-private* (other forms of ownership)	1,529,650	1,418,750	1,315,617	1,231,843	114,579	1,050,151	-479,499
Private Sector	1,258,208	1,317,337	1,394,544	1,446,666	1,539,557	1,550,625	292,417
Of which non-farm	566,479	629,502	720,673	804,946	952,849	963,917	397,438
	Sep-01=100						
Total Employment	100	98.14	97.21	96.08	95.20	93.29	-6.71
Non-private* (other forms of ownership)	100	92.75	86.01	80.53	7.49	68.65	-31.35
Private Sector	100	104.70	110.84	114.98	122.36	123.24	23.24
Of which non-farm.	100	111.13	127.22	142.10	168.21	170.16	70.16

3.4.28. The Table 3.4.27 shows a large **decrease in non-private employment** (of nearly 500,000 people), which is expected, due to privatization and restructuring processes. In total the number of jobs generated (or transferred to) the private sector (300,000) is lower than the number of lost jobs in the non-private sector (**other forms of ownership**). This trend is normal during the first three or four years of transition, but the lack of improvement after 6 years of transition demonstrates that there are deeper problems in the Serbian labour market.

3.4.29. It can be expected that **the employment rate will not grow until the restructuring and privatisation** of socially- and state-owned enterprises have been finalised. The total number of people employed in Serbia at the end of 2006 dropped to 2.026 million from 2.067 million in 2005⁸⁵. The number of the employed with legal entities continued to fall (from 1.536 million in late 2005 to 1.447 million in late 2006). At the same time, the number of entrepreneurs and the number of employed in this sector continues to grow (from 531.000 at the end of 2005 up to 578.000 at the end of 2006).

Privatisation Process

3.4.30. In order to achieve sound and sustainable employment growth it is **necessary to finalise the restructuring and privatisation of state-owned and socially-owned companies**, the majority of which are directly subsidized by the state (budgetary subsidies amount to 6% of GDP), adversely and artificially maintaining the unproductive employment and threatening the dynamic and competitive segment of economy.

3.4.31. Although recognised as a priority in the previous report, **no constructive headway was made in 2006 towards the restructuring and privatisation of public utility companies**. These companies are still very costly for the State (about 500 million EUR per year through subsidies, uncollected tax and debts) and they still lack sufficient financial resources for modernisation and improvement of the quality of services which, as they are now, additionally hamper economic growth. Furthermore, they are a substantial source of environmental pollution, which will have negative and expensive consequences.

⁸⁴ Source: RSO

⁸⁵ The data refer to September 2005 and September 2006, when half-yearly analyses were done. Half-yearly analyses are much more relevant than the monthly ones.

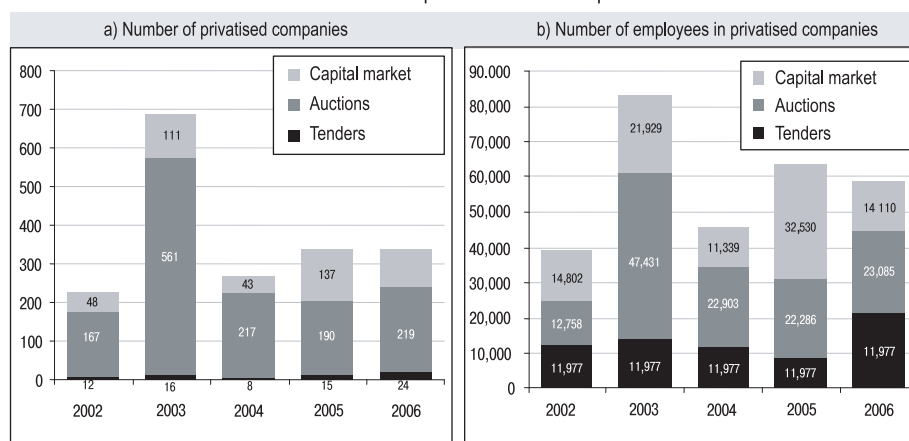


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ces in the process of the republic of Serbia accession to the European Union. In this regard, at the initiative of the Ministry of Economy, a resolution has been passed ordering public utility companies to pass strategic development plans and restructuring programmes that the Government will adopt for each company individually. In 2005 and 2006, the procedure of unbundling the non-core activities started in all these companies.

3.4.32. In 2006, a total of 337 companies were privatised (Tables 3.4.32a and 3.4.32b). They used to employ 58,811 workers (just under 3% of the total number of the employed in the Republic of Serbia). This is a slight drop in comparison with the previous year, when 342 companies employing 63,619 people were privatised. Four public utility companies were privatised. As regards large economic systems (mostly public and socially-owned giants) that were envisaged for restructuring and privatisation (74 companies), so far about half of them have undergone the process (about 50 companies were privatised but in the meantime some of them were restructured and unbundled, so that relative to that number about a half of them were privatised).

Table 3.4.32. - Results of privatisation of enterprises to date⁸⁶



3.4.33. In 2007, the **privatisation of socially-owned companies should finally come to an end** (the original deadline was March 2007, but it has been extended until the end of the year). There are 1,108 socially-owned companies with a total of 239,628 employees (of which 107 companies have over 500 employees and 1,001 companies have fewer than 500 employees). In addition, there are about 400 socially-owned enterprises that are bankrupt, as well as around 100 local public utility companies that are in the process of privatisation (e.g. veterinary stations and the like). The plan is that those socially-owned enterprises that do not find buyers within the set deadline should go bankrupt. Finalisation of the privatisation of socially-owned enterprises is extremely important for the continuation of stable economic growth. Privatisation of these companies will efficiently utilise the usable resources that they possess, and the rest of the economy will be relieved from subsidizing unproductive companies that are unable to handle market competition.

⁸⁶ Source: Agency for Privatisation



Foreign Direct Investments

- 3.4.34. **Foreign direct investment reached the record influx of over 4 billion EUR in 2006, but there was still insufficient major Greenfield investment** as a true driving force of economic, employment and SME development, which would develop around and in symbiosis with new big Greenfield industries. However a significant influx of the Greenfield investments has been registered in the period 2006/first quarter of 2007, and interest of the foreign investors in this type of investment has considerably increased. FDI in 2006 was a result of great proceeds of privatisation

Government's Interventions in Economy

- 3.4.35. Regarding the abolishment of **subsidies and the lessened role of the state in the area of economy**, budgetary funds earmarked for the credit support to the economy were cut down by about 18% in comparison to 2005.
- 3.4.36. In the summer, the Government adopted the Budget Revision for 2006, thus increasing the fiscal spending in the second half of 2006, and **the National Investment Plan (NIP)**. The NIP envisaged the expenditure of 30 billion CSD in 2006 and around 65 billion in 2007. The financing of NIP was supposed to come from the considerable proceeds of privatisation. In 2006, instead of the envisaged 30 billion RSD only 12 billion RSD was spent, primarily due to the lack of administrative capacity to process all the received requests. It is likely that the fiscal spending through NIP boosted industrial production in the last quarter.

SME and New Enterprises

- 3.4.37. **The Agency for Business Registers** started registering entrepreneurs on 1 January 2006. The earlier records kept by the Republic Bureau of Statistics contained a great number of entrepreneurs who were not really active and whose number was impossible to estimate. Consequently, it was impossible to compare the data before the year 2006. High number of newly established entrepreneurs in 2006 (the newly established entrepreneurs account for as much as one-fourth of the total number of entrepreneurs) is probably a result of the latest legislation. The records of entrepreneurs have become much more reliable.
- 3.4.38. Recent research of ICT sector in Serbia concluded that the sector had great potential⁸⁷. In addition, it was found that these companies were already recognised internationally in some market niches with a great potential for further development (primarily in the development of financial and similar software). One of the issues pointed out is that the majority of companies in this sector are relatively small, and that in order to increase international competitiveness it is necessary to either encourage the establishment of larger companies or to develop a coordination body that would provide logistic support for a joint appearance of several companies in order to compete for bigger international contracts. Liberalisation of the telecom market is identified as a key condition for further development, with **RATEL (Republic Telecommunications Agency)** playing the key role in this process. In this view, further development of this government agency is suggested, so that it can handle the pressures of potential monopolists.

⁸⁷ The USAID research of ICT sector in Serbia was conducted in late 2006



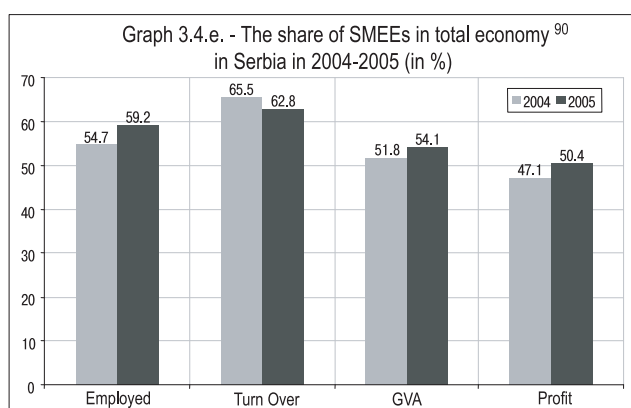
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3.4.39. SMEs account for 99% of the total number of enterprises in Serbia in 2005⁸⁸. Considering that no new data is available, it can be assumed that the situation was similar in 2006. This means that about 84,500 registered enterprises in the republic of Serbia belongs to the group of small and medium enterprises (in 2005, there were about 75,000 enterprises in the SME sector). When 182,218 entrepreneurs are added to this number, it becomes obvious that the **SMEE sector absorbs about 99.6% of total economic entities**.

Table 3.4.39. - The number of registered enterprises and entrepreneurs in 2005 and 2006⁸⁹

	Established in 2006	Total number registered in 2006	Established in 2005	Total number registered in 2005
Business enterprises	11,265	85,460	10,600	76,827
Entrepreneurs	45,426	182,218	/	/

3.4.40. The SMEE sector accounts for 59.2% of total employment in 2005. The total share of the SMEE sector in the Gross Value Added of Serbian economy was 54.1% in 2005, whilst in 2004 it was 51.8%. SMEEs accounted for over 90% of GDP in 2005. **The number of employees, GVA and the profit generated by the SMEE sector as a ratio of total values in the Serbian economy showed growing trends both in 2004 and 2005 (Graph 3.4.e).**



3.4.41. In spite of the considerable economic growth, the employment rate was not going up but down. On the other hand, the number of entrepreneurs and their employees continued to grow (from 531 thousand in late 2005 to as many as 578 thousand in late 2006). Obviously, **the trend of SMEE sector taking over part of the lost employment with predominantly large enterprises continued**.

Statistics and Data Quality

3.4.42. One of the obstacles to creating better development policies directed at the service sector is statistical monitoring. In fact, the series monitoring the production of services are usually unreliable, insufficient and unadjusted to the changes that took place last year. In order to create quality development policies that would generate good results it is necessary to form new series and, more importantly, **to develop new, more reliable methods of sample-based monitoring** (as opposed to the all-inclusive, comprehensive monitoring that used to be required).

⁸⁸ Source: Agency for Small and Medium Enterprises

⁸⁹ Source: Agency for Business Registers and RBS

⁹⁰ Agency for SMEs, the 2006 Annual Progress Report



- 3.4.43. A significant advancement towards **the development of statistical monitoring and research of SMEE sector** took place, establishing a more reliable instrument for the creation and monitoring of the implementation of development policy in this sector. The report on the situation in SMEE sector was prepared methodologically, in compliance with the Eurostat indicators and integrated data for the entire sector, including both enterprises and entrepreneurs.

Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Finalize the process of privatisation of socially-owned companies. Companies that fail to be sold should file for bankruptcy.
- Reform of regulations linked to town construction land and the reform of regulations linked to property owned by the Republic of Serbia.
- Continue the development of industrial zones and technology parks, and improve the communication and transport infrastructure.
- Redefine NIP, with a clear focus on capital projects of national importance
- When creating development policies, more attention should be paid to the development of services, especially the knowledge-based ones (telecommunications, programming, engineering design etc.).
- Establish a reliable statistical database on the services sector (in particular the knowledge-based services: telecommunications, programming, engineering design etc.) in order to enable the monitoring of current trends and their fluctuations, as well as the identification of bottlenecks that could be removed by directed policies and the evaluation of results achieved by the implemented measures.

MID-TERM PRIORITIES

- Develop human and social capital and further reform of education with the aim of increasing the quality of education and adjustment of education profiles to the demands of new knowledge-based economy. The lack of adequately educated profiles is one of the aspects that foreign investors identify as an obstacle to the further influx of foreign investment.
- Strengthen the rule of law and more efficient protection of ownership rights. Invest efforts towards creating a more agile judiciary, combating corruption and harmonization of laws and by-laws.
- Strengthen institutions - strengthen the measures for combating corruption rooted in the system, raise capacities of public administration further reform, modernization and proper functioning.
- Raise the competitiveness of domestic economy - further investments, raise the technological level of domestic industry, create adequate business environment, develop the private sector, and increase the exposure to the international and domestic competition.



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4 Strategic Directions of Poverty Reduction in Serbia



4.1. Increased Employment Opportunities

4.1.1. According to the Labour Force Survey (LFS), **a total of 2.630.691 people were registered as employed in October 2006, which is 0.2 % less than in 2005.** Relative to 2005 the number of active persons (aged 15-64) dropped by 1.6% thus continuing the trend from previous years. The upward trend of employed workers continues (73% of the total number of employees), while the number of self-employed and unpaid family workers is decreasing. While the administrative data shows that the share of the self-employed in the overall unemployment is increasing, this number is decreasing according to the LFS. It is also interesting to notice that there is no such great disproportion between the administrative and economical (survey) number of the employed. On the one hand, this is because the LFS cuts across only a part of the unofficially employed, especially in the entrepreneur's category where duplication of official work status or official registering of an entrepreneur's family members because of other benefits is to be found.

Table 4.1.1. - Structure of labour-active persons by their labour market status⁹¹

%	SERBIA			EU27
	2004	2005	2006	2006
Active population	66	65,2	63,6	
The employed	53,4	51,0	49,9	63,4
Self-employed	22,5	20,6	20,1	
Employed workers	70,3	71,3	73,3	
Unpaid family workers	7,2	8,0	6,9	
The unemployed	19,5	21,8	21,6	7,9
MEN				
Active population	75,1	74,3	72,7	
The employed	63,1	61,2	59,2	70,8
Self-employed	29,0	26,2	26,6	
Employed workers	67,6	69,6	69,8	
Unpaid family workers	3,4	4,1	3,6	
Nezaposleni	15,9	17,6	18,6	7,1
WOMEN				
Active population	57,9	56,2	54,5	
The employed	44,0	40,8	40,6	56,0
Self-employed	13,4	12,2	10,8	
Employed workers	74,0	73,9	77,6	
Unpaid family workers	12,7	13,9	11,6	
The unemployed	24,1	27,4	22,5	8,8

4.1.2. The number of employees in socially-owned companies declined in the period 2005-2006, as did the number of employees in other forms of ownership (joint stock, combined, etc.). During the same period, the number of women working in the socially-owned sector was reduced almost by a half. The number of employees in the state sector increased by 6.1% in comparison to 2005. However, while the number of men working in the state sector dropped in the same period, the number of women rose by 17.1%. The number of employees in the private sector (including agriculture) rose by 2.1% in 2006.

⁹¹ Source: NES, Labor Force Survey, 2004, 2005 and 2006, EUROSTAT



Table 4.1.2. - Employed persons by property type and sex, 2005-2006.⁹²

	2005			2006		
	Total	Men	Women	Total	Men	Women
TOTAL	2,733,412	1,634,988	1,098,424	2,630,691	1,554,674	1,076,017
State property	651,498	349,233	302,265	691,223	337,294	353,929
Private property	1,640,139	1,011,254	628,885	1,632,617	1,006,960	625,657
State owned property	329,271	200,966	128,305	234,491	162,338	72,153
Other forms of property	112,504	73,534	38,969	72,360	48,082	24,278
	%					
State property	23,8	21,4	27,5	26,3	21,7	32,9
Private property	60,0	61,9	57,3	62,1	64,8	58,1
State owned property	12,0	12,3	11,7	8,9	10,4	6,7
Other forms of property	4,1	4,5	3,5	2,8	3,1	2,3

4.1.3. According to the administrative data, **only the entrepreneurs and private companies registered the increase of the number of people employed in 2006.** Relative to late 2005, the share of entrepreneurs and their employees in the total number of the employed has increased by 2% in 2006 (28.5% late 2006). While the total number of employed fell by 2% in 2006, the number of employed in the category of entrepreneurs rose by 8.9%. Still, these results are to be taken with reservation and not only because of a discrepancy with the LFS results. Namely, it may be that massive layoffs of employees in the socially-owned and public sector resulted in the high increase of the number of entrepreneurs and their employees who saw the private sector as their last resort. The second source of the increase of the number of entrepreneurs is an increasing fiscalization of the existing but unregistered business.

4.1.4. **Unemployment is still one of the key development problems in the Republic of Serbia.** The results of the Labour Force Survey⁹³ indicate that the unemployment rate in October 2006 was 21.6%⁹⁴ which represents a small drop of 0.2% in comparison with 2005. The rate is two and a half times higher in comparison to the EU average of 7.9%. No EU member has a higher unemployment rate than in the Republic of Serbia. According to the LFS, there were 692,000 unemployed people in 2006, which is some 26,000 fewer than in comparison with 2005.

4.1.5. **The overall administratively registered unemployment still indicates a growing trend.** There were 916,257 registered unemployed people in December 2006, 53.9% of which were women. The rate of registered unemployment according to the National Employment Service was 28.05% in December, which is some 3.2% higher in comparison with the end of 2005.

4.1.6. **The number of working-age unemployed people** dropped by 0.2% from 21.8% in 2005 to 21.6% in 2006. Relative to 2005, when the unemployment rate growth was significant, a drop of approximately 26.000 is now observed. The expectations are that such trends will continue over the next two to three years, being the result of two powerful, opposing effects. On the one hand, there is a notable increase of the employment rate in the private sector (small and medium-sized enterprises, entrepreneurs, etc.), and on the

⁹² Source: LFS 2005 and 2006.

⁹³ Conducted by the Republic Statistical Office (RSO) according to the methodology of the International Labor Organization (ILO).

⁹⁴ The unemployment rate of the population aged 15-64 which is comparable with the EU rate. The unemployment rate of the overall population according to LFS is 20.9%.



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other a large number of employees lose jobs due to the processes of restructuring, liquidation, and privatization of socially and state-owned enterprises. The growth of the private sector is not yet strong enough to create a sufficient number of employment opportunities in order for the influx of labour force from restructured companies to be absorbed, and at the same time to increase the employment rate of the existing unemployed population contingent. Some of the measures for reducing the number of employees in companies undergoing a restructuring process certainly do not contribute to the improvement of the situation on the labour market. For instance, a large number of employees who were paid severance packages and had to leave their companies willingly or not but without any support in increasing their employment capacities, are now registered as unemployed by the NES.

- 4.1.7. **People with secondary school education make the largest group of the unemployed**, the reason for this being that the largest share of the active population are the people with this level of education, but also the inadequacy and maladjustment of the secondary school education system in the Republic of Serbia to the needs of the economy. People with college and university degree make the smallest share of the unemployed (compared to the total number of the active population). The unemployment rate is the highest among the younger population (aged 15-24).

Table 4.1.7. - Unemployed persons by age and education⁹⁵

	UNEMPLOYED PERSONS (15-64)						
	Total	No school	Incomplete primary school	Primary school	Secondary school	College degree	University Degree, Academy
UKUPNO	691,879	4,601	14,444	13,1472	480,918	31,947	28,497
15-19	55,249	478	1,387	11,234	42,150	0	0
20-24	113,891	239	1,184	17,340	86,610	6,131	2,387
25-29	101,287	374	2,111	12,273	70,022	7,745	8,763
30-34	93,119	697	412	16,472	68,337	2,429	4,772
35-39	73,068	584	2,237	15,071	48,974	4,316	1,886
40-44	77,608	727	1,510	16,285	55,699	2,269	1,118
45-49	73,934	1,503	2,342	14,029	49,395	4,226	2,439
50-54	69,435	0	1,986	16,530	42,877	2,637	5,405
55-59	30,040	0	837	10,763	14,985	2,194	1,261
60-64	4,249	0	437	1,475	1,869	0	467

- 4.1.8. One of the major causes of the large growth of the unemployment rate in the Serbian economy in the previous period were **the layoffs of surplus employees** in the process of privatization and restructuring of state and socially-owned companies. The similar trend may be expected in 2007. During 2006, 337 companies were privatized (decrease of 1.5% in comparison to 2005) with a total of 58.811 employees (7.6% decrease in comparison to 2005). In the course of 2006, the Public Companies, undergoing restructuring programs, downsized by 6.904: Zeleznice Srbije, Public Limited by 1.883 employees, in JAT Airways Public Limited by 349, in EPS (Serbian Power Company) by 2.478, Telekom by 634, „Dunav osiguranje“ insurance company by 610, and in NIS Oil Industry by 941 employees. Currently some 250.000 employees in state and socially-owned companies (not including public companies) await privatization. Many of them will soon find themselves on NES registers.

⁹⁵ Source: LFS 2006



- 4.1.9. The number of labour active unemployed men has increased by 1%, while the unemployment rate among women dropped by 1.9%. Consequently, **the upward trend of the unemployment rate among men** continues, as does the very pronounced gender inequality with respect to unemployment. The ratio of unemployed men to women in the Republic of Serbia has approached the ratio in the EU. Again, this result should be taken with a grain of salt, for the decline of gender inequality is not a result of decrease of the share of women on the labour market, but through the increase of the share of men thereon. At the same time, the rate of employment among women recorded a slight drop.
- 4.1.10. Significant progress was also made in the **improvement of the position of women** on the labour market. The Labour Law provides the principle of equal payment of work of equal value. Progress was made in identifying cases of harassment and sexual harassment. Nevertheless, the Law contains measures that may prove counter effective on women. For instance, the category *work at home* allows for engagement of family members without formal recognition for their work (Labour Law, Law on Private Entrepreneurs). According to the RSO data, women account for two out of three people who work in households (formally unrecognized employment). Therefore, the issue of female exploitation should be researched and these legal provisions challenged. Also, long maternity leave (up to 2 years of paid/3 years of unpaid leave to care for children), with the absence of guarantees for redeployment on the same post or an equally paid post, makes new mothers particularly vulnerable on the labour market.
- 4.1.11. According to the survey conducted by the non-governmental organization Group 484⁹⁶, **the unemployment rate among the refugee population** is approximately 30.6%, which is significantly higher than the overall population of the Republic of Serbia. A significant number of refugees (approximately 1/3) have changed their working status from employed to unemployed and vice versa at least once, indicating the volatility of their status in the labour market and the lower quality of jobs available to them. Long-term unemployment is the most frequent (83.5%). Furthermore, 68% of the unemployed have had this status for over 5 years. Regarding the length of unemployment, there are no major discrepancies between the refugees according to the country of origin (BiH or Croatia). According to the survey, 27% of refugee's works for employers without an official employment contract, while up to 37% of refugees are unofficially self-employed, that is, they work without having registered their enterprise or business. The majority of the employed refugees are working in the private sector.
- 4.1.12. The survey⁹⁷ conducted by the NGO Roma Information Centre showed **60% of the Roma, as the most vulnerable ethnic group on the labour market, did not have a job in 2006**. The elderly population over 50 years of age makes the smallest share of the unemployed. The largest number has been seeking employment for 5 years (51%). As many as 64% have never been employed. 2/3 of respondents are either semi-qualified or unqualified workers. The largest number of them currently works in the socially-owned sector and in state institutions. One half of the respondents hold an indefinite employment contract, while 20% hold no employment contract. Just 1/3 of them found a job through NES. Only 2% of the total number of respondents set up their own business, and 13% of them set up their own business with the support of the NES. Such a low rate of self-employment may be attributed to a lack of funds.

⁹⁶ Group 484 with support of UNDP, *Survey of the Effects of Government Policies on the Poverty Reduction of Refugees*, 2006

⁹⁷ „Roma in the NES“, October 2006



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4.1.13. Enactment of the Law on Prevention of Discrimination of Persons with Disabilities, as well as the Strategy for Improving the Status of Persons with Disabilities in the Republic of Serbia is of paramount importance to the **legal protection of the disabled**, and represents the first step towards regularization of the area of protection of the disabled in the Republic of Serbia. The NES programme envisions employing 200 unemployed disabled people through financial support for equipping the post of a disabled person. As a result of the aforesaid programmes, a total of 208 people with disabilities were employed by end of 2006.

4.1.14. The project⁹⁸ implementation is planned to start by the end of 2007, which aims that these enterprises become a key sustainable resource of sheltered employment with long-lasting economic, educational and social function through an **increase in competitiveness of enterprises for vocational rehabilitation and employment of the people with disabilities on the commercial market** (with developed and applied standards in work safety, social support, and occupational training support). The total Project budget amounts to EUR 1.63 million and the Ministry of Labour and Social Policy has provided EUR 1 million as a grant to these enterprises which aims to employ and professionally rehabilitate people with disabilities.

4.1.15. **Regional inequality on the labour market is evident** (Table 4.1.15). While the employment rate in Central Serbia dropped in 2006, it rose in Belgrade and AP Vojvodina. The situation in respect to the unemployment rate is quite similar. In Central Serbia it is 3% higher than the average in the Republic of Serbia, but below the average in Belgrade and AP Vojvodina. This gap was substantially deepened in 2006 as compared to 2005.

Table 4.1.15 Population age 15 and over by type of labour and sex⁹⁹

	2005			2006		
	Central Serbia	The City of Belgrade	AP Vojvodina	Central Serbia	The City of Belgrade	AP Vojvodina
Active population	1,820,024	695,565	937,704	1,721,868	684,134	917,713
Employed	1,426,474	555,388	751,550	1,311,966	566,007	752,719
Of which: Farmers and unpaid family workers	409,377	23,792	153,539	355,546	15,429	130,962
Unemployed	393,549	140,178	186,154	409,903	118,127	164,994
Inactive	1,507,240	687,590	807,878	1,649,228	715,645	823,711
MEN						
Active population	1,043,196	379,572	542,004	994,097	370,442	529,984
Employed	863,530	313,475	457,983	787,474	315,777	451,424
Of which: Farmers and unpaid family workers	224,962	13,003	103,454	201,684	9,291	92,606
Unemployed	179,667	66,096	84,021	206,624	54,665	78,560
Inactive	298,078	276,794	579,020	645,329	298,479	313,395
WOMAN						
Active population	776,827	315,994	395,700	727,771	313,692	387,730
Employed	562,945	241,912	293,567	524,492	250,230	301,295
Of which: Farmers and unpaid family workers	184,412	—	50,085	153,862	—	38,356
Unemployed	213,883	74,081	102,133	203,279	63,463	86,434
Inactive	509,800	410,796	928,220	1,003,898	417,166	510,316



- 4.1.16. According to the register of the Company Registry, **a total of 45.400 new shops and 11.300 new enterprises were registered in 2006**. The Ministry of Economy provided financial support and counselling services to future entrepreneurs by organizing seminars for potential and future owners of small and medium-sized enterprises. They provided consultancy services, organized business stock exchanges, and supported their participation at the Fair of Entrepreneurship etc.
- 4.1.17. Efforts for further development, strengthening and promotion of the development of small and medium-sized enterprises and entrepreneurship were continued with the help and support in the establishment of new regional agencies and centres (the process of establishment of the *Regional Agency for SMEE Development in the Macva and Kolubara counties*).
- 4.1.18. In 2006, **considerable resources were invested in order to encourage entrepreneurship** through the credit lines of the *Republic Development Fund* (Table 4.1.18). The Development Fund's realized placements were 86% of those planned in 2006. All Fund credits have the currency clause. Long term credits for SMEs should result in the new employment of 6023 workers.

Table 4.1.18. - The number and the amounts of credits granted by the Development Fund in 2006 ¹⁰⁰		
CREDIT TYPE	NUMBER OF PROGRAMS	TOTAL VALUE
Long-term credits - SME	455	7,687,700,000
Long-term credits to autonomous craft shops	634	681,110,000
Short-term credits as incentive to competitiveness of domestic economy from the regular resources of the Fund	71	1,837,600,000
Short-term credits from the Erste Bank funds	98	4,239,000,000
TOTAL	1,258	14,445,410,000

- 4.1.19. **The Development Fund** is implementing the *Program for Stimulating Employment of Unemployed People* (micro loans) - 1562 decisions have been made to the amount of 2,166,847,217; and the *Programme for Stimulating Regional Development* (for more details see regional development in the Report).
- 4.1.20. **The third types of programmes were those funded by NIP resources**. They were: 1) *Program of Credit Support for Start-Up*; 2) Micro-loan program titled *Program of Crediting Unemployed Physical People, Redundant Workers and Innovators through Providing Self-Employment Micro-Loans*¹⁰¹; and 3) *Program of Stimulating Investments and Increasing Employment in Underdeveloped Regions*. The largest number of programs submitted to the Development Fund of the Republic of Serbia within the NIP covers the field of food production - agro complex.

⁹⁸ The project „Increase in Competitiveness of Enterprises for Vocational Rehabilitation and Employment of the Persons with Disability on the Commercial Market“ will be implemented in cooperation of Ministry of Labour and Social Policy, Group for PWD Employment and Professional Rehabilitation and UNDP, with financial support by Ministry of International Affairs of Norway. Participating organizations are 33 enterprises for employment and vocational rehabilitation of people with disabilities, Ministry of Education (Sector for Secondary education – vocational education) and Ministry of Health (Institute for Occupational Health).

⁹⁹ Source: LFS 2006.

¹⁰⁰ Source: Development Fund, the 2006 Annual Progress Report

¹⁰¹ With NES



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Table 4.1.20. - Programs of Development Fund funded by NIP¹⁰²

Program	Total value per year (RSD)		Number of programs Entrepreneurs/ Legal Entities		No of Employed
	2006	2007			
Program Support for Start-Up	170,000,000,00	425,000,000,00	69	74	669
Program for Unemployed/ Redundant/ Innovators	212,500,000,00	637,500,000,00	231		923
Program for Investments and Employment in Underdeveloped Regions	170,000,000,00	1,105,000,000,00	14	12	309

- 4.1.21. In 2006, the Ministry of Economy supported the initiative to form **four clusters** (Memos Metal Industry, Flower Producers, Timok Textile Industry and Construction). Four clusters (Acserbia, Bipom Small Farming Machines, Jato Plastics and Rubber, Agency for Timber) became operational, and their work was also supported. A total of 9,05 million RSD was spent on these activities through the Development Fund.
- 4.1.22. In the framework of assistance to the development of SMEEs, the **Enterprise Development and Innovation Fund**¹⁰³ approved 26 projects, to the amount of 382,500,000 RSD for the period 2005-2006.
- 4.1.23. In the last quarter of 2006, the processing of received applications (17) for **the establishment of business incubators for entrepreneurship stimulation** envisaged by the NIP started, to the amount of 255 million RSD. 330,000 EUR¹⁰⁴ (donor assistance) were invested to the business incubator in Nis (15 tenants) in 2006. The SMEE Council adopted the *Program of Development of Business Incubators and Clusters in Serbia in 2007-2010* at its session held in December 2006.
- 4.1.24. The NIP also envisages **the Reform and Development Programme of Industrial Zones and Parks**, which includes 49 industrial zones for 50 municipalities in the Republic of Serbia. However, by December 31, 2006, the activities relating to the conclusion of Handover Contracts (already completed) for 23 municipalities were finalised, for the realisation of 33 projects. Envisaged funds to the amount of 468,394,000.00 were not realised in 2006.
- 4.1.25. At the end of 2006, a new credit line was opened for **the support to the development of women entrepreneurship in Banat**¹⁰⁵ (repayment period is 5 years with a 1-year grace period, annual interest rate is 6.95% with the possibility to choose different types of guarantees). *The Guarantee Fund of AP Vojvodina* has allocated the guarantee potential of 30 million RSD aimed at financing start-up programmes for inactive women from Banat; as well as an additional 20 million RSD for purchasing new equipment to the registered production in small enterprises, whose owners are women from Banat operating less than 3 years. According to the June 2007 report, the Guarantee Fund of

¹⁰² Source: Information on the realization of programs of the Development Fund of the Republic of Serbia funded by the National Investment Plan

¹⁰³ Within the "Enterprise Development and Innovation Fund" funded by EU/EAR

¹⁰⁴ These amounts cover the funds invested in the incubator itself (brining it to its purpose, equipment for the tenants, maintenance, current expenses, cost of labor and external consultants).

¹⁰⁵ Partners at the project are: RSEDP for Banat financed by EAR, Academy of Women's Entrepreneurship of Kikinda, Zrenjanin Education Center, Banca Intesa, Regional SMEE Development Agency – Alma Mons, and the implementing party is the Guarantee Fund of AP Vojvodina.



AP Vojvodina has approved **8 guarantees for start-up programmes and 15 guarantees for development programmes** as of November 2006, when the competition was opened. This means that the guarantee potential has not been exhausted and that the competition is still open. This is a first project for crediting women businesses, and it was expanded to other regions of AP Vojvodina at the beginning of July 2007.

- 4.1.26. There was an average of approximately **59.000 vacancies** at the NES in 2006, which is a 17% increase from the 2005 average. Thereof, 60% of vacancies were fixed term. Employees with secondary school education were in the greatest demand (above 50%), while the demand for college and university graduates averaged 17%. Two thirds of the total number of demands for staff relates to professional employees. A trend of the increase of demand for employees with previous work experience was observed in 2006. Consequently, 86% of the total labour force required relates to this category of employees.
- 4.1.27. The majority of vacancies were registered in the sector of trade, catering and tourism (21.2%), followed by economy, law and administration (14.2%). From the aspect of form of ownership of a company, **the majority of vacancies in 2006 appeared in private property** (66%). Relative to 2005, the private sector share in the total number of vacancies recorded a 3.2% increase. The trend is expected to continue into the future.

Analysis of Results and Intra-Sectoral Activities

- 4.1.28. **As a result of all activities** undertaken by the NES **but mostly due to recently introduced measures** (individual employment plans, motivation trainings, employment fairs, job clubs etc.), a total of 62.534 people contracted employment in 2006, which is **over a 40% increase in comparison to 2005**.
- 4.1.29. The NES **active labour market policy measures** encompassed 675.523 people in 2006 which is three times higher than in the previous year. Of the total number of unemployed registered by the NES, **80% are covered by these programs**. The result is even more impressive considering that the total of resources used for active policy measures in 2005 and 2006 are almost identical (approximately RSD 1,5 million). In other words, **the budget for active policy measures was slightly reduced from 0.33% of total budgetary expenditures in 2005 to 0.3% in 2006**.
- 4.1.30. It is worth mentioning that direct effects of certain measures on employment are difficult to assess. For instance, 20.744 people received **direct information** in 2006 (3.7% more than projected). 267.337 unemployed people were covered by **group information** on their rights and duties. **Call Centres** were opened in Belgrade, Nis and Novi Sad branch offices. The unemployed can thus obtain information regarding vacancies, registering with the NES, active labour market policy measures and exercising their rights to compensation. The employers can get information about the offer of labour force and staffing opportunities, benefits for employing new workers, possibilities for settling redundancy issues, severance payments etc. The Call Centres' services were used by 41.546 unemployed people and 4.645 employers. The effects of all the above described measures on growth of employment are unknown. Table 8 offers an overview of some of the active labour market policy measures and their impact on employment.



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Table 4.1.30. - Active labour market policy measures in 2006¹⁰⁶

ACTIVE LABOUR MARKET POLICY MEASURES	Total (covered)	Long-term unemployment (24month+)	First-time search for employment	No of persons employed 6 months after program completion	
				Total	Impact%
Employability and individual employment plans	243,339	43,983	103,719	33,284	14%
Job fairs	33,857	11,357	12,718	4,367	13%
Job clubs	1,413	421	766	507	36%
AJS training 1	38,607	9,813	19,957	5,861	15%
Self-efficiency training 2	920	173		37	4%
Career guidance and counselling	318,136	65,746	137,160	44,056	14%
Functional primary ed, of adults	59	14	-	18	31%
Interns	1,013	186	672	1,013	100%
Trainees - volunteers	2,615	727	1,426	889	34%
Trainees- practitioners	2,478	957	1,607	818	33%
Co-finance of post-graduates	205	55	96	29	14%
Foreign languages courses	726	179	269	146	20%
IT courses	1,257	479	452	251	20%
Specialized IT courses	871	260	279	260	30%
Re-qualif, capacity bldg,	2,435	487	539	730	30%
Virtual companies	135	14	39	20	15%
Programs of additional education and training	11,794	3,358	5,379	4,173	35%
IT & counselling in job centres	9,990	3,017	1,801	-	-
Republican SME Agency trainings	1,360	382	337	4,112	41%
NES Trainers training	5,594	1,755	1,221		
Self-Employment benefits	4,942	1,893	1,781	4,942	100%
Cash grants for self-employment	516	3	0	516	100%
New employment benefits	6	0	4	6	100%
Regional programs	3,007	1,087	1,444	3,007	100%
New employment of the disabled	208	125	131	208	100%
Public works	1,514	-	-	1,514	100%
Development of entrepreneurship and employment programs	27,137	8,262	6,719	14,305	53%
TOTAL	357,067	77,366	149,258	62,534	-

Note: Programs with 100% effect on employment were directed towards granting subsidies to employers for each employed worker. For this reason their impact on employment is 100%.

- 4.1.31. In 2006, the programme of **individual employment plans** was implemented for the first time, primarily with the newly registered unemployed people. The programme entailed direct communication of the NES staff with unemployed people with the aim of helping them obtain jobs. More than one half of newly registered people have undergone this programme, which makes it the most successful.
- 4.1.32. By the end of 2006, 33.857 people took part in **job fairs** (50.49% women), but only 13% of the total number of participants found employment, which was less than expected and less relative to the results from the previous year. A higher impact on employment was achieved through **job clubs** that, although covering a small number of beneficiaries, resulted in the employment of 36% of them (507).
- 4.1.33. The working programme for 2006 envisions targeting 12.834 people through **additional education and training programmes**. A total of 11.794 contracts have been con-

¹⁰⁶ Source: NES



cluded with people who have been waiting for employment for a minimum of 6 months (62% of whom are women). Currently there are five centres for additional education, operating through the activities of the Ministry of Education. The training is normally conducted to meet the needs of a particular employer. Furthermore, in 15 secondary vocational schools (25 in the forthcoming period), training is organized in response to the labour market demands. Regarding coverage with the new **functional primary adult education programme**, the number of covered people remains low (59 in 2006) due to the lack of motivation of the unemployed. Another problem is the complexity of the retraining system. In other words, there is no real system of additional qualification and education (except in special cases when organized for a known employer), but the people are required to return to school, which does not motivate the unemployed to join these programmes. Therefore, it is necessary to introduce more flexible forms of retraining, and also identify (in cooperation with employers) the career profiles they need in the short and mid-term period so as to plan the retraining system in advance.

- 4.1.34. **The programmes of subsidies for trainees, volunteering trainees and volunteering practitioners** are aimed at enabling the unemployed to gain some working experience. One of the problems in the implementation of the first programme is a lack of interest of employers as they are required to conclude indefinite contracts with them, low subsidies (maximum worth equals RSD 10,500 per month) as well as the condition of involving into the programme the trainees who have been unemployed for a minimum of six months (the employers mostly sought subsidies for known or easily employed people who were looking for a job for less than six months). The realization rate of the second and the third program was also successful, according to a survey within the framework of the World Bank Project¹⁰⁷ in pilot municipalities (Kraljevo, Nis, Belgrade and Pancevo).
- 4.1.35. A total of 920 people difficult to employ were involved in a **self-effectiveness programme** (37% realization rate). The effectiveness on the employment rate is 4%. The programme does not include a direct impact on the employment rate, but focuses on raising the level of employment capacities of people in need of socio-psychological support.
- 4.1.36. Under the NES funded programmes (total employment of 14.588 people) and **Self-employment subsidies** (for 4.492 people) - 37.3% are women, 100 people with disabilities, 90 unemployed Roma and 751 unemployed over 50 years of age.
- **One-off payment of self-employment subsidy** - 516 people.
 - **Regional employment programmes** (for 3.007 people) - 53.5% are women, 55.2% people waiting for employment for more than 12 months.
 - **Subsidies for mandatory social security contributions** (for 4.395 people) - 2.438 unemployed under 30; 1.196 unemployed over 45; 738 trainees up to 30 and 23 people with disabilities).
- 4.1.37. In 2006, the NES cooperated with 884 employers with 328.659 employees who initiated the process of **redundancy assessments**. The expected personnel surplus is 53.371, or 16.23% of the total number of employees. In comparison to last year, the number of employers that the NES cooperated with dropped by 14.25%, as did the number of redundant employees by 28.79%. During 2006, by implementing measures for settling the redundancies, solutions were found for 1,613 people before their layoff. By the end of

¹⁰⁷ „Employment Promotion Project: Technical Assistance to Assess the Effectiveness of Active Labor Market Programs“, ESPI Institute



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2006, 13 transition centres were established in companies which are undergoing the process of restructuring. The number of employees in these companies has been reduced by 31.812 (RSD 7,25 billion worth of severance packages paid out).

4.1.38. **Controls of illegal employment** were conducted in 2006 with a special emphasis on the employers in trade, tourism, construction and crafts. In this period a total of 51.995 inspections were carried out ex officio. 16.205 people working on the black market were identified. Following these inspections, 11.309 people concluded official employment contracts. Better coordination of different inspectorates is required in order to improve the effect of inspectorates.

4.1.39. The most important elements of **social dialogue improvement** are: The functioning of the *Socio-Economic Council of the Republic of Serbia*, *Republic Agency for Mediation in Labour Disputes* and of the *Council for Small and Medium-Size Enterprises and Entrepreneurship*. In order to enhance social dialogue at national and local level the *Socio-Economic Council of the Republic of Serbia* adopted and supported the development of the project „Social dialogue and Serbia’s way towards European integration“. The project aims at establishing and strengthening regional and local development coalitions capable of developing operational development strategies, employment strategies and poverty reduction strategies and to resolve main social problems. The establishment of an *SME Forum* as a representative body of small and medium-sized enterprises and entrepreneurs is planned. A total of **102 local councils** were established by the end of 2006. However, the operation of local councils has been difficult and most of them are not functioning. The problems are a lack of resources, lack of projects, but also the high representation census limit, in the fact that foreign companies have no representatives in the employers’ Associations; there are cases of unregistered councils, etc. One of the recommendations would be to establish a regional service to support the operation of all local councils.

4.1.40. In 2006 the monthly average number of **beneficiaries of financial compensation totalled 75.059** (18.6% more than in 2005): 28.432 people who were made redundant (18.5% more than in 2005), and an average 10.230 beneficiaries becoming redundant due to bankruptcy, liquidation etc. (39% more than in 2005). The unemployment compensation for August 2006 was paid out in January 2007.

4.1.41. Within the **NES reform** in 2006, the basic principles of the new organization were defined (standard number of employees, the ratio of employees in key functions and those in supporting functions, reducing the number of management levels, outsourcing, etc.). Similar jobs are grouped into organizational units. Centres for Training and Education have been formed and have started functioning, as did the Department for Projects and International Cooperation, and the Centre for Quality in NES. A data base of all NES employees who underwent training was also established. Within the World Bank support project, a model and indicator for monitoring the effects and the effectiveness of the NES operation were developed, which also envisions monitoring the consumer satisfaction with the services.

Changes in legislative and strategic employment policy framework

4.1.42. In July 2006, the Government of Serbia adopted **amendments to the Law on Income Tax and the Law on Mandatory Social Insurance Contributions**. The changes were introduced in the form of tax benefits to relieve the employees with the lowest salaries, and in order to stimulate the employment of the young as well as to boost the develop-



ment of certain branches of industry and underdeveloped regions. The income tax was reduced from 14 % to 12%. Also the minimum social insurance contributions were reduced from 40% to 35% of the average gross wage. More importantly, a monthly RSD 5,000 worth of salary tax deductibles were introduced. In spite of the expert public expressing their concern with respect to maintaining budgetary balance due to the reduction in budgetary revenues, neither spectacular reduction in revenues, nor the reduction of the average corporate tax burden (which shall remain at a new rate of 38.5%, just above the average rate for EU and OECD countries) are expected. This **reform has corrected structural anomalies** which were caused by the regressive income tax, pursuant to former regulations in force since 2001. The most important result of the new tax regulations is **removing the regressive tax for 98% of the employed**.

4.1.43. **The changes to the Law on Income and Social Insurance Contributions** provide strong incentives for employers **to employ young workers** (under 30 years of age), by introducing significant tax and contribution benefits. Specifically, the employer who hires a trainee under the age of 30 on the day of employment and registered as unemployed with the NES, is exempt from paying income tax for this employee for a period of three years. If this is not the employee's first job, but he has been registered with the NES for a minimum of three months, the employer shall be exempt from paying income tax for a period of two years. The employer is entitled to these exceptions if, by hiring a new employee, he is increasing the number of employees compared to the number of employees as of 1 September 2006. Similar tax benefits were introduced for social insurance contributions applicable to the employer- three years for hiring a **trainee** and two years for other new employees under the age of 30. Given the fact that the implementation of this program has just started, it is too early to assess its results. 3.176 young people had their employment subsidized in the course of the first four months of the program implementation. However, according to the NES report, the rate of trainee employment recorded a 2.3 % drop in 2006 as compared to 2005. The universal character of this program obviously gives way to certain, well-known side effects. The deadweight effect will emerge whenever the employer is granted benefits, even though he is willing to hire a young person without benefits or even these were lower. The deadweight effect is expected to have its strongest impact on young graduates in some highly-demanded professions, such as economists, managers, IT experts etc; but also in those regions with relatively strong labour markets. Another problematic aspect of the current solution is that tax benefits are directly proportionate to salaries (instead of being indexed in fixed revenue per individual, or at least in limited maximum amount), which additionally indicates to a potential vulnerability of this programme to the deadweight effect. Also, the substitution effect may also be expected i.e. an increase in the number of young employees resulting from new regulations followed by a drop in the number of employees who are not young.

4.1.44. A similar tax benefit package was introduced for the employment of **people over the age of 45** (as of September 2006), but the employers showed a much more modest interest. A two-year income tax relief and subsidizing the hiring of people over 45 are granted if they have been looking for a job for more than six months, and if hiring them results in an increase in the total number of employees in that enterprise. The same regulations envisage for the first time a three-year tax relief and contribution benefits for hiring people with disabilities, under the same conditions as for other subsidized categories. Since both categories have an extremely unfavourable position on the labour market, the deadweight effect will not be as prominent in these categories as in the younger population. However, this instrument could be improved by introducing a fixed or maximum sum of benefits.



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On the other hand, a large percentage of the unemployed over 45 were made redundant and paid severance packages. Programs that would create incentives for productive investment of these severance payments into new employment opportunities (either through self-employment programs, or with a new employer from the private sector) would represent a good addition to the existing measure. Namely, the elderly people unemployed would thus be given immediate incentives to find employment again, and not after a prolonged period of unemployment of six months minimum.

4.1.45. The legal benefits are also applicable to **women over the age of 50** who were made redundant. However, the employer may feel totally unmotivated by the legal provision that he is to compensate for all the outstanding benefits, if the employment should terminate for any reason during the ensuing 5-year period. In order for the Law to be stimulative, a balance between the rights and interests of employers and employees (state) should be made¹⁰⁸.

4.1.46. In August 2006 a **public works program** was introduced, which subsidizes the salaries of the employees registered with NES, as well as part of material expenditures of enterprises and institutions performing public works. This program responds to the demands of local infrastructure, as well as local social and cultural needs. The total budget worth of over EUR 1 million for 2006 indicates its limitations and modest final results even in cases of fully successful implementation. However, the expansion of this program is seen as very desirable, especially since it provides for differential regional employment policy, which is of extreme importance in a country such as Serbia, with great and growing regional labour market differences. By the end of 2006, a total of 1.500 people registered with the NES were engaged on public works.

Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Reduce new pressures on labour market by improving the employability skills of the redundant employees - introduce new programs of incentives for employers to employ redundant workers with the deployment of severance pay.
- New job creation - through better logistic support to people who, with the help of credit or severance payments are setting up their own private business, better coordination between different institutions who give business start-up loans, permanent open Calls for Proposals and active promotion of the programs.
- Raise the level of employment capacities through active policy measures. Evaluate the implemented measures with the aim of selecting the most efficient measures and the redirecting of funds into them.
- Build and strengthen the information system of the NES and continue with the reform process.
- Strengthen the local and regional initiatives - assist the existing local organizations (Social-economic Councils, Employment Councils, NGOs) in their battle against unemployment and in attracting investments, while giving them greater rights and duties.

¹⁰⁸ Gender Analysis of the Law in the Area of Serbian Social Policy (Marija Lukic, Glas Razlike, 2006)



- Reduce unofficial employment and illegal employment; coordinating the labour market inspecting services; supporting the programmes for the organizing and education of „illegal workers“, as well as providing counselling services to employers to overcome problems in legally employed workers.
- Harmonize the labour market demand and the educational structure of the unemployed.
- Facilitate the system of the retraining and additional education for the unemployed.
- Develop an accelerated diploma program and include the young Roma with incomplete education into the business sector.
- Regional data base of vocations which will be in demand on the mid-run and better information of the young (especially of those who completed elementary school) on the labour market demands.
- Put in place regulatory framework for volunteer work.

MID-TERM PRIORITIES

- Reduce the number of unemployed youth aged 15-24, through enterprise incentives for organizing professional practice for the students in final grades.
- Reduce long-term unemployment through programs of retraining, additional education, licensing; higher control level of those registered with the NES.
- Increase employment of vulnerable groups based on evaluation of implemented measures, development of new measures and involvement of vulnerable groups' NGOs into employment activities and protection of the rights of employees - members of vulnerable groups.
- Improve the affirmative policies in the employment of Roma, with the strictly defined criteria, mechanisms and focal points in charge of implementation thereof; monitoring and evaluation to be put in place.
- Provide an efficient system of information dissipation to marginalized groups (Roma, primarily) on the possibilities of employment through various programs.
- Prepare ground and legalize activities of collection of secondary raw materials.



4.2. More Efficient Social Protection and Better Status of Pensioners and the Elderly

Beneficiaries and Social Transfers

4.2.1. **Significant differences persist in exercise of rights** by those who are informed of their rights and possibilities to exercise them and others who need to be assisted through independent advocacy for their interests. For instance, a number of internally displaced members of the Roma national minority do not exercise their right to financial allowances **due to a lack of personal documents or a lack of information** about this possibility.

The table proves that the majority of Family Financial Support (MOP) beneficiaries pertain to the category of „single-headed families“. Consequently, a conclusion may be drawn the right to MOP is regulated in a way so as to accord preferential treatment to „single-headed families“. A decrease of the number of MOP beneficiaries in the period June-August is evident. This is a consequence of legal provisions stipulating the maximum duration of this right of nine months/annum for labour active individuals and families with labour active members¹⁰⁹, as well as due to the obligation to calculate income from unregistered activities considered income in exercise of this right¹¹⁰. However, should it fail to be linked to the active employment measures, the measure alone is not sufficiently stimulating and renders no durable effect.

Table 4.2.1. - Structure of beneficiaries of Family Financial Support (MOP)
as per number of family members¹¹¹

Month/ Year	No. of family members					Total families
	1	2	3	4	5 +	
01/2006	20,296	9,160	7,676	6,945	7,731	51,808
02/2006	20,686	9,467	7,956	7,244	7,913	53,266
03/2006	20,831	9,527	8,066	7,381	8,023	53,828
04/2006	20,866	9,527	8,105	7,361	8,102	53,961
05/2006	20,899	9,459	7,972	7,269	8,189	53,788
06/2006	18,251	6,861	6,470	5,417	7,705	44,704
07/2006	16,071	4,591	5,308	3,796	7,357	37,123
08/2006	15,582	4,134	5,058	3,472	7,314	35,560
09/2006	17,067	5,505	5,734	4,212	7,564	40,082
10/2006	19,244	7,487	6,924	5,646	7,961	47,262
11/2006	20,087	8,213	7,375	6,201	8,175	50,051
12/2006	21,098	9,082	7,933	6,910	8,486	53,509

4.2.2. The average monthly number of families - beneficiaries of MOP in 2006 was 47,912 with an average monthly MOP per family amounting to RSD 4,707 or 122,134 people with an average RSD 1,847 per month.¹¹² Such a limited coverage of people **potentially needing financial support** represents one of the limitations in the situation when a number of poor people are almost triple. The amount of MOP should be re-defined in 2007 in order to make it sufficient for the provision of basic livelihood. Similarly, funds earmarked for this right of the labour active beneficiaries should be re-directed into their employment.

¹⁰⁹ „...further to the families with the majority of members who are not labour active and where a family member is doing his military service...” (para 2, Art. 10 of the Law on Social Welfare and Provision of Social Security of Citizens”

¹¹⁰ Ibid, Item 6, Art 18

¹¹¹ Source: IT department of MOLESP



Table 4.2.2. - Number of MOP beneficiaries and level of social transfers (in RSD)

Year	Average number		Total
	Families	Beneficiaries	
2002	39,430	90,336	921,296,000
2004	45,254	108,793	1,709,951,000
2005	52,000	127,000	2,800,000,000
2006	47,912	123,134	2,660,187,991

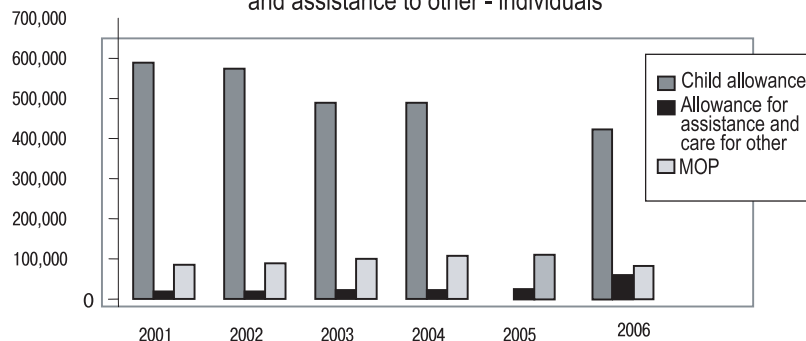
4.2.3. Over 30% of respondents in a survey on the situation of **refugees and internally displaced persons** stated their status had changed from being employed to being unemployed more than once. Thereof 7.4% experienced these changes two or more times over a period of four years. The complexity of the procedure for exercising the right to MOP, and the occasional one-off financial assistance prove that this method does not provide minimum income for overcoming crisis situations¹¹³.

4.2.4. The table 4.2.4 provides **an overview of child allowances and the level of social transfers** in the period between 2002 and 2006.

Table 4.2.4. - Number of beneficiaries of child allowance and level of social transfers (in RSD)

	2002	2004	2005	2006
No. of families beneficiaries	324,650	262,693	246,428	234,836
No. of children	573,187	489,803	460,468	438,073
Total sum of child allowances	6,598,308,482	6,567,688,714	7,528,946,996	8,115,707,935
RS Budget	214,801,643,633	308,798,239,522	400,767,778,000	505,820,602,000
% participation of child allowances in the budget	3.07%	2.13%	1.88%	1.60%

Figure 4.2.a. - Beneficiaries of MOP, child allowance for care and assistance to other - individuals¹¹⁴



4.2.5. Amendments to the Law on Financial Support for Families with Children („Official Gazette of the Republic of Serbia“ no. 115/05 of December 27, 2005) that came into effect on 1 January 2006 introduced a one-off **parental allowance for the first child also**. The same changes provide for parental allowance for the second, third and the fourth child to be paid in 24 monthly instalments, instead of in one, which may diminish the effects of

¹¹² Source: 2006 Report on Operation of MOLESP prepared for the Government of Serbia

¹¹³ Survey of the effects of Government policies on reduction of poverty among refugees, Group 484 supported by UNDP

¹¹⁴ Source: Social Assistance and Child Allowance in Serbia, World Bank, 2006



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Table 4.2.5. - Parental allowance

Period	Average no. of children - beneficiaries per month	First child allowance (one-off) in RSD	Second child allowance (24 instalments) in RSD	Third child allowance (24 instalments) in RSD	Fourth child allowance (24 instalments) in RSD
2005	3,056				
2006	5,217	21,037.00 ¹¹⁵	82,262.61 (3,427.61 month)	148,065.92 (6,169.41)	197,419.17 (8,225.80)

financial assistance. The parental allowance is adjusted on 01 April and 01 October of the current year on the basis of the statistical information about the changes of the living costs on the territory of the Republic of Serbia in the preceding six months.

4.2.6. As of 2006, in line with the Programme of Demographic Development of the Regional Secretariat for Demography, family and Social Care of Children of AP Vojvodina, the parental allowance is paid in one instalment as follows: for the first child RSD 30,000, for twins RSD 400,000, for triplets/quadruplets RSD 600,000.

4.2.7. The increase of the number of beneficiaries eligible for allowance **for care and assistance to other people** in December 2006 as compared to December 2005 (Table 3.6.4) is a result of the changes made in the **Law on Social Welfare and Provision of Social Security of Citizens**. Through these changes, the beneficiaries of financial allowance for care and assistance to other people, who have exercised this right as children with a disability according to the past regulations at the corresponding Pension and Disability Insurance fund, have been granted the possibility to exercise the right to allowance for care and assistance to other people in the system of social welfare in the amount of the difference realized in the social welfare system. Also, the people who, according to the regulations of Pension and Disability Insurance, exercised the right to financial allowance for care and assistance to other people while fulfilling conditions for increased allowance for care and assistance to other people in line with the Law on Social Welfare, may exercise this right in the amount of the difference realized in the social welfare system.

Table 4.2.7 Allowance for care and assistance to other persons¹¹⁶

Period	No. of beneficiaries	Total sum in RSD/sum per month
2005	24,734	119,748, 884 / 4,848,00
2006	22,973	119,562,677,7 / 5,213,00
May 2007	19,252	101,791,424,00 / 5,297,00

4.2.8. The Law on Changes and Amendments to the Law on Social Welfare and Provision of Social Security of Citizens¹¹⁷ introduces in its Article 4, a new right: an increased **allowance for care and assistance of other people**. The people eligible for the above allowance as of 01 July 2006 are:

- The people entitled to allowance for care and assistance of other people in the social welfare system with a recognized 100% disability based on one criteria and
- The people entitled to financial support for the care and assistance of another person in the pension and disability insurance with a recognized 100% disability based on one criteria in the amount of the difference between the increased allowance for care and

¹¹⁵ Nominal allowance adjusted to the living costs in October 2006

¹¹⁶ The Table refers to the beneficiaries of financial allowance exercising their rights in the social welfare system on the basis of the Law on Social Welfare and Provision of Social Security of Citizens. Source: Report on Operation of MOLESP prepared for the Government of Serbia

¹¹⁷ Official Gazette of the Republic of Serbia, no. 115/2005



assistance of other people and the amount of financial support received in the system of pension and disability insurance.

4.2.9. The monthly increased allowance for care and assistance to other people is established at 70% of the average monthly income not including taxes and benefits per employee in the Republic of Serbia in the first five months of 2006. This resulted in a nominal monthly sum of an increased allowance of RSD 13,917 in the period July-December 2006. On the other hand, the sum of the allowance for care and assistance to other people for beneficiaries where no 100% physical disabilities have been established, the monthly allowance was nominally increased between RSD 4,926 in January 2006 to RSD 5,213 in December 2006.¹¹⁸

Table 4.2.9. - Beneficiaries of the right to increased allowance for care and assistance of other people - 100 % disability ¹¹⁹		
Period	December 2006	May 2007
Group	No. of beneficiaries	
Social welfare system beneficiaries	2,971	7,485
Beneficiaries- disabled children in Pension and Disability Insurance	956	1,450
Beneficiaries from Pension and Disability Insurance system	4,453	6,673
Total	8,380	15,608

4.2.10. In order **to improve the material and technical basis for the operation of social welfare institutions, several projects were undertaken within the framework of the National Investment Plan (NIP):**

- 1) Improvement of material and technical basis for the operation of social welfare institutions - in the first half of 2007, 117 vehicles for The Centre for Social Work, 33 ambulances and vans for the Centres for old people, procurement of ramps for the disabled, procurement and installation of IT equipment;
- 2) Construction and purchase of housing units in 20 municipalities for housing in a supportive environment for children without parental care - in the first half of 2007 - 11 housing units: 6 in Belgrade and one in Novi Sad, Priboj, Kragujevac, Nis, Sremska Mitrovica;
- 3) Furnishing, construction and rehabilitation of premises and procurement of necessary equipment in social welfare institutions - PVC doors and windows have been replaced in 25 social protection institutes, facilities have been refurbished where the Republic Social Welfare Fund shall be located, the adaptation of facilities of the Home of People with Autism in Šabac, the „House of Good Will“;
- 4) Procurement of vehicles for the existing and future day-care centres - 90 special vans have been purchased, primarily for institutes whose beneficiaries are children or adults with developmental disabilities and for day-care institutes with the same beneficiary group. RSD 10,573,677.25 was earmarked for these purposes in 2006.

¹¹⁸ Data on nominal monthly sums of an increased allowance for care and assistance to other persons and sums of the same right for beneficiaries where a 100% physical disability has not been established were received from the IT department, Ministry of Labour, Employment and Social Policy

¹¹⁹ Note: Data in the Table reflect status in the Ministry of Labour, Employment and Social Policy IT Department. An increase of the number of beneficiaries of this right may be expected because of the large number of cases in the Pension and Disability Insurance Fund commissions awaiting assessment of the degree of disability.



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- 4.2.11. The support to the local self-governments in **developing social welfare services at the local level** is provided within the framework of projects aimed at planning social policies at the local level through development of plans and setting up implementation bodies in charge of development and execution of the social welfare strategy¹²⁰. Thus far, only 14 municipalities endorsed strategic documents related to the social welfare sector.

Family Law and Improvement of the Rights of Children

- 4.2.12. In line with the 2004 National Action Plan for Children (NPA), and at the three pilot municipalities (Kragujevac, Sjenica, Pirot) **the development and adoption of Local Action Plans for children (LPA)** continued in 14 municipalities¹²¹. A new version of software for the monitoring and evaluation of the NPA and the LPA - DevInfo base¹²² - has been developed in cooperation with the Republican Statistics Office and UNICEF. Development of certain significant indicators never before monitored by the Republican statistics (indicators of the status of children with different categories of impairments, definition of parameters of poor settlements) remains a challenge for the future.
- 4.2.13. The Government sent a **Draft Law on Ombudsman's Office for Children** to the Parliament, but the law was not passed in 2006. In AP Vojvodina there is a functioning Province Ombudsman's Office, with one of the assistants in charge of the rights of children.
- 4.2.14. The **Family Law**, promulgated in 2005, became part of the legal practice. A Rulebook on Program and Method of Acquisition of Special Knowledge from the area of the „Right of the Child“ was adopted for judges presiding in family law cases (2006) with the aim of providing judges who rule in family relation cases with additional theoretical and practical knowledge from the area of the right of the child and to acquire skills needed for professional and efficient administration of justice in these cases. No wider surveys have been conducted on the impact of the application of the Family Law.
- 4.2.15. In respect of the children without parental care and children separated from families by a decision of a competent body, the measures taken in the Ministry of Labour, Employment and Social Policy were directed to the improvement of the standard of living of the children accommodated in the social welfare institutions, as well as the improvement of non-institutional protective measures. These issues have been regulated by general acts of the ministry in charge of social welfare¹²³, whereby the social welfare centres are imposed the responsibility to use other community resources (e.g. foster families and support to the primary family of child and the child) prior to placement in a social welfare institution, but also make impossible placement of a child in a social welfare institution without the consent of Ministry of Labour, Employment and Social Policy.

¹²⁰ The Project is implemented in cooperation between the UK Department for International Development (DFID) and the Ministry of Foreign Affairs of Norway (with the support of UN Development Programme – UNDP). The total value thereof is GBP 3.5 million for the period June 2006 – August 2009. The number of municipalities covered by this Project in the first phase is 64. By the end thereof, 104 municipalities in the Republic of Serbia should be covered.

¹²¹ Kanjiza, Senta, Valjevo, Osecina, Ljubovija Nova Varos, Priboj, Prijepolje, Krusevac, Prokuplje, Lebane, Bela Palanka, Vranje and additional 5 municipalities are planned – funded by UNICEF in cooperation with the municipal authorities.

¹²² This database contains information collected by the Republican Statistics Office, ministries, the Republican Institute for Health Protection and other relevant institutions. So far, data have been devolved to the level of municipalities and even communities. A lot has been done by way of capacity building of municipalities for development of their own DevInfo databases. A matrix containing MDG and PRS indicators has been established within DevInfo database.

¹²³ The documents adopted, relevant to reduction of the number of children placed in social welfare institutions are Measures for Removal of Irregularities in Institutional Protection of Children and Adolescents and the Instruction on Introducing Foster Parenting and Adoption as Measures of Child Protection.



4.2.16. 2006 saw the continuation of the work on **de-institutionalization and transformation** of residential institutions with a notable contribution obtained from the development of family residence. Homes for the accommodation of children without parental care and the three Juvenile Correctional Facility accommodated 1517, and the homes for the children with developmental problems housed 826 children under the age of 18.¹²⁴ The capacities of some institutions for the accommodation of children without parental care decreased in 2006. Since 2005, the number of children in foster families has exceeded the number of children accommodated in institutions and now stands at 3,196 children.¹²⁵ In 2005 and 2006 the ratio of children accommodated in foster families and children in social welfare institutions is 60% to 40% respectively, while the ratio used to be 37% to 63% respectively in the previous period. In the course of 2005 and 2006 approximately 460 children left the social welfare institutions for other, less restrictive, forms of protection (placement in foster families and return to primary families) or with becoming self-sufficient. Training for 800 professionals for prevention of the measure of accommodation into institutions were conducted. The projects of de-institutionalization and transformation of institutions for accommodation of children and young people are financed through Social Innovation Fund competitions and the „Decision on Special Forms of Social Welfare in AP Vojvodina“. However, the problem with the accommodation of children up to 3 years of age and children with developmental problems persists. The quality of selection and monitoring of foster families was enhanced also by adoption of instructions on applying foster parenting and adoption as measures of protection. Furthermore, specialized types of accommodation in families are also being promoted (e.g. for children with developmental problems). Additional measures of support to self-sufficiency target the adolescents exiting the social welfare institutions are being undertaken in certain municipalities.

4.2.17. The **Law on Minor Perpetrators of Criminal Acts and the Criminal and Legal Protection of Minors** was promulgated (adopted in 2005). In order to implement it a Rulebook on Execution of pedagogical measures and special responsibilities were passed. The Rulebook defines a normative basis for the appointment of bodies competent for implementation of special responsibilities, their mutual relations and other regulations relevant to achieving the aim of pedagogical measures. In partnership with competent ministries, UNICEF worked on the reform of jurisdiction related to minors in the Republic of Serbia, implemented a project „Chance for Children to Change“ putting in place preventive programmes for children at risk and in conflict with the law, practice was introduced (as a project activity) of mediation between the victim and the perpetrator, and the mediation centres were established in the Nis and Krusevac Correctional Facility.

Gender Equality and Protection against Family Violence

4.2.18. The **Law on Gender Equality** is an anti-discriminatory law establishing in detail the constitutional right to gender equality, based on the standards proclaimed by international conventions. The Assembly of Vojvodina forwarded this draft law to the Serbian Parliament in June 2007.

4.2.19. The **National Action Plan for Improvement of the Position of Women and Advancement of gender Equality (2007-2010)**, developed by the Republican Council for Gender Equality and numerous women non-governmental organizations, is still in the draft form.

¹²⁴ Project *Transformation of institutions for accommodation of children without parental care and children with behavioral problems*, March 2006; Project *Transformation of institutions for accommodation of children with developmental problems*, August 2006 – Ministry of Labour, Employment and Social Policy

¹²⁵ 2005 Report on the Operation of Social Welfare Centres - Ministry of Labour, Employment and Social Policy



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- 4.2.20. Activities of the **AP Secretariat for Labour, Employment and Gender Equality** as well as the **AP Gender Equality Institute** were continued in 2006 with the aim of establishing mechanisms for gender equality, promoting the concept of gender equality at the territory of AP Vojvodina, as well as the cooperation with relevant institutions and non-government organizations at implementing the policy of equal opportunities¹²⁶.
- 4.2.21. The Republic of Serbia reported on the **Convention on Elimination of All Forms of Discrimination Against Women (CEDAW)** to the UN Committee on the basis of the initial report submitted in April 2006¹²⁷. Two other shadow reports of women NGOs covering the period 2002-2006 were presented¹²⁸. The concluding remarks and recommendations of the Committee have been taken into the Government procedure, with an obligation of submitting the second and the third periodical report by 2010 for the outstanding period.
- 4.2.22. Non-governmental sector sources¹²⁹ pertain that the **phenomenon of abuse of women** is insufficiently recognized, and that the institutions of the system have not integrated the necessary activist approach through prevention or intervention, i.e. protection of victims into their operation. The basic information and records on abuse and family violence are maintained by non-governmental organizations, while the state has no organized and integrated records¹³⁰.
- 4.2.23. The Government adopted the **Strategy for Combating Trafficking in Human Beings** (2006). Drafting of the **National Strategy against Violence** is under way.
- 4.2.24. The Manual¹³¹ for the implementation of the earlier adopted General Protocol for Protection of Children from Abuse and Neglect was elaborated. Special protocols for protection of children from abuse and neglect in social welfare institutions were developed as well as Departmental Protocol of the Ministry of Interior. According to UNICEF findings¹³², 77% of parents punish their children physically or verbally.

¹²⁶ For more information see <http://www.psrzrp.vojvodina.sr.gov.yu/>

¹²⁷ *Initial Report on Implementation of the Convention on Elimination of All Forms of Discrimination Against Women covering the period 1992-2003*, adopted by the Council of Ministers in 2005.

¹²⁸ *Alternative Report to the CEDAW Committee, General Recommendation 19 – Violence against women*, Bobana Macanovic, Autonomus Women' Center; prepared by the Autonomus Women' Centre, the Voice of Difference, ASTRA, Incest Trauma Centre and Women in Black; Shadow report on the situation of Roma women prepared by women NGOs – European Roma Rights Centre, Bibija, Eureka, Female Space -<http://www.errc.org/db/02/49/m00000249.pdf>.

¹²⁹ Text of the team of authors of the Incest Trauma Centre Belgrade for the National Action Plan covering the period 2007-2010.

¹³⁰ In the general absence of records in the Social Welfare Centres, the Autonomus Women Centre has in 2004 put in place a simple computer programme for registration of the basic characteristics of family violence and experts response. The records maintained over the period of one year in the 9 departments of the City Social Welfare Centre confirmed unequivocally the gender dimension of violence and indicated the gravity and severity of the cases registered with the institutions: physical violence was present in 69.9% cases with visible physical injuries (54.8%), lasting between 1 and 5 years in 68.5% of cases, and up to 10 years in 19% of cases. In 13.5% of cases tools or weapons were used, and in 69.7% cases children were exposed to violence. The records pointed to the tendency of insufficient response to the perpetrator (measures taken in one third of cases only), and particularly to the unequal perception/treatment of parents of different sex who were perpetrators of violence against children. A statistically significant difference showed in the implementation of corrective and repressive measures i.e. significantly more rigorous treatment of women (mothers) than of fathers. The recommendation to experts to maintain durable records was not endorsed.

¹³¹ It should be noted that sector protocols have not yet been developed, although this document was endorsed in August 2005. The document and the manual remain unknown to the majority of experts not working in social welfare, and particularly so to the professionals and teachers in kindergartens and schools.

¹³² MICS, 2006.



- 4.2.25. Although according to the Law on Social Welfare and Provision of the Social Security of Citizens, local self-governments are mandated with establishing and funding **reception centres for urgent protection of the abused and neglected children**, only a few of them actually do it. These reception centres in certain municipalities are funded within the framework of a certain number of projects and from donor funds.
- 4.2.26. **The number of registered cases of family violence** rose in 2006. The first step towards a more adequate protection of the victims of family violence represents the application of protocols on cooperation of social welfare and judicial bodies, and the measures of round-the-clock call centres and urgent interventions. Social welfare does not yet have an adequate professional capacity and modalities for the temporary accommodation of the victims of family violence but the functioning of safe houses and other support services in the non-governmental sector is not adequately networked and financially supported by the state. The Executive council of AP Vojvodina financed in 2006 a project „One Step Ahead“ developed by the CSW Sombor which provides the first on line connection and a joint inter-institutional data base (in the country and in the region) for interventions in urgent situations of family and community violence. According to the findings of the Women Autonomous Centre (WAC)¹³³, no successful protection will be ensured in cases when the victims are women living in poverty in absence of material assistance to cover the costs of court procedures aimed at pronouncing the measures of protection from family violence (amounting to RSD 40.000 on the average), and brief (efficient) court procedures.

Disabled People and Children with Developmental Problems

- 4.2.27. The **Law on Prevention of Discrimination of Disabled People** was promulgated in 2006. The Law provides a comprehensive regime of prohibition of discrimination on the grounds of disability, the procedure of protection of persons exposed to discrimination, bodies competent for prevention of discrimination and actions to stimulate equality of the disabled people. The **Strategy of Improvement of the Situation of Disabled People in the Republic of Serbia** was drafted in 2006 (adopted in early 2007). The strategic aim of this document is the improvement of the position of the disabled to the level of equal citizens enjoying all the rights and having the same responsibilities.
- 4.2.28. **Obvious progress has been made within the framework of improvement of the position of disabled people**, but a lot remains to be done until a satisfactory level is reached (e.g. employment of the disabled, removal of architectural barriers or installation of adequate ramps for the people in wheelchairs etc.). Systematically regulated support services directed at the inclusion of the disabled are still lacking. Thus far, support services such as personal assistance (PA) and housing in supportive environment (HSE) have been ensured in the form of pilot projects (through the Government of the Republic of Ireland and SIF for instance), but have not yet become part of the social wel-

¹³³ According to the data of the Women Autonomous Centre, that represented 10 women in the civil proceedings for pronouncing of measures of protection from family violence before the Belgrade municipal courts in 2006, only 4 of the 10 proceedings ended by a verdict, 4 are ongoing, and two clients have dropped charges. The average duration of proceedings in the 4 cases that ended in a verdict was 6.5 months (the longest 10, the shortest 4 months), although the Law provides for an explicitly urgent proceedings conducted in maximum 2 hearings, with the first one taking place no later than 8 days following the raising of charges. The average duration of proceedings per number of hearings in completed cases was almost 5 /case (4.75). A total of 19 hearings were scheduled and of them, 13 were held. The reasons for cancellation of hearings were: no evidence that the defendant was summoned in an orderly manner (3), family councils were not established (2), the judge was ill (1). The average duration of cases that did not end in a verdict by end of 2006 was almost 5 months (4.75) per case (the longest 10 months; all 4 proceedings were still ongoing in February 2007). The average duration of proceedings per number of hearings in cases that were not completed by end of 2006 was 3.25 i.e. 13 hearings were scheduled, 5 were held, 8 were not held.



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fare system. There are exceptions to this assertion, for instance in Belgrade where in the Decision on the Rights to Social Welfare in the mandate of the City of Belgrade the right to housing in support of the persons with disabilities.

Table 4.2.28. - Funding of projects undertaken by the Association of Persons with Disabilities¹³⁴

Period	No. of projects	Final sum in RSD
2004	85	34,044,344,17
2005	159	178,609,000,22
2006	57	119,608,049,00

4.2.29. **The Budget Fund for the programmes of protection and improvement of the situation of people with disabilities** disbursed resources for: educational programmes on improvement of the situation and protection of people with disabilities, rehabilitations of premises of organizations of persons with disabilities, printing of publications, organization of seminars, conferences, international activities, and the distribution of humanitarian assistance. The progress in non-institutional forms of protection of people with disabilities and children with developmental problems was also achieved by support to daily activities in a protective environment (50 projects), counselling and therapies (17 projects), and individual supportive housing (7 projects). Other activities aimed at improving the position of these vulnerable groups (improvement accessibility of physical environment, improved access to information, etc) were conducted within the framework of the remaining 76 projects implemented through this Fund in 2006.

Table 4.2.29. - Funds disbursed from the Budget Fund for programmes of protection and improvement of persons with disabilities

Funds disbursed	Amount in RSD
2004	2,082,750,22
2005	13,558,080,76
2006	54,630,807,40
First four months of 2007	30,583,307,13

4.2.30. Monthly programme activities of approximately 400 local organizations of people with disabilities were financed **within the programmes of social and humanitarian organisations from the Budget Fund.**

Table 4.2.30 Funds disbursed from the Budget Fund for programmes of social and humanitarian organisations

Funds disbursed	Amount in RSD
2004	50,985,708,22
2005	122,558,603,69
2006	265,624,329,47
First five months of 2007	123,739,464,79

4.2.31. According to the MICS data for 2006, one in ten children aged between two and nine displays some kind of developmental problem. This is more frequent in the Roma population living in Roma settlements (23%), among the most deprived children (17%) and children whose mothers have a lower level of education. The number of children with developmental problems is higher in rural areas (13%) than in urban centres (9 %).

¹³⁴ All the data from the table 7, 8 and 9 were provided by the Sector for the protection of the people with disabilities, Ministry of labor, employment and social policy.



Roma as a Vulnerable Group

- 4.2.32. An integrated approach **to improvement of the position of the Roma** that would entail undertaking parallel and coordinated actions in the area of economy, society and ecology - ways to break the vicious circle of poverty among the Roma - is still lacking. Inclusion of Roma into communities was also conducted partly through local projects (through SIF, for instance)¹³⁵ with the support from public revenue proceeds and donor funds alike. Within the framework of the Roma Decade, the Government has adopted four Action Plans¹³⁶ for improvement of the position of the Roma in early 2005. The Strategy for integration and giving new authorities to Roma is still in the draft form, while the action plans for social welfare, culture, media and information, anti-discriminatory measures, specific situation of the internally displaced persons, returnees and women are being prepared¹³⁷.
- 4.2.33. It is estimated¹³⁸ that Roma comprise some 30% (geographical distribution up to 50%) of the overall number of children and adolescents in the social welfare institutions for accommodation, which is high relative to the total population of Roma children, which is a particular indicator of inadequate implementation of programs of support to Roma parents and families by the CSWs. It is alarming that the number increases in the process of deinstitutionalization and/or due to the total decrease in the number of children and adolescents in social protection institutions.
- 4.2.34. The key providers of support to the inclusion of Roma are non-governmental organizations working independently or in partnership with Roma organizations. Still, these activities are not sufficiently supported by systemic measures for the exercise of social welfare rights.

¹³⁵ 14 projects endorsed in three project cycles. See review of implemented projects at www.sif.minrzs.sr.gov.yu

¹³⁶ Action Plans for education, employment, housing and health

¹³⁷ The drafting thereof involved representatives of line ministries, National Council of the Roma Ethnic Minority, delegation of young Roma leaders, international and inter-governmental institutions and agencies (UNICEF, Swiss Development and Cooperation Agency, World Bank, OSCE, Open Society Fund, UNHCR, UNHCHR, IOM)

¹³⁸ Due to the lack of statistical data, estimation is based on independent surveys, as well as the assessment of social protection workers.



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Continue the process of decentralization of social welfare services at the local level.
- Initiate the process of implementation of the Strategy for Improving the Position of People with Disabilities.
- Define and introduce measures for including farmers without material benefits within commercial production of agricultural products into the social welfare system.
- Improve monitoring of the implementation of strategies related to social welfare and adopt action plans for inter-ministerial cooperation.
- Continue the process of de-institutionalization, development of foster parenting and other community services that prevent institutional care and accommodation of beneficiaries (children and adolescents, in particular). Pursue systemic incentives of NGOs and profit organizations in the sustainable provision of social services.
- Develop systemic mechanisms to stimulate municipalities to fund services in local communities and develop social welfare development plans in municipalities (minimum 100 municipalities).
- Systemically improve the position of certain social groups and ensure plurality of social welfare services providers through enactment of new laws (e.g. Law on Ombudsman's Office for Children, Law on Employment of People with Disabilities, Law on Gender Equality, Law on NGOs, Law on Volunteer Work).
- Adopt action plans for access of vulnerable social groups to the social welfare system, programmes and social policy measures and ensure their participation in creating of these; define the manner of outcome monitoring.

MID-TERM PRIORITIES

- Challenge the right to MOP, especially with regard to: taking administration of this right out of social welfare centres; challenging potential current practice of giving precedence to single-headed families; conditions for recognition of rights to labour active beneficiaries i.e. families with a majority of labour active members; the amount of MOP sufficient to satisfy basic existential needs of beneficiaries; incentives to labour active beneficiaries to find employment, expansion of MOP coverage; adjustment of MOP allowance with the new poverty line.
- Ensure sustainable development of non-institutional, open forms of social welfare and social protection through legal solutions and stable sources of funding of local self-governments.
- Ensure a new (reformed) legislative framework; in the field of social, family-legal and child protection.
- Challenge and improve measures of pro-birth policy.
- Establish new mechanisms of improvement and quality control of social services (system of licensing, accreditation, supervision) that would apply to all service providers irrespective of whether they belong to public, private (profit) or non-governmental (civil) sector. Ensure participatory process in defining the standards of services, accreditation, licensing and supervision systems.



Improved Status of Pensioners and the Elderly

4.2.35. **The amendments to legal provisions** that came into effect on 1 January 2006 introduced an obligation for the Republican Budget to fund the difference between the lowest pension and the pension calculated as per general provisions (if lower than the lowest pension). This resulted in a change of the structure of expenditures of the pension and disability insurance funds. The most evident change occurred in the Republican Pension and Disability Insurance Fund, since over 90% of beneficiaries of this Fund receive the minimum pensions. The implementation of the altered regulations resulted in a share of direct subsidies from the budget (used to cover outstanding proceeds for the payment of pensions) dropping from approximately 58% of the total Fund expenditures in 2005 to approximately 24% in 2006. The introduced transfers that became a regular budget item covered approximately 42.5% of the total Fund expenditures in 2006.

FUND	Category			
	No. of pensioners	No. of pensioners	Deficit of fund (in million RSD)	Share of budget subsidies to cover deficit in Fund expenditures
Employees Fund	1,267,574	13,406	89,989,1	34.82%
Self-Employed' Fund	46,180	13,002	/	/
Farmers' Fund	227,608	4,204	4,147,3	23.93%

Reform of the System of Pension and Disability Insurance

4.2.36. **The continuation of pension system structural reform** may be presented briefly through: a) consolidation of three funds for pension and disability insurance; b) establishment of the system of voluntary pension funds and pension plans, representing part of the system of pension and disability insurance; c) promulgation of two laws on public debt of the Republic of Serbia ensuring establishment of regular payment of pensions in the Republican Fund for Pension and Disability Insurance of Employees (a month and a half delay in the payment of pensions) and the Republican Fund for Pension and Disability Insurance of Farmers (20.5 months delay in the payment of pensions) and d) consolidation of collection and tax administration reform.

4.2.37. The **process of consolidation and integration of three funds for pension and disability insurance** is under way. The Law on Changes and Amendments to the Law on Pension and Disability Insurance provides for the administrative consolidation to be completed by 1 January 2008. Financial consolidation is to be completed by 1 January 2011¹⁴⁰.

4.2.38. The **Law on Voluntary Pension Funds and Pension Plans** was passed in October 2005. It came into effect in April 2006. By-laws were adopted that define this area and the establishment of voluntary private pension funds and conclusion of first contracts related to pension plans began¹⁴¹. Voluntary pension insurance enables everyone who wishes to invest additional funds for their pension to do so.

¹³⁹ Table has been developed based on the data obtained in MoLESP.

¹⁴⁰ Consolidation of pension and disability insurance funds is conducted as part of the project activities "Consolidation of Collection and Reform of Pension Administration in Serbia". More about this project in continuation of the text.

¹⁴¹ The law regulating this area came into effect on 1 April 2004. Development of this part of the pension system is in its initial stages. Six voluntary pension funds were established by March 2007. They may be accessed by individuals and companies. Ministru of Labour, Employment and Social Policy in charge of approving pension plans, issued 24 approvals on pension plans by end of first quarter of 2007



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- 4.2.39. **Public debt to beneficiaries of pensions** from the Farmers' Fund is paid in four equal annual instalments and shall be completed in 2010. The instalments will include 8.5% of interest rates at the annual level calculated as of 1 January 2006 up to the moment of payment. The first instalment of the public debt was paid in November 2006¹⁴².
- 4.2.40. Payment of public debt to beneficiaries of pensions from the Employees' Fund began in December 2005.¹⁴³ The payment of the last, sixth instalment of the public debt is to take place in February 2008. The instalments will include 8.5% of interest rates at the annual level calculated as of the first day of payment in December 2005 up to the moment of payment.
- 4.2.41. **The adjustment of pensions** pursuant to the changes of the Law on Pension and Disability Insurance in the period 2006-2009 will be done through gradual transition from quarterly adjustment according to the „Swiss formula“ to bi-annual adjustment in line with the changes of the cost of living. Pensions and general points¹⁴⁴ will be adjusted twice a year (on 1 April and 1 October respectively) in line with the changes of adjustment parameters in the preceding six months.¹⁴⁵
- 4.2.42. **The project „Consolidation of Collection and Pension Administration Reform“** represents an integral part of the overall reforms of the system of pension and disability insurance that the Government initiated in the previous period.¹⁴⁶ The project should ensure fulfilment of the following objectives: a) more efficient collection of contributions; b) better records of the insured and other data towards the realization of rights of the insured (updating of records entails a consolidation of records of beneficiaries of other forms of mandatory social insurance); c) trained and qualified administration in pension funds; d) trained staff, creating a pension policy at the Ministry of Labour, Employment and Social Affairs.
- 4.2.43. Part of the above objectives should be fulfilled through establishment of a **Central Registry of the Insured and Beneficiaries** i.e. an integrated database of the insured, and control of collection of contributions and income tax. In addition to the expected fiscal improvements resulting from a more efficient collection of contributions for pension and disability insurance, enhancement of procedure for exercise of the right to a pension and other benefits is expected. All this is to lead to improvement of the beneficiaries' position.

Community Services for the Elderly

- 4.2.44. In 2006 the Government adopted the **National Strategy on Ageing**. The aim of this document is to create an integral and coordinated policy by 2015 that will recognize the current and projected demographic changes in the Republic of Serbia.

¹⁴² Two instalments paid by March 2007

¹⁴³ Five instalments paid as at the end of the first quarter of 2007

¹⁴⁴ The base level of pension depends on salaries of the insured during the time spent in insurance (expressed by personal points) and of the general level of salaries and living standards in the country (expressed by general points)

¹⁴⁵ Dynamics of the gradual transition: 2006 – 62.5% of the cost of living changes and 37.5% of changes of salaries; 2007 – 75% of the cost of living changes and 25% of changes of salaries; 2008 – 87.5% of the cost of living changes and 12.5% of changes of salaries; 2009 – 100% of the cost of living changes

¹⁴⁶ The project is funded from the proceeds of the World Bank loan and on the basis of the Development Credit Agreement signed on 22 June 2005 between the State Union Serbia and Montenegro and the International Development Association (IDA). The loan came into effect on 20 December 2005 when the work on the project actually began. The value of the loan is USD 25 million as per IDA conditions (0% interest rate, 20 year repayment period, 10 year grace period and 0.75% administrative cost at the annual level).



4.2.45. Throughout 2006 the community services for the elderly presented in Table 4.2.45 were provided in 27 municipalities and most often in combination of two services: clubs and assistance at home, or clubs and care at home. In the remaining 12 municipalities one service was provided.

Table 4.2.45. Community services (AS) for the elderly funded or co-funded by local governments

	Assistance (and care) at home	Clubs for the elderly	Other ¹⁴⁷
Total no. of AS	19	18	5
Total no. of beneficiaries	3,045	15,600	Data not available

4.2.46. **The services of assistance and care at home**, as well as the clubs and day centres are funded or co-funded by local governments in 39 municipalities. Of the total number of municipalities funding or co-funding these services for the elderly 14 are located in AP Vojvodina, 13 in Belgrade and 12 in Central Serbia.

4.2.47. According to the results of surveys on **the types of non-institutional social welfare services needed by the elderly**, only 9% of them aged over 70 avail themselves of some of the rights/services/programmes of support. The people with chronic illnesses and respondents with higher income are in the majority¹⁴⁸.

4.2.48. Until the beginning of PRS implementation the non-institutional social welfare services were developed in only 35 municipalities in the Republic of Serbia covering 2,002 elderly people with assistance and care at home and 15,539 with services in clubs. Since the beginning of the PRS implementation, these services have been developed in 23 more municipalities, mostly through the projects of the Social Innovation Fund¹⁴⁹. The overall coverage was also increased. Currently, these services financed/co-financed by local self-governments exist in 58 municipalities in Serbia. Assistance at home is used by 4,149 elderly people of whom 3,541 over 65, while the services of clubs are used by 16,493 persons.

4.2.49. **Social housing in a protective environment** has been developed in 17 municipalities, as a new form of non-institutional social protection that offers the needed support to beneficiaries through an improved quality of life in the natural surroundings of a local community. 688 vulnerable people were accommodated in 271 housing units. Of them, 180 people are refugees over 60 years of age.

4.2.50. In addition to the services of open forms of protection, a portion of the elderly who have no family to take care of them and are no longer self-sustainable, need the services of elderly homes. Only 0.5% of the elderly may avail themselves of the capacities of elderly homes in Serbia (10 times less than in European countries).

¹⁴⁷ Day care/day centres, reception centres/reception wards

¹⁴⁸ *Survey on the Needs of the Elderly for Non-Institutional Social Welfare*, implemented by NGO "Amity" under the auspices of the EAR and through UNDP with a view to promoting efficient implementation of the Poverty Reduction Strategy and the Social Welfare System Reform at the local level

¹⁴⁹ For more information see the webpage www.sif.minrzs.sr.gov.yu



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Define a long-term strategic direction of pension system development.
- Consolidate collection and reform of pension administration and, as part of it.
- Finalize the process of consolidation of Pension and Disability Insurance funds.
- Introduce a consolidated registry of the insured to further the process of collection of contributions.

MID-TERM PRIORITIES

- Analyse the reasons for a possible change of the pension system structure
- introduction of new forms of pension and disability insurance (e.g. mandatory private pensions, social pensions, specific pensions for particular professions), i.e. changes of the existing parts of the system.
- Monitor the effects of the change of indexation of living standards of pensioners i.e. the percentage of applicability of indexation (adjustment) of pensions to the cost of living only.
- Resolve the status of the army insured who are currently beneficiaries of a separate fund, the operation, volume and conditions for exercise of rights of which have not been provided for by the current Law on Pension and Disability Insurance, but by separate regulations.
- Continue developing social community services for the elderly citizens at a municipal and inter-municipal level as well as introducing new services into the social welfare system.



4.3. Health Care towards Poverty Reduction

4.3.1. **Life expectancy at birth** is one of the basic indicators of a citizens' health, it is unfortunately still considerably lagging behind the EU average. Many other indicators of citizens' health show favourable tendencies in comparison to the 1990s.

	Republic of Serbia	European Union
Total	73	78.7
Men	70	75.6
Women	75	82

4.3.2. For quite a long time, cardiovascular diseases, various types of cancer and injuries were **the most common causes of death**. Standardised mortality rates for cancer-related diseases were going up from one year to the next, and represent the leading cause of death among women, while rates of the other groups of diseases were in decline.

GROUP OF DISEASES	TOTAL			WOMEN		
	2001	2003	2005	2001	2003	2005
Cardiovascular diseases	110,2	106,1	104,5	26,8	26,2	23,3
Malignant diseases	92,1	94,1	97,3	50,1	48,0	45,5
Traumas, poisoning and effects of external factors	36,9	32,0	30,8	20,0	15,6	14,4

4.3.3. Regarding **health indicators of particularly vulnerable groups** (the Roma, especially those living in Roma settlements, the poor, refugees, internally displaced people, people with special needs, and people living in rural areas, etc.¹⁵²), some unacceptable differences can be observed, requiring targeted interventions, i.e. activities that would focus on these groups and take place simultaneously with the general reforms.

4.3.4. The downward trend in **child** mortality continued. However, indicators of child mortality among Roma are much higher.

INDICATOR	General population ¹⁵³			Roma population living in Roma settlements, 2005 ¹⁵⁴		Most vulnerable, 2005 ¹⁵⁵
	2001	2003	2005	Boys	Girls	
Under-5 mortality rate (per 1,000 live-born infants)	11.8	10.4	9.2	36	23	
Infant mortality rate (per 1,000 live-born infants)	10.2	9.1	8.0	32	20	
Share of infants born with low body weight (<2500g)			5,0%	9,3%		8,6%

¹⁵⁰ World Health Organisation, 2005

¹⁵¹ Report on the Realisation of Millennium Development Goals in the Republic of Serbia, 2006

¹⁵² The latest available data concerning persons with disabilities and children with special needs refer to 2001. There is no relevant data of the health of refugees and internally displaced persons.

¹⁵³ Republic Bureau of Statistics (DevInfo)

¹⁵⁴ Multiple Indicators Cluster Survey (MICS) of health and behaviour of women and children, UNICEF, 2005, preliminary results

¹⁵⁵ Multiple Indicators Cluster Survey (MICS) of health and behaviour of women and children, UNICEF, 2005, preliminary results



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4.3.5. There are also differences in **infant mortality rates** relative to the territory. The lowest rates were in AP Vojvodina, especially Central and Northern Banat (4.5-5.8 per 1,000 infants), while the highest rates were recorded in the districts of Jablanica and Pirot (12 per 1,000 babies)¹⁵⁶.

4.3.6. Judging from the data provided by routine statistics, **immunisation coverage** is about 97.7% of children¹⁵⁷. According to the results of the survey of multiple indicators of the situation of children and women (hereinafter: MICS3) conducted by UNICEF 2005,¹⁵⁸ only 27% of children living in Roma settlements have received all vaccinations¹⁵⁹. The same survey shows that the percentage of children who had all the recommended vaccinations at the specific age¹⁶⁰ is 44%, 37% of the most vulnerable children and only 9.2% of children living in Roma settlements. No significant, gender-related differences were observed, but solid indicators of the turnout for inoculation proved to be the level of mother's education and living in an urban area (62% living in an urban area compared to 52% from rural areas). The lowest ratio of fully immunized children, according to this survey, is in South-East Serbia at 31%¹⁶¹.

4.3.7. Having analysed **the data of mortality in fertile women**, it was concluded that there were no territorial differences (i.e. urban versus the rural population), but there were considerable differences in deaths caused by all three groups of diseases between the average population of women and Roma women. Further research is needed in order to establish the principal causes of deaths among Roma women in their fertile age. Maternal mortality rate, expressed as a ratio per 100,000 live births (due to unstable indicators), dropped considerably in the period 2001-2005 (it was 5.6) in comparison to the early '90s when it was about 14.

Table 4.3.7. - Indicators of women's health

INDICATOR	General Population	Female Roma ¹⁶²
Mortality rates among women ¹⁶³	124	243
Maternal mortality ¹⁶⁴	5.6	
Antenatal protection coverage - at least one visit to doctor during pregnancy	99%	88.9%
Delivery with professional help	99%	66.6%

4.3.8. The high **number of intentional terminations of pregnancy** in the reproductive period is still worrying, and in 2000 was 2069.5¹⁶⁵ (per 100,000 women, age 15-49), while the same rate among adolescents was 504.2¹⁶⁶.

4.3.9. **The use of healthcare services** did not particularly change in comparison with the previous reporting period. A study on the health of the population¹⁶⁷ from 2006, has con-

¹⁵⁶ Serbian Institute of Public Health, 2006

¹⁵⁷ Millenium Development Report, Government of Serbia 2006.

¹⁵⁸ Preliminary data Multiple Index Cluster Survey, MICS 3, 2005

¹⁵⁹ MICS 3, 2005.

¹⁶⁰ See more for value of this indicator in MICS 3, 2005. and Millenium Development Report, Government of Serbia 2006.

¹⁶¹ Multiple Index Cluster Survey, MICS 3, 2005.

¹⁶² Multiple Indicators Cluster Survey (MICS) of health and behaviour of women and children, UNICEF, 2005, preliminary results

¹⁶³ Report on the Realisation of Millennium Development Goals in the Republic of Serbia, 2006

¹⁶⁴ Per 100,000 infants

¹⁶⁵ The database the Public Health Institute of the Republic of Serbia "Dr Milan Jovanovic-Batut"

¹⁶⁶ Serbian Statistical Almanac, the Public Health Institute of the Republic of Serbia "Dr Milan Jovanovic-Batut"

¹⁶⁷ Study on the health of the population of Serbia, 2006, carried out as a project of the Ministry of Health and the World Bank



tributed to a better assessment of the problem of the general population, but is also showed that the **use of healthcare services among the poorest stratum of the population**¹⁶⁸ **is very low**. Also, the ratio of the poorest to the general population is much higher when it comes to not using medical services because they have to be paid for.

Table 4.3.9. Indicators of the use of healthcare services and health-related behaviour¹⁶⁹

INDICATOR	Serbia 2006	20% of the poorest	Serbia 2000
% of adults who have their own GP/occupational medicine specialist	50.6%	39.2%	43.4%
% of adults who visited their GP/occupational medicine specialist in the past year	54.2%	50.8%	55.8%
% of adults who have never visited a GP/occupational medicine specialist	1.6%	3.2%	2.7%
% of adults whose main reason for not using healthcare services is the fact that they have to pay for them	3%	8.1%	4.2%
% of adults who have their own dentist	34.8%	14.3%	36.1%
% of adults who use private health care services	19.4%		23.9%
% of adults who were hospitalised in the past year	6.6%	7.5%	8.6%
Prevalence of smoking among adults	33.6%	31.9%	40.5%
Prevalence of smoking among young people aged 15-19	15.5%	15.8%	22.9%
% of children that occasionally drink alcoholic beverages	33.1%		28.5%

- 4.3.10. On the other hand, the results of this survey show that **the number of people who buy medications in pharmacies has dropped**, and the number of those buying medications on prescription rose, which is largely due to the new legal framework, i.e. the passing of the Regulation on the price of medications. In fact, the Republic Institute of Health Insurance was able to expand the List of Medications, and a reduction in the suppliers' price of medications was made possible too.
- 4.3.11. The adult population believes that the **three major reasons for getting ill** are: stress (73.1%), adverse living conditions (56.6%) and a poor diet (33.3%).
- 4.3.12. In the period from 2000 to 2006, **the number of smokers** dropped considerably. This was probably a result of intensive preventive activities and health-promotional campaigns (National and World No Tobacco Day), adoption of the Tobacco Control Strategy and establishment of the office that bears the same name. One-third of revenue generated from turnover tax on tobacco products (the so-called „Tobacco Dinar“) was allocated to preventive activities. At the same time though, **a negative trend was noted in the prevalence of alcohol consumption**, which is particularly worrying among children. All of the above indicates that it is necessary to implement preventive and health-promotional programmes and interventions relating to this area.
- 4.3.13. Even though the share of **public spending on health care** in Gross Domestic Product (GDP) was considerable (5.9% in 2006¹⁷⁰), as was the total expenditure estimated at up to 9% GDP¹⁷¹, the healthcare system often faced financial problems. The accessibility of healthcare services, especially for the poor, was limited due to their significant charges. The National Health Account (NHA), as the official statistics, should provide an insight into the inflow and distribution of funds within the system as well as in the over-

¹⁶⁸ For the purposes of this survey, the category of the poor was determined by the welfare index, i.e. by dividing the population into 5 groups, each covering 20% of population.

¹⁶⁹ Preliminary results of the Survey of Citizens' Health, 2006.

¹⁷⁰ Source: Revised Memorandum on Budget and Economic and Fiscal Policy in 2007 with Projections for 2008 and 2009.

¹⁷¹ National Health Account, preliminary data for 2005



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all public and private spending on health, and therefore provide transparency of financial flows in the healthcare system. The share of health costs in the total household final consumption expenditures registered an upward trend (Table 4.3.13).

Table 4.3.13. Household final consumption expenditures¹⁷²

HOUSEHOLD COSTS	2003		2004		2005	
	No.	%	No.	%	No.	%
TOTAL	881,317	100.0	998,390	100.0	1,206,531	100.0
HEALTH	21,784	2.47	25,241	2.53	37,216	3.08

4.3.14. But of 406 surveyed households¹⁷³, over half (57.1%) had healthcare-related expenses. The largest number of survey respondents reported that they paid for medical scans (35.3%), dental services (34.5%), laboratory services (32.8%) and specialist medical services (31.5%). Observed by the ownership sector, 36.9% of the total expenditure refers to the public and 63.1% to the private sector.

4.3.15. According to the same source¹⁷⁴, the Republic of Serbia is one of the countries where „paying out of the pocket“ **comprises the largest part of private health costs** (85%). In developed countries these funds are not used for „out of pocket“ payment, but for private health insurance, and affect only the wealthier strata. In the Republic of Serbia the conclusion is that such spending indicates a barrier in access to a health care service for the poorest population.

4.3.16. The increase of the senior population and the population with low employment rates represents a challenge to the sustainable financing of the healthcare system, in a system based on collecting contributions.

4.3.17. The distribution of budgetary funds directly or indirectly connected to the implementation of the Poverty Reduction Strategy was quite different at the central and local level¹⁷⁵. In the period of 2005-2006, more funds were allocated to the sector of health and social protection than to other sectors at the central level (social protection around 40%, health protection around 15%). However, at the local level, more than half of the funds were directed at the development components - economy and education. The health care sector expenditure at the local level will increase with the realisation of the National Investment Plan through investment in facilities of primary health protection.

4.3.18. In addition to the transfer of responsibilities pertaining to primary health protection to the local level, **the process of decentralisation** should also lead to the decentralisation of a part of the funds. The new Law on Financing of Local Self-Government that took effect on January 1, 2007 regulates this area. Plans have been made for the unbundling of healthcare centres and separating out medical centres that will become the responsibility of local governments. The plan should have been applied in some institutions, but the process was slowed down and then extended for 5 years. Practical solutions concerning the allocation of purpose funds are being drawn up. The amounts of transfers will be determined by unique criteria and measurements, which are yet to be defined, taking into account development and demographic characteristics of municipalities. However, there have been no public discussions to date on

¹⁷² Household Budget Survey, Republic Bureau of Statistics

¹⁷³ Republic Statistical Office, Household Budget Survey, 2005, Ad Hoc Survey on unencompassed economy

¹⁷⁴ Ad Hoc Survey on unencompassed economy, Household Budget Survey, 2005.

¹⁷⁵ Analysis of Budgetary Allocations, 2007



decentralisation of the assets of the Republic Institute for Health Insurance, which would represent the true financial decentralisation.

4.3.19. **The Republic Institute of Health Insurance (RIHI)** generates its revenues from a number of sources: contributions for health insurance (67.77%), transfers from compulsory social insurance agencies (24.76%), transfers from the budget for uninsured people (about 2.79%, of which 2.55% through the Ministry of Finance and 0.24% through the Commissariat for Refugees and IDPs), memoranda clauses (refunds, 2.47%), and other sources (2.21%)¹⁷⁶. The expenditures of RIHI are shown in Table 4.3.19.

RIHI expenditures	2005	2006
Primary health care	24,09	23,88
Secondary and tertiary health care	42,19	44,91
Compensation to insurees	8,14	6,57
Prescription medication	13,3	13,64
Cost for people without compulsory insurance	2,58	0,74*
Cost for refugees and IDPs	0,22	0,17

* Reduction in the number of people without compulsory insurance is taken into account

4.3.20. Contrary to expectations, the RIHI investments of primary health care were reduced, but it should be noted that **the budgetary funds earmarked by the Ministry of Health for primary health care went up from 15% to 36%¹⁷⁸ in the same period.**

4.3.21. The redistribution of funds will be based on **savings and increased efficiency in certain areas**, e.g. due to reduced expenditure on non-medical staff (that left the healthcare system, having accepted the social programme and severance pay in late 2005 and in 2006). Further savings can be expected due to the reduced expenditure on dental services, improved system of public procurement of medications and medical supplies, application of the protocol for cost-effective health protection, and the abolishment of covering funeral costs (so-called non-medical contributions from the Institute of Health Insurance, etc.). A part of such saved funds has already been earmarked for 1,000 in vitro fertilisations, positive list of medication according to medical indications, and considerable reduction of the time spent on the waiting list for pacemakers. Investment funds have also been allocated for the opening of wards for extended medical care and treatment as well as wards that will be providing services in day-time hospitals.

4.3.22. Despite its good geographical dispersal and satisfactory accessibility, the healthcare system has to deal with inadequate infrastructure, outdated equipment and, often, cramped facilities. Under the **National Investment Plan**, 311 million Euros was earmarked for the health sector, which will be used for the procurement of equipment for hospitals and maternity wards, scanners, reconstruction of clinics in Belgrade, Nis, Kragujevac and Novi Sad, the construction of two hospitals, procurement of hospital beds and the reconstruction and refurbishment of all medical centres in the Republic of Serbia. The first stage that envisaged classification of contractors was completed and in many medical centres works are already underway. The Ministry of Health has initiated the development of the Health Investment Strategy¹⁷⁹ which should ensure the planning of investments based on the long-term needs of the population in terms of health care. The leading principles

¹⁷⁶ NHA, 2007, taken from the final report of RIHI 2005

¹⁷⁷ Source: RIHI Financial report February 2006 and RIHI internet presentation, jun 2007

¹⁷⁸ Ministry of Health, Health Insurance Department, 2007

¹⁷⁹ Through the project financed by the World Bank loan



thereof are to ensure rational investments at the national level, which should enhance the access and quality of health care, and also to initiate the building of capacities of health care institutions to recognize the local and regional priorities in providing health care.

- 4.3.23. **The reform of financing** implies a change in the way healthcare services are financed. The work on defining the capitation formula¹⁸⁰ is still in progress as well as the work on the establishment of the merit-based financing of primary healthcare medical staff. In cooperation with RIHI and the Ministry of Health, the so-called *weight capitation* was defined as a priority, which not only takes into consideration the number of users, but also can take the age structure, population density, level of regional development, and road infrastructure, etc. As a precondition for the introduction of the capitation, the database of insurees was prepared and the network of all RIHI branch offices has been established¹⁸¹, and in several medical centres pilot projects concerning electronic medical files are underway. A bylaw on the application of electronic medical files is underway (Decree on Implementation of Electronic Medical Files). A payment model for secondary healthcare according to similar groups of diagnoses is being developed.
- 4.3.24. **The allocation of RIHI funds** for preventive health care, although insufficient, shows a tendency of a slight increase from 3.47% in 2003 to 3.73%¹⁸² in 2005. The question of allocations for preventive health care when transferring to the capitation model is still outstanding. In the past year, 25¹⁸³ centres for preventive medical services were established. These medical centres focus on the early discovery of illnesses by way of carrying out integrated activities of primary health protection and using mobile units for field work in the areas whose population do not have access to medical centres. In the next period it is necessary to create conditions for the creation of new centres, and the financing of their operations by the RIHI and local authorities.
- 4.3.25. In October 2006 the Ministry of Health carried out a **customer satisfaction study** among healthcare users, which showed that 82% of the users were satisfied with the chosen doctor, 83% were satisfied with the specialist services, and 88% were satisfied with the hospital treatment they received. There were few complaints and comments by users, reaction times in emergencies were faster, indicators improved for lethality, mortality, and the length of hospital treatment. Healthcare institutions were ranked according to quality indicators. According to evaluation by Transparency International (Transparency Serbia), the corruption indicators in the medical services was 4 in 2005, while in 2006 it was 3.9 (1 - no corruption, 5 - extreme corruption). A worrying fact is that not only the high corruption index, but also the fact that it is the highest corruption index in the Republic of Serbia (compared to all other areas that are analyzed)¹⁸⁴.
- 4.3.26. The Task Force of the Ministry of Health in charge of accreditation, assisted by international consultants, produced the **Draft Standards for Accreditation of General Hospitals**, with a detailed self-evaluation and external evaluation mechanisms. Four hospitals have undergone the complete accreditation process (two, in Kraljevo and Valjevo, have received the „accreditation award“). The development of standards for accreditation of health centres is underway and the first ten health centres are expected

¹⁸⁰ Within the project of the European Agency for Reconstruction

¹⁸¹ Within the project financed by the World Bank loan

¹⁸² NHA, 2007, taken over from final RIHI reports

¹⁸³ 25 under the auspices of the EAR project and 2 with the own initiative of medical centres

¹⁸⁴ Report on the Transparency International Global Corruption Barometer 2006



to undergo the full accreditation process by the end of 2007. The function of the Accreditation Agency is still conducted by the Ministry of Health until the Agency is established, envisaged not later than the end of 2008.

- 4.3.27. In late 2005 a **set of system laws** was adopted: the Law on Health Protection, the Law on Health Insurance, and the Law on Chambers of Medical Workers. In early 2006, a number of bylaws were produced pertaining the healthcare institution network plan, detailed conditions for performing medical services in healthcare institutions and other forms of healthcare, and the internal organisation of healthcare institutions, etc. These documents determine the number of necessary healthcare workers and healthcare associates for healthcare institution on all three levels, depending on the type and scope of professional services and frequency of utilisation. It is particularly important that a set of system laws enables the establishment of health workers chambers, which ensures the quality of professional work in the health sector in the Republic of Serbia. In line with obligations deriving from the Law on Health Care and with the assistance of consultants engaged by way of the World Bank loan resources, the Ministry of Health works¹⁸⁵ on the development of the Manual for Licensing and Re-licensing the Health Professionals and the Rule Book on the Introduction of Continued Medical Education for all types of health workers.
- 4.3.28. In addition to the systemic law, a **series of regulations in the area of health insurance** have been adopted. Particularly important is the Regulations on the Subject and Scope of Rights to Health Care pertaining mandatory health insurance and participation for 2007, the Regulations on the Compulsory and Procedure for Inclusion in Mandatory Health Insurance for percussions that do not have compulsory health insurance. The highest annual participation fee has been set for insured people that pay during the year, and which cannot amount to more than one third of their income, i.e. the pension of the insured person. The manner, procedure and conditions for exercising the rights of insured people in the domain of compulsory health insurance has been set, as has been the procedure for their choice of doctor. In addition to activities undertaken by the RIHI in order to raise awareness of the insurees on their rights deriving from regulations in the domain of health insurance, the Ministry of Health¹⁸⁶ has initiated a large campaign on the rights and obligations of both patients and health workers. The aim is that health workers and patients establish communication in an atmosphere of mutual respect, which shall ensure the respect for patients' rights deriving from the Law on Health Care. A Rulebook defining level of monthly income as a basis for obtaining the status of health insurance beneficiary was developed as an important bylaw stipulating monthly income level as a criteria for obtaining the status of health insurance beneficiary for the unemployed and other categories of socially vulnerable individuals, whose monthly income is below the level define by the Rulebook (in accordance with the Article 22. paragraph 2 of the Law on Health Insurance)
- 4.3.29. The new **Law on Health Insurance** abolished the right to dental health care (with the exception of children, people over the age of 65, pregnant women and emergency cases), compensation for the period of temporary work incapacity for women with preterm labour has been reduced from 100% to 65%, the right to compensation of travel expenses associated with exercising rights to health care in the region of the branch institution has been abolished, which can lead directly to the reduction of accessibility of health care to individuals. According to the new law, non-marital partners gain the right to insurance after only two years of their partnership.

¹⁸⁵ With the assistance of consultants engaged from the World Bank loan.

¹⁸⁶ Within the World Bank project.



- 4.3.30. The Law on Health Protection and the Law on Health Insurance as well as adopted bylaws acknowledge the needs and define the ways how vulnerable groups can exercise their health protection rights. **However, part of the population still does not exercise the rights that are guaranteed by law.** A specific problem represents the inclusion of people without residence (particularly the Roma population who live in Roma settlements) in the health insurance system, in accordance with Article 22 of the Law on Health Insurance. Without a registered residence a person cannot obtain personal identity papers and exercise the right to health insurance and other rights. Due to the extremely poor health conditions of this part of the population, especially women and children, it is necessary to implement urgent measures that will simplify the registration of residence and thus provide preconditions for obtaining all other documents and exercising rights of this vulnerable group. With the existing solutions, these people can exercise the right to emergency medical treatment, regardless of whether they possess personal documents or not.
- 4.3.31. **The Law on Health Insurance has a number of positive solutions, pertaining vulnerable groups and the reduction of the number uninsured people.** Hence, children with disabilities have the right to health insurance, and are not obliged to pay. Students that are older than 26 (the upper limit for the completion of undergraduate studies, according to the same Law) have the option of remaining within the system, with a minimal additional payment. Also, insured military personnel can get treatment in state healthcare institutions, with participation that is slightly higher than participation for other insurance users.
- 4.3.32. During the reporting period **a number of strategic documents were adopted:** the Development Strategy for Youth Health in the Republic of Serbia, the Strategy for Controlling Tobacco, the Strategy for Improving Mental Health, the Strategy for the Improvement of the Position of People with Disabilities in the Republic of Serbia, and awaiting adoption is the National Strategy for the Prevention of Abuse of Psychoactive Substances.
- 4.3.33. The **Strategy for the Development of Youth Health in the Republic of Serbia** acknowledges particularly sensitive, marginalized and socially vulnerable youth groups. The key focuses of the Strategy are the promotion of healthy lifestyles among youths, strengthening services intended for this group by expanding the network and improving the performance of existing youth counselling centres, with targeted interventions in groups of particularly vulnerable youths. In the next three years the Balkans Youth and Health Project¹⁸⁷ will be involved in applying the Strategy recommendations.
- 4.3.34. A significant progress in the implementation of the **Strategy for Fighting HIV/AIDS** was achieved. Funds totalling 9 million EUR have been provided for the project¹⁸⁸, a monitoring and evaluation plan for national responses have been created, three wards for treatment have been opened and a handbook has been created for people living with HIV. Mechanisms for monitoring knowledge as well as other indicators pertaining HIV and AIDS have been improved. As of December 2006 the total number of people registered with HIV was 2,088, of which 1,339 (64%)¹⁸⁹ have been diagnosed with AIDS.

¹⁸⁷ Financed by the Canadian International Development Agency (CIDA)

¹⁸⁸ Financed by the Global Fund.

¹⁸⁹ „Dr. Milan Jovanovic Batut” Institute for Public Health of Serbia



- 4.3.35. Significant results have been achieved in the **Control of Tuberculosis in Serbia Project**. During 2005 and 2006, educational activities and active searching for infected people included 25,665 Roma in Roma settlements, and 11,803 refugees and internally displaced people in camps¹⁹⁰. The activities were carried out by trained activists from the Serbian Red Cross Society, in cooperation with non-governmental Roma organisations and anti-tuberculosis clinics.
- 4.3.36. The contribution of the **Association for Public Health of Serbia**, which was founded in 2003, is also significant in assessing the psychosocial risks in the family, and carrying out interventions in accordance with the assessed family needs, while promoting the concept of public health in local communities.
- 4.3.37. **The reconstruction of 24 general hospitals, with support from the loan of the European Investment Bank (20 hospitals) and the World Bank loan (4 hospitals)** has been completed. Work efficiency (perceived in the reduction of the average treatment time, increased bed-occupancy rate, with the concurrent reduction in staff) has been significantly improved in the general hospitals in Valjevo, Kraljevo, Zrenjanin and Vranje, as a result of the World Bank Project. Hi-tech equipment (scanners, etc.) were distributed. In cooperation with the RIHI and within the same project, the management of waiting lists has been introduced to all Serbian hospitals. This has been done in order to improve the access of the population to expensive medical procedures which are not urgent. The result has indicated that a large number of the population had not even tried to solve such health problems until good control was introduced and additional resources for financing such services were ensured.
- 4.3.38. Recognizing the problems of the Roma population's access to health protection¹⁹¹ and the need to improve their health status, and based on the adopted **Action Plan for Health Protection as Part of the Decade of Roma Inclusion**, the Ministry of Health has allocated funds for financing projects in this area. The project bearers are healthcare institutions, provided that the projects are realized in cooperation with nongovernmental organisations. Based on the criteria of an interdepartmental commission, by the end of 2006 funds were approved for financing 93 projects, and implementation started in October 2006. Funds have been allocated for such projects in 2007, and it is very important to provide instruments for external monitoring of project realisation and the appropriate expenditure.
- 4.3.39. In 2006, activities concerning the development and implementation of **guides to good clinical practice**¹⁹² were stepped up, especially with regards to preventive healthcare services. The Republic Commission within the Clinical Centre of Serbia in Belgrade in charge of this area identified a number of priority diseases for which guides to good clinical practice were produced, the education of healthcare workers, patients and the general public was carried out, and implementation evaluation is still to be carried out. It is necessary to additionally harmonise the recommendations in certain handbooks¹⁹³ with the planned scope and content of healthcare services in the Regulations on the Content and Scope of Rights to Health Protection in the domain of mandatory health insurance and participation for 2007. Through the introduction of the Health Technology Assessment¹⁹⁴, the methodology was developed for prepar-

¹⁹⁰ Data from the Control of Tuberculosis in Serbia Project, 2007

¹⁹¹ World Bank report on Roma in SCG, 2005

¹⁹² With assistance of the European Agency for Reconstruction

¹⁹³ Especially the Guide to Health Protection of Women during Pregnancy and the Guide for the Prevention of Cancer

¹⁹⁴ Within the project financed by the World Bank loan.



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ing the good practice manual, which is to ensure a quality progress in the development of recommendations for providing evidence-based health protection in the Republic of Serbia.

- 4.3.40. The Autonomous Women's Centre, in cooperation with the Women in Black and Uzice Women's Centre, created an **Action Plan for the Protection and Promotion of Women's Health** in the Republic of Serbia, for 2005-2010, which has been integrated comprehensively into the draft Strategy for Gender Equality¹⁹⁵. The Autonomous Women's Centre, in cooperation with the Institute for Forensic Science, created a form for documenting violence and health consequences by primary health protection services. The Ministry of Health is planning to print the form along with the recommendation to use it and take into account during the development of the new law in the field of medical documentation.
- 4.3.41. Work continued in 2006 on **the Strategy for the Development of Human Resources in Healthcare** with the help of international consultants¹⁹⁶. The effect of personnel rationalization, as a part of the Action Plan of the Ministry of Health, was evaluated and recommendations were made for further development in this area, taking into consideration the newly-established standards.
- 4.3.42. Currently underway is the project „Central Health Information System“, with the source databases being updated and upgraded (health care workers, medical equipment etc). Work on the Law on Health Records is still pending.
- 4.3.43. The World Bank loan provided resources for financing the development of **the Strategy of Reconfiguration of the Health Care System** which shall enable the transparent and meaningful strategic financing of health care services in compliance with the regional needs. Plans have been based for the first time on the real medical trends (hospitalization in the previous period) and envisage the need for health services in a period of 15 years, taking into account the demographical changes in the given period. In addition to health-related needs, the plans give a deeper insight into the financial implications of strengthening or closing down certain health care services, as well as the benefits for the gravitating population. The strategic document should serve as a basis for making well-informed decisions on the optimization of the health care system.

¹⁹⁵ The documents are available at www.womenngo.org.yu

¹⁹⁶ Engaged from the World Bank loan.



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Fully define new models of the financing of primary and secondary health care by applying the capitation method and diagnostically related groups and by creating conditions for their systemic application.
- Draw up regulations that will enable the application of the Law on Health Protection and the Law on Health Insurance concerning non-registered people in order to improve their access to healthcare institutions.
- Develop healthcare programmes for particularly vulnerable groups, as defined under the Law on Health Protection and the Poverty Reduction Strategy; organise and carry out activities concerning promotion of health and preventive healthcare services especially targeted at vulnerable groups and local communities.
- Incorporate mechanisms for the inclusion of marginalized groups, especially the poor (Roma) in the programmes for the implementation of national health policies (Strategy for the Development of Youth Health, Strategy for Fighting HIV/AIDS, Control of Tuberculosis in the Republic of Serbia).
- Re-define the network plans through the implementation of the Health Care Re-Configuration Strategy.
- Implement National Health Accounts and draft regulations for their development.

MID-TERM PRIORITIES

- Apply new primary and secondary health care payment models according to the capitation method and diagnostically related groups.
- Continue the process of decentralisation in the area of primary health care and local self-government capacity building for efficient takeover of new responsibilities.
- Increase health care coverage of vulnerable groups as well as their inclusion in health promotion programmes with the aim to reduce the differences between the indicators of health indicators in vulnerable groups and the general population.
- Develop inter-sectoral programmes intended for vulnerable groups at the national and local levels, creating opportunities for increased participation of the non-government sector, as well as users themselves, i.e. groups of the population targeted by these programmes.
- Improve and continuously evaluate the quality of healthcare services by establishing medical workers licensing system and accreditation of healthcare institutions.
- Improve and continuously evaluate healthcare service costs for particularly vulnerable groups, establishing the system of National Health Accounts.



4.4. Education and Poverty

Structure and Level of the Education Budget, Share of BDP

4.4.1. The share of BDP is 3.5% in the reporting period. The allocations for education in Serbia are presented in Table 4.4.1.

Table 4.4.1 Consolidated public expenditures for education - functional classification (in % GDP) ¹⁹⁷						
Year	2004	2005	2006	2007	2008	2009
% GDP	3.2	3.2	3.5	3.5	3.6	3.9

4.4.2. Due to an altered method of calculating the overall GDP in late 2006, it was difficult to compare the percentage of consolidated public expenditure for education in the overall GDP with the aim of drawing conclusions about the extent of achievement of the policy of a more substantial increase of funds allocated for education. Even the revised Budget Memorandum from November 2007 projects a slight increase of GDP percentage allocated for education, but our country is still far from the 6% recommended by UNESCO and the approximate share of public expenditures for education in OECD countries.

4.4.3. It has been decided that a total of EUR 54.614.000 is to be earmarked within the National Investment Plan (NIP) in 2006. These funds are to be spent on IT equipment and Internet connection, professional advancement of teachers and the improvement of conditions in schools.

4.4.4. The Vojvodina Regional Secretariat for Education and Culture has earmarked RSD 150,000,000.00 for the implementation of activities aimed at the improvement of education in 2006. In 2007, RSD 159,561,812.00 is to be earmarked for these purposes.

4.4.5. The scarce funding is one of the key impediments to the development of the education sector that many indicators of development thereof in the Republic of Serbia depend on. From the above data, a conclusion ensues that there is a tendency of a slight increase of funds allocated to education which may contribute to the improvement of certain vital indicators in education.

System Measures

4.4.6. Preparations are being finalized for introduction of an **IT system** in the education system in the Republic of Serbia¹⁹⁸, whose implementation shall enable an increase in **efficiency and effectiveness** - improvement in the management of resources and the monitoring of outcomes in the education system. The data for some 85 % of schools have been entered into the data base.

4.4.7. The **National Education Council** as an independent professional institution was established and became fully functional in 2006.

4.4.8. **Decentralisation of certain aspects of education in the Republic of Serbia** (with necessary actions for preserving equality in the right to education of developed and less developed areas) may contribute to an enhanced mobilisation of education resources at

¹⁹⁷ Source: Revised Memorandum on Budget and Economic and Fiscal Policy for 2007 with Projections for 2008 and 2009, Ministry of Finance

¹⁹⁸ Within the project titled Development of School System in RS, which is funded by the World Bank loan.



the local level, greater autonomy of schools and a better quality education. Currently, several projects are ongoing that contribute to the decentralization of the education system, e.g. *The Development of School Systems in the Republic of Serbia* that may contribute to the capacity building of schools for autonomous activity in the area of pedagogy.¹⁹⁹

- 4.4.9. **The process of licensing of the curricula for professional advancement of employees in the sector of education** has been ongoing now for several years. If executed in line with the proclaimed principles and linked to educational policy priorities and the system of the professional promotion of teachers - it could also be one of the measures of improvement of the quality of education in the Republic of Serbia.
- 4.4.10. Linked to the autonomy of educational institutions, the ongoing **system of self-evaluation of educational institutions** may significantly contribute to the analysis and enhancement of efficiency and quality of education.
- 4.4.11. Following the adoption of the new *Law on University Education* in Parliament in September 2005, several important measures that can contribute to the improvement of the efficiency and quality of higher education ensued: the implementation of the Bologna Process, establishment and operationalisation of the *National Council for University Education*, the definition of systems of self-evaluation and external evaluation of institutions of higher education and on the standards and procedures of licensing thereof.
- 4.4.12. The Institute for Improving Education and Upbringing has developed *the Instructions for Development of Education and Upbringing of Children and Students with Developmental Needs*. The *National Educational Council* considered and gave opinion of this draft.

Preschool Education

- 4.4.13. The *Law on Preschool Education* was drafted and submitted to Parliament. The draft law is more flexible in respect of founding and ownership rights, it systematically defines the rights of certain groups of children (children with developmental problems, children of ethnic minorities), and actualises the provisions on the mandatory preparatory preschool program. All these measures create legal possibilities for increasing the coverage of children, particularly those from vulnerable groups.
- 4.4.14. A free copy of the **Preparatory Preschool Program for all the children** was introduced in the school year of 2006/07. With a view to the implementation of this curriculum, the National Education Council adopted the Rulebook on Bases of Preschool Curricula on the 3rd October 2006. The Rulebook contains basic curricula for the three levels of preschool age: nursery (until the age of 3), preschool (3 to 5 and a half) and preparatory preschool curricula (for children one year before enrollment into primary schools). In the course of the 2006/07 school year the practical implementation of this curriculum is mandatory and free of charge for all the children. It is implemented in a year preceding enrollment into primary school (i.e. for children from aged 5 and a half to 6 and a half),

¹⁹⁹ The project *Development of School System in RS*. Period of implementation 2002-2007. In the programme component *School Grant – School Development Planning*, the aim of which is to advance the processes of teaching and learning in schools, to open schools to their local communities and build capacities of the local communities to take responsibility for their schools, 834 staff from primary and secondary schools were trained to draft development plans. Schools developed projects based on these plans, which were aimed at linking with the local communities. The 2006 capacity building covered 96 endangered schools, 95 of which received grants. In 50 schools a model of Educational Card (data on conditions and results of schools) was developed; school representatives, representatives of ministries and local self-governments were trained to use data from educational cards.



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and lasts for a minimum of 6 months and a minimum of 4 hours per day. The curricula is implemented in kindergartens and, to a lesser extent, in primary schools (of some 78.000 covered, 3.800 are in schools). The data on the percentage of total coverage by preparatory preschool curriculum is unreliable but probably exceeds 90%. The problem occurs due to unequal coverage per region and due to a lack of breakdown for vulnerable groups (Roma, children from under-developed regions, children with developmental problems, and children from families with a lower educational level).

4.4.15. **The coverage of children with preschool education** (all forms of coverage in the public sector - children aged from 3 to 7) is quite low: **37.3%** in 2004 and **39.2%** in 2005 (DevInfo). The network of preschools and the coverage of children by this level of education is insufficient from the aspect of the needs of the country and do not respond to the requests of families and many categories of children. The greatest problem with the preschool education coverage is that it, to a significantly lower extent, covers the children that need it most (and what the EFA²⁰⁰ programme insists of in the Daccar Declaration). For example children from poor and rural areas, children from marginalised groups, and children with developmental problems. Consequently, on the basis of the preliminary results of the *Survey of Multiple Indicators of the Situation of Children and Women* (hereinafter: MICS 3) conducted by UNICEF in 2005,²⁰¹ at the age of 36 to 59 months, **45% of children from urban areas** attend a preschool education, compared to only **14.4% children from rural areas**, **7.5 %** from families where the parents have only primary school education, **7.0%** from the poorest and **3.9% from the Roma families living in Roma settlements**.

4.4.16. At the age of one year preceding enrollment into primary school 88.6% of children (56.9% of Roma and 77% of the poorest) are covered by some form of preschool education (full day or half a day programs and four-hour curricula)²⁰².

4.4.17. With the aim of a **higher coverage of Roma children** aged between 5 and 8 for a preschool education, the Ministry of Education and Sports supported the preschool institutes with small-scale grants to implement inclusive programmes targeting Roma children in 24 municipalities in the Republic of Serbia, in cooperation with the National Council of Roma Ethnicity Minority and with financial support of the REF. The project covered 600 children²⁰³.

4.4.18. On the basis of data on **preschool education** the following **conclusions** can be drawn:

- a) the network of preschool institutions is underdeveloped and unequally distributed on the territory of the Republic of Serbia;
- b) the coverage with total preschool education is small;
- c) the fact that the children who are in the greatest need (from rural areas, from families with lower levels of education, Roma children, and children with developmental problems) are considerably less covered represents a particular problem;
- d) the introduction of a mandatory free-of-charge preparatory school curricula for all is a very significant measure from the aspect of ensuring an equal start of all children in primary school and a reduction of a drop-out rate of primary school children, especially of children from the vulnerable groups mentioned above;

²⁰⁰ EFA = Education for All, UNESCO

²⁰¹ Multiple Index Cluster Survey, MICS 3, 2005.

²⁰² MICS 3

²⁰³ The project implementation included also the Office for Human and Minority Rights, the Secretariat for Roma National Strategy, the OSCE Mission, the Secretariat for Education and Culture of AP Vojvodina and the Center for Interactive Pedagogy, the Fund for Open Society, the Roma Child Center, the Center for Evaluation, Testing and Research and local NGOs. The project lasted from March through August 2006. Source: Annual Report of the Roma Decade League, January 2007



- e) in view of the significance of this form of preschool education, the consistent implementation of the decision of the National Education Council is of paramount significance. It stipulates revision and improvement of the basis of curricula, drawing up a more precise and detailed analysis of the coverage of children, the quality and conditions of execution of the preparatory programme.

Primary education

- 4.4.19. New curricula for the fourth form were drawn in the reporting period and the activities were initiated to prepare new curricula for the fifth form. The new curricula for the fourth form are implemented since the beginning of the 2006/7 school year. At this point it is much too early to discuss the possible effects of the new curricula.
- 4.4.20. **The ratio of boys and girls in primary education is quite equal:** the parity index was 0.95 in 2005 according to the data of the Republic Statistical Office (RSO); and it was 1.0 according to the Multiple Indicator Cluster Survey conducted by UNICEF in 2005. In respect to the Roma children, the situation in primary schools is similar: in Roma settlements the parity is 0.94²⁰⁴; a survey conducted on the sample indicated that 47% Roma girls and 53% Roma boys enrolled in the 2005/06 school year²⁰⁵.
- 4.4.21. **Not all children enroll into primary schools** despite the legally provided, mandatory, universal and free of charge primary education. The dropout rate of children at enrollment into primary schools is 5% on the average (95.6% enroll into primary schools, RSO, 2005; 94% of children of adequate age, MICS 3, 2005), which is a high number to the 80.000 pf children. Looking into the dropout rate among vulnerable groups the number is considerably higher. Almost 20% of children in rural areas do not enroll into schools (81.82% enrolled), almost 25% of girls (77.72% girls, 82.15% boys, RSO, 2005).
- 4.4.22. **Little or no reliable information is available** on the enrolment of Roma children. According to the data available, it can be stated that the coverage of Roma children in the first form of elementary schools is on the increase: from 73.9%²⁰⁶ in 2002 (for boys - 77.9%, for girls - 69.7%)²⁰⁷ to 82.5% - 89.6% in 2004.²⁰⁸ Regrettably, we cannot rely on any other data for several reasons: the exact number of Roma and Roma children in the Republic of Serbia is unavailable; approximately 1% of Roma do not declare themselves as such in the Census; there are children who are not registered at all; and the children in primary schools are not registered on an ethnic basis. Furthermore, Roma children tend to enroll into schools at a later age; 66% of them enroll at an adequate age as compared to 94% among the rest of the population.²⁰⁹
- 4.4.23. **No data is available on the registration of children with developmental problems:** we do not know the percentage of them in the population nor in schools. Since they are not registered in schools, they are not provided adequate support nor the assistance needed, the dropout rate among them is higher.
- 4.4.24. According to the statistics **almost all children enroll into fifth grade** (98.86%, RSO, 2005). However, this is not reliable data as it does not include the entire generation

²⁰⁴ MICS 3

²⁰⁵ Centre for the Rights of the Child, 2006

²⁰⁶ This being the percentage of children whose parents declare themselves as Roma.

²⁰⁷ Republican Statistics Office (RSO), Census 2002

²⁰⁸ Roma Education Fund

²⁰⁹ MICS 3



(only children passing from the fourth to the fifth grade). The realistic percentage is much lower. Nevertheless, even these figures indicate that **children in rural areas will continue schooling after the fifth grade not as often** (77.62%, RSO, 2005), particularly girls (boys: 78.37%, girls: 76.83%, RSO, 2005). Analysis points to the high rate of the dropout rate of Roma children in this period (some 50%)²¹⁰. No data is available on the dropout rate of children with developmental problems.

- 4.4.25. **The rate of completion of primary school is very high** (not of the total generation, but of those who enroll into primary school) - **95.29%** (94.71% for boys and 95.89% for girls - RSO, 2005), higher than it is realistically due to the method of data collection where the school year is recorded, and not a particular generation (cohort). The rate of completion is estimated to be lower (approx. 85-90%) and especially so among the children in rural areas: 73.8% (74.35% for boys, 73.23% for girls) and among Roma children (an estimated 21-37% completion rate)²¹¹.
- 4.4.26. The surveys conducted on the sample of **Roma children** indicated that the number of Roma children who completed primary school is 72% lower than the number of children who enrolled into the first form, i.e. the **rate of their dropout from school is extremely high**.²¹² The same survey indicated that Roma children whose mothers do not have full time jobs or have a lower level of education, as well as children whose fathers did not attend/did not complete primary school tend to drop out more frequently. The fact that schools for adult education are mostly attended by Roma children (75-80%) younger than 15²¹³ represents a special problem.
- 4.4.27. Roma children in regular primary schools have a lower level of attendance than the non-Roma children and tend to repeat forms more frequently²¹⁴.
- 4.4.28. Because of the social and cultural deprivation, a certain number of Roma children were unjustly enrolled into special schools²¹⁵. Several reports state that in some special schools some 80%²¹⁶ of the students are Roma children. The survey conducted on a sample of five Serbian cities gives reason to believe that the percentage of Roma children in special schools is much lower - approximately 30%.²¹⁷ The number of Roma children enrolling into special primary schools is somewhat higher than in the final form, emphasizing the trend of a dropout rate from these schools as well.
- 4.4.29. **The number of children with developmental problems who complete primary schools is unavailable**. According to the survey of disabled people conducted on the sample²¹⁸ of 15 municipalities in the Republic of Serbia, 4% have not completed primary school²¹⁹, while 17.8% have not completed secondary school. Since the children with

²¹⁰ Roma Education Fund, 2004

²¹¹ Roma Education Fund, 2004

²¹² More than unofficial estimate – the situation of Roma Children in the Republic of Serbia, *Centre for the Rights of the Child, Save the Children, Belgrade, 2006*.

²¹³ According to the law, the schools for education of adults enroll persons over 15 years of age, the so called mature pupils. Children under the age of 15 should be attending regular schooling system and the content and methodology of work in schools for adult education is not suitable for them.

²¹⁴ On the sample of 76 schools - the percentage of Roma children in the total number of pupils who reattended a form ranges from 13-57%, depending on the habitual residence (Centre for the Rights of the Child, 2006).

²¹⁵ Categorization of children to be enrolled in these schools is conducted by the Categorization Committee. There is a possibility of transferring from special to regular education system, but this occurs rarely.

²¹⁶ Comprehensive analysis of the system of primary education in SRY, UNICEF, Belgrade, 2001.

²¹⁷ Center for the Rights of the Child, 2006

²¹⁸ The sample covered 545 persons, 20.6% of them up to 24 years old.

²¹⁹ The Association of Students with Handicap, 2006



developmental problems are not separately registered in regular schools, they are not provided with adequate assistance and therefore, tend to repeat forms more frequently than children without developmental problems²²⁰ and to leave school prior to completing it. UNESCO and Save the Children are financing pilot projects of support to children with developmental problems²²¹ (School to the Needs of the Child, Alleviating Effects of Poverty on Children with Special Needs in Serbia, UNESCO Programme of Support for Children with Special Needs).

4.4.30. **The average number of pupils per teacher in primary schools is 14.36** (RSO, 2005) with the downward trend of the late '90s continuing (18.3 in 1990/91). This ratio is near the average of OECD countries. However, a distinction is being made in our system between two types of schools: rural, with a lower ratio of pupils to teachers and urban, where this ratio is considerably higher. In the meantime, demographic changes are taking place - the number of children in the Republic of Serbia is decreasing while the number of teachers is increasing.

4.4.31. **The attainment of our pupils in the international 2003 TIMSS and PISA tests** were approximately at the same level of other countries in the region. However, the fact that our pupils scored most of the points on lower quality problems gives reason for concern. The Republic of Serbia took part in the PISA test 2006 and TIMSS pilot test 2006, and the results are expected. These national and international tests provide very useful information about the factors on which the quality of education depends. These findings need to be utilised in educational policy and in raising the quality of our education.

4.4.32. The first drafts of the standards of attainment in the finishing years of mandatory education were developed within the framework of the project *Development of School System in the Republic of Serbia*²²² at the *Institute for Assessment of the Quality of Education* in 2006. They were submitted to the MES and are awaiting the approval of the National Education Council. A nation-wide evaluation of attainment of the fourth form pupils was conducted in 2005 and 2006.²²³

4.4.33. **Professional advancement of teaching staff for work with children from vulnerable groups** was implemented through various programmes:

- 1) In the framework of the Roma Decade, the MES is implementing the programme *Improvement of Roma Education*, within the project *Roma Assistant*.²²⁴ 54 of 167 registered candidates who completed the first phase of 8-day training were selected. After the completion of the full training, 20 were selected and engaged in schools.
- 2) Within the framework of the same MES program, the project *Capacity Building of School Administrations for Implementation of Local Action Plans for Improvement of Roma Education* was implemented. 16 education advisors from 16 school administrations were trained in monitoring Roma Education Improvement projects
- 3) 9 core seminars of the programme *Active Learning for Work with Children from Marginalised Groups - Roma programme (AURO)*²²⁵ was attended by 226 participants from six cities (Vranje, Lebane, Bela Palanka, Pozarevac, Kostolac, Kucevo)

²²⁰ In 1990 to 15.000 pupils from 32 regular Belgrade schools, 13% of children with some kind of developmental problem reattended that year as compared to only 0.6% of pupils who do not have developmental problems. Only 4.5% attending special schools reattend the same class (Comprehensive Analysis of the Primary Education System in FRY, UNICEF, 2001, pp. 94).

²²¹ 2006 Report on Operation of MES

²²² The project funded from the proceeds of the World Bank loan

²²³ See the results for the third form at the Institute web site: www.coe.edu.yu

²²⁴ MES, OSCE, with EAR support

²²⁵ Institute for Psychology, MES and UNICEF



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was organised in 2006. The aim of these seminars was to assist teachers in working with Roma children, to increase their response to the needs of Roma children and to work to change the position of Roma children in schools, improving their completion rate and attendance standards

- 4) The aim of the programme *Active Learning in Working with the Children from Small Schools and Combined Classes - MAKO*²²⁶ is to raise the quality of education obtained by children in rural areas through the improvement of teachers' professional competencies. 1 seminar for MAKO trainers; 8 core seminars with 157 teachers; 2 higher, supervisory seminars with 37 participants and 11 supervisory visits to small schools with 193 participants were organised in 2006.

4.4.34. On the basis of the information about primary education, the following conclusions may be drawn:

- a) The percentage of children enrolling into and completing primary schools, and especially children from rural areas, Roma children and children with developmental problems have not increased since the First Progress Report on PRS Implementation.
- b) The situation with maintaining statistics about Roma children and children with developmental problems has not improved in the meantime, so reliable data is still lacking.
- c) Considering a high percentage of Roma children who attend special schools and schools for adult education, there still is no programme developed for their re-integration in regular schools.
- d) The number of dropouts among Roma children, children from rural areas and children with developmental problems is still high, who account for a significantly lower percentage of children who finish primary education. The children who leave school do not exercise their legally guaranteed right and represent a constant source of poverty.
- e) It is extremely important for the formal education system to **develop mechanisms preventing the dropout of children from schools** and providing for their return into the regular schooling system.

Secondary Education

4.4.35. The Government adopted the *Strategy of Development of Secondary Vocational Education in the Republic of Serbia* in late December 2006. The document defines a new policy of a secondary vocational educational system aiming to harmonise this part of the system with the altered social and economic conditions in the country, economic development and the labour market. The Strategy is in line with the European *Copenhagen Declaration* and the Copenhagen Process defining the parameters of the European policy in the vocational education sector (qualification nomenclature, general vocational education standards, certification system, etc). Significantly, the document surpassed the narrow sectoral approach with other partners such as the Ministry of Labour, Employment and Social Policy, the Chamber of Commerce, the Employers' Union, and the National Employment Service also took part in its preparation. The document defines, very flexibly, the links with the labour market, founding and ownership rights, identifies the institutions in charge of vocational education, curricula and their organisations, teaching/learning standards and outputs.

4.4.36. The implementation of all aspects of the *Strategy of Development of Secondary Vocational Education* could become a **powerful tool for the reduction of poverty in Serbia** in a number of ways: a) by secondary education directed at efficient employment, b) it

²²⁶ Institute for Psychology, MES and UNICEF



would enable a greater horizontal and vertical mobility (provided for in the PRS), opening up possibilities of continuous alignment of vocational education with the developmental needs at national and local levels and labour market demands, c) the projected definition of European vocational training standards, would contribute, *inter alia*, to a greater labour force mobility, and including possibilities of employment in branch offices for foreign companies in The Republic of Serbia.

- 4.4.37. **The percentage of children enrolling into secondary schools is increasing slightly** (1991 -70.65%; 2003 - 76.17%; 2005 - 76.42%, RSO). From the aspect of duration, the structure of secondary education changed over the last five years in favour of four-year education, which is an option more favoured by girls (84.8%), compared to boys (69.3% MES, 2005/6). More boys opt for three-year secondary schools (30.7% boys compared to 15.2% girls, MES, and 2005/6). The number of part-time pupils in secondary schools is very low (2.7%, MES, 2004/5). It would appear that the majority of children pass from primary into secondary schools (95.4%, MES, 2005/06). However, the number of places at the time of enrollment into secondary schools is some 10% higher than the number of children who enroll which challenges the true percentage of children who actually drop out at the time of passing from primary into secondary schools.
- 4.4.38. The information about the percentage of children covered by primary schools and aged 15-18 differ considerably. According to the official statistics it is **76.42%** (EČN, 2005), while the results of MICS 3, 2005 show **85.8%**. The coverage of Roma children from Roma settlements is extremely low **-10.2%**, (MICS 3, 2005)²²⁷.
- 4.4.39. **The percentage of Roma children enrolling into some type of secondary school (3 or 4 year long schools) is low** (8.3%, Roma Education Fund, 2004; survey on the sample of children: 78% of those who completed primary education continue into secondary schools, Centre for the Rights of the Child, 2006). On a sample of 34 secondary schools, there were 1.81% Roma children of the total number of pupils of the first form (7.6% in primary school). 0.96% completes secondary school which indicates a **high dropout rate of Roma children from secondary schools**²²⁸. 143 affirmative actions of the enrollment of Roma pupils into secondary school were taken by the MES in 2006. The affirmative action is planned to continue in 2007.
- 4.4.40. **The number of girls in secondary schools is somewhat higher than the number of boys** (parity index 1.1, MICS 3²²⁹). Among Roma this disparity is significantly higher: the very small number of girls from Roma settlements who enroll into secondary school, the index is 0.42 (MICS 3)²³⁰.
- 4.4.41. **No data is available about the children with developmental problems enrolling into any type of secondary school.** Regular schools are not adapted for children with developmental problems (primarily from the aspect of physical accessibility). There are special schools (lasting 1, 2, or 3 years) that train them for some profession, but there is no available data on the number of education profiles²³¹. The curricula are obsolete, most profiles offered are not adequate and the staff needs to be adequately trained. As with the regular schools, the tendency of dropping out was also noted on the sample of special secondary schools.

²²⁷ MICS 3

²²⁸ Centre for the Rights of the Child, 2006

²²⁹ MICS 3, 2005

²³⁰ MICS 3, 2005

²³¹ There are some sixty various professions at disposal in Austria.



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- 4.4.42. The accessibility of secondary schools to children from rural areas cannot be asserted as they do not enroll according to the territorial principle.
- 4.4.43. **Approximately 20% of adolescents do not complete** the regular secondary school (completion rate 80.86% - 79.20% boys, 82.60% girls, RSO, 2005) which is at almost the same level as several years ago.
- 4.4.44. The Ministry of Education and Sports approved 18,350 student loans and 4,350 student scholarships for the school year of 2006/07. The number of beneficiaries of student scholarships has increased, with 11,300 students being granted scholarships (10,793 was granted in the school year of 2004/5), and 275 loans were given to high school students²³². Scholarships granted are based on the achievements and performance of the students.
- 4.4.45. **New educational profiles**²³³ are introduced further into secondary vocational schools in order to respond to the labour market demands. 39 new educational profiles (8 completely new) were introduced into several areas of education in the school year of 2006/07.²³⁴
- 4.4.46. **The average number of children per teacher in secondary schools is 10.9** (RSO, 2005) with a slight downward trend: 12.6 - 1991 and 11.8 - 2003.
- 4.4.47. According to the MES data for 2005/06, the percentage of adolescents directly passing from secondary school into tertiary education is 79.5%. According to the data of the Roma Education Fund for 2004, only 0.9% of Roma children are covered by tertiary education.
- 4.4.48. The affirmative enrolment action saw 100 students of Roma ethnicity and 50 students with disabilities and children without parental care enroll into faculties and colleges established by the Republic of Serbia.²³⁵
- 4.4.49. The concept of **career guidance** has not yet been conducted in primary and secondary schools. Over the past two years, the National Employment Service (NES) and MES have been organizing *Professional Orientation Fairs* (National Employment Service - NES and MES) aimed at creating conditions for direct communication between schools, pupils, parents and employers. The number of visitors at the 2006 Fair exceeded 6000. The NES plans to open a Centre for Professional Informing and Counselling in the Belgrade branch (2007).²³⁶
- 4.4.50. **A part of the secondary schools reform is implemented through specialized programmes:**
1. The Belgrade Open School (BOS) developed a *Model of Career Management and*

²³² The scholarship holders included 633 prime first grade students whose families do not have any monthly income, as well as a number of Roma students. Loans were intended for students who take up deficit professions. Source: MES, Department for Pupil and Student Standards

²³³ CARDS, GTZ, ETF projects: contribution to development of methodologies for devising curriculum, provide for development of expert competencies of teachers and advisors in MES and VET centre. The pilot project is conducted in 129 schools (2006/07)

²³⁴ The areas are: agriculture and food processing; health and social welfare; mechanical engineering and metals processing; electrical engineering, geology, mining and metallurgy; geodesy and civil engineering; economy, law and administration; chemistry, nonmetals and printmaking; traffic; forestry and wood processing; textiles and hide processing.

²³⁵ Annual Report on Operation, MES, 2006

²³⁶ See more about the above programs in the chapter on employment



*Counselling in Secondary Vocational Education*²³⁷, and followed it up with the project *Implementation of Models of Career Management and Counselling in Secondary Vocational Education in the Republic of Serbia at the school/local level*.²³⁸

2. Education for entrepreneurship was introduced into the curricula in the final year of 117 secondary vocational schools, which is significant from the aspect of the preparation of adolescents for work.
3. The project *Functional Primary Education of Adult Roma* (MES and Roma Education Fund) introduced the basis of entrepreneurship; the curriculum was executed in the 7th and 8th form.
4. There are certain projects implemented in a limited number of schools (in Kragujevac, Belgrade, Pozega) and directed at the development of entrepreneurship among pupils. They are mainly funded from donations.²³⁹

4.4.51. On the basis of information regarding secondary school education, the following conclusions may be drawn:

- a) Although we do not have exact data on the dropout rate of pupils from secondary schools, there is still evidently a considerable number of adolescents who do not complete some form of secondary education, i.e. those who remain without a profession. In this respect, the Roma population is still the most vulnerable (particularly girls among whom the percentage of enrollment into secondary schools is considerably lower), but also the children with developmental problems who have a very limited choice of secondary schools and professions at their disposal.
- b) „Second chance“ schooling should be supported and strengthened in order to give all those who dropped out of the system to acquire a profession and enter the labour market.

Adult Education

4.4.52. The Government adopted the ***Strategy of Development of Adult Education in the Republic of Serbia*** in December 2006. Being adopted at the same session, it is complementary to the Strategy of Secondary Vocational Education. Largely aligned with the concept of life-long education in the EU, this Strategy was also a product of co-operation of the Ministry of Education and Sports and other significant partners (ministries and other institutions in charge of employment). This document defines the educational policy of primary and vocational education for adults, i.e. the general populations who are outside the mainstream school system and have not yet acquired primary and/or vocational education that would guide them to employment. There are various categories, such as: illiterate people, people who never completed primary school, the unemployed, technological surplus, women, the rural population, people with special needs, and vulnerable ethnic groups, etc. The Strategy provides for varied and very flexible forms of education: regular primary education, part time primary education, initial vocational education, labour market programmes, and programmes of continuous education.

4.4.53. Despite the developed network of primary schools and the 60-year old legal, mandatory and free-of-charge primary schooling, there are still 232.925 or 3.4% illiterate people over the age of 10 in Serbia. Among them, women are 5.5 times more numerous. Although the number of illiterate people halved in the period from one census to the

²³⁷ CARDS, MES and EAR

²³⁸ Canadian Agency for International Development - CIDA

²³⁹ Junior Achievement; Norway Business Innovations Programs



next²⁴⁰, the total educational structure of the population continues to be unfavourable: 21.9% of the population over 15 have incomplete primary school education; 23.9% of the population have completed only primary schools. Consequently, almost one half of the population has only primary school education or less, i.e. has no vocation. Women in rural areas are particularly vulnerable: 44.2% have not completed primary school, according to the 2002 Census of the Population. This data becomes ever more worrying if one takes into account the findings of surveys about the correlation between the educational level of mothers and attendance of their children. According to the 2002 Census, there were 61.9% of Roma who have not completed primary school, 29% who have completed primary schools, only 7.8% completed secondary school and only 0.3% completed college or a faculty.

- 4.4.54. The **trend of a significant decrease in the number of illiterate adolescents aged 15-24** is evident.²⁴¹ Certainly, the Roma population should remain in focus, particularly so as the illiteracy rate among the Roma of the same age remain very high (35.5% men, 51, 6% women). More attention should also be paid to the literacy rate of adolescents in rural areas.
- 4.4.55. Most of the attendees in schools for adult education are of the Roma ethnic minority (a sample of schools resulted in 98% Roma)²⁴² often younger than 15.
- 4.4.56. The system for the education of adults is still largely **focused on the acquisition of literacy**. However, it should develop in the direction of offering various types of training, professional or additional capacity building that would result in a higher mobility of labour force.
- 4.4.57. One of the significant measures introduced is the possibility of **licensing schools for the implementation of adult education curricula** - a rational and flexible solution. Five of the 55 schools covered by the CARDS programme were promoted into regional training centres for work with adults, provided with equipment suitable for the area of work they have been verified to perform (Zrenjanin, Bor, Nis, Kragujevac, and Belgrade)²⁴³.
- 4.4.58. The standards have not yet been developed for elaboration of the curricula, school books and other materials for work with adults, nor has a separate methodology of work been devised. A special approach in work with the adult Roma population focused not only on acquisition of literacy but of relevant intellectual skills, bases of entrepreneurship and on acquisition of specialized vocational skills. This was developed within the framework of the project ***Functional Primary Education of Adult Roma***. The project targeted 275 Roma aged 15-35 in 11 pilot classes in 8 cities.
- 4.4.59. Although the **informal education system** has been recognized as an important support to educational programmes supporting the PRS, and one of the key instruments for coverage of adolescents from marginalized groups preparing them for employment, it remains **insufficiently developed and utilised**.

²⁴⁰ According to the 1991 Census the total number of illiterate population over the age of 10 was 418,942 (346,967 female and 71,975 male).

²⁴¹ Comparison of data from 1991 Census and 2002 Census

²⁴² Center for the Right of the Child, 2005/06

²⁴³ European Agency for Reconstruction through CARDS programme



- 4.4.60. The unemployment rate in the Republic of Serbia grew in the period between 2001-2005, and it is still very high (ranging from 21% -30%, depending on the methodology of the calculation). In the overall unemployment, the youngest age groups (15-25) dominate with 44.83%, which is three times higher than the average unemployment rate among the same age group in EU countries (approx. 15%).
- 4.4.61. Furthermore, a share of the group with a low educational level is relatively high. The unemployed people who completed primary school only made up 24.1% of the unemployed in 2003. The largest share in the total unemployment is that of people with secondary school diplomas (66%). A decrease of the unemployment rate by a minimum of 50% represents one of the priorities within the first Millennium Development Goal in Serbia: poverty reduction and the eradication of hunger.
- 4.4.62. On the basis of the information about adult education, the following conclusions can be drawn:
- It is necessary to develop a concept of informal education, models for linking it with the formal education system in order to achieve the objectives envisaged in the strategy, as well as to define diversified models of financing the informal education of youth and adults.
 - Functional literacy**, and in particular to the youngest age group (15-25), should be examined in order to establish their realistic capacity for inclusion into the labour market.

Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Finalise the construction of information in MES and amend DevInfo base with the most up-to-date and disaggregated information for PRS indicators (children with developmental problems, Roma children, children from rural/urban areas).
- Analyse causes of the dropout rate from schools, with special attention to the dropout instances of socially vulnerable children (Roma children, children from rural areas, children with developmental problems, internally displaced children and people who have returned within the framework of readmission agreements).
- Draw up an analysis of introduction of a preparatory preschool program (PPP) 2006/07 as follows: analysis of the programme for PPP, analysis of the coverage of children (especially the children pertaining to vulnerable groups), conditions of realization and methodology of work in the PPP, the price for parents and initiate improvement of curricula and the quality of its rendering. Develop a study and establish mechanisms for comprehensive coverage of children with this programme, and particularly children from vulnerable groups.
- Secure a public debate and the adoption of the Strategy for Work with Children with Developmental Problems.
- Create a regulatory framework for the licensing and certification of vocational education.
- Adopt, within a projected timeframe, action plans for the implementation of the Strategy of Development of Secondary Vocational Education and for the Strategy of Adult Education as key instruments to implement these strategies, and execute them immediately.



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- Develop a model of school with extended functions in the local community (e.g. a school as the centre of local rural development, and a regular primary school accredited for the education of children and adults, etc.)
- Capacity building of teachers for work with groups of children at risk (Roma children, children in small schools with combined classes, and children with developmental problems). Special attention should be paid to education towards tolerance building, respect of differences and inter-cultural values.

MID-TERM PRIORITIES

- Increase allocations for education from GDP to 6%, which would result in raising the quality of education for all children. The educational policy should direct these allocations to increasing the coverage of vulnerable groups and groups at risk from slipping into poverty as well as to raising the quality of education for these groups.
- Initiate a long-term process of territorial equal expansion of a network of preschools as prevention for improvement of coverage of children and their more successful start in primary schools as well as of one of the significant measures of pro-birth policy.
- Increase the accessibility of education to children from vulnerable groups. In view of the high dropout rate of children, especially those from vulnerable groups, accessibility of the schools and education available to them should be reviewed.
- Develop mechanisms which shall prevent a drop-out tendency of children in primary and secondary schools, and enable their reintegration in the regular schooling system.
- Conduct optimisation of the network of schools with the aim of harmonizing the current network and reality in the Republic of Serbia (demographic, socio-economic, with the view to maintaining the right of all population groups to high quality education.) This should include functional optimization, i.e. the expansion of schools' function to enable them for rendering educational services for various categories of population (education of adolescents who dropped out of the formal schooling, adult education, part time secondary education, and vocational training for the labour market, etc).
- Implement Action Plans of the Strategy of Development of Secondary Vocational Education and Strategy of Adult Education and shape them into powerful and direct instruments for strengthening the first PRS pillar (creation of conditions for productive employment).
- Improve educational statistics: a) enhance reliability of educational statistics; b) introduce significant indicators not yet monitored. (e.g. the dropout rate from schools).
- Halve the number of young people aged 15-24 who have no profession through applying various measures.



4.5. Regional, Rural and Urban Poverty Aspects

- 4.5.1. The key change in the sector of regional development is the adoption of the **Strategy of the Regional Development** of the Republic of Serbia, as well as the implementation of the Action Plan. The main objective of the strategy is stimulation of a balanced regional development of the Republic of Serbia. The Strategy rests on three pillars:
- 1) Establishment of the level of development - categorization and typology of areas;
 - 2) Defining developmental policies with a view to stimulating the regional development of the Republic of Serbia;
 - 3) Strategy of institutional development.
- 4.5.2. The analysis of the situation in the Strategy presents an overview of regional imbalances and the factors relevant to recognizing the level of development reached the limitations and problems. According to the analysis, „the level of development of municipalities“ categorization and typology of areas against the basic development indicators²⁴⁴, where the underdeveloped region covers 37 municipalities with a total of 12.4% of the population of the Republic of Serbia. Comparing this categorisation with the previous Law on Underdeveloped Regions according to which 37²⁴⁵ pertained to the group of underdeveloped, the status of some 24 municipalities has not changed.
- 4.5.3. The Strategy offers a proposal of economic regionalization with a view to access to EU funds. Bearing in mind the significance of establishing (NUTS Nomenclature of Territorial Units for Statistics) regions, three options of statistical classification were proposed.
- 4.5.4. The Strategy identifies a very challenging objective: to reduce regional disproportions to 1:3 from the current 1:7 at county level and 1:15 at municipality level by 2012. A particular challenge is the unfavourable demographic trends on which only limited impact may be had by the state and even that impact cannot be felt by 2012.
- 4.5.5. The Strategy recognizes that the problem of underdevelopment cannot be solved by the mere transfer of funds from the developed to the underdeveloped municipalities. Therefore, it advocates fiscal decentralization and improved resolution of the problem of setting the level of transfers to municipalities.
- 4.5.6. The key incentives to regional and rural development in the Republic of Serbia are placed through the Development Fund of the Republic of Serbia, transfers to local self-governments on the basis of the Law on Financing of Local Self-Government, incentives disbursed by the Ministry of Agriculture, Forestry and Water Management and, as of 2006, the National Investment Plan.
- 4.5.7. Due to the absence of legal basis to define underdeveloped municipalities, the **Development Fund of the Republic of Serbia** has, since 2005, been applying the realized national income per capita as the main criterion.²⁴⁶ The most favourable incentives are allocated to the underdeveloped municipalities with the national income below 1/3 of the Republican average (the share of the Fund in the calculation amounts to 80%, interest rate 1% at the annual level, with the foreign exchange clause). This institution also grants favourable loans to municipalities whose level of development of the basis of national income per

²⁴⁴ Development indicators: (1) NI per capita (average 2002-2004); (2) rate of unemployment (average 2004-2005); (3) decrease of the number of inhabitants (1971-2002).

²⁴⁵ The Law on Underdeveloped Regions of the Republic by 2005 identified 59 municipalities: 37 in central Serbia and AP Vojvodina and 22 in AP Kosovo and Metohija.

²⁴⁶ According to the latest statistics



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capita amounts to 50% of the Republican average. The regional targeting of the incentives of the Fund is monitored against the long-term investment programmes.

- 4.5.8. The Development Fund has two programmes especially focused on underdeveloped regions. The first programme „Loans for Employment Promotion and Production Revival in Underdeveloped Municipalities“ entails granting favourable loans (annual interest rate of 1% with the foreign exchange clause) to 52 municipalities whose corrected national income is below 55% of the Republican average. 1,562 loans have been granted under this programme. The same conditions apply under the „Regional Development Promotion Assistance Programme, i.e. Employment Promotion and Production Revival in the City of Kragujevac, Municipalities Bor and Vranje and the 13 Most Underdeveloped Municipalities in the Republic of Serbia“. 122 investment programmes totalling RSD 3,540,247, 217 were endorsed within the framework of this Programme.
- 4.5.9. The analysis of the data on the realisation of credits of Development Fund shows that a regional policy exists and that considerable funds were in fact allocated to poor municipalities. The correlation coefficient between the national income per capita and loans of the Fund for per capita development is about -0.16. This means that, on average, poorer municipalities per capita do get more money than the affluent ones.
- 4.5.10. The **Law on Financing of Local Self-Government**, promulgated in July 2006, introduced one of the key mechanisms of regional policy management. The new system of funding local self-governments entails the stabilization of the sum of transfers by linking it to the GDP percentage. This ensures predictability in the next couple of years, also a more equitable distribution of revenues - direct support to small and underdeveloped municipalities; embedding of property tax as the main source of revenues to local self-governments; establishment of a Committee for Local Self-Government Financing as a first consultative body involving the representatives of central and local government. The process of the development of this Law, in cooperation with the Ministry of Finance, and the Standing Conference of Towns and Municipalities (the national association of local governments), may serve as a model for development of reform strategies and regulations. It is expected that its application, which started on January 1, 2007 will considerably increase the over-spill of income between municipalities, from the developed to the underdeveloped ones. In 2007, RSD 29, 7 billion has been earmarked for transfer to cities and municipalities.

Table 4.5.10 Municipalities and towns with largest and smallest increase in transfers²⁴⁷

Municipality	Index 2007/2006	Municipality	Index 2007/2006
Temerin	526.9	Zagubica	133.5
Vrsac	456.8	Sremski Karlovci	135.4
Vrbas	441.0	Irig	140.0
Zabalj	440.5	Beograd	144.3
Bogatic	337.8	Coka	147.8
Pozarevac	320.3	Kragujevac	150.1
Zabari	319.1	Novi Sad	155.9
Bojnik	317.2	Backi Petrovac	156.4
Knic	316.6	Apatin	157.5
Vladicin Han	316.5	Plandiste	158.3

²⁴⁷ Source - Memorandum of the Budget and Economic and Fiscal Policies in 2007, with Projections in 2008 and 2009



- 4.5.11. The new Law also introduced the new **methodology of the calculation of transfers** to municipalities and sets down the total sum of transfers - 1.7% GDP. The first component of transfers is the **levelling transfer** that each unit of local self-government is entitled to if the evaluated sum of income from yielded taxes per capita does not exceed 90% of the evaluated average income per capita from yielded taxes in all municipalities in the Republic of Serbia.
- 4.5.12. In addition to the levelling transfer, a **compensation transfer** has been stipulated (compensating for a part of income lost due to the change of the Republican taxation regulations), a **transitional transfer** (applied if the change of methodology of establishment of transfer resulted in a decrease of the evaluated total income of a local self-government unit below the prescribed limit) as well as a **general transfer** (that all the municipalities are entitled to).
- 4.5.13. The **general transfer** is calculated on the basis of eight criteria (number of inhabitants, the size of the municipality, the number of forms and primary school buildings, the number of forms and secondary school buildings, the number of children covered by child welfare and the number of facilities of child welfare). Similarly, the sum of transfers is reduced in those units of local self-government whose average evaluated sum of yielded taxes per capital relative to the average of all units of local self-government in the Republic of Serbia exceeds 50%. The reduction amounts to 40% of the sum above the limit.
- 4.5.14. In addition to the new way of determining transfers from the central budget, this law stipulated that the responsibility for the calculation of taxation rate and collection of property tax is the units of local self-government's responsibility. Considering that this (or a similar) tax is the main source of the financing of local self-government in developed countries, this solution is expected to contribute to an improved management at the local level. Bearing in mind that a significant percentage of the vulnerable population concentrated around the line of poverty, lives in underdeveloped municipalities, these transfers should ensure development and implementation of comprehensive local development and poverty reduction strategies as well as a more efficient achievement of the PRS objectives.
- 4.5.15. The **National Investment Plan** identifies 17 key sectors and nearly all of them (except the police, army, religious buildings, and culture and sport) are sectors that are more or less covered by the Poverty Reduction Strategy. The relevant ministries have been preparing sectoral plans for the NIP execution, and to a greater or lesser extent the regional policy was paid attention to within the sectors. Of the total EURO 1.6 billion planned for the projects in 2006 and 2007, EURO 824 million may be identified per municipality.
- 4.5.16. **The Expansion of the network of regional SME agencies and entrepreneurship** is continuing, thus stimulating regional economic development and employment. In late 2004 the network covered more than 80% of the territory of the Republic of Serbia, while 85% of the territory of the Republic of Serbia (excluding data for AP Kosovo and Metohija) were covered by 13 regional agencies and SME development centres in late 2006 - the area of the city of Belgrade and 19 districts with a total of 130 municipalities. Also, relative to the previous report, further to the then established Regional Agency for Development of Sumadija and Pomoravlje, new regional agencies for Banat in Zrenjanin and for South Serbia in Leskovac were established with EU funding.



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- 4.5.17. The implementation of the PRS at the local self-government level represents one of the fundamental principles of the overall PRS implementation. The PRS provides for each municipality to develop its integrated strategic development plan that includes the recommendations of the PRS. The PRS Focal Point in the Office of the Deputy Prime Minister has, in cooperation with the SCTM and other partners conducted an exercise mapping of the Existing Local Strategies and Implementing Bodies in all the municipalities on the territory of the Republic of Serbia. Consequently, data was collected and a database established containing the existing local strategic documents. The process should ensure easier prioritization, planning and more efficient coordination of their activities at the local level to the institutions of the Republic of Serbia and the international developmental partners. According to the findings of the mapping exercise, 140 municipalities have developed some kind of a strategic plan, while 27 municipalities have not even initiated the drafting of strategic/action plans. The total number of strategic/action plans drafted, or in the phase of drafting is 396. Thereof, 157 municipal plans have been adopted. Some form of inter-municipal strategy is developed in 79 municipalities. The areas that municipal strategies focus on are: a comprehensive socio-economic development plan (34%), Environmental Protection Strategy (15%), Strategy of Local Economic Development (13%), Social Welfare Strategy (8%) and an Action Plan for Children (6%). The other areas tackled by strategic/action plans are represented up to 5%.
- 4.5.18. In May 2005, the representatives of all the municipalities in the Republic of Serbia endorsed a **Strategy of Sustainable Local Development**, which integrates the PRS recommendations. With the assistance of the SCTM,²⁴⁸ 10 municipalities have prepared municipal strategies on the basis of the Strategy, 8 of them have been endorsed already. The representatives have also established a network „Coalition 21“.
- 4.5.19. The current statistical **classification of territory and population into urban and rural** does not differentiate among the two. This prevents a better definition of strategies, policies and responses for rural and urban areas alike. The current definition „rural“ is everything that „is not urban“, and „urban“ is the administrative centre of the municipality with an urban plan. The application of the OECD definition would demonstrate that the 29 municipalities on the territory of the Republic of Serbia (14 of them Belgrade municipalities), excluding Kosovo and Metohija, are urban areas, i.e. that 45% of the population of the Republic of Serbia lives on 15% of the urban territory. 55% of the population generating 41% GDP lives on 85% of the total territory constituting rural areas.
- 4.5.20. The population in countryside areas is two and a half times poorer compared to the population in urban areas. The poverty index of countryside areas is approximately 50% higher, relative to the average of the entire population and totals 13.3%. The depth and severity of the population in countryside areas was also statistically higher as compared to the urban areas.²⁴⁹
- 4.5.21. From the aspect of physical and social infrastructural equipment, the rural population is in a less favourable position than the urban population, primarily due to the fact that the costs of infrastructural equipping are much higher in the areas with a lower population density. For instance, only 14.4% of children in rural areas attend kindergartens compared to 45.2% in urban areas. The situation is somewhat better at the primary school level because the percentage of enrolment into primary schools in rural areas is almost

²⁴⁸ With financial support of the Norwegian Ministry of Foreign Affairs

²⁴⁹ 2006 Household Budget Survey, Republican Statistical Office



identical to that in urban areas (98.4%). The distance of secondary school has considerable impact on the percentage of children from rural areas attending them (79.5%). In urban areas, 87.3% of children attend secondary schools. Chapter 7 of this Report contains a detailed analysis of trends in the sector of education. According to the findings of a survey conducted by the United Nations Development Programme (UNDP), a high percentage of the rural population is not satisfied with their quality of life (50% of the respondents) which is mostly the result of an inadequate access to services and quality thereof at the local level (health care, communal services, cultural life, etc).²⁵⁰

- 4.5.22. Several important laws in the domain of rural policy were promulgated over the past two years. Some were adopted by the National Assembly of the Republic of Serbia, like the **Law on Farmland** and the **Law on Organic Food Production**. It is expected that the Law on Agriculture and the Law on Plant Health will be adopted by the end of 2007. The **Law on Agriculture**, which sets down the objectives of agrarian policy and the manner in which to achieve them, the types of government incentives to agriculture, beneficiaries of government incentives and other important issues in the domain of agrarian and rural policy should enable more efficient work of the Ministry of Agriculture, Forestry and Water Management (MAFWM) and to create conditions of the use of EU funds.
- 4.5.23. With the adoption of the **Law on Farmland**, the regulations in the area of planning, protection, development and utilisation of farmland was improved. A particularly important part of the Law refers to the lease of state-owned farmland and decentralised system of production of programmes of protection, and the development and utilisation of farmland. For the first time, this Law introduces a fee for exploitation of state-owned land and an equal position of farmers in respect of renting the state-owned land. This measure should boost land development because farmland will be in the hands of those who are able to generate the biggest profit from it, farmers will be able to enlarge their estates and proceeds of lease will be invested in land infrastructure. The lack of both the capacity and willingness of some local governments to implement it will present a challenge in the forthcoming period.
- 4.5.24. Following the adoption of the new **Strategy of Development of Agriculture in the Republic of Serbia**, a transition was made from price support to credit support, support to investments, input reimbursement and rural development. A significant support to the income of non-commercial farms was introduced in 2006. By increasing credit and structural support from 8% in 2003 to 47% in 2006 considerable results were achieved, which can be measured by the annual export rate of about 30% in the period 2003-2006, the surplus in trade of agricultural products in 2005-2006, and the investment growth and stabilisation of production.

Table 4.5.24. - Share of certain groups of support in overall agrarian budget

Programme	Budget 2003	Budget 2004	Budget 2005	Budget 2006
Market support	90.10%	63.70%	50.90%	38.30%
Structural support	8.00%	11.80%	19.50%	25.40%
Income support	0.00%	0.00%	1.50%	12.40%
Credit support	0.00%	22.50%	26.70%	22.00%
Institutional support ²⁵¹	1.90%	2.00%	2.10%	1.90%
Total	100.00%	100.00%	100.00%	100.00%

²⁵⁰ N. Bogdanov (2007): Small Rural Households in Serbia and RNFE, UNDP Belgrade (draft)



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- 4.5.25. According to the above mentioned UNDP survey, only 26% of the respondents consider agriculture the main source of income for their households, while 68% stated that they generate income from agriculture. In respect to the diversity of income, more than one third of the respondents sell livestock, milk and dairy products. Greater diversity occurs only in the households where women and younger family members are the decision-makers.
- 4.5.26. The policy of the rural development of the Republic of Serbia is currently not defined in a single official document. Although certain aspects of rural development are partially mentioned in several national strategies, the competency for the issue is held by the Ministry of Agriculture, Forestry and Water Management, within which the development of the first rural development strategies have been launched. The definition of an adequate rural policy through the preparation and adoption of the rural development strategy would create the preconditions for mitigating negative demographic and economic trends and ensure the preservation of natural and cultural heritage of rural regions.
- 4.5.27. As of 2006, the Ministry of Agriculture defined Marginal Areas or Less Favourable Areas (LFA) as areas in which investments should be encouraged. Beneficiaries from these areas were given the opportunity to have a higher share of grants when using funds through the rural development programmes, thus increasing investments in these areas. In 2003, 14% of the total funds from Rural Development Measures was directed into these areas, while in 2006 the percentage amounted to 22.4%.
- 4.5.28. In 2006, **income support was introduced for the so-called non-commercial farms** to the amount of RSD 40,000 for all household members, whose only income stems from agriculture and who are over 55 years of age, aimed at reducing the differences in the level of income between farmers who can be competitive and contribute to their own income and those who, due to old age or because they live in areas less suitable for farming, cannot keep up with the reforms and cannot significantly produce for the market. Most of the beneficiaries of this support live in areas less suited to agricultural production, as presented in Table 4.5.28.

Table 4.5.28. - The share of some categories (geographic, statistical and administrative) in the expenditure on agrarian policy measures

Share	VOJ	CS	BG	DP in agriculture of over 50%	Marginal areas - LFA	Undeveloped municipalities	Rural population of over 75%
Farming area	35.0%	61.9%	3.1%	23.5%	26.4%	15.2%	20.9%
DP total	29.8%	36.9%	33.3%	6.2%	7.4%	3.9%	6.3%
DP in agriculture	41.0%	52.3%	6.7%	23.5%	12.6%	7.9%	20.8%
Number of shares	25.9%	67.4%	6.7%	21.6%	18.1%	12.5%	21.3%
Number of registered farms	31.9%	64.9%	3.2%	25.1%	18.9%	14.2%	23.4%
Total population	27.1%	52.7%	20.3%	11.4%	13.4%	9.8%	11.3%
Short-term loans 2004	56.3%	41.7%	2.0%	26.1%	16.0%	9.1%	20.8%
Short-term loans 2005	53.2%	44.3%	2.5%	29.7%	17.9%	11.1%	24.9%
Short-term loans 2006	69.7%	28.7%	1.6%	29.2%	14.0%	5.9%	20.3%
Long-term loans 2004	42.0%	47.0%	12.0%				
Long-term loans 2005	47.2%	46.4%	6.4%	36.6%	12.7%	5.1%	23.5%
Long-term loans 2006	36.9%	57.1%	6.0%	31.3%	16.8%	7.6%	30.7%
Measures of rural development 2004	64.2%	34.6%	1.2%	22.9%	14.2%	13.1%	11.7%
Measures of rural development 2005	39.8%	57.6%	2.6%	26.2%	22.1%	11.7%	29.3%
Measures of rural development 2006	41.3%	57.6%	1.1%	28.2%	22.4%	13.2%	21.1%
Support to non-commercial farms	10.8%	87.0%	2.2%	23.8%	26.1%	22.4%	26.2%

²⁵¹ Institutions in the sector of agriculture



- 4.5.29. Allocation of grants aimed to raise the level of production and placement (farms, cold storages, warehouses, machinery etc.), construction of infrastructure (water supply, sewage, local roads, power lines in villages, etc), and support of the rural diversification (through projects of agrarian tourism, education of the rural population, improved environment in villages, preservation of old crafts and breeds of livestock, etc). The funds for these programmes are increasing by year. In the course of 2004 and 2005, RSD 319 million and RSD 710 million respectively were spent for these purposes. More than RSD 2.6 billion was spent for this purposes in 2006. Most of the funds were planned for improvement of production and placement (51%), and construction of infrastructure (44%). The projects of rural diversification are to be supported by 5%. The low level of information, weak initiative and weak local administration capacities are the key obstacles to the more active utilisation of sources of state assistance.²⁵²
- 4.5.30. According to the same survey, the main problems identified by the small rural households are a lack of capital, unfavourable crediting conditions and a low process of agricultural produce. They consider possibilities of employment outside the sector of agriculture (66% of respondents), better access to loans (57%) and an improved market organization (40%) as the key prerequisites of their own development.²⁵³
- 4.5.31. Development of the **credit market** should boost investment and thus the economic growth in agricultural and rural areas. The Republic of Serbia practically never had a market of agricultural loans or loans for SME development in rural areas. This deficiency was recognised by the Ministry of Agriculture, and in 2004 credit support to agriculture started with the aim to build the credit market and credit history of farmers and to increase investment in the sector. The support is realised through banks. Over the past three years, the total placement amounted to RSD 78,364 short-term loans amounting in the average to RSD 82,928, and 3,569 long-term loans with the average value of RSD 1, 2 million.
- 4.5.32. In addition to the funds directed from the Republic of Serbia to rural areas and agriculture, the Autonomous Province of Vojvodina and many other local self-government units have established their own agrarian budgets. Last year, the Council of AP Vojvodina financed projects of rural development in the amount of RSD 171 million.
- 4.5.33. According to the official statistics, the **average size of farms** is approx. 3 hectares. In the 2006 Register of Farms maintained by the Ministry of Agriculture, Forestry and Water Management, the average size indicated is approx. 10 hectares. Whichever data be taken into account, the farms are small and this is often one of the limiting factors for ensuring a steady income for all the members of a household and particularly those who are at the average or below the average level. On the other hand, the process of the joining of farms in Serbia, and especially in Vojvodina, is proceeding at a very fast pace. Transition into another sector, production of higher value products (fruit, vegetables, livestock grazing, etc) or certified produce (organic, etc.), diversification of economic activities on farms may represent viable options for this group. That is the reason for the programmes to be directed accordingly. There is an increasing number of farms with certified organic production, with 200,000 hectares of certified produce-yielding land in 2004 to over 1,000,000 hectares in 2006. At the same time the land on which cultures are grown increased from 550 hectares to 790 hectares.

²⁵² N. Bogdanov (2007) : Small Rural Households in Serbia and RNFE", UNDP Belgrade (draft)

²⁵³ Ibid.



Housing of Vulnerable Groups

- 4.5.34. **Housing** is a pressing problem for many citizens of Serbia. However, there is no doubt that the socially vulnerable groups are in the most critical situation. A Study of Housing Sector, developed in 2005, provided an overview of the housing situation in Serbia. It represents a basis required for a future national housing policy. The Law on Social Housing is still in draft form with the Ministry for Capital Investments, but its endorsement has been identified as one of the priorities in the Prime Minister's policy statement of May 2007.
- 4.5.35. Donation of 324.000.000 dinars of the Japanese Government is used for realization of the project Social housing for the disabled war veterans (adjusted to the needs of the beneficiaries - number of family members, type of disability) that envisages construction of flats for 203 war veteran families in 11 towns and municipalities in the Republic of Serbia. By the end of August 2006 the Government decided to continue financing the project Social housing for the disabled war veterans from the National Investment Plan and allocated 4.475.260 EURO for the construction of 220 flats amounting to 11.000 m² in 13 towns in the Republic of Serbia.
- 4.5.36. There are 92 collective centres accommodating 8,275 refugees and internally displaced persons in the Republic of Serbia. Thereof, 18 collective centres accommodating 925 persons are located on the territory of AP Kosovo and Metohija. The care and accommodation of refugees and the internally displaced people (IDPs) living in collective centres is largely funded from the budget of the Republic of Serbia, with minor financial support from the UN High Commissioner for Refugees (UNHCR). In line with the National Strategy for Resolving the Problems of Refugees and Internally Displaced People, 20 collective centres were closed in 2006. Having been offered adequate supporting projects, some 1,300 refugees and IDPs have left the collective centres. Care and accommodation of refugees continues in social welfare institutions, converted collective centres (in-house departments) and in housing in a protective environment.
- 4.5.37. Seven municipalities are in the process of development or adoption of local housing strategies within the Programme of Housing and Durable Integration of Refugees²⁵⁴ funded by the Italian Government and implemented by UN-HABITAT in cooperation with the Ministry of Infrastructure. Municipal housing agencies - non-profit housing organisations mandated with the development and implementation of social housing programmes - have been established in the above mentioned seven municipalities. Construction of 530 new housing units for social housing has been planned within the framework of this programme. The first 38 housing units were built in Stara Pazova, and the remaining 492 housing units are to be completed by December 2007. Improvement and regularization of the Roma settlement „Grđicka Kosa 2“ in Kraljevo represents an integral part of this initiative.
- 4.5.38. The findings of the study „Where and how do the Roma in Serbia Live“²⁵⁵ established that there are 593 Roma settlements in Serbia, 72% of which are not fully or partially legalized. 43.5% of them fall into the category of slums. Of the 593 settlements, 285 are in urban areas, while the others are in suburban and rural areas. The densest population of the Roma is in Belgrade, in the north-west part of central Serbia, AP Vojvodina and certain counties in south Serbia. The infrastructure in the settlements is in a very bad

²⁵⁴ Cacak, Kragujevac, Kraljevo, Nis, Pancevo, Stara Pazova, and Valjevo and three components developed within an integrated framework - housing, strengthening of municipalities and refugee integration.

²⁵⁵ Source: Annual Report of League for Decade (2005-2015, no.6, 2007; taken from Jaksic, B. Basic, F. (2005) The Art of Survival - Where and How do the Roma in Serbia Live, library Disput, Institute for Philosophy and Social Theory



condition (over 50% of them have no asphalt road nor water supply network, over 60% have no sewage, and 35% no electricity), as is the accessibility of institutions (schools are over 1 km away for approx. 50% of settlements, health centres for approx. 60% of settlements and shops for approx. 80% thereof).

Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Adopt laws and by-laws related to regional development, that identify key institutions, objectives, institutional mechanisms of support to the underdeveloped, identify underdeveloped regions and establish programmatic documents that would serve to channel the incentives (directly or indirectly) to underdeveloped municipalities (areas).
- Define as precisely as possible rural and urban areas with a view to a more efficient establishment of the needs, strategy, policies and measures for poverty reduction. Consider transition to the EU or OECD criteria.
- Ensure efficient application of the Law on Financing of Local Self-Government, especially in the part concerning property tax.
- Pass a Strategic Plan and the multi-year Rural Development Programme and set up systems of payment and financial control which will enable the use of IPARD funds.
- Continue capacity building of farmers and stimulate their further association at the level of cooperatives or associations.
- Improve monitoring of results of agrarian, rural and regional policies and their impact on poverty reduction.
- Adopt the Law on Social Housing.
- Legislative initiatives compatible with the obligations prescribed under the Constitutional Law for the Implementation of Serbian Constitution (the Law on Territorial Organisation of the Republic of Serbia, the Law on Local Self-Government, and the Law on Local Elections).
- Improve the general level of informing and support to planning and implementation of rural development programmes.



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MID-TERM PRIORITIES

- Raise capacities of the central and local government, operational management and monitoring of the use of EU and domestic funds, including NIP.
- Develop a decentralised system of support to economic and rural development by using a participation-based approach in planning and decision-making. Strengthen local communities and all social partners (NGO sector, local self-government, counselling services, media, etc.) in support of rural development.
- Introduce a programmatic and project approach to the financing of local self-governments.
- Establish local self-government property/Transfer property from the Republic to the local self-governments and precisely define the role of municipality in economic development.
- Improve cooperation and coordination between ministries and municipalities with a view to reducing regional inequalities and implementation of common projects.
- Introduce systemic support to the improvement of living conditions in rural areas through the development of rural physical and social infrastructure.
- Finalize establishment of a network of institutions required for regional development.



4.6. Environmental Aspects of Poverty Reduction

- 4.6.1. The new **legal framework for environmental protection**, which is in harmony with the EU Directives, was established in 2004 with the adoption of the Law on Environmental Protection, the Law on Strategic Environmental Impact Assessment, the Law on Environmental Impact Assessment and the Law on Integrated Environmental Pollution Prevention and Control. The Law on Free Access to Information of Public Importance was adopted. The new laws provided for the decentralization of competencies to the benefit of the autonomous province, i.e. the local self-government unit. This requires the further building of the capacities of responsible bodies at all the levels for the implementation of regulations. The accelerated preparation of the laws continued into 2005-2006, with the drafting of a large number of laws. The proposed National Programme for Environmental Protection is undergoing the adoption procedure in the National Assembly. It will be carried out according to action plans, whose drafting is under way. The National Strategy for Sustainable Development is being drawn up and is expected to be completed by autumn 2007. Also in process is the drafting of a national strategy for the sustainable use of resources and a national strategy for the introduction of cleaner production. The Environmental Protection Agency and Environmental Protection Fund have been established within the Ministry of Science and Environmental Protection and have started working. Funds have been established at the level of Execution Council of AP Vojvodina for financing programmes and projects of significance for AP Vojvodina, which include the projects in the field of environmental protection.
- 4.6.2. **Improvement of the water supply system** - In 2004, the total percentage of the population with access to clean and safe drinking water was 93%, out of which 99% was an urban population, and 86% a rural population²⁵⁶. It should be explained that this indicator, according to the definition, is considered to imply „the share of the population using any of the following ways to obtain drinking water: 1) water from the waterworks; 2) a public drinking-fountain; 3) an artesian well; 4) a well (protected/covered); or 5) a protected spring“. In view of the degree of Serbia's development, it is more suitable to use a narrower definition of access to clean and safe drinking water, like for instance „the share of the population with a connection to the public waterworks“.
- 4.6.3. In 2005, 62.8% of the population had a **connection to the public waterworks** and 13.9% a connection to the local waterworks²⁵⁷. An improvement is noticeable compared to 1991, when the percentage of the total population with a connection to the public or local waterworks was 71.1%. However, there is a large discrepancy between urban and rural areas in their coverage by public waterwork networks. In village settlements, only 60% of the population has drinking water in houses or yards from the public or local waterworks²⁵⁸. Around 30% of the drinking water supply on the territory of the Republic of Serbia does not satisfy the physical, chemical and bacteriological standards (in AP Vojvodina 67%).
- 4.6.4. In AP Vojvodina, **the quality of underground waters** varies depending on the depth of the water-bearing environment and the characteristics of the soil. The situation is especially

²⁵⁶ MDG Devinfo, 2006 - The data refers to Serbia and Montenegro

²⁵⁷ MICS, 2006 - The data refers to the republic of Serbia

²⁵⁸ In 53% of the households the man brings water if it is not available on the spot, while in 41% of the cases this is done by the woman. In around 1% of households this is done by a child below the age of 15. In more than 2/3 of the Roma households, the woman is responsible for bringing water (MICS, 2006). The accessibility of water has been improved, but the issue of its quality still represents reason for concern. In certain areas, the water quality is not satisfactory and shortages appear in summer months.



bad in the districts of Banat and Backa. The AP Secretariat for Environmental Protection and Sustainable Development has financed the development of studies for regional water supply systems²⁵⁹. Potential regional water sources have been researched in the Danube area (West Backa and South Banat). The main problems with the physical and chemical water quality parameters are turbidity, iron, nitrites, arsenic and manganese whose level has naturally increased. In the period of 2006-2007, research of underground water has been performed in over 700 wells in AP Vojvodina, in order to map the level of arsenic. Of the overall collected underground water on the territory of AP Vojvodina, around a third undergoes treatment at drinking water preparation plants, of which there are only 14.

4.6.5. The water quality is only adequate in Belgrade, according to over 90% of correct water samples. The main problem lies in the old distribution network, which has large losses (as much as up to 40% in certain municipalities), and irrational water consumption, which leads to the excessive exploitation of resources. In 2006, funds were provided for the financing of water supply facilities in 40 municipalities. In the same year, work also started on the Barje regional water-management system, and the completion of the work is expected in 2007. Under way is also the construction of the Rovni dam and storage reservoir. Progress in the adjustment of water-management legislation is very limited. The Law on the Ratification of the Convention on the Protection and Use of Transboundary Watercourses and International Lakes has been drafted. A new law on waters is in preparation, since the present Law is not in harmony with EU regulations. The drinking water standards need to be adjusted to the requirements of EU Directives regarding drinking water.

4.6.6. **Improvement of the waste water collection and treatment system** - In 2004, a total of 87% of the population had improved sanitary conditions, among which the urban population accounted for 87% and the rural for 77%²⁶⁰. This indicator, according to the definition, implies: the share of the population which has everything at its place of residence: 1) a toilet connected to the sewage system; 2) any kind of flush toilet; 3) an improved septic tank; 4) and the traditional septic tank. An analysis more applicable to the republic of Serbia is obtained when sanitary devices are divided into: toilets connected to the sewage system; and toilets connected to septic tanks and outhouses.

4.6.7. In 1996, 77% of the population of the Federal Republic of Yugoslavia (FRY) lived in apartments with a sewage system or a septic tank, while in 2000; this percentage was 88%, showing an improvement in the sanitary conditions. Attesting to the improvement of conditions is the fact that the mortality rate of newborn babies and children below the age of five dropped by half in the 1990s, which is linked to the improved sanitary conditions in households, as well as the better treatment for diarrhoea and acute respiratory diseases. AP Vojvodina has the smallest number of sanitary devices connected to the sewage system (39.1%), where the largest percentage of sanitary devices connected to a septic tank was also registered (54.9%)²⁶¹. In Belgrade, 75.9% of the population has a connection to the public sewage system, while 20.3% have sanitary devices connected to a septic tank, and 3.7% use an outhouse.

4.6.8. **There are major differences between the city and the village:** only 15% of village households have a toilet connected to the main sewage system, while 64.4%²⁶² of them are connected to a septic tank. In Roma communities throughout the Republic of Serbia

²⁵⁹ For more information please visit www.eko.vojvodina.sr.gov.yu

²⁶⁰ MDG Devinfo database, 2006

²⁶¹ MICS, 2006

²⁶² MISC, 2006



there is either no access to public utility services or this access is limited. Nearly 50% of the Roma living in Roma settlements use an outhouse, while 5% live without a toilet. The sewage systems have been inadequately maintained over a longer period of time, without adequate investments. Out of the total amount of sewage waste water, only 5.3% is released to the recipients following adequate purification. The largest cities in the country - Belgrade, Novi Sad and Nis, do not have a plant for the purification of utility waste waters.

4.6.9. In 2006, **systems for the collection, transport and purification of waste water were built** and they form parts of regional systems. Collectors and waste water purification devices were constructed in 20 municipalities²⁶³. The inability to have access to the water supply infrastructure and the sewage system is the cause of health problems for part of the population. This especially refers to the part of the population living in poor city districts, often located near poorly maintained waste dumps, and which are mostly inhabited by internally displaced persons, Roma and refugees. A law on the financing of water management has been drafted. What is necessary is the introduction of standards for effluent quality, i.e. harmonization with the Waste Water Treatment Directive 91/271/EC.

4.6.10. **Emission of gases with the greenhouse effect** - The data on the emission of CO₂ for 2002 are 4.4888 metric tons per capita²⁶⁴, which is 14% more in the absolute amount than the world average. The total emission is 47.244 million metric tons of CO₂, while the emission of CO₂ per GDP unit in the Republic of Serbia is more than two times larger than the world average²⁶⁵.

4.6.11. **The consumption of CFC substances**, which are damaging for the ozone layer, was 282.8 metric tons in 2004, while the total consumption of all substances harmful to the ozone layer was 297,378 metric tons²⁶⁶. There is no production of CFC substances in the Republic of Serbia and the necessary amount is imported. The Bill on Air Protection is undergoing the adoption procedure. The present legislation on air quality is not in harmony with EU regulations, especially regarding the emission and ambience quality of the air, and the inadequate monitoring does not allow the creation of a realistic picture about the level of air pollution in the Republic of Serbia. The Bill on the ratification of the Kyoto Protocol is undergoing the adoption procedure in the National Assembly.

Table 4.6.11. - CO₂ emission²⁶⁷

Year	1999	2000	2001	2002
Level of CO ₂ emission per capita (metric tons)	3.4766	3.8765	4.1472	4.4888
Total CO ₂ emission (thousand metric tons)	36,710	40,879	43,688	47,244

Source: MDG Devinfo database 2006

4.6.12. **Energy intensity** - The level of consumed energy by unit of the gross domestic product (GDP) in Serbia and Montenegro in 2001 was 0.40 toe/000 USD measured by the purchasing power parity. The world average was 0.24 toe/000 USD measured by the purchasing parity²⁶⁸. In 2004, it was 0.79 toe/000 USD measured by the purchasing power parity, and in developed countries (OECD countries) around 0.19 toe/000 USD

²⁶³ Report of the Ministry of Agriculture, Forestry and Water Management, 2006

²⁶⁴ The data refer to Serbia and Montenegro

²⁶⁵ IEA 2006, Report on the Millennium Development Goals, 2006

²⁶⁶ MDG Devinfo database 2006

²⁶⁷ The available numerical data on CO₂ emission represent an estimate and cannot be considered official data. Valid data will be collected for the needs of the First National Communication on Climate Change, as part of the obligations resulting from Serbia's membership in the UN Framework Convention on Climate Change (UNFCCC).

²⁶⁸ UNDP, *Stuck in the Past: Energy, Environment and Poverty in Serbia and Montenegro*, 2004



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(IEA 2006), which means that around 4 times more energy per GDP unit was consumed in the Republic of Serbia than in developed countries, which points to considerable space for energy rationalization.

Table 4.6.12. - Level of consumed energy per unit of the gross domestic product - energy intensity²⁶⁹

Year	2001	2002	2003	2004
Level of consumed energy per unit of the gross domestic product (GDP) measured by the purchasing power parity	0.40 toe/000 USD PPP ²⁷⁰	0.39 toe/000 USD PPP	0.80 toe/000 USD PPP	0.79 toe/000 USD PPP
Level of consumed energy by unit of the gross domestic product (GDP)	0.96 toe/000 USD	0.96 toe/000 USD	1.67 toe/000 USD	1.65 toe/000 USD

Source: IEA, Key World Energy Statistics, 2003, 2004, 2005, 2006.

4.6.13. **Solid fuel consumption in households** - poverty also leads to the type of conduct that directly exerts pressure on the environment. Out of necessity, through the excessive exploitation of public assets, the poor population often disrupt the state of certain resources, primarily the land and forests.

4.6.14. Around 55% of the total average tree mass in the Republic of Serbia in 2005 was used as firewood.²⁷¹ Despite incoherent data, it can be concluded that the **consumption of solid fuels** (wood and coal), although being reduced, is still high, since around 40% of the households still use it for heating, creating a high level of internal air pollution. This leads to chronic diseases, which the poor population are more exposed to. The present manner of the use of energy in the Republic of Serbia is unsustainable. The mean energy consumption per square meter of living space is around 2.5 times higher than in Northern Europe. At the same time, every fourth household has heating below the minimum of health standards. The mortality rate is 30% higher in the winter months, whereby poor households are in much greater jeopardy. The excessive use of wood for heating, without adequate forestation, the minimum use of wood waste and the low efficiency of wood burning are the main reasons for the disappearance of forests.

4.6.15. A third of all households in the Republic of Serbia use solid fuel for cooking. The use of solid fuel is characteristic of the poorest category of the population and Roma settlements where 84% of the households use solid fuels for cooking, which is almost three times above the national average. The use of solid fuels for cooking is less frequent in urban areas (14%) than in rural areas (61%). The share of households using solid fuels for cooking rapidly drops when going from the poorest towards the richer layers of society. In Belgrade, 84% of the households use electricity for cooking. In Vojvodina, the use of electricity and gas is approximately the same - 43% of the households use electricity for cooking, while 38% use gas²⁷².

4.6.16. **Waste management** - Waste management in the Republic of Serbia is inadequate. According to information of the Environmental Protection Agency, out of the total of 164 waste dumps in Serbia (on the basis of 80% of the obtained data), 50 waste dumps (30.5%) are located less than 500m from inhabited places. Out of this number, 12 waste dumps (7.3%) are less than 100m from a populated settlement. As many as 25 waste dumps (15.2%) are less than 50m away from the bank of a river, stream or storage lake (Environmental Protection Agency, 2006).

²⁶⁹ The data refer to Serbia and Montenegro

²⁷⁰ A ton equivalent of oil /1000 USD measured by the purchasing power parity

²⁷¹ Republic Statistical Office, 2006.

²⁷² MICS, 2006



- 4.6.17. The information about the number/percentage of households living 500m from a **waste dump** shows that in 38 municipalities, around 1,233,500 inhabitants, i.e. 16.5% of Serbia's population live 500m or less from a waste dump. The capacity of the existing waste dumps in most municipalities is already exhausted, and the locations themselves do not satisfy even the minimal technical conditions for sanitary waste dumps. This can endanger underground and surface waters and soil, due to the high concentration of organic matter and heavy metals. There are a large number of illegal waste dumps, which are not being controlled.
- 4.6.18. The National Waste Management **Strategy envisages the closing down or re-cultivation of the existing waste dumps** and the construction of 29 regional (for a number of municipalities) sanitary waste dumps, with recycling centres and transfer stations. The waste management system in every municipality is based on the collection, transport and disposal of waste by public utility companies at the municipal level, which are faced with a number of problems. Only 60% of generated communal waste (from households and other sources) is collected in an organized manner, mostly in urban environments, while there is no organized waste collection in rural areas²⁷³. A survey on multiple indicators in 2000 showed that in the case of 54.7% of households garbage is taken away by a public service; 25.3% of households take their own garbage to a public waste dump; 6.4% of households leave it at illegal waste dumps; 6.3% of households burn their garbage; 0.3% of households bury garbage; 5.4% of households dispose of it near the house; 1.1% throw it into the river. There is no reliable information about the amount of hazardous waste created by the industry, and it is estimated that more than 460,000 tons per year of dangerous industrial and medicinal waste is produced in the Republic of Serbia. There is not a single plant for the treatment and disposal of hazardous waste in the republic of Serbia in accordance with the standards and hazardous waste is temporarily stored at inadequate storages, some of which have been in existence for a number of decades. It is envisaged that 78 systems for treating infective medicinal waste in health institutes in the Republic of Serbia be procured, with assistance of the European Agency for Reconstruction.
- 4.6.19. **The National Waste Management Strategy**, adopted in 2003, is being implemented according to certain dynamics. In 2006, the Environmental Protection Fund co-financed the drawing up of protects for the rehabilitation of waste dumps in 22 municipalities, as well as the performing of works in 7 municipalities. The Fund also co-financed the drawing up of projects for regional waste dumps and participated in the financing of three projects for the construction of regional sanitary waste dumps for a number of municipalities. The construction of regional waste dumps and the rehabilitation of the existing ones are among the priorities of the Ministry of Science and Environmental Protection - Department for Environmental Protection. The Province Secretariat for Environmental Protection and Sustainable Development launched the long-term project titled „Management of Solid Public Utility Waste at the Territory of AP Vojvodina“ in 2003. 6 regions have been established where intermunicipal agreements have been signed on the joint performance of activities in the field of the management of public utility waste.
- 4.6.20. **The Draft Law on Waste Management** has been adopted by the Government and is in the Parliamentary procedure. In preparation is also the Law on Packaging and Packaging Waste.

²⁷³ National Waste Management Strategy, 2003



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4.6.21. Forest resources management - The total territory under forests and forest land in Serbia in 2005 covered 2,380,077 ha²⁷⁴, i.e. 26.9%, which is a little below Europe's average forest coverage.

Table 4.6.21. - Area under forests in the Republic of Serbia
(excluding data from AP Kosovo and Metohija)²⁷⁵

Year	%	1990	1996	1999	2002	2005
Area under forests compared to Serbia's territory		24.8	25.6	25.6	24.9	25.6

4.6.22. The present state of the forests in the republic of Serbia can be described as unsatisfactory, with an unfavourable age structure and an inadequate composition. In the period between 1996 and 2005, there was a drop in the activities on the forestation or filling of forests which, with the maintenance of practically the same scope of forest cutting and with the damage caused to forests in this period, led to the stagnation of the degree of Serbia's forest cover. In 2005, around 51.5% of the forests were owned by the state²⁷⁶. State forests are located in large complexes and are characterized by a better qualitative and quantitative structure than private forests. The ratio between high and sprout forests in the Republic of Serbia is approximately the same, with a share of around 45.5% in the total area, while other cultivated forms (thickets, macchias, osier-beds, leaf forests) have a share of 8.8%.

4.6.23. According to data of the Republic Statistical Office, 10,534 m³ were illegally cut in 2005. Other forms of man-afflicted damage, such as theft, unlawful grazing, unlawful occupation of land and other, covered 1,686 m³ in 2005, while this area was almost two times larger in 2004 - 3,220 m³. The average cut tree mass in state forests in 2005 was around 1.8 million m³, and in private forests around 644 thousand m³.

4.6.24. The Forestry Development Strategy of the Republic of Serbia has been adopted and a law on forests, which is to replace the present Law on Forests, has been drafted.

4.6.25. Protection of nature and biodiversity - five of the six main European bioregions are present on the territory of the Republic of Serbia. Based on the extensive biological diversity ecosystems, plants and animals, the Republic of Serbia may be considered a country with a very high degree of biodiversity. The percentage of protected natural resources is increased each year, and its planned growth targets 10% by 2010. In 2000 it amounted to 4.92%, while in 2002 it was around 5% of the total territory of the Republic of Serbia. The percentage of protected areas compared to the total territory is 6.6%, i.e. 5,426 km² in 2006, while in 2005 it was 6%.²⁷⁷ Labudovo Okno and Pestersko Polje are two new Ramsar areas on the Ramsar List of Wetlands of International Importance. The system of the laws on biodiversity and the protection of nature are inconsistent and it requires harmonization with EU Directives. A comprehensive National Biodiversity Strategy, Action Plan and National Report on the Implementation of the Biodiversity Convention are currently drafted. Several Bills on the ratification of the following international agreements have been endorsed: Convention on Preservation of Migratory Wild Animals (Bon, 1979), Convention on Preservation of European Game and Natural Habitats (Bern, 1979), Convention on Protection and Sustainable Develop-

²⁷⁴ Environmental Protection Agency, 2006

²⁷⁵ Source: Republic Statistical Office 2006; Report on the Millennium Development Goals, 2005, Environmental Protection Agency, 2006

²⁷⁶ Republic Statistical Office, 2006

²⁷⁷ Environmental Protection Agency, 2006



ment of Carpathian Mountains (2003), UN Convention on Fight against Desertification in Draught-afflicted Countries (Paris, 1994). The Draft Law on Protection of Nature was developed.

- 4.6.26. **Sustainable land use** - Agricultural land covers 66.03% of the total territory of the Republic of Serbia (59.35% in Serbia Proper and 83.43% in AP Vojvodina). The results of the examination of the land composition confirm the presence of a large natural wealth of over 80% of the territory of Vojvodina in the contents of the humus and very important biogenic macro-elements. On the other hand, the annual losses of agricultural land on the territory of Vojvodina are estimated to be around 1,200 ha.
- 4.6.27. Regarding the structure of ownership, around 85% of arable land is privately owned, while state-owned assets cover 15% of the arable land. Private farms are characterized by small areas, dispersion and a mainly extensive agricultural production method. However, intensive agriculture compared to the consumption of resources has created numerous problems in the environment which further have a negative impact on agriculture productivity. In the period of 2000-2005, there was a tendency of reduction of gardens and plough land reduced by 26,511 ha and orchards by 6,095 ha. The land covered by meadows increased by 22,361 ha, and pastures increased by 16,622 ha in 2005 in comparison to the year 2000.
- 4.6.28. Following the adoption of the Law on Agricultural Land, the regulations pertaining to the planning, protection, regulation and use of agricultural land were improved.
- 4.6.29. **Cleaning of ecological black spots** - in the previous period, the economic development of regions in the Republic of Serbia were not accompanied by adequate investments in the infrastructure for the protection and improvement of the environment, i.e. in plants and equipment for the reduction of pollution.
- 4.6.30. The present state shows that there is a major burden on the environment in such areas (for example, Obrenovac, Lazarevac, Pancevo, Bor, Vrbas, Sabac, Belgrade, Novi Sad etc.). Some of these areas are impoverished today and have a much endangered environment. It is necessary to consider which areas can, under the Law, acquire the status of an endangered environment, which would afford such regions a special status and priority for rehabilitation and remediation.
- 4.6.31. The level of investments in the environment is very low (0.3% of the GDP in 2004 and 2005, while the projections for 2006-2009 are 0.4% of the GDP), while financing from the industry and the private sector is insufficient. The system of economic instruments is still insufficiently developed and does not provide a sufficient enough stimulation for the reduction of pollution.
- 4.6.32. In 2005, a Decree was adopted on the types of pollution, criteria for calculating the fee for polluting the environment and those who are to pay for it, the size and method of calculating and paying the fee, which implements the principle „the polluter pays“. The income from the fee represents the Fund for the Environment Protection assets.
- 4.6.33. In 2006, the first phase of the rehabilitation of the contaminated land on the Reljan location was carried out. The second phase is to be completed by the end of 2007. The rehabilitation of the land contaminated by depleted uranium at the Pljackovica location near Vranje, as well as at the Bratoselce and Borovac locations near Bujanovac has been completed.



Priorities for the Forthcoming Period

SHORT-TERM PRIORITIES

- Harmonize regulations pertaining to the environment with EU legislation and the expansion and strengthen institutional capacities for the implementation of regulations.
- Integrate the environmental protection policy into other sector policies in accordance with the goals and instruments set out in the National Environmental Protection Programme.
- Reduce pollution at locations which represent the greatest risk for the environment and for the people's health.
- Improve the monitoring system.

MID-TERM OBJECTIVES

- Increase the number of households connected to the public water supply system and to provide adequate drinking water.
- Increase the number of inhabitants connected to the public sewage system and the revitalization of the existing devices for the purification of waste water in settlements.
- Increase the number of inhabitants covered by the system of waste collection and the construction of regional sanitary waste dumps.
- Connect individual households in larger cities to the central heating system or to the heating system using gas, and to reduce the number of households using solid fuels.
- Improve the system of natural resources management and further to increase the areas containing protected natural resources.
- Preserve, promote and expand the existing forests (to increase areas under forests and to improve the structure of forests).



5 Analysis of Budget and International Assistance Resources



The First Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia²⁷⁸ provided an analysis of the use of budget resources and other sources of financing with a view to realising priorities laid down in the Poverty Reduction Strategy. The analysis indicated the seriousness of the problem of poverty in the Republic of Serbia, as well as considerable contributions allocated for social protection and health care with the emphasis on the existing vulnerable groups of the population. The report expressed the commitment to focus more on the development component in the forthcoming medium run and/or the commitment to prevent new poverty through economic growth, increased employment and investments in education. Investing in these PRS priority areas is especially important bearing in mind the transition process that the Republic of Serbia is undergoing, as this process will inevitably create new categories of the vulnerable population.

The analysis of budget allocations and other sources of financing within the Second Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia is based on the available data for the period 2004-2006. The aim of the analysis is to point to the realisation of defined objectives, measured by investment in individual priority areas of the Strategy, and to recommend steps to be taken in the forthcoming medium-term period.

5.1 Methodology Overview

5.1.1. The analysis of budgetary allocations is based on the budget execution data according to functional classification for the previous period of 2004-2006. This analytical method establishes indirectly how budget resources were allocated for certain priority areas envisaged in the PRS. **The indirect method**²⁷⁹ of the analysis is based on the expenditures expressed according to functional classification. The functional classification allows for the establishment of **indirect links** between the allocation of budget resources and the implementation of PRS, assuming that the execution of a particular function is indirectly linked to poverty reduction (e.g. the connection between education and poverty reduction).

5.1.2. **Direct and measurable effects** of budget distribution for some PRS priority areas will be possible to ascertain only after the transfer to the programmatic budget has been completed. The essence of programmatic budget is to operationalize adopted strategies by way of defining programmes and activities of government institutions, allocate resources according to priorities and facilitate the analysis of impact by measuring the precisely defined indicators. Initial steps in the reform of budget planning and public expenditure management towards measuring the impact of implemented programmes have already been made. During the preparation of budget for 2007, five pilot ministries were selected to prepare their annual budgets by defining programmes and projects in their field of work, establishing links between these programmes and adopted strategies, and to determine costs in accordance with the defined objectives and priorities of economic and fiscal policies. In addition to this, six pilot ministries were selected to define their annual operational plans (GOP) for 2007. As the objectives of these two processes are compatible and refer to clearly established connections between the defined strategies, the programmes implemented by individual government institutions, cost allocation by priority and measuring the effects of implementation of these programmes and, consequently, measuring the effects of realisation of the defined strategies and establishing connections between the two reform processes, the preparation of the Budget for 2008 should give better results as the entire process of planning will shift to result-oriented planning.

²⁷⁸ First Progress Report on the PRS Implementation in Serbia, 2005

²⁷⁹ A more detailed description of the indirect method can be found in the First Report on the Implementation of PRS.



5.2 Analysis of Programme Realisation According to Functional Classification

- 5.2.1. The scope of data used in the analysis of budgetary allocations include: the information on incurred expenditures according to functional classification of the Budget of the Republic of Serbia in the period 2004-2006 and compulsory social insurance agencies. Table 5.2.5. shows the link between the individual categories of functional classification and the priority areas of the Strategy - economy, labour and employment, social protection, health and education.
- 5.2.2. When it comes to PRS priority areas, it is estimated that the total funds allocated to the areas which contribute to poverty reduction relative to the total public expenditure were 74.3% in 2004, 73.5% in 2005, and 72.4% in 2006²⁸⁰. The share of expenditures in Gross Domestic Product was also substantial (31.1% of GDP in 2004, 29.8% of GDP in 2005 and 28.3% of GDP in 2006). It should be taken into consideration that costs/percentages presented in this way do not only refer to activities whose direct measurable impact is poverty reduction, but also to other activities of the government sector that cannot be shown separately. The high share of GDP spending and public expenditures, which are directly connected to the implementation of the Poverty Reduction Strategy, is partly a consequence of the rather broadly defined scope of data (total expenditures of certain functions). The more precise data, based on the costs of specific programmes, would show a more modest share of these costs in GDP and in the total public expenditure.
- 5.2.3. Expenditures relating to social protection and health are predominant in the total public expenditure in the observed period of 2004-2006, while expenditures relating to education and economy, labour and employment have a relatively small share in the total public expenditure.
- 5.2.4. Expenditures relating to *education*, which plays the key role in poverty reduction but is also instrumental in preventing new poverty, indicate a growing tendency in the reporting period. The change in the structure of budgetary allocations in the forthcoming medium-term period to the benefit of *economy and education* will be influenced by the realisation of projects envisaged under the National Investment Plan. The realisation of NIP, which started towards the end of 2006, will have a more significant impact in the period to come and a crucial impact on the ever so important development role of the Poverty Reduction Strategy.

²⁸⁰ The absolute amounts of funds earmarked for certain areas of the Strategy in previous years (2004 and 2005) did not change, but the total amount of public expenditure did due to the change in methodology, causing the shares in public expenditure to change too. The change in methodology resulted in the absolute reduction in public expenditure due to the exclusion of spending on public debt, and the increase in expenditure by priority area. However, this affected the analysis of trends in the allocation of budgetary funds for certain areas of the Strategy. New amounts of public expenditure were taken over from the revised Memorandum on the Budget and Economic and Fiscal Policies in 2007 and projections for 2008 and 2009.



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5.2.5. The conclusions drawn from the analysis of budgetary allocations from the aspect of the proportion of GDP allocated for priority areas of the Strategy are similar to the conclusions drawn from the analysis of the share of these expenditures in the total public spending. In the forthcoming period, investments will have to be directed at those priority areas of the Strategy that contain a development component, i.e. economy and education, as only dynamic economic growth can improve the standard of living and cut down the spending on the social protection of existing vulnerable groups. This is confirmed by the trends in earmarking resources for social protection in the past three years. Regarding the structure of expenditure, pension funds dominate (on average, 33.8% of public expenditure and/or 13.2% of GDP). As pensions²⁸¹ represent the greatest expenditure, and bearing in mind that they cannot be financed from the regular revenues (contributions), the lacking funds are supplemented through transfers from the republic Budget. Despite its absolute reduction, the deficit of these funds remained at a relatively high level in the reporting period (about 6% of GDP). This is due to the unfavourable proportion of the number of the employed and the number of pensioners in the Republic of Serbia (on average, 1.3 in the past three years). This is why it is imperative to reform the pension system and continue the privatisation and restructuring of the economy, with a view to speeding up economic growth and increasing the rate of employment.

Table 5.2.5. - The share of expenditures in PRS priority areas in the overall public spending

		Budgetary funds		
		2004	2005	2006
Function	Economy, Labour and Employment	9.7	9.6	9.2
410	Economy in general, commerce and labour	2.2	2.3	2.9
420	Agriculture, forestry, fishing and hunting	2.7	2.2	2.0
450	Transport	2.3	2.3	1.7
620	Community development	0.1	0.1	0.0
	National Employment Agency	2.5	2.7	2.6
	Social Protection	41.2	40.2	39.6
010	Illness and disability	1.5	1.5	1.4
040	Family and children	2.6	2.6	2.4
070	Benefit payments to vulnerable population	1.2	1.4	1.3
090	Social protection unclassified elsewhere	1.3	1.2	1.2
	Pension and Disability Insurance (PDI) Funds	34.6	33.5	33.4
	PDI of the employed	31.9	30.7	30.1
	PDI of farmers ^a	1.6	1.6	2.1
	PDI of the self-employed	1.1	1.1	1.2
	Healthcare	15.3	14.9	14.8
760	Public health unclassified elsewhere	0.8	0.8	0.8
	Republic Healthcare Directorate	14.5	14.1	14.0
	Education	8.0	8.6	8.8
910	Pre-school and primary education	4.0	4.3	4.2
920	Secondary education	1.9	2.1	2.1
940	Community-college and university education	1.3	1.4	1.4
960	Ancillary education services	0.7	0.7	0.8
980	Education unclassified elsewhere	0.1	0.1	0.2
	Environment	0.1	0.1	0.1
510	Waste management	0.0	0.0	0.0
560	Environment protection unclassified elsewhere	0.1	0.1	0.1
	TOTAL	74.3	73.5	72.4

²⁸¹ Generally speaking, pensions are a social insurance category rather than a social protection one, but considering that a large number of vulnerable people (living below the poverty line) belong in this category it makes sense to include this type of expenditure in the analysis.



5.2.6. The average annual share of budgetary funds earmarked for the field of environment accounted for 0.1% of the total public spending in the period 2004-2006. The amount is negligible in comparison with the spending of other countries that face similar environmental problems.

5.2.7. So far, the analysis has been based on the distribution of funds in a narrower sense and/or only the budget funds were taken into consideration (financing source 01). However, considerable financial resources for the projects and programmes envisaged by the Strategy also come from the budget beneficiaries' own revenues, donor assistance, and domestic and foreign loans. The structure of other sources of financing (Table 5.2.7.) was uneven in the observed period, regarding both the structure of financing itself and the distribution of these funds by strategic area. Predominant sources of financing in the observed period were the budget beneficiaries' own revenue and borrowing, both in the country and abroad. In this case, considerable funds were earmarked for economy, labour and employment, social protection and healthcare, whereas spending on education and environment was modest.

Table 5.2.7. - Expenditures in PRS priority areas financed from other sources (own revenues, donations, loans and privatisation)

		Other sources of financing		
		2004	2005	2006
Function	Economy, Labour and Employment	94.5	83.7	47.7
410	Economy in general, commerce and labour	2.9	3.9	17.8
420	Agriculture, forestry, fishing and hunting	2.2	1.5	5.2
450	Transport	89.3	78.2	24.0
620	Community development	0.2	0.1	0.6
	National Employment Agency	0.0	0.0	0.0
	Social Protection	3.0	1.6	10.6
010	Illness and disability	0.0	0.0	0.0
040	Family and children	0.0	0.0	0.1
070	Benefit payments to vulnerable population	2.7	1.0	4.1
090	Social protection unclassified elsewhere	0.2	0.6	6.4
	Pension and Disability Insurance (PDI) Funds	0.0	0.0	0.0
	PDI of the employed	0.0	0.0	0.0
	PDI of farmersa	0.0	0.0	0.0
	PDI of the self-employed	0.0	0.0	0.0
	Healthcare	1.6	12.6	32.1
760	Public health unclassified elsewhere	1.6	12.6	32.1
	Republic Healthcare Directorate	0.0	0.0	0.0
	Education	1.0	2.1	9.7
910	Pre-school and primary education	0.1	0.4	0.0
920	Secondary education	0.1	0.1	0.0
940	Community-college and university education	0.0	0.0	0.0
960	Ancillary education services	0.0	0.7	0.0
980	Education unclassified elsewhere	0.9	0.9	9.7
	Environment	0.4	0.1	1.3
510	Waste management	0.0	0.0	0.0
560	Environment protection unclassified elsewhere	0.4	0.1	1.3
	TOTAL	100.0	100.0	100.0



5.3. Analysis of Local Government Budget Allocations

5.3.1. When it comes to the local self-government level, considerable funds were directed at the realisation of programmes contributing to the implementation of the Poverty Reduction Strategy. The distribution of funds at the local self-government level was analysed using the direct method, i.e. the total expenditures of certain functions were linked to the implementation of the Strategy priorities in the same way as it was done with the Republic Budget and compulsory social insurance agencies.

Table 5.3.1. - The share of budgetary expenditure by PRS priorities
in the total spending at the local government level

	2005	2006
Economy, labour and employment	45.8	47.1
Social protection	8.0	9.6
Healthcare	1.0	0.3
Education	8.5	8.4
Environment	3.5	3.6
Total	66.8	69.1

5.3.2. The data on local government expenditure indicates that considerable funds were directed at functions that are directly or indirectly connected to the implementation of the PRS. Out of the total expenditure of local self-government in 2005, 66.8% accounted for the expenditure contributing to the realisation of PRS priority. In 2006, the percentage was slightly higher, i.e. 69.1% of the total expenditure of local self-governments. The share of this type of expenditure in GDP was 3.9% and 4.2% in 2005 and 2006, respectively.

Table 5.3.2. - The share of budgetary expenditures by PRS priorities in GDP

	2005	2006
Economy, labour and employment	2.7	2.9
Social protection	0.5	0.6
Healthcare	0.1	0.0
Education	0.5	0.5
Environment	0.2	0.2
Total	3.9	4.2

5.3.3. Unlike the central government level (the Republic and compulsory social insurance agencies), the local self-government level directed most of the funds at the priority economic areas, labour and employment. More than half of the total expenditure of the local self-governments was allocated to the development component of the Strategy (economy and education) and/or poverty reduction through boosting economic growth and preventing the emerging of new categories of the vulnerable population. Proportionately lower were the funds of the local self-government allocated to the areas of social protection and healthcare²⁸².

5.3.4. Local self-governments earmarked considerable funds for the functions connected to the implementation of the PRS. The process of decentralisation should lead to an increase in the share of the local governments financing of programmes and projects directly linked to the implementation of the Strategy. Some progress has already been made in this direction when the new Law on Financing of Local Self-Government was passed. The Law came into force on January 1, 2007.

²⁸² The transfer of responsibilities to the local self-government, which will take place in the process of decentralisation, will have an effect on the investment in certain priority areas of the Strategy at the local government level. The financing of investment in the facilities for primary healthcare, as from 2007, will increase the share of this category of expenditure in the total spending of local self-government.



5.4. Conclusions

- 5.4.1. The analysis of budget allocations indicates a high share of expenditures in public spending and GDP in the function of poverty reduction. It also points to a proportionately lower share of expenditures directed at prevention of new poverty by stimulating economic growth, employment and education.
- 5.4.2. Therefore, the development component of the Strategy must become predominant in the next mid-term period, which is also envisaged by the mid-term macroeconomic and fiscal framework adopted by the Serbian Government²⁸³ in November 2006.
- 5.4.3. A more detailed analysis of the impact of programmes in the field of the PRS assumes the introduction and consistent application of a programme-oriented budgeting when planning and developing the budgets of line ministries and government institutions and when executing the budget. This implies large responsibility not only of the Ministry of Finance but of all other ministries and institutions in the country that are financed from the budget, as well as of institutions and organisations that are not budget beneficiaries but can be, directly or indirectly, connected to the objectives of the PRS.
- 5.4.4. The measurability of impact of implemented programmes shall enable the analysis of their effectiveness and efficiency from the viewpoint of the PRS implementation. This will also facilitate the directing of resources for the programmes which contribute the most to the achievement of PRS objectives.

5.5 Analysis of Foreign Assistance from the Aspect of the Poverty Reduction Strategy

- 5.5.1. The analysis of foreign assistance is based on the data obtained from the *ISDA CON* database of the Ministry of International Economic Relations (MIER), with the aim to establish to what extent foreign donations and financial assistance of multilateral institutions support the realisation of objectives of the Poverty Reduction Strategy. The foreign assistance registered in the *ISDA CON* database contains **grants** and **soft loans** with some concessional elements. It should also be mentioned that part of foreign assistance is realised outside the *ISDA CON* database, especially at the local level. This analysis is based exclusively on the assistance registered in the *ISDA CON* database, and was performed as follows: the PRS IFP established the proportion in which each donation (including soft loans) supported or did not support the realisation of the priority objectives of PRS. Aggregation of information on individual donations produced the aggregate data that was used for assessing trends of granted foreign assistance in the period of 2004-2006²⁸⁴.
- 5.5.2. Although the number of registered grants was much higher than that of soft loans in the period of 2004-2006 (410 grants, 27 soft loans), **the total amount of registered grants is almost identical to the total amount of funds obtained from soft loans** - 1.07 billion EUR (grants), 0.99 billion EUR (soft loans). This is because the amounts of soft loans granted by multilateral institutions were considerably higher than those of (usually bilateral) grants.²⁸⁵

²⁸³ Please refer to the revised Memorandum on the Budget and Economic and Fiscal Policies for 2008 and 2009.

²⁸⁴ It should be mentioned that the entire analysis was based on the information about granted foreign assistance and not on the information about realised foreign assistance. The analysis of realised foreign assistance will be done in mid 2007 when the data from final financial statements of the Republic of Serbia will be made available.

²⁸⁵ The key multilateral partners in the observed period were EBRD, EIB, and WB.



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Table 5.5.2. - Assessment of granted foreign assistant contributing to PRS

	2004		2005		2006	
	In EUR	Total (%)	In EUR	Total (%)	In EUR	Total (%)
Pillar 1	538,371,721	53%	337,671,947	60%	244,053,765	51%
Pillar 2	39,551,952	4%	21,673,137	4%	15,554,210	3%
Pillar 3	204,906,727	20%	105,608,408	19%	80,467,187	17%
Not PRS	232,925,841	23%	96,044,717	17%	140,730,242	29%
TOTAL	1,015,756,241	100%	560,998,210	100%	480,805,404	100%

5.5.3. It can be observed that **the total annual amount of granted foreign assistance has declined** since 2004²⁸⁶. This can be explained by the accelerated economic growth in the Republic of Serbia and, in particular, by the consolidated system of public finances whose deficits in the previous year's required additional sources of financing, including those from abroad.

5.5.4. Furthermore, **the percentage of foreign assistance distributed across priority objectives of PRS was relatively stable in the observed period**. In fact the greatest portion of foreign assistance (over 50%) was supporting Pillar 1 of PRS, while about 20% of foreign assistance was supporting Pillar 3 of PRS and the activities not connected to PRS. Only a minimal percentage of foreign assistance (less than 5%) was supporting the objectives contained in Pillar 2 of PRS.²⁸⁷

5.5.5. In order to identify the main reasons for the trends shown in Table 4.2.a, it is necessary to analyse the dynamics of foreign assistance distribution by sector of economy.

Table 5.5.5. - Distribution of foreign assistance by economic sectors

Sector of Economy	2004	2005	2006
Banking	2.2%	0.3%	0.3%
Budget	10.7%	25.2%	0.0%
Water management	3.5%	6.7%	0.7%
Construction	2.6%	0.9%	0.6%
Public administration	4.0%	5.9%	7.4%
Economic relations	0.9%	0.2%	4.5%
Energy	15.4%	8.8%	15.7%
Environment protection	1.8%	1.4%	7.0%
Healthcare	6.0%	1.9%	7.0%
Culture	0.0%	0.5%	0.5%
Local self-government	2.3%	4.1%	6.6%
Science and technology	0.0%	0.0%	0.0%
Education	0.9%	6.5%	1.4%
Other	0.6%	3.5%	0.1%
Agriculture	0.9%	3.2%	0.6%
Justice	2.3%	2.2%	4.0%
Private sector	6.3%	2.6%	1.3%
Labour and employment	4.6%	0.3%	1.7%
Civil society development	4.7%	8.6%	8.4%
Social sector	1.2%	2.8%	0.3%
Telecommunications	0.0%	0.0%	0.0%
Transport	27.2%	8.7%	27.7%
Trade, tourism and services	0.0%	0.8%	0.0%
Home affairs	1.2%	3.0%	3.6%
Finances	0.7%	1.8%	0.5%

²⁸⁶ To be more precise, from 2001 to 2002, when foreign assistance reached its peak (about 1.3 billion EUR per year) the falling tendency can be observed.

²⁸⁷ It is interesting that almost identical conclusions could be drawn from the analysis of grants only, ignoring the funds granted through soft loans.



- 5.5.6. The financing of fiscal deficit (of direct and indirect budget beneficiaries) required a significant percentage of foreign assistance in previous years. However, consolidation of public finances in the Republic of Serbia resulted in reduced reliance on international resources, wherefore the *budget sector* was not allocated any foreign funds in 2006. Apart from the budget, the largest portion of foreign aid was allocated to the modernisation of transport and energy infrastructure. In the period of 2004-2006, as much as **49.1% of the total amount of foreign assistance was granted for the economic sectors of Budget, Transport and Energy**. In addition to these sectors, considerable funds were earmarked for the development of civil society, healthcare, modernisation of public administration and the development of local self-governments. A substantial increase of foreign assistance directed at environment protection can also be observed.
- 5.5.7. In order to establish a connection between the allocation of foreign assistance by economic sectors and the PRS priority objectives, it is necessary to cross-reference the data in Tables 4.2.a and 4.2.b.

Sector of Economy	Pillar 1	Pillar 2	Pillar 3	Not PRS
Banking	30%			70%
Budget	100%			
Water management	56%		43%	1%
Construction	48%	0%	0%	51%
Public administration	76%	2%	4%	19%
Economic relations	86%	6%	6%	2%
Energy	49%		25%	26%
Environment protection	49%	0%	48%	3%
Healthcare			98%	2%
Culture	48%			52%
Local self-government	85%	0%	15%	0%
Science and technology				
Education	11%	8%	70%	11%
Other	51%	1%	11%	37%
Agriculture	29%		36%	35%
Justice	94%		0%	6%
Private sector	94%	4%	1%	2%
Labour and employment	24%	37%	40%	
Civil society development	44%	32%	23%	0%
Social sector	0%	0%	99%	
Telecommunications				100%
Transport	41%			59%
Trade, tourism and services	87%		12%	0%
Home affairs	28%		6%	66%
Finances	87%	2%		11%

- 5.5.8. It can be concluded that the economic sectors identified in Table 4.2.b are the most important recipients of foreign aid (Budget, Transport, and Energy) contributed most to the realisation of goals contained in Pillar 1 of PRS - thus **the domination of PRS Pillar 1 in the total foreign assistance** relative to the realisation of other priority objectives contained in PRS. It can also be observed that only the funds allocated to the sectors of labour, employment and development of civil society had a more significant impact on the realisation of objectives contained in PRS Pillar 2 - therefore the apparent neglect of this pillar. The rest of foreign assistance was distributed quite evenly between the activities that supported the objectives of PRS Pillar 3 and the activities that were not connected with the PRS objectives (telecommunications, banking).



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6 Annexes



6.1. Poverty Lines, Definition and Measurement

Poverty Line

- 6.1.1. The study defines the poverty line in two steps. In the first step, the food line was defined determined on the basis of the minimum consumer food basket, which included 193 food products from the Household Budget Survey.
- 6.1.2. The minimum consumer food basket was determined by multiplying the price of a single calorie per day at the national level, which had been determined on the basis of consumption from HBS, with nutritional minimum of 2,288 calories per day (FAO). The price of one calorie per day at the national level was determined in several steps. First, expenditures for each food article were calculated in calories per consumer unit per day for each household by multiplying the purchased amounts with their caloric value (and dividing with the number of days and number of consumer units). By summing these individual expenditures for food articles in calories per household, total household expenditure for food in calories per consumer unit was obtained. By summing these expenditures for all households, total food expenditures in calories per consumer unit per day at the national level was obtained. In the next step, the structure of food expenditures in calories at the national level was calculated by putting the expenditures in calories for each food article for all households in relation to total expenditures for food in calories at the national level. Then, the price of one calorie per food products was calculated by dividing the median price of each food product with its caloric value. The price of one calorie at the national level was calculated as a pondered average of prices of one calorie of each product, with ponderers being corresponding shares of expenditures for food in calories of each product in total expenditures for food in calories. Finally, the price of a calorie per day at the national level was multiplied with 2,288 calories per day and with 365 days. In this way, the minimum consumer food basket and/or food line was determined, amounting to CSD 31,276 per consumer unit per year, or CSD 2,606 per consumer unit per month.
- 6.1.3. The second step defined the overall poverty line which, in addition to food expenditures, included expenses for other things (clothes and shoes, hygiene and household goods, transportation, health, education, etc.). It was defined in such a way that the percentage of the population below the poverty line was equal to the percentage of the population whose food consumption is lower than the food line. In other words, the poverty line was defined as the total consumption of those households whose food consumption equals the minimum consumer basket.
- 6.1.4. In order to determine the percentage of the population whose food consumption is lower than the food line and/or minimum consumer basket, we begin with the following equation:

$$OHK = (URH/RSOS)/MKH$$

with OHK being the relation between household food consumption and minimum consumer food basket; URH is the total household food consumption; RSOS is the equivalency scale (consumer unit); and MKH is the minimum food basket.



- 6.1.5. After that, the percentage of the poor population is calculated, that is, indicator (P0) after fulfilling the following condition:

$$OHK < 1$$

meaning that the food consumption is smaller than the minimum food basket.

- 6.1.6. Finally, the complete poverty line was evaluated as consumption that gives the same percentage of the poor population as the percentage of the poor population defined by the food line. This method is based on an implicit assumption that OHK and consumption per consumer unit are equally good measurement units of real poverty. In this way, we get the poverty line which amounts to CSD 6,221 per month per consumer unit.

Table 6.1.6. - Poverty Lines Used in this Study		
	Absolute poverty line per consumer unit	Relative poverty line per consumer unit
Poor	CSD 6,221	CSD 7,171

- 6.1.7. In this study, the relative poverty line was calculated as 60% of the value of median of total household consumption per consumer unit.

Main Poverty Indicators

- 6.1.8. The most frequently used poverty indicators can be defined by Foster, Greer and Throbec (1984):

$$P(\alpha) = \frac{1}{n} \sum_{i=1}^n \left[\max \left(\frac{z - c_i}{z}, 0 \right) \right]^\alpha$$

where α is parameter, z - poverty line, c_i - unit of equivalent consumption of an individual and n - total number of persons.

- 6.1.9. For $\alpha=0$, $P(0)$ is a poverty index which represents the number of poor people in percentage of the whole population. However, this poverty indicator does not say anything about the poverty of those people, that is, how much their consumption (income) is below the poverty line. A poverty indicator which takes that into account is the poverty depth (poverty gap), which is gained for $\alpha=1$. Thus, $P(1)$ can be defined in the following way:

$$P(1) = P(0) * (\text{Average deficit}),$$

where average deficit marks average consumption (income) deficit of all poor people in the percentage from the poverty line. Poverty depth $P(1)$ represents the total consumption (income) deficit of all the poor people in the percentage from the poverty line. When the average deficit of the poor is multiplied with the number of poor and expressed in the DP percentage, the minimum amount of cash necessary for the elimination of poverty is obtained, under the assumption of perfect targeting.

- 6.1.10. Finally, for $\alpha=2$ we get $P(2)$ which is titled „severity of poverty“. This indicator measures inequality among the poor, because it gives larger ponder to the poor who are more distant from the poverty line.



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- 6.1.11. In this analysis, all three poverty indicators shall be used, that is, poverty index $P(0)$, poverty depth $P(1)$ and severity of poverty $P(2)$.

Measures of Inequality

- 6.1.12. There are many different methods which makes possible the measurement of inequality. One of them is 90/10 measure or decile measure which shows how much more the poorest person from the tenth decile (where the 10% of the rich is located) spends from the richest person from the first decile (10% of the poorest). The decile measure is insensitive to the change in distribution of household consumption from the 11th to 89th percentile.
- 6.1.13. The measure of inequality that takes into consideration the total distribution of consumption (income) is the Gini coefficient. It is calculated by using the following formula:

$$G = \frac{2}{\mu n^2} \sum_{i=1}^n \left(r_i - \frac{n+1}{2} \right) c_i$$

where n is the number of people, c_i is their equivalent consumption, r_i is equivalent consumption, r_i is i -th rang of household in equivalent ranking of consumption (for the household with the lowest consumption equivalent r_i equals 1, while for the household with highest consumption equivalent r_i equals n). The Gini coefficient is located in the interval between 0 (perfect inequality) and 1 (complete inequality). The Gini coefficient is most sensitive in the middle of consumption distribution.

Data Sources

- 6.1.14. The poverty in the Republic of Serbia was analyzed on the basis of the data obtained through the Household Budget Survey, which had been conducted in the year 2006, according to international standards and the recommendations of EUROSTAT, ILO and the UN, thus providing international data comparability.
- 6.1.15. Due to well-known difficulties in the realization of the Household Budget Survey in the period 2003-2005, it was decided to leave out those three years from the poverty analysis because the quality of the gathered data was insufficient to be used for those purposes.
- 6.1.16. A two-stage stratified, rotating sample was applied in the survey with enumeration districts as primary selection units and households as secondary ones.
- 6.1.17. Stratification variables are:
- Territory (up to the level of region)
 - Type of settlement (city and other)
- 6.1.18. Sample allocation by strata was conducted proportionally to the number of households in them.
- 6.1.19. Selection units of the first stage (enumeration districts) were chosen in proportion to their size (measured by the number of households), while households, within the framework of a chosen enumeration district, have been chosen incidentally.
- 6.1.20. Every 15 days 40 selection units were chosen, that is, 200 households (4,800 households per year).



- 6.1.21. The survey applies the method of diary keeping (a household keeps an individual consumption diary for fifteen, that is, sixteen days) regarding the items and services of individual consumption and also interview methods on the basis of questionnaires, where the reference period for durables lasts twelve months, for semi-durables, income, agriculture, hunting and fishing - three months.
- 6.1.22. Every household chosen according to the sample plan, single-member or several members including, is a survey unit. A household is: a) a community of people, whose members live together, prepare food and spend earned income jointly; b) a single person, living, preparing food and spending income on his/her own.
- 6.1.23. This survey collects data on:
- household members (demographic and socio-economic characteristics);
 - dwelling conditions (home heating methods, home size, home installations etc.);
 - level of household supply with durable consumer goods;
 - total household financial expenditures (expenses) for personal consumption (food and non-alcoholic beverages; alcoholic drinks and tobacco; clothes and shoes; housing, water, electricity, gas and other fuels, furniture, home equipment and maintenance; health; transportation; communications; recreation and culture; education; restaurants and hotels and other goods and services);
 - household incomes.



6.2. Poverty reduction strategy related laws which were adopted in the reporting period, or are in the adoption procedure

Table 6.2.1. Adopted Laws, Envisaged by the Poverty Reduction Strategy in Serbia

Law	Relevant Ministry	Published
Law on Amendments to the Customs Law	Ministry of Finance	Official Gazette of RS No. 61/05
Law on Amendments to the Law on Business Registration	Ministry of Economy	Official Gazette of RS No. 61/05
Law on Amendments to the Law on Pension and Disability Insurance	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 85/05
Law on Voluntary Pension Funds and Pension Plans	Ministry of Finance	Official Gazette of RS No. 85/05
Criminal Code	Ministry of Justice	Official Gazette of RS No. 85/05
Law on Amendments to the Law on Criminal Proceedings	Ministry of Justice	Official Gazette of RS No. 85/05
Law on Public Debt of the Republic of Serbia pursuant to Taking Over Obligations of the Republic Fund for Pension and Disability Insurance of the Employed Incurred due to Unpaid Pensions and Allowances	Ministry of Finance	Official Gazette of RS No. 85/05
Law on Public Debt of the Republic of Serbia pursuant to Taking Over Obligations of the Republic Fund for Pension and Disability Insurance of Farmers Incurred due to Unpaid Pensions and Allowances	Ministry of Finance	Official Gazette of RS No. 85/05
Law on Payment of Contributions for Pension and Disability Insurance for Specific Categories of Insurees-Employed	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 85/05
Law on Amendments to the Law on Passenger Road Transport	Ministry of Capital Investment	Official Gazette of RS No. 91/05
Law on Veterinary Medicine	Ministry of Agriculture, Forestry and Water Management	Official Gazette of RS No. 91/05
Law on Safety and Protection at Work	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 101/05
Law on Public Roads	Ministry of Capital Investment	Official Gazette of RS No. 101/05
Law on Prevention of Doping in Sport	Ministry of Education and Sports	Official Gazette of RS No. 101/05
Law on Amendments to the Law on Business Misdemeanour Penalties	Ministry of Justice	Official Gazette of RS No. 101/05
Law on Foreign Trade	Ministry of International Economic Relations	Official Gazette of RS No. 101/05
Law on Police	Ministry of Interior	Official Gazette of RS No. 101/05
Law on State Audit Institution		Official Gazette of RS No. 101/05
Law on Tobacco	Ministry of Finance	Official Gazette of RS No. 101/05
Law on Amendments to the Law on Court Organization	Ministry of Justice	Official Gazette of RS No. 101/05
Law on Amendments to the Law on Judges	Ministry of Justice	Official Gazette of RS No. 101/05



Law on Misdemeanour	Ministry of Justice	Official Gazette of RS No. 101/05
Law on Budget of the Republic of Serbia 2006	Ministry of Finance	Official Gazette of RS No. 106/05
Law on Health Care	Ministry of Health	Official Gazette of RS No. 107/05
Anti Money Laundering Law	Ministry of Finance	Official Gazette of RS No. 107/05
Law on Chambers of Healthcare Workers	Ministry of Health	Official Gazette of RS No. 107/05
Law on Substances Used in Illegal Manufacturing of Narcotics and Psychotropic Substances	Ministry of Health	Official Gazette of RS No. 107/05
Law on Amendments to the Law on Public Companies and Performing of Activities of Public Interest	Ministry of Economy	Official Gazette of RS No. 107/05
Law on Banks	Ministry of Finance	Official Gazette of RS No. 107/05
Law on Amendments to the Law on Development Fund of the Republic of Serbia	Ministry of Economy	Official Gazette of RS No. 107/05
Law on Health Insurance	Ministry of Health	Official Gazette of RS No. 107/05
Law on Scientific-Research Activities	Ministry of Science and Environmental Protection	Official Gazette of RS No. 110/05
Law on Innovation Activities	Ministry of Science and Environmental Protection	Official Gazette of RS No. 110/05
Mortgage Law	Ministry of International Economic Relations	Official Gazette of RS No. 115/05
Law on Amendments to the Law on Social Protection and Providing Social Security of the Population	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 115/05
Law on Amendments to the Law on Financial Support for Families with Children	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 115/05
Law on Amendments to the Law on Public Debt of the Republic of Serbia pursuant to Taking Over Obligations of the Republic Fund for Pension and Disability Insurance of Farmers Incurred due to Unpaid Pensions and Allowances	Ministry of Finance	Official Gazette of RS No. 115/05
Law on Amendments to the Law on Public Debt of the Republic of Serbia pursuant to Taking Over Obligations of the Republic Fund for Pension and Disability Insurance of the Employed Incurred due to Unpaid Pensions and Allowances	Ministry of Finance	Official Gazette of RS No. 115/05
Law on Issuing Counter guarantees of the Republic of Serbia and SCG pursuant to the Loan of the European Investment Bank (Project of Comprehensive Rehabilitation of Infrastructure of Flight Control - SCG)	Ministry of Finance	Official Gazette of RS No. 115/05
Law on Distribution of Transfer Allocations from the Budget of the Republic of Serbia and Participation of Municipalities, Towns and the City of Belgrade in Income Tax in 2006	Ministry of Finance	Official Gazette of RS No. 115/05
Law on Amendments to the Law on Criminal Proceedings	Ministry of Justice	Official Gazette of RS No. 115/05
Law on Prevention of Discrimination of People with Disabilities	Ministry of Labour, Employment and Social Policy	Official Gazette of RS No. 33/06
Rehabilitation Law	Ministry of Justice	Official Gazette of RS No. 33/06
Law on Amendments to the Law on Mining	Ministry of Mining and Energy	Official Gazette of RS No. 34/06
Law on Amendment to the Law on Planning and Construction	Ministry of Capital Investment	Official Gazette of RS No. 34/06
Law on Issuing Counter guarantees of RS and SCG pursuant to the Law on European Investment Bank for Financing Projects Aiming at Improving the Status of Schools - SCG	Ministry of Finance	Official Gazette of RS No. 34/06



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Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (First Loan for Programmatic Development of Policy in Private and Financial Sector)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of the International Development Association (Loan for Development of Private and Financial Sector)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (Second Loan for Structural Adjustment - Republic of Serbia)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of the European Bank for Reconstruction and Development for Financing the Reconstruction of the Section of the Belgrade- Novi Sad Highway	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (Loan for Structural Adjustment - Republic of Serbia)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (Project of Revitalization of the System for Irrigation and Drainage of Serbia)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (component Serbia and Montenegro - project for Serbia)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Issuing Counterguarantees to Serbia and Montenegro Regarding the Loan of International Development Association (Project of Consolidation of Collection and Reform of Pension Administration in Serbia)	Ministry of Finance	Official Gazette of RS No. 34/06
Law on Amendments to the Law on Telecommunications	Ministry of Capital Investment	Official Gazette of RS No. 36/06
Law on Criminal Proceedings	Ministry of Justice	Official Gazette of RS No. 46/06
Law on Arbitration	Ministry of Economy	Official Gazette of RS No. 46/06
Law on Public Skiing Venues	Ministry of Trade, Tourism and Services	Official Gazette of RS No. 46/06
Law on Securities and Other Financial Instruments Markets	Ministry of Finance	Official Gazette of RS No. 46/06
Law on Investment Funds	Ministry of Finance	Official Gazette of RS No. 46/06
Law on Accounting and Auditing	Ministry of Finance	Official Gazette of RS No. 46/06
Law on Amendments to the Law on Court Organization	Ministry of Justice	Official Gazette of RS No. 46/06
Law on Amendments to the Law on Passenger Road Transport	Ministry of Capital Investment	Official Gazette of RS No. 62/06
Law on Amendments to the Law on Contributions for Mandatory Social Insurance	Ministry of Finance	Official Gazette of RS No. 62/06
Law on Amendments to the Income Tax Law	Ministry of Finance	Official Gazette of RS No. 62/06
Law on Foreign Currency Transactions	Ministry of Finance	Official Gazette of RS No. 62/06
Law on Amendments to the Law on Payment System	Ministry of Finance	Official Gazette of RS No. 62/06
Constitution of the Republic of Serbia	Government	Official Gazette of RS No. 83/06
Law on Amendments to the Law on Budget of the Republic of Serbia 2006	Ministry of Finance	Official Gazette of RS No. 85/06
Law on Amendments to the Law on Budget System	Ministry of Finance	Official Gazette of RS No. 85/06



Law on Implementation of the Constitution of the Republic of Serbia	Government	Official Gazette of RS No. 98/06
Law on Ministries	Republic Legislation Secretariat	Official Gazette of RS No. 48/07
Law on Implementation of the Constitution of the Republic of Serbia	Government	Official Gazette of RS No. 98/06
Law on Ministries	Republic Legislation Secretariat	Official Gazette of RS No. 48/07
Law on Amendments to the Law on Criminal Proceedings	Ministry of Justice	Official Gazette of RS No. 49/07
Law on Amendments to the Law on State Audit Institution		Official Gazette of RS No. 54/07
Law on Amendments to the Law on Free Access to Information of Public Importance		Official Gazette of RS No. 54/07
Law on Amendments to the Law on Ombudsman	Ministry of Public Administration and Local Government	Official Gazette of RS No. 54/07
Law on Budget of the Republic of Serbia 2007	Ministry of Finance	Official Gazette of RS No. 58/07
Law on Amendments to the Law on Customs Tariff	Ministry of Finance	Official Gazette of RS No. 61/07
Law on Amendments to the Law on Property Taxes	Ministry of Finance	Official Gazette of RS No. 61/07
Law on Amendments to the Law on Tax Proceedings and Tax Administration	Ministry of Finance	Official Gazette of RS No. 61/07
Law on Amendments to the Law on Excise	Ministry of Finance	Official Gazette of RS No. 61/07
Law on Amendments to the Law on Value Added Tax	Ministry of Finance	Official Gazette of RS No. 61/07
Law on Amendments to the Law on Civil Servants		Official Gazette of RS No. 64/07

Table 6.2.2. - Draft Laws which have Entered the Parliament Procedure and are Envisaged in the Poverty Reduction Strategy in Serbia

Law	Relevant Ministry	Date of entry into the Parliament Procedure
Draft Law on Amendments to the Law on Government	Government	Draft Law in the Parliament procedure as of 14.06.2007.
Draft Law on Amendments to the Law on Public Administration	Government	Draft Law in the Parliament procedure as of 14.06.2007.
Draft Law on Amendments to the Law on Tobacco	Government	Draft Law in the Parliament procedure as of 15.06.2007.
Draft Law on Ratifying the European Charter on Local Government	Government	Draft Law in the Parliament procedure as of 29.06.2007.



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Table 6.2.3. - Laws which are not Defined in the Poverty Reduction Strategy in Serbia and have been Recognized as Relevant for Poverty Reduction in the Republic of Serbia

Law	Relevant Ministry	Published
Law on Programme of Protection of Participants in the Criminal Proceedings	Ministry of Justice	Official Gazette of RS No. 85/05
Law on Conducting Criminal Sanctions	Ministry of Justice	Official Gazette of RS No. 85/05
Law on Juvenile Delinquents and Criminal and Legal Protection of Minors	Ministry of Justice	Official Gazette of RS No. 85/05
Law on Red Cross of Serbia		Official Gazette of RS No. 107/05
Law on Amnesty	Ministry of Justice	Official Gazette of RS No. 33/06
Law on Amendments to the Law on Cooperatives	Ministry of Economy	Official Gazette of RS No. 34/06
Law on Overtaking Shareholding Companies	Ministry of Finance	Official Gazette of RS No. 46/06
Law on Training of Judges, Public Prosecutors, Deputy Public Prosecutors and Assistant Judges and Prosecutors	Ministry of Justice	Official Gazette of RS No. 46/06
Law on Free Zones	Ministry of Finance	Official Gazette of RS No. 62/06
Law on Financing Local Government	Ministry of Finance	Official Gazette of RS No. 62/06
Law on Agricultural Land	Ministry of Agriculture, Forestry and Water Management	Official Gazette of RS No. 62/06
Law on Salaries of Civil Servants and Employees	Republic Legislation Secretariat	Official Gazette of RS No. 62/06
Law on Organic Production and Organic Products	Ministry of Agriculture, Forestry and Water Management	Official Gazette of RS No. 62/06
Law on Ratification of Contracts on Establishing the Energy Community between EU and AL, BG, BiH, Cr, BJRM, PCG, RUM, Republic of Serbia and Temporary Mission of UN in Kosovo pursuant to Resolution 1244 SC UN	Ministry of Mining and Energy	Official Gazette of RS No. 62/06
Law on Amendments to the Law on Broadcasting	Ministry of Culture	Official Gazette of RS No. 62/06
Law on Amendments to the Law on Broadcasting	Ministry of Culture	Official Gazette of RS No. 85/06