

POVERTY IN SERBIA AND REFORM
OF GOVERNMENTAL SUPPORT FOR THE POOR



Center for Liberal-Democratic Studies

Biljana Bogičević, Gorana Krstić and Boško Mijatović
POVERTY IN SERBIA AND
REFORM OF GOVERNMENTAL ASSISTANCE FOR THE POOR

Publisher

Center for Liberal Democratic Studies
www.clds.org.yu

Editor

Dragor Hiber

For publisher

Zoran Vacić

Belgrade, 2002

*English translation of this study was provided by International
Monetary Fund*

Biqana Bogićević
Gorana Krstić
Boško Mijatović

**POVERTY IN SERBIA
AND REFORM
OF GOVERNMENTAL
SUPPORT
FOR THE POOR**

Contents

Prologue	7
I POVERTY AND INEQUALITY OF INCOME	9
1. Introduction	9
2. Methodology of Poverty and Income Inequality Analyses	10
3. Data from the Survey on Household Consumption – Flaws and Limitations	16
4. Empirical Results of Poverty and Income Inequality Analyses	18
5. Conclusion	35
II ANALYSIS OF THE GOVERNMENTAL SUPPORT SYSTEM FOR THE POOR	37
1 General characteristics of the system	37
2 Financial security of families – FSF	48
3 Child allowance	57
4. Conclusion	64
III SHORT-TERM REFORM OF GOVERNMENTAL SUPPORT SYSTEM FOR THE POOR	69
1. Possible models of assistance for the poor	69
2. Present Support System for the Poor	78
3. Proposal for Short-term Reform	89
Economic growth and poverty	89
Social politics and poverty	90
Changes in the system of governmental support for the poor	92
Basic strategies	92
Welfare reform	93
Reform of child allowance	104
About the authors	109

Prologue

This study is the result of research undertaken for the Serbian Ministry for Social Affairs.

The first chapter was written by Gordana Krstić, the second by Biljana Bogičević, and the third by Boško Mijatović.

We are grateful to UNICEF (United Nations Children Fund), who financed this research.

We are grateful to Mića Lišanin, Mladenka Miletić, Nevenka Rajković and Sveta Šobat, experts from the Ministry of Social Affairs, for their selfless assistance.

We are grateful to Gordana Matković, Branko Milanović and Aleksandra Pošarac for their very useful suggestions.

December 2001

Boško Mijatović

P.S. The law on child allowances was substantially modified during the editing stage of this study (April 2002).

I Poverty and Inequality of Income

1. INTRODUCTION

The two key factors that affect the growth of poverty in a country are the decrease of the social product and the increase of inequality of income, along with a wide range of other economic, social and political factors. The deterioration of the population's standard of living and the growth of poverty in Yugoslavia/Serbia in the past decade are mainly attributed to the great reduction of economic activity that was the result of a ten-year general political and economic crisis, war in the surroundings, international isolation of the country and the NATO aggression.

The employment rate was not adjusted to the sharp decrease of economic activity over several years so that, along with a large and continuously growing open unemployment rate, the rate of hidden unemployment grew, reaching the rate of over 30% of the total employment. This situation on the labor market caused the decrease of real earnings and delays in their payment, which generated drastic financial impoverishing and social differentiating of the population. The picture of poverty is added to by the 600,000 refugees and displaced persons¹ that found refuge on the territory of Serbia.

The results of empirical research show that the main survival strategies of households in Serbia in the year 2000 were the reduction of needs, the independent performing of production and services for personal needs, decrease in savings or sale of property, as well as undertaking ventures in informal economy. Namely, the decrease of real earnings in the past decade significantly influenced the household income structure change. Pro-

1 According to UNHCR and ICRC

duction for personal needs increased its participation in total available household assets (from 11.7% in 1990 to 17.8% in the first half of 2000), while within cash assets there was a decrease in the participation of income from full-time jobs (from 49% to 34.4%) and increase in the participation of income from informal economy (from 3.6% to 6.2%), as well as an increase in the participation of decreased savings (from 5.9% to 8.8%). Income on the basis of social security and social assistance made up 1.2% of the total household income in 1990, while this participation was 0.7% in the first half of the year 2000. On the other hand, the growth of poverty can also be perceived through the analysis of the household expenditure structure, since poorer households spend the most part of their income for food, and a smaller part for clothes and other expenses. Thus the participation of expenses for food was increased from 36% in 1990 to 43.1% in the first half of the year 2000.

The inequality of the income distribution of the population in Serbia is not large, in comparison to some countries in transition. The relative stability of the value of the Gini coefficient in the greater part of the ten-year period shows that the decrease of real income of the population is a much more important factor in explaining the growth of poverty than is the increase of the income dispersion.

The text of this analysis is organized in the following manner. The methodology of the analysis of poverty and income inequality is briefly presented in the first part. A description of the survey data that was used in this research, with its basic flaws and limitations, is given in the second part. The third part presents the results of the empirical analyses of poverty and income inequality in Serbia in the first half of the year 2000, while concluding discussions are given in the fourth, last part.

2. METHODOLOGY OF POVERTY AND INCOME INEQUALITY ANALYSES

For the analysis of poverty it is necessary to define the aggregate for measuring the standard of living, that is, poverty, then to determine the line of poverty, and finally, to adjust this to the economy of volume, that is, to break it down into consumer units.

The standard of living of the population can be measured on the basis of household expenditure or of household income.

There are several reasons to use household expenditure as the more adequate aggregate for measuring the standard of living, that is, poverty. The first reason is that household expenditure is more even than income, since in many countries in transition salaries were not and still are not paid out regularly, as was the case in Yugoslavia in the past several years. The second and perhaps the most important reason is that the people questioned in surveys usually endeavor to hide income that stems from illegal or semi-legal activities, but not the expenditure that stems from a thus earned income. The large volume of informal economy in countries in transition qualifies expenditure as a more adequate measure of poverty. The third reason is that expenditure in kind, especially in rural areas, is an important component in the feeding of the population, and this is not a standard component of income expressed in money.

Defining household income

Poverty in Serbia was analyzed on the basis of household income in spite of the aforementioned reasons for using household expenditure as the basic aggregate in poverty research. Using household income enables comparison with previous poverty studies in Yugoslavia, which were based on household income and income inequality analysis enables international comparability with a greater number of countries than does expenditure inequality analysis.

The analysis of poverty in Serbia is based on the concept of regular household income that consists of:

1. income from full-time jobs;
2. income from non-full-time jobs;
3. income from land-shop;
4. income on the basis of pension security;
5. other income on the basis of social security and social assistance;
6. income from the letting of apartments, houses, mobile and immobile property;
7. foreign income, gifts; and
8. the value of expenditure in kind.

Income from the sale of apartments or land was not included since these one-time transactions can cloud the picture of regular household income that is of particular importance for poverty analysis.

Using data on available household assets as the basic aggregate for measuring poverty, instead of data on regular household income, twists the true picture of poverty. The use of available household assets artificially increases the income, since they include income the origin of which is the decrease of net household assets (decrease in savings or obtained loans), which are part of the capital, and not the charge account of the population. As a result, lower values of poverty indicators are received.

Poverty Line

Poverty analysis also depends on the definition of the poverty line. A person is considered poor if his income is below a subsistence minimum (poverty line), necessary for the satisfaction of minimal subsistence needs. The subsistence needs of an individual of a family can be defined on various levels, so the poverty line is a rather arbitrary category that depends on the time and the place for which it is defined.

There are two types of poverty lines: absolute and relative. The absolute poverty line defines the absolutely minimal standard of living and is usually based on a fixed consumer basket of food necessary for the fulfilling of minimal needs for a certain calorie amount and structure, increased by the amount of other expenses, such as clothing, hygiene, heating, lighting etc. A thus defined absolute poverty line differs from country to country depending on the structure of the consumer basket and, in the interest of international comparability, is converted into US dollars of the same purchase might. The official poverty line in Slovenia is fixed at the amount of 37,000 tolar (370 DEM) where the head of the family is concerned, while coefficients ranging from 0.3-0.8, reflecting the economy of volume, are applied to other members of the household.

The relative poverty line defines poverty in comparison with the national level of the standard of living and is used for international comparisons of characteristics of the poor. It is usually defined as a certain percentage of the median or the average household income, and thus it changes depending on the fluctuations of the average standard of the population. In the Republic of Macedonia the relative poverty line is defined as 60% of the median of the annual income of the population².

2 D. Johnson – Restructuring Social Welfare Allowance, Working Paper: Seminar for Government Officials, 2000

In Yugoslavia/Serbia there is no official poverty line, but there are several criteria that can be used in poverty analysis. The first criteria is the consumer basket of the Federal Bureau of Statistics (FBS) that is defined as the minimal consumer basket of food and drink for a four-member household that is necessary for satisfying the minimal needs for food in accordance with nutritional demands. It consists of 65 products, and the basis for the calculation of minimal needs for nutrition was the data on the expenditure of the lowest decile of non-agricultural four-member households. In the first half of the year 2000 this expenditure amounted to 8328 dinars per consumption unit or around 30 US dollars per month (see the next part on units of equal consumption).

The basic flaw of the FBS consumer basket is the somewhat broader list of food and beverage articles compared to the sustenance minimum, while, on the other hand, it does not contain expenses for clothing, sustaining minimal housing conditions, as well as elementary hygienic, health and educational needs. However, if we assume that the adequate basket of food and drink would be by about 30% less than the current one, then the increase for the other expenses that are now not included, and which usually amount to 20-30% of the total value of the consumer basket, would approximately give its present value. The advantage of using the FBS consumer basket is comparability with previous poverty studies that were most frequently based on this poverty line.

As opposed to the FBS consumer basket, the World Food Program (WFP) defined in 1999 the minimal consumer basket per capita that consists of the consumption of food, as well as minimal expenses for hygiene, fuel and electricity. This basket was defined on the basis of consumption per capita of the lowest part of income distribution (first two deciles according to HBS)³ that was increased to satisfy all nutritional demands. Expenses for hygiene, fuel and electricity represent the expenses of the most poor, and their value amounted to around 50% of the value of the consumer nutrition basket. The total value of the consumer basket for the first half of the year 2000 was 5570 dinars per capita or about 20 US dollars on average per month. Since the issue is the fulfilling of subsistence needs of the population, we shall regard this poverty line as the line of extreme poverty. The basic

3 Survey on household consumption, Federal Bureau of Statistics.

flaw of this basket is that it is based on the per capita concept that cannot be adjusted so as to portray the economy of volume.

Units of equal consumption

The household income or household expenses must be adjusted to the size of the household taking into account the economy of volume, since some expenses are shared amongst the members of the household, such as expenses for furniture, for the use of automobiles, for newspapers etc. The economy of volume can be approximated by adjusting the size of the household to the variable that represents consumption units. For example, a household that has 3.5 consumption units spends 3.5 times the amount that an adult individual spends. Apart from the size of the household, the gender and ages of the household members also influence the required size of income, that is the expenses of the household, so consumer units can take into account these characteristics of the household and its members as well.

Consumer units can show merely the size of the household, so they depend on one parameter θ . The household income by consumer units can be represented by the following formula:⁴

$$\text{INC}_{\text{bcu}} = \frac{\text{INC}}{n^{\theta}},$$

where INC = household income; n = number of household members and θ = parameter.

The special case when $\theta = 1$ represents income per capita. OECD uses the value of $\theta = 0.7$. For a typical household size in countries of Eastern Europe and countries of the former Soviet Union, the aforementioned formula represents a simplification of the OECD scale according to which the first grownup = 1, the second grownup = 0.7, and children = 0.5. However, the previous exponential formulation simplifies the calculation.

Units of equivalent consumption in HBS are calculated for each household by correcting by the difference in the expenditure of household members due to the difference in ages, gender and profession. The value of consumer units for men ranges

4 J. Braithwaite, C. Grootaert and B. Milanovic – Poverty and Social Assistance in Transition Countries, St. Martin's Press, 1999.

from 0.33 for children up to one year of age to 1.50 for miners and workers in industry for performing hard manual labor. The value of consumer units for women ranges from 0.33 for children up to one year of age to 1 for workers in industry and agriculture.

Since the FBS consumer basket applies to four-member households, it was necessary to calculate the value of the consumer basket per consumer unit on the basis of consumer units from the HBS. Thus the value of the FBS consumer basket was divided by 3.3 consumer units.

A detailed analysis of poverty in Serbia in the first half of the year 2000 was based, first of all, on the FBS consumer basket expressed in terms of consumer units, representing the higher poverty line and on household income per consumer units; and second, on the FBS consumer basket per capita, representing the lower poverty line and on household income per capita.

Poverty and Income Inequality Indicators

The most frequently used poverty indicators can be defined, according to Foster, Greer and Thorbecke (1984), in the following manner:⁵

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

where α = parameter; χ = poverty line; c_i = unit of equivalent unit consumption and n = total number of persons.

For $\alpha = 0$, $P(0)$ is the poverty index that represents the number of poor people as a percentage of the total population. However, this poverty indicator says nothing about how poor these people are, namely about how far under the poverty line is their income (expenditure). The poverty indicator that takes that into account as well is the poverty deficit that is obtained with $\alpha = 1$. Thus $P(1)$ can be defined in the following manner:

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

where the average deficit represents the average income deficit of the poor as a percentage of the poverty line.

5 Making Transition Work for Everyone, World Bank, 2000.

In this poverty analysis the poverty index $P(0)$ and the average income deficit $P(1)/P(0)$ will be used as poverty indicators.

The inequality of population income distribution or population income dispersion was measured with two indicators. These are the decile relation (90/10) and the Gini coefficient. The relation 90/10 represents the relation of the population income of the 90th and the 10th percentile. This relation can be decomposed as the product of the 90/50 relation and the 50/10 relation. This decomposition tells us in which measure the relation 90/10 is due to the dispersion of the highest population incomes, and in which it is due to the dispersion of the lowest population incomes. However, the decile relation is not sensitive to outliers, neither in the highest parts of the income distribution, nor in the lowest parts of the income distribution. Since the 90/10 relation tells us nothing about what is going on in other parts of the income distribution (for example between the 13th and the 88th percentiles) we shall also use the Gini coefficient for the analysis of population income distribution inequality.

The Gini coefficient is defined in the following manner:

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

where n = number of persons, c_i = their income (expenditure), μ = average income (expenditure), r_i is the rank of the i^{th} household in the ranking of income (expenditure).

The value of the Gini coefficient ranges from 0 to 1, where 0 represents absolute equality, and 1 represents absolute inequality of income distribution.

3. DATA FROM THE HOUSEHOLD BUDGET SURVEY – DRAWBACKS AND LIMITATIONS

The poverty analysis was performed on the basis of individual data from the HBS for the first half of the year 2000. The survey encompassed 2150 households on the territory of Serbia (without Kosovo and Metohia). The HBS is performed quarterly on the territory of FRY, and since 1999 the population on the territory of Kosovo and Metohia is not surveyed. The survey encompasses the regular population of FRY, and so does not include refugees and displaced persons.

The basic purpose of this survey is to gather data on household income, expenses and consumption, as well as some of the more important elements of the population's standard of living (housing conditions, possessing of durable consumer goods, etc.), and some data on household members. The data is as follows:

1. The value of available assets according to sources of income (assets in money and the value of expenditure in kind);
2. the value of assets used according to the purpose of spending (cash purchases, loans and the value of expenditure in kind);
3. the amount of assets used for personal consumption (amounts purchased and amounts from personal production);
4. basic data on housing and the grounds for using the apartment/house;
5. household possessing of durable consumer goods;
6. data on farm elements;
7. consumption and sale of agricultural products, cattle and other farm products;
8. basic data on household members.

Since the HBS was devised more than 20 years ago and its conception has not changed much since then, we shall list its basic flaws and limitation. These are:

1. The artificial synchronization of household income and expenses. Namely, according to the HBS methodology, used household assets cannot be greater than available household assets, while available assets can be greater than used assets by a maximum of 2%⁶. This practically forces households to artificially synchronize its income and expenses. In this manner the important information on income from the informal economy, which are most frequently reported but can be seen through expenditure, is lost.
2. The recording of income and expenses was not performed by entering them into a journal as was the case up to the start of the 90's, when households received financial compensation for such an engagement. Relying on the memory of surveyed persons or on their records based on good will casts doubt on the reliability of the recorded values and amounts.

6 Survey on Household Consumption in 1988, Methodological Material 333, Federal Bureau of Statistics.

3. Data on household members is very scant. They are related to gender, age, relation to the head of the household, occupation and the social-economic status of household members. However, there is no data on their education, as one of the main indicators of poverty.
4. Data on household possessing of durable consumer goods can be good indicators of poverty if the list of durable consumer goods is adjusted to the general economic and technological development. The list of durable consumer goods in the HBS is very out-of-date, because it contains some elements that are very rarely used today, such as accordions, tape recorders and gramophones. On the other hand, it does not contain some other durable consumer goods that can be good indicators of poverty such as, for example, computers and mobile phones.

4. EMPIRICAL RESULTS OF POVERTY AND INCOME INEQUALITY ANALYSES

Poverty and income inequality indicators

The poverty analysis was performed by using household income as the basic aggregate for the measuring of poverty. Table 1 shows that in the first half of the year 2000 a little over a third of the population in Serbia (36.5%) was poor, since their income was on average less than 30 US dollars per month (the higher poverty line). Of that, 18.2% lived in absolute poverty since their income was on average less than 20 US dollars per month (the lower poverty line). In other words, this means that around 2.8 million persons in Serbia were poor, that is, around 1.4 million people were extremely poor⁷. Viewed by households, 31.6% or around 755 thousand households in Serbia lived below the higher poverty line, that is 15.6% or around 373 thousand households lived below the lower poverty line. The picture of poverty in Serbia is drastic, bearing in mind that the aforementioned data does not encompass refugees and displaced persons who are, surely, more endangered than the regular population of Serbia.

7 If available household assets had been used as the basic aggregate for measuring poverty, instead of regular household income, the poverty index would be 30.7% on the basis of the higher poverty line, that is, 14.9% on the basis of the lower poverty line.

According to the third poverty line, which represents 50% of the median of total household income by consumer unit, 10.1% of the population was poor. Comparing this poverty line to the line of extreme poverty, which is higher by 5.5%, we reach the conclusion that the concentration of people above the lowest poverty line is extremely high since the slight moving of this poverty line upwards increases the number of poor people by 80%.

Table 1. Indicators of poverty in Serbia in the first half of the year 2000, in %

	Poverty line		
	FBS consumer basket (8328 dinars)	WFP consumer basket (5570 dinars)	50% of total income median (5281 dinars)
Poverty index*	36.5	18.2	10.1
Poverty gap**	3.1	0.9	0.4
Average income deficit***	25.4	22.7	20.4

Notes: The FBS consumer basket for four-member households was calculated into consumer units.

The WFP consumer basket is per capita. Household income in the first case was calculated by consumer units and in the second case per capita. The third poverty line represents 50% of the median of total household income by consumer units.

* The poverty index represents the percentage of participation of the poor in the total population

** The poverty gap represents the percentage of the GDP that is necessary for the income of the poor to be equal to the poverty line, assuming perfectly targeted social assistance for the poor.

*** The average income deficit represents the average deficit of the income of the poor as a percentage of the poverty line.

Source: Calculated on the basis of the Survey on Household Consumption, Federal Bureau of Statistics.

The results of the poverty analysis will hereafter in this text be shown only for the higher and lower poverty lines (FBS consumer basket and WFP consumer basket).

The line of absolute poverty that was, on average, 928 dinars per capita per month, is significantly higher than the official maximum level of social security (table 1a), that is determined per family depending on the number of household members for users in those municipalities in which average earnings are equal to or higher than the average earnings in Serbian economy. In the first quarter of the year 2000 this average was 1206 dinars, and in the second quarter 1463 dinars. Half of this amount was received

per month by a single-member household, which is significantly less than the line of absolute poverty per capita.

The difference between the line of absolute poverty and the official line for financial security of the family (FSF) becomes even greater with households of two or more members since the amount of FSF per member decreases with the increase of the size of the family. Namely, a two-member family receives 70% of the mentioned amount, a three-member family 90%, a four-member family 94% and a family with five or more members 100% of this amount. Apart from that, the amount of FSF is several times less in underdeveloped municipalities than the aforementioned maximum level of social security for families that live in municipalities where average earnings are equal to or greater than the average earnings in Serbian economy. This points to the fact that the present criteria for the enforcing of FSF are significantly more rigorous than the height of the WFP consumer basket, which was regarded as the line of absolute poverty.

Table 1a

	Poverty line		
	FBS consumer basket by consumer units	WFP consumer basket per capita	Social security line for one-member households
Average monthly amount in dinars	1388	928	667
Average monthly amount in USD	30	20	14

Notes: The FBS consumer basket was used as the higher poverty line, while the WFP consumer basket represents the line of absolute poverty. The social security line is the official poverty line for financial security of the family (FSF).

The line of absolute poverty is close to minimal pensions in that period, while minimal wages were up to three times lower than the line of absolute poverty.

Table 1 shows that the average income deficit is a relatively stable variable since its value does not change significantly with the change of the poverty line. The poor population had average incomes that were smaller by 25.4% than the higher poverty line, while with extreme poverty the average income deficit in relation to the poverty line was 22.7%.

Table 2. Poverty indicators according to the higher poverty line, in %

	1990	1995	I-VI 2000
Poverty gap	1.0	4.1	3.1
Average income deficit	18.7	23.2	25.4

Note: The data for 1990 and 1995 applies to FRY according to A. Rozatas: Human Development Report Yugoslavia (1997), and for the first half of 2000 the data applies to Serbia without Kosovo and Metohia.

Table 2 shows that growth of poverty occurred in the past decade, assuming that the data for Serbia for the years 1990 and 1995 did not greatly differ from the data shown for FRY. The poor needed more and more income in order to even out with the poverty line.

The data also indicates that in the year 2000 3.1% of the GDP were necessary for the income of the poor to even out with the higher poverty line assuming perfectly targeted social assistance for the poor. This is significantly higher than in 1990 when the poverty gap was 1% of the GDP and when the GDP was significantly higher.

Assuming perfectly targeted social assistance for the poor, in order to eliminate poverty in Serbia in the year 2000 it was necessary to provide from 73 million USD to 253 million USD, depending on the chosen poverty line. As the assumption of perfectly targeted assistance is unrealistic, the real assets necessary for eliminating poverty could be several times higher than this minimal amount. In market economies they are at least twice as high as the minimal amount necessary for eliminating poverty in conditions of perfectly targeted assistance. In transition countries

Table 3. Inequality in the distribution of household income, in %

	Total household income	
	Per capita	Per consumption unit
Decile relation (90/10)	3.46	3.52
Relation (50/10)	1.86	1.92
Relation (90/50)	1.86	1.83
Gini coefficient	0.283	0.284
Average	10276.4	12028.1
Median	8973.1	10562.4

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

(Poland, Hungary, Bulgaria, Estonia and Russia), for 1 US dollar of assistance for the poor the costs of social assistance range from 1.5 US dollar to 8 US dollars (not counting administrative costs of paying out these funds).⁸

The value of the Gini coefficient for the first half of the year 2000, calculated for household income per capita and by consumer units, was 0.28. The distribution inequality of the population's income in Serbia is not great in comparison with some transition countries, such as the Russian Federation (0.46-0.47), Tajikistan (0.47), Moldavia (0.41-0.42), Macedonia (0.35-0.37) and Croatia (0.36-0.35).⁹ The relatively stable value of the Gini coefficient in the greater part of the ten-year period shows that the decrease of real earnings of the population is a much more important factor in the explaining of the growth of poverty than is the decrease of the dispersion of the income. Namely, the value of the Gini coefficient for FRY in 1990 was 0.28, and in 1995 0.25¹⁰. However, it should be born in mind that the HBS does not encompass in full the income from informal economy that can have a greater dispersion than income from the regular economy,¹¹ and it also does not encompass the incomes of the richest households, since they, as a rule, refuse to participate in such surveys. Therefore it is assumed that the inequality rate of the income distribution in Serbia is higher, which some other pointers also indicate, such as the consumption of luxury products or real-estate transactions, as well as the data from some other surveys that are not undertaken by official statistics officers but by various research institutes for which it is assumed that the answers are more unbiased.

In spite of the artificial synchronization of available and used household assets, a part of the informal economy was still encompassed by this survey. The informal economy is defined so as to encompass income not from full-time jobs (additional labor of employed and other members of the household). Namely, a quarter of the households had income from the informal economy that amounted to 12.6% of income from the regular economy. Almost a third of the population that had income from

8 J. Braithwaite, C. Grootaert and B. Milanovic, same

9 Making Transition Work for Everyone, World Bank, 2000

10 A. Posarac – Human Development Report Yugoslavia, Economics Institute, Belgrade, 1997.

11 G. Krstić, B. Mijatović and others – Reintegration of the Informal Economy and Development of the Private Sector in Serbia, Economics Institute and LEX, 2001.

the informal economy was poor, while 16.6% lived in absolute poverty. On the other hand, 23.1% of the households that lived below the higher poverty line had income from the informal economy, and 26.3% of the households that lived in absolute poverty. So low a percentage of income from the informal economy in relation to income from the regular economy could lead us to the conclusion that the informal economy does not greatly disrupt the targeting of certain forms of social security (FSF, for example). However, it should be born in mind that the survey data of official statistics officers underestimates both the participation on the hidden labor market and the height of the income from these irregular activities. Namely, according to the informal economy survey from the year 2000, undertaken by an independent research institution, at least 30% of the active population was involved in activities of the informal economy, with monthly incomes from the informal economy that were by 6.8% higher than those from the regular economy.¹²

Poverty by household type and composition

While poverty was mostly a rural phenomenon at the start of the 90's, with the deepening of the economic crisis the urban population became significantly more affected by the decreased standard of living and poverty than the rural population¹³. Like in 1995,¹⁴ in the first half of the year 2000 the urban population, i.e. the population that does not have income from agriculture, had an above-average poverty index, with a significant difference to the poverty index of the rural population (table 4). However, although there are significant differences between the poverty indexes of these two categories of the population, these differences are lost when their average income deficit is regarded. In other words, they were approximately equally poor, because on average they were lacking approximately the same amount of income to even out with the poverty line.

12 Average monthly earnings per hour in the informal economy were more than two times higher than in the regular economy. See: G. Krstić, B. Mijatović and others, same.

13 According to the methodology of the survey on household consumption the classification of the population into urban and rural was performed according to the choice of the population's income, and not according to their place of residence. Urban population was defined as those that did not have income from agriculture in their income structure, while rural population also had income from agriculture.

14 A. Posarac, same

Table 4. Poverty by source of household income*, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Total	36.5	18.2
Urban	39.7	21.5
Rural	29.4	12.6
	Average income deficit	
Total	25.4	22.7
Urban	25.7	22.9
Rural	24.5	21.7

** Urban population is that which does not have income from agriculture in its income structure, while rural population has income from agriculture.

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

The basic reason of the relatively smaller participation of poor in the rural population is the possibility of producing food for personal needs, which was particularly present in the period of economic crisis. Namely, the participation of expenditure in kind in total household income increased from 11.7% in 1990 to 17.8% in the first half of the year 2000. The importance of expenditure in kind for the survival of the population is best seen through the fact that the percentage of poor people would be significantly increased if the income of households were to be decreased by the amount of expenditure in kind (from 36.5% to 44.4%, that is, from 18.2% to 30.7%). This increase in the number of the poor is significantly higher with poorer households, since they have a greater participation of expenditure in kind in the total household income.

Table 5 shows poverty according to the number of supported household members. The least endangered were those households that do not have supported members. Poverty grows with the increased number of supported persons, and so the poorest are those households with three or more supported persons. Their poverty index reached 51.4% according to the higher poverty line, that is, 29.9% according to the lower poverty line, which is significantly higher than the relevant average poverty index. The average income deficit also grows with the increased number of supported persons.

Table 5. Poverty by number of supported household members, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Number of supported persons		
Total	36.5	18.2
0	15.4	3.5
1	31.7	14.8
2	40.8	20.1
3 and more	51.4	29.9
	Average income deficit	
Number of supported persons		
Total	25.4	22.7
0	20.0	19.7
1	23.6	19.1
2	27.8	23.3
3 and more	28.2	26.6

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Table 6 shows poverty according to the number of household members with income from labor. Income from labor is defined as income from the labor of employed, active farmers, as well as income of active persons in other branches. Poverty, measured by poverty index and average income deficit, decreases with the increased number of household members with income from labor.

Poverty indicators according to household composition are shown in table 7.

The poverty index increases with the number of household members. A significant difference can be noticed between poverty indicators in families with children and in families without children. Namely, apart from two-member households with children (the number of which is unusually small in the survey), three- and more-member households with children had a significantly higher percentage of the poor than did households without children, of equal number, and also a higher average income deficit. The most endangered were households with more than three members, which had an above-average poverty index, and

Table 6.
Poverty by number of household members with income from labor*, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
Number of persons with income from labor	Poverty index	
Total	36.5	18.2
0	31.1	20.2
1	39.0	20.3
2	36.6	18.4
3 and more	36.5	13.6
Number of persons with income from labor	Average income deficit	
Total	25.4	22.7
0	25.1	22,0
1	26.1	26.3
2	25.6	20.2
3 and more	23.8	22.6

* Income from labor encompasses income from the labor of employed, active farmers and active persons in other branches.

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

among them the households with children. Almost half of the population (49.2%) that comes from households such as these lived below the higher poverty line, while 28,1% lived below the line of absolute poverty.

A below-average poverty index when the higher poverty line is used can be noted with the population that lives in pensioner households. If poverty is regarded in relation to the lower poverty line, then the reverse situation is noted, namely that the population of pensioner households has an above-average poverty index. This is due to the fact that the increase of poor population that comes from pensioner households is much less when the lower poverty line is raised is much less than the growth of poor population from other households.

Table 7. Poverty according to household composition, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Household type		
Total	36.5	18.2
One-member	14.0	9.8
Two-member with children*	9.1	0
Two-member without children	23.5	10.2
Three-member with children	40.9	17.3
Three-member without children	28.1	10.9
More-member with children	49.2	28.1
More-member without children	42.2	21.8
Pensioner**	31.7	19.7
Other	37.1	18.0
	Average income deficit	
Household type		
Total	25.4	22.7
One-member	25.6	18.9
Two-member with children*	13.0	0
Two-member without children	21.0	20.0
Three-member with children	25.7	19.1
Three-member without children	24.6	23.7
More-member with children	28.4	25.0
More-member without children	26.7	24.2
Pensioner**	24.3	21.6
Other	25.7	23.0

* The HBS included only 11 persons that live in this type of household.

** Pensioner households are defined as non-agricultural households whose members receive income solely on the basis of pension insurance. Other members of these households can only be supported persons.

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Poverty by gender, age and social-economic status of the population

Men and women were approximately equally struck by poverty, so the percentage of poor men and women is approximately the same (table 8).

Regarded according to age, poverty was dominant with children (up to 18 years of age). Namely, 46% of the population of the youngest age group lived below the higher poverty line, while a quarter of them were absolutely poor. These results are in accordance with the poverty analysis by household composition since families with children were in the direst financial position. The other age categories have poverty indexes slightly above or below average. In Eastern European countries (Bulgaria, Hungary, Poland, Estonia, Russia) the highest percentage of the poor is among the youngest and the oldest age categories.¹⁵

Regarded according to the social-economic status of the population, the most endangered were those categories of the population without income (table 9). These are unemployed and supported persons. Almost half of the unemployed (47.4%) lived below the higher poverty line, and a little under a third in absolute poverty. These poverty indexes are significantly higher than the relevant average values. The financial position of supported persons does not differ greatly than that of the unemployed. As opposed to these categories, the self-employed were in the most favorable financial position, seeing as only 3.6% of them lived below the higher poverty line, and none of them lived in absolute poverty. In Eastern European countries and countries of the former Soviet Union the population categories that have the smallest percentages of poverty are the employed and self-employed, while there are most poor people among pensioners and receivers of social transfers.¹⁶

Poverty by characteristics of the head of the household

Poverty indicators by gender and social-economic status of the head of the household are very similar to the results of the previous part that relate to poverty by these characteristics of the population. In table 10 we note a greater participation of poor popu-

15 J. Braithwaite, C. Grootaert and B. Milanovic, same.

16 J. Braithwaite, C. Grootaert and B. Milanovic, same.

Table 8. Poverty by gender and age of the population, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Total	36.5	18.2
Gender		
Men	37.1	18.1
Women	35.9	18.3
Age		
0-18	46.0	25.5
19-38	36.3	18.5
39-59	36.9	16.9
60 and over	28.8	13.8

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Table 9. Poverty by social-economic status of the population, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Total	36.5	18.2
Social-economic status		
Employed	34.5	15.8
Farmer	31.5	12.1
Self-employed or employer	3.6	0
Unemployed	47.4	29.6
Person with personal income	27.7	13.6
Supported person	43.4	23.3

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

lation in households where the head of the household is a man. As opposed to that, the participation of population in households that live below the absolute poverty line in which the head of the household is a man is smaller than the participation of

Table 10. Poverty by gender and social-economic status of the head of the household, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Total	36.5	18.2
Gender		
Men	37.3	18.1
Women	32.0	18.9
Social-economic status		
Employed	34.1	17.2
Farmer	36.8	14.2
Self-employed or employer	0	0
Unemployed	55.1	41.7
Person with personal income	33.3	17.5
Supported person	31.2	12.8
	Average income deficit	
Total	25.4	22.7
Gender		
Men	25.2	22.6
Women	26.9	23.0
Social-economic status		
Employed	24.3	22.5
Farmer	25.8	21.2
Self-employed or employer	0	0
Unemployed	33.5	29.8
Person with personal income	23.8	22.5
Supported person	24.1	24.1

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

population in households where a woman is head, which is the most frequent case in transition countries. However, in both cases women had a greater average income deficit than men did.

Poverty most severely hit those households in which the head of the household was an unemployed person. More than half of the population of such households was below the higher poverty line, and 41.7% lived in absolute poverty. Their average income deficit was significantly higher than the relevant average value of this poverty indicator. They were lacking about a third of income in order to even out with the higher poverty line, that is, 29.8% of income to reach the line of absolute poverty.

Since the HBS does not contain data on the education of household members, although education is one of the key indicators of poverty, the classification of occupations can serve as a replacement for data on education since certain occupations require a certain education level. For example, employed industrial workers surely do not have a high level of education.

The highest poverty index was noted with the population that comes from households where the head of the household is an industrial laborer (table 11). Namely, 45.5% of them lived below the higher poverty line, and 24.7% below the line of absolute poverty. Occupations with an above-average poverty coefficient in relation to the higher poverty line are those of people employed in other occupations, farmers and employees in trade, and employees in trade and government offices, if the line of absolute poverty is applied.

Poverty and possessing of durable consumer goods

The possessing of some durable consumer goods in households can be a good indicator of poverty, assuming that data on these goods is available. As was pointed out in part 2, one of the flaws of the HBS is that this survey does not contain data on durable consumer goods that can, in this age of economic and technological development, be good indicators of poverty, such as computers, mobile phones, etc. Table 12 shows poverty indicators of the population that possesses some durable consumer goods.

The possessing of a dishwasher and an automobile is the best differentiation between poor people and those that are not poor. Namely, the poverty coefficient, depending on the poverty line, is two to five times greater for the population that lives in households that do not have a dishwasher than for the other households. However, in spite of that they are approximately equally poor since the difference in the average income deficit is very small compared to the difference in their poverty indexes.

Table 11. Poverty by occupation of the head of the household, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Occupation		
Total	36.5	18.2
Farmers	39.3	16.5
Industrial laborers	45.4	24.7
Workers in trade	37.8	23.8
Workers in government offices and such	36.6	19.3
Management	28.1	11.7
Experts and artists	27.2	9.5
Other occupations	43.1	13.8
Persons without occupation	33.2	17.4
– Own and family pensioners	33.1	17.3
– Receivers of social assistance*	100.0	100.0
Supported persons	32.4	13.2
– Persons incapable of labor**	12.5	0
	Average income deficit	
Occupation		
Total	25.4	22.7
Farmers	27.9	22.8
Industrial laborers	28.9	25.0
Workers in trade	29.0	23.3
Workers in government offices and such	19.5	14.7
Management	19.1	0.8
Experts and artists	21.7	23.8
Other occupations	17.5	23.7
Persons without occupation	23.6	22.3
– Own and family pensioners	23.5	22.1
– Receivers of social assistance*	53.5	35.2
Supported persons	24.0	24.0
– Persons incapable of labor**	0.2	0

* The HBS encompassed two households where the head of the household was the receiver of social assistance.

** The HBS encompassed a small number of households where the head of the household was a person incapable of labor.

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Table 12. Poverty by the grounds of apartment using and possessing of durable consumer goods, in %

	Poverty line	
	FBS consumer basket	WFP consumer basket
	Poverty index	
Total	36.5	18.2
Grounds of apartment using		
Owner	36.3	18.0
Bearer of right to occupy apartment	45.0	24.1
Tenant	16.4	12.7
Durable consumer goods		
Automobile		
Possesses	26.4	10.8
Does not possess	45.4	24.8
Color television set		
Possesses	35.7	17.3
Does not possess	44.7	27.3
Washing machine		
Possesses	35.0	16.6
Does not possess	44.7	27.1
Dishwasher		
Possesses	18.5	5.9
Does not possess	37.5	18.9
	Average income deficit	
Total	25.4	22.7
Grounds of apartment using		
Owner	25.4	22.6
Bearer of right to occupy apartment	24.0	23.2
Tenant	38.7	32.0
Durable consumer goods		
Automobile		
Possesses	21.7	20.1
Does not possess	26.9	23.4
Color television set		
Possesses	24.6	21.8
Does not possess	30.6	26.9
Washing machine		
Possesses	23.6	20.9
Does not possess	32.0	27.4
Dishwasher		
Possesses	23.7	26.4
Does not possess	25.5	22.6

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Automobiles can also represent a good indicator of poverty, while washing machines and color television sets better differentiate the poor from those that are not when the line of absolute poverty is applied.

Regarded from the aspect of the grounds for using their house/apartment, the most endangered are bearers of the right to occupy an apartment for 45% of them live below the higher poverty line, of which 24% live in absolute poverty. The income deficit percentage in relation to the poverty line is the greatest with house/apartment leasers, although this population category has the smallest poverty coefficient.

Poverty and income on the basis of social security

One of the tasks of this poverty analysis is to determine how well individual forms of social security are targeted. This would be possible assuming that the HBS was representative, that is that the main proportions from the basic set (the entire population) were preserved in the set of households surveyed. This would mean that the number of households in the set that receive child allowance, or financial security of the family, when expanded to the total number of households in Serbia would approximately fit their true number. However, the situation is far from the desired one.

According to the data of the Ministry for Social Affairs, child allowance was received in Serbia in the first half of the year 2000 by about 286,760 households, which represents about 12% of the total number of households. To the contrary, according to the data of the HBS only 78,894 households received child allowance in that period.

The situation is completely different with users of FSF. Namely, there were, according to the data of the HBS, significantly more of them than the data of the Ministry for Social Affairs shows. Namely, according to the data of the HBS in the first half of the year 2000 there were 161,481 users of FSF in Serbia, while their true number is 2.7 times smaller.

Such great differences in the number of users of FSF and child allowance cannot be explained by great delays in the payment of them (for there were payments in the period observed), nor by recording errors by the users themselves in the survey (for the collective entry does not equal the true number of users either), but only by a smaller representativity of the surveyed set than was assumed.

Because of the stated flaws and limitations of the HBS, the characteristics and correctness of the system of social security will not be presented, but, in the interest of indicating, only how well the FSF and child allowance is targeted. First of all, it should be pointed out that 3.3% of the population below the higher poverty line receives FSF, and 4.5% below the line of absolute poverty, while with child allowance 6.2% of the households that live below the higher poverty line receive child allowance, and 7.5% below the line of absolute poverty.

Table 13. Poverty index and users of FSF and child allowance, in %

	FSF	Child allowance
Higher poverty line	57.4	59.2
Lower poverty line	39.2	35.2

Source: Calculated on the basis of data from the Survey on Household Consumption, Federal Bureau of Statistics.

Table 13 shows how the FSF and child allowance are targeted when the aforementioned poverty lines are applied. Namely, close to 60% of the users of FSF and child allowance lived below the higher poverty line, and a little over a third were absolutely poor. Since the lower poverty line is closer to the maximal legal level of social security by which the aforementioned rights are realized, it is assumed that they would not be very well targeted even if the HBS encompassed the users in a satisfactory manner. Since this is not the case, no reliable conclusion on how well these social assistances are targeted can be reached on the basis of the data of the HBS.

5. CONCLUSION

In the first half of the year 2000 a little over a third of the population of Serbia was poor since their income was less than 30 US dollars per month. Of that, 18.2% of the population lived in absolute poverty with monthly incomes less than 20 US dollars.

The decrease of the GDP in a ten-year period is the key factor that influenced the growth of poverty. The percentage of the poor increased from 14.1% in 1990 to 36.5% in the first half of the year 2000. The poor needed more and more income in order to reach the poverty line. In order to eliminate poverty in Serbia

in the year 2000 it was necessary to provide from 73 million US dollars to 253 million US dollars, depending on the chosen poverty line, assuming perfectly targeted social assistance to the poor.

The relatively stable value of the Gini coefficient in the most part of the ten-year period shows that the decrease in real income of the population is a much more important factor in the explaining of the growth of poverty than is the increase of its dispersion.

The categories of the population that were the most endangered by poverty are:

- urban population, that had an above-average poverty index;
- households with three or more supported members, the poverty index of which reached 51.4% according to the higher poverty line, that is 29.9% according to the line of absolute poverty;
- households with children with four or more members, since almost half of the population (49.2%) that comes from households such as these lived below the higher poverty line, and 28.1% below the line of absolute poverty;
- the youngest age categories, namely children up to the age of 18, for 46% of them were poor, while a quarter lived in absolute poverty;
- households of which the head is an unemployed person, with a poverty index of 55.1%, or 41.7%, depending on the chosen poverty line;
- population that comes from households the head of which is an industrial laborer (poverty index equal to 45.5%, and the index of absolute poverty 24.7%).

No reliable conclusions can be reached on the basis of the data from the HBS on how well the social assistance for the poor is targeted, since this data does not reflect the true number of users of FSF and child allowance. This points to the need for redefining the methodology and set of surveyed households of the HBS, as well as to the need to define a new survey that would be based on a much larger set of surveyed persons and that would, among other things, also serve to redefine the consumer basket. In this manner a new official poverty line could be formed, how well social assistance was targeted could be analyzed in detail and the amount of assets that would be needed to provide for “new” poor people could be simulated.

II Analysis of the governmental support system for the poor

1. GENERAL CHARACTERISTICS OF THE SYSTEM

(1) **System organization.** In the Republic of Serbia various areas of the social sector (social assistance, health care, pension and invalid insurance, unemployment benefits) are within the jurisdiction of several institutions: the Ministry for Social Affairs, Ministry for Labor and Employment and the Ministry of Health (figure 1).

By the governmental support system for the poor we shall presume organized activities that have as a goal the giving of assistance to poor citizens and their families when they are in the state of social need, that is when they need governmental assistance in the satisfying of their basic subsistence needs. The thus defined governmental support is in the jurisdiction of the Serbian Ministry for Social Affairs and is regulated by two Serbian laws: the Law on social protection and the providing of social security of citizens (“SR Official Register” No 36/91, 33/93, 67/93, 46/94 and 52/96) and the Law on the social care of children (“SR Official Register” No 49/92, 29/93, 53/93, 67/93, 28/94, 47/94, 25/96 and 29/2001). Basically we are talking about two groups of instruments (figure 2): (1) instruments for providing social security of citizens and the family (FSF) and (2) instruments of providing social care of children. The rights from these areas are guaranteed by law, and their realizing is the right of every citizen.

The system of governmental assistance for the poor has the characteristics of both a centralized and a decentralized system, depending on the criteria that are observed.

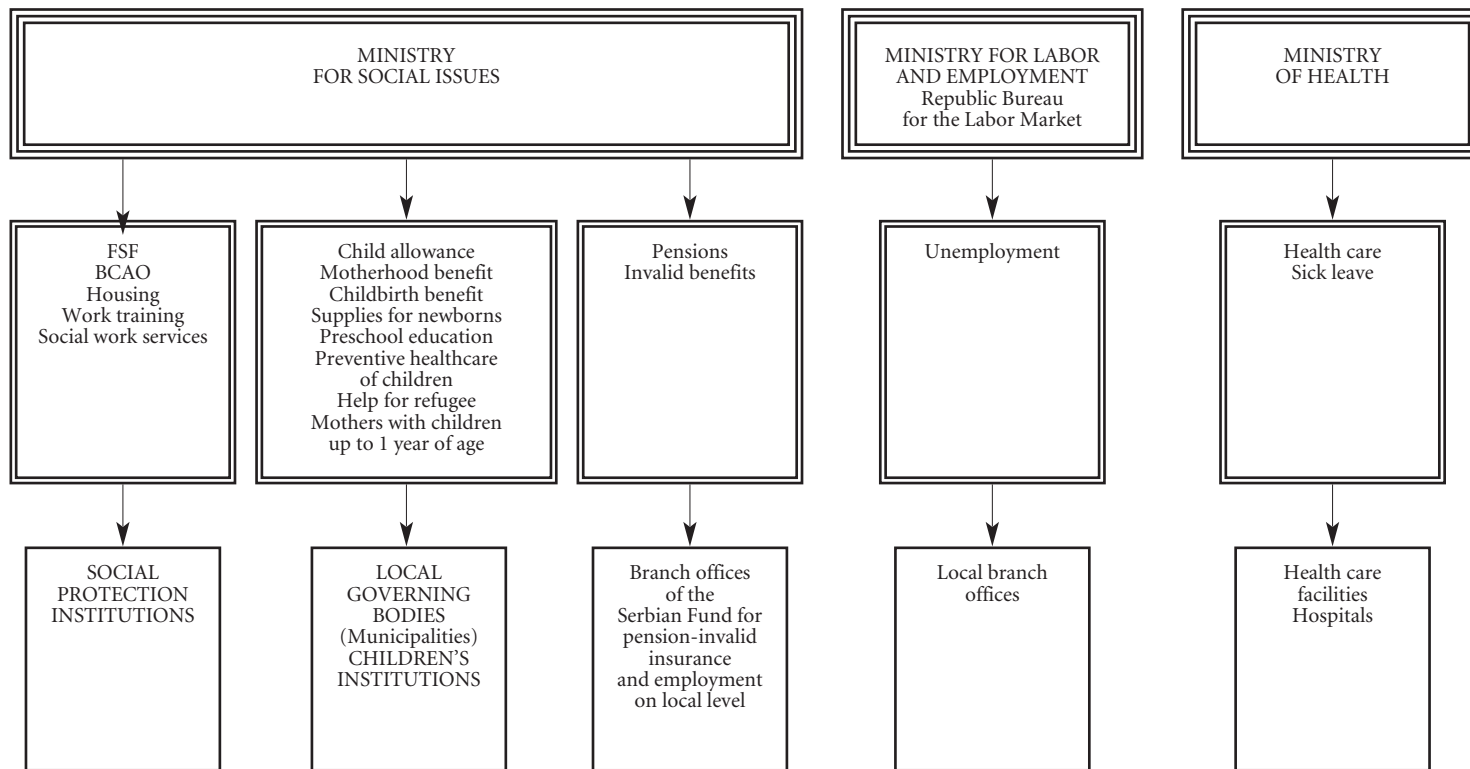


Figure 1. Social sector in the Republic of Serbia

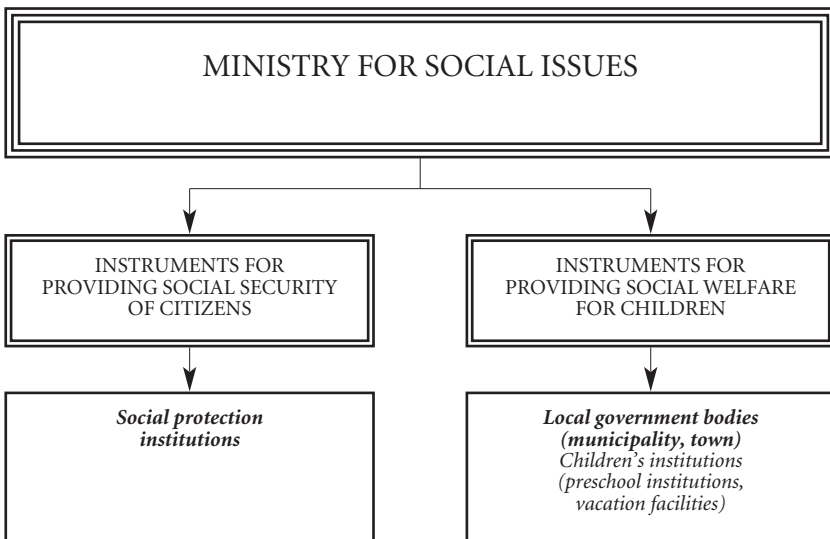


Figure 2. Organization of governmental support for the poor

According to the sources of financing¹ the system of governmental support for the poor is centralized. However, according to the criteria for earning the right and for the amount of assistance, which vary from municipality to municipality, and bearing in mind the well-developed network of social protection institutions and the significant role of local government bodies, which decide on eligibility, the system is, at the same time, significantly decentralized. In the present conditions greater decentralization cannot be expected, first of all in the matter of financing the main instruments of social assistance for the poor, because of the lack of assets in the budgets of the local government bodies, and so it is necessary in this period of pronounced poverty for the Republic to take on most of the obligations from the area of social assistance to the poor. This provides the more efficient use of the limited money for these purposes.

The Ministry for Social Affairs is the most important and the most responsible institution in the system since: (1) it leads unified social politics on the territory of the Republic; (2) it provides

1 The greatest part of the resources is provided from the Republic budget and since 1997, with the centralization of the information system, instead of through local government bodies for a certain number of benefits (FSF and child allowances, and since the middle of the year 2000 for motherhood benefits as well), the practice of direct payment by the Ministry has been introduced. In this manner significant savings were made (around 20%), because benefits were denied to a certain number of users who had used them without proper grounds.

most of the resources from the budget for the payment of obligations towards the users that have earned a certain right – all cash benefits; (3) it provides resources for the financing of the work of social protection institutions of which the Republic is founder and (4) it performs the control over the expert work of municipal government bodies and institutions of social and child allowance.

Local government bodies (municipalities, towns) can provide means for additional forms of governmental assistance for the poor determined by the law, which they do, since from local budgets various forms of assistance in cash, goods and services are financed: lump sum assistances, subsidized communal expenses, assistance for costs of rent, electric power, organizing soup kitchens and the like. Also, with earning rights from the area of social assistance of children municipalities are the first-level bodies in reaching decisions on the earning of rights and they provide assets for the financing of certain programs (pre-school facilities, preventive healthcare, vacations and recreation of children). However, it is not at the discretion of municipalities to determine the amount of assistance or whether users can earn the right to certain assistance if they fulfill legal conditions.

Social protection institutions are directly connected to users, and so their role is the most important in the area of communication with users and lending services from the domain of providing social security to citizens and their families. The network of social protection institutions on the territory of the Republic of Serbia consists of three basic categories of institutions: (1) social work centers, (2) institutions for housing and care of users² and (3) institutions for daycare and help in the home³. The most important role in reaching decisions on the earning of rights to a certain type of social security of citizens and families is that of the social work centers, which represent a first-level body. However it is not at their discretion to decide upon the amount

2 Institutions for housing and care of users are: homes for children and youths, centers for the protection of infants, children and youths, centers for housing of families, shelters for children and youths, homes for developmentally impaired children, institutions for physically impaired children with preserved mental functions, institutions for children upbringing, shelters, homes for pensioners and the old, gerontology centers, homes for adult invalids, institutions for the housing and care of mentally impaired persons and the mentally ill.

3 Institutions for daycare and help in the home are: centers for developmentally impaired children and youths, daycare centers, institutions for daily care of adults and the old, centers for help in the home, day centers.

of the assistance or on the earning of rights if users fulfill the legally prescribed conditions. Apart from social protection institutions, institutions for child protection: preschool institutions and vacation facilities have an important role in the exercising of rights from the area of social welfare of children.

(2) **Forms of support and financing.** The governmental support system for the poor in Serbia has several different forms, among which, apart from cash compensations (financial security of the family – FSF, child allowance, motherhood benefit, the right to care and assistance from others – BCAA, care in institutions, work training), an important role is also that of assistance in services and goods (daycare of children and the old, assistance in costs of fuel, electric power, subsidizing communal expenses, organized meals in soup kitchens, lump sum assistance in goods etc.)

For the financing of the rights from this area the greatest part of the assets is provided from the budget of the Republic. In the period from 1995-1999 the participation of realized costs of governmental assistance for the poor in the realized budget decreased from 16.7% in 1995 to 9.8% in 1999 (see table 1). If we take into consideration the fact that the budget was never fully realized, and especially assets planned for governmental assistance for the poor, due to the lack of assets, many obligations were not paid, and so in the year 2000 there were accumulated unpaid obligations – for some forms of social protection the delays were greater than two years. With the help of donations from the governments of other countries, in December of the year 2000 a significant amount of the obligations from the previous period was paid.

Of the total assets for governmental assistance for the poor, the greatest part goes for the financing of instruments of social welfare of children. In the period from 1995-2001 the percentage of their participation in the costs of governmental assistance for the poor was 77.9%. In 2001 the assets planned for the welfare of children were as high as almost 87% of the total planned assets for governmental assistance for the poor, which points to the importance of this group of instruments in giving assistance to the poor.

The planned costs of governmental social assistance for the poor in the year 2001 were 423 million DEM, which represents 11.8% of the budget or 1,85% of the projected GDP. The projected per capita costs of governmental assistance for the poor in the year 2001 were 55.05 DEM, that is 166 DEM per household in

Serbia without Kosovo and Metohia. Thus in 2001 the participation of costs of governmental assistance for the poor in the GDP was doubled compared to the year 2000 (0.93% GDP).

Table 1. Cost flow of governmental assistance for the poor in the period from 1995-2001 in millions of dinars

	1995	1996	1997	1998	1999	2000	2001*
Budget	4930.6	10231.7	13825.9	16810.7	17638.5	32702.5	107600
Total costs of Governmental assistance for the poor (GAP)	821.7	1142.7	1884.1	1814.3	1737.1	3514.4	12700
Participation of GAP in budget, %	16.7	11.2	13.6	10.8	9.8	10.8	11.8
Participation of child care in GAP, %	77.8	78.0	73.2	77.3	78.8	75.8	86.6
Participation of social security in GAP, %	22.2	22.0	26.8	22.7	21.2	24.2	13.4

* Planned assets. The data for the other years consists of realized assets.

Most of the cash benefits are financed from the budget of the Republic. The budgets of local communities provide assets for the financing of various services, lump sum assistance and assistance in goods. Also, local budgets can provide additional resources for increasing the guaranteed amounts of FSF and other forms of assistance the financing of which is in the jurisdiction of the Republic (i.e. users of FSF living on the territory of Belgrade are paid an additional 17% by the city). With the growing poverty of the population, more and more humanitarian and other non-profit organizations are getting involved in the financing of support for the poor, participating in the financing of various types of lump sum assistance in goods, category types of assistance (e.g. help in food for pensioners) and such. The financing source structure for various forms of social protection is presented in table 2.

(3) **Eligibility criteria.** Conditions for earning the right to various forms of governmental assistance for the poor are uniformly regulated for the territory of the Republic. The first and most important criterion for earning any of the rights to governmental

Table 2. Basic rights in the social protection system and financing sources

SOCIAL SECURITY OF CITIZENS AND THE FAMILY	<i>Financing source</i>	SOCIAL WELFARE OF CHILDREN	<i>Financing Source</i>
Social assistance (“FSF”)	Budget of Republic	Budget of Republic Child allowance	Budget of Republic
Benefit for care and assistance from others (BCAO)		Compensated earnings after childbirth	
Institutionalizing		Motherhood benefit	
Family shelters		Assistance for equipping newborns	
Work training		Compensated costs of preschool institutions for the third child	
Maintenance and investments in Social protection institutions		Preschool education of developmentally impaired children and children without parental custody	
		Educational program for preparing for starting school for 3h daily during the school year	
		Assistance for refugee mothers of children under 1 year of age	
Equipping users for institutionalizing	Local community budgets (municipality or town)	Stay, preschool education and preventive healthcare of preschool children and daycare of children under 10 years of age	Local community budgets (municipality or town)
Lump sum assistance		Vacation and recreation of children under 15 in child vacation facilities	
Soup kitchens		Regressed costs of daycare in preschool institutions, vacations and recreation	
Subsidized communal expenses		Funds for building, additional building and equipping child facilities	
Assistance in goods			
Providing of heating fuel			
Funeral expenses			
Healthcare			
Solving housing needs			

Source: Adapted according to the Law on social protection and the Law of social welfare of children and Report on the work of the sector for social work in 1999.

assistance for the poor is earning incomes lower than the determined level of social security. The level of social security does not represent the official line of citizen poverty. The social security level is determined according to the average earnings in the economy of the municipality or town in which the user resides, and maximally up to the level of the average in the economy of the Republic, which means that the criteria for earning rights differ by territorial principle, creating horizontal inequality. This implies that the criteria for earning rights are much more restrictive in undeveloped municipalities, or cities, meaning that identical individuals are treated differently depending on the place of residence. When we compare the criteria for earning the right to two of the most important forms of governmental assistance for the poor – FSF and child allowance – the criteria for earning the right to FSF are significantly more restrictive than the criteria for earning the right to child allowance. Synchronizing levels of social security is performed on a monthly basis (for child allowance and other rights in the domain of social care of children) and on a quarterly basis (for FSF) on the basis of published data of official statistics. This practically means that the criteria for earning rights (average earnings in the economy of the Republic, or municipality) serve as a relative poverty line.

Earning incomes below the determined level of social security is the basic, but, similar to systems in transition⁴, not the sufficient condition for earning the right to governmental assistance for the poor. Regarding the instruments of providing social security to citizens, it is necessary for the citizen, that is the family, fulfill a larger number of additional criteria that relate to limitations regarding the possessing of larger movable and immovable property, the work status of the user and members of the family (unemployed, children during regular education, persons incapable of work, laid-off persons, persons that need others' care and assistance), bans on waiving the right to inheritance, bans on concluding contracts pertaining to lifetime support.

4 In Poland, according to the law from 1990, a household, apart from low income, needs to fulfill another eleven criteria; in Letonia four additional criterions are determined; in the Czech Republic, according to the law from 1991, it is requested that the users be unable to increase their income, due to old age or to damaged health (According to B. Milanovic – *Income, Inequality and Poverty During the Transition from Planned to Market Economy*, World Bank, Regional and Sectoral Studies, 1998, p. 116).

The period of using these rights is limited to one year, when a review is performed with the possibility of indefinitely prolonging the right for as long as the individual or family is in a state of social need. For those persons that earn their income from regular jobs the review of the right to FSF is performed quarterly. The law does not prescribe limitations regarding ethnic groups, or regarding the age of potential users, except with child allowance where the age limit is under 19 years of age. Also, mutual exclusion of different kinds of rights is not prescribed, which means that the income of individuals or families does not include income coming from various kinds of governmental assistance for the poor.

(4) **Amount of assistance.** With some forms of governmental assistance for the poor (child allowance, BCAO) the amount of assistance is fixed and bound to the net income in the economy of the Republic according to the latest published data in the manner prescribed by the Law on social welfare of children. Concretely, the amount of child allowance depends on two criterions: (1) the number of children and (2) the status of the parents and ranges from 20% for the first child to 30% for the third child with an additional 30% for children without parental care or children of single parents. Concerning FSF, the amount is not fixed, but in the concrete case it depends on two criterions: (1) the place of residence and (2) the size of the family. Depending on the place of residence the amount of FSF varies up to almost seven times between developed and undeveloped municipalities in the Republic⁵, while, depending on the size of the family, the per capita amount of FSF decreases with the increased number of family members up to two and a half times for families with five or more members.

(5) **Users.** Within governmental assistance for children in the period from 1996-2001 the average monthly number of users decreased, due to irregular payments, demographic reasons, the changed position of Kosovo and Metohia and other reasons, so in the period from January-June 2001 it was almost 25% lower than in 1996, when the highest number of users was recorded. There was also a noticeable increase in the number of children users in the first six months of the year 2001, which can be explained by the increased regularity of payments since December 2000. In the first six months of the year 2001 the average

5 Data from March of the year 2001

monthly number of users of child allowance was 676,680, which represents about a third of the relevant population⁶. In the total number of users the greatest is the participation of users of child allowance, which is, in the entire period, was on average 78.9% of the total number of users of various programs of social care of children that are financed from the budget of the Republic.

Within the providing of social security of citizens and families in the regarded period the trend of decrease in the number of users is also apparent, especially up to the year 2000, and then, with the payment of a large part of unfulfilled obligations and increased regularity of payments, the number of users increased (table 3). In June of 2001 the various forms of assistance were used by 0.87% of the total population of Serbia without Kosovo and Metohia⁷. Of the total number of users the participation of families using FSF is the greatest, and in the observed period it was on average 46.2%. It is estimated that about 8% of the users (families) of FSF also use the right to child allowance.

In the following period, because of regular payments of social benefits and the transition of the economy and reforms, the further increase in the number of users of FSF and child allowance is to be expected. Unofficial data shows that in the first six months the number of users of FSF and child allowance rose by over 20%. It is to be expected that the tendency of growth will continue in the second half of the year 2001.

(6) **Quality of governmental assistance for the poor.** All rights are determined and exercised locally, through various institutions of social protection (centers for social work, institutions for the housing and care of users and institutions for daycare and help in the home), which were founded by the Republic (in most cases) or through local government bodies (municipality, town). The network of institutions for social and child protection consists of 121 social work centers, 65 shelters, 59 institutions for daycare, 188 preschool institutions and child vacation facilities which, compared to some transition countries, i.e. Hungary with 3,200 institutions for 10 million citizens, is a still insufficiently developed network for giving social services. In institutions of

6 On the basis of the *Federal Bureau of Statistics bulletin Population and the natural flow of the population of FRY in the XX and at the beginning of the XXI century*, No 040/2001. The data on the population number are an estimate for June 30th 2000.

7 Precise data on the number of users of various forms of governmental support for the poor in goods and other forms that are financed on local levels is not available.

Table 3. Number of users of governmental assistance for the poor in the period 1996-2001

Name of right	1996.	1997.	1998.	1999.	2000.	2001 (Jan-June)
Compensated earnings after childbirth	44,365	31,809	26,141	25,065	22,362	24,371
Motherhood benefit	49,076	44,677	36,321	33,063	25,005	34,200
Equipping newborns	6,936	5,890	5,230	4,653	4,487	6,670
Assistance for refugee mothers	990	977	941	812	702	1,050
Child allowance						
Families	413,263	393,724	356,707	268,463	251,472	297,662
Children	710,814	677,207	613,539	459,527	425,333	534,625
Children in preschool institutions**	73,295	75,000	76,801	74,345	74,542	75,764
Total	885,476	835,560	758,973	597,465	552,431	676,680
FSF						
Families	39,978	34,937	32,358	31,409	25,326	31,086
Number of household members	85,742	75,292	70,417	67,532	52,413	69,598
BCAO	17,426	17,295	16,901	16,902	16,825	17,796
Work training	670	670	670	670	650	482
Institutionalizing	15,200	15,200	15,212	15,235	15,494	15,500
Placement in families	2,100	2,100	2,100	2,100	2,148	2,092
Total	75,374	70,202	67,241	66,316	60,443	66,956

* Average monthly number of users

** Financed by the Republic

Note: Until June 1st 1998 there was no unified database of users, so for these years the estimates of the Ministry were listed.

Source: Data of the Ministry for Social Affairs of the Republic of Serbia

social protection – canthers for social work – around 2500 people are employed, among which the participation of employees with university degrees is the highest (90%). During the past few years, with the decreased providing of assets for financing these centers, the fieldwork is insufficient, since insufficient resources for material costs were provided. Also, every center has an average of two employed social workers that perform fieldwork, which in an economy with a 35% participation of the informal economy in the GDP is insufficiently intense control.

Beside the more restrictive criteria for earning the right to some of the forms of social protection, an additional limitation in the realization of rights in the system relates to the permanent lack of money for the realization of the rights of current users, which resulted in significant delays in the payment of certain rights (with some forms, such as motherhood benefits and child allowance, that delay amounted to as much as 27 monthly payments in June of 2000), which significantly influenced the decrease in the number of users. Such great delays in payments practically meant that for more than two years the social protection system only partially performed its basic function, which is providing social protection to citizens and their families. With the political changes in October of 2000 and the opening of Serbia towards the international community, in December significant funds were provided from foreign donations and so by the end of the year almost all delayed payments were made, which influenced the apparent increase in the number of users in the first months of the year 2001.

(7) **Information system.** The information system is unified, but also partially decentralized, considering the fact that most of the data on the characteristics of the users is gathered and processed on the local level exclusively, while on the level of the Republic there is only partial information: the number of beneficiaries of each right, economic-social status, age. Since the linking of individual information bases of the Ministry is not possible, there are information limitations to the more efficient leading of social politics on the level of the Republic, and control.

2. FINANCIAL SECURITY OF FAMILIES – FSF

Within the instruments for providing social security to citizens the most important form of governmental assistance for the poor

is the financial security of families – FSF, both from the aspect of the assets that are provided for this purpose, and from the aspect of the number of users.

Goals. FSF is a form of monthly compensation in cash to poor citizens and their families. The goal is to provide those citizens and families that do not have enough income for fulfilling basic subsistence needs or are unable to provide them in some other manner with a minimal monthly income for the fulfilling of basic subsistence needs. This right is one that citizens, that is families, can but do not necessarily need to earn. The right to FSF is regulated by republic law, but additional resources can be provided from the budgets of local government bodies – town or municipality (for example the City of Belgrade pays the citizens of Belgrade that are users of FSF an additional 17% over the basic amount of the FSF).

Criteria for earning the right. The right to FSF is granted to those families that earn income below the level of social security, and fulfill additional criteria. A family consists of legal and common-law spouses, children (from wedlock, out of wedlock, adopted or supported) and straight-line relatives, and those up to the second degree, under the condition that they live in the same household. Also, a family member can also be a person without income who does not live with his parents until marriage, and up to the age of 27 at the latest, as well as, regardless of the de facto place of residence, a spouse or parent of a child incapable of working and a child attending regular schooling.

The social security level is determined as a percentage of the base formed by the average earnings per employee in the economy of the municipality, or town, in the previous quarter, but the base cannot be higher than the average earnings per employee in the economy of the Republic during the same period.

Earning income below the level of social security is not the only condition that citizens must fulfill in order to earn the right to FSF. It is necessary for the individual, or the family, to fulfill additional six criterions as well:

- (1) That apart from a living area that is according to the needs of the individual, or family (one room per family member, and two for a person that earned the right to BCAO) and grounds of not more than 0.5 ha, he has no other immovable property, except if consent was given to register mortgage rights until the settling of valorized costs given on the basis of the right to FSF;

- (2) That the individual, or family member, that is capable of working, if he does not perform any business activity, is in the course of regular schooling, on unemployment records and has not turned down work offered, labor in part-time or season jobs, occupational training, pre-qualification, additional qualification or basic education;
- (3) That the individual, or family member, did not end his employment of his own free will, by his consent or his fault, because of disciplinary or criminal liability, unless two years have passed from the termination of employment or incapability for work⁸ onset after the termination of employment.
- (4) That the individual, or family member, did not sell, give away or waive the right to inheriting immovable property or that the time period in which the market value of the immovable property that he sold, gave away or waived the right of inheritance to could have provided financial income has expired;
- (5) That the individual, or family member, does not possess movable property the using or selling of which could, without endangering basic subsistence needs, provide assets in the amount of six times the amount of the FSF that would be determined for him at the time of filing the request;
- (6) That the individual did not conclude a contract on lifetime support.

The use of the right is limited to a period of one year, when a review is performed with the possibility of unlimited prolonging for as long as the individual or family is in a state of social need. For earning the right to FSF there are no limitations regarding ethnic groups or age, except that those with the right to FSF are rarely children under the age of 18 since they are under parental custody. Potential users must not turn down a job offer, nor terminate their employment themselves. Earning the right to FSF does not exclude the possibility of using other forms of governmental assistance for the poor, such as B CAO, child allowance, etc.

8 Incapability for work, in accordance with article 14 of the Law on social protection and providing social security for citizens, is considered to the following: (1) women over 60 and men over 65 years of age; (2) children under 15 years of age, and if they are in the course of regular schooling in secondary school until the prescribed term for the completion of schooling and (3) persons completely incapable of work, according to the regulations on invalid and pension insurance.

Amount of FSF. The amount of FSF represents the difference between the prescribed level of social security for an individual, or family, and the size of their income. This means that for every user his monthly income is supplemented up to the relevant level of social security. This, practically, means that the implicit tax on FSF is 100%, since for every dinar by which income (earnings) of an individual increases the amount of FSF decreases by the same amount.

The income of individuals, or families, is verified by the employees of centers for social work on the basis of the relevant documentation on income and verification of the situation in the home of the individual/family. The following is taken into consideration:

- (1) Income and earnings gained in monthly amounts in the amount of the average from the previous quarter, that is in the amount of income and earnings gained in one month or the average for two months, if there is no income or earnings for all three months;
- (2) Income from agricultural activities in the amount of the cadastral income gained in the current year by the owner, enjoyer of income or immediate user;
- (3) Income from letting immovable or movable property;
- (4) Income from other rights to property, if this income is taxable;
- (5) Income from support on the basis of kinship and other legal bases;
- (6) Income from unregistered activities, in the average monthly amount gained in the previous quarter, and on the basis of the findings and opinion of the institution determining the right;
- (7) The income of self-employed citizens is taken to be the amount that serves as the base for calculating contributions for pension and invalid insurance in the current year;
- (8) For regularly employed persons the realized amounts are taken, in the minimal amount of guaranteed net earnings.

The following income is not taken into consideration: (1) child allowance (up to three children), (2) B CAO, (3) compensations for physical damage, (4) income on the basis of rewards and retirement severance and (5) income on the basis of student standard.

The amount of FSF is revaluated on a quarterly basis according to the growth of average income and the difference is paid in full to users at the beginning of the following quarter. The amount of FSF in the concrete case depends on two criterions: (1) size of the family and (2) place of residence of the user.

(1) **Size of family.** With the increased number of family members the per capita level of social security of the family decreases, from 50% to 20% of the amount of average income and less for families with 5 or more members (table 4). Thus families with more members and without children are more endangered from the aspect of satisfying basic subsistence needs of all family members, while those with children receive child allowance, which significantly increases their income.

Table 4. Social security level in the Republic of Serbia

	Legally determined social security level of the family in % of average earnings	Social security level of one family member, in % of average earnings
Individual	50	50
Family with two members	70	35
Family with three members	90	30
Family with four members	95	23.5
Family with five or more members	100	20 and less

Source: Data of the Ministry for Social Affairs

(2) **Place of residence of the user.** The amounts of FSF vary significantly by the place of residence of the user as well, since the basis for determining the monthly amount of FSF are the average earnings in the economy of the municipality or town in which the user resides. Table 5 shows the span of monthly amounts of FSF per family depending on the size of the family, for March of 2001.

The data in table 5 shows that the monthly amount of FSF per family member can vary significantly. In March of 2001 the maximal amount relation was 1:6.8. This is the consequence of pronounced differences in average earnings in economy between developed and undeveloped areas. Thus for the last, IV quarter of 2000 the social security level ranged from 363 dinars (average earnings in the economy of Opovo) to 2466 dinars (average earnings in the economy of the Republic, which is the maximal basis for determining the social security level). From the above it follows that the present system of FSF in a certain manner discrimi-

Table 5. Amount of FSF per family in March of 2001

Family size	Amount in dinars	Amount in DEM
1 member	181.5 – 1,233	6 – 41.1
2 members	254.1 – 1,726.2	8.5 – 57.5
3 members	326.7 – 2,219.4	10.9 – 74
4 members	344.85 – 2,342.7	11.5 – 78
5 or more members	363 – 2,466	12 – 82.2
Total	40,000,000	1,333,333

Source: Data of the Ministry for Social Affairs

nates poor people living in undeveloped towns or municipalities and that this increases the error of exclusion with this very category of the population. The idea of the present law on social security would be acceptable if the differentiation by municipalities also compensated for the difference in costs of living within Serbia. However, the costs of basic subsistence articles (electricity, bread, milk, meat, milk products, oil, sugar, flour, salt etc.) are equal on the level of the Republic, and so the FSF system with the present differentiation of users is unjust towards families, that is individuals, that live in the most undeveloped municipalities or towns.

Beneficiaries. In the period from 1996-2000 the number of users of FSF continually decreased, and so in November of 2000 it was less by 36.7% than in 1996 (see table 6). At the beginning of December the delays in payments amounted to around 20 monthly installments. However, with the payment of 14 monthly installments in December of 2000 and the regularity of payments in 2001 there was a marked increase in the number of users. In only two months the number of users increased significantly (see table 6), the number of families by 24%, and the total number of users by 30%. In January of 2001 the number of families rose to 31,351, which represents 1,23% of the total number of households in Serbia without Kosovo and Metohia⁹. The total number of users, or family members is 68,277, which is less than 0.9% of the total population, without Kosovo and Metohia¹⁰.

9 Calculated according to the data on the total number of households for the first half of the year 2000. Proclamation of the FBS, Survey on Household Consumption, FBS proclamation from 21.12.2000.

10 Calculated on the basis of the proclamation of the FBS, Population and the natural flow of the population of FRY in the XX and beginning of the XXI century, proclamation No 040/2001

Table 6. Number of users of FSF in the period from 1996-2001

Number of users	1996*	1997*	1998*	1999*	Nov. 2000	Dec. 2000	Jan. 2001
Number of families	39,978	34,937	32,358	31,409	25,326	30,736	31,351
Number of users	85,742	75,292	70,417	67,532	52,413	66,560	68,227

* Data is from December

Source: Data of the Ministry for Social Affairs

Since regularity of payments is expected in 2001 and the earning of the right to FSF has become attractive to a large number of individuals and families in these conditions of poverty of the population, the further increase in the number of users is to be expected.

The most significant group of FSF users – bearers of rights – are the unemployed and incapable of working, which together comprise 94% of the total number of FSF users (table 7). The unemployed have the most significant participation with over 50% of the total number of users, and the incapable of working around 42%.

The family structure of FSF users according to employment status (table 8) shows that in the total number of users, apart from the incapable of working and the unemployed, there is a large participation of children – 32.4%, which points to the conclusion that the number of children is also an important determining factor for poverty in Serbia.

Table 7. Beneficiaries to FSF according to social-economic status from 1998-2000

Employment status of users – bearers of rights	1998	Participation, in %	1999	Participation, in %	2000	Participation, in %
Employed	877	2.7	771	2.5	827	2.7
Self-employed	80	0.3	79	0.2	88	0.3
Farmer	308	0,9	297	0,9	338	1,1
Pensioner	202	0,6	214	0,7	223	0,7
Unemployed	16,287	50.3	15,934	50.7	15,769	51.3
Children	401	1,2	364	1.2	329	1.0
Incapable	14,133	43.7	13,678	43.6	13,081	42.6
Others	70	0.2	72	0.2	81	0.3
Total	32,358	100	31,409	100	30,736	100

Source: Data of the Ministry for Social Affairs

Table 8. Structure of total number of FSF users according to social-economic status in February of 2001, in %

Employment status	Participation, in %
Farmers	0.9
Unemployed	37.6
Employed	0.1
Incapable of working	27.9
Pensioners	0.5
Children	32.4
Others	0.6
Total	100

Regarding the age structure, the greatest participation of FSF users is that of children and youths, so that the participation of users under 20 years of age in the total number of users is around 35% (table 9). Important age categories are also those of users over 60 years of age (19.7%) and users between 30 and 40 years of age (13.4%). The structure of FSF users according to the size of the family shows that individuals are the most important user group with 54% participation in the total number. The data also shows that among FSF users there is a significantly smaller participation of families with five or more members.

Financing. The guaranteed amount of FSF is almost entirely financed from the budget of the Republic, but it is possible for local government bodies, if they have available assets, to pay additional amounts, which they do in some towns.

Table 9. Structure of FSF users according to age and family size in February of 2001

Age of users	Participation in %	Family size	Participation in %
Below 7	12.9	1 member	54
7-20	22.6	2 člana	18
20-30	10.4	3 člana	11
30-40	13.4	4 člana	9
40-50	12.4	5 or more members	8
51-60	8.6		
Over 60	19.7		
Total	100	Total	100

Source: Data of the Ministry for Social Affairs

In the period from 1998-2000 the average participation of FSF in the assets for providing social security for citizens amounted to 12.6%, and a significant increase in their participation is planned for 2001 – to 30.5%. The data in table 10 shows that the participation of FSF since 1998 in the total costs of social protection ranged from 3 to 4%, except in 2000 when it fell to below 2%. Also, until the year 2000 the assets for financing FSF had a significantly slower growth than did the costs of social protection, which indicates that their participation in the costs of social protection had a real decrease.

The unfulfilled obligations for FSF at the end of the year 2000 amounted to 131 million dinars. It was planned for a quarter of the obligations to be fulfilled from the budget (26 million dinars), and for the greater part to be fulfilled from donations. A certain pressure will also be laid on the planned assets by the expected trend of increase of the number of users, due to the increased regularity of payments in 2001.

Administrative characteristics. The first-level bodies for granting rights are local institutions of social protection – centers for social work. Citizens, or families, file requests with the center for social work in their place of residence or in the place that they live in if they have no place of residence. Along with the request they are obliged to submit documentation on the number of family members, the income that they earn, possessing of movable and immovable property (on the basis of receipts from Income Administration) and land (receipt from the land registry). On the basis of the said documentation and, less frequently, verifying the financial status in the home of the user, employees in centers for social work decide upon the request, that is they decide about granting the right. However, they do not have the discretionary right to determine the amount of FSF. Positively decided requests are presented to the Ministry for Social Affairs, which, on that basis, performs direct payments to users. If the request is negatively decided, after the verification of the financial position of potential users in their homes, it is possible to submit an appeal to the second-level body – Ministry for Social Affairs of the Republic of Serbia.

The review of rights is performed yearly, except in the case of users that are employed, for which the review of the possibly changed financial position is performed every three months. In the past few years, due to the increased poverty of the economy and, thus, decreased assets for social protection, fieldwork (veri-

Table 10.
Flow of FSF expenses in the period from 1998-2001 in millions of dinars.

	1998	1999	2000	2001
Budget of the Republic	16810.8	17638.5	32702.5	107600
Social security	411.1	369.1	849.2	1700
Participation in budget (%)	2.45	2.1	2.6	1.6
FSF	63.5	52.36	68.6	516
Participation in budget	0.4	0.3	0.2	0.5
Participation in costs of providing social security	15.5	14.2	8.1	30.4
Participation in costs of governmental assistance for the poor	3.5	3	1.95	4.1
Costs of governmental assistance for the poor	1815.1	1737.1	3513.7	12700
Participation in budget (%)	10.8	9.85	10.8	11.8

Note: The data for the year 2001 represent planned assets, while the data for other years represents realized assets.

fications in homes of users) is less and less frequent, due to the lack of assets for these purposes. The network of institutions of social protection consists of 121 centers for social work with an insufficient number of employees to cover all places in which users of FSF live.

There is control from the level of the Republic in the domain of financing. In the conditions of insufficient assets for financing the instruments of providing social security of citizens, that is FSF, and a high participation of the informal economy, a far more efficient system is necessary, in the sense that FSF be received by the truly poor citizens, that is families, that is to maximally decrease errors of inclusion or exclusion.

3. CHILD ALLOWANCE

Within the instruments of social care for children, as well as the entire system of governmental assistance for the poor, the most important form of assistance is child allowance, both by number of users and by the amount of assets that are provided for this purpose.

Goals. To provide every child that lives and attends school on the territory of Yugoslavia with conditions of living that enable

his correct mental and physical development: creating conditions for the approximate equality of levels of satisfying developmental needs of children, assisting families in the realization of their reproduction, protective, educational and economic functions and special protection of the third child in families with three children.

Criteria for earning rights. The conditions for earning rights to child allowance in the Republic are differentiated by the number of children in the family. The first two children in the family earn the right to child allowance in cases of poor financial position of the family, that is if the monthly per capita income of the family in the last quarter of the previous year was less than 50% of the average earnings in the Republic, or in the town or municipality where the family has its place of residence, while the third child earns this right regardless of financial conditions. The conditions for earning the right to child allowance depend on the place of residence of the user, that is on the amount of the average earnings in the place where the user of the right resides. In case the average monthly earnings in the economy of the municipality or town are lower than 70% of the average earnings in the economy of the Republic, then the census is determined on that level. This means that the census ranges from 70% to 110% of the average monthly earnings in the economy of the Republic for the last three months of the previous year. For children without parental custody and children of single parents the census is increased by an additional 20%. This makes the conditions for earning the right to child allowance far less restrictive than the conditions for earning the right to FSF, but, as with FSF, it is discriminating towards children that reside in undeveloped municipalities.

The right to child allowance is earned only for the first three children in the family, that is for all children if the family resides in municipalities or parts of municipalities where the population growth rate is negative (152 of 161 municipalities). Every citizen and foreign citizen (if this is arranged by an international agreement) has the right to child allowance for children that live and go to school on the territory of Serbia (if not otherwise determined by international agreement). There is no right to child allowance for children that are entirely or more than 50% provided for by public expenses assets during schooling or rehabilitation, or that are housed and cared for in one of the institutions for social protection. Earning the right to child allowance does not exclude the possibility of earning the right to other forms of

social protection as well, such as FSF or BCAA. The right to child allowance is limited by age to children below 18 at the most, if they attend regular schooling, and the fulfillment of legal conditions is verified every year (from April 1st to March 31st of the following year).

Apart from the aforementioned conditions, there is an additional criterion that needs to be fulfilled for the first two children: that the per capita cadastral income does not exceed the amount of 3% of the average cadastral income per 1 ha of fertile ground in the previous year or that it was gained from land up to 0.5 ha in size on which a housing building is raised. Compared to the conditions for earning the right to FSF, the criteria for earning the right to child allowance are more lenient.

Amount of child allowance. The amount of child allowance is regulated by the Republic law on social care of children and is related to the average net earnings in the economy¹¹ of Serbia according to the latest published data. The amount of child allowance in the concrete case depends on two criterions: (1) the order of birth of the child and (2) the status of the child's parents (both parents, one parent, no parents).

(1) **Family size.** With the increased number of children, the amount of child allowance increases for every subsequent child and amounts to:

- (1) for the first child 20%
- (2) for the second child 25%
- (3) for the third child 30%

of the average net earnings per employee in the economy of the Republic according to the latest published data. Table 11 shows the structure of monthly installments of child allowance depending on the size of the family. The average per capita child allowance in June of 2001 amounted to 30 DEM.

(2) Child's status regarding parental custody. The amount of child allowance for children without parental custody and children of single parents is increased by an additional 30%, and amounts to:

- (1) for the first child 26%
- (2) for the second child 32.5%
- (3) for the third child 39%

11 With the transfer to the system of gross earnings, the percentages determining the amount of children's welfare were adjusted.

Table 11. Monthly amount of child allowance per family in June of 2001

Family size	Amount per family		Per capita in DEM
	DIN	DEM	
Family with one child	688	22.93	22.93
Family with two children	1,548	51.60	25.80
Family with three children	2,580	86.00	28.67
Family with four children	3,612	120.40	30.10
Family with five children	4,644	154.80	30.96
Family with six children	5,676	189.20	31.53
Family with seven children	6,708	223.60	31.94
Family with eight children	7,740	258.00	32.25
Family with nine children	8,872	292.40	32.49
Family with ten children	9,804	326.80	32.68
Family with eleven children	10,836	361.20	32.84
			30,20

Source: Data and reports of the Ministry for Social Affairs of the Republic of Serbia

of the average net earnings per employee in the economy of the Republic according to the latest published data.

Beneficiaries. Users of child allowance are the most important group of users of instruments of social care for children, with a participation percentage of 78.9% in the period from 1996-2001. In the observed period the number of users continually decreased, so in 2000 the number of users (families and children) was less by about 40% than it was in 1996. In the year 2000 the right to child allowance was used by an average of 251,472 families, which represents about 10% of the total number of households in Serbia without Kosovo and Metohia¹². The number of children that received child allowance was 425,333. The payment of a significant part of the unfulfilled obligations in December of 2000 and the increased regularity of payments in 2001 caused a marked increase in the average monthly number of users in the first six months of the year 2001 by over 61,000 families. The flow of number of users of child allowance in the period 1996-2001 is shown in table 12.

¹² Estimated number of households for the first six months of the year 2000 according to the Survey on Household Consumption, proclamation of the FBS, 21.12.2000

Table 12.
Flow of average monthly number of users of child allowance from 1996-2001

Name of right	1996	1997	1998	1999	2000	2001 (Jan.-June)
Total number of users of social care for children	885,476	835,560	758,973	597,465	552,431	676,680
Number of families	413,263	393,724	356,707	268,463	251,472	313,308
Number of children	710,814	677,207	613,539	459,527	425,333	534,625

In the total number of families 88% of them are families with one or two children (table 13). Although families with three or more children automatically earn the right to child allowance for the children of higher order of birth, regardless of their financial position, the participation of these families is significantly smaller – 9.4%

In the total number of children, 8% are without custody or are children of single parents, 5% from these families with one child, 2% from families with two children and 1% from families with three children that receive child allowance increased by 30%.

Table 13. Users of child allowance in December of 2000

Family size	Number of families	Number of children
Family with one child	126,730	126,730
Family with two children	125,600	251,200
Family with three children	27,050	81,144
Family with four children	5,510	22,040
Family with five children	1,425	7,125
Family with six children	540	3,240
Family with seven children	250	1,750
Family with eight children	115	920
Family with nine children	25	225
Family with ten children	12	120
Family with eleven children	3	33
Total	286,760	495,564

Source: Data and reports of the Ministry for Social Affairs of the Republic of Serbia

Financing. Child allowance is entirely financed from the budget of the Republic. For these purposes the most significant assets within the assets intended for the social care of children

(53.6%) were given in 1998, and also within the total costs of governmental assistance for the poor (around 42.3%).

Table 14.
Flow of costs of child allowance in the period from 1998-2000, in mil. Dinars

	1998		1999	
	Planned	Realized	Planned	Realized
Total budget of Serbia	15,995	16,810.7	21,458	17,638.5
Care for children	1,954.1	1,534.0	2,141.5	1,027.9
Participation in budget (%)	12.2	10.1	10.0	3.9
Child allowance		823.0		350.9
Participation in budget		4.9		2.0
Participation in costs of governmental for the poor		42.3		25.1
Costs of governmental assistance for the poor	2,725.4	1,945.3	2,989.9	1,396.6
Participation in budget (%)	17.0	12.8	13.9	5.4

The monthly assets given for the payment of child allowance in January of 2001 were somewhat over 10 million DEM (table 15).

Table 15. Monthly amount of child allowance per family in January of 2001

Family size	Total amount	
	DIN	DEM
Family with one child	69,777,538	2,325,918
Family with two children	155,605,840	5,186,861
Family with three children	55,852,840	1,861,761
Family with four children	15,927,757	530,925
Family with five children	5,296,155	176,538
Family with six children	2,452,950	81,765
Family with seven children	1,342,100	44,737
Family with eight children	712,344	23,745
Family with nine children	175,505	5,850
Family with ten children	94,153	3,138
Family with eleven children	26,016	867
Total	307,263,198	10,242,107

Source: Data and reports from the Ministry for Social Affairs of the Republic of Serbia

The fact that 73% of the total expenses for child allowance goes for the first two children in the family point to the fact that the social component of the system of child allowance is very important, in spite of the fact that these are children from areas with low population growth, which is, again, an element of the population politics.

Administrative characteristics. The first-level bodies for granting the right are the local government bodies – municipalities. Requests are filed in April of every year in the municipalities of the place of residence of the person that submits the request. The decisions on granting rights are brought on the basis of documentation on income and from the birth registry for the children. The review of the right is performed once a year. Positive decisions are presented to the Ministry for Social Affaires, which, on the basis of these decisions, plans and directly pays the assets to the users.

As opposed to FSF, where the additional criteria are very restrictive, with child allowance the additional criterion (on possession of land) is insufficient to determine the financial status of the person submitting the request. Namely, in practice this means that the users of child allowance can own several houses and/or apartments, automobiles. In that sense, the verification of the financial situation of the family in their home is not prescribed either, as is the case with FSF. The consequence of the inadequate legal regulations in this area can be an extreme error in the inclusion of a family that is not poor. In this situation of non-restrictive conditions for the earning of the right (in the matter of possession of movable and immovable property), the social care for children represents at the same time not only an instrument of social politics, but in a significant degree an instrument of population politics as well.

The second problem in the domain of administration of child allowance and the other instruments of social care for children is the status of the employees that work on these issues in municipalities. Their earnings are financed from local, that is municipal, budgets, while the control over their work is performed by the Republic. The solution of their status could possibly be found in the possibility of financing their earnings from the budget of the Republic, because that is a means of more efficient control of their work by the Republic, that is the Ministry for Social Affaires.

4. CONCLUSION

The previous analysis pointed out several important characteristics of the system of governmental assistance for the poor in the Republic of Serbia:

First, in the system of governmental assistance for the poor the system of verifying incomes and checking the financial situation of potential users in their home is only partially implemented (in the case of the instrument of social security – FSF). With instruments of social care for children, the verifying system is not applied.

Second, the most important criterion for earning the right to a form of governmental assistance for the poor is that the size of the income be less than the determined social security level. Since the social security level depends on the average earnings in the economy of the Republic, that is the municipality (town), it is clear that it represents a relative poverty line.

Third, apart from the level of income, with instruments of social security of citizens there are also other conditions that it is necessary to fulfill in order to earn the right, which makes the conditions for eligibility to these instruments of governmental assistance for the poor significantly restrictive and oriented towards the poorest.

Fourth, the system of governmental assistance for the poor has both the characteristics of a centralized and a decentralized system. According to the criteria for eligibility and the amount of the assistance (significant differences between developed and undeveloped areas, that is between municipalities, due to the differences in the height of the average earnings in the economy of the municipality/town in which the user resides), as well as the developed network of institutions of social protection that perform the field control and reach decisions on granting the rights, the system of governmental assistance for the poor is in a significant measure decentralized. On the other hand, there is a high level of centralization of the sources of financing (the budget of the Republic). The centers for social work do not have the right to decide upon the amount of assistance in each concrete case. In the conditions of the lack of resources for these purposes and the rapid impoverishment of the population, this organization of the system is considered to be appropriate. Any decentralization of the sources of financing the central instruments of governmental assistance for the poor could cause marked differences in the

amount of assistance for poor citizens on the territory of the Republic.

The analysis of the present system of governmental assistance for the poor pointed to four main areas of problems, which consist of the following:

- (1) The efficiency of the system cannot be judged with confidence, since it is not known how efficient it is in the encompassing of poor citizens, that is families. With the users of child allowance there is the suspicion that, apart from families with three children, the beneficiaries of child allowance might also be families that are not poor, due to the lack of verification of property and the financial situation of users in their homes. Speaking of users of FSF, some researches¹³ show that among them there are no beneficiaries that are not poor, that is that the inclusion error is extremely small. On the other hand, the number of users of FSF is extremely small compared to the estimated number of poor people in Serbia¹⁴, which points to the probability that many poor people do not receive FSF.
- (2) The present system of governmental assistance for the poor creates horizontal inequality. It is insufficient for citizens and families in undeveloped areas, since the social security level is dependant upon the average wages in the economy of the municipality or town where the beneficiary resides.
- (3) The present system of governmental assistance for the poor does not provide an equal level of social security to each member of the family. This is particularly true of social assistance, where the increase in the number of family members drastically decreases the level of social security, and with families of more than five members the other family members are not taken into consideration.
- (4) The decreased purchase power of social assistance in conditions of instability. Since it is prescribed by the Law that the basis for determining the right to FSF is the average of earnings in the economy of municipality or town, for the last quarter, and that the revalorization of

13 See study *United Kingdom Donation to Serbian Family Material Support Welfare Scheme*, IMG, May 2001

14 See first part of this study

the monthly amount of FSF is performed on a quarterly basis, the increase in costs of living which are significant on the monthly level in the Republic of Serbia is not taken into consideration. In time of inflation, this leads to the fall in purchase power of this form of governmental assistance.

The domains in which interventions are necessary are the following:

- (1) The present manner of determining the social security level. The dependence of the social security level upon the average earnings in the municipality or town where the place of residence of the user is the basic source of regional differences in the providing of social security for citizens, families and children in Serbia. As such it is extremely discriminative towards citizens and families residing in undeveloped areas. This is particularly true of FSF, where the amount of assistance is directly dependant upon the gap between the income of the user and the social security level, while it is partially corrected with child allowance since the amount of child allowance is fixed on the whole territory of the Republic. Also, using the relative poverty line fixes the number of poor people, independently of the economic flows in the country.
- (2) Inadequate legal regulations. With the present legal regulations the instruments of governmental assistance for the poor are divided into two groups. The separation of the two groups of instruments of social protection (both legally and in practice) greatly hinders the work of the Ministry for Social Affairs in the leading of unified social politics on the whole territory of the Republic. In the present conditions, child allowance represents both an instrument of population politics and an instrument of social politics, which hinders the leading of both of these politics. Therefore it is necessary to define the functions of child allowance within the politics of social care. Legal changes should also more precisely define the status of workers employed in municipalities that work on the gathering and approving of requests for granting rights in the domain of social care for children and the possibility to use the network of institutions of social protection, first of all the centers for social work, in the process of administrating the instruments of social care for children.

- (3) Problems in the information system. In the present circumstances, the greater part of the data on beneficiaries is gathered and kept solely on the local level, while on the level of the Republic there is incomplete data that is only in the function of more efficient control of the financial assets, but are not synchronized with the needs of leading social politics. Also, on the level of the Republic the data on the forms of assistance for the poor that are financed from the budgets of local government bodies is not up to date. It is necessary to associate the data by introducing a unified information system on the territory of the Republic, and, instead of only by rights, to also lead the evidence of users by their unique citizen registration number.
- (4) Insufficient field control in environment of the high participation of informal economy. This primarily relates to the right to child allowance, since the financial position of users is not subject to verification. On the other hand, it is also necessary to enhance the control with FSF, due to the high participation of the informal economy in the SP. It is necessary to provide more financial assets for the needs of control, as well as to introduce informational connecting to the Tax Administration in the interest of verification of the financial status and property ownership of potential users, which would make the administrative work pertaining to work with users and granting of rights easier.

III Short-term reform of the governmental support system for the poor

1. POSSIBLE MODELS OF ASSISTANCE FOR THE POOR

A large number of different support programs for the poor are used in the world, which have their advantages and flaws. Their logic is different, as are the goals, methods, span, costs, administration... Therefore in this section we shall endeavor to briefly present the basic elements of various models of governmental assistance for the poor, in order to create a base for drafts concerning the reform of support for the poor in Serbia.

Why assistance?

That the poor need to be assisted has become a practically universally accepted principle of state politics in a large number of countries. But the question is posed – why? Which are the reasons behind the belief that the poor must be assisted? We shall mention several rival ones.

- It can be claimed that the poor have the right to assistance from the society simply based on the fact that they are poor, i.e. because they did not succeed in life from whatever reason. In other words, there is something that is usually called distributive justice, which prescribes a certain just distribution of income that every society must adhere to. Such a conviction that everyone has the right to certain income, whether he earns it or not, can scarcely be seriously defended, because there is no such thing as the right of one man to another person's money in market economy, nor does the government have the unambiguous right to take from one and give to another.
- Many people feel that it is nice and humane to help the poor and that it is necessary to give those that do not have enough

for survival, especially invalids and others that cannot earn, charity in order to survive, and not just to grownups but, all the more, to their children. This point of view is humane and founded on the foundations of Christian civilization. Nobody finds it acceptable to watch people starve to death, but the question is who is the one expected to help them: the government, using its tax power, or better-off citizens, voluntarily. It would be best for charity to be given individually and voluntarily, but this can be found to be insufficient in a poor country.

- There is also a reason of political nature. In every country the majority is made up of citizens with income below the average, which in parliaments of democratic countries gives majority to those representing the interests of the worse-off population.
- During crucial institutional transformations, such as transition from socialism to a free market system, there usually comes to the spread of poverty since many individuals not cope very well with the new rules of the game or perhaps even do not have the opportunity to cope due to the worsening of general economic circumstances, and it is good to help them for economic and social reasons, with the realistic hope that they will no longer need help in the foreseeable future.

Governmental assistance for the poor has two components: the component of redistribution and of insurance. The component of redistribution first and foremost pertains to the constant transfer of money to the poor, and mainly to the chronically poor at that, those that do not have sufficient work capabilities and therefore are unable to provide themselves and their families with sufficient income for survival.

The insurance component of social assistance represents governmentally organized (implicit) insurance against poverty. All citizens pay, through taxes, insurance premium to the state in order to be able, if they fall into poverty, to receive assistance to survive. In other words, governmental assistance to the poor citizens, even when they are well off, insurance against the uncertainty and unfavorable consequences that business risks in a market economy can bring. This component first and foremost pertains to temporary and transitional poverty and represents the consequence of the non-existence of efficient private insurance against poverty.

Assistance for the poor can have both bad and good consequences, regarded from the economic point of view. The bad ones are the following: 1) money that is spent for assistance could have been spent in a more productive manner (investments, repayment of debts etc.), 2) assistance can bring moral hazard, i.e. it can decrease the striving of users of social assistance to find a job and independently earn an income for themselves and their families. The good consequences of a good system of social assistance are: 1) preventing the decrease of human capital (education, health), 2) preventing crime, which certain citizens could turn to, and 3) spreading political support for economic reforms, through insurance against the most dire negative effects of transition.

Whom to help?

Three groups of citizens that are candidates for governmental social assistance can be defined:

- citizens in long-lasting poverty, those with incomes lower than the poverty line in the most favorable times of economic development as well, usually due to incapability or insufficient capability to work and earn a living for themselves and their families; this group for the most part consists of invalids, children, the old, and physically and mentally impaired individuals.
- citizens in temporary poverty, those with temporarily decreased income for reasons such as economic shock, loss of employment, bankruptcy of the firm and so forth; they have the capability to work and earn sufficient income but they need assistance for the weathering of temporary hardship;
- citizens in poverty for reasons of transition, those immediately struck by the reform measures in transition countries (restructuring of companies and the economy, etc.); they, as do the temporarily poor, possess the capability to work but have difficulties exploiting this capability due to a temporarily unfavorable environment (transitional recessions, lack of demand for employees of their qualifications etc.).

When designing the system of social support for the poor it is useful to differentiate temporary and transitional poverty, on the one hand, and permanent poverty on the other.

All three categories of the poor exist in Serbia, or will exist in the near future. The chronically poor are numerous, and only

one part of them is spanned by social assistance. Most of the poor people in Serbia would, according to this classification, belong to the group of temporarily poor, since they have sufficient work capabilities but their temporary poverty has become almost permanent due to the economic crises of the previous decade. Among them there are many employed persons, who receive low salaries and/or do not receive them regularly. Transitional poverty is still potential, because Serbia has yet to enter into transition. The greatest risk lies in the restructuring of companies, which will, in the post-privatization period, get rid of surplus employees, and so a number of the now employed persons will (temporarily) remain without employment, and thus without the income (albeit minimal) that they had so far.

How to help?

In a large part of the world, especially in developing countries, informal types of assistance for the poor are still dominant. The most important of these is the assistance that the poor individual, i.e. the one that does not succeed in earning a living, is given by members of his immediate and more distant relatives. This model is very widespread in Serbia as well, and it even brought about the re-establishing of family ties and returning to traditional family type during these years of crisis. This group also includes assistance from the church, local communities and neighbors, humanitarian organizations and such.

In more developed countries, as well as in transition countries, the basic role in providing the subsistence minimum has been taken on by the government, through formal models of support for the poor. There are several types of these models:

- social assistance in cash, on the basis of the evaluation of assets (income and property) of families,
- child allowance, especially that intended for poorer families,
- subsidizing subsistence goods, such as food, housing, electricity and such,
- immediate assistance in food, such as soup and school kitchens,
- public work, one of the goals of which is to give a the poor a chance to earn income,
- loans and other benefits aimed at encouraging self-employment, etc.

The following are two useful classifications of models of social support for the poor:

1. support in cash and support in goods, and
2. support aimed exclusively at the poor and support with a wider coverage; for example, social assistance is aimed at the poor, while subsidizing of prices assists all citizens.

Two of the most frequently used models of cash support in many countries are social assistance and child allowance. In developed countries they are encompassed in the wider context of social politics, which also includes the very important social security (pensions, education, etc.), while in the more advanced developing countries they frequently represent the dominant or the only form of governmental assistance for the poor.

Social assistance presumes the determining of individual right to benefit through the process of determining the assets of individuals, or families, in relation to the prescribed poverty line. In some countries child allowance is aimed at the poor, and in some countries they are a universal right, independent of social status.

Transfers in goods in favor of the poor include some vital goods (for example flour and rice) and services (for example healthcare and education) with the goal of making the subsistence of the poor easier. This model is more frequently applied in less developed areas of the world, and most frequently through four modalities: 1. general subventions of some prices, 2. quantity rationing, with low prices of (nutritional) goods, 3. food coupons free of charge, with market prices of food, and 4. kitchens for the poor, including school kitchens.

The poor can be assisted both through programs that are aimed exclusively at them, and through wide-spread programs, the benefits of which are used by people better off as well. Generally speaking, it is better to aim the assistance exclusively at the poor, because in that way the assistance goes to those that really need it, with a smaller expenditure of budget finances, or, alternately, greater assistance can be given to the poor from the given budget finances. On the other hand, it is not realistic to expect the assistance to be perfectly targeted, and there will always be those poor people that are not encompassed by the targeted programs as well as those better-off people who will be included in programs intended for the poor. Therefore, perhaps a combination of targeted and widespread programs would be best – for example, to combine targeted social assistance for the poor with

programs of social security and free education, which benefit everyone, and therefore all the poor citizens as well.

Actually, reforms of models of social support for the poor are always based on decisions on trade-offs between cash benefits and benefits in goods and narrow targeting and wider approaches.

Several of the described models of governmental support for the poor used to be used in Serbia. The most important were the limiting of prices of basic nutritional articles and communal services and child allowance, then the preserving of employment and humanitarian aid, while classic cash assistance for the poor and soup kitchen spanned a small number of the poor.

Who is poor?

In order to help poor individuals and families, it is necessary to first determine who is really poor. There are several targeting methods, that is methods of determining who the poor people are. Let us mention them:

- categorical targeting; some categories of the population are more “susceptible” to poverty than others, that is, a high percentage of members of a certain population are poor; therefore it is frequently taken that children, women, old people, widows, rural folk without land, uneducated and invalids are groups that are particularly stricken by poverty, and so in many developing countries programs are aimed at them, without particular determining of the exact situation in a given family; category targeting is administratively simple to execute and cheap, and its weakness is imprecision,
- geographical targeting; in some countries certain regions are particularly poor, and so it is possible to aim assistance at them, without the accurate determining of the situation of the receivers of assistance; this targeting, like category targeting, is mainly used in countries that do not have adequate administrative capacity and therefore are unable to more exactly determine who really is poor,
- indicative targeting; in situations when it is not possible to determine exactly enough the income and/or property of individuals or families, it is possible to rely on indicators of income/property, which should be in a high correlation to poverty in order to clearly differentiate poor citizens from those better-off; indicators can be various: education level, employment status, occupation, family structure, posses-

sion of certain property etc.; this targeting method presumes a well-developed administration apparatus that will determine facts on the field and process them;

- means-testing; in theory the cleanest and best solution is to accurately determine the assets (income and/or property) that an individual or family have at their disposal, because, poverty means insufficient income, or property; this targeting methods offers the greatest precision, but it is the most complicated and the most expensive; it is used in developed countries and in more advanced developing and transition countries, because it requires a very capable administration,
- auto-selection; the idea is for the poor people themselves to separate from the rich and show themselves to be poor; this is achieved, for example, through public work where the daily fees are low enough as to make them unacceptable to the better-off citizens, but acceptable only to the poor; or subsidizing goods used only by the poorer, and not the richer classes; or by food in soup kitchens, where meals are not high-quality; the method is simple, cheap for the poor and attractive to politicians.

Of the aforementioned targeting methods, the basic method in Serbia is that of means-testing, both for child allowance and for social assistance. Actually, in implementation there is an important difference: while the targeting for social assistance should be accompanied by field control, i.e. the determining of the exact situation of a family during a visit by a social worker, this procedure is neither prescribed nor normative for child allowance, but rather the whole procedure consists of work with documentation.

Destimulation of labor?

Social assistance can stimulate a dependency syndrome with users with full work capability, expressed by avoiding working and providing for himself and his family. If social assistance is sufficient for a decent living, then its receiver can, by simple calculation, reach the conclusion that it is more favorable for him not to work and to receive it, than to work and not receive it. More generally speaking, social assistance inevitable affects the behavior of the receiver, in a manner destimulating his will to work (the choice between work and leisure). This problem is fairly widespread in those countries that give significant amounts of benefits to poor people and that do not have mechanisms to

stimulate the seeking of employment or self-employment built into their support programs. Therefore in the past few years reforms of governmental support for the poor are being undertaken in the countries of OECD, with the goal to decrease work destimulation, that is to include stimulation for work. In certain transition countries the same is also being attempted.

Here are some methods to remove or at least decrease the problem of dependency of receivers of social assistance upon governmental support:

- the general decrease in amounts of social assistance, which gives greater stimulation to those poor people capable of work to find employment;
- registering with employment bureaus, with discontinuance of assistance if the user refuses a job offered to him or does not participate in the programs of the bureau;
- determining a maximal period in which a user capable of work can receive social assistance;
- excluding a family member capable of work from the calculation of the amount of social assistance (Estonia), and
- the decrease, when calculating the income on which the right to social assistance depends, of one part of the income of the newly-employed, in order to avoid that the right to social assistance be decreased by the entire new income from employment (Bulgaria); in this manner the receivers of social assistance are stimulated to seek employment, since they will not be in the situation that the entire new income enters the calculation of rights to social assistance and thus be implicitly taxed by 100%.

There is a legal solution in Serbia that stimulates those receiving social assistance to seek employment. This is a regulation from the Law on Social Protection that prescribes that any person that refuses a job offered or refuses to participate in the programs of the employment bureau will not have the right to social assistance.

Influence of politics?

Every reform draft inevitably has a political aspect, which should not be overlooked. Thus the change of models of social assistance for the poor implies political decisions in which, apart from the expert reviewing of solutions from the draft, elements of political nature are also taken into consideration. One of

these is the effect of the reform draft on the rating of the government, because the government, quite naturally, seeks to maximize its chances at the next elections. This could also be put differently: in order for a reform to succeed, it is necessary and good for it to have as wide a political support among the people as possible.

From the political point of view, governments usually put social transfers to as large a number of citizens as possible before transfers to a narrow circle of users, even if they are truly poor (the middle voter theorem). Thus the previous governments in Serbia extremely reduced immediate cash support to poor people, while they lead widespread politics of subsidizing basic products that was beneficial to the entire population. The problems with this strategy, otherwise possibly correct from the point of view of government rating, lie in the negative effects on economic efficiency, fiscal insustainability and insufficient support for the poor for whom, ostensibly, the program was brought into being. And bad programs inevitable come to bad ends, so it is better to go in the right direction from the start.

Apart from wide targeting and subsidies, it is good for government rating, as world experience proves, to lean on targeting by auto-selection and on assistance in goods instead of in cash. Auto-selection enables the exclusion of political and other influences on the choice of users of governmental assistance, because only the users do so. Assistance in goods, especially in countries in which the income is high, and thus assistance for the poor as well, is more popular because in this manner the objection that poor people buy alcohol, cigarettes and so forth from governmental assistance is avoided.

The reform of social assistance, like every other reform, presumes that some gain, and some lose. Those who gain are those that get included in the support program for the poor and those that were already included, and receive more than before after the reform. Those who lose are the ones who, possibly, stop receiving assistance from the government and, of course, taxpayers who pay increased taxes.

From the point of view of the winners and losers, it would be best if the losers could be compensated, and that the gain remains with the winners (Hicks-Caldor's test from welfare economics). This is most easily done if it is possible, at least partially, to finance reforms from foreign funds, whether donor or from the program of structural adjustment.

The government is usually under pressure from the loudest, and not the poorest. Therefore the strategic question is whether it will succeed in defense against the pressure of the loudest, better organized groups or whether it will succumb to them, at least partially sacrificing the poorest, because the poor are usually not very well organized and therefore are neither loud nor politically influential, and so they are easier to overlook when reaching strategic decisions. Favoring those politically more powerful and louder over those more in need of assistance is common practice, but it leads to greater costs and inefficiency.

Serbia is currently in a favorable position for the implementing of radical reforms in the social sector. The first reason is the overall political and economic reform in progress. It is breaking up old interest groups, and the political opposition is relatively weak. Therefore a good reform of governmental support to the poor is possible, that is, executable, without paying too much attention to the interests of those that will oppose or possibly lose. The second reason is the willingness of donors to lend financial support to the reforms, including support for the poor, which greatly eases the burden of financing and enables the inclusion of new poor people into the otherwise undeveloped and modest system of support for the poor.

2. PRESENT SUPPORT SYSTEM FOR THE POOR

A lot has been said about the characteristics of the poor in Serbia and about the present model of governmental support for the poor in the previous sections of this study. In this section we shall stress some of them and add others, which are significant to the draft of amendments and reform of this system.

General trends

2.8 million people in Serbia are poor (according to the poverty line of the Federal Bureau of Statistics), and 1.4 million people live in extreme poverty (according to the poverty line of the World Food Program). The poverty is not a consequence of income distribution inequality, for the distribution is fairly equal (Gini coefficient 0.28), but rather it was caused by a deep economic crisis in the 90's, including a large decrease in the social product, reduced employment, smaller real salaries and pensions, narrowing of governmental assistance and so forth.

Poverty struck on an above-average level those families with children and with five or more members, urban population, the unemployed and industrial workers, while the self-employed, pensioners, rural population and families with few members are in a more favorable position. Men and women are equally endangered. Still, the differences in the positions of the aforementioned categories of the population are mild, i.e. they are not large enough for us to be able to speak of particularly vulnerable groups. It is obvious that poverty has endangered the entire population of Serbia, including the members of what used to be the middle class.

The significant part of the population's income comes from informal economy¹ and expenditure in kind. The formal economy does not succeed in providing sufficient income, so the population has to turn to other, less formal mechanisms of gaining income.

Until recently, the standard of the population and thus of (part of) the poor population was protected through the low prices of subsistence goods, with constant shortages and purchasing on the much more expensive informal market, and through protection from termination of employment in the public/governmental sector, but with very low salaries. This approach was inefficient from the point of view of the poor, and it had very negative economic consequences (production, efficiency).

Social assistance

Since, until recently, the social politics was lead in the domain of prices and employment in companies, the government greatly neglected direct support for poor citizens through a program of social assistance.

The number of poor people that receive assistance is very small (82 thousand in May of 2001), almost insignificant compared to the number of poor people in the country. It even continuously decreased during the 90's. Thus at the end of 1996 social assistance spanned 40 thousand families with 86 thousand members, and by the end of the year 2000 only 31 thousand families with 67 thousand members. Such a trend of the number of assistance users was not influenced by the flow of poverty in Serbia. The sit-

1 Data from the previous and from this study does not include the informal economy in the necessary measure.

uation was opposite even. Rather, it was the consequence of restrictive solutions in the social protection system and the failure to finance even this modest support. Therefore the exclusion error in Serbia is very high, i.e. a large number of poor people are not encompassed by assistance. If we take into calculation the number of receivers of social assistance and the number of poor people according to the two used poverty lines (chapter I of this study), then the exclusion error is 94, that is 97%, i.e. only 3, that is 6% of the poor population receives social assistance.

The amount of the assistance is low. In the first months of the year 2001 it was on average around 21 DEM per individual, and the maximum was 41 DEM for a single person that has no income living in developed areas of Serbia. Such amounts can hardly be expected to significantly improve the financial situation of the poor.

The poverty line is determined relatively in the Law on Social Protection, as a percentage of the average income in the economy. Such a solution has practically made the increase of the number of users of social assistance impossible in a time of falling income and economic crisis, because with the general decrease of salaries the poverty line also drops. This leads to an unusual situation where the number of poor people is actually fixed regardless of the fluctuations of income, and the depth of the economic crisis. More precisely, if the average salary in the economy portrays the fluctuation of the total income of the country and if there are no changes in income distribution, then the normative poverty line flows together with the income of the population, and is invariant to its fluctuations, and thus the number of poor people is also invariant. This solution completely disabled a much more natural flow of the number of users of the right to social assistance depending upon economic flows, which would be the increase in their number in times of crisis and decrease in times of economic advancement.

On the other hand, the availability of governmental assets for support to the poor is usually parallel with economic activity, that is, they are easier to provide in times of prosperity than in times of crisis.

The question of whether the percent that has been determined as the poverty line (the state of social security) for the first household member (50% of the average salary in the economy) is high enough to provide a subsistence minimum can be discussed. But, there is a very restrictive solution, namely the percentage pre-

scribed for the other members of the household is very low – 20% each for the second and third member, 5% each for the fourth and fifth and 0% for the rest of the members. So, if we normalize these percentages by marking the poverty line for the first member as 1, then the second and third receive 0.4, the fourth and fifth 0.1, and the rest do not count at all! To be true, this problem is softened in families with children, through child allowance, since practically all families with children that receive social assistance also receive child allowance.

These parameters for household members are far more unfavorable than in other countries. The OECD analytical scale uses the following normalized coefficients for families with more members: 1 for the first grownup, 0.7 for the other grownups and 0.5 for children. Italy, in its social protection system, uses the formula $N0.65$, where N is the number of family members, so the second member receives 0.57, the third 0.47, the fourth 0.42, etc. In Slovenia the other grownups in the family are valued at 0.7, and children with 0.3.² In Croatia it is even more favorable: the other grownups in the family receive 0.8, and children from 0.8-1, depending upon their age. It is reasonable to assume that there is economy of volume within a family, i.e. that the subsistence of every next member costs less and less, because the unavoidable fixed costs gradually decrease per member with the increase of the family. However, the Serbia law assumes an extraordinary economy of volume, as though members of families with more than five members spend nothing.

The aforementioned solution discriminated large families in Serbia: almost three-quarters (72%) of families that used social assistance were one-member and two-member families³. This is completely contrary to the long-known character of poverty, also confirmed in this study, that poverty is present in an above-average measure among large families. It is irrelevant whether the previous legislators wished to discriminate some populations that are known for their large families – what is relevant is that the solution is unjust and it excluded from the circle of the poor the very people that are usually the poorest.

The next restrictive solution pertains to regional differences in the poverty line that were prescribed by the law. Namely, the

2 Children in Slovenia have a lower coefficient than is customary because the child allowance is fairly high and income from child allowance does not enter the calculation base for the right to social welfare.

3 See chapter 2.

average salary in the economy that serves as the base for receiving social assistance was taken to be the average of the municipality, not the Republic. This puts citizens from different municipalities in a very unequal position, because the assumptions on which this principle could rest are not fulfilled. Namely, if there were great differences in the costs of living in different municipalities and/or if the development level of the municipality were in accordance with the level of average salaries in the economy, then it would make sense to think about differentiating the poverty line by municipalities⁴. Because, great differences in the costs of living ought to be taken into consideration when determining who really is poor. However, the differences in the costs of living among municipalities are small, since most food and other articles, as well as many communal services (and electricity) have the same price in Serbia, regardless of municipality. Since the costs of living are not correlated to local average salaries in the economy, then it makes no sense to use the local average as a poverty line.

The present solution gives really senseless solutions. It turns out that the poverty in one municipality mainly depends upon whether the local, frequently not financially viable, factory has paid out some salary or not, since this usually has a breaking influence on the amount of the average salary in the economy, and thus on the legal criterion of who is poor and who is not. Because of this, the fluctuations of average salaries in the economy of municipalities are extremely high, and the differences remarkable. Thus the municipality of Opovo, in Banat, had in the fourth quarter of the year 2000 an average of 363 dinars, as opposed to the average of the Republic, 2466 dinars, which does not have much to do with the development level of this municipality. Also, sometimes the poor return part of the received social assistance because the final calculation shows that, in the quarter in which the assistance was received, the average salary in the municipality was lower than in the previous quarter, according to which the social assistance was calculated in advance and paid. Or, two citizens with equal salaries, but with residence in neighboring municipalities, can easily find themselves in a completely different position: the first might receive substantial assistance,

4 Thus Canadian Statistics differentiates, for analytical purposes, the poverty lines, according to the place of residence, into four urban and one rural class, with the following coefficients: 1 (cities with a population over 500,000), 0.88 (100,000-500,000), 0.86 (30,000-100,000), 0.78 (under 30,000) and 0.68 (rural areas).

while the other might be far above the poverty line, and therefore with no chance of claiming the right to social assistance. It is necessary simply to live in the right municipality.

On the other hand, the legislator has prescribed that, in municipalities in which the salaries in the economy are higher than the average in the Republic, the average in the Republic is to be taken as the base for the calculation of assistance. Thus the poverty line that would have been reached had the principle of average of the salaries in the municipality been applied on the entire territory of Serbia is lowered, and some citizens from more developed municipalities are excluded from the circle of the poor. This is obviously an inconsistent solution, and it is aimed at reducing the number of users and saving financial assets.

This defect of the present system has been corrected in the past few months, without changing the law. Namely, aid from donors has already been used to finance additional support for those citizens from municipalities with low average salaries that, because of the implementation of regulations, either had no right to assistance or the assistance that they received was extremely low. The applying of the average salary in the Republic to all municipalities in Serbia has included 14 thousand new families into the system of social support, and the amount of the assistance was increased for about 20 thousand families. Payments started in August of 2001 and are financially sustainable in 2002 as well.

The solution according to which the ownership of land over 0.5 hectares in size is sufficient reason to negate the right to social assistance is also restrictive; the concept of verifying the amount of property of a potential user, and the use of the said property, when determining the right to social assistance surely makes sense, but it is necessary to take into consideration the real possibilities of utilizing property in Serbia, and thus the possibilities of gaining income on that basis. Namely, in many parts of Serbia villages are emptying and the greatest number of households are those of old people, who are frequently unable to produce sufficient food for their own needs, let alone anything else; the fact that they own land, in a hilly area for example, does not change the circumstances significantly, because they can neither sell it, nor can they let it, and thus gain income. Poverty in villages exists, especially in the more passive areas and among households of old people, and the solutions from the Law on Social Protection disable this population from claiming the right to non-returnable governmental assistance.

Similarly, the regulation excluding from the right to social assistance all those that have any property over the living area that corresponds to the needs of the family is also restrictive. This solution prevents the use of social assistance in cases of short-term fluctuations of income, for example when the individual or family temporarily remains without the necessary means, and until the income increases again. Just as it would not be good for someone to receive governmental assistance as a poor person for a long time while owning significant immovable property, it is not good to force someone to sell “surplus” property so as to weather a six-month crisis. The goal of governmental politics should not be the property decrease of the endangered, especially not of productive property, since in that manner their long-term capability to earn can decrease, and their poverty only worsen.

According to the present regulations there is, to be true, the prospect for owners of property (both of land and of other property) to receive social assistance if they have insufficient incomes, but with the obligation to return the assets when (if) they are able to and with placing a mortgage on their property. This turns social assistance into a loan, secured by a strong, perhaps too strong, collateral. Individuals in a state of need, especially older ones, do not find it easy, in the uncertainty of their future income flow, to decide in favor of this possibility and to worry about whether their property will be sold. Apart from that, the infrequent using of this possibility is also influenced by the lack of knowledge by potential users on the true nature of a mortgage, as well as of the limitations that a mortgage places on the free use of property. It is not certain, either, whether it is good for the government to deal in mortgage loans, especially with property with dubious selling potential.

The small number of users of social assistance was also contributed to by some other solutions (and tricks):

- a. the large and ever larger delays in the payment of social assistance, that amounted to over 2 years, and the value loss in the meantime through inflation; these flows destimulated the population to apply for assistance, since the process of claiming the right entailed a considerable amount of effort and costs, and the assistance, low at that, would not start to arrive until two years later,
- b. two changes in the methodology of salary calculation in 1997; 1) the average was, until then, calculated as the result of dividing the mass of paid salaries by the number of

employees that received a salary, while after the change the average was calculated as the result of dividing the mass of paid salaries by the number of employees (including those that did not receive a salary that month); 2) several items that had until then been included in the salary were excluded: overtime labor, past labor, night labor and other compensations; on both bases the average salary decreased, and the consequence was the “decrease” of poverty in Serbia,

- c. the dubious calculation of missed earnings, i.e. increasing the income of work-capable individuals by the amount that they ostensibly could have earned (in informal economy) and did not earn, into the calculation of income when determining the right to social assistance,
- d. the provision that, when calculating income, persons employed be written the legally guaranteed minimum, regardless of whether they earned it or not; thus the income of potential users of social assistance was unjustly increased, because during the previous years it was customary in a large number of companies for the payment of salaries to be delayed, or not made at all.

Beside the listed and other flaws, the present social assistance system is, by general idea, modern and good. Here we presume: a) the concept of filling the gap between realized income and the poverty line (“social security level”) and b) the concept of means-testing, that is, determining the total assets of individuals and families, because this method gives the most exact results if it is properly applied. Since the method is technically demanding in the area of determining the income of individuals and families, the efficient applying of this method predominantly depends upon the capability of the administration to gather and process the relevant information and upon the difficulties that can occur in the process.

Serbia has a developed network of institutions with the job of caring for the social protection of citizens, which consists of municipal centers for social work, with 2301 employees (March 2001). This institutionalized basis gives Serbia an advantage over many developing and transition countries, which do not have similar administrative capacities.

The staff composition of centers for social work is most frequently favorable, because it consists of individuals that are qualified and trained and that have sufficient work experience to perform their jobs. The material and technical aspects of the work of

centers for social work significantly worsened during the past decade, but it seems that, with donor support and domestic sources, the situation will improve in the future.

The basic problem when determining income is the widespread presence of informal economy in Serbia⁵, so that income of individuals and families from this source cannot be encompassed in the usual manner. While other income can usually be viewed through the appropriate documentation, the income from the informal economy, by definition, evades formal determination. An additional difficulty lies in the fact that the income from the informal economy is particularly significant for those citizens with low income from the formal economy or no such income at all, and are thereby candidates for claiming the right to social assistance.

The problem of encompassing the population's income from informal economy is only possible to combat with active field-work, that is by the insight of social workers into the true situation of property and income indicators of families. The practice with field verification so far has been different: in some centers for social work this represents a regular activity, while in others it is performed rarely or never. The limitations were so far due mainly to material and technical reasons.

Participation costs, that is, costs born by citizens when attempting inclusion into the program of social assistance, are also high. They are usually not of a material nature, but consist mostly of costs in time and effort to obtain the twenty or so documents necessary for application, but there are also financial costs as well, like transportation costs and such.

Social assistance encompassed only those who are truly poor⁶. In other words, there are hardly any better-off citizens among them, and so the inclusion error is very small. Excellent targeting from the point of view of inclusion is not merely the result of normative solutions and activities of the centers for social work, but also of the auto-selection of citizens. Namely, the low amount of social assistance and great delays in payment in the previous period lead to the result that only those who were truly

5 See G. Krstić, B. Mijatović and others – Analysis of informal economy in FRY with estimates for 1997 and suggestions for its legalization, Economic Institute, 1998; G. Krstić, B. Mijatović and others – Reintegration of Informal Economy and Development of the Private Sector in Serbia, The Economics Institute and LEX, 2001.

6 See study United Kingdom Donation to Serbian Family Material Support Welfare Scheme, IMG, May 2001

most in need of this assistance and who had no other alternative applied for social assistance. This is confirmed by the fact that the hastened payments of social assistance in the winter of 2000/2001 immediately caused a greater interest of the poor and an increase in the number of beneficiaries.

Child allowance

The program of child allowance is much larger than the program of social assistance, both by the number of users and by the financial assets. The number of families receiving child allowance in June of 2001 was 350,000, and the number of children spanned was 597,000. Expenses for child allowance are around 8 times greater than the expenses for social welfare.

Still, the span of children receiving child allowance would be higher if there had been no great delays in payment during the past years and if the methodology of salary calculation had not changed in 1997. The first destimulated application, and the second sharpened the criteria for claiming the right.

The child allowance system is so conceived as to satisfy the needs of both social and population politics. Therefore it is difficult to analyze it mere from the social point of view, namely to determine how much it really helps the poor and whether this could be achieved in a more efficient manner. For, a solution can be not good enough from the point of view of support for the poor, but defensible by the needs of population politics.

The basic criterion for the claiming of the right to child allowance is the financial situation of a family with a child, or children. In regions with negative population growth, which cover most of the territory of Serbia, all children in poor families have the right to child allowance, while in regions with high population growth, defined through municipalities with positive population growth, the first two children in a poor family can claim the right to child allowance.

The criterion of the financial situation of a family applying for child allowance is much more lenient than the criteria for social welfare. The main legal benefits are:

- when calculating income for claiming the right to child allowance, the poverty line is taken to be 50% of the average salary in the economy of the municipality for every family member, without the sharp regressions that exist with social assistance; on the contrary, with child allowance, as we can see,

- the economy of scale that exists in every family is not taken into consideration, but rather all members are treated equally,
- using the municipal average of salaries is limited from the lower side (at least 70% of the Republic average), which does not exist with social assistance, and from the higher side (110% of the Republic average), while with social assistance the Republic average is the maximum; on both bases it is easier to qualify for child allowance than for social assistance both in the least developed and in the most developed municipalities in Serbia,
 - with child allowance, the property of the family has no influence on the right to claim child allowance,
 - when determining income for claiming the right to child allowance, the law has prescribed the types of income that are taken into consideration; these do not include earnings from unregistered activities (informal economy), but only formal, registered income, so that this also represents a significant benefit.

When determining the relevant facts for claiming the right to child allowance fieldwork is not prescribed, i.e. verifying the situation in the family, so that this weakness also makes it easier to claim this right. This is contributed to by the small number of employees of appropriate departments in municipalities, compared to the large number of children spanned by child allowance.

Child allowance is not very well targeted. The exclusion error, that is, the percentage of poor people not included in this program, is much lower with child allowance than with social assistance, due to the milder criteria for earning the right to child allowance compared to the criteria for social assistance, and to the much larger number of users. On the other hand, the inclusion error, i.e. the percentage of the better-off that are included in this program is much higher than with social assistance, because income from informal economy is tolerated here, both through legal solutions and through the lack of verification of the given data. This is confirmed by wide anecdotal evidence.

As with social assistance, the regional differences in earning the right to child allowance, because of using municipal averages of salaries, are bad both from the aspect of support for the poor and from the aspect of population politics.

The benefit structure of child allowance also portrays the advantage that was given to population rather than social goals. Because, the benefits, i.e. child allowance, are not linked to the

height of the income of the family that has earned the right, as is natural for social assistance, or to the age of the child and increased costs, but merely to the number of children and their order of birth, which is a reflection of population goals. The increasing amount of child allowance for children of higher order of birth is opposed to the economy of volume within the family, which would imply a decreasing amount.

The basic problem with child allowance is the following: the span of children is not universal, i.e. true categorical targeting is not used, but instead the right is connected to the financial situation of the family; on the other hand, the determining of available assets of the family is poor, both normatively (non-inclusion of income from informal economy and property), and procedurally (the lack of any kind of verification of the data). Therefore it can be said of the present system of child allowance that more attention is paid to population than to social circumstances.

3. PROPOSAL FOR SHORT-TERM REFORM

1. Economic growth and poverty

The most important factor for decreasing poverty is economic growth. Generally speaking, increasing the income of a country inevitably leads to the increased income of its poor population, creating possibilities for a better life. Empirical research, conducted in a large number of countries and during long periods of time, confirmed the thesis that poor people equally enjoy the advantages of economic growth, i.e. that their income grows in proportion to the average income of the given country⁷. This relation is global and need not apply in every moment at every place, but it clearly points to the inaccuracy of claims that poor people do not participate in the gain from economic growth and that they are denied the right to the fruit of growth.

It is possible, however, that the economic growth in certain circumstances leads to temporary stagnation or the decrease in the income of the poor. One such situation is the radical change in the manner of functioning of the economic system, such as the

⁷ J. L. Gallup, S. Radelet and A. Warner – Economic Growth and the Income of the Poor, Harvard Institute for International Development, 1998; D. Dollar and A. Kraay – Growth is Good for the Poor, WP 2587, The World Bank, 2001

transition from socialism to capitalism, where there is a change of institutions and a re-distribution of income from an equalized scheme to the standard market one (with the growth of participation of income from capital in the total income). But this phenomenon is of short duration and transitional nature, while in the long range there is the said proportionality between the growth of the income of the poor and of the country as a whole.

Economic growth has a positive effect on lessening poverty, in at least three ways. The first is increased demand for labor, and, accordingly, increased employment rate in the country, which engages unemployed and inactive persons, bringing them income and the change to find their way out of poverty. The second is increased earnings for those that are employed, but have low salaries and so belong to the circle of the poor. Increased income, with time, increases their standard of living and “gets them over” the poverty line. The third is increased assets for governmental support, as a result of increased income in the country and increased tax bases, for those people that are unable, currently or permanently, to find their own way out of poverty. In this manner, economic advancement creates possibilities for the far more successful decrease of poverty than any type of governmental politics of assistance for the poor is able to.

The best politics for the decrease of poverty is orientation towards economic growth, as the most important determinant of poverty. The basic elements of long-term growth are 1. macro-economic stability, 2. the swift development of the market-oriented private sector, 3. decreasing the governmental role and the development of all markets, especially the flexible and dynamic labor market as a manner of stimulating the increase of the employment rate, 4. privatization and restructuring of companies and 5. rule of the law and good management.

2. Social politics⁸ and poverty

Poverty, except by immediate governmental politics (social assistance, child allowance), is also influenced by politics that have other goals, but which affect by their actions the volume and depth of poverty, that is, the life of citizens in Serbia.

One of these is the pension system and politics. Only the existence of a developed pension system decreases poverty among

⁸ See: B. Mijatović – Principles of New Social Politics, in *The Reform Strategy*, CLDS, 2001

elderly citizens, contributing in this manner to the decrease of poverty in general. Many elements of the pension system and politics determine the number of elderly citizens that will find themselves below the poverty line, such as the conditions of retirement, minimal pensions, the indexation system and so forth. The pension system in Serbia during the past years and decades quite successfully protected elderly citizens (around 1.5 million of them) from falling into poverty, maintaining a certain, albeit minimal, expenditure level, but at the price of too great expenses and participation of pensions in the social product. The reform of the pension system will probably cause the decreased participation of pensions in the social product, which will sharpen the question of relative poverty of elderly citizens. On the other hand, the presumed economic growth will act in the opposite direction.

The second is the labor market and regulations on this market. Since the poor, by definition, have no significant (productive) property, their income depends most of all upon the possibility of employment and on the predominant salaries on the market. The employment relations in Serbia until now, based on socialistic principle of over-protection of employees, are being replaced by new ones, which are appropriate for the market system and contractual relations between employers and employees. Only this more modern, more flexible system of employment relations and the labor market, together with the other components of economic reform, will enable more efficient business activities, and thus a better employment rate.

The third sector that influences the position of the poor is the health system, which contributes to the softening of the consequences of poverty in the measure in which it is free, i.e. available to poor citizens free of charge. Until recently healthcare in Serbia was, normatively speaking, mostly free for all citizens of Serbia, but the informal payments were very wide-spread and frequently mandatory, turning thus the system into a chaotic combination of free and commercial services. In the future there will, probably, be spreading of legal charging of healthcare services, but it is not certain whether this will bring about the decrease of informal payments or not. Depending upon the answer to this question an estimate could be made as to whether and in which measure the positions of citizens will worsen, especially of poor citizens, compared to the previous healthcare protection.

The fourth sector significant for the decrease of poverty is education. The poor usually have education levels below average,

which also means less possibility for earning a decent income. Therefore one of the worthy long-term strategies in low-income countries is investing in the education system, in order to decrease poverty in the long run through increasing the possibility of earning by increasing the capabilities of the population. In Serbia, however, the lack of education is not so important a factor of poverty, due to both the developed education system and the character of poverty (economic crisis etc.).

3. Changes in the system of governmental support for the poor.

Basic strategies

The reform strategy of governmental support for the poor should be based on the desired goals, on the virtues and flaws of the present system and on the income and budget capabilities of Serbia.

The basic goals are:

- decreasing the number of poor people,
- decreasing the depth of their poverty, and
- economizing with assets, meaning maximizing results achieved with the assets available.

Social policy has, until recently, leaned upon the system of low prices of subsistence goods and preserving employment. This system must be abandoned, for it is too expensive (fiscally unsustainable), because it is inefficient (too much money goes to those that are not poor), because it endangers economic efficiency (causes distortions in the allocation of resources) and because it is not in accord with the new market-based economic system that Serbia strives towards.

The basic weaknesses of the present system of governmental support for the poor (both social assistance and child allowance) are:

- overly harsh conditions for earning the right to social assistance and the thus caused small number of beneficiaries of social assistance and small amounts per user,
- using the relative poverty line,
- differentiating the poverty line by municipalities,
- leaning on documentation when granting the right, especially with child allowance, with insufficient fieldwork,

- insufficiently developed information system.

The basic reform strategy of governmental support for the poor should, at least in the short term, be based on the preservation of the founding, good characteristics of the present system and the improvement of those characteristics that do not produce favorable effects.

The economic poverty in Serbia does not permit, not even with donor help, a great increase of governmental support for the poor. Therefore the basic element of the strategy must be the knowledge of the limited financing capabilities and the necessity for the level of support to be determined not according to how much would be necessary, but how much the government can afford. The upper boundary of financial capabilities is probably 1% of the GDP of Serbia, which is around USD 100 million per year. A poor country cannot be generous towards its poor population.

Structurally speaking, there should be a moderate increase of the participation of social assistance at the expense of child allowance, through a certain broadening of the right to social assistance and better targeting of child allowance.

Centers for social work should be strengthened in every sense – both the staff (especially in smaller centers), and materially and financially and informationally – so that they would be able to efficiently perform the work of implementing the law, that is, of proper targeting of the poor. In this manner investments into centers for social work will more than pay off through savings in budget assets intended for the poor, more precisely, through their more efficient utilization and targeting at the really poor.

Welfare reform

The basic concept of social assistance (“financial security of the family”) in Serbia is basically good and should not be changed, at least in the middle term. This means that in the future we should also lean on the system that rests upon four basic elements:

1. the poverty line, which, on the basis of determined assets, separates those that qualify for social assistance from those that do not,
2. determining the assets of individuals, or families (means-testing) as the basis for determining those that are poor,
3. augmenting the assets of individuals, or families, up to the poverty line, i.e. paying the difference between the poverty

line and the available assets of individuals, that is, families, from the budget of the Government,
4. arranging and financing the system by the Republic.

Retaining the bases of the present system does not at the same time mean preserving all the present solutions. Several of them should be changed in order for the system of governmental support for the poor to be more efficient and just.

Ad. 1. Who is poor?

The presently valid poverty line in Serbia has some important flaws. It is relative, i.e. linked to earnings and varies together with the economic circumstances in the country, preserving an equal number off poor people regardless of the true variations in poverty. And poverty flows opposite to the flow of earnings – the higher the income, the less true poverty there is, and vice versa. Therefore, for the more precise spanning of the poor and of poverty, it would be much better to determine an absolute poverty line expressed in dinars. An absolute poverty line would enable the number of poor people with the right to social assistance to fluctuate inversely from economic activity – the greater the economic activity and income, the smaller the number of poor people, just as the number of poor people would grow with the drop in economic activity and the decrease of income⁹.

Naturally, the poverty line cannot remain unchanged for a long-term period. It inevitably moves with economic growth, that it, is gets higher since the social perception of poverty changes. Those that are considered poor in a developed country would usually be better-off citizens in a poor country, just as citizens with an unchanged income in a developing country can find themselves, after a certain period of time, among the poor. Therefore in the long run the absolute poverty line also changes. But, this is the point, in the short term the poverty line of a country, and thus in Serbia, should be stable for the aforementioned reasons.

The precise suggestion for the poverty line is the subject of an individual research task, which this study could not undertake. The reasons to this are the shortage of time and the non-existence of a sufficiently accurate database. Therefore we shall not

9 Many countries have absolute poverty lines, among them Croatia and Slovenia.

offer here the exact amount of the poverty line, but shall give several important notes.

First, the poverty line must be based on the necessary expenditure level of individuals, that is, families, which is necessary for survival.

Second, the poverty line must be in accordance with the budget capabilities of the Republic of Serbia, as the limiting factor that prevent potential generosity. It is considered customary for the governmental support of the poor, including the social component of child allowance, to be around 1% of the GDP in transition countries.

Third, in the methodological sense, the poverty line can be estimated using the survey on household income and expenditures¹⁰, and bearing in mind the present salaries and pensions. It would not be good to set the line at too high a level, for example at a level higher than the average of salaries in certain industrial branches or higher than the average of salaries of unqualified workers, because this would destimulate employment, that is, in a certain manner encourage the already employed to leave their jobs and apply for social assistance.

The present “social security level” per individual (one-member household) of 50% of the average salary in the economy is on the lower boundary of the zone of reasonable values, because it is significantly lower than the average salary in the ten branches in Serbia with the lowest average salaries. For example, in April of 2001 the present poverty line per individual was 1474 dinars, while the average salary in these ten branches was 2268 dinars¹¹. It is obvious that this poverty line is not set too high, because a very small number of employed persons has a salary lower than the poverty line (the salary distribution is by standard log-normal). Even if the poverty line were set on a significantly higher level, the leaving of work in order to live off social assistance is not probable for several reasons: 1) due to the expectations of the increase of real salaries and more regular payments, 2) due to the knowledge of difficult re-employment once a position has been lost and 3) due to the social insurance that is connected to the

10 In the course of this study it was found that none of the present surveys on household income and expenditures are good enough. Therefore, for the setting of a new absolute poverty line it is necessary to create a new survey, with a larger span and more methodologically correct.

11 18.6% of the total number of employed persons are employed in these ten branches.

status of employed, first of all pension insurance. Even more importantly, the height of the salary is not a sufficiently good indicator of the population's income, since a significant part of the total income comes from expenditure in kind (around 1/5, according to the Survey on Household Consumption), from the informal economy (also around 1/5)¹² and from other sources. In other words, low salaries in certain sectors neither approximate the population's income well, nor should they represent the limit of the poverty line.

The effects of raising the poverty line by 10% during the first half of the year 2000 (from 667 to 724 dinars per month), calculated by simulation with the Survey on Household Consumption of the FBS, are as follows: the number of poor people would increase by 28 percent, and the poverty gap (lack of income up to the poverty line) by 41 percent, and all in relation to the present normative solution¹³.

The aforementioned poverty line is related to the individual, that is to a one-member household, as well as to the first member of a larger household. Of course, it is necessary to take into consideration the other members of larger families when determining the right to social assistance and determining the benefits for those that have earned this right. The main fact of importance here is the existence of economy of scale in the expenditures of a family, that is, the decrease of the necessary amount of money to cover the expenses of additional family members. The cause of the economy of scale is the decrease of fixed costs per member with the increased number of household members, because certain costs are mostly fixed regardless of the number of household members.

The treatment of the other family members in the present system is unfavorable – only 0,4 is prescribed for the second and third member, 0.1 for the fourth and fifth and nothing for the rest – which is mainly a consequence of the striving of the government to decrease its expenses through the restrictive politics of conditions for earning the right to social assistance.

On the other hand, there is no methodology that would precisely determine in an exact manner the mutual relations of amounts for members of larger households. In other words, these amounts are arbitrarily determined in all countries, in reasonable boundaries, of course.

12 Early Warning Report Yugoslavia, UNDP, various issues.

13 This and the following effect simulations should only be considered indicative.

The coefficients for families with more than one member could be as follows:

- for an individual (first family member) 1
- for the second 0.6
- for the third 0.4
- for the fourth and the rest 0.25

The suggested values of these coefficients are similar to those in other countries. When reviewing the suggested coefficients the fact that all children from families that receive social assistance have the right to child allowance should be taken into account, so that the suggested coefficients for children (most frequently 0.4 and 0.25) are not low.

The adopting of this alteration in the status of households with more than one member would raise the poverty line for these households, which would surely 1) broaden the circle of those with the right to social assistance and 2) increase the cash expression of their right. The effects of changing the coefficients for family members, calculated by simulation with the FBS Survey on Household Consumption, are the following: the number of poor people would increase by 86 percent, and the poverty gap (lack of income up to the poverty line) by 90 percent, and all in relation to the present normative solution.

The combined effects of the simultaneous change of both the poverty line and the coefficients for family members, in relation to the present solutions, are the following: the number of poor people earning the right to social assistance would be increased by 117 percent, and the poverty gap by 180 percent.

The newly founded absolute poverty line would be equal on the whole territory of Serbia. This would remove the present differences among municipalities for earning the right to social assistance and the amount of the payments and all citizens of Serbia would be placed in an equal status. As has already been stated, these differences have no excuse, because they discriminate the poor citizens living in poorer areas of Serbia. Thus the removal of this solution is apparently necessary if a just and efficient system of social assistance for the poor is desired.

The founding of a unified poverty line for the whole territory of Serbia would bring about the increase in the number of those with the right to social assistance in poorer municipalities and increase their rights, measured in cash amounts.

The destimulation of employment with those capable of working, which every social assistance brings in a smaller or greater

extent (depending on the amount of the assistance), should be avoided as far as possible. Serbia is not in the position to award generous transfers to those calculating whether it is better for them to work or to live off social assistance. Therefore it is necessary to be quite radical here. For those capable of working the governmental support for the poor can only be temporary, as a short-term subsistence measure. Therefore it should be prescribed that those individuals capable of working have the right to social assistance for a limited period of time only. For example, only six months during one year or few years during the entire lifetime (in the USA this period is 5 years).

The indexation of the poverty line would be performed on the basis of the indexes of costs of living. This would ensure the preservation of its real value, that is, equal purchase power in times of inflation.

Assets that enter the calculation for gaining the right to social assistance and for determining its amount should be the total and real assets of an individual, that is, a household. This means:

- net assets, and not income, as is prescribed in the presently valid law; income should, in general, be decreased by the costs of gaining the income, such as the costs of economic activity (in agriculture, or self-employment, letting real estate etc.); on the other hand, it is very difficult to calculate these deductions, especially regarding the possibility of hiding information,
- total income, so that all incomes could be included in the calculation; the current Article 18 of the Law on Social Protection lists the income that is taken into consideration, which is not good, because some sources of income are not, and hardly can be, listed, so interpretation must take place; it is better to simply state in the law that total income enter the calculation, with no attempt to list every individual form; on the other hand, in the present system income from child allowance and some other forms of social transfers in unnecessarily excluded from the calculation, for this also represents income, sometimes very significant for the family (a greater number of child allowances, etc.),
- received income, and not normative or potential; it is necessary to exclude from the system present provision that during the calculation of income the following is also taken into consideration: 1) “missed earnings”, i.e. the calculated earnings that the candidate for social assistance could have earned, although he did not and 2) guaranteed wages for

employees, even though they did not receive them. In other words, the amount of earnings that someone could have earned should not be taken into account, but only what he did in fact earn.

The position of tenants of living space should be reevaluated. In the present system tenants have no benefits, although the paying of rent of private living space is a very important item in the expenses of many families, especially younger ones. In other words, the financial position of two households equal in all other aspects can be very different if one household possesses an apartment/house while the other leases it from a private owner. Tenants can have insufficient money for subsistence after paying the rent, which could be respected through the calculation of income when determining the eligibility for social assistance.

The above-defined total income could be reduced by a sum intended for the covering of the cost of renting a house/apartment¹⁴. Since the attempt to determine the real expenses of a household on rent would not give accurate results, due to the hiding of true expenses, a certain sum could be legally prescribed in the name of deduction. It could, for the sake of simplicity, be equal for all households or depend upon the number of household members. Still, the introducing of this manner of support to poor tenants could be accompanied by numerous manipulations, so it is necessary to first investigate the possibilities of control.

The treatment of property when determining the right to social assistance should be reconsidered. Three possibilities appear here:

1. imputing gain from the immediate use of owned property and attributing the imputed rent to the total income; this solution has theoretical excuses, but it is, generally speaking, unusual and the applying of this solution would greatly complicate the procedure of determining income;
2. reevaluation of the present solution of excluding farmers from the right to social assistance on the fact that they own more land than 0.5 hectares; the present stipulation is based on 1) the reasonable assumption that a farmer who owns land can provide himself with subsistence social security and 2) on the knowledge of the practical impossibility of calculating the income of farmers; however, there are situations

14 In many countries there are programs of financial support for tenants of living space.

when a farmer is unable to satisfy his minimal needs, such as, for example, a household of elderly people, and neither is he in the position to sell the property nor to let it and survive upon those assets (for example, the property is located on a hilly or mountainous area),

3. reevaluating the present solution of excluding from the right to social assistance those persons that own property over the necessary minimum for living space; the problem of the impossibility of sale or letting this surplus property can also arise here, especially in rural areas or depreciated towns.

With items 2 and 3 the present absolute criteria for estate should be softened, that is, tied to the real possibility of sale or letting. In other words, it is necessary to exclude from the system the present regulation that the eligibility for social assistance is denied to those owning real estate apart from that necessary for living in and land up to 0.5 hectares and replace it with a regulation stating that "the right to social assistance is denied to those that can provide for themselves and their families by selling or letting property, over the necessary minimum for living in and land over 0.5 hectares, that is 1 hectare for hilly and mountainous areas". In that manner the automatic exclusion of property owners would be avoided, but rather it would be determined whether the property in question can bring in income from rent or can be sold.

The criteria for determining the property that does not endanger the right to social assistance would be almost equal to the present criteria (living space and land up to 0.5 hectares, with the added difference for hilly and mountainous areas). In the practical implementation of the suggested regulation it would be standard to assume that the property can be sold or let, and that this is not possible only in specially excusable and relatively rare cases and that the owner of the property then has the right to social assistance.

Ad. 2. How to determine poverty?

The system of determining the assets of individuals, or families (means-testing) is superior to the alternate methods of targeting (determining who is poor). Categorical, geographical and indicative targeting are used only then when the method of determining the means is not possible, either due to the weakness of the government administration, or some other reason. When the goal is to "discover" the individual that is poor, then

the most correct results are achieved by the method that directly measures their income and/or property, and not methods that attempt to indirectly estimate the state of the income and/or property of an individual or family on the basis of visible expressions or characteristics.

The means-testing method, naturally, does not give perfect results, but has its flaws. It is administratively complex, so errors and false data are possible. Also, it is sensitive to the informal economy, since it, by definition, evades governmental administration (including tax administration) so the income from informal economy can scarcely be registered and spanned by standard procedures and formal documentation.

Serbia presently uses the means-testing system as a basis for the answer to the question of who is poor. However, this system has certain weaknesses that should be eliminated during the reform.

Fieldwork (visits of social workers to households) with a view to the more accurate determining of the poverty level and control of the data submitted by families that have applied for social assistance was significantly decreased during the 90's. Therefore it is necessary to completely rehabilitate this activity so that the poverty evaluation of individuals and households would be based not only on the documentation submitted, which is not always necessarily correct, but also on the immediate insight of social workers into the situation of the family. Thus the method of means-testing is in a certain measure complemented by indicative targeting, which is necessary because of the wide-spread informal economy in Serbia and the impossibility of determining the income of individuals and households exclusively on the basis of formal documentation.

Income from informal economy represents a significant part of the total income of precisely those categories of the population that do not have significant income from the formal sector, and are thus natural candidates for social assistance. As long as informal economy is present in a significant volume in Serbia, the only way in which it is possible to encompass it when determining the income of individuals and households is through fieldwork of social workers.

Speaking more generally, social workers might have certain discretionary rights when determining on the approval of the right to social assistance in those situations when a candidate does not have the legal right (for example, when someone is obliged to support him, but does not do so) in order to resolve

those life situations that are not prescribed by the law. The exercising of discretionary rights must be strictly controlled by the Ministry so as to avoid abuse.

For the more efficient processing of requests for social assistance and the control of the data submitted, it is necessary to significantly improve the information system of the Ministry for Social Affairs, through the broadening of the central database and the integration of the central base with the bases of centers for social work. More importantly, it is necessary for the Ministry to connect to other databases of governmental bodies, such as databases of taxpayers (especially tax on property), owners of movable property (automobiles, boats etc.), social security, employment bureaus, customs administration (for insight into the citizens' imports) and so forth. In this manner the picture of individuals or households that use or apply for social assistance would be significantly filled out, and potential abuses prevented.

Ad. 3. How much and what kind of assistance?

When it is determined that a household has income lower than the appropriate poverty line, then the government pays in cash from the budget the difference between the poverty line and the available income. This enables household consumption on the level of the subsistence minimum, that is, turning poor households from extremely poor to a state that enables the meeting of the most essential needs.

Payments in cash are the most convenient, because they enable the flexibility of expenditure, that is, adjusting the expenditure of individuals and households to their needs and preferences. The giving of assistance in goods has its problems, although it also has its virtues¹⁵. Still, deciding in favor of assistance in the form of cash does not need to completely exclude the component of assistance in goods. Namely, in certain families the use of social assistance in a manner that endangers the subsistence of the family can occur; for example, an alcoholic can spend a significant amount of the money on alcohol, and not on food for the children. In such situations it is necessary to prescribe the discretionary right of centers for social work to decide to give assistance to that family in goods, and not in cash.

15 See section 1. The great majority of developed and transition countries use cash assistance and not assistance in goods as the basis of the governmental support system for the poor.

Ad. 4. Who regulates and finances?

The decentralization level of governmental support for the poor is an important question when designing the system. Excessive centralization of all governmental activities in Serbia leads to the reevaluation of (de)centralization in this area as well.

An important argument can be stated in favor of decentralization from the republic to the local level: local management of programs for fighting poverty can decrease costs and improve targeting. Because, local administration is better informed on members of local communities than is a central administration and therefore can more precisely identify the poor. Apart from that, the engagement of the local civil society and humanitarian organizations can improve the coordination of efforts and means from various sources aimed at support for the poor.

More precisely, the organization of support programs for the poor can be decomposed into several elements: first, the criteria for determining who is poor and determining benefits; second, financing; third, administration and fourth, supervision. It is possible, as is done in Serbia, to determine special roles for certain levels of government organization in support programs for the poor.

Leaving the criteria for determining poverty to the republic level has several advantages. First, the assets will be distributed to the greatest number of poor people regardless of where they live. If the criteria were determined locally, they would certainly vary and equally poor individuals would find themselves in different positions, according to their place of residence. Furthermore, the principle of equality of all citizens of Serbia before the law suggests equal criteria as well, and this can only be achieved by jurisdiction of the Republic. Second, the evaluation of projects on the entire territory of the country is enabled in order to determine their efficiency. And third, jurisdiction of the Republic, together with unified criteria, represents a barrier for local elites to aim assets intended for the poor at other purposes. The insensitivity of unified republic criteria to local values and preferences can be resolved by additional local programs based on local assets.

Financing of the basic programs of governmental support for the poor is almost necessarily performed from the budget of the republic. This is the only way to provide all citizens of Serbia with the equal rights and benefits that belong to them. If the financing of uniformly determined rights was left to the local communities,

it is certain that there would either come to the impossibility of poorer regions to finance the legally determined benefits or to the overburdening of the budgets of poorer local communities (like, for example, in Estonia). Probably both. According to the strategy that we embrace, The Republic of Serbia is, as until now, obliged to provide basic protection of the poor, while local communities can build, finance and implement their additional programs of support for poor citizens.

The administrating of social assistance is already organized on the local level, through municipal centers for social work. This is a good solution and should not be changed. The supervision of their work should still be performed by the Ministry.

Reform of child allowance

According to the present legal solutions, child allowance is more an instrument of population than of social politics. Although it is generally intended for poorer families, the aforementioned normative weaknesses and weaknesses in the control of data submitted by the citizens turns it into an instrument of population politics most of all, which has already been spoken of. In other words, although the right to child allowance is normatively connected to the social status of the family, the weaknesses of the targeting system make the realization of this right far more reliant upon the number of children in the family than upon its social status. Thus the balance between the goals that the legislator intended is disturbed.

The basic issue of the middle-term reform of the system of child allowance is, therefore, the following: whether to keep it as a unified means of achieving both population and social goals or to reevaluate it and change this dual nature of child allowance? That is, whether to continue using the present multi-goal system, with slight modifications, or to separate the social and the population component through a radical reform and realize them through two different instruments?

The population component of child allowance is most frequently present in the form of increasing child allowance with the order of birth of the child, so that for each child with a higher order of birth higher child allowance is paid than for a child of lower order of birth (for example, more for the third child than for the second). Various models of child allowance are used in the world. In some countries child allowance does not depend

upon the order of birth (Austria, Bulgaria, the Czech Republic, Denmark, Ireland, Russia, Slovakia, Slovenia, Spain)¹⁶, and in other countries it increases with the order of birth (Belgium, Estonia, Finland, France, Germany, Greece, Hungary, Israel, Norway, Poland, Romania).

Separating the population and the social functions can be performed, as was suggested in the study *System of Measures for Renewing the Population of Serbia*¹⁷, by excluding the population component from the system of child allowance and basing the population politics on other instruments (parenthood benefits, mothers' benefits etc.). This would enable the reform of child allowance, the basic purpose of which would be wider support to poor families with children in a more just and more efficient manner.

The aforementioned separation of the social and population functions seemingly cannot be performed in a short term, so in the further discussion we shall retain the essence of the concept of child allowance as it is now. Therefore we shall not reevaluate the basic solutions, which are consequences of the population goals when designing child allowance, such as: different rights in areas with low and with high population growth, the increasing amount of child allowance with the increased order of birth of the child, rejecting the economy of volume within a family when calculating the family's assets and so forth¹⁸. Such an approach leaves little space for reforms.

The indexation of child allowance should be performed by the index of the costs of living, because this ensures equal purchase power with time. The real value of child allowance should be occasionally reconsidered, depending on the economic growth and the financial power of the state.

The main remaining problem with the present concept of child allowance is its poor targeting, that is, the failure of normative solutions and their implementation to achieve the basic goal – that the right to child allowance, except for the third child in

16 In some of these countries the amount of child allowance depends upon the age of the child.

17 Economics Institute, Belgrade, 1999

18 If the concept of separating the social and population politics were accepted and the population politics transferred to other instruments, then child allowance would be based on other principles: the criteria for earning the right would be equal in the entire territory of Serbia and somewhat less lenient than they are now, with introducing the economy of scale within the family; the amount of child allowance would not depend upon the order of birth and would either be equal for all children or would depend upon the social status of the family, etc.

areas with low population growth, be granted to those parents that belong to the category of the poor.

The more important present problems and necessary reforms are as follows:

- with child allowance there is also a differentiation of conditions for earning the right according to the place of residence, that is, according to the municipal average salaries in economy; this solution is not good, for the reasons that have already been mentioned in this study; therefore it is necessary, as with social assistance, to remove the differentiation by municipalities and to introduce uniform republic criteria for the amount of assets that represent the poverty line,
- due to the combination of social and population goals, it is not certain whether the applying for the child allowance should also depend upon the absolute poverty line rather than the relative one; while social goals suggest the absolute line, so that only those that are really poor could claim the right, the population goals could give advantage to the relative line, so that there would be no decrease in the number of users in the time of economic growth,
- in order to determine the right to child allowance as accurately as possible, it is necessary to introduce the criterion of property here as well; the present solution that the right to child allowance belongs to the poor regardless of the size and nature of the property they possess is not good; in other words, there should be, as with social assistance, the possibility of earning income from property, although by more lenient criteria,
- also in order to determine the eligibility for child allowance more accurately, all kinds of assets (income) of the household should be included in the calculation, i.e. the present definition of “income” should be broadened so as to encompass all forms, including the informal economy.

The weaknesses of the present system mentioned in the previous two items (non-inclusion of property and the informal economy) are mostly the consequences of the conviction of the legislator that the small-numbered municipal departments that deal with child allowance are not able to cover the work of verification of property and income from the informal economy in hundreds of thousands of households, so it is better to exclude these categories difficult to verify from the normative system. This seemingly persuasive logic still, in the end, proved wrong,

because in this manner the term “poverty” is overly relative. If the state cannot or does not wish to verify income as the basis for claiming the right to child allowance¹⁹, then one alternative is to switch from targeted to universal child allowance, regardless of the financial position of the family. Because, the prescribing of social conditions for claiming the right to child allowance, with no intention to truly respect them, leads to confusion, in which anyone can earn the right to child allowance with little effort. Then the inclusion and exclusion errors are high, and the law greatly resembles those nice but unimplementable laws from the not-so-distant past.

If, however, the cause of the poor targeting lies in the striving of the legislator to further relax the criteria of poverty for the earning of the right to child allowance compared to social assistance, then this should not be done through poor control and disregard of true indicators of poverty, but through explicitly more favorable criteria of income (assets). Then, for example, the census line could be increased compared to the present 50% of the average salary.

More generally, if the legislator prescribes criteria for the earning of a certain right, he is obliged to prescribe the accompanying instruments of control, and the executive government bodies are obliged to implement them. If this is not possible for any reason, then it is necessary to reevaluate the system and seek alternatives.

From the point of view of social policy, that is of support for the poor, targeted child allowance is a more favorable option than universal child allowance. With the given financial means, it is possible to achieve more if they are aimed at the poor than if they are transferred to all children, including those from well-off families. These latter have all the less need for the income from child allowance the higher their income is, due to the falling marginal utility of money. To be true, there are also costs associated with targeting child allowance, the administrative costs, but they are certainly less than the gains that are achieved as a consequence of better targeting.

Let us look at the possibilities for solving the problem of administrative coping with proper targeting of child allowance:

- the departments for child allowance, which are now adjoined to municipal governments, could be adjoined to

19 At the moment there is no control – neither of the documentation submitted, nor in the homes of applicants.

the centers for social work. Namely, there are no good reasons for the department of child allowance to belong to the municipal government, all the more because child allowance now, as opposed to the previous situation, belong to the same ministry as do the centers for social work. Therefore the uniting of all functions of the Ministry for Social Affairs in the appropriate body of the Ministry is a quite natural procedure. This would strengthen the centers for social work by almost 700 employees, which would, with the probable economy of size, be able to bring immediate gain in the efficiency of the work; the transferal of these municipal departments to the Ministry for Social Affairs presumes the reallocating of some budget assets from municipalities to the Republic, which might be done by the appropriate decrease of assets from turnover tax that the Republic gives to municipalities every year and their transfer to the Ministry of Social Affairs. Still, more detailed research of this concept is necessary, regarding the expertise level of employees in the municipal departments and their other tasks in the municipal government,

- it is probable that in the foreseeable future the centers for social work will be less engaged on the distribution of humanitarian aid and similar extra tasks, which will then create the possibility of their greater engagement on tasks from their basic activity,
- the computerization of centers for social work could significantly increase the speed and efficiency of data processing, with appropriate saving of time, which would increase the administrative capacity of these bodies,
- connecting the Ministry to the database of the Administration of Public Revenues of the Republic concerning property (tax on property) could without greater difficulty, i.e. with no additional administrative work, enable the inclusion of the property criterion among poverty criteria and the processing of the relevant data. The connection of the area departments of this administration and the creating of a uniform database for the entire territory of Serbia is now in progress.
- if it proves to be necessary, additional employment is also possible. This brings new costs to the budget, but could bring far greater savings through better targeting.

About the authors

Biljana Bogičević (1970) is a doctor of economic sciences. She teaches at the Economic faculty of the Belgrade University. She completed a part of her schooling at the University of Cambridge, Great Britain, where she earned her Master's degree. Her main areas of interest are the restructuring of companies, privatization, corporate management and company organization.

Gorana Krstić (1967) is a master of economic sciences. She is regularly employed in the Federal Bureau of Statistics. She is an associate of CLDS and the Economics Institute of Belgrade. She is undertaking her doctor's studies at the Sussex University Brighton, with the thesis "*Empirical Analysis of Formal and Informal Labour Markets in FRY*". Her main areas of interest are the labor market, informal economy and macroeconomic analysis.

Boško Mijatović (1951) is a doctor of economic sciences. He is director of economic studies of CLDS. His main areas of interest are transition, social politics, public finances and macroeconomic analysis. His book *Privatization* was published in 1993, and his book *Economy, Politics and Transition* in 1998.