



## Serbia and Montenegro: Poverty Assessment

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### What is poverty?

*Poverty is deprivation in important aspects of well being.* Material deprivation in absolute sense is a lack of adequate consumption of food and non-food goods and services. What is considered to be “adequate” is county specific. The study uses survey data to establish subsistence minimum and estimate its cost in current local prices. Such an assessment of the poverty threshold yields a level of €2.40 a day in an average region of Serbia and €3.50 a day in Montenegro as poverty lines. Non-income poverty thresholds are set arbitrarily according to prevailing norms. For example, education poor are defined as adults with only uncompleted primary schooling or less (in other countries education poverty may be defined as illiteracy), housing poverty is defined as substandard housing (households not connected to tapped water and using latrines, households living in a building unsuitable as dwelling or living in overcrowded dwellings with more than 3 persons per room), etc. To the extent it makes sense, these definitions are made comparable to the set of indicators recommended by the Eurostat task force on social exclusion and Millennium Development Goals.

### How many poor?

- As of 2002, material poverty affects every tenth citizen , i.e. the incidence of absolute poverty is around 10 percent.<sup>1</sup>
- The report finds evidence of the existence of extreme poverty, which has been eradicated everywhere in the region, with exception of Kosovo and Albania.
- More than 20 percent of the population in Serbia and over 25 percent in Montenegro have a consumption that is “just” above the poverty line. Increasing the poverty line by 10 percent raises poverty at both the household and individual levels by approximately one-third. This suggests that even small economic shocks can have potentially large effects on poverty.

The poverty gap in Serbia is equal to 2.2 percent and in Montenegro is equal to 1.3 percent. A corresponding measure of an average shortfall amounting to 20 percent in Serbia (14 percent in Montenegro) means that the consumption of the poor on average falls 20 percent (14 percent) short of the poverty line. Poverty therefore is shallow, and the total poverty gap is around 1 percent of GDP.

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<sup>1</sup> Survey on the Living Standards of the Population, 2002 for Serbia and ISSP-CEED HHS 2002 for Montenegro; extreme poverty is defined as current consumption without imputed housing rent below the cost of the food basket, absolute poverty is defined as full consumption below the cost of the poverty line (including food and non-food goods and services), and the vulnerability line is set at the level 50 percent above the poverty line. See Krstic (2003), Beegle and Radevic (2003) for detailed definitions.



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### Poverty is not only inadequate consumption

- Very substantial 17 percent of all *adults* in Serbia can be considered “education poor” (with similar incidence in Montenegro)
- Health poverty affects between 4 and 6 percent of the population in SAM; many poor cannot afford medical treatment and have low utilization rates
- Housing conditions for 10-15 percent of the population in both Republics are below the poverty standard, esp. in rural areas (and urban slums)

*Multiple* deprivation in several dimensions is not widespread: not a single individual according to survey data is poor in all studied dimensions at the same time. But poverty in *different* dimensions affects *different* people, many people *are* poor at least in one dimension.

### Who are the poor?

- Poorly educated individuals make up the majority of the poor and have the highest poverty risk. Those with primary (elementary) education constitute about 2/3 of all poor and are twice more likely to be poor than secondary school graduates.
- Jobless active age households have more than twice the average poverty incidence, but working households make up 75 percent among the poor.
- Certain regions are poor, and often within regions – rural areas.<sup>2</sup> Regional differences in poverty rates cannot be accounted for by labor market, education and demographic factors.
- Households with IDPs and refugees.

Demographics (age) is a weak predictor of poverty.

### Why poverty is a concern?

- **Many people are on the border of poverty.**
- **Reducing existing poverty is tough.** Poverty is “stubborn” often structural. i.e. concentrated among people who will have hardest time to benefit from growth.
- **No clear employment response yet.** The GDP grew by some 5-4 percent per year in 2000-2 but no employment response, LFS unemployment rate even increased from 14 to 15%.<sup>3</sup>
- **Special strategy to make growth pro-poor is needed.** Simple arithmetic of poverty reduction tells that poverty cannot be eliminated by social protection measures only (large exclusion errors): about one-fifth of the poor do not receive **any** transfer.
- **Data on poverty:** No systematic monitoring is in place to trace the evolution of poverty over time and conduct evaluation studies.<sup>4</sup>

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<sup>2</sup> It is striking that a country as compact as Montenegro had 1:2 differences in poverty rates between the poorest and the richest regions. Montenegrin North is not only the poorest region of Montenegro, but is also the home of 54 percent of the country's poor.

<sup>3</sup> Registered unemployment grew even faster, from 26 to 29 percent between 2000 and 2002, but as shown in this report registration statistics are misleading. All former SFRY republics are known to have large discrepancies between survey and registered unemployment rates which are thought to reflect the incentives created for registration by the design of the social benefit system.

<sup>4</sup> Some monitoring being done by the Republic Commission on Living Standards and Republic Commission for Poverty Monitoring, but focuses only on indirect poverty indices: real wages, cost of minimum food basket etc.



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Issues for Discussion/ Poverty work in SAM is a medium-term program.

The key objective of the programmatic approach is to ensure that the results of the poverty analysis are owned by the country, and are used in the process of policy making and policy debate, particularly in the PRSP context. To this end, the poverty work is to be done in collaboration with the Governments of SAM and other partners.

This Poverty Assessment is the first in a series of tangible outputs: analytical reports, poverty maps, information support for the national strategies for poverty reduction, series of background papers on key policy topics (labor, inequality, rural poverty, etc.). These outputs will be strategically timed to feed into the policy needs of the government such as for the PRSP. This approach also focuses on capacity building and continuous dissemination throughout the process. Various forms of output would be used for dissemination including formal reports, policy notes, press briefs and presentations for senior policymakers. These would also contribute to the future development and effectiveness of the Bank's Country Assistance Strategy (CAS) and design of various operations.

The proposed set of key poverty analytical outputs for SAM for the medium-term is given below. This program will be revised and updated over time to reflect changing country situation and demands.

### Outputs of The Poverty Assessment Program.

<i>Key activities and outputs</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>
Poverty Survey	✓	✓		
<b>Poverty Assessment: Baseline Report</b>			✓	
Background Paper: Poverty Profile for Montenegro		✓		
Background Paper: Evaluation of Social Assistance System in Serbia		✓		
Background Paper: Monitoring Poverty in Serbia (Building a Statistical System)			✓	
Background Paper: Chronic Poverty and Social Exclusion in SAM			✓	
Background Paper: Rural Poverty in SAM			✓	
Background Paper: Social and Environmental Impact of Energy Tariff Reform in SAM			✓	
Background Paper: Business Environment, Private Sector Growth and Poverty in SAM			✓	
Poverty Map for SAM				✓
Background Paper: Enterprise Restructuring and Unemployment in SAM				✓
Background Paper: Options for Pension Reform and Poverty in Montenegro				✓
Background Paper: Vulnerability to Poverty and Health Care Reform Issues in Serbia				✓
Background Paper: Education Reform and Poverty Reduction in SAM				✓
<b>Poverty Update Report</b>				✓

*Note:* FY – fiscal year i.e. FY 03 is July 2002-June 2003.



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### *What is Poverty Assessment?*

Poverty assessments are Bank's documents produced every 3-5 years for countries that have active programs with the Bank. Its intended audiences are the Board of Directors of the World Bank and the Government of the country. Of the Bank's instrument for analytical work, poverty assessments are now the most comprehensive and influential. Poverty assessments:

- Synthesize information on living standards from various sources;
- Identify key issues;
- Recommend to the Government a strategy for reducing poverty;
- Provide the World Bank with recommendation on its assistance strategy.

The document was done collaboratively with PRSP teams, local researchers and NGOs and was intended to provide input in the strategy.

### *What it contains?*

This report presents the detailed analysis of poverty in SAM. The report is organized in two volumes. Volume One (Executive summary) summarizes the Report content. Volume Two (Main report) provides detailed results of poverty analysis. An in-depth coverage of the situation in Montenegro is presented in a background paper.

### *Who did it?*

It is a joint product. On the Serbian side the team was led by Gordana Matkovic, the Minister of Social Affairs of Serbia, who played a prominent role in the successful implementation of the household survey project, the analysis of data and the dissemination of results. The ISSP-CEED, headed by Petar Ivanovic, was a key counterpart in Montenegro. The SMMRI (Belgrade), in particular Srdjan Bogosavljevic and Dragisa Bjeloglav made crucial contributions by conducting an Integrated Poverty Survey (LSMS) in Serbia, the largest ever representative multi-topic survey in the country, in May-June 2002. The ISSP-CEED (Podgorica), represented by Dragana Radevic and her team, achieved a similar result in Montenegro in August-November 2002. Our Serbian and Montenegrin counterparts initiated the analysis of data with pioneering papers by Gorana Krstic (poverty profile for Serbia), Branko Milanovic (welfare aggregates, inequality and social assistance analysis), Vladimir Vukojevic (social impact analysis) and Dragana Radevic (poverty in Montenegro).

The World Bank team: The report was prepared by Ruslan Yemtsov with key analytical inputs prepared as background papers by Cem Mete (health and poverty, education for poverty reduction), Cornelia Tesliuk (social protection) and Lazar Sestovic (macro policies). Loraine Hawkins (health), Jim Stevens (education), Mamta Murthi, Dena Ringold (social protection), Taies Nezam (IDPs and refugees), Branko Jovanovic and Mihail Arandarenko (labor market) also provided input and participated in the analysis. Emily Evershed was an editor of the report, Helena Makarenko, Judy Wiltshire and Jim Lynch undertook the report processing. Rory O'Sullivan and Marina Petrovic from the World Bank Belgrade office provided a link to policy dialogue. Zana Ivanovic seamlessly organized numerous missions and timely translations required for fully collaborative work. Asad Alam (Poverty and Gender Sector Manager, ECSPE) guided the entire process of preparing the report. The peer reviewers were Jeni Klugman (Lead Economist, PRMPR) and Salman Zaidi (Senior Economist, SASPR), who contributed substantively to the report's analysis and presentation.

### *When it was done?*

The report was produced between March and May, 2003.

### *Who financed it?*

Administrative budget of the World Bank. The survey was supported by the World Bank Poverty Survey project (Project No. P074904), co-financed by the Dutch Trust Fund, and the EC Food Security Program.

### *How to contact us?*

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