



Reducing child poverty in Serbia: cash transfers or work incentives?

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Key messages

- Child allowance reform taking into consideration informal income can better target those needing benefits and reduce child poverty.
- A strategy to increase parental work incentives has less impact on child poverty than child allowance reform due to job scarcity.
- Investment into programs promoting work formality can help to reduce child poverty.

High levels of child poverty in Serbia

Poverty, particularly child poverty, poses a significant problem in Serbia with rates (24.6% and 30% respectively) significantly higher than the European Union (EU) average child poverty rate of 19%.

Poverty during childhood has been shown to have long-lasting negative effects on child development and considerably increases the risk of poverty not only for the rest of that person's life but also that of their children. Parents raised in poverty are more likely to raise their children in poverty (Harper et al., 2003).

The high child poverty rates in Serbia are not only the consequence of low spending on child related benefits, but also the consequence of poorly designed major benefit programs. Weak coverage and targeting of child allowance has meant that 60% of poor children do not receive child allowance, while more than half that do receive the allowance do not live in poor families (World Bank 2006). This is also due to 42% of households receiving child allowance also receiving income from informal employment.

High levels of unemployment and informality, coupled with low labor force participation, also contribute to the high child poverty rate, meanwhile the structure of non-contributory benefits has been

ineffective at reducing poverty. Despite several reforms, spending on means-tested benefits remains low, approximately 0.6% of GDP; significantly lower than the EU average of 1.1% of GDP.

Currently in Serbia there are two means-tested benefits that aim to reduce poverty: child allowance (CA) and monetary social assistance (MSA). In 2012, CA covered 370,000 children, approximately 29% of the Serbian population between the ages of 0 and 19. MSA is the last resort for social assistance and is directed towards the poorest members of the population.

A team of local researchers set out to investigate which policies are the most effective in reducing child poverty: a benefit strategy (taking into account revenues from informal work) or a work strategy (to improve parental labor participation).



Data, methodology and simulated reforms

The research team analyzed data from the 2013 Survey on Income and Living Conditions (SILC) conducted by the Statistical Office of Serbia on a representative sample of 6,501 households (20,069 individuals). The data includes details of individual income, labor market status, and socio-economic features. The team used microsimulation techniques to evaluate the effects of two tax-benefit policy reforms on incomes, labor participation, and child poverty. The first reform is imposing eligibility thresholds for child allowance that take into account estimates of family income from informal employment (assuming that 100% or 70% of informal income is declared for means-testing), thus allowing funding to be redirected to those most in need. The second reform is increasing work incentives for parents by reducing the social assistance withdrawal rate to 50% or 25% (i.e. half or a quarter of formal earned income is means-tested, rather than the current 100%), so that unemployment ceases to be preferable to part-time work.

Key findings

In terms of reform to child allowance, the results suggest that **better inspection of informal income, redirecting funds to those most in need, could lead to a reduction in child poverty between 1.3 to 1.6 percentage points**, depending on the ability of administrators to estimate income from informal work. This reform improves both coverage and targeting as more public resources are directed to individuals in the lowest income groups. The findings indicate that more generous benefits in the longer term could reduce parents' labor force participation, however, these negative effects would be limited.

The employment strategy encouraging social assistance benefit recipients to work while continuing to receive some benefits, according to income level, would reduce child poverty by between 0.3 and 0.8 percentage points, with the withdrawal rate at 50% and 25%, respectively.

This policy would represent a substantial incentive for the poorest workers to move to formal employment and would have a multiplier effect in reducing child poverty in the long term.

However, this policy would also require considerably more government investment due to the increase in number of eligible recipients that this policy would produce: 12% increase at the 50% withdrawal rate and 78% increase at the 25% withdrawal rate. As such, this proposal does not offer sufficiently promising results.

It is likely that due to the troubled labor market situation in Serbia, benefit recipients have low chances of finding employment, resulting in low labor force activity. This means that attempts to increase the labor supply amongst parents come with significant budgetary expense increases and comparatively lower child poverty effects than the child allowance reform (Table 1).

Table 1: Marginal poverty impact: Poverty rate and gap decrease by one million RSD

	Increase of the total expenditure (million RSD)	Poverty rate decrease (percentage points)	Poverty rate decrease by one million RSD (percentage points)	Poverty gap decrease (percentage points)	Poverty gap decrease by one million RSD (percentage points)
CA reform 1 (100% informal income)	53	1.6	0.0309	0.8	0.0144
CA reform 2 (70% informal income)	53	1.3	0.0252	0.6	0.0106
MSA reform 1 (50% withdrawal rate)	97	0.3	0.0036	0.1	0.0006
MSA reform 2 (25% withdrawal rate)	588	0.8	0.0013	0.2	0.0004

Notes: The poverty rates with second-order effects have been in the estimations above.

Implications for policy

The findings of this study suggest several concrete actions that the Serbian government may take in order to reduce child poverty in the country. The primary action has to be **preventing benefit expenditure leakage to less-poor households so that welfare spending can be diverted to those that need it most**. This would be achieved through administrative inspections and evaluations of informal income and fits well with the current government initiatives to increase inspections in order to limit and reduce the informal economy.

Until the labor market situation in Serbia improves, the benefit strategy is preferable to the employment strategy in terms of both child poverty reduction and cost. To make the employment strategy more effective, the Serbian government should implement interventions that reduce the high fixed costs associated with employment and reduce labor demand restrictions.

In the meantime, the activation policy for monetary social assistance benefit recipients started by the previous government should be continued. This requires ensuring that benefit recipients regularly cooperate with the National Employment Service in constructing their individual employment plan, as well as government investment in programs that increase employability of benefit recipients by improving their labor market skills.



In 2012, with support of the UK Department for international Development (DfID) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities in “Policy Analyses on Growth and Employment” ([PAGE](#)) in developing countries.

This brief summarizes the outcomes of [PMMA-12830](#) supported under the 3rd round of the PAGE initiative (2015-2016). To find out more about the research methods and findings, read the full paper, published as part of the [working paper series](#).

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