



ACTIVE EMPLOYMENT ACTIVITY'S INFLUENCE ON LATVIAN STATE AND MUNICIPALITIES' BUDGET DURING YEARS 2009 – 2011 – RESEARCH RESULTS

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Abstract

The purpose of this article is to quantify the impact of the World Bank project to provide stipends to the unemployed in exchange for working at municipalities on the state and municipal budgets. This paper is based on the results of research project “Active employment activity “Training for acquiring or maintaining employment skills, if the employee is a municipality” result evaluation” that was ordered by the World Bank and Latvian State Employment Agency. The economic essence of this activity is 100 LVL stipend payments to unemployed people that for the received money do various jobs in employment places created by municipalities.

Using the data from the Central Statistical Bureau, State Employment Agency, and the results of a survey of households, municipality representative and expert survey results, the author shows the influence of the activity on the state and municipality budgets by assessing:

- Activity's administrative and organisational expenses;
- Alternative costs – implementation of the Activity means that the municipality does not have to cover expenses that it would have to cover if the Activity would not be implemented.

The author shows that the World Bank designed activity had helped numerous inhabitants of Latvia to ensure at least a temporary employment and maintain their desire to stay in the labour force. Taking into account the fact that Latvia's GDP data indicates strong and long lasting effect from the economic crisis on all regions in Latvia, there remains a real necessity for such stimulus measures.

Introduction: The Macroeconomic Effect of the Activity

The macroeconomic effect of the World Bank funded programme (further referred to as Activity) is the effect as a result of which economic indicators change, for example, level of gross domestic product, employment level, etc in the given region [1]. Methods that are used for assessing economic effects can be divided into two groups:

1. Economic simulations and input / output models of the achieved results and used resources. Economic simulation models are used to evaluate economic influence over a long



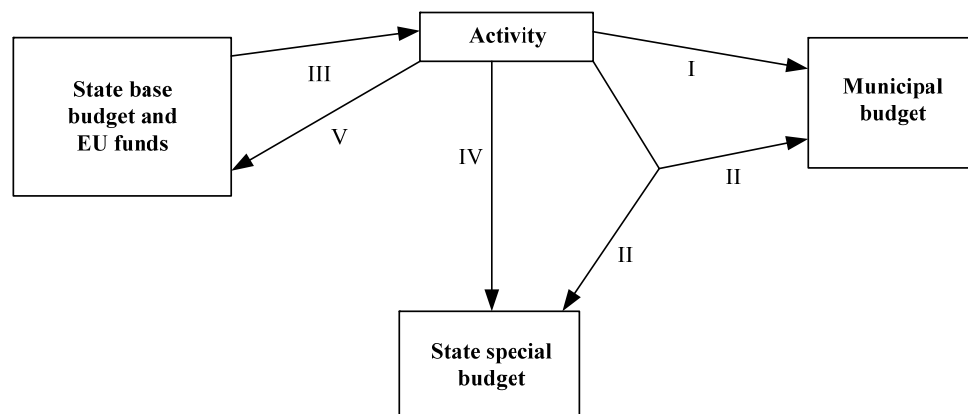
period of time and forecast the influence in the future as well as to control all the direct and indirect effects of the analysed activity. Such methods are applicable, for example, to assess pension system changes, health system reform results, the influence of EU structural funds over several decades and in similar cases (see, for example, [2], [3], [4]).

2. Input / output modelling of used resources and achieved results is a simpler method that is based on the so called accounting approach by dividing variables into ingredients (for example, national demand consists of household and public institution consumption as well as gross capital formation) and analysing the influence of the activity on its ingredients as well as their interaction. These methods are not usable for forecasting but for analysing the influence of different programmes and activities (see, for example, [5], [6], [7], [8]).

Methods used in this paper are based on methods used in modelling of used resources and achieved results. The choice of these methods is based on two factors: firstly, the Activity has a relatively short term character and forecasting is not necessary, secondly, availability of data is limited especially for regions, thus usage of more difficult methods will increase the number of applied assumptions that will affect the credibility of the results.

1. Assessment of Activity's Influence on State and Municipality Budgets

Figure 1 shows the different ways the Activity can influence on state and municipality budgets.



Notation:

- I – as part of the Activity resources are allocated to municipalities and allows to increase municipality budget income;
- II – Activity creates a possibility to not pay various social contributions to people that are involved in the activity from the state special and base budget, for example, GMI that allows to save budget resources;
- III – necessary financing from state base budget and EU funds for implementation of the activity;
- IV – social taxes are paid for people involved in the activity (including administrative personnel, organisers, etc.) that allows to increase budget income;
- V – wages received by the beneficiaries increase demand, therefore the state base budget receives VAT and other consumption related taxes.

Figure 1. Activity's influence on state and municipality budget

Source: figure created by the author



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Resources allocated to municipalities during the Activity (I) and their proportional distribution is described in Tables 1 and 2. The approximate assessment of savings that arise as a result of the activity (II), based on the results of a survey of municipalities, are provided in Tables 3 and 4.

The necessary additional financing for this activity (III) is described in Table 5. Available data does not allow precisely assessing the additional tax revenue that arises as a result of the Activity (IV and V) because social security tax payments and value added tax (further – VAT) payments depend on each individual employee and their specific consumption patterns.

The influence of the Activity on state and municipality budgets can be assessed in the following ways:

- Assessment of Activity's administrative and organisational expenses – the implementation of the Activity in each municipality is connected with administrative and organisational expenses the largest part of which are covered from state and EU fund budget, however, 88 municipalities indicated that there were additional costs related to the implementation of the Activity;
- Assessment of alternative costs – the implementation of the program means that municipalities did not have to cover expenses that they would have had to cover if the Activity would not have been implemented.

To assess the influence of the activity on municipal budgets, it has to be pointed out that in addition to Activity's participants' monthly stipends (100 LVL per person for month of employment) from EU funds and state budget allocated for implementation of the Activity, the following expenses were financed:

- Acquisition and lease of inventory up to 80 LVL per each employment place (inventory lease does not exceed 10 LVL per employment place, however, sum for additional materials does not exceed 40 LVL per each employment place);
- Transportation costs (fuel, transport or public transport tickets) incurred from Activity's participants travelling to the employment place and back no more than 72 LVL per each employment place;
- Health check-up of all unemployed people participating in the Activity up to 20 LVL per person (in cases determined in laws and regulations on mandatory health examinations);
- Payments for employment managers amounting to minimal monthly salary determined in Latvian legislation (also employer mandatory social contributions) if employment manager oversees not less than 30 unemployed persons. If the number of supervised unemployed persons is less than 30 unemployed persons, reward is calculated proportionally to the number of unemployed persons;
- Subsidies for salary amounting to 90 lats per calendar month to employment organisers (one employment place for an organiser is budgeted for each municipality);
- Subsidies for salary amounting to 90 lats per calendar month to employment accountants (one employment accountant is budgeted for each municipality).



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Table 1

Non-stipend expenses for implementation of the Activity (09.2009 – 12.2010)

Region	Reward for employment managers, LVL	Subsidies to organisers, LVL	Subsidies to accountants, LVL	Rapidly depreciating inventory, LVL	Transportation costs for unemployed, LVL	Health examinations for unemployed, LVL	Total, LVL
Riga	145 737.62	13 054.09	7 860.62	187 469.20	115 717.42	13 353.61	483 192.56
Pierīga	281 823.87	46 734.80	27 101.78	325 179.60	67 874.14	7 019.36	755 733.55
Vidzeme	306 979.43	42 991.26	25 106.98	384 484.07	88 575.25	13 415.85	861 552.84
Kurzeme	363 386.03	31 509.47	18 408.79	427 747.66	158 666.27	9 021.47	1 008 739.69
Zemgale	298 436.59	35 890.45	20 950.06	385 489.02	139 798.31	7 400.58	887 965.01
Latgale	738 763.23	36 240.64	21 247.08	934 646.30	331 149.17	70 205.07	2 132 251.49
Latvia	2 135 126.77	206 420.71	120 675.31	2 645 015.85	901 780.56	120 415.94	6 129 435.14

Source: State Employment Agency (ESA) data, 17.02.2011

Table 1 summarises the data about non-stipend expenses that were financed from the funds allocated for the Activity from September 2009 to December 2010. The largest expense item during this period has been rapidly depreciating inventory.

Data in Table 2 show the differences in the relative proportion of expenses as well as in expenses per each person in regions of Latvia. Largest salary and subsidy proportion in total expenses was in region around Riga (Pierīga) – 47.06%, followed by Vidzeme region – 43.54%. In all other regions of Latvia the proportion of salaries and subsidies is very similar: around 40%. The lowest proportion of salaries and subsidies is in the Riga region – 34.49%. In part, this could be explained with the fact that in different regions there was a different necessity for the acquisition of inventory and other expenses and planning of purchases during years 2009 and 2010.

Table 2 shows that in Riga and the region around Riga municipality expenses financed per one participant are higher than in other regions in Latvia (LVL 93.55, of which LVL 32.27 were used for salaries and subsidies and LVL 61.29 for purchases). The largest salaries and subsidies per each participant were in the region around Riga (LVL 40.49). In Vidzeme and Zemgale salaries and subsidies for each region were also high (LVL 36.08 and LVL 37.20 respectively). Purchases per each Activity's participant differ between regions more than salaries and subsidies, because the need for inventory depends on the organised employment places. Highest expense for purchases is in Riga region (LVL 61.29), however, the lowest expenses are in the region around Riga (LVL 45.55).

Non-stipend expenses as a percentage of the total expenses should be minimized, taking into account the fact that the main objective of the project is to provide support to the unemployed people than are in the most disadvantageous material situation. In all regions in Latvia this proportion is similar (approximately 20%) except Riga where it is 25%. It means that, based on this criteria, the implementation of the Activity in all regions of Latvia was equally effective.



Table 2

Shares of non-stipend expenses of implementation of the Activity in 2009 – 2010

Region	Salaries and subsidies, as percentage of total expense, %	Purchases as percentage of total expense, %	Number of participants	Salaries and subsidies per participant, LVL	Purchases per participant, LVL	Total municipality expenses per participant, LVL	Non-stipend expenses as percentage of total expense, %
Riga	34.49	65.51	5 165	32.27	61.29	93.55	25.12
Pierīga	47.06	52.94	8 784	40.49	45.55	86.04	20.11
Vidzeme	43.54	56.46	10 395	36.08	46.80	82.88	20.72
Kurzeme	40.97	59.03	11 849	34.88	50.25	85.13	20.35
Zemgale	40.01	59.99	9 550	37.20	55.78	92.98	21.51
Latgale	37.34	62.66	23 867	33.36	55.98	89.34	20.75
Latvia	40.17	59.83	69 610	35.37	52.68	88.05	20.99

Source: SEA data, author calculations, 17.02.2011

Thus, one can *conclude* that:

- The ratio of non-stipend expenses to total activity costs in Latvia overall from September 2009 until December 2010 was 20.99%;
- Municipality non-stipend expense distribution in salaries and subsidies as well as in other costs financed by the Activity (acquisition of inventory, health insurance, transportation cost, and other) in Latvia overall from September 2009 until December 2010 was approximately 40% for salaries and subsidies but – 60% for other expenses;
- There are differences in these proportions between regions¹. It could be explained with different tasks that had to be done before and during the implementation of the program.

2. Assessment of Activity's Alternative Costs

To assess municipality alternative costs a question was included in the municipality survey about the number of people involved in the Activity who did not receive social contributions from the start of the activity during years 2009 and 2010. Table 3 summarises the responses of municipality representatives.

¹ By looking at the analysed data it can be seen that differences exist between year 2009 and 2010. Municipality non-stipend payments per one participant increased in year 2010 compared to year 2009. That can be explained by the fact that in year 2010 after municipality request changes were made in Cabinet of Ministers regulations on implementation of the Activity by adding a non-stipend expense type for municipalities.



Table 3

Number of people involved in the activity (arithmetical average²), who stopped receiving social contributions because of participating in the Activity, 2009 – 2010

Expense position	2009		2010 (as at 01.11.2010)	
	Number of people receiving social contributions	Number of months for which social contributions have been paid	Number of people receiving social contributions	Number of months for which social contributions have been paid
GMI benefit	62 (24) ³	3.41 (22) ⁹	44.5 (29) ⁹	5.6 (27) ⁹
Flat benefit	7.4 (14)	1.4 (13)	6.5 (18)	3.2 (15)
Other benefits (not explicitly stated)	121.5 (11)	3.3 (11)	35 (11)	2 (11)
Other benefits (not explicitly stated)	36.2 (9)	0.1 (9)	76 (10)	0.9 (8)

Source: Municipality representative survey conducted in November 2010 (n = 29), author calculations

Data in Table 3 shows that alternative costs of municipalities (expenses that should be covered if the activity would not be implemented), consists of GMI⁴ benefits, flat benefits and other expenses. However, only 29 municipalities responded to this question (out of more than a 100). The low number of respondents is possibly due to the fact that municipalities do not account for people for which social benefit payments are stopped or in the municipality accounting it is not possible to separate the information by reasons why the benefit payments were stopped (i.e. whether the person is a participant of the Activity or has recently found employment).

Municipality savings from GMI benefit payments can be determined by multiplying the average number of people receiving benefits in the municipality with the average term of participation (in months) in the Activity and the amount of paid GMI benefit. The sum that was received in this way can be multiplied with the number of municipalities (there are 119 municipalities in Latvia) to determine the total alternative costs.

The maximum level of GMI benefit for grownups in Latvia is 40 LVL⁵. A half from the payable GMI benefit has to be covered by municipalities, thus the result of calculations has to

² Among the municipalities that responded is not municipality of Riga, whose results possibly would significantly differ from the ones of other municipalities. It means that even by taking into account the small number of municipalities that responded, arithmetical average is an appropriate method how to summarise information that was provided by municipalities for approximate assessment of savings.

³ The number of municipalities that responded to this question is shown in parenthesis.

⁴ Guaranteed minimal income.

⁵ According to Cabinet of Ministers regulations No. 1489, the guaranteed minimal income level for adults in Latvia is 40 LVL. GMI benefit amount is calculated as the difference between GMI level and family's (individual's) total income (see Ministry of Welfare explanation <http://www.lm.gov.lv/text/132>).



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be divided by two. The alternative costs (savings) of Latvian municipalities are assessed using two approaches:

1. At the maximum possible GMI amount 40 LVL – in such case the maximum municipality savings are assessed;
2. At the average payable GMI amount (LVL 27) – in such case the factual municipality savings are assessed. Table 4 shows the results of savings calculations using both approaches.

Table 4

Total alternative costs (savings) of Latvia municipalities during years 2009 and 2010

Position	Number of people	Average term of participation (based on ESA data)	Maximal amount of the benefit	Average amount of the benefit	Total alternative costs in one municipality, LVL		Total alternative costs of all municipalities, LVL	
					With maximal benefit $E = A * B * C$	With average benefit $F = A * B * D$	With maximal benefit $G = (E/2) * 119$ municipalities	With average benefit $G = (F/2) * 119$ municipalities
In year 2009								
	A	B	C	D				
GMI benefit	62	2.32	40	27	5753.6	3883.68	342.34	231.08
Flat benefit	7.4	2.32	N/D	N/D	N/D ⁶	N/D	N/D	N/D
Other expense	121.5	2.32	N/D	N/D	N/D	N/D	N/D	N/D
Other expense	36.2	2.32	N/D	N/D	N/D	N/D	N/D	N/D
In year 2010								
GMI benefit	44.5	3.33	40	27	5927.4	4001.0	352.68	238.06
Flat benefit	6.5	3.33	N/D	N/D	N/D ⁷	N/D	N/D	N/D
Other expense	35	3.33	N/D	N/D	N/D	N/D	N/D	N/D
Other expense	76	3.33	N/D	N/D	N/D	N/D	N/D	N/D

Source: ESA data as at November 2010 and municipality representative survey made at November 2010, author calculations.

⁶ The available data exactly about participants involved in the Activity are not sufficient to precisely calculate alternative costs of municipalities in these positions.

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Data in Table 4 shows that in 2009 the maximum alternative GMI benefit costs on average per municipality would be LVL 5753.6, in 2010 it would be slightly higher – LVL 5927.4.

However, in 2009 the average alternative GMI benefit costs on average per municipality would be LVL 3883.68; in 2010 it would be slightly higher – LVL 4001.

Taking into account that the municipality average additional costs based on municipality survey results were LVL 3139.38⁸, one can be pointed out that even considering the possibility to not make GMI benefit payments (possibility to not pay alternative costs) the savings for municipalities are higher than the average additional expenses for organisation of the Activity.

The total municipality savings from the maximal payable GMI benefit can be assessed as LVL 342.34 thousand in year 2009 and LVL 352.68 thousand in year 2010. By using the average GMI benefit payment, this assessment decreases to LVL 231.08 thousand in year 2009 and LVL 238.06 thousand in year 2010.

Table 5

Activity's influence on Latvia's state budget

Position	2009 (Sept.– Dec.)	2010	2011	Total, LVL
State budget financing for the Activity, LVL ⁹	1 285 314.43	3 874 800.24	773 801.21	5 933 915.88
Available European Social fond financing for the Activity, LVL	6 767 511.11	23 362 470.31	18 321 536.64	48 451 518.06
Stipends that were paid out during the Activity, LVL	6 719 739.25	21 790 292.61	N/D	
Amount of money paid as unemployment benefits, LVL	49 375 650	88 819 707	87 076 783 ¹⁰	187 337 425

Source: SEA and Ministry of Welfare data, 21.04.2011

It is worth recalling the low number of municipalities that responded. The credibility of the results would be lowered, for example, if only large or only small municipalities would have

⁸ This number is the arithmetical average of additional payments that the municipalities that answered to the respective question indicated. The municipality of Riga is not among the municipalities that responded.

⁹ This number includes non-attributable expenses that are planned to amount to LVL 810 991, 89 over three years. Source: Financial summary for changes No. 13 in Project No.1DP/1.3.1.5.0./09/IPIA/NVA/001 "Work practising activity provision in municipalities for acquiring and maintaining work skills". Accepted in the Ministry of Welfare on 21.04.2011 (letter No.11.2-12/998).

¹⁰ Ministry's of Welfare sector's budget transcript is available at: http://www.lm.gov.lv/upload/amatpersonu_atalgojums/noz_budz_2011.pdf, 35. lpp.; data as at 28.04.2011. Budget amendment Project includes predicted resource decrease for social benefit payments (in project: 76 363 159 LVL).



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answered to this question, because that could influence the assessment of the number of people that received the benefit. It turns out that mostly smaller municipalities answered possibly because it is easier for them to account for people that stopped receiving benefits as well as the reason why these payments were stopped. Thereby, this calculation possibly is very conservative as larger municipalities could have larger savings.

The influence of the Activity on state budget can be assessed using SEA prepared project's budget in which the state budget financing is given.

As shown in table 5 the highest state budget financing and together with that also a direct impact on year 2010 budget, despite the fact that the Activity continued until the end of year 2011.

Total state budget financing for the Activity is very low compared to state special budget, in which the largest part of social protection activities are included (0.45%). Hence, when analysing Activity's influence on state budget it is useful to compare Activity's financing in 2009 and 2010 not from the state special budget but with the amount of money that was paid out as unemployed benefits in years 2009 and 2010 because as part of the Activity the paid stipends replace unemployment benefits.

It has to be pointed out that Activity's financing included not only the paid stipends (79% from the total used financing overall in Latvia) but also Activity's non-stipend expenses (21% from total used financing), thus in the analyses only the financing used for stipends will be used.

From September 2009 until December 2010 the financing allocated for Activity's stipend amounted to LVL 28.51 million. However, the money allocated for unemployed benefits for the same period was LVL 131.20 million. Thus Activity's financing for stipend payments build up to 21.7% of the financing allocated for payment of unemployment benefits, which indicates that the Activity significantly increased the total financing and was used for supporting unemployed people by allowing Activity's participants to earn money by working.

The number of people that receive stipends as part of the Activity until 30 November, 2010 according to ESA data was 69 610 people. In December 2010 the number of registered unemployed people that no more received social benefits was 124 458 people (this number has consistently increased from 74 251 people in September 2009 until 124 458 people in December 2010). Thus, the proportion of people receiving stipends against the unemployed people that do not receive benefits at the end of the period was 54.1%.

Therefore the Activity has provided with stipends a number of people that make more than one half of the people that do not receive unemployment benefits using financing amount that makes up 21.75 of financing allocated for unemployment benefits that in year 2010 was approximately LVL 118 per month). The Activity had also provided intangible benefits to the participants of the Activity because it helps participants to maintain the existing and acquire new work skills as well as ensures a certain level of socialisation and involvement in the society. World experience shows – the longer people are unemployed, the lower is the possibility for them to enter the employment market further on [9]. Table 6 is depicted the information about households that answered the question, whether they currently receive some of the benefits paid by municipalities.



Table 6

Respondents receiving social benefits during the past 12 month in regions of Latvia

Region	Number of surveyed households in the region	GMI benefit		Dwelling benefit		Benefit for heating/ firewood		Dinner at school		Other municipality's social help	
		N	Proportion (%)	N	Proportion (%)	N	Proportion (%)	N	Proportion (%)	N	Proportion (%)
Kurzeme	793	148	18.66	30	3.78	69	8.70	107	13.49	34	4.29
of which Activity participants	300	82	27.33	29	9.67	66	22.00	47	15.67	12	4.00
Latgale	451	41	9.09	13	2.88	31	6.87	48	10.64	41	9.09
of which Activity participants	123	34	27.64	11	8.94	30	24.39	13	10.57	8	6.50
Riga	618	130	21.04	99	16.02	62	10.03	47	7.61	89	14.40
of which Activity participants	215	58	26.98	45	20.93	48	22.33	22	10.23	35	16.28
Vidzeme	659	129	19.58	12	1.82	49	7.44	108	16.39	47	7.13
of which Activity participants	278	116	41.73	16	5.76	105	37.77	61	21.94	19	6.83
Zemgale	544	91	16.73	19	3.49	54	9.93	88	16.18	80	14.71
of which Activity participants	212	69	32.55	18	8.49	71	33.49	38	17.92	38	17.92
Total	3065	539	17.59	173	5.64	265	8.65	398	12.99	291	9.49
of which Activity participants	1128	359	31.83	119	10.55	320	28.37	181	16.05	112	9.93

Source: household survey (n=3065), November 2010 – March 2011

Table 6 shows that in Latvia 17.59% of the surveyed households during the past 12 month received GMI benefit, 5.64% received dwelling benefit, 8.65% received heating benefit, 12.99% received school meal benefits and, finally, 9.93% households received some other social benefit ensured by the local municipality.¹¹

¹¹ It is possible that some people receive more than one of these benefits.



By analysing the answers of the respondents for which at least one person from their households is a participant of the Activity, it can be seen that 31.83% specified GMI benefit as the answer to the question ‘Does someone from Your household during the past 12 months have received payments from the following source?’. From the respondents, for which none of their household members is a participant of the Activity, only 9.29% said the same¹². This confirms that the Activity provides municipalities with a significant possibility to save and the previously shown saving assessment could be conservative. Precise savings in each specific case are determined by the specific benefit’s dependence on the household type and similar aspects. Subjective evaluations by municipalities also confirm savings as described below (see Table 7).

Municipality respondents were asked to assess the Activity’s influence on the municipality’s budget on a 10 point scale where evaluation of 10 meant that the implementation of the Activity is very beneficial for the municipality, while evaluation of 1 meant that implementation of the activity is very disadvantageous. In table 7 respondent answers to this question are summarised.

Table 7

Latvian’s municipality opinion about the Activity’s influence on municipality budget

Position name	Evaluation
Percentage of municipalities that answered to this question	92%
Minimal assessment (on a 1- 10 scale)	2
Maximal assessment (on a 1- 10 scale)	10
Arithmetic average (mark)	7.40
Assessment median	8.0
Assessment mode	8.0
Standard deviation	1.79

Source: Municipality representative survey in November, 2010 (n=116), author calculations

Data in table 7 shows that municipalities evaluate the Activity’s influence on budget as positive – average evaluation is 7.40 out of 10, however, mode and median – statistical indicators that are less affected by too high or too low evaluations – is 8. Municipality assessment standard deviation is 1.79 meaning that municipality assessments are relatively similar. To evaluate the opinion of municipalities in more detail, Table 8 summarises the frequency distribution of responses.

Only five municipalities assessed the influence of the Activity on their budgets as lower than 5 out of 10.

¹² This number was derived by dividing 180 people (539 – 359) that received GMI benefits but did not take part in the Activity with the number of surveyed households that did not participate in the activity (3065 – 1128 = 1937 people).



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On a regional scale regions like Riga, Pierīga, Vidzeme un Zemgale assessed Activity's influence on municipality budget with a mark of 7 (beneficial), while Latgale and Kurzeme evaluated it as 8 (very beneficial). As indicated by the survey results, the evaluation of the activity in the additional comments is markedly positive. The largest part of the surveyed people (more than 70%) have given an evaluation 7 and higher and answered that the Activity's implementation is very beneficial or very beneficial for municipalities by having a positive effect on the municipality budget.

Table 8

Activity's influence on municipality budget: Latvian municipality survey evaluation distribution

Evaluation (mark)	Number of municipalities	Proportion (%) from all municipalities	Proportion (%) of municipalities that answered	Cumulative proportion (%) from municipalities that responded
2	1	0.9	1.0	1.0
3	1	0.9	1.0	1.9
4	3	2.6	2.9	4.8
5	16	14.2	15.4	20.2
6	8	7.1	7.7	27.9
7	17	15.0	16.3	44.2
8	28	24.8	26.9	71.2
9	18	15.9	17.3	88.5
10	12	10.6	11.5	100.0
No answer	9	8.0	-	-
Total	113	100.0	100.0	-

Source: Municipality representative survey performed on November 2010, (n=116), author calculations.

We can conclude that municipal budgets benefits from the activity definitely exceed its expenses. Specifically the cancelled social benefit payments during the activity, economic benefit from externally financed acquisition of tools and inventory as well as infrastructure improvements have to be mentioned as benefits. There may also be secondary budget benefits that arising from the improvement in crime rates and at least temporary decrease of the unemployment level as well as consumption increases inside the territory of the municipality, and others.

88 out of 113 municipalities answered the question about additional expenses besides the funds provided the activity. Several municipalities that answered to the question pointed out that Activity's administrative costs are not being separated from the overall municipality's administrative costs. Eight municipalities answered that there are no significant expense that would be related to the administration of the Activity.

The results of the survey indicated that not all municipalities evaluated expenses quantitatively and not all municipalities could precisely separate their expenses into several



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positions. Table 9 summarises the qualitative information about municipality expenses that are related to the Activity – main expense positions as well as the number of municipalities that pointed out these expense positions.

Table 9

Qualitative evaluation of Activity's additional administrative expense of municipalities in Latvia as at October 2010

Expense position	Number of municipalities of surveyed 113 municipalities
Employer social tax	31
Acquisition of inventory and various materials that are necessary for work	40
Fuel, transportation cost	38
Office supplies	14
Premium to municipality staff for the administration of the project	7
Telecommunications	8
There have not been any additional expenses related with organisation of the Activity or they cannot be separated from total expenses	13

Source: Municipality representative survey in November 2010 (n-113), author calculations

Table 9 shows that the expense type that was indicated most often is acquisition of inventory and various materials to ensure a possibility for Activity's participant to do all the necessary work (plastic garbage bags, construction materials, tools, etc.) – this expense type was indicated by 40 municipalities. 38 municipalities indicated transportation and fuels costs. This expense arose due to the necessity to control the work of Activity's participants as well as transport Activity's participants to their work places, transport garbage from performed clean-up services, etc. Municipalities pointed out that the Activity's allocated financing for transportation is not sufficient as well as different expenses could not be attributed to the Activity, for example, fuel for work manager, fuel for transportation of documents to branches, fuel for lawn mowers and similar expenses.

31 municipalities indicated employer social security tax as an expense pointing out that the social security tax was paid for persons involved in the administration of the activity (for example, accountants involved in work organisation), specific bonuses for Project administration were indicated only by seven municipalities. 13 municipalities indicated that there have not been any additional costs related to the organisation of the Activity or they cannot be separated from total Activity's expense. Such answers can indicate that several municipalities were able to organise Activity's management and control without spending additionally their own resources as well as that there were no significant expenses that were related to the type of work but possibly survey respondents did not have all the information about Activity's expenses.

89 out of 113 municipalities (including Riga city council) quantitatively characterised their expenses. The average amount of expense during whole survey periods (until 30 November, 2010) was LVL 3139.38; expense median – LVL 1152.50 and mode – LVL 500.



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A significant difference between expense median and mode from the arithmetical average indicate that municipalities in the survey showed expenses that were significantly different in their size. A proof for that is also the large standard deviation – LVL 4516.38.

The relative assessment of municipality expenses was performed by analysing the following data. In year 2010 the average number of participants was 300, average costs per one participant were LVL 10.46. An average participant in the Activity during the year 2010 received approximately LVL 333.33. This number was derived by multiplying the stipend of the Activity of LVL 100 with the average term of participation, which in year 2010 was 100 days (3.33 month¹³). Hence, municipality expense is just 3.1% of this amount.

By summarising the municipality answers it is possible to derive the following conclusions:

- There are significant differences in municipality expenses – they can be partly explained with the different jobs that have to be performed in each municipality as well as lack of information about Activity's expenses, partly with the different financial resources of municipalities and thus also the different capabilities to increase financing for the activity from its own resources;
- The relative assessment of Activity's expenses in Latvia's municipalities in year 2010 indicate that the average municipality expenses are small compared to the benefit to the participants of the Activity, which shows the efficient of the Activity from the perspective of municipality budget (previously it was shown that the Activity is effective also from the state budget perspective).

Overall, it should be emphasised that Activity related expense for different municipalities in year 2010 was very different. For example, in Alsunga district the municipality has not had any expense related to the implementation of the Activity. In addition, several municipalities mention that it has not been necessary to use financing from municipality budget. However, the yearly expense of another municipality has reached approximately LVL 6000.

Conclusions can further be made by different expense groups. The first expense group is administrative costs that include employee salaries, taxes and other administrative costs. The given expense depends on the number of participants involved in the Activity as well as the work load, and here it is rather difficult to derive an average municipality expense amount. It has to be taken into account that in municipality budgets rather often additional expenses arise that are related to unexpected bonuses for several employees, for example, to employment managers that oversee a large number of Activity's participants. In this case the only option to adequately reward the employment manager is to do it from municipality budget but within the Activity such expense are financed very minimally. Additionally, municipalities finance additional employees that have to be employed as part of the Activity from its own budget. As an example could be mentioned the work supervisors that are employed for the Activity if the number of trainees is large and employment manager cannot handle his tasks alone.

Another very important expense group is delivery of tools and materials. In municipalities' examples are mentioned various expense amounts during the year – from a couple hundred up to several thousand LVL. It should be taken into account that this expense position was planned to be covered from the Activity, thus the problems could arise from inefficient centralised procurement

¹³ Based on ESA data about Project participants as at November, 2010.



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organisation or neglectful attitude of Activity participants. As the main problem here are mentioned delayed procurements, acquisition of bad quality or inappropriate inventory, limited list of tools that can be purchased using the procurement procedure. As a result, to not delay the implementation of the Activity municipalities organise and purchase the necessary inventory themselves not waiting for the official delivery. Regarding the municipality comments the following can be mentioned: there is a lack of inventory; work supervisors refuse to accept more unemployed people because they lack inventory and equipment; additional repair expenses that arise from unprofessional use of tools and other equipment – such expenses are caused even by persons that have an appropriate qualification due to disregardful and sloppy attitude.

Third expense group is acquisition and depreciation of fixed assets. During the Activity a necessity has arisen to, for example, purchase a vehicle so that work supervisors could get to their work places.

The last expense group includes several positions. First subgroup is telecommunication and transportation. In the given municipality examples transportation costs are indicated from LVL 200 – LVL 2000 per year. A significant amount of expense goes for purchasing fuel for vehicles that transport employees. The surveyed people mention that road expenses should be covered also for the work supervisor. Additionally, the surveyed people have mentioned Office supply costs in several municipalities from LVL 75 to LVL 600 per year.

For example, according to the official information Riga city council overall finances the activity from its own budget for LVL 168 282. In addition to the mentioned additional financing also in many cases municipalities and non-governmental organisations use their own resources to fulfil the requirements of the Project – Office supplies, mechanics, communication, copying, human resource, etc.

The other significant expense subgroup beside the expense that arise during the Activity are not financed from its budget, are the expense that arise from inefficient fulfilment of several stages of the Activity. Here an example could be municipalities' indicated expenses for inventory and materials due to inefficient procurement procedures or administrative costs for delivering reports when it is not possible to do that electronically.

Conclusions

After summarising the analysis and assessing the Activity's influence on municipalities' budgets one can conclude that the activity is financially advantageous and positively affects municipality budget because it decreases the amount of social benefits during the Activity and provides financing for work inventory acquisition and fulfilment of tasks, which could not be affordable in other cases.

Municipality budget benefits from the Activity significantly exceeds its costs as well as ensures secondary budget income that come from decrease in the criminal situation and economic inactivity, consumer purchasing power increase in the municipality and others. An indication for that is the fact that during the Activity municipalities received LVL 6.1 million for financing non-stipend expenses, a possibility to save on GMI benefits, as well as the subjective evaluation of municipalities. Non-stipend expense division into salaries and subsidies as well as other Activity's financed non-stipend expenses (acquisition of inventory, health insurance, transportation costs, etc) overall in Latvia was approximately 40% for salaries and



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subsidies, but 60% for other activities. 60% resource usage for procurements, from which inventory will be usable also after the end of the Activity gives an evidence of potential sustainability effect. On a regional scale this position significantly differs, for example in the region around Riga salary and subsidy proportion in the non-stipend expenses was 47.06%, while in Riga region it was just 34.49%.

By comparing the financing allocated for this Activity with the financing for unemployment benefits it is possible to conclude that the Activity is efficient because for a proportionally slightly larger investment people are ensured with Temporary work places as well as inventory for municipalities is acquired, municipality infrastructure is improved, etc.

Overall, 3 575 people out of 69 610 Activity's participants when finishing participation in the Activity found a job (data from 30 November, 2010), from which 86 finished participation in the Activity in 2009. In November 2010 in Latvia overall were 161.81 thousand registered unemployed people, from which 39 thousand received social benefits.

The results of the analysis also allow providing several recommendations for the design of potentially similar programs in the future. First, program design should account for the specifics of different regions, including at the stage of planning funding flows. Ideally, inputs from regional governments should be sought. Second, accounting systems in local governments should be improved to track funds disbursed in similar programs. Finally, it is important to acknowledge that even as the immediate consequences of the crisis recede and unemployment rates decline, measures to stimulate participation in the labour force remain important for Latvia, in no small part due to demographic considerations. Future programs, could therefore shift their emphasis from simple income support to training and improving the skills of the labour force overall.

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