



REPORT on the IMPACT ASSESMENT

of

the active labour market measure

„FORMALIZATION OF EXISTING BUSINESSES “implemented

as a part of the Governmental Operational Plan for ALMM for 2008

Skopje,
August,
2010

United Nations Development Programme (UNDP) and project “Self-employment IV and Technical Assistance to Support the Government Operational Plan for ALMMs for 2010” as part of their capacity building activities have required consultancy provided by Mr. Risto Ivanov. In regard to this, UNDP provided all necessary technical and financial support during the production of this report.

In addition, thanks are due to members of the coordination team: *Ministry of Labour and Social Policy*: Stojan Trajanov, Mirjana Aleksevska, Mladen Frckovski, Goran Veleski, Snezana Kostovska; *Employment Service Agency of the Republic of Macedonia*: Aco Preskakulev, Goran Petkovski; *Agency for Promotion of Entrepreneurship of the Republic of Macedonia*: Marjan Stojcev; *Ministry of Finance*: Lence Nikolovska – Gogova

The designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the United Nation Development Programme or the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or concerning the delimitation of its frontiers or boundaries. Mention of firm names and commercial products does not imply the endorsement of United Nations.

CONTENT

FOREWORD.....	4
EXECUTIVE SUMMARY	5
1. INTRODUCTION	6
2. THE PROGRAMME.....	6
2.1 Programme Overview.....	6
2.2 Data on Programme Participants	7
3. PROGRAMME EVALUATION.....	12
3.1 Evaluation Methodology	12
3.1.1. Procedure for Collection and Analysis of the Data that are Necessary for the Implementation of the Methodology	13
3.2 Programme Outcome Indicators	14
3.2.1 Underlying Assumptions and Benefits for the Economy as a Whole ...	15
3.2.2 Government Budget Benefits.....	17
3.2.3 Costs	18
3.2.4 Benefits vs. Costs	18
3.3 Most Significant Evaluation Results	19
3.3.1 Overall Net Benefits of the Programme.....	19
3.3.2 Programme Effects by Target Group	19
3.3.3 Programme Effects by Gender.....	20
3.3.4 Programme Effects by Regions.....	20
4. SUMMARY OF RESULTS.....	21
APPENDICES.....	22
Appendix 1: Notes on Future Evaluations	23
Appendix 2: Additional reviews as compliments to the “Formalization of Existing Businesses Programme– 2008” Impact Assessment	24
CONCLUSIONS	31
REFERENCES	32
SOURCES OF INFORMATION:.....	32
FIGURES	
Figure 1. Programme Participants by Region.....	8
Figure 2. Distribution of Participants and Registered Companies by Gender by Regions.....	9
Figure 3. Participants and Registered Companies by Ethnicity	11
TABLES	
Table 1 : Summary of costs and benefits of programme (Gross impact)	14
Table 2 : Net Benefits to the Economy and to the Government of the Formalization of Existing Businesses Programme	19
Table 3: Net Benefits to the Economy and to the Government of the Formalization of Existing Businesses Programme by Gender.....	20
Table 4: Net Benefits to the Economy and to the Government from the Formalization of Existing Business Programme by Region	20

FOREWORD

This report represents a continuation of the efforts to implement the impact assessment of the measures and programmes that have been realized in accordance with the Governmental Operational Plan for active measures and programs for employment.

Namely, this activity has been realized for the first time in 2009 with the implementation of the impact assessment of the Self-employment Programme for 2007. The Report on the Impact Assessment was based on the data available in 2009 and was prepared by UNDP. Within the activities, efforts have been made to train a Coordination team with representatives from the relevant state institutions with the objective to familiarize them with the methodology that was used and the way it is being implemented.

Following the established good practice the Impact Assessment for the Formalization of Existing Businesses Programme was performed in 2010. Namely, the same Coordination team that already had experience in the implementation of the accepted methodology took active participation and has implemented the major part of the activities in all phases of the process. In it, the role of UNDP was different from 2009, and was to coordinate the process.

EXECUTIVE SUMMARY

The focus of this report is on the assessment of the impacts of the implementation of one of the active labour market measures (ALMMs), part of the Governmental Operational Plan for ALMMs for 2008. i.e. Formalization of Existing Businesses Programme. Given the assumptions involved in the calculation of net benefits, the numbers produced by the evaluation as well as the short period for the completion of the programme should be taken only as indicative. What is of higher significance is whether the benefits are positive or not and which groups produced higher net benefits (or costs).

In that regard findings has proved that Formalization of Existing Businesses Programme have immediately positive effects on the economy, and within five years on State finances. The results indicate that there are net benefits for the economy that can be seen even after the first year of the programme implementation, whereas the net benefits for the government can be seen after the fifth year. In addition, this Impact Assessment showed that there are positive effects on the State Budget that can be seen after the fifth year, namely, something little above 20% annual return per participant that successfully completed the entire program.

Such positive effects are observable also across a range of characteristics of the programme and the target groups. The effects of the programme by region and ethnicity do not represent precise indicator due to the low number of programme participants. Moreover, the evaluation results by region are rather variable. In particular, in the North-East region, the Pelagonia region and South-East region the programme seems to have been least effective with a negative impact on state finances even in the long-term. However due to the low number of participants in this programme one cannot say that the regional setting has any impact on the successfulness of the measure. Additional analysis is needed to determine the true reasons for these discrepancies. In regard to the results for the programme by gender, it is apparent that the programme was slightly more financially successful for men than for women. Here too however, the net programme benefits were positive for both the economy as a whole (immediately) and the government (within five years).

One major caveat is in order related to the data limitations, which prevented any kind of control group approach which, although reasonable in the current context – given the high probability of programme participants remaining in the grey economy in the absence of the programme, as well as the assumption that prior to the formalization of their businesses they had no effect whatsoever on the economy as a whole – is by no means an ideal assumption. In part this was compensated by taking no account of possible firm expansion over time or – for the effects on government finances - of any further beneficial budget effects from the additional employment of unemployed individuals by the newly created firms. Moreover, estimates employing an arbitrary fixed business failure rate did not contradict the main result that the programme produced immediate net benefits to the economy and within five years produced net benefits to the State budget.

One other improvement that could be implemented relatively easily would be to update results after two years. For example, if the current evaluation is updated with the 2010 tax records (due to be submitted by firms in February 2011) then one would be able to get a much clearer picture of firm survival over a longer period and would then able to again adjust the survival (and expansion) rate of the businesses created as a result of the programme.

1. Introduction

Despite reasonably strong economic growth¹, unemployment in the country remains very high at around 32% in 2008 (source: State Statistical Office, 2009). In such circumstances, action was required to seek means to support the re-entry into employment of the large numbers of the long-term unemployed. The Government of the country has moved in this direction providing financial support for the implementation of many employment programmes including the Formalization of Existing Business Programme, which was implemented for the first time in 2008.

This report contains information on the impact evaluation of the Formalization of Existing Businesses Programme implemented in 2008, which has continued in slightly modified form in 2009 and 2010.

The report is structured as follows: section 2 gives a basic description of the program, section 3 presents and discusses the evaluation methodology, the procedures for data collections and results, and section 4 presents a summary and some concluding remarks. An appendix offers tables that describe in more detail the impacts from the Formalization of Existing Businesses Programme.

2. The Programme

2.1 Programme Overview

Since 2007, UNDP has provided technical assistance in a form of support to the active measures and programmes in the Governmental Operational Plans, such as: within the framework of the Self-employment Programme under four separate programmes implemented in 2007, 2008, 2009 and 2010, and to Formalization of Existing Businesses Programme under three programmes, implemented in 2008, 2009 and 2010. The funding for all years is as follows:

Year	State Budget Funds		UNDP ²	
	US Dollars ³	Denars	US Dollars	Denars
Self-Employment				
2007	1.482.802	64.501.887	440.210	19.149.135
2008	2.665.371	120.409.739	75.000	3.388.170
2009	2.792.737	127.540.300	120.000	5.480.228
2010 ⁴	3.042.764	147.500.000	170.000	7.352.500
Total	9.983.674	459.951.926	805.210	35.370.033
Formalization of Existing Businesses				
2008	482.238	21.785.392		
2009	1.042.965	47.000.000		
2010 ⁵	969.600	47.000.000		
Total	2.949.803	115.785.392		
Overall	12.478.477	575.737.318		

¹ Source: IMF 2009- term "reasonably strong economic growth" refers to the years 2007 and 2008.

² UNDP funds that are included in the table refer to the Self-employment Programme and Formalization of Existing Businesses Programme

³ The exchange rate for the US dollar is as follows: 2007- 43,5 MKD/1\$; 2008- 45,18 MKD/1\$; 2009 -45,67 MKD/1\$ and 2010 48,47 MKD/1\$

⁴ The funds foreseen in the Operational Plan for the Active Measures for Employment in 2010, Ministry of Labour and Social Policy, page 7

⁵ Ibid, page 8

A total of 113 businesses were formalized under the 2008 Formalization of Existing Businesses Programme. This means that 113 businesses in the grey economy were formalized under the 2008 programme, while the 2009 programme involved formalization of a further 250 businesses and it is planned for 2010 that additional 250 businesses will be formalized.

The objective of the Programme is to formalize the existing businesses of unemployed individuals and their legal inclusion on the labour market thus decreasing the gray economy through a provision of assistance in the business registration process.

The eligibility criteria under the 2008 and 2009 programmes were that participants should have been registered as unemployed for at least 1 year and to have their own business in the gray economy. In 2010, such type of assistance is foreseen for two other categories of registered unemployed individuals: unemployed individuals registered in the Register of unemployed people for over three months that have informal business and unemployed individuals registered in the Register of unemployed people for more than six months that work in the area of energy.

In order to assess the programme's impact it was considered that a certain period is needed to pass after its finalization, more specifically, that it is necessary that the businesses are operating as formalized businesses at least for one year so that they can provide their final financial statements. Therefore, the evaluation was performed for the Programme that was implemented in 2008 for which final financial statements of companies that have been working for at least one year i.e. for 2009 existed.

The unemployed individuals who expressed their interest and were eligible have applied under the programme for Formalization of Existing Businesses for 2008 by submitting their business plans. The selected candidates have received the following assistance:

- Assistance in company (business) registration,
- Provision of a grant for procurement of equipment and materials⁶ (in the amount of 2,500 € or 153.000 denars)

2.2 Data on Programme Participants

Overall for the 2008 Formalization of Existing Businesses Programme, there were 348 applicants, of these 117 were selected for preparation of mini business plans. Of these, 113 actually formalized their businesses. Some of the specificities of the abovementioned programme are as follows:

- Female applicants comprised a little under one-third of all applicants;
- Females were more likely to be accepted onto the programme for training than were males;
- Females were much less likely than males to complete the programme successfully and start a business; and,
- Females slightly more likely than males to be successful in operating a business once they did formalized it.

⁶ The equipment and the materials for the companies were procured on the basis of specifications provided by the beneficiaries.

Figure 1. Programme Participants by Region

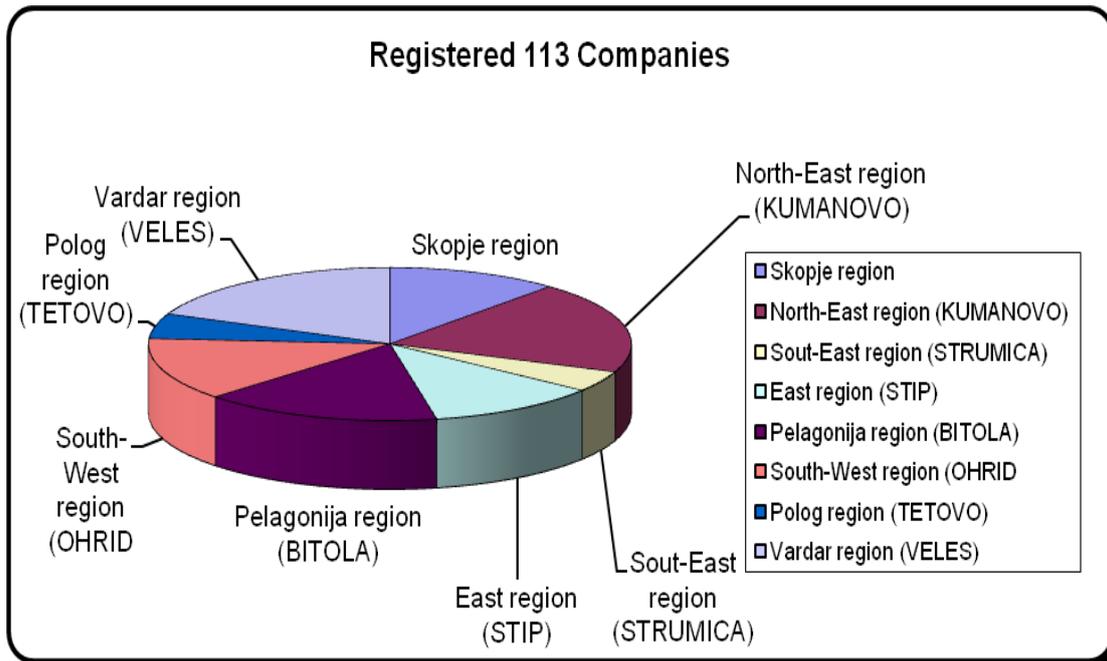
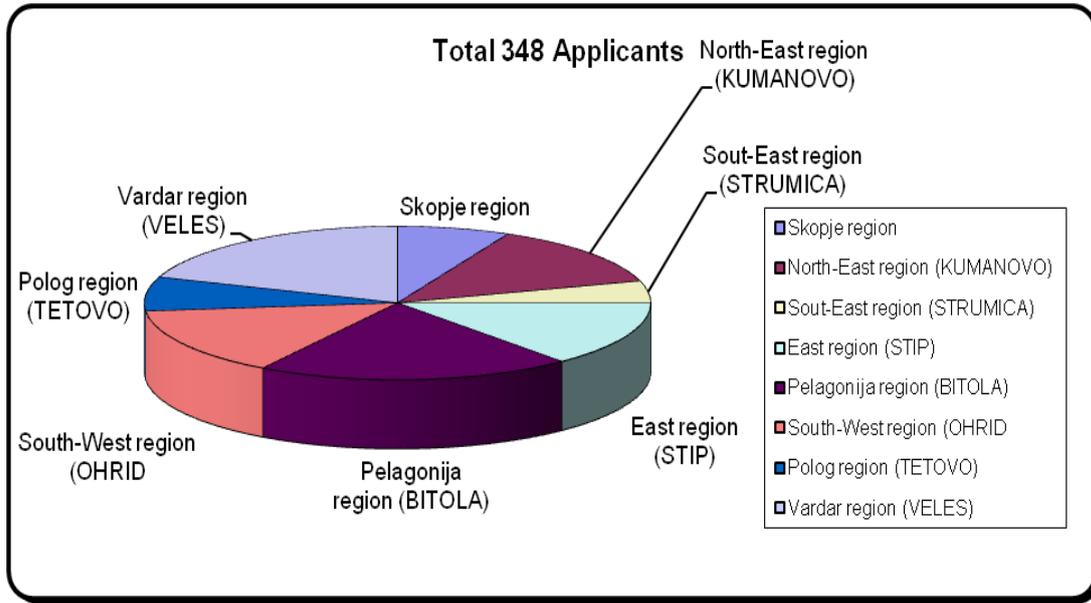
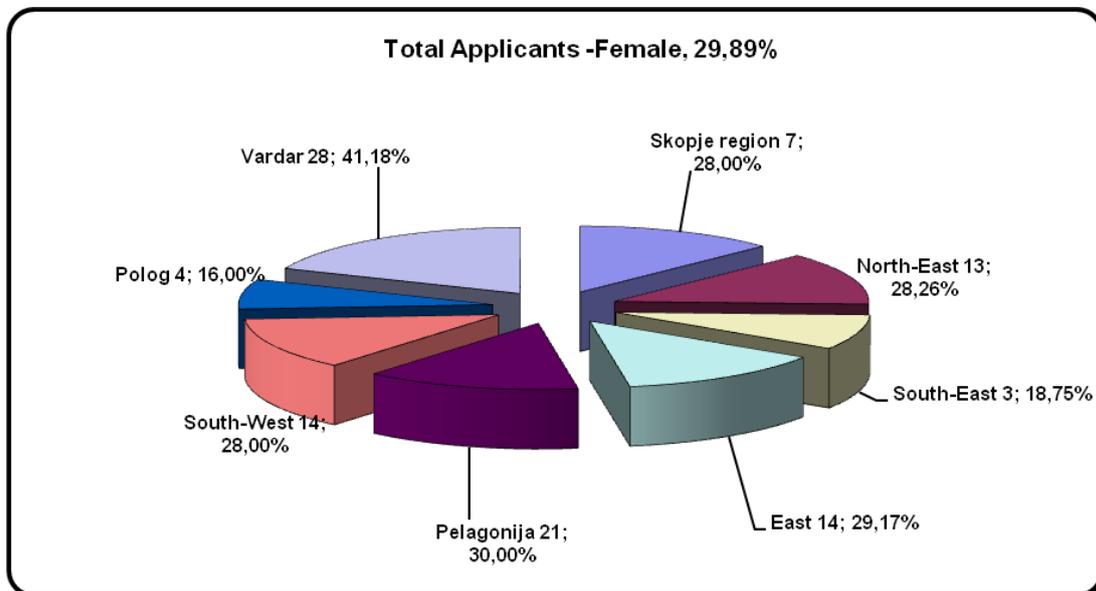
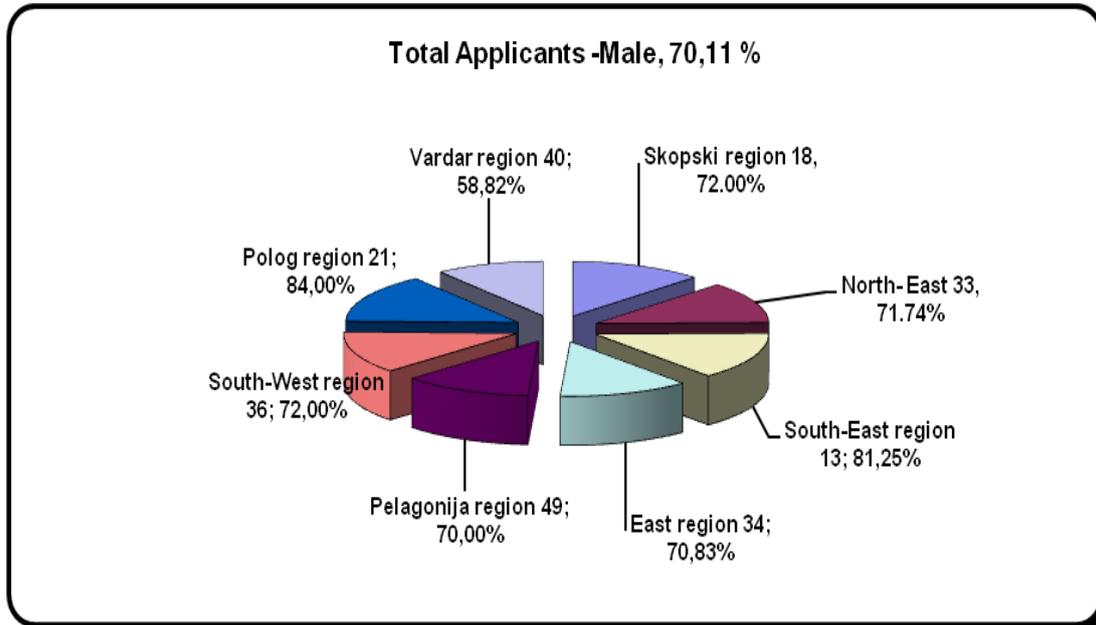


Figure 2. Distribution of Participants and Registered Companies by Gender by Regions



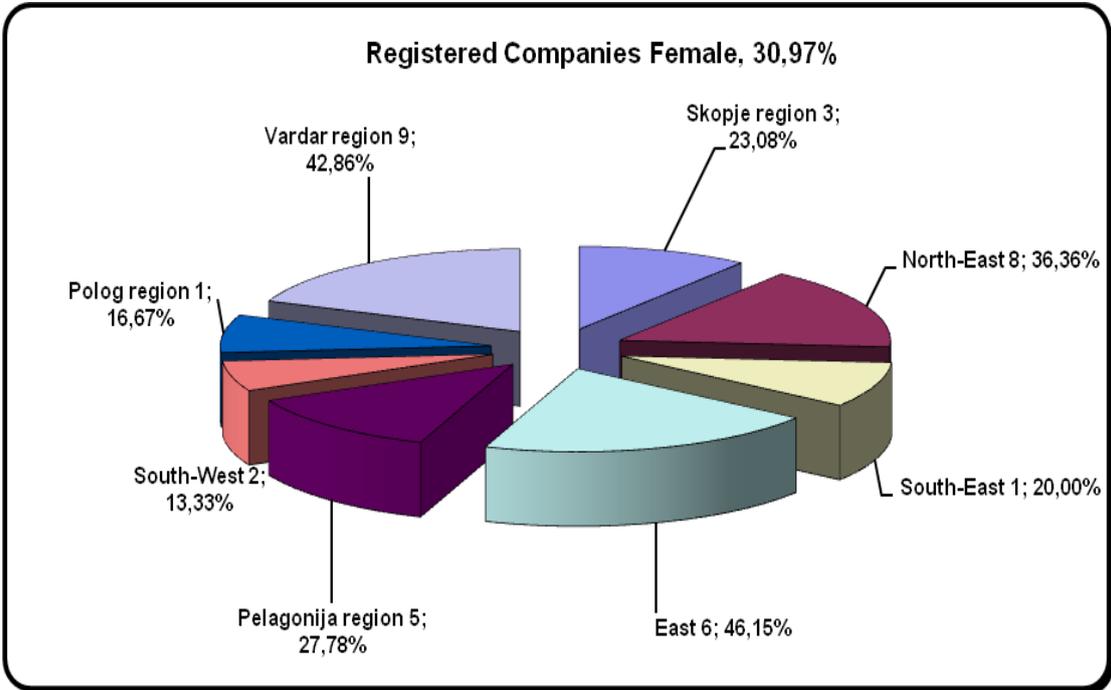
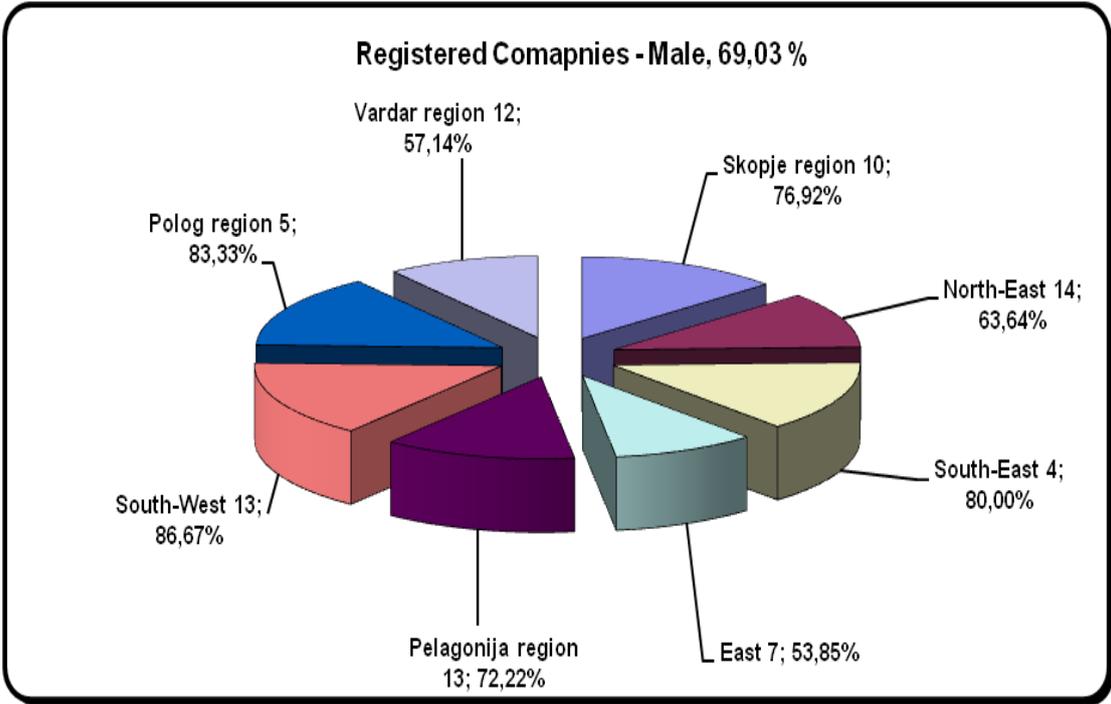
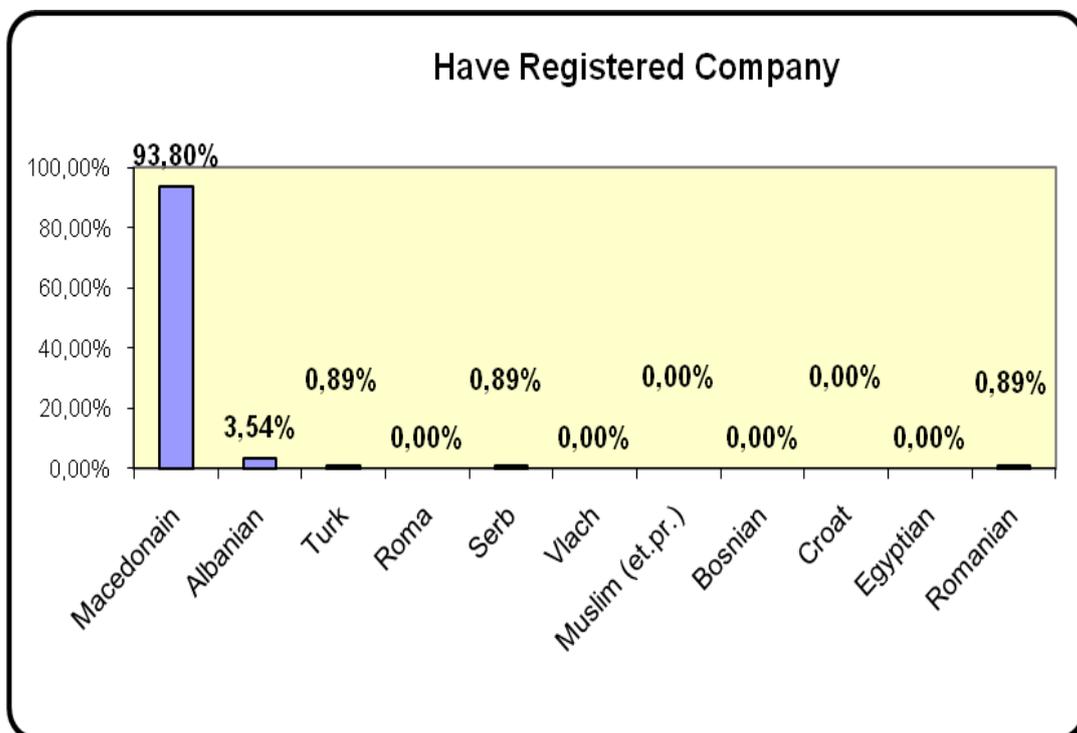
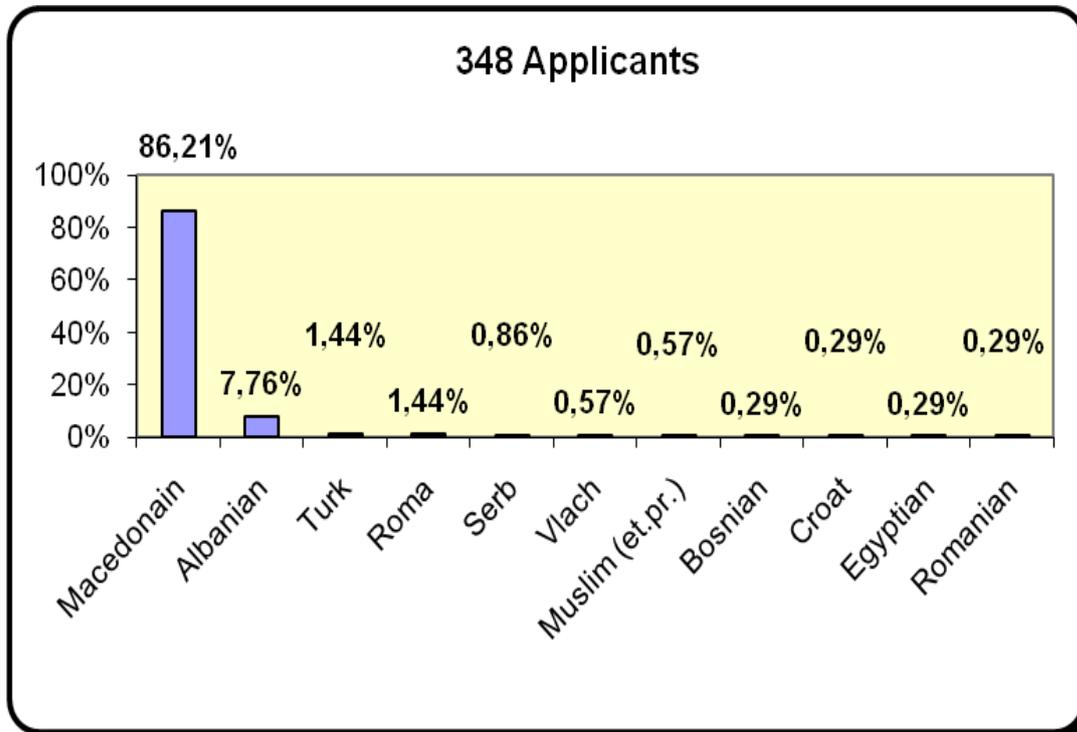


Figure 3. Participants and Registered Companies by Ethnicity



3. Programme Evaluation

3.1 Evaluation Methodology

The basis for any programme impact evaluation is based around the assessment of the effects of the programme on programme participants. In order to do this one needs to identify the following:

- a) What happened to programme participants subsequent to their programme participation; and,
- b) What would have happened to programme participants if they had not participated in the programme.

The evaluation is based around an assessment of the difference between what happened to programme participants once the programme was finalized and what would have happened in the absence of the programme⁷. Expressed in more technical terms, it looks as follows:

$$E(Y_p | P = 1) - E(Y_p | P = 0)$$

where Y_p is the outcome of interest for programme participants and $P=1,0$ indicates whether or not they participated in the programme.

That is, the difference between:

- a) the average outcome for programme participants, given that they participated in the programme; and
- b) the average outcome for programme participants, given that they didn't participate in the programme.

The difficulty that arises with any evaluation is that we do not observe what would have happened to programme participants if they didn't participate on the programme ($E(Y_p | P = 0)$) since in fact they did participate. Thus, $E(Y_p | P = 0)$, is a counterfactual and must be approximated. In the current context, two approaches might be adopted to "estimate" the value of the counterfactual $E(Y_p | P = 0)$:

- 1) In the first case, in accordance with the approach adopted here, one assumes that all programme participants would have continued as unemployed (would not have formalized their businesses) if they had not participated on the programme. This implies the assumption that $E(Y_p | P = 0) = 0$, and thus the counterfactual variable can be ignored. In this situation, the programme impact is estimated as $E(Y_p | P = 1)$. This is commonly known as gross impact; however, if the alternative outcome is always zero then gross and net impact coincide.
- 2) The second approach – the one most commonly used in impact evaluation, is to define a control group of individuals who are similar to programme participants, but who do not participate in the programme. There are several ways to do this, none of which was available to us in this evaluation. Using this approach, what happens to the control group is used as the estimate for what would have happened to programme participants in the programme in the absence of the programme.

⁷ For a more detailed summary of the general approaches to impact evaluation see, for example, O'Higgins (2001, chapter 5).

In the current circumstances, the evaluation of gross impact, or rather the use of gross impact as an estimate of net impact is not unreasonable as an indicator of the programme impact. The programme under consideration is a programme designed for the long-term unemployed in a country with extraordinarily high rates unemployment. Having in mind such circumstances, the chances of finding alternative employment are scarce, above all for the long-term unemployed, and the same is valid for the chances for business formalization in the absence of any additional incentive. In estimating the State budget effects of the programme, what we are concerned with is formal employment. The budget benefits depend on the lowering of social benefits paid to individuals and the tax benefits of companies being registered. Neither of these is affected by those who enter, or remain in, in informal employment. Thus, for the purposes of estimating State Budget benefits, the assumption that programme participants “would otherwise have remained unemployed” becomes, “would otherwise not have become employed in the formal economy”.

3.1.1. Procedure for Collection and Analysis of the Data that are Necessary for the Implementation of the Methodology

The procedure for the implementation of the methodology was coordinated by UNDP. The Coordination team was composed of nominated representatives of several institutions, as follows:

1. Ministry of Labour and Social Policy - MLSP
2. Employment Service Agency - ESA
3. Agency for Promotion of Entrepreneurship - APE
4. Ministry of Finance

The coordination of the procedure for collection, processing and analysis of the necessary data was entrusted upon the Ministry of Labour and Social Policy as the body responsible for the implementation of the methodology in any future versions of the programme.

The implementation period of the overall process foreseen with the methodology was two months and consisted of four stages: planning of activities, data collection, data input and analysis. Prior to each stage coordination meetings took place on which each of the members of the Coordination team was informed about the working method and the results.

The data on the impact of the Formalization of Existing Businesses Programme implemented in 2008 have been provided both in written and electronically.

The state institutions were the sources of data: the Employment Service Agency, the Central Registry, and the Public Revenue Office. These institutions, after receiving official letters – requests, that listed the type and the quantity of data needed, have submitted the necessary data, thus enabling successful implementation of the analysis.

The requests were submitted by the Ministry of Labour and Social Policy that had the role of coordinator of all data collection activities.

The Central Registry (CR) provided data on the current state with the registered companies as well as the balance sheets and the profit and lost accounts.

The Employment Service Agency (ESA) provided data on the previous status of the unemployed 113 individuals that have formalized their businesses, the previous status of the individuals that were not selected as programme participants, as well as data on whether the registered 113 companies have had any additional employments.

The Public Revenue Office provided data on the VAT paid by the companies⁸.

The Department for Social Protection under the MLSP submitted data on the users of social assistance, using the data from all social work centres in the state, with the objective to provide insight into whether some of the unemployed individuals who have registered their company were previously users of social benefits.

During the procedure for data collection and analysis many communication channels were used: meetings, e-mail and regular post mail, individual meetings and contacts.

3.2 Programme Outcome Indicators

Table 1 below summarizes the costs and benefits of the programme potentially accruing to different actors and institutions. We will be concerned here primarily with estimating:

- 1) The costs and benefits of the programme to the economy as a whole; and
- 2) The costs and benefits of the programme to the Government.

When processing and analyzing the data, the Coordination team also looked at the effects on programme participants, however, data limitations make it impossible to provide reliable estimates of the costs and benefits. We do look at the differential effects of the programme on the chances participants have of formalizing and maintaining their existing business in a little more detail below.

Table 1 : Summary of costs and benefits of programme (Gross impact)

Actor/ Institution affected	Benefits		Costs	
	Indicator	Measurement/notes	Indicator	Measurement/notes
1) Economy as a whole	Value of New Jobs created	Sales of new businesses (from tax returns-Companies register)	Total cost of the programme	From programme accounts
2) Government	Increased taxation	Taxation of company profits	Total cost of the programme	From programme accounts

⁸ Note from PRO: While participating in the Programme, and for the needs of any such future analysis, the applicants should be asked to sign a statement of consent for disclosure of their data on VAT paid for the needs of the Ministry of Labour and Social Policy

Actor/ Institution affected	Benefits		Costs	
		Personal income tax and social security/health contributions paid on employees		
	Reduction in unemployment and other benefit payments	Value of benefits of persons finding employment under the programme (ideally including also employees programme participants in new companies if any)		
3) Programme participants	Increased disposable income	Net profits/income	Reduction in unemployment and other benefit payments	Value of benefits of persons finding self-employment under the programme
4) Other individuals	Increased labour incomes	Wages received from new firms	Reduction in unemployment and other benefit payments	Value of benefits of persons finding employment as a result of the programme
	Non-labour factor incomes	Non-labour costs	Opportunity cost	Non-labour factor incomes
	Multiplier effects	Based on assumption		Multiplier effects

3.2.1 Underlying Assumptions and Benefits for the Economy as a Whole

Two basic assumptions underlie the approach in the impact assessment of the Formalization of Existing Businesses Programme:

The alternative to programme participation for participants is to remain unemployed and have their business in the grey economy. In order to estimate the costs and benefits of the programme to the economy as a whole, we must estimate the benefit to the economy of the new businesses created as a result of the programme. We take as a proxy for the total benefits, an estimate of the increased sales arising from the programme. Also, we take the assumption that the formalized existing businesses have no sales prior to their formalization. Strictly speaking, the correct measure would be value-added by the new firms, but this is rather difficult to

estimate – one would need to separately identify the part of the value added in the whole production process that is the result of the formalization of the existing businesses.

We have not made assessment of the sales that the businesses had while being part of the informal sector due to the fact that on one hand we will take into consideration the principle of underestimated sales and the inability to assess it on the other hand.

Using sales as an approximation implies both overestimation and underestimation arising from two separate sources:

- a) Sales over-estimate value added because sales includes some costs which might better be excluded from value-added – namely, the sale is not just value-added in accounting terms;
- b) Sales under-estimate value added because they do not take into account any multiplier effects – that is, value added induced by other businesses.

Given these two opposing elements, it is reasonable to proceed on the basis of Realized Sales– an easily observable and quantifiable indicator.

Sales accruing from new businesses will constitute a benefit so long as the firms continue to operate and it is hoped that they will continue to work well into the future. The information available regards the situation for only one year after the programme was completed. This means we need to estimate the future sales on the basis of some assumptions. In the first place one needs to decide on a time frame. We employ three scenarios:

- 1) One year after programme completion - this is the most reliable but of course will underestimate the benefits accruing over time.
- 2) Five years after programme completion – this is an estimate of midterm costs and benefits - midway between the immediate and the full benefits
- 3) Using an infinite time horizon. In practical terms, this means assuming that the benefits will accrue over the long-term

Taking three distinct time gives a better understanding of any benefits from the programme accrue over time. In order to compare benefits accruing after 2008, to costs incurred in 2008, a discount rate is needed. Here we employ the Central Bank standard nominal interest rate that in 2009 had an average value of around 8.5%. This is a fairly conservative measure giving rise to a relatively high discount rate (i.e. the value of future benefits falls off relatively quickly) and consequently a relatively low estimated future value of the benefits accruing from the programme. Thus, if the programme produces net benefits using this methodology one may be reasonably confident that such estimated benefits represent a lower limit to the actual benefits from the programme.

Another, less conservative measure is the following: the effective nominal interest rate on public debt might be deemed more appropriate for the evaluation of the benefits accruing to the government. In the absence of a control group against which programme performance can be measured, and the inevitable uncertainty regarding future financial flows, we feel it more appropriate to stick with a more conservative measure.

We also need to make assumptions about firm survival. The highest rate of firm failure is found in the first year of operations, so we make the assumption that firms surviving for the first year, will continue to do so indefinitely. This assumption is necessary and contains two potential sources of bias which we suppose plausibly will

(more or less) cancel each other out. Specifically, some firms will subsequently fail/cease to operate, thereby reducing future (average) sales. On the other hand, some firms will expand operations thereby increasing future (average) sales.

To summarize, the total (average per participant) benefits to the economy according to the three time periods envisaged are given by:

1) After One year:

$$B_1 = \sum_i^n \left(S_{i08} + \frac{S_{i09}}{1+r} \right) / n$$

2) After Five years:

$$B_2 = \sum_i^n \left(S_{i08} + \frac{S_{i09}}{(1+r)} + \frac{S_{i09}}{(1+r)^2} + \frac{S_{i09}}{(1+r)^3} + \frac{S_{i09}}{(1+r)^4} + \frac{S_{i09}}{(1+r)^5} \right) / n$$

3) Over the indefinite future:

$$B_3 = \sum_i^n \left(S_{i08} + \frac{S_{i09}}{r_{09}} \right) / n$$

That is, the Sales for 2008 and (discounted) for 2009 summed over all of the n participants, B are benefits, S are Sales, r are interest rates, subscripts on B indicate the time horizon, on S the individual outcomes and the year to which they refer and on r, the reference year. In the absence of knowledge of the future, the values of Sales and interest rate for 2009 are taken as an approximation for all future Sales and interest rates.

Sales in 2008 and 2009 are summed (and averaged) over all programme completers whether they actually sold anything or not and whether they failed during (or before) 2008.

3.2.2 Government Budget Benefits

In order to calculate the costs and benefits to the government some modification of the above formula is necessary. Now the benefits to government are comprised of the increased taxation as a result of the new businesses, rather than total sales and the reduction in unemployment and other benefits to the unemployed. None of the programme participants were receiving unemployment benefits however, as registered unemployed they did receive health benefits that are estimated at 520 MKD per month. In addition, some participants used social benefits. The benefits accruing to the government from the new businesses that are started as a result of the programme is the sum of the savings on social security and health benefits and the additional taxes paid.

As a result of the new businesses is estimated as above substituting $BG = 6240MKD + \text{total taxes paid by new businesses (for Sales in the equations above)}$ for those not receiving social benefits, and $BG = 6240MKD + \text{paid social benefits} + \text{total taxes paid by new businesses}$ for those receiving social benefits in 2008. For the future benefits, we again assume that taxes (and saved benefits) remain constant over time. Thus, the benefits to the State budget are:

1) After One year:

$$BG_1 = \sum_i^n \left(\frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{1 + r_{09}} \right) / n$$

2) After Five years:

$$BG_2 = \sum_i^n \left(\frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{(1+r)} + \frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{(1+r)^2} + \frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{(1+r)^3} + \frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{(1+r)^4} + \frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{(1+r)^5} \right) / n$$

3) Over the indefinite future::

$$BG_3 = \sum_i^n \left(\frac{HB_{i09} + SB_{i09} + UEB_{i09} + T_{i09}}{r_{09}} \right) / n$$

where BG are benefits to government, HB are (savings on) Health benefits, SB are (savings on) Social benefits, UEB are (savings on) unemployment benefits and T are taxes paid by new businesses. None of the participants received unemployment benefits but all registered unemployed receive health benefits estimated at a cost of 520 MKD per month (or 6240MKD during 2008) and some received social benefits (see the Table in the Appendix from the Department of Social Protection under MLSP) that have amounted to a total of 207.949,50 MKD, so the total annual benefit from all participants to the State Budget is: health benefits in the amount of 750.120, social protection 207.949,50 MKD plus taxes paid 5.314.983 MKD.

3.2.3 Costs

The (average) costs are always the same and given by the total costs of the programme divided by the number of programme completers.

Therefore, the costs for the programme Formalization of Existing Businesses for 2008 amount to 180.320,00 MKD per participant or (2915,5 Euro, 61,85 MKD/1EURO)

3.2.4 Benefits vs. Costs

In order to calculate the per participant net benefit of the programme (to the economy as a whole or to the government), it is sufficient to define variables representing the various forms of benefit according to the definitions given above and, for the sample which includes all programme completers (113 in 2008), take the mean – this can be done directly in Excel. Care should be taken to ensure that benefits sales for those who did not start a business or who failed immediately are set to zero (and are not all set to missing values). From the mean benefit (over one year, five years, and forever) one just needs to subtract the costs that are always the same, and, since they occurred in the base year (2008 for the 2008 programme).

3.3 Most Significant Evaluation Results

3.3.1 Overall Net Benefits of the Programme

The net benefits for both the economy as a whole and the State budget are simply the difference between the benefits and the costs as calculated above. Table 2 reports estimated net average benefits for the government and the economy and for the three time periods considered.

Table 2: Net Benefits to the Economy and to the Government of the Formalization of Existing Businesses Programme

Net benefits to the economy (MKD)	After One year	84.118,71
	After Five years	754.523,76
	Indefinite future	2.491.960,44
Net benefits to State Finances (MKD)	After One year	-125.653,34
	After Five years	5.534,87
	Indefinite future	374.545,90
	Number of participants	113

Note: The net average benefits are calculated per programme completer – of which there were 113.

It will be observed that, even in the first year, the net benefits to the economy are positive. Given the assumptions involved, one would not wish to put too much emphasis on the precise numbers, however, it is fairly clear that from the above that overall, the programme made a positive contribution to the country's economy even in the short run.

As regards the net benefits to State finances, here too, the programme made a positive contribution, however this will take longer to accumulate. In the short term, the impact on government finances is negative, however after five years there is an albeit modest (around 5.534 MKD per participant or 120 US Dollars at 2010 exchange rates) positive contribution to the State budget. Taking the long-term view, the programme clearly leads to substantial benefits to both State finances and the economy as a whole.

Even if we take a more pessimistic view and allow for a net failure rate of 10% per year (from 2009 on) of the businesses that were started⁹, the State finances still make only small loss over five years.

If we take a time frame of six instead five years, over six years the surplus would amount to 34.443,50 MKD per participant.

3.3.2 Programme Effects by Target Group

As it was mentioned earlier, the potential participants need to meet only two criteria to participate in the programme in 208: to be unemployed for at least one year and to have their business in the gray economy, thus the programme will have only one target group.

⁹ And allow for no expansion of the existing businesses as before.

3.3.3 Programme Effects by Gender

Table 3 shows the results for the programme by gender. It is apparent that the programme was slightly more financially successful for men than for women. Here too however, the net programme benefits were positive for both the economy as a whole (immediately) and the government (within five years).

Table 3: Net Benefits to the Economy and to the Government of the Formalization of Existing Businesses Programme by Gender

		Males	Females
Net benefits to the economy (MKD)	After One year	90.977,15	68.834,16
	After Five years	773.537,84	712.149,53
	Indefinite future	2.840.520,43	2.769.524,62
Net benefits to State Finances (MKD)	After One year	-126.411,34	-123.964,06
	After Five years	7.365,36	1.455,51
	Indefinite future	390.022,54	376.208,34
Number of participants		78	35

3.3.4 Programme Effects by Regions

The evaluation results by region are rather variable. In particular, in the North-East region, the Pelagonia region and South-East region the programme seems to have been least effective with a negative impact on state finances even in the long-term. However due to the low number of participants in this programme one cannot say that the regional setting has any impact on the successfulness of the measure. Additional analysis is needed to determine the true reasons for these discrepancies.

Table 4: Net Benefits to the Economy and to the Government from the Formalization of Existing Business Programme by Region

		Vardar region	North-East region	South-West region	Skopje region	South-East region	Polog region	East region	Pelagonia region
Net benefits to the economy (MKD)	After One year	140.061	-43.601	160.964	20.771	-47.675	-74.886	181.232	141.488
	After Five years	980.255	192.541	1.106.457	477.550	352.417	374.435	1.073.112	1.093.098
	Indefinite future	3.588.871	941.213	3.834.789	1.521.900	1.380.212	1.532.718	3.746.860	3.605.652
Net benefits to State Finances (MKD)	After One year	-121.636	-145.767	-118.558	-121.877	-143.686	-127.450	-97.326	-125.733
	After Five years	12.223	-74.310	51.724	17.678	-51.703	3.528	105.130	-2.141
	Indefinite future	405.497	145.929	519.933	422.935	210.216	378.425	688.116	364.544
Number of participants		58	22	22	15	13	5	6	12

4. Summary of Results

Overall, the Formalization of Existing Businesses Programme has proved to have immediately positive effects on the economy, and within five years on State finances. Such positive effects are observable also across a range of characteristics of the programme and the target groups. The effects of the programme by region and ethnicity do not represent precise indicators due to the low number of programme participants.

Given the assumptions involved in the calculation of net benefits, the numbers produced by the evaluation as well as the short period for the completion of the programme should be taken only as indicative. What is of higher significance is whether the benefits are positive or not and which groups produced higher net benefits (or costs).

One major caveat is in order. Data limitations prevented any kind of control group approach which, although reasonable in the current context – given the high probability of programme participants remaining in the grey economy in the absence of the programme, as well as the assumption that prior to the formalization of their businesses they had no effect whatsoever on the economy as a whole – is by no means an ideal assumption. In part this was compensated by taking no account of possible firm expansion over time or – for the effects on government finances - of any further beneficial budget effects from the additional employment of unemployed individuals by the newly created firms. Moreover, estimates employing an arbitrary fixed business failure rate did not contradict the main result that the programme produced immediate net benefits to the economy and within five years produced net benefits to the State budget.

APPENDICES

Appendix 1: Notes on Future Evaluations

In principle, one may apply this methodology with little modification to future versions of the programme. Due to the inability to assess the sales prior to the formalization of the businesses, the benefits to the economy as a whole will be calculated on the total sales after the first year from the formalization of the businesses. As regards the government budget, the benefits to the government come entirely from the additional taxation and, where relevant, the interruption of social security and other benefits. Care must be taken of course to account to take accurate amounts for these reduced payments of benefits by governmental economic activities.

One other improvement that could be implemented relatively easily would be to update results after two years. For example, if the current evaluation is updated with the 2010 tax records (due to be submitted by firms in February 2011) then one would be able to get a much clearer picture of firm survival over a longer period and would then be able to again adjust the survival (and expansion) rate of the businesses created as a result of the programme.

Appendix 2: Additional reviews as compliments to the “Formalization of Existing Businesses Programme– 2008” Impact Assessment

1. Company status in 2009

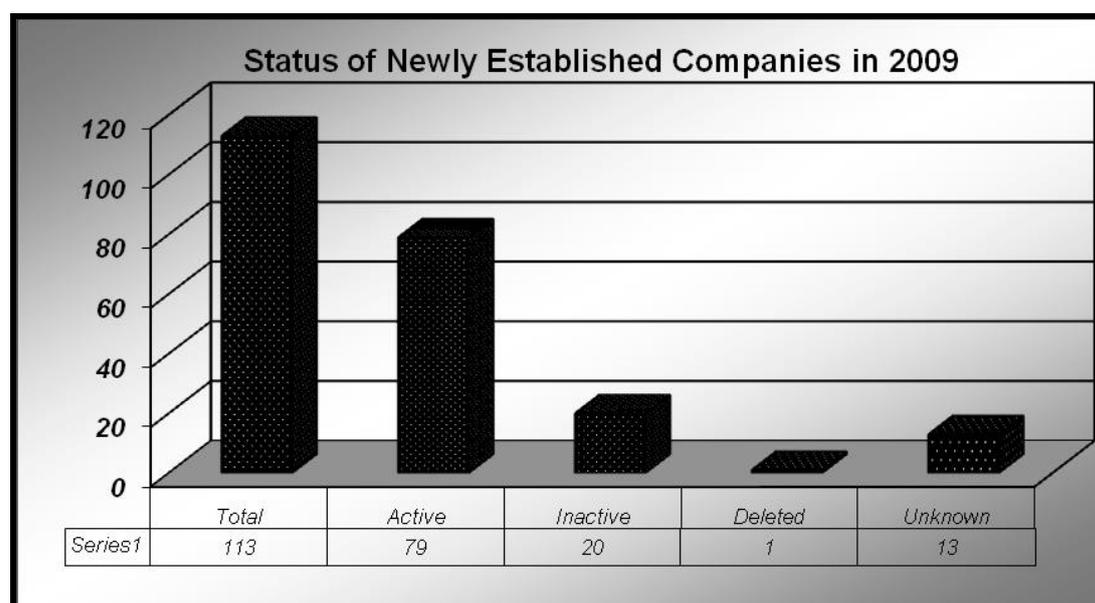
	Number of companies	% share
Total	113	100,00%
Active *	79	69,91%
Inactive**	20	17,70%
Deleted***	1	0,89%
Unknown/Inactive ***	13	11,50%

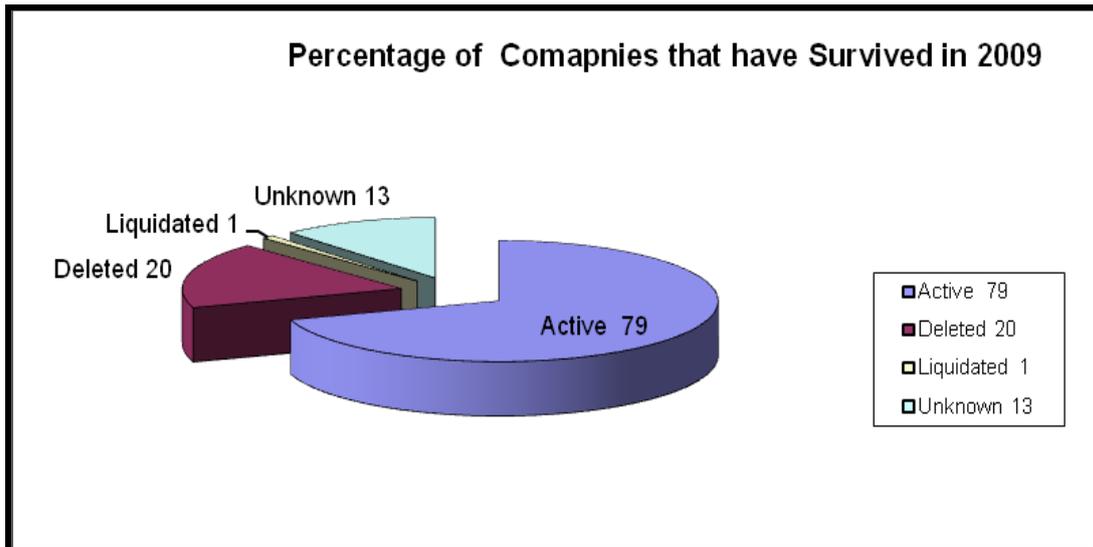
Source: Central Registry, data

*Active companies are those that have submitted a final account in 2010.

** Deleted from the Central Registry thus not existing as a legal entity.

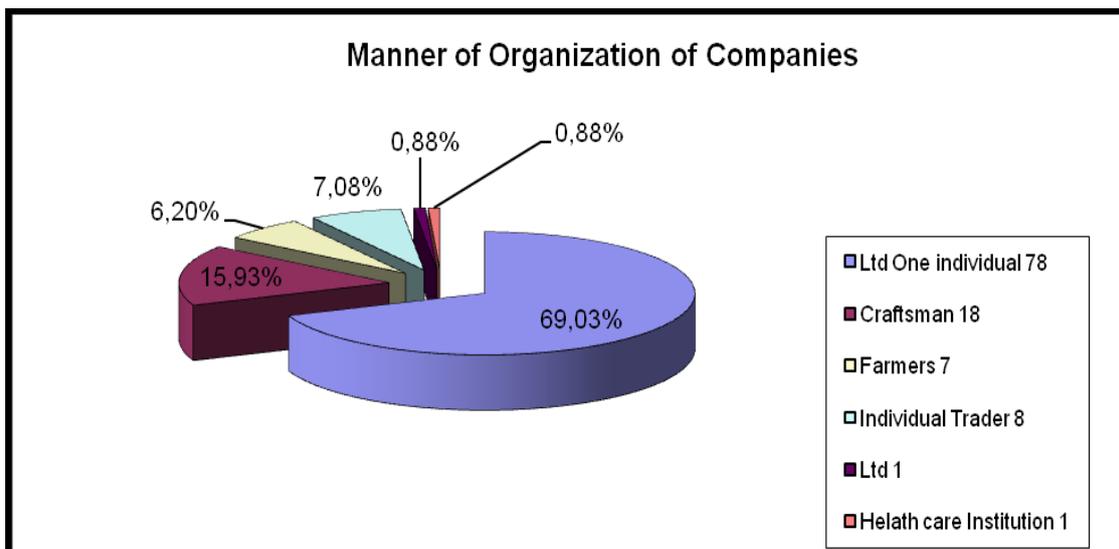
*** Inactive companies are those that have not submitted a final account or a request to be deleted from the Registry.





2. Sectors (business) of the companies

2.A) Manner of Organization



2.B) Activities where there are more than three companies

No.	Code	Main business	Active	Inactive	Total	Ltd One Individual	Craftsman	Farmers	Individual trader	Ltd	Health care Institution
16	10,71	Bread Production; pastry (cookies, cakes) fresh and biscuits (cookies)	2	1	3	1	1	0	0	0	0
19	14,13	Production of other outer wear	5	1	6	5	0	0	0	0	0
22	16,23	Production of other carpentry and floors	3	1	4	3	0	0	0	0	0
36	31,09	Production of other furniture	2	2	4	1	1	0	0	0	0
41	45,2	Maintenance and repair of motor vehicles	1	2	3	0	1	0	0	0	0
43	47,11	Retail in non-specialized stores, mostly food, beverages and tobacco	3	0	3	2	0	0	1	0	0
53	49,41	Freight and Passenger transport	2	1	3	2	0	0	0	0	0
54	56,1	Restaurants and other facilities for food preparation and serving	4	2	6	2	0	0	2	0	0
59	69,2	Accountancy, Book-keeping, auditing services; tax counseling	3	0	3	3	0	0	0	0	0
70	96,02	Hair Saloons and Beauty Saloons	3	2	5	1	2	0	0	0	0
			28	12	40	20	5	0	3	0	0

2.C) Additional Staff by Business

No.	Code	Business	Company with + 1 staff member	Company with + 2 staff members	Company with + 3 staff members	Company with + 5 staff members	Company with + 9 staff members	Business	Total number of companies	Additionally employed individuals	Currently employed individuals
1	1,11	Cereals production (except rice), beans and oil producing plants	1						1	0	1
2	1,13	Vegetable, melon and watermelon, vegetables, vegetables with roots and hard vegetable	2						1	0	2
3	1,21	Grapes	1						3	0	1
4	1,49	Breeding of other animals	1						3	0	1
5	1,5	Mixed farming	2						3	0	2
6	1,62	Support activities in animal breeding	1						2	0	1
7	10,1	Processing and canning of meat	0				1		1	8	9
8	10,1	Animal and poultry meat production	1						1	0	1
9	10,3	Fruit and vegetable juice production	1						1	0	1
10	10,6	Production of mill products	0		1				2	2	3
11	10,7	Bread Production; pastry (cookies, cakes) fresh and biscuit (cookies)	1	1					4	1	3
12	13,9	Production of carpets (floor covers)	1						2	0	1
13	14,1	Production of other outer wear	3	2					1	2	7
14	16,2	Production of veneer and other wood products	0		1				1	2	3
15	16,2	Production of other carpentry and floors	2	1					1	1	4
16	16,3	Production of other wood products; production of cork, straw products, knitting materials	1						1	0	1
17	17,2	Production of sanitary toilet materials for household use	1						3	0	1
18	18,1	Other printing	2						2	0	2

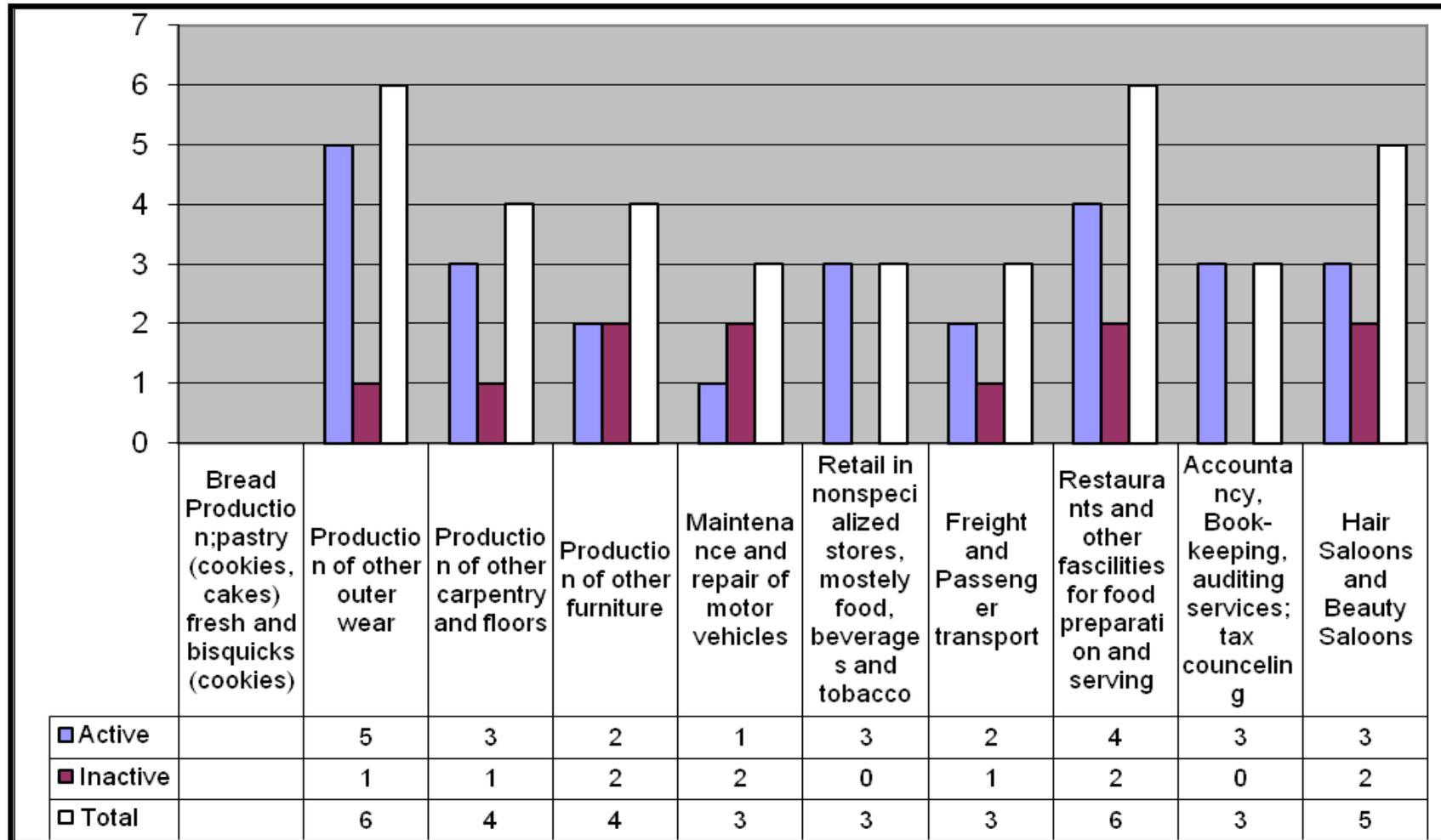
19	22,2	Production of plastic packaging	1						5	0	1
20	22,2	Production of fittings (construction merchandize) of plastic materials	1						2	0	1
21	24,4	Production of precious metals	1						1	0	1
22	25,5	Smithing, pressing, rolling of metals; metallurgy of dust	0	1					1	1	2
23	27,5	Production of electrical appliances for household use	0	1					1	1	2
24	31	Production of kitchen furniture	0	1					1	1	2
25	31,1	Production of other furniture	2						2	0	2
26	43	Construction of other civil engineering not mentioned in other places	1						1	0	1
27	43,3	Plastering	1						1	0	1
28	43,4	Other final construction works	2						1	0	2
29	45,2	Maintenance and repair of motor vehicles	1						1	0	1
30	47,1	Retail in non-specialized stores, mostly food, beverages and tobacco	2	1					1	1	4
31	47,3	Retail in beverages in specialized stores	1						2	0	1
32	47,4	Retail in computers, periphery units and software in specialized stores	2						2	0	2
33	47,5	Textile retail in specialized stores	0	1					1	1	2
34	47,6	Retail in furniture, lighting equipment and other household objects in specialized stores	1						2	0	1
35	47,7	Retail in wear in specialized stores	0	1					1	1	2
36	47,8	Other retail in new products in specialized stores	2						1	0	2
37	47,8	Retail in counters and bazaars with textile, wear, shoes	0	1					1	1	2
38	49,3	Taxi services	1						1	0	1
39	49,4	Freight and Passenger transport	2						1	0	2

40	56,1	Restaurants and other facilities for food preparation and serving	4						1	0	4
41	58,2	Other publishing activities	1						1	0	1
42	62,1	Other services related to ICT and computers	1						1	0	1
43	68,3	Real-estate agencies	1						1	0	1
44	69,2	Accountancy, book-keeping, auditing services; tax counseling	1	1	1				1	3	6
45	77,4	Rental and leasing of airborne transportation means	1						1	0	1
46	79,1	Activities of travel agencies	1						1	0	1
47	95,1	Repair of communication equipment	1						1	0	1
48	95,2	Repair of household appliances and equipment for homes and gardens	1						1	0	1
49	95,2	Furniture and household items repair	1						1	0	1
50	96	Hair saloons and beauty saloon	2	1					1	1	4
51	96,1	Other personal services, not mentioned in other places	1						1	0	1
Total:			58	13	3	0	1	0	75	27	102
Total additional employments				13	6		8			27	

Source: Employment Service Agency

In 2010 there are total of 102 employees in the companies established under the “Formalization of Existing Businesses Programme - 2008”.

Out of them, 27 have been additionally employed in 75 companies.



CONCLUSIONS

- 1) The Impact Assessment of the Formalization of Existing Businesses Programme, realized in 2008 was implemented successfully. The previously developed methodology has proven to be functional and applicable for the impact assessment and for this active labour market measure.
- 2) The inclusion of the relevant institutions in the data collection procedure has enabled for a comprehensive review of the net benefits from the programme.
- 3) The results indicate that there are net benefits for the economy that can be seen even after the first year of the programme implementation, whereas the net benefits for the government can be seen after the fifth year.
 - a) Out of 113 registered companies, 79 are still active, which is 69% of the total number of companies that received assistance.
 - b) Currently they are employing 102 individuals, that is, 90% of the total number of employed individuals since the beginning of the realization of the programme. Out of them, 27 individuals are newly employed in newly registered companies.
 - c) The Impact Assessment showed that there are positive effects on the Budget that can be seen after the fifth year, namely, something little above 20% annual return per participant that successfully completed the entire program.
- 4) The Coordination Team composed of representatives from the Ministry of Labour and Social Policy, the Employment Service Agency, the Agency for Support of the Entrepreneurship and the Ministry of Finance has successfully realized the activities in compliance with the previously agreed dynamics and in accordance with the requirements of the methodology.

References

- IMF – 2009 – Former Yugoslav Republic of Macedonia: 2008, Article IV: Consultations, IMF, Washington.
- O’Higgins, N. – 2001 - *Youth Unemployment and Employment Policy: A Global Perspective*, ILO, Geneva.
- Final report- “Self-Employment as part of the Operational Plan of the Government for employment for 2008 for the Active Labour Market Measures”-UNDP, Skopje, 2009
- *Evaluation of the active labour market measures and Employment Programmes in FYR Macedonia*, prof Richard Jackman LSE & Ms. Valli Corbanese, ILO, UNDP Skopje, 2007

Sources of Information:

- Department for Social Protection in MLSP
- Central Registry
- Employment Service Agency
- Public Revenue Office
- UNDP – Project Team