



Youth self-employment in households receiving remittances in Macedonia

By Marjan Petreski, Nikica Mojsoska-Balzevski, Maja Ristovska and Edi Smokvarski

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

This brief summarizes the main features and outcomes of one of the projects selected for support under the 1st PAGE funding round (2013-2014).

In this project, a team of local researchers in Macedonia aim to explore the possibility of using remittances to support the entrepreneurial activities of unemployed youth

Youth unemployment and remittances in Macedonia

Low job creation and high/persistent unemployment, especially among youth, are the most severe economic and social problems in Macedonia. The unemployment rate of nearly 30% is among the highest in Europe, while, on average, one in two young "job-seekers" cannot find employment.

Since 2007, the Government has been implementing a series of "active labour market policies" (ALMPs) some of which are specifically targeting youth (e.g. internships, subsidised employment, self-employment, etc.). However, the effect of the ALMPs on the overall and youth unemployment seems to be marginal.

Amidst the effects of the global economic crisis, tightened credit conditions, lack of venture capital financing and a malfunctioning labour market, youth restrain their entrepreneurial aspirations and rarely risk new ventures. Yet studies show that the reliance on microenterprises and self-employment can be an important pathway to growth.

On the other hand, Macedonia is a small country, which heavily relies on remittances from its outward migration. Indeed, remittance inflows represent an important source of income for households in Macedonia, as well as an important source of financing the current account deficit.

Since 2004, on average, remittances represent about 4% of the country's GDP - roughly the same as foreign direct investments; an income that

Some un/employment rates in Macedonia (DoTM, 2008)

	Salaried	Self-employed	Unemployed
All	38.4%	10.8%	19.8%
Young (15-29)	38.0%	8.5%	31.1%
Non-young	38.6%	11.5%	15.5%
Male	43.8%	16.5%	19.3%
Female	33.2%	5.4%	20.2%
Macedonian	41.5%	10.5%	21.2%
Albanian	30.6%	11.5%	16.2%
Capital	44.5%	10.6%	18.0%
Urban	41.5%	9.2%	22.7%
Rural	28.2%	13.8%	15.5%

amounts to approximately 2 billion USD per year (i.e. about 1,000 USD per capita). It is estimated that, out of this amount, about 300 million USD is received as pure cash remittances - an additional income of about 2,700 USD per household, per year.

Despite their magnitude, little is known about the microeconomic impact of remittances in countries like Macedonia. A strand of the literature documents the poverty-alleviation role of remittances, while another finds that remittances rather support inactivity or discourage job-seeking activities. Indeed, according to the neoclassical model of labour-leisure choice (Killingsworth, 1983), remittances - as a source of non-labour income - may alleviate budget constraints, raise reservation wages and, through an income effect, reduce likelihood of employment and/or number of hours worked by the recipients.

However, facing the particular issue of youth unemployment in their country, a team of local researchers from the University American College Skopje, in Macedonia, questions whether such effects may be different for youth.



Methodology and data

To do so, the team uses data from a survey conducted in July-September 2008 (i.e. before the global financial crisis hit Macedonia's economy) among a sample of 1,211 households, through a project called "Development on the Move" (DotM).

As its primary focus was to analyze migration and households left behind (with a multitude of questions about remittances) in Macedonia, the DotM 2008 survey provides the most complete and extensive dataset on remittances, and related aspects, at the individual/household level.

The equation estimated by the research team is based on the rational decisions of persons to become self-employed when the wage from self-employment exceeds the wage from regular employment and/or the reservation wage.

Main findings

On the one hand, the analysis confirms the widespread result in the literature, that remittances in general are likely to create dependency of the recipients on this money, while reducing the probability of establishing their own business.

However, on the other hand, the results from this particular study also suggest that **youth living in households receiving remittances have considerably larger probability to establish their own business, ranging between 28% and 33%** compared to the non-youth non-receiving counterparts.

The researchers thus assess that the dependency and reduced probability of self-employment, resulting from the receipt of remittances, is in line with the risk-aversion that is likely to increase with age.

Considering that youth may be less "risk-averse" than the older members of a household, the research team seeks to assess whether remittances may be recognized as a potential source of capital financing amongst youth living in recipient households.

With support from PEP, they set out to examine how the employment status of youth in Macedonia varies owing to remittance inflow in the country, and whether the effect of remittances on youth labour supply is homogenous across genders, ethnic and rural/urban divide.

Using the survey data, they applied the statistical process of regression analysis (i.e. estimating relationships among different variables) to assess the probability of a person being self-employed, in relation to a variety of individual and household indicators - including the following:

- 1) whether the person receives or lives in a household that receives remittances, and
- 2) whether a person is "young", i.e. less than 29 years of age.

The coefficient of the interaction between remittances and youth status measures the entrepreneurial inclination of youth when they find a source of finance in the remittances.

Self-employment rates for individuals in remittance-receiving and non-receiving households

	All	Recipients	Non-recipients
All	10.8%	11.6%	10.8%
Young	8.5%	13.0%	8.4%
Non-young	11.5%	11.3%	11.5%
Male	16.5%	16.0%	16.5%
Female	5.4%	8.9%	5.3%
Macedonian	10.5%	8.0%	10.6%
Albanian	11.5%	19.0%	11.2%
Capital	10.6%	23.1%	10.4%
Urban ¹	9.2%	4.3%	9.4%
Rural	13.8%	19.6%	13.5%

1. Cities other than the capital (Skopje)

Furthermore, they find that

- 1) ethnic Albanian youth (living in recipient households) have higher entrepreneurial inclination - likely due to the higher amount of remittances received and the tighter connections with their diaspora - and that
- 2) remittance-receiving youth living in the capital of Macedonia (Skopje) have significantly higher probability to establish their own business than those living in other cities.

Policy implications

Based on these findings and their general assessment of the related situation in Macedonia, the research team has stepped forward to recommend that the government should start devising a strategy for channelling remitted money into more productive use, and especially for converting those funds into jobs for youth.

To implement this strategy, the team suggests a variety of possible policy options:



- Exemption, for young people receiving remittances and who decide to start a business, from paying social contributions during the first two years of operation, as well as for every additional job created for young people (up to 5 workers) in the same business;
- Providing financial support, by matching funds for the equivalent of 30% of the annual amount of remittances received during one year, to invest in starting a new business or in extending the production and/or activities of an existing family business;
- Providing direct subsidies, during the second year of a new business' operation, in the amount of 50% of the remittances received (annually), if the self-generated business is in the area of high technologies (for instance ICTs);
- Granting full exemption, for new business-owner, from paying tariffs on import of capital-goods – e.g. equipment, technology, fertilizers, etc.;
- Subsidizing the costs of interests on loans contracted for business expansion after the third year of operation;
- Increasing subsidies for agricultural business start-ups by youth receiving remittances in rural areas;
- Providing special social protection and childcare services for spouses and children of young people having established a business using remittance money;
- Subsidizing the costs of “training activities” for each member of the receiving household involved in the family business, if the said business was created by a young member;
- Subsidizing the costs for branding of agricultural products from farming businesses created and run by youth receiving remittances;
- Subsidizing the costs for marketing in a foreign market, while allowing the use “free of charge” of the Government Agency for Foreign Investment and Promotion of Export, as both a logistical and marketing channel/service, after the third year of operation of the firm created by young people receiving remittances;
- Government-supported promotion of businesses set and run by female youth receiving remittances.

While some of these actions to support youth self-employment amongst households receiving remittances in Macedonia may lead to positive discrimination, the researchers assess that the benefits are likely to outweigh the costs. In addition, supporting the entrepreneurial spirit of youth with such positive and substantial measures would contribute to addressing the most ardent problems of the country's economy - i.e. high levels of unemployment, informality and inactivity, especially among youth and women.

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To find out more about the research method and findings, read the full [PEP working paper 2014-08](#)