



Impact of remittances on youth labor supply: evidence from Kyrgyzstan

By Kamalbek Karymshakov, Raziakhan Abdieva, Burulcha Sulaimanova
and Kadyrbek Sultakeev

In 2012, with support of the 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 in “Policy Analyses on Growth and Employment” (PAGE) in developing countries.

This brief summarizes the main features and outcomes of one of the projects supported under the 2nd round of the PAGE initiative (2014-2015).

Local researchers from the Kyrgyz Republic aim to assess the employment effects of migration and remittances on the left-behind youth

Poverty, migration and remittances in the Kyrgyz Republic

The Kyrgyz Republic, where half of the population lives on less than PPP \$2.50 per day, is among the poorest countries in Eastern Europe and Central Asia (ECA). According to World Bank (2013) report, the Kyrgyz Republic ranks as second most poor and vulnerable country among selected ECA countries. According to the National Statistical Committee (NSC) of the Kyrgyz Republic, the national poverty rate was 36.8% in 2011. Since the dissolution of the USSR, economic crises and lack of investment activities have caused mass labor migration, mostly to Russia and Kazakhstan.

In fact, according to official data, almost 10% of the active population migrate seasonally and permanently each year to Russia. Other studies suggest that the migration rate is even higher – up to 20%. According to the World Bank (2014), the Kyrgyz Republic is ranked second (after Tajikistan), and among the top ten recipients of remittances as percentage of GDP.

The population of Kyrgyzstan has a large share of young people. The 15-29 age group accounts for 30% of the country's population and almost 50% of the unemployed. Such a young population requires dynamic economic performance in order to generate employment opportunities. However, analyses on youth and employment report that, since the country's independence in 1991, the country's economic performance has not been sufficient to generate such opportunities.



Labor migration may have different effects on the labor force of the household left behind.

On the one hand, migration of a household member may cause reallocation of labor within the household so as to replace the migrants' labor or income. Thus, the additional income received through remittances can be used as extra income to invest in an existing enterprise led by the household, or to start a new business. On the other hand, large amounts of remittances may stimulate a decrease in the labor market participation of the left-behind household members, leading to the dependence of the household on the remittances.

Although some previous studies on remittances in the Kyrgyzstan case focused on household welfare and agricultural productivity effects, there are no empirical studies on the effects or remittances on the employment of the left-behind family members. This research aims to investigate the impact of remittances from international migration on the occupational choice and working hours of left-behind youth.

Data and methodology

This study is based on second-wave data from the "Life in Kyrgyz Republic" survey, conducted in 2011 by DIW Berlin, with a nationally representative sample of 3000 households from both the urban and rural areas of the country. The second wave of the survey, which comprised questions on migration and remittances, included 8066 individuals. Following the definitions of the Kyrgyz Republic legislature, youth in this study is identified as the population group aged 15 to 28 years old. For the purpose of the analysis, the researcher selected only those youth represented in the country's active labor force, i.e. excluding those enrolled in full time education or considered unable to work. The selected sample used for estimation was thus reduced to 1633 young people.

Estimated equation is based on two different measurements of labor supply. One is the measure of how remittance may alter occupational choices of youth: own-account worker, wage employee, family contributing worker and unemployed. The second is the measure of how remittances may affect the number of hours worked by youth in a given occupational choice.

Table 1: Wage status of individuals by age group (in %)

	Non-young (29-65)			Young (15-28)		
	Total	Male	Female	Total	Male	Female
Employee	37.26	35.46	36.95	35.45	35.33	35.63
Own-account worker	29.16	43.48	14.07	15.27	21.32	6.00
Family contributing worker	9.2	4.23	15.84	23.50	23.17	24.01
Employer	1.03	1.45	0.42	0.29	0.28	0.29
Other	0.48	0.58	0.40	0.25	0.11	0.46
Member of producers' cooperatives	0.26	0.13	0.41	0.25	0.21	0.32
Unemployed	22.60	14.67	31.9	25.00	19.58	33.29
Total	100	100	100	100	100	100

Source: authors' calculation, using 2011 LIK survey data

Key findings

Results from the analysis show that the impact of remittances on left-behind youth in Kyrgyzstan is mainly a "labor substitution effect", and thus increases the likelihood for a young person to become a "family contributing worker". Indeed, young people facing difficulties in finding jobs are more inclined to contribute to the household through daily chores or agricultural work, in order to replace the labor of the migrant member.

The results also show that gender differences influence occupational choices, as follows:

- Young men's participation as own-account workers or employees are significantly higher than for women
- Young men are less likely to be unemployed
- Young women are more inclined to choose the option of "family contributing work", to which they also devote relatively more working hours.

Another interesting result is that there is higher probability for young people with basic, secondary and/or technical education to be own-account workers, compared to young people with higher education. This suggests that own-account activities, such as small trades and shops in the local market, do not require particular labor skills gained through higher education.

The findings do not provide strong evidence of remittance-dependency behavior amidst the left behind youth. However, the increase in the likelihood for a young person to become a family contributing worker does not necessarily imply an increase of productivity in the labor force.

The analysis' results also confirm that, although remittances do not promote unemployment nor generate dependency among those young people who are left-behind, they are primarily used to finance current consumption expenditures, and thus do not represent a source of funding for business or entrepreneurial activities at home.

Implications for policy

The policy implications of these findings are twofold:

- First, migration in Kyrgyzstan undoubtedly contributes to decreasing social tensions by providing job opportunities for young people. However, there is no evidence that migration has positive effects on the Kyrgyz Republic's economy through efficient utilization of remittances for self-employment and job creating activities. Therefore, policies should focus on promoting the productive use of remittances, e.g. through the creation of a mechanism that would support initiatives of successful migrants to promote projects in their local communities of origin.
- Second, most migrants from Kyrgyzstan in Russia are employed in low-skilled jobs; given the difficulties in finding jobs in Kyrgyzstan, this situation sends a signal to left-behind youth that higher level of education may not be necessary for employment. Moreover, the relatively low level of earnings of migrants with low-skilled jobs implies low return to education. Therefore, the example of migrants may serve as disincentives for the left-behind young people to continue education. This drift may also be enhanced or encouraged by the low quality of the education system, which does not guarantee provision of competitive skills. Together, the low quality and expected low return to education may, in the long-term, have negative impact on human capital development in the Kyrgyz Republic.

Policy options for the government to mitigate these trends might be:

- To provide young people with the level of education that allows them to acquire competitive skills, to meet the labor market's demand and requirements, both in country and abroad. Government activities aimed at orienting young people towards higher education programs and opportunities in the labor market, would increase young people's skills matching with post-education employment.
- Special education and training programs designed for the development of entrepreneurial skills, especially for women, may also contribute to promoting self-employment activities among young people, as well as more effective and productive utilization of remittances. These programs should focus on strengthening capacities for entrepreneurship, and may include the following dimensions: financial literacy, development of business-plan, and judicial aspects of conducting business.



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To find out more about the research methods and findings, read the [full paper](#) (forthcoming)