

# Youth self-employment in households receiving remittances in Macedonia

## Background

**Low job creation and high youth unemployment** are some of the most severe socioeconomic problems in Macedonia.

Plus, facing tight economic/credit constraints and a malfunctioning labour market, **youth tend to restrain from new entrepreneurial ventures.**

On the other hand, **large remittance inflows** from outward migration (4% of GDP since 2004) represent an important source of income for households in Macedonia - receiving in average 2,700 USD in pure cash remittance per year.

## Research question and objectives

Despite their magnitude, little is known about the microeconomic impact of remittances in countries like Macedonia. Two main trends in literature: remittances either alleviate poverty or support inactivity.

Considering that youth may be less "risk-averse" than older household members, this study aims to assess **whether remittances may be recognized as a potential source of capital financing for youth entrepreneurial activities.**

In particular, the researchers examine how the employment status of youth in Macedonia varies owing to remittance inflows, and whether this effect is homogenous across genders, ethnic and rural/urban divide.

## Key findings

The results provide robust evidence that remittances:

- **Are likely to create dependency of the recipients** on this money (so-called parasitism), while reducing the probability of establishing their own business (vs non-receiving households).
- **Support self-employment prospects of youth:** youth living in recipient households have considerably larger (28% to 33%) probability to establish their own business compared to the non-youth non-receiving counterparts.

The researchers thus conclude that:

- Remittances have the **potential to steer the entrepreneurial spirit of youth** in Macedonia.
- The results showing remittance-related dependency reduced probability of self-employment, are in line with the fact that risk-aversion is likely to increase with age.

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 tighter connections with their diaspora.
- 2) **Remittance-receiving youth living in the capital** (Skopje) have significantly higher probability to establish their own business than those living in other cities.

## Data and methodology

**Data:** 2008 survey "Development on the move" (DoTM)  
- sample of 1,211 households  
- focus of survey is migration and households left-behind

**Model:**

To assess the probability of a person being self-employed, in relation to a variety of individual and household indicators, including whether:

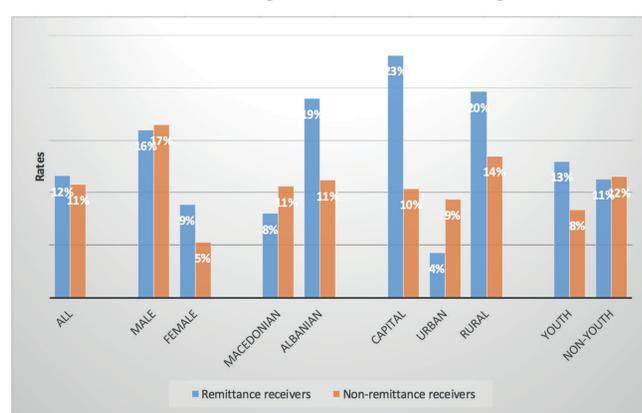
- 1) a person receives or lives in a household that receives remittances
- 2) a person is "young" - less than 29 years old

Interactions of the variables are used to estimate if remittances increase the probability for youth to establish their own business. Regressions are conducted separately by gender, ethnicity and urban-rural.

**Method: two methods of estimation** - each to overcome a specific challenge:

- 1) **IV approach** - to correct for the potential endogeneity of remittances;
- 2) **Roodman's (2011) conditional mixed-process (CMP) estimator**, as a general tool for estimating parameters in multi-equation, multi-level, conditional mixed-process systems.

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



## Policy implications

Based on these findings, the researchers 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, they suggest a variety of policy options, mainly **special (fiscal) treatments for youth who use remittance money to start a new business.**

Examples of such policies include: tax exemptions, import tariff exemptions, subsidies and other types of financial support, customized social protection services, etc.

