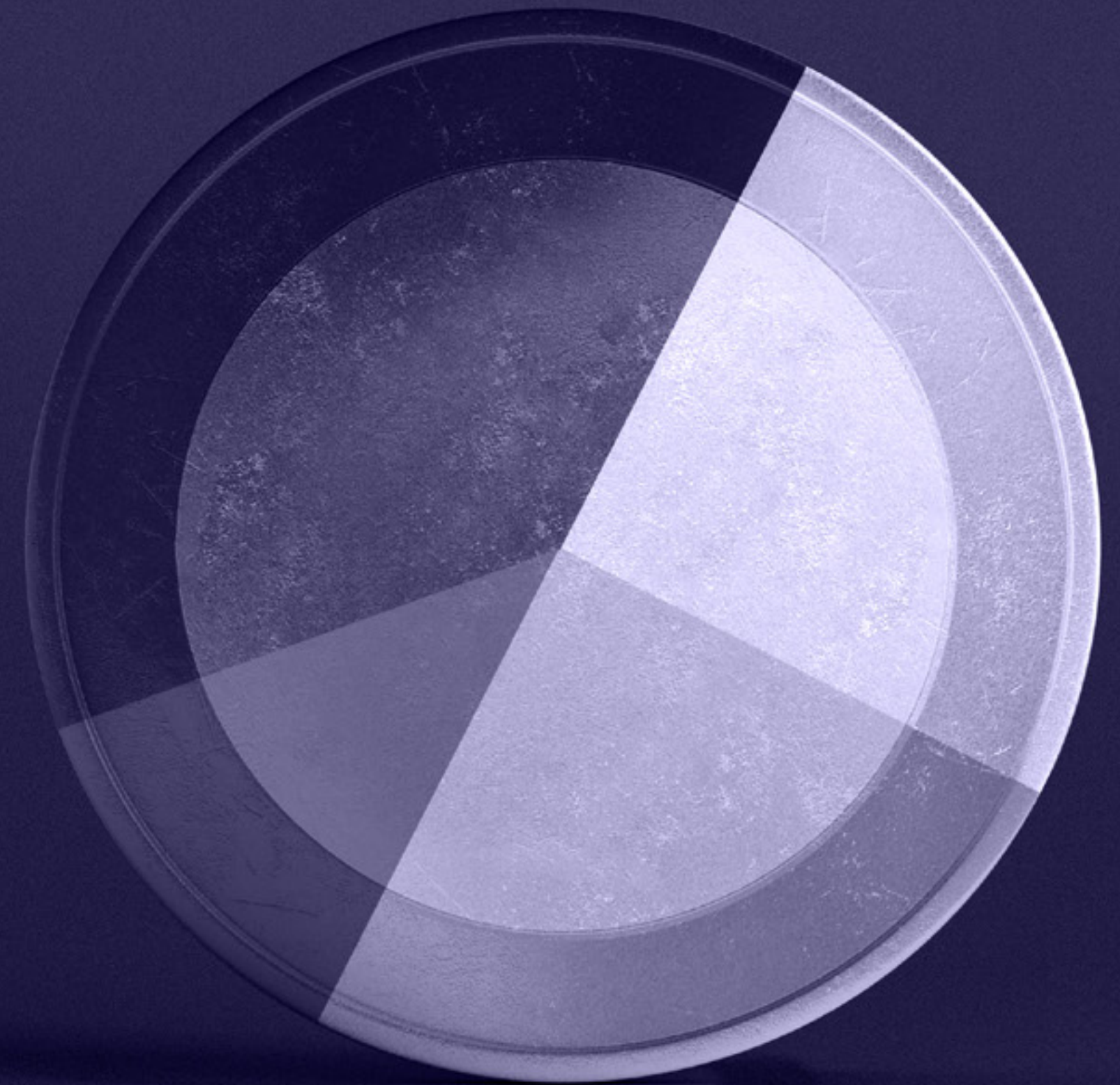


Cost of Youth Emigration

Western Balkans
Democracy Initiative

 Funded by
UK Government



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Foreword

This research study into the “Cost of Youth Emigration” is the first of its kind to provide evidence about Montenegrin emigration and to answer one simple question: How much does youth emigration cost Montenegro?

This is a very simple question but it touches upon a very complex issue. Although there has been research into the various reasons for emigration, which is a complex global phenomenon that has existed since the beginning of humanity, there has been very little or no data or other evidence about the actual cost of emigration.

This research study presents an assessment of the costs and the financial impact on Montenegro and the losses generated by the alarmingly high number of people who leave Montenegro every year. The

research quantifies the effects and implications of emigration on the overall Montenegrin economy and the losses in gross domestic product (GDP), while taking a closer look at how remittances are spent.

The intention is to present this evidence to various stakeholders, the wider public, the media and state and non-state actors. We hope that the evidence will be used by a broad alliance which could then present policy solutions on how to tackle and decrease the cost of youth emigration and its negative effects. We also hope that the study will initiate a wider discussion on the topic of youth emigration.

The study was conducted by the Institute for Development and Innovation, a Serbian think tank which is supported by the Westminster Foundation for Democracy (WFD). The Foundation is grateful to

the Institute for Development and Innovation for this extensive and in-depth study, and to the British government for supporting the completion of the study.

The WFD is the UK public body dedicated to supporting democracy around the world. In August 2018 the WFD launched a new three-year regional initiative for the Western Balkans titled the “Western Balkans Democracy Initiative”. The initiative is funded by the British government’s Conflict, Stability and Security Fund.

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Introduction

Various forms of extraordinary human migration are among the main characteristics of modern civilisations. The reasons for this are numerous: globalisation, economic crisis, political instability, wars, ethnic cleansing, social inequality, market economics, etc.

The most significant form of this mobility is certainly workforce migration, international migration in particular. Even though international workforce migration is not a modern phenomenon, it has reached incredible levels in the last few decades. Unlike some Eastern European countries, which are now members of the European Union (EU), mass migration flows from the former Yugoslav republics started half a century ago (Stankovic, 2014). In this way, developed countries compensated for the lack of workforce in the primary sector, whereas developing countries received remittances in foreign currency from the migrants, as their underdeveloped economies could not hire all their workers.

The so-called push-pull theory, based on the idea of factors encouraging migrants to move from their home country to a country that has more to offer, differentiates between factors that push someone out of their current location and factors that pull them to a different location. These are two sides of the same coin. Regardless of whether these factors are economic, social, political or other, the push side includes all their negative characteristics, and the pull side all the positive, or less negative, characteristics.

Even though nowadays emigration is predominantly an economic phenomenon, unlike our ancestors who were forced to leave their families to go to foreign countries and do “temporary work” due to a lack of education opportunities and poverty, today’s migrants have a wider array of push and pull factors: standard of living, professional development, a basis for future generations, stable and reliable social systems, etc.

Other than that, the population structure of migrants is changing, with more and more young, promising people leaving to study abroad, and highly educated and qualified people leaving after graduation (brain drain). More frequently than before, entire families are leaving too, along with the second and third generations. Young people also more often marry abroad to people from other countries. Thus the connection of the diaspora with the home country weakens, as people who depart do not see it as temporary work or staying abroad for a short period.

Similar to the effects of internal migration (towards big cities) such as negative birth rates, population ageing, the depopulation of certain parts of the country, and other demographic and sociological processes, foreign migration can have serious effects. Its influence on the socio-economic characteristics of a country needs to be analysed so as to define measures and policies which could be used to mitigate its negative and take advantage of its positive effects.

As there is no comprehensive statistical data on international migration, it is not possible to obtain data on the total number of migrants and their characteristics: gender, age, length of their stay abroad, etc. Therefore, all the available data and indicators are based on estimates of their home and destination countries, and of international organisations dealing with this matter.

This work uses public demographic statistics, education statistics, and macroeconomic data to attempt to quantify the impact of the current emigration trend on the economy of Montenegro, and to set a basis for future detailed and deeper analysis.

Three key questions that the analysis is trying to answer are:

1. **What are the average higher education expenses for people?**
2. **What is the opportunity cost in terms of potential gross domestic product (GDP) growth generated by the annual population emigration?**
3. **Does the migration flow have positive effects on the economy of Montenegro and, if so, what and how large are they?**

Key findings

As the smallest Balkan state, with a population of 622,000, Montenegro cannot be compared to other countries in the region in terms of the number of emigrants. However, the share of emigration to total population ranks it among the countries most emigrated from, along with other countries in the region.

In Montenegro there are no accurate records of emigration which would enable an analysis of its scope, or of the age, gender, educational structure, and other characteristics of the migrant population, or support the establishment of a database to systematically monitor this phenomenon in the future. Therefore, for the purposes of this study, to quantify the economic effects of migration through the costs of education and lost GDP, as well as the inflow of remittances, different scenarios were simulated on the basis of different assumptions.

Depending on the completed level of education, in 2018 its cost ranged from around €11,000 per person for elementary school to €16,500 for secondary school and about €31,000 for academic studies. The average PhD education cost in Montenegro is about €51,000 per person.

The total education costs of people leaving Montenegro in one year vary from €28 million to €78 million, depending on the educational structure and number of departures.

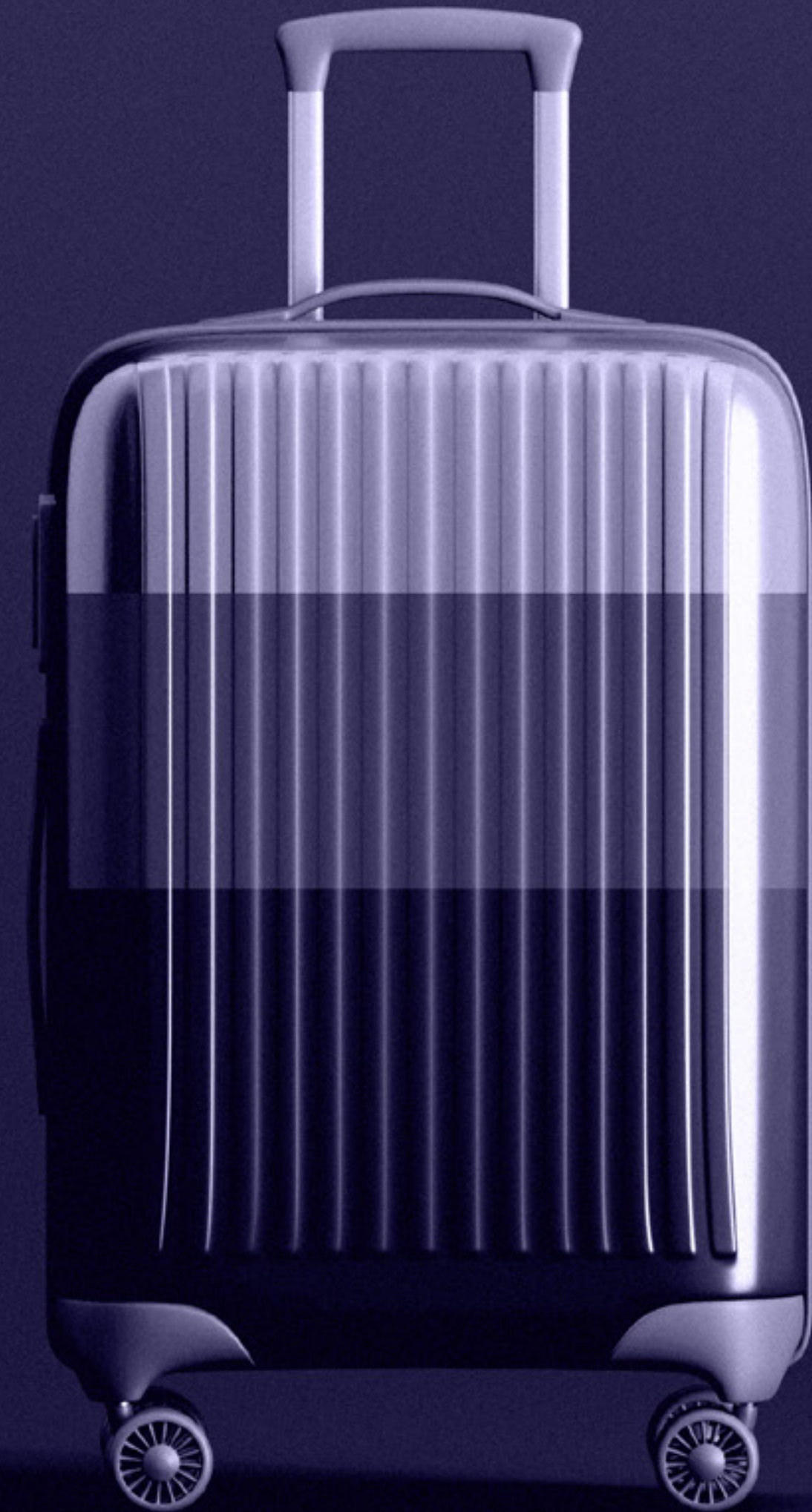
The study started with the average annual outflow of 3,642 people. After correcting the data based on age, the number of 3,320 working-age migrants was reached. Assuming that they all achieved their goal – employment in 2018 – the study found an opportunity cost of €57 million in terms of lost gross value added, which is a direct negative effect on potential GDP.

Due to the inability to directly or indirectly prevent annual emigration through employment, the annual gross value added lost measured €70 million. This means that every work-capable person who leaves Montenegro takes approximately €21,561 of some potential future annual GDP with them.

Emigration also has positive effects on the national economy. The most significant direct benefit of migration outflows are remittances. The share of income from remittances and other personal transfers in GDP of five per cent ranks Montenegro among the top countries in Europe in these terms. If other sources coming from abroad are added (social transfers and income from the work of Montenegrin residents abroad), the contribution to GDP exceeds 11 per cent and reaches almost €540 million.

However, despite their significant share in GDP, remittances do not considerably impact overall economic growth, as they are used for personal consumption in households or real estate investment, while only a small amount is used for business investment.

1 The migration statistics



Since the official Montenegro migration statistics, compiled by the Statistical Office of Montenegro, covers moving within the country, as well as moving from abroad to the country, there are no proper records on people departing Montenegro which could be used to analyse the scope, age, gender, and educational structure, and other characteristics of the migrant population, as well as to form a database to track this phenomenon in the future.

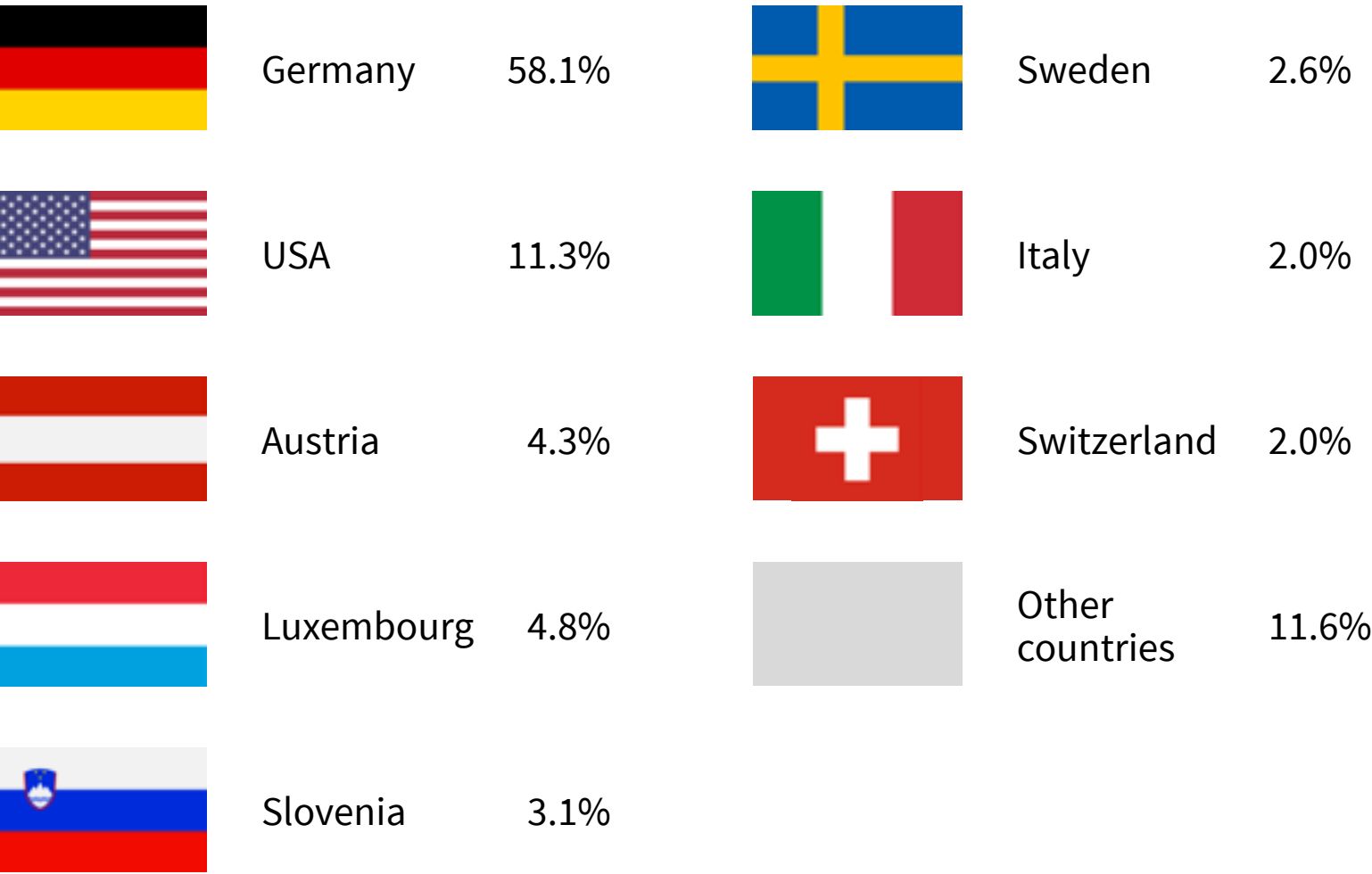
The only available data that could be used to make certain estimates is provided by international organisations dealing with these issues, and from partial research done on certain samples. While this data certainly helps to view the effects of migration flows more clearly, to reach any final conclusions we need to be careful and have in mind that these indicators are often inconsistent due to different methodologies and sources used.

The Organisation for Economic Cooperation and Development (OECD) estimates that in the period from 2012 to 2016 around 18,200 people left Montenegro permanently or temporarily and went to one of 36 member countries of this

organisation, which is more than 3,600 people annually. By year, the number of migrants varies from around 2,300 in 2012 and 2013, to almost three times as many in 2015 when more than 6,500 people left (which is more than a third of all departures in this period).

According to the 2016 OECD statistics, the favourite destination of Montenegrin migrants is Germany (where more than 60 per cent of them went), with the USA in second place with 11 per cent, followed by Luxembourg and Austria with around 4.8 per cent and 4.3 per cent respectively.

The structure of Montenegrin migrants
by destination country in 2016



Source: OECD

At the same time, during the observed five years, around 9,600 people came back from OECD countries to Montenegro. Accordingly, when the average annual outflow of around 3,600 people is corrected with around 1,900 people who annually return to Montenegro, the actual net outflow ends up at around 1,700 people, which is mainly owing to the fact that the data encompasses temporary migration as well.

In the United Nations, the International Organisation for Migration (IOM) deals with international migration; it has registered 137,600 Montenegrin migrants, 99.8 per cent of whom are in developed countries. Before the breakup of Yugoslavia in 1990, around 79,000 migrants from Montenegro were registered abroad. During the 1990s, according to this source, that number more than doubled so that more than 180,000 people born in Montenegro lived abroad in 2000. In the following decade, the number declined by 50,000 people, coming at around 130,000 registered in 2010. However, in the next decade the number of migrants from Montenegro started to increase again, but more slowly – around 4,000 in the first five years and around 2,000 in the following two years.

If we look at territorial distribution, the Montenegrin diaspora is predominantly in Europe. According to United Nations (UN) data, in 2017 out of 137,000 migrants from Montenegro, 97 per cent (133,400) lived in Europe, most of whom were in the nearest “neighbourhood”, former Yugoslav countries (70 per cent or more than 90,000, of whom 70,000 were in Serbia).

More than 37,000 Montenegro-born people live in Western Europe, mostly in Austria (24,000). Northern Europe attracted around 2,500 Montenegrins, and 500 went to Eastern Europe. A little over 2,000 departed to Australia and New Zealand, and around 300 to South America.

According to this data, around 1,800 Montenegrin migrants live in North America, all of whom chose Canada as their new homeland. The lack of data on Montenegrin people in the USA leads to some doubt as to the quality of this data, because other sources suggest that the USA is one of the most significant destination countries for Montenegrin migrants.

Eurostat data relies on the so-called mirror statistics between EU member states. Besides not having data for non-EU countries, it has no data on migration to Germany and France either. For this reason, we did not use this source in our further analysis.

2 The economic nature of migration



As stated, international migration is basically an economically motivated phenomenon, despite the fact that other quality-of-life factors are also mentioned today. Economic factors impact migration movements of the population considerably, as do the immigration policies of the receiving countries.

A comparison of some basic macroeconomic indicators of Montenegro with other countries in the region and some of the most attractive destination countries shows considerable differences that largely explain and confirm the direction of migration.

Some research states the inability to find a job as the primary reason for leaving the country. The rationale is obvious when we look at the unemployment rate among young people in the given countries. For young people, the most mobile part of the population, a high unemployment rate is one of the main push factors.

UNEMPLOYMENT RATE OF YOUNG PEOPLE IN 2017 (%)			
Countries where people migrate from		Countries where people migrate to	
North Macedonia	46.7	Germany	6.8
Serbia	31.9	Switzerland	8.1
Albania	31.9	USA	9.2
Montenegro	31.7	Austria	9.8
Croatia	27.4	Slovenia	11.2
Romania	18.3	Sweden	17.9
Bulgaria	12.9	France	22.3
Hungary	10.7	Italy	34.7

The high unemployment rate of young people in Montenegro, with a third of them not having an opportunity to find any work, combined with low earnings if they do manage to find it, certainly do not offer a desirable outlook. With salaries that cannot cover basic necessities, in the era of TV, the internet and social networks, when people learn about the lifestyle and standards of their contemporaries in developed countries, it is not realistic to expect them to stay in their home countries. Even though Montenegro is the highest ranked EU candidate country in the region in terms of earnings, it lags far behind developed countries: average earnings in Montenegro are four or five times lower than in Austria, France, and Germany, six times lower than in the USA, and nine times lower than in Switzerland.

Source: World Bank

AVERAGE NET EARNINGS IN 2018 (€)			
Countries where people migrate from		Countries where people migrate to	
Albania	316	Switzerland	4,502
North Macedonia	395	USA	3,008
Serbia	420	Sweden	2,458
Montenegro	511	Germany	2,360
Bulgaria	574	France	2,225
Romania	579	Italy	1,878
Hungary	688	Austria	1,848
Croatia	841	Slovenia	1,128

The list of basic push and pull factors is completed by adding GDP per capita, which is widely known as the measurement of the living standard in a country, and which is five to nine times higher in destination countries.

Source: National statistical offices and authors' estimates

GDP PER CAPITA IN 2018 (US\$)			
Countries where people migrate from		Countries where people migrate to	
Albania	5,254	Switzerland	82,839
North Macedonia	6,084	USA	62,641
Serbia	7,234	Sweden	54,112
Montenegro	8,761	Austria	51,513
Bulgaria	9,273	Germany	48,196
Romania	12,301	France	41,464
Croatia	14,869	Italy	34,318
Hungary	15,939	Slovenia	26,234

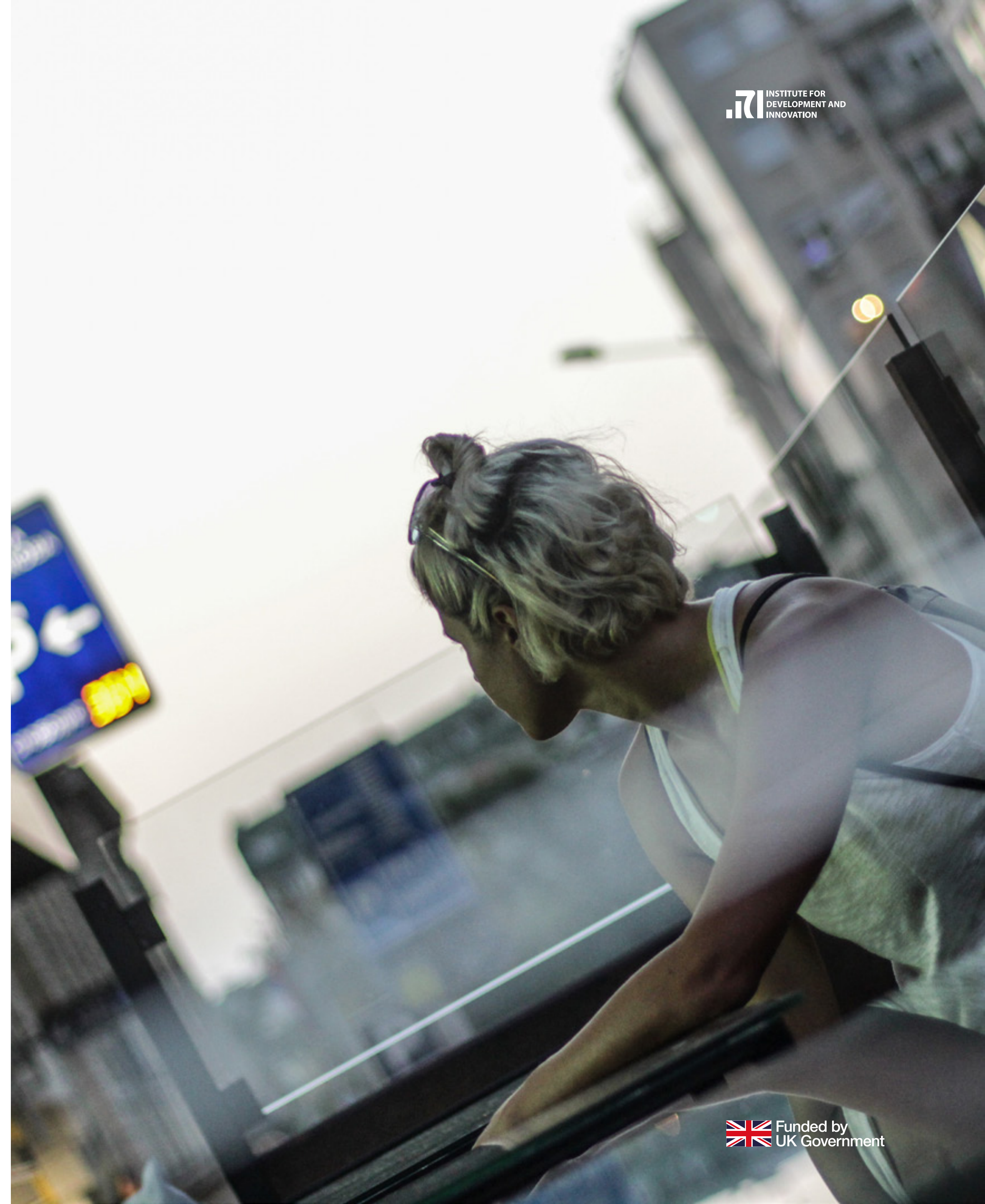
Source: World Bank

The fact that most Montenegrin migrants decide to move to Serbia, which is behind in terms of average earnings and GDP per capita, is not due to the economic nature of migration; instead, the main reasons are the common origin of these peoples, their countries' long-running connection, and the numerous benefits for studying, healthcare, etc.

The study on young people in Montenegro “Youth Study Montenegro 2018/19” (published by Friedrich-Ebert-Stiftung Foundation) analysed the data obtained in the field as part of a wider, regional project Youth in Southeast Europe in 2018. It offers additional information that confirms the economic motivation of migrants. According to this study, the unemployment rate of young people in Montenegro is extremely high for all ages and educational groups, which makes them an extremely vulnerable social category. The unemployment rate among young people aged 18-29 is 38.75 per cent. Accordingly, the fear of unemployment is one of the most prevalent fears among young people in Montenegro, expressed by 75 per cent of people in this group.

Considering that the people surveyed believe that the main factors of getting a job are links to people in power, acquaintances and personal relations, and political party membership, while qualifications and knowledge are in fourth place, it is hardly surprising that the intention to emigrate is stronger among young people. Asked if they want to emigrate, just over half of the people surveyed confirmed that they would want to: 27.7 per cent stated that they had a strong or very strong desire to emigrate and 25 per cent had a moderate desire to leave. Education status is significantly linked to the desire to emigrate, with a third (34 per cent) of master's or PhD students claiming they had a strong or very strong desire to emigrate from Montenegro.

As expected, among migration motives, economic factors are predominant, such as a better standard of living (33.8 per cent), higher earnings (18.2 per cent), and employment possibilities (14.6 per cent). The most desirable destinations for young people are the USA, Germany and Italy.



3 The costs of population emigration



The effects of population movements vary depending on the scope of the picture, and can be positive or negative for the home country.

Economic migration is not exclusive to undeveloped and developing countries, but emigration in developed countries is accompanied (and often surpassed) by immigration that maintains a balance in the workforce, which is not the case in the Western Balkans where migration is predominantly out of the country. The smaller the population of a country is, the greater the effects of emigration are. Montenegro is therefore threatened by accelerated impoverishment, especially in the areas already behind in terms of economic development and which are also stricken by increased depopulation.

To quantify the effects of migration, it is necessary to first identify which could be considered positive or negative.

When discussing the emigration of young people and the brain drain, we first need to consider the amount invested by the entire society into their education. After departing, those investments are lost and those people achieve great results; but an even greater loss is the fact that all that capital does not return to the home country.

In addition, the departure of a highly educated and highly qualified young workforce decreases the country's ability to develop, because innovators who could create new products, markets, workplaces, and support GDP growth are leaving. Another consequence is the loss of gross value added per potential employee, along with the decrease in total consumption, which directly reduces GDP.

Namely, people who leave the country do not add value, nor do they spend in the country, which negatively affects the demand for products and services from other economic participants. Finally, since they are not creating or spending, they do not pay taxes in their home country, which is another loss for the country which could use that money to further improve education, among other things.

Of course, migration has positive effects, which are seen first through direct income from abroad – remittances. They are primarily used to maintain the stability of the balance of payments, but would be far more beneficial if invested into manufacturing instead of personal consumption and real estate. Also, there is always hope that at some point the people who departed will return, bringing back with them the considerable experience, professional knowledge, and capital in order to invest in their country, something they would never have obtained had they stayed in their home country.

It should be noted that many highly educated migrants fall victim to the so-called brain waste: their skills and potential are not used sufficiently or at all in their destination countries because they work jobs that require lower qualifications. That way, their remittances and level of income and experience are considerably lower than if they had been working in jobs they studied for.

How much is the total cost of an education that ended in 2018?

3.1

To answer this question, this study started with the official statistical data of national accounts from the statistical office, which is completely in line with the internationally accepted methodology defined by the European System of Accounts (ESA 2010). With this research goal in mind, we used the data of GDP by production approach according to the European Community's revised statistical classification of economic activities (NACE Rev2) to analyse output and intermediate consumption of the education sector.

METHODOLOGICAL NOTES

In support of using this methodological approach, the output of education is predominantly created by the state sector, and is therefore calculated by the input-cost method or by the following formula: employee compensation + intermediate consumption + consumption of fixed assets + other consumption taxes (paid) – other production subsidies (received) + business surplus. By taking the components of education into account, it becomes clear that this variable is very close to the total amount used for education in terms of value and concept. It is important to note that the statistical office includes estimates of the non-observed economy and divides it by activities, which means that the stated amounts also include the costs for education activities outside regular flows (e.g. private lessons, translation services, additional courses, etc.). Other than that, the national accounts data also contains the value added coming from the private sector, such as private schools, faculties or universities.

In the next iteration, the allocated funds for education are increased by the accompanying costs, which are methodologically not included in the initial data. This first refers to the costs of dormitories which are defined as part of the accommodation and food sector. In addition, state costs regarding standards of students (student loans) are included, which are defined as part of the financial intermediation sector. In the last iteration, the analysis includes gross fixed capital formation, such as buildings, equipment etc., which are not defined as parts of the output calculation and intermediate consumption. After estimating all the annual amounts, the calculated values are then discounted by the reference interest rate, in order to even all the costs in the observed period with today's value of money. To distribute this synthetic indicator of total education costs by the level of education, we used the budget data on the amounts used for these purposes.

In parallel, the official statistical office data has information on the number of students in primary and secondary schools, and universities for every year in the relevant period in order to calculate the costs allocated per unit. This data set allowed us to estimate the costs per education level, and the answer to the question: On average, how much did the primary, secondary, and higher education of an individual (who graduated in 2018) cost the society?

It is also important to note that this average should not have significant deviations in primary and secondary education, whereas the deviation significantly increases in higher education. This is actually a synthetic indicator of education costs as it has a part of each academic education level. More precise estimates could be done in separate faculties and colleges, specialists' profiles, and postgraduate levels, which will be a topic for future papers.

THE RESULTS

The results obtained from the application of the aforementioned methodology show that the education cost for an individual whose education ended in 2018, covering primary school through secondary school (four years) until the end of academic studies (which lasted five years on average), cost around €31,000. The costs of a four-year secondary education that ended in 2018 were around €16,500, whereas a nine-year primary education cost around €11,000. The estimate of PhD education costs is not easy due to the unavailability of data in the necessary structures. Based on the available information, approximately €51,000 on average is spent for the education of a PhD.



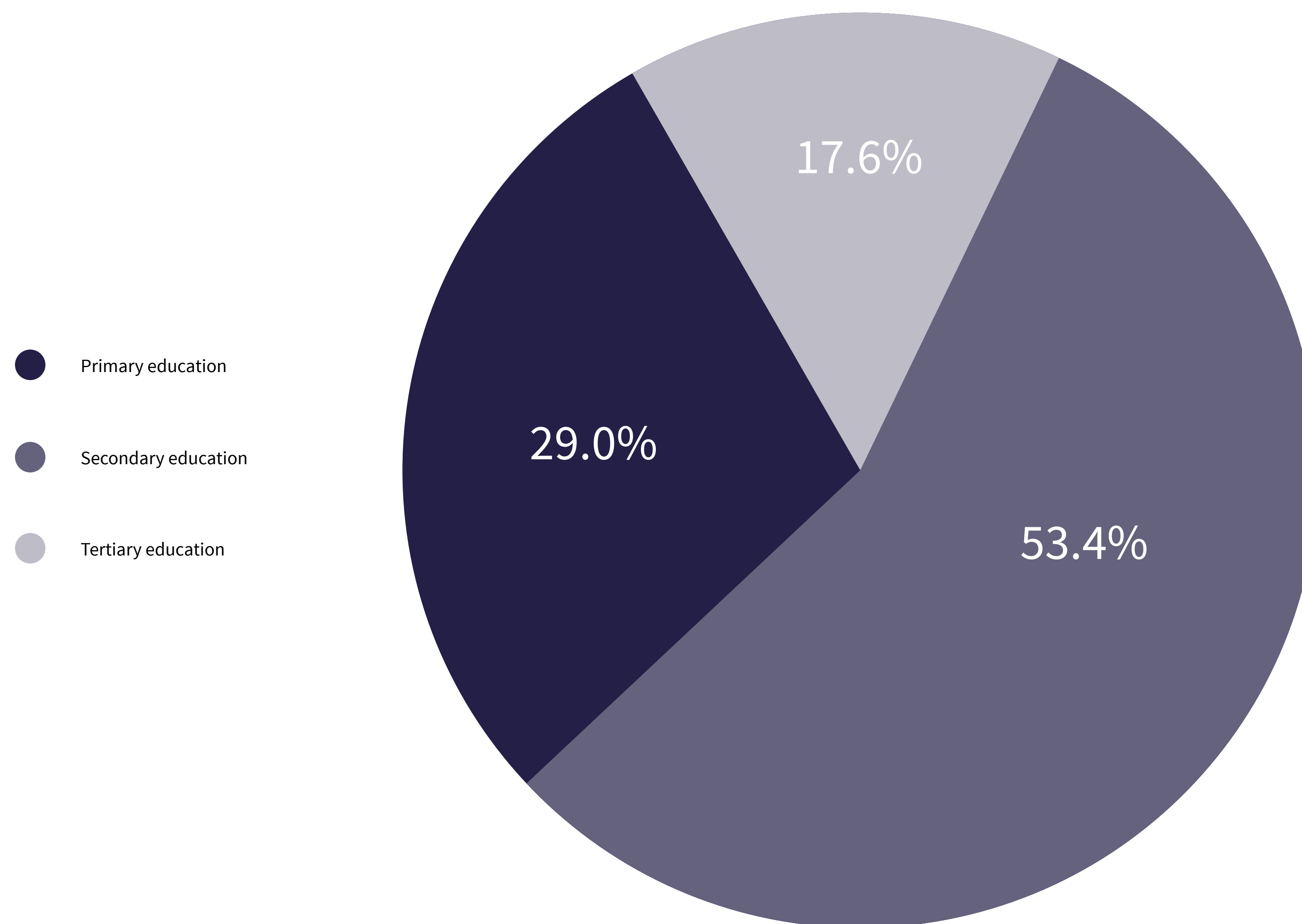
Source: Authors

Even though the use of average values in data analysis can blur the big picture or be interpreted in different ways, please note that these amounts are only the first step towards the quantification of the negative migration balance effects. The group of people with faculty degrees is quite heterogeneous in terms of costs per faculty, length of studies, the degree level, accompanying education costs, etc. In that sense, the existence of yearly emigration data on the age and education structure of emigrants, their return plans, whether they are individuals or families, etc. would significantly improve this calculation. However, from a macroeconomic standpoint, any more precise quantification would not significantly deviate from the current one and would not drastically change the conclusions we have reached. Also, by observing the yearly costs, the study found strong stability in this data series which enables consideration even of those who graduated before 2018.

As stated, according to OECD data, the average yearly outflow of population from Montenegro in the 2012-2016 period was around 3,600 people. There is no detailed data on the age, gender, and educational structure of this group, or at least it is not publicly accessible. In order to estimate the education cost of this group, the study first excluded all people younger than five, and corrected the group of people with incomplete primary or secondary schools (our estimate used the approach in which, for example, a child in the sixth grade and a child in the third grade are counted as those who graduated). The population age structure was used as a framework for this estimate, and was modified with the assumption that the number of emigrated children is less by half than the total number of children in the population. As for the educational structure of the migration group, the study used the educational structure of people older than 15 according to the 2011 Montenegro census.¹

1.
Out of the total number of people older than 15, we have excluded people without education and the “unknown” category.

Population structure per the highest level of education, 2011 Census – Scenario 1

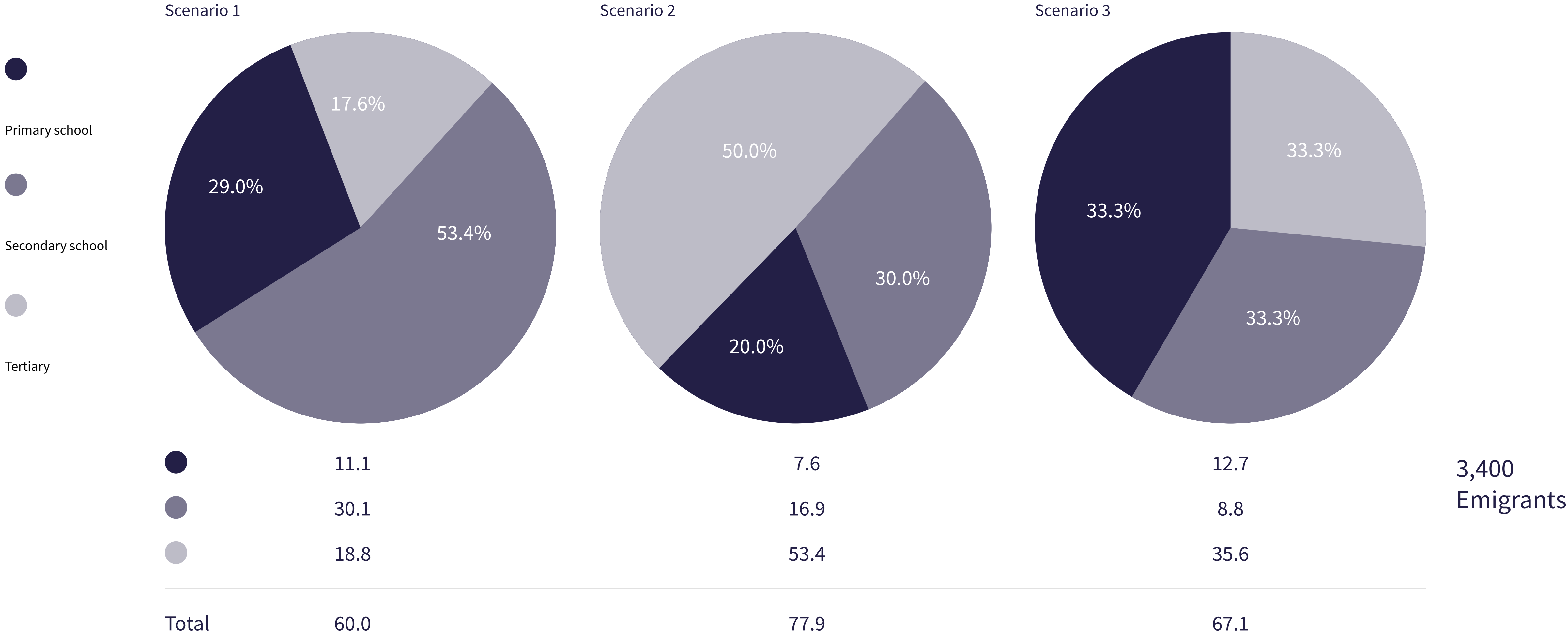


To reach as precise estimates of education costs as possible for the entire migration group, and given the lack of educational structure data for this group, we have created several alternative scenarios for this paper.

Scenario 2 is based on the fact that the number of highly educated people leaving the country has increased in the last couple of years, so this stratum has the most significant weight of 50 per cent, whereas secondary school students were assigned 30 per cent, and migrants with primary schooling 20 per cent. Scenario 3 is based on the assumption that all education levels have the same weight in this group.

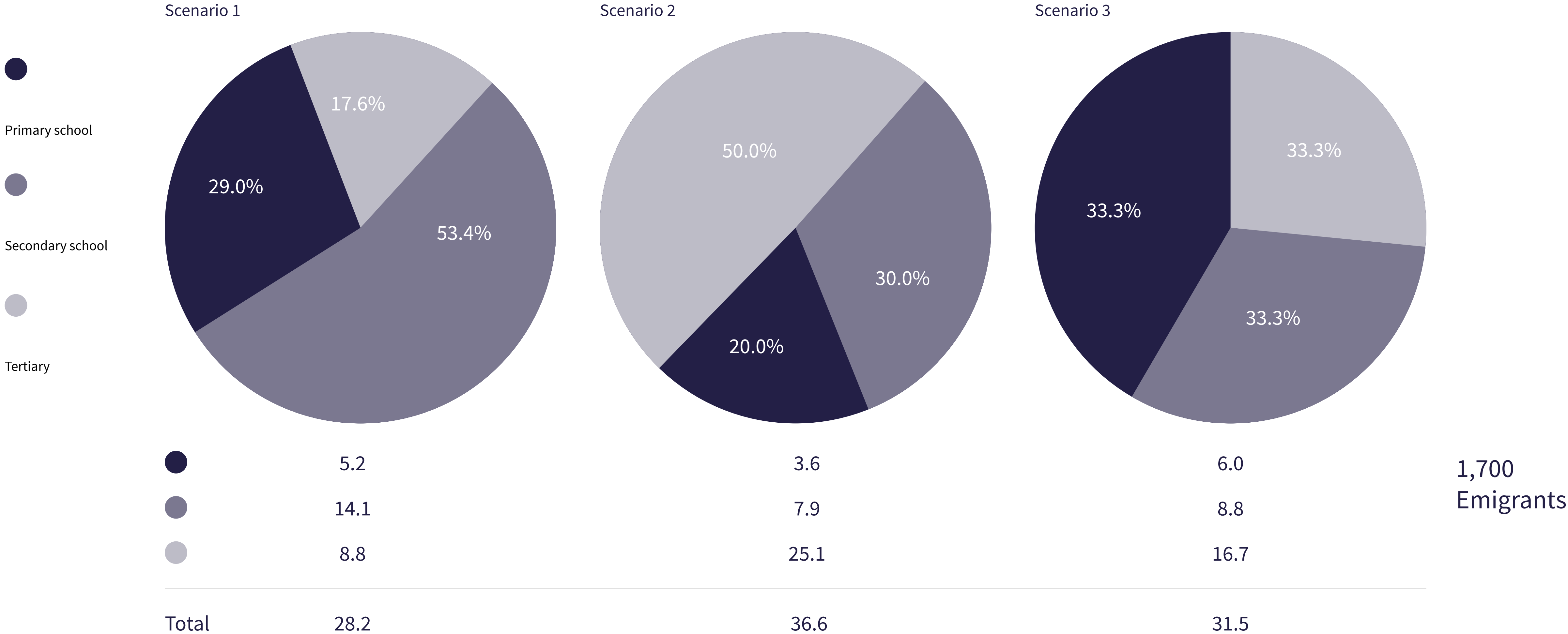
The results show that the total education costs of people who leave Montenegro in one year, depending on the educational structure, vary from €60 million to €78 million.

Education costs of the total population outflow
per chosen educational structure (€ million)



As stated in the introduction, this data includes all the individuals who left the country, from temporary workers and students on exchange, to those who left for professional specialisation and training. According to this approach, the OECD publishes information on the immigration flow as well, meaning that due to the ambiguity of this process, the average annual net outflow of Montenegrin people is around 1,700 people. After the corrections were done and the group was reduced by the number of children younger than six and adults with no education, the costs of education applied to this number of migrants range from €28 million to €37 million.

Costs of education of the net outflow of the population
per chosen educational structure (€ million)



Detailed statistics of those who leave or return do not exist, as it is not known whether these are temporary workers, foreign pensioners, or migration for professional training, etc. This makes it considerably difficult to quantify the final effect of the migration flow. Nonetheless, we believe that the effect of the total outflow should be considered seriously because no matter the current nature of these departures, they are a step towards permanent emigration, especially if the policies and measures of developed countries are taken into account. With the lack of a sufficient workforce, developed countries devise various policies to attract work-capable people. According to the 2017 report, EU countries have introduced new measures and amended older ones to make it easier for workers from other countries to stay.

Their goal is to make up for the lack of qualified workers seen in some countries. That is why Austria amended its Law on Residence and Settlement in 2017 with the aim of making it easier to access the employment market and to integrate qualified workers from developing countries into society. Estonia developed the “Work in Estonia” strategy

with the goal of attracting highly qualified workers. Germany started informing migrants in additional ways and organised professional courses and training, all with the purpose of enabling working migrants to access the legal job market more easily and to hire them for the long term. Italy signed a memorandum of understanding with the chambers of commerce of some developing countries and founded the Employers’ Association as well as other institutions in order to simplify the process of hiring highly qualified people from these countries.

EU countries are making procedures for accepting students from non-EU countries easier as well. The basic measure is to enable easier access to the job market for students, but also for those who graduate. Furthermore, administrative procedures related to studying in EU countries are simplified, as well as those related to staying in the country after graduating. Sometimes, EU countries target a specific developing country and create specific policies to attract the young and students from that country. In order to attract students who would work and study at the same time, Austria has increased the number of

permissible working hours for students to 20 hours a week. Also, once they graduate, foreign students can stay for an additional year in Austria in order to find a job. These measures encourage the young and work-capable people from Montenegro to continue their education or to develop their careers in one of the EU countries.

The destination countries of highly educated people are undoubtedly gaining by their arrival and involvement in the economic and social system. This “gain” is much greater than the “loss” of the home country. Not only is the lack of workforce resolved, but also we have to consider the greater costs of education in developed countries. According to 2015 Eurostat data, the yearly cost to the state and households for secondary education in France was around €11,000, in Germany around €10,500, whereas a little less than €1,400 per student was spent in Montenegro. This gap is even bigger when we look at academic education, as Montenegro spent around €3,300 yearly on a student, while the UK spent 6.5 times more, Sweden five times more, Germany almost four times more, etc.



TOTAL EDUCATION COSTS IN 2015 PER STUDENT (€)		
	Higher education	Secondary education
Montenegro	3,326	1,385
Germany	13,137	10,457
France	13,333	10,900
Austria	14,074	9,410
Sweden	17,011	9,100
Great Britain	21,682	8,796

Education costs represent costs over a longer period in the past. However, the departure of a certain number of people abroad has a strong current direct and indirect effect on a country’s economy and is the generator of lost gains in the future, which is in a way the exact definition of opportunity cost. Even though this cost is related to individuals’ decisions, this analysis attributes it to the entire society. By leaving to demographers and sociologists the recognition and description of the effects of migration flows on population ageing and the development of the total society, this study focuses on identifying the magnitude of the impact on the economic component of social progress. With that intention, this study connects the average number of people who leave Montenegro on a yearly basis with GDP as the measure of economic activity of a country.

Source: Eurostat and authors’ calculations.

How big are the effects on economic activity?

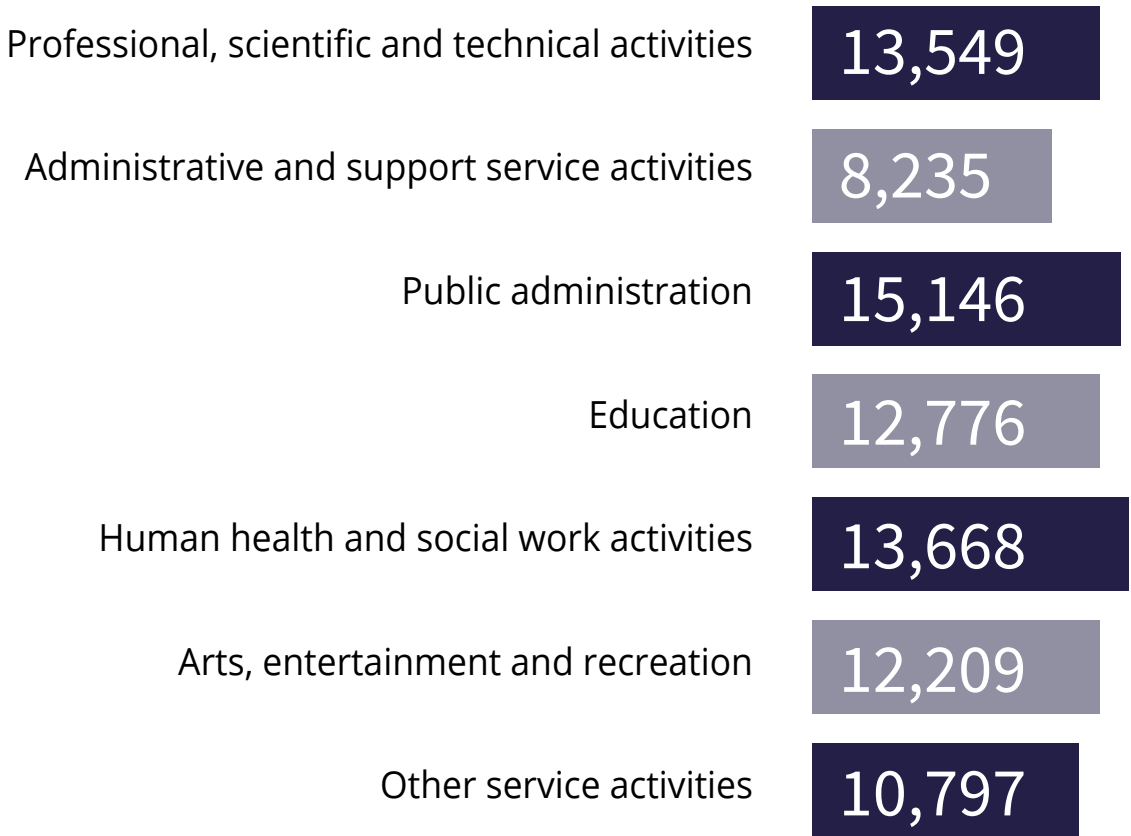
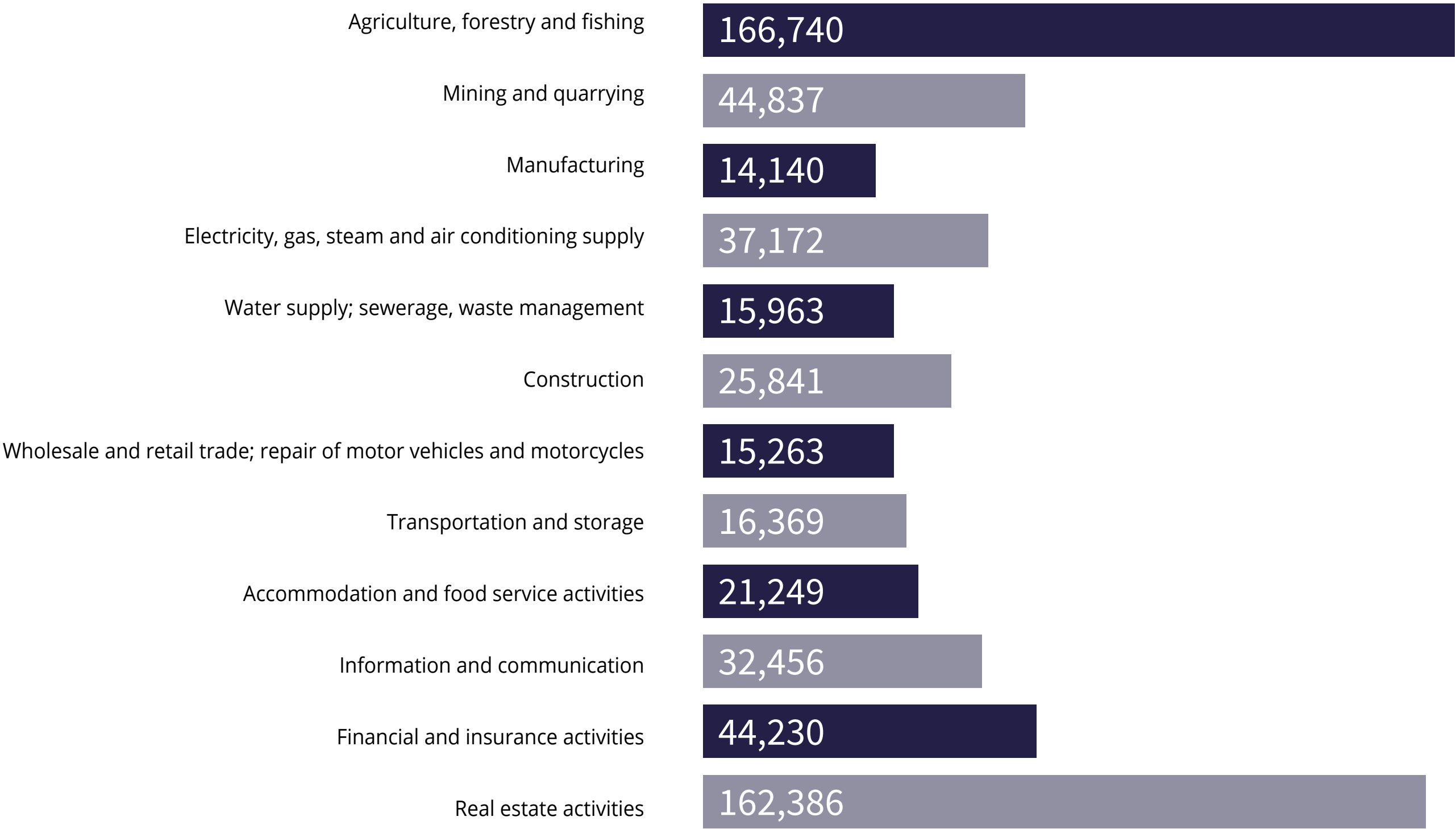
3.2

According to the production approach of measuring economic activity, GDP represents the total created gross value added by resident institutions during one year, where taxes are added and subsidies are subtracted. Gross value added is actually the total value of produced goods and services subtracted by intermediate consumption, meaning the operational, material, and non-material costs that were incurred during production or service provision. Official data on the created gross value added and the total number of employees gives the production indicator – the gross value added per employee.

This indicator significantly varies from one line of work to the next, which is determined by whether it is work- or capital-intensive. For example, it can be seen that the indicator in question is extremely high in financial intermediation and information and communications technology. The high value is to be expected due to the fact that the majority of employees in these lines of work are highly educated. On the other hand, in lines of work that traditionally hire workers with lower education levels, or have a heterogeneous structure of employees, this indicator has lower values. The following table shows the gross value added per employee in each line of work. Due to the specificity of measuring agricultural production, and the specific methodology of measuring economic activities in real estate work (because of the imputed rent concept), these two have been omitted from the observation.

The 2018 data shows that gross value added per employee was around €17,100. It is important to note that, especially in the case of a regional comparison, the actual value of this indicator is somewhat lower. The reason for this is that official employment data does not include people with temporary service contracts, while these people do help to create gross value added. Having in mind the characteristics of the Montenegrin economy, this is very visible in tourism and hospitality, but also in construction due to the construction season effect.

GVA per employee (€) 2018



Average for the total economy
excluding agriculture and real
estate

17,163

Source: Monstat

The study uses the average total yearly outflow of 3,642 people, modified by the appropriate age structure to use the data for work-capable people. The next assumptions were that the reason for their departure – not being able to find work in their own profession, or any work – did not exist, and that the economic dynamics created the conditions to hire them, so that they were considered employed persons during 2018. By using the average amount per employee, the study found an opportunity cost of €57 million in terms of lost gross value added. This is a direct negative effect on the potential GDP of the country.

Having in mind that the departure of all these people also implies a decrease in total consumption and aggregate demand, which finally negatively affects the volume of manufacturing and services, and by extension gross value added and GDP, this gives the indirect influence of migration flows on economic activity. By using the data on annual net earnings, and the number of active workers who emigrated, as well as the elasticity coefficient between personal consumption and the newly created value, this indirect effect is estimated at €10.4 million.

Other than the direct and indirect influences, macroeconomic analyses also often use the so-called induced influence. Having in mind that it encompasses a large number of indirect reflections on economic flows, its quantification is almost impossible. For example, if these people had stayed in the country, it would have increased the demand for more doctors, teachers, dentists, hairdressers, etc., whose salaries would create additional aggregate demand, which would in turn stimulate the economy, turning this entire flow into a vicious circle of effects that are impossible to observe and evaluate in their entirety. The departure of these people is also an opportunity cost for the state as their future taxes are lost. This means income taxes, social security taxes, value added taxes and excise as the largest budget income sources. By using the available data on the number of workers, total personal consumption, the budget income and their relationship, this amount is estimated at €16.9 million. As this money would have been spent via consumption in the next iteration (goods and services, capital investment, increases in salaries and pensions), it would also have stimulated the economy.

That is why this influence is also included in the group of induced effects so, by using the graded fiscal multiplier, we estimate it at €4.2 million of new gross value added.

The results show that due to the inability to prevent the annual outflow directly and indirectly through employment, the annual gross value-added loss was €70 million. To put it simply, by leaving Montenegro, every work-capable person takes approximately €21,561 of some potential future GDP with them.

Effects of migration on economic
activity per person (€)



Source: Authors

The economic benefit of population migration

3.3

According to UN Secretary-General Antonio Guterres, migration is a strong source of economic growth, movement, and understanding that enables millions of people to seek new opportunities and bring benefit to the countries to which they move, as well as to the communities from which they come.

From the viewpoint of a country facing a population outflow, as stated, these processes have a twofold effect on the national economy. We have tried to quantify the negative economic effects from the education of emigrated people, as well as the opportunity cost in terms of lost future gain, and to quantify the effect on GDP. However, the benefits of these processes cannot be ignored, even though most demographers and sociologists consider them side effects.

The most important direct benefit of migration flows is remittances. Remittances are the money transferred by emigrants to the people close to them who remained in the home country. Their income often improves the quality of life of the recipient, while also considerably influencing the GDP of a country such as Montenegro.

In terms of income from remittances, as well as other personal transfers that influence GDP, Montenegro is one of the top countries in Europe, with a five-per-cent share of GDP. If other sources from abroad are considered, like social transfers and income from temporary Montenegrin employees working abroad, the contribution to GDP exceeds 11 per cent, reaching almost €540 million. For the sake of comparison, the net income from foreign direct investment in 2018 was around €322 million, or seven per cent of GDP.

INCOME FROM ABROAD BY TYPE OF INFLOW									
€ million	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	342.5	398.8	428.3	444.9	443.0	458.6	469.8	499.4	537.3
Workers' remittances and other personal transfer	154.9	186.6	208.2	212.6	198.2	193.6	188.6	202.7	228.1
Compensation of employees of Albanian residents from abroad	187.6	212.2	220.1	232.3	244.8	265.0	281.3	296.7	309.2
% GDP									
Total	11.0	12.2	13.5	13.2	12.8	12.5	11.9	11.6	11.6
Workers' remittances and other personal transfer	5.0	5.7	6.5	6.3	5.7	5.3	4.8	4.7	4.9
Compensation of employees of Albanian residents from abroad	6.0	6.5	6.9	6.9	7.1	7.3	7.1	6.9	6.7

Source: Central Bank of Montenegro

STRUCTURE OF REMITTANCES BY COUNTRY OF ORIGIN (%)	
Serbia	22,9725
Turkey	19,0354
Croatia	13,5872
Germany	10,3219
USA	9,3624
Austria	7,976
Luxembourg	3,7534
Other	12,9912

Source: World Bank

Studies have shown that remittances can reduce the severity of poverty in developing countries, Montenegro included; but they do not have as strong an impact on overall economic growth as they could. This is because remittances are related to higher personal consumption in households and real estate purchases, and only a small amount goes to business investment. Therefore, these funds cannot be seen as a generator of future development and growth.

Other than that, there are many warning signs that this finance source will start to decrease both due to the weakening of the connection between the diaspora and the home country due to changes in the form of migration as nowadays entire families migrate, as well as due to the generational change in the migrant population. Aware of

this, the government of Montenegro started to systematically regulate relations with its emigrants.

Also, the Council for Cooperation with Diaspora has been established, a law on cooperation with the diaspora has been introduced, and the Strategy for Cooperation with Diaspora – Emigrants for the period 2019-2022 will soon start, along with other measures that would attract Montenegrin emigrants to invest in the home country.

On the other hand, globalisation and modernisation of business have enabled easier transfer of entire businesses in the service sector, and created the so-called business transfer trend. This was especially visible in the years after the world economic crisis.

Many companies in this line of work, faced with the need to lower business costs, office space rent and similar costs, moved their businesses to developing countries. It turned out that the migrants in these companies were the best recommendation and main link for them. Branches of many companies from Germany, USA and Canada engaged in IT, logistics, customer care, all came due to these processes. A clearly defined national strategy, with a proactive role by the state in creating conditions conducive to these activities, would certainly help increase their impact on the growth and development of the national economy.

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The IDI mission is to encourage the development of the Republic of Serbia through growth based on knowledge, innovation and entrepreneurship, with the aim of increasing the quality and quantity of the work force.

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