Journal of Economics and Development Studies June 2015, Vol. 3, No. 2, pp. 19-30 ISSN: 2334-2382 (Print), 2334-2390 (Online) Copyright © The Author(s). All Rights Reserved. Published by American Research Institute for Policy Development DOI: 10.15640/jeds.v3n2a3 URL: http://dx.doi.org/10.15640/jeds.v3n2a3

# An Exploratory Study of the Use of Migrant Remittances at the Household Level in Barbados

## Anthony Wood & Shari Watson<sup>1</sup>

## Abstract

Remittances have grown significantly over the last decade worldwide resulting in them becoming a major source of external development finance. In developing countries which account for approximately 74% of all remittances received worldwide, it is recognized that remittances play an essential role in their economic development. With the increasing importance of remittances as a source of capital flows to developing countries there has been a proliferation of research on various aspects of remittances. While studies for the wider Caribbean have focused on multiple aspects of remittances, research on the Barbadian economy has concentrated on the macroeconomic aspect of remittances and their impact on the economy. This paper takes a different approach by examining remittances to Barbados from a microeconomic perspective. In this connection, the paper seeks to determine the demographic profile of persons in Barbados receiving remittances and the primary uses of these remittances. Data were obtained via a survey conducted at the money transfer operator, Money Gram, between April and June 2013. The key finding is that remittances were used mainly for consumption purposes, in particular purchasing food and paying utility bills. This result corroborates the findings of other studies on developing economies.

Keywords: Barbados, Consumption, Household, Investment, Migration, Money Gram, Remittances

### 1: Introduction

Remittances have grown significantly over the last decade worldwide resulting in them becoming a major source of external development finance. According to the World Bank, remittances received worldwide tripled between 2001 and 2011; from a total of \$150 billion in 2001 to \$479 billion in 2011 and were estimated to surpass the \$500 billion mark in 2012. More specifically, in developing countries which account for approximately 74% of all remittances received worldwide, it is recognized that remittances play an essential role in their economic development. From 2008, remittances were the second largest capital flow to developing countries after foreign direct investments and were higher than official development aid, and private debt and portfolio equity. In 2008, the Latin American and Caribbean (LAC) region received the largest amount of remittances in the developing countries with \$62.9 billion (21.1%) of total remittances received worldwide, followed closely by the East Asia and Pacific (EAP) region with \$59.0 billion (19.8%). However, with the onset of the global economic recession, the regional rankings have changed. Remittances received by the EAP region stood at \$60.3 billion (21.3%), \$75.8 billion (24.3%) and \$85.9 billion (24.3%) for the years 2009, 2010, and 2011 respectively. The corresponding figures for the LAC region were \$55.4 billion (19.5%), \$55.9 billion (17.9%) and \$59.4 billion (18.8%). With the increasing importance of remittances as a source of capital flows to developing countries there has been a proliferation of research on various aspects of remittances.

<sup>&</sup>lt;sup>1</sup> Department of Economics, The University of the West Indies, Cave Hill Campus, E-mail: <u>anthony.wood@cavehill.uwi.edu</u>, Telephone Number: 1-2464174273, Fax Number: 1-2464389104

Studies have focused on the motivation for remittances [Lucas and Stark (1985), Cox (1987), Cox et al. (1998), Lillard and Willis (1997), Henry et al. (2009)], determinants of remittances [De la Briere et al. (2002), Blue (2004), World Bank (2006), Hagen-Zanker and Siegel (2007), Moore and Greenidge (2008)], impact of remittances [Wendel (1996), Roberts (2007), Adams and Cuecuecha (2010)], uses of remittances [Stahl and Arnold (1986), Orozco (2004), Adams (2005), Chami et al. (2005), Ramocan (2011)] and policy options for dealing with remittances [Agunias(2006), Kirton and McLeod (2007), Kirton (2009)]. Political debates on remittances across the world have also intensified as governments are becoming more cognizant of the potential remittances have for development. While studies for the wider Caribbean investigated the multiple aspects of remittances, research on the Barbadian economy [Griffith et al. (2008), Campbell (2009)] has concentrated on the macroeconomic aspect of remittances and their impact on the economy. This paper takes a different approach by examining remittances to Barbados from a microeconomic perspective. In this connection, the paper seeks to determine the demographic profile of persons in Barbados receiving remittances and the primary uses of these remittances. Data were obtained via a survey conducted at the money transfer operator, MoneyGram, between April and June 2013. The rest of the paper is organized as follows: Section 2 reviews the relevant literature on remittances; Section 3 provides an overview of the remittances trend in Barbados; the methodological and data issues are discussed in Section 4; the empirical results are presented in Section 5 whilst the discussion of the results is the focus of Section 6; and a concluding summary and some recommendations are provided in the final section.

## 2: Literature Review

This section does not attempt to provide a detailed review of the literature on remittances, but rather to give a summary of some of the published work on the motives to remit and the uses of remittances. For the purposes of this research, the referenced definition of remittances according to the sixth edition of the International Monetary Fund's Balance of Payments Manual (2009) (BPM6) will be used.<sup>2</sup>BPM6 states that remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. It further purports that remittances largely consist of funds and non-cash items sent or given by individuals who migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident. Remittance flows occur through formal and informal channels. Formal channels are those where remittances are sent through authorized and regulated entities that conduct money transfer business. The most popular formal channel is a bank due to the increase in the number of persons possessing personal accounts. Another formal channel comprises money transfer operators (MTOs) such as Western Union and MoneyGram. MTOs are popular given that a bank account is not required and the money can be transferred in real time. Other formal channels include post offices and credit unions. The use of a formal channel ultimately depends on the preference of the remitter and/or recipient, the availability of services and the institutional environment. Informal channels are unofficial, non-regulated and unsupervised ways in which remittances are transferred. A popular informal channel in the Middle East and Asia is the Hawala.<sup>3</sup>In the Caribbean the most popular informal channel is via hand delivery either by the remitter himself/herself or through a third party such as a family member or a friend when they are returning home to pass onto the migrant's household. Another type of informal channel is the remittance in kind, for example, the barrel trade.

## Motives to Remit

Over the last three decades there has been a substantial body of theoretical literature explaining the motivation of migrants to remit money to relatives in their place of origin. Researchers have identified three motives: altruism, self-interest and contractual. The motive of self-interest can be subdivided into inheritance seeking and investment purposes, while contractual can be broken down into repayment of loans, insurance and exchange.

<sup>&</sup>lt;sup>2</sup>The BPM6 replaced the BPM5 in order to provide better clarity on remittances in the balance of payments.

<sup>&</sup>lt;sup>3</sup>How the Hawala system works: The sender in country A provides cash to the Hawala operator in country A; the sender is then given a collection code which he/she passes on to the recipient in country B; the Hawala operator in country A then contacts the Hawala operator in country B and tells them the amount of money to be transferred in local dollars, the collection code and destination communicated; the recipient in country B presents an identity card and collection code to the Hawala operator in country B after which the operator provides the money; the transactions are settled between the two Hawala operators either through reciprocal settlement for future transactions or reverse transactions between operators in different countries.

21

In early research on the theory of remittances, altruistic behaviour towards households in the home country was widely accepted as a main motive to remit.<sup>4</sup> With the expectation that the migrant's income would increase to a higher level than at home after receiving a job, the migrant shares his/her remuneration by sending remittances to the family back in the home country. Under the altruistic model, remittances occur as an act of love and care for the wellbeing of the migrant's household in the home country. This yields satisfaction to the migrant as he/she supports and improves the welfare of the household left behind. Becker (1974) asserted that the altruistic behaviour is developed by allowing a migrant's utility to be derived from the well-being or consumption level of the recipients in the home country. Using the terminology of social welfare, the migrant is demonstrating the social conscience standard. Many researchers have posited that if the income of the recipients in the home country decreases, the remittances from the migrant will tend to increase, showing a negative relationship between the two sources. Another prediction of the altruistic model is emphasized where the family ties deteriorate as time passes, resulting in remittances having a propensity to decrease over time. Agarwal and Horowitz (2002), Blue (2004) and Henry et al. (2009) found evidence supporting the altruistic motive to remit in their studies on countries in the Caribbean region. In contrast to the altruistic motive, some migrants may also have a motive based on economic self-interest. Subsequent to a migrant acquiring a job in the host country, he/she sends remittances to the home country with the intention to accumulate financial assets to make investments or in desire of inheritance.<sup>5</sup> The household in the home country therefore plays a fundamental role if a migrant wants to invest at home. During the emigration period, the migrant's family would act as a trustworthy and well-informed agent, managing and administering the accumulated assets of the migrant. De la Briere et al. (2002) provided evidence supporting the economic self-interest motive. They found that migrants to the United States of America (USA), both males and females, transferred higher sums of money to the Dominican Republic where the inheritance of land was greater. They noted, however, that the inheritance motive as an investment to a migrant is reduced once the inheritance has to be shared amongst a larger number of siblings.

Researchers have also examined the motive to remit from the viewpoint of an implicit contractual arrangement between the migrant and the family in the home country. Lucas and Stark (1985) referred to this theory as tempered altruism or enlightened self-interest. This type of arrangement allows for both parties to mutually benefit from the migration. Three types of contractual arrangements have been identified: loan repayment, co-insurance and an exchange framework. Loan repayment is a contract that combines investment and repayment. This theory assumes that the family would invest in the migrant as an asset expecting a higher yield; it is anticipated that the migrant will earn a higher income in the other country compared to the income earned by his/her family left behind in the home country. The investment could be in the migrant's education or simply to cover any initial costs of migration which include travel expenses to the migrated country and subsistence costs in that country. Once the migrant has settled in the host country and the income starts to increase over time due to the acquired education, the migrant will send remittances to the family as means of repaying the loan including the principal and interest. Under the loan repayment agreement, the amount being remitted over time may increase or decrease, depending on the basis for remitting.<sup>6</sup>Lillard and Willis (1997), using survey evidence for Malaysia, found strong support for the loan repayment hypothesis, particularly education repayment. In the case of Kenya, Hoddinott (1994) also found evidence that the repayment of a loan, especially for education, has a positive impact on the sending of remittances. Hoddinott also observed that parents could influence the level of remittances they receive by offering rewards in the form of bequests of inheritable assets such as land. The second type of contractual agreement between the migrant and the household in the home country takes into consideration the phenomenon of risk diversification. To diversify the risk of income volatility, some families make the decision to send family members (usually the most educated) overseas.

<sup>&</sup>lt;sup>4</sup> This concept is supported by Stark (1991) who deemed altruistic behaviour as the most popular reason for the flow of remittances. This is also linked to the push factor where persons migrate due to poverty in the home country.

<sup>&</sup>lt;sup>5</sup> When persons migrate, they usually look to invest in purchasing property, land or other financial assets in the home country rather than the host country. Some may also have the desire to open a small business.

<sup>&</sup>lt;sup>6</sup> If the reason for remitting is solely to repay the loan, remittances will decrease once the migrant has completed this obligation. However, if the migrant is willing to assist other members of the household to increase income through furthering their education, the migrant will become a lender and therefore remittances will increase.

These persons generally try to migrate to acountry which has a non-correlated labour market to that in the home country which may be prone to market failures. During economic shocks, the migrant would help support his/her family by sending remittances. This agreement is a two-way system since the time may arise when the migrant experiences economic challenges abroad and will have to depend on the family at home. Remittances therefore play the role of an insurance claim in this motive as migrating becomes a co-insurance strategy.<sup>7</sup> De la Briere et al. (2002), in an analysis of different categories of migrants and their motives to remit, concluded that female migrants to the USA mainly send remittances to the Dominican Republic as a result of the insurance motive. What they found alarming about the opposite sex was that males only showed insurance behaviour towards parents affected by health shocks when they are the sole migrant in the household. A final contractual agreement is the exchange motive. Within this context, the migrant uses remittances as a payment to the family in the home country for services they provide, such as care for the migrant's relatives (wife, children) or assets (property, livestock). This type of agreement is usually for migrants who are temporary rather than permanent. Once the income of the migrant increases so too will the remittances. This theory posits that even if the family's income increases, the migrant should continue to remit and at times the amount may increase since the quality of services their remittances can buy would also increase. Lower unemployment in the home country would also cause an increase in the amount of remittances sent and vice versa. The implication here is that if unemployment in the home country is on the increase then fewer remittances would flow to the household since less money is required to make those at home perform their services [Hagen-Zanker and Seigel (2007)].Contrary to the altruistic motive, the exchange motive also predicts that a positive relationship exists between the recipient's income and transfer amounts. Cox (1987) and Cox et al. (1998) tested the altruistic motive against the exchange motive in the cases of the USA and Peru, respectively. Their results showed a positive relationship between the recipient's income and the amount of transfers, which is consistent with the exchange hypothesis but contradicts the altruistic hypothesis. Although some studies have found evidence for only one motive to remit, other investigations have concluded that there was a combination of reasons for migrants sending money back to their families. Lucas & Stark (1985) used survey data obtained during the 1978-1979 drought period for Botswana to test their theory of "tempered altruism", better known as the contractual agreement. They indicated that the urban to rural co-insurance agreement between families showed that the urban members provided insurance during drought which allowed the household to pursue a riskier rural strategy. Lucas and Stark also confirmed the loan repayment theory, as the evidence implied that the younger members in the household with education sent more remittances than other household members. In addition, these authors found support for the self-interest motive, in particular for inheritance; sons when compared to daughters and other members of the household remit larger amounts to households with more livestock.8

#### Use of Remittances

Research has shown that remittances are used mainly for the following purposes: routine expenditures including food and utility bills; consumer durables, for example household appliances; education (whether at the basic or advanced levels); health care; building or improving housing; purchasing land; saving; investment opportunities; and loan repayments. However, the way in which these were categorized into broad headings caused much controversial discussion on the theory of the use of remittances in the last two to three decades. Researchers have categorized the use of remittances into three main functions: for consumption, investment and saving purposes. Chami et al. (2005) reported three stylized facts relating to the use of remittances. The first is that a significant proportion, and often the majority, of remitted funds are spent on consumption. The second fact is that a significant but smaller part of remittances goes into saving or investment, while the last stylized fact acknowledged that the saving and investment are not necessarily productive in terms of the overall economy. However, De Haas (2007) referred to those who espoused the view similar to Chami et al. as "migration pessimists". Stahl and Arnold (1986) were two of the earlier writers who believed that some authors had a pessimistic view regarding remittances. They contended that remittances spent on domestic goods and services are a much needed stimulus to indigenous industries and provide a potentially significant source of development capital.

<sup>&</sup>lt;sup>7</sup> This type of contract is not legally binding and is therefore based simply on faith. This can lead to problems as persons in the household may try to manipulate the situation in order to receive increased benefits.

<sup>&</sup>lt;sup>8</sup> According to Lucas and Stark (1985 p.914), in the Botswana case "sons are more likely to inherit....and they need to maintain favour with the head of the household."

However, they cautioned that it is naive to expect that the contribution of migrant workers will transform a rking peasant into an industrial entrepreneur. Of particular interest in the discussion on the use of remittances tegorization of important items of expenditure, such as education, food and health. While some researchers

poor working peasant into an industrial entrepreneur. Of particular interest in the discussion on the use of remittances is the categorization of important items of expenditure, such as education, food and health. While some researchers perceived these items under the consumption category and treat them as non-productive, others have argued that education, health and housing should not be given such a categorization since they are investments in human capital. Rather, such items should be treated as productive. For example, Gilani et al. (1981) contended that education and health have characteristics of both consumption as they provide utility only to the decision-maker, and investment since they increase the productivity of the worker and therefore could be considered an investment in human capital. Hence, they classified education and health under consumption-type investment. Construction and improvement in housing were also considered consumption-type investment.<sup>9</sup> Similarly, Deshingkar and Grimm (2005) believed that consumption could include a variety of uses which may have a positive impact on well-being and multiplier effects on the economy. They asserted that daily needs and expenses including food could improve food security and nutritional status, medical/health care expenses or education could lead to improvement in the livelihood prospects of future generations and consumer durables such as stereos, bicycles, motorbikes, milling machines, kiosks and televisions can contribute to income generation. They were also of the view that improving or building homes, and buying or leasing land or livestock can cause multiplier effects on the economy. As most researchers have concluded, this topic is very open-ended with various methods and views being proposed. In the final analysis, it depends on the individual author's perception of the ways in which the uses of remittances should be categorized and his/her interpretation of consumption and investment. This can be seen in the review of the empirical literature which follows. In the case of Guyana, Roberts (2007) found that the main expenditure of remittances was on consumption with 47% being used for food and clothing, while 16% went towards real estate and 15% was for education, which highlights that consumption-type investment was a major expenditure.<sup>10</sup> She also noted that recipients saved 14% of the remittances in a formal financial institution; however only 8% was invested in a business venture. For Jamaica, Ramocan (2011) found that 85% of remittances were used to meet consumption expenses, 9% was saved and only 6% was used for investment or business expenditure.

However, when the consumption category is broken down, 54% represents basic consumption needs (food and utilities representing 18% and 19%, respectively and others make up 17%), while 31% can be classified as consumption-type investment (14% for education, 10% for housing and construction, and 7% for health). Similar usage patterns of remittances to Jamaica were observed by the Planning Institute of Jamaica (2006) and Kirton et al. (2009). Some of the neighbouring countries in Latin America also demonstrated similar patterns in remittance expenditure. Durand et al. (1996) used data for 30 communities located in the five Mexican states which are perceived as areas providing the majority of Mexican migrantsto the United States. They found that in keeping with prior research on Mexico, remittances were mainly spent on consumption; 76% of households reported spending only on consumption. Approximately 14% spent some of the money on housing and the remaining 10% used some of the money in a productive manner. Orozco (2004), using data for five Latin American countries (Guatemala, Honduras, Mexico, El Salvador, Ecuador), found that in all cases 60% or more of remittance expenditure was for living expenses; that is, for consumption.<sup>11</sup> These results corroborate the findings of Durand et al. (1996) in the case of Mexico. In 2005, Adams administered a study in Guatemala which contradicted the findings of Orozco (2004).

<sup>&</sup>lt;sup>9</sup>Gilani et al. summarize the use of remittances into four categories: (1) consumption which includes items such as food, electricity/gas, transport, house rent, clothing and other household needs, all of which are recurring expenditures; (2) consumption-type investment which includes health, education, housing construction and improvement, the purchase of real estate and consumer durables; (3) productive investment which consists of agricultural and industrial, or commercial investments; and (4) financial investment which includes purchase of shares in firms and investment in financial corporations.

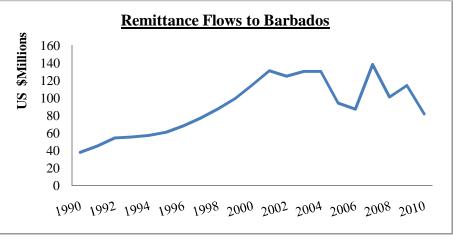
<sup>&</sup>lt;sup>10</sup> Roberts (2007) used a similar categorization to Gilani et al. (1981) as she believed that funds used for education would contribute to human capital accumulation, and expenditure on real estate and some of the funds saved would have a significant multiplier effect on the Guyanese economy.

<sup>&</sup>lt;sup>11</sup> Orozco (2004) showed that for Guatemala remittance expenditure on living expenses, savings, business investment, education and property purchase were 68%, 11%, 10%, 7% and 1% respectively; for Honduras 77%, 4%, 4%, 10% and 2% respectively; for El Salvador 84%, 4%, 4%, 4% and 1% respectively; for Mexico 70%, 7%, 1%, 6% and 1% respectively; and Ecuador 60%, 8%, 8%, 2% and 4% respectively.

Using a different method to show the use of remittances, Adams compared households who received against households not receiving remittances. He concluded that, contrary to other studies, the analysis suggested that households receiving remittances spent more on investment than consumption goods. Specifically, the remittancereceiving households spent more on education and housing than the other households. When the LAC countries are compared to those in Asia, the results of remittance use are similar. Ali et al. (1981) and Gilani et al. (1981) focused on Bangladesh and Pakistan, respectively. Both studies found that remittances were used mainly for consumption and consumption-type investment. However, Ali et al. found that the highest percentage of remittances was used for the purchase of land followed by the purchase of food and construction or improvement of housing. On the other hand, Gilani et al. found that remittances were used mainly for current consumption followed by real estate purchase. Although there was a difference in the two studies regarding the main use of remittances, one factor that was common amongst them was the fact that less than 20% of remittances were used for investment purposes. A later study by Glytsos (1993) showed, in the case of Greece, very similar results to Gilani et al. (1981). Oberai and Singh (1980) provided results for the Indian Punjab showing that the majority of remittances to households in this part of India were spent on food and clothing, followed by housing and household goods. A more recent study by Adams and Cuecuecha (2010) for Indonesia concluded that remittance-receiving households, compared to households not receiving remittances, increased their marginal expenditures on consumption goods, in particular food, and drastically reduced their marginal expenditure on investment goods such as housing.

## 3: Trend of Remittance Flows to Barbados

Over the last three decades remittance flows have proven to be a valuable resource flow to Barbados, especially during the 1980s and 1990s when they were the leading capital flow. During the 1980 to 1986 period remittance flows to Barbados fluctuated between \$8.5 million and \$11.1 million. By 1987, these flows reached \$28.2 million and within the next three years had grown 34.4% to \$37.9 million in 1990. During the early 1990s despite Barbados experiencing significant economic challenges the flow of remittances to the country continued to increase, reaching \$45.2 million in 1991 and \$54.5 million by the end of 1992 (see diagram below). The following year saw minimum growth in remittance flows of the order of 1.6%. For the next eight years remittances grew steadily, reaching the \$100 million mark in 2000 and by 2001 the figure stood at \$131.2 million.



#### Source: World Bank

Although Barbados was affected by another recession in 2001, it recorded its second largest amount of remittance flows received in the last three decades, representing 5.14% of GDP. The recession continued into 2002 and remittances declined to \$125.1 million. In 2003 the recession ended and the country's remittance flowssaw minimum growth that year and the following year. By 2005 remittance flows contracted by 27.6% to \$94.5 million and continued to decline in 2006to \$87.3 million. Beginning in 2007Barbados was affected by another international recession and similar to the beginning of the previous recession, the country recorded a large remittance flow of \$138.7 million in 2007, the largest amount in the last three decades. This was followed by a decline of 27.1% in remittances to \$101.2 million by the end of 2008. The recession continued into 2009 and 2010, but remittances grew to \$114.5 million in 2009, a 13.2% increase from 2008. This turnaround was short-lived as remittance flows contracted by 28.5% in 2010 to reach \$81.9 million.

#### 4: Methodology and Data Issues

Data on the use of remittances at the household level in Barbados are not readily available. Hence, purposive sampling was employed to ascertain the required information. This method, also referred to as judgemental sampling, is based on specific characteristics a population meets. The persons targeted in this study were those who received remittances through the money transfer operator MoneyGram and therefore all had similar knowledge of receiving money from overseas through this route and understood the purpose of the study. However, we should note that purposive sampling, as a non-probability method, has the following drawback: it can be highly prone to researcher bias. Nevertheless, the presence of researcher bias is only a serious limitation when the researcher's justification for employing purposive sampling is ill-conceived or poorly considered [Wood and Braithwaite (2014)]. Data were collected using a structured questionnaire which was administered at the Republic Bank during the period April to June 2013.12 Mangers from six branches were contacted regarding their assistance with the survey and they readily agreed to help. The information was collected by the Customer Service Representatives at each of the six branches who distributed the guestionnaires to the customers while they transacted business. A total of 150 guestionnaires were delivered to the branches as a target sample. However, 117 were certified as adequately completed for analysis, yielding a response rate of 78%. The design of the questionnaire was informed by that utilized by Ramocan (2011) for Jamaica. The self-administered questionnaire was used as the tool for data collection because large amounts of data can be collected quickly and it is easy to quantify the results, find correlations and use multivariate analysis to determine causes; furthermore, comparative analysis and replication (repeating the questionnaire) are easy, making the results reliable [Haralambos and Holborn (2004)]. Additionally, questionnaires can be completed at the convenience of the respondent and they boast of being devoid of interviewer influence [Bryman (2008)]. However, there are limitations associated with the use of self-administered questionnaires. First, the format of the questionnaire sometimes makes it difficult for the researcher to examine complex issues and opinions. Similarly, there is no opportunity to probe respondents to elaborate on answers. Even when open-ended questions are utilized, the depth of answers provided by the respondents tends to be more limited than with other research methods [Phillip (2014)]. Second, specific answers given by the respondents are usually lost when coding is done. Third, self-administered questionnaires are not suited for respondents whose literacy is limited. In such cases, a structured interview is the more effective approach.

The questionnaire comprises thirty-three questions which were classified in five sections. The first section includes eleven questions which focus on the demographic profile of the recipients of remittances. Questions twelve to eighteen give an insight into the ties between the recipients and the senders, as well as the amount and frequency of remittances received. Section three, which includes four questions, examines the way in which the recipients use the remittances; whether for consumption purposes or investment purposes. Questions twenty three to twenty eight form section four, which looks at the different methods used to transfer money and how the customers rank the service provided by the medium utilized. The final section contains fivequestions which focus on how the recession may have affected both the sender and the remittances received. There were a few limitations associated with the data-collection process. First, all banks in Barbados were targeted for participation in the survey; however, due to customer confidentiality, mergers and new ventures the survey was limited to one bank, Republic Bank. Second, although Republic Bank assisted in administering the questionnaires to the customers who use MoneyGram, some of the customers were not comfortable completing the questionnaire and providing information such as their average income and the amount of money received. The process was also volunteer-based and therefore, in some cases, customers did not want to complete the questionnaire. Third, some of the returned questionnaires could not be used since important information was missing. This might have resulted when customers finished their banking transaction prior to completing the questionnaire. The final limitation relates to the coverage of sources of remittances. The short timeframe for the survey and reluctance of some banks allowed the participation of only persons receiving money through the money transfer operator MoneyGram and not the entire remittance-receiving population in Barbados. Also, the research did not focus on remittances in kind (for example, the barrel trade) and direct payments to accounts at banks and other institutions. Despite these limitations, the information provided by the 117 participants should still increase our understanding of remittances use in Barbados.

<sup>&</sup>lt;sup>12</sup> The questionnaire is available on request.

In fact, Griffin and Hauser (1993) noted that a sample size of 30 respondents would provide a reasonable starting point for research studies. This number was corroborated by Sekaran (2003 p.292) who stated that "a sample size larger than 30 and less than 500 is appropriate for most research".

## 5: Results

## Gender and Marital Status

Females were the dominant persons receiving remittances through MoneyGram representing 70.1% of the recipients, while 29.9% of persons receiving remittances were male. The majority of the persons (68.4%) receiving remittances were single with 28.2% being married and 3.4% being represented as other.

### Age

Seven out of ten persons who received remittances were under the age of 45. The 18-24 age group was the dominant group, representing 25.6% of the persons receiving remittances while the 25-34 and 35-44 age groups followed closely, both representing 23.9%. The 45–54 age group was also well represented with 15.4% of them receiving remittances while only 6.8% were from the 55-64 age group and 4.4% from the 65 and over age group. The highest percentage of male recipients was from the 25-34 age group, while the highest percentage of females was from the 18-24 age group.

### Education

Education is one of the areas emphasized in Barbados and this is reflected in the results. 63.2% of the recipients have a tertiary education, 35.1% have an education to the secondary level and the remaining 1.7% received education to the primary level. The finding that 63.2% of recipients have a tertiary education is testimony to the importance attached to developing human capital as a strategic resource for national development.

### Race/ethnicity

As anticipated, 89% of the recipients were of Black ethnicity. The other 11% were White, Indian and Hispanic, representing 6.8%, 2.6% and 1.6% of the recipients, respectively.

### Household Size

When asked the question: "how many people live in your household?", the respondents gave a range from 0 to 8 persons. This gave an average remittance-receiving household size of 2.6. This is comparable with the Population and Housing Census (2010) which indicated that the average Barbadian household size is 2.8. The respondents also indicated that the households contained a higher percentage of persons over 18 years of age.<sup>13</sup>

### **Employment Profile of the Receiver**

It was found that the majority of remittance recipients, 6 in 10, were classified as full-time workers and 20.9% were either employed on a part-time or seasonal basis. The remaining 19.1% were unemployed and out of these recipients, 7.8% were students and 5.2% were retired. Analysing the employment of recipients by sector, it was noted that a significant portion (61.1%) of the recipients worked in the private sector, while 23.2% were employed in the public sector and the remaining 15.7% were self-employed.

### Average Income of Recipients

Forty-seven percent of the recipients can be categorized in the middle-income class, that is, persons earning an average monthly income between \$2,001 and \$5,000.<sup>14</sup> Eight persons (6.8%) received an average monthly income between \$5,001 and \$10,000while only 1person (0.9%) received an average monthly income over \$15,000. Persons earning between \$1,000 and \$2,000 monthly represented 19.7% of the recipients, while those within the minimum-wage category (earning up to \$1,000 monthly) accounted for 14.5% and the remaining 11.1% of the recipients received no income from employment.

## Origin of Remittances

USA accounted for half the remittances to Barbados, followed by the UK with 18%. These results are not surprising given that these two countries are the most preferred by Barbadian migrants.

<sup>&</sup>lt;sup>13</sup>This illustrates that most households in the survey have persons who are eligible to participate in the work force.

<sup>&</sup>lt;sup>14</sup> The income is represented in Barbados dollars.

According to the World Bank's Global Bilateral Migration statistics, of the 105,174 emigrants from Barbados at 2010, 50,229 (48%) migrated to the USA and 28,612 (27%) migrated to the UK. Remittances received from the Caribbean represented 15.4% while Canada accounted for only 5.1%. The remaining 11.5% of remittances came from more than one country.

#### Relationship to Migrant

The persons receiving remittances through MoneyGram were related to the migrants abroad in various ways. 92% of the recipients had a family relationship with the sender; of these 66.6% of the family relationships were with immediate family<sup>15</sup>: parent (26.5%), sibling (16.2%), spouse (15.4%), grandparent (5.1%) and child (3.4%). Other relatives amounted to the second highest relationship, accounting for 23.9% of all relationships. Of the 117 persons participating in the survey, 69.2% stated that the sender was the person initiating the transfer of remittances, while 24.8% indicated that it was a mutual agreement and the other 6% said they asked the sender.

#### Tenure and Frequency of Money Received

Ninety-one persons (77.8%) were receiving remittances for less than five years, with the highest percentage receiving for less than a year. Those persons receiving remittances for 5 to 10 years and in excess of a decade represented 14.5% and 7.7%, respectively. 71.8% of the recipients were receiving money within short intervals, with 11.1% on a weekly basis, 13.7% twice a month and 47% on a monthly basis.18.7% receive money on special occasions only. The remaining 9.5% comprise recipients who receive funds every two months (3.4%) or at least every three months (6.1%).

#### **Remittances Received**

The remitted amounts ranged from less than \$200 to over \$2,000 but did not exceed \$4,000.<sup>16</sup> Sixty-two percent of the remittances received were between \$200 and \$800, and these amounts were collected mainly on a monthly basis, twice a month or on special occasions. The survey results indicated that monthly recipients collected half of the total remittances over \$1,000 with the other 50% being collected by persons who received money on special occasions (21.4%), every two months (14.3%) and the remaining 14.3% was equally collected by persons who received funds twice a month and twice a year. The two persons receiving the highest amount of remittances, which were between \$2,000 and \$4,000, acquired these funds on a regular basis of once per month.

### Use of Remittances Received

Two questions were asked relating to the use of remittances: "What is the money used for in respect of consumptive purposes and social expenditure?" and "what is the money used for in respect of economic activities and asset creation?" The results indicated that remittances were used mainly for consumption expenses. Specifically, 58.7% of the respondents reported using remittances for consumption purposes.<sup>17</sup> The consumption needs of food and utility bills were the major items of expenditure. Consumption-type investment was the primary expenditure category for 14.3% of persons receiving remittances (7.5% spending on education, 4.0% on buying or improving housing and 2.8% on health care). Leisure, which is considered social expenditure, represented 9.1% of all responses. It was noted that 6% of the respondents (mainly females) save the money received and none of the remittances was used to start or invest in a business.

#### Other Findings

The final section of the survey examined how the recession may have affected the sender and the recipients. Fifty-six percent of the respondents stated they were not concerned about the impact of the recession on the sender, while the remaining 44% expressed some concern. In communicating with the sender, 68% of the respondents affirmed that the sender was not affected by the recession. However, 12% of the senders feared losing their jobs, 9% worked fewer hours, 7% had debt problems, 3% lost their jobs and 1% indicated otherwise. The majority (75%) of the persons receiving remittances indicated that the amounts remained the same during the recession, while 13% stated that the amounts received decreased slightly.

<sup>&</sup>lt;sup>15</sup> In this research paper, immediate family is defined as a spouse, parent, grandparent, child and sibling.

<sup>&</sup>lt;sup>16</sup> The information on the amount received was captured in ranges and not exact amounts.

<sup>&</sup>lt;sup>17</sup> Consumption expenses include food, transportation, clothes, appliances, utility bills and other consumption.

The remaining persons evenly stated that the amount received either significantly increased or decreased, or slightly increased. When asked the question relating to the level of difficulty surviving without the remittances, 41% strongly agreed or agreed that it would be difficult to survive, while 40% strongly disagreed or disagreed and the remaining respondents were neutral.

#### 6. Discussion

The survey was undertaken when the Barbadian economy was still being impacted by the global economic downturn. Though the recession was an area of grave concern to many persons, the high cost of living and limited job opportunities were of equal concern. In the Caribbean Development Bank (CDB) Overview Report (2010) on the living conditions in Barbados, several respondents in the survey indicated that the recession and the high cost of living, especially the cost of food and high utility bills, were having a serious negative effect on their living conditions, on their ability to meet basic needs and to sustain their livelihoods. This is consistent with the results of our survey where recipients' top two uses for the remittances received were to purchase food and pay utility bills. The CDB Report (2010) also indicated that persons were spending money on leisure activities during the harsh economic times. Specifically, the Report mentioned misguided spending patterns on fashion and leisure activities, rather than investments for the future in education, nutrition and housing. Recipients of remittances in this study exhibited similar behaviour, with leisure being the second-highest use of remittances, accounting for 9.1% of all respondents while only 7.5% invested in education and 4.0% in housing. There was also a small percentage of recipients (6.0%) saving and zero percent used remittances for productive investments such as starting or investing in a business. However, it was noted that 86% of the respondents who saved the money received were females. The CDB Report also mentioned that persons had low levels of savings but women were perceived to be managing their money more efficiently than men. The higher thriftiness of females was explained by their financial commitments as mothers, often with sole responsibility for several children.

When compared to the studies by Roberts (2007) for Guyana and Ramocan (2011) for Jamaica similar results were obtained. Indeed, remittances were used mainly for consumption purposes. The consumption need of food was the major item of expenditure in all three countries. However, in the case of Jamaica and Barbados paying utility bills was also an important consumption need. The finding that remittances to Barbadian households were used mainly for consumption corroborates the results of many other studies on developing countries [Ali et al. (1981) for Bangladesh, Gilani et al. (1981) for Pakistan, Durand et al. (1996) for Mexico, Orozco (2004) for five Latin American economies, Adams and Cuecuecha (2010) for Indonesia]. The survey showed that recipients received remittances mainly between \$200 and \$800, and the main persons receiving remittances were from the low to middle income groups. Although remittances received contributed to an increase in the recipients' overall income as well as their disposable income, the majority of the income was used for everyday needs. This is an area of concern especially in the case of persons in the middle income group. This augments the view that the economic recession and the high cost of living in Barbados influence the use of remittances to favour mainly consumption needs, thus reducing the probability for recipients to save or invest. The results from the survey also showed that 92% of the recipients receive remittances from family members and 69.2% stated that the sender was the person who initiated the transfer of remittances. With further analysis, 78% of the recipients use the remittances for their own purposes while only 22% use the remittances for purposes associated with the sender. From these results, it can be inferred that there are strong ties between the recipients and migrants with the majority of the migrants sending remittances to support and improve the welfare of the households left behind. It can therefore be surmised that the migrants send remittances mainly as a result of the altruistic motive.

#### 7: Conclusion and Recommendations

Remittances have been an important resource flow to the economy of Barbados during the last three decades, particularly during the 1980s and 1990s when they were the main capital inflow. While previous studies on the Barbadian economy have concentrated on the macroeconomic aspect of remittances and their impact on the economy, this paper examined remittances to Barbados from a microeconomic perspective. Some important findings emerged from the survey. First, at the household level remittances received were used mainly for consumption purposes, particularly purchasing food and paying utility bills. This result is similar to the findings of many other studies on developing countries. Second, with respect to the frequency, the majority of recipients (71.8%) were receiving money within short intervals (not exceeding one month).

Coupled with the result that 92% of the recipients received money from family members and 78% of them used the remittances for their own purposes, it is quite evident that the resource flow to Barbadian households is invaluable given the tough economic circumstances. Such statistics are also indicative of an altruistic motive for the remittances to Barbados. A few recommendations emerge from the analysis. First, a key area of concern from the findings was the small percentage of recipients who saved and zero percentage not using some of the money for productive investments. A focus of government policy should therefore be to implement programmes to provide business and investment advice to migrant families. This would allow these persons to become more financially literate and hence motivate them to diversify their use of remittances. The ultimate aim is for the remittance-receiving households to have longer-term goals manifested through increased saving and investment. Second, given the paper's limited coverage of the sources of remittances, it is recommended that a more in-depth analysis be undertaken. This effort should involve a detailed survey of formal channels including commercial banks, credit unions, post offices, money transfer operators (MTOs) as well as remittances received in kind (for example, the barrel trade). Such a study will provide more comprehensive data to assess the true magnitude and structure of remittance flows, and their impact on the Barbadian households and economy.

## References

Adams, R. (2005), "Remittances, Household Expenditure and Investment in Guatemala", World Bank Publication.

- Adams, R. and Cuecuecha, A. (2010), "The Economic Impact of International Remittances on Poverty and Household Consumption and Investment in Indonesia", Policy Research Working Paper 5433. Washington, DC: World Bank.
- Agarwal, R. and Horowitz, A. (2002), "Are International Remittances Altruism or Insurance? Evidence from Guyana Using Multiple-Migrant Households", World Development, 30, 2033-2044.
- Agunias, D. (2006), "Remittances and Development Trends, Impact and Policy Options: A Review of the Literature", Migration Policy Institute, Washington.
- Ali,S., Arif, A., Habibullah, A., Hossain, A., Islam, R., Mahmud, W., Osmani, S., Rahman, Q. and Siddiqui, A. (1981), "Labour Migration from Bangladesh to the Middle East", World Bank Staff Working Paper 454, Washington, D.C: World Bank.
- Becker, G. (1974), "A Theory of Social Interactions", Journal of Political Economy, 82, 1063-1093.
- Blue, S. (2004), "State Policy, Economic Crisis, Gender, and Family Ties: Determinants of Family Remittances to Cuba", Economic Geography,80, 63-82.
- Bryman, A. (2008), Social Research Methods, Oxford University Press.
- Campbell, T. (2009), "Workers Remittances and their Impact on Economic Growth in Barbados", Money Affairs, 22(2), 181-194.
- Caribbean Development Bank. (2010), Country Assessment of Living Standards: Don't Hesitate, Participate, Overview Report, Barbados.
- Chami, R., Fullenkamp, C.and Jahjah, S. (2005), "Are Immigrant Remittance Flows a Source of Capital for Development?", International Monetary Fund Staff Papers, 52,55-81.
- Cox, D. (1987), "Motives for Private Income Transfers", Journal of Political Economy, 95, 508-546.
- Cox, D., Eser, Z. and Jimenez, E. (1998), "Motives for Private Transfers Over the Life Cycle: An Analytical Framework and Evidence for Peru", Journal of Development Economics, 55, 57-79.
- De Haas, H. (2007), "Remittances, Migration and Social Development: A Conceptual Review of the Literature", United Nations Research Institute for Social Development.
- De la Briere, B., Sadoulet, E., de Janvry, A. and Lambert, S. (2002), "The Roles of Destination, Gender, and Household Composition in Explaining Remittances: An Analysis for the Dominican Sierra", Journal of Development Economics, 68, 309-328.
- Deshingkar, P. and Grimm, S. (2005), "Internal Migration and Development: A Global Perspective", International Organization for Migration.
- Durand, J., Kandel, W., Parrado, E. and Massey, D. (1996), "International Migration and Development in Mexican Communities", Demography, 33, 249–264.

- Gilani, I., Khan, F. and Iqbai, M. (1981), "Labour Migration from Pakistan to the Middle East and its Impact on the Domestic Economy, Part I", Report Research Series 126, Islamabad: Pakistan Institute of Development Economics.
- Glytsos, N. (1993), "Measuring the Income Effects of Migrant Remittances: A Methodological Approach Applied to Greece", Economic Development and Cultural Change, 42, 131-168.
- Griffin, A. and Hauser, J. (1993), "The Voice of the Customer", Marketing Science, 12(3), 1-27.
- Griffith, R., Boucher, T., McCaskie, P. and Craigwell, R. (2008), "Remittances and Their Effect on the Level of Investment in Barbados", The Journal of Public Policy Analysis, 2, 3-15.
- Hagen-Zanker, J. and Siegel, M. (2007), "The Determinants of Remittances: A Review of the Literature", Maastricht Graduate School of Governance Working Paper, Maastricht University.
- Haralambos, M. and Holborn, M. (2004), Sociology Themes and Perspectives, London: Collins.
- Henry, C., Moulton, J. and Ricketts. J. (2009), "Motives for Sending Remittances to Jamaica: An Application of the BPM6 definition of Remittances", Bank of Jamaica Working Paper.
- Hoddinott, J. (1994), "A Model of Migration and Remittances Applied to Western Kenya", Oxford Economic Papers, 46, 459-476.
- International Monetary Fund. (2009), Balance of Payments and International Investment Position Manual (BPM6), Washington, D.C: International Monetary Fund.
- Kirton, C. (2009), "Migration and Remittances in the Caribbean", in Growth and Development Strategies for the Caribbean, Caribbean Development Bank, Barbados, 301-321.
- Kirton, C. and McLeod, G. (2007), "Remittances to CARICOM Countries: Policy Issues and Options", Global Development Studies, 4(3-4), 91-118.
- Kirton, C., Knight, P., Mortley, N., Thomas-Hope, E. and Urquhart, M. (2009), "A Study of Migration's Impacts on Development in Jamaica and How Policy Might Respond", Institute for Public Policy Research (IPPR) and Global Development Network (GDN).
- Lillard, L. and Willis, R. (1997), "Motives for Intergenerational Transfers: Evidence from Malaysia", Demography, 34,115-134.
- Lucas, R. and Stark, O. (1985), "Motivations to Remit: Evidence from Botswana", Journal of Political Economy, 93, 901–918.
- Moore, A. and Greenidge, K. (2008), "Determinants and Volatility of Remittances in the Caribbean", Central Bank of Barbados.
- Oberai, A. and Singh, H. (1980), "Migration, Remittances and Rural Development: Findings of a Case Study in the Indian Punjab", International Labour Review, 119,229-241.
- Orozco, M. (2004), "Remittances to Latin America and the Caribbean: Issues and Perspectives on Development", Washington, DC: Organization of American States.
- Phillip, J. (2014), "Small Business Sector in Barbados", University of the West Indies, Cave Hill Campus, Barbados.
- Planning Institute of Jamaica (PIOJ).2006, Jamaica Survey of Living Conditions, PIOJ.
- Ramocan, E. (2011), "Remittances to Jamaica: Findings from a National Survey of Remittance Recipients", Bank of Jamaica.
- Roberts, D. (2007), "The Development Impact of Remittances on Caribbean Economies: The Case of Guyana", Central Bank of Guyana.
- Sekaran, U. (2003), Research Methods for Business: A Skill Building Approach, 4th edition, John Wiley and Sons Inc.
- Stahl, C. and Arnold, F. (1986), "Overseas Workers' Remittances in Asian Development", International Migratio Review, 20, 899-925.
- Stark, O. (1991), The Migration of Labour, Oxford: Blackwell Publishers.
- Wendel, S. (1996), "The Contribution of Remittances to Social and Economic Development in the Caribbean", Eastern Caribbean Central Bank, St. Kitts.
- Wood, A. and Brathwaite, N. (2014), "An Exploratory Study of the Perceptions and Attitudes of Middle-aged Banking Users in Barbados Towards Innovative Financial Banking Products", Academy of World Business, Marketing and Management Development Conference Proceedings, 6(1), 345-363.
- World Bank. (2006), "Trends, Determinants and Macroeconomic Effects of Remittances", Global Economic Prospects, Washington, DC: World Bank. http://www.worldbank.org