Abstract

Remittances and Economic Development
The Developmental Impact of Remittances in the Caribbean:
A Comparative Analysis using
Evidence from St. Lucia and Trinidad and Tobago

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Official remittance flows to developing countries has been on the increase over the years, reaching a peak in 2008 at US$ 328 billion. Remittances are a leading source of external finance which is used for the development of many economies and are second to foreign direct investment flows. Few studies have examined the impact of remittances on economic development in the larger Caribbean and even fewer in the OECS countries. Therefore this study seeks to bridge this gap through a comparative analysis between St. Lucia and Trinidad and Tobago, using survey research data. The results suggest that remittances impact economic development significantly at the household level via the increase in income, access to greater health and educational services, as well as smoothing consumption and an increase in domestic investments. However the governments of the respective economies lack the necessary policies to further facilitate this development process.

Keywords: Economic Development, Remittances, St. Lucia, Trinidad and Tobago

1. INTRODUCTION

Remittances are increasingly being recognized and appreciated as a source of developmental capital in many economies around the world. Remittances have caught the interest of governments, non government agencies, as well as academics who contend that remittances should be a more central force driving economic development in their economy.[1] Remittances constitute an important source of external finance, as well as foreign currency to developing economies. It not only impacts millions of households, but reaches communities and nations as well.[2] Remittances stem from migration and it is generally regarded as a gateway through which people become upwardly mobile.[3]

The IMF (2008) defines remittances as,

> "*a percentage of household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and non-cash items that flow through formal channels, such as electronic wire, or through informal channels, such as money or goods carried across borders.*"[4]

According to the World Bank (2006) remittances have expanded nine hundred percent (900%) over the last twenty five years. Global Development Finance (GDF, 2008) posits that remittances to developing countries are higher than official aid flows and are also higher than most other types of private capital flows.[5] From **Table (1)** below, it is evident that growth in remittances has outshined the growth of other types of capital flows; in particular, private capital flows as well as Official Development Assistance (ODA) and Foreign Direct Investment (FDI).

Table (1): **Comparative Data on Remittances and other Private Capital Flows for the period 1995-2008 in (US$bn)**

	1995	2008	1995-2008 % change
Worker Remittances	58	328	506%
Foreign Direct Investment (FDI)	107	206	109%
Private debt and portfolio equity	170	189	111%
Official Development Assistance (ODA)	59	100	169%
Source: World Bank (2008).			

[1] Rafael Alarcon (2001), "*The Development of Home Town Associations in the United States and the Use of Social Remittances in Mexico*".
[2] Mahmud H., Sabur A., Tamanna S., (2009) "*International Migration, Remittances and Development*" Journal of Sustainable Development, Vol 2, No. 1
[3] Meseguer Covadonga and Kemmerling Achim. "*Remittances, Public Policy, and the State*" (Presented at a workshop as a proposal to the panel), pg 1, http://www.ecprnet.eu/ecpr/rennes/Workshop/24.pdf (accessed June 05 2009).
[4] International Monetary Fund (IMF), "*International Transactions in Remittances: Guide for Compilers and Users*",(Washington, D.C., Statistical department, International Monetary Fund, 2008).
[5] Ghosh, Bimal. (2006), "*Migrant's Remittances and Development: "Myths and Rhetoric's"*, International Organization for Migration, Bimal Ghosh and The Hague Process on Refugees and Migration, http://www.antigone.gr/listpage/selected_publications/eu/071127.pdf (accessed May 20, 2009).

Global remittances amounted to US$433 billion in 2008, of which remittances to developing economies reached US$328 billion;[6] while remittances to Latin America and the Caribbean totaled US$69.2 billion.[7] See **Table 2** below.

Table 2: Worker Remittances (US$bn) Flows into Developing Economies and the World 1990- 2008											
Years	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
World (Developing & Industrial)	68.6	101.6	132	148	166	200	256	232	309	380	433
Developing Countries	31.2	57.8	85.6	96.5	113	142	160	167	300	285	328
LAC and Caribbean	5.8	13.4	20.1	24.4	28.1	34.8	40.7	42.4	59	63	64
Source: World Bank (2009)											

Not surprisingly, there are some significant differences in remittance flows to various countries. Even though remittances are not uniformed across all developing economies, they represent a much needed resource inflow. The top ten recipients of remittances in 2008 included countries such as: Poland; Egypt; Bangladesh; Nigeria; Romania, Vietnam; as well as the Philippines.[8] See **Table (3)**. In 2009 India, China, and Mexico maintained their position vis-à-vis the year 2008 and accounted for over 60% of all the remittances flowing into developing economies.[9]

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[6] Ratha D. and Mohapatra S. (2009), "*World Bank Migration and Development Brief*". World Bank Migration and Remittance Team, Development Prospect Group, World Bank.

[7] IADB (2009) "*Remittances in times of financial instability Impact of the financial crisis on remittances to Latin America and the Caribbean*", Remittances Program Multilateral Investment Fund (MIF) Inter-American Development Bank (IADB)

[8] Ratha D. and Mohapatra S. (2009), "*World Bank Migration and Development Brief*", World Bank Migration and Remittance Team, Development Prospect Group, World Bank

[9] Ibid Pg. 2

Sanjeev Gupta, Catherine A. Pattillo and Smita Wagh (2009), "*Effect of Remittances on Poverty and Financial Development in Sub-Saharan Africa*", World Development Vol. 37, No. 1, pp. 104–115, 2009, IMF Washington DC.

Table: (3) Top Ten Recipients of Remittances in developing economies 2008 in US$bn	
India	52
China	40.6
Mexico	26.3
Philippines	18.6
Poland	10.7
Nigeria	10
Egypt	9.5
Romania	9.4
Bangladesh	9
Vietnam	7.2
Source: World Bank 2009	

The average remittance to GDP ratio for all developing economies was 3.6% (Chami et.al 2008) on average for the time period 1995-2004 and for the same period of time exceeds 1% of GDP for in excess of 60 countries. In terms of remittances received as a share of GDP, the most recent data available for the top ten countries is for the year 2007. In that year, Guyana placed fifth amongst other small economies such as Tonga and Moldova, where remittances surpassed 25% of GDP.[10]

Remittances flowing to the Caribbean account for a significant amount of total remittances. The top three remitting economies in the Caribbean are Jamaica, Haiti and Guyana. With regards to the OECS, Grenada, St. Kitts and St. Vincent are in the top three with regards to remittances. Remittances flowing into Jamaica moved from $US 653 million to US$2220 million dollars for the period 1990 to 2008. Similar trends followed for Haiti and Guyana. Although remittance flows was expected to decrease by 7% in Latin America and the Caribbean, remittances were expected to level off by the end of 2009 with the decline in remittances being much smaller.[11] **Fig. (1)** below shows remittance flows to some Caribbean countries for the period 1995-2008.

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[10] Ratha D. and Mohapatra S. (2009), "*World Bank Migration and Development Brief*". World Bank Migration and Remittance Team, Development Prospect Group, World Bank.
[11] Ibid Pg. 6

Fig. (1) Workers' remittances and compensation of employees (current US$) for Caribbean Countries

Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda	3	3	6	12	12	10	16	6	8.55	20.9	22	23	23.5	26
Barbados	53	60	69	76	87	102	118	109	113	109	140	140	140	168
Dominica	3	3	2	3	3	3	4	4	4	23.2	25	25.4	26	30
Guyana	2	15	15	15	20	27	22	51	99	153	201	218	278	278
Haiti	109	152	256	327	422	578	624	676	811	932	985	1063	1222	1300
Grenada	18	20	20	20	21	22	22	23	23	72.2	51.6	53.9	55.4	64
Belize	14	17	23	23	21	22	30	29	34	35	46.1	65.5	74.8	78.1
Jamaica	653	714	730	758	790	892	1058	1261	1399	1623	1784	1946	2144	2220
St. Kitts and Nevis	2	2	3	4	4	4	4	3	3	31.3	33.5	36.2	37.3	37.3
St. Lucia	2	2	2	3	3	3	2	2	2	28.7	29.5	30.3	31.1	31.1
St. Vincent and the Grenadines	2	2	2	3	3	3	3	4	3.42	25.5	26.5	29.7	30.5	30.5
T&T	32	28	30	45	54	38	41	79	87	86.9	92.4	91.2	109	109

Source: World Bank development Indicator 2009

Many migrants support more than one person in their home country; however a global migrant stock supports much more people.

There are many reasons why remittances have expanded so quickly in such a short space of time. One such reason is the wider range of jobs that are available in the host country. This allows the migrant to earn a higher level of income in the host country. **Table (4)** is a case in point; it shows that nurses who migrated received higher incomes for their services in countries such as the United States, Canada and the United Kingdom.[12]

Table (4). Wages for the US, UK, Canada and CARICOM: Adjusted for PPP

Country	Wage US$
US	3,056
Canada	2,812
UK	2,576
CARICOM	913

Source: CARICOM Secretariat 2005

The second reason is the increasing social needs of citizens in the home country. Remitters generally increase the amount of remittances to their family in the home country so that the latter

[12] Deidron Lewis (2008), "*Migration of CARICOM Nurses: Trends and Policy towards greater intra-regional migration*". (Sir Arthur Lewis Conference 2008).

can meet increasing social needs.[13] Thirdly, there has been an increase in the channels available to remit consistent with advances in technology, this has increased both the ease and speed of which remittances are transmitted. Ease and greater speed of transmittal combined increases the flow of remittances. For example, Indian Bank in Singapore has launched “speed remit” which is tied to online banking where people can track their remittance flows via the Internet.[14] Lastly, there is increasing empirical evidence to show that in situations of natural disasters, financial and other crises in the home country, migrants have increased their flow of remittances to support their relatives. Attzs and Samuels (2007) examined this notion and found that the flow of remittances increased after a natural disaster had occurred.[15] For these reasons many developing countries have welcomed the idea of remittances and have put in place policies to encourage these flows into their economy.

Many countries are heavily dependent on remittance flows in ensuring a buoyant economy. For the poorest countries remittances help in the alleviation of poverty and help increase the standard of living of the citizens in the economy. Although there has been a significant rise in remittances measured through the formal sector, there is also a large amount of remittances flowing through the informal sector which is not recorded.[16] This generates greater income volatility and insecurity for domestic businesses as well as for developmental plans.[17]

There is a multiplier effect when remittance flows into an economy. For example, the family of the migrant may use the remittance to invest in health, housing and education. Remittances are seen to directly augment the income of the recipient households. In addition to providing financial resources for poor households, poverty and welfare are impacted positively through indirect multiplier effects and also macroeconomic effects are experienced in the economy. Remittances are also often used for small business investments, especially in countries with a good investment climate.[18]

Given the recorded growth in remittances, there has been an emerging body of literature dedicated to remittances and its impact on economic development. The focal point of this paper is: (1) to provide a deeper understanding of the use made of remittances in the Caribbean, in particular St. Lucia and Trinidad and Tobago and (2) to explore the contribution of remittances to the economic development process in the Caribbean using empirical evidence from St. Lucia and Trinidad and Tobago. The rest of the paper proceeds as follows, section two examine the

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[13] Gibril Faal (2006), “*Mitigating the Structural Imperfections and Negative Impacts of Remittances*”. (briefing paper)

[14] Indian Bank (2006) Newsletter

[15] Marlene Attz and Wendell Samuel, “*Natural Disasters and Remittances in Central America and the Caribbean*”. Mimeo. Available at: www//sta.uwi.edu/fss/dept/academic/documents/EC25F/Remittances_DisastersVersion1 (March27)

[16] Bimal Ghosh, “*Migrant’s Remittances and Development: “Myths and Rhetoric’s*”, International Organization for Migration, Bimal Ghosh and The Hague Process on Refugees and Migration (2006), http://www.antigone.gr/listpage/selected_publications/eu/071127.pdf (accessed May 20, 2009).

[17] Devesh Kapur and David Andrew Singer, “*Remittances, government spending, and the global economy*”.(Paper Prepared for presentation at the International Studies Association Annual Meeting, San Diego, March 2006)

[18] Dillip Ratha and Sanket Mohapatra “*Increasing the Macroeconomic Impact of Remittances on Development*” Development Prospects Group WB Washington D.C, 20433, (This note was prepared for the G8 Outreach Event on Remittances, Berlin, November 26, 2007)

remittance Literature; the third section is a macroeconomic assessment of the trends in St. Lucia compared to Trinidad and Tobago. The methodology is explored in the fourth section. A comparative analysis of the survey results is discussed in the fifth section, the findings are presented in the sixth section, while, the policy recommendations and the conclusion are presented in the seventh and final section.

2. Motivation for Remittances

There has been a significant amount of literature on the reasons why people send remittances to their family and friends in the home country. Solimano (2003) examined the reasons why migrants remit. He placed them into four broad groups. [19] These are: (i) The Altruistic Motive, (ii) The Self-Interest Motive, (iii) Implicit Family Contract I: Loan Repayment and (iv) Implicit Family Contract II: Co-Insurance.[20]

The Altruism motive which is also called the (livelihoods school of thought) posits that individuals remit because they see it as an obligation to their family and household. Migrants send remittances out of love, affection and responsibility to their family and as a way of saying thank you to their family and friends.[21] In a study done by Jacques Bouhga- Hagbe (2006) suggested that altruism as a motive for remitting played an imperative role in the flow of remittances to Egypt, Jordan, Morocco, Pakistan, and Tunisia in recent years.[22] Agarwal and Horowitz (2002) carried out a study which tested altruism versus risk sharing motives to remit, based on the test it was found that people remit for altruistic purposes.[23]

The self interest motive highlights the view that migrants are motivated by an economic and financial self-interest to remit. This theory is based on the idea that, at every point in time, the migrant in the foreign country saves and wants to invest in different assets in the home country.[24] Lucas and Stark (1985) advocate that migrants out of their own self motivation may send remittances to family members who they believe can act as dependable agents to care for their business.[25] Dorantes and Pozo (2006) emphasized that migrants do not only transfer remittances home to secure family members against income loss, but also to insure themselves.

The Implicit Family Contract: Loan Repayment theory is based on the concept that there is an implicit contract amongst family members who choose to migrate and those who are left in the home country. The contract includes an investment component and a repayment component.[26] The family of the migrant invests in the migrant who when established earns a higher income

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[19] Andrés Solimano(2004), "*Remittances by Emigrants: Issues and Evidence*" ECLAC 2004 http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd

[20] Ibid

[21] Alleyne, D., Kirton, C., Figueroa, (2008) "*.Macroeconomic determinants of Migrant Remittances to Caribbean Countries: Panel unit root and co- integration*"

[22] Jacques Bouhga-Hagbe (2006) "*Altruism and Workers' Remittances: Evidence from Selected Countries in the Middle East and Central Asia*" IMF working paper 06/130 2006.

[23] Claudia Smith Kelly and Blen Solomon, "*The Influence of Religion On Remittances Sent To Relatives And Friends Back Home*" Journal of Business & Economics Research – January, 2009Volume 7 NO. 1

[24] Addison E.K.Y, "*The Macroeconomic Impact of Remittances on Ghana*", Bank of Ghana, September 2004.

[25] Lucas and Starks(1985)

[26] Andrés Solimano(2004), "*Remittances by Emigrants: Issues and Evidence*" ECLAC 2004 http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd

level in the foreign country than other family members that live and work in the home country. When the migrant has settled and found a job, the migrant is able to send remittances home to repay their family members for the initial investment.[27] Ilahi and Jafarey (1999) found evidence on loan repayments which was aimed at financing international migration.[28]

The Implicit Family Contract: Co-Insurance theory is based on the notion that the migrant wants to diversify their risk. If the economic risks between the sending and receiving countries are not positively correlated then it becomes a convenient strategy for the family as a whole to send some of its family members abroad to diversify some of their economic risks.[29] In this theory emigrants become a co-insurance strategy and remittances are used as the insurance claim.[30]

<u>2.1 Benefits and Costs of Remittances</u>

Remittances are sent by migrants in the host country through financial institutions which includes commercial banks, MTOs, credit unions and other small financial agencies. The financial institutions obtain revenue from remittances though service charges. These financial institutions are regulated by the government who collect revenue by way of taxes. The recipients are able to access these remittances via the financial institutions. When remittances are received by recipient households these flows have the ability to impact not only the recipient but also the wider community and the economy as a whole.

The literature shows that there are many positive benefits to be gained from remittances at the household, community and national level.

One of the ways which remittance inflows can benefit a developing economy is through the accumulation of capital. This can be most easily understood by comparing what the capital accumulation process is as compared to if the benefiting community has to rely on domestic sources of income to finance capital accumulation.

Remittances have a positive impact on poverty at the household level. This is evident in studies carried out by McCormick and Wahba (2003) on remittances in Uganda, where remittances helped reduce the level of poverty by 11%. Similar results were found in Bangladesh and Ghana with a reduction in poverty of 6% and 5% respectively.[31]

Remittances contribute directly to raising the level of household income available to the migrant's family and dependents. Remittances also enable and benefit households to increase their level of consumption of basic necessities. It allows households to have greater access to education, health services, increased housing and other social services.

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[27] Andrés Solimano, Remittances by Emigrants: "Issues and Evidence "ECLAC 2004, pg. 10
http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd
[28] Mathias G. Sinning (2008), "Determinants of Savings and Remittances Empirical Evidence from Immigrants to Germany".
[29] Andrés Solimano, Remittances by Emigrants: "Issues and Evidence "ECLAC 2004
[30] Ibid pg. 10
http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd pg. 11
[31] DillipRatha and Sanket Mohapatra (2007), "*Increasing the Macroeconomic Impact of Remittances on Development*" Development Prospects Group, The World Bank, Washington D.C. 2043, November 26, 200

Another benefit of remittances is that it leads to an increase in household savings. Brown (1994) investigated the effect of remittances on savings and investment in Samoa and Tonga and found that remittances impact savings and investment opportunities. Similarly, remittance flows may help to increase the credit worthiness of benefiting households and so has the capacity to reduce the borrowing cost of capital.

At the community level, remittances have a multiplier effect. It generates jobs and enables new economic and social infrastructure. For example in a study done by Castro and Tuirán (2000) on Mexico found that recipients spend a smaller proportion of the remittance money on current expenditures and a larger proportion on financial and capital expenditures. This difference was evident more in rural than in urban areas.[32]

At the national level, remittances benefit an economy by increasing its foreign currency which contributes to the country's GDP and reduces its current account deficit. In Mexico remittances sent home by migrants led to a decrease in Mexico's current account deficit. [33]

Remittances also help to redistribute resources in economies thereby reducing the level of inequality in different countries. [34] Stark (1991) studied how remittances affect domestic inequality in two villages in Mexico. Although the impact of remittances on inequality depended on where the recipients of remittances were located in the village income distribution, he found that remittances did affect the level of inequality within the economy.[35]

An increase in the inflow of remittances provides foreign exchange which raises the national income and savings level of an economy.[36] This will impact an economy positively and will result in an increase in the growth rate of the economy, which over a period in time contributes to economic development. In addition, remittances are used to make the domestic macro-economic environment more stable. This would allow for firms to require a lower risk premium to undertake investments and this can help to improve the attractiveness of domestic investment. **Fig. (2)** Illustrates the remittance path and the positive impacts of remittances at the household, community and national level.

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[32]Rodolfo Garcia Zamora, "*Collective Remittances and the 3x1 Program as a Transnational Social Learning Process*" (Background Paper to present at seminar "Mexican Migrant Social and Civic Participation in the United States." Washington D.C., November 4th and 5th, 2005

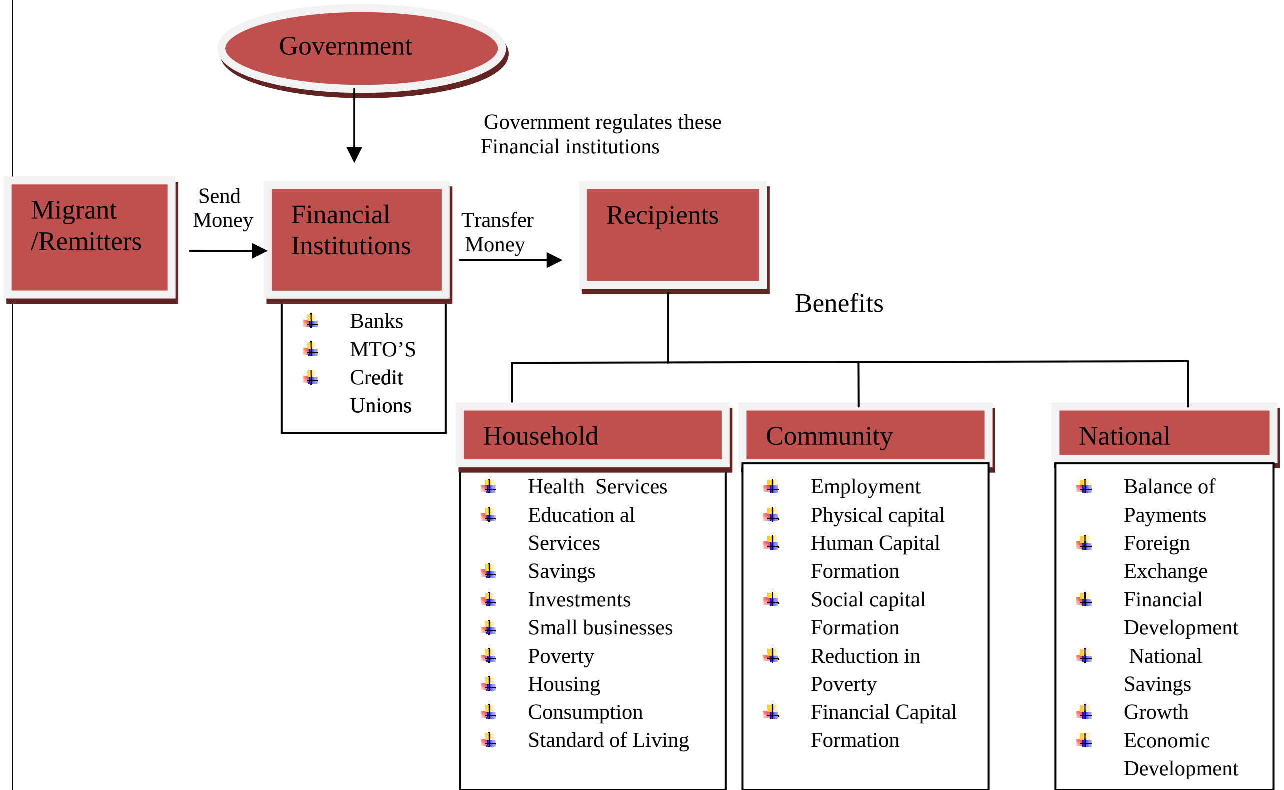
[33] Ibid

[34] Chilhowie Admos, Piesse Jenifer and Pinder Caroline (2003), "*Assessing the Impact of Migrant Worker's Remittances on Poverty*, "(Paper Presented at the EDIAS Conference on New Directions in Impact Assessment for Development: Methods and Practice, November 2003). Institute for Development Policy and Management (IDPM) University of Manchester and Women in Sustainable Enterprise (WISE) Development Ltd

[35] Andrés Solimano(2004), "*Remittances by Emigrants: Issues and Evidence*" ECLAC 2004 http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd

[36] Addison E.K.Y, "*The Macroeconomic Impact of Remittances on Ghana*", Bank of Ghana

Fig. (2) The Remittance Path and the benefits to an economy.



Despite the many benefits that remittances afford, there are some major drawbacks to the economy

The favourable effects of remittances on capital accumulation are conditioned by several influences. It presumes that households don't utilize all of the remitted income for consumption. From the perspective of the permanent income hypothesis an increase in remittance flows may increase the long run consumption level relative to investment.

Remittances can also trigger Dutch Disease effects which includes the appreciation of the real effective exchange rate.[37] For example, empirical work by Acosta, Lartey and Mandelman (2007) using data from El Salvador found that the incapability of remittances to be absorbed by the economy led to the Dutch Disease effect. Remittances led to an increase in household incomes which led to an increase in their level of consumption that was geared toward non-tradable goods.[38] Large inflows of remittances into small economies can cause the domestic exchange rate to appreciate, this means that the local currency becomes more expensive relative

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[37] Hosein and Franklin (2007) "*Remittances and the Economic Development Process in Trinidad and Tobago*", World Development Studies, Volume four, winter 2006-Spring 2007

[38] Pablo A. Acosta, Emmanuel K.K. Lartey, and Federico S. Mandelman (2007), "*Remittances and the Dutch Disease*" Working Paper 2007-8 , April 2007, pg. 24

to the foreign currency. This enables the tradable goods in the economy to become less profitable.[39]

Remittances also lead to a high level of imports in the home country. This is as a result of people using remittances to increase their demand for imported goods. This in itself leads to problems with the country's balance of payment and can result in it being unfavorable. In a similar manner remittances are spent on consumer goods which can increase the level of inflation in the economy as well as lead to an increase in wages.

Another cost of remittances is that a large percentage of skilled and educated citizens leave to transfer their skills and knowledge to other countries and the government of the host country lose out on the initial investment to train these individuals.[40] The Nursing scenario can be used as an example in the Caribbean. The Commonwealth Secretariat (2005) postulated that an average of $5000 annually was expected to be remitted per nurse who migrated from the Caribbean. Whereas, subsides by the government to train nurses amounted to $35,000 per nurse. It was therefore estimated that it would take 7 years of remittances in order for nurses to repay the investment by the government. Given that the government does not benefit directly from remittances, it would take a significant number of years for the government to reclaim the cost of training nurses who migrated.[41]

Remittances also lead to welfare loss in an economy. In order for there to be remittances an individual must make the decision to emigrate. This can have a negative impact on an economy due to the loss in welfare. Welfare loss is illustrated in **fig. (3)** below.

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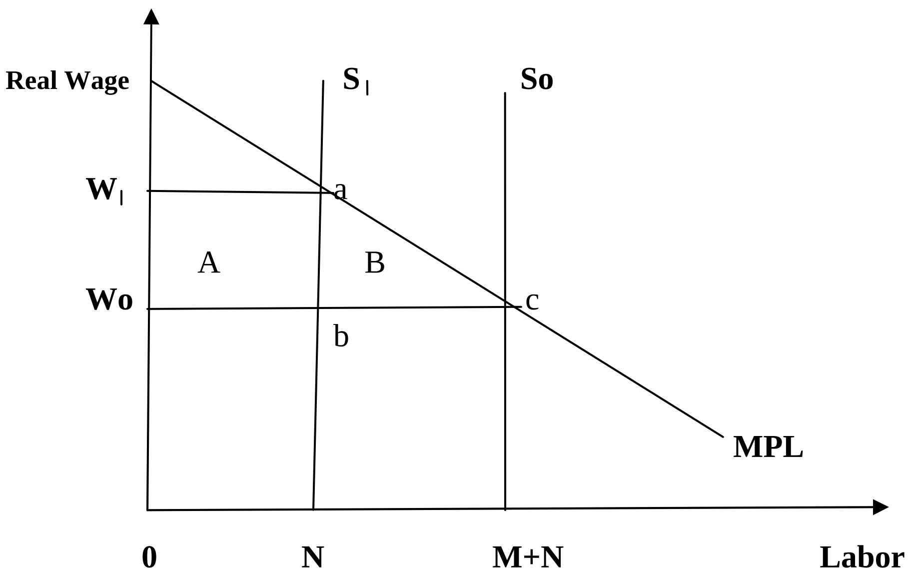
[39] Dillip Ratha and Sanket Mohapatra "*Increasing the Macroeconomic Impact of Remittances on Development*" Development Prospects Group WB Washington D.C, 20433, (This note was prepared for the G8 Outreach Event on Remittances, Berlin, November 26, 2007

[40] Elizabeth Thomas- Hope , "*Trends and Patterns of Migration to and from Caribbean countries*"(2002)

[41] Deidron Lewis (2008), "*Migration of CARICOM Nurses: Trends and Policy towards greater intra-regional migration*." (Sir Arthur Lewis Conference 2008)

Fig. (3) Welfare loss from Emigration



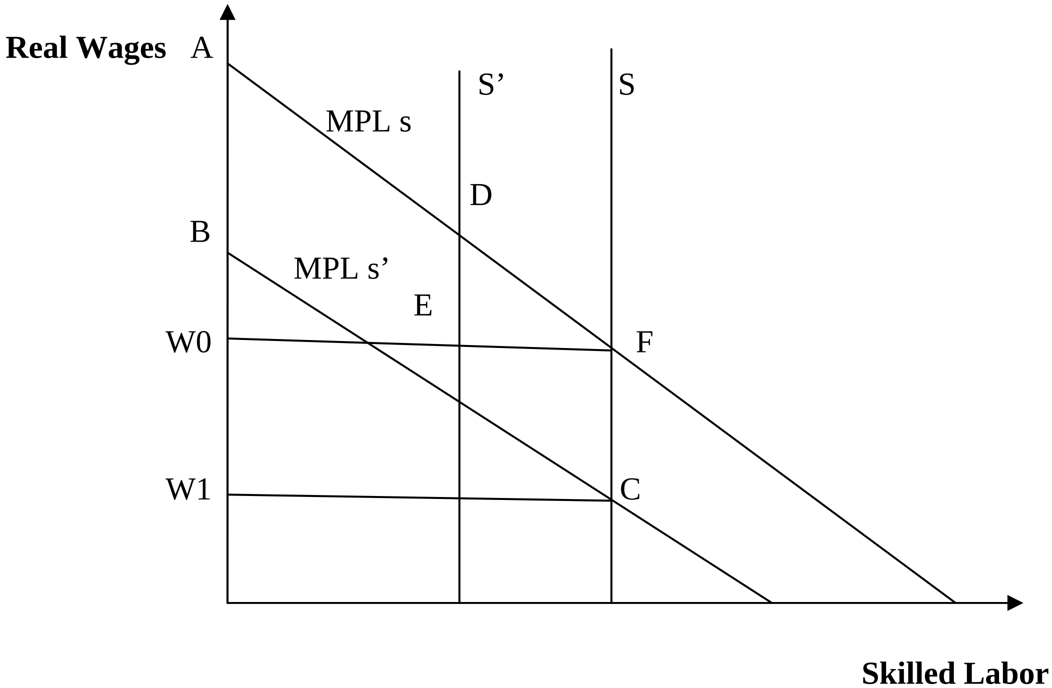
Source: Mishra and Prachi (2006)

The loss of human capital can have a negative impact on an economy. The above diagram illustrates a simple model of demand and supply. The diagram reflects on the welfare loss of migration and is taken from (Mishra 2006). **M+N** represents the initial supply of workers at wages **W_o**. With an increase in the flow of migration, the supply of labor falls to **N**. This reduction in the labor force causes the real wage to move from W_0 to W_1 .The workers who remain employed gain **wwab** which is represented by the rectangle **A**. The owners of the capital lose a return equivalent to the trapezium **w_0w_1 A+B**. The country on a whole suffers from the increase in migration and loses welfare of triangle **abc** which is labeled **B**. The area **B** is the emigration loss that the country suffers.[42] Migration thus has the capacity to adversely affect economic welfare in a country.

Fig. (4) below shows emigration loss when external effects are taking into consideration. It is assumed that only citizens with skilled labor migrates, this would reduce the supply of labor from S to S' which would impact the marginal productivity of labor and cause it to shift from sMPL to s'MPL. The loss from emigration is outlined by the area ABCD as well as the triangle DEF. The external effects are what cause the area ABCD to be added to the "emigration loss". The increase in emigration also has a negative impact on the productivity of the skilled workers left behind but this is not taken into consideration in the diagram below.

[42] Mishra and Prachi (2006) "*Emigration and Brain Drain: Evidence From the Caribbean*" WP/06/25

Fig. (4) Labor Demand –Supply Model: Welfare Impact of Emigration with External Effects



Source Mishra and Prachi (2006)

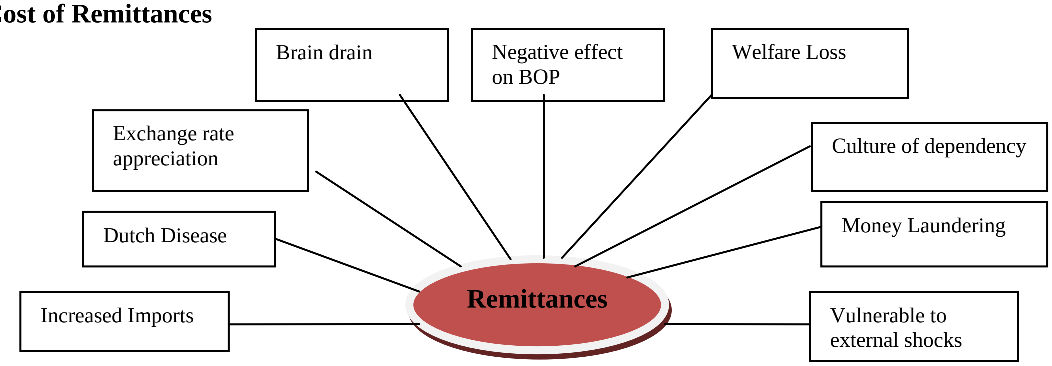
Overall, emigration loss can be very significant if the external effects are large. The external effects are based on assumption made about elasticities. Emigration can have a significant impact on welfare loss in an economy and thou the economy benefits from remittances in many cases the welfare loss outweigh the benefits from remittances.

It is also possible that remittances can adversely affect the labor force participation of benefiting households. A benefiting household may substitute remittance income for labor income and in so doing can promote moral hazard behavior. One possibility is that recipients use remittances for consumption of leisure at the expense of the recipient actively participating in the labor market. This can also create a culture of dependency in the economy and can create social problems in society.

On the part of the government, they may become very reliant on the inflows of remittances and this may lead to a high level of complacency when it comes to adopting fiscal and trade policy reforms. In a similar light, the dependence on the inflow of foreign exchange strengthens the local currency; this in turn makes exports less competitive. This will result and have an adverse effect on the tradable sectors.[43] **Fig. (5)** below summarizes the cost of remittances.

[43] Paper for a Expert group meeting on international migration and development in Latin America and the Population Division Department of Economic and Social Affairs

Fig. (5) Cost of Remittances



2.2 Factors affecting the amount remitted

The amount of remittances estimated to be transmitted through formal arrangement is US$433 billion (Global Development Finance 2008).[44] However it is increasingly clear that most of the remittances transferred over the world is not through formal means but informal means (Choucri, 1986; Russell and Bracking 2003). Informal transfers of remittances are just as important as formal transfers.

There are many factors that influence the method used by migrants to send remittances to their home country. The legal status of the migrant in the host country is one such factor that affect whether or not the migrant use formal or informal methods to remit. If the migrant does not have legal status in the host country then remitting via formal channels is very risky and the migrant may prefer to use informal channels. [45]

Another factor is the transaction cost of remitting. This influences the method through which the migrant send remittances. If it is very expensive to remit through formal means then the migrant may prefer to use informal means of sending money to family and friends in the home country.

Time is another factor that affects the channel used to remit. The migrant depending on the urgency in sending remittances to the home country will want to choose a channel that is quicker and has a short time lag. Therefore length of time is important in decisions to remit.

The reliability and level of security associated with each method is also considered by the migrant. This would influence the medium used by the migrant. Remitters when sending money would like to know that their money is sent through safe and secure means, especially if they are sending large sums of money.

[44] Ratha, Sanket Mohapatra, and Anil Silwal, "*World Bank Migration and development Brief 10*". World Bank Migration and Remittance Team, Development Prospect Group, WB (July2009), pg 10
[45] Jorgen Carling, "*Migrant remittances and development cooperation*", International Peace Research Institute, Oslo, (January 2005) Instituttte for fredsforskning Report

The amount of money that the migrant wants to send all at once is also an important factor. If the migrant wants to remit a large quantity of money, it is more likely that they would want to send it via the most secure means possible and most likely would use a formal means of transfer. Safety constitutes an important factor in determining the medium used by migrants.[46] The destination where the money is headed would also influence the method used, which is whether or not it is a war zone and whether or not it is a stable environment. [47]

Foreign exchange controls in the home and host country can also affect the means through which migrants send remittances. If there is foreign exchange controls in a country then migrants would use informal means to transfer remittances.

It is important for economies to recognize the importance of the formalization of informal remittances flows. The channeling of remittance resources through formal avenues such as banks, Western Union and Money Gram can facilitate the measurement of these remittances, which previously would not have been captured in the official data. This would therefore allow a government to incorporate these flows in its development plans. The expansion in the means and mechanisms of transmitting remitances have led to an increase in remittance flows in moden economies.[48]

2.3 Contribution of Remittances to Development

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[46] Admos Chilhowie, Jenifer Piesse, Caroline Pinder "*Assessing the Impact of Migrant Worker's Remittances on Poverty*," (Paper Presented at the EDIAS Conference on New Directions in Impact Assessment for Development: Methods and Practice), (November 2003). Institute for Development Policy and Management (IDPM) University of Manchester and Women in Sustainable Enterprise (WISE) Development Ltd

[47] Ibid

[48] Migration Research Group (MRG) at the Hamburg Institute of International Economics." *Remittances : A Bridge between Migration and Development*" Migration und Bevölkerung Newsletter

Table (5). Literature on Remittances and Economic Development.		
Researcher	**Country**	**Contribution to Development**
Alleyne (2007)	Jamaica	- When a number of poverty measures were used, remittances led to a reduction in the headcount of poverty by (-3.4%) and reduced the poverty gap by (-8.35).[49]
Attzs (2008)	SIDS	- Remittances are an important form of post disaster financing. - Remittances help alleviate the effects of a natural disaster on an economy by smoothing the consumption of households which are affected by the disaster. - The impact of remittances is having both an immediate as well as a lagged effect on households.[50]
Orozco (2007)	Catamayo Guatemala	- Remittances have been used most times for the sole purpose of providing health care/medical services to elderly persons who have been suffering from chronic diseases and malfunctions that needs more complicated treatment. - Remittances are used to a large extent for emergency treatments for patients instead of being used for preventative treatment.[51]
Ratha (2007)	Uganda, Bangladesh, Ghana, Nepal.	- Remittances may explain a significant proportion of the 11 percentage-point reduction in the poverty head count rate in Nepal over the last decade. - Remittances reduced the percentage of the population below the national poverty line by 11 percentage points in

[49] Dillon Alleyne, " *The Impact of International Remittances on Poverty and Inequality in Jamaica: What is the Evidence*" Global Development Studies, Volume 4, Spring 2007, Nos 3-4 pg. 210

[50] Marlene Attzs **"***Natural Disasters and Remittances***:** *Exploring the Linkages between Poverty, Gender, and Disaster Vulnerability in Caribbean SIDS"* June 2008, No. 2008/61

[51] Orozco Manuel, "*Between Hardship and the Local Economy in Latin America*" Inter-American Dialogue, Washington Dc, Global Development Studies, Volume 4, spring 2007. Nos-3-4, pg. 25

		Uganda, 6 percentage points in Bangladesh and 5 in Ghana.[52]
Kirton (2005)	Jamaica	- Remittances are a type of supplemental income to poor households. - 26% of the total annual expenditure of citizens living in the poorest fraction of the population is funded by remittances. This represents 87 % of total support received by this group. [53]
Giuliano, Ruiz-Arranz and Mundaca (2005)	100 developing economies	- Remittances help promote growth in less financially developed countries. - Agents compensate for the lack of development of local financial markets with productive resources towards efficient use that would foster economic growth. This in turn helps to promote financial development in the economy.[54]
Ratha (2003)	Mexico, Egypt, Sub- Saharan Africa	- Remittances contribute positively to investments in the countries receiving remittances. Those countries included Mexico, Egypt, and Sub-Saharan Africa. - In these countries, remittances are used to finance new schools, clinics as well as other infrastructure. Also, migrants who return to their home country bring along new finances that assist in investment project.[55]
Herrera (2004)	Ecuador, Guatemala	- 43% of remittances are spent on education for children.

[52] Dillip Ratha and Sanket Mohapatra "*Increasing the Macroeconomic Impact of Remittances on Development*" Development Prospects Group WB Washington D.C, 20433, (This note was prepared for the G8 Outreach Event on Remittances, Berlin, November 26, 2007)
[53] Claremont Kirton, 'Remittances: The Experience of the English-speaking Caribbean'. InD. F. Terry and S. R. Wilson (eds), *Beyond Small Change: Making Remittances Count*. Washington, DC: IADB.(2005)
[54] Reena Aggarwal, Asli Demirgüç-Kunt and Maria Soledad Martinez Peria, "Do Workers' Remittances Promote Financial Development?" World Bank Policy Research Working Paper 3957, (July 2006): pg.8
[55]Andrés Solimano(2004), "*Remittances by Emigrants: Issues and Evidence*" ECLAC 2004 http://www.andressolimano.com/articles/migration/Remittances%20WIDER,%20manuscript.pd

		- In Guatemala of the twenty families interviewed in Salcaja, 45% sent their children to private schools. Though the private schools are outside their community, parents are willing to pay the extra cost and finance the cost with remittances.[56]
Hanson and Woodruff (2003)	Mexico	- Children in migrant households complete significantly more years of schooling that non recipients of remittances. - Households who send a migrant abroad generate remittances that help relax household credit constraints on the financing of education.[57]
Cox, Edwards and Ureta	El Salvador	- Remittances have a significant and large effect on school retention and students from remittance receiving households stayed in school for a longer period of time than children who were from non remittance receiving households.[58]
Hildebrant and McKenzie (2005)	Mexico	- Mexico-US migration improves children health outcomes, lowers infant mortality rates and increases birth weights. - The study identified two channels of the effect: one is the health improvements brought about by increases in income and another is the finding that having a migrant family member is associated with increase in the level of health knowledge among the mothers.[59]
Leon-Ledesma and Piracha (2004) Mishra (2005)	Caribbean countries	- Remittances lead to a positive impact on productivity and employment in eleven

[56] Manuel Orozco (2007), "*Between Hardship and the Local Economy in Latin America*" Inter-American Dialogue, Washington Dc, Global Development Studies, Volume 4, spring 2007. Nos-3-4, pg. 24

		transition economies. - In relation to the Caribbean, a 1% point increase in the amount of remittances which comes into the Caribbean led to a 0.6% point increase in private sector investments.[60]
Pablo A. Acosta, Nicole Rae Baerg, and Federico S. Mandelman (2009)		- The increase in the local currency depends on how effective the economy can transform the remitted capital into new investments. [61]

[57] Christian Dustmann and Biagio Speciale, "*Remittances and Public Spending on Education*" (January 2006),"pg 16.

[58]Cox and Ureta (2003), "*International Migration, Remittances, And Schooling: Evidence from El Salvador*," Journal of Development Economics, 2003, v72 (2, December), 429-461.

[59] Capistrano and Maria Lourdes C. Sta. Maria(), "*The Impact of International Labor Migration and OFW Remittances on Poverty in the Philippines*".

[60] Hosein and Franklin (2007) "*Remittances and the Economic Development process in Trinidad and To*bago" Global Development Studies, Volume 4, Winter 2006- Spring 2007.

[61] Pablo A. Acosta, Nicole Rae Baerg, and Federico S. Mandelman "*Financial Development, Remittances, and Real Exchange Rate Appreciation*" Federal Reserve Bank of Atlanta Economic Review Volume 94, No. 1, 2009

3. Macroeconomic Assessment of trends between St. Lucia and Trinidad and Tobago

Approximately 90% of the 5 million hectare area spanned by the islands of Trinidad and Tobago and the 2000 metre water depth contour is underlain by sequences of sedimentary rocks. This type of rocks is usually associated with the presence of hydrocarbons. Today T&T is the main exporter of hydrocarbon intensive commodities from the Caribbean. In the recent past, the Trinidad and Tobago economy experienced very favorable macroeconomic growth (1994 to 2008). Much of this was on account of favorable oil prices, favorable production of crude oil and especially favorable production and utilization of natural gas (**see table (6) below**).

In particular, the production of crude oil fluctuated during 1991 to 2008 whereas the prices of crude oil fluctuated during the period 1991 to 2001 and started to increase thereafter. The price of crude oil peaked in the year 2008 reaching a high of $100 a barrel. On the other hand, the production of natural gas increased significantly during that period (1991- 2008) moving from 7411.5 mcm to 41520 mcm. Trinidad and Tobago has a comparative advantage in the production of crude oil and natural gas.

Table (6) : Production of Crude Oil, Price of Crude Oil, Natural Gas Production, Real GDP Growth, Current Account Balance for T&T for the period 1991-2007

Years	Crude Oil Production 000 Barrels	Crude Prices Us$/Bbl	Natural Gas Production (mcm)	Unemployment rate	Inflation rate	GDP $US 2000 Constant Prices	Real GDP Growth (%)	Current Account Balance ($ mn)
1991	52,423	21.2	7411.5	19	3.8	38620.64	2.68	-4.66
1992	49,195	20.5	7483.6	20	6.4	37984.47	-1.65	138.89
1993	44,633	18.1	7077.6	20	11	37434.09	-1.45	113.1
1994	47,235	16.7	7695.4	18	8.8	38767.5	3.56	217.81
1995	47,576	17.8	7757.4	17	5.2	40300.69	3.95	293.82
1996	47,112	21.7	9058	16	3.4	41891.22	3.95	105.14
1997	45,166	20.1	9137	15	3.6	43024.15	2.7	-613.61
1998	44,759	13.4	10294	14	5.6	46366.77	7.77	-643.52
1999	45,619	18.5	13240	13	3.4	48401.62	4.39	30.6
2000	43,593	29.9	15474	12	3.6	51370.56	6.13	544.3
2001	41,374	25	16486	11	5.5	53474	4.09	416
2002	47,685	25.8	18862	10	4.1	57759.2	8.01	76.4
2003	50,192	30.5	26795	11	3.8	66105.09	14.45	984.7
2004	44,985	41.5	30255	8.3	3.7	71261.28	7.8	1447.1
2005	52,740	56.5	33250	8	6.9	75608.22	6.1	4238.9
2006	52,105	66	40058	6.2	8.3	84832.43	12.2	4757.5

2007	43,600	83	40410	5.5	7.89	89498.21	5.5	5380.9
2008	41,800	100	41520	4.6	12	92908.09	3.5	8791.9
Source: Review of the T&T Economy (various years). World Bank 2009 and Annual Economic Survey for T&T 2008								

Amidst these changes in the price and production fundamentals of its main export items, the T&T economy prospered, realizing rapid economic growth from 1994 to 2008. Indeed the level of Trinidad and Tobago's GDP continued to increase more than double over the time period 1991-2008, moving from US$38,620.64 million to US$152,115.6 million in constant (US$) prices in 2008. The rapid increase in the T&T GDP has its roots in the greater trade liberalization process in the 1990's under the ambit of the structural adjustment program and the rapid increase in hydrocarbon output and prices during significant parts of the data period of the table.

Trinidad and Tobago's current account balance plunged into deficit during the 1980's as both the production and prices of its main exports collapsed. However, in 1992 the current account balance for Trinidad and Tobago improved considerably with this trend continuing up to 2008. [62]

From an employment perspective, the strong buoyant growth in the Trinidad and Tobago economy after 1993 led to a rapid decline in the unemployment rate which troughed at 6.2% in 2006 and averaged 6.52% during the period 2004 to 2008. The strong growth utilized whatever spare capacity the economy hosted in this time period 1990-2008. The strong growth of the Trinidad and Tobago economy and the rapid drift toward full employment started to overheat the economy so that the inflation rate in the period 2005 to 2008 averaged 8.8 % as compared to 3.9% in the three year period before.

The economy of St. Lucia is significantly different in macroeconomic posture than Trinidad and Tobago. St. Lucia has a population of 160,000 people and an annual population growth rate of 2% per annum.[63] St. Lucia's main source of fiscal revenue comes from agriculture and tourism as well as small-scale manufacturing. St. Lucia was the leading producer of bananas in the Windward Islands in the 1980's where agriculture was the main economic activity during that period. However, due to the changes in the import regime which discontinued preferential

[62] Note the deficits in 1997 and 1998 were mainly on account of vast capital imports for the LNG Plant which came on stream in 1992.
[63] This information was taken from St.Lucia trade portal, http://www.stlucia.org/planner/about.asp.

treatment for St. Lucia's bananas, there was a rapid decline in the banana industry.[64] In 1996 due to economic difficulty several plants closed and many jobs were lost. This is reflected in **Table (7)** below which indicates that banana production fell by 58.5% moving from 130,000 ton in 1996 to 54,000 tons in 2007.[65] Over the years banana prices fluctuated and reached a low in the year 2000 with a value of US$159.26 per ton of bananas. However, banana prices increase hereafter and were at a peak in the year 2007 with a value of US$620.78 a ton. This was much higher than the average for the five year period before which rested at US$453.15

After the fall of the banana industry, economic diversification became a major concern to the economy. Tourism is now the major industry and on average forms 15.7% of GDP and 16.7% of employment (WB 2008 and UNECLAC 2009). Tourist arrivals have been increasing significantly moving from 311,815 arrivals for the year 1991 to 947,445 in the year 2008. It is important to note the decline in tourist arrivals for the year 2002; this was as a result of the terrorist attack which took place in the United States of America. Tourist arrivals declined in 2002 but increased thereafter. St. Lucia ranks third in tourism as a percentage share of GDP and percentage share of employment in the Caribbean (UNECLAC 2009). The tourism economy in St. Lucia is very diverse and takes into account ecotourism, tourism of culture and many other branches of tourism.

Table (7): Illustrating Banana production, Banana Prices, Tourism Arrival, Real GDP Growth Unemployment, Inflation rate GDP, Real GDP Growth and the Current Account Balance for St. Lucia for the period 1991-2007 for St Lucia.

Years	Banana production (Tonnes Mt)	Banana prices (US/Tonnes)	Tourism arrivals	Rgdp growth rate	Unemployment rate	Inflation rate	Real GDP ($US mn)	Real GDP Growth (%)	Current Account Balance ($ mn)
1991	128,000	$429.82	311,815	2.68	NA	5.69	498	2.68	-57
1992	158,000	$422.78	347,554	7.02	NA	5.07	533	7.02	-72
1993	160,000	$475.93	355,685	2.57	17	1.13	547	2.57	-56
1994	115,000	$474.07	404,648	1.42	19	2.53	555	1.42	-50
1995	140,000	$459.26	410,849	3.29	16	5.63	573	3.29	-48
1996	130,000	$444.44	421,746	5.42	16	0.92	604	5.42	-36
1997	100,000	$444.44	572,495	0.4	20	-0.01	607	0.4	-58
1998	80,000	$462.96	639,185	6.35	22	3.2	645	6.35	-79
1999	85,000	$492.59	667,936	2.36	18	3.48	660	2.36	-60

[64] The St. Lucia banana industry grew throughout the 1960 to 1980s. During that period Saint Lucia emerged an independent country and the UK joined the European Community (EC, later the European Union or EU) in 1973, which led to the 1974 signing of Lomé Convention, a treaty between EC members and many of their former colonies in Africa, the Caribbean, and the Pacific (ACP). Lomé main feature was its preferential treatment towards the EC countries with exports from the ACP countries. In the 1990's many changes occurred which threatened the banana industry in the region. These changes included the creation of the Single European Market (SEM) in 1993. This led to the change in the conditions under which ACP exports, especially bananas, entered the EU markets. Also no longer could a fragment system continue due to the fact that commodities would freely be able to go through the EU borders. Finally, an import licenced system was implemented which preferred EU firms, this included "North American fruit multinationals Chiquita, Del Monte, and Dole" (European Council 1993).

[65] This data was taken from the Food and Agriculture Organization database.

2000	68,000	$159.26	728,377	-0.19	16	3.64	659	-0.19	-111
2001	50,000	$448.15	748,859	-4.72	16	5.4	628	-4.72	-95
2002	65,000	$448.15	647,394	2.99	15	-0.26	647	2.99	-108
2003	50,000	$462.96	653,460	3	22	1.03	666	3	-106
2004	58,000	$620.04	670,188	6.72	21	1.47	711	6.72	-147
2005	45,000	$606.15	779,710	7.35	22	3.91	763	7.35	-87
2006	50,000	$593.26	695,280	2.22	17	2.34	780	2.22	-150
2007	54,000	$620.78	931,801	3.2		2.53	805	3.2	-303
2008			947,445	2.79		3.81	1011	0.7	-320
Source: FAO (various years). Caricom and WDI, World Bank 2009									

In St. Lucia, data on unemployment was sketchier than Trinidad and Tobago. Notwithstanding the availability of data the general trend in unemployment reflects an average of 31% per annum for the time period 1993 to 2006, with an actual rate in 2006 of 17.6% being approximately five (5) percentage points lower than in 2003. With regards to inflation for St. Lucia, the inflation rate has been generally more stable than Trinidad and Tobago averaging 2.94% per annum between 1990- 2007.

In **Table (8)** below, it is evident that St. Lucia's GDP has been increasing significantly over the period 1991-2008, moving from $US498 million to $US1, 011.1 million. A significant segment of this GDP emanates from the tourism, agricultural and service sector. Over the years the growth rate fluctuated significantly with an average of 3.5% during the years 1991-1999 as compared to an average of 2.36% for the period 2000-2008. Note though that the current account balance has been persistently negative over the listed time period resting at $-320 million in the year 2007.

In examining net migration for the period 1990-2005, five year intervals are used. The net migration rate for Trinidad is much higher than that of St. Lucia. This means that a lot more persons migrate out of Trinidad and Tobago than those who migrate to T&T. However, it is important to note that over the years net migration has been decreasing for Trinidad and Tobago. The decrease for Trinidad and Tobago means that there is a decline in the ratio of people emigration to this who is immigrating.

On the other hand the net migration figure has been increasing for St. Lucia, moving from (-5,336) in 1991 to (-8,674) in 2005. This is due to the fact that many citizens are migrating from St. Lucia in search of better jobs and living conditions, given the relative state of the St Lucian economy.

Table (8) below also highlights remittance flows to St. Lucia and Trinidad and Tobago. Remittance flows for Trinidad and Tobago has been increasing from the early 90s till 1999 to 2001, where remittances flows fell. However, remittance flows recovered significantly and increased sharply thereafter and has been on the increase till 2007. On the other hand with regards to the economy of St. Lucia, remittance flows to the economy fell sharply from its high of 18 million in 1991 and remained at a constant low throughout the 90's until 2004 where remittances rose sharply to $28.65 million and have continued to increase over the years till present.

In examining remittances as a percentage of GDP, St.Lucia remittances have been fluctuating over the years. It increased in the early 1990s till 1996 where it fell and picked up again in 1998. Between the years 2000 to 2001 remittances as a percentage of GDP decreased. This was as a result of the terrorist attack in the United States. The figures peaked in the year 2002 as the economy was recovering from the terrorist attack and declined steadily hereafter. Remittances as a share of GDP for St. Lucia are larger than for Trinidad and Tobago during the period 1991-2003. However from 2003 to 2007 Trinidad and Tobago remittances as a percentage of GDP has been greater than that of St. Lucia. Overall, Trinidad and Tobago remittances as a % of GDP fell from 4.17% to 3.17% for the period 1991-2007.

Table (8) : Illustrating Net Migration, Remittances, Remittances as a share of GDP for St. Lucia and T&T for the period 1991- 2007

	T&T Net Migration	St. Lucia Net Migration	T&T Remittances(US $ mn)	St. Lucia Remittances (US mn)	T&T Remittances as a % of GDP	St. Lucia Remittances as a % of GDP
1991	-50500	-5336	5	18	4.17	0.09
1992			7	2	0.42	0.13
1993			20	2	0.41	0.44
1994			27	2	0.39	0.55
1995			32	2	0.36	0.6
1996	-45756	-6308	28	2	0.35	0.49
1997			30	2	0.33	0.52
1998			45	3	0.44	0.74
1999			54	3	0.49	0.79
2000			38	3	0.46	0.47
2001	-41458	-7397	41	2	0.32	0.46
2002			79	2	0.29	0.88
2003			87	2	0.27	0.77
2004			86.9	28.65	3.61	0.66
2005			92.4	29.46	3.34	0.61
2006	-37564	-8674	92.4	30.308	3.31	0.48
2007			92.4	31.087	3.17	0.44
Source: World Bank (WDI 2009)						

4. Methodology

Remittances in St. Lucia and T&T are received in cash through Money Transfer Operators (MTO’s), human couriers (usually friends/relatives) traveling back to Trinidad and Tobago and St. Lucia, commercial bank transfers (wire transfers) and the mail as bank drafts. In this paper the focus is on cash remittances received through Money Transfer Organizations.

The methodology adopted is a mix of quantitative and qualitative designs. The qualitative design consisted of in-depth interviews with the Managers of the MTOs, the Prime Minister's Executive Assistant, the Director of Customs and Exercise Duties, the Research Specialist of the Parliament Office, as well as the Deputy Director of the Department of Statistics in St. Lucia. These interviews were aimed at getting a deeper insight into the remittance economy of St. Lucia and getting a firsthand understanding of the level of involvement of the various stakeholders.

The quantitative design provided for both primary data collection in the case of St Lucia and secondary data collection in the case of T&T. The secondary data reflects the findings of a survey of a sample of 156 recipients of remittances via MTOs in T&T as summarized in Franklin & Hosein (2007). The primary data design relates to a sample survey of 192 recipients of remittances via MTOs in St Lucia.

The sampling frame of the population of recipients who receive remittances via MTOs in St Lucia is unavailable. An attempt was made to construct this listing via the use of the MTO's customer database, however, this proved futile as the managers of the MTOs did not support this attempt since they saw it as breaching the security and privacy of customers. They even denied access to the locations of their offices for the purpose of data collection. With specific reference to Money Gram, the manager was willing to co-operate, but had to get the approval of the head office in Trinidad and Tobago; however, this proved to be very bureaucratic and eventually was abandoned. The sample frame therefore remains in the hands of the MTOs.

Accordingly, a mix of quota and convenience sampling was employed. Quotas of 132 and 60 respectively were assigned to Castries and Vieux-Fort and a modified questionnaire to that used by Franklin & Hosein (2007) was used as the survey instrument. This was administered on a face-to-face basis to recipients of remittances outside of the MTO locations in St. Lucia vis- a-vis Castries which is the city of St. Lucia and in Vieux Fort which is a town in the south of the country.

The questionnaire sought to examine the distribution of the household size of the recipients and the occupation of the members of the household; the age group of the remitters as well as the frequency to which recipients receive these flows and the relation of the sender of remittances to the recipients were also investigated. The use made of remittances was also recorded. The percentage of household income that is accounted for by remittances was solicited in the questionnaires.

Field data collection was conducted over a two week period, from 3rd June 2009 to 14th June 2009 in St. Lucia. Data from the St Lucia survey were summarized, analyzed and compared with the summaries and findings contained in Franklin & Hosein (2007).

<u>5. Analysis of the Survey Data</u>

In examining the results of the survey for St. Lucia and Trinidad and Tobago, **fig. (6)** below provides a comparison of the sizes of households of the recipients in St. Lucia versus those of Trinidad and Tobago. With regards to St. Lucia the sample yielded a modal size of 4 persons compared to a modal size of 2 for T&T. According to **fig. (6)** the number of persons belonging to households of up to 3 persons accounted for (53%) of the sample compared to (55%) for St. Lucia. In Trinidad and Tobago (37%) of the respondents belong to households of 4 and above as compared to (45%) for St. Lucia. It appears then that remittance receiving households are larger in St. Lucia than Trinidad and Tobago.

Fig (6)

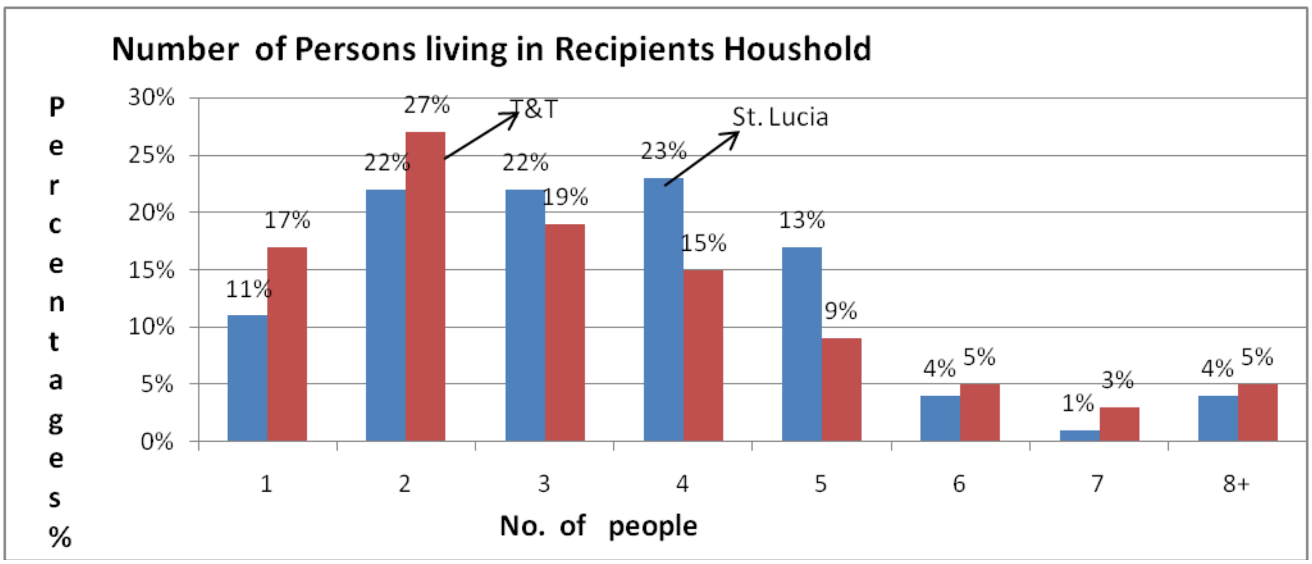


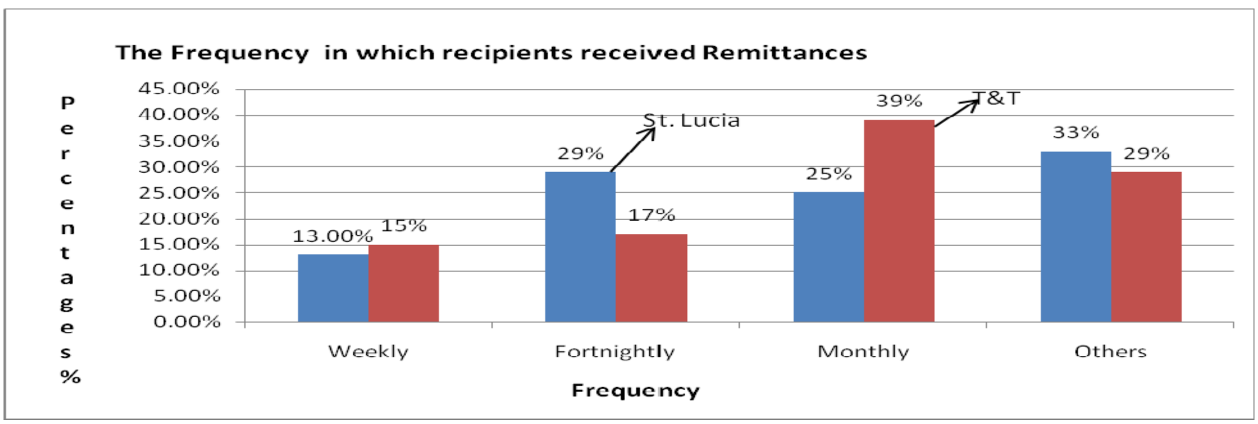
Table (9) provides data, for both St. Lucia and T&T which indicates that more than half of the recipients of remittances are students, housewives and non-skilled workers combined. This accounted for 55% and 71% respectively for T&T and St. Lucia. There exist similarities in the combined group of students, non skilled and retired for both St. Lucia and T&T with a total of 55% and 56% respectively. Note also that 55% fell within the combined group of students, non skilled and retired in both St. Lucia and T&T. The modal occupation of recipients for both St. Lucia and T&T is students. As a group, housewives represent significant cohort among remittances in St. Lucia accounting for 24% as compared to 9% for T&T. Professionals in T&T accounted for a significantly larger share of remittance receiving households (12%) as compared to St. Lucia (3%). Less significant differences exist within the other classes/groups which included students, non skilled, clerical/sales, skilled professional and small business owners for St. Lucia and T&T.

Table (10): Occupation of the recipients

Occupation of Household Members	T&T	St. Lucia
Student	34%	32%
Housewife	9%	24%
Non-skilled	12%	15%
Clerical/Sales	11%	7%
Skilled	10%	6%
Professional	12%	3%
Small Business Owner	2%	5%
Retired	10%	8%
Total	100%	100%

In examining the frequency with which recipients receive remittances, of the recipients interviewed from St. Lucia, (42%) of respondents received cash remittances on a weekly/fortnightly basis as compared to (32%) for T&T. A further (25%) received remittances on a monthly basis in St. Lucia compared to (39%) for T&T.

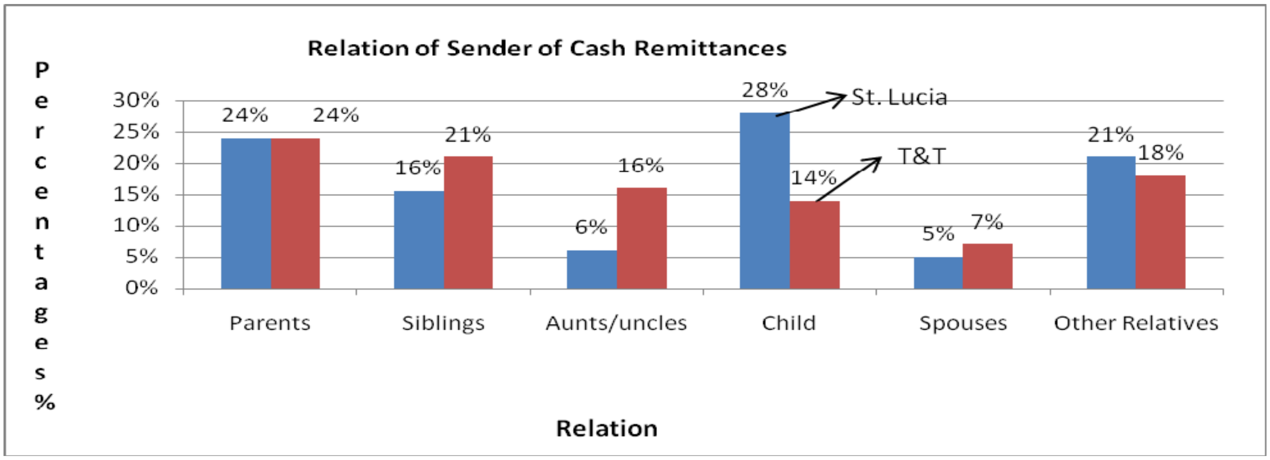
It is important to highlight the fact that a significant percentage received remittances with frequency other than weekly, fortnightly and monthly. These account for (33%) and (29%) respectively for St. Lucia and T&T. The results also suggest that the majority of the respondents in both countries received remittances with a well defined frequency, thereby allowing them to plan their lives around the money received, see **fig. (7)** below.



(64%) of the respondents in St. Lucia received remittances from one family member compared to (62%) in Trinidad and Tobago. In Trinidad and Tobago (30%) of the respondents receive money from 2 to 3 family members, but that figure is slightly higher for St. Lucia where (35%) of the respondents receive from 2 to 3 family members.

In the **Fig. (8)** below, it is evident that for both Trinidad and Tobago and St. Lucia the majority of the cash remittances originated with parents, siblings and children. In the case of St. Lucia this accounts for (68%) of the respondents whereas for T&T this accounts for (59%). This category can be tied to the altruistic motive for remitting where parents, siblings and children may feel obligated to send money out of love and care to their family at home. Aunt/uncles as a group were more significant in Trinidad and Tobago than for St. Lucia and accounted for 16% compared to 6% for St. Lucia. This is consistent with the role that aunts and uncles play in the Caribbean.[66] They form part of the extended family who acts as a support system for the rest of the family members. In the case of St. Lucia a further (21) % originated from others, which included nieces, cousins, and nephews as compared to (18%) for T&T. Smaller percentages for spouses were recorded for both St. Lucia and Trinidad and Tobago.

Fig. (8)



The majority of remittances in St. Lucia and Trinidad and Tobago originated with relatives who reside in the United States. The results of the sample revealed that for T&T, 62% of remittances were received from relatives who reside in the United States; compared to 58% for St. Lucia. For Trinidad and Tobago 20% and 17% respectively, came from Canada and the United Kingdom whereas (18%) and 20% respectively were the percentages for St.Lucia.

However, there was a significant difference between T&T and St. Lucia with respect to remittances from other countries. For T&T, 1% of the respondents fell in this group which consisted of relatives from Egypt, France, Germany, Switzerland, Australia, Norway, Aruba, Barbados, St. Vincent and the US Virgin Islands. On the other hand for St.Lucia (20%) of remittances came from Caribbean countries such as St. Vincent, Cayenne, Martinique, Guadeloupe, Barbados, St. Martin, Trinidad and Tobago and Guyana.[67] This highlights that citizens of St.Lucia are migrating extra regionally and also intra-regionally. This is in line with one of the major objectives of the CSME which examines the movement of labor within the Caribbean region. See **Fig. (9)** below.

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[66] Michael Haralambos and Martin Holborn, "*Sociology, Themes and Perspectives*", London Collins Educational 2008.

[67] The results for St. Lucia exceeded 100% because the recipients chose more than one destination; this is as a result of the fact that the recipients received remittances from remitters in different destinations.

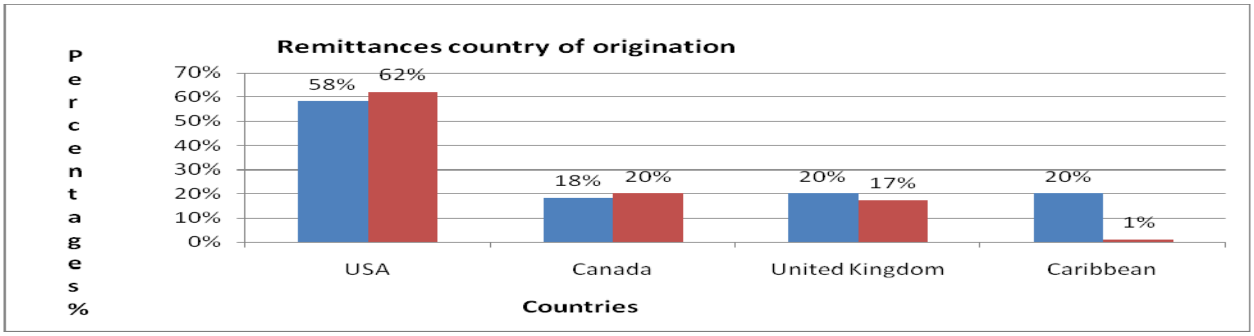

Table (11) below shows that for St. Lucia the modal age group of relatives is 30-39, compared to T&T where the modal age group is 40-49. Therefore it is evident that the remitters for St. Lucia are generally younger than those from T&T. It is important to note that more than half of the relatives for both St. Lucia and Trinidad and Tobago are between the age group of 20-59 years.

Table (11) Age of Relative who send remittances		
Age Group	T&T	St. Lucia
20 – 29	16%	20%
30 – 39	27%	43%
40 – 49	30%	25%
50 – 59	19%	10%
60 and over	8%	2%
Total	100%	100%
Source: Authors calculations and findings		

In **Table (12)** below, data is presented on how recipients spend the remittances that they receive. The way in which remittances are spent determines the developmental impact that it has on the community and the economy.

Table (12): Use of cash remittances in Trinidad and Tobago and St.Lucia		
Use of Cash Remittances	Trinidad	St.Lucia
Current Consumption	79%	90%
Health Care Expenses	44%	59%
Education Expenses	56%	48%
Investments & Life Insurance Products	46%	29%
Home Renovations	27%	11%
Purchase of Real Estate/Machinery	8%	2%

Small Business	6%	5%

A significant percentage (90%) of the respondents from St. Lucia compared to (79%) for T&T utilized cash remittances for current consumption. This indicates that average propensity to consume is fairly high. In a similar manner (58%) and (48%); utilized cash remittances to meet the cost of health care and educational expenses in St. Lucia while for T&T, (44%) and (56%) respectively, utilized cash remittances to meet the cost of health care and education expenses.

The respondents for Trinidad and Tobago used (46%) and (29%) of remittances respectively to finance investments, insurance products and home renovations, compared to (29%) and (11%) respectively for St. Lucia.

In T&T, a mere (6%) of the respondents reported that remittances are used to meet the cost of set up and working capital for small and medium enterprises, the figures were similar for St. Lucia where only (5%) reported to use remittances for that purpose. With respect to the purchase of machinery and real estate with remittances, T&T used (8%) of remittances to fulfill that purpose compared to (2%) in St. Lucia.

According to **Table (13)** below both the recipients from St. Lucia and Trinidad and Tobago spend the largest share of their remittances on current consumption (60%) and (37%) respectively. It is important to observe that the figure for St. Lucia is almost doubled that of T&T, this may be allocated to the fact that St. Lucia has a lower per capita income than T&T and hence use remittance flows to act as a buffer to remittances.

Approximately (39%) and (30%) respectively spent the second largest share of remittances on consumption and educational expenses for T&T, while (25%) and (27%) respectively spend their second largest share of remittances on consumption and health expenses for St. Lucia. Therefore, health expenses takes priority in St. Lucia as compared to education for T&T. **Table (15)** below depicts this result. This is not surprising as the health system in T&T is at a higher level and scope than in St. Lucia.

Table (14). Use made of the largest share of remittances

	T&T	St.Lucia
Use of Cash Remittances	Largest Share	Largest Share
Current Consumption	37%	60%
Health Care Expenses	15%	14%
Education Expenses	26%	16%
Home Renovations	1%	3%
Purchase of Real Estate/Machinery	8%	5%
Investments & Life Insurance Products	10%	1%
Small Business	1%	1%

Other	3%	1%

Table (15). Use made of the 2nd largest share of remittances		
	T&T	St.Lucia
Use of Cash Remittances	2nd Largest Share	2nd Largest Share
Current Consumption	39%	25%
Health Care Expenses	10%	27%
Education Expenses	30%	26%
Home Renovations	2%	1%
Purchase of Real Estate/Machinery	17%	15%
Investments & Life Insurance Products	1%	1%
Small Business	0%	4%
Other	1%	1%

The proportion of recipients income that is accounted for by remittances was very large for T&T. 69% of the respondents for T&T rated that remittances formed a large share of their income compared to (78%) for St. Lucia. A significant amount (17%) for T&T and (12%) for St. Lucia, reported that remittances form a very large share of their income. The breakdown in **Table (16)** shows the modal proportion for Trinidad and St. Lucia as being large which illustrate that remittance in both countries form a large part of recipient's income.

Table (16). Proportion of Household Income derived from Cash Remittances.			
Country	Small	Large	Very Large
Trinidad and Tobago	14%	69%	17%
St. Lucia	10%	78%	12%

6. Summary of Findings

The survey results highlight that recipients of remittances receive most of their remittances from their immediate family which includes parents, children and siblings. Notwithstanding this trend, a significant number of recipients receive remittances from relatives within the extended family i.e. aunts/uncles and other relatives. The combined proportion of aunts/uncles and other relatives utility depends on their own level of consumption as well as consumption of their family in the home country (Lucas and Starks 1985). Therefore, the maintenance of family members is based upon altruistic motives.[68] This high level of informal family relations may also be reflective of binding ties on account of sociological/historical traits associated with slavery and the classical extended family.[69] Therefore informal family relations should be included in any study of remittances.

The results of the study also suggest that the combined group of students, housewives and non skilled workers comprised the majority of the recipients of remittances in both St. Lucia and T&T. Further, students comprised the modal group of recipients receiving remittances in both countries; this reflects the value that remitters place on education in the home country. Based on the concept of the demonstration effect, people who migrate tend to have families who had previously migrated. This is an important finding in that remittances are being sent to family members to become educated. Greenwood (1997) provided empirical evidence to support the view that the propensities to migrate increases as people become educated. [70].

For both St. Lucia and T&T the majority of remittances are received either weekly, fortnightly or monthly which suggests that the recipients from St. Lucia and T&T are dependent on remittances for their day to day living. If remittances are received so frequently then it may form part of their permanent income. From a permanent income hypothesis, if remittances are seen as a source of permanent income for recipients, then remittances would influence the recipient's long run consumption pattern. However, when there are external shocks such as the financial crisis, which led to a fall in remittances, there is an increase in the average propensity to consume. Therefore, there would not be a major change in consumption patterns; also recipients would draw from their savings to maintain their level of consumption.[71]

The results of the study also revealed that large percentages of recipient's total income are derived from remittances in both T&T and St. Lucia. This illustrates the extent to which remittances act as a buffer to income in both countries.

The United States of America was the main destination from which recipients received remittance flows in St. Lucia and T&T. The results of the study also highlight a significant flow of remittances to St. Lucia from the French colonies in the Caribbean, the smaller OECS countries and Trinidad and Tobago. These results point to a trend of increasing intra-regional migration of St. Lucian citizens to the above mentioned countries in pursuit of employment,

[68] Ioana Schiopu (2006), "*Determinants of Workers' Remittances, Evidence from the European Neighboring Regi*ons". Working Paper No. 688 / October 2006
[69] Michael Haralambos and Martin Holborn, "*Sociology, Themes and Perspectives*", London Collins Educational 2008, pg. 474
[70] Ulrich Hange (200), "*Education Policy and Mobility: Some Basic Results*" (Address, University of Munich & Ifo Institute)
[71] Idrees Khawaja and Usman Qadir (2009), "*Social Impact of Global Recession on Pakistan*" (Pakistan Institute of Development Economics).

higher remuneration for their skills and/or a better standard of living. Intra-regional migration helps to curb the problem of brain drain in the region as well as facilitate brain circulation.[72]

There is scope for Intra- Regional migration from within the Caribbean, especially through the CSME initiative which would facilitate the free movement of labor and abolish the needs for work permits in CSME participating countries. This represents a collaborative effort towards a common policy agenda for migration within the region.[73]

A significant number of recipients in Trinidad and Tobago pool part of their remittances in investments, life insurance products, home renovation and the purchase of real estate /machinery through banks, unit schemes and life insurance companies. However, this is not as significant in St. Lucia. The recipients from St. Lucia pool their remittances into more basic needs, which include current consumption, health, education and to a smaller extent investments. This disparity is consistent with the fact that St. Lucia has a lower per capita income and its government is unable to provide free access to tertiary education and the level and scope of health and social services as offered by the government of T&T.

As identified earlier in the literature, the investment of remittances in life insurance, unit schemes and credit unions in T&T positively impacts household and national savings. Home renovation increases the standard of living of the recipients at the household level and would further increase the level of physical capital available to the community and by extension the country. The purchase of real estate and machinery would increase the level of productivity in small business and well as increase the level of entrepreneurial activity in the economy.

On the other hand, the increase in consumption in St. Lucia arising out of remittances facilitates an increase in both the recipient's standard of living and the level of business activity within the community. At the household level the recipients benefit from increased access to educational and health services which in turn increases the country's GINI coefficient and facilitates human capital development at the community and national level.

As mentioned earlier in the literature both St.Lucia and T&T will benefit from an increase in foreign exchange flows within the economy.
These findings are instructive in discovering the potential of remittances as a developmental tool in St. Lucia and Trinidad and Tobago and by extension the Wider Caribbean. The findings of this paper have serious implications and opportunities for both economies. The opportunities are explored in the next section.

7. Policy Recommendations

The authors hold the view that remittances can potentially have a significant impact on the development of both St. Lucia and Trinidad and Tobago. This study recommends the following

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[72] Hosein, Roger and Thomas, Clive (2007) "***Caribbean Single Market Economy (CSME) and the Intra-Regional Migration of Nurses***" Some Proposed Opportunities, *Global Social Policy* 2007; 7; 316.

[73] Gillian Barclay, " Migration in the Caribbean Region, Pan American Health Organization, www.iom.edu/~/media/Files/.../US and Global **Health**/02Barclay.ashx

policies to the government and stakeholders in St. Lucia and Trinidad and Tobago and by extension the Wider Caribbean.

The governments and financial institutions should focus on improving financial literacy with respect to remittances in the citizenry of St. Lucia and T&T. There is a need for an increase in both the financial literacy and the awareness of available financial products among the recipients of remittances and remitters. Currently, in both St. Lucia and Trinidad and Tobago, little effort is made to educate people who receive remittances in the area of financial choices and available market information. This lack of financial literacy hinders the productive use of remittances for development in the economy as well as compromises the efficiency and competitiveness of the financial market. It is recommended that financial institutions create programs which bring market information directly to the remitting communities. The development of financial literacy programs through financial fairs for instance can increase the multiplier effect of remittances and enhance its capacity to contribute to economic development.

There is a need for financial institutions to invest more heavily in technological advancements, which will allow for increased efficiency when transferring remittances across international borders. This can be done using technology that can allow for online remittance transfers where both the remitter and the recipient can send and receive remittances using the Internet. Card systems can also be used to transfer and receive remittances by migrants and recipients. These new technological advancements have been successful in countries such as India, Singapore and the Philippines. [74] Financial institutions in the Caribbean should investigate the potential benefits which can be derived from such systems. These technological advancements should encourage migrants who use informal systems of remitting to use more formal systems.

The financial sector, which consists of the financial institutions such as banks and Money Transfer Organizations (MTOs), has a significant role to play in increasing remittance flows given its use as a source of developmental finance. These financial institutions should provide enhanced investment packages that can be used to target migrants and recipients of remittances. Banks need to develop different financial products that will enable recipients to effectively manage their income from remittances. One such example is the provision of foreign currency savings accounts with a higher level of interest. This would act as an incentive for migrants to save money in their home country. In a similar manner banks and MTOs can provide recipients of remittances and migrants with low interest loans which can be secured against remittance deposits for productive purposes. Also saving incentives can be put in place where migrants will be encouraged to invest in financial assets in the home country rather than abroad. This will contribute to the development of the economy.

Ratha (2007) argued that remittances provide capital to small entrepreneurs; such capital contributes to the development of an economy.[75] However, in the results of the study, it is evident that only a small percentage of remittances for both St. Lucia and T&T are invested in

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[74] The Economist Intelligence Unit, Global Technological Forum, Business Strategies for the Digital Age.

[75]K. M. Abdul Azeez and M. Begum, " I**nternational remittances: A source of development finance**" International NGO Journal Vol. 4 (5), (2009): pp. 299-304

small businesses. The governments of the respective economies should collaborate with financial institutions and create incentive plans for migrants and recipients to invest in small start up businesses. Recipients can use the remittances received as capital for their business venture. Incentives could include low interest rate loans, discounted cost to register business name as well as a few years tax exemption. This would encourage migrants and the recipients to invest in small businesses which would increase the level of employment as well as growth within the economy. This also has the potential to contribute to the development of the respective economies.

It may be in the interest of the countries of the Caribbean to examine the possibility of remittances being transferred via credit unions. There is a Caribbean Confederation of Credit Unions which can be used as the central point for transmitting remittances through the Caribbean at a cheaper cost. Currently the transaction cost of remitting is based on the service charges of the banks and Money Transfer Organizations. These charges tend to reduce the amount of remittances that is actually transferred via formal means. Credit unions can be looked at as a vehicle for transferring remittances throughout the region at a cheaper cost than that of commercial banks and MTOs.

Credit Unions have as wide a reach as the commercial banks and can reach small communities all over the Caribbean, such as small fishing villages and small rural communities. Current legislation which governs the credit union does not prohibit such activities. However it is prudent for the government to investigate the possibility of using the credit unions for this purpose and enact any legislative changes that will facilitate such activity. This will lead to greater competition, a reduction in transaction cost and an increase in the formal flow of remittances to the respective countries.

St. Lucia having recognized the importance of remittances and the Diaspora, has planned an event called "Home Coming 2010" which is aimed at bringing migrants back to the home country to explore with the recipients of remittances and the government amongst other things, the way forward with respect to remittances and the Diaspora. The other governments of the Caribbean should emulate the action of the Government of St. Lucia.

Another policy prescription is to use the Diaspora to build networks which can facilitate trade, investments, knowledge transfers and increased remittance flows. The governments of St. Lucia and Trinidad and Tobago and by extension the Caribbean should take a more active approach in engaging the migrants to contribute to the development of their respective economy. Therefore they should enable and support the creation of more active Home Town Associations (HTA's). HTA's are informal, voluntary groups and organizations that establish informal bonds with co-nationals for the purpose of both sustaining links with the home country and establishing social support networks in the host country. HTAs promote and encourage social, cultural and economical identity amongst its members.[76]

The Diaspora can give active support in the local development process for both St. Lucia and T&T. Therefore, it is important to strengthen their involvement in that process, by building trust

[76] Will Somerville, Jamie Durana and Aron Terrazas, Home Town Association: "*An untapped Resource for Immigrant Integration*" (July 2008).

and developing capacity. Home Town Association for St. Lucia and T&T already exist in Washington, New York and Canada. Telephone interviews with the presidents of some of these associations, revealed that no relations exist between these HTA's and the government of the respective economies. There is a need to form closer relationships with these HTAs, such relationships can be initiated and facilitated by the respective governments. As the government of St. Lucia and T&T develop programs geared towards increasing education, health, sports, housing and shelter, community and infrastructural development, they should incorporate HTAs as stakeholders in the delivery of such programs. Mexico and El Salvador are examples of best practice in such a collaborative effort between government and HTA's.

Another policy recommendation is that the civil society in countries in the Caribbean should lobby their governments to hasten the full implementation of the CSME process, thereby further enhancing the free movement of labor around the Caribbean. The CSME would allow for the removal of all barriers to the intra-regional movement of skills, labor and travel. It would also allow for the harmonization of social services (education, health, etc.), providing for the transfer of social security benefits and establishing common standards and measures for accreditation and equivalency.[77] Heads of governments in the Caribbean should schedule a forum to discuss the harmonization of policies that are geared toward incorporating remittances into the development plans of the respective countries.

Remittances can impact development at all levels of society however, all stakeholders must be mobilized and a collaborative effort must be made by all stakeholders to ensure effective policy implementation for both St. Lucia and Trinidad and Tobago and by extension the Caribbean.

8. Conclusion

In this increasingly globalized world where countries are no longer separated by borders, migration continues to play a pivotal role in the issues facing the Caribbean. However, migration has created an avenue for development through the increase flows of remittances into the Caribbean.

Remittances from migrants for both St. Lucia and Trinidad and Tobago have the potential to directly impact economic development at the household, community and national level. This is attributed to the fact that a large amount of remittances are allocated to current consumption, hence improving the standard of living of those households and allowing the members to access a larger amount of goods and services.

In addition, remittances are also used to finance children's education as well as health services, which enable the development of human capital and longevity. To a smaller extent remittance is spent on housing, insurance and small businesses, hence developing entrepreneurial skills.

[77] Caricom Secretariat, http://www.caricom.org/jsp/single_market/single_market_index.jsp?menu=csme (accessed August 13, 2009)

Remittances also contribute to economic growth through investments in small business formation and for T&T through investment in machinery, real estate and insurance. This in itself assists with the reduction of the unemployment rate as some persons become self employed. Remittances help reduce poverty in St. Lucia and T&T through increased income for households which enables them to increase their standard of living and access a larger quantity of goods and services.

However, it is important to recognize that a large percentage of remittances flowing into the economy of St. Lucia and T&T are not recorded, hence it doesn't form part of foreign reserves and are not part of the government development plans. Therefore it is important that the respective governments formulate policies and actions to incorporate remittances in their developmental plans for the economy and to help further facilitate the development process.

With this said, it is crucial that when creating policies to enhance the impact remittances has on development in the two respective economies, the governments should take into consideration the issue of smallness and vulnerability to external forces. Therefore they must not become dependent on remittances as a main source of developmental finance, (especially St. Lucia) that is more vulnerable and has little resilience to external shocks. Remittances if leveraged properly can contribute to development at all levels of the society.

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