

The South Africa-Zimbabwe Remittance Corridor: An Analysis of Key Drivers and Constraints

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ABSTRACT

A considerable amount of research has been conducted on the topic of migration and remittances over the last few years, but the literature on the South Africa-Zimbabwe remittance corridor remains scarce. Using a survey conducted in April 2010 of 347 Zimbabwean migrants living in the Western Cape Province, this paper is focused on three primary aims. The first is to gain an insight into the remittance-sending behaviour and patterns of Zimbabwean migrants in South Africa. The second is to apply the survey data to assess underlying dynamics of the drivers that influence migrants' remittance-sending decisions. The third is to analyze and discuss the constraints to remitting that Zimbabwean migrants in South Africa are faced with and that shape the remittance-sending landscape.

The survey results show that remittance flows in the South Africa-Zimbabwe remittance corridor are considerable, with more than 90 per cent of Zimbabwean migrants in the sample remitting on average almost a third of their income. The most significant driver of remittances was found to be the number of dependants that migrants have in Zimbabwe. Moreover, the great majority of remittances are sent through informal channels, despite the inefficiency and high costs of these. The paper concludes that there are significant market inefficiencies and impediments in South Africa that negatively impact the flow of remittances to Zimbabwe, both by driving up costs and by excluding the majority of migrants from formal remittance channels.

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EXECUTIVE SUMMARY

Less is known about remittances in Africa than in any other developing region of the world. Due to a lack of reliable data on migration and remittance flows, research in this field has long been confined primarily to pecuniary transfers made through formal channels and recorded in the Balance of Payments. Relying on this method to source data is problematic given that unrecorded informal flows actually make up the preponderant share of transfers within Sub-Saharan Africa. The only way to begin to understand the underlying dynamics of these informal flows and to shed light on their true volume is through primary survey data, of which there is a serious shortage. This paper takes a step towards addressing this gap.

Using a survey¹ conducted in April 2010 of 347 Zimbabwean migrants living in South Africa's Western Cape Province, the paper is focused around three principle objectives. The first is to gain insight into and quantify the remittance-sending behaviour and patterns of the migrants. The second is to utilise a regression analysis to assess underlying dynamics of the drivers that influence migrants' remittance-sending decisions. The third is to analyze the constraints to remitting that migrants in South Africa are faced with and that consequently shape the remittance-sending landscape.

Remittances are relied on in Zimbabwe to sustain the livelihoods of large parts of the population. It has been estimated that close to three million Zimbabweans have emigrated over the past decade, roughly two thirds of these to South Africa. The survey results suggest that 90 per cent of migrants in the sample remitted; the average amount was close to a third of their income². These findings are higher than those from most other remittance corridors in various parts of the world, which underscores the depth of the current dependence on remittances in Zimbabwe.

The most significant driver of remittances was found to be the number of dependants that migrants have in Zimbabwe. The results of a regression analysis show that for every extra dependant in Zimbabwe, migrants will on average remit an additional 4-7% of their annual income. The existence of children in South Africa and the duration of time spent in South Africa were both negatively correlated with remittances sent, as would be expected. Other factors, such as the cost of remittance transfers, the gender or age of migrants, the years of schooling completed or whether migrants are from rural or urban areas were not found to significantly impact the share of income that migrants remit.

Although individual transactions are in most cases small, due to the large stock of Zimbabwean migrants in South Africa, total remittance flows from Zimbabwean migrants in South Africa alone are estimated to have amounted to between US\$700-850³ million last year. This accentuates not only the importance remittances currently have in supporting livelihoods, but also their effect on the Zimbabwean economy, being one of the most important sources of foreign currency inflows. In kind transfers are estimated to make up roughly 40% of this total.

¹ This survey was complemented by several focus group discussions and interviews with key stakeholders.

² Including both pecuniary (cash) and in kind ('value of goods') remittance transfers. This holistic approach to measuring remittances is applied throughout the paper.

³ Author's data and calculations. Overall remittance flows to the country likely to be between US\$1-1.4 billion annually.

However, the survey results indicate that their share is falling; a trend which is the likely result of a nascent economic recovery in Zimbabwe. If a gradual recovery is maintained, flows can be expected to continue evolving more and more towards monetary transactions.

This paper finds that there are significant market inefficiencies and institutional impediments in South Africa that negatively impact the flow of remittances to Zimbabwe. As a direct result of the stringent foreign exchange and banking regulations in South Africa, competition in the money transfer business is constrained and therefore the average cost of sending money from South Africa to Zimbabwe is extremely high at 10-15% of the value remitted. In more efficient remittance corridors, costs are commonly in the 3-5% range. To make matters worse, legal regulations exclude the majority of migrants from accessing formal remittance channels. It comes as no surprise then that over 80 per cent of survey respondents resorted to using only informal remittance channels, despite the inefficiency, unreliability and high costs of these. This is having adverse effects on both the nature of remittance flows to Zimbabwe and the volume that reaches recipients, thereby denying Zimbabweans of their full development potential.

Indeed, if the development gains for Zimbabwe are to be maximised then the formalization of remittance flows must be fostered through the implementation of a number of key reforms. Not only is it important that the costs are reduced and barriers to formal channels minimized, but also that flows are facilitated and stimulated by providing the appropriate channels, financial education and effective incentives. Particularly Money Transfer Operators, if competition is increased, and postal services, if reliability is strengthened, seem to offer the greatest potential. Moreover, numerous innovative developments such as cell phone banking, already widely used in other parts of the world, are gradually starting to be introduced in South Africa. They are likely to be the way of the future and should be encouraged accordingly.

Perhaps contrary to initial impression, it is in the interest of the South African government to facilitate the formalization of remittance flows. Rather than increasing the volume of flows, the effect would make flows more transparent and to increase the liquidity and efficiency of the financial sector in South Africa. Thus, remittances in this corridor represent a huge source of untapped potential for development on both sides of the border that is currently being mitigated by high transfer costs and impeded by stringent and inefficient regulations. If the formalization of remittance flows is pursued comprehensively, remittances could realise their potential and play an invaluable role in the reconstruction of the Zimbabwean economy. This, in turn, is the only way to solve the currently unsustainable level of Zimbabwean migration to South Africa.

I. INTRODUCTION

Migration is an issue that has been at the heart of the international development field for quite some time, but migration-driven remittances have long been underestimated and as a result their importance for development was under-appreciated. However, over the past decade, following extensive data collection by the World Bank that substantially raised the estimates of these flows, remittances have started receiving serious attention from policy makers and academics alike. Migration-driven remittances to developing countries are now considered to be one of the key sources of development finance of the 21st century. Presently, among financial flows to developing countries, remittances are estimated to be more than three times the size of official development assistance, and almost as large as foreign direct investment (World Bank 2009). During the global economic downturn in 2008-2009, remittances declined slightly for the first time since data collection began, but much less so than other international capital flows, and thus provided many developing countries with a safety net.

In Zimbabwe, remittances are relied on to ensure the income of large parts of the population. As a result of the profound deterioration of the economy and general socio-political situation, it has been estimated that close to three million Zimbabweans have emigrated over the past decade, about two thirds of these to South Africa (UNDP 2010). Of those who remained, the international community has needed to provide food aid to over five million people in 2008, which is more than half of the remaining population. Against this background it is easy to see how vital remittances have been in alleviating poverty in many Zimbabwean households for the greater part of the last decade.

Although there is a large and growing amount of literature on the correlation between remittances and various measures of development in many parts of the world, little analysis has been done on Sub-Saharan Africa, and even less on the South Africa-Zimbabwe remittance corridor. This is in part due to a lack of reliable data on migration from Zimbabwe to South Africa. More consequential, however, is the fact that the vast majority of transactions are made through informal channels, and are thus not officially recorded. The only way to uncover the true size and to begin to understand the real dynamics of these informal flows is through primary survey data, of which there is a serious shortage. This paper takes a step towards addressing this gap.

The research is based on the findings of a survey conducted in April 2010 of 347 Zimbabwean migrants living in the Western Cape Province. This survey was complemented by several focus group discussions and interviews with key stakeholders. Since remittances represent first and foremost private money and goods, senders and recipients are the main stakeholders in decisions regarding both the transfer and utilization of them. Therefore, gaining a clearer understanding of the senders and recipients' characteristics, motivations, priorities, needs, difficulties and interests regarding the preferred transfer mechanisms and utilization of remittances is crucial in the analysis of this remittance corridor.

The issues surrounding the South Africa-Zimbabwe remittance corridor are multi-faceted and diverse, and hence this paper is focused around three principal objectives. The first is to gain an insight into the remittance-sending behaviour and patterns of Zimbabwean migrants in South Africa using the survey. The second is to apply the survey data to assess underlying dynamics regarding the drivers that influence migrants' remittance-sending decisions. The third objective is to analyze and discuss the constraints to remitting that Zimbabwean migrants in South Africa are faced with and that shape the remittance-sending landscape.

The survey results show that remittance flows in the South Africa-Zimbabwe remittance corridor are considerable. More than 90 per cent of migrants in the sample sent remittances to Zimbabwe over the past year to support family members. Including both cash and the value of goods remitted, the average share of total income that migrants remitted was over 30 per cent. This finding is higher than in most remittance corridors in other parts of the world, and seems to highlight the depth of the current dependence on remittances in Zimbabwe. Although individual transactions are in most cases small, due to the large stock of Zimbabwean migrants in South Africa, remittance flows in this corridor alone add up to an estimated US\$ 680-905 million annually⁴. When adding the estimated remittance flows from other Zimbabwean migrant hosting countries to this, it becomes clear that remittances are currently one of the most important sources of foreign currency inflows for Zimbabwe.

This paper finds that the most significant driver of remittances is the number of dependants that migrants have in Zimbabwe. The results of a regression analysis show that for every additional dependant in Zimbabwe, each migrant will remit an additional 4-7% of their annual income, on average. Most other variables for which data was gathered demonstrated only weak statistical

⁴ Author's data and calculations. It includes both cash transfers and the value of goods transferred.

significance. Although data limitations precluded a more thorough analysis, it is evident that migrants' remittance-sending decisions are complex.

There are significant market inefficiencies, impediments and constraints in South Africa that impact the supply of remittances in the South Africa-Zimbabwe corridor, both by driving up costs and by excluding the majority of migrants from the formal remittance channels. It comes as no surprise that almost 85 per cent of survey respondents resorted to using informal remittance channels, despite the inefficiency, unreliability and high costs of these channels. This is having adverse effects on both the nature of remittance flows to Zimbabwe and the volume that reaches recipients, thereby denying Zimbabweans of their full development potential.

If the development gains for Zimbabwe are to be maximised, and the burden of immigration eased for South Africa, then a number of crucial, yet simple reforms should be implemented. Not only is it important that the costs are reduced and barriers to formal channels minimized, but also that flows are facilitated and stimulated by providing the appropriate channels, financial education and effective incentives. Providing appropriate incentives and decreasing the constraints to formal remittance transactions has been shown elsewhere to lead to significant increases of flows (Gibson *et al.* 2006). If the formalization of remittance flows is pursued comprehensively, remittances may expand their potential and play an invaluable role in the reconstruction of the Zimbabwean economy.

Section II examines several key background issues, including the definition of remittances, the different drivers of remittance flows, and what the existing literature says about the economic and developmental effects of remittance flows. Section III reviews several of the main studies dealing specifically with the South Africa-Zimbabwe remittance corridor. Section IV then highlights the economic situation in Zimbabwe, as well as the dynamics of Zimbabwean migration to South Africa before Section V presents the results of the survey. Section VI discusses these results in the context of assessing the various drivers of remittance flows and Section VII highlights the different constraints to these in South Africa. Section VIII discusses the potential gains of minimizing these constraints before Section XI analyses the policy implications of these findings. Section X then draws the main conclusions of the study.

II. BACKGROUND ISSUES CONCERNING REMITTANCES

The World Bank has highlighted the importance of official flows of migrant remittances to developing countries, which doubled between 2002 and 2007, and were estimated to have reached a record US\$336 billion in 2008⁵ (World Bank 2010). Some 30 million or so African migrants contributed about US\$40 billion, or 12 per cent, to that total (ibid). On a global scale, the rapid growth of officially recorded remittances in recent years is attributed to an increase in migration, better data collection and to the gradual shift from informal to formal transmission channels. This shift seems to be in large degree due to the development of new technologies (e.g. cell phone payments), reduced transaction costs and international political concern about informal capital flows and money laundering after the terrorist attacks in 2001 (Gubert *et al.* 2009).

Remittance flows globally had a more resilient response to the global financial crisis and subsequent recession in 2008-2009 than other financial flows to developing countries. Private financial flows⁶ to developing countries dropped by nearly 40 per cent in 2008 as many investors and foreign banks became more reluctant to invest and lend across borders (*The Economist*, July 30th 2009). In contrast, global remittance flows proved to be far less volatile. Although official remittance flows in 2009 declined for the first time since data collection began, the 6.1 per cent decline was smaller than feared (World Bank 2010). Although job markets in most host countries have been tough in the wake of the crisis, only few migrants seem to have returned home and hence, remittance flows are expected to recover in 2010-11 (ibid). However, recovery is likely to be shallow due to a likely prolonged lag-effect following the weak global economic performance in 2009, in addition to other risks, including a potential 'jobless' economic recovery, tighter immigration controls imposed by many developed nations and unpredictable exchange rate movements (ibid).

Measurements of official remittance flows compiled according to methods promoted by the IMF and the World Bank are valuable, but they may not represent the whole picture⁷. The true size of remittances remains uncertain owing to two interconnected reasons: (i) the disputed definition of remittances and (ii) the underestimation bias from measuring only formal remittance flows and failing to capture informal flows.

⁵ Including just formal flows that are recorded in the Balance of Payments of countries. The actual magnitude, including informal and unrecorded flows, is likely to be 50-60 per cent higher (World Bank 2009).

⁶ Refers to flows that are not remittance-related, such as foreign direct investment and credit.

⁷ See annex 1 for details.

CASH VS. GOODS

Definitions traditionally confine remittances to cash or financial transfers, which is the method adopted by the World Bank and the IMF due largely to the absence of sufficient data. However, as is conceded by these institutions themselves, this narrow method underestimates total remittance flows (World Bank 2009) due to the fact that a large share of overall remittance flows to developing countries are actually in-kind (van Doorn, 2002). A more inclusive definition of remittances would be “the value of migrant workers’ earnings sent back home to their families” (IFAD 2008, p.2), which encompasses both cash and non-cash remittances. This holistic definition is applied in this paper, because it more appropriately represents both the size and nature of remittance flows in the South Africa-Zimbabwe corridor.

In this analysis of the South Africa-Zimbabwe remittance corridor, considering the transfer of goods as remittance flows is validated by studies conducted by Maphosa (2007) and Kerzner (2009), which find that the majority⁸ of remittance flows from South Africa to Zimbabwe over the past decade have been in the form of goods, such as cooking oil, maize and clothing. The primary reason for this has been the economic implosion in Zimbabwe, particularly the rapid decline of the agricultural sector. During the years of hyperinflation, many goods were either unavailable in Zimbabwe, or only available at exorbitant prices. Hence, non-cash remittances better respond to the immediate needs of recipients, especially when there are shortages of goods.

At present, following the moderate political and economic stabilisation, particularly the end of hyperinflation and the decision of the Reserve Bank of Zimbabwe in January 2009 to allow all businesses to trade in foreign currencies, the trend has begun reversing back towards increased monetary transfers. Nevertheless, goods sent back still make up a large share of the value of what is remitted, because of a second reason; namely that non-cash remittances are preferred when there is an absence of banking facilities, which is often the case in rural areas (Maphosa 2007). This balance between cash and non-cash remittances is confirmed by the findings of the survey and will be discussed in section V below. Therefore, in-kind remittances should not be ignored by the literature, as is often the case.

⁸ Maphosa noted that “Most of the remittances sent were in-kind” (p.128), while Kerzner cited a more up-to-date figure that close to 50 per cent of migrant remittances are goods.

FORMAL VS. INFORMAL FLOWS

The second measurement issue depends on whether the transfer channel from the sending to the recipient country is formal or informal. If transfers are sent through official channels, such as banks or licensed money transfer operators (MTOs), they are considered formal and are captured by the Central Bank and included in the Balance of Payments. Informal transfers refer to the use of unofficial channels, such as using friends, relatives or private couriers to transport cash and goods into the receiving country without declaration.

The World Bank estimates that informal flows are at least 50 per cent higher than officially recorded flows, with great variation across countries (World Bank 2009). In Sub-Saharan Africa, this number is often higher than 75 per cent (Freund and Spatafora, 2005), because the formal sector is far less developed in this region than in other developing countries across the globe. In the South Africa-Zimbabwe corridor studies have shown that close to 90 per cent of remittance flows are informal (Maphosa 2007). The research in this paper supports this finding, as is discussed in section V.

Because informal transfers are not captured in the official statistics such as the Balance of Payments, the size of remittances is often grossly underestimated and their nature misunderstood. Informal remittance flows have different dynamics than formal flows, and can only be recorded in case studies and primary data collection exercises, as is set out in this paper. This is important, because the lack of accurate data on informal and in-kind remittances has long precluded more rigorous statistical analysis in this field.

What exacerbates the problem with the current common practice is that in many cases Balance of Payments data are not available, and when they are, they are often compiled using creative accounting practices. In fact, in SADC, not one country records remittances as a separate line item in the balance of payments estimates (Genesis 2005), meaning that most figures obtained through official databases are approximations calculated using various statistical methods. More specifically, due to the economic and institutional deterioration in Zimbabwe, there exists no credible recent data on remittance flows, neither from the Balance of Payments, nor from household surveys. In the World Bank's database on global remittance flows, Zimbabwe is one of the considerable number of Sub-Saharan African countries that are excluded. As a result, research on remittances in Sub-Saharan Africa is far behind that done on other regions. This paper takes a step in that direction.

WHAT DRIVES REMITTANCE FLOWS

Remittances are first and foremost private money and goods, which means that senders and recipients are the main stakeholders regarding both remittances transfers and their utilization. Therefore, it is necessary to understand both senders' and recipients characteristics, motivations, priorities, needs, difficulties and interests regarding the preferred transfer mechanisms and utilization of remittances. It is this rationale that justifies the research approach and focus taken by this paper in measuring informal flows and attempting to uncover what drives remittance flows.

However, pin pointing the most important drivers of remittance flows is difficult. "To date, we know very little about how migrants make their remittance-sending decisions" (Ashraf *et al.* 2009, p.2). There are a number of factors that have an impact on the propensity to remit. The income of migrants is often seen as an important variable, but it is far from the only explanatory factor. This becomes apparent in light of the abovementioned stubborn response of remittance flows to the global economic crisis. Migrants have not been returning home and remittance flows have declined only in some parts of the world, as many migrants seem to have tightened their own expenses in order to maintain remittance transfers (World Bank 2009). Hence, other factors are potentially important, including: the migrants' ability to save, the existence of dependants in both the host and recipient country, the skill or educational background of migrants, the legislative rules and regulations in host countries, the legal status of migrants in host countries, the degree of dependence and need of remittance recipients, as well as exchange rate fluctuations.

The number of dependants of migrants, both in the home and host country, has important implications for the amount of remittances sent. Studies have shown that there exists a strong positive correlation between the volume of remittance flows and the number of dependants in the home country. It seems that this relationship holds true for this corridor too, as section VI will highlight further. This correlation is negative for the opposite scenario, namely, having dependants in the host country to provide for. Another, somewhat less straightforward driver on which little research has been done is the degree of dependence of migrants on remittance flows. Do Zimbabwean migrants remit more as a share of their income than Botswana migrants for example, because Zimbabwe is currently worse off than Botswana? Or, in other words, to what degree is the depth of poverty in the migrants' home country correlated with remittance flows? This issue goes to the heart of the discussion on the nature of remittance flows, in that it attempts to determine to what extent remittances are demand-, as opposed to supply-driven.

This discussion will be expanded upon in the sections below using the data gathered by the survey.

Rather than being a driver of remittance flows, legislative rules and regulations in the host country dictate the channel through which remittance flows leave the country. There are two main areas of a host country's legal system that have implications for migrant remittances: exchange control legislation and immigration law. Concerning the former, if regulations are overly restrictive, migrants will circumvent official channels and resort to using informal channels, as is often the case in Sub-Saharan Africa. No matter what the rules are, migrants will always face the need to provide for dependants in their home countries and therefore always find ways to remit. In that sense, legislative rules and regulations can either be a constraint to formal remittance flows, or they can be incentives towards using formal channels. Unfortunately, as will be discussed thoroughly below, the current legislative rules and regulations in South Africa impose constraints on formal remittance flows, both by driving up costs of formal channels and by excluding the majority of migrants from them.

Concerning immigration law, the accessibility to formal channels is influenced to a large degree by the legal status of migrants in the host country. Immigration law therefore has implications for remittance flows, particularly whether they are formal or informal. Studies have also shown that the legal status of migrants influences their economic behaviour, in terms of both consumption and sending remittances. Using a survey of migrants living in Italy's Lombardy region, Fasani *et al.* (2009) conclude that undocumented migrants tend to remit four to five times more, relative to their income and consumption, and consume 30-40 per cent less than documented migrants. The authors attribute this finding due to the uncertainty they face regarding the duration of stay in host country, employment and income, among other factors (*ibid*). The paper also notes not only that a higher percentage of undocumented migrants than documented migrants remit, but also that undocumented migrants remit nine per cent more as a share of their monthly income. This has direct implications for the case of Zimbabwean migrants in South Africa, particularly because the majority are undocumented.

Although the costs of remittance channels in this corridor are high relative to other regions in the world, this does not seem to be a significant constraint to the volume of remittance flows. Research has shown that remittance flows are less sensitive to the costs of transfers than to fluctuations in the migrants' income. This was a finding in a remittance survey of 10,000 Black and Minority Ethnic (BME) households in Britain in 2006, which concluded that the majority of migrants view costs as a 'necessary evil' and seem to have a fixed value in mind of what they can

afford to remit. Hence, most migrants would be unlikely to remit much more if costs fell (Boon 2006). The extent to which these findings are applicable to the case of the South Africa-Zimbabwe remittance corridor will be discussed in section VIII.

Moreover, remittances seem to respond to changes in the exchange rate, just as traded goods do, for example. This is exemplified by two recent episodes in the remittance flows to Mexico and India in 2008. In the case of remittances to Mexico from the US, 2008 saw a sharp increase in remittances during the months in which the US dollar got significantly stronger against the peso. It appears that the more advantageous exchange rate must have encouraged workers to send additional money home (World Bank 2009). A similar story showing the impact of exchange rate fluctuations occurred in India in the same year, when the combination of a weak rupee and higher interest rates in India vis-a-vis other Indian migrant hosting countries may have gone a long way towards explaining the huge spike in the flow of remittances from Indians living abroad (*ibid*). Such fluctuations however, are never wholly positive, even when, as in these two cases, they lead to a temporary spike in flows.

In some cases, exchange rate arrangements can have fundamental impacts on the choice between sending cash or goods, as happened in the South Africa-Zimbabwe corridor during the years of Zimbabwean hyperinflation and resulting dual exchange rate. As noted above, the majority of remittances shifted from monetary transfers to transfers of goods. The grossly overvalued official rate of the Zimbabwean Dollar discouraged the transfer of money through formal channels, such as bank transfers or postal orders, because these were subjected to the much lower official exchange rate. Moreover, the hyperinflation of the Zimbabwean Dollar and the general deterioration of the economy meant that there was an acute shortage of goods. Against this background, sending goods was a rational economic decision by migrants, in addition to satisfying specific consumption demands and core basic needs of recipients.

As a final point, the drivers of remittances are often too complex to measure, which inevitably leaves considerable room for interpretation. For example, migrants' motivations to remit are guided by differing preference structures, personalities, lifestyles, habits and even future aspirations. All of these are almost impossible to quantify, but they potentially go a long way in explaining why one migrant with the same income and the same number of children at home remits less than another migrant with those same characteristics.

DEVELOPMENTAL IMPACTS OF REMITTANCES

Numerous studies have shown that remittances have a significant impact on economic development, by being a stimulus for poverty alleviation, improving education, reducing infant mortality, entrepreneurship and financial development. There are a number of characteristics of remittances that highlight their positive influence on development.

The first is that remittances flow directly into the incomes of recipient households and are thereby well-aligned to address the problems faced and reduce poverty. Compiling data from a large number of countries, Adams and Page (2005) found that a 10 per cent increase in the share of remittances in a country's GDP is typically associated with a 1.6 per cent decline in the share of people living in poverty. Although this is a generalised claim, it is backed by a considerable amount of research from case studies around the world that highlight the positive influence of remittances on poverty reduction. Using a 2006 household survey in Mali, for example, Gubert *et al.* (2009) found that remittances reduce poverty rates by 5-11 per cent and the Gini coefficient by about five per cent.⁹ Similarly, household survey data in Uganda has shown that an increase in remittances reduced the poverty headcount ratio by 11 percentage points over the past decade (Ratha and Mohapatra 2007).

The second noteworthy characteristic of remittances is that they are often used to finance education, health and entrepreneurship, all of which usually have a high social return. One potent example is a study of Mexican municipalities that found that a 7.7 per cent increase in the proportion of households receiving remittances was correlated with five per cent decrease of infant mortality and a 39 per cent decrease in illiteracy as well as a 3.7 per cent increase in school attendance (Orrenius *et al.* 2009). Moreover, the level of poverty and social marginalisation declined (*ibid.*). Another study in Mexico found that households with migrants were shown to invest more in small businesses, on average, than households without migrants (Woodruff and Zenteno 2007)¹⁰. Similar results were replicated in many Latin American countries. In El Salvador, households receiving more remittances have higher rates of child schooling (Cox-Edwards and Ureta 2003). In Guatemala, international remittances were associated with lower depth and severity of poverty (Adams 2004), while households receiving remittances tended to invest more in education, health and housing (Adams 2005). This positive outcome also holds steady in other parts of the world, such as Asia. Households in the Philippines that experienced exogenous increases in remittances became more likely to leave poverty status, to send their

⁹ Gubert *et al.* (2009) note that these are likely to be lower-bound results, given the conservative nature of the assumptions made.

¹⁰ Other studies that have shown that remittances promote entrepreneurship include Massey and Parrado (1998); Maimbo and Ratha (2005) and Yang (2005).

children to school and to invest in new entrepreneurial enterprises (Yang 2008). Finally, Aggarwal *et al.* (2006) showed that remittances can have a positive impact on financial development.

A third characteristic of remittance flows is that by favouring the poor and being more evenly distributed across and within developing countries than private capital flows, they have also been shown to reduce inequality (World Bank 2005). To understand this, one needs to realise that the composition of the migrant population in terms of skills, education, social and cultural background is a key determinant of the impact of remittances on income and income distribution. It follows intuitively that the poorer and less educated the migrant, the more equalizing the impact of remittances. This is exacerbated by the fact that low-skilled migrants tend to remit more, at least relative to their income (Gubert *et al.* 2009). There are three main reasons for this: they tend to migrate alone, on average they spend less time in the host country, and their relatives being poorer, they have more incentives and/or pressure to remit (*ibid.*). Empirical evidence for this was provided in a working paper by Schiff *et al.* (2008), which found a negative impact of the share of migrants with tertiary education on the amount of remittances. The bottom line is that remittance flows usually decrease inequality. In Sri Lanka, for example, households from the third through the eighth income deciles moved up the income ladder thanks to remittances in 1999-2000 (World Bank 2005).

A fourth, less quantifiable characteristic of remittances is that, unlike other forms of aid, they usually do not carry any obligations, constraints or preconditions as they are not generally subjected to government interference. Throughout the history of development economics, foreign aid has always remained a contentious issue, primarily because its development impact was often marred by various inefficiencies, corruption and other absorption constraints. Foreign aid processes are still not wholly efficient, as the 2008 OECD report on monitoring aid effectiveness concluded¹¹. In comparison to the drawbacks of traditional development assistance, remittances are not channelled through intermediaries and therefore avoid absorption and corruption. Hence, although proving this statistically has not yet been undertaken, there is a consensus that “remittances may be more efficient as a source of development finance than official development assistance” (Kireyev 2006), because they are a direct and market-driven way of getting money and goods to the needy.

¹¹ OECD, “Better aid: 2008 Survey on Monitoring the Paris Declaration, Making Aid more Effective by 2015”, see <http://www.oecd.org/dataoecd/58/41/41202121.pdf>

Another characteristic of remittances is that, unlike other international capital flows, they are stable in times of economic downturns, and in many cases even countercyclical (Ratha 2007). Migrants tend to send more funds to help their families in hard times; for example, remittances as a share of personal consumption expenditure rose in Indonesia and the Philippines following a financial crisis (Yang 2006). In the face of the recent global economic recession, this makes talking about remittances particularly pertinent. As the World Bank's chief economist on remittances, Dilip Ratha, recently wrote, migrants have been "thrust into the role of a sort of lender of last resort" by developing countries facing shortages of hard currency (World Bank 2009). Indeed, in Sub-Saharan Africa, where official aid flows have long fluctuated from year to year, remittances have been more stable than both FDI and official aid (Gupta *et al.* 2007).

Moreover, remittances have been shown to directly impact the income, welfare and consumption and investment behaviour of households. Adams *et al.* (2008), after controlling for systematic differences between households that receive remittances or not, find not only that remittance income in Ghana is treated like any other source of income, but also that remittance receiving households spend more at the margin on education than those without remittances. Thus, the authors conclude that remittances have a positive impact on economic development by increasing the level of investment in human capital (*ibid.*). Furthermore, remittances have been shown to help families in Burkina Faso overcome capital constraints and invest in livestock production (Wouterse and Taylor 2008).

Beyond these direct effects, there are also indirect multiplier effects that benefit not only the welfare of recipients, but also benefit the communities and provinces where remittances flow. Durand *et al.* (1996) found that each dollar of remittance sent from the US to Mexico increased Mexican GDP by \$2.90, attributed to mostly the effect of an increase in demand. The steady flow of money to households can lead to job creation, particularly in local communities, where it is mostly spent. Consumption creates jobs, for example in the housing industry and has led to construction booms in many developing countries that benefit from remittances. "We have a construction boom across the country. This is an important safeguard against poverty and helps to modernise our rural society" stated Mohammed Ameer, Minister for Emigres in Morocco (*The Economist*, January 3rd 2008, p.52). Although the indirect multiplier effects of remittance flows are difficult to measure, it is clear that they are potentially significant.

As impressive as the above-cited impacts of remittances on development seem to be, however, the nature of remittances, their utilization and their ultimate development impacts are often unclear and mixed. A theoretical drawback of remittances is that, as with aid, oil revenues and

other unearned types of wealth, a flow of cash risks making recipients passive, dependent and unproductive. In some cases, remittances may act as an insurance device, thus carrying the risk of moral hazard and leading to reduced work incentives in households that rely on them. Azam and Gubert (2005) found this to be the case in the rural Kayes region of Mali, where remittance receiving households tended to be less productive. This is, however, a much-contested motion. The opposite conclusion was drawn, namely that remittances boost productivity, by several studies, including Lopez-Feldman and Taylor (2007), who find that remittances raise productivity in rural Mexican households through increased investment.

It must be kept in mind that measuring the net impact of remittances is complex and multifaceted. Although correlations are often found, proving causality is more difficult (World Bank 2005). To understand all facets of the interplay between remittances and various measures of development, one must take into account that migration is expensive, and often the poorest cannot migrate. As a result, the poorest households in developing countries, many of them in rural areas, do not receive a proportionate share of overall remittances (*ibid*). Cuba is a case in point, being a recipient of large remittance inflows, but with the majority of the poorer Afro-Cuban population not having relatives abroad and thus not receiving any remittances. As noted by the Inter American Dialogue recently¹², “social inequality in Cuba is growing and class divisions are merging along lines marked in part by access to remittances” (Wander 2009:2). Hence, the impact of remittances is not always straightforward and must be analysed case by case.

POTENTIAL MACROECONOMIC IMPLICATIONS OF REMITTANCES

Remittances can have significant macroeconomic effects, which are manifested in impacts on foreign exchange rates, domestic interest rates and the balance of payments. For countries receiving a large volume of remittances, usually anything above five per cent of GDP according to the World Bank, remittances can impact macroeconomic dynamics (World Bank 2006). During the recession that followed the global financial crisis in 2008-2009, it was feared that if remittances drop enough, several small, remittance-dependant countries could face the risk of macroeconomic imbalances, rising poverty and unemployment, social discontent and the return of large numbers of migrant workers (World Bank 2009). Fortunately, none of these fears seem to have materialised.

¹² Online article: “Remittances to Cuba hold steady, sources diverge” on Inter-American Dialogue website: <http://www.thedialogue.org/page.cfm?pageID=32&pubID=1845>, accessed 22/06/2010.

Remittance inflows may also have indirect repercussions on several macro-variables, such as access to international capital markets. For example, they can improve a country's creditworthiness and thereby enhance its access to international capital markets (World Bank 2006). In many countries, "the ratio of debt to exports of goods and services, a key indebtedness indicator, would increase significantly if remittances were excluded from the denominator figure" (ibid, p. 101). As a result, credit ratings would be improved. A second example of the potential positive impact of remittances on international capital market access concerns the securitization of future remittance flows¹³. Banks in several developing countries, such as Brazil, have been able to raise relatively cheap and long-term financing in this way (ibid). Moreover, the resilience of remittances during the financial crisis "has highlighted their importance in countries facing external financing gaps" (World Bank 2010:1). Remittances are now being factored into sovereign ratings in middle-income countries and debt sustainability analysis in low-income countries.

However, the macroeconomic repercussions of large remittance inflows are not always positive. Being an inflow of foreign currency, if remittances represent a significant share of GDP they could result in an appreciation of the domestic currency, known as the 'Dutch Disease' phenomenon. This can potentially lead to a loss in export competitiveness. This argument has been empirically backed by a number of studies, including Amuedo-Dorantes and Pozo (2004) who, using data from 13 Latin American countries, found that a doubling of workers' remittances would lead to a 22 per cent real exchange rate appreciation. Lopez *et al.* (2007) mirror these results at a global level, while Bourdet and Falk (2006) attribute a 14 per cent increase in the real exchange rate of Cape Verde in the past decade to the doubling of remittances. However, due to the nature of remittances, being stable over the long term, usually relatively evenly distributed across the population and spent largely on non-tradable goods, such gradual appreciation of the real exchange rate is in most cases not of serious consequence for affected countries. Indeed, most evidence seems to dismiss a negative effect (Gubert *et al.*, 2009).

However, the complex dynamics between migration, remittances and development have long been among the least researched and understood topics. Remittances have not received sufficient attention from policy makers in the countries of origin (McKinley 2003). Although this has started changing over the past decade, the development potential of remittances has not yet been fully exploited. Nonetheless, those countries that have understood the untapped potential of remittances have devised strategies to encourage the flow and effective use of

¹³ For a description of what this entails, see Annex 2.

remittances¹⁴. As the next section will show, this is not the case in the South Africa-Zimbabwe corridor.

III. EXISTING DATA AND STUDIES OF THE SOUTH AFRICA-ZIMBABWE CORRIDOR

As was highlighted by the examples above, the literature on the interplay between remittances and development has grown considerably over the past decade, but the research that has been done on remittances in Southern Africa generally, and in the South Africa-Zimbabwe corridor in particular, is limited. This is in large part due to a lack of reliable data on both migration and remittance flows in this region. There have been several studies on international migration from Zimbabwe to South Africa¹⁵, but only few of these have analyzed the role of remittances. Indeed, because of the lack of official data from Zimbabwe over most of the last decade, there have been almost no studies on formal remittance flows, and even less on the far more common informal transfers. This represents a significant gap in research in the field of migration and development in this region, particularly due to the scale of undocumented Zimbabwean migration to South Africa and the importance that remittances have for Zimbabwe.

There have, however, been a handful of studies published over the last five years that have analysed the South Africa-Zimbabwe remittance corridor, including: Maphosa (2004 and 2007), Bloch (2005), Pendleton *et al* (2006), Makina (2007), Kerzner (2009) and Tevera and Chikanda (2009). Although they approach the subject from slightly different angles, each conclude that the importance of remittance flows is vast. Maphosa (2007), for example, finds that remittances are the most important source of income for the majority of households in southern Zimbabwe. Tevera and Chikanda (2009) arrive at the same conclusion, arguing that “without remittance flows, the situation of many Zimbabwean households would be even more dire than it is already” (p.4).

All of these studies are, however, based on a few, limited sources of data. Both Pendleton *et al* (2006) and Tevera and Chikanda (2009) are based on a Migration and Remittances Survey (MARS) conducted by the Southern African Migration Project (SAMP) in 2005. The household level survey was carried out in five SADC countries, including Zimbabwe¹⁶. It collected data from 723 urban and rural households in Zimbabwe. It found that remittances have a “crucial importance to household survival” in Zimbabwe, with three-quarters of surveyed households

¹⁴ For example: Lopez *et al.* (2001); McKinley (2003); Orozco (2003); Stein (2003).

¹⁵ For example: Zinyama (1990) and (2000); Paton (1995); ILO/SAMAT (1998); and Kanyenze (2004).

¹⁶ The other four were: Botswana, Lesotho, Mozambique and Swaziland.

receiving remittances in the year prior to the study (Tevera and Chikanda 2009, p.2). The importance of remittances is further underlined by the finding that no other source of income was even remotely as significant as remittances. For example, “despite the overall significance of informal sector trade in Zimbabwe, only 15 per cent of households generated income in this way” (ibid, p.4).

The results of the MARS survey were mirrored by a survey of 150 households carried out in a rural area in Zimbabwe’s Matabeleland South Province in 2004. It found that 68.7 per cent have at least one member of the household that had migrated to South Africa (Maphosa, 2004: 9). Moreover, just 23 per cent of households in the sample with a family member abroad did not receive remittances. Maphosa attributes this in part to the idea that remittances are culturally expected, as exemplified by the fact that there are derogatory terms used for migrants who do not send money home. In a follow-up paper in 2007 entitled “Remittances and Development: the Impact of Migration to South Africa on rural livelihoods in southern Zimbabwe”, Maphosa concludes that in order to realise and unleash the full development potential of remittances in Zimbabwe, the correct strategies, regulations and policies that encourage the flow and investment of remittances must be put in place in South Africa. At present, “there is no proactive policy to influence the flow and impact of remittances from undocumented migrants working in South Africa” (ibid, p.132).

A third set of data in the field of Zimbabwean migrant remittances is a survey in 2004 by Bloch of almost 1000 Zimbabwean migrants, half living in the UK and the other half living in South Africa. It also highlights the importance of remittance flows by finding that 81 per cent of employed migrants that were surveyed sent remittances to Zimbabwe (Bloch 2005, p.80). The paper as a whole, however, takes a predominantly social policy approach. For example, the paper’s main conclusion is that there are significant barriers faced by migrants in terms of opportunities for employment, education and the use of skills in both of these host countries. As a result, Bloch argues that the best way to stem the flow of migrants is to make a ‘real commitment’ towards reducing poverty in migrant sending countries such as Zimbabwe, by improving the opportunities for migrants in the destination country (ibid). Although this is undoubtedly a justified conclusion, as a finding it doesn’t do much to advance the policy debate. In this sense, Bloch’s paper lacks the detailed political-economy analysis that could offer new insights and tangible propositions.

More importantly, all three of these sets of data were obtained through surveys conducted in 2004-2005 and are thus outdated, because migration and remittance patterns and numbers in the

corridor have evolved substantially in response to the rapidly deteriorating economic situation in Zimbabwe from 2004 to early 2009.

Nonetheless, the only survey data collected on remittance flows in this corridor since these three studies in 2004-2005 is a pilot study of 4654 migrant Zimbabweans in Johannesburg conducted in June-July 2007¹⁷. The study still represents the most comprehensive data on Zimbabwean migrants in South Africa. The primary focus of the study, however, was not remittances, but rather creating a profile of the Zimbabwean migrant community in Johannesburg. As such, the study did not go into great detail about remittance behaviour and patterns, and did not distinguish between in-kind and pecuniary remittance transfers, for example. Moreover, the data was gathered in mid-2007, at the height of the hyperinflation in Zimbabwe, and the economic situation has shifted considerably since then. Therefore, although to a lesser degree than the 2004-2005 studies, both the accuracy and the current applications of this study are limited.

The most recent study in this field was conducted in 2009 by Kerzner¹⁸ and offers the most up-to-date overview of the South Africa-Zimbabwe remittance corridor. The drawback is that it did not collect survey data, but rather simply gathered data through a few dozen interviews, and therefore it predominantly cites the aforementioned, outdated studies. Moreover, it focuses only on Zimbabwean migrants in Johannesburg. Nonetheless, the study offers some interesting insights. First and foremost, it concludes that “Zimbabwe is heavily reliant on remittance flows from South Africa” (Kerzner 2009, p.1). It also highlights that many Zimbabwean migrants are undocumented and are thus excluded from accessing formal remittance channels. Another key finding of the study is that until recently, much of the value transferred back to Zimbabwe took the form of basic groceries, cleaning and medical supplies, clothing and other household items, due to the scarcity of these goods in Zimbabwe. It argues, however, that remittance flows seem to have started undergoing a transition towards an increasing share of monetary transfers that was driven by the formation of the unity government in February 2009 and the early economic reforms that were implemented. Although it was “too early to tell at the time of the study”, the paper argued that “this shift back towards monetary transfers will play a significant role in the recovery of the country” (ibid, p.vii).

¹⁷ The study was conducted by the Mass Public Opinion Institute in partnership with the Zimbabwe Diaspora Civil Society Organizations Forum, and in cooperation with IDASA. The findings were analyzed and the report written by Professor Daniel Makina of the University of South Africa.

¹⁸ The study is entitled “Cash and Carry: Understanding the Johannesburg-Zimbabwe Remittance Corridor” and was commissioned by the Centre for Financial Regulation and Inclusion (Cenfri).

As becomes apparent, there are still some gaps in the existing literature and especially in the data in the South Africa-Zimbabwe remittance corridor. Not only is most of the data outdated, but, it is also exclusively focused on migrants in Johannesburg. In partial result of this, there are gaps in the existing literature where it fails to analyse certain key aspects of the current remittance landscape. Therefore, new data is essential in order to gain a clearer understanding of the current remittance flows and dynamics.

This paper aims to add to the existing literature in two key ways. Firstly, it provides up-to-date survey data on remittance patterns and volumes sent by Zimbabwean migrants. Although the sample size is relatively small at 350 respondents, and is thus not large enough to draw statistically valid conclusions, it provides an instructive and much-needed snapshot of the present dynamics. This paper's second key contribution is that it focuses on areas where past studies have not put sufficient emphasis. For example, it approaches the issue from the supply-side by focusing primarily on the senders' priorities, needs, difficulties and interests regarding the preferred transfer mechanisms. As such it contributes to a central aspect of the analysis of this remittance corridor.

IV. ZIMBABWEAN MIGRATION TO SOUTH AFRICA

South Africa has historically been a magnet for Zimbabwean migration because of its relative proximity, abundant economic opportunities, and cultural and language similarities facilitate easy assimilation. However, following the collapse of the economy and the deterioration of the socio-political situation, migration to South Africa has increased continuously over the past decade and reached new dimensions altogether. As a result, so too has the volume and the importance of remittance flows to Zimbabwe increased considerably. Before analysing the key characteristics of the South Africa-Zimbabwe remittance corridor, it is useful to first highlight the extent and nature of Zimbabwean migration to South Africa.

BRIEF SUMMARY OF THE POLITICAL AND ECONOMIC SITUATION IN ZIMBABWE

The humanitarian crisis reached its peak in 2008, with an estimated unemployment rate of close to 90 per cent throughout 2008-2009, hyperinflation spiralling out of control, and a severe drought that further constrained the already vastly depleted agricultural production. As a result, over half of the population was in need of receiving food aid (WFP 2008). Much of previous progress towards the Millennium Development Goals (MDGs) was reversed, with various measures of poverty, child mortality and maternal health falling (see Annex 4). Due to the

hyperinflation, Zimbabwean's purchasing power eroded rapidly. According to a Gallup poll conducted in March 2008, 84 per cent found living on their present income difficult (45 per cent) or very difficult (39 per cent)¹⁹. According to a more recent Gallup Poll published in November 2009, an average of 55 per cent of Zimbabweans between 2007-2009 said they would like to emigrate if they had the chance; making Zimbabwe a close second only to the Democratic Republic of Congo, at 60 per cent.²⁰ The bottom line is that between two and three million people, which represents up to a quarter of the population, have emigrated in the last decade, and about half of these just in the last three years (Makina 2007).

Following the heavily disputed elections in April 2008 and the formation of a unity government ten months later in February 2009, the first steps towards a normalisation of political and economic circumstances were taken. The first economic reforms, such as the decision to allow the use of hard currencies in place of the Zimbabwe Dollar and the scrapping of price controls, alongside the end of Zimbabwe's drought, have renewed some degree of agricultural productivity, led to greater price stability and have returned some goods to the grocery store shelves.

Nonetheless, almost a year and a half after the formation of the unity government, the country remains in a deadlock as the ZANU-PF and the Movement for Democratic Change (MDC) fail to make the power-sharing agreement work effectively. As a result, the much-needed foreign investment remains largely absent, unemployment is still above 80 per cent, and Zimbabweans are still crossing the southern border in search for work in South Africa to support their families in Zimbabwe.

Against this background, it becomes clear how vital remittances have been, and presently are, to Zimbabwe. Indeed, remittances flows were estimated to have doubled in 2009, according to the International Fund for Agricultural Development (IFAD), but accurate figures are difficult to project, as will be discussed in the next section. Although figures remain unclear, even conservative estimates of the magnitude highlight that remittance flows into Zimbabwe played a large role in staving off the country's complete collapse in recent years. This is confirmed by the finding in 2008 that 40 per cent of Zimbabweans said they depended on receiving money from family members working in other countries, a steep increase from the 26 per cent recorded in 2006 (Gallup 2008).

¹⁹ Gallup, 2008, 'Many Zimbabweans Lacking Basic Necessities', available online at: <http://www.gallup.com/poll/109462/Many-Zimbabweans-Lacking-Basic-Necessities.aspx>. Accessed 02/02/2010.

²⁰ Gallup, 2009, '700 Million Worldwide Desire to Migrate Permanently', available online at: <http://www.gallup.com/poll/124028/700-Million-Desire-Migrate-Permanently.aspx>. Accessed 02/02/2010.

SIZE OF THE ZIMBABWEAN MIGRANT COMMUNITY IN SOUTH AFRICA

Determining an accurate estimate for the size of the Zimbabwean migrant community in South Africa is of great importance because inaccurate information on the number of foreigners can lead to misguided perceptions and inappropriate policy interventions. However, measuring migration flows is extremely difficult and estimates have long been a source of serious disagreement. Respected media and NGOs have recently cited that the number of Zimbabweans living in South Africa is around three million²¹. However, this number is almost definitely too high.²² In a background paper published in 2008, the Forced Migration Studies Program (FSMP) at the University of Witwatersrand dismissed the three million figure noting that it was either extrapolated from data that cannot be generalised (such as statistics on deportations, border crossings or asylum applications) or that it was simply based on conjecture (FSMP 2008).

Determining an accurate estimate of the number of Zimbabweans in South Africa has thus far been precluded by a lack of reliable data. The last census was in 2001, and therefore the 2007 Community Survey by Statistics South Africa is the most recent national data available. It found the total number of foreign-born residents is just over 1.2 million, or 2.79 per cent of the total population. However, this is almost definitely an underestimate, not only because migrants are hard to track down, but also because there are a number of factors that incentivize Zimbabweans not to disclose their nationality. Many migrants enter South Africa illegally, having fled economic hardship and, in some cases, political persecution, and want to avoid deportation. Moreover, following the xenophobic violence in 2008 and the ever-present tension towards and discrimination of foreigners, usually in the form of higher rent charges and lower wages, Zimbabweans usually prefer not to stick out. This is assisted by the third point, namely that due to language, cultural and physiological similarities to South Africans, Zimbabweans find it easy to blend in and assimilate. Finally, because many Zimbabwean migrants go back and forth and stay in the country for only a few months at a time, they are hard to keep track of. Thus, for the purpose of determining the number of Zimbabweans in South Africa, the Community Survey is inaccurate and almost certainly an underestimate.

²¹For example, Medecins Sans Frontieres on June 2nd, 2009, “Zimbabweans Struggle in the Shadows of South African Society”: <http://www.doctorswithoutborders.org/news/article.cfm?id=3543&cat=field-news>; or BBC News Online on March 16th, 2010, “Jacob Zuma bid to ease Zimbabwe coalition tension”: <http://news.bbc.co.uk/2/hi/8569153.stm>. The Mail & Guardian, Bloomberg Times and the Christian Science Monitor have also quoted similarly high figure recently.

²² It seems to stem from 1996 Human Sciences Research Council (HSRC) report that is still being cited on the Department of Home Affairs Website. This report was based on a flawed survey and has since been retracted.

A study done at the University of South Africa in 2007 based on Zimbabweans living in inner-city Johannesburg concluded that there were just over one million Zimbabweans nationwide (Makina 2007); this is considered a fair finding by most experts. However, the study was done in 2007 and hence before the worst of the economic implosion, humanitarian crisis, political strife and violence in Zimbabwe. Therefore, this number has undoubtedly increased considerably in the last three years. It is now widely agreed that between one and a half and two million Zimbabwean migrants live and work in South Africa. This represents an inflow of people that is unprecedented in South Africa. Even taking the lowest estimates of numbers, for example, Zimbabweans are the biggest migrant group there has ever been in South Africa, even surpassing the numbers of Mozambican migrants during the civil war (FSMP 2007).

V. THE SURVEY RESULTS

In April 2010 a survey²³ was carried out of 347 Zimbabwean migrants living in South Africa's Western Cape Province. The primary purpose of the survey was to gather data on remittance-sending patterns of Zimbabwean migrants in order to assess both the key drivers of and constraints to remitting from South Africa. In addition to the survey, a considerable number of interviews with key stakeholders²⁴ as well as several focus group discussions with Zimbabwean migrants were carried out. In the face of a lack of research and data on Zimbabwean migration to South Africa, and in particular of remittance flows between the two countries, primary data collection was a vital part of the research for this paper.

SURVEY DESIGN

Precautions were taken throughout the survey design and questionnaire distribution processes to minimize potential biases in the results. The survey was carried out in both a rural and an urban setting as a means of portraying a more balanced picture of the nature of Zimbabwean migration and remittance patterns in South Africa. Of the overall sample, 207 questionnaires were completed in Masiphumelele, a settlement 20km south of Cape Town, and 140 were collected in De Doorns refugee camp, located about 180km north of Cape Town. The allocation of the two sample sizes is based on rough estimates of the distribution of Zimbabwean migrants in South Africa: the slight majority living and working in urban areas, but a large number working in mining and agricultural areas (FSMP 2008).

²³ The survey was funded by the author himself. See Annex 5 for a sample questionnaire.

²⁴ Interviews: Braam Hanekom, Chairman of PASSOP; as well as a number of community leaders in Masiphumelele and De Doorns. Email correspondence with Professor Daniel Makina (UNISA), Lawrence Landau (University of Witwatersrand), among others.

The survey consisted of both self-completion questionnaires and face-to-face interviews using non-probabilistic sampling methods. Although using different methods of data collection can result in so-called mode effects because the way in which questionnaires are administered can affect the way in which people respond (de Vaus 2002), it was necessary due to low levels of English language literacy of some respondents. Probability sampling techniques could not be used because there is no sampling frame of Zimbabwean migrants in South Africa. The absence of a sampling frame meant that the survey included only respondents who were willing to participate after the research objective was explained to them. Although this minimized the non-completion bias, there was room for potential selection biases.

One potential selection bias could have resulted from the fact that news of the survey was spread, at least in part, by word of mouth. Such a 'snowballing' effect may have resulted in a bias towards a certain income, or age group, for example. Beyond the randomness of the sample, caution must also be given to potential exaggeration and inaccuracy of responses, such as estimating monthly income or the total value of remittances sent. As with any survey data, responses are often subjective and estimates can be imprecise.

However, these potential selection and accuracy biases were identified early on in the survey design and several steps were taken to ensure that they were minimized. Firstly, hiring and training local staff to assist in administering the questionnaires helped improve the quality and accuracy of the data by encouraging respondents to think carefully and in a structured way when making income and remittance estimates, for example. The local staff was also important as a source of trust for respondents, many of whom were undocumented and thus were often wary of divulging personal information. To ensure that the sample was as random as possible, questionnaires were collected in different areas of the settlements. Thirdly, anonymity of all respondents was guaranteed and questionnaires were administered on weekends, when the vast majority of Zimbabwean migrants were not at work. As a final safeguard against inaccurate data, answers were screened for inconsistencies and completeness, and nine per cent of the overall sample was excluded from the analysis. For example, if the amount cited for total annual income was not significantly larger than the amount given for the total annual amount remitted, to at least account for the cost of living, the questionnaire was thrown out.

Despite these safeguards, the survey results must be seen with caution and above all, in context. This quota sample of Zimbabwean migrants is intended to be an experimental condition, rather than a population measurement. Because of the absence of a sampling frame of Zimbabweans in South Africa, as well as the relatively small sample size, the results are not

suiting to draw statistical inferences for all of South Africa. Rather, the survey results should be seen as an example of the dynamics of remittance-sending in these two Zimbabwean migrant communities that can serve as a useful indication of the general situation in South Africa. For this objective, the sample size of the survey is large enough to smooth out outliers and inconsistencies in the data.

Concerning the subjective nature of some of the questions and the resulting potential for imprecise answers, this is a necessary evil of any primary data collection exercise that cannot be avoided. Indeed, using primary sources through questionnaires, interviews and focus group discussions is the only way to begin capture data on informal remittance flows. “Surveys that ask how remittances are sent are likely to provide the best estimates of the size of the informal sector, but such surveys are only available for a handful of countries.” (Freud and Spatafora 2005, p. 3)

DEMOGRAPHIC CHARACTERISTICS OF ZIMBABWEAN MIGRANT COMMUNITY

The first half of the questionnaire consisted of questions on the social and demographic background of migrants, in order to be able to analyse these and the potential influence they have on remittance-sending behaviour and patterns. Hence, the survey gathered data on gender, age, migration patterns, educational background, employment structures and income levels on migrants.

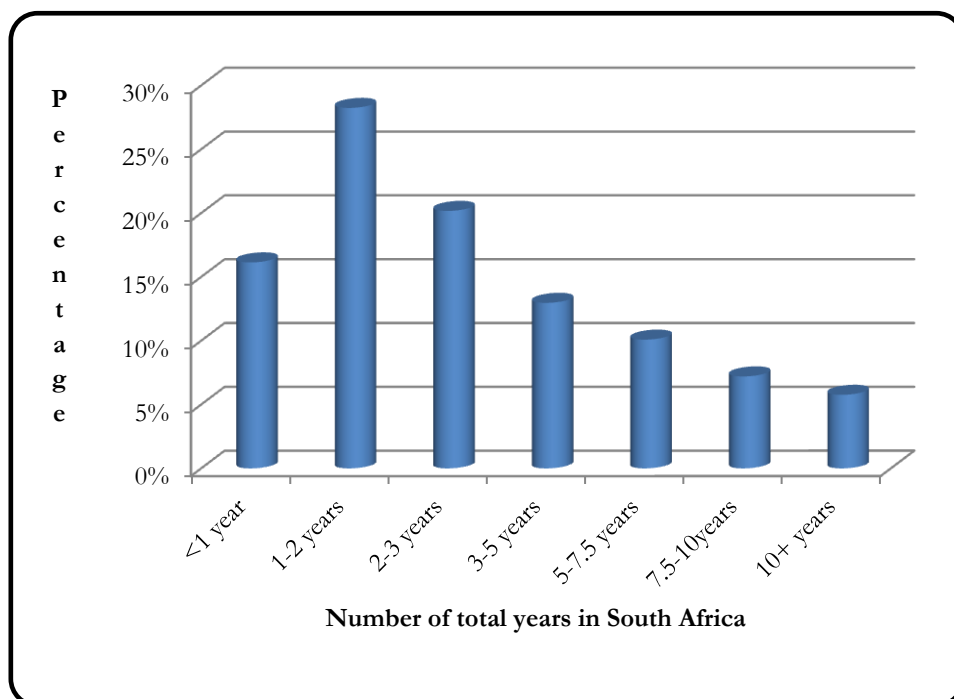
The majority of respondents in the overall sample were male (69 per cent), with a more balanced gender distribution found in the urban setting, where only 61 per cent were male. The scale of female migration from Zimbabwe is thereby higher than in most other African countries, where male migration is still very much the norm (UNDP 2010). This trend is the likely product of the current lack of employment opportunities in Zimbabwe. As such it is an indication of the unique nature of Zimbabwean migration, which permeates all layers of the population, as opposed to the more common seasonal migration that occurs in many parts of Africa.

Regarding the age of the migrants, 91 per cent of respondents were between 18 and 40 years old, with the average age being 30 years. Interestingly, most migrants were clustered closely around this average, with almost two thirds being between the ages 25 to 35. This finding is somewhat higher than the age distribution found in Makina’s (2007) study of Zimbabwean migrants in Johannesburg. It seems, hence, that younger migrants tend to cross the border and settle in the closer and more accessible Johannesburg, while more mature migrants make the move to the

further afield Western Cape Province. Indeed, 61 per cent of respondents said that Cape Town was their first and only place of settlement in South Africa. Of those who spent time elsewhere first, almost all were male and spent a short period (an average of less than one year) in Johannesburg before moving to Cape Town.

The survey results seem to justify the hypothesis that Zimbabwean migration to South Africa has not slowed considerably following the formation of the unity government in 2008. According to the survey, only 6 per cent of migrants first arrived in South Africa before 2000, when the controversial land reform program was first enforced and the economy began its decline. As is displayed in graph 1 below, an astounding 46 per cent of survey respondents first arrived in South Africa post-2008. If this finding were to hold for the whole country, it would highlight that remittance flows are now more important than ever. Furthermore, it is likely that Zimbabwean migration to South Africa will remain high for years to come, as the recovery and development process in Zimbabwe is likely to be gradual.

GRAPH 1: DURATION OF MIGRANTS' STAY IN SOUTH AFRICA



Taking the combined sample, surveyed migrants were predominantly from urban areas, although among the respondents surveyed in De Doorns, a considerable share were from rural areas. Overall, the largest number of respondents (just over a third) was from Harare. The second most common province of origin was Manicaland, with most migrants coming from the two

biggest cities there, Chipinge and Mutare. Despite this, 21 per cent reported that the closest bank was more than a 45 minute bus journey away. This is due to the fact that the majority of respondents in De Doorns (53 per cent) came from the Mashonaland provinces, and slightly over a third reported that there was no bank in the vicinity of their home. This has important implications for the type of remittance sending channel that is used, as will be discussed below.

The majority of Zimbabweans in the sample were economic migrants; 77 per cent of respondents cited 'to look for work' as the principal reason for coming to South Africa. A further 15 per cent cited 'to escape political persecution' as the main reason, and 5 per cent to be with family in South Africa. This result mirrors the aforementioned findings in Bloch's paper, as well as a more recent study of Zimbabweans in Musina, a border town in South Africa, by the International Organization for Migration (IOM). It found that 84 per cent of respondents cited economic reasons and lack of employment opportunities in Zimbabwe as the main reason for emigrating (IOM 2009). A recent working paper by the UNDP highlighted the varying reasons for Zimbabwean migration over time: between 1979 and 2001, migration was primarily for economic reasons, while during 2002-2004, political reasons became the most important driver of migration. From 2005 onwards migration was again predominantly due to economic reasons (UNDP 2010).

The vast majority of migration seems to be temporary, as opposed to permanent. This is supported both by survey findings regarding the nature of migration, as well as the closeness of ties to family members in Zimbabwe. About three quarters of respondents (73 per cent) said that they travel home at least once a year, while only 10 per cent said that they haven't travelled back to Zimbabwe in over two years. These results are further underlined by the finding that almost all migrants that took part in the survey, 93 per cent, said that they would move back to Zimbabwe permanently, 'if things got better there'. Although that leaves considerable room for interpretation, it shows that it is the objective of most migrants to remain in South Africa temporarily. Whether or not they are able to do so depends largely on the pace of economic recovery in Zimbabwe.

The hypothesis that most migration is temporary is further reinforced by the resounding number of respondents that support families in Zimbabwe. According to the survey results, 84 per cent support at least one child in Zimbabwe, and of these, 77 per cent said they had two or more children there. Indeed, 96 per cent of respondents said they had family in Zimbabwe that are dependent on their remittances, whether or not they are able to send them. These findings are similar to those of the aforementioned IOM study, which found the majority of those

interviewed had four or more people in Zimbabwe depending on the remittances sent home (IOM 2009). This issue of dependants is one of the key drivers of remittance flows, as will be discussed in section VI below.

A surprisingly high number of surveyed migrants have dependants in South Africa. Almost a third support children that are in South Africa. This finding reinforces the idea that the nature of Zimbabwean migration to South Africa may be changing towards bringing more family members over to South Africa, as migrants realise that there is no 'quick fix' for the lack of economic opportunities in Zimbabwe. Alternatively, many of these migrants may be starting families in South Africa, which has even more permanent implications for migration patterns.

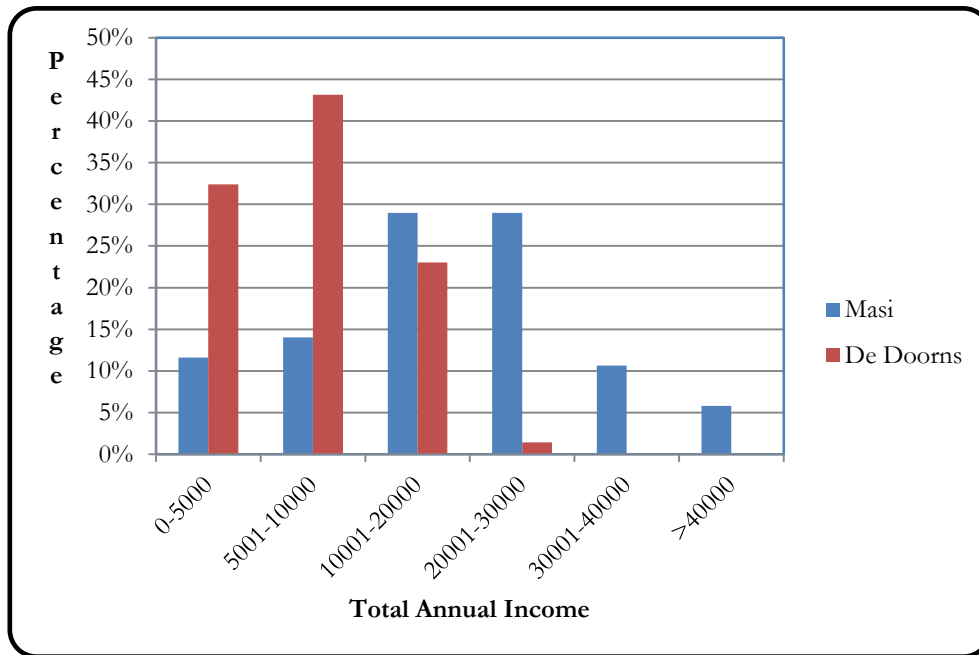
The education standard among the combined sample was relatively high. Of all respondents, 70 per cent said they completed at least eleven years of school and obtained their so-called 'O-level'. Moreover, of the total sample, 35 per cent completed some kind of post-secondary education before leaving Zimbabwe. Again, this finding is supported by both Bloch's (2005) and in Makina's (2007) surveys. In relation to migrants from other SADC countries, Zimbabweans are amongst the most educated, on average (UNDP 2010). However, there is a significant divergence between the results from the rural, as opposed to the urban migrants. While in Masiphumelele, 81 per cent of respondents said they obtained their O-level, in De Doorns, only 54 per cent achieved the same standard.

Despite the relatively strong educational record, the average monthly income of survey respondents was just R1826, and is lower than the average personal monthly income in South Africa, which is estimated to be about R2,100 (FinScope 2008). However, the majority of respondents found some kind of employment and worked between six and ten months last year. The median value was lower for both those measures, since only 30 per cent of migrants earned more than that average and only 25 per cent were employed for more than 10 months out of the year.

The disparity between rural and urban migrants is most visible in terms of average annual income, because this measure takes into account the months per year that employment was secured. In De Doorns, only 40 per cent of respondents were employed for more than six months (compared to 77 per cent in Masiphumelele). This is due to the seasonal nature of farm labour. Moreover, due to the surplus of cheap labour, there is considerable exploitation of migrants in rural areas, not only to work long hours, but wages often just R5 per hour. As a result, the average monthly wages amounted to only R1135 in De Doorns, as opposed to R2300

in Masiphumelele. By multiplying the number of months worked by the monthly income for each migrant, the annual total income can be obtained. While respondents in Masiphumelele earned R 19,430 on average per year, Zimbabweans in De Doorns only earned R 7,540. This disparity is shown in graph 2 below.

GRAPH 2: RURAL VS. URBAN INCOME



Out of the combined sample, the majority of migrants are in cash jobs. Only 9 per cent of respondents said that they got paid for their work through a bank transfer, as opposed to cash. This could be seen as an indication of the fact that the majority of Zimbabwean migrants are undocumented, and hence have no access to banking services. Once again, these results confirm findings by similar studies conducted in Johannesburg. Interestingly, of those that got paid via bank transfer, and are hence documented migrants, the average monthly income was R 3,320, compared to the average of just R 1,680 for surveyed migrants that were paid in cash. As a whole, hence, it seems that the undocumented status of Zimbabwe migrants was an obstacle to securing better paid employment. This notion, and the implications that it has on the remittance behaviour of migrants will be further discussed below.

REMITTANCE-SENDING BEHAVIOUR AND PATTERNS

The nature and patterns of remittance flows in Africa are different from other regions in the world due to a number of key reasons. Firstly, most of Africa's migration is intraregional. Migration in Africa tends to be confined to other regional countries that show greater

employment opportunities and that usually have higher scores on the Human Development Index (UNDP 2010). According to a World Bank study, 69 per cent of total migration flows in Sub-Saharan Africa are regional (Ratha 2007). Another characteristic that sets Africa apart is that due to the lack of financial saturation, Africa has the highest usage rates of informal remittance channels. Thirdly, compared to all other continents, money transfers, especially within Africa, are the most problematic because, at least in most countries, they are impacted by regulatory environments that impede competition (IFAD 2008).

Indeed, there is a persistence of monopolies on transfers by banks and MTOs that drive up the costs within the continent. In all of Western Africa, for example, 70 per cent of official payments are handled by one MTO, which demands exclusivity in money transfers of the banks (IFAD 2008). As a direct result, remittance sending costs in Africa are higher than in other parts of the world. The outcome is that remittance senders get less value for their money and remittance receivers do not receive as much as they could. In the face of high costs of the formal channels, informal remittance channels emerge as a solution to the need to remit (ibid), thus helping to explain why such high rates of informality are recorded across the board in Africa. The extent to which these factors are replicated in South Africa will be discussed in this section.

South Africa is a country that records significant net remittance outflows, which places it in the company of developed countries that boast levels of financial development and saturation well beyond those currently achieved in South Africa. Indeed, of all countries with significant net outflows of remittances, South Africa has the lowest GDP per capita, at US\$3640 and also has the highest percentage of population living in rural areas, at 40 per cent (Beck and Peria 2009). Against this background, this section intertwines a discussion of these key factors with empirical evidence from the survey to paint a picture of the remittances landscape in the South Africa-Zimbabwe remittance corridor.

The survey results indicate that an extremely high proportion of Zimbabwean migrants send remittances. Of the 326 questionnaires used in the analysis²⁵, 92 per cent of respondents said that they sent remittances to family in Zimbabwe over the last twelve months. At that, the percentage of migrants that remit is higher than results found in similar studies done in other regions, such as from migrants in Europe to their families in developing countries in general²⁶, or

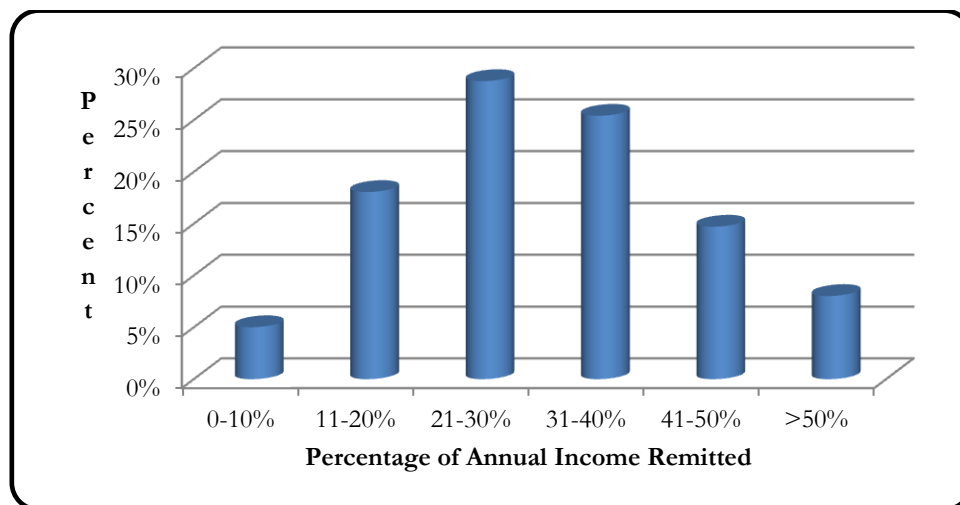
²⁵ The overall sample included 347 questionnaires, but 21 were excluded from the remittances analysis due to incomplete or inconsistent answers.

²⁶ For example, Fasani *et al.* (2008) found that 65 per cent of migrants in Italy's Lombardy region remit.

from Latino migrants in the US to Latin American countries²⁷. The high result of this survey is however replicated in similar studies in Johannesburg, which also found the percentage of migrants that remit to be close to 90 per cent (Makina 2007). This finding gives testament both to the dire state of economic opportunities in Zimbabwe, as well as the profound dependency on remittances there. Although almost all developing countries worldwide rely on remittance flows to some degree, the broad and deep-rooted dependence that seems to be the current reality in Zimbabwe is quite unique.

The hypothesis of a deep-rooted dependence of remittance recipients in Zimbabwe is further substantiated by the finding that 31 per cent of total annual income of Zimbabwean migrants in the sample is, on average, remitted.²⁸ This result is higher than the share of income that is remitted in most other regions and corridors, where the average usually falls between 20 and 30 per cent. As is displayed in the bar chart below, only 23 per cent of respondents remitted less than 20 per cent of their total income, while the majority (54 per cent) remitted between 20 and 40 per cent of their incomes annually.

GRAPH 3: PERCENTAGE OF TOTAL INCOME REMITTED



The average total amount remitted by survey respondents was found to be about 20% higher than by migrants in a comparable study in Johannesburg²⁹. The average amount was R4700 per year, including both pecuniary and in-kind transfers. This finding is somewhat higher than Makina's (2007) study of Zimbabwean migrants in Johannesburg. The divergence in results is in large part due to the lower average incomes of migrants in that study in Johannesburg. Indeed,

²⁷ For example, Amuedo-Dorantes and Bansak (2006) found that 76 % of Mexican migrants in California remit.

²⁸ By multiplying the average number of months worked per year by the average monthly income earned, a total average annual income of R14460 was found. Next, the value of remittances, both cash and the estimated value of goods, was summed up and their share of the total annual income calculated.

²⁹ Makina (2007).

as a share of their incomes, remittances sent also accounted for over 30 per cent in that sample (Makina 2007).

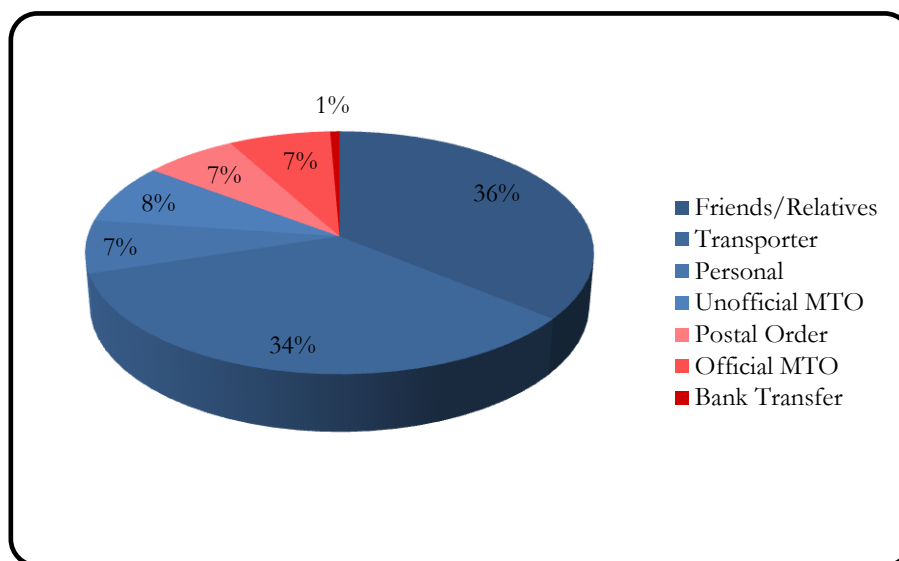
Migrants' remittance-sending behaviour was characterised by frequent transfers of smaller amounts; a finding that is also consistent with the existing studies. The great majority of migrants in the sample (78 per cent) said that they send remittances at least once every three months, meaning that the average amount sent with each transaction was worth around R750 every two months. The high frequency of sending remittances is important because in the absence of a regular sending pattern, recipients cannot plan and budget on the receipt of remittances (Maphosa 2004).

A large number of migrants seem to send in-kind remittances, making up a considerable share of total remittance flows. The great majority of surveyed migrants, 88 per cent, said that they have remitted goods on at least one occasion over the past year. There is a clear consensus throughout the existing literature on the large role of in-kind remittances. This is attributed largely to the fact that over most of the past decade, Zimbabwe was suffering from a rapidly declining economy that manifested itself in high rates of unemployment and inflation, as well as falling levels of agricultural productivity that were accentuated by a severe drought. The result was that goods were in severe shortage and needed to be imported. As a result, even when goods were available, they were far more expensive than in South Africa. According to this survey, the most common goods sent were food and clothing, which were both sent by approximately 70 per cent of respondents. Household items (45 per cent), electronics (40 per cent), and to a lesser extent, medicine (24 per cent), were other commonly sent goods.

As a share of the total value of remittances sent, the value of goods sent accounted for 41 per cent, although the results indicate a declining trend. Indeed, this finding is somewhat lower than those found in Maphosa (2007) and Kerzner (2009), and it seems to indicate that remittance flows to Zimbabwe are evolving back towards a greater share of monetary transfers, as Kerzner (2009) predicted. It seems that this trend is on the one hand due to the economic progress and increase of agricultural productivity over the past year; and on the other hand attributable to the use of the South African Rand in Zimbabwe, which not only circumvents all exchange rate fluctuations, but also clarifies and simplifies transmission processes. A third factor could be the further distance that migrants have to transport goods from the Western Cape than from Johannesburg, where the other surveys were conducted.

Informal remittance channels were given clear preference among survey respondents. The vast majority of transfers, 85 per cent, were made using various informal channels, such as giving the money and/or goods to friends or relatives that are travelling back to Zimbabwe (35.5 per cent) or by paying a bus driver or other transporter to take the remittances back (34 per cent). Other informal channels included using unofficial MTOs (7.5 per cent), or simply taking the remittances home themselves (7 per cent), as is summarised in the pie graph below. Only 15 per cent of surveyed migrants said they used primarily formal remittance channels, such as official MTOs³⁰ (7 per cent), postal orders (7.5 per cent) or bank transfers (0.5 per cent).

GRAPH 4: REMITTANCE CHANNELS USED



This predominance of informal channels is confirmed by Makina’s (2007) finding that only 11 per cent of remittances were sent through official banking channels or other formal channels. Indeed, there is a clear consensus in the literature that most of the cash remittances were sent through informal channels; a finding that is consistent with findings in most parts of Sub-Saharan Africa. It is in large part due to the limited access that migrants have to formal channels, either because they are undocumented, or because of the lack of banking facilities on the recipient end as many migrants come from rural areas. These issues will be explored in greater detail in section VII below.

In summary, the findings of this survey are largely consistent with the results obtained by the other aforementioned surveys that were carried out in Johannesburg over within the last five years. The only differences seem to be the slightly older average age of migrants in the Western Cape and the lower relative weight of in kind remittances. This latter point, as already

³⁰ There are only two official MTO’s currently operating in South Africa: Money Gram and Western Union.

mentioned above, is likely to be primarily due to the gradually changing nature of the economic situation in Zimbabwe and the consequent evolution towards increasing monetary transfers.

TABLE 1: SUMMARY AND COMPARISON OF SURVEY FINDINGS

| Factor | Burgsdorff (2010) | Makina (2007) | Other |
|-----------------------------------|---|---|---|
| <i>Sample Size</i> | 347 | 4,654 | <i>Bloch(2005) / IOM (2009)</i> |
| Age | 91% between 21 and 40 years; average 30 | 80% between 21 and 40 years; average 27 | 81% under 39 (Bloch) |
| Gender | 69% male | 59% male | 68% male (Bloch) |
| Reason | 77% economic | 'Predominantly' economic | 84% economic (IOM) |
| Duration | 94% post 2000 | 92% post 2000 and 'exponential' annual growth | --- |
| Dependants in Zimbabwe | 84% support children; 69% support 3 or more | 93% support children; 72% support 3 or more | 'Majority' had 4 or more dependants (IOM) |
| Dependants in South Africa | 44% | 55% | --- |
| Education | 70% O-level; 35% post-secondary | 62% O-level; 32% post-secondary | 82% O-level (Bloch) |
| Income | Average R1850; Masiphumelele: R2300 | Average R1900 | --- |
| Remitting | 92% remit | 89% remit | 81% remit (Bloch) |
| As share of income | 31% | 30% | --- |
| In kind remittances | 41% of total | 'Majority' | --- |
| Channels used | 85% informal | 89% informal | 'Minority' formal (Bloch) |

THE OVERALL SIZE OF REMITTANCE FLOWS

In the South Africa-Zimbabwe corridor, remittance flows are considerable, in large part due to the large number of Zimbabwean migrants assumed to be in South Africa³¹. The most commonly used approach in the existing literature estimates remittance flows as a product of the stock of migrants abroad, the percentage of these migrants that remit, and the average annual amount that they remit. Given this simple framework, the assumptions for each parameter can be deduced from survey results and estimations. The total number of Zimbabweans living in South Africa is estimated to be between 1.5 and 2 million, as discussed above. Based on this and other studies done, we assume that 85 per cent³² of Zimbabwean migrants in South Africa remit. Finally, estimations based on this and other survey data suggest that the average annual amount remitted, including both cash and the value of goods, is about R4000³³. Given these assumptions, the rough estimate³⁴ of the likely size of remittance flows from South Africa to Zimbabwe last year amounts to between five and seven billion Rand; or equivalent to between

³¹ Any exercise to estimate overall remittance flows is subjected to considerable assumptions that may distort the accuracy of the result. However, the findings of the survey are here applied to obtain at least an indication of the scale of overall remittance flows.

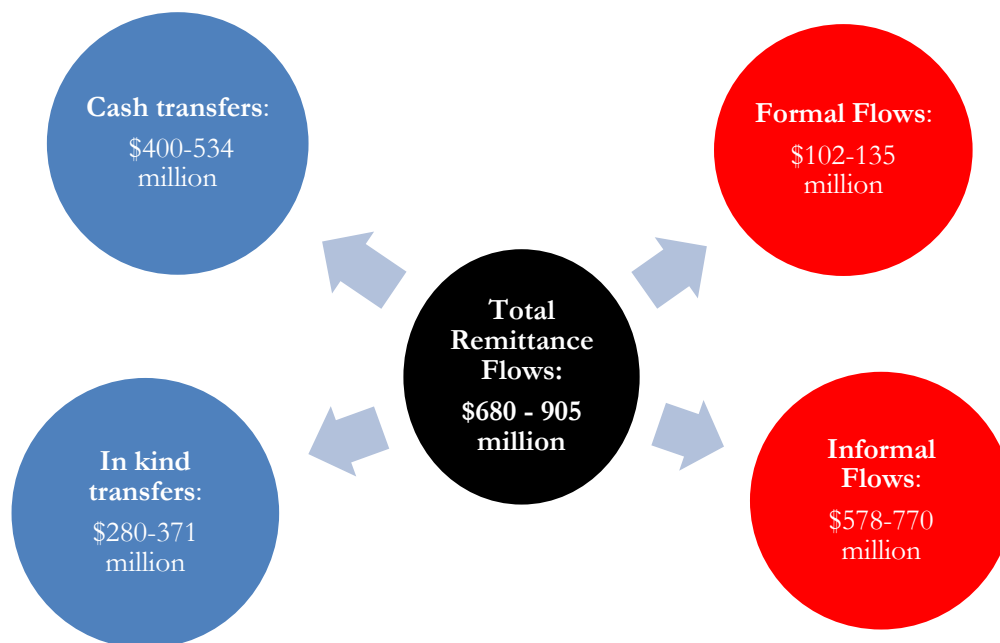
³² Represents average finding of this study and studies by Maphosa (2004), Bloch (2006) and Makina (2007).

³³ This value is the average of findings by Bloch (2006) and Makina (2007).

³⁴ To account for the assumptions used and the resulting inaccuracy of results, estimates of remittance flows are given as a range, representing both the lower and upper bound estimates.

US\$ 680-905 million³⁵. The following diagram displays the estimated results, by breaking this overall sum up by both the type of remittances and the channel used.

DIAGRAM 1: ESTIMATED TOTAL REMITTANCE FLOWS IN SOUTH AFRICA-ZIMBABWE CORRIDOR



Taking into account that at least a third of Zimbabwean migrants live in other foreign countries, predominantly the UK and Botswana (UNDP 2010), the total remittance flows into Zimbabwe are likely to be between US\$ 1-1.5 billion annually. This estimate is supported by a recent working paper published by the UNDP, which put the figure at US\$ 1.4 billion. The IMF forecast for private cash transfers, which includes an estimate of informal flows but excludes in-kind transfers, was US\$ 971 million for 2009. Given that slightly over 40 per cent of flows are likely to be in-kind transfers, the IMF prediction falls well within this range. Finally, considering that a recent study of remittance behaviour of Zimbabweans living in northern England by Bailey, *et al.*, (2009) estimated that US\$0.94 billion was sent from the UK alone in 2007, this rough estimate of the overall volume of remittance flows to Zimbabwe might still be on the conservative side.

³⁵ Using the average exchange rate of the year thus far, which is US\$1=ZAR7.52.

To put these numbers into perspective, it is useful to draw some comparisons with other financial inflows. Although ODA flows to Zimbabwe in 2008 amounted to \$608 million, they were only about half the size of remittance flows into the country. Foreign direct investment, including direct investment and official transfers in the capital account, was estimated to be just US\$152 million in 2009 (IMF 2009). Moreover, as export receipts stagnated between 2004 and 2008, they amounted to just over US\$ 1.6 billion in 2008 (IMF 2009), and thereby were only somewhat larger than overall remittance inflows. Thus, remittances are currently one of the greatest sources of foreign currency inflows for Zimbabwe.

Finally, remittance flows are often presented as a share of GDP in order to indicate the weight they carry in the recipient country. In Zimbabwe, however, that is difficult, because estimating the size of the Zimbabwean economy accurately is close to impossible, not only due to a lack of data, but also due to the immense size of the informal sector in the country. Therefore, any figures for GDP must be regarded with caution, just as the above estimates of remittance flows. Nonetheless, calculating the ratio of remittance inflows to GDP is useful as an indication of the importance they have. The IMF projected Zimbabwe's nominal GDP for 2009 to be just over US\$3.5 billion (IMF 2009). Based on the IMF's GDP projections, this would mean that worldwide remittance flows to Zimbabwe currently amount to 28-40 per cent of Zimbabwe's GDP. Cash remittances from South Africa alone (excluding in-kind remittances) account for roughly 11-15 per cent of GDP.

In comparison to these figures, only about two dozen or so countries worldwide receive cash remittances equal to more than 20 per cent of GDP (IFAD 2007). In Africa, Eritrea (38 per cent), Cape Verde (34 per cent), Liberia (26 per cent), Lesotho (24 per cent), Burundi (23 per cent), Gambia (17 per cent) and Mali (12 per cent) record similarly high ratios³⁶ (ibid:8). Zimbabwe stands out in that it has a larger population than most of the countries in this group. However, the IMF predicts that if appropriate economic reforms are further consolidated, nominal GDP should increase to over US\$6 billion by 2013, meaning that even if remittance flows stayed stable, they would account for roughly 13-18 per cent of GDP³⁷.

³⁶ These ratios include an estimate of informal flows, but exclude in-kind transfers.

³⁷ Including both informal and in-kind transfers.

VI. ASSESSING THE KEY DRIVERS OF REMITTANCE FLOWS

In general, remittances are driven first and foremost by the need to support migrant workers' families. Straubhaar (1986), for example, showed that the total inflow of remittances to Turkey is affected neither by exchange rate variations, nor by changes in the real rate of return on investment. His explanation is that most remitters have little option but to send money, given the severe economic hardships faced by their families in the home country. This seems to be the case with Zimbabwean migrants in South Africa, both because of the low income of most Zimbabwean migrants and the depth of dependency of remittance recipients in Zimbabwe. While subsequent sections analyse the various supply-side constraints to sending remittances from South Africa, this section examines to what extent the different characteristics of migrants for which survey data was gathered influence those migrants' remittance sending decisions.

An initial analysis of the data reveals that a number of factors seem to have implications for the remittance sending behaviour and patterns of migrants, including the number of dependants that migrants have in Zimbabwe. For example, respondents that had at least one child in Zimbabwe remitted 11 per cent more of their income than respondents without any children in Zimbabwe. It seems the more children migrants have in the home country, the more they remit. For example, those respondents with six or more dependants in Zimbabwe remitted 19 per cent more as a share of their income on average than respondents with only two or less dependants in Zimbabwe.

The number of children that surveyed migrants had in South Africa was found to be negatively correlated with remittance flows, as would be expected. However, the correlation does not seem to be as strong as the aforementioned correlation with dependants in Zimbabwe. According to the survey results, respondents with two or more children in South Africa remitted 6 per cent less of their income than those without children in South Africa.

Another factor that seems to have implications for remittance flows is the duration of time that migrants have been in South Africa. Based on mean values the results seem to indicate that the longer the time that migrants spent in South Africa, the lower the share of income that they remit. Those migrants that have spent less than three years in South Africa remitted 8 per cent more as a share of their income than those migrants that spent more than three years in South Africa.³⁸ This is likely to be attributable to both that the closeness of ties to and responsibility

³⁸ Interestingly, it seems that those respondents that spent less than one year in the country remitted 10 per cent less as a share of their income than those who spent between one and three years in the country. It seems that the

for family members in Zimbabwe weakens over time and that the amount of dependants in South Africa increases with the amount of time spent abroad. For example, migrants that have been in South Africa for less than three years reported having an average of 0.8 dependants in the country, as opposed to 1.4 dependants per migrant that has been in South Africa for longer than three years.

However, neither the likelihood to remit, nor the share of income remitted seem to be significantly affected by the other factors for which the survey gathered data, such as the gender or age of migrants, the years of schooling completed, whether migrants are from rural or urban areas, or even the main reason given for migrating to South Africa. Neither does the share of income remitted seem to be significantly affected by whether the migrant plans on staying in South Africa permanently as opposed to temporarily. For example, those migrants that replied 'yes' to the survey question of whether they plan on returning to Zimbabwe permanently, remitted only slightly more as a share of their income (31 %), on average, than those who replied 'no' (29 %).

A simple multiple regression analysis was used to test the importance and scrutinize the statistical significance of this initial analysis of the key explanatory variables on remittance sending dynamics. To determine which variables to include in the regression, a Pearson's correlation³⁹ was first employed to test the strength of the correlation of each of the available variables with the dependent variable, the share of income remitted (Y_Share)⁴⁰. Only three variables had a sufficiently strong linear correlation with the share of income remitted and were hence included in the regression: (i) the number of dependants the migrant has in Zimbabwe (Dep_Zim); (ii) the number of children he/she has in South Africa (Child_SA); and (iii) the length of time (in years) that the migrant has been in South Africa (Stay_SA).

The following equation was estimated:

$$Y_SHARE = C(1) + C(2) * (DEP_ZIM) + C(3) * (CHILD_SA) + C(4) * (STAY_SA).$$

A priori, it is expected that the relative size of remittances would be directly and positively related to the number of dependants in Zimbabwe but inversely or negatively related to the

ability of new migrants to remit is impeded both by the difficulty in finding well-paid work and the ability of migrants to save.

³⁹ See Annex 6 for details.

⁴⁰ The share of income remitted was used as the dependent variable instead of the amount of remittances sent, because the latter was influenced too heavily by the income of migrants, for which only a gross figure was captured by the survey, rather than a figure for disposable income, which would have been more accurate.

number of dependants in South Africa and how long the migrant has been in South Africa, as the initial analysis above already alluded to.

TABLE 2: REGRESSION 1 RESULTS

Sample Observations 1 – 326

| | Coefficient | Standard Error | Probability |
|----------------------|-------------|----------------|-------------|
| Constant (C1) | 0.2085 | 0.0276 | 0 |
| Dep_Zim (C2) | 0.0436 | 0.0044 | 0 |
| Child_SA (C3) | -0.0234 | 0.0118 | 0.0493 |
| Stay_SA (C4) | -0.0075 | 0.0033 | 0.0264 |

R-Squared: 0.2516

Using the least squares method⁴¹, the results in table 2 show that the sign of all three variables is as anticipated and that all the coefficients are significant. The coefficient C(2) for Dep_Zim means that for every extra dependant in Zimbabwe, the migrant will remit an additional 4.36 per cent of their income, and is this highly significant. The relationship is less strong for the other two variables, but the direction of the relationship is as expected. For example, every extra child that the migrant has in South Africa reduces their remittances by 2.34 per cent of their income. However, for both this variable and the duration of stay, the coefficients were not as statistically significant as for the coefficient for dependants in Zimbabwe.

Moreover, alongside the relatively low R-squared value (0.25), an indication that there are other missing factors that impact the share of income remitted is the fact that the value for the constant, C(1), is quite high, at 0.21. This means that migrants will remit about 21 per cent of their income even if all three explanatory variables used here are zero. The constant seems rather high and may be capturing other factors. In the absence of direct dependants in Zimbabwe, the notion that migrants still remit a small share of their income may be due to savings or investment objectives of those migrants, for example.

In order to test the stability of these results throughout the distribution of the observations, it is indicative to run the same regression using different groupings of observations⁴². As table 3 below shows, when changing the sample observations to 175-326, the only variable that remains statistically significant is the number of dependants in Zimbabwe. The other two are not statistically significant any longer.

⁴¹ The regression was calculated using the statistical program E-views.

⁴² The ordering of the observations may inadvertently capture particular groups of people.

TABLE 3: REGRESSION 2 RESULTS

Sample Observations: 175 – 326

| | Coefficient | Standard Error | Probability |
|----------------------|-------------|----------------|-------------|
| Constant (C1) | 0.2074 | 0.0362 | 0 |
| Dep_Zim (C2) | 0.0414 | 0.0061 | 0 |
| Child_SA (C3) | -0.0173 | 0.0160 | 0.2828 |
| Stay_SA (C4) | -0.0063 | 0.0044 | 0.1557 |

R-Squared: 0.2589

This instability in the distribution may be the result of differences in the data from Masiphumelele as opposed to De Doorns, which is being reflected in the regression results due to the order in which the data were recorded. It seems that the number of children in South Africa and the duration spent in the country is more statistically significant in the sample from Masiphumelele than in the sample from De Doorns.

In order to identify the relative importance of the length of stay in South Africa and the number of children in South Africa, a multiplicative and additive interaction term were added in the regression. In this case, the additive term was insignificant whereas the multiplicative term was significant, which indicated the relative greater importance of children in South Africa compared to the length of stay.⁴³ Finally, to gain an impression of the pure impact of the dependants on the share of income remitted, we can exclude the constant from the equation. The following equation captures these changes:

$$Y_SHARE = C(2)*(DEP_ZIM) + C(5)*((CHILD_SA)*STAY_SA))$$

TABLE 4: REGRESSION 3 RESULTS

Sample Observations: 1 – 326

| | Coefficient | Standard Error | Probability |
|------------------------------|-------------|----------------|-------------|
| Dep_Zim (C2) | 0.0726 | 0.0019 | 0 |
| Child_SA*Stay_SA (C5) | -0.0039 | 0.0013 | 0.0031 |

R-Squared: 0.1310

The equation now indicates that as much as 7.3 percent of migrants' total income is remitted for each dependant in Zimbabwe, which is reduced according to the number of 'dependant child years' they have in SA.

The low R-squared values recorded in each of the regressions above make it clear that using merely these three explanatory variables is not a full explanation of the variation in the share of

⁴³ The length of stay is always greater than zero, where as the number of children in SA is often equal to zero. Thus the mutiplicative favors the number of children whereas the sum favors the length of stay.

their income that migrants remit. There are three considerations here. First and foremost, the ambiguity in the results point to the fact that remittance behaviour is determined by both recipient ('demand side') and migrant ('supply-side') forces. Since the survey collected data only from Zimbabwean migrants in South Africa, and thus gathered almost no data on the remittance recipients in Zimbabwe, it could only account for the supply side of that equation. More detailed information on the characteristics, needs⁴⁴ and preference-structures of the corresponding remittance recipient households in Zimbabwe would be needed to create a more complete explanatory model of remittances behaviour.

Secondly, the data gathered on the supply side of migrants' remittance behaviour was not detailed enough to capture the complexity of remittance-sending behaviour. Due to the limited scope of the study, there was no data on various factors that could influence remittance-sending decisions, for example the relationship of the migrant to each of the various dependants cited (i.e. spouse, parents, etc.)⁴⁵. Clayton and Warin (2010), for instance, in their analysis of household survey data from El Salvador and Ecuador, found that the only statistically significant relationship is the existence of a spouse in the home country. Another example of useful data that was beyond the scope of this study is the time frame when migrants are planning to return to Zimbabwe. Woodruff and Zenteno (2007), for example, found that Mexican migrants in the U.S. that planned to return home soon remitted more.

Finally, the low R-squared values highlight that the nature of migrants' remittance behaviour may be highly individualistic, based not only on factors such as income, dependants and duration of stay, but also on immeasurable ones concerning the different personalities, priorities, objectives and even attitudes to altruism of individual migrants. As a result, remittance behaviour can vary greatly from one migrant to the next and no data collection exercise or regression analysis will be able to fully capture all the dynamics responsible for variations in remittance-sending patterns.

In summary, the most important and identifiable factor driving remittances seems to be the number of dependants a migrant has in Zimbabwe. Each dependant could be responsible for an estimated 4 to 7 per cent of migrant income. On average, migrants remitted 31 per cent of their income, with a standard error of 20 per cent. The number of dependants in SA reduced the amount of remittances, especially for those that have been in SA for a longer period of time.

⁴⁴ Information on health issues, including HIV/AIDS, for example, could go a long way in explaining variations in remittance-sending behaviour.

⁴⁵ The only question in the survey that was more detailed was on the number of children.

VII. HIGH RATES OF INFORMALITY

Most corridors outside of Africa have over the past decade undergone a rapid formalisation of remittance flows, due to increased competition amongst formal service providers, lower costs and better technology that has enabled more efficient and targeted services (World Bank 2009). As a result, many more migrants have remittance-sending options that offer greater security and faster speed, and remittance flows across the globe are now more transparent and accountable. The reasons why this has not been the case in this corridor will be discussed in this section.

In some corridors, particularly in Africa and in parts of Asia, substantial amounts of remittances continue to flow through informal channels. In Asia, these informal transfer mechanisms often go back centuries, such as *hawala* and *bundi* in South Asia or *fei ch'ien* in China. They are extremely efficient and charge low costs⁴⁶. Africa, however, not only lacks reliable and cost-effective informal systems, but has also been largely left behind by the global advance of formal channels.

The objective, hence, should be to encourage the formalisation of remittance flows in the South Africa-Zimbabwe corridor. The current environment in this corridor is promising for this shift, due not only to the use of the South African Rand in Zimbabwe, which has helped stimulate a trend towards less in-kind and greater pecuniary flows, but also because the drawbacks of informal channels are significant and apparent to Zimbabwean migrants. The potential gains of improving the efficiency and reducing the costs of current remittance options seem to be significant. For example, to a question in the survey that asked 'would you remit more if it became easier, cheaper, safer and faster to do so', 93 per cent replied 'yes'.

Yet despite the favourable environment, the high rates of informality in this corridor will not be reduced unless a number of constraints to the formalization of remittance flows are addressed. The issues and constraints that are responsible for the current predominance of informal channels can be divided into four, prioritized sub-sections: (1) the stringent legislative rules and regulations in South Africa; (2) the characteristics of both formal and informal channels; (3) the large share of in-kind remittance flows; and (4) the lack of financial literacy of Zimbabwean migrants.

⁴⁶ For details, see annex 7.

LEGALITY AND REGULATIONS

The high rates of informality in the South Africa-Zimbabwe remittance corridor can be explained first and foremost by the legislative rules and regulations in South Africa. There are three pieces of legislation that pose obstacles to the flow of remittances: exchange control legislation, anti-money laundering (AML) and combating the financing of terrorism (CFT) regulation, and immigration law. Firstly, exchange control legislation is not problematic because of the limits it sets on amounts transferred cross-border, since most remittances are small amounts, but because it regulates who is allowed to deal in foreign exchange and via what mechanisms. In practice, it creates a significant barrier to entry for potential new players in the market. As it stands now, only authorised dealers, who must have both a banking license and have made an investment in an expensive exchange control reporting system, can remit funds (Genesis 2005). As a result of this legislation, for example, money transfer operators (MTOs) cannot operate independently, but must instead partner with a bank. This gives banks and MTOs a *de facto* monopoly of formal remittance transactions, and sets the stage for the inflated costs of transactions.

Secondly, South Africa is committed to complying with international AML and CFT regulations. In doing so, it has implemented rules such as 'know-your-customer' legislation. This regulation dictates the need for an applicant to have formal proof of residence, as well as proof of the source of funds in order to have access to financial services. Most migrants live in informal settlements and are paid in cash, as the survey results indicate, and therefore find it hard to 'prove' their residence or where their income came from. The result is that all undocumented migrants, and many documented ones working in cash jobs, are excluded from access to financial services.

The third piece of legislation that impacts remittance flows in the South Africa-Zimbabwe corridor is immigration laws. Currently, there are almost no legal options available to unskilled individuals wishing to migrate to South Africa. The only choice that migrants have is to apply for asylum and obtain refugee status. In almost all cases, however, applications are rejected⁴⁷, because they are arguably made on economic or humanitarian grounds, rather than on proven grounds of individual or political persecution, as the 1998 Refugees Act stipulates. Once the right of appeal is exhausted, migrants have to leave, but most choose to remain illegally.

⁴⁷ A background note by the FSMP in 2007 cited that of the 44,000 Zimbabwean asylum applications that had been filed to that date, only around 1,000 were granted (FSMP 2007).

As became clear from the focus group discussions, the majority of participants explained that they did not bother applying for refugee status in the first place, because of the difficulties in the application process. Since the demand vastly exceeds the resources and capacities of the Home Affairs' refugee reception centres, just submitting an application often becomes a frustrating process. Some focus group participants explained that they spent days on end queuing outside the reception centre, sleeping on the sidewalk at night, only to be forced to give up eventually in many cases. Because most migrants have no savings and live from their weekly earnings, focus group participants explained that they cannot afford to spend so much time waiting in line rather than working. In some extreme cases, migrants have starved to death outside the refugee reception centre in Cape Town⁴⁸. Fortunately, a new refugee reception centre was opened in Cape Town in late 2009, which has increased the efficiency of the process somewhat.

As a final note concerning the prevalence of undocumented Zimbabwean migration, many migrants choose to border jump because they cannot afford obtaining a passport in Zimbabwe, which costs between one and two hundred US dollars. As a result of this and the aforementioned factors, the great majority of migration is undocumented. As just explained, without proof of legal residence it is very difficult to access the formal financial system.

Hence, the direct result of these legislative rules and regulations are both a lack of accessibility to formal channels and excessively high costs of formal transfers from South Africa to Zimbabwe and elsewhere abroad. Before turning to the other three areas that currently impede the formalization of flows, it is useful to highlight the cost of remittance transfers in this corridor that are in a large degree the result of these legality and regulatory issues.

COST OF REMITTANCE TRANSFERS

South-South remittance costs are higher than North-South transfers (Beck and Peria 2009). South-South formal remittance transfers are often either impossible due to capital and exchange controls, or they are extremely expensive because currency conversion charges have to be paid at both ends (ibid). On a global scale, remittance costs have been declining over the past decade, but have remained sticky most recently (World Bank 2009).

Beck and Peria (2009) find that corridors with larger numbers of migrants and more competition among remittance service providers exhibit lower costs, whereas corridors which have greater share of bank participation in the market have higher remittance costs, on average. Based on the large number of migrants, the close proximity and low share of bank participation, one would

⁴⁸ Interview with Braam Hanekom, chairman of PASSOP.

assume that the South Africa-Zimbabwe remittance corridor would be among the cheapest. This is far from being the case. Average remittance costs worldwide fall in the region of 10 per cent, with efficient corridors commonly recording fees around 5 per cent. In contrast, the average cost of remitting money from South Africa to Zimbabwe is closer to 14 per cent⁴⁹.

The high cost of remitting from South Africa to Zimbabwe is not primarily due to restrictions or inefficiencies in Zimbabwe, but rather due to a set of interconnected factors in South Africa. This is validated by the fact that remittance-sending costs from South Africa to all other SADC countries, with the exception of Swaziland and Lesotho, are even higher than the costs of sending remittances to Zimbabwe (Beck and Peria 2009). To Malawi and Zambia, for example, average costs are close to 18 per cent, while remittance transfers from South Africa to Botswana and Mozambique also cost above 15 per cent, on average (ibid). The following table displays the costs of formal transmission channels for various amounts remitted from South Africa to Zimbabwe.

TABLE 5: COST COMPARISON OF FORMAL REMITTANCE CHANNELS

| Value Remitted | R250 | | R500 | | R1000 | | R2000 | |
|------------------------------------|--------|--------|--------|-------|--------|-------|--------|------|
| | Charge | Fee | Charge | Fee | Charge | Fee | Charge | Fee |
| Bank Transfer ⁵⁰ | R 187 | 75.0 % | R 187 | 37.5% | R187 | 18.7% | R187 | 9.4% |
| MTO ⁵¹ | R 90 | 36.0 % | R 104 | 20.8% | R128 | 12.8% | R171 | 8.5% |
| Postal Order | R 22 | 8.8 % | R 27 | 5.5% | R32.50 | 3.3% | R37.20 | 1.9% |

Source: Bank and Postal Office Staff

As is displayed in the table above, both banks and MTOs are not competitive options if the value remitted is small, usually anything less than R1500. The reason for the high fees is that both banks and MTOs charge a minimum ‘swift’ fee, no matter what the size of the transaction, before adding a commission rate, usually around four per cent. The result is that for small transfers, as remittance flows usually are⁵², the cost of using an official electronic transfer is often above 20 per cent. As there are few service providers that participate in the market, and banking services are not usually targeted towards lower-income individuals, it is no wonder, then, that even the documented Zimbabwean migrants with access to these formal channels choose not to use this option, and instead opt largely for the informal channels.

Costs of informal channels are, however, not much lower than those of formal channels. According to the results of the survey, the average cost of remitting R1000 using informal channels was 12.3 per cent (as opposed to 14 per cent for formal channels). Surveyed migrants

⁴⁹ World Bank website: www.remittanceprices.org; and confirmed by survey results.

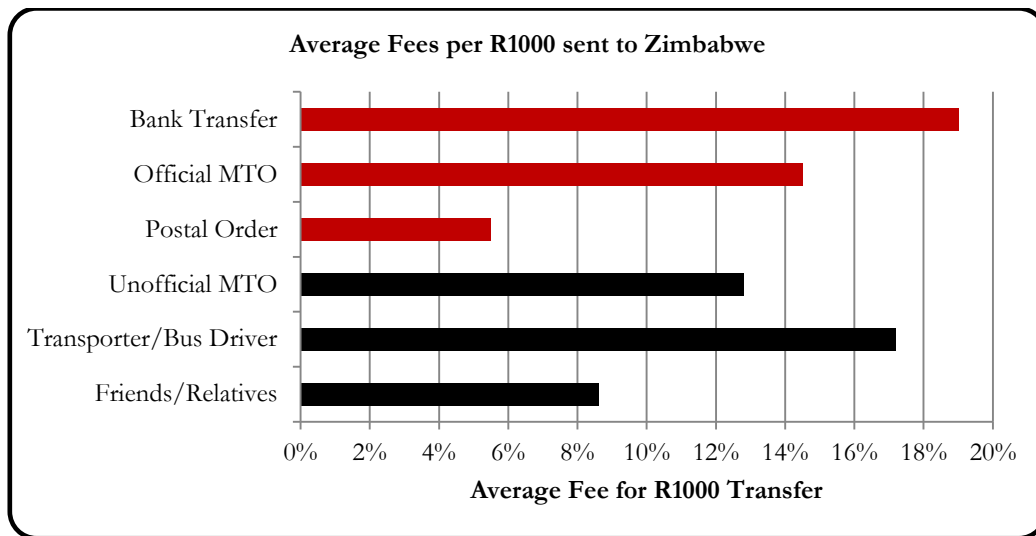
⁵⁰ Calculated the average fees of four banks: FNB, ABSA, Nedbank and Standard Bank.

⁵¹ Calculated the average fees charged by the two providers, Money Gram and Western Union.

⁵² The average remittance transaction was worth close to R1200.

indicated that private transporters, such as bus drivers, charged an average fee of R145 per R1000 of cash and goods remitted, or 14.5 per cent. Moreover, even when migrants give the money and goods to their friends and relatives that are travelling back, they are charged an average of 8.6 per cent. Unofficial MTOs on average charge slightly less than Money Gram and Western Union, the two official MTOs in the market, at 12.8 per cent. The graph below summarises the costs of all major remittance channels in the corridor.

GRAPH 5: COST OF REMITTANCE CHANNELS IN SOUTH AFRICA



From a cost perspective, the only viable formal remittance option is the postal order. The costs of these are very low, even for smaller transactions around R500, as Table 5 above shows. Moreover, they usually only take about a week to arrive in Zimbabwe, and the recipient can cash the cheque at the post office branch in Zimbabwe in South African Rand. Furthermore, post offices have a far greater geographic reach than banks or MTOs and thus offer a significant potential in terms of accessibility that can rival informal services.

However, there are three main reasons why only about 7 per cent of surveyed migrants indicated that they remit using postal orders. Firstly, postal orders suffer from a lack of reliability, such as time delays or theft. Because of this insecurity, post office staff in South Africa have in some cases even discouraged the sending of postal orders to Zimbabwe (Kerzner 2009). Secondly, the Zimbabwean Postal Service, Zimpost, is inefficient in that it still uses an outdated paper based system and that payment systems are not harmonized in many cases. And thirdly, there is a lack of financial awareness amongst migrants, in that many are unaware of the availability and cost-efficiency of postal orders. Nonetheless, if these weaknesses are addressed and postal services in Zimbabwe modernized, they offer a large potential for future remittance flows.

CHARACTERISTICS OF REMITTANCE CHANNELS

Beyond issues concerning legality and regulations, informal channels dominate because they tend to be better aligned to the circumstances of both the migrant and remittance recipients. Hence, even if the migrant can provide both proof of legal residence and transfer high enough sums to make using formal channels financially feasible, he/she often still chooses informal channels. For example, many of the migrants come from rural areas where there is often an absence of banks in the proximity of the remittance receiver. One fifth of respondents in this sample said there was no bank in the vicinity of the remittance recipients. Hence, the cost involved in travelling to the closest bank to draw the money out can make these formal channels even more expensive than they already are. Formal channels were even more unappealing in the past when taking into account that banks in Zimbabwe sometimes imposed quotas on how much money can be drawn out at a time. In contrast to this, informal channels are far better suited to the needs of migrants, in many cases delivering the remittances right to the doorstep of recipients.

Hence, informal channels make up the predominant share of remittance flows because they better address the realities that migrants face, and are thereby simply more convenient to use. Indeed, in the survey sample, the majority of respondents, 41 per cent, cited convenience and the ease of the process as their principal reason for choosing the channel that they did. The second most common cited reason was the cost, at 29 per cent. Safety and reliability (18 per cent) and the speed of the transfer (10 per cent) were the other options that seemed to be less prioritized. Moreover, of those that cited convenience as their main reason for their chosen remittance channel, 94 per cent used informal channels.

However, informal channels are subject to significant market inefficiencies and impediments. A high number of respondents that used informal channels, 84 per cent, said that they had at least once in the past had negative experiences with using informal channels. Most commonly, complaints included the theft of money, the breaking or loss of goods and the long time it takes for the remittances to arrive. Another often-noted complaint raised in the focus group discussions was the common practice of transporters and bus drivers to convert the South African Rand they are given into US Dollars before paying the recipients in US Dollars. Indeed, this sort of dishonesty is prevalent in many different forms. One focus group participant even explained that he sent a new flat screen LCD TV to his family in Zimbabwe with a transporter last year, who delivered a different, much older TV that could only display black and white images.

It comes as no surprise therefore, that of those survey respondents that cited safety and reliability as their key concern, only 7 per cent chose to remit using transporters or bus drivers, while the majority chose either to give it to friends or relatives or to use formal channels. Unfortunately, even many of those who chose to remit by giving cash and goods to friends or relatives reported that cash or goods often went missing.

The effect of this kind of dishonesty and inefficiency is that it inflates the real cost of remitting using informal channels. Informal sector costs are already high, in large degree because of the additional 'transaction costs' imposed on transporters in the form of bribes and increasing fees charged at the border, on both the South African and Zimbabwean sides. Indeed, high money-transfer costs negatively influence and mitigate the development impact of these financial flows (IOM 2005). As is apparent, the remittance options that Zimbabwean migrants are faced with are either extremely expensive or excessively risky, and hence, thorough changes are much needed.

THE NATURE OF REMITTANCE FLOWS

The shift towards a formalization of remittance flows is further impeded by the large share of overall remittance flows that is made up of in-kind transfers, which creates a bias towards informal remittance channels. Since goods are remitted almost exclusively using informal channels such as bus drivers, transporters or friends and relatives, the high number of migrants that make in-kind transfers are providing a continuous impetus for using the same informal channels for making cash transactions too. The focus group discussions supported this hypothesis, with many participants explaining that it is more convenient to simply include an envelope of cash in a box of goods, rather than making a separate transaction for the cash alone.

THE FINANCIAL LITERACY OF MIGRANTS

This argument is further accentuated by the lack of financial awareness amongst Zimbabwean migrants that prohibits the greater use of formal channels. It seems that the majority of Zimbabwean migrants do not fully understand the various options that they have to transmit money and goods to their families. Again, this became apparent during the three different focus group discussions, in all of which hardly any of the participants had a clear understanding of the different remittance-sending options, and the processes and costs involved in each. As such, they often assumed that they had no access to MTOs or did not know that they could send money through postal orders, and thus resorted to informal channels because they felt they had no other options.

VIII. POTENTIAL GAINS OF FORMALIZATION

Using data that was gathered by the survey and comparing figures to data gathered in other, more developed remittance corridors, the potential impact of greater competition, accessibility and lower costs of formal channels on remittance flows can be estimated. For example, if average costs of remittance transfers fell from the current 10-15 per cent to rates charged in many other remittance corridors, an estimated additional US\$ 54-72 million⁵³ annually would flow directly into the incomes of Zimbabwean households from migrants in South Africa, assuming the volume of flows remain constant.

A decrease in the costs of transfers would be unlikely to increase the overall volume of remittance flows significantly, because the majority Zimbabwean migrants already seem to be remitting as much as they can afford. Instead, the impact of decreasing costs and increasing the accessibility of formal channels would primarily be manifested in a greater shift towards formal channels, and away from the current predominance of informal channels. Indeed, the notion that remittance flows do not seem to be significantly dependent on the costs of transfers was indicated by the weak correlation between the two variables. It seems that Boon's (2006) aforementioned findings hold true in this remittance corridor.

Perhaps contrary to initial impression, it is in the interest of the South African government to facilitate the formalization of remittance flows. As a result of a widespread formalization of flows, potentially hundreds of millions of US Dollars every year could become more transparent, which is important for effective policy-making. Secondly, a formalization of flows could increase the efficiency of the financial sector and further stimulate its development. If a greater volume of flows were captured by formal channels, the financial sector would benefit through increased liquidity and a greater stock of funds available for banks to on-lend.

The gains of a formalization of flows are apparent not just for South Africa's financial sector, but also for Zimbabwe's development objectives. For example, although the lions' share of remittances in developing countries is used for consumption, a significant amount is available for savings or investment (IFAD 2008). This is confirmed to an extent by this survey, with 40 per cent of respondents said that recipients save at least 10 per cent of remittances, and 16 per cent said their relatives saved at least 20 per cent⁵⁴. At present, however, when recipients do save,

⁵³ Assuming the current average cost of 13 per cent would be reduced to 5 per cent, and taking both the lower bound (US\$ 680 million) and upper bound (US\$ 905 million) estimates for annual remittance flows from South Africa.

⁵⁴ See annex 9 for details of the survey results on remittance utilization.

they often do not use formal channels to do so. Bringing these funds⁵⁵ into the formal financial system can greatly increase their developmental impacts for Zimbabwe.

A parallel can be drawn to the U.S.-Mexico remittance corridor, from which important lessons can be learned. Within less than a decade⁵⁶ the corridor transformed from predominantly informal transfers, to about 85 per cent formal remittance transfers (Hernandez-Coss 2005). The primary reason for this shift was that Mexican migrants had better access to formal mechanisms, primarily due to the *Matricula Consular* system, which enables Mexican migrants, even those who entered illegally, to gain access to financial services on presentation of a so-called *Matricula* identification card. “The use of *Matricula Consular* identification to access financial services, combined with higher levels of financial education among migrants” played a big role in this shift, alongside “increased competition, technological change, and product innovations that have created a more competitive market” (ibid, p.37). The result of increased competition and adoption of new technologies has also been a steady decline in prices and increasing efficiency of transfer mechanisms (ibid). For example, the cost of sending \$300 from the U.S. to Mexico declined by nearly 60 per cent between 1999 and 2005 (World Bank 2006, p.139).

The example of the U.S.-Mexico remittance corridor should therefore be replicated in the case of the South Africa-Zimbabwe corridor. Given that appropriate changes are made and that formal channels become a viable alternative to informal channels, they could rival and then overtake informal transfers. Globally, for example, Freund and Spatafora (2005) found that informal remittances on average account for about 35-75 percent of official flows. The next section discusses the various policy implications of realising this shift towards a formalization of remittance flows.

IX. POLICY IMPLICATIONS

The key policy implication of these findings is the necessity to facilitate fast and secure money transfers from migrants in South Africa in order to develop remittances flows to standards and levels comparable to Latin America or South Asia. The ultimate goal in doing so is to move towards a formal remittance sending market that is accessible, quick, reliable, offers competitive prices and has geographic reach. In order to achieve this, two key issues should be addressed:

⁵⁵ In Zimbabwe, they are likely to amount to close to US\$ 100 million annually, given that survey results indicate that between 7-15 per cent is saved, and assuming that overall remittance flows are between US\$ 1-1.5 billion.

⁵⁶ From approximately 1996-2003.

increasing the efficiency of the formal remittance service market, primarily by encouraging greater competition, and increasing the accessibility and geographic reach of formal remittance channels.

POLICY OPTIONS TO TARGET INEFFICIENCIES

At present, remittance transfers from South Africa are affected by regulations that are excessive, unclear, unsystematic and not harmonized. This is causing significant inefficiencies in the South Africa remittance-sending market. According to a study by Genesis Analytics (2005), the remittance channels that offer the greatest potential revenues are also those that presently face the greatest number of regulatory barriers. The main finding of the report is that “unless the regulatory regime is modified it is unlikely that the remittance market can be formalised or that new entrants will take advantage of the considerable revenue streams that are available” (ibid, p.xvi). Strengthening the efficiency of the formal remittance market would have a number of positive impacts, including that it would increase the disposable incomes of poor migrants, boost incentives to remit more and further encourage the use of formal remittance channels.

There are a number of options through which to promote formal remittance flows. The first concerns exchange control legislation, which is an area for large potential efficiency gains. For example, at present, all foreign exchange transactions must be reported to the South African Reserve Bank (SARB), which increases the cost of each transaction. As such, policy-makers should assess the feasibility of removing exchange control reporting requirements for transactions below a R2000 threshold. Putting in place a minimum floor on transactions should not pose balance of payments risks and hence, a minimum threshold could cut the costs without any foreseeable adverse effects. More generally, the efficiency of the SARB and the private banking sector could be strengthened.

Another reason why exchange control legislation is problematic is because it creates a significant barrier to entry for potential new market players. As mentioned above, due to the current restrictions, authorised dealer licenses are only issued to banks, and limited ones to bureaux de change, which stifles competition. This situation impedes the South African government’s objective of becoming the central financial hub for Africa. In order for this objective to be realised, there must be an effective and competitive market for all types of financial transactions. In order to encourage competition in the remittance market, an option would be to introduce a targeted and limited authorised dealer license for such transactions. The primary objective of this would be to increase the number of official MTOs. Another tool to encourage the entry of

new players that has been tried and tested elsewhere is to decrease and harmonize bond and capital requirements for starting up MTOs (Ratha 2007).

There is no guarantee that the regulations and incentives that worked in other parts of the world will work in this corridor. Nonetheless, these options should be assessed thoroughly, and if found to be feasible, they could have the potential to increase the number of service providers, push down the costs and increase the quality of the services offered. Internationally, banks usually charge lower fees than money transfer operators; this should be an objective for this corridor too. Increasing the efficiency of the formal remittance market is in itself however not enough to ensure a formalization of flows.

POLICY OPTIONS TO INCREASE ACCESSIBILITY

In addition to increasing the efficiency of the formal sector, the second key requirement is to increase the financial access of migrants to these channels. In this regard, the stringent rules imposed in South Africa to comply with international AML and CFT regulations, such as ‘know-your-customer’ legislation, exclude not only all undocumented migrants from using formal channels, but also the majority of documented migrants in cash jobs. As mentioned above, it must be kept in mind that of all major remittance sending countries, South Africa not only has the lowest GDP per capita, but also has the highest share of inhabitants living in rural areas. Against this background, the necessary paper trails for such legislation are often absent in poorer communities, rendering the current AML and CFT regulations somewhat ineffectual. At least in regards to remittance flows, the main outcome of certain aspects of this legislation is simply to drive financial flows further underground, whilst excluding the poor from accessing financial services.

One part of this legislation that, if relaxed, has the potential for increasing the accessibility of formal channels, is know-your-customer legislation. A large part of the current inefficiency comes from the requirement of proof of residence and proof of source of funds in order to remit using formal channels. If formal remittance transactions are enabled upon the presentation of a passport or special ID document alone, it could have considerable positive impacts. This has been tried and worked successfully in the US approach to Mexican migrants, as mentioned above. However, such a reform must be approached cautiously because there is no guarantee that a similar system would be successful in South Africa simply because it worked in the United States. Moreover, if such a reform were to be implemented, there must of course be safeguards that data is protected and will not be used by immigration authorities for prosecution.

Another area of legislation that could be addressed in order to increase the accessibility of migrants to formal channels is South African immigration law. As discussed above, immigration law is currently extremely restrictive towards unskilled immigrants. Acknowledging the unprecedented scale of Zimbabwean immigration and the fact that it is unlikely to change anytime soon, however, several positive changes were implemented in May 2009 by the Department of Home Affairs, including a free 90-day visa for Zimbabweans and a moratorium on the deportation of Zimbabwean nationals.⁵⁷ The rationale behind the 90-day visa is to try to ease the current pressure on refugee reception centres, where asylum applications are lodged. As mentioned above, due to the huge demand for asylum applications, the system is backlogged for years.

Although the 90-day visa is a step in the right direction, it is far from enough to deal with the task at hand and it has several drawbacks. First and foremost, because it needs to be stamped into the migrant's passport, it remains inaccessible to many migrants that cannot afford a Zimbabwean passport. Secondly, many Zimbabwean migrants do not earn enough to afford to travel back to Zimbabwe as often as two times a year to renew their visa. For them, it is much easier to either work illegally or apply for refugee status at a refugee reception centre, and then work legally in the country while their application is pending in the backlogged system, usually for well over a year.

The most crucial reform announced in April 2009 by the Department of Home Affairs that would circumvent these drawbacks and make serious inroads into tackling the problem areas was a so-called special dispensation permit for Zimbabwean migrants. The permit, designed specifically for Zimbabwean migrants, would grant migrants the ability to live, work legally and have access to basic health care and education in South Africa for a period of six months. It would be renewed automatically at the end of the six months, unless the economic climate in Zimbabwe improved significantly. Migrants without official documents would not be excluded from applying either; they would simply have to undergo a so-called 'nationality test'.

Despite the continuous inflow of Zimbabwean migrants since then, however, the implementation of this permit has been put on hold since the election of the new government in 2009 and the resulting reshuffling of the cabinet. It seems there is currently a lack of political backing to push through the reform. Implementing the special dispensation permit for Zimbabweans would be a good first step towards controlling the movement of people between

⁵⁷ The free 90-day visa allows migrants to work legally in the country, and can be renewed once at the end of the 90 days, for a fee of R425. After it has run out a second time, migrants need to leave South Africa, and can re-enter and get a new free 90-day visa.

the two countries and provide a viable alternative for the majority of Zimbabwean economic migrants who currently have no other option but to apply for refugee status or simply work and live illegally in South Africa.

Beyond reforming the existing legislative rules and regulations, there are several promising options to increase the financial access of migrants. The first is establishing partnerships between remittance service providers and existing postal and other retail networks. Indeed, postal offices have the most reach geographically, and thus present a large, currently untapped potential. Recently, such partnerships with Zimpost have begun emerging, although they are still quite limited. Such partnerships have been tried in parts of West Africa and have had positive outcomes and provided some useful lessons. For example, it is crucial that the partnerships are non-exclusive, in order to avoid monopolization that would likely have adverse effects on costs. In other words, all registered MTOs should have access to the postal office branches. A similar concept has already been launched by some retail stores in South Africa, that allow migrants to purchase goods in one branch in Cape Town, send the receipt number to the recipient, who can then pick up the goods at a store branch where he/she is. This type of innovative development must be further pursued and expanded.

The use of new technologies is allowing many formal service providers in other corridors to lower the costs of transfers, while at the same time improving the efficiency, speed, security and outreach to clients. One such example is mobile phone banking, which operates through partnerships between banks, cell phone companies and retailers⁵⁸. Some countries, like the Philippines, have been very successful in increasing financial access by leveraging remittance transfers through the use of mobile phone banking (Ratha and Riedberg 2005).⁵⁹ In Africa, this development is still in its early stages, but has already been implemented in some countries, such as Kenya and the Democratic Republic of Congo. In South Africa, the mobile phone service provider MTN is on the verge of launching a similar product.

Another promising opportunity that has been successful in some developing countries are so-called smart or pre-paid debit cards. These can be bought in shops or online and sent to recipients, who can then withdraw money from ATMs without needing a bank account. Migrants from Mexico, for example, have access to this type of service. Some banks provide a second card to give to someone else. Both with this service and the mobile phone banking,

⁵⁸ A number of online retailers, most of them based in the UK, have sprung up in recent years offering remittance services using mobile phone technology. Examples of websites offering services to Zimbabwe include: Siyabonga, YesZim, Zimbuyer, Zimland and Mukuru. Their market share in South Africa is, however, minimal.

⁵⁹ See annex 8 for a more detailed description of how the system in the Philippines works.

however, certain prerequisites have to be met. The telecommunications infrastructure, ATM penetration and the degree of financial and technological know-how of migrants all impacts the accessibility of both migrants and recipients.

The ability to expand these kinds of services, however, depends on institutions' capacity, their willingness to offer services to people with a low income, and on a regulatory framework that encourages them to do so. In this regard, progressive thinkers at the World Bank and Harvard's Centre for International Development have lead the search to find ways to harness, direct or 'leverage' remittance flows to developing countries around the world in order to maximize their potential impact on sustainable development. Although very recent, the push in this area of leveraging remittances for development offers great potential for further research, particularly as pertains to the reconstruction and development process in Zimbabwe. Such an analysis is however beyond the scope of this paper.

As this discussion has made clear, the development potential of remittances in the South Africa-Zimbabwe corridor is far from being fully exploited. This is largely because there is still no proactive policy to influence the flow and impact of remittances from undocumented migrants working in South Africa. A similar conclusion was reached by Kerzner (2009): "there has been no attempt to develop an environment that would encourage the flow of remittances and their use in investment" (p.132).

X. CONCLUSION

In general, less is known about remittances to Africa than any other developing region of the world. There is both an acute shortage of reliable sources of data and a lack of consensus on the definition of remittances. As a result, research in the field of remittances has long been confined to cash transfers made through formal channels. This paper has noted that the problem with this lies not only with the fact that a large share of remittance flows are in-kind, but also that informal, rather than formal transfers make up the lions' share of remittance flows in Sub-Saharan Africa in general, and in the South Africa-Zimbabwe remittance corridor in particular.

This paper has used a survey of Zimbabwean migrants in the Western Cape to gain insight into the remittance-sending behaviour and patterns of migrants in the South Africa-Zimbabwe remittance corridor. The survey results highlight that the vast majority of migrants send remittances and that the average share of total income remitted is over 30 per cent; a finding that

is higher than in most other remittance corridors. Total remittance flows from Zimbabwean migrants in South Africa are estimated to have amounted to between US\$680-905 million last year, with overall remittance flows to the country likely to be between US\$1-1.5 billion annually. This sheds some light on both the nature of Zimbabwean migration to South Africa, being predominantly temporary and for economic ends, as well as on the depth of remittance-dependence in Zimbabwe.

Moreover, the paper made a modest attempt to examine the various drivers of remittance flows, despite data limitations. Of the data that was available, the most significant driver of the share of income remitted was found to be the number of dependants in Zimbabwe. The existence of children in South Africa and the duration of stay abroad were both negatively correlated with remittances sent, as would be expected. Other factors, such as the cost of remittance transfers, the gender or age of migrants, the years of schooling completed or whether migrants are from rural or urban areas were not found to significantly impact the share of income that migrants remit. It was noted that remittance sending decisions are influenced by factors at both the migrant and the recipient end, and since the survey gathered only data on the former, its explanatory power was limited.

Despite the large volume of remittance flows and the importance they undoubtedly have in many Zimbabwean households, there are considerable constraints and market inefficiencies in South Africa that not only drive up the costs of transfers, but more importantly, limit the accessibility of formal remittance channels for the majority of migrants. As a result, over 80 per cent of remittance flows from South Africa to Zimbabwe are made using informal channels, despite the inefficiency, unreliability and high costs of these channels. This is having adverse effects on both the nature of remittance flows to Zimbabwe and the volume that reaches recipients, thereby denying Zimbabweans of their full development potential.

The survey results also found that a large but falling proportion of overall remittance flows in the corridor are in-kind, which is primarily attributable to the conditions faced and preferences of remittance recipients rather than those of the migrants. Due to the predicted gradual economic recovery in Zimbabwe, flows are likely to continue evolving more and more towards monetary transactions. This trend is likely to give some momentum to the formalization of remittance flows, if these are made more accessible and efficient. Particularly MTOs, if competition is increased, and postal services, if reliability is strengthened, offer the greatest potential. Numerous innovative developments such as cell phone banking are likely to be the way of the future, although a more detailed examination of these was beyond the scope of this study.

What is clear is that if the development gains for Zimbabwe are to be maximised, and the burden of immigration eased for South Africa, then the formalization of remittance flows has to be the primary objective of any reform. This will only be achieved if costs are reduced and barriers minimized, as well as that flows are facilitated and stimulated by providing the appropriate channels, financial education and effective incentives. If this is done comprehensively, remittances may expand their potential and play an invaluable role in the reconstruction of the Zimbabwean economy.

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XII. ANNEXES

ANNEX 1. DIFFICULTIES AND METHODS IN MEASURING OFFICIAL REMITTANCE FLOWS

Calculating remittance flows is often more of an art than a science. Although it is widely acknowledged that global remittance flows from the roughly 200 million migrants to their home countries are increasing, accurate estimates of country-to-country flows are in most cases not available. Officially reported statistics underestimate total flows and suffer from inconsistencies that make disaggregation or comparative analysis difficult. Case studies and primary data collection exercises often use different approaches and make up only a loose patchwork of data. As a result, any methodology that attempts to estimate overall remittance flows will resort to extrapolations that are based on assumptions, wherever data are non-existent, insufficient or unreliable.

The IMF Balance of Payments Statistics Yearbook recorded until 2006 three main streams of monetary transfers: workers' remittances, compensation of employees, and migrant transfers. Workers' remittances are private transfers from migrant workers who are residents for less than 1 year in the host country; compensation of employees refers to the entire labour income earned by residents who stay in the host country for less than 1 year; and migrant transfers are capital transfers from one country to another at the time of migration (less than 1 year). Unfortunately, these definitions allowed for significant loop holes and a lack of clarity, and as a result, research that used official BOP data is often weakened by the imprecise and incomplete data.

Several changes have occurred in the last several years that aim to address these shortfalls. First, in 2006, the United Nations Technical Subgroup on Movement of Persons – Mode Four, and the IMF Committee on Balance of Payments Statistics, both known as the “Luxembourg Group”, agreed on four new items to be included in the Balance of Payments Manual to define remittances: personal transfers, personal remittances, total remittances and total remittances and transfers to non-profit institutions serving households.

Most recently, in 2009, in response to the low quality of remittance data, the IMF and the Luxembourg Group created a guide for the compilation of remittances entitled, *International Transactions in Remittances: Guide for Compilers and Users (RCG)*. The lacking quality of remittances data prompted the G-8 Heads of State to call for improvements to be made. As a result, the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* addressed the definitional issues, while the RCG addresses the need for practical compilation guidance to improve the quality of estimates.

ANNEX 2. SECURITIZATION OF REMITTANCE FLOWS

Remittance securitization typically involves the borrowing entity (such as a bank) pledging its future remittance receivables to an offshore special purpose vehicle (SPV). The SPV issues the debt. Designated correspondent banks are directed to channel remittance flows of the borrowing bank through an offshore collection account managed by a trustee. The collection agent makes principal and interest payments to the investors and sends excess collections to the borrowing bank. Since remittances do not enter the issuer's home

country, the rating agencies believe that the structure mitigates the usual sovereign transfer and convertibility risks.

By mitigating currency convertibility risk, a key component of sovereign risk, the future flow securitization structure allows securities to be rated better than the sovereign credit rating. These securities are typically structured to obtain an investment grade rating. In the case of El Salvador, for example, the remittance-backed securities were rated investment grade, two to four notches above the sub-investment grade sovereign rating. Investment-grade rating makes these transactions attractive to a wider range of “buy-and-hold” investors (for example, insurance companies) that face limitations on buying sub-investment grade. As a result, the issuer can access international capital markets at a lower interest rate spread and longer maturity. Moreover, by establishing a credit history for the borrower, these deals enhance the ability and reduce the costs of accessing capital markets in the future.

Excerpt taken from World Bank (2006), p. 101

ANNEX 3. SELECTED ECONOMIC INDICATORS FOR ZIMBABWE, 2007-2009

| | 2007 (Est.) | 2008 (Est.) | 2009 (Proj.) |
|--|-------------|-------------|--------------|
| Real GDP growth (annual percent change) | -6.9 | -14.1 | 2.8 |
| Nominal GDP (US\$ millions) | 3,553 | 3,180 | 3,498 |
| Inflation (annual percent change) | | | |
| <i>Consumer price inflation (annual average)</i> | 10,453 | 5.56E+10 | 6.9 |
| Central government (percent of GDP, in US\$) | | | |
| <i>Revenue</i> | 5.7 | 4.2 | 25.2 |
| <i>Expenditure and net lending</i> | 10.8 | 8.1 | 35.7 |
| <i>Quasi-fiscal activity by RBZ</i> | 22.9 | 35.7 | 0.0 |
| Money and credit (US\$ millions) | | | |
| <i>Broad money</i> | 603 | 314 | 513 |
| External trade (US\$ million; annual % change) | | | |
| <i>Exports</i> | 4.8 | -8.5 | -8.1 |
| <i>Imports</i> | -3.8 | 24.4 | 0.4 |
| Balance of Payments (US\$ millions) | | | |
| <i>Exports</i> | 1,804 | 1,651 | 1,518 |
| <i>Imports</i> | -2,113 | -2,630 | -2,641 |
| <i>Current account balance (excl. official transfers)</i> | -383 | -906 | -666 |
| <i>(As a percent of GDP)</i> | -10.8 | -28.5 | -19.1 |
| <i>Overall balance</i> | -647 | -612 | -1,090 |
| Official reserves | | | |
| <i>Gross official reserves (US\$ million; end-of-period)</i> | 58.0 | 5.8 | 5.8 |
| Debt | | | |
| <i>Total external debt (US\$ millions; end-of-period)</i> | 5,285 | 6,027 | 6,719 |
| <i>Total external debt (percent of GDP; end-of-period)</i> | 149 | 189 | 192 |

Sources: Zimbabwean authorities; IMF staff estimates and projections.

ANNEX 4. ZIMBABWE: MILLENNIUM DEVELOPMENT GOALS

| | 1990 | 1995 | Latest data | Target |
|---|-------|-------|--------------|--------|
| Goal 1 – Eradicate extreme poverty and hunger | | | | |
| <i>Poverty headcount</i> | ... | 55.0 | 63.0 (2003) | 12.9 |
| <i>Undernourished people (% of total population)</i> | 43.0 | 44.0 | 45.0 (2004) | 21.5 |
| <i>Underweight children under 5 (percent)</i> | 11.5 | 15.5 | 17.0 (2003) | 5.8 |
| <i>Share of poorest 20 percent in national income</i> | ... | 4.6 | 4.6 (1995) | ... |
| Goal 2 – Achieve universal primary education | | | | |
| <i>Net school enrolment, primary (percent)</i> | 84.1 | ... | 87.8 (2006) | 100 |
| <i>Net school enrolment, secondary (percent)</i> | ... | ... | 37.1 (2006) | 100 |
| <i>Youth illiteracy rate (% of people ages 15-24)</i> | 6.1 | 4.1 | 3.0 (2003) | 0.0 |
| Goal 3 – Promote gender equality and empower women | | | | |
| <i>Ratio of girls to boys in primary education (%)</i> | 96.5 | 97.1 | 99.0 (2007) | 100 |
| <i>Ratio of girls to boys in secondary education (%)</i> | 78.9 | 83.9 | 93.0 (2007) | 100 |
| <i>Ratio of girls to boys in tertiary education (%)</i> | 49.6 | 59.4 | 63.1 (2003) | 100 |
| Goal 4 – Reduce child mortality | | | | |
| <i>Under 5 mortality rate (per 1,000 live births)</i> | 76.0 | 99.0 | 105.0 (2007) | 26.7 |
| <i>Immunization, measles (% of 1-2 year olds)</i> | 87.0 | 87.0 | 90.0 (2007) | 100 |
| Goal 5 – Improve maternal health | | | | |
| <i>Maternal mortality ratio (per 100,000 live births)</i> | 570.0 | 610.0 | 1,068 (2002) | 142.5 |
| <i>Births attended by skilled health staff (% of total)</i> | 69.6 | 69.2 | 80.0 (2007) | ... |
| <i>Contraceptive prevalence (% of women ages 15-49)</i> | 43.1 | 48.1 | 60.0 (2007) | ... |
| Goal 6 – Combat HIV/AIDS, malaria, and other diseases | | | | |
| <i>HIV prevalence ratio among adults (15-49)</i> | ... | ... | 15.3 (2007) | ... |
| Goal 7 – Ensure environmental sustainability | | | | |
| <i>Access to improved sanitation facilities (% of population)</i> | 44.0 | 45.0 | 46.0 (2007) | ... |
| <i>Access to safe drinking water (% of population)</i> | 78.0 | ... | 81.0 (2007) | 89.0 |
| Goal 8 – Develop a global partnership for development | | | | |
| <i>Fixed line and mobile telephones</i> | 11.7 | 12.9 | 120.0 (2007) | ... |
| <i>Personal computers (per 1,000 people)</i> | 0.2 | 2.8 | 77.3 (2004) | ... |

Sources: World Development Indicators; UN Statistics Division; UNAIDS; and IMF staff estimates

ANNEX 5. SAMPLE QUESTIONNAIRE

Remittances Questionnaire

You have to be from Zimbabwe to fill out this questionnaire. All answers are completely confidential.

Please answer the following questions as accurately as possible:

Personal Information

1. Gender: M F

2. Age: 18-23 24-29 30-35 36-40 41-50 over 50

3. Where are you from?

a. What province? Bulawayo Harare Manicaland Mashonaland Central
Mashonaland East Mashonaland West Masvingo Matabeleland North
Matabeleland South Midlands

b. What city? _____

c. Is there a bank in your city? Yes No

i. If no, how far away is the closest bank, by bus/car? Less than 15 mins
15-30 minutes 30 minutes – 1 hour more than 1 hour

4. How long have you lived:

a. In the Western Cape? Less than 6 months 6 months – 1 year 1-2 years
2-5 years 5-10 years More than 10 years

b. Did you live somewhere else in South Africa before that? Yes No

i. If 'yes', for how long: Less than 6 months 6 months – 1 year
1-3 years 3-6 years 6-10 years More than 10 years

5. What is the main reason you came to South Africa? To look for work To escape political persecution To study To be with family Other

a. If 'Other', please specify: _____

6. How often do you travel to Zimbabwe? Every 3 months Every 6 months Once a year Once every 2 years Once every 3-4 years Not in the last 4 years

7. Would you move back to Zimbabwe permanently if things get better there? Yes No

8. Do you have any children in Zimbabwe that need your money/goods? Yes No

a. If yes, how many? One Two Three Four Five or more

9. Do you have any children in South Africa that need your money/goods? Yes No

a. If yes, how many children? One Two Three Four Five or more

10. Do you have any other close family members⁶⁰ that rely on your income:

a. In Zimbabwe? Yes No

i. If yes, how many? One Two Three Four Five or more

b. In South Africa? Yes No

i. If yes, how many? One Two Three Four Five or more

Education and Employment

11. Do you have a high school diploma? Yes No

a. If 'Yes', do you have a University Degree? Yes No

b. If 'No', how many years of school did you finish? _____

12. How many months, out of the last 12 months, did you work? 0-3 months 3-6 months
6-10 months more than 10 months

13. On average, how much money do you earn per month? Less than R500 R500-R1000 R1000-
R2000 R2000 – R3000 R3000 – R4000 R4000 – R6000 R6000 +

a. If more than R6000, please specify amount: R_____

14. How do you get paid? Cash Cheque Bank Transfer Other

a. If 'other', please specify: _____

Remittances

15. Do you send money and/or goods to your family in Zimbabwe? Yes No

If you answered 'no', this is the end of the questionnaire for you. Thank you for your help!

16. Please estimate: what is the total amount of money (excluding goods) you sent to your family in
Zimbabwe in the last 12 months? Less than R500 R500-R1500 R1500-R3000
R3000 – R5000 R5000 – R7500 R7500 - R10,000 +R10,000

a. If you sent money worth *more than R10,000*, please specify amount: R_____.

⁶⁰ 'Close family members' include only (in addition to the children): husband/wife, long-term boy- or girlfriend, parents, brothers/sisters, and grandparents.

17. If you send **goods** home to Zimbabwe, what kind of goods? (check all that apply) Food
 Clothes Electronics Medicine Furniture Kitchen Appliances Other
 a. If 'other', please specify: _____

18. Please estimate: what is the **total value of goods**⁶¹ (excluding cash) you sent to your family in Zimbabwe in the last 12 months? Less than R500 R500-R1500 R1500-R3000 R3000 - R5000 R5000 - R7500 R7500 - R10,000 More than R10,000
 a. If you sent goods worth *more than R10,000*, please specify amount: R_____

19. On average, **how often** do you send money/goods home to Zimbabwe? Once a month
 Once every 3 months Once every 6 months Once a year Other
 a. If 'other', please explain: _____

20. How do you usually send **money** home to Zimbabwe? (*check all options that have used*)

a. Give it to friends or relatives that are travelling back to Zimbabwe

b. Pay a transporter/bus driver

c. I take it myself

d. Postal Order

e. Official Money Transfer business (Moneygram or Western Union)

f. Other Money Transfer Business

g. Bank transfer

h. Other

i. If 'Other', please specify: _____

21. Why do you choose this option? (please explain only the option that you use most often)

a. Most of the time I choose option ___(for example 'd' or 'a'), because it is the: Cheapest
 Most convenient/easiest Most reliable/ safest Fastest Other
 If 'Other', please specify: _____

22. On average, if you send R 1,000, how much does it cost you? R0-R25 R25-R50
 R50 - R100 R100 - R150 R150 - R200 R200 - R300 More than R300

23. Would you send **more money** home to Zimbabwe, if it became cheaper, easier and safer to send money? Yes No Maybe

24. If your family in Zimbabwe became poorer (or sick, etc.) and needed more money, **could** you send more money than you already send now? Yes No Maybe

⁶¹ For example, if you sent home some clothes (worth R500), one fridge (worth R1500), and one stereo (worth R500) last year, you write R2500.

25. If you got a new job here where you would earn **R10,000 more per year**, would you send more money home to Zimbabwe? Yes No Maybe

a. If 'yes', estimate how much more you would send home per year? R500 R500-R1000
 R1000 – R2500 R2500 – R5000 R5000 – R7500 more than R7500

26. Please estimate what share (portion or percentage) of the money you send, on average, your family in Zimbabwe use for:

| | | FOR EXAMPLE: |
|----|---|--------------|
| a. | School Fees | 10% |
| b. | Food | 10% |
| c. | Clothing | 5% |
| d. | Rent | ---- |
| e. | Medicine + Doctor's Fees | 20% |
| f. | Special events (wedding/funeral) | ---- |
| g. | Durable goods (electronics, furniture, car, etc.) | 15% |
| h. | Building Material | ---- |
| i. | Buying Livestock | ---- |
| j. | Business Investment | 20% |
| k. | Savings | 20% |
| l. | Other | ---- |

(this has to add up to 100%) 100%

i. If 'other', please specify what: _____

27. On average, without the money you send home to Zimbabwe, please estimate what is your family's total income per month in Zimbabwe? Less than R250 R250-R500 R500-R1000
 R1000 – R2000 R2000 – R5000 more than R5000

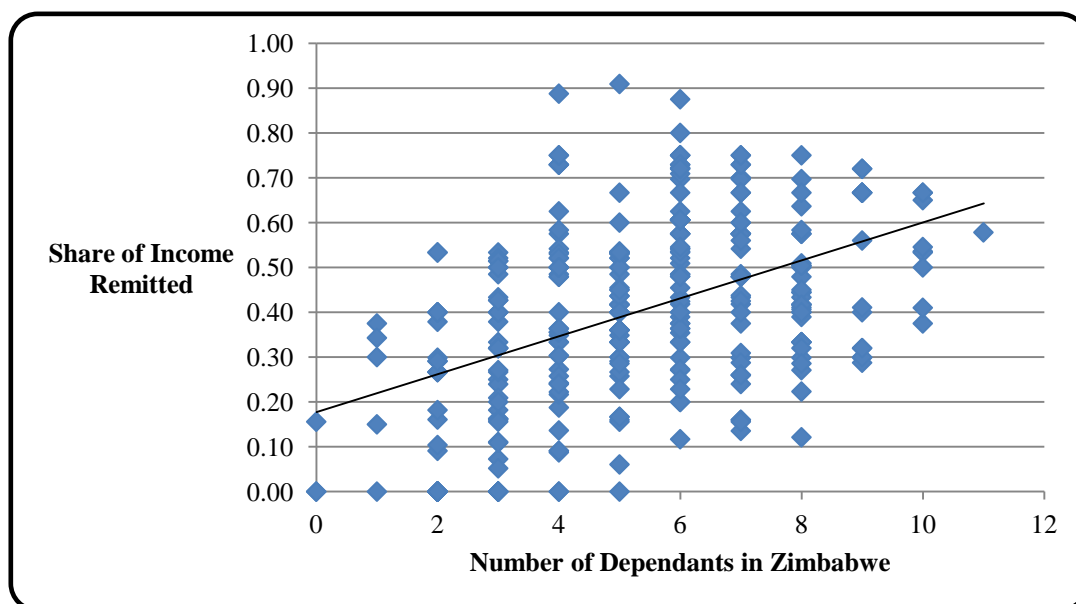
a. If 'more than R5000, please specify amount: R_____

28. Do you have any other comments on issues you have when you send money/goods home to Zimbabwe?

ANNEX 6. RESULTS OF THE PEARSON'S CORRELATION

Although the correlation is not that strong, the relationship does seem to be positive and linear, which justifies using the Pearson's correlation as a statistical test for this data set.

GRAPH 6: REMITTANCES AND DEPENDANTS IN ZIMBABWE



The following table displays the results of the Pearson's correlation calculation:

TABLE 6: PEARSON'S CORRELATION RESULTS

| | Share of income remitted | Children in S.A. | Dependants in Zimbabwe | Length of stay in SA |
|--------------------------|--------------------------|------------------|------------------------|----------------------|
| Share of income remitted | 1 | | | |
| Children in S.A. | -0.124704621 | 1 | | |
| Dependants in Zimbabwe | 0.455929794 | 0.071025 | 1 | |
| Length of stay in SA | -0.143962674 | 0.430982 | 0.037045121 | 1 |

ANNEX 7. HAWALA SYSTEM IN SOUTH ASIA

A number of complex and well established informal remittance systems have arisen in communities with a long history of emigration. These include the *fei ch'ien* and *chit* systems in China and the Thai *poey kuan* system. The largest and best known informal remittance system, however, is *hawala*, which originated in India and Pakistan. The system carries approximately \$10 billion to \$20 billion a year in India and more than \$5 billion a year in Pakistan.

The mechanics of the system are as follows: a *hawaladar* (i.e.: broker) accepts funds from a remitter in country A who wishes to send money to country B. The details of the remittance (recipient, size, and a proposed collection code) are then sent by the *hawaladar* to their counterpart in country B, by phone, fax or email. Once the collection code is agreed on, the sending *hawaladar* gives it to the remitter, who must then privately relay it to the remittance recipient. The receiving *hawaladar* then pays the recipient, on presentation of the collection code. The transaction is typically not receipted, and can therefore be characterised as trust-based. Debts that arise between *hawaladars* can be cleared in a number of ways. Often there is a pre-existing business relationship, and debts can be cleared by under- or over-invoicing on transactions. Sometimes the receiving *hawaladar* is in debt to the sending *hawaladar*, and the *hawala* relationship is thus a means of clearing that debt. For the consumer, motivations for using *hawala* rather than a formal remittance system include its cost effectiveness (*hawalas* are cheaper than formal remitters, charging commissions of only 0.25-1.25%); its speed and reliability (*hawalas* are often faster than formal remittance channels); and its lack of bureaucracy and identification requirements (Buencamino and Soronov 2002).

ANNEX 8. MOBILE-PHONE BANKING IN THE PHILIPPINES

Box 6.6 Smart's phone-based remittance system in the Philippines

The largest mobile phone company in the Philippines, Smart Communications, has developed an innovative remittance system based on cell-phone text messaging. Cell phones are widespread in the Philippines, in use by at least 30 percent of the 84 million Filipinos. A standard Smart remittance works like this: A Filipino in Hong Kong, China, deposits money to be remitted with one of Smart's remittance partners, which then sends a text message to the beneficiary in the Philippines, informing him or her of the transfer. The remittance is credited into a Smart Money "electronic wallet" account by any Smart mobile customer. The money can be withdrawn from an ATM using the Smart Money cash card, which can also be used as a debit card for purchases. Smart's partners in the Philippines—among them McDonald's, SM malls, SeaOil gas stations, 7-Eleven

stores, and Tambunting pawn shops—will also pay out cash to Smart customers.

Smart has already formed remittance partnerships with Travelex Money Transfer; Forex International Hong Kong; Dollar America Exchange in California; CBN Grupo in Greece, Ireland, Japan, Spain, and the United Kingdom; New York Bay Remittance; and Banco de Oro Bank in Hong Kong, China.

The system's simplicity keeps fees down. Fees at origination vary from country to country. In Hong Kong, China, it is about \$2. In the Philippines, it is 1 percent plus the cost of the text message.

The Smart system also appears to be secure. The use of different PINs for the cell phone and the Smart account make it difficult for a thief to access the funds. An ID is required when collecting cash.

Source: World Bank, Global Economic Prospects 2006: 150.

ANNEX 9. SURVEY RESULTS ON REMITTANCE UTILIZATION

The great majority of remittances globally are used for primary consumption. According to the IFAD, 90 per cent of remittances to poor countries are spent on food, clothes, housing, education and health (IFAD 2008). The findings of this survey display a similar story, as the Graph 7 below summarizes. Survey participants were asked to estimate what remittance recipients spend the money on, as a share of the total remittances they receive. The result clearly

shows a bias towards consumer goods (shown in red), with 69 per cent on average being spent on food (22 per cent), school fees (14 per cent), clothing (12 per cent), rent (9 per cent), medical bills (8 per cent) and special events such as funerals and weddings (4 per cent). Of the total, only 6 per cent was spent on durable goods, while 7 per cent was used for purchasing building material. Only 8 per cent was used for investment, primarily for buying livestock and seeds.

GRAPH 7: UTILIZATION OF REMITTANCES

