Strangling the Lifeline

An analysis of remittance flows from South Africa to Zimbabwe

PASSOP REPORT

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Research compiled and report written by Programme Coordinator, David von Burgsdorff

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Executive Summary

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 money and goods they send home, known as 'remittances', are relied on in Zimbabwe to sustain the livelihoods of up to two thirds of the population.

In the face of their importance for development, it is surprising how little is known about these flows. In fact, less is known about remittances in Sub-Saharan Africa than in any other developing region of the world. This is primarily due to a lack of reliable data on migration and remittance flows, which has long confined research in this field primarily to monetary transfers made through official, or 'formal', channels. Relying on this method to source data is problematic given that unrecorded, so-called 'informal', flows actually make up the preponderant share of transfers within developing countries in general, and Sub-Saharan Africa in particular. 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 report takes a step towards addressing this gap.

Using a survey[1] of 350 Zimbabwean migrants living in South Africa's Western Cape Province, the report aims to unpack the complex dynamics between migration, remittances and development and highlight the implications for South African immigration policy and foreign exchange regulations. It is focused around three principle objectives: the first is to gain insight into the remittance-sending behaviour and patterns of the migrants; the second is to analyze the constraints to remitting that migrants in South Africa are faced with and that consequently shape the remittance-sending landscape; and the third is to put forward a list of policy recommendations that aim to remedy the current inefficiencies and constraints.

The survey results underline the importance of remittance flows from South Africa to Zimbabwe. They find that 90 per cent of migrants in the sample remitted; the average amount was close to a third of their income[2]. 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.

Although individual transactions are in most cases small, due to the large number of Zimbabwean migrants in South Africa, total remittance flows from Zimbabwean migrants in South Africa alone are estimated to have amounted to between ZAR 5.1-6.8 billion ($680-905 million[3]) 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 (sending goods) are estimated to make up roughly 40 per cent of this total. 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.

[1] This May 2011 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.
[3] Author's data and calculations. Overall remittance flows are likely to be between US$1-1.4 billion annually.

The report also 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. Indeed, over 80 per cent of survey respondents resorted to using only informal remittance channels, despite the inefficiency and unreliability of these. Finally, South Africa's current immigration policy is restrictive and reactionary, which excludes close to a million undocumented migrants from accessing formal channels. This, alongside the high numbers of deportations, is having adverse effects on both the nature of remittance flows to Zimbabwe and the volume that reaches recipients. South African immigration policy is thereby adversely affecting Zimbabwe's development progress and is counter-productive by in fact perpetuating the push factors of migration. Braam Hanekom, Director of PASSOP agrees: "To charge exorbitant fees on the money sent back by immigrants and refugees to their desperate families is to strangle their lifeline. The excessive difficulty and high fees charged is surely another factor prolonging the crisis in Zimbabwe and increasing migration flows to South Africa. It is clear that South Africa is not doing Zimbabwe or itself any favours here."

The report argues that 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. South African immigration policy should be revised to give low- and middle-skilled migrants an opportunity to work and access formal remittance channels. 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, the report concludes that 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. While some countries have understood the untapped potential of remittances and have devised strategies to encourage their flow and effective use, this is not the case in the South Africa-Zimbabwe corridor.

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 reduce the currently high level of Zimbabwean migration to South Africa.

I. INTRODUCTION

Migration-driven remittances have only recently started receiving serious attention from policy makers and academics alike. Remittances to developing countries are now considered to be one of the most important sources of development finance. 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, remittance flows declined slightly for the first time since data collection began, but much less so that 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, roughly two thirds of these to South Africa (UNDP 2010). In 2008, when the stifling effects of the hyperinflation were exacerbated by a drought and a cholera outbreak (not to mentioned widespread politically-motivated violence) the international community needed to provide food aid to over five million people, or 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 the result of a lack of reliable data, both on migration and remittance flows. The vast majority of remittance 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 report takes a step towards addressing this gap.

The research is based on the findings of a survey of 350 Zimbabwean migrants living in the Western Cape Province. This survey was complemented by focus group discussions and interviews with key stakeholders. The sample size used in this report on remittances is largest undertaken in Southern Africa in the last five years.

The issues surrounding the South Africa-Zimbabwe remittance corridor are multi-faceted and diverse, and hence this report 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 analyze and discuss the constraints to remitting that Zimbabwean migrants in South Africa are faced with. The third is to put forward a list of recommendations that address the current inefficiencies and shortcomings in the policies.

Section II examines key background issues, including the definition of remittances and what the existing literature says about the developmental impacts of remittance flows. Section III reviews several of the main studies dealing specifically with the South Africa-Zimbabwe remittance corridor. Section IV then briefly outlines the socio-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 highlights the different constraints to these in South Africa, while Section VII discusses the potential gains of minimizing these constraints. Section VIII analyses the policy implications of these findings and Section IX then draws the main conclusions of the study.

II. Background, Definitions and the Developmental Impacts of Remittances

The size of remittances flows globally have until recently been underestimated, and so too was their impact on development greatly undervalued. Over the past five years, this has started to change, as more research is being undertaken. Before providing a brief overview of the various development impacts of remittances, this section discusses why the true size of remittances remains uncertain to this day. There are two interconnected reasons for this: (i) the disputed definition of remittances and (ii) the underestimation bias from measuring only formal remittance flows and failing to capture informal flows.

Cash vs. Goods

Definitions traditionally confine remittances to cash or financial transfers, which is the method adopted by the World Bank and the IMF, largely due to the absence of sufficient data. However, as is conceded by these institutions themselves, this narrow method greatly underestimates total remittance flows because a large share of overall remittance flows to developing countries is actually in-kind. Migrants do not only send money, but also clothing, electronic appliances and food, especially when these are not readily available in home countries.

A more inclusive definition of remittances that encompasses both cash and non-cash remittances is "the value of migrant workers' earnings sent back home to their families" (IFAD 2008, p.2). This holistic definition is applied in this report, because it more appropriately represents the nature and size of remittance flows in the South Africa-Zimbabwe corridor. Studies conducted by Maphosa (2007) and Kerzner (2009) found that the majority[4] 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, because of both the implosion of the agricultural sector and hyperinflation. 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 cash transfers. Nevertheless, goods 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. This balance between cash and non-cash remittances is confirmed by the findings of the survey and will be discussed in section V below.

Formal vs. informal flows

Another 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, unofficial money transfer operators 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,

[4] 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.

this figure is often higher than 75 per cent (Freund and Spatafora, 2005), because the formal sector is far less developed in this region. In the South Africa-Zimbabwe corridor studies have shown that up to 90 per cent of remittance flows are informal (Maphosa 2007). The results of the survey discussed in this report support this finding, as is discussed in section V.

Because informal transfers are not captured in the official statistics, 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 primary data collection exercises, as is set out in this report. Gathering such data is important, because the lack of accurate data on informal and in-kind remittances has long undervalued the impact of remittances on development, and thus also precluded a constructive policy approach that fosters remittance flows and leverages their developmental impacts.

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, stimulating entrepreneurship and advancing financial development. There are a number of characteristics of remittances that highlight their positive influence on development:

- Remittances flow directly into the incomes of recipient households and are thereby well-aligned to address the problems faced and reduce poverty;
- Remittances are often used to finance education, health and entrepreneurship, all of which usually have a high social return;
- Remittance flows, by favouring the poor and being more evenly distributed across and within developing countries than private capital flows, reduce inequality;
- Remittances, unlike other forms of aid or development finance, usually do not carry any obligations or preconditions as they are not generally subjected to government interference and are instead a direct and market-driven way of getting money and goods to the needy;
- Remittances, unlike other international capital flows, are stable in times of economic downturns, and in many cases even countercyclical, and hence provide important safety nets for internal and external shocks;
- Remittances have indirect multiplier effects that benefit not only the welfare of recipients, but also benefit the communities, provinces and regions where remittances flow.

For each of these arguments there exists extensive empirical evidence and a thorough literature. What must be kept in mind, however, is that measuring the net impact of remittances is complex and multifaceted. Although correlations are often found, proving causality is difficult. Indeed, remittances have other far-reaching implications that go beyond just socio-economic development, such as on micro- and macroeconomic variables or even for political and governance factors. Hence, the impact of remittances is not always straightforward and must be analysed case by case.

What is clear is that the complex dynamics between migration, remittances and development have long been among the least researched and understood topics. Although this has started changing over the past decade, the development potential of remittances, particularly in Sub-Saharan Africa, has not yet been fully exploited. Some countries have understood the untapped potential of remittances and have devised strategies to encourage their flow and effective use[5]. Unfortunately, as this report lies out, this is not the case in the South Africa-Zimbabwe corridor.

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

III. Existing data and studies of the South Africa-Zimbabwe corridor

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. It 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 only been a handful of studies published over the last five years that have analysed the South Africa-Zimbabwe remittance corridor.[6] 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.

Most of the existing studies are, however, based on a few limited sets of data that were obtained through surveys conducted in 2004-2005. Because migration and remittance patterns in the corridor have evolved substantially since then in response to the rapidly deteriorating economic situation in Zimbabwe from 2004 to early 2009, these data are outdated.

The most comprehensive and recent data on Zimbabwean migrants in South Africa, a pilot study of 4654 migrant Zimbabweans in Johannesburg conducted in June-July 2007[7]. Unfortunately, even this dataset is unsatisfactory because its primary focus was not remittances, and hence lacked detail about remittance behaviour and patterns, and because the data was gathered in mid-2007, at the height of the hyperinflation in Zimbabwe. Because the economic situation has shifted considerably since then, both the accuracy and the current applications of this study are undermined.

Beyond being outdated, the existing data 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 report 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 the largest since the aforementioned 2007 study by the Mass Public Opinion Institute, at 350 respondents it is not large enough to draw statistically valid conclusions for the whole country. However, it provides an instructive and much-needed snapshot of the present dynamics. This report'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.

[6] Maphosa (2004 and 2007), Bloch (2005), Pendleton *et al* (2006), Makina (2007), Kerzner (2009) and Tevera and Chikanda (2009).

[7] 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.

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.

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. 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)[8]. According to another 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.[9] 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 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, over two years 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 around 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

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[8] 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.

[9] 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.

family members working in other countries, a steep increase from the 26 per cent recorded in 2006 (Gallup 2008).

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.

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 or 'to be counted'. Many migrants enter South Africa without documents by 'jumping the border', and find it difficult to obtain legal documentation once in South Africa due to the country's restrictive immigration policies (to be discussed in detail later). Beyond being undocumented and fearing deportation, the 2007 community survey is not an accurate count because of the seasonal and temporary nature of much of the migration (with migrants going back and forth regularly) as well as the common discrimination and harassment that foreigners face, which makes them unwilling to stick out.

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 May 2011 a survey[10] was carried out of 350 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 stakeholders[11] 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 report.

[10] The research was lead by the report author, David von Burgsdorff. See Annex for a sample questionnaire.
[11] Interviews: Braam Hanekom, Director 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.

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, 210 questionnaires were completed in Masiphumelele, a settlement 20km south of Cape Town, and 140 were collected in De Doorns, a farming community located about 150km 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.

The survey consisted of both self-completion questionnaires and face-to-face interviews using non-probabilistic sampling methods. 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 been 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 suited 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.

DEMOGRAPHIC CHARACTERISTICS OF ZIMBABWEAN MIGRANT COMMUNITY

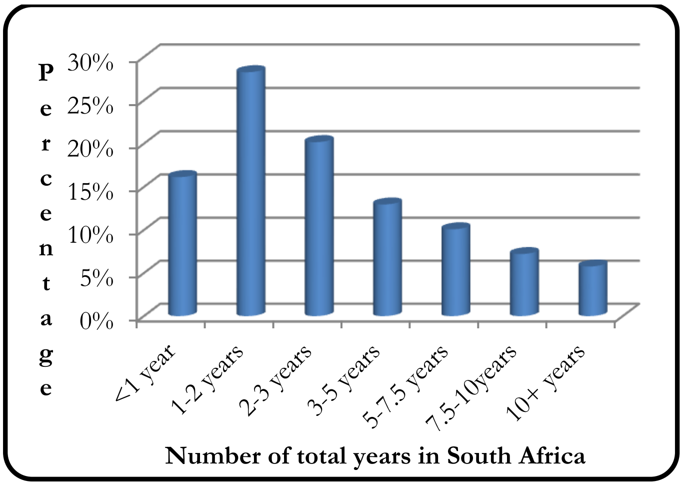
The first half of the questionnaire consisted of questions on the social and demographic background of migrants, in order to be able to analyse these and the potential influence they have on remittance-sending behaviour and patterns. Hence, the survey gathered data on gender, age, migration patterns,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

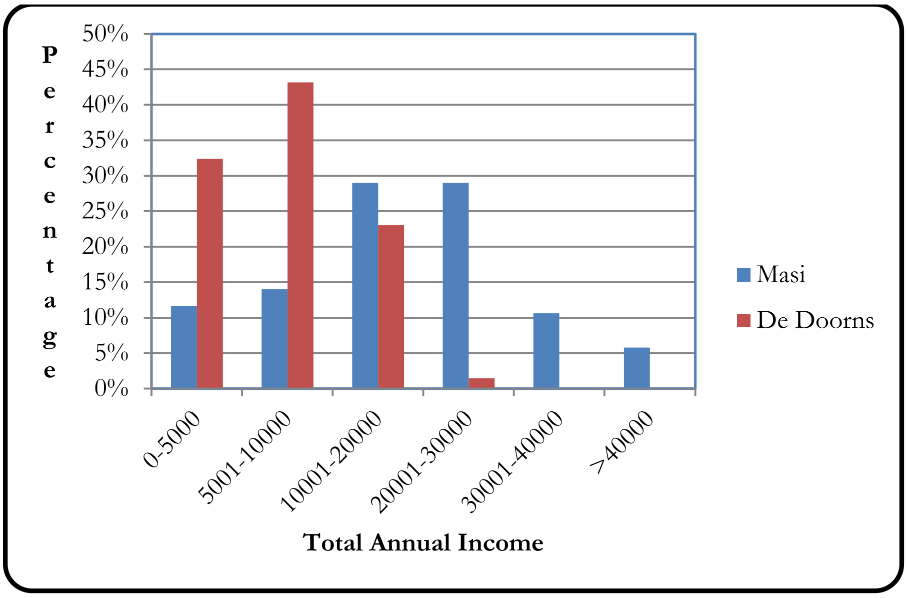
A surprisingly high number of surveyed migrants have dependants in South Africa. Almost a third support children that are in South Africa. This finding reinforces the idea that the nature of Zimbabwean migration to South Africa may be changing towards bringing more family members over to South Africa, 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 Masiphumele 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: 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 general[12], or from Latino migrants in the US to Latin American countries[13]. 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.[14] 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.

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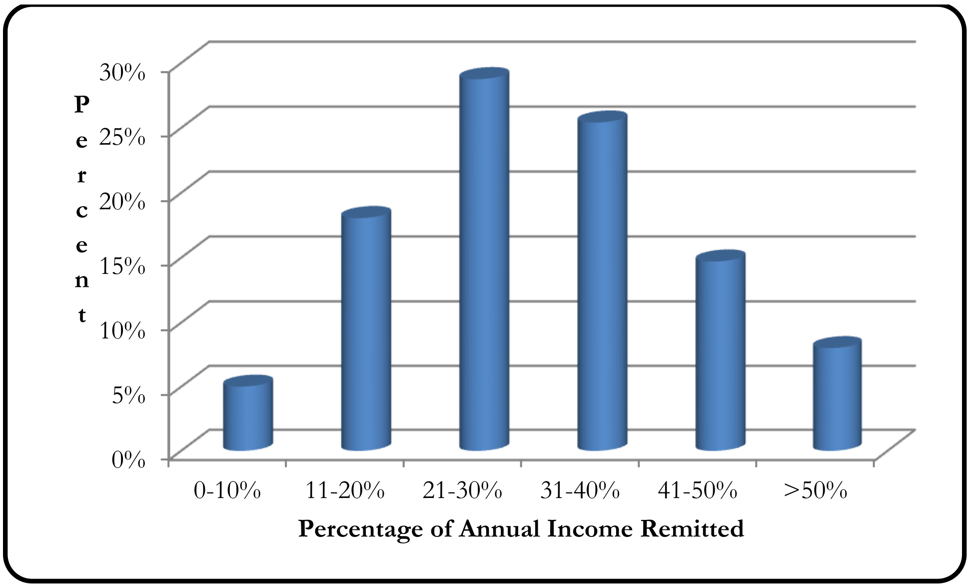
[12] For example, Fasani *et al.* (2008) found that 65 per cent of migrants in Italy's Lombardy region remit.

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

[14] 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.

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 Johannesburg[15]. 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, 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.

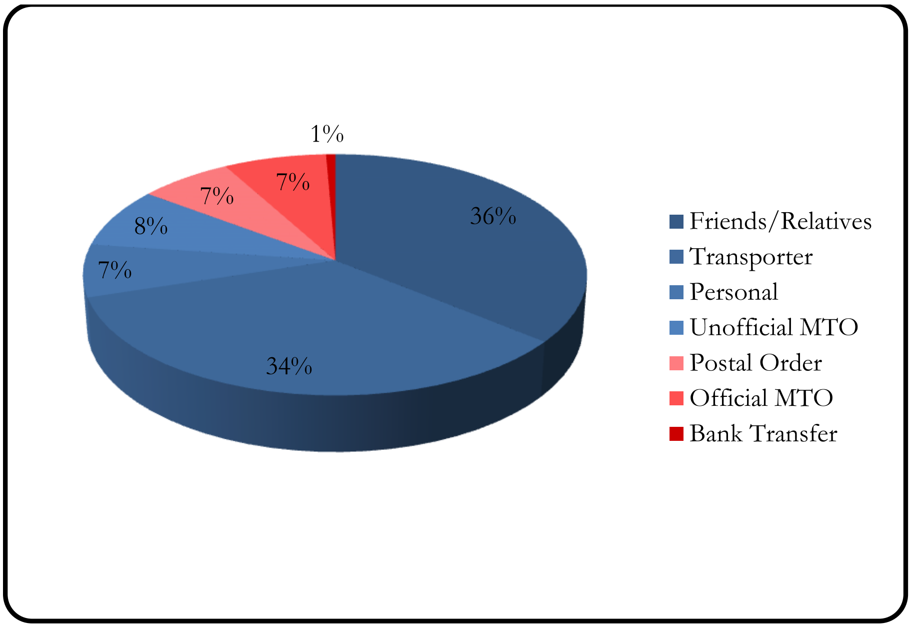
As a share of the total value of remittances sent, the value of goods sent accounted for 41 per cent, although the results indicate a declining trend. Indeed, this finding is somewhat lower than those found in Maphosa (2007) and Kerzner (2009), and it seems to indicate that remittance

[15] Makina (2007).

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 MTOs[16] (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 VI 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

[16] 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

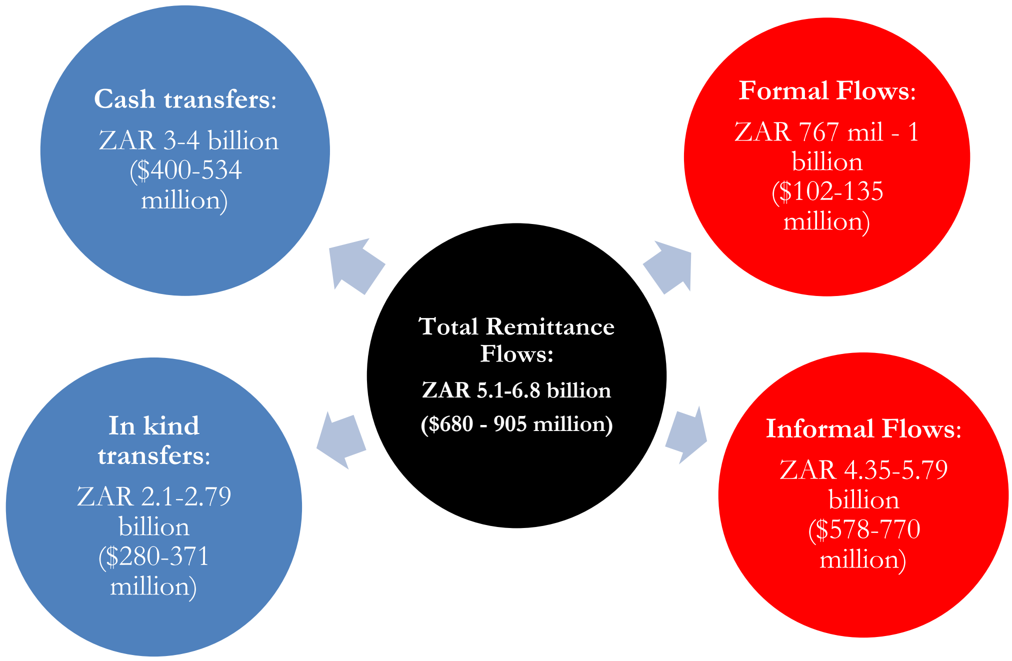
Factor	PASSOP (2012)	Makina (2007)	Other
Sample Size	*350*	*4,654*	*various*
Age	91% between 21 and 40 years; average 30	80% between 21 and 40 years; average 27	81% under 39 (Bloch)
Gender	69% male	59% male	68% male (Bloch)
Reason	77% economic	'Predominantly' economic	84% economic (IOM)
Duration	94% 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 Africa[17]. 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 cent[18] 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 R4000[19]. Given these assumptions, the rough estimate[20] of the likely size of remittance flows from South Africa to Zimbabwe last year amounts to between 5.1-6.8 billion Rand; or equivalent to between US$ 680-905 million[21]. The following diagram displays the estimated results, by breaking this overall sum up by both the type of remittances and the channel used.

[17] 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.
[18] Represents average finding of this study and studies by Maphosa (2004), Bloch (2006) and Makina (2007).
[19] This value is the average of findings by Bloch (2006) and Makina (2007).
[20] 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.
[21] Using the average exchange rate of the year leading up to May 2011 was US$1=ZAR7.52.

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 ZAR 7.5-11.3 billion (US$ 1-1.5 billion). This estimate is supported by a 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$940 million 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.

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 ratios[22] (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 GDP[23].

VI. 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 *hundi* in South Asia or *fei ch'ien* in China. They are extremely efficient and charge low costs. 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

[22] These ratios include an estimate of informal flows, but exclude in-kind transfers.
[23] Including both informal and in-kind transfers.

large share of in-kind remittance flows; and (4) the lack of financial literacy of Zimbabwean migrants.

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. 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 law. Apart from the Zimbabwean Dispensation Project, which will be discussed below, there are almost no legal options for work permits available to low-skilled (farm labourers, domestic workers) or middle-skilled (teachers, nurses) individuals wishing to migrate to South Africa. Only highly-skilled migrants stand a chance to obtain a work permit. Thus, the only choice that most migrants have is to apply for asylum in the hope to obtain refugee status. In almost all cases, however, applications are rejected, 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 in the country without documents.

At present, there are close to 55,000 refugees in South Africa, and a further 350,000 asylum seekers whose applications for refugee status are still pending. The only bank that allows these asylum seekers to open an account or transfer money is First National Bank; and this only after their documents have been verified by the DHA, a process which is supposed to take 48 hours, but in practice takes six months. All other banks do not offer banking services to asylum seekers. This means that even when documented, many migrants can only access two formal remittance channels: FNB and Money Gram, which is affiliated to FNB. The direct result of these excessive 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 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 8-10 per cent, with efficient corridors commonly recording fees around 3-5 per cent. In contrast, the average cost of remitting money from South Africa to Zimbabwe is closer to 14 per cent[24].

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	R500		R1000		R2000	
	Charge	Fee	Charge	Fee	Charge	Fee
Bank Transfer[25]	R 187	37.5%	R187	18.7%	R230	11.5%
MTO[26]	R 104	20.8%	R128	12.8%	R171	8.5%
Postal Order	R 27	5.5%	R32.50	3.3%	R37.20	1.9%

Source: Bank and Postal Office Staff

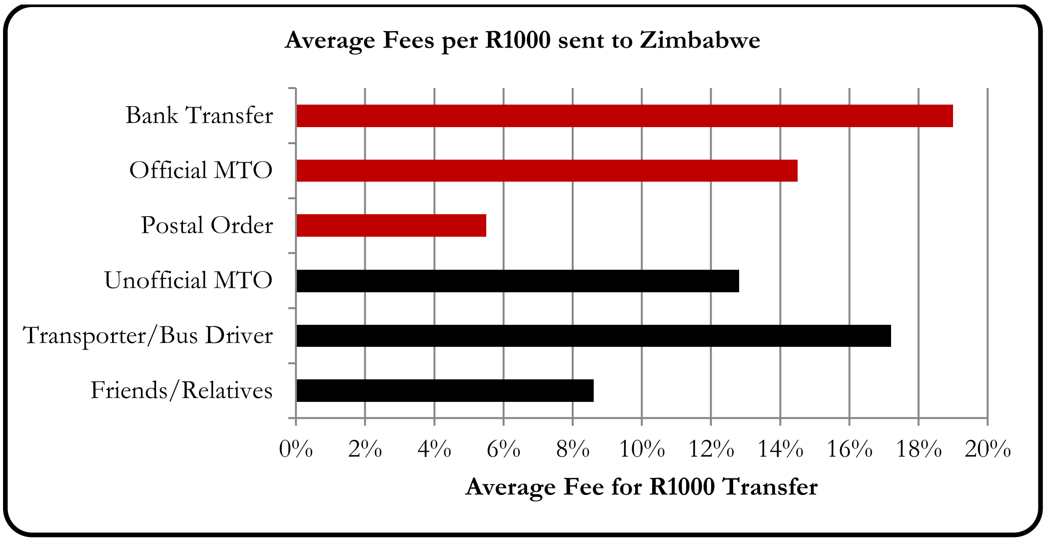
As is displayed in the table above, both banks and MTOs are not competitive options if the value remitted is small, usually anything less than R1500. The reason for the high fees is that both banks and MTOs charge a minimum 'swift' fee, no matter what the size of the transaction, before adding a commission rate, usually around four per cent. The result is that for small transfers, as remittance flows usually are[27], 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 15 per cent for formal channels). Surveyed migrants 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

[24] World Bank website: www.remittanceprices.org; and confirmed by survey results.
[25] Calculated the average fees of four banks: FNB, ABSA, Nedbank and Standard Bank.
[26] Calculated the average fees charged by the two providers, Money Gram and Western Union.
[27] The average remittance transaction was worth close to R1200.

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 many cases even discouraged the sending of postal orders to Zimbabwe. 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 was broken and 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 a large share 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 only few 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.

VII. 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 ZAR 400-550 million (US$ 54-72 million)[28] 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.

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, the flows of several billion Rand 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 cent. At present, however, when recipients do save, they often do not use formal channels to do so. Bringing these funds[29] 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 decade[30] the corridor transformed from predominantly informal transfers, to about 85 per cent formal remittance transfers (Hernandez-Coss 2005).

[28] 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.

[29] 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.

[30] From approximately 1996-2003.

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 per cent of official flows. The next section discusses the various policy implications of realising this shift towards a formalization of remittance flows.

VIII. Policy Recommendations

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: 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 and reduce costs

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, we recommend that policy-makers seriously consider removing exchange control reporting requirements for transactions below a R5000 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 asylum seekers, as well as 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 under a limit of R5000 for example are enabled upon the presentation of a passport or special ID document alone, rather than enforcing the proof of address and source of funds, it could have considerable positive impacts. This has been tried and worked successfully in the US approach to Mexican migrants, as mentioned above. However, 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.

Recommendations for Immigration Policy

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 low- and middle-skilled immigrants. Acknowledging the scale of Zimbabwean immigration and its many contributions to the South African economy, however, the Department of Home Affairs introduced first a moratorium on deportations of Zimbabwean nationals[31] and in late 2010, the aforementioned Zimbabwean Dispensation Project (ZDP).

The rationale behind the ZDP was to regularize the stay of some of the Zimbabwean migrants living in South Africa and relieve the pressure on the backlogged Asylum system. In just over ten weeks, over 275,000 Zimbabweans applied, and most of these have now received temporary four year work permits. As a result of this opportunity, many of these applicants decided to forgo their asylum applications, thereby clearing up the backlog in that system somewhat.[32]

Although the ZDP was a good step forward and a success in many ways, it only served a fraction of the 1.5 million Zimbabweans estimated to be living in South Africa. Many were not able to take up this opportunity, due to a number of reasons, including their employers refusal to write letters, not having a passport, or not being unemployed at the time of the short application window, to name just a few. Moreover, in October 2011 the Department of Home Affairs lifted the moratorium on deportations of Zimbabweans, and since then close to 20,000 have been deported.

It is clear that there needs to be a comprehensive change in South Africa's immigration policy with regards to low- to middle-skilled economic migrants. The ZDP was not enough and the policy gap remains that needs to be addressed. The recent ANC policy documents to be discussed at the Conference in Mangaung in July give hope that the winds of change are blowing:

> "There are three reasons why this policy gap must be addressed. Firstly, there are strong historical flows of labour between certain Southern African countries and South Africa. Historically, labour from various countries from Southern Africa contributed in building this wealth of this country. A second and related reason is that nowhere in the world should a country with a stronger economy than its neighbors totally exclude migrants from neighbouring countries seeking work. America has spent billions of dollars attempting to do this and has failed. Exclusion of low skilled migrants is neither possible nor desirable. The third reason is that no country that wants to grow its economy should do so in isolation from its region. South Africa is committed to integrated regional development, which includes increasing managed flows of people, capital and knowledge across SADC borders."

It remains to be seen whether these words will be translated into action. Migration and remittance flows is a reality that can either be dealt with in a reactionary way or strategically managed to maximize its development potential for both South Africa and the region. Hence, our recommendation is that instead of deporting people, or forcing them to live undocumented with no access to effective remittance channels, the government needs to take inequity across the border more seriously, strengthen its foreign policy leadership and increase its foreign aid. Migration is, after all, above all a foreign policy issue. In this vain, those low to medium-skilled migrants who are living in or coming to South Africa should be given the opportunity to get temporary work permits and legalise their stay. This involves research into finding out what different groups of migrants are here, whether seasonal farm workers, humanitarian migrants that do not fit the narrow definition of who is a refugee, or economic migrants who have valuable skills to add to the economy, even if they don't hold a PhD. Finally, the a ZDP-type project should be extended to immigrants from other SADC countries, as well as a second round to the Zimbabwean migrants who were unable to apply the first time.

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[31] 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.

[32] The survey used in this report was collected in May 2011, before most of the applicants had received their permits, and therefore the data does not reflect the improved access to formal channels that these 250,000 Zimbabweans can now have. A follow-up study is therefore recommended.

Other Policy Recommendations

Beyond reforming the existing immigration policy, 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 retailers[33]. 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).[34] 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 has recently launched 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, 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. Follow-up research in this field is recommended.

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 migrants working in South Africa. A forward-thinking policy to develop an environment that would encourage the flow of remittances and their use in investment needs to be implemented.

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[33] A number of online retailers, most of them based in the UK, have sprung up in recent years offering remittances 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.

[34] See the annex for a more detailed description of how the system in the Philippines works.

IX. 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 report 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 report 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 ZAR 5.1-6.8 billion last year, with overall remittance flows to the country likely to be between ZAR 7.5-11.2 billion annually. This sheds some light on the depth of remittance-dependence in Zimbabwe.

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. Perhaps most importantly, immigration policy needs to be revised to address the current policy gap that prohibits the vast majority of low- and middle-skilled migrants from obtaining work permits or accessing formal remittance channels. If these reforms and the formalisation of flows is pursued comprehensively, remittances may expand their potential and play an invaluable role in the reconstruction of the Zimbabwean economy.

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