

Fact Sheet

Remittances from South Africa to SADC

Approximately R11,2 bn remitted annually



Background

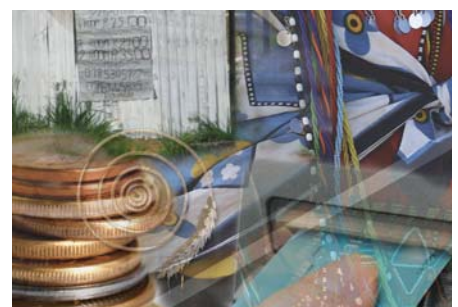
It is well known that there are large remittance flows from South Africa to other countries in the SADC region and that a substantial proportion of such flows are informal – sent for example via cross-border mini-bus taxis or buses. However, data on the size of this remittance market is hard to come by. Data is not only incomplete on informal flows, which by their nature are hard to track: there is no single reliable source of total migrant remittances sent home to the rest of SADC annually through the formal sector either. This deficit of complete and high quality data has made it difficult to formulate a comprehensive policy response to the problem of market informality, and has obscured the size of the market opportunity available to private sector operators.

South Africa is a regional economic hub, and has traditionally been a major destination for economic migrants, and thus also a major source for regional remittances. The importance of this role tends to increase during periods of economic crisis in neighbouring countries. Money received from remittance is used to raise children, feed families and fund education, and households which receive remittances have been shown to have improved health and economic outcomes. Facilitating the remittance market thus has the potential to reduce household vulnerability and poverty in the region. FinMark Trust commissioned DNA Economics to conduct research on the size of the remittances market from South Africa to the rest of SADC. The report which follows on research conducted for FinMark Trust in 2005 on this market¹, provides an analysis of the following areas:

- The total number of migrants (with or without the legal right of stay) from each SADC country currently in South Africa
- Remittance patterns and preferences across remittance channels
- The total annual volume of remittances sent from South Africa to the rest of SADC through formal and informal channels

Main findings:

- The total remittances from South Africa into SADC are around R11.2 billion per annum (with an estimate range of between R9.3bn and R13.0bn). Of these remittances, approximately 68% are estimated to be remitted through informal channels.
- There are approximately 3.3 million SADC migrants living in South Africa (with an estimated range of 2.8 million to 3.7 million). Of these 68% are undocumented migrants.
- The main source country for SADC migrants is Zimbabwe, accounting for 1.9 million migrants or 59% of the total. Most of the Zimbabwean migrants are however not documented, with only 35% having formal legal migration status.

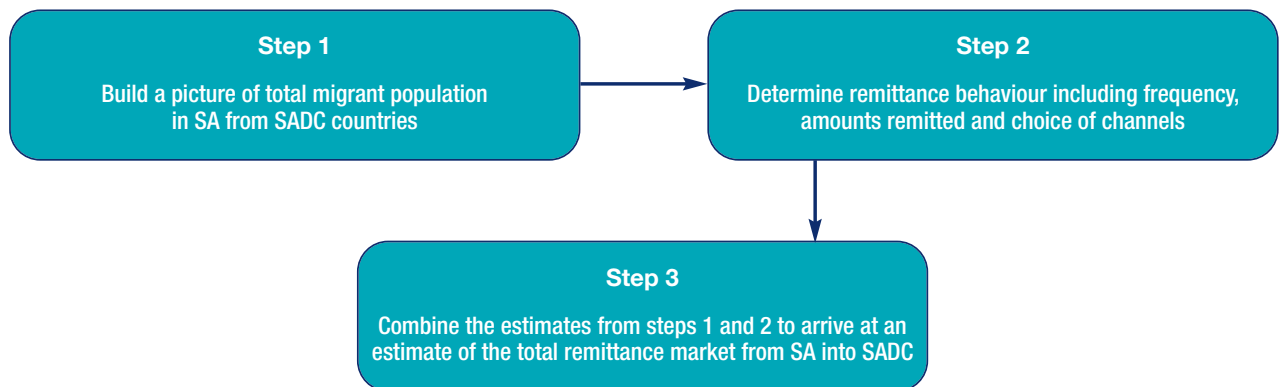


¹ Truen, S., Ketley, R., Bester, H., Davis, B., Hutcheson, H.-D., Kwakwa, K. & Mogapi, S. 2005. *Supporting remittances in Southern Africa: Estimating market potential and assessing regulatory obstacles*. Prepared by Genesis Analytics for CGAP and FinMark Trust

Methodology

The central methodology underpinning the analysis is based on the assumption that the primary determinant of volume of remittances is the stock of migrants – the more people migrate, the more money is sent. As such, it was fundamental to the analysis to estimate the likely stock of migrants from each SADC country currently residing in South Africa. Estimates of migrant numbers were then combined, with assumptions based on the available data on remittance patterns and volumes at the individual level, in order to derive an overall estimate of the remittance market size. Desktop analysis was supplemented by focus group discussions with migrants based in South Africa as well as intercept interviews with informal remittance service providers (taxi and bus drivers)².

Methodology flow



Step 1: The first step of the research was to generate an estimate of the size of the SADC migrant population in South Africa. Conceptually four types of migrants were identified based on whether or not the migrant had the right to enter South Africa, and whether or not the migrant had the right to stay and work in South Africa. It is estimated that South Africa contains approximately 3.3 million individuals of SADC origin, of which almost two-thirds are Zimbabweans.

Step 2: Remittance behaviour can be segmented into formal and informal channels. Formal methods include channels such as bank transfers, money transfer agencies (Moneygram and Western Union), and the Post Office. The main informal remittance channels found were sending goods or money with friends and family or with cross border taxi and bus drivers. Our analysis of remitting patterns suggested that the average remitting migrant would send between R6 500 and R4 500 home per year; and that around 45% to 55% of migrants are likely to remit.

Step 3: The estimates from step 1 and step 2 are combined to arrive at an estimate of the total remittance market from SA to SADC. In order to derive an estimate of total remittance market size, estimates of the likely impact of these country-specific factors were used to refine the average regional remittance pattern estimates. Country-specific remittance patterns were then combined with estimates of the number of migrants in each country currently resident in South Africa.

The size of the migrant population (Step 1)

The process of deriving an estimate of the size of the SADC migrant population in South Africa was based on an analytical framework that was applied by Crush & Williams (2001) and later by Truen, et al (2005). This framework is based on the assumption that any economic migrant faces two key legal challenges; namely the issue of whether they have the legal right to enter the destination country, and whether they have the legal right to stay and work. Based on these two questions it is possible to assess the legal status of all migrants and categorise them into four broad categories, as shown in Table 1 below. This framework offers a useful analytical perspective for estimating migrant stocks of SADC citizens in South Africa.

² Focus group discussions were conducted by Foshizi. The report by Foshizi summarising the focus group findings can be found on the FinMarkTrust website.

Table 1: Analytical quadrants

	Right to enter	No right to enter
Right to stay and work	<ul style="list-style-type: none"> • Skilled migrants on work permits or other temporary residence permits • Contract migrants in mining or the commercial farming sector • Permanent residents 	<ul style="list-style-type: none"> • Asylum seekers and refugees (have a legal right to enter, but no entry permit at time of entry) • Beneficiaries of immigration amnesties
No right to stay and work	<ul style="list-style-type: none"> • Migrants that enter on a non-work related permit (e.g. visitors, study and medical permits) and are employed without a work permit • Migrants that enter legally but fail to leave the country once their permits (study, visitors, etc.) expire • Retrenched contract workers 	<ul style="list-style-type: none"> • Migrants that enter on a non-work related permit (e.g. visitors, study and medical permits) and are employed without a work permit • Migrants that enter legally but fail to leave the country once their permits (study, visitors, etc.) expire • Retrenched contract workers

An estimate of the number of migrants for each of these four migrant categories was generated in order to arrive at an estimate of the total number of migrants in South Africa from the SADC region. As shown in the table below, it is estimated that South Africa contains approximately 3.3 million individuals of SADC origin, of which almost two-thirds are Zimbabweans. In column C we conflated all irregular or undocumented immigrants by not drawing any distinction between migrants with the “right to enter but with no right to stay and work” and those with the “no right to enter and no right to stay and work.”

Table 2: Estimated size of the migrant population

Country of origin	Right to enter Right to stay and work	No right to enter Right to stay and work	No right to work	Total SADC immigrants
	A	B	C	D=A+B+C
Angola	61	6 125	4 016	10 202
Botswana	7 017	–	45 515	52 533
Democratic Rep. of Congo	797	28 309	52 293	81 399
Lesotho	79 132	–	317 938	397 070
Madagascar	–	–	–	–
Malawi	1 077	–	70 616	71 693
Mauritius	563	–	36 898	37 460
Mozambique	81 692	160 000	245 147	486 839
Namibia	163	–	21 419	21 582
Seychelles	–	–	–	–
Swaziland	14 473	–	103 079	117 552
Tanzania	79	–	5 187	5 267
Zambia	972	–	63 755	64 727
Zimbabwe	12 597	646 484	1 250 000	1 909 081
Total	198 624	840 918	2 215 863	3 255 406

The vast majority of SADC residents in South Africa do not have a legal right to stay and work. To some extent this reflects the fact that there are relatively few means for unskilled individuals to gain legal employment status in South Africa. Thus with the exception of refugees, asylum seekers, and the moderate number of contract workers in farming and mining, most unskilled migrants remain undocumented.

Determining remittance behaviour (Step 2)

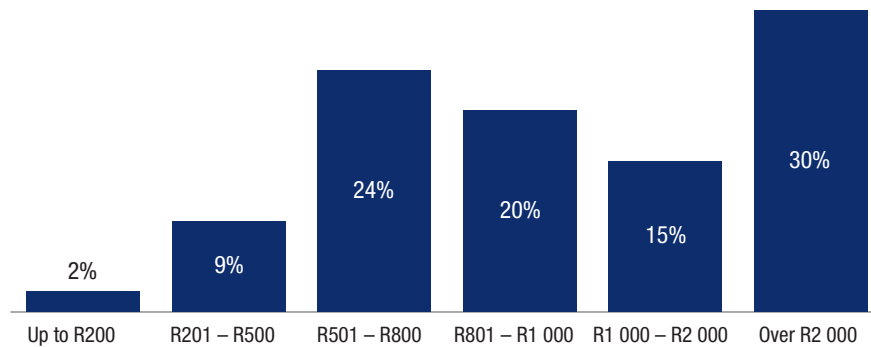
19 focus groups totalling 114 individuals and intercept interviews with 20 drivers were conducted. Interviewees were grouped according to their gender, language of preference and country of region as follows:

- 3 groups for Lesotho
- 1 Swazi group
- 2 groups for the Botswana/Swaziland/Namibia cluster
- 4 Zimbabwean groups
- 2 Portuguese cluster groups (Angola and Mozambique)
- 1 Francophone cluster (Mauritius and the DRC)
- 2 groups for the Malawi/Tanzania/Zambia cluster

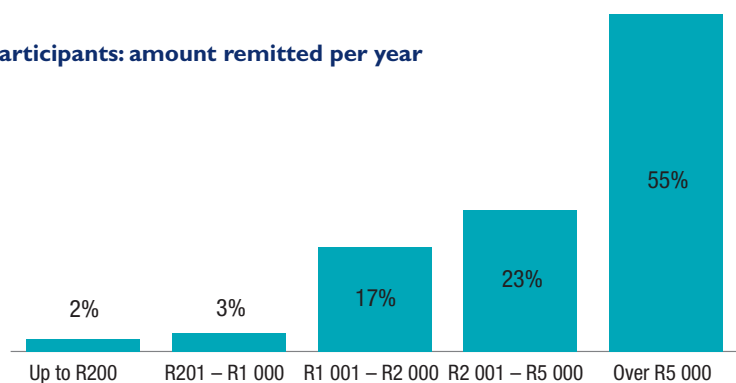
The focus groups were mainly conducted in Johannesburg but some were conducted in Bloemfontein (Lesotho group), Njelele/Thouya (Portuguese cluster), Durban (Zimbabwe group), and Nelspruit (Swaziland group). Data from focus groups quoted below should be regarded as representative of the sample and should not be generalised to the total population.

Available data and the focus group discussions suggested that approximately 45% to 55% of all SADC migrants in South Africa remit money home, and that a conservative estimate of the size of average remittances is R4 500 to R6 500 per remitter per year.

Focus group participants: amount remitted at a time



Focus group participants: amount remitted per year



How much money is remitted annually? (Step 3)

While the analysis suggests that approximately 45% to 55% of SADC economic migrants are active remitters, and that the average annual remittance for those that do remit is between R6 500 and R4 500 per year; this average will vary from country to country. Country specific factors such as proximity to South Africa, economic crisis in the home country, compulsory remittances for mining sector workers or relative wealth of remitters affect both the proportion of migrants remitting, and the average remittance size.

This methodology yielded an estimate of the total volume of remittances from South Africa into SADC of between R9.3 billion and R13.0 billion, with a mid-point estimate of around R11.2 billion. Approximately R7.6 billion of these funds were estimated to have been sent via informal channels, based on the proportion of migrants estimated to be undocumented, and thus unable to access formal financial channels.

Table 3: Summarising the number of migrants and remittances to SADC countries

Country of origin	Total number of undocumented migrant workers	Total number of SADC migrants in South Africa	Total informal remittances, R million	Total remittances estimate, R million
Angola	4 016	10 202	9.7	24.7
Botswana	45 515	52 533	158.3	182.7
Democratic Rep. of Congo	52 293	81 399	80.5	125.4
Lesotho	317 938	397 070	1 404.6	1 754.3
Madagascar		–		
Malawi	70 616	71 693	122.3	24.2
Mauritius	36 898	37 460	81.7	82.9
Mozambique	245 147	486 839	799.9	1 588.6
Namibia	21 419	21 582	51.8	52.2
Seychelles		–		
Swaziland	103 079	117 552	343.0	391.2
Tanzania	5 187	5 267	10.0	10.1
Zambia	63 755	64 727	122.7	124.6
Zimbabwe	1 250 000	1 909 081	4 382.8	6 693.7
Total	2 215 863	3 255 406	7 567.5	11 154.6

Source: DNA Economics calculation, based on various sources

How do people send money home?

The focus group findings suggest that remittances could be classified into five channels. Regulatory and other obstacles limited the choices available to migrants and as a result, the use of informal channels for remittances was relatively high.

"I take the money myself to the border and meet up with a family member that will take it home. I call and let them know when I am getting into a taxi and it takes an hour to get to the border so they also leave home so we can meet each other at the border."

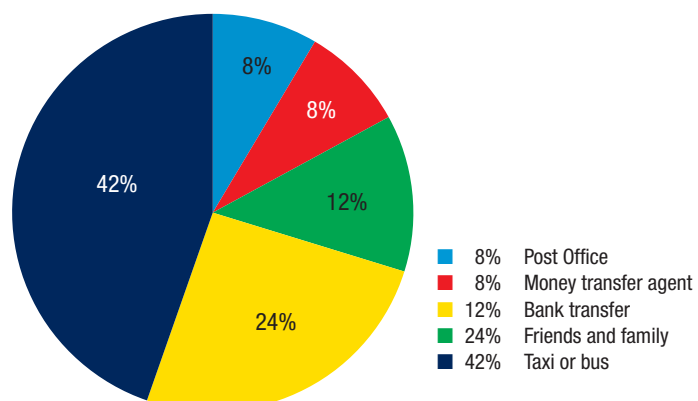
Swaziland female focus group, Mpumalanga

"I've never tried any other method because they require a lot of paperwork. Sometimes you find that they need a passport and a proof of residence which in most cases we don't have. We just prefer the bus because there is no paperwork needed."

Zimbabwe male focus group, Yeoville

- **Taxis/buses/trucks.** According to the focus groups, this was the largest single remitting channel in the region. The main advantages of this channel are that little documentation is required and the added convenience that door-to-door delivery of remitted cash and goods can be negotiated. This is especially important where the costs of the "last mile" are significant. These advantages are however partially off-set by the fact that there are little or no safeguards against theft and that the channel is actually fairly expensive (costing between R10.00 and R30.00 per R100.00 remitted).
- **Friends and family.** Money and goods may be sent across the border with friends, family or the remitters themselves when they return home. Although the person carrying the money is typically known and trusted, the relationship with the remitter is at least partially commercial in nature, with some form of "gift" offered to compensate the individual for the inconvenience.
- **Bank transfers.** The focus group results show that this was the most popular formal remittance channel. In practice, however, few migrants have the legal migrant status and formal employment record necessary to access this remittance channel. The banking infrastructure through which to conduct such transactions may also not be readily available to them.
- **Money transfer operators.** Formal money transfer operators such as Western Union and MoneyGram are increasingly popular, but are restricted by the fact that they generally have the same documentary requirements as the banks.
- **Post Office.** Money can be formally or informally remitted via the Post Office, either by purchasing money orders or by simply enclosing cash in an envelope. Remittance by money order to Zimbabwe, Mozambique and Malawi are however not permitted currently.

Figure 1: Focus group participants' choice of remittance channel



Motivations to remit varied widely, and included the following:

- An altruistic desire to help the remittance recipients
- A self-interested desire to improve one's chances of inheriting family assets
- Co-insurance – sharing income between remitters and recipients in times of need

"...when I get a job and make enough money to buy food and pay rent, I send the remainder home, they also send me money when I don't have it, my sister is the only one employed at home so we help each other."

Lesotho male focus group, Free State

"They don't depend on this money only, I opened a small business for them when I came from the war and I bought them a small boat so they can catch fish and sell it."

Low income Mozambican and Angolan male focus group, Limpopo

- Paying back money spent by family on education
- Compensating family for taking care of assets or children at home
- Taking advantage of differences in the prices of goods between countries

Despite widespread use of informal channels, focus group participants indicated that they could be unreliable, and that losses were fairly frequently experienced during the remitting process.

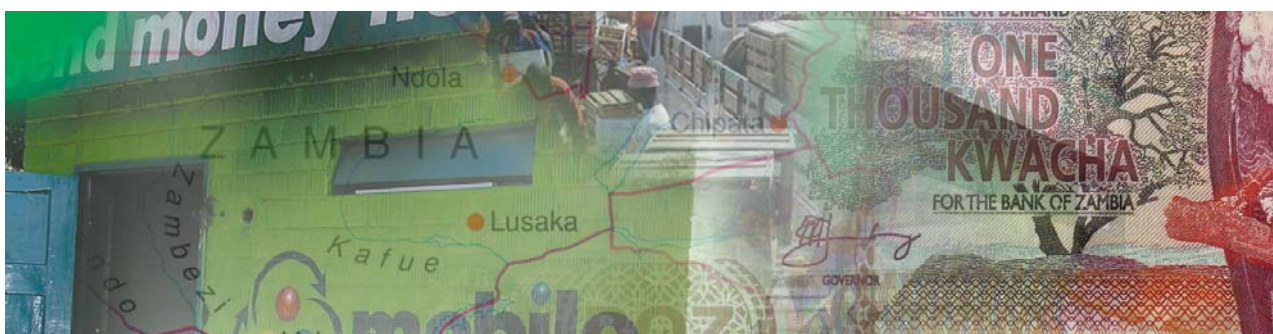
P1: *"When we give the driver the money, he will tell us to inform whoever is to receive the money to be at the bus stop at a certain time. If that person is late and misses the bus, chances are that we won't get the money back anymore because the driver will end up using it if he doesn't meet up with the person meant to receive the money. Another problem could be that they also don't have money to call the driver, so it becomes a loss."*

P2: *"The bus driver gave my family less than half the amount I sent claiming that it was reduced when he changed currencies."*

P3: *"I have not lost money but goods. The drivers sometimes take what they want from our goods before delivering them to our families."*

P4: *"My boss once sent me money by bus so I can return from a funeral I attended back home. I received less money resulting in me returning back to work late because I had to gather more money for my trip back."*

Zambia, Malawi, Tanzania male focus groups, Gauteng





What does this mean for policymakers?

The formalisation of the remittance market would benefit both remitters and the regional macro economy. Low income migrants struggle with access to the formal financial system, both in terms of regulatory barriers and in terms of overall affordability. Market and regulatory barriers are therefore a key concern in achieving greater levels of formalisation of the remittance market. Migrants that are not able to attain a legal working status have great difficulty in accessing formal financial systems. This report tries to avoid entering the immigration policy debate on whether migrants should be regularised or not, but rather seeks to highlight that if the formal financial system is used to police immigration policy (that is, if no right to stay and work equates to no right to use the formal financial system), it contributes to the quagmire of informal remittances. Although the available data was fragmented and limited, this research sought to generate indicative estimates, in order to provide a credible basis for further research, discussion and informed policy making.

What does this mean for market players?

An important poverty coping mechanism for many generations has been the ability to migrate in search of economic opportunities. Migration from the countries of SADC to South Africa therefore benefits both the migrants themselves and their families at home who receive remittances from them. However, the regional remittance market is not well developed, and as a result, migrants are often forced to rely on informal remitting channels which are risky, unpredictable and slow. Given that the majority of remittances are through informal channels formalising the informal remittances sector presents an opportunity for market players in the formal sector.

Conclusions

The formalisation of the remittance market would be of benefit both to remitters themselves and to the macro economy of the region, as well as from a financial sector policy perspective. Specific issues with deepening the formalisation of this market include the following:

- Product affordability: sending money formally in the region is extremely expensive by international standards
- Accessibility of the formal financial system, for senders and recipients
- Regulatory barriers for migrants that are not able to obtain legal working status, and are as a result of the formal financial system being used to police immigration policy, cannot access formal channels

Contact

For further information, please contact:

Brendan Pearce
FinMark Trust
brendanp@finmark.org.za

Tel: +27 11 315 9197
Fax: +27 86 518 3579

Christine Hougaard
Cenfri/FinMark Trust
Christine@cenfri.org

www.finmarktrust.org.za
www.finscopeafrica.com



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