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Understanding Migrant Remittances

Anrich Daseman

11357810

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Cell phone : 082 225 8191
Landline : 012 313 4452
E-mail : anrich.daseman@resbank.co.za

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ABSTRACT

Remittances have become an increasingly important factor in developing economies. Due to the increasing regulation, costs and the lack of availability of remittance transfer operators, the informal methods of remitting has become the dominant means of sending money. As these flows could contribute hugely to the development of a country's economy, it is in the interest of country and government to realise the financial benefit to be obtained by channelling these funds through the formal financial system.

This study aims to understand the channels used to remit money to destinations outside South Africa, to gain more insight on the processes involved in the formal and informal remittance channels and ultimately gather information on how to increase the remittance flows.

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DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Anrich Daseman

Date

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CHAPTER 1: Introduction to the Research Problem

1. Introduction

This chapter serves to introduce and outline the research problem. It will provide the background to the research, explain the research problem, present the objectives of the study and describe the research aim.

2. Research Title

The title of the research project is *Understanding Migrant Remittances*.

3. Background to the Research Problem

For centuries, individuals have left their countries of origin searching for better opportunities outside their motherland. In recent years, the pace of international migration has been phenomenal due to trade liberalisation, deregulation of restrictive measures and the development of transportation facilities, communication networks and global cultural integration (Azeez & Begum, 2009). The political, economic and social factors around the world have led to the migration of individuals from their countries of origin to places abroad (Azeez & Begum, 2009). The factors that have led to the migration can be divided into two categories, namely “push,” and “pull,” factors (Azeez & Begum, 2009). The push factors include various negative issues surrounding the country of origin, such as wars, social insecurities, natural calamities and political uncertainties. The pull factors are the positive factors attracting the migrant to the destination country, such as employment, higher wages, better living standards and better working conditions.

Remittances have become an increasingly important factor in developing economies (Pradhan, Upadhyay, & Upadhyaya, 2008). In countries such as Kenya, M-PESA has become an instant success in transferring money. This has contributed to estimates of six percent of the country’s gross domestic product. Due to the increasing regulation, costs and the lack of availability of

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remittance transfer mechanisms, the informal methods of remitting has become a dominant means of sending money. As these flows could hugely contribute to the development of a country's economy, it is in the interest of government to recognise the financial benefit obtainable by channelling these funds through the formal financial system.

The study will create a better understanding of remittances by specifying what the requirements are of remitters and creating a framework to increase the flow of remittances. This will enable government to make informative policy decisions and stimulate economic growth by allowing these migrants to enter the formal financial system of the country.

4. Research Problem

Various definitions exist on remittances, and the lack of consensus makes it difficult to determine the total value of remittances to and from a country or region (Taylor & Fletcher, 2007). Remittances are described as the money that international immigrants send to their country of origin (Ruiz & Vargas-Silva, 2010). In a review done by Taylor and Fletcher (2007), they mention that many definitions restrict remittances to only cash or financial transfers. Taylor and Fletcher's definition is broader and includes monetary or cash transfers and other transfers, such as consumer goods, capital goods, and skills and technological knowledge. For the purposes of this study, the definition of remittances will only include the cash or monetary value of remittances. This will enable a more detailed approach that will provide a better understanding of remittance behaviour.

Page and Plaza (2006) mention that earlier studies assumed that migrants leave their countries, settle in a new country, start integrating into their new society and abandon their country of origin. The effect of globalisation however, allows immigrants to remain connected with their native countries while residing abroad (Page & Plaza, 2006). The volume of remittances to developing countries has grown significantly over the years, along with a sharp rise in value. In 2007, the aggregate remittances increased to \$240 billion dollars from \$2.98 billion dollars in 1975 and \$90 billion dollars in 2003 (Ratha & Xu, 2008). The official or recorded remittances have surpassed the total amount of official development assistance and now represent approximately two-thirds of the overall foreign direct investment (Acosta, Baerg, & Mandelman,

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2009). This contributes to almost two percent of the gross domestic product of developing countries and exclaims the importance of remittances as a valuable source of external funding for these countries (Acosta, Baerg, & Mandelman, 2009). The total amount of remittances is considerably more, but is not recorded as such, as it is carried out through informal channels (Maphosa, 2005).

Remittance flows for Africa are not thoroughly reported on and very modest academic studies are undertaken in this field. The benefits of remittances can grow exponentially if the data of unrecorded flows are also calculated and taken into account (Sander & Maimbo, 2003). This information can be used by governments, which can provide guidance to implement the correct policy decisions and expand on the market opportunity available.

5. Significance of the Study

It is of the opinion that understanding migrant remittances will contribute to the dialogue between academics, policymakers, remittance service providers, as well as migrant workers. The understanding is focussed on the channels used to remit money, the flows through the informal channels and the consequences of using each channel.

Academics can benefit from this study by gaining a better understanding of remittance behaviours and improved estimates of total remittance values. The behaviour of remitters can be used to deduce the reason why migrants are sending these remittances. In the literature review, it is mentioned that remittance contribution to the gross domestic product of a country is increasing. If academics can improve the correctness of the estimates of total remittances, they can more accurately describe the total contribution of remittances to gross domestic product of countries.

Policymakers and governments will gain insight from this study, as this will enable them to make more informative policy decisions regarding regulations affecting remittances. These regulations can help increase the access to the formal financial system for these migrants. This can contribute to the social upliftment of the society, in not only South Africa, but also the receiving country.

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Remittance Service Providers, including commercial banks, will be able to understand remitter's' behaviours and reasons for choosing informal channels. This insight can help them to adjust their product offering to attract customers using informal channels. Attracting new customers will allow them to increase the volume of remittances and profits achieved.

The benefit to migrant workers is that more options will become available for them to send money to another country. Access to the formal financial system will enable a safe and convenient method of remitting that could also be more cost effective for the migrant worker. This can increase the financial contribution to their families in the receiving countries from where they come.

6. Purpose of the Research

This study aims to understand the channels used to remit money to destinations outside South Africa, to gain more insight on the processes involved in the formal and informal remittance channels and ultimately propose a model on how to enhance the process to increase the remittance flows.

7. Project Scope of the Research

The global phenomenon of remittances is not thoroughly studied and not much academic research is done on this topic. The processes of remittances need to be further investigate to create a model that will enhance the flow of remittances between countries.

This was done through an exploratory study using qualitative measures to gain insight into remittance process. Interviews were conducted with migrant workers sending remittances, as well as experts in the field of remittances.

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This could assist in determining the a better process for remittance market that could help government implement the right policy decisions and thus create opportunities for Remittance Service Providers. Further research would improve our understanding of remittances and enable governments and other institutions to create policies that will maximise the individual and social benefit of remittances (Sander & Maimbo, 2003).

8. Organisation of the Dissertation

This dissertation is organised as follows:

- Chapter 1 serves to introduce and outline the research problem. It will provide the background to the research, explain the research problem, present the objectives of the study and describe the aim of the research.
- Chapter 2 presents a literature study on the topic of remittances. This chapter investigates the key themes related to the research problem considered in the study, and presents a thorough review on remittances.
- Chapter 3 presents an overview of the research objectives that defined the focus of the study. The research study comprises of a qualitative study that is done in two phases.
- Chapter 4 presents the methodologies used during qualitative research and the phases in order to address the research objective defined in Chapter 3. A brief discussion on the potential research limitations of the study closes the chapter.
- Chapter 5 presents the results of the study with phase one and phase two included.
- Chapter 6 provides a discussion of the results with an analysis on the findings.
- Chapter 7 highlights the main findings of the report and the recommendations on future research.

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CHAPTER 2: Literature Review

1. Evolution of remittance flows

During the 1990's, countries in Eastern Europe and Central Asia transitioned from centrally planned to free market economies, which allowed labour migration in the oil-rich Middle East and industrialised Western Europe. This resulted in significant growth of remittances to Eastern Europe and Central Asia. Due to the expansionary economic activity in Japan, South Korea, Hong Kong, Taiwan and Singapore, they began to experience labour shortages. In an effort to address this shortage, these countries adopted more liberal policies with regard to migrant workers in the 1990's. As a consequence, there was an influx of migrant workers to these countries resulting in significant growth in remittances to East Asia (Pradhan, Upadhyay, & Upadhyaya, 2008).

International remittances flowing into developing countries are attracting increasing attention because of their rising volume and their impact on recipient countries (Anyanwu & Erhijakpor, 2010). The boom in the information technology field in the United States and other industrialised countries attracted a large number of South Asians to migrate to these countries. This resulted in the large increase in the flow of remittances to South Asia. The increased demand for workers in the United States and Canada during the boom of the 1990's also resulted in the active movement of workers from Latin America and the Caribbean to those countries. This also led to the sharp growth of remittances to Latin America and the Caribbean. The increased pressure from donor agencies and industrialised countries convinced the Sub-Saharan African countries to adopt more liberal economic policies and democratic political systems that enabled mobility of labour within and across national boundaries. In addition, the end of Apartheid in South Africa opened doors for migrant workers. These factors resulted in remittances becoming the main source of foreign finance for some of the Sub-Saharan African countries. Although the growth in remittances in the Middle East and North Africa region was not as significant, it is still higher in absolute terms than other regions due to the free movement of labour (Pradhan, Upadhyay, & Upadhyaya, 2008).

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Remittance flows have been growing at double digits in the developing countries with the exception of the Middle East, North Africa and Sub-Saharan Africa (Pradhan, Upadhyay, & Upadhyaya, 2008). In Eastern Europe and Central Asia, the amount of remittances has increased almost ten-fold between the years 1990 and 2005. In East Asia and the Pacific region, remittance flows have increased more than 13 times in this same period. The growth rates in Latin America and the Caribbean, South Asia and Sub-Saharan Africa has also increased significantly at between four and eight times, although not at the above rates. The growth of remittances in the Middle East and North Africa has not been that profound as in the previous examples.

2. Estimating remittance flows

In 2007, estimates indicated that remittances to developing countries totalled US\$240 billion out of the global amount of US\$318 billion. Though these flows are under-reported, a high proportion of the reported flows went to Africa, indicating that the continent has been part of the overall rising global trend. Between 2000 and 2007, remittances to the continent increased by more than 141%, from US\$11.2 billion to nearly US\$27 billion. These amounts only reflect officially recorded transfers; the actual amounts including unrecorded flows through formal and informal channels are believed to be significantly larger. Recorded remittances are more than twice as large as official aid and nearly two-thirds of foreign direct investment flows to developing countries. In particular, remittance flows to Africa are grossly underestimated, with wide gaps in data reporting in many countries (Anyanwu & Erhijakpor, 2010).

Remittances received from migrant workers abroad are increasingly more important to developing countries (Pradhan, Upadhyay, & Upadhyaya, 2008). Due to the small amounts being sent, the government and financial markets did not pay much attention to these payments (Pradhan, Upadhyay, & Upadhyaya, 2008). Remittances have, however, become a more prominent issue, as the remittance figures have become large in aggregate and more essential to developing countries. Countries are now beginning to compile data on remittances from their banking systems. However, these figures are believed to be much higher as many of these transactions are not captured. Remittances can also be much more than the formally transmitted pecuniary assets, and also consists of goods and informal transfers of goods, and

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money that goes unrecorded (Bracking & Sachikonye, 2010). Many funds flow through wire-transfer agencies that are not well regulated or through unregulated channels that are not being traced.

In addition to formal remittances through official banking channels measured using balance of payment data, there are also large unofficial flows of remittances, which often liquidate informal economic exchange (Bracking & Sachikonye, 2010). The estimated unofficial transfer of remittances to the developing world are US\$10 billion per year, but other estimates have ranged between 35% to 250% of the total remittances (Bracking & Sachikonye, 2010). With the application of what was termed, 'the first empirical methodology to estimate informal flows,' historical data on the balance of payments and figures on migration, transaction costs and country characteristics for over 100 countries, supplemented with household survey, data, was used to conclude that informal remittances amount to about 35% to 75% of official remittances to developing countries (Bracking & Sachikonye, 2010).

Other literature suggests that remittances are more than twice the size of net official flows and are second only to foreign direct investment as a source of external finance for developing countries (Pradhan, Upadhyay, & Upadhyaya, 2008). Pradhan, Upadhyay, & Upadhyaya, (2008) mention that, according to the World Bank, total remittances could be as much as 50% higher than the official estimates, if those sent through informal channels are also included. According to Page and Plaza (2006), worker remittances have emerged as a major source of external development finance in recent years. The global transfers of remittances to developing countries alone have grown at a steady pace and exceeded \$100 billion worldwide (Page & Plaza, 2006). In most developing countries, it has exceeded the volume of foreign aid and private capital flows. In many of these countries, remittances have grown larger than the earnings from their most important export.

3. Remittances and development

In a review of other studies by Page and Plaza (2006), they found a positive relationship exists between remittances and growth, increased construction, agriculture, manufacturing and services. Remittances can alleviate liquidity constraints in low-income households, promoting

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investment in agricultural techniques, education and further migration, as well as entrepreneurship. Remittances may also have counter-cyclical effects, as relatives and friends send more remittances in response to economic downturns. Thus, the stability of remittance flows can contribute to the stability of recipient economies (Page & Plaza, 2006). It also serves as an important support structure for a country's creditworthiness and access to international capital markets (Page & Plaza, 2006).

A study done by Adams & Page (2005) found that both international migration and remittances significantly reduce the level, depth, and severity of poverty in the developing world. They further found that the remittances have a strong impact on reducing poverty, and a strong influence on income and inequality. Few studies have researched the impact of remittances on poverty in Africa as a whole, because of a lack in data about poverty and the available data does not include the large and unknown sum of remittances that are transmitted through private, unofficial channels. As a result of these data problems, a host of key policy questions remain unanswered (Anyanwu & Erhijakpor, 2010).

International remittances tend to move pro-cyclically relative to the income of African countries and are a relatively stable source of external finance, compared with external financial flows. Thus, remittances are seen as more stable than other foreign currency flows to developing countries (Anyanwu & Erhijakpor, 2010). This is especially relevant to Africa, where official aid flows have fluctuated considerably from year to year. Remittances to Africa are not only consistently less volatile than official aid, they are also less volatile than foreign direct investment, which is usually seen as the most stable private flow.

Page and Plaza (2006) also refer to empirical studies that have found positive linkages between migration and remittances that lead to positive contribution to education and health. Remittances can have positive effects on the educational attainment of children from households with migrant workers. Children born in remittance-receiving migrant households are less likely to be exposed to health risks at birth, resulting in lower rates of infant mortality and higher birth weights (Adams & Page, 2005).

Migrants maintain contact with their families and other people in their host country and these groups form what is called diasporas (Page & Plaza, 2006). This argues that trade, investment

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and technological acquisition are facilitated by migrants. Page & Plaza (2006) further emphasise that migrants facilitate host and source country bilateral trade and investment because they help to overcome information asymmetries and other market imperfections. Policies are also being reviewed to provide special tax regimes for remittances, increasing access to banking services for recipients, promoting financial literacy for receiving households, creating incentives to set up businesses, support for migrant association projects and matched funding arrangements (Page & Plaza, 2006). Governments are also using different approaches to improve the attractiveness of receiving countries and intensify their financial ties with overseas communities, for example, investment packages for migrants and dual nationalities (Page & Plaza, 2006).

4. Effect of migration and remittances on home and host country

Research has found that there are economic benefits from the migration of workers for both the receiving and the sending country (De Haas, 2005). A brain drain for the sending country can result in a brain gain for the migrant receiving country. The departure of highly skilled workers can have positive effects for the home country as it could result in counter flow of remittances, investments, trade relations, new knowledge, innovation, attitudes and information. The benefit to the host country is that labour tends to be more productive in wealthy industrialised countries. In developing countries there also tends to be high unemployment of skilled labour, and their migration will be beneficial to both parties including the individual. Some of the developing countries governments also consider skilled labour as an export product and willingly create surpluses to gain benefits from their remittances. Migrant worker has also played an important role in innovating and transnational operating entrepreneurs and investors in both countries. These skilled migrants also often play an important role in the societal and political debates, and the development of a civil society. Migrants generally have increase financial capacity for setting up enterprises and participate in public debate. Thus loyalty to sending countries is not necessarily in conflict with good citizenship in the migrant receiving countries. Migrants also tend to keep their interest in the country of origin through associations that aim to foster links and provide small scale aid. The supply of labour from the developing also created a real and persistent demand for migrant labour in the developed countries, and could lessen the burden of an ageing population. Purposefully allowing low-and highly skilled workers to immigrate will also increase government's ability to select migrants on the basis of their education and skills.

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The growth and welfare effects of world migration was also investigated by Levine, P., Lotti, E., Pearlman, J. and Piersse, R. (2010) that found migration induces two potentially growth enhancing effects. These effects are firstly an efficiency effect, from the more efficient use of labour in the host country and a sectoral reallocation effect arising from the change in the skilled-unskilled wage rates. The welfare implications of migration for the host country followed an increase in income. The source of this gain is that immigration lowers the wage rate, but as the host population owns the capital they benefit overall. In addition it is also assumed that skilled labour and capital are complements the increase in potential benefit are even greater. The phenomena of global diasporas has also played a significant role for emerging markets in providing money, investment, lobbying, the transfer of knowledge and skills as well as political leadership. The role of diasporas are also growing due to cheaper international air travel, better telephone and communications services, and improved facilities for transmitting money (Emerging Markets Monitor, 2006). They also act as key bridges between their home countries and the developed world, providing benefits for both spheres. The most obvious benefit for the home country of emerging markets is the remittances from overseas workers. These diasporas also promote commerce and investment between their host and home countries, as demand by ethnic communities increase for specialist products from their country of origin.

The formalisation of remittances has the potential to introduce migrant workers and their families to the formal financial sector in both the sending and receiving country (Ambrosius, Fritz, & Stiegler, 2008). Remittances can provide a point of entry for to the formal financial system for the unbanked population, providing them with access to bank accounts and other financial products such as consumer loans, mortgages, life and non-life insurance products and pensions. In addition remittance recipients usually demonstrate higher levels of account holding than the average population. An example of government initiatives to include undocumented working migrants was the quasi-formalisation of migrants. This involved the issue of an identification document called, 'Matrícula Consular de Alta Seguridad' (MCAS), to provide them access to the formal financial sector. Despite some critics, this alternative form of documentation is accepted by a wide range of banks and other institutions in the United States, thus granting undocumented migrants access to financial services, including the sending of remittances. On the receiving side it provided access to Micro-Finance regulators which had a broader footprint than traditional banks, although they could not provide funds due to foreign

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exchange regulations, the remittance served as collateral for credits. The money transfer operators also collaborated with credit unions to provide a beneficiary account registration by which a remittance sender opens a bank account in the name of the recipient family member and the account is personally formalised when receiving the remittance (Ambrosius, Fritz, & Stiegler, 2008)

5. Remittances and competitiveness

a. The Case of the Philippines

Bayangos and Jansen (2011) comment that remittances have a positive impact on many economic indicators, including consumption, investment, labour productivity and economic growth. However, it also leads to a change in the economic structure, in particular a decline in traded goods production and exports that implies a dependence on remittance increases. Bayangos and Jansen (2011) argue that labour market effects are also significant, as emigration cuts into the labour force and the receipt of the remittances further reduces the labour supply. This results in an increased effect on the wages paid (Bayangos & Jansen, 2011). The impact of the higher wages is also due to the appreciation of the nominal exchange rates and is partly driven by the monetary policy response (Bayangos & Jansen, 2011). The output gap is falling, the inflation is accelerating and the policy response of a central bank reinforces the appreciating impact of remittances, as shown in this case of Philippines. Bayangos and Jansen (2011) further argued that in the case of the Philippines, remittances have many positive effects, but the loss of competitiveness is a drawback with possible long-term negative effects. It may in the longer-term limit the diversification of the economy and productivity growth. The central bank reacts by increasing the policy rate, but the increase in interest rates attracts more remittances and other capital flows that results in a further appreciation of the nominal exchange rate (Bayangos & Jansen, 2011).

b. The Case of Cape Verde

The study done by Bourde and Falck (2007) also indicates that the inflow of remittances have an appreciating effect on the real exchange rate and contributes to the deterioration in

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competitiveness. Remittances have contributed a large portion to capital flows and amounts to about 15% of the gross domestic product of Cape Verde (Bourdet & Falck, 2007). Although this serves as an extreme case, it is possible to generalise the analysis to other developing countries, as many African countries are facing similar situations. The effects are analysed through the Dutch disease theory that suggests that the effects of capital flows on resource allocation are traced through their effects on the real exchange rate. It implies that large inflows of capital can give rise to an appreciation of the real exchange rate and eventually a deterioration of the competitiveness of the sectors exposed to international competition, preventing the development of a dynamic export sector. A policy implication for the study that Bourdet and Falck (2007)(Bourdet & Falck, 2007) have undertaken on Cape Verde is that a more growth-oriented aid policy, together with the long-term capital accumulating effects of remittances, by removing bottlenecks and boosting diversification can contribute to limiting the negative impact of remittances on the country's competitiveness. Suppression of the special, better-remunerated deposit accounts for emigrants' remittances can contribute to improving the competitiveness of the trading sector, even though in the end, investments in non-tradable goods will make this improvement less sizeable. This measure should have a depreciative effect on the real exchange rate, encouraging export growth (Bourdet & Falck, 2007)

The two countries' cases show that further research needs to be done to explain remittances and the effect it could have on a country, including on its competitiveness.

6. Nature and determinants of remittance flows

The impact of remittances varies vastly across regions of the world due to the differences in culture, migration patterns and the stage of economic development (Ruiz & Vargas-Silva, 2009). The determinants of remittance flows are divided into two specific groups of study, namely micro-economic level data and macro-economic level data (Ruiz & Vargas-Silva, 2009). This type of study investigates the relationship between remittances and individual specific factors, such as income, both household and migrant, gender, age, time abroad, marital status and household composition. The macro-economic level data is interested on how variables like interest rate differentials, political uncertainty, exchange rates and economic conditions in both the host and home country, impact on remittances.

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7. Micro determinants of remittances

a. Altruism

There has been considerable debate on the motivation for migrant workers to remit. The most commonly accepted motivation for remittance transfers is altruism (Ruiz & Vargas-Silva, 2009). This relates to the migrant that cares about the home household's wellbeing and remits to improve living conditions. The motivation of altruism on its own has failed to explain the totality of remittance transfers (Ruiz & Vargas-Silva, 2009). Although in a study done using survey data for Guyana, evidence was found in favour of altruism as motivation against the notion of insurance (Agarwal & Horowitz, 2002). Agarwal & Horowitz (2002) argued that if the number of migrants from a single family increases and remittances sent by each migrant does not increase, then individual migrants must be insuring themselves with the household. However, if the number of migrants increases and the amount of money sent by each migrant decreases, then remittances are more likely for altruistic reasons, as more migrants begin to remit, the household's demand for support from individual migrant decreases. In another study to determine the relationship between crime and remittances, data using Columbia found that remittances respond negatively after a household member was the victim of crime (Vargas-Silva, 2008). He further argues that crime may negatively affect household assets and the return to investments in the home community, thus migrants may decrease the contribution for self-interest purposes, but altruism still stays an important motivation for remitting.

b. Self interest

A second explanation for remittance behaviour is self-interest (Ruiz & Vargas-Silva, 2009). One of the self-interest motives commonly mentioned is investment in the home country. It could be that the emigrant does not have good investment opportunities available in the host country and therefore decides to invest in the home country. It could also be that the migrant is planning to retire in the home country and is currently investing there to construct his investment there. In support of this argument, Ruiz & Vargas-Silva (2009) also mention that the emigrants are

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hopeful of benefitting from possible inheritances from the household's gratitude when returning home.

c. Insurance purposes

The insurance motivation suggests that the household will be able to diversify their risks as the movement to another region or country will hedge the risks that the household face as the risks scenarios will be uncorrelated to each other (Ruiz & Vargas-Silva, 2009). Insurance arrangements are undertaken whereby the emigrant will send money back home in tough economic conditions in the home country and will receive money in times of economic downturn in the host country. Evidence of insurance motivations is the remittances relationship to risk variables, such as emigrant's income risk. Lucas and Stark (1985) tested this theory in Botswana using data from a drought that occurred at the time of the survey. The regions were differentiated by the seriousness of the drought and would use this variable to interact with the log of the number of crop acres and number of cattle that the household owned. Lucas & Stark (1985) contemplated that if coinsurance agreements exist between the emigrant and the household, households with a higher risk of losing their crops or cattle, given the seriousness of the drought, would receive more transfers. The results showed a positive correlation of insurance as a motivation for remitting, but the lack of enforceability of the insurance arrangement may imply that they acted in an altruistic manner.

d. Loan repayment

A further motivation for remittances could also serve as loan repayment to the investment that was made in the emigrant when he or she was younger. The initial investment would consist of the educational expenses and the costs of the migration that was undertaken. The emigrant would then pay back the remittance transfers with his available income. In a study by Lucas and Stark (1985) to test the loan repayment motivation, they constructed a dummy variable equal to one if the emigrant was the son (daughter), nephew (niece) or grandchild of the household head, because educational investments are more likely to be made on these children as compared to other children, for example, a son-in law, living in the house. The results showed that the dummy variable with the education level of the emigrant were positively related to remittances.

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8. Macro-economic determinants of remittances

a. Exchange rate

The decision to remit may be influenced by the behaviour of macro-economic variables in the host country and the home country (Ruiz & Vargas-Silva, 2009). Depreciation of the home currency can increase the purchasing power of remittances in the home country and the amount of transfer may also be adjusted in response to changes in the exchange rate. In terms of remittances for the purpose of investing, less of the remittance amount will be required to reach the same target level of investment. On the other side, if the remittances are worth more in the home country, then the investor might take advantage of the depreciation by investing more in the home country. The immigrant may also want to send more as the amount of the remittance will be worth more to his family back home.

b. Interest rate

The interest rate of the home country relative to the interest rate of the host country may increase the relative return to investment in the home country, and can have opposing impacts on remittance flows (Ruiz & Vargas-Silva, 2009). The higher interest rates in the home country may encourage more transfers for investment purposes, however, the additional return on existing investments in the home country may discourage transfers and encourage consumption in the host country.

c. Gross domestic product

Studies have also shown that the gross domestic product of the host and home country is also an important determinant of remittances, with the home country gross domestic product negatively impacting remittances, while the host country gross domestic product positively impacting remittances (Faini, 1994).

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d. Business cycle

A clear understanding of the business cycle and its relationship with remittances is necessary for countries with large remittance inflows in order to react adequately to cyclical fluctuations in output (Ruiz & Vargas-Silva, 2009). The receiving countries could use remittances to offset negative cyclical fluctuations in output, or if remittances are strongly correlated with the host country's business cycle, it can become another channel that the fluctuations in the host country can impact the home country.

9. The effects of remittances

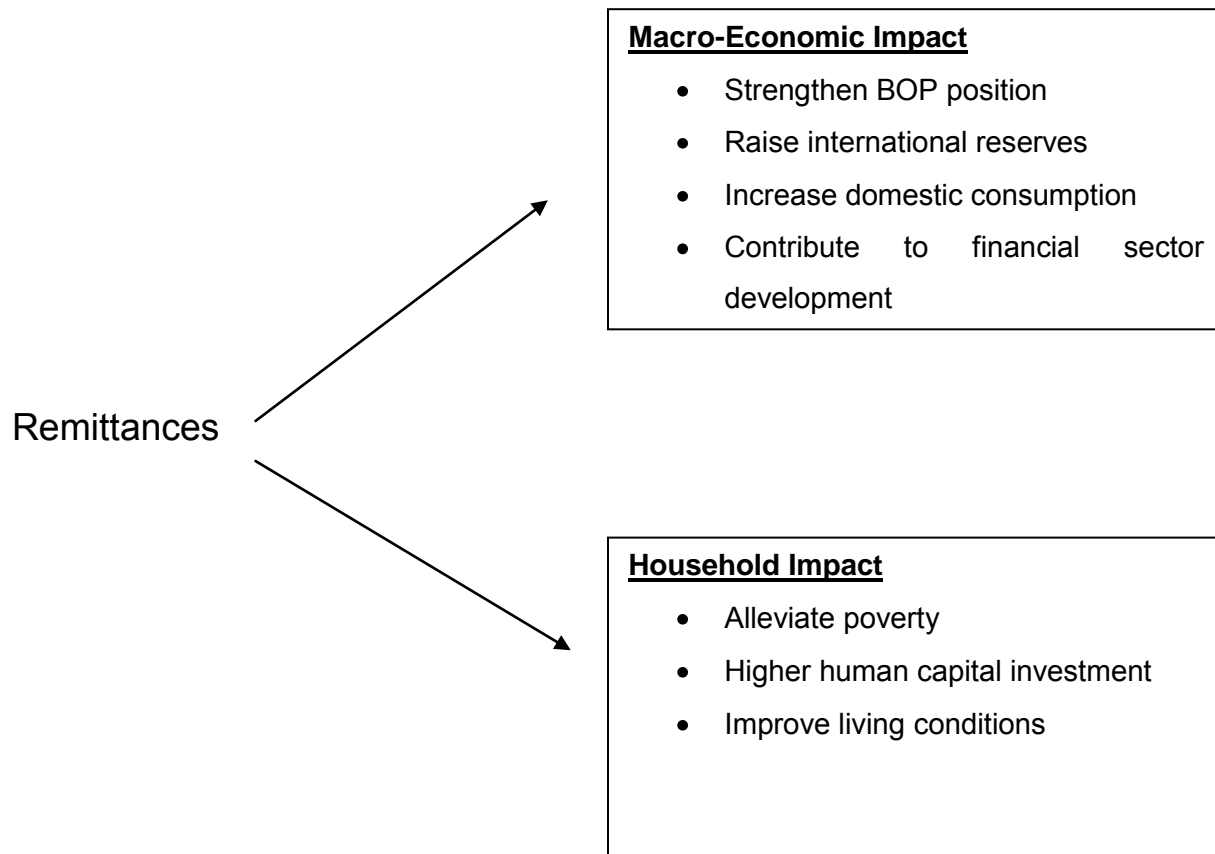
There are two contrasting views regarding the effects of remittances on the economy of the labour-sending country, namely the optimistic view and the pessimistic view (Anyanwu & Erhijakpor, 2010).

The first one views remittances as mechanisms for economic development, while the latter perceives remittances as an illness that weakens the economy. The beneficial and detrimental effects of migration and overseas remittances can be classified using three perspectives, namely at the macro or national level, at the community level and at the household level.

At the macro or national level, one of the most significant benefits of the inflows of remittances to the country is that they increase the foreign exchange earnings of the labour exporting country. In addition, workers' remittances exert a positive impact on the balance of payments of many developing countries, as well as promoting economic growth through their direct effects on savings and investment, and indirect effects through consumption. Remittances that raise the consumption levels of rural households might have substantial multiplier effects because they are more likely to be spent on domestically-produced goods. However, as far as countries with low gross domestic product figures are concerned, remittance receipts can distort the functions of formal capital markets and also destabilise exchange rate regimes through the creation of parallel currency markets. The below figure illustrates both the macro and micro economic impact of remittances.

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Figure 1: Macro and Micro Impact of Remittances



Source: Anyanwu & Erhijakpor (2010) adapted from Guinigundo (2007).

International remittances can also indirectly promote community development through spill over mechanisms. First, increased consumption of migrant households can generate multiplier effects. If recipient families increase their household consumption on local goods and services, this will benefit other members of the community through the increase in demand, which stimulates local production, thereby promoting job creation and local development. Second, remittances are also found to prop up formation of small-scale enterprises, thereby promoting community development. International remittances ease credit constraints by providing working capital for the recipients to engage in entrepreneurial activities. This results in job creation and enhancement of the development of the remittance receiving country's community. Third, remittances, especially through migrant associations, may also contribute to the creation of new social assets and services and the community's physical infrastructures, such as schools, health

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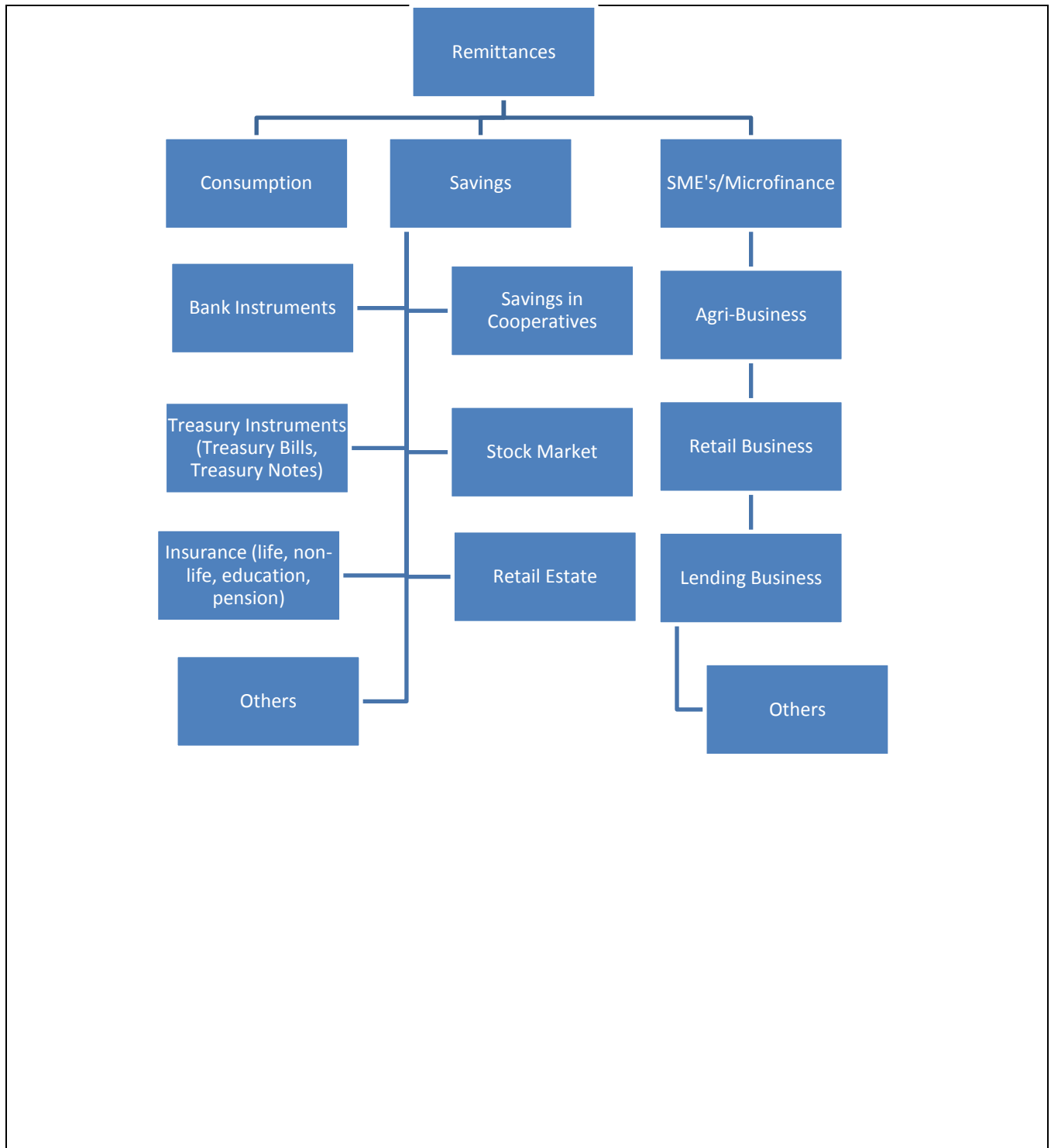
centres, roads and other community projects. Lastly, on the negative side, international remittances are found to increase income inequality, especially for the rural dwellers.

At the household level, international remittances increase family incomes, thus raising consumption of both durable and non-durable goods and/or savings. In Africa, remittances are part of a private welfare system that transfers purchasing power from relatively richer to relatively poorer members of a family. They reduce poverty, smooth consumption, affect labour supply, provide working capital, and have multiplier effects through increased household spending. For the most part, remittances seem to be used to finance consumption or investment in human capital, such as education, health and better nutrition. Remittances may also serve as capital for starting businesses. Thus, international remittances generally raise the immediate standard of living of recipient families. However, this will only hold true for all households if families engage in wise expenditures. Therefore, the benefits that will be derived from these remittances will depend on how and where the families spend them. Indeed, although remittances provide households with considerable benefits, there are also substantial economic and social costs associated with it. On the economic side, international remittances do promote idleness on the part of the recipients, as it may create a moral hazard problem, inducing disincentives to work. On the social side, it may increase family tensions within households, both among those at home and with migrants who are remitting money.

The figure below represents a summary of channels through which international remittances are put into productive uses for the benefit of the household, the community and the nation at large.

Figure 2: Channelling remittances to productive uses

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Source: Anyanwu & Erhijakpor (2010) adapted from Guinigundo (2007).

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10. The mechanics and dynamics of informal remittances

It is also increasingly recognised that the sums remitted through recorded channels or channels that fall within the regulated sector like banks and large-scale money transmitters, are only part of total remittance transfers. A substantial proportion of funds find its way to migrants' families through channels poorly understood outside the groups involved in sending and facilitating the transfers. These channels include delivery by hand, transfer in the context of another business, and transfer through dedicated money transmitters specialised in serving a particular ethnic or national group, sometimes simplistically dubbed, 'informal' channels.' There has been modest systematic primary research done on these methods of transferring money internationally (Pieke, Van Hear, & Lindley, 2007).

There have also been problems in the use of the terms, 'informal' and, 'formal,' remittances, as the terms have been applied differently in various locations. The concept of 'informal' also exhibits non-fixity when applied to money transfer networks (Bracking & Sachikonye, 2010). The *hawala* system in Somalia, for example, is viewed as dangerously informal by the United States government, but is more accurately described as a network of private commercial companies self-regulating in a liberalised economy. In contrast, the data from Zimbabwe suggest that within the 'informal' category, there was a greater reliance on known persons and relatives, rather than commercial companies in goods and money transit, suggesting that informalisation can take distinct forms (Bracking & Sachikonye, 2010). Policy making usually assumes that the best way to harness migrant remittances for development is by shifting them into the regulated money transfer sector. However, much research evidence concludes that alternative methods are often cheaper and more reliable, accessible and convenient (Pieke, Van Hear, & Lindley, 2007). The formalisation of remittance systems should not be approached as a regulatory task carried out from the top down, but as a bottom-up evolutionary and organic process that should be encouraged (Pieke, Van Hear, & Lindley, 2007).

International migrant remittances received in predatory government environments, such as Zimbabwe, can simultaneously be viewed as a liberalisation and informalisation of financial services. The development and poverty-reducing potential of this type of liberalisation is understudied (Bracking & Sachikonye, 2010). The informal economy is an important conduit for households in terms of their sending and receipt of remittances. This seems to be in part

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because of opportunity costs in the formal sector, and principally in this respect, to the dividend attached to the informal exchange rate, but it is also a predominantly informal activity restricted to personal transaction, as opposed to informalised, yet institutionalised companies.

In a study conducted by Bracking and Sachikonye (2010), they found that relatives are still more dominant as agents of money transfers than are the remittance transfer networks and companies. This suggests that a benign government policy could easily recapture money transfer into formal sector companies for reasons of convenience, while in the absence of such a policy, informal companies have the chance to build trust and potentially take business from relatives. The formal and government sector has little purchase on this economy, with over 72% of those receiving foreign exchange using an informal sector moneychanger, despite the illegality and likely danger of such a transaction.

There are two key themes in policy-oriented literature on remittance transfer systems. First, on a positive note, research on the role of financial services in helping people to manage their livelihoods has given rise to the idea that remittance services might be used to connect people into wider financial services that include deposit, savings, credit and even insurance and investment services.

The second theme, which is more negative, concerns money laundering and the transfer of funds for criminal or terrorist purposes. Both these approaches tend to assume that the best way to harness remittances for development or reconstruction is by shifting more of them into the regulated and commercialised money transfer sector. This does not coincide with clear research evidence that alternative methods explored are often cheaper and more reliable, accessible and convenient, which was why those transferring and receiving remittances often preferred them (Pieke, Van Hear, & Lindley, 2007).

The way remittances are transferred is directly connected, at the macro level, to the structure and dynamics of the global migration order and, at the micro level, to the nature of specific migration configurations (Pieke, Van Hear, & Lindley, 2007). A focus on more recent changes in the global migration order reveals how remittance transfer systems evolve over time in response to demand by migrants, shaped by technological advance and complex political, economic and policy context.

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11. Types of informal or alternative remittance transfer system

Remittance transfers can be made through a range of systems, encompassing the actors, institutions and procedures that transfer money from migrants to their families (Pieke, Van Hear, & Lindley, 2007). Such systems may have a wide international reach and operate along corporate commercial lines. They may be organised among and specifically meet the demands of particular nationalities or ethnic groups, or they may be organised around more personalised connections with a particular locality in the country of origin. Some remittance systems are based on forms of value transfer without actually physically moving money. In value transfer systems, such as the *hawala* system used in the Horn of Africa, the Middle East, Pakistan and Afghanistan, and the *hundi* system used in South Asia, the customer gives money to an agent in the host country, who communicates to a corresponding agent in the country of origin the instruction to pay out the equivalent sum to a nominated individual. The agent makes money on the transaction through a fee or by other means. Other types of transfers outside the mainstream include hand carrying/couriering, money transfer as part of other businesses, dedicated money transmitters, and systems associated with credit unions, micro-finance and insurance institutions (Pieke, Van Hear, & Lindley, 2007).

a. Hand carrying

Hand carrying of cash remittances by the migrants on a return visit is common. In this instance, the cost of the transfer is that of the migrant's transport and the cost of exchanging the money into local currency. Customs' restrictions, sanctions for non-compliance, customs' corruption, or crime in home countries may be factors in limiting the total amount of cash that migrants carry on return visits (World Bank, 2004). Certain categories of migrants are less likely to return on visits, especially refugees and irregular migrants, who may not want to risk re-entry problems on return to the country of residence. Alternatively, instead of returning personally with funds, the migrant may trust a relative, friend or prominent person to deliver the money to recipients. Northern Sudanese and Congolese people in Europe reported the option, frequently taken, of going to the airport on the day of a homebound flight and asking a person from the check-in queue to take an envelope with cash along (Pieke, Van Hear, & Lindley, 2007).

Migrants may also use money-delivery services offered by transport companies, particularly within Africa. Taxis are sometimes used to send money home across borders in southern Africa,

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with anecdotal evidence suggesting that drivers generally charge about 20% of the total transfer value to transport remittances from South Africa to neighbouring countries (Pieke, Van Hear, & Lindley, 2007). Taxi drivers also transport goods. Maphosa (2005) found that the bulk of the value transferred from migrants in South Africa to a district of Matebeland in Zimbabwe is transmitted in kind, with products such as maize-meal, sugar, salt, cooking oil, consumer goods, and agricultural inputs and building materials. In East Africa, a number of bus, coach or courier companies offer money transfer or transport services for domestic or intra-regional transfer.

Hand carrying goods as gifts during return visits is common among all migrant groups. Bringing gifts is culturally significant, as it is considered a duty to friends and relatives and a sign of migratory success, and bringing goods as gifts may actually be preferred, especially in periods of economic crisis or financial breakdown. Hand carrying and couriering cash as remittance methods are poorly researched, meaning that the amounts involved are currently impossible to quantify. The lack of data here is remarkable considering the significance reported on this channel. A survey of return migrants in Ghana and the Ivory Coast about their previous remittance habits found that the migrant on a return visit or relatives or friends delivered significant sums. Regular remittances are more likely to go through officially recognised channels like banks, post offices and money transfer operators, such as Western Union. In particular, less-skilled workers were more likely to go through officially recognised channels, possibly in part because they had fewer opportunities to return home with money and because their remittances were more regular to poorer and more dependant families, than more skilled workers, which suggests very tentatively that hand carrying in cash and kind to home countries may amount to as much as 25% of all informal remittances leaving the United Kingdom. Hand carrying seems to be particularly common in Africa in comparison with the rest of the world (Pieke, Van Hear, & Lindley, 2007).

b. Remittance transfer in the context of other businesses

Cash-intensive businesses, particularly outlets with good international communications facilities, often offer remittance transfer services as a side-line (Pieke, Van Hear, & Lindley, 2007). Transfer services may be offered from private residences and market stalls as well. Some such outlets conform to host-country and country-of-origin financial regulations, while others do not (Pieke, Van Hear, & Lindley, 2007). The agents involved make money on the exchange-rate spread and often also from fees charged to the customer. Rigid foreign-exchange regulations in

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many countries mean that money can be made from exchanging remittances at black-market exchange rates or simply from exchange-rate speculation. Where there are strong exchange controls, there is high demand from importers for foreign exchange. Where there are strong tax regimes on imports, some importers are keen to under-invoice imports. These factors all encourage money transfer activity.

Senegalese people living in France, Italy, Spain, Belgium or Germany can contact a transnational Senegalese trader, and make an arrangement for the trader to pay an agreed amount to the migrant's family on the trader's return to Senegal. The migrant will repay the loan during the trader's next business trip to his or her country of residence. The advantage of this for traders is that they do not have to exchange currency in Senegal for the next trip because they expect to be repaid on their return to Europe. There are several variants on this practice, such as the migrant may approach the trader and make an arrangement for a business partner in Senegal to transfer money to the migrant's family, or the migrant may contact the trader while she or he is still in Senegal and make the arrangement in advance.

A further variation involves depositing money in advance of the transfer with the trader with an agreement on rates of exchange and details of the recipient. The trader can then use the money from the emigrant to purchase merchandise in Europe and elsewhere. On return to Senegal, the trader can both quickly sell his or her new merchandise and make the payment to the designated recipient. This system was very common in the 1980s and 1990s for Somali migrant workers in the Middle East transferring money back to Somalia in connection with the thriving livestock export trade from Somalia, to mutual benefit. It has become less common in the light of the rise of large, specialised Somali money transfer firms, which grew out of and eventually supplanted such mechanisms (Pieke, Van Hear, & Lindley, 2007).

c. Dedicated money transmitters

While the remittance systems described above may be highly institutionalised, they occur within the context of another business. There are also dedicated money transmitters offering services from Europe and North America to African countries. They are in many ways direct competitors, albeit in niche markets, to the big mainstream companies, such as Western Union and

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MoneyGram. Many of these small-scale, local businesses have arisen from a specific group of migrants' remittance needs.

An example, as taken from the Sudan case study by Riak Akuei (as cited by Pieke, Van Hear, & Lindley, 2007), the business was established by two friends. The majority of clients are repeat customers, which make up almost 90% of the business. A file is kept for each person who requests a transfer. It contains their personal details and transaction histories. Anyone sending money must show valid identification, such as a passport and provide the name, address and telephone number for themselves and the intended recipients of the funds. The fee to send money to Sudan through this channel is £5 regardless of the amount. Upon receipt of the funds in London, a fax is sent to the office's agent in Khartoum. Pay out usually occurs within 24 hours in local currency. Periodically, the accumulated cash is taken to a person who works for a large company with foreign interests in Khartoum. The money is brought to the businessman about every two weeks who works for the company. Then the agent is notified, who goes to the subsidiary to pick it up. Some beneficiaries of remittances reside outside Greater Khartoum. In order for funds to reach these recipients, the agent in Khartoum makes a domestic bank transfer without any fees deducted. The Asia Pacific Group (as cited by Pieke, Van Hear, & Lindley, 2007) mentions that many of these dedicated, sophisticated money transmitters have established websites or advertise in telephone directories in both the ethnic and local press, and on the radio.

Passas (as cited by Pieke, Van Hear, & Lindley, 2007) indicates that both systems often rely on socially embedded mutual trust and common economic interest, which explains how some remittance systems can be based on forms of value transfer without actually transferring money simultaneously. It is important to note that many remittance transfer systems like this originate from small-scale arrangements between migrants and people at home cooperating in response to common interests.

d. Other kinds of transfer mechanisms outside the mainstream

In recent years, some credit unions and microfinance institutions in areas of significant emigration and immigration have begun to offer remittance transfer services, sometimes in conjunction with large, mainstream operators (Pieke, Van Hear, & Lindley, 2007). The World

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Council of Credit Unions (WOCCU) has been leading efforts to diversify credit unions into remittance transfer services, 'with the goal of using remittances to attract new members to credit unions,' both immigrants and recipients (Pieke, Van Hear, & Lindley, 2007). Innovative financial services are also emerging that can circumvent the need to transfer money. Higazi (as cited by Pieke, Van Hear, & Lindley, 2007) mentions that among the Ghanaian diaspora, for example, an innovative scheme was being developed to provide medical insurance to enable migrants to finance both their own health care and that of relatives back home through contributions to a single scheme.

12. Migrant remittances and policy implications

The relationship between migration and development is central to a poverty reduction policy, and is also gradually influencing other policy areas, such as immigration policy and banking regulation (Bracking & Sachikonye, 2010). Policies on the safety and transfer of funds are increasingly being proposed to enhance the development impact of worker remittances, but policy designed to enhance the poverty reduction potential of migrant remittances in migrant origin countries remains weak and little integrated in development policy (Bracking & Sachikonye, 2010). Migrant policies still tend to disassociate migration from wider development policy, despite decisive theoretical work on their interrelationships (Bracking & Sachikonye, 2010). It has become a commonplace view in the research area of migration and development, and its subfield of poverty reduction and remittance studies, that international migration can have a positive impact on poverty reduction through the generation of migrant remittances and lead to economic growth. The development potential of these monetary resources is large because of the evidence of increasing absolute amounts of remittances.

The problems with remittance knowledge is, in policy terms, the levers of economic governance available to governments in the pursuit of poverty reduction are comprised by methodologies and statistical sampling, which has not been adequately validated, particularly since problems of data collection are themselves compounded by economic informalisation, and the role of migration in augmenting 'invisible' cross-border financial transfers (Bracking & Sachikonye, 2010).

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Some key policy recommendations for remittances-receiving countries of Africa need to develop a strategy to maximise the benefits of remittances, while minimising their negative repercussions (Anyanwu & Erhijakpor, 2010). As a first step, the governments of both sending and receiving countries should look at the costs of sending remittances. Lowering the transaction cost of remittances will help to increase the poverty-reducing impact of international remittances and will also encourage a larger share of remittances to flow through formal, financial channels. The article mentions that a survey done by Luna Martinez (2005) and others has shown that senders usually pay up to 13 – 16% in fees for remittance transactions below \$300, which is the average amount migrants send every month to their home countries. There is no doubt that reducing the costs of sending remittances would increase the disposable income of migrants' families and encourage them to use the official banking channels. However, banking regulations in some sending countries, in particular those related to anti-money-laundering, remain unfavourable for remittances and are demanding on the migrants for whom sending money home may be the only contact with the banking system. Therefore, encouraging partnership between the international banking and postal services and money transfer operators would help reduce remittance costs, while preserving high security standards. In addition, since fees are set by financial institutions in both source and destination countries, authorities in African countries cannot foster the decline of fees alone. Cooperation between financial authorities in sending and recipient countries is required to address the high cost paid by consumers in their remittances transactions.

Second, apart from establishing a competitive environment that leads to the reduction in remittance fees, there is a need to improve data on remittances, by both national governments and international institutions, like the African Development Bank, International Monetary Fund, World Bank, and the regulation of money transfer companies and to broaden access of population to financial services by developing new products for households receiving remittances on a regular basis.

To address all these challenges, African countries should establish national and regional policies and strategies on remittances, instead of dealing with them on an *ad hoc* basis. A national policy on remittances, for example, could provide the framework under which the efforts of financial sector authorities, migration authorities, poverty alleviation agencies, and ministries of foreign affairs, among others, could be coordinated towards the achievement of common

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goals. Moreover, a national policy on remittances could help place the issue of international remittances on the national and regional development agenda, especially in countries where remittances already represent a large percentage of their gross domestic product.

Some of the policy implications to make remittance income work harder are that donor assisted smart intervention could assist remittance transfer by supporting cashless payment systems, internet payment and retail payment cards, particularly for utility bills. Efforts could also be made to regularise the informal foreign exchange market at a realistic rate (Bracking & Sachikonye, 2010). Indeed, given the weaknesses of the infrastructure supporting remittances, technological improvements in the banking sector could also significantly reduce transaction costs. New technology would offer potential for greater efficiency, lower costs, and extended outreach.

13. The impact of banking services and transaction costs on remittance flows

The encouragement of greater remittance inflows through official banking channels is important for development because it enhances savings and enables better matching of savings and investment opportunities (Mookerjee & Roberts, 2011). This is because remittances received as cash through unofficial channels are less likely to be saved than those received through bank accounts (Mookerjee & Roberts, 2011). A way to improve remittance flows through official channels is to enhance financial sector development through increases in the number of banking institutions in developing countries and the number of bank branches. This process can significantly be impeded with the advent of high transaction costs. The high transaction costs are systematically related to greater concentration in the banking sector and lack of financial depth. Lower transaction costs can be achieved by increasing the number of banking institutions that offer remittance transfer services (Mookerjee & Roberts, 2011). This generates greater competition and drives transaction costs down (Mookerjee & Roberts, 2011). Thus, the more developed and efficient the financial sector of recipient countries, the more likely that it allows migrants to send money through formal channels, as transaction costs are lower. Additionally, it increases the accessibility of recipients to the money sent through the formal banking system (Mookerjee & Roberts, 2011).

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This would lead to the assumption that the more developed the financial sector of the remittance-receiving country, the greater the international remittance flow to that country and the greater the likelihood of poverty alleviation, economic development and improved income distribution. There is evidence that remittances can augment growth in countries with well-developed banking systems, and there is no evidence that remittances are growth enhancing in countries with less developed financial systems (Bracking & Sachikonye, 2010).

An important policy implication that can be drawn from the research is that policy makers in developing countries should focus less on lowering transaction costs for sending money abroad and more on developing the financial sector in their country, specifically expanding the number of banks per 1000km². According to the International Fund for Agricultural Development (2007), one-third of all remittances are from people living in rural areas. It is these rural areas that are in the most need of increased access to financial services and who can benefit the most from an increase in remittance flows.

14. Regulatory impact

There are a number of ways in which regulation impacts the ability to send money formally (Bester, Hougaard, & Chamberlain, 2010). This causes documented and undocumented migrants to be ineligible for the formal channel of remittances and access to the financial system. This creates a barrier to formalisation of remittances. It also has indirect effects through impacting on the cost and convenience of the transaction. The three most important regulatory barriers are the following:

- Exchange Control
- Anti-Money Laundering legislation
- Immigration Laws

Exchange control regulations in South Africa are gradually loosened but still remains in place. Depending to which country the transaction flow different rules will apply due to the common monetary area (CMA) agreements. There are no trade and exchange restrictions between the member countries of the CMA, but this does not apply to non-residents flow to non-CMA countries. Each of the CMA countries has its own exchange control regulation and authorities,

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and the application thereof must be at least as strict as that of South Africa. The problem with exchange control is not that it prohibits remittances, but the method in which exchange control is applied. The three key areas are identity of the remitter, the issuing of authorised dealer licences and the reporting system requirements.

Anti-money laundering are targeting illicit flows that impacts on the remittance market. In South Africa the anti-money laundering legislation is the Financial Intelligence Centre Act (FICA). A key obstacle for remittance formalisation are the FICA requirements for customers due to the due diligence. In terms of this Act before a financial institution can open an account or perform a single transaction, the bank must obtain the full name, date of birth, identity number or passport and the residential address of the person.

Immigration laws places a legal duty on financial institutions to ascertain the status or citizenship of the persons with whom they enter into commercial transactions, including the transfer of money. Documented and undocumented migrants face a further barrier to the rest of the financial system as they cannot proof their residence status and thus cannot access formal remittance channels.

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CHAPTER 3: Research Questions

1. Introduction

In the previous chapter, the evolution of remittances, the effects of remittances for sending & receiving country and the determinants of remittances were discussed. The use and different types of informal remittances were also addressed for further understanding. As these remittances are playing an increasingly important role in the economy it is important to understand the channel used and how to increase the remittance flows.

The literature revealed that remittances have benefits for both the country of origin and the receiving country. Previous research revealed conflicting views of how to enhance the process of remittances to increase the remittance flows, therefore the study focussed on gaining insight from both the remitter and experts in the field of remittances.

This study aims to understand the channels used to remit money to destinations outside South Africa, to gain more insight on the processes involved in the formal and informal remittance channels and ultimately propose a model on how to enhance the process to increase the remittance flows.

2. Fundamental Research Question

This research aims to answer the following fundamental research question:

“What could be done to enhance the process of cross border remittances to increase the remittance flows as it has benefits for both the country of origin and the receiving country?”

To answer the fundamental research question, further information had to be gathered to understand remittances better with the following underlying research questions:

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a. **Research Question 1:**

What are the processes involved to perform a remittance?

b. **Research Question 2:**

What are the consequences of the remittance channel used?

c. **Research Question 3:**

How can remittances be increased?

3. Research Objective

The main objectives of the research will be to contribute towards the development of policy on remittances for migrant workers that will enable both the country of origin and host country to benefit from the increased flow in remittances.

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CHAPTER 4: Research Methodology

1. Choice of methodology

A research strategy using qualitative measures, will be used in order to answer the research questions and objectives in a holistic manner.

The method used in this study will be a phased approach by firstly conducting interviews with migrant workers who send remittances and then conducting interviews with experts in the field of remittances

The quantitative data will set the basis and help to identify the requirements and measures to enhance the remittance process

In this study, qualitative data will be used to explain what migrant want from a remitting process and the consequences of the choice of remittance channel employed.

A qualitative focus allows us to understand the remittance process of migrants in the formal and informal channels. The use of qualitative methods will help to assist in explaining the requirements and the consequences of both the formal and informal channel

2. Qualitative analysis

The research design will then be elaborated by means of an exploratory study to provide a deeper understanding of the behaviour of migrant workers that send remittances. Exploratory research is described as the type of research that intends to discover new insights and ask new questions on the topic (Saunders & Lewis, 2012). In this case, more information will be obtained from migrant workers in South Africa that sent remittances abroad. The qualitative measures used will be the interviews setup with the migrant workers and experts. Interviews with the remitters will assist in determining why the informal channels are chosen as the preferred means of sending money. The expert interviews will provide more insight into understanding the remittance process.

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The nature of exploratory research also relies on secondary data, such as reviewing available literature (Saunders & Lewis, 2012). The literature search could include all types of sources available, such as academic sources, newspapers or articles written on the subject.

The exploratory research method will help in answering questions, such as:

a. **Research Question 1:**

What are the processes involved to perform a remittance?

b. **Research Question 2:**

What are the consequences of the remittance channel used?

c. **Research Question 3:**

How can remittances be increased?

3. Unit of analysis

The unit of analysis for the purpose of this study will be the cash or financial transfers that migrant workers in South Africa send to other countries. It will enable a more holistic approach to formal and informal remittances to provide a better understanding of remittance behaviour in this region.

4. Universe

The population of relevance will include all the migrant population in South Africa.

From this population, the sample will be obtained from migrants that send funds from South Africa to another country.

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5. Sampling method and size

As the complete list of the migrant population is not available, a random sample could not be taken and thus, a non-probability sampling technique will be used. This also means that the probability or chance of each member of the population being selected is unknown (Saunders & Lewis, 2012).

The non-probability sampling techniques will include purposive sampling, snowball sampling, as well as a sample of convenience. Purposive sampling is used when the researcher uses his own judgement to ensure that the sample selected is based on a range of possible reasons and premises (Saunders & Lewis, 2012). The reason for using this technique is that the sample should be able to help answer the research question and meet the objectives. A typical case would include obtaining information from migrants at the Department of Home Affairs, who seek documentation. Some of the reasons for using the informal methods of transmitting funds include insufficient documentation, as required by the formal financial institutions. With this in mind, a sample will be obtained from these respondents, as they will be typically sending funds through the informal channels. In addition, a sample will be obtained from migrants at taxi ranks or bus terminals that use these transport modes as a means of sending remittances. The typical formal channels will include banks, post offices, and money transfer operators, thus a further sample to be obtained from remitters using these channels.

Snowball sampling will be used in conjunction with the above technique, as this will increase the representative sample due to migrants that might be linked to other migrants in South Africa. Snowballing is defined as the non-probability sampling in which the first sample members are able to identify subsequent members (Saunders & Lewis, 2012). From the purposive sampling technique, referrals will be accepted to other migrant workers that send funds across the border.

6. Data collection process

The data collected and analysed will consist of qualitative data.

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Phase 1: Interviews with Remitters

Phase 2: Interviews with Experts

Table 1: Data Required and Potential Sources	
<i>Data Required</i>	<i>Potential Sources</i>
Process of remitting	Qualitative Data
Consequences of remitting	Qualitative Data
Increase of remittances	Qualitative Data

7. Data analysis

The qualitative data will provide a deeper insight into remittance process by providing explanations as to why the informal channels are preferred to the formal existing channels. The data will be analysed inductively as there are no clear theories behind the preference of the remittance channel used.

With this data, the formal remittances process can be compared to the informal remittances process to gain insight into what can be done to enhance the remittance process.

8. Research limitations

There are various limitations to this study, such as the following:

1. Time constraints;
2. Geographical constraints to obtain representative sample from migrants spread across South Africa;

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3. A sample will only be obtained from the migrants living in Gauteng, limiting the broader population of migrant workers in South Africa;
4. The measurements will be against the definitions and assumptions adopted in this study;
and
5. The interviews will be conducted in English only, which will aim in avoiding any misunderstandings.

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CHAPTER 5: Results

1. Introduction

In the previous chapter the research methodology used was discussed to test the fundamental research question highlighted in chapter three. In this chapter the findings will be presented of phase one and phase two of the study.

The purpose of phase one was to obtain an understanding of the channel used by remitters and how to make it easier for them to send remittances. The purpose of phase two was to understand the process of remittances from an expert's perspective and what can be done to increase remittances. The comparison of the results would assist in understanding remittances better and contribute towards literature on how to enhance the process of remittances to increase remittance flows in the country.

2. Results of Phase One

a. Introduction

The purpose of phase one was to obtain insight from remitters of the channel used for remitting. Secondly to understand which factors are important to them when remitting and what should be done to make it easier for them to remit and thus increase the remittance flows.

b. Sample Description

The study was undertaken in Gauteng, Johannesburg & Pretoria, and do not make provision for regional differences in remitting behaviour. Semi-structured interviews were conducted with remitters to collect the required data. The remitting respondents were gathered at different points of contact to obtain the overall experience of a remitter within South Africa. Interviews would typically take up to 10 minutes with the respondents. In order to overcome the language barrier the interviews were conducted in English. As trust was an issue for potential respondents

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it was difficult to obtain willing participants. To overcome this barrier a Zimbabwean international assisted in sourcing respondents. The first point of contact was near a remittance service provider named Mukuru.com. This ensured that migrants were obtained that regularly send money back to their country of origin. The second point of contact took place in residential areas to ensure that the respondents were more comfortable. All the interviews were conducted anonymously to ensure that they were open to the discussions.

The interview guide was designed to ensure that each respondent was allowed to express his own view and all the topics are covered. This also allowed asking additional questions or leaving out questions that would not be applicable to the participant. This also ensured that all the objectives and deliverable of the research are met.

c. Sample

The sample obtained was led by the factor of trust as migrant workers were cautious of unknown persons to them. This has influenced the differentiation obtained in the sample, although the research attempted to get representation from migrants of different regions. The table below will illustrate the design of the sample obtained.

Table1: Design of the sample for Remitters

Country of Origin	Gender	Number of participants
Zimbabwe	Male	4
	Female	9
Malawi	Male	1
	Female	1

In total 15 migrant workers were interviewed during phase one of the research process.

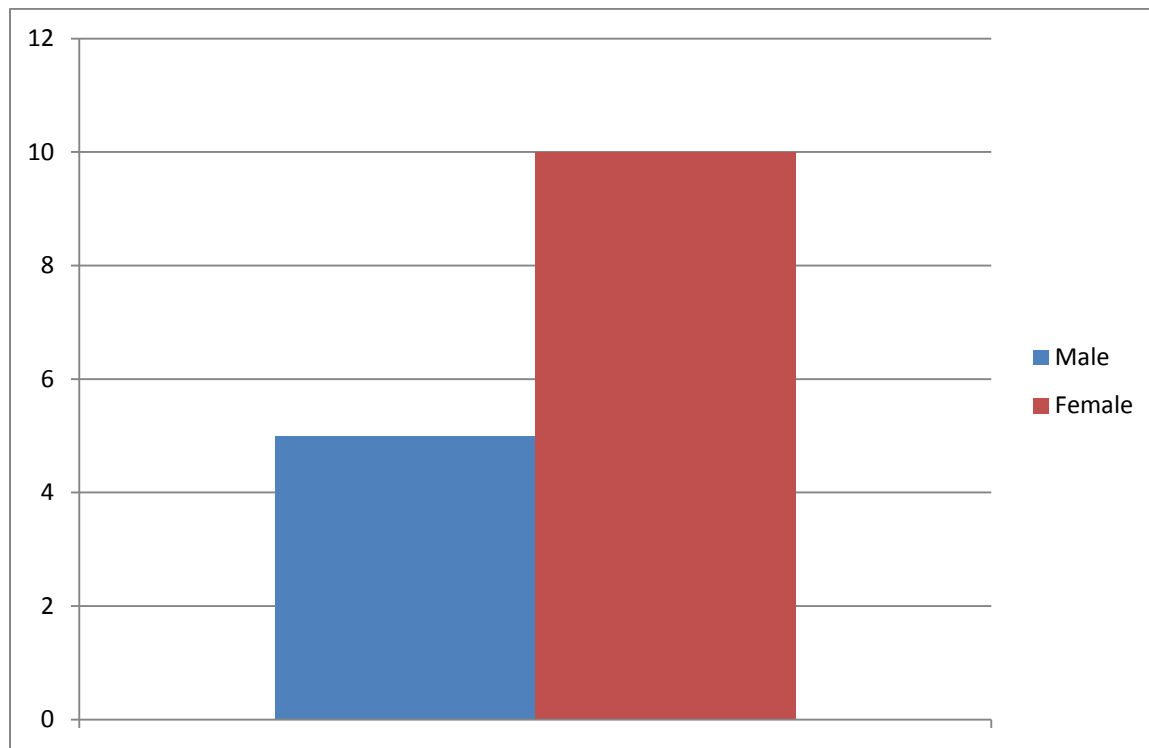
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Recruitment of the respondents took place in the following areas of Gauteng:

- Johannesburg, Kempton Park
- Johannesburg, Tembisa
- Johannesburg, Randburg
- Pretoria, Centurion

The gender split of the participants is 66% women and 34% men, as a result it is female skewed as seen in the below chart.

Figure 2: Gender Split of the respondents



The interviews conducted are presented below through the research questions identified and then the emerging themes or constructs.

d. Process of Remittances

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The process of remittances was explained differently by the various interviewees. The process they referred to was dependent on the remittance channel that they used. The remitters identified two channels that are dominantly used by them, namely the bus or taxi system and the use of a remittance service provider called Mukuru.com. Some of the interviewees knew of the other channels available but preferred the above mentioned channels. The below table will provide a summary of the channels used by the remitter.

Table 2: Types of Remittance

Remitter	Informal Method	Formal Method	Both
1	Bus Driver	N/A	N/A
2	Bus Driver	Mukuru.com	Yes
3	Bus Driver	N/A	N/A
4	Family/ Bus driver/ Friend	Banks	Yes
5	N/A	Mukuru.com	N/A
6	Bus Driver	N/A	N/A
7	N/A	Mukuru.com	N/A
8	Bus Driver	Mukuru.com	N/A
9	N/A	Mukuru.com and Bank	N/A
10	Bus Driver	N/A	N/A
11	Bus Driver	N/A	N/A
12	N/A	Mukuru.com & Bank	N/A
13	N/A	Mukuru.com	N/A
14	Bus Driver	N/A	N/A
15	Bus Driver	N/A	N/a

The bus system is the informal channel available to the consumer with no intermediary agent involved in the process. The preferred formal method of remitting was Mukuru.com as it is well known within the Zimbabwean immigrant community. The popularity of the informal method was common amongst most of the remitters interviewed as 67% of them used it, compared to Mukuru that 47% of them used. It was only 13% of the total remitters that indicated that they use both these systems.

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Table 3, below will show the constructs that emerged from the 15 interviews and the number of respondents that identified constructs under the processes of remittances theme.

Table 3: Constructs for the processes of remittances theme

Ranking	Construct	Number of Remitters
1	Certainty and Reliability	9
2	Trust	5
3	Speed	5
4	Convenience	3
5	Common Practice	3
6	Easy Process	3

The main areas that were identified by the participants to be of high importance to them in the process of remittances were:

- Certainty and Reliability
- Trust
- Speed
- Convenience

The constructs identified through the interviews were thus further examined.

Certainty and Reliability

This is an aspect that was identified by 62% of the respondents. The participants said that it is important to them that their family receives the money that they send. They mentioned that they had left their families and children and they needed to take care of their families. Interviewee five stated that, “I left my children and my parents.....they get money for school fees and to buy food.” He also mentioned that he used the bus system previously but it was not very reliable as the drivers would tell him that they lost his money. Interviewee four mentioned it is important to her that her family receives the funds, by stating: “To help my mom....and my younger sister, those people are very important to me...it’s a must.” Interviewee six said that she wants to help her parents and children and to her the bus system is reliable. She stated, “...sometimes if I give

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someone I know, she or he just disappears with the money, but it's better to go to the busses because I know where to find him." For interviewee seven certainty was also an important factor as he stated, "...to make sure that they get the money". In the case of interviewee two he stated that "...by the time we're using those guys from the ranks in Johannesburg, they are not reliable, so that's now why I'm doing Mukuru". Interviewee nine uses Mukuru and stated: "It is fast and reliable...it's very convenient to me."

Trust

Trust was identified by 38 percent of the interviewees as important in the process of remitting. The interviewees mentioned that the bus system provides trust for them as they would know the bus driver or use the bus company as a reference to the driver. Interviewee one said that she knows the driver and she has not had any problems with him. She stated that, "It's the person I know. The driver I know....He knows me...he's from our place." Interviewee three said that she only uses the bus system as her uncle is the bus driver. She stated "It's only because when I came here, I just always send it by buses.....because I can say it's my uncle who works there to that bus." Interviewee six also stated that she prefers the bus system as others disappeared with her funds previously. She stated that, "...if I give someone I know, she or he just disappears with the money, but it's better to go the busses because I know where to find him...I go straight to the company where he works." Interviewee eleven stated: "...we 'trust' this company, they do better and they don't cheat us".

Speed

Speed of the remittance service was identified by 38 percent of the respondents. Participant two and four mentioned that they use both formal and informal methods. Participant two said that if he wants the recipients to receive the funds quickly he will use Mukuru to do this. He stated, "...I use Mukuru because it is fast for me...same time I send it, the same time he gets it'. He also stated"... Mukuru is better because you get money fast. If there's someone you've got owing someone in Zimbabwe you say, I'm going to pay you now, someone is sending money now, so you can send money fast, at the same the money is clear, here's you guy, go and get the money". Participant four stated that her available time is an issue to her and thus often request her partner to send the money on her behalf. He is a South African and uses his own

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bank account to send the money to Zimbabwe. Interviewee five stated that, "...it's fast because it's the same day money...same day, the same time, if you send it now within almost three minutes you receive...when she draws money they send again a message to say that she drew the money, the same person, the same details, so that if something happened which is not good, you know fast". Interviewee nine uses Mukuru and stated: "It is fast and reliable..." to him. Interviewee ten said: "I think if they were going to help us to open up an account, where I can put the money into an account that someone in Zimbabwe can go and collect that money...It will be safe because sometimes we lose our money when we send it with the drivers." Interviewee twelve stated: "Mukuru is like maybe – maybe there is an emergency – it's like just I'm sitting solving your problem there and then."

Convenience

Convenience was also flagged as important in the remittance process by 38 percent of the remitters. Interviewee one stated, "I use my money to go to Johannesburg, where we can get those busses. Interviewee two stated, "...I stay in Tembisa, and it takes me time to go to Mukuru". Interviewee four stated, "... I've got my small business, so every time I'm always busy". The operating hours was also an issue for the respondent as she stated, "I have to do a lot of things and then maybe they can close – by 12h00 they are closed and I didn't get time to go there. So but if I see a place maybe going open at 08h00 and then maybe close at 14h00 or 13h00 you know"

Common practice

Some of the participants also responded by saying it is the way they have been doing it and it became their common practice. Interviewee three stated, "It's only because when I came here, I just always send it by buses". Interviewee eight also stated that she only knows the bus system to send the money. Interviewee ten said: "... I'm just used to sending the money through with the 'drivers,' even when I go there to search, how would they operate? I don't know how they operate, because I'm just used to those two guys that I know that they can get my money there to Zimbabwe".

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Easy process

It was mentioned that the remittance process should be easily understandable. Interviewee five stated: ‘The process is cheap; because in terms of the other banks, they need a lot of things...Mukuru is the best’. Interviewee nine stated: “It’s like now I’ve got a ‘reference’ number which I always quote to them, that I’m sending money. I will just present that ‘number,’ they don’t have to give you like a card or something...because I am already on their system”.

e. Consequences of the channel used

The channel chosen by the remitter had different requirements. In the case of the formal channels more documentation was required as a consequence of the regulations applicable to the remittance service providers. This also impacted on the cost implications of the formal channels used. Table 4 will illustrate the constructs that were identified from the consequences of the channel used.

Table 4: Constructs for the consequences of the remittance channel used

Ranking	Construct	Number of Remitters
1	Increase in required documentation	3
2	Cost implications	3

The main areas that were identified by the participants that influenced the consequences of the channel used by the remitter were:

- Increase in required documentation
- Cost Implications

The constructs identified through the interviews were thus further examined.

Increase in required documentation

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Money transfer operators in South Africa are subject to various legislation including the Banks Act, National Payment System Act, Financial Intelligence Centre Act and Exchange Control regulations. These regulations leads to the increase in required documentation of the formal channel of remittance is used. Interviewee nine stated: "... with the 'bank' – not all 'banks' allow us to send money back home. Like I use FNB, I don't have and account, but FNB, I tried – I heard some people saying that you can send money home, but it's like the process you don't meet some of their requirements.

Interviewee five said that Mukuru requires documentation from them and stated:" It's like long back, they just wanted a passport or an asylum, but right now they have changed their systems...they want passport with a permit". Interviewee two said that some migrants do not use the formal channels as they do not have the required documentation. She stated: "Because some of them, they don't have accounts, because they don't have enough documents....they must change their criteria, at least must need a passport and proof of residence".

In the informal remittance environment there are no regulatory requirements. Interviewee three uses the bus system to send money and stated that, "they just need my phone number and the phone number of the person whom I'm sending". Interviewee 6 confirmed this as she is also using the bus system and stated, "Only my cell phone number, and the cell phone number of the person who is going to receive the money.

f. Increasing Remittances

The remitters had different views of how the remittance flows can be increased.

Table 5: Constructs for the increase of remittances

Ranking	Construct	Number of Remitters
1	Cost	4
2	Increase in Branches	2
3	Awareness and Education	2
4	Products and technology	1

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The main areas that were identified by the participants that could help increase the flow of remittances were:

- Cost
- Awareness and Education
- Increase in branches

The constructs identified through the interviews were thus further examined.

Cost

The cost of remittances has been an issue for the remitters as it affects the total amount that is received by their family members from their home country. Interviewee one stated: “Because I use my money to go to Johannesburg, where we can get those busses...I can’t waste my money”. Interviewee two said, “I think if they change, if they reduce their rates I think we are going to send more”. Interviewee four stated, “...if you send R3000 you won’t get that R3000, maybe it’s reaching maybe R2500 or R2400...you see, but in your heart you want that money to go R3000 exactly.” Interviewee five mentioned that the bank charges them too high for this service, he stated, “It’s too expensive for us...it’s expensive because of the charges and the rate, mostly the rates are too high”.

Increase in branches

The overall number of remittance service providers was also highlighted by remitters to be of importance to them. If the amount of branches increased they would be able to send more remittances. Interviewee two stated, “...Mukuru is fast and I think the best way you can do, you can have many of them everywhere....more branches you can easily go there and deposit, if I stay in Tembisa it takes time to go to Mukuru, so at least if they make more branches you send money fast”. Interviewee nine stated, “...Currently we’ve only got one ‘branch’ in Kempton Park which I know of. So sometimes we normally send money during month end. So the place is ‘crowded’ and in most cases some of us are at work, so we have very little time to go there and send the money”.

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Awareness and education

Some of the respondents did not know that the banks can also provide this service or do not know how to use it. Interviewee six stated: “...I don’t know how to send it through the banks...I know of it, but I never use it.” He also said that he is willing to use the banking system if knows how to use it, by stating, “...I would like to use banks, but it’s only that I don’t know how to do it”. Interviewee eight said she does not know of other methods of sending money except with the busses. She stated:” No, I don’t know...me I just want to use buses”.

Products and technology

Interviewee twelve emphasised technology would be advantageous to them and stated: “I mean technology like right now; I know that there is a problem – I can do it with – a transfer – maybe I go on my laptop and I do the transfer and the next morning it’s there, there is no need to queue in there...”

3. Results of Phase Two

a. Introduction

The purpose of phase two was to gain knowledge from experts in the field of remittances to understand the processes involved in remitting and if the formalisation of remittances would be more beneficial. Secondly the experts would explain the measures that could be implemented to increase the remittance flows.

b. Sample Description

The second phase of the study was also conducted in Gauteng, Johannesburg. Semi-structured interviews were conducted with experts in the field of remittances to collect the required data. The experts were sourced through purposive sampling as these participants would be able to answer the research questions adequately and also meet the objectives of the study. The

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participants were chosen from a regulatory and market perspective as these are the driving forces in the remittance market.

Interviews would typically take up to 40 minutes with each of the respondents. These interviews were conducted at the offices of each of the respondents to make it comfortable and encourage open communication.

c. Sample

The first interviewee was from the Financial Intelligence Centre (FIC), Mr Gops Pillay who is responsible for implementing compliance and prevention methods. The Financial Intelligence Centre is a government entity that was established to identify the proceeds of unlawful activities and to combat money laundering activities. The relevance of this entity to the research project is that remittances are also regulated through the Financial Intelligence Centre Act. This Act requires remitters to identify themselves, provide documentation of proof of address and to reveal the source of funds to be transmitted, to the remittance service provider. The insights gathered from this regulatory authority would thus be important to the study.

The second and third interviewees were from the South African Reserve Bank, who is responsible for regulating the national payment system of the country. The Reserve Bank is currently conducting a study on the cost of remittances and for this reason two of the Reserve Bank employees were interviewed for this research.

The first participant from the South African Reserve Bank was Mr Dave Mitchell, who is currently in the process of retiring from the bank. Mr Dave Mitchell served as Head of the National Payment System Department, with more than 30 year experience at the South African Reserve Bank. He was the SADC (Southern African Development Community) Payment System Project Leader and also held responsibility for the Remittance Project. The second participant from the South African Reserve Bank is Mr Hein Timoti, who is the co-ordinator of the Remittance Project at the South African Reserve Bank.

The fourth respondent was from FinMark Trust, Brendon Pearce. FinMark Trust is an independent trust based in Johannesburg, South Africa and is funded primarily by United

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Kingdom aid from the Department for International Development (DFID) through its Southern Africa office. The purpose of FinMark Trust is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. Mr Brendon Pearce is the Head of Regional Financial Integration at FinMark Trust and commissioned a study on the pricing and process of cross border remittances from South Africa to the SADC region.

The interview guide was designed to ensure that each respondent was allowed to express his own view based on his expertise. This allowed asking additional questions or elaborating more on an issue within his field. This also ensured that all the objectives and deliverable of the research are met.

The sample obtained was led by the knowledge of institutions involved in the field of remittances within South Africa. As it is a combination of regulators and markets drivers the sample provided diverse views on what should be done to achieve the objectives of this study.

The table below will illustrate the design of the sample of experts obtained.

Table 6: Design of the sample for experts

Institution	Participant	Number of participants
Financial Intelligence Centre	Gops Pillay	1
South African Reserve Bank	Dave Mitchell	2
	Hein Timoti	
FinMark Trust	Brendon Pearce	1

In total four experts on remittances were interviewed during the second phase of the research process.

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Recruitment of the respondents took place in the following areas of Gauteng:

- Pretoria, Centurion
- Pretoria, Central Business District
- Johannesburg, Midrand

The interviews conducted are presented below through the research questions identified and then the emerging themes or constructs.

d. Process of Remittances

The process of remittances was explained by distinguishing between the formal and informal process as viewed by the experts. Table 7, below will show the constructs that emerged from the expert interviews and the number of respondents that identified constructs under the processes of remittances theme.

Table 7: Constructs for the processes of remittances theme

Ranking	Construct	Number of Experts
1	Trust	4
2	Certainty and Reliability	4
3	Easy Process	4
4	Convenience	3
5	Speed	2
6	Efficiency	1

The main areas that were identified by the experts as important in the remittance process:

- Trust
- Certainty and reliability
- Convenience

The constructs identified through the interviews were thus further examined.

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Trust

All the experts identified trust as an important issue in the remittance process. Mr Hein Timoti said that trust plays an important role in using the informal system as he stated: "... so you would have to know who is transporting, and when this person is transporting and it comes down to the trust issue as well". He further stated: "It comes down again to people have been using other channels and have come to trust the driver who goes home and they probably know each other by the same name. Most probably some of them have come from the same villages as them..."

Mr Dave Mitchell stated: "... You know it would be far safer –now it's just a matter of trust".

Mr Gops Pillay stated: "...you've got the additional factor where the countries don't trust each other's currencies, so in the formal sector you've got multiplied cost factors in that it's not one currency transferring, it's the other currency and the conversion- you're now translating Dollars first, and dollars back to.... its Rand to Dollars, Dollars to Kwacha or something".

Mr Brendan Pearce stated: "I mean if you look at Zimbabwe and the lack of 'trust' in the 'formal' banking system, that if people think that this is going into the 'banks' on the other side you know, they could still be 'sceptical' of using the 'formal' system".

Certainty and Reliability

Mr Hein Timoti stated: "... as I said formal channel would be –again given that costs wouldn't be that high – would be more beneficial because it actually takes away the process of uncertainty but what could happen, the driver – if you use a driver – the driver who takes the money to that specific country, might arrive there and the person who has to collect the money doesn't come in time and the person has to bring people back again; so with the informal channel there is just so much that could go wrong and your money would not reach the intended recipient".

Mr Hein Timoti stated: "... a formal channel would actually be more beneficial, given that you can send money more frequently and if the costs aren't that high, there is more certainty that the money will arrive".

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Mr Dave Mitchell stated: "...If there were proper formal channels, then at least the remitter would have evidence that they have been remitted money – they would have some sort of a receipt – they would know who they have addressed the remittance to".

Mr Dave Mitchell stated: "...I am not sure how much is going to get to the other side and I have no recourse, whereas with formal channels I would have some sort of recourse".

Mr Gops Pillay stated: "If you use the informal channel, the channel is less secure, because the guy could run off with your money, but the advantage is the guy comes to your door and fetches the money. And he will deliver it to the door on the other side. So you save on that. And it's not as expensive – he would not charge you as much. So it's convenient, it's less costly, but it's less secure. That's the disadvantage".

Mr Brendon Pearce stated: "It's 'immediate,' it's 'real time' you don't have to have your auntie going to stand at the 'bus' stop at 02h00 in the morning waiting for the 'bus,' if the 'bus' doesn't come or the 'bus' comes late, or you missed the 'bus' and the money is gone or the money gets stolen, all of those things, but I don't think you'll do away with the 'informal' channel..."

Mr Brendan Pearce stated: "...you still need to have the 'channel' in place and it needs to be 'cost effective' and it needs to be 'efficient' and 'reliable.'"

Easy process

Mr Hein Timoti stated: "...whereas with that cellphone – it has been RICA'ed – you know, this guy has a verified address. You know, using that instead and you can still go through the formal channel, maybe use some form of verification on that cellphone number when he remits the money, so then instead, so then in that case through his number and the verification, you can confirm it is that person, you can actually track how many transactions and this and this and that, which actually helps with your anti-money laundering".

Mr Dave Mitchell stated: "...If you could make the requirements for exchange control lighter, then you could probably lessen the type of burden and responsibility on the person taking in the money. So instead of filling in a two-page form, there's only half a page form you have to fill in

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and then that can be (then) delegated to the retailer instead of it having to be in the bank - that kind of thing”.

Mr Dave Mitchell stated:”...It should bring down the cost and it should make it easier and less scary for a remitter to go and send a remittance and that will definitely increase the flows. Costs have a lot to do with why it goes through informal channels”.

Mr Gops Pillay stated:”...you’ve got the additional factor where the countries don’t trust each other’s currencies, so in the formal sector you’ve got multiplied cost factors in that it’s not one currency transferring, it’s the other currency and the conversion- you’re now translating Dollars first, and dollars back to.... its Rand to Dollars, Dollars to Kwacha or something”.

Mr Gops Pillay stated:”...The reason why the banks, the commercial banks do remittances is because it’s such a small market, a small clientele base, and it costs too much to set up a different infrastructure just to do remittances. The way for them to do this, possibly: not to differentiate remittances from other transactions, but to put them all through the same infrastructure”.

Mr Brendan Pearce stated: “...I mean to get someone who is an ‘undocumented’ migrant or doesn’t want to go through all the difficult ‘processes’ to FICA and all of these things, to send money home ‘formally,’ still manages to send money home”.

Mr Brendan Pearce stated: “...Making the process less ‘onerous’ for people...”.

Convenience

Mr.Hein Timoti stated,”...in other regards is maybe taking a driver, probably the issue would be that transport to these countries is probably not daily – so you would have to know who is transporting”.

Mr.Hein Timoti stated,”...It’s like the frequency that you can send money home wouldn’t be that much but you will only be able to send – let’s say you are an unskilled labourer, you could only send money home, say four, five times a year because of the costs you actually have to pay that guy. So yeah, a formal channel would actually be more beneficial, given that you can send money more frequently and if the costs aren’t that high, there is more certainty that the money will arrive.

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Mr Dave Mitchell stated: "... if it's a formal remittance, then the remitter has to find the place to actually do the sending – so you know that means that you need a large footprint that is not difficult for the remitter to get to, to be able to send the stuff".

Mr Brendan Pearce stated: "Maybe if you make it more convenient, maybe people will send more often, maybe the fact that it is a 'chore' to go to the 'bus' station to find a bus driver and to negotiate the whole thing".

Mr Brendan Pearce stated: "The 'inconvenience' is just astounding. In Johannesburg I think they found for one 'bank' – was it ABSA – I think they only found three 'branches' that actually did this, if I remember correctly or something like that, now that's crazy man".

Speed

Mr Hein Timoti stated: "...with the informal channel there is always the time delay problem, so which would mean that you could use the informal channel, but then the time it takes for the money to get to your people, would probably be much longer than if you used the formal channel".

Mr Brendon Pearce stated: "It's 'immediate,' it's 'real time' you don't have to have your auntie going to stand at the 'bus' stop at 02h00 in the morning waiting for the 'bus,' if the 'bus' doesn't come or the 'bus' comes late, or you missed the 'bus' and the money is gone or the money gets stolen, all of those things, but I don't think you'll do away with the 'informal' channel..."

Mr Brendon Pearce stated: "And if you could do it quickly, that's a possibility".

Efficiency

Mr Brendan Pearce stated: "Well we need to have the channels and the channels need to be 'efficient' and they need to be cost effective".

Mr Brendan Pearce stated: "...you still need to have the 'channel' in place and it needs to be 'cost effective' and it needs to be 'efficient' and 'reliable.'"

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Mr Brendan Pearce stated: "...I mean in that research that Sara did, I think the 'cheapest' at that time was the Post Office, the problem was that it was so dam inefficient. Like the 'mystery' shopping thing we did, I think some money took like two weeks to arrive. We sent money from here to some countries in the region, one didn't even arrive".

e. Consequences of the channel used

The channel chosen by the remitter had different requirements. In the case of the formal channels more documentation was required as a consequence of the regulations applicable to the remittance service providers. This also impacted on the cost implications of the formal channels used. Table 4 will illustrate the constructs that were identified from the consequences of the channel used.

Table 8: Constructs for the consequences of the remittance channel used

Ranking	Construct	Number of Experts
1	Regulation	4
2	Cost implications	4

The main areas that were identified by the participants that influenced the consequences of the channel used by the remitter were:

- Increase in required documentation
- Cost Implications

The constructs identified through the interviews were thus further examined.

Regulation

Mr Dave Mitchell stated: "...in South Africa to make the compliance requirements less - the exchange control, know your customer and all that".

Mr Dave Mitchell stated: "...In South Africa the regulation at the moment for you to comply just to send the remittance - that is what the banks claim is pushing up the costs of remittances. It takes people – people have to be trained, they have to be registered as exchange control

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experts. You know not just anybody can do it and if you can lighten that burden with an exemption in terms of FICA that for a certain limit of remittance like let's make it one thousand rand per transaction, just for example, and ten thousand rand a month – for that you only need and you don't have to prove residence and all these difficult things that you have to approve now (you know).. That would make it easier. I am not saying no regulation; I am just saying lighter regulation.

Cost

Mr Hein Timoti stated: "...the formal channel is quite costly in our environment..."

Mr Hein Timoti stated: "...obviously the cost because it might happen that the person you are remitting the money to doesn't really live in the mainstream city or town in that specific country, so that would probably entail costs on that person's side to get to the nearest city or town to come collect the money".

Mr Hein Timoti stated: "... given that we don't really have a local, we don't really have a local money transfer operator operating. Costs involved include your exchange rate margin, and mostly because your MoneyGram and your Western Unions which we use in SA, you first have to convert the money you send into Dollar and then probably on the other side those Dollars need to get converted into the local currency again, so then the exchange rate margin becomes quite a big problem there and especially with the currencies in these other countries that are not as easily traded as the SA Rand".

Mr Hein Timoti stated: "... its money goes somewhere else, you know due to the high costs the money intended for that purpose, doesn't really get to cover whatever it was meant to".

Mr Dave Mitchell stated: "...people who are here to work from other surrounding countries and they need a low cost method of sending money".

Mr Dave Mitchell stated: "...At a rate which is not exorbitant.

f. Increasing Remittances

The remitters had different views of how the remittance flows can be increased.

Table 9: Constructs for the increase of remittances

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Ranking	Construct	Number of Experts
1	Infrastructure	4
2	Product and Technology	3
3	Competition in the Market	3
4	Education	3
5	Marketing Strategy	2
6	Regulatory Relaxations	2
7	Coordinated efforts	2
8	Building Relationships	1

The main areas that were identified by the participants that could help increase the flow of remittances were:

- Increase in branches
- Awareness and Education
- Cost

The constructs identified through the interviews were thus further examined.

Infrastructure

Mr Hein Timoti stated, "...Probably, the increase of bank branches – if you look at the South African situation – would probably not really have the desired effect ' cause given in SA the case is more that people who do remittances via our channels know it's a very costly affair".

Mr Dave Mitchell stated: "... if it's a formal remittance, then the remitter has to find the place to actually do the sending – so you know that means that you need a large footprint that is not difficult for the remitter to get to, to be able to send the stuff".

Mr Dave Mitchell stated: "...I personally believe that even in South Africa there must be a way to spread the footprint of where you can go and remit money".

Mr Dave Mitchell stated: "...If you could have a threshold, you need less qualified people out in the retailers or whatever, that can accept remittances, because that's one of the problems - a lot of people who send remittances are very loathe to go into a bank branch, to them it's a scary

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experience, so they don't really want to go in there - they would rather go to a sort of informal channel, or a retailer they still find acceptable".

Mr Dave Mitchell stated: "Yes, the easier you make it, the wider you make the footprint. I mean Finmark Trust did some studies for us, where they actually went out in the streets at some stage to go and find out ... they wanted to send remittances out to Zimbabwe and to Zambia, I think, and it wasn't easy. You can't even send a remittance from every branch – you can only go to particular branches".

Mr Gops Pillay stated: "...if you don't have avenues to send the money from, then it's a problem and you need to – on the recipient side – you need to have the bank close by to get the money – that is if you use the formal channel"

Mr Gops Pillay stated: "...Yes, if they are situated in the right places. The guy staying in Thokoza has to catch a taxi or some train or something into Alberton, to go and do the remittance. But if the remitter put a branch in Thokoza, that would be possible – so it depends on the location also of those branches".

Mr Gops Pillay stated: "... India - I read this about two years ago – have a rule out that for every ATM machine that is installed in an urban area, one has to be installed in a rural area. So it forces the banks now to split their network; that's the sort of thing you need: for every new branch starting in an urban area, you must start a branch in a rural area – or start an agency in a rural area".

Mr Brendan Pearce stated: "A 'new' channel using the 'retail' network, and taking 'advantage' of the 'retail' network, because Shoprite has a 'wide' footprint in the region".

Competition in the market

Mr Hein Timoti stated, "... to increase the benefit to the receiving party in these remittances, is either, you know, getting, you know, opening the market, you know – for more people - to more players to play.

Mr Dave Mitchell stated: "...If you could do that and you could lower the exchange control requirements and you could get then agents of banks like retail stores and so on – where you could go into the retail store to the money exchange counter and then there send a remittance

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which would channel via the banking system to the remittance channel on the other side That would be very beneficial to broaden that footprint for remittances.”

Mr Brendan Pearce stated: “The other issue I think is ‘competition,’ is a ‘lack’ of ‘competition’ in this space. It’s the kind of ‘elephant in the room’ that we don’t really want to challenge because of the ‘banks’ – need to be challenged, but I don’t think that the ‘banks’ have the ‘solution’ to this market”.

Product and Technology

Mr Hein Timoti stated, “...because South Africa doesn’t really have a product for low value remittances”.

Mr Hein Timoti stated, “...it will actually take an extensive marketing campaign, to actually increase the number of remittances”.

Mr Hein Timoti stated, “...within South African context, the biggest problem we have is there isn’t a product tailor made for low value remittances”.

Mr Hein Timoti stated, “... just to broaden the amount of options actually available to people, because at the moment what the banks offer with their telegraphic transfers is actually more tailor made for the higher value clients and that are the people that use it mostly”.

Mr Hein Timoti stated, “... what is getting used more and more and what everybody is lately tapping into is your pre-paid cards, which can be reloaded.

Mr Dave Mitchell stated:” I mean with mobile and that type of thing... it doesn’t help you use that technology if you have this big regulatory burden. So the sooner you can get the exemption into place and the lighter exchange control, the sooner you can start making use of that technology. And then of course with our work in the SADC environment, there are other opportunities that may arise: if the proof of concept for the regional settlement system is put in place and it works, and other countries like Zimbabwe and Zambia start hooking up, there’s no reason why a low value channel within this SIRESS system can be created which will be a very cheap option for the banks to use to remit – to settle – the remittances”.

Mr Brendan Pearce stated: “On the remitter, and more ‘accessible.’ I think ‘mobile’ is going to hit quite soon. My colleague was saying that ‘Mukuru’ was starting a ‘mobile’ option where you can

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– at the moment it's not 'mobile' you go to 'Mukuru' and you deposit your money. You can't give the instruction via your 'mobile,' so those kinds of things..."

Mr Brendan Pearce stated: "Look, no, no, the 'products' are hopelessly inadequate, or don't suit the 'needs' of the remitters, not just the 'cost' but as you are saying also the 'convenience, how you get there and what you need to do to get this 'process' moving is just – if it doesn't suit people they will just go 'informal.' So there's a 'product development' thing that needs to take place as well. But it will happen, it will happen and I think that the answer lies in the "Retail networks.'

Education

Mr Dave Mitchell stated:"...but it's also about educating the remitters. So the whole thing is about education and lightening the burden".

Mr Dave Mitchell stated:"...they should have educational pamphlets".

Mr Gops Pillay stated:"Maybe an education from the regulator...what requirements really... you see, the reasons why some of the remitting institutions do that, is some of the regulation itself is maybe not clear; and to be on the safe side, some institutions take a hard line, so they don't fall foul of the law".

Mr Brendan Pearce stated: "I mean education obviously; people would need to know about the advantages."

Marketing Strategy

Mr Hein Timoti stated,"...it would come down to it has to be totally new marketing strategy to increase those remittances".

Mr Dave Mitchell stated:"...there could be TV adverts or whatever, but it's the people who provide the remittance services that should do that kind of thing".

Regulatory Relaxations

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Mr Dave Mitchell stated: "...in South Africa to make the compliance requirements less - the exchange control, know your customer and all that – for within a certain limit say R 3000 per remittance".

Mr Dave Mitchell stated: "Well in our case when we question the banks on this, they said that the regulation was a burden because it's both exchange control and a financial intelligence centre and that is why we have pushed over the last two and a half, three years to lighten that, to get some sort of exemption to lighten the exchange control and so on. So yes, regulation definitely can be a deterrent.

Mr Gops Pillay stated: "You could do what we did, or tried to do – it was to ease the regulatory burden on the remitting institutions, which would then in turn reduce costs; you could... yeah, the regulatory burden: in many ways the one is to have a threshold – the other one is to have the training where you don't have to have that sort of rigid training for staff, so you could open more branches, even in outlying areas"

Mr Gops Pillay stated: "...the way that we talked here was to put a threshold on the amount; a threshold on the amount per transaction, a threshold per month, a limit – cap the amount a person can send out of the country per month".

Building Relationships

Mr Gops Pillay stated: "...The other ways we talked about was building relationships with clients, although they may not have formal accounts with you, because a guy comes to your branch every month to send money home, after a while you get to know him, you - the guy does not have to produce paperwork each time...in South Africa, every time a guy goes into the bank he has to show the way that he got his funds, and a payslip that he is employed and all that stuff. So if a guy is coming to you every month to remit, you take his payslip once – you keep it, and that's it. You don't have to... that sort of thing.

Coordinated Efforts

Some of the experts suggested that a coordinated effort should be investigate to enhance the process of remitting. Mr Dave Mitchell stated: "Well, there are two of them in this case: the one being the Reserve Bank or actually the National Treasury who actually is responsible for (the)

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financial intelligence centre and financial surveillance. So if they would make those burdens lighter, so... but the Reserve Bank is the ideal place to try and facilitate this stuff – as they have been trying to do in the last two – two-and-a-half years”

Mr Gops Pillay stated:”...In a domestic environment you can talk about that - products; in a cross-border environment it gets a little more complex in that you need cooperation between the countries , cross-border regulation, balance of payments – for example if I send money from here to America by telephone. Now, you can’t just send the money; you must have a balance of payments, because this country is owing that country money, that money has got to flow and all that stuff... so all those mechanisms have to be worked out. So it’s a little more complex if you’re going to be doing cross-border money remitting. So there has to be regulation of cooperation on an international scale to do that sort of thing.

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CHAPTER 6: Discussion of Results

1. Introduction

The previous chapter presented the results that answered the research questions stated in chapter three. The study was conducted in a two phased approach. The first phase developed the requirements for remitting based on the findings from the interviews with the remitters. Phase two explored methods of what can be done to meet the requirements developed from the first phase. The information gathered in the two phases will be used now be used to develop a framework to understand the required processes to enable the increase of remittances.

This chapter will discuss the research findings in relation to the previous research done and literature which was highlighted in chapter two. Some of the results from this study were in accordance with the literature, and other findings contradicted the literature. The results will be discussed in terms of the research questions and the literature from chapter two.

Firstly the methodology of the proposed model will be discussed . The model is in two phases and firstly the requirements and consequences of the remittance channel will be discussed. This will enable the development of the proposed model to increase the flow of remittances.

The below table illustrates the comparison of the outcome of the interviews with remitters and experts.

Table 10: Comparison of the outcome from remitters and experts

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Process of Remittances		Consequences of channel used		Increase in Remittances		
Rank	Remitter	Expert	Remitter	Expert	Remitter	Expert
1	Certainty and Reliability	Trust	Regulation- Increase in documentation	Regulation	Cost	Infrastructure - Increase in Branches
2	Trust	Certainty and Reliability	Cost	Cost	Increase in Branches	Products & Technology
3	Speed	Easy Process			Awareness and Education	Competition in the Market
4	Convenience	Convenience			Products and Technology	Education
5	Common Practice	Speed				Marketing Strategy
6	Easy Process	Efficiency				Regulatory Relaxations
7						Coordinated Efforts
8						Building Relationships

2. Methodology of proposed Model

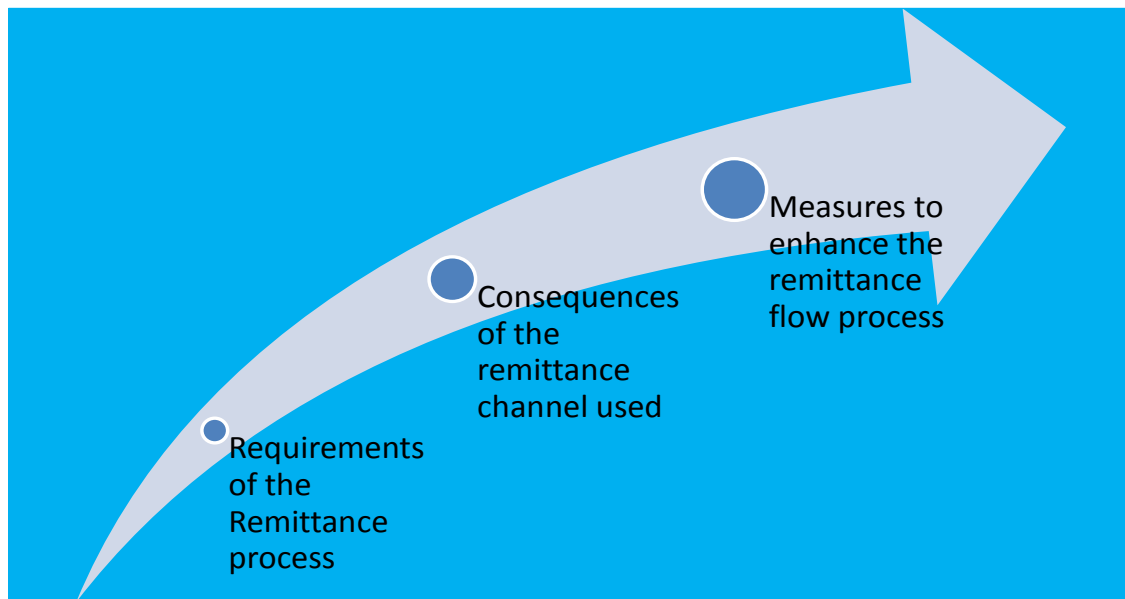
The methodology underpinning the model is based on the assumption that for the remittances process to run smoothly the primary requirements to enhance the process of remittances should be present. It was thus fundamental to the study that these requirements are determined first. The channel of remittance chosen also hold different consequences for the remitter. These consequences will have to be taken in mind when the measures to enhance the remittance process are proposed. Thus if the requirements for the remittance process are determined and the consequences of each channel are identified, the measures to enhance the remittance process could be developed.

See the below figure that illustrates the methodology flow.

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Figure 2: Methodology Flow

Methodology Flow



Step 1: The first step of the methodology flow was to determine what the primary requirements are of the remittance process.

Step 2: The second step was to establish what the consequences are of each of the channel used.

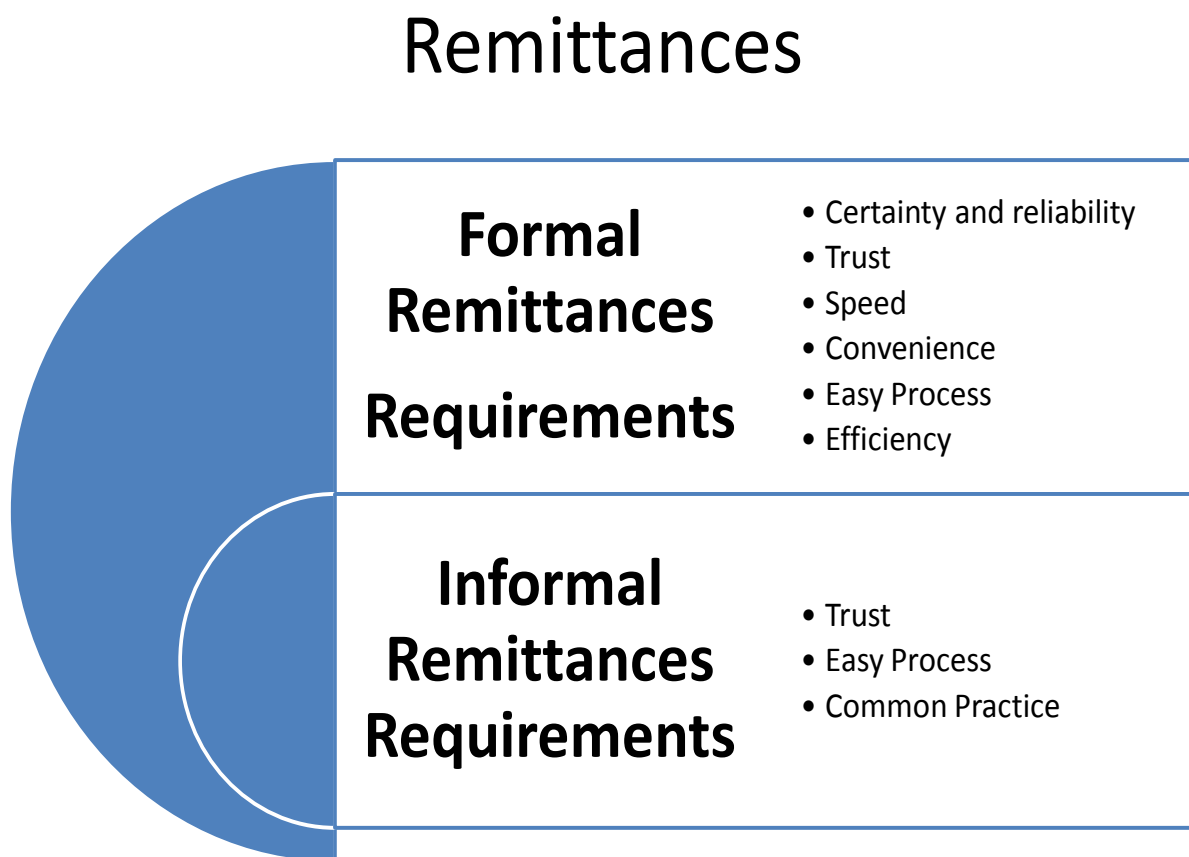
Step 3: The determinants of step 1 and step 2 are combine to develop the measures to enhance the remittance process

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3. The requirements for cross border remittance process

The literature was used to provide a view of what the estimates of the remittance market is and how remittances can contribute to the development of a country. The macro and micro determinants of remittances were discussed but it did not provide a framework of what the requirements are for the process of remittances. These requirements were determined through the interviews with the remitters and experts on remittances. See below the figure for requirements of the remittance process.

Figure 3: Requirements of the remittance process



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a. Certainty and Reliability

This issue was highlighted by both the remitters and the experts as important to them in the process of remittances. One of the micro determinants of remittances that was identified in the literature review was altruism (Ruiz & Vargas-Silva, 2009). Most of the remitters commented during the interviews that they send money back to their families and children. This supports the findings that migrants require certainty and reliability in the process of remittances as it is a means for them to provide for their children and family back at their home country. The flow of money to their families should be secure and reliable as their families are dependent on the income from these migrants.

b. Trust

The issue of trust was highlighted as very important to the migrants using both the formal and informal channels of remitting. The informal channels through the bus system were based on a trusting relationship between the migrant and the money transfer provider, in which case it is the bus driver. In the literature review from the World Bank (Ratha & Xu, 2008) it was highlighted that corruption limits the amount of remittances being sent. Therefore, the conclusion can be drawn that the evidence collected coincides with the literature that trust is an important factor in the process of remittances. In addition, Pieke, Van Hear, & Lindley (2007) also mentioned that remittance systems often rely on socially embedded mutual trust and common economic interest, confirming the research evidence.

c. Speed

Ruiz & Vargas-Silva (2009) mentioned that loan repayments are one of the micro determinants of remittances. In conducting the remittance process, the speed at which the process occurs would thus be important to the remitter. The research also highlighted that remitters require quick transactions that can provide them with same-day value.

d. Convenience

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Remitters requires a convenient method of transmitting funds as they are often time restricted and does not possess the financial means to travel around. The literature review from Pieke, Van Hear, & Lindley (2007) said that alternative methods of remitting are often more reliable, accessible and convenient. The research gathered contradicts this view as it was difficult for remitters to get to the places where the buses are and they had to wait for a bus to go to their intended destinations. The formal system of remittance Mukuru was more conveniently located and available to the remitters.

e. Easy process

Remitters and experts concurred that the process of remitting should be made easy for them. All the remitters does not understand the bank processes and the informal channels are often easy to use. In the case of informal remittances there are no legal requirements or documentation to be completed by the remitters.

f. Efficiency

The experts mentioned that the process of remitting should be efficient. The process should be streamlined in order to deliver a solution to the client and have broader financial inclusion of the unbanked population in mind. Mookerjee & Roberts (2011) mentioned that the more developed and efficient the financial sector of the recipient country, the more likely it allows migrants to send money through the formal channels. This agrees with the findings that more efficient financial system could smooth the process of remittance flows.

g. Common Practice

As also mentioned above Pieke, Van Hear, & Lindley (2007) said remittance systems often rely on socially embedded mutual trust and common economic interest. The informal remitters conveyed that they are used to their system of transmitting and are not easily persuaded to change their ways. confirming the research evidence.

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4. The consequences of remittance channel used

Through the interviews done with the remitters and experts and became pertinent that regulation and cost are some of the consequences when deciding in which channel to use. If the formal channels are chosen there are certain consequences that could become constraints to the user.

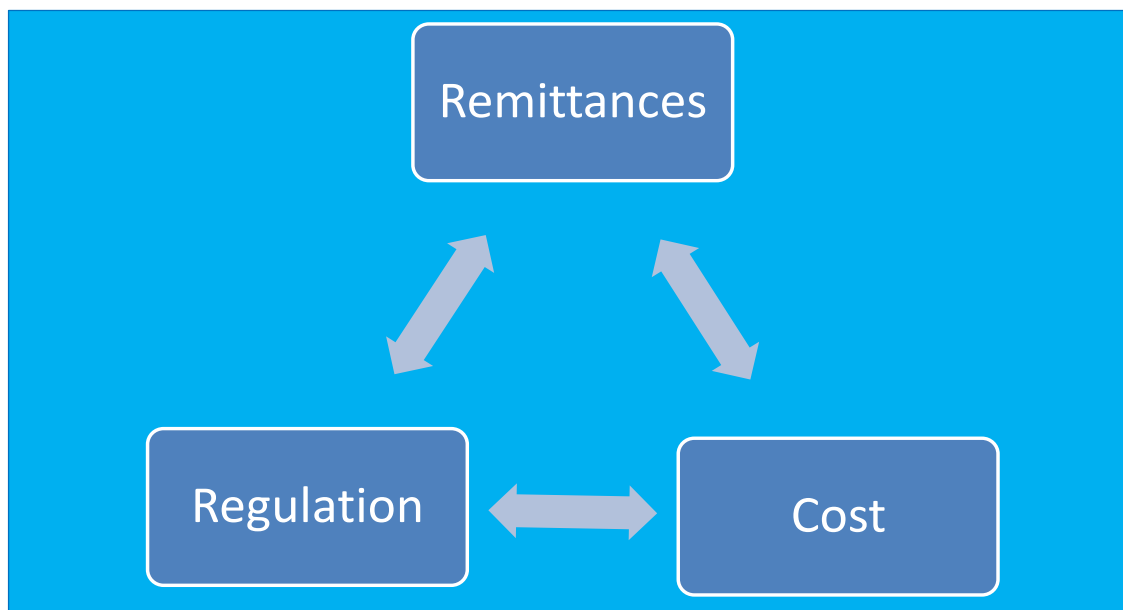
The literature on policy frameworks for money transfers (Bestler, Hougaard, & Chamberlain, 2010) suggested that migrants can be divided between documented and undocumented migrants. Due to the regulatory environment within South Africa the legal status of a migrant has a big influence on the remittance channel used. This was evident from the research collected as well that some of the migrants are forced to use informal channels due to their legal status in the country.

The regulatory aspect of remittances are also a factor in the costing of remittances. As shown in the below figure the regulatory aspect also influences the costing of the remittance.

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Figure 4: Consequence of the remittance channel chosen

Consequences of the Remittance channel chosen



a. Regulation

The legal framework of cross border remittances within South Africa are regulated within the framework of Exchange control Regulations, Immigration Laws, Anti Money Laundering laws, Banks Act and the National Payment System Act.

b. Cost

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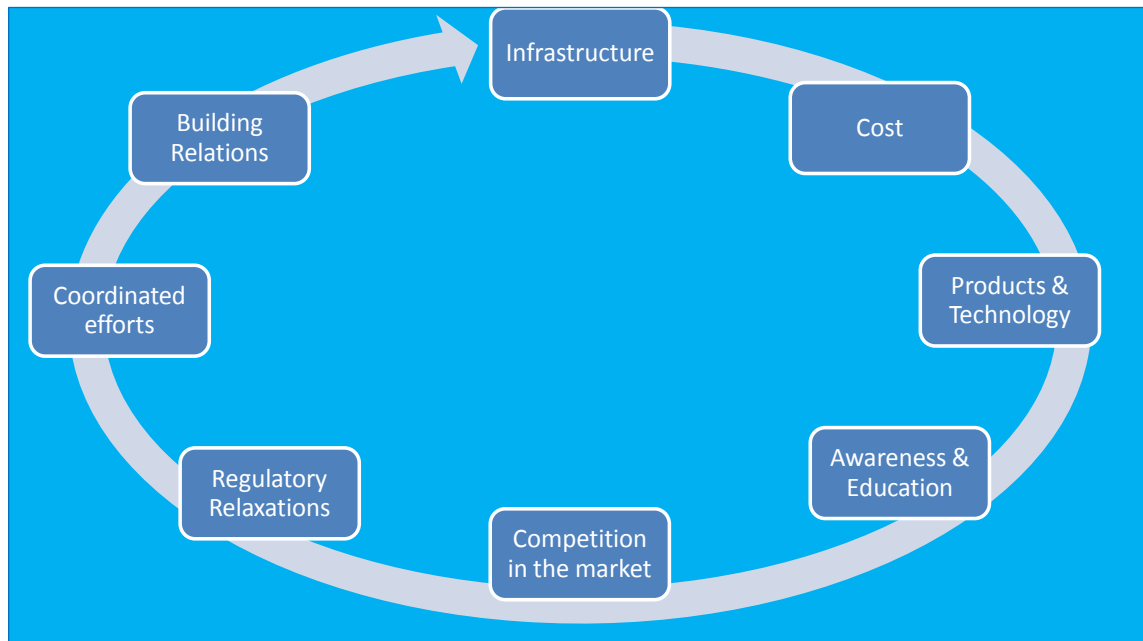
The formal remittance channels are not affordable to the public and contributed to remitters using the informal channels. Cost has been highlighted as a result of the regulatory requirements imposed on banks. The current financial system for the process of remitting is not efficient as it converts the host country currency on the sending side and another conversion occurs on the receiving side, resulting in added cost to the remitter.

5. Measures to enhance the remittance flow process

The measure to enhance the remittance process should not be seen in isolation but rather a continuous process that involves all the different aspects highlighted. The below figure illustrates all the measures as gathered from the research collected.

Figure 5: Measures to enhance the remittance process

Measures to enhance the remittance process



a. Infrastructure

Mookerjee & Roberts (2011) mentioned that an increase in the number of banking institutions can improve the remittance flows in a country. The research concurred to this that the number of branches available to remitters could enhance the process of remittance and result in an increase in the flow of remittances.

The literature further suggest that policy makers should focus less on lowering transaction cost for sending money abroad and more on developing the financial sector in their country, by expanding the number of branches. This contradicts the findings from the research that proposes that a combination of these efforts are required with the other measures included.

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b. Cost

Bracking & Sachikonye (2010) suggested that reducing the cost of sending remittances would encourage the use of formal remittance channels. This is contradicting to the research finding as it has shown that cost plays a role but is not the dominant factor to increase the remittance flows. Therefore cost is not the only consideration to enhance the remittance process.

c. Products and Technology

Bracking & Sachikonye (2010) also suggested that technological improvements in the banking sector could reduce cost and offer potential for greater efficiency and extended outreach. This was in line with the findings that it would rather be a combinations of factors that could help increase the remittance flows.

d. Awareness and education

Awareness and education of both the remittance service provider and the remitters could help increase the flow of remittances. The lack of consumer knowledge as seen through the research has resulted in migrants using the informal channels. These represent the only channels that are known to them and what they have become accustomed to. It was also evident that perceptions play a role in deciding which channel they use as remitters just assumed the formal channels would be cheaper to transmit from.

e. Competition in the market

Due to the regulatory requirement of being an authorised dealer when conducting cross border transaction has resulted in a lack of competition to banks to enter this market. The addition of more players to the market could result in lowered prices and more benefits to the remitter that could increase the remittance flow.

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f. Regulatory Relaxations

The regulatory aspect has been a factor for both the remitter and the experts as this could hold the key in enhancing the process to enable all the other factors to play its part in the remittance process. Regulation has been highlighted by all the experts as fundamental to the remittance process and could propel all the other levers.

g. Coordinated Efforts

Bracking & Sachikonye (2010) said that countries should establish national and regional policies and strategies on remittances instead of dealing with it on an individual basis. National policies for remittances should be established and it should be discussed on regional levels to ensure cooperation. The experts also mentioned that coordinated efforts are required to address the issue of remittances. The coordinated efforts should thus not only be on a national level but on a regional level to look at the broader process and goals that remittances could help achieve.

h. Building Relationships

One of the experts mentioned that the building of relationships between the financial institution and their clients can help ease the process of remittances. A profile of the customer can be established and the process does not need to be onerous to the remitter as the bank will have a track record of the client.

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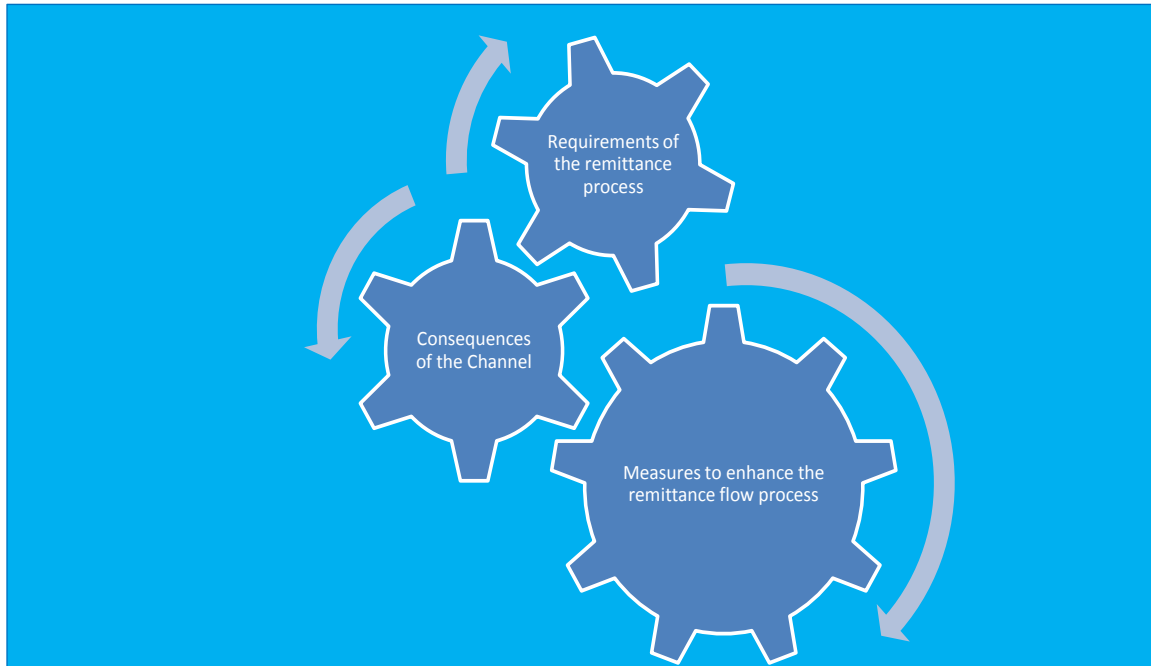
6. Overall model for a smoother remittance process

The literature by (De Haas, 2005) (Levine, Lotti, Pearlman, & Pierse, 2010) (Ambrosius, Fritz, & Stiegler, 2008) suggested that there are benefits for both the host country and home country for remittances. As seen from the study it can be concluded that not only individual factors should be looked at when the process of remittances are addressed. The model proposes a more coherent method of enhancing the process of remittances to increase the overall flow of remittances. The below figure illustrates the proposed model.

Figure 6: Model for a smooth remittance process.

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MODEL for SMOOTH REMITTANCE PROCESS



a. Goal of Model

This model is proposed to contribute towards the development of policy on remittances for migrant workers that will enable both the country of origin and host country to benefit from the increased flow in remittances.

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CHAPTER 7: Conclusion

1. Introduction

The previous chapter discussed and exhibited the Model to smooth the cross border remittance process. This chapter will discuss the background to this study as well as the objectives of the study. The recommendation to major stakeholders will be presented. The limitations of the study will be identified and a proposal for future research with the conclusion to the study.

2. Research Background and objectives

Remittances have become an increasingly important factor in developing economies (Pradhan, Upadhyay, & Upadhyaya, 2008). Due to the increasing regulation, costs and the lack of availability of remittance transfer mechanisms, the informal methods of remitting has become a dominant means of sending money.

The study will create a better understanding of remittances by specifying what the requirements are of remitters and creating a framework to enhance the process of remittances to enable the increased the flow of remittances. This will assist government to make informative policy decisions and stimulate economic growth by allowing these migrants to enter the formal financial system of the country.

As the flow of migrants increase to the countries the demand for a suitable remittance product increase. Although the benefits to formalise these flows are evident government and market participants are not doing enough to satisfy the need of these potential clients. South Africa is viewed by the World Bank as having one of the most expensive corridors to remit money from. This is detrimental to the country and the region as the economic gains are not realised. The contribution that these migrants could make to the host and home country is immense and should be further investigated. The emergence of migrant workers from all over the world confirms the benefit to be obtained to channel there funds through the formal financial system

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The main objectives of the research was to contribute towards the development of policy on remittances for migrant workers that will enable both the country of origin and host country to benefit from the increased flow in remittances.

3. Main findings

The models formed in this study provides a more cohesive view of what should be done to enhance the remittance process. The constructs gain from the different phases should not be seen as independent but as interconnected as depicted in figure 6.

The findings reveal that issues such as cost, infrastructure, regulation and others should not be looked at in isolation but as part of a holistic picture. The requirements by the remitters should form the basis of what is provided to the market. This should then be used to develop a process that will enable the increase of remittance flows. The elements identified should be looked at collaboratively by the different regulatory institutions, financial institutions, research institutions and government policy makers.

4. Recommendations

a. Regulators

The different regulators should collaboratively look at solutions to provide to the market. This would entail the Department of Home Affairs, South African Reserve Bank, National Treasury and the Financial Intelligence Centre coming together to discuss all the issues.

b. Financial Service Providers

The current available products does not fit the requirements of the market. The financial institutions should develop products that is tailor made for the lower income market as to include them in the product scope.

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c. Retailers

The huge footprint of large retailers provides the perfect opportunity to provide this service to the remitters. Investigate collaborative means to provide the products and adhere to the regulatory requirements.

5. Limitations of the research

The limitation of this study is that the unique characteristics of regional immigrants could not be tested as the sample did not include immigrants from all developing countries. It is for this reason that the study could not be generalised to all developing countries and can only be applied as a guideline.

6. Implications for future research

Remittance flows represents the largest source of foreign exchange for numerous countries. These flows have a significant influence on the economy of developing countries and would be beneficial to know what the exact amount of flows into the country is. Formal remittances are tracked through the balance of payment recordings and from bank data provided. Various estimates exist of what the value of unrecorded remittance flows is, but no exact figure has yet been determined. FinMark Trust commissioned a study to determine what the size of remittance market is from South Africa to the rest of SADC countries and provided an estimate. With the model that has been developed in this study to increase the flow of remittances and the above mentioned estimates of the size of the remittance market; future research can focus on how these remittances can be used to attain broader financial inclusion. Financial inclusion would entail improvement of access to financial services for the unbanked and thus greater participation in the economic activity of a country.

It has been found through the research that the current banking models are not sufficient to support the needs of the market in terms of remittances. The current product offering does not suit the needs of remitters and the infrastructure in terms of the branch network is not adequate.

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This does raise the question of how the existing banking models can provide solutions for remitters using the informal market and effectively compete against the informal arrangements in place. The future research can test how the product offerings and financial system in the country can be enhanced to satisfy the needs of these migrant workers.

Collaboration has also been highlighted as an issue of importance to increase the remittance flows. As remittance are cross border transactions, cooperation between the different countries are required. How each country applies their cross border regulations will affect these transactions and a collaborative effort will this be required. Future research could investigate a model or framework of how this cooperative structure could be developed.

7. Concluding Statement

Remittances should not be viewed as a product on its own, but as a tool for broader financial inclusion. Access to the formal remittance channel could be the first step in introducing customers to the formal banking system. Remittances can be put to productive uses and can be a vehicle for financial development for the region.

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