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## Nature and characteristics of informal migrant remittance transfer channels: empirical study of remittances from South Africa to Zimbabwe

### Abstract

Migrants often make remittances to their own country without adhering to the formal financial system of the host country. The study reported in this article attempted to describe the prevalence of sending informal remittances from South Africa to Zimbabwe by bus or taxi. Using a questionnaire, 206 taxi and bus drivers were surveyed in Johannesburg Central Business District to determine reasons for migrants choosing them and not formal channels when sending remittances. It was found that speed of delivery, good customer care and convenience determine a migrant's choice of remittance channel. Linked to that is the fact that formal money transfer operators require documentation which is usually difficult for senders to make available. Recommendations are provided to policy-makers for capturing the informal remittances which come through buses and taxis. This will help development planners to allocate foreign remittances efficiently.

**Keywords:** remittances, informal channels, formal channels, South Africa, Zimbabwe.

**JEL Classification:** F24, F31.

### Introduction

Every day, thousands of Africans living abroad line up in money-transfer offices to wire home money they are able to save. From the top sources of remittances to developing countries (the USA, Saudi Arabia, Germany, Belgium, Switzerland and France) some of the money finds its way into the rural areas of Africa. There, it may send a child to school, build a house or buy food to sustain those remaining at home. Yet most of the money sent home by migrants is unrecorded, and therefore, in many countries, does not enter the statistics. Development planners increasingly stress the importance of tracking this money in order to support governments in their attempts to increase remittances as a source of development finance and better channel them into productive sectors through financial intermediaries.

Throughout the world, financial and monetary policies and regulations create barriers to the flow and effective investment of remittances. According to Mutume (2005, p. 1), for a capital-poor continent like Africa, one cannot ignore this source of income. Veeramoothoo et al. (2009, p. 181) concluded that instead of ignoring these transfers, governments of both remittance-supplying and remittance-receiving countries should pay more attention to this form of unofficial remittance. Remittances offer an opportunity for developing countries to look at ways of benefiting from their citizens who have chosen to live and work abroad, rather than focusing on the negative consequences.

A substantial proportion of funds find its way to migrants' families through channels poorly understood outside the groups involved in sending and facilitating transfers. These channels include deliv-

ery by hand, transfer in the context of another business, and transfer through dedicated money transmitters specialized in serving a particular ethnic or national group (Pieke et al., 2007, p. 349). In one of the few studies covering the South Africa-Zimbabwe corridor, Maphosa (2005, 2007) explained the role of both formal and informal remittances sent from South Africa to the southern districts of Zimbabwe, and the impact thereof on the livelihood of recipients and their families. However, the nature and characteristics of informal remittance channels remain unexplored.

Despite this broad interest, there is yet to appear a study with respect to the question of migrant remittances from South Africa to the broader geographic scope of Zimbabwe. The purpose of this article is to identify and report on the nature, patterns, and magnitudes of the remittances sent by Zimbabwean migrant workers and refugees in South Africa through informal channels. An understanding of why informal remittance channels are preferred formal channels will help in the design of appropriate policy interventions to enhance the contribution of migrant remittances to development.

In the section below, some of the literature on remittances and transfer channels is discussed. The methods of data collection and the survey results are presented next. They are followed by the conclusion.

### 1. Literature review

Remittances are defined as the portions of cross-border earnings that migrants send home (Mutume, 2005). The African Development Bank (2009) defines remittances as recurrent cross-border payments of relatively small amount from migrant workers to their relatives in their countries of origin. According to Freund and Spatafora (2008, p. 357), there are two types of transfers: official and unofficial. Official transfers use banks, money transfer

organizations such as Western Union, Moneygram and sometimes the Internet. Unofficial remittances are sent through friends or migrants themselves or through traditional networks, known in some countries as hawala or chiti, which allow money deposited with a trader in one country to be paid out by a partner in the recipient country.

**1.1. Types of remittance transfer channels.** Migrants who use informal transfer systems either remit funds to rural areas and regions that are underserved by formal financial institutions, or send remittances in kind (such as groceries, household appliances, computers and computer consumables, farm equipment and motor parts), which money transfer enterprises cannot do. According to Sahu and Das (2009) micro-level studies in developing countries like Pakistan and the Philippines have shown that only around half of the remittances are transferred through formal channels. In the next section, evidence on the scale of remittance transfer through different channels that are commonly considered to be “informal”, or at least outside the banking or formal money transfer sector is examined. This is followed by a description of remittance transfer systems that are commonly regarded to be “informal”, exploring how these systems have developed and how they operate.

Piekie et al. (2007, pp. 352-356) conducted a survey on remittances between Europe and Africa and observed four broad types of “informal” or “alternative” remittance transfer systems: hand carrying, remittance transfer in the context of other businesses, use of dedicated money transmitters and what they call “other kinds of transfer mechanism outside the mainstream”. The International Monetary Fund (IMF) (2009, pp. 12-15), concurs with this listing but includes additional methods such as hawala, hundi, chit, chop, the black market peso exchange and the “cash-in-hand” mode of transfer.

When a migrant personally carries or requests a friend or relative to carry remittances to the country of origin, it is called hand-carrying (Piekie et al., 2007, p. 352). Hand-carrying of cash remittances by migrants on a return visit is common: here the cost of the transfer is that of the migrant’s transport and exchange rate risk. Despite significant changes in transfer technology, De Vletter (2007) argues that the most common method of remitting both money and goods is taking them back personally through friends. 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 (Piekie et al., 2007, p. 32). Alternatively, the migrant may trust a relative or friend to deliver the money to recipients. According to Maphosa (2005, p. 10), migrants may also use money delivery services offered by cross-

border transport companies, popularly known as *omalayisha*, who operate taxis and buses. This channel is referred to in this article as cash-in-hand.

The “cash-in-hand” mode of transfer is popular particularly in remittance corridors where there are constraints in accessing formal financial institutions, as well as in congruous regions where migrants and short-term workers frequently travel back and forth to their home country and are thereby able to reduce the risk of non-delivery of remittances to beneficiaries. Many migrants and short-term workers use a courier system, which involves a regularly driven van from the host or home countries (and back) to move goods, and funds (Piekie et al., 2007; Maphosa, 2005, 2007). Carrying cash (whether by friends, relatives, or migrants/short-term workers themselves) while travelling between the host country and the home country is a popular mode of fund transfers in many African and Latin American countries.

A 2007 survey by Makina in South Africa found that only 2% of Zimbabwean migrants utilize formal channels and 98% use a variety of informal channels as Table 1 below illustrates.

Table 1. Mode of remittance transfer

Mode of transfer	% of respondents using mode
Taxi/bus drivers	69%
Friends/relatives visiting home	20%
Formal channels	2%
Other informal channels	9%

Source: Makina (2007).

The reasons for the popularity of such alternative systems are also explored.

**1.2. Reasons for migrants use of informal remittance channels.** In a study on domestic money transfers, Isern et al. (2007, p. 7) found that China Post’s extensive branch network made it accessible to the recipients of remittances than through the conventional bank channels. The absence of restrictive requirements of formal banking institutions, such as that one needs to have a bank account as a prerequisite for one to send money, was observed to be very popular with migrants. Freund and Spatafora (2008, p. 364), Siegel and Lucke (2008, p. 14) share this view as they conclude that when transaction costs are high, “... migrants either refrain from sending money home or else remit through informal channels”. They suggest that a reduction of transaction costs would lead to great utilization of formal remittance channels. Such a shift would potentially help policy makers and development workers. Other reasons for choosing China Post were the low remittance fees and good customer service. The study also showed that 45% of respondents channelled their remittances through the Post Office, 13% used

other financial institutions while 26% opted to carry their money when they visited their homes during major holidays.

Puri and Ritzema (1999), identified convenience, significant price differences, benefits derived from black market gains and personalized service as some of the reasons why migrants choose informal remittance channels. Foreign earnings are remitted at competitive rates, through speedy and efficient intermediaries, in direct competition with the formal banking system. In some cases, banking and foreign exchange services are inadequate, inefficient or they no longer exist.

Turnell et al. (n.d.) offer a clear distinction between Formal Transfers (FTs) and Informal Transfers (IFTs). One of the major barriers to the use of the formal transfer mechanism is, not surprisingly, the legal status of the sender. If a migrant worker is without legal status in the host country, it would be difficult and risky to a bank or any other formal remittance channel. This is because an identification document, containing appropriate immigration status is required. In South Africa, Section 21 of the Financial Intelligence Center Act, FICA (38/2001), *inter alia* states that a person is required to produce a valid passport with a valid work permit, proof of residence as well as proof of regular income before one can be allowed to send a remittance. Contrary to FT requirements, those for IFTs are minimal and are anonymous as far as government authorities are concerned.

There are other reasons, however, including:

- ◆ IFTs are based on trust networks of personal contacts.
- ◆ There is a lack of formal financial institutions in the (often predominantly rural) areas where recipients live.
- ◆ IFT systems tend to be extraordinarily resilient to all forms of instability such as economic crises, civil wars, and weak and unreliable monetary and financial systems.
- ◆ IFTs transfer funds remarkably quickly, with delivery taking place usually within 24 hours even to the remotest of places.
- ◆ IFTs are often the cheapest of the remittance channel, with varying costs of between 2 and 10 per cent of the principal remitted (Adams, 2005, p. 2; World Bank, 2003). IFTs do not have to meet regulatory or compliance costs and the like, nor do their promoters typically have much in the way of expensive infrastructure.

## 2. Methodology

The field work for the study reported in this article was conducted in Johannesburg Central Business District (CBD) during October and November 2009.

The Johannesburg CBD was selected because most Zimbabweans reside and work in areas in and around Johannesburg. Incoming Zimbabwean immigrants prefer to come to Johannesburg first before relocating, largely because of the connection they have to relatives and friends who would have migrated earlier. Despite an intensified crackdown on undocumented migrants in South Africa, the rate of migration has been increasing over the last couple of years owing to the unfavorable economic situation in Zimbabwe (Maphosa, 2007, p. 126). Xenophobic attacks of 2008 and 2010 did not achieve the intended objectives of driving the Zimbabweans back to their country. The Johannesburg CBD also offers taxi, bus and private van transport services to and from Zimbabwe.

Using convenience sampling, 206 transport operators were selected from Park Station and Alexander in the Johannesburg CBD. Convenience sampling was used due to the absence of authentic information about the total population of taxis and buses plying the Johannesburg to Zimbabwe route. The absence of authentic information on the population is due to the fact that some of the taxis are registered in Zimbabwe and some in South Africa while others are unregistered. The implied convenience was based on the willingness and availability of the units of analysis. To avoid duplication of respondents, vehicle registration numbers of those selected were recorded on the questionnaire. When using convenience sampling, where the population and hence the sample size cannot be easily determined, a large number of respondents must be included in the data set in order to attain sufficient representation. A total of 206 questionnaires that had been issued were returned. The questionnaires were spread across all types of transport operators in order to capture representative feedback from the informal remittance service providers. The questionnaire was only available in English, a fairly commonly used language in South Africa and Zimbabwe. Participants were assured of anonymity and confidentiality. The purpose of the research was explained to all the participants and the implications of the research results on policy were highlighted.

While we acknowledge the limitation of convenience sampling, that is, sampling errors and bias, the number of respondents captured in the survey is large enough to mitigate these deficiencies in the sampling technique. Further to this, to ensure representativeness, the survey was conducted over a period of two months. On average one vehicle takes two days to complete a round trip between Johannesburg and Zimbabwe (all destinations). It is on this premise that we believe that the majority of target respondents were captured as all would have been in and out of South Africa during the period the survey was conducted.



### 3. Results

The results presented here should be read with caution in light of the dearth of authentic data on the population of taxis and buses operating between South Africa and Zimbabwe. Out of a total sample of 206 operators, 86% were taxi operators and most of them were registered in South Africa (81.3%). The remainder were bus operators. The majority of the drivers were of Zimbabwean nationality, 82.5% of whom resided in South Africa. All the respondents were male, with 43.2% being married, 32.0% single and 23.8% divorced. The age of the drivers ranged from 28 to 59 years with the concentration being mainly 30, 35 and 40 years age groups. This is an active age range and it seems to tally with the average of four trips to Zimbabwe per month per capita. These respondents had gained previous working experience while working in South Africa. Their

experience was mainly in the driver category (25.7%) while the rest had experience spread across gardening, cashiering, security, as waiters and teaching. The level of literacy was found to be good with 60.2% of the respondents being holders of the General Certificate of Education, “GCE Ordinary Level”, completed around the year 2000. Despite the long distances they travel (approximately 1200 km one way), 92.6% of the respondents were moderately satisfied with their job.

The value of remittances took into account the non-cash remittances that migrants send home. Results obtained showed that cash remittances exceeded R6000 per trip while the value of goods was more than R4000 per transporter per trip (see Table 2). The types of goods remitted varied from groceries, goods for resale, building material to household goods.

Table 2. Average remittances sent per trip

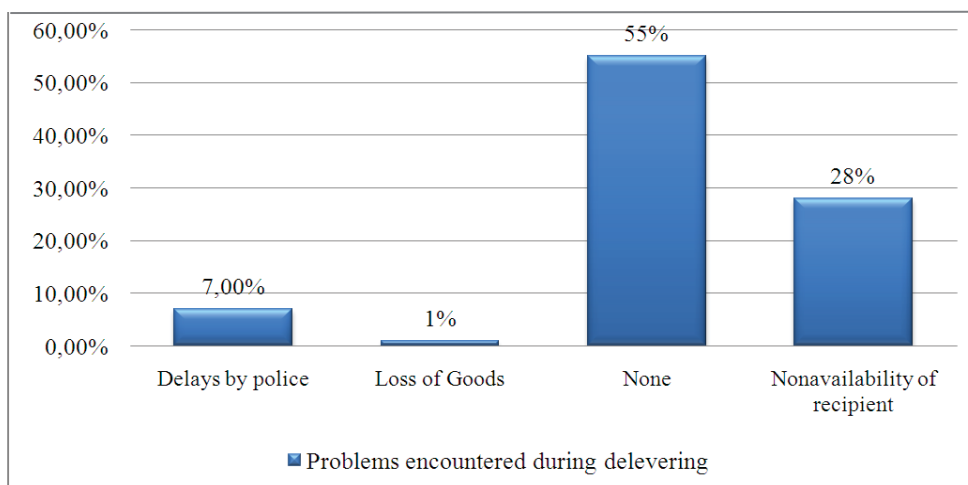
Cash value	Percentage of total remittances	Value of goods	Percentage of total remittances
R501-R1000	0.5	R2001-R3000	0.5
R1001-R3000	0.5	R3001-R4000	1.0
R3001-R4000	4.4	≥ R4001	98.5
≥ 4001	94.6		

Source: Author calculations based on survey data.

Results of the survey indicated that there were no formal contractual arrangements between the migrants and the couriers. Service was exchanged on the basis of mutual understanding (99.2%) between the two parties. Migrants trust that the couriers will deliver the remittances without prejudice. The geographical distribution of remittances shows that the two largest cities, Bulawayo and Harare (the capital city) have the largest share of remittances with 58.3% and 17.2%, respectively. Return trips are characterized by carriage of passengers and goods for resale in South Africa (exports). Approximately 58% carry goods such as artefacts and various un-

named goods. No money was reported to be remitted in the opposite direction (from Zimbabwe to South Africa). Personal documents such as passports constituted 2.5% of deliveries from Zimbabwe into South Africa.

Delivery speed was found to be high with 95.6% of deliveries taking place within a day or two. While 54.9% reported no major problems during the delivery process, approximately 45% had challenges with the non-availability of recipients (27.51%), and delays by police on either side of the border between South Africa and Zimbabwe. Only 1% reported loss of goods as one of the challenges (see Figure 1).

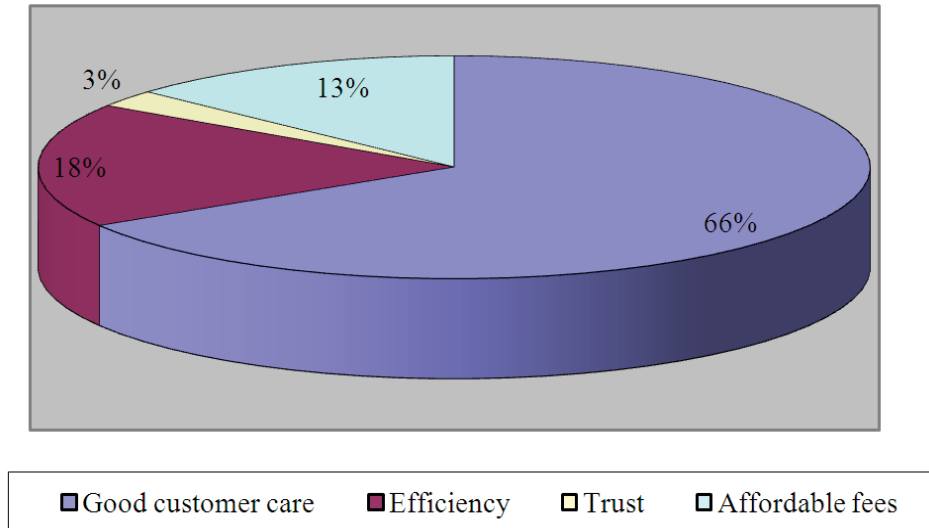


Source: Author calculations based on survey data.

Fig. 1. Problems encountered during delivery

Commission charged on remittances could not be generalized from the results. However, it was found out that the sender pays remittance charges in cash, while in isolated cases, the charges were due by the recipient. Couriers were asked to evaluate on why migrants chose them ahead of the more established and formalized channels. Good customer care was

found to be a significant determinant of the choice of a remittance channel, followed by efficiency and low service fees (Figure 2). Trust was found to be a low determinant. While efficiency was found to be a major factor in determining the choice of a remittance channel, couriers felt that there was a need to widen roads particularly in Zimbabwe.



Source: Author calculations based on survey data.

**Fig. 2. Reasons for choosing informal remittance channels**

### Conclusion and recommendations

The aim of the study reported in this article was to explain the nature and attributes of informal remittance channels used by migrants in South Africa using the South Africa-Zimbabwe remittance corridor. The purpose was to inform policy-makers to formulate appropriate policies that encourage migrants to use registered money transfer operators in order to keep accurate national records of the stock of money. South African Banks benefit from the commission charged for the remittance. The government of Zimbabwe receives foreign currency which it will allocate efficiently through the financial system to deficit economic units.

It was found that Zimbabwe migrants living in South Africa use informal channels such as cross-border buses and taxis. Speed, convenience and efficiency are some of the characteristics which influence the choice of informal remittance channels. This is in spite of the presence of renowned international brands such as Moneygram and Western Union who subject migrants to rigorous vetting procedures. These results confirm international literature studies on informal remittances (Makina, 2007). It was found out that transaction costs were not a determinant of the choice of remittance channels. Results of the study also show that a substantial amount of remittances enter Zimbabwe through informal channels. For example, the value of remittances which informal remitters carry per trip serve

as an indicator of the value of remittances which flow between South Africa and Zimbabwe. This information is vital for guiding policy makers on how to improve the formal remittance channels in order to harness as much of the remittances as possible. This confirms previous research that financial institutions and regulators need to articulate methods which redirect informal transfers to the formal sector where there is better allocation efficiency.

From an economic planning point of view, it is preferred that all economic activity is recorded in the national statistics. Central banks need accurate information of financial flows (both in and out) in order to formulate an informed monetary policy for example. Channelling financial resources through informal channels causes financial dualism which in the long run may be detrimental to aggregate financial and economic planning. We draw this argument from previous studies in which it was recommended that remittances preferably be channelled through formal remittance institutions in order to maintain accurate national economic records and also to take advantage of the expertise and experience in financial institutions in the efficient allocation of these remittances (Orozco and Fedewa, 2006; Gupta et al., 2007). The macroeconomic environment in Zimbabwe was restrictive, largely due to uncompetitive exchange rates offered by the official foreign exchange market, thus paving way for a thriving black market for currency exchange. While the article acknowledges the fact that the money belongs to both

the sender and the receiver, it is observed that most developing countries including Zimbabwe have a shortage of foreign currency for financing strategic projects such as health and education. If such remittances do not reach the formal sector, they risk being spent on non-productive consumption.

In view of the foregoing, further research is recommended on appropriate regulation which encourages remittances through the formal channels. While it is acknowledged that formal remittance channels have been abused by money launderers in the past, large volumes of informal remittances end up in less productive applications when sent through informal remittance channels. While this study targeted the providers of informal remittance services, further

research is recommended on the specific issues that inhibit migrants from utilizing formal remittance transfer channels.

Based on the results of this study, it is safe to conclude that the continued neglect of informal remittance channels will shut out policy makers from the reality that migrants seek convenience and speed when selecting a remittance channel. Specific socio-economic characteristics of migrant workers must be taken into account when designing financial services for a market with so much growth potential. To be successful in attracting migrant remittances to the formal sector, financial service providers must consider customer preferences. The competition from informal remittance channels is indeed apparent.

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