Social Finance Programme

Migrant Workers Remittances and Micro-finance in South Africa

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Abstract

In South Africa, many people migrate from poor rural areas to large metropolean cities, for example to work in the mines. These migrants remit considerable amounts of money to their families. Yet the financial infrastructure for remittances is sub-optimal, and remittances are largely used for consumption purposes. This paper describes current migration and remittance patterns, and explores ways in which financial institutions (in particular Teba Bank) can improve financial services to migrants and their families.

JEL classifications: R23, G20, D10, E21, O16.
Keywords: migration, remittances, financial services, micro-finance, South Africa, Teba Bank.

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Country map

South Africa

As of April 2003

GIMU / PGDS

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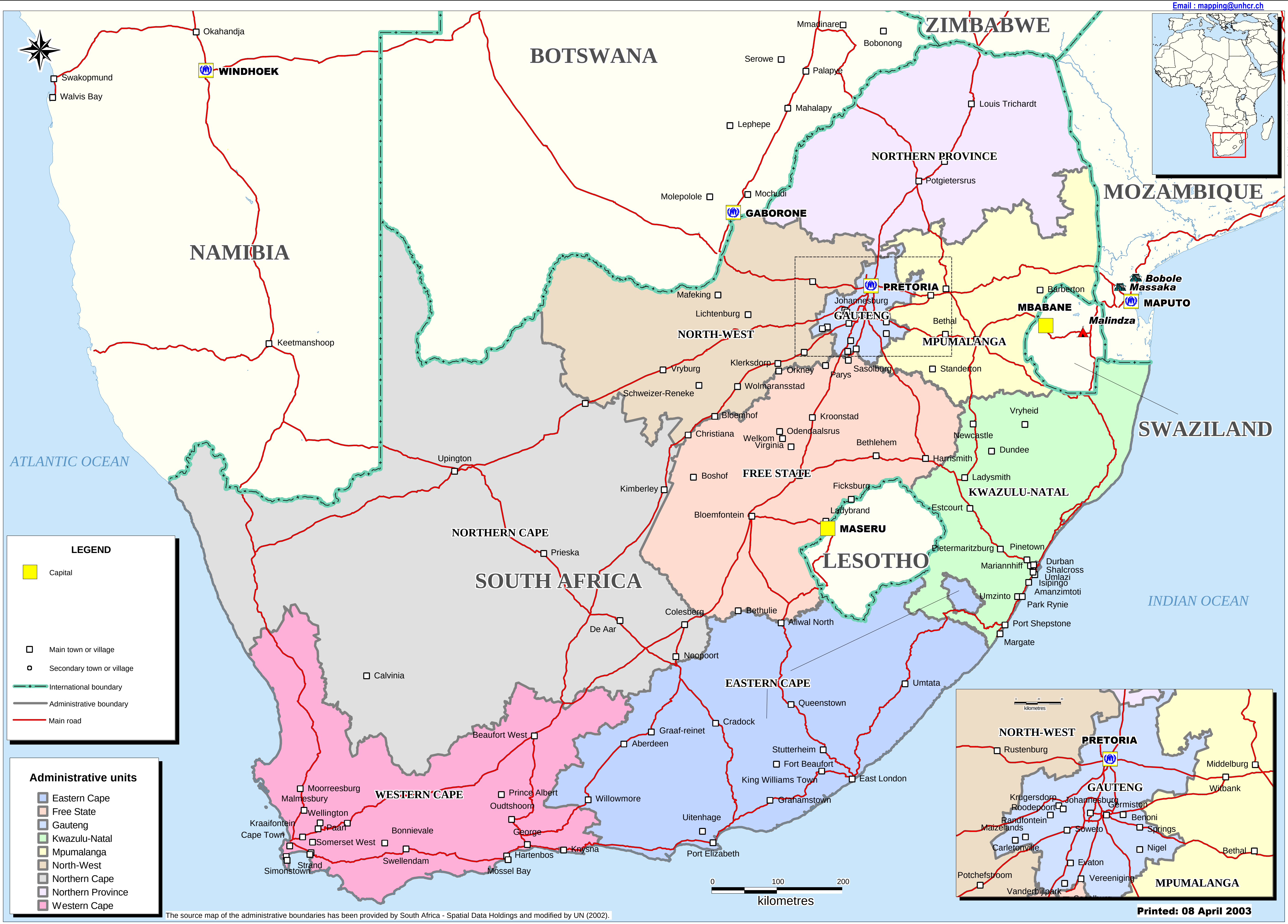

The source map of the administrative boundaries has been provided by South Africa - Spatial Data Holdings and modified by UN (2002).

I. Background

Throughout the world, labour migration has become a major source of support for poor families, living in remote areas, and not being able to sustain themselves by using local resources only. Large volumes of remitted wages move between regions, by different mechanisms. These financial flows can have a huge impact in migrants' home communities, but much of this money is used for consumption purposes, and does not contribute toward long-term investments. Additional mechanisms are needed to foster development, through the promotion of savings and the productive use of remittances.

Against this background, the ILO's Social Finance Programme has joined forces with Teba Bank (South Africa)[i], to explore possibilities for expanding financial services and money transfers in South Africa. This paper gives an overview of migration in South Africa (section II), and describes the characteristics of remittances (section III). Section III focuses on the Eastern Cape, because many of Teba Bank's clients originate from this province. The paper also explores the characteristics of remittance-sending and -receiving households in South Africa (section IV), and gives recommendations on how Teba Bank can adapt its financial services to meet the needs of its clients (section V).

This paper is part of a wider programme, through which Teba Bank and the ILO identify the demand for remittance services and ancillary financial products. Through the programme, Teba Bank aims to extend such services to migrant mineworkers, their families and new clients, outside the mining industry. Teba Bank aims to help its clients to cope with the adverse effects of globalisation, and to improve their long-term standard of living. This programme focuses on migration and remittance flows within the borders of South Africa. It is acknowledged, however, that there is a need for further work at the international level.

II. Migration in South Africa

This section gives an overview of internal migration in South Africa. It describes migration flows between provinces, maps socio-economic profiles of migrant workers and identifies trends in migration[ii].

2.1 Introduction

Between 1992 and 1996, roughly 1.6 million people moved across a magisterial district boundary in South Africa. This group of migrants includes the sub-category of migrant workers, i.e. people who moved in search of a job. In 1996, nearly one million South African residents could be described as migrant workers, out of about 14 million economically active residents[iii].

It should be kept in mind, however, that the exact number of migrant workers is hard to determine. First of all, not all migrants are successful in their search for a job. Some people may be migrant work-seekers, rather than migrant workers. Hence, migration estimates have to be adjusted downward. It is also difficult to distinguish between labour migrants and other migrants. If a person moves to take up a new job, but eventually decides to settle down in the host region, it is difficult to determine until when this person is a migrant, and as of when s/he is a resident. If a migrant breaks off ties with the home community, but eventually decides to return back home, the migration status is also not clear. Hence, from the moment a person leaves the home community to find a job elsewhere, the actual migration status is in doubt, and his or her return home cannot be guaranteed.

In aggregate, labour migrants behave quite differently from other types of migrants. There are some ways in which they can be distinguished. Yet there are some exceptions (particularly in former Transkei and in the Eastern Cape[iv]). In South Africa, migrant workers typically move alone. Residential migrants, on the other hand, typically move together with their families. Migrant workers are also typically men: they are more likely than women to migrate in search for a job[v]. Other differences are covered below.

TABLE 1: MOBILITY STATUS OF ECONOMICALLY ACTIVE POPULATION IN SOUTH AFRICA, 1992-96
Percentage distribution

Movement status of respondent	*Percent moved*
Migrant workers	6
Moved before 1992	28
Moved between districts, 1992-96	11
Moved within same district, 1992-96	27
Never moved	28
Total	100%

2.2 Migrant-receiving areas

Migration flows in South Africa are complex, yet there are some dominant flows. Table 2 gives an overview of migration flows between provinces. Gauteng plays an important role in inter-provincial migration. It receives nearly half of all migrants. These migrants come from all parts of South Africa, but mainly from Limpopo and North West Province. Gauteng's migrants also come to a large extent from KwaZulu Natal, Mpumalanga and Eastern Cape (in order of importance). Gauteng is attracting more and more job-related migration, because the job opportunities in the smaller metropoles are limited. This reflects a high level of desperation among migrant workers, who are moving longer distances into relatively unfamiliar circumstances, in the hope of finding jobs.

Ranking second, and well behind Gauteng, Western Cape also receives many migrants. These migrants originate primarily from the Eastern Cape. There is very little in-migration from other provinces. Mpumalanga and North West Province rank third and fourth, respectively. These provinces received significant migration flows from Gauteng.

The largest stream of migrants to KwaZulu Natal comes from the bordering Eastern Cape, at about 34,000 migrants over the five year span. A significant part of these migrants are women from Transkei, doing migrant work in domestic service in and around Durban, KwaZulu Natal’s metropole. For the most part, KwaZulu Natal takes in few outsiders – the province is not particularly friendly to outsiders, and has its own internal migration system to its metropole.

Because of their severe poverty and the absence of a strong metropole, it appears that Eastern Cape itself, and also Limpopo Province and Northern Cape, receive relatively few migrants from outside their borders. If migration is compared with the total population in a province, however, Eastern Cape ranks at the top. Most of this migration comes from the old homelands of the province, especially from the former Transkei.

Distance generally deters migration. Residential migrants usually typically move to nearby localities, about which they have more information, and in which they can access assistance to make the move[vi]. Yet networks of relatives and community members increasingly open up possibilities to move larger distances. These networks provide temporary accommodation for work seekers, and may also provide jobs. Even if such networks are absent, people may still move over long distances. This is particularly the case for the former homelands. Due to apartheid’s history, migrants from the former homelands routinely travel long distances, to arrive at renowned centers of employment. Such areas are easy to locate and reach, even for people who are not linked to a network of family members in these destination areas.

These processes place migrants at great distances from their communities of origin. They are also quite typical for labour migration. This underlines the importance of efficient remittance services between migrants' host and home regions.

TABLE 2: INTER-PROVINCIAL MIGRATION IN SOUTH AFRICA, 1992-1996
Number of people involved, in all migration directions

Origin	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu Natal	North-West	Gauteng	Mpuma-langa	Limpopo	Total
Western Cape	-	11,022	6,041	3,429	4,263	1,535	14,782	2,196	600	43,868
Eastern Cape	110,416	-	1,883	18,017	34,023	11,908	59,487	6,822	1,339	243,895
Northern Cape	15,094	1,783	-	5,529	854	5,615	6,656	1,070	210	36,811
Free State	6,599	3,606	5,279	-	3,746	16,778	34,208	5,324	901	76,441
KwaZulu Natal	11,423	6,226	737	7,210	-	2,700	79,721	12,243	1,025	121,285
North-West	2,552	852	10,072	9,034	1,409	-	101,252	4,638	5,108	134,917
Gauteng	37,492	12,728	4,186	25,946	26,462	44,198	-	42,172	19,671	212,855
Mpumalanga	2,092	935	591	3,584	5,145	6,070	59,839	-	9,677	87,933
Limpopo	1,308	523	398	2,270	1,609	17,478	119,214	32,826	-	175,626
Total	186,976	37,625	29,187	75,019	77,511	106,282	475,159	107,291	38,531	1,133,631

Source: Statistics South Africa: *Migration Community Profile,* Census 1996

2.3 Migrant-sending areas

Provinces with large impoverished populations contribute substantially to labour migration. Eastern Cape is the main migrant-sending province, followed by Gauteng, Limpopo, North-West and KwaZulu Natal (in order of importance). Hence, Gauteng is important, both as a source and as a destination for migrants. Yet the out-migration from Gauteng comprises to a large extent of people who have moved to Gauteng to work, and who eventually return back home.

The flow of migration from Eastern Cape to Western Cape is under-recorded, and may actually be the strongest in the country[vii]. Many Eastern Cape residents who migrate to Western Cape in search for a job, may never move back home[viii]. They express an interest in going home at a later date, yet few of them ever do so[ix]. Most of these migrants remain in the large cities. Yet some of them also disperse to the non-metro rural districts in the Western Cape, to work on the farms[x].

In total, the former homelands play an important role in labour migration. In KwaZulu Natal, migration flows are mainly internal to the province, yet some migrants move to Durban. Many residents from Bophuthatswana (in North West Province) go either to Gauteng.

2.4 A profile of labour migrants

Census figures reveal that roughly a quarter of the total South African population has ever migrated across a magisterial district boundary. Table 3 shows the importance of the young adult cohort in overall migration. Migration jumps from the age of 20, and then does not increase much after the age of 40. It appears that labour migration strips the rural homelands of young people, particularly men, leaving behind older people and women with children.

TABLE 3: PROPORTION OF THE SOUTH AFRICAN POPULATION EVER HAVING MIGRATED
Percentage distribution

Province	0-19 yrs	20-39 yrs	40-59 yrs	60+ yrs	**Total**
Western Cape	22	39	41	42	33
Eastern Cape	6	18	19	15	12
Northern Cape	11	20	21	18	16
Free State	17	36	37	34	28
KwaZulu Natal	11	28	32	26	21
North West	11	30	32	29	22
Gauteng	27	45	47	44	39
Mpumalanga	17	38	39	39	28
Limpopo	5	16	17	13	10
Total	13	32	34	28	24

Source: Statistics South Africa, *Migration community profile.* Census 1996.

Table 4 shows how migration patterns differ for each race. African and white groups are characterised by very high levels of migration activity[xi]. Indian and coloured groups reflect less active migration patterns.

TABLE 4: FORMER MIGRANTS BY POPULATION GROUP, 1975-80 & 1992-96
Percentage migrants moved between magisterial districts during previous 5-year period

Race group	Population 1975-80	Migrants 1975-80	% migrant	Population 1992-96	Migrants 1992-96	% migrant
African*	9,916,560	894,000	9	29,423,139	2,909,948	10
Coloured	2,251,480	228,980	10	3,405,152	331,321	10
Indian	706,600	63,720	9	1,015, 876	125,664	12
White	4,041,220	1,023,420	25	4,171,635	921,514	22
Total population	16,915,860	2,210,120	13	38,015,802	4,288,447	11

* excluding population of former Transkei, Bophuthatswana and Venda for 1980 census
Source: Kok, O'Donovan, Bouare & van Zyl 2002

For Indians, percentages of migration rose over the 21-year period. For whites, these percentages have fallen slightly, whereas for Africans, they have risen a bit. This result would be in keeping with a steady labour market for unskilled and semi-skilled workers.

Education, race and gender are identified as the strongest determinants for labour migration[xii]. Labour migration is almost entirely an African activity. However, race is not the strongest determinant of labour migration. Rather, low education is identified as the defining factor that determines labour migration:

> '…labour migrants typically inhabit the lowest rungs on the income ladder… labour migration declines as income increases, and residential migration increases with income… When location, sex, age, race and educational levels are considered simultaneously [by using multivariate analysis], the probability of having become a labour migrant is most strongly indicated by a low level of education.' (2002, 101)

In other words: low education is predictive of low income, and low income relates strongly to involvement in labour migration. Labour migration is almost entirely concentrated below income levels of Rand 1,250[xiii] per month, with the probability of involvement becoming negative above a level of Rand 4,000.

2.5 Trends in migration

The new globalizing economy introduced significant changes in South Africa's employment market. The demand for rural unskilled and semi-skilled labour dropped during the late 90s. As a consequence, many migrant workers lost their jobs. This, in turn, affected labour migration flows.

What are the prospects for the future job market for labour migrants? Will the demand for labour migration still fall? As the job market tightens, more and more rural workers commute, whereas others become jobless. If less educated migrant workers can not access a formal job, they may become unemployed, or work in the informal economy. Consequences may be wide-ranging: labour migration may decline, and the flow of remittances may dry up.

Even if the national economy should turn around in the near future – and there are some signs that indicate such a change– this does not automatically generate more employment opportunities for the unskilled. However, it could create an enabling environment for small businesses, including for those run by migrants.

III. Remittances

3.1 Introduction

Remittances are transferred through a wide range of transfer systems, including postal orders, bank accounts and automatic teller machines (ATMs). They may also be carried home by hand. Information on the use of these transfer systems is limited, due to the lack of research, and the sensitivity of the issue. In the Eastern Cape, some information is available through commercial banks and local authorities. Yet this information is rather impressionistic and non-quantitative. It also does not reflect informal transfer methods (such as hand-carriage).

The information in this section is based on telephone inquiries with branches of the Post Office, ABSA Bank, First National Bank and Standard Bank in the Eastern Cape[xiv]. Together with Teba Bank itself, these agencies are the main actors in the formal remittance market[xv].

3.2 Scale of remittances

It is difficult to estimate the scale of remittances in South Africa, as elsewhere. According to the national income and expenditure survey, 1.45 million households remit money[xvi]. Total remittance flows within South Africa range between R 2.45 billion and R. 3.6 billion per year. Despite of estimation problems, it is obvious that in South Africa, internal remittance flows are large in aggregate.

Table 5 shows the mean annual remittances and the percentage of urban households that remit money (by province). Table 6 gives a similar overview for rural areas. These tables also show what percentage of households remit money to their families. Gauteng hosts the highest urban concentration of remittance-sending households. Urban Gauteng was followed by KwaZulu Natal and North West Province and Limpopo. In these provinces, household remittances were above the national urban average. Annual remittance flows (averaged over remittance-sending households, rather than the entire rural or urban population) do not commonly drop below R 1,500. On average, urban remittances amounted to R 2,913. In Limpopo Province they were highest. Eastern Cape reported a low average of R 2,483.

TABLE 5: URBAN HOUSEHOLDS SENDING REMITTANCES: PROVINCE OF RESIDENCE
Percentage distribution

	Mean annual remittances	Mean remittances of those remitting only	% of households remitting
Western Cape	405	2,135	19
Eastern Cape	472	2,483	19
Northern Cape	211	1,770	12
Free State	283	1,569	18
KwaZulu Natal	757	3,128	24
North West	1,045	4,417	24
Gauteng	681	2,722	25
Mpumalanga	205	1,778	12
Limpopo	2,171	9,359	23
Total	632	2,913	22

Source: Income and Expenditure Survey, 1995: data expressed in 2002 Rands

TABLE 6: RURAL HOUSEHOLDS SENDING REMITTANCES - PROVINCE OF RESIDENCE
Percentage distribution

	Mean annual remittances	Mean remittances of those remitting only	% of households remitting
Western Cape	588	2,971	20
Eastern Cape	184	1,466	13
Northern Cape	207	1,668	12
Free State	113	1,072	11
KwaZulu Natal	250	1,880	13
North West	137	1,142	12
Gauteng	670	2,481	27
Mpumalanga	795	4,150	19
Limpopo	228	1,551	15
Total	283	1,983	14

Source: Income and Expenditure Survey, 1995: data expressed in 2002 rands

On average, remittance flows originating from rural areas were smaller than those sent from urban areas. Yet in Gauteng, Western Cape and Mpumalanga, rural remittance flows were higher than urban remittance flows.

Rural remittances were on average R. 1,983. This is about one third lower than urban remittances. The highest rural contribution was again from Mpumalanga. Rural Western Cape and Gauteng followed. Other provinces recorded rural remittances below the average. It should be noted, however, that even at these relatively low levels, remittances can make a significant difference to the lives of rural people, who have no other reliable source of income.

3.3 Accessibility of financial services

Recently, poor South African communities have become more engaged in banking. In the 1980s, most disadvantaged people were not familiar with the use of cheques, and few of them were aware of the wide range of services offered by the mainstream banks. Today, however, the demand for banking services has increased steadily in rural areas, and the use of savings and transmission accounts has become fairly widespread.

Yet at the same time, financial institutions have been closing down branches in rural areas, in an attempt to reduce their costs. Towns of the size of Stutterheim usually have one or two banks, and automatic teller machines are generally absent. In many small farming towns in the Eastern Cape, bank representation is even lower. This is partly due to the economic decline in the province. Yet it also relates to the rising violence and bank robberies. A similar trend has emerged for the post offices. They faced serious problems to cover their costs in remote centres, and hence, they have closed down many offices.

Since savings services and money transfer services are have become less accessible in remote areas, many people now have to travel to a medium-sized or large center, to access banking services. This increases their (transaction) costs. The better-off rural clients can overcome these problems by using internet services. Yet the poor do not have access to these facilities. This may not be a coincidence: banks have deliberately tried to make their services less accessible to the poor, because they feel that this target group is not profitable.

Banks also impose other obstacles to turn down poor clients. They often require a proof of employment, such as a pay slip, to open a new bank account. The mainstream banks reported that they open savings and transmission accounts if the prospective client submits a (bar-coded) ID document, and a salary advice or letter of employment. Furthermore, the opening balance of the account should be between R 50 and R 200. The unemployed are not able to submit such a document. As a consequence, the rise in unemployment has cut off many poor people from banking services. Women, married or single, are more adversely affected by this employment requirement. Especially for women heads of households, the consequences are drastic. For them, the post office is a last resort for formal banking services.

Over the past ten years, banks have also discriminated against illiterate clients, by making them stand in special queues. They justified this by arguing that these transactions were very time-consuming. After a strong, negative public reaction, the banks eventually lifted this restriction. Yet they are still unenthusiastic about uneducated customers, to say the least.

From the interviews it also appeared that bank employees hardly received any queries from prospective recipients of remittances. People were more inclined to use automatic teller machines, if available. It thus seems that both the recipients and the banking staff avoid direct contact with each other, to reduce frustration and humiliation.

3.4 Use of transfer mechanisms

In the 1980s, remittances were mainly transferred through money orders. These could be bought at the post office for a small fee. They could be cashed easily at a post office branch near by the migrant's home village. According to representatives from post offices, the average size of a remittance to beneficiaries in large cities of the Eastern Cape is between R 500 and R 2,000 per transaction. In smaller towns, people reportedly receive between R 100 and R 1,500 per transaction.

Yet this system has some drawbacks. Today, many rural post offices reportedly do not have adequate facilities to handle money orders[xvii]. Recipients thus have to collect the money order at their local branch, after which they need to travel to another post office in a larger town to cash the money order. This reduces the speed, and increases the transaction costs of remittances through money orders.

People who live in small centres therefore prefer to receive remittances through bank accounts, provided that they can open such an account. The migrant worker often helps the family member to open a bank account while s/he is on a home visit. Banks in Queenstown, King Williams Town and Cathcart all indicated that many remittance-receiving people have their own bank account, separate from the account of the sending relative. The relative may either make a direct deposit into the account of the recipient, or may make inter-bank transfers.

Either of these transfers would reach the beneficiary's account very quickly, possibly even within a day. Cash deposits are immediately available to recipients, provided that they are deposited at a bank branch. If they are made at an agency for the bank – for example at a shop or a store – the transfer process may take one day. The transfer of electronic deposits can take up to two days. Cheque deposits are much slower: they will only be cleared after seven to ten working days (including weekends and public holidays). This is partly due to a strong increase in banking security procedures, to address the risk of bank fraud.

Today, money orders are still used, yet electronic transfers have become much more widespread. ATMs are convenient, and can be used day and night, unlike other banking services. Yet their availability is limited. Other "plastic payments" (such as credit and debit cards) are not common among poor rural households. These services are also not likely to expand much in the near future. This can partly be explained by the fact that poor people have difficulties to get a credit card payment accepted. Furthermore, the use of such cards is reported to be unusual, even among the relatively high-class small business owners in urban informal settlements[xviii]. Electronic money transfer agents, like Moneygram, operate in South Africa, but they focus on international money transfers. They do not play an important role in remittance transfers within the country.

3.5 Transfer costs

This section compares the costs of transferring R 200 through various transfer mechanisms. Money orders involve the highest charge. Post offices charge 14 percent for a remittance of R 200 through a money order. The migrant has to pay this amount up front. There is no further charge for cashing the money order at the receiving end. Since this amount has to be paid by the migrant, it is likely to be very popular among the recipients.

The costs for bank transfers include charges for deposits and for withdrawals. The bank charges between zero to 0.9 percent of the deposited amount, (plus a commission of R 2.50 for deposits above R 500). Interestingly, these banks did not make any difference between deposits made through a teller and deposits through an ATM[xix]. Mainstream banks charge between 8 and 13 percent for a teller withdrawal of R 200. If a client withdraws money from an ATM of his or her own bank, the rate is lower (between 1.5 to 2.4 percent). This is a very attractive option. However, accessibility of these services is limited, since many towns in the Eastern Cape do not have ATMs. In many towns, the only option is therefore to withdraw remittances through tellers. In Cathcart, many rural families reportedly avoid the expensive teller services, by using the ATM at the post office[xx]. If they withdraw a remittance of R 200, they pay a charge of nearly 4.5 percent. This system is cheaper than the banks' teller services, yet it is still quite expensive.

In addition to these charges, recipients also have to take into account other transaction costs related to the collection of remittances. Transportation costs are just one example. These costs are estimated at about R 50 per transaction. The advantage of travelling further to reach an ATM machine will probably be offset by the extra transportation costs involved. Taking these costs into account, rural recipients may thus be better off, if they use teller services nearby their homes.

IV. Household characteristics

4.1 Remittance-sending households

Various factors determine remittance-sending behaviour. One important factor is the number of household members that earn a wage. This strongly determines annual remittance flows. Tables 7 and 8 give an overview of the relation between the number of employed household members and remittance patterns.

TABLE 7: URBAN HOUSEHOLDS SENDING REMITTANCES: NUMBER EMPLOYED
Percentage distribution

Number of household members employed	Mean annual remittances (in Rand)	Mean remittances of those remitting only	% of households remitting
No one employed in household	177	1,358	13
1 employed in household	795	3,584	22
2 employed in household	542	2,206	25
3 or more employed in household	1,094	3,936	28
Total	632	2,913	22

Source: Income and Expenditure Survey, 1995 (Data expressed in 2002 Rands)

The relation between the number of employed persons in a household and the annual remittances is not linear. For urban households (Table 7), annual remittances are higher when only one household member was working than when two household members are earning a wage. Likewise, the amount of remittances for three wage-earning household members was almost equal to the amount of remittances for one wage-earning household member. However, for rural households, remittances increased along with an increase in employed household members (Table 8).

These irregular patterns may be traced to differential returns for women versus men, and for older versus younger workers. Women and youth tend to earn much less, compared with men in their mid- or advanced careers. Hence, they may not be able to remit as much money as their spouses or fathers.

TABLE 8: RURAL HOUSEHOLDS SENDING REMITTANCES: NUMBER EMPLOYED
Percentage distribution

Number of employed household members	Mean annual remittances	Mean remittances of those remitting only	% of households remitting
No one employed in household	130	1,051	12
1 employed in household	317	2,190	15
2 employed in household	372	2,298	16
3 or more employed in household	946	4,374	22
Total	283	1,982	14

Source: Income and Expenditure Survey, 1995 (Data expressed in 2002 Rands).

Remarkably, households with no employed persons can still remit money. These households generate income from other sources, including micro-enterprise activities. These patterns are an important element in the remittance picture. Non-wage-origin remittance flows may therefore need to be catered for specifically, in order to promote viable remittance transfer services. Table 9 and Table 10 reflect remittance-sending patterns by income group (for urban and rural households, respectively).

TABLE 9: URBAN HOUSEHOLDS SENDING REMITTANCES: INCOME DECILE
Percentage distribution

Income decile	Mean annual remittances	Mean remittances of those remitting only	% of households remitting
Decile 1, poorest	23	449	5
Decile 2	92	874	11
Decile 3	180	1,656	11
Decile 4	340	2,467	14
Decile 5	542	3,408	16
Decile 6	382	2,439	17
Decile 7	503	2,547	20
Decile 8	528	2,477	21
Decile 9	940	3,024	31
Decile 10 richest	1,650	3,856	43
Total	632	2,913	22

Source: Income and Expenditure Survey, 1995

The relation between a household's income and its remittance-sending behaviour is also not linear. These remittance distributions are bimodal, with the ultimate peak in the 10th decile (i.e. the richest income group). As can be seen from Table 9, urban households from the sixth to the ninth decile remit less than poorer households. A similar pattern appears for rural households. The underlying factors for these patterns are not fully apparent. It may well be that higher-income households replace the interdependence and mutualism (as known in rural societies) with the urban principles of individualism.

TABLE 10: RURAL HOUSEHOLDS SENDING REMITTANCES: INCOME DECILE
Percentage distribution

Income decile	Mean annual remittances	Mean remittances of those remitting only	% of households remitting
Decile 1, poorest	48	554	9
Decile 2	71	711	10
Decile 3	86	845	10
Decile 4	145	1,206	12
Decile 5	326	1,961	17
Decile 6	504	2,729	18
Decile 7	746	3,756	20
Decile 8	407	1,963	20
Decile 9	739	2,617	28
Decile 10, richest	1,672	4,713	35
Total	283	1,983	14

Source: Income and Expenditure Survey, 1995

4.2 Remittance-receiving households

Rural surveys suggest that migrant labour contributes to 20 to 25 percent of household income in the eastern coastal provinces. This is lower than in the 1970s, but it is still very significant[xxi]. There is, however, a trend of remitting less money, especially in light of the availability of pensions and grants for elderly people and rural wives. More and more male labour migrants reject the demands of their rural households. The impact on migrants' families is very severe. The loss of migrant work and remittances contributes to rural impoverishment, and to the wider rural crisis that now afflicts South Africa.

Strikingly, there is a consistent negative relation between people's likelihood of receiving remittances, and their reliance on pension income[xxii]. This stands in contrast with the positive relation between people's likelihood of receiving remittances, and their reliance on wages. These patterns may suggest that migrant workers no longer support their elderly parents, if they are seen to have a secure pension income. Yet they may also suggest that mutual support networks between migrants and their families break apart, i.e. that migrants do not support members who are not able to maintain their financial standing, and hold up their end of the mutual obligation. Instead, they may prefer to support household members who are safe mutual exchange partners, equipped with adequate and reliable income, and able to provide support on a reciprocal basis.

4.3 Use of remittances

Questions about the use of migrant remittances have since long been a subject for debate. From a development point of view, it is interesting to assess whether remittances are used for productive purposes. It is, however, quite difficult to judge which type of investment is the most productive. In the short term, investments in small businesses may be very productive. Yet it should be remembered that there is considerable variation in the small business sector. Some enterprises are well run, and yield a good return, yet others do not generate any profit. However, even the latter type may still be very useful for rural households, since they can help substantially through smoothing of income fluctuations.

When looking at the extent, to which remittances contribute to productive investments, one should also assess the degree to which receiving households can manage their revenues. Well-organized households are able to accumulate wealth and resources, by investing remittances in family housing, children's education or business activities. These investments can be considered 'productive', as they help to improve the household's future economic position, and render the family more secure. Weaker households, on the other hand, struggle to save, and are continually cut back by unexpected events, which burn up any resources that they have put aside for the future. For such households, productive investments of remittances may not be an option.

Worldwide, remittances are to a large extent used for consumption purposes, such as food, transport, clothing and minor household emergencies. They may also be used for less obvious purposes, such as housing, agriculture and home farming, education, health, ceremonial uses, entertainment and repayment of debts incurred smoothen income fluctuations. These global patterns are also found in South Africa (as can be seen in Table 11). The main investment categories include (i) consumption / daily living expenses, (ii) housing expenses, (iii) debt repayment, (iv) educational and training expenses, (v) durable goods, (vi) weddings and funerals, (vii) other ceremonies and (viii) health care. Some expenses fall completely outside the investment category, i.e. they do not generate any financial benefits. Other expenses may be either incurred for consumption or to generate income (or reduce future expenses). Debt repayments, for example, do not generate any income, but they can avoid a lot of damage to a household budget. Informal credit typically involves high interest charges, so if loans are not repaid in time, they can leave people heavily indebted. Expenses for weddings, funerals and ceremonies also fall outside the investment category. Yet these expenses are made to meet social obligations, they serve to strengthen community networks. These networks may prove useful on future occasions, for example when people are looking for jobs, or when they are trying to cope with emergencies. Hence, these expensed may generate future financial benefits. As can be seen from Table 11, remittances are hardly invested for productive purposes.

TABLE 11: REPORTED USES OF REMITTANCE INCOME BY RECEIVING HOUSEHOLD[1]
Percentage distribution

Consumption/ daily living expenses	81
Housing expenses	7
Payment of debt	4
Educational/ training expenses	3
Buying durable goods	3
Wedding or funeral	1
Other ceremony	0.5
Health care	0.5
Total	100

Source: South Africa Migration Survey, 1999

The recorded 3 percent of investments in education would appear low, and may reflect the time of year of the survey (as education costs clump in January). The same may have some application to weddings and ceremonials, which occur at widely spaced intervals.

At the global level, as in South Africa, remittances contribute to education. This long-term investment in human capital is expected to generate a future income, and hence act as a safety net for retirement. Yet this strategy has become increasingly risky, since education does not automatically lead to income-generation. As a result of extreme levels of poverty and unemployment, many children may be forced to leave school even before they graduate. Those children that manage to graduate, may still fail to find a job and make a living. Even if a child obtains a good job, this does not necessarily guarantee his or her ability to support the parents in the long-term. Hence, many households can no longer rely on their children's education as a retirement strategy.

[1] Quantitative data on the use of migrant remittances are only sparsely available. The South African Migration Survey provides data on the issue, yet these data are based on roughly 240 cases, or about 8 percent of the total sample, so this may not reflect the true picture.

V. Conclusions and recommendations

At present, the banking coverage of the Eastern Cape is shrinking. The Post Office and the formal banks are withdrawing, in light of the high costs of outreach, and the new opportunities of internet banking. These financial institutions also consider the transactions of the poor and uneducated unprofitable. As a result, many poor people do not have access to banking services, and incur higher costs in receiving remittances.

It is possible and in fact very desirable that an institution such as Teba Bank fills this gap. It could, for example, develop a pilot programme to transfer remittances to the rural poor. The geographical area still has to be determined: in the Eastern Cape there are still questions about the profitability of banking with the rural poor, even if this takes place through an institution with ample experience.

Challenges

When embarking on such a pilot programme, the following constraints have to be taken into consideration:

1. Transport costs are unsustainable for rural customers (the Eastern Cape is a very dispersed province);

2. Transaction costs are unsustainable for banks, in relation to the number of clients they can have at small rural branches;

3. Major banks tend to have a negative, user-unfriendly attitude toward rural poor clients;

4. Crime risks (specifically armed robbery) are very high, both for banks (branches and cash in transit) and for individuals. (Robberies and hijackings have occurred so frequently, nationally, that crime is believed to have already had a very negative effect on formal bank charges across the board.)

These issues limit possibilities of delivering services to poor people in remote and scattered settlements. However, all of these factors have to be taken into account, and dealt with or managed before any remittances or savings plan can be potentially viable. It is reportedly not uncommon for rural banking clients to travel 50 – 100 kilometres (round trip) to reach their banks and engage in any transaction. These travel costs are often much larger, compared to the amount that the bank charges for its remittance services.

Trends in labour migration

At the same time, the macro-economic environment is very unfavourable. South Africa's economy has been shedding unskilled jobs, both in urban and rural sectors. Experts do not fully agree on trends in relation to labour migration. Some authorities have argued that migration has been stable over the long term, and has not decreased in aggregate. Yet others insist that labour migration has been declining, as jobs have been lost in the mining and construction industries. Many “migrants” may in fact be “migrant work-seekers”. Yet the extent, to which unsuccessful job-seeking has taken place among migrants, has not been established.

Furthermore, commutation work – going and returning to the place of work on a daily or weekly basis – has replaced migration for many less skilled and educated rural poor. However, commutation usually takes place over short distances, and generally it does not involve the need to transfer funds. Furthermore, commutation jobs are often filled by unskilled rural workers, whose wages tend to be very low. This also leaves very little margin to afford financial services.

Demand for remittance services

Little, if any direct information is available on the extent to which migrants hand-carry remittances to their home towns. At the same time, the high levels of crime against persons in Eastern Cape are likely to make such practices risky and correspondingly unpopular. This may boost the demand safer transfer methods.

Despite the unfavourable macro-economic climate, and the related strain on demand for a less educated, rural (migrant) work force, the volume of South African Rand remittances appears to remain very large, in the billions. There is definitely a need for a well-organized financial institution, which could expand into the rural areas of the Eastern Cape, and meet the needs of migrant workers’ families, particularly in relation to remittance transfers. Inquiries indicate that the use and understanding of formal banking services in rural areas is increasing rapidly, while the availability of banking services is falling equally fast. ATMs may provide one solution: they are popular with poor clients, and offer possibilities of cutting transaction costs. Yet they also have limitations, since they provide an opportunity for criminal attacks. Options need to be worked out that can become sustainable.

Remittance services in rural areas

The market for remittance services in remote locations is characterised by high-cost, low-profit transactions. If rural poverty banking is to become viable, financial institutions have to look at ways to enlarge the market in rural areas, and reach high volumes. Banking with the poor may need to expand, so that the full line of products and services will reach enough volume to be sustainable, and make a reasonable profit.

This may mean spreading out a net of services that cascade down from banking centres to villages. Models such as village banking have succeeded outside South Africa, but have not yet taken a solid hold in the country. As noted, the following concerns apply:

- Small town banks no longer do enough business to be sustainable as banking operations. They are also at risk of violent crime. Hence, many of them are shutting down available facilities.

- Village settlements do not contain the skills and expertise needed to run their own banks. They also don't generate enough volume to justify heavy investments in training and capacity building.

- Transporting large amounts of money on the road is dangerous for any party, be it banks or individuals. Routine, visible, physical transfers of significant amounts of money in Eastern Cape are probably not viable. The same holds for mobile banking, and any other banking system that requires an increase in cash delivery transactions.

- Going the other way, travel for women wanting to use banking facilities in rural towns and cities is problematic, and likewise carries high personal risk, which deters use of remaining facilities.

Financial services for the poor

In light of these problems, it may be worth looking at remittance services as part of the overall framework of savings mobilization and services – that is, as part of a larger package based on the total need of rural families, rather than narrowly on transfer of remittances alone. Savings services of different kinds are currently very popular in South African rural districts. The current research has also touched on the need for credit facilities among households that no longer receive migrant remittances. These households need access to financial services, to cover their emergency financial needs. If financial institutions restrict their services to people who receive remittances, they may not be able to develop a strong client base. Furthermore, formal banking institutions may also need to establish links with indigenous savings groups, which can operate effectively on the ground, as self-organizing structures in villages.

The characteristic problems of rural remittances and financial services in the Eastern Cape are common to banking with the poor, at the bottom end of the market. Transactions are too small and numerous to be profitable, and usually cost more than they are worth in banking returns. If participants are grouped, transactions can become fewer, cheaper and larger. Appropriate mechanisms for grouping participants have to be explored.

The Grameen Bank has been a pioneer in this area. The most common model is savings groups, or clubs with small numbers of self-selected participants, who know each other well. This minimises the strain if anyone defaults. The very poor are usually dedicated savers, but in a low-resource context they rarely manage to accumulate enough savings to cope with emergencies. Hence, many people lose their fledgling asset bases following a crisis. Savings mobilization facilities can help poor households in such situations. They can accumulate resources, so that they can borrow against their own accumulated funds in emergencies. They can also use these own resources to capitalize business or investment uses. Remittances can also contribute to poor people's savings.

Yet if remittance transfer mechanisms do not provide for savings mobilization, they may simply promote consumption. The provision of a range of savings mechanisms is probably the most effective method of trying to ensure that remittances can be applied against long-term goals which can be properly described as productive uses.

Even if remittances are coupled with savings, the question still remains how rural savings groups can be linked to formal financial institutions, so as to make financial services effectively available in spite of travel risks and costs in the vast internal distances of Eastern Cape. Opening more actual branches is likely to remain problematic, due to the costs and the high crime factor.

ATM facilities may be used, provided that they can be well located for protection and for servicing. ABSA has developed a plan for automated lending to ATM savers in good standing. This plan is geared towards the upper end of the market, yet poor savers could access their own savings accounts through ATMs to agreed levels. As such, transaction costs are minimized, and outreach to poor people is increased.

Cell phone and other technologies can also facilitate rural lending to village savings groups in the Eastern Cape.

Getting immediate access to credit without leaving home can perhaps be done by adapting the common practice of borrowing against cash which will become available at a known time: both lenders and pensioners in KwaZulu Natal make a frequent practice of borrowing among their neighbours against either pension benefits to be paid out, or cash they have lent out and which is to be repaid at an agreed time.

In the case of banking institutions, being able to attest by an automated phone call that a depositor has saved certain resources would enable the depositor to borrow locally, in the village and on demand, against banked funds to be accessed during later routine trips to towns equipped with branches. Saving by investing in debt obligations is perhaps the safest form of community saving, since the saver does not need to keep any cash for long, and leaves the village only occasionally.

Using this kind of perspective based on savings mobilization principles, it would follow that Teba's mission, or that of any experienced service provider coming onto this terrain in Eastern Cape, would probably concern as much savings mobilization and savings services as it would financial transfers revolving around remittances in the narrow sense. Providing mechanisms to aggregate part of remittance transfers as saved assets would be likely to go some distance toward the goal of helping orient the use of remittances toward productive outcomes. At the same time, it could also help clients to avoid the worst outcomes of being faced with emergencies without any liquid assets, and make some contribution toward fighting the devastating effects of unemployment in a deeply poor rural province.

Further data collection

At the same time, additional data still needs to be collected in order to provide a base for a sound initiative, aimed at improving remittance and savings potential. In some areas covered by the research, no documentary information was turned up.

More information is needed on the following factors:

- Informal transfer of remittances, hand-carried or through other mechanisms;
- Women's needs and barriers in relation to remittance transfers and other financial services;
- Information in relation to mineworkers, their distribution and their financial services needs;
- Demand in regard to savings and credit services, and conditions for sustainable initiatives;
- Length of stay away from home by migrants sending home remittances
- Jobs held by senders of remittances;
- Time duration of remittance streams from children who have left home to parents living apart, and which types of household can count on the longest-lasting remittance support;
- Women and men as senders of remittances, and other characteristics of senders;
- Household composition of remittance receivers;
- Activities and investments funded by remittances;
- Institutions inside the community which offer savings facilities to remittance receivers;
- Relation of remittance support to parents in competition with income support to married families of remittance senders;
- Share of remittances sent by children who have moved out of the parents' home, as opposed to migrant workers;
- Share of remittances sent by migrants doing informal micro-enterprise rather than formal work;
- Changes over time in the profile of remittance senders, and changes in the profile of receiving households and individuals.

[i] Teba Bank is a registered bank, which provides money transfer services to mineworkers. It also seeks to reinforce its relationship with rural communities and miners, through the provision of various financial services. Examples include savings products, funeral insurance, home loans and micro-loans. For the time being, Teba Bank's money transfer services are geared towards migrant mineworkers. Yet it is exploring possibilities to expand its services to the wider non-mining rural public.

[ii] Findings are mainly based on the South African 1996 Census as presented by Statistics South Africa, and as analyzed by the HSRC team of P Kok, M O'Donovan, O Bouare and J van Zyl in their forthcoming 2002 publication *Internal Migration in South Africa*. This section also includes results derived from the 1999 South African Migration Survey, a joint project of Brown University, Pretoria University and the HSRC, from the national Income and Expenditure Survey for 1995, and of two surveys carried out in Eastern and Western Cape for DBSA and for Cape Town Metro Council (Cross et al 1999, 2000).

[iii] Source: national census.

[iv] People who migrate from former Transkei to Eastern Cape, reportedly tend to take their families with them when they migrate for extended periods (Cross et al 1999).

[v] Source: Kok, O'Donovan, Bouare and van Zyl (2002).

[vi] Source: Kok, O'Donovan, Bouare and van Zyl (2002).

[vii] In view of the history of clearances and racial expulsions in Western Cape, it seems that a share of Eastern Cape migrants to Western Cape prefer to conceal their origins on national surveys in order to be sure to avoid any possible risk of expulsion. In the October Household Survey of 1995, the number of African respondents in Western Cape who claimed to be born in Worcester district – a farming district inside Western Cape which has a small established African population – was about three times the total estimated African population of Worcester. (Cross et al 2000).

[viii] (cf Bekker 2000)

[ix] the DBSA-sponsored migration survey of 1998 found no such cases of completed return migration, in a sample of nearly 300 households distributed across the province (Cross et al 1999, 2000).

[x] (Cross 2002)

[xi] However, no overall comparison can be made for the total African grouping, since the 1980 census excluded the so-called 'self-governing territories' (or semi-independent homelands) of Transkei, Bophuthatswana, and Venda.

[xii] Source: Kok, O'Donovan, Bouare and van Zyl.

[xiii] In May 2003, one South Africa Rand equalled 0.12 United States Dollar.

[xiv] Bank branches were queried mainly in Queenstown, King Williams Town and Cathcart. These are medium-sized, local centres, which provide banking services to a wide hinterland. The information from these branches therefore also covers some of the smaller towns.

[xv] Teba Bank's sister company, TebaA Ltd, only carries a very small volume of remittance transfers.

[xvi] National Income and Expenditure Survey (1995).

[xvii] Providing such services implies that post offices should hold significant amounts of cash, for which they can not provide adequate security.

[xviii] Delca Research Associates (2000).

[xix] Resentment of high bank charges is now common among South Africans of all races, and has recently been cited on the national broadcaster as a reason for low and falling savings rates across the country. It is widely believed that the formal banks are using various banking charges increasingly to make up losses on bank fraud.

[xx] This is the common South African inter-bank system (SASWITCH) rate. This rate covers withdrawals through an ATM, provided by a banking institution other than the client's own. The charge is 0.52 percent for the first R 100, and 0.38 percent for each additional hundred rand.

[xxi] Source: Cross, Zulu, Bekker and others for DBSA (1997, 1999).

[xxii] Dieden, 2002