

**DETERMINANTS OF MIGRANT REMITTANCES:
A CASE OF THE UGANDAN COMMUNITY IN
CAPE TOWN, SOUTH AFRICA**

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DECLARATION

I,the undersigned hereby declare that this is my own work and that I have not previously submitted this thesis to any academic institution for a Degree. All sources used in this thesis have been properly acknowledged by means of references.

Signed by.....on this.....day of.....2012



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ABSTRACT

The increasing human movement has remained a significant challenge to development initiatives across the world. Driven by the Push and Pull factors of migration, migrants go to places where the expected gain outweighs domestic projected earnings in a given period of time. Although only a fraction of migrant earnings are remitted, remittances have come to play an important role in support of the consumption needs of the migrant sending communities. Thus participating in remittance-inspired migration has become a rational survival strategy to sustain household income across a spectrum of low-income countries.

For many Low Income Developing Countries, remittances are potentially a powerful tool of international development finance that have steadily grown in importance and have evolved from being an assistance hand-out into one of the major source of foreign currency. Unlike other kinds of financial flows, they do not create liabilities and are by their very nature targeted at the poorer or poorest sections of society in receiving countries. This research aims at assessing the determinants of migrant remittances through a case study of the Ugandan Community in Cape Town. In order to objectively state the determinants of migrant remittances, the study focuses on the socio-economic status of migrants, as well as pure altruism and self-interest migrant remittance theories to provide a background for this study.

Policy and documentary analysis was used to complement the qualitative and quantitative research findings derived from interviews and questionnaires with a variety of key stakeholders. These include financial institutions, the Department of Home Affairs and, in particular, the Ugandan community in Cape Town. Based on the research findings the study suggests policy recommendation on what could be done to increase migrant remittances sending, in particular through formal channels.

ABBREVIATIONS AND ACRONYMS

ABSA	Amalgamated Bank of South Africa
ADB	African Development Bank
ANC	African National Congress
BOP	Balance of Payments
BOU	Bank of Uganda
DFCU	Development Finance Company of Uganda
DHA	Department of Home Affairs
FDI	Foreign Direct Investment
FICA	Financial Intelligence Center Act
GDP	Gross Domestic Product
HTA	Home Town Associations
IDB	Inter-American Development Bank
IFAD	International Food and Agricultural Development
IMF	International Monetary Fund
IVTS	Informal Value Transfer services
KYC	Know Your Consumer
LAC	Latin American Countries
LDC	Low Developing Countries
MTN	Mobile Telephone Network
MTO's	Money Transfer Operator



NELM	New Economics of Labour Migration
NGO's	Non-Governmental organizations
NRM	National Residence Movement
ODA	Official Development Agency
OECD	Organization for Economic Cooperation and Development
RSA	Republic of South Africa
SADC	Southern Africa Development Committee
SAPS	South African Police Services
SARB	South African Reserve Bank
UIA	Uganda Investment Authority
UNHCR	United Nations High Commission for Refugees
URA	Uganda Revenue Authority
USA	United States of America



TABLE OF CONTENTS

Declaration	ii
Acknowledgement	iii
Abstract	iv
Abbreviations and Acronyms	v
Table of Contents	vii
List of Figures	x
List of Tables	x

CHAPTER ONE

1 INTRODUCTION AND BACKGROUND.....	1
1.1 INTRODUCTION.....	1
1.2 PROBLEM STATEMENT.....	4
1.3 RESEARCH AIMS AND OBJECTIVES	5
1.3.1 Aims of the Research.....	6
1.3.2 Research Objectives.....	6
1.4 THEORETICAL FRAMEWORK.....	7
1.5 RESEARCH DESIGN AND METHODOLOGY	8
1.5.1 Introduction	8
1.5.2 Research Design and Procedure.....	8
1.5.3 Case Study Methodology.....	9
1.5.4 Qualitative Methods.....	10
1.5.5 Quantitative Methods.....	11
1.5.6 Policy Documents and Electronic Communication.....	11
1.5.7 Ethics Statement.....	12
1.6 SIGNIFICANCE OF THE STUDY	12
1.7 LIMITATIONS ENCOUNTERED WHILE CONDUCTING THIS RESEARCH	12
1.8 ORGANIZATION OF THE STUDY	13
2 LITERATURE REVIEW	15
2.1 INTRODUCTION.....	15
2.2 THE CONCEPT OF POVERTY	16
2.3 THE CONCEPT OF MIGRATION	19
2.3.1 Ravenstein's Push-Pull Migration Theory.....	21
2.3.2 The Harris-Todaro Expected Income Model	23
2.3.3 The Neoclassical Economic Theory.....	24
2.3.4 The New Economics of Labour Migration	25
2.4 DOMESTIC AND INTERNATIONAL MIGRATION PATTERNS	26

2.5	THE CONCEPT OF REMITTANCE	28
2.5.1	<i>Remittance Channels</i>	29
2.5.1.1	Formal Money Transfer Channels	29
2.5.1.1.1	Non-Bank Money Transfer Operators	30
2.5.1.1.2	Bank-based Remittance Transfers.	31
2.5.1.2	Informal Remittance Transfer Channels	32
2.5.1.2.1	Personal Couriers.....	33
2.5.1.2.2	Informal Value Transfer Systems (IVTS).....	34
2.6	MAGNITUDE OF GLOBAL REMITTANCES FLOWS.....	35
2.7	USES OF MIGRANT REMITTANCES.....	37
2.8	SUMMARY	39
3	DETERMINANTS OF MIGRANT REMITTANCES.....	40
3.1	INTRODUCTION.....	40
3.2	DETERMINANTS OF MIGRANTS REMITTANCE.....	40
3.2.1	<i>Microeconomic Determinants of Migrant Remittances</i>	40
3.2.1.1	The Socioeconomic Status of Migrants	41
3.2.1.2	Altruism.....	42
3.2.1.3	Pure Self-Interest.....	43
3.2.1.4	Tempered Altruism Implicit Family Agreement	43
3.2.1.5	Time after Migration	46
3.2.2	<i>Macroeconomic Determinants of Migrant Remittances</i>	46
3.2.2.1	Host and Remittance Receiving Country’s Macroeconomic Policies.....	46
3.2.2.2	Migrant Stock in key Destination Economies	47
3.2.2.3	Existence of a favorable Transfer Channels	48
3.3	SUMMARY	49
4	PERCEPTIONS OF THE UGANDAN COMMUNITY IN CAPE TOWN ON THE DETERMINANTS OF MIGRANT REMITTANCES	50
4.1	INTRODUCTION.....	50
4.2.	BACKGROUND OF THE UGANDAN COMMUNITY IN SOUTH AFRICA	50
4.3	DETERMINANTS OF MIGRANT REMITTANCE FROM THE UGANDAN COMMUNITY IN CAPE TOWN... 52	52
4.3.1	<i>Characteristics of Remittance Senders among the Ugandans in Cape Town</i>	52
4.3.1.1	Demographic characteristics (Age, Gender, Marital Status).....	52
4.3.1.2	Migration Status	54
4.3.1.3	Level of Education among the Ugandan Community living in Cape Town	55
4.3.1.4	Employment	56
4.3.1.5	Migrant’s Income	58
4.3.1.6	Time since migration.....	60
4.3.2	<i>South African Financial Regulatory framework</i>	61
4.3.3	<i>REMITTANCE TRANSFER CHANNELS USED</i>	63
4.3.3.1	Formal Remittance Transfer Channels in South Africa	63
4.3.3.1.1	ABSA Bank Partnership with Western Union	63
4.3.3.1.2	Western Union Partnership with MTN Uganda.....	66
4.3.3.1.3	Standard Bank Partnership with MoneyGram	67
4.3.3.2	Informal Money Transfer Systems	68
4.4	INTENDED USE OF REMITTANCES FROM UGANDANS IN CAPE TOWN	72
4.5	REMITTANCE DECISION	74
4.6	SUMMARY	75

5	CONCLUSIONS AND RECOMMENDATIONS	77
5.1	INTRODUCTION	77
5.2	SUMMARY OF FINDINGS	77
5.1.1	Altruism.....	77
5.1.2	Self-interest	78
5.1.3	Migrant’s socioeconomic status.....	78
5.1.4	South African Financial Regulatory framework	79
5.1.5	Informal Money Transfer Services.....	80
5.2	RECOMMENDATIONS	80
5.2.1	Strengthening Bilateral Cooperation between Uganda and South Africa	80
5.2.2	Proposed Incentives to Formalize Remittance Transfer	82
5.2.2.1	Special Category Deposit Account.....	82
5.2.2.2	Targeted Tax Break	83
5.2.2.3	Migrant Fund Matching Schemes.....	83
5.2.3	Granting MTO’s preferential access to Bank of Uganda clearing and settlements systems	84
5.2.4	Inclusion of Migration and Remittance in Development Policy and Planning	85
5.3	ISSUES FOR FURTHER RESEARCH.....	85
5.4	CONCLUSION	86
6.	REFERENCES:.....	87



LIST OF TABLES

Table 1 Top 15 Remittance Receiving Low Income Developing Countries	36
Table 2 Socioeconomic demography of the Ugandan community in Cape Town	64
Table 3 Theoretical motives and their effects on remittances	65

LIST OF FIGURES

Figure 1 Remittance and Development Linkages	38
Figure 2 The New Economics of Labour Migration Remittance Motivation.....	44
Figure 3 Theoretical motives and their effects on remittances	45
Figure 4 Remittance Flow Model	49
Figure 5 Migration Status for Ugandans in Cape Town	57
Figure 6. The Ugandan Community in Cape Town Employment Chart	59
Figure 7. Period remitter has lived in Cape Town (Years)	61
Figure 8 ABSA Western Union Remittance Transfer Process	67
Figure 9 Steps to Send Money through MTO's and IMTS	72
Figure 10 Preferred Transfer Channels Used by Ugandan Migrants in Cape Town	73
Figure 11 Intended Use of Remittances from Cape Town to Uganda.....	74
Figure 12 Types of In-Kind Remittances from South Africa to Uganda.....	74
Figure 13 Percentages of the Intended Use of Remittances by Region in Uganda	75
Figure 14 Reasons for not remitting	76

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Over the past three decades, explaining and understanding the increasing human movement across the world has remained a significant challenge, not only for researchers and government policy makers but also for the international community. Although current migration flows relative to population are weaker than that of the past decade, presently, more than 214 million people live outside their countries of birth (IOM, 2012). A range of scientific explanations, ranging from political insecurity and climatic conditions to socio-economic, cultural and racial factors, have been given as to why people migrate to areas far away from their place of origin in order to support their families back home.

The negative effects of globalization, trade liberalization, poor economic policies and political instability¹ (push factors of migration) have left many people in low-income countries in absolute poverty. This dilemma, according to Ratha (2003), has placed many people in a situation where they have to choose either to stay or go to other economies where the expected gain (pull factor of migration) outweighs domestic projected earnings. Thus, participating in remittance-inspired migration becomes a rational survival strategy to sustain household income across a spectrum of low-income developing countries.

Remittances are person-to-person transfers, and are usually classified as pro-poor financial transfers since they are meant to improve the lives of those in need. Unlike other kinds of financial flows, they do not create liabilities and are by their very nature targeted at the poorer or poorest sections of society in receiving countries (Johnson, G and Whitelaw, W, 1974). Remittances are potentially a powerful tool of international development finance, and recently they have steadily grown in importance across all regions and have evolved from being an assistance handout into one of the major source of foreign currency in many developing countries (Taylor, J and Wyatt, T. 1996).

¹ Some people flee their motherland to escape political persecution; however, this study will focus on socio-economic factors in international migration.

For smaller economies, remittances often constitute the largest source of financial flows, after Foreign Direct Investment (FDI). They are also more stable, with less or no strings attached, than other capital flows such as FDI, Official Development Assistance (ODA) and capital market flows. Although the top recipients of remittances are larger countries, smaller countries receive more remittances as a share of their Gross Domestic Product (GDP).

Despite this, however, it is generally believed that in the Great Lakes Region, as in many other remittance-dependent Sub-Saharan economies, remittances make little contribution to saving and investment. This is so, because it is commonly postulated that migrants' remittances are used exclusively for supporting the consumption needs of recipients (Ratha, 2005). Todaro, (1969) for instance, contends that "there is little evidence that remittances sent to smaller economies have been saved or invested, as in most other countries remittances are used primarily for immediate consumption". Thus, conventional wisdom stresses that remittances feed on themselves, in the sense that they increase the need for further migration in which remittances come to constitute the household income without any of it being invested in the local economy (Taylor et al., 1996).

However, from Barham and Stephen's analysis of migration, remittances and inequalities (1998: 6), it is suggested that income in less developed economies can be sustained, so long as the inflow of remittances continues. They demonstrate that over the years, these funding sources have proved helpful and stable, with thousands of direct and indirect positive economic multiplier effects and in many ways have prevented rural economies from total collapse, thereby casting substantial doubt on the conventional wisdom, which regards unrequited pro-poor transfers as unsustainable and economically unviable (Barham et. al., 1998: 9).

In the past few years, official remittance flows have increased at a rapid rate, from US\$ 200 billion in 2002 (Ratha, 2003) to US\$ 440 billion in 2010, projected on the basis of trends in the fourth quarter of 2010 (Ratha, 2011). It is estimated that a substantial fraction of total remittances is sent and received informally. This is due to a number of factors, including high transaction costs, financial regulations in the host economy (structural determinants), literacy levels of both the remittance senders and receivers, and the unavailability of financial institutions (networks) in rural areas (Economist, 2002: 25).

The importance of remittances for the receiving economies and migrants families raises the question of which migrants are sending remittances, and why? To what extent do factors such as economic crisis, gender, length of time away from home, relationships, altruism, mutual benefit, self-interest and political ideology influence those who send money and goods to families left behind?

In the African context for example, remittances are guided by the philosophy called “Ubuntu”. Ubuntu is a social and spiritual philosophy serving as a framework for African society. In essence, “a person is a person through the assistance of other person”. Thus the practice of Ubuntu is fundamentally inclusive, involving respect and concern for one’s family. In Uganda for instance, remittances are expected to show a stable increase well into the foreseeable future as globalization, political and economic circumstances and the relatively low cost of travel fuel out-ward migration.

The number of the Ugandan community in the Diaspora in 1980 was relatively low but due to the above-mentioned factors the number has since grown to over 1.2 million people, most of whom still maintain links with their families back home. Between 2007 and 2011, recorded remittances have increased from US\$ 749 million dollars to US\$ 965 million. The Bank of Uganda (BOU) and the Ministry of Finance, Planning and Economic Development (MoFPED) attribute the increase in remittance sending by Ugandans abroad to the nature of their sectors of employment² that were not greatly affected by the ranging global economic down turn (BOU: 2012).

Put to productive use (such as savings and investments) these remittances can have a positive impact on the receiving economies. In view of their recent growth and their subsequent development role, remittances are increasingly attracting the attention of the private sector, national governments and the international community of researchers, with a view in particular to formulating policies that would boost remittances and their use for socioeconomic development.

²Academics, Administrators, Accountants, Medical Doctors, Nurses, private security and self-employed informal traders.

1.2 PROBLEM STATEMENT

Over the years, development economists have debated extensively whether the net effect of receiving remittances on economic growth and equality is positive or negative in receiving countries. However, the supply side of the remittances equation has been relatively under-examined. The need to engage in scientific social research on the determinants of pro-poor financial transfers comes from the growing debate on the importance of analyzing the determinants of migrant's remittances with testable models and scientific theories. Remittances are steadily increasing, attracting greater attention in the development discourse (Grieco, 2003).

Basically, this is associated with the repeated failures of development interventions over the past three decades to bring a meaningful and sustainable improvement in people's standard of living. The emergence of migrant remittances in the development discourse is partly based on the conviction that the norms, trust and social networks that exist between migrants and their families back home have an important impact on the willingness of migrants to send remittances.

In spite of the potential importance of remitting as a private mechanism of income redistribution between persons and across sectors, permitting, for example, consumption in excess of locally generated incomes or generating access to additional sources of capital funds, no comprehensive theory of remittances exists. However, Lucas and Stark (1985) have established a suggestive theoretical model to understand motivations for remittance, categorizing motivations to remit as altruism, self-interest, or mutually beneficial arrangements. In their own analysis, altruism models imply that migrants remit purely to increase the well-being of their family members.

Remittances motivated by self-interest are monies sent home to invest, to purchase assets, to ensure one's inheritance or to maintain status and return with social capital (Brown and Walker: 1995). Finally, remittances motivated by a mutually beneficial agreement include repayment of a migrant's education or other expenses incurred before their migration.

Despite substantial research into the importance of remittances (Foster, 1995; Grieco, 2003; Stark, O and Taylor J, 1991; Knowles and Anker 1981; Sander 2003; Rempel and Lobdell 1978; Ratha, 2003), there is surprisingly little research evidence on the motives for remitting. Most of these motivational models (altruism, self-interest and mutually beneficial arrangement) tend to

consider the characteristics of the migrant and the cultural context in which the decision to remit is made, but neglect structural factors such as host countries banking regulations beyond the migrant's control, that influence their remitting behavior.

Other studies that have appeared (Brown and Walker 1995; Todaro 1969; and Sanders 2001) are not couched in terms of testable hypotheses derived from a theoretical framework. In an effort to build upon the Lucas and Stark model, this research intends to investigate and present a model that incorporates both structural and behavioral determinants of Ugandan migrant remittance from Cape Town.

In an effort to incorporate both structural and behavioral determinants of migrants remittances to Uganda, this research seeks to recognize that individual or household decisions to remit or not, are limited or facilitated by a string of social and structural constraints outside the individual's control. Thus, understanding the remittance supply side will therefore require answers to questions such as;

- What are remittances?
- Who sends remittances?
- To whom do they send them and when and how do they send them?
- Why are they sending remittances? What really **motivates** migrants to remit?
- What opportunities and obstacles do they face in doing so?



1.3 RESEARCH AIMS AND OBJECTIVES

Assessing the development potential of remittances necessitates investigating what motivates migrants to migrate and to remit? According to Stark et al., (1985), the theory of the New Economics of Labour Migration³ clearly postulates that sending remittances implies an implicit contractual arrangement between migrants and the households left behind. In the absence of a well-functioning market, poor households choose to minimize threats to their economic well-

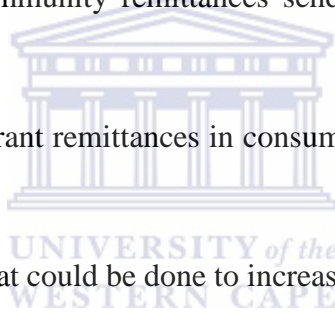
³ The New Economics of Labour Migration argues that remittances help lessen production and market constraints faced by poor household in imperfect economies.

being by diversifying the allocation of household resources, including family labour (Russell: 1992; Acosta, P, Lartey, E, and Mandelman, F, 2003).

1.3.1 Aims of the Research

This research aims to:

- Provide the study with the framework needed to widen the understanding of the conceptual and theoretical dimensions within which determinants of migrant's remittances are debated.
- Provide a social-economic profile of Ugandan migrants living in the Cape Town suburb of Bellville (the case study area of this study).
- Examine the Ugandan community remittances sending behavior using individual and household questionnaires.
- Investigate the role of migrant remittances in consumption smoothing, investment and family insurance.
- Provide suggestions on what could be done to increase migrants remittances



1.3.2 Research Objectives

The specific objectives of the research are as follows:

- To capture from a theoretical point of view, the individual, household and contextual factors that influence migrant's decisions to remit.
- To critically provide a conceptual and theoretical framework that outlines the interplay between the motives to migrate and the motives to remit.
- To show whether the migrant's intentions are inspired by a mixture of pure altruism, self-interest and mutually beneficial relations to improve the socio-economic situation of the remittance receiving communities.
- To draw conclusions and make recommendations at a conceptual and practical level.

1.4 THEORETICAL FRAMEWORK

Based on the literature review and field studies carried out, this research is build upon Stark's (1985) theoretical model regarding the altruistic utility function, in which migrants' utility includes welfare, consumption and investment motives. My own model includes migrants' social networks; survival strategies; education; income and interest rates differentiations; as well as structural determinants in both the host and receiving economies. A survey of 80 households within the Bellville area was used to determine what motivates migrants to remit to Uganda.

In this case, the determinants of migrant remittances are the independent variable and socio-economic development is the dependent variable. Economic and social policies in host countries usually create structural factors that positively or negatively determine migrant's willingness and capacity to remit. These include monetary policies that restrict the amount and the rate at which non-citizens can remit and participate in the mainstream economy, respectively. This research looked at these policies as implemented by Commercial Banks and Money Transfer Organisations (MTO's) to see how they affect migrant remittances.

Migrants also remit to assist those left behind (pure altruism), while others remit to invest for self-interest reasons in real estates in preparation for a better tomorrow in their country of origin, should the living conditions in the host country become hostile and force them to return home. Social Networks function as an intermediary variable in the remittance equation⁴. This study tests each individual determinant and its interplay with intermediaries in the remittance circle.

This study is based on the assumption that the socio-economic status of migrants significantly influences their income. What motivates migrants to remit part of their income is dependent on both structural and behavioural determinants. Thus, the socio-economic status of the migrants and a mixture of pure altruism and self-interest have a major impact on the propensity of migrants to remit. The theoretical framework for the study is elaborated in great detail in chapter 2 of this mini-thesis.

⁴Social Networks include, Hometown Association (HTA), as well as formal and informal MTO's such as Western Union, MoneyGram, Hawala agents and Kyeyo Trans-dollar agents

1.5 RESEARCH DESIGN AND METHODOLOGY

1.5.1 Introduction

This section outlines the research methods used while undertaking this study. Research methodology is the analysis of the principles, rules and postulates employed by a discipline; the development of methods; procedure or set of procedures to be applied within a discipline (Kotrari, 2005). Research methodology further includes selecting a theoretical framework suitable to carry out investigation through data collection and encompasses considerations regarding the values and limitations thereof (Ethridge, 2004). In order to gather information, this research employed a qualitative case study method to get a deeper understanding of factors influencing migrant remittance with specific reference to the Ugandan Community in Cape Town South Africa.

1.5.2 Research Design and Procedure

Household surveys were the major source of remittance data, and in-depth interviews were conducted with these households in order to derive a more descriptive and objective motivation behind migrant remittances. Data collected from these households is important for this research, especially in identifying micro-level determinants of remittance sending such as the migrant's education; gender; length of time away from home; income; number of dependants; migration status, work history and their changing attitudes and perceptions towards migration, remittances and development over time.

The main research instruments for this research included:

- (i) Semi-structured interviews with targeted Ugandan community members in Bellville, relevant active NGOs, Academics and Researchers, financial institutions and the department of Home Affairs in Cape Town. These groups of people are targeted because they directly or indirectly involved in the remittance cycle. The purpose of these interviews is to extract information that was used in this research.
- (ii) The administration of 80 household based questionnaires on a random sample basis, with 80 Ugandan households in Bellville. The purpose of this survey is to obtain

information on migrant's household income, occupation, gender, number of dependants and their remittance behavior.

In the course of carrying out this research, the following activities were also conducted:

- (i) An intensive literature study: this combined both primary and secondary data from official published and unpublished documents, as well as books and articles.
- (ii) The identification of key participants. These included Ugandan migrants and the executive committees of their organizations, Commercial Banks, South African Postal office, informal remitters, Department of Home Affairs and Bank of Uganda officials.
- (iii) Progressive electronic consultations with prominent stakeholders and informers in Uganda. These included Committees of the Ugandan Hometown Associations, and Refugee business and social networks.
- (iv) Data processing, analysis and presentation

1.5.3 Case Study Methodology

Case studies are non-normative research that investigate a situation without prejudice and examines a clearly defined site and report on that one site. According to Yin (1984) a case study is a method for learning about a complex instance, based on a comprehensive understanding of that instance obtained by extensive description and analysis of that instance taken as a whole and in its context. Case studies are also known for their detailed investigations of individuals, groups, institutions and social units. The use of a case study research attempts to analyze the variables considered relevant to the study.

The advantage of case study research is that it provides a comprehensive understanding of the situation under investigation, thereby allowing the researcher to obtain a complete picture of what is happening and why. Researchers usually prefer this method for its participatory bottom-up approach, which takes into account information obtained by extensive description and analysis from all data sources. However, the three problems often encountered by using case study research have to do with matching the questions the researcher set out to answer and the

methods for selecting the instances under examination, reporting the basis for selecting the instance, and integrating findings across several instances when the findings in one were inconsistent with those in another.

In the context of this research, the case study method is suitable because it makes it possible to study a complex concept of remittances, with special emphasis on what determines migrant remittances. This research took the form of a case study of the Ugandan Community in Bellville, an area located between the Northern and Southern Suburbs of the Cape Metropolitan area. The main reason for choosing Bellville as a case study area is that Bellville is a preferred place to stay and do business for many foreign nationals especially those from the Great Lakes region (Uganda, Kenya, Tanzania, Somalia, Burundi, Rwanda, DRC and Sudan). This research made use of both qualitative and quantitative research methods as well as primary and secondary sources.

1.5.4 Qualitative Methods

In order to collect more detailed information, this research took a qualitative case study approach to get a deeper understanding and multiple interpretations of the dynamics of determinants of migrant remittances from a case of the Ugandan community in Bellville. This involved participant observation; direct observation; structured and unstructured interviewing measurements. Often in applied social research, qualitative methods require the researcher to become a participant in the culture or context being observed (Yin, 1984). As a direct observer, the researcher watched rather than taking part, thereby observing certain sampled situations and people rather than trying to become immersed in the entire context.

Telephonic and electronic correspondences were carried out to complement face-to-face interviews. Interviews are among the most challenging and rewarding form of measurement that requires a personal sensitivity and adaptability as well as the ability to stay within the bounds of the designed protocol. In this context, the interviewer's role involved, amongst other things, locating and enlisting the cooperation of respondents; motivating and convincing identified respondents of the importance of the research; and conducting the interviews in a professional and confidential manner that were comfortable for the respondents.

Semi-structured interviews that were conducted with different stakeholders included one with the Assistant Manager Standard Bank money transfer section in Tygervalley, ABSA Bank Bellville, 1 official from the Department of Home Affairs in Bellville, and 80 Ugandan migrants living in Cape Town. The researcher chose this method for its validity, credibility, transferability, dependability and in depth scrutiny of all variables and observations of all participants in order to derive a more accurate set of answers for the research questions.

1.5.5 Quantitative Methods

Unlike qualitative research, quantitative research is the systematic scientific investigation of properties and phenomena and their relationships. Quantitative methods are research techniques that are used to gather information dealing with numbers and other forms of measurable data (Key, 1997; Kotrari, 2005). In the context of this research, questionnaires from 80 household surveys from the sampled Ugandan community in Bellville were administered to collect empirical data relating to the determinants of migrant remittances. This helped to complement and triangulate the qualitative data derived from the interviews, as well as the information from policy documents and electronic communication which is discussed below.

1.5.6 Policy Documents and Electronic Communication

Documents on migration, remittances and development policies were analyzed to obtain an overview of migrant remittances in general. While this research analyzed the determinants of migrant's remittances from the supply perspective, it also sought to acquire information on the impact of remittances on the Ugandan economy as a secondary objective. This is very important because the projected or intended outcome of remittances is an important factor in keeping migrants motivated to remit more. Due to financial constraints, information from Bank of Uganda official was collected via electronic communication and it further complemented the information derived from the interviews and questionnaires from the 80 household surveys.

In general this research used the data collection instrument commonly referred to as Triangulation. This was a two-dimensional way of data collection, entailing the administration of questionnaires and documentary analysis. The use of these different research methods was meant to derive maximum validity and reliability from the research findings. The combination of

quantitative and document analysis research methods with qualitative research instruments assisted in countering the weaknesses that would be involved if only one research method was to be used.

1.5.7 Ethics Statement

Details of different stakeholders in this study are confidential and were handled with the necessary sensitivity and strict standards of confidentiality. All associated reference materials were appropriately acknowledged. This research detailed in this study was conducted in alignment with ethical research standards. The researcher ensured that Consent for the names used this research was sought and the information gathered was treated sensitively and confidentially. The researcher also pledged to meet all the other legal and ethical requirements of the University of the Western Cape throughout the course of the study.

1.6 SIGNIFICANCE OF THE STUDY

It is anticipated that the findings of this research will have both academic and strategic significance. Academically, the findings of this research will add to the existing body of knowledge, which highlights major determinants of migrant's remittances and the importance of migrant remittances in the socio-economic development of migrants sending countries. Strategically, the findings may also assist national governments, international organizations and the private sector in formulating policies to minimize remittance barriers and facilitate the usage of these remittances in a more productive and sustainable way, for the economic and social development of all.

1.7 LIMITATIONS ENCOUNTERED WHILE CONDUCTING THIS RESEARCH

The main limitation encountered while undertaking this research, besides time, finance, mobility, absenteeism and feasibility, was the fact that my key respondents, the Ugandan Migrants are often not keen on divulging vital information of their socioeconomic status let alone their migration status to anybody else in the form of interviews. This is because over 65 percent of the total numbers of Ugandan in South Africa are holders of Refugee asylum permits, some of which

are not necessarily renewed in time as required by the Home Affairs department. This and other negative attitudes from some potential respondents rose from the fear of contravening their community commitment to be secretive about operations of their community's socioeconomic affairs, an offense punishable by ex-communication from the community members.

Because I am the Executive Chairman of the Cape Town-Based Ugandan Diaspora's I was accorded access to 'inside' information that a non-Ugandan would never be privileged to have access to, due to the sensitivity of the issue of Money transfers from the Republic of South Africa. My ability to speak more than four Ugandan languages was another bonus that further gave me more information from a wider cultural and tribal spectrum of Ugandan community.

The importance of increased volumes of remittance to the socioeconomic development of Uganda was clearly explained and emphasized that this could only be attained through good policy formulation, backed by research done by Ugandans, for Ugandans in the best interest of the Ugandan community and the Republic of Uganda at large. The issue of objectivity was another challenge. In order to offer an accurate and un-biased account, I divorced any personal views I had based on my identity as a Ugandan South African.

In the process of collecting remittance data from South Africa's Financial Institutions and Money Transfer Operators, administrative barriers like bureaucracy, lack of cooperation, absence and failure of Bank Officials to honor appointments done, prolonged the time in which this study was to be executed. This was overcome by the involvement of senior Bank officials in the sensitization of the important of remittances not only for the benefit of migrants but towards increasing the Bank's clientele base when migrants formalize their Banking and transfer channels choices.

1.8 ORGANIZATION OF THE STUDY

This mini-thesis is divided into five chapters:

1. **Chapter One:** This is basically the point of departure, within which the research topic was contextualized. Topics covered include research problem, purpose and objectives of the study, the research design and methodology, and the significance of the study.

2. **Chapter Two:** This chapter provides an in-depth conceptual and theoretical framework within which the concept of migration, remittances and Development were analyzed. This chapter looks in detail at the role of migrant remittance in development at a global, regional and local level.
3. **Chapter Three:** This chapter provides a general profile of determinants of migrant remittances from a microeconomic and macroeconomic perspective.
4. **Chapter Four:** This chapter presents and analysis research findings, showing what really motivates migrants to remit in the context of the Ugandan community living in Bellville, Cape Town (the case study area of this research).
5. **Chapter Five:** This chapter presents findings and other major emerging themes in this research. It draws conclusions and made recommendations for policy formulation and further research.



CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The effects of globalization and the rapid technical-scientific progress in the last two decades are among the factors that are considered to have increased migration and remittances flows. In modern societies, migration and remittances are increasingly becoming a very sensitive subject of public opinion and continue to impact on a large segment of people mostly in developing economies. This is greatly manifested by the attention bestowed on it by literature which approaches this topic from both theoretical and empirical points of view.

Migrant remittances constitute the second biggest sources of foreign transfers to low income developing countries (LDC) after Foreign Direct Investment (FDI), surpassing the Official Development Aid (ODA) and private capital transfers as the engine for development (Alba, et.al 1998). According to World Bank (2006) estimates, developing countries received US \$ 176 billion in official remittances in 2005, up 95 percent from 2000, and up 189 percent from 1995. Figures of global remittances as per the fourth quarter of 2011 were standing at US\$ 440billion showing a significant increase over time (Ratha, 2011a).

Presently, with many G20 member countries being affected by the current Global economic recession, and the apparent nature of corrupt bureaucrats in Low Developing Countries (LDC), the allocation of public resources in key state utilities has worsened the already dilapidated state of economic infrastructure of most developing countries in meeting consumption and future investment needs. Because of their private nature, the use of remittances is not influenced by governments as a good fraction of it is sent and received informally due to financial regulation in the main stream economy, which compels Diasporas to send remittances informally.

The utility of migrant economic participation in sending economies is increasingly capturing the attention of policy makers to highlight the importance and significantly to explore contributions of migrant remittances, to the general economic development of low income countries. Over the years, researchers have continuously been searching for new avenues for an appropriate

development paradigm that would effectively uphold the global economic development in the new world order.

This chapter begins by explaining the theoretical terrain of poverty, migration, remittance and development stretching from the 1980's through the 1990's to the present day. This section is focused on the assessment of the core theories and concepts underlying this study. These include definitions of concepts of poverty, migration, remittance and development on the one hand, while assessing the new economics of labor migration on the other hand. The discussion of these concepts and theories in this chapter is intended to provide an in-depth conceptual and theoretical framework within which determinants of migrant remittances is analyzed. This chapter provides justification for using these concepts and theories by looking at their relevancy in the study.

2.2 THE CONCEPT OF POVERTY

Throughout all cultures in history, there is no terminology that has been blessed with rich vocabulary in the study of human development and economics, like the term Poverty. From an analytical perspective, the concept of poverty traces back to the codification of poor laws in Medieval England by Booth in London and Rowntree in New York. Their empirical studies published in 1901, were the first to develop a poverty standard for individual families, based on estimates of nutritional and access to other socioeconomic aspects that contributes to people's well-being (Ajakaiye, D and Adeyeye, V, 2001, Maxwell, 1999).

Poverty is one of the concepts in development economics studies that can be interpreted differently by different scholars. This section's main objective is to briefly define the concept of poverty. Although many interpretations exists (Lipton, 2001; Fusco, 2003; World Bank, 2002; Sen, 1982), this section is limited to interpretations that are useful to the present study. Poverty is sometimes explained with the use of subjective information from surveys to critically identify thresholds that distinguish the poor from the non-poor. In contrast with the conventional absolute poverty line approach, where consumption based poverty lines are specified by experts, the subjective poverty line is the outcome of people's perceptions and assessment of their own well-being (Alwang, J, and Joegensen, S, 2001).

According to Ringen (1988) poverty is routinely defined as the lack of what is necessary for material well-being such as food, housing, land, assets, lack of multiple resources and basic infrastructure leading to physical deprivation. While definitions of poverty vary by gender, age and economic context, perceived causes of poverty are affected by one's status and location. In Nigeria for example, women associate poverty with lack of food, medication, and clothing for the children, while men associate poverty with lack of material assets (Adepoju, 2004).

Generational differences come into play, where young people in Uganda, for example, opt for capital accumulation, while older people consider poverty as lack of land and cattle. On Wall Street, however one would associate poverty with losing multilateral tenders and stock piles in the New York Stock Exchange. In other parts of the world, poverty is associated with the powerlessness of Sub-Saharan region producers to negotiate the price of the produces in the world markets (Handley et.al, 2009). One of the frequently cited definitions of poverty comes from the World Bank (2006), describing poverty as “unacceptable human deprivation in terms of economic opportunities, health, nutrition and education, as well as lack of employment and security.

In the South African context, the poverty line is often set at a level that includes people living below 40 percent of the national income, with those living below 20 percent considered being very poor (Aliber, 2001). Internationally, however, such poverty lines are more typically defined as people or households living below a percentage of medium or mean equivalised income, while some in the World Bank, itemize those in poverty as those who live on less than a dollar per day (Susan, 2006).

Poverty is also defined in terms of lack of political and economic capabilities. According to the Organization for Economic Cooperation and Development (OECD), one of the major aspects of poverty is the overall lack of influence over public policies which deprives people's basic political freedom and human rights (OECD, 2001). Economically, this involves people's inability to earn a decent income, to consume, to have assets and access to food, security and other social amenities enjoyed by those outside the circle of poverty. Such an approach is in line with the Sen's (1982) theoretical construction of development as associated with capabilities. In his criticism of utilitarianism, Sen (1982) considers that the possession of goods may not translate

into well-being automatically, as possession is different from ability to benefit from the characteristics of the goods possessed.

Following Robert McNamara's redistribution with growth speech to the World Bank Board of Governors in Nairobi in 1973, a number of new aspects were added to the definition of poverty. The emphasis on relative deprivation helped to reconfigure new definitions of poverty beyond just a failure to meet minimum nutrition or subsistence levels to failure to keep up with the standards prevalent of a given society. Another shift in poverty redefinition was aimed at broadening the concept of income poverty, to a wider set of basic needs like health education and security. The concept of basic needs further inspired present national development policies in rural and urban development debates about human development.

The understanding of the nature of poverty, according to the UNDP Africa Human Development Report of 2012, is further widened by the Multi-Dimensional Poverty Index (MPI) which measures poverty by the access a person gets to education, health, and living standards that include access to adequate housing, food, cooking fuel, toilets, water, electricity and assets. Overall the lower the human development index (HDI) of a country, it is more likely that the percentage of people considered poor will be higher using the MPI, than using an income poverty measure often used by the World Bank.

In Africa, one out of ten people is surviving on one meal a day and over 218 million Africans are malnourished. Realizing a food secure continent is essentially important in the smallholder subsistence farming sub-sector, where the bulk of the poor and food-insecure people live and where most of its food is produced. The UNDP argues African policymakers to work towards a food-secure future by increasing agricultural productivity, effective nutrition, building resilience and empowering the rural populace especially women and the youth (UNDP 2012).

Most poverty stricken economies in the past three decades have experienced population growth at an average of about 2.5 percent over the same time their GDP growth in per capita terms averaged about 1.6 percent (Kwan, 2003). This increases competition for few available resources, thus migration to the less privileged becomes a rational choice to sustain poor households.

2.3 THE CONCEPT OF MIGRATION

Throughout history, the movement of human population has essentially been a necessary element of the major progression in structural changes. Migration as it is known today possesses two main characteristics. Forced migration is where people are forced to leave their habitual homelands against the will. Reasons for forced migration are usually conflict-induced displacements⁵, disaster-induced displacements⁶ and development-induced displacements⁷. Other forced migrants include smuggled or sometimes trafficked people who are moved by deception and coercion by profit-driven organized crime groups for the purpose of exploitation in other countries.

Voluntary migration however, does not include any aspect of force and does not encompass the entire nation but it is done by individuals or families in particular communities within the state, who happen to have positive information and are willingly able through their families or individual support able to finance their migration to a destination country. Unlike forced migrants, voluntary migrants are largely influenced by their need to strategically allocate their accumulated human capital to destinations where they will be best remunerated in a conducive and better environment for their future personal and family development (Portes, 1978).

The total number of global migrants has increased over the last decade from an estimated 160 million migrants in 2001 to 214million in 2011(IOM, 2012). The percentage of migrants varies from one country to another. With over 87 percent of its population, Qatar has the highest number of migrants, followed by the United Arab Emirates with 70 percent, Jordan with 46 percent, Singapore with 41 percent and Saudi Arabia with 28 percent of its population being migrants. Countries with the low percent of migrants include Turkey with 1.9 percent, India with 0.4 percent and Indonesia with 0.1 percent. South Africa occupies an interceding position with 3.7 of its 49 million people being migrants (IOM, 2012).

⁵ People flee their homes and State authorities are unable or unwilling to fully protect them from, armed conflicts, generalized violence and persecution on grounds of political, religion, race, ethnicity and sexuality.

⁶ People displaced due to natural disasters, environmental and human-made disasters

⁷ People compelled to move as a result of policies and projects implemented to enhance development

Migrants are classified in different groups depending on the type and reason for migration. Domestically, internal migration includes Internally Displaced People (IDP) often displaced due to natural disasters, violent rebellions, ethnic genocide and wars; and rural-urban migration where people of rural areas move to urban centers in search for jobs and better social amenities. International migration involves cross-border movements from one country to another. These include but not limited to economic migrants, students and refugees.

The conditions under which a migrant enters a receiver population can have broad implications for all parties involved and these differences affect the overall process of migration. Surplus and shortage of labor between countries can be corrected through migration and as the cost of communication decreases the interaction between people in the Diaspora and their families back home increases. Labor force migration is believed to be an issue of social, political and economic significance faced by the majority of low income developing countries (Stanton: 1995).

Most international migration often goes to countries with which a sending country has close geographical or colonial ties that provides the migrant easy access in terms of distance and language proximity and convenience respectively. Most LDCs are still experiencing a wide gender gap in education with female literacy lower than their male counterparts. This implies that men are more likely to get high-skilled employment than women who are in most cultures denied equal chances for education.

This brings about the existing income gap and the fact that women in certain cultures are considered as 'home keepers' worsens and limits their chances to fully participate in the mainstream global economy. According to the Lucas (2005) the share of female migrants between 2004 and 2005 only increased by 2 percent to 49 percent of the total international migration, despite the fact that they constitute more than half of global population.

The expression 'migration experience' refers to the fact that different causes for migration will produce different outcomes observable from a sociological perspective. The psychological trauma of fleeing ones homeland and leaving family members behind can also complicate ones' adjustment to new environment. Considering that migrants can be political asylum seekers or economic job-seeker migrating not for the sake of bettering their own lives, but with hope to earn

some money to assist their families left behind to survive, there is thus no single theory that can provide a comprehensive explanation for the migration process (Todaro: 1969).

The following sub-sections therefore, attempts to collectively bring a body of scholarship from various background and disciplines to assemble a satisfactory theory able to account for the assorted causes and implications of international migration. The migration theories herein discussed include Rosenstein's push and pull migration theory; the Harris-Todaro expected income model; the neoclassical economic theory and the New Economics of Labour Migration.

2.3.1 Ravenstein's Push-Pull Migration Theory

Although a comprehensive theory is unattainable, it remains a crucial task for researchers to explain why people migrate. Ravenstein's push-pull theory of migration is important because it helps provide an understanding of population movements within their wider political and economic contexts. Ernest Ravenstein is widely regarded as one of the earliest migration theorist who used census data from England and Wales to develop his "Laws of Migration". He concluded that migration was governed by a "push-pull" process; that is, unfavorable conditions in one place (oppressive laws, heavy taxation, etc.) "Push" people out, and favorable conditions in an external economies attract or "pull" them in (Ravenstein, 1885 cited in Molho, 1986).

Ravenstein's laws stated that the primary cause for migration was better external economic opportunities. Susan (2006) reformulated Ravenstein's theory to give more emphasis to internal (or push) factors. In her analysis, she also outlined the impact that intervening obstacles have on the migration process. She argues that variables such as distance, physical and political barriers, and having dependents can impede or even prevent migration. Susan (2006) pointed out that the migration process is selective because differentials such as age, gender, and social class affect how people respond to push-pull factors, and these conditions also shape their ability to overcome intervening obstacles. Furthermore, personal factors such as a person's education, knowledge of a potential receiver population, family ties, and the like can facilitate or retard migration.

This is collaborated by Van Den Berg, H, and Bodvarsson, O (2009) findings which argue that economic incentives to migrate are a function of undesirable socioeconomic conditions in the

source country or associated with attractive conditions in the destination country. While economic immigrants are attracted by better career opportunities; low tax regimes; and further studies in overseas institutions, immigrants that are politically inclined are attracted by the state of civil rights; political and religious freedom; law and order in a particular foreign country.

Thus, the decision to migrate to a particular foreign country is often influenced by factors grouped in four main categories indicated below;

- i) The negative incentives that often push citizens to migrate from their motherland often include both political and socioeconomic problems within one's country;
- ii) The positive incentive that pull migrants to the destination country include the favorable economic and political environment, which migrants anticipate to utilize maximally to gain more resources and added advantage for themselves and that of their families;
- iii) The positive incentives that induce people to stay in their country of birth are often related to the state of the country's political economy. This is often in terms of jobs availability, vibrant economic growth backed by good macroeconomic policies in a politically friendly environment;
- iv) The negative incentives that cause people to stay away from foreign countries such as the recent global economic recession that have affected most migrant destination countries.

It is therefore believed that whenever the stay and stay away factors are strongly related to the push and pull factors, immigration is not likely to occur on a large scale. However, immigration will largely grow when the push and pull factors are strongly related to the stay and stay away factors (Van Den Berg et.al, 2009). Linked to the Ravenstein's theory of migration is the World-Systems Theory which argues that international migration is a by-product of global capitalism.

Contemporary patterns of international migration tend to be from the periphery (poor nations) to the core (rich nations) because factors associated with industrial development in the First World generated structural economic problems in poor countries, and thus push factors, accelerated

internal and international migration in most third world countries (Sassen, 1988). Many theorists have followed in Ravenstein's footsteps, and the dominant theories in contemporary scholarship are more or less variations of his analysis and approach (Correa, 2011).

2.3.2 The Harris-Todaro Expected Income Model

The Harris-Todaro expected income model (herein referred as the HT model) focuses on economic and non-economic individual and household determinants of migration. The individualized migrations of Harris-Todaro expected income model have generally supported the hypothesis of the income disparity-induced migration as stated in the push and pull factors that contribute to the decision to migrate and the result of migration. In this case, the important individual characteristics hinge on human capital, especially formal education. Others include age, marital status, employment, and gender.

This model suggests that migration at a younger age increases the time period for expected income calculation, while higher levels of education increases the probability of securing formal sector employment in the country of destination. Married individuals with siblings are expected to have lower migration rates because of the costs associated with relocating the entire family. Gender is also known to have an important influence on migration patterns across different regions and cultures. The expected net family gain rather than the individual gain motivates migration in the household approach. The relationships of household-level variables on migration decision are analyzed by considering non-economic factors⁸ that provides a framework for understanding migration (Lucas, 1985).

The HT model illustrates how economic and government policy issues (such as wage rates, unemployment and infrastructure) are reinforced by individual-level factors and the household-level (human and capital) aspects are combined to yield an estimable two-level expected income model of the determinant of migration.

Taylor et. al (1996) argue that most microeconomic models of rural urban migration are grounded on the HT model which incorporates labour markets imperfections, including urban

⁸Such as key information, insurance and social networks in the country of destination.

unemployment into a migration model. The HT model further shows that employment and earning levels in one labour market reflect not only the supply, demand and institutional conditions in that labour market, but also the supply, demand and institutional conditions in the other labour markets. Based on this assumption people migrate in anticipation of better access to scarce resources available in other labour markets. The HT model holds a central ground in the empirical research on migration which reveals each migrant decides whether or not to migrate based on the objective of expected income maximization.

2.3.3 The Neoclassical Economic Theory

The neoclassical economic theory suggests that international migration is related to the global supply and demand for labor (Sjaastad 1962; Todaro 1969). Nations with scarce labor supply and high demand will have high wages that pull immigrants in from nations with a surplus of labor. Segmented labor-market theory argues that First World economies are structured so as to require a certain level of immigration.

This theory suggests that developed economies are dualistic. They have a primary market of secured, well-remunerated work and a secondary market of low-wage work such as farm works, domestic workers, rural school teachers and factory workers that are necessary for the overall economy to function but are avoided by the native-born population because of the poor working conditions associated with the secondary labor market (Sjaastad 1962).

The neoclassical economic theory from a macro-level perspective explains migration by geographical differences in supply and demand for labour. In this case the movement of people from low-wage labour surplus countries to high-wage countries has helped to lessen the scarcity of labour, in exchange for capital in form of remittances, moving to labour-supplying countries from destination countries. At a micro-level however, the neoclassical theory of migration views migrants as totally independent individuals, who rationally chose to migrate to labour markets where their accumulated human capital will be better remunerated on the basis a cost-benefit calculation.

The neoclassical economic theory of migration is largely entrenched in a ‘developmentalist’ modernization theory based on teleological views that consider development as a linear,

universal process with multiple successive stages through which people, communities and countries search for scarce resources to fulfill their development needs.

2.3.4 The New Economics of Labour Migration

The New Economics of Labour Migration (here forth referred as NELM) is a pluralist theoretical third way approach of migration that is geared to redress both excessive structural emphasis of the historical-structural perspectives and the theoretical insufficiencies of the standard neoclassical theoretical framework.

Developed by Stark (1991) the NELM differs from previous theories of migration. First the NELM posits that migration is a function of non-existent or under-developed markets in terms access to credit, insurance and capital markets in migrant sending countries. Secondly, the NELM views migration not just as a result of individual optimizing behavior, but rather as a rational family behavior. Stark's (1991) work further emphasizes the collective nature of migration, where migration is perceived as a risk-sharing behavior to optimize household welfare. In this case, remittance as a consequence of migration, are incorporated into the migration decision.

The global economic meltdown experienced in the past decade has had devastating effects and implications that has driven people in low income countries to finally adapt new survival strategies to withstand the present economic crisis. The implementation of these survival strategy decisions is made at a family level where the decision to migrate is seen as an investment decision made to improve future earnings. The NELM also views migrants as financial intermediaries who, through their remittances, provide their families with income insurance to overcome present and future constraints (Stark, 1991).

The new economics of labour migration according to Lucas R, and Stark O, (1985) has two initial premises, which states that decisions about remittances are linked with decisions about migration, and that these decisions must be interpreted at the household level. These premises in principle differ with the traditional neoclassical approach to labour migration as an individual investment in order to maximize lifetime earnings.

2.4 DOMESTIC AND INTERNATIONAL MIGRATION PATTERNS

Many scholars have given different reasons for people moving from their native motherlands but the prime motivator for most Africans has always been economic, although in recent year's war and political insecurities have increasingly been compelling reasons (Seddon 2001, De Haan 2003, and Whitwell 2002). This has led to the influx of political and economic refugees in neighboring states with better socioeconomic living conditions.

Although it is widely believed that poverty underlies migration, it is in no way the direct cause of it. This is due to the fact that the poorest of the poor don't have resources and connections to networks required to facilitate international migration. Migration rather occurs among citizens of low income developing countries that are undergoing sequence of rapid change in their consumption and investment needs as a consequence of their countries incorporation into global economy.

According to Sorensen et al., (2002) migration and development are linked through livelihood and survival strategies of individuals; through large and well-targeted remittances and lastly through international mobility associated with global integration, inequality and insecurity. Development to a certain extent stimulates migration by enhancing people's expectation and resources needed to move.

African migration in many ways differs and in certain cases, is still defined by former colonial links, cultural and proximity to host country. Due to the distance, cost and the bureaucracy involved, Sub-Saharan migrants tend to stay within their countries, regions and to lesser extent move overseas (Sander, et. el. 2003). New estimations however, have started to show a trend of increased emigration from Sub-Saharan Africa to developed countries. Low skilled laborers, who used to migrate within the region, have expanded their horizon to Europe and North America.

African-born migrants in developed remittance sending economies have the highest levels of education than any other group of immigrant. War and civil strife are also growing drivers of Africa migration especially from the Great Lakes Region. This together with the new outflow of North African workers to the Oil-rich Arab countries has substantially contributed to the increase of Africa's overall net migration (De Haan: 2000).

Like other migrant sending regions, the recent increase in Africa's emigration has partly been attributed to its current economic stagnation and downturn. This is worsened by the lack of systems to check on corrupt bureaucrats who have turned most performing public utilities⁹ to non-performing assets that are often sold-off through privatization to the politically connected. This has limited Africa's chances and ability to attract true investors with concrete investment plans that would revitalize the already dilapidated low income continent.

Another aspect that has contributed to increased outward migration is the politics of patronage in most low income economies. In the period that followed the post-colonial era in Africa, political factors have influenced the nature of public enterprise divestiture. State economic decisions provide important and valuable explanation regarding poor economic performance and understanding the political obstacles that have to be overcome, if economic recovery is to be promoted (Tangri, 1999).

In China for example, Tung (1996) argues that new calls for reforms in state owned enterprises incurred strong resistance from conservatives bent on preserving a strict communist ideology. In Africa, political obstacles are the main reason that state enterprise reforms have made so little headway in the last two decades. Over 85 percent of divestiture decisions carried out in Sub-Saharan African region have been favorable to the politically connected and, as it is well known, patronage politics has underlain the actual implementation of privatization in the best way Africa would benefit from it. Because of this, neither privatization nor private enterprise promotion has led to fundamental revision of public-private enterprise boundaries in African countries. Notwithstanding extensive privatization efforts in the last two decades, Ratha (2005) concluded that divestiture has yet to change substantially the balance between the state-owned and private sector.

Although external agencies like the World Bank and the International Monetary Fund (IMF), have been firmly backing many public-private sector changes taking place, it is the calculation of African governments as to how their political concerns can best be served that have decisively shaped public-private enterprise relations. This has had devastating consequences for the

⁹ Public Utilities such as Cooperative Unions, Produce Marketing board, Coffee Marketing Board, Dairy Corporation, Electricity Board, National Airlines and Commercial Banks

development and recovery of Africa's ravaged economies that keep acting as push factors in the migration equation, forcing people to search for greener pastures elsewhere.

Like other African countries with a high rate of internal migration, three in every ten households in Uganda have a family member that has migrated internally or regionally. It is estimated that one-third of Kenyan households had a family member who had migrated by 1980 (De Haan; 2000). Similarly, in South Africa approximately 1 million people, mostly unskilled laborers moved to urban metropolitan cities of Johannesburg, Durban and Cape Town in search for economic opportunities to better the living conditions of their relatives in rural under developed provinces.

While South Africa experienced massive internal migration in the period that followed the democratic dispensation in 1994, its major cities remains the center of attraction for migrants from African countries. Presently, South Africa is home to more than 3.7 million migrants mainly coming from Mozambique, Lesotho and Zimbabwe (De Haan 2000). Other migrants come from as far as the Great Lakes Region (Uganda, Southern Sudan, Somalia, Democratic Republic of Congo, Burundi, Tanzania, Rwanda and Kenya), West Africa (Nigeria, Cameroon, Ghana, Senegal, and Mali) and Northern Africa countries (Egypt, Tunisia, Algeria and Morocco).

2.5 THE CONCEPT OF REMITTANCE

International migration is one of the most important factors affecting economic relations between Western developed economies and developing countries in the South. This reaffirms the notion that migration is the undercurrent that drives remittances. Known to be the financial flows associated with migration, remittances are monetary transfers a migrant makes for the purpose of investment or consumption smoothening¹⁰ to friends or relatives back in their country of origin.

Several studies (De Haan et al., 2002, Sanders, 2003) argue that remittances are inherently one of the components that link migration to development. Remittances have continued to grow, reaching US\$ 440 billion in 2010 despite the recession in high income countries which led to the drop in official development assistance, foreign direct investments and capital market flows to

¹⁰ School fees, Medication, Clothes, Food, Funerals and Bride price.

LDC's (Kegley, et. al., 2012). This section examines the channels through which remittances are sent, the magnitude of global remittances and the perceived use of remittances in receiving countries.

2.5.1 Remittance Channels

The importance of remittances in compensating the human capital loss experienced by developing countries through migration and their potential in boosting economic growth is generally accepted. The sharp increase in remittance flows has increased foreign currency reserves that have assisted many LDC's to finance their vital import in-puts for national social economic development. Thus, research on transfer channels and mechanisms has gained impetus resulting in expanding empirical literature.

Because of their importance to migrant sending economies, remittance flows tend to be the best measured aspect of the migration experience. For example, in every Balance of Payment Statistics year book, the International Monetary Fund (IMF) often keeps annual records of the amount of migrants remittances received by migrant sending economies (Kegley, et. al. 2012). However, the IMF only reports data on official migrant remittance flows sent through official banking channels. Since a large proportion of remittances are sent informally through private unofficial channels, the level of remittances recorded by the IMF largely underestimates the actual flow and magnitude of remittance to labor-exporting economies.

The 2004 European Union survey on worker's remittances to the third world countries identified five main categories of formal and informal remittances transfer channels used for sending migrants earnings to their home countries. These remittances transfer channels include; banks; non-bank money transfer operators; in-kind remittances; personal couriers and informal money transfer services. These transfer categories are further grouped into formal and informal remittance transfer channels as discussed in the following section.

2.5.1.1 Formal Money Transfer Channels

Formal money transfers channels are those transfer channels characterized by their participation in regulated financial system, supervised by government agencies and laws that determine their

creation, operations and closure. Formal transfer channels include Money Transfer Operators; Commercial Banks; and Postal services.

2.5.1.1.1 Non-Bank Money Transfer Operators

The growing market of migrant remittance is overwhelmingly dominated by Non-Bank remittance service providers commonly known as Money Transfer Operators (MTO) that act as financial intermediaries between remittance sending migrants and remittance receiving household in developing countries. MTOs¹¹ are non-bank companies that are registered, licensed and linked to some main commercial Banks and Mobile Telecommunication companies operating in a given economy for the purpose of securely transferring money from on part of the world to another.

In the African Great Lakes Region, where 75 percent of general population stays in rural under-served areas, over 60 percent of the rural unbanked adult people own mobile phones. According to Tim Lowry¹² the global mobile phone subscription has risen from 11 million mobile phone users in 1990 to over 3 billion in 2008. Thus, mobile devices are seen to have the potential to extend access to financial services to the banked along with the unbanked parts of the population.

Mobile money transfer is another formal, non-bank money transfer channel where funds are electronically deposited into the receiver's virtual mobile wallet. According to the Western Union a migrant whose telephone mobile operator offers mobile money transfer in partnership with Western Union, sends remittance to a receiver whose mobile network is offering mobile money transfer in partnership with Western Union. In this case, funds go directly into the receiver's virtual wallet or account linked to his mobile number.

In East Africa for example, other traditional MTO's are outnumbered by the presence of Mobile money operators¹³ that have strategically positioned themselves to solve the access to financial infrastructure problem. This has been achieved by removing the need for physical points of presence and provide real time, secure methods of transacting, cutting costs down to the level

¹¹Such as the Western Union; MoneyGram and Mobile Money Transfers

¹²Tim Lowry. Managing Director MTN South Africa. Mobile Money Transfer 2009

¹³Such as M-pesa

that opens the formal remittance channel to users that would otherwise opt to use informal methods of remittance.

Realizing the importance and growth in the remittance transfer business, big Banks like the Standard Chartered Bank, Abby National, Barclays, Citi Bank and other MTOs like Western Union, MoneyGram, and Thomas Cook have all incorporated transfer products in their service menu across their networks world-wide, to get a share of the current US\$ 440 billion official remittance transfer market (Kegley, et. al., 2012).

2.5.1.1.2 Bank-based Remittance Transfers.

Bank-based remittance transfer is another type of the formal remittance transfer channels that is often used to send remittances between developed and developing countries. Account-to-account transfer is one of the Bank-based transfer channels that are usually preferred in urban areas by most affluent households who have access to financial services and infrastructure that comes with it, like Bank Accounts to which their relatives can send them remittances. In countries like Uganda, households that can receive remittances using this channel are those with proximity to major Ugandan urban centers¹⁴. Internationally, although banks communicate using SWIFT messaging system, interbank transfers remain the best suited for large commercial payments for which according to the World Council of Credit Unions (2004), the bank wire system was originally developed.

The subsequent decline in the use of cheque books in the late 1990's, gave rise to the card-based transfers which operates on the Automated Teller Machines (ATM) and Point of Sale (POS) infrastructure only found (in most cases) in urban settings. According to Bezard (2002) this form of transfer grew from US\$ 0.3 billion in 1998 to a whopping US\$19.5 billion in 2001. Hoping to benefit from this kind of growth, established MTO's like the Western Union and Rennies Bank diversified their product to include Card-based transfer services like the Bidvest ATM card introduced by Rennies Money Transfers and forex bureau in South Africa.

¹⁴ Urban centers with all main financial services and infrastructure are Kampala, Entebbe, Mbarara, Jinja, Masaka, and Mbale

In most host capitals in developed countries, different migrant group (Latino's, Africans, Asians, and Arabs; professionals' and non-professionals; rich and poor; legal and illegal migrants) tend to use different transfer channels. The choice of transfer channels entirely depends on a number of factors, of which the state of development of financial infrastructure in the migrant's country of origin and the geographic proximity appear to be the major decisive factors.

In his World Bank Global Development Finance Report, Ratha (2003) states that the existence of a developed banking infrastructure in recipient economies is a necessary condition for the establishment of a bank system of correspondence which facilitates the wire transfer of remittance from account to account and cash to account transfers.

However the requirement by commercial banks that both the sender and receiver should have an identification card and a bank account is also said to be a principal limitation for the use of formal transfer channels like the account-to-account and the card-based transfer channels especially to the unbanked and illiterate senders and receiving communities. This is further worsened by the presence of hidden cost (sending fees, receiving costs, 10 percent commission, and exchange rate premiums) that makes senders and receivers to question the actual relevance of sending or receiving remittances through formal channels.

To the frustrated unbanked migrant in the Diaspora and to the remittance receiving households in poorly run under-developed economies who even in the past were not oriented to modern formal transfer systems, informal transfers networks that are culturally run, based on mutual trust, religion, and ethnicity provide an important reliable and cost effective alternative to the main stream formal transfer systems.

2.5.1.2 Informal Remittance Transfer Channels

The informal remittance transfer channels generally refers to money transfer which have arisen in the absence of, or are parallel to, formally regulated money transfer channels. According to El Qorchi, M., Maimbo, S and Wilson, J. (2003) historically informal remittance transfer systems¹⁵ were initially developed at a time when conventional banking instruments were absent to facilitate trade between distant regions.

¹⁵FeiCh`ien in China; Hundi in India; Hawala in Middle-east, and Kyeyo Dollars in Uganda

The growth in informal remittance transfers in the last decade is negatively correlated with the level of development of the financial sector, where countries with inefficient financial sector are heavily reliant on informal systems for the remittance transfers. Informal transfer systems have always provided low transaction cost services with trust and cultural convenience, versatility and potential anonymity faster than formal transfer channels. Types of informal remittance transfer channels include personal couriers and the informal value transfer systems.

2.5.1.2.1 Personal Couriers

Informal transfer channels usually operate outside the main stream financial rules and regulations set by the both host and receiving countries economic policies. In most instances the use of personal couriers takes place in countries where significant numbers of migrants come from near or neighboring countries, (Mexicans in the United States of America, Basotho and Zimbabweans in South Africa; Moroccans in France; Egyptians in Saudi Arabia) where remittances are carried across borders in cash or in form of consumption goods and thereby go unrecorded.

Through personal couriers, valuable goods (in-kind remittance) are sent home for immediate use or for resale by the migrant's relatives in the country of origin. The nature and volumes of remittances in kind to a certain extent depend on the characteristics of the sending and receiving economies. In cases where the migrants host country is technologically more advanced than the migrant country of origin, there is often a flow of goods that are often sent for the purpose of being re-sold at a higher price.

Over the years, the affluent segment of the urban societies in developing countries have developed an appetite for modern electronic gadgets¹⁶, Car spare parts, interior décor and other accessories that are not locally produced but known to be cheaper in a migrant's country of employment. Migrants buy these products often on the black market¹⁷ and send them home whenever the chance arises, for consumption or possible resale.

¹⁶ Cell phones, plasma television, surround system, washing machines, generators, refrigerators, i-pots, USB, etc

¹⁷ Products that are illegal, stolen or otherwise need to be hidden from regulatory authorities.

2.5.1.2.2 Informal Value Transfer Systems (IVTS)

According to Passas (1999), IVTS (often referred to as Hawala or Hawilad in East Africa and the Horn of Africa) are known to be characterized by the absence of written record since they are run principally on trust and a reliance on international ethnic networks. Unlike the formal transfer channels, money does not necessarily physically move from the host economy but via transfer agreements between two Hawala brokers.

Horst et al., (2004) state that the procedures for informal transfers involves a Hawala broker in the host economy receiving instructions to send money to a receiver in a given town or country. The broker then informs his counter Hawala agent near the receivers home town by fax, sms, telephone, or e-mail, to give the bearer of a given particulars (Positive identification or password) the money given to him by the remitter.

While accounts between different Hawala agents worldwide are settled through sending hard cash or through exchange of tradable consumer goods, it is generally believed that IVTS operations are extremely complex in nature and criminal to a certain degree, as criminals favor IVTS in their syndicate activities that seek to hide their income that comes from a rather less main stream national financial regulatory framework. Passas (1999) noted that the anonymity, efficiency and convenience of IVTS make business sense to those in the money laundering activities.

Concerns about the rampant use of IVTS include many illegal purposes including the evasion of currency controls; purchase of illegal arms, drugs or commodities; making of corrupt payments; receiving or sending ransom; transferring income from piracy; to laundering proceeds of criminal activities and to the financing of illegal activities such as terrorist attacks (Passas 1999). The Financial Task Force on money laundering in 2003 noted that informal transfer agents dealing in money laundering activities enjoyed a 'free flow' operating period that only came under scrutiny after the bombing of the World Trade Centre on September 11th in 2001.

Two weeks after the Twin-tower booming, the United Nations Security Council passed a resolution that sought the closure and confiscation of assets owned by IVTS's like the Al

Barakaat and Dahabishiil networks that were suspected to be controlling huge transfers to and from Al Qaeda bases Worldwide (Horst et al 2004).

2.6 MAGNITUDE OF GLOBAL REMITTANCES FLOWS

While the economic downturn that followed the global economic recession grossly affected financial institutions in developed countries, the structure of developing countries' economies were hit by budget cuts for essential services¹⁸ as a result of reduced donor funding for budget support. During 2010, over 30 million people participated in this remittance-inspired migration from Africa to Europe, the Middle-East, the United States, Japan, Canada and South Africa, in search for better greener pastures to support their families (Ratha, 2011).

Globally, the World Bank estimates that over \$307 billion of the total \$440 billion of global recorded remittances went to LDC's. The true magnitude of remittance flows to the African continent is believed to be significantly larger than the recorded US\$ 40 billion in formal remittances to the continent as over 60 percent of remittances to Africa are sent through informal and unrecorded channels (Ratha 2011 as cited by Kegley, et. al. 2012).

Remittances usually vary across regions due to differences in migration patterns, culture and the stage of socioeconomic development. Remittances continue to play an important role in reducing the severity of poverty because, even during the tough economic times, they are known to be more stable and counter-cyclically than other financial inflows¹⁹. Some of the Top recipients of officially recorded remittances are India which took \$58 billion in 2010 followed by China with \$57 billion, Philippines with \$28 billion and Mexico with \$24 billion. Other top beneficiaries of migrant remittances included Nigeria, Egypt, Pakistan, and Lebanon.

The World Bank expects a 7.3 percent rise in official remittances by the end of 2012 and another 7.9 percent increase is projected for 2013. According to the Ratha (2011), the top remittance receiving countries both by the amount of remittance in 2010 and remittances as a share of their GDP in 2009 were as shown in the table 1 below.

¹⁸ Agriculture extension support services, extended public works program, and Public enterprise development.

¹⁹ Foreign Direct Investment, Private debt and Equity flows.

Table 1 **Top 15 Remittance Receiving Developing Countries**

By Amount of Remittances 2010 (millions)			By share of GDP 2009	
India	US\$	53,131	Tajikistan	35.1%
China	US\$	21,300	Tonga	30.3%
Mexico	US\$	21,997	Samoa	26.5%
Phillippines	US\$	21,373	Lesotho	26.2%
Bangladesh	US\$	10,804	Nepal	23.8%
Negeria	US\$	10,045	Moldova	22.4%
Pakistan	US\$	9,683	Labanon	21.9%
Lebanon	US\$	8,409	Kyrgyz Rep	21.7%
Vietnam	US\$	8,000	Haiti	21.2%
Egypt	US\$	7,725	Handuras	17.6%
Indonesia	US\$	7,250	El Salvador	16.5%
Morocco	US\$	6,452	Jamaica	15.8%
Ukraine	US\$	5,595	Jordan	14.3%
Russia	US\$	5,477	Guyana	13.7%
Serbia	US\$	4,896	Serbia	12.6%
Total Remittances	US\$	440,077		

Source: Ratha, 2011

According to Mouhoud et al (2010) remittance to Morocco where made easier, cheaper and more attractive by the expansion of Moroccan Bank branches in Europe, by the relaxation of restriction on foreign currency and fiscal measures designed to favor Moroccan migrants. New labour migration flows to countries with large scale legalization programs in recent years, has enabled Morocco to channel unofficial remittance to official remittance presently standing at US\$ 6.4 billion, about 5.6 percent of its GDP.

In other African countries, the single largest receiver was Nigeria receiving over US\$ 10 billion in 2010. Lesotho, as a share of its GDP received 26.2 percent of recorded remittances 2009. This was followed by Mauritius, Sudan and Mozambique. The preference of using informal remittance transfers as opposed to formal money transfers makes remittance data sets in many Sub-Saharan countries to be so small and weak to permit viable conclusions on remittance pattern, channels, volumes, and usage. Although disaggregated data are not readily available for

overseas remittance transfers to Africa. It is generally assumed that the top remittance sending countries are the same as the top destinations for migrants²⁰.

2.7 USES OF MIGRANT REMITTANCES

The use of migrant remittances is dependent on the migrants' self-interest future investment plans and to a certain extent on the migrants' altruistic desire to change their family's socioeconomic status in the country of origin. Current remittances are either sent to smoothen current and future consumption needs of the migrants' family or are personal future investment. Skilled and ambitious migrants working in OECD member countries use remittances for productive investments²¹ much more so than migrants remitting from within the continent. Due to financial constraint involved during migration and the diminishing demand for un-skilled labour overseas, people from low income families tend to migrate to neighboring countries and as a consequence of their primary reason for migration, there remittances are mainly to smoothen consumption needs of their people rather than investment.

According to Orozco (2009) the Inter-American Development Bank (IDB) Migration and Remittances in Times of Recession Report facilitates a better understanding of the importance of international remittance flows to developing economies in comparison to key economic aggregates such as GDP, ODA, FDI, private capital flows, tourist receipts and exports. To economies where remittances constitutes more than 5 percent of their GDP, there is a heavy dependency on remittances as engines of economic activity with multiplier effects fueling peoples demand which creates the need for the supply of new consumables and investment (Orozco, 2009).

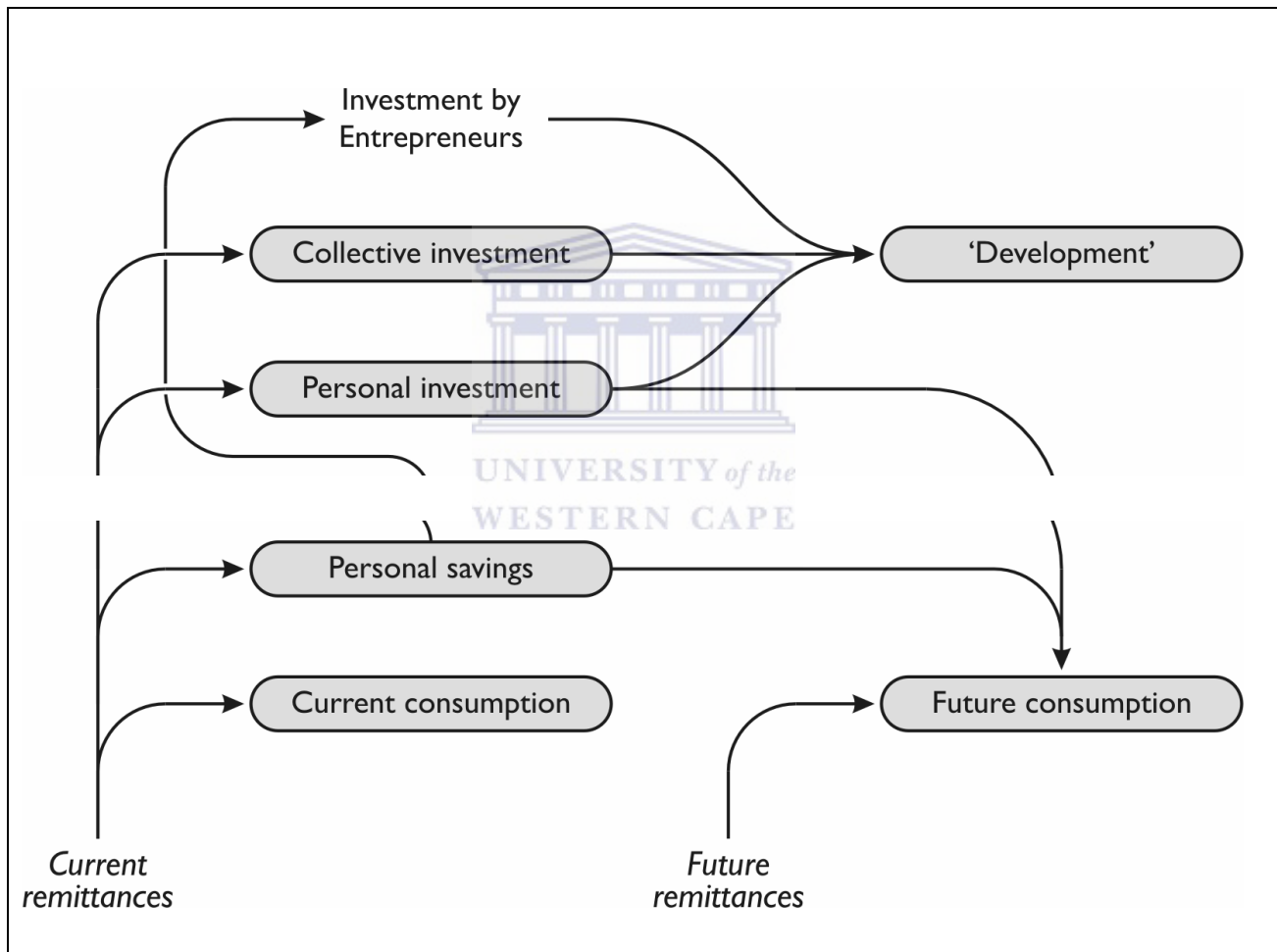
Carling (2004) argues that if all present (current) remittances were only spent on consumption, then future consumption of migrants sending households is likely to be financed by future remittances. However, in a situation where remittances are saved or invested Carling notes that these savings would assist in financing and smoothening future consumption needs. As seen in

²⁰ Saudi Arabia, France, Italy, United Kingdom, Japan, Canada, Germany, Russia and United States of America

²¹ Buying land; Shares in Capital markets; Real Estates; Agricultural and small scale manufacturing equipment's.

figure 1 below, collective investment in a development project will not produce instant direct future return to individual investors but would directly benefit the development of the community in general. In a case where remittances are saved in established investment institutions, they will increase the credit availability and can enable other entrepreneurs to realize investment with a positive development impact across the country, thereby assisting other disadvantaged regions that might not have got enough remitters.

Figure 1 Remittance and Development Linkages



Source: Carling (2004)

The dynamic impacts of remittances depend to a large extent on whether remittances are used for consumption or investment. For a long time, several researchers (for example Bohning 1975; Lucas 1985) have criticized remittances for financing mainly consumption, housing expenditure and imported consumer goods, thus generating limited dynamic effects and few positive spill-

over effects to the rest of the economy. This negative view of remittances has been challenged by some empirical studies finding evidence that remittances have a positive effect on investment. According to Lucas (1985) remittances from migrant gold miners in South Africa greatly increased farm productivity through increased farm investments in neighboring Botswana, Lesotho, Mozambique and Malawi.

Russell (1990) argues that once the subsistence needs of their families back home are satisfied, migrants redirect their remittances for investment purposes including upgrading their family's human capital through education, livestock, farming and investing in small-scale businesses. Consistent with Russell's argument, Taylor, et, al, (1996) argues that in most receiving households in developing countries migrant remittances serve as a source of income, transfer of technology, machinery and investment. In his study, he found that remittances contribute to savings and investments thereby leading to growth and development in sending economies.

In rural African societies, international remittances are used to purchase grains (maize, sorghum and rice), pesticides and fertilizers in preparation of the rainy session. This advance preparation for the planting session gives remittance receiving households a comparative advantage over their counter-parts who, due to long period of drought, might not have harvested enough to eat and keep some for planting. Such countries engage more in international migration for remittance to reverse their countries poverty lines (Adam et al 2003).

However, other studies about migrant remittances from Europe (Lianos, 1997), the Caribbean (De la Briere, 1997) and Africa (Richard, 1997) are all in agreement that most of migrants hard-earned remittances are spent on personal consumption.

2.8 SUMMARY

In summary, the migrant remittance literature discussed in this chapter included key development concepts of poverty, migration and remittances, continues to confirm that migrant remittances flows contributes to economic growth, since there a stable source of the present and future development finance in most developing countries.

CHAPTER THREE

DETERMINANTS OF MIGRANT REMITTANCES

3.1 INTRODUCTION

The importance of migrant remittance flows as source of foreign exchange and as a means of stimulating local economic growth has amplified research on poverty, migration and development, providing a broader understanding of the economic consequence of remittances. Migrant remittances, in the developmental discourse, are not only used as a mechanism for the survival of the poor in developing countries but also as a risk sharing mechanism, a stable source of development finance for investment and future consumption smoothing (Ratha, 2003).

In many cases, the amount of remittances sent to households in receiving economies depends among other factors, on migrants primary motivations to migrate abroad and to remit money in the first place. What motivates some migrants to send much more money to the country of origin than others? This question, in the aggregate, has implication for migration and development-related economic policy. The purpose of this chapter is to provide an extensive conceptual understanding of the determinants of migrant remittances.

3.2 DETERMINANTS OF MIGRANTS REMITTANCE

The main probable determinants of migrant remittances can according to Massey, D, et.al, (1993) be categorized into microeconomic and macroeconomic determinants. These two categories of determinants of migrant remittances are discussed below with reference to theoretical argument.

3.2.1 Microeconomic Determinants of Migrant Remittances

The determinant factors of migrant remittances have a microeconomic perspective, where variables that are mainly studied are the migrants and their family's socioeconomic characteristics on one hand, and personal incentives on the other. Regardless of what motivates remittances, the propensity to remit is influenced by the capacity of migrants to save and the incentives to remit savings back to their country of origin. Microeconomic determinants of

migrant remittances include the socioeconomic status of a migrant, altruism, self-interest, time after migration, implicit family agreement and remittances as insurance as explained below.

3.2.1.1 The Socioeconomic Status of Migrants

The socioeconomic status of migrants which consist of the migrant's level of education, employment, income levels and marital status are among the main socio-demographic determinants of migrant remittances from a microeconomic point of view.

The migrant's level of education and that of his family in the country of origin is one of the key determining factors among socioeconomic determinants of migrant remittances. Migrants with educated relatives are more likely to remit for the purpose of investing in strategic long term businesses²² as opposed to the less educated who usually opt to remit for consumption smoothening²³. However, negative speculative economic projections in the migrant's home country may, according to Funkhouser (1995), influence educated migrants to opt for saving and investments in the host country as an alternative to remitting money home.

Another perspective, through which the level of education might influence a migrant's willingness to remit, is seen in terms of the volumes of remittances and the frequency with which they are sent. According to Ameudo-dorantes et. al., (2003) investment-inspired remittances sent by the educated migrants, due to their larger size, are sent once in a while, unlike consumption-based remittances that are required almost on a monthly basis. Thus in terms of volume of remittances sent, the less educated migrants with less educated relatives tend to remit more often than their educated counterparts.

Closely related to this argument is the fact that the income level of the migrant and the needs of the family at home play an equally important role in influencing both the level and changes in remittances. Although the skill composition of migrants matter for remittances, the evidence of this perception is mixed. Rappaport et. al, (2005) argue that countries that have a larger share of high-skilled migrants receive less remittances—perhaps because by virtual of their status and professional jobs that gives them travel allowances, income, medical aid, and personality,

²² Real Estate, Land acquisition, Shares from listed companies.

²³ Rent, Utility bills, Food, Transport, Clothes, Cars, Bride price, Airtime,

educated migrants qualify for family reunions; motor and house finance; and can afford to bring their relatives from their home country to spend some time with them in the host country. This reduces their ability and need to remit as opposed to the uneducated migrants who have no such privileges.

The migrant's marital status is another key component among the socioeconomic factor that influences remittance sending to the migrant's home country. Migrant's that are married with children remit more towards the maintenance of their siblings left in host countries than those that are single with no sibling left in the country of origin. However, single migrant's that are in the process of getting married to someone in their home country, remits more than married migrants who live with their children in the host country.

3.2.1.2 Altruism

A high proportion of international migration from third world countries has in part been caused by altruistic individuals, seeking to improve their families' welfare through earning from employment located outside their own country. Due to the level of unacceptable human deprivation in terms of economic opportunities in most receiving households, remittances have then become a requirement and a migrant's obligation to those left behind, thereby reflecting the underlying notions of duty and kinship on the part of the migrant (Glytsos, 1988; Hoddinott, 1994).

Under the altruistic model, the migrant derives satisfaction from the welfare of their relatives back in their country of origin. This is particularly the case when the home country has experienced economic shocks or natural disaster. According to Ratha, D (2005), remittances to Mexico, Indonesia and Thailand, considerably increased after the financial crisis that hit their economies in the late 1990's. Similarly, Honduras, Haiti and the Dominican Republic recorded substantive increase in migrant remittances from their nationals in the Diaspora to assist their relatives after they experienced natural disasters.

While poverty remains one of the key push-factors in remittance inspired-migration, it is widely acknowledged by most researchers (Johnson and Whitelaw, 1974; Lucas and Stark 1985) that altruism towards family members at home is an important motivation for remitting. This, in

many ways, implies a utility function in which the migrant cares about the consumption needs of his or her family left behind.

Following Funkhouser's (1995) behavioral model of remittances prediction, a migrant with relatively high income is likely to remit more, and households with low income are likely to receive more frequent altruistic remittances to cover their family consumption gap²⁴ rather than physical investment. Another prediction states that the lengthier a migrant has been abroad, and the less frequently the migrant has visited the home country, the weaker are the ties to the home country and the lower is the importance of altruism (Rapoport et. al 2005).

3.2.1.3 Pure Self-Interest

Pure self-interest motives are considered dominant if remittances are positively related with family income at home. This is the case where migrants send remittances to enhance their social status or keep a connection with close relative at home in the hope of inheriting their wealth. Under this category, remittances are meant to maintain favor and respect from within the family structure. In this case migrants from wealthy families and those that have personally invested in real estates, land, education and farming remit more to maintain their family or individual businesses to ensure future earnings and financial stability. This type of remittances is according to Katseli et al (1989), known to be entirely driven by rational self-interest.

3.2.1.4 Tempered Altruism Implicit Family Agreement

The New Economics of Labor Migration (NELM) theory advocated by Lucas and Stark (1985) takes into account the family rather than an individual as the main unit of analysis, where mandatory remittances are in part driven by tempered altruism and enlightened self-interest. This theory assumes that a family enters into an implicit predetermined agreement with the prospective migrant as part of a familial strategy to maximize income (Osaki, 2003).

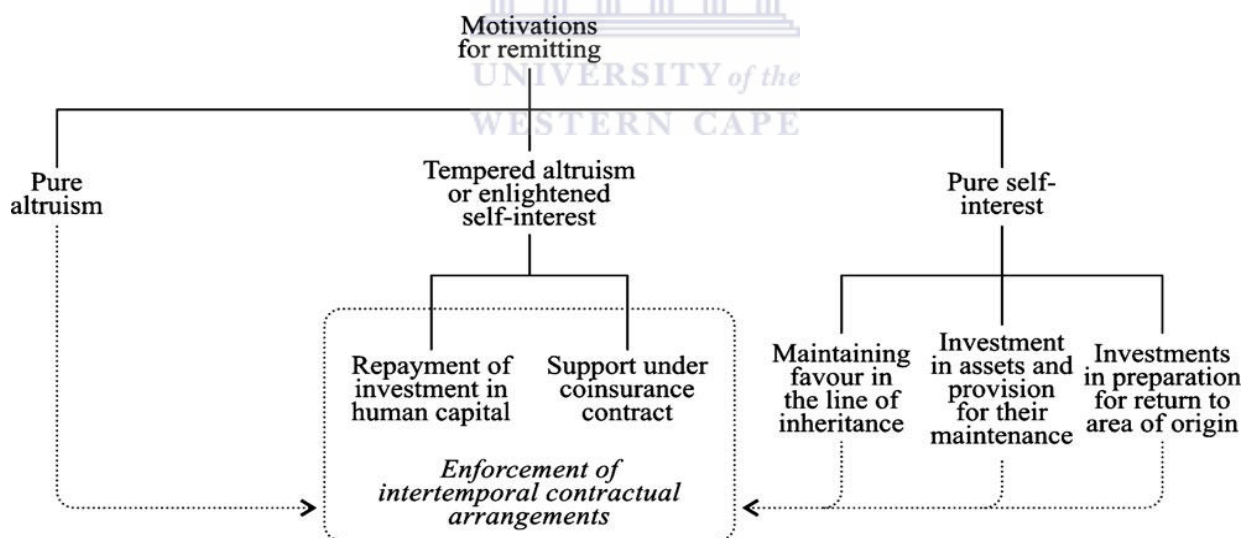
Closely related to the above family's survival strategy, is the family need for risk-spreading through investment in education of its younger family members and sponsoring their migration to developed economies. This strategically positions a given family to receive more remittances

²⁴ Difference between the family's available cash to spend and the actual cost of living.

in the future. Remittances received under this category are often directed towards repayments of loans that financed the cost of migration, education, and sometimes act as an insurance against future income shocks to the recipients in sending economies. Under the insurance motive, migrants behave as risk-averse economic agents who are insuring their future in the face of unforeseeable economic uncertainty (Poirine, 1997; Stark 1991; Agarwal and Horowitz 2002; Gubert, 2002 and Brown 1997).

Carling (2008) argues that migrants influenced by enlightened self-interest or tempered altruism, remit part of their income as a repayment or as a payment to support their families under the co-insurance contractual agreements re-enforced by their families. According to Susan (2006) migrant remittances are sometimes sent to “purchase” self-insurance, with the expectation that upon return, should the migratory experience end unsuccessfully, they would be able to claim their place back home. Figure 2 shows pure altruism, tempered altruism and pure self-interest remittance motivations from the New Economic of Labour Migration perspective.

Figure 2 The New Economics of Labour Migration Remittance Motivation



Source: Carling, 2008²⁵

According to Poirine, (1997) repayment of human capital investment and cost of migration is another contractual agreement between the migrant and the household. Migrants in this case

²⁵ Based on Lucas and Stark 1985

remit to repay their families initial investments in their education which improved their employability. In caring for their relatives left behind in their home countries, migrants derive a positive utility from the consumption of their family due to altruistic feelings. According to Funkhouser, (1995) an increase in the migrants income increases the migrant's propensity to share their earning with their poverty stricken relatives in their home countries. However, an increase in their relatives' income reduces the migrant's propensity to remit from the altruistic and co-insurance perspective as seen in table 2 below. In preparation to return home, migrants are motivated by self-interest to invest through remitting part of their present earnings in houses, using their trustworthy relatives as agents. In this case, migrants invest in their reputation within the family ranking hierarchy.

Table 2Theoretical motives and their effects on remittances

Effects Of ...	HH Income	Migrant Income	HH Stock	Migrant level education	Migrant risk level	Intent to return	No. of Migrant's in a HH	Time after migration
Altruism	-	+	+			+	-	-
Self-interest	+	+				+		
Co-insurance	-		+	+				
Loan-repayments	+/-	+			+			+/-

Note: Explanations of key signs used in the figure 3 above

- : Remittances are negatively affected (less remittances sent)

+ : Remittances are positively affected (more remittances sent)

+/- : Remittances are positively affected but later on their negatively affected

HH : Household

Source: Hagen-Zanker et al. (2007b)

3.2.1.5 Time after Migration

Time is another microeconomic variable considered to have an influence on migrant remittances. According to Carling, (2004) the migrant's willingness to remit, in the first seven years after migration, is often high, as many of them still maintain strong acquaintances with people back home. However, the amount of money remitted by migrants tends to decrease and eventually disappear with time as a sign of integration in the host country (Orozco 2003 and 2005).

Once established in the host in a country, the migrants' own financial commitments start to multiply, especially if they marry and start a new family. Such commitments include bonds, insurance, medical aid, taxes, transport, electricity and other daily bills. Such expenditure consumes much of what migrants would have been spared or saved to remit.

Other aspects that influence the volume of remittance over time are variations in gender. Men are more likely to disassociate themselves from their families over time than their female counterparts who remain attached to their sending households, even with the test of time. Thus while migrants are altruistically inclined in the first few years, this tendency declines with time thereby impacting heavily on the overall remittances volumes (Carling, 2004).

3.2.2 Macroeconomic Determinants of Migrant Remittances

In addition to microeconomic level determinants, there are several studies (World Bank 2006; Vargas-Silva 2006; Muwanga-Zake 2004; El-Sakka et.al. 1999; Schiopu et. al, 2006) that have emphasized a number of macroeconomic determinants. These include interest rate differentials, the efficiency of the banking systems in the remittance receiving countries, and the impact of government policies and regulations.

3.2.2.1 Host and Remittance Receiving Country's Macroeconomic Policies

Low Developing Countries with weak financial sectors and non-existent social protection systems are highly dependent on migrant remittances for foreign exchange to finance developments aimed at poverty reduction. From a macroeconomic perspective, the state of the political economy, especially at the level of economic activity, such as wage rates, inflation,

interest rate differentials, and the efficiency of the banking system in both the host and home country, greatly determines the volume of migrant remittances (El-Sakka et. al, 1999).

Although remittances are positively related to economic growth in the host countries and inflation in the home country, the volume of remittances and the channels through which remittances are sent are influenced by interest rate differentials and exchange rate differentials in both the host and migrant sending country of origin. El-Sakka et.al, (1999) argue that strict macroeconomic policies towards remittance transfers in the host country and unfavorable official exchange rates in remittance receiving countries have a negative impact on official remittance flows. This makes remittances flows to be highly responsive to black market premiums.

Favorable macroeconomic policies in the host countries attracts more foreign direct investment²⁶ which in turn improves the chances of migrants to get good paying jobs which allows them to save and remit more to their country of origin. Good macroeconomic policies in the migrant's country of origin encourage migrants to invest in their country. With increasing incentives and tax exemptions combined with liberalized foreign exchange controls, migrants are induced to put their faith in their home countries by sending more remittances even during turbulent economic times.

The promotion of migrant specific policies, such as opening saving accounts in foreign currency, cross-national banking, managerial training for potential entrepreneurs, and the creation of remittance-based funds, greatly motivates migrants to send more remittances as the cost of transfer reduces dramatically and migrants are encouraged through special programs to make objective investment decisions in their home countries. Governments' efforts to encourage migrants to believe and have trust in their national economies, is likely to lead to increased investment-inspired remittances.

3.2.2.2 Migrant Stock in key Destination Economies

Migrants in the Diaspora have emerged as an important pool of knowledge, skills, resources and enterprise, acting as brand ambassadors in sourcing pro-poor development finance for the home countries. One of their most important and noteworthy contributions has been made in their form

²⁶ Such as Infrastructural Development, Telecommunication, Service Industry, etc.

of transfer of remittances, offsetting the rising trade deficits and building up considerable foreign exchange reserves in their countries of origin.

The stock of migrants in different destination countries forms an important constituency of any country's economic growth and development. The size of migrant stock is according to Ratha (2007) one of the most important determinant of migrant remittances. The Ratha, (2011) argues that countries such as India, China and Mexico with a larger number of migrants, continues to occupy top 15 remittance receiving countries as seen in table 1 above.

Another fundamental factor that determines migrant remittances in relation to the stock of migrants in the Diaspora is that countries with larger number of migrants in key destinations over time have a wider scarce skills composition within their migrant stock. The competition that arises as a result of high number of migrant population leads to an increase in investment in scarce skills education in the period prior and after migration.

According to the Ratha (2011) countries such as China, India, and Nigeria have larger number of Engineers, Medical Doctors, and academics, Geologists, Chartered Accountants, Computer Engineers, and Software innovators. These professionals, most of who are still young work in high-end specialized companies in developed and underdeveloped countries earning and saving enough to remit large sums of money to their home countries.

3.2.2.3 Existence of a favorable Transfer Channels

As noted in chapter 2, transfer channels for remittance have taken many forms. These include Money Transfer Operators (MTOs), Postal Office, Travel Agent, Couriers and informal transfer. Key issues in determining the choice of transfer channel includes, among others transfer costs, reliability and rapidity of the transfer choice, the existence of transfer channels, political stability and traditional and cultural preferences.

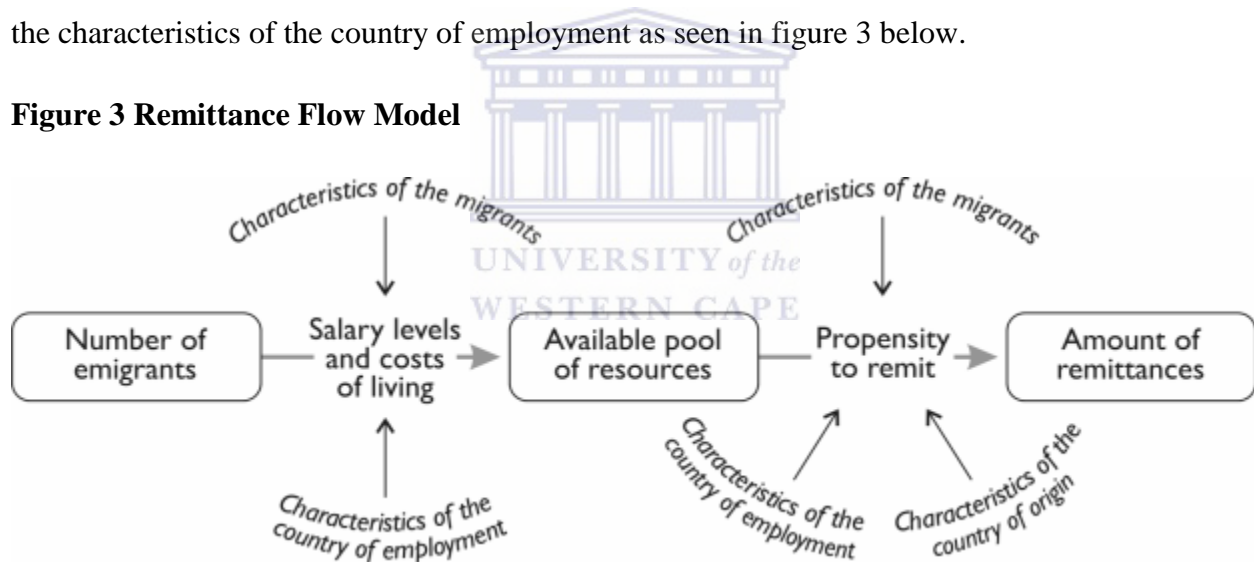
Remittance transfer costs in a given country vary from one city to another depending on the availability of financial infrastructure and the presence of an informal transfer agent in the geographical proximity of the remittance receivers. Migrants that come from up-country face more difficulties in sending remittances to their people than those from urban areas. Often, the absence of fast, reliable and cheaper remittance transfer channel in a given locality discourage

potential remitters from frequently remitting. This greatly affects the overall volume of migrant remittance, as receivers of these remittances are required to travel long distances to receive their money.

3.3 SUMMARY

This section of the study has shown that the decision to remit and how much is to be remitted has often been linked with the decision to migrate in the first place. The amount of remittances sent by migrants to their home countries is greatly influenced by the number of migrants and their skills composition in relation to the skills required by the destination country, individual characteristics of the migrant from a microeconomic perspective. The migrants' propensity to remit is determined by their capacity to save part of their income after settling their cost of living bills in the host country. This is often influenced by both the characteristics of the migrants and the characteristics of the country of employment as seen in figure 3 below.

Figure 3 Remittance Flow Model



Source: Carling 2004

From a macroeconomic perspective the characteristics of both host country and the migrant sending country, in terms of the presence of favorable economic conditions and the existence of favorable transfer channels have a major influence on the migrant resource mobilization and propensity to remit. In brief, it should be pointed out that remittances are driven by a combination of microeconomic and macroeconomic motives.

CHAPTER FOUR

PERCEPTIONS OF THE UGANDAN COMMUNITY IN CAPE TOWN ON THE DETERMINANTS OF MIGRANT REMITTANCES

4.1 INTRODUCTION

The purpose of this chapter is to present an analysis of the field study findings. The findings were obtained from the interviews and questionnaires with the Ugandan community in Cape Town, as well as interviews with other key stakeholders. This chapter is divided into seven main sections which include a brief background of the Ugandan community in South Africa, the determinants of migrant remittances from Ugandans in Cape Town, the South African financial regulatory framework, the remittance transfer channels used, the intended use of remittances from Ugandans in Cape Town, remittance decisions and a summary of the findings. It's important to note that out of 100 questionnaires sent to the Ugandan community in Cape Town, only 80 came back implying that our findings in this study relate to 80 percent of our study sample.

4.2. BACKGROUND OF THE UGANDAN COMMUNITY IN SOUTH AFRICA.

The 1994 emergency and recognition of South Africa as an African Economic Power House with the urgent need of African professionals further attracted more African migrants including Ugandans to help smoothen the proper service delivery after the ANC led South African government suffered massive out-ward migration after Apartheid was abolished. While migrants with professional qualifications²⁷ moved from Uganda to South Africa to replace professionals that had left or never existed to serve the South African growing main stream economy, non-professional Ugandan migrants followed their fellow country-mates to take full advantage of the opportunities for informal businesses that was prevailing in most South African townships and locations.

²⁷ School teachers, academics, nurses, medical doctors, chartered accountants and administrators, engineers, and pilots.

By the end of 2011, the number of documented and undocumented Ugandans living and working in South African as per the Department of Home Affairs and the Ugandan Home Town Association registry had reached 5000 people. Ugandans in South Africa are organized in different Home Town Associations which are administered by the overall Ugandan Community executive committees in different provinces across South Africa. The main function of the Executive Committees is to provide leadership and guidance on non-political socioeconomic issues and work hard to enforce adherence to rules and regulations in accordance to both the South African and Ugandan constitution.

For the Ugandan community in Cape Town labour migration is a livelihood strategy pursued in reaction to relative socioeconomic deprivation. To most Ugandans, migration to South Africa was undertaken as means to enhance livelihood security through income diversification. In most cases, migration is aimed at increasing the migrants' welfare gains and enabling migrants to acquire capital investments from abroad to overcome local economic development constraints at home. This risk-spreading strategy corroborates with argument put forward by the NELM and livelihood approaches literature discussed in chapter two above.

The survey on the determinants of migrant remittance to Uganda 2011 questionnaire was the main instrument used for collecting remittances data from selected households. To ensure validity and acceptability among the migrant, this survey administered 80 household based questionnaires as part of the initial feasibility study of determinants of migrant remittances from the Ugandan community in South Africa's Mother City, Cape Town.

The survey also included preliminary consultations and interviews with officials from the South African Government Department of Home Affairs Bellville Office; the leadership and members of the Ugandan community in Cape Town, financial institutions, (Standard Bank Tygervalley branch, ABSA Bank Bellville branch); Money Transfer Operators; (MoneyGram, and Western Union); and informal money transfer agents.

4.3 DETERMINANTS OF MIGRANT REMITTANCE FROM THE UGANDAN COMMUNITY IN CAPE TOWN

This section presents findings on the determinants of migrant remittances from Ugandans living and working in Cape Town. These include the characteristics of remittance senders, the South Africa regulatory framework, and remittance transfer channels used.

4.3.1 Characteristics of Remittance Senders among the Ugandans in Cape Town

In order to facilitate a good understanding of this study, this section provides specific characteristics of the remittance senders among the Ugandan community in Cape Town. These include the demographic characteristics, migration status, level of education among Ugandans in Cape Town, employment, migrants' income and time since migration household composition and family situation.

4.3.1.1 Demographic characteristics (Age, Gender, Marital Status)

Ugandan migrants in Cape Town cut across all ages but are mainly between 20 – 44 years. Fifty percent of the surveyed households are in the 25 – 34 years age group, 25 percent are between 35 – 44 years and the smallest number (4%) of the surveyed population is over 45 years. Over 75 percent are men and women are 25 percent. With reference to marital status, 60 percent of the interviewed respondents are single, while 20 percent are co-habiting. Married migrants only constitute 17.5 percent and those who are divorced are 2.5 percent (see Table 3).

Although marriage is culturally a precondition for co-habiting in Ugandan society, migrants who have stayed away from their cultural setting, tend to distance themselves from long term commitments as marriage can only take place when elders from both families agree in accordance to the norms and values enshrined in their respective traditions.

The remittance patterns of those interviewed indicate that 75 percent of those who remit most often are between 25 and 34 years, single or cohabiting. This is followed by migrants in the 35 – 44 age range who often remit to smoothen consumption needs of their families back in Uganda.

For cultural reasons, those who are married cannot stay with their friends but must get their own accommodation with a one bed apartment usually rented at around R3500²⁸.

Table 3 Socioeconomic demography of the Ugandan community in Cape Town

	Volume	Percentage
Age		
Less than 25 years	16	20 %
25 – 34 years	40	50 %
35 – 44 years	20	25 %
45 - Over	4	5 %
Marital Status		
Single	48	60 %
Co-habiting	16	20 %
Married	14	17.5 %
Divorce	2	2.5 %
Number of Children		
No Child	48	60 %
1 – 3	28	35 %
4 - More	4	5 %

Source: Authors Computation 2011

In some instances married respondents whose spouses are still in Uganda indicated that they remit larger amount frequently in comparison to those married couples staying together in South Africa. However, family reunions changes remittance trends and behavior as the level of care for those left behind diminishes with each member of the family joining the family in the host

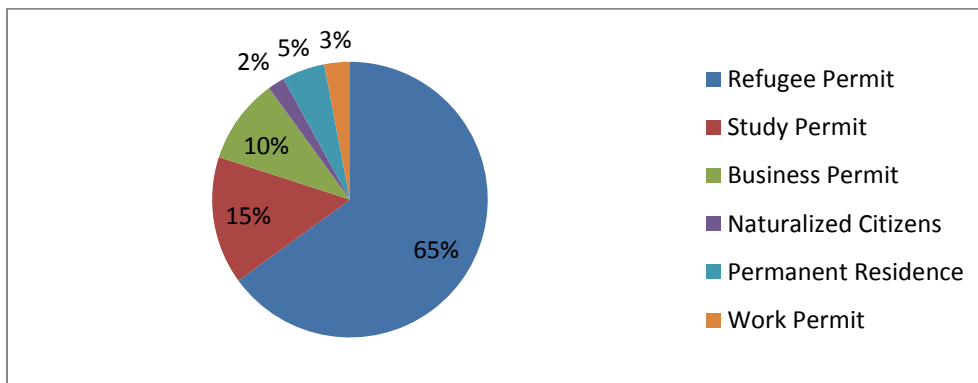
²⁸ Price according to Seef Properties Cape Town

country. Other demographic characteristics of Ugandan remitters are difficult to interpret outside the background of family migration histories. According to the survey, the marital status of married migrants who are accompanied by or through family reunion are staying with their spouse and siblings are much less likely to remit than those who have a spouse and children in Uganda. This research revealed that the relations within the household such as gender expectations simultaneously affect the motivations to migrate and to remit. Of the interviewed men the motivation to remit is more of insurance and inheritance-seeking while women are found to be keen to maintain good relationship and linkages with people left behind.

4.3.1.2 Migration Status

Most Ugandan migrants in Cape Town are holders of different permits issued by the South African Department of Home Affairs as shown in figure 4 below. Based on this survey, 65 percent of the 80 household respondents are refugee permits holders, 2 percent are naturalized citizens, 15 percent are study permit holders, 5 percent are permanent residents, 10 percent are business permit holders and about 3 percent are holders of worker permits. Although holders of refugee permits are considered to be documented migrants, this study found that they do not have total access to the main stream financial institutions in relation to banking and money transfer. This is further explained by their choice of transfer preference (informal remittance transfers) when they send remittances.

Figure 4 Migration Statuses for Ugandans in Cape Town



Source: Authors computation 2011

This study found that the migrant's legal status has incoherent effects on remittance-sending among Ugandan migrants in Cape Town. Over 65 percent of the Ugandan communities in Cape Town are holders of refugee permits. This means that they cannot have access to main stream economic activity in contrast to those with permanent residence permit and citizenship holder. Due to differences in residence rights the increase in the migrant's willingness to send remittances among Ugandans with refugee status is explained by uncertainties around their temporary situation, and thus they see a greater need – through remittances - to preserve a base in their country of origin.

4.3.1.3 Level of Education among the Ugandan Community living in Cape Town

The general education level of the surveyed population shows that over 50 percent had completed secondary school education before leaving Uganda. Forty percent came with or did their further education training and university degrees while in South African, and about 10 percent have engaged in postgraduate education during their stay in South Africa. Given these education levels, Ugandans have a comparative advantage that places them well above the Somalians, Burundians, Rwandese, Congolese, Tanzanians, Mozambicans, Namibians, and Angolans, as well as South Africans. According to an interview with the council of elders of the Ugandan community in Cape Town;

‘It's in our tradition to respect our culture whose norms and values we exhibit whenever we show respect to others. Our determination to excel in business, schools and society at large, is informed by our undeterred commitment to help those in need amongst ourselves including those left home. So our community has no choice but to aggressively take full advantage of their education and organizational capabilities and structures respectively, to our benefit in business circles in South Africa's informal and formal sectors²⁹’.

Although highly educated migrants earn more money than the less educated, their propensity to save is quite limited by their structured and expensive life style. Sixty percent of respondents with postgraduate education have benefited from the family reunion programs offered by government to retain professionals by allowing their family members to visit their professional

²⁹ Extracted from the conversation with the council of elders of the Ugandan Community in Cape Town

relatives in South Africa. To a great extent, this has reduced altruistic remittances from the Ugandan professionals back to Uganda, as most of those who they care about are staying with them in the host country.

Since the less educated are inclined to work in informal sectors and have no fixed proof of income they don't qualify for the family reunions that the professional Ugandan migrant enjoy. However this survey also indicated that 70 percent of the less educated (those with only the Uganda Certificate of Education) altruistically remit more to improve their families' well-being especially in the time need and through paying their siblings tertiary institutional tuition fees.

This is done in anticipation to avail their relative a chance they never had as opposed to their learned counter parts who are more concerned with the needs of their newly started families in Cape Town. According to the survey, 80 percent of these professionals have been absorbed into a Western life style (involving the purchase of cars, apartments, clothes and life insurance policies) largely financed by credit. This means that most of their income is used to finance loan repayment

Some Ugandan professionals are deeply self-absorbed in personal and professional development as opposed to the less educated who work to improve principally their family's wellbeing. Thus, the cost of maintaining a social life style equivalent to that of a South African with similar professional status reduces the Ugandan professional's propensity to save and remit altruistically.

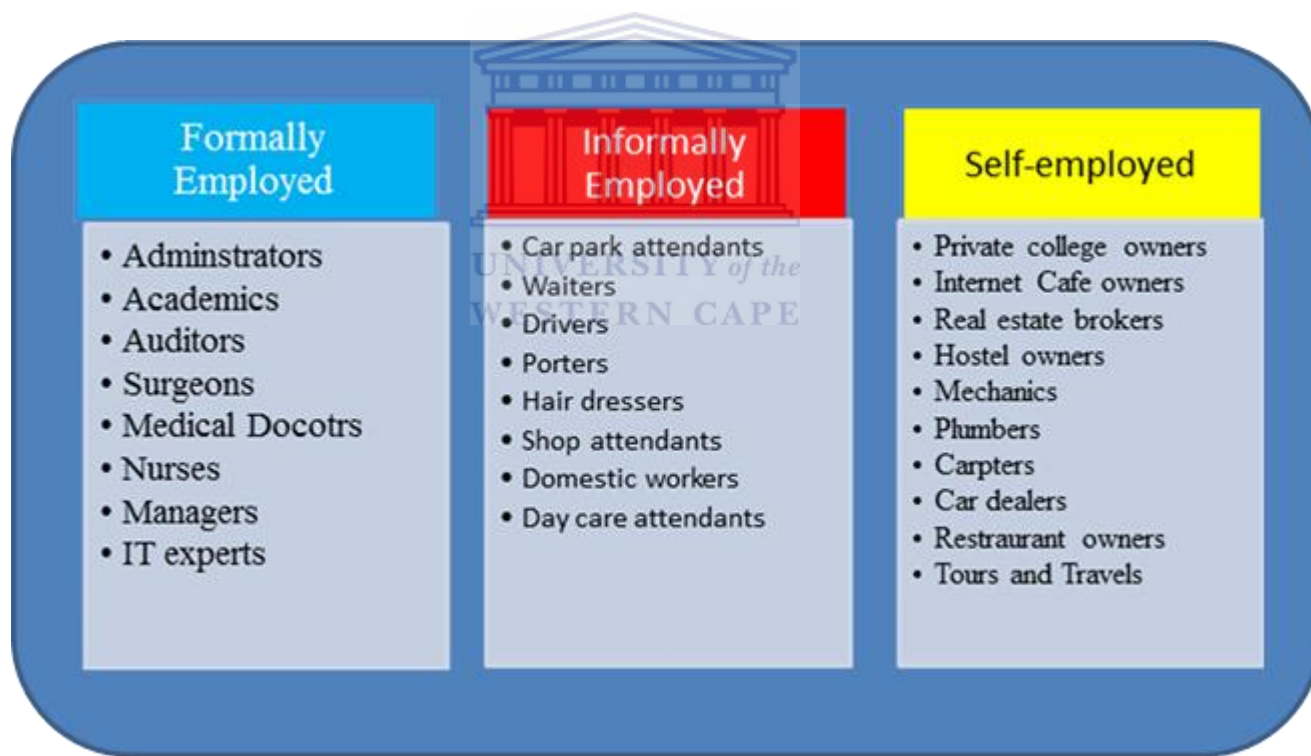
4.3.1.4 Employment

Over 70 percent of the respondents are self-employed, while 90 percent of the 25 percent formally employed, work in highly specialized professions. With the present standard of living in Cape Town, in comparison to Burundians, Rwandese and Congolese, Ugandans relatively spend less on consumption. Most respondents in this survey indicated that it is not about how they live today in the foreign country, but what their family should have to invest and sustain their family economic growth and development. This allows them to save and remit large enough amounts of money to start up serious small and medium enterprises (Private Schools, Maize Mills, Transport, Real-Estate, Import and Export businesses) in Uganda.

The employment chart shown in table 4 below, categorizes the Ugandan migrant employment in three distinctive groups. The formally employed group of Ugandans working in government departments or private institutions mainly includes academics, auditors, accountants, surgeons, medical doctors, nurses, administrators, managers, and computer and information systems experts. Although Ugandans in this category earn more income, their financial commitments³⁰ in South Africa have led many of them to remit less than their less educated counterparts.

Ugandans that are informally employed and those that are self-employed often engage in informal businesses. These include restaurants selling African food, Private Colleges, roadside car park attendants, Saloons and general merchandize wholesale shops, most which are located in Bellville, Wynberg, and the central business district of the city of Cape Town.

Table 4 The Ugandan Community in Cape Town Employment Chart



Source: Authors Computation 2011

³⁰ Income tax, medical Aid, life insurance, motor insurance, Mortgage, Tuition, and

4.3.1.5 Migrant's Income

The most important determining factor of remittances is the migrant's income since income directly affects the migrant's capacity remit. Income earned from any type of occupations as shown in table 4 above, in form of wages, salaries or proceeds from the sale of goods and services offered by Ugandans while in South Africa.

As part of their survival strategy, Ugandan living in Cape Town travels in groups to save on transport costs, they communally live together to save on accommodation costs and they buy their groceries in bulk from downtown informal whole sellers. This allows them to save most of their income as most of them work in the informal sector with no official monthly deductions (such as income tax, workers union fees, loan deductions, and insurance premiums) from their income. This study found that although 65 percent of Ugandan migrants with refugee permits are in a financially weaker position than those migrants with permanent residence, they are by far the most regular remitters, since most of their income is not spent in South Africa but saved for the purpose of being remitted back home.

Migrant's income is often dependent on the migrant's socioeconomic background and characteristics including age, marital and migration status, education, length of stay, type of work and form of employment. Due to their migration status, most respondents interviewed stated that there were self-employed mainly in the informal sector of the economy. This implied that Ugandans save more while working in informal sectors than in a formal sector where taxes and proper accounting principles must be adhered to.

It should be understood that the informality of migrants' businesses doesn't constitute in any way or imply that their businesses are illegal. Some of the distinguishing aspect in Ugandan informal businesses according to this study has been their strong reliance on their community social capital. This has been one of the most available resources at their disposal to get an edge in informally mobilizing financial resources.

For Ugandans in Cape Town, access to credit is typically based on trust. Loans are not acquired and financed through the main stream commercial Banks but through families or their community cooperative unions. The repayment period for such soft loans is often longer with

limited restrictions, and the interest rates are often far lower than the main stream market rate. This makes Ugandan in Cape Town to easily have funds available for business, thereby increasing their income.

When it comes to the price factor of goods and services to be procured by a customer, this study found that informal businesses comparatively out-compete formal businesses by offering lower prices than the formal traders. The absence of taxation, high interest on loans and pensionable salaried employees, compels informal traders to cut prices below the market price and this translates into increased sales and profits with savings for possible remittance.

Not all migrants interviewed in this study own shops but they engage in businesses that feed into other businesses³¹ owned by other foreigners with South African nationals as their main customers. Ugandan migrants running retail shops buy stock from a fellow migrant whole seller who has a regional distribution contract with the factory or a provincial supplier of that particular product. Because Ugandans only buy direct, they can afford to sell at a lower price than anyone outside their network. Knowing that the poor and unemployed people in South African townships can no longer afford to pay high prices imposed on them by franchised chain of stores in the main stream economy, migrants sell their products without necessarily focusing on high profit margin per item sold, but on the rate of turnover in a given timeframe.

Consistent with some studies in the literature³² on remittances as insurance, this study found that Ugandans with investments in assets in Uganda that require maintenance such as commercial buildings remit more often to maintain their property from which their future expected income is to be derived from. Respondents in this survey with assets in Uganda indicated that through remittances, they financed the cost land, materials, construction, furnishing, roofing and maintenance of their property. Property ownership, for many Uganda migrants constitutes a form of self-insurance different from any other form of co-insurance arrangements they may have with their families.

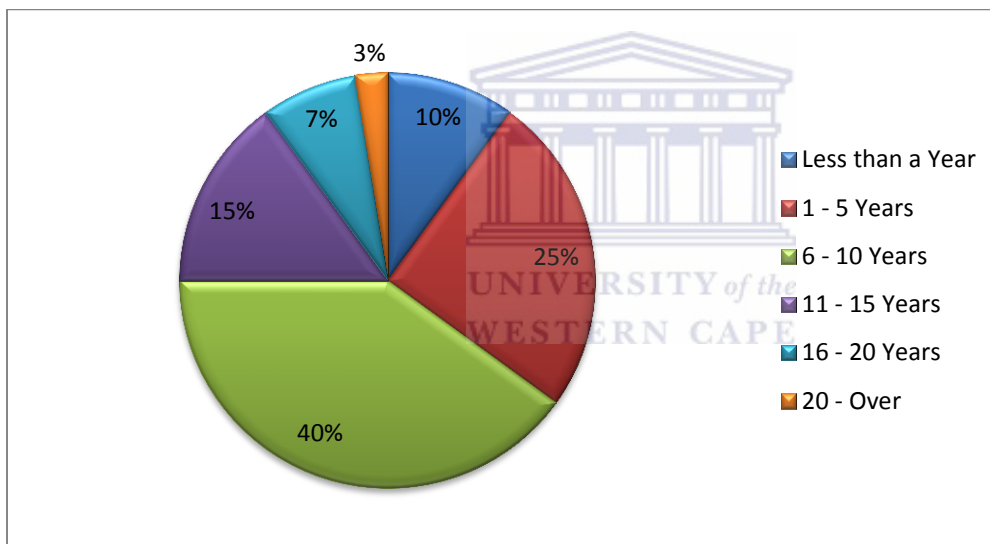
³¹ Other migrants own Mechanic workshops, Private Collages, Tailoring shops, African food Restaurants, Micro-money leaders, General consultants, Tours and Travel, Clearing and forwarding companies, etc...

³²Ameudo-Dorantes et. al (2006)

4.3.1.6 Time since migration

Remittances have been known to fluctuate not only according to economic depression in the host economy, but also by the time spent abroad since migration. More often than not, the amount of both altruistic and self-interest remittances depreciates with according to the number of years a migrant stays abroad. This fact has been collaborated by these research findings were Ugandan migrants who have stayed less than 10 years send more than (75%) those who have stayed for over 10 years (see figure 5 below). This is also associated the continued depreciation in the degree of care and the gradual loss of the sense of belonging with those left behind, due to years spent abroad.

Figure 5 Number of years a remitter has stayed in Cape Town



Source: Authors Computation 2011

Also over time, migrants tend to lose their social affiliations and networks from their home countries. In this case 3 percent of migrants who have stayed in Cape Town for over 20 years indicated that they were not sending any remittance as they had no immediate family in Uganda due to age or HIV/AIDS related deaths. Other migrants indicated that their previously needy family members had completed their studies and are now working for government or the private sector, and are even earning well above some Ugandans in Cape Town.

4.3.2 South African Financial Regulatory framework

The migrant's ability to send remittance to their country of origin is often hampered by regulations designed to control both population movements within a given sovereign state and financially to curb the abuse or misuse of foreign currency reserves through money laundering.

In response to the concerns from United States Financial Action Task Force and the World Bank inter-agency remittance task force that linked terrorism financing to migrant remittances following the September 11, 2001 bombing of the Twin towers in New York, the South African government issued a guidelines for regulating, coordinating and disseminating remittance transfer data and information about the identity of the remitter, source of income, proof of address and the purpose for which the transfer is being effected.

To that effect, all financial institutions and money transfer operators such as MoneyGram and Western Union licensed by the Reserve Bank of South Africa to handle foreign transactions are by law³³ obligated to work towards ascertaining the citizenship and migration status of any person with whom they enter into cross border transactions and report any illegal foreigner or person whose citizenship or status could not be ascertained in accordance to the South African regulatory and financial framework. Furthermore, financial institutions dealing in money transfers are in terms of the South African 'KYC' (Know Your Customer) laws, instituted by the Financial Intelligence Center Act 38 (FICA) of 2001, are mandated to validate every client's identity, passport number, proof of income including the client's physical address.

The South African monetary policy on money transfers operates a system of control of all monetary transactions in and out of the country. These exchange control regulations are overseen by the authorized commercial Banks and MTO's on behalf of the South African Reserve Bank (SARB). These regulations are applicable to all transactions irrespective of the volume to be transferred. No resident, company or any legal entity may carry out a transfer without an approval from the authorized dealer.

Exchange Control Regulations dictates how much and under what circumstance one may transfer money out of South Africa. Permissible reasons for money transfer abroad include monetary

³³Section 45 of South African immigration Act, 2002

gifts or loans, donations to missionaries, maintenance transfers, travel allowance, study allowance, and up to R4 million individual capital allowances. Such regulations in many ways create barriers for remittance and this deters migrants (documented, undocumented and illegal) from using formal transfer channels (which requires the remitter to provide valid passport and proof of residence documentations) in of more informal transfer channels.

The South African Department of Home Affairs is the custodian, protector and verifier of the identity and status of citizen and other persons residing in South Africa. While the department is mandated to manage the birth, marriages and death records as part of maintaining the national population registry; it is tasked with determining and granting of citizenship, issuance of travel documents and national identity documents under its civil services. The department through its immigration services it is mandated to administer admissions of all foreign national including Ugandans entering or departing the country through its Ports of entrance (Airports, Boarder Posts and Sea Ports), and determine their residence status while in South Africa.

Without obtaining immigration documentation from the department of home affairs, a migrant will be regarded undocumented with no access to formal government services as well as services from financial establishments in the country. It is clear from the extracts of this survey that over 65 percent of the Ugandan communities in Cape Town are holders of refugee and asylum seekers permits (see figure 4) whose issuance is determined by the department of Home Affairs in accordance with the South African constitution under its International Obligations to the United Nations.

Although all respondents in this survey are documented migrants, only 20 percent³⁴ are officially allowed to freely open Bank Accounts and perform transactions (see figure 4). The biggest proportion of households (80%) are technically prohibited from participating fully in the formal sector as it requires the presentation of the South African ID book issued by the department of Home Affairs, possession of the proof of residence and in most cases proof of income which they don't have.

³⁴Citizens 2 %, 3% Work Permit holders, 5% Permanent Residents, and 10% Business Permit holders

A large proportion (65%) of respondents indicated that they would be happy to use formal channels like the MoneyGram or Western Union through Absa and Standard Bank respectively, but these are regulated and this leaves them no option but to resort on the informal Hawala express networks with minimum immigration and financial legal formalities.

4.3.3 Remittance Transfer Channels Used

From the survey conducted in this study, 85 percent of remittances to Uganda are made in the form of money, and 15 percent of remittances take the form of goods that are cheaply available in South Africa and in growing demand in Uganda. These includes goods such as smart phones, ipads, play stations, solar panels, inverters, water pumps, generators, cars, tractors and sound systems. Channels through which monetary and in-kind remittances are sent are classified into formal and informal remittance transfer categories. While each remittance transfer category differs in terms of accessibility, speed, and cost, they have different advantages and disadvantages that influence the remittance behavior among Ugandans surveyed in this study.

4.3.3.1 Formal Remittance Transfer Channels in South Africa

Formal channels consist of money transfer services by non-bank financial institutions, such as the Western Union and MoneyGram as money transfer operators, who in the case of South Africa work in partnership with Commercial banks (such as ABSA bank and Standard bank) to offer cross-border money transfers services to authorized individuals or customers.

4. 3.3.1.1 ABSA Bank Partnership with Western Union

The Amalgamated Bank of South Africa (herein referred to as ABSA bank) is one of the big four commercial banks with over 400 branches operating in South Africa. With the advent of increased importance of migrant remittances and the subsequent increased competition among money transfer operators ABSA has gone to great lengths to expand its relationship with one of the global money transfer service providers, the Western Union, to claim a share of the R20 billion remittances flows from South Africa.

According to ABSA, under this partnership Western Union provides an extended foreign transfer system through which Absa clients can use mobile and internet electronic banking channels from South Africa to over 350,000 Western Union locations worldwide in minutes. This service

however, has been pre-conditioned to minimize abuse by money laundering and is only open to foreign students, tourists and migrants with residence permits. Paulo Zambonini³⁵ states that under this service one can only send R30 000 per transaction and not more than R500 000 can be sent by an individual per annum in accordance to the South Africa Reserve Bank directives.

The parties involved in the ABSA Western Union remittance transaction include the remittance sending migrant, the initiating ABSA bank branch as an agent of the Western Union in South Africa with the banking and retail forex systems and the Western Union Agent in Uganda effects remittance payment to the prescribed beneficiary in local currency.

In the ABSA Western Union remittance transfer process, a migrant with all the required information³⁶ goes to the ABSA bank, fills in the Western Union remittance sending form and hand it to over together with the money to the Bank agent who verifies the migrants documentations and informs the migrant of the current exchange rate and transfer fees as per the ABSA bank core system.

The documents and the information provided by the migrants to effect the transaction is then stored in form of hard copy papers and electronic format as required by the Financial Intelligence Center Act (FICA) 38 of 2001. Sanction screening of the funds to be remitted is done before the bank core system sends the remittance information to the Balance of payment (BOP) reporting system of the Reserve Bank.

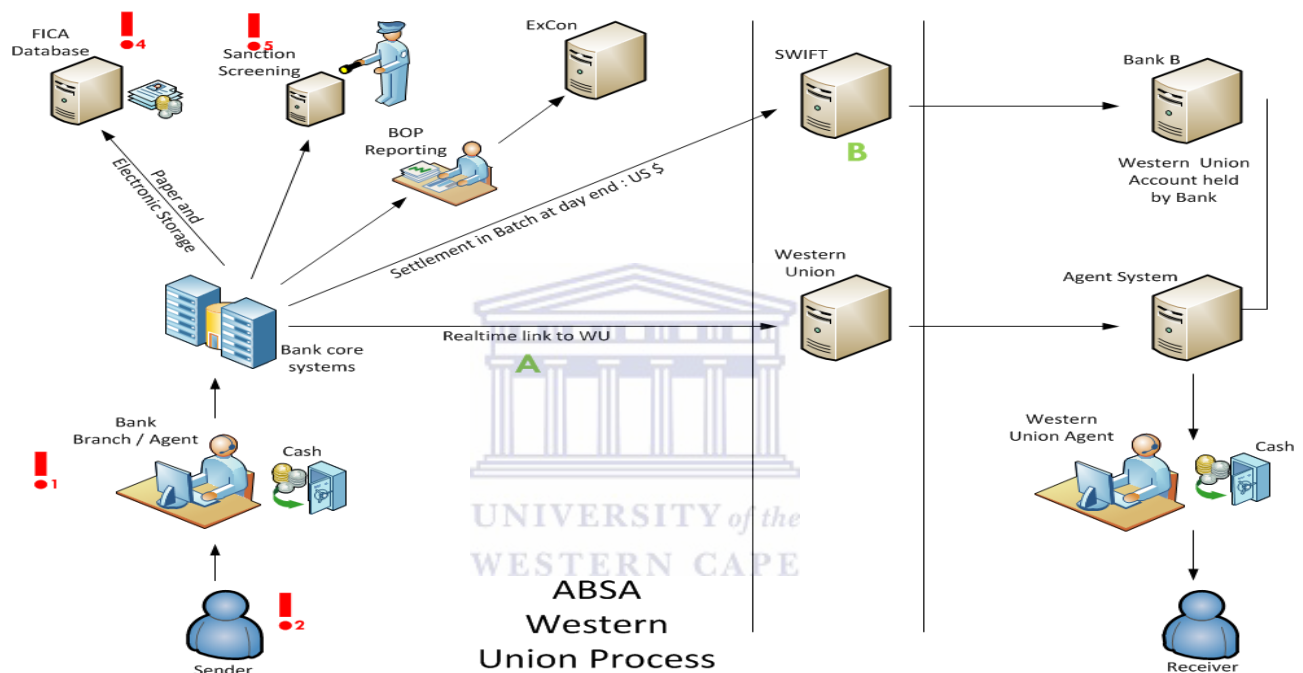
From the ABSA bank core system remittance transfer can be done either via a SWIFT foreign exchange payment system to the bank in Uganda or sent directly through real time link to Western Union system. Remittances sent via SWIFT foreign exchange payment systems are sent to a bank in Uganda, where the Western Union account is held. This is then channeled to the Ugandan Western Union agent system that authorizes the local Western Union agent who has received matching information (as per the transfer questions and the receivers particulars) to hand over the remittance in local currency.

³⁵ Mr. Paulo Zambonini is ABSA Head of Group Innovation and Special Projects 2003 (www.absa.co.za)

³⁶ Senders names, immigration permit, proof of residence, proof of income, telephone number, nature of payment, test question, a signed declaration and the receivers name, address and telephone number.

Remittances sent via the Western Union system are sent directly to the Ugandan Western Union agent system, which also sends the information to the local Western Union agent to dispense the money to the remittance prescribed beneficiary in local currency. Figure 6 below illustrates the ABSA Western Union remittance transfer processes from the time the migrant approaches the Bank to the moment the remittance beneficiary receives the money

Figure 6 ABSA Western Union Remittance Transfer Process



Source: Langhan, et. al, (2011)

In relation to this study, 70 percent of the interviewed respondents indicated that they do not often send or receive via ABSA – Western Union channels, or use electronic money transfer due to regulations imposed by the South African Reserve Bank on cross-border money transfer operators. The use of Western Union has therefore been minimal, largely restricted to migrants with study permits who use it to receive up-keep money from their parents in Uganda and a small number (2%) of naturalized citizens amongst the respondents who use it to pay their siblings fees.

In the period that followed the 2008 global economic meltdown ABSA bank in a bid to increase its clientele base, allowed many foreign national including Ugandans with Department of Home

Affairs certified refugee permits and proof of residence, to open saving accounts in an attempt to get the unbanked migrants Bank with ABSA. This was done following complaints from foreign nationals who wanted to formalize their operation in South Africa by associating with a financial institution with multiple banking products and access to formalized remittances transfer.

The Ugandan community executive in this regard, greatly appreciates ABSA's good will gesture towards getting its members bank accounts to save their hard earned income. However from their own admission, Ugandans still lack awareness of the true benefits of utilizing formal transfer channels when sending money home. This financial education has to be done in partnership between Absa – Western Union and migrant representatives to get more migrants to understand the importance of formalizing their remittance not only for their own economic benefit, but also for the eventual socioeconomic development of their home countries.

4.3.3.1.2 Western Union Partnership with MTN Uganda

According to Khalid Fellahin³⁷, Western Union has also entered another commercial agreement, this time with the MTN Group (a leading Mobile operator in Africa and in the Middle East), to introduce international mobile money transfer services to allow MTN subscribers to send and receive money from around the world using the MTN mobile money accounts. Among the Sub-Saharan countries, Uganda is has one the most successful mobile wallet³⁸ developments with over 1 million MTN mobile money registered users, who send and receive money using Western Union's Multi-channel strategy.

Respondents interviewed indicated that this could be a better way of formalizing remittances as migrants won't have to go to any institutionalized bank or Western Union office but just load money on their mobile money accounts from any MTN vendor as most respondents (75 percent) have MTN mobile lines. Presently, only 15 percent of Ugandan migrants in Cape Town are have access to internet banking and transactional check accounts due to financial regulations.

However, greater use of such remittance transfers could be possible if MTN and Western Union through their representatives were prepared to give training to the unbanked Ugandans living in

³⁷ Khalid Fellahi is the Western Union Global Head of Mobile Transactions services

³⁸ This is another formal, non-bank money transfer channel where funds are electronically deposited into the receiver's virtual mobile wallet

South Africa, on the registration and use of mobile money transfer channel of the Western Union, provided they meet the Reserve Bank criteria.

4.3.3.1.3 Standard Bank Partnership with MoneyGram

Standard Bank of South Africa Limited is one of South Africa's leading banking houses. The Standard Bank Group is ranked among the top four best performing banks in Southern Africa with a particular focus on emerging markets globally. To this effect, according to Sim Tshabalala³⁹ Standard Bank has acquired full or majority stake holding in previously non-performing liberalized commercial Banks across the Sub-Saharan region. In Uganda for example, Standard Bank of South Africa Limited through the Johannesburg Stock Exchange acquired Uganda Commercial Bank in 2002, rooting its presence in every corner of Ugandan cities in rural and urban areas.

To further strengthen its global operations, Standard Bank entered a partnership with MoneyGram a non-bank global leader in international money transfers. Under this partnership Standard Bank provided MoneyGram its financial infrastructure and system of over 1000 branches in Southern Africa. In the same way, MoneyGram allowed Standard Bank to offer a worldwide (agents in 81000 outlets in over 180 countries) Money Transfer service to clients in a faster and more convenient way without the receiver necessarily having to own a bank account.

Of the interviewed respondents 80 percent of Ugandans with no bank accounts, indicated that the reason why they cannot open bank accounts are similar to why they cannot send remittances through formal remittance transfer channels. According to the survey, in both Western Union and MoneyGram, remitters must prove the source of income for the funds being remitted; present their up-dated immigration status with proof of residence as required by the South African Law.

While this is a requirement, frequent remitters among Ugandan migrants working in South Africa are not keen on divulging information concerning their identification and source of

³⁹Sim Tshabalala is the Group CEO of Standard Bank of South Africa Limited

income to commercial banks as required for economic sanction screening by FICA⁴⁰. Over 60 percent of the formally employed Ugandans, according to this study, have private businesses such as bars, taxis, tuck-shops, internet café, saloons, or privately give lectures in private colleges. Proceeds emanating from these side businesses often do not correspond with their officially known income. Therefore, they are rarely banked but rather informally remitted back home to avoid their actual income to reflect on their bank statements.

Generally, formal services, predominantly those offered by banks, are often less accessible and costly (with endless protocol) than informal ones, especially for low-value remittance transactions. The migrant's choice of a remittance transfer channel is often shaped by trust and the user friendliness of the service in relation to the remitter's cultural values as well as the accessibility of the service and the physical proximity of the transfer agent.

4.3.3.2 Informal Money Transfer Systems

Informal money transfer systems have a long history and are an important avenue through which migrant remittances are transferred without any actual money movement from one country to another. Following global migratory patterns especially within the Middle East and around the Great Lakes Region, informal money transfer systems are commonly referred to as Hawala⁴¹, which is Arab word meaning transferring money.

Hawala money transfer is a traditional alternative remittance channel which uses precisely the same systems as used in the formal financial system but operates outside the mainstream formal banking systems. Unlike the formal money transfer systems, transactions between Hawala agents in South Africa and another Hawala agent in Uganda are done without promissory notes. Liabilities are undertaken by a sequence of agreements which ensures that payment to the ultimate recipient is effected. This is basically because the Hawala money transfer system is entirely reliant on trust developed over years.

In South Africa, this system was created out of need to counter the continued exclusion of migrant communities from freely using the main stream transfer channels by formalized financial

⁴⁰The Financial Intelligence Center Act 38 of 2001 established to control money laundering in South Africa

⁴¹ For the purpose of this study Hawala is interchangeably used to mean informal money transfer.

institutions and Westernized Money Transfer Operators (MTO's), Informal money transfer systems started offering transfer services to migrants whose remittance transfers were previously blocked due to the non-existence of recognized financial institution in their home countries, especially in remote areas and because of the domestic South African Reserve Bank cross-border money transfer restriction.

In a usual Hawala transaction, L in South Africa needs to transfer money to a recipient RM in Kampala Uganda. L arranges with a Hawala agent HK in Cape Town to make the transfer. L will usually give HK cash in South African Rand. HK will also allocate a secret password to the transaction which he will give to L. HK has a correspondent relationship with MJ who is in the same location as RM in Uganda.

HK notifies MJ of the funds transfer, directing MJ to pay RM who will provide the password for the transaction to be effected. HK may notify MJ on Face book, or Gmail chart, email or SMS message. Similarly, L will inform RM of the password. RM then collects the remittance from MJ. This leaves a debt owed by HK to MJ. The debts will be netted settled by agreed means or if there are any remittances in the other direction. Settlement will often be by a funds transfer initiated by HK through normal banking channels.

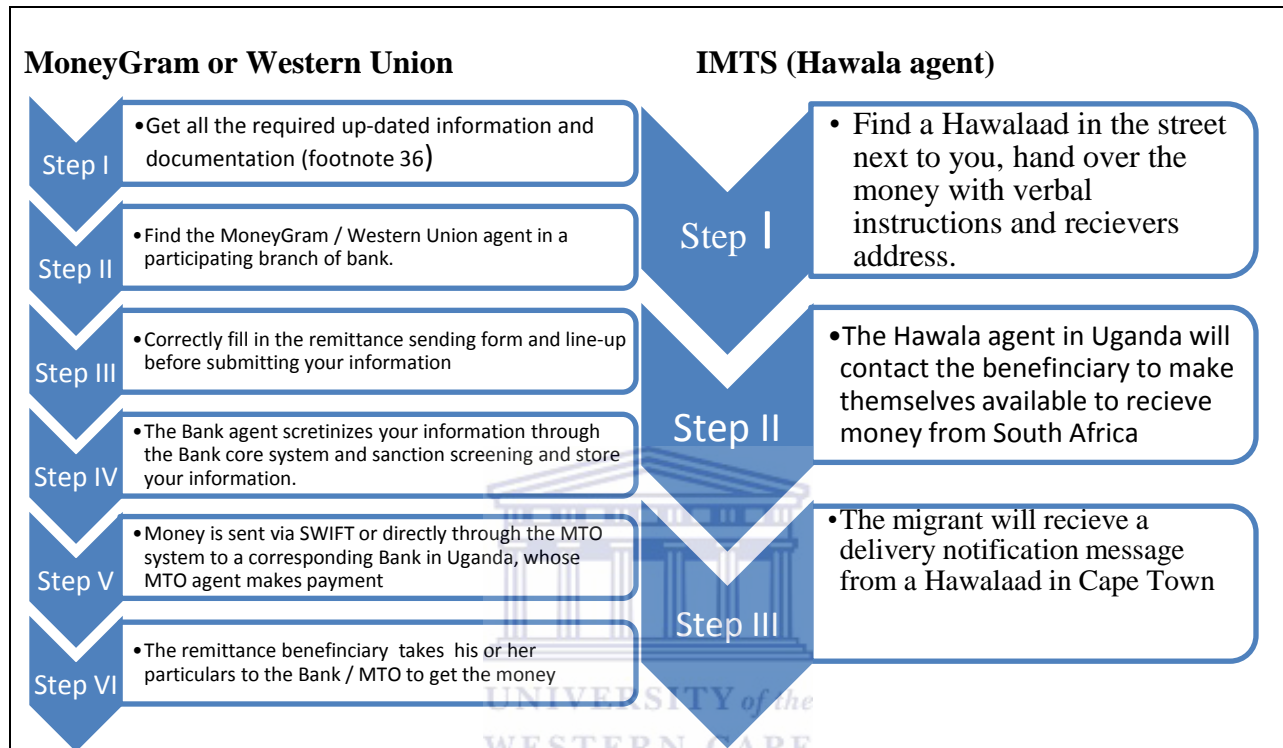
According to the interviews, 85 percent of the Ugandan migrant's in Cape Town send remittances through informal money transfer agents due to their popularity, trust and global connectivity⁴². In South Africa, Hawala money transfer agents are mainly operating in key business cities (such as Johannesburg, Durban, Pretoria and Cape Town) and in Cape Town in commercial centers (of Bellville, Claremont, Wynberg and Cape Town Central Business District) with high migrant population.

All in all, the informal money transfer system is preferred due to its speed, willingness to go an extra mile, and the fact that the Hawala agents are not interested in the source of income as opposed to the formal money transfer systems. Transfer requirements (see figure 7 below) by the informal money transfer services (IMTS) are much easier and more user friendly in comparison

⁴² Over 400 branches including 25 States in United States of American, 50 branches in Britain, 12 in Nordic Countries, 50 offices in South Africa, and 20 branches in Uganda.

to the formal transfer operators shown in the ABSA Western Union remittance transfer process in figure 6 above.

Figure 7 Steps to Send Money through MTO's and IMTS



Source: Authors computation, 2011

Although 85 percent of remittances sent to Uganda from South Africa go through informal transfer channels (Hawala, Kyeyo Trans-Dollars and personal courier), the Hawala is the most used transfer channel (57.5%), followed by personal carriers or friends (15%) and the Kyeyo Trans-Dollars agents⁴³ (12.5%). Ten percent of the interviewed Ugandans indicated that they used the international Money Transfer Operators (Western Union and MoneyGram) and 5 percent of the respondents preferred using account-to-account transfers as clearly shown in the Figure 8 below.

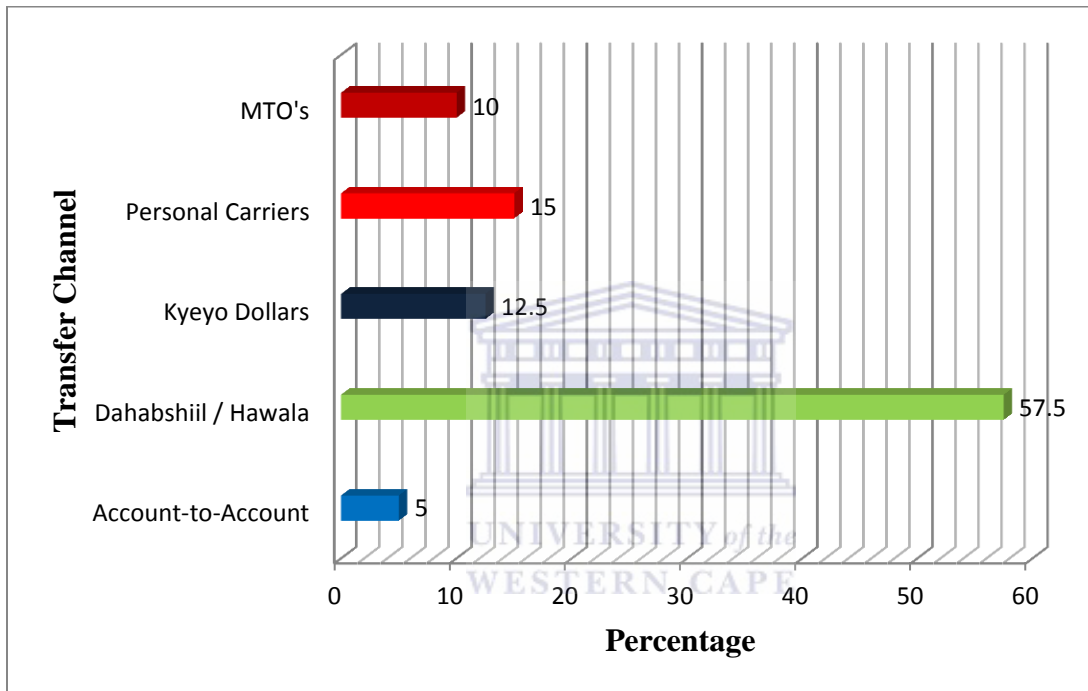
According to Dahabshiil⁴⁴, it was confirmed that in Bellville, Wynberg and the Central Business District of Cape Town, Dahabshiil through its operating Subsidiary Hawala Express Transfers

⁴³ These are Ugandan nationals dealing in cross-boarder remittance transfer operations

⁴⁴Hawala managed office in Bellville

handles over 3000 remittance transactions of US \$500 per month to Uganda alone. This is in excess of R126, 000,000 per annum. Reasons given for the overwhelming use of the Dahabshiil / Hawala are that Hawalaad⁴⁵ go an extra mile in their service provision, when they incorporate free delivery, receiver SMS notification, are better rates for these remittances at no added cost to the sender and receiver.

Figure 8 Preferred Transfer Channels Used by Ugandan Migrants in Cape Town



Source: Data from the survey 2011

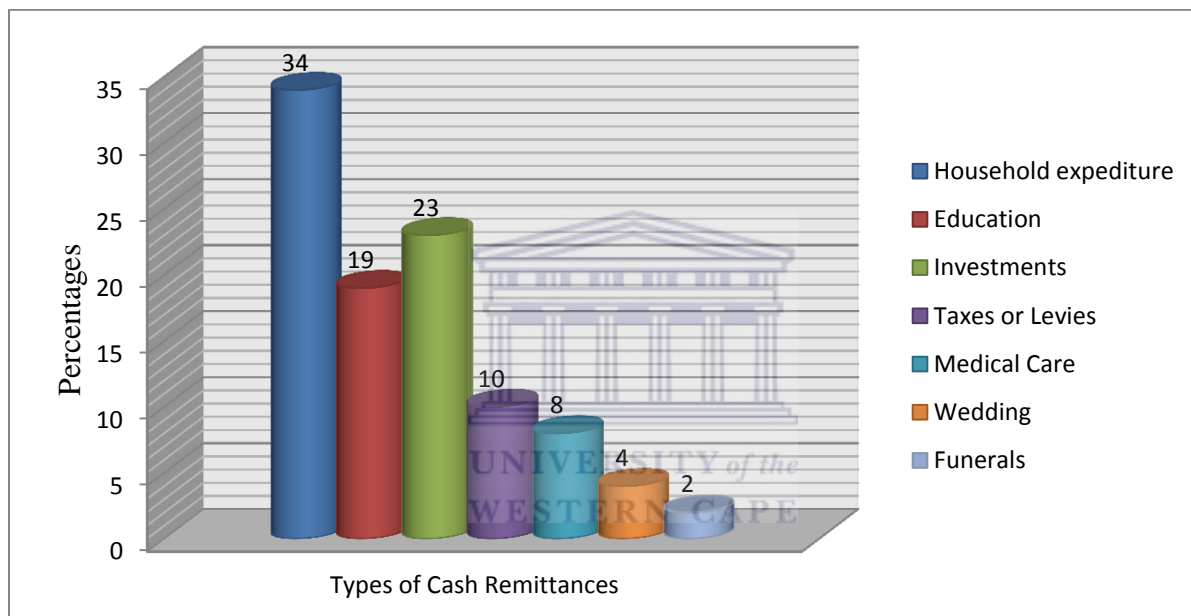
Another factor cited to be influencing the continued use of the Hawala Express Transfer services is the continued state of fear amongst migrants in South Africa especially the fear of what might befall them if and when attacks on foreigners are repeated. This makes them skeptical to have their hard-earned savings Banked or invested to remain in South Africa.

⁴⁵ Hawalaad is a money transfer agent of the Hawala Express working on behalf of the Dahabshiil establishments.

4.4 INTENDED USE OF REMITTANCES FROM UGANDANS IN CAPE TOWN

This section explores the perceptions of remittance sender on the intended use of remittances. Ugandan interviewed in this study indicated various intended use of the remittances that they send home. These included among others the acquisition of land, their family's well-fare, extra income, investments in shares, real estate, education and access to better schools (see Figure 9 below).

Figure 9 Intended Use of Remittances from Cape Town to Uganda



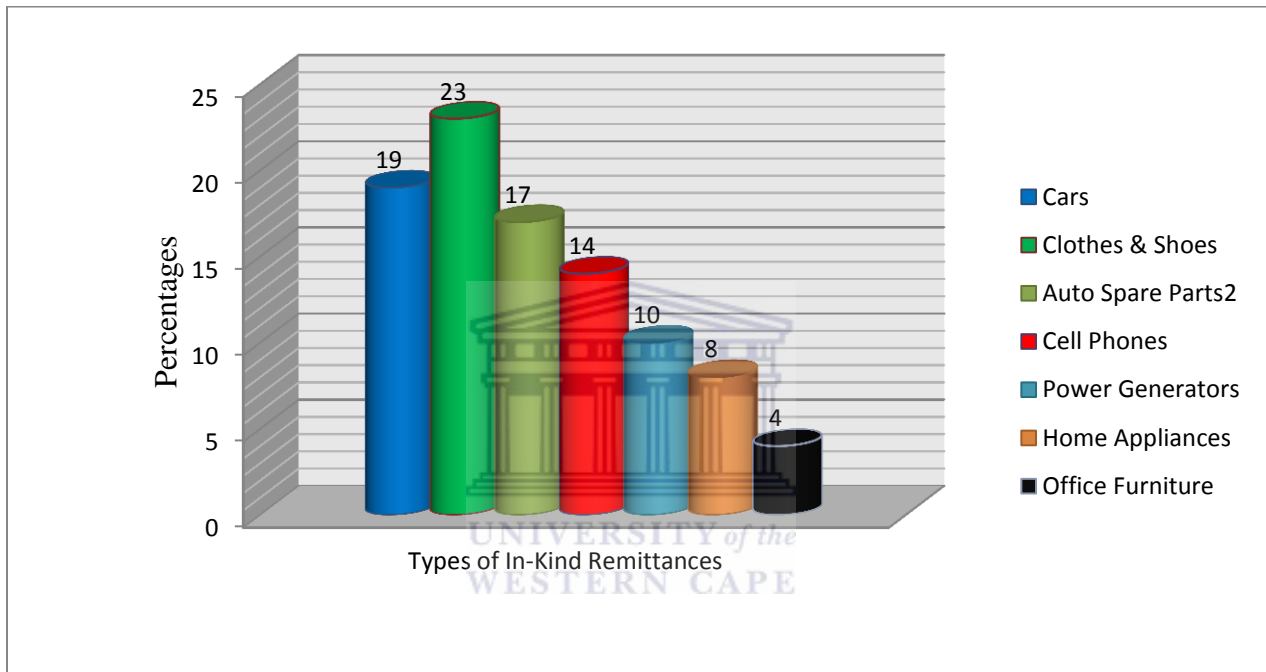
Source: Authors Computation 2011

Looking at the intended use of remittances shown in figure 9 above, it is clear that over 67 percent of migrant cash remittances from Cape Town are altruistically motivated as they seek to improve the lives of those left behind (household expenditure 34%, education 19%, medical care 8%, weddings 4% and funerals 2%). In relation to self-interest theoretical motives only 23 percent of the total cash remittance was invested and 10 percent was used to pay taxes or levies imposed on in-kind goods by the Uganda Revenue Authority.

Although the composition of in-kind items sent by migrants from Cape Town to Uganda showed a general inclination towards consumption goods (Cars, Electronics, Cell phones, Clothes, Shoes

and Furniture) sent by migrants, there is however an increasing shift in the mind set of migrants from sending consumption driven remittances towards sending productive equipment (agricultural equipment, power generators, commercial trucks, stationary, toilet paper making machines and so many others) to support economic activities in their communities in Uganda (figure 10 below).

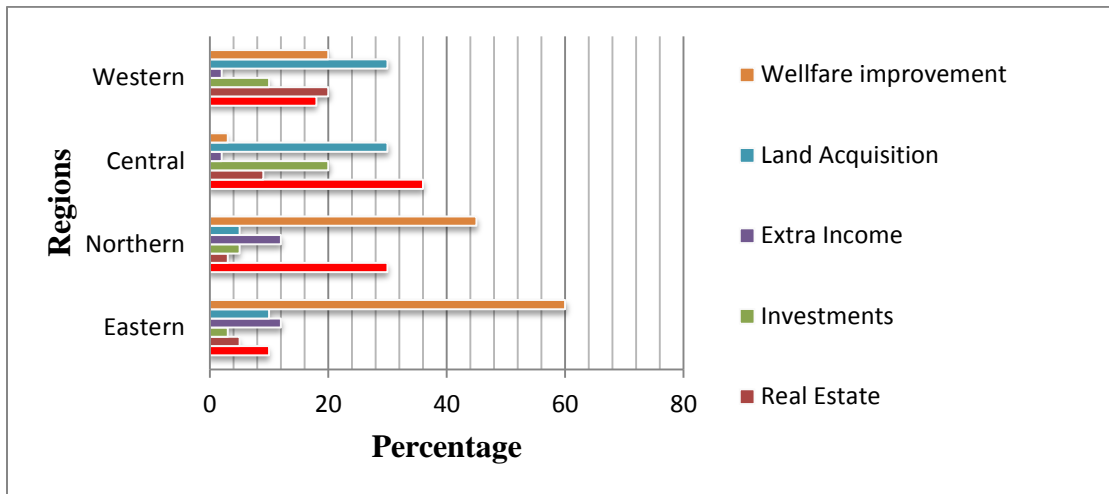
Figure 10 Types of In-Kind Remittances from South Africa to Uganda



Source: Authors Computation 2011

The intended use of remittances sent by Ugandans differs by region of origin. Ugandans from impoverished regions, Eastern and Northern Uganda, send 60% and 45 % respectively, to improve their family’s well-fare as opposed to those from the more developed Central and Western region whose focus is more towards capacitating their relative with education (supplementing governments primary and secondary universal education efforts), investment in shares, real estate and the acquisition of commercial land in key urban and strategic Oil regions (see figure 11 below).

Figure 11 Percentages of the Intended Use of Remittances by Region in Uganda



Source: Authors Computation of the survey data 2011

4.5 REMITTANCE DECISION

This section explores perceptions on the decision remit patterns among the interviewed Ugandans in this study. Among the married respondents in this study, the decision to remit is usually taken by the family head that is often responsible for the entire family's well-being. Sixty percent of married women seek permission from their husbands before remitting.

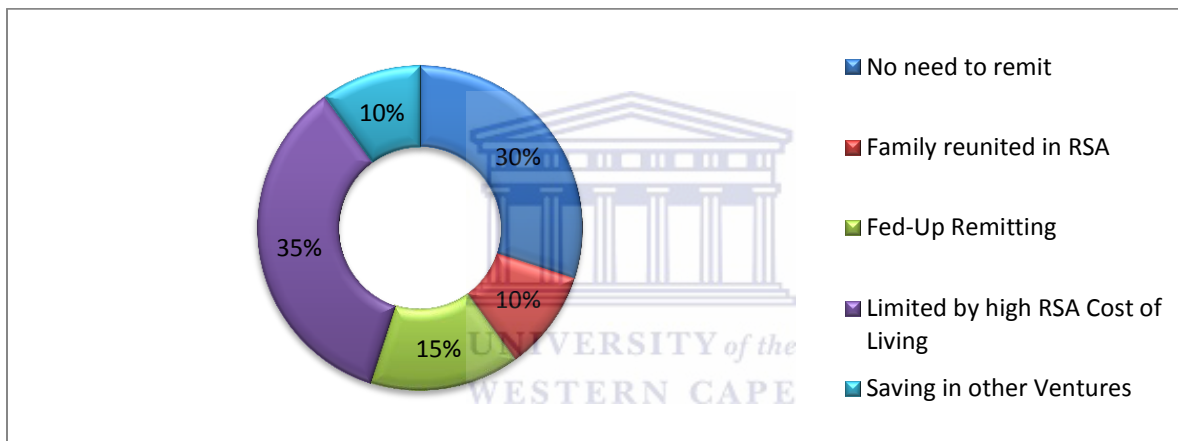
However, according to the council of elders, for working men with children outside the present marriage, it is not necessary to consult their present wives, this might be wrongly misinterpreted as maintaining past relationships for which their wives will never agree to and that's why they unilateral take decisions, in the best interest of all concerned. This clearly shows the existence of gender imbalances against women, among the interviewed male Ugandans living in Cape Town.

This however, does not mean that always a man has to be the one to decide, as more than half of the 16 percent of the interviewed respondents that are co-habiting are controlled by women who are the bread winners. Most individuals in co-habiting relationships that have children from previous relationships unilaterally decide to remit without consulting their partners since their children's general up-keep in Uganda is their own responsibility.

Although 75 percent of the Ugandan migrant workforce remits to assist their relatives back home, about 25 percent are still categorized as non-remitting Ugandans. Key reasons for non-remitting according to interviewed respondents include belonging to well-off families in Uganda who do not need to receive remittances to support their life styles.

Another reason for non-remitting is closely associated to the migrant’s financial capability to remit. 40 percent of these non-remitters cited the ever increasing cost of living (Housing rental, oil prices, Taxes, Telecommunication, and Food prices) in South Africa which made them financially unable to remit. Others indicated different reasons as shown in figure 12 below.

Figure 12 Reasons for not remitting



Source: Survey 2011

4.6 SUMMARY

In conclusion, this survey has in many ways afforded the researcher an opportunity to clearly estimate and systematically define migrants’ remittance and the socioeconomic determinants from the perspective of Ugandans in Cape Town. The research findings revealed that Ugandan remitters are largely self-employed males between the ages of 24 – 35 years, who have stayed in South Africa for more than 5 years, working in South Africa’s informal sector.

The relations within the household such as gender expectations may simultaneously affect the motivations to remit. This research also reveals that cash and in-kind remittances from Ugandan men are meant for long term family benefit (Such as; university tuition, commercial trucks,

Power Generators, Agricultural equipment's, Spare Parts, and Small Scale toilet paper manufacturing plants). Of the interviewed respondents in this study, 80 percent of men indicated that reason to remit is to improve the overall macro-family general outlook (number of properties owned) with the intension of contributing to the building or maintaining the family legacy within their community.

In contrast this research reveals that women tend to send a higher amount of their income, even though they generally earn less than men. Among the interviewed Ugandans in Cape Town, women usually send money more frequently and for longer periods of time than their male counterparts. Remittances from Ugandan women in Cape Town are mostly sent for consumption smoothening of the household expenditure (school uniform, medical bills, food, rent, funeral, clothes and transport) and to improve specified relatives that require assistance to improve their lives at a micro-family level. This is viewed in the analysis of the perceptions of migrants intended use of remittances as shown in figure 9 above.

The research also reveals that most Ugandan migrants make far more use of informal money transfer service providers (such as Dahabshiil, Olympics Express, Hawala express transfers and Kyeyo Trans-dollar agents) than the formal transfer operators. This is due to the strict cross boarder money transfer regulations put in place by the South African Reserve Bank through the Financial Intelligence Center Act 38 of 2001, which controls all formal financial institutions and money transfer operators.

The level of education has a great influence on the type of job (formal or informal) a migrant might get while in Cape Town but does not have a significant impact on determining remittances sent home. More than 70 percent of educated Ugandans remit far less than the less educated. This because most of them are tied in the viscous

Finally, the research reveals that Ugandan migrants are determined to work towards the improvement and development of their relatives in particular and the country in general. Ugandans are patriotically altruistic, culturally rooted and systematically programmed to respect and honor efforts placed in them by their families and country during their up-bring. This seems to be driving force of most Ugandans I have interviewed in this study.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this chapter is to synthesis the main research findings by highlighting the major points of the study as discussed in the preceding chapters. It also provides possible areas for future research as well as policy recommendations to increase migrant's remittances and their usage for the socioeconomic development of Uganda and its economy at large.

5.2 SUMMARY OF FINDINGS

This section will be focused on key findings of this study with regard to the determinants of migrant remittances. These include altruism, self-interest, the socioeconomic status of the migrant, the influence of the South African financial regulatory framework, the impact of informal transfer channels.

5.1.1 Altruism

Findings from the survey carried in this study indicate that 60 percent of the remittance senders are altruistically motivated. With the ever hardening migration regulations in South Africa, migrants have started to altruistically remit with the sole purpose of assisting their relatives to save remittances in order to sustain their livelihoods without necessarily basing their future consumption on future remittances. This is evident in the Ugandan remittance patterns and intended use. Although a large fraction of altruistic remittances are aimed at smoothing consumption needs, more than 40 percent of consumption expenditure is spent on accessing good education and health care which is an investment to benefit remittance receivers in the long run.

Time after migration is noted in this study to negatively affect migrants altruistic remittances as time, age and the newly started families create more responsibilities for migrants to concentrate on their families in South Africa rather than on relatives left behind. This is common among migrants in range of 34 – 44 age groups whose close relatives through family reunions programs joined them in South Africa.

In respect to the implicit contractual agreement carried out prior to migration, this study clearly indicate that migrant remittances (invested or consumed through payment of school fees) as part of the family strategy provides long-term benefit beyond daily consumption to guarantee the families future development. The desire to improve their relatives community standard of living through altruistic in-kind remittances have seen many migrants support improvements in the levels of their community library, schools, clinics, wells and access roads, in preparation for their eventual return. The rise in remittance during long period of droughts, festive sessions, declining economic times, further confirms that remittances from Ugandan migrants are indeed, altruistically motivated.

5.1.2 Self-interest

The desire for improving the lives of those left behind has been replaced in some cases by self-interest motives to send remittances, where the migrant's individual future ambitions surpass their families' immediate needs. This fact is collaborated by the continued investments by individual migrants in ventures that guarantee their own future well-being. Forty percent of the interviewed Ugandans indicated that they went for further education, bought land, expanded family estates, and invested in share capital to increase their individual portfolios within their families with the hope of family inheritance.

Based on their nation's centrality within the Great Lakes Region, Ugandans in South Africa have been exposed to opportunities to seriously take full advantage of the growing economic potential that Uganda holds, by remitting to invest in a wide range of businesses from general merchandize, transportation, real-estate, and acquiring prime land in rural and urban areas. Since their migration, many of them have managed to move themselves from the lower income group to middle class motivated by self-interest. The Ugandan migrant stock in South Africa has competitively driven high, self-interest motivated remittances in the race for possession of prime property in Uganda.

5.1.3 Migrant's socioeconomic status

The migrant's income is one of the most influential socioeconomic characteristics, critical in determining their remittances. Ugandans in Cape Town earn from a variety of jobs in search for

a better livelihood. While the educated work in formal government departments and private sectors, the biggest proportions of Ugandans work informally and others are self-employed. Although migrants are structurally barred from participating fully in the main stream economy due to their migration status, through their community social networks they gain access to revolving funds to start up their own businesses at an interest rate far lower than the official market rate. This is confirmed to be their main comparative advantage they hold over nationals in running successful informal businesses in South Africa.

A substantial amount of the income earned is therefore used to finance their soft loans, assist other upcoming businesses, pay for their life-style with the balance informally remitted in line with their family's contractual agreements, and the level of need for money for consumption and investment purposes. Although Ugandans working in the formal sector have all access to financial products given by commercial banks, 60 percent of what is remitted to Uganda is sent by Ugandans working informal sector. In the nutshell, the migrant's propensity to remit greatly depends on their social economic status in South Africa.

5.1.4 South African Financial Regulatory framework

Financial institutions participating in cross-border money transfers include two of the top five commercial banks working in partnership with two international Money transfer operators in South Africa. Absa Bank works in close partnership with Western Union while Standard Bank works in partnership with MoneyGram. Both banks provide cross boarder money transfer services to Ugandans using correspondent commercial banks in Uganda.

Although these banks independently choose to work in partnership with international MTO's, they work in terms of the South African laws instituted by the South African Reserve Bank Financial Intelligence Center Act 38 of 2001. These laws mandate all financial institutions to know their clients Identity, passport number, and source of income and proof of residence including their physical addresses. This is said to be one of the deterring factor that limits Ugandans without proper documentations, access to financial services including money transfer through formal channels.

5.1.5 Informal Money Transfer Services

Due to the imperfections in the financial institutions and formalized money transfer operations, informal money transfer services were created out of need to counter the exclusion of migrant communities from using the main stream transfer channels. In Cape Town and South Africa at large Dahabshiil is the largest Hawala express money transfer followed by Olympics express. Between these two Hawala networks, Ugandans transfer money to their relatives at a reasonable price with limited questions plus delivery to the receiving household in Uganda.

In terms of flexibility the Kyeyo Trans-dollars and other Hawala networks are by far more reliable, trusted and offers a better rate than any financial institution and money transfer operator in South Africa. These networks are simultaneously financed, managed and controlled by Ugandans (Kyeyo Trans-dollars) and Somalian (all Hawala networks) nationals with more than 15 years banking and accounting experience from top global investment trusts.

5.2 RECOMMENDATIONS

This section provides possible and implementable options and recommendations which can be taken to increase migrant remittance transfer in terms of volumes and usage of formal transfer channels as required by both host and remittance receiving economies. These includes efforts to strengthen bilateral cooperation between Uganda and South Africa, initiating incentives to Ugandan migrant's to formalize remittance transfers, granting MTO's preferential access to Bank of Uganda settlement systems and the inclusion of migration and remittance in Uganda's National Development Policy.

5.2.1 Strengthening Bilateral Cooperation between Uganda and South Africa

As discussed in previous chapters, the flows of migrant remittances through formal channels are often associated with high transactional costs, and restriction on cross-border financial transactions. Such problems can only be addressed through an active policy dialog under the memorandum of understanding between governments to improve for example the connectivity of their payment systems to reduce transactional costs. Issues in these policy dialogs should further be raised in bilateral cooperation negotiations between Uganda and South African Government.

While South African companies occupy 8 of the 14 best performing companies (MTN, Eskom, Game, Shoprite, South Africa Airways, Nile Breweries, Multichoice, Coca Cola and others) in Uganda, there is no Ugandan company given access to operate freely in South Africa. While there over 6000 products proudly made in South Africa in Ugandan Supermarkets, there is less than 3 Ugandan products in South African Chain of stores.

This has rendered our people unemployed and when they choose to move to South Africa the country considered as their trading partner, there not given the same preferential treatment and opportunity. To change this situation, South Africa through the department of trade and investment should clear some Ugandan finished products such as processed coffee, Tea and sugar to enter the South African market, not only for purposes of balancing trade and investment between countries, but also to provide employment to the Ugandans through value added enterprises based in Uganda.

This is attributed to the absence of strong bilateral cooperation negotiations, in which Ugandan migrants, having lived and professionally worked for over 15 years, feel they should participate in the formation of the co-development initiatives aimed at migrant's business development. This would have improved, Uganda's Trade agreements and opportunities thereby unlocking many Trade opportunities for Ugandans and improving their economic status and position in the South African economy.

In South Africa, the Ugandan Community Association, an umbrella under which most Ugandans belong, is presently in talks with relevant authorities lobbying to strengthen bilateral cooperation between South African and Ugandan governments and companies. This, according to the Central executive committee of the Ugandan community association⁴⁶, would improve the present systems and regulations in the South Africa and Uganda Remittance Corridor, thereby increasing the volume of formalized remittances from Cape Town to the remittance receiving households in Uganda.

⁴⁶MatovuBashil, Mr. Mukasa Richard, Mr. Kabisi Henry, Salongo Baker Ssebuliba, Salongo Hassan Kalule.

5.2.2 Proposed Incentives to Formalize Remittance Transfer

To minimize the continued growth in informal remittance transfers, authorities in both Uganda and South Africa needs to embark on the sensitization campaigns aimed at addressing economic and structural weakness that exists while spreading the importance of formalizing remittance transfers for the socioeconomic development of their country.

This survey provides an insight into the development potential of migrant remittance flows and highlights the need for the implementation of adequate incentives for migrants to use formal transfer channels. Respondents were in total support for the establishment of special category of deposit accounts, Tax breaks, fund-matching schemes and the private sector involvement and believe that this will go a long way in persuading more Ugandan migrants to remit using formal channels.

5.2.2.1 Special Category Deposit Account

Through discussions with different respondents during the interviews, the issues of how to save migrants money raised many questions of who should migrants trust with their hard earned income? In an attempt to address this problem, many respondents proposed the establishment of special category of deposit accounts with reputable financial institutions like the Development Finance Company of Uganda limited (DFCU).

Migrants believe that by having a long-term fixed deposit account with the DFCU, they could benefit from a variety of the Bank's products and services. Some of these special deposit accounts could give migrants mortgage finance at preferential interest rates. Based on the amount remitted and deposited in their accounts, financial institutions would give migrants loans to be part of the ownership of the booming real estate business and will make migrants feel appreciated and motivated enough to remit more.

Further still, Government could also mediate talks with financial institutions to provide migrants financial products, such as deposit and saving accounts in foreign currency (US Dollars or South African Rands) an aspect that gives comfort and trust in their savings as their money is kept in market friendly world currencies.

The multiplier effects of these migrant's long-term deposit accounts would be very beneficial to the whole economy at large as small and medium enterprises would gain access to soft loans to further fuel economic activities (farmers, retailers, transporters, education, health import and export) without necessarily wasting the migrant's hard-earned income. This will motivate more migrants to remit more through formal transfer channels with confidence to their local financial institution, while they work and live overseas.

5.2.2.2 Targeted Tax Break

In any given economy, Tax breaks constitute an important instrument to encourage migrants to send cash and in-kind remittances home through formal channels. Most interviewed respondents acknowledged the importance of increasing their economies tax base in achieving macro and microeconomic development of Uganda. However, Ugandans in Cape Town strongly believe that they should be exempted from paying import tax on capital goods and on large sums of money transferred through formal channels for investment purposes.

While India offers exemptions of interest income from income tax, other countries like Sri Lanka offers its foreign nationals the opportunity to purchase land at a preferential price set to impress and encourage formal transfers. Ugandans too believes if this was to be done, more migrants would feel the need to invest without fear of being over taxed. This should however be done carefully to avoid abuse of this offer by non-migrants. One should have supporting documentation from the Executive committee of the Ugandan Community in South Africa and a letter from the Ugandan High Commission from Pretoria to prove that he / she has been in South Africa for a given period of time, and have in his/her possession concrete investment plans approved by the Uganda Investment Authority before being exempted from paying taxes.

5.2.2.3 Migrant Fund Matching Schemes

The National Resistance Movement Government of Uganda under the stewardship of President Yoweri Museveni Kaguta introduced cost-sharing initiatives as a way to encourage Ugandans to take part in nation building. This started in tertiary institutions where students were required to pay a third of their tuition and the other two thirds were covered by the ministry of education. Likewise, respondents in this survey suggested fund matching schemes where government would

provide \$2 dollars for every \$1 dollar remitted to finance infrastructural projects in rural areas like Schools, public Hospitals, local police stations, libraries roads and community centers, and construction and renovations.

Fund matching schemes could also work where a migrant that is currently working in the medical field in South Africa after retiring invests in a clinic to service remote rural communities. In this case, government should subsidize staff salaries and guarantee duty free importation of medical supplies including ambulance. This would encourage many patriotically spirited Ugandans to engage in individual and collective remittance to improve Uganda's socioeconomic development.

5.2.3 Granting MTO's preferential access to Bank of Uganda clearing and settlements systems

In a bid to gradually increase remittance volumes transferred through formal channels, Money Transfer Operators should be granted preferential monitored access to Bank of Uganda clearing and settlement systems, as a way of reducing remittance fees by cutting off the influence of corresponding commercial banks, whose high transaction costs discourages potential remitters from sending money through formal channels in the first place.

The benefit from this win-win strategy would increase remittances volumes as it would be cheaper to transfer formally, and the receiver's standard of living would improve as more money will be paid out of the same transaction. Also, the Government through policy formulation and direction will plan with a high degree of informed oversight of institutions delivering remittances in Uganda for benefit of all.

Presently, money transfer operators in Uganda are monitored by their corresponding commercial banks, whose effectiveness in enforcing total adherence to Bank of Uganda regulatory framework is compromised by their emphasis on competition with other commercial bank rates. Thus, centralizing the function of oversight of institutions delivering remittance would be more effective and efficient under the able stewardship the Governor of the Bank of Uganda.

5.2.4 Inclusion of Migration and Remittance in Development Policy and Planning

Following examples from South East-Asia and findings from this survey, it is recommended that the inclusion of migration in Uganda's development policy and planning as a way to further encourage emigration of the skilled youth with remittances accumulation as a primary motivation. Further still, once there settled in their host cities, Uganda through its High Commission, should as part of its bi-lateral cooperation foster ways to assist Ugandan businesses in South Africa with strategic small business development and partnership facilitation in form of workshops, recommendations and starting capital popularly known as 'entandikwa', as an incentive to kick-start their businesses.

While this is true, Ugandan Universities on average produces over 4000 qualified scarce skills college teachers, 200 Surgeons, 500 physicians, 400 Pharmacists, 3500 lawyers and about 1000 accountants per annum and it is evident from the type of degree completed that the economy is not capacitated enough to employ all of them and parents, too, have no money left to finance their emigration abroad. Chances of our non-qualified nationals to get meaningful connections in legitimate high income businesses would rise with the increase in the number of professional nationals in the economy.

Given the above situation therefore, one expects our government to focus its poverty reduction programs towards the facilitation the skilled youthful population with access to migration opportunities in economies with skills deficits. This would in turn provide an enabling environment where Ugandans would have a comparative advantage over other competing nationalities in South Africa.

5.3 ISSUES FOR FURTHER RESEARCH

Due to the secretive nature of migrants in a foreign country, the researcher could not get access to critical information such as the income, education, distance to main urban centers and demographic characteristic of the remittance receiving households. Ideally, a study of migration, remittance and development would be based on information from both the migrants and the remittance receiving household. Therefore, research in future would integrate information that would throw more insight into migration, remittances and development.

5.4 CONCLUSION

Remittances have traditionally been part of the culture of Ugandans as it is in other African countries. Based on this study, the Ugandan social experience points to the fact that the families are bound together naturally and as such sharing one's resources amongst members of the family is culturally mandatory. The rise in remittance during long period of droughts, festive sessions, declining economic times, further confirms that remittances from Ugandan migrants are indeed, patriotically altruistic, culturally rooted and systematically programmed to respect and honor efforts placed in them by their families and country during their up-bring. This seems to be the driving force of most Ugandans I have interviewed in this study.

It is still important that researchers continue to investigate issues around the role of migration in development. This could help to inform policymakers of ways to increase the benefit of remittances and structure necessary interventions that may include Diaspora's to positively contribute to the economic and social development of their home countries. This in my view could be managed through mutual interactions between the migrant communities, host and home countries authorities in enabling transnational entrepreneurship, strengthening the capacity of migrants to engage in development projects that uplift their home economies.

In the Ugandan society, to care is to share. Sending remittances is just one way Ugandans in Cape Town show their loyalty to those that made them who they are and an investment in those who will help them in future. To the poor with a relative abroad, migrant remittances are the only accessible form of development finance to revitalize their socioeconomic development, in the absence of government-led initiatives to reduce poverty. Through remittances sent via formal and informal channels, the Ugandan migrant's contributions to the national economy should be acknowledged and accorded a platform in policy formulation particularly, on issues pertaining to poverty, migration and remittance in the national development policy planning of Uganda.

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APPENDIX 1 QUESTIONNAIRE

Introduction: Good day. My name is Richard Mukasa from the Institute for Social Development in the School of Government at the University of the Western Cape Bellville Cape Town in South Africa. I am carrying out a survey on the determinants of migrant remittances with specific focus on the Ugandan community in Cape Town. You have been randomly selected to participate in this study and you should rest assured that the information given in this interview will be handled with utmost confidentiality and is only to be used for the purpose of this study. This interview will only last for 25 minutes.

Personal details: Could you please tell me more information about yourself

1	Respondents Number:					
2	Sex:	Male		Female		
3	Age:	18 - 25	26 - 33	34 - 41	42 - 49	50 - over
4	Place birth:	Central Uganda	Eastern Uganda	Northern Uganda	Western Uganda	
5	Marital Status:	Single	Married	Separated	Divorced	
6	Education Level completed:	Primary	Secondary	Tertiary/University	Postgraduate	

Questions about your Migration to South Africa - Could you tell me more about reasons for migration and your current migration status?

7	What were your reasons for migration from Uganda?	Economic hardships	Political reasons	Further Education	Family reunion
8	Why did you choose South Africa as your destination country and Cape Town as the City of Residence ?	Perceived economic greener pastures	Better protection for asylum seekers	Access to African best Universities	Better social services
9	Did you come straight from Uganda to South	Yes	No	Which country	No answer

	Africa?							
10	What form of Transport did you use coming to S. Africa?	Air	Sea	Rail	Road			
11	How did you come here?	As a Professional	As a Student	As a Refugee	As a Visitor			
12	Who funded your migration ?	Individual Funds	Family Funds	Loan from Friends	Resettlement			
13	Who did you come with?	Alone	Friends	Family	Agent			
14	How Long have you been staying in Cape Town?	6 month – 3 years	4years – 7years	8years – 10 years	Over 10years			
15	What is	Citize	Permanen	Temporar	Work	Study	Refugee	Undocumente

your current migration status in South Africa?	n	t	y	Permi	Permit	Permit	d
	Residence	Residence	Residence	t			

Questions about your Household Composition – Could you let me know about your family situation here in South Africa?


16	Which of these family situations corresponds with your personal situation?	No Spouse no Kids	Have a Spouse but no Children	Have a Spouse and Children	Have a Child but separated
17	Where do your Spouse stay?	Cape Town	Uganda	I don't know	No answer
18	How many Children do you have?	No Children	1 – 2 children	3 – 4 children	No answer
19	In which Country do your Children under 15 years stay?	South Africa	Uganda	Mine are older	No answer

20	What is your relationship with people in your Household in Cape Town?	Spouse	Children	Sister	Brother	Parents	Friends	In-Laws	Workers

Questions about your Economic Status – Could you tell me about your economic status in Cape Town as well that of those in your household?

21	How many people in your household are economically active?	1	2	3	All of Us			
22	Are you personally employed?	Yes			No			
23	What form of Employment?	Formally Employed		Informally Employed		Self-Employed		
24	If formally employed what Kind	Accountant	Doctor / Nurse	Administrator / Manager	Lawyer	Lecturer / Teachers	Hospitality	Pilot / Engineer

	of work?							
25	If informally employed, what kind of work?	Street Vendor	Tax Driver	Car Wash	Waiter	DJ	Shop Attendant	Money Transfer
26	If Self-Employed	College Owner	Shop Owner	General Consultant	Café Owner	Property Broker	General Exporter	Saloon Owner
27	What is your Annual Income? (in RSA Rands)	Less than R35000		R70000 +/-	R70001-R140000		R150000 and Over	
28	Do you pay Income Tax?	Yes		No		No answer		
29	Do you have a Bank Account in South Africa?	Yes			No			
30	If Yes in	ABSA Bank		Standard	Ned Bank	FNB		Post Bank

	which Bank?		Bank			
31	If No, Why don't you have a Bank Account?	Don't have a Valid Passport	No Proof of Residence	No Money	I don't trust Banks	Keep it in my stock
32	Do you have a Home, Car mortgage or a Personal loan in South Africa	Yes		No		
						

Questions about Remittances to Uganda – Could you tell me more about your household remittance sending behavior?

33	Do you send remittances?	Yes			No			I don't know	
34	If Yes, what purpose	Medic al expen	Consumpt ion Smoothen	Educatio n	Loan Repaym ent	Land	Investm ent	Fune ral	Wedding

	was the money sent for?	ses	ing						
35	If not, Why?	Paying off my home mortgage and a loan in South Africa	All my family is here	Saving through insurance policies, retirement plans	I don't trust my people any more	Don't have money			
36	Who decides to send remittances home in your Household?	Myself	Spouse	Children	Parents	All of us			
37	To whom do you send Remittance to in Uganda?	Spouse	Children	Parents	Siblings	Uncles/Aunts	Friends	Organizations	

38	Why do you only send to this person?	Trusted	Near to the receiving centre		He manages my businesses			Has a Bank Account	
39	What motivates your remittance behaviour?	Altruistic reasons	Self-interest	Income differentials	Insurance motive	Cost of Transfer	Respect of Family Agreement	Investment Climate in Uganda	Incentive Programs in Uganda
40	Which Ugandan organization do you belong to?	Ugandan Community-Agalya'wamu		Ugandan Professional association		Ugandan Students Association		None	
41	Why do you belong to this particular organization?								

Questions on Remittance Transfer Channels – Tell me about remittance transfer channels that are in use in Cape Town

42	Which form of	Formal Transfer Channels	Informal Transfer Channels
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	Transfer Channels do you often use?							
43	What's your best Formal Transfer Channel you have used?	Account-to-Account Transfer	Western Union	Moneygram	Telegraphic Transfer			
44	What are your reasons for using formal transfer Channels?	Its Legal	It's the only choice	I have a Bank Account	Receiver preference		Its straight forward	
45	What are the informal Transfer channels you have used before?	Hawala Transfer	Express	Kyeyo Dollars	Hand Carried		In-Kind Transfer	
46	What are your reasons for using informal transfer channel?	Its Cheaper	Faster and Simpler	Reliable and deliver for free	Culturally Trusted	Receivers preference	Better Rate	No formal channel
47	How much do you often remit	R10000 – R20000		R30K - R60K	R70000 - R140000		R150000 - over	

	to Uganda per year?							
48	How Often do you remit?	Frequently	Once in a while	When am asked	Monthly			
49	Which transfer channels do consider the fastest and cost efficient?	Bank Transfers	Formal MTO's	Mobile Transfer	Hawala Express	Hand carried	Kyeyo dollar	Telegraphic Transfer
50	Which Transfer Channel do you consider expensive?	Bank Transfers	Formal MTO's	Mobile Transfers	Hawala Express	Hand Carried	Kyeyo Dollars	
51	What can be done to get informal remitters to send their remittances through formal channels?	Financial literacy	Open Bank Account	Relax transfer restrictions	Reduce transfer costs			

Questions on Transnational Living – Relations between migrants and remittance receivers in Uganda

52	Do you or someone in your household have a Bank account in Uganda?	Yes		No				
53	In which Bank is that Account?	African Bank	Nile Bank	Orient Bank	Crane Bank	StanbicBank	Barclays Bank	Standard Chartered
54	Do you or any one in your household have a mortgage or loan being financed in Uganda?	Yes		No			I don't know	
55	For what purpose was this loan?	Home Finance		Buy Land	Business		Personal Loan	

56	Do you or someone in your household have businesses that require him / her to travel Home often?	Yes		No		I don't know		
57	What kinds of business are in?	Farming	General Merchandize	Tours and Travel	Real Estate	Car Importer	Exporter	General Suppler
58	If you don't have business right now, do you intend to open up one in the next coming years?	Yes		No		I don't know		
59	In which	Uganda		South Africa		I don't know		

	country do you intend to do it in?			
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Concluding question – Do you think there is anything important in relation to this study that I have left out? Is there anything that you would like to ask me? Thank you for your patience and participation in this study. I wish you all the best and pleasant day.

