

Migrant remittances and socio-economic status of recipient households in the DRC: The case of Congolese migrants in the Western Cape in South Africa

A Dissertation
presented to

The **Development Finance Centre (DEFIC)**,
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the
Master of Commerce in Development Finance Degree

By

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August 2017

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ACKNOWLEDGEMENTS

This thesis is not confidential. It may be used by the University of Cape Town Graduate School of Business.

I would like to extend special thanks to my Supervisor, Prof. Mills Soko, for his invaluable guidance and input into this research. I would like also to express deep thanks to all those who participated in the survey and to those who accepted being interviewed. Their time, responses and insights are highly valued.

To Isetha Wanuku Nzonde and Germaine Tshika Nzonde, my two strong women, thank you for your endless support. To my adorable children, Mitch Nzonde and Noah Nzonde, your presence in my life is the best book I have ever read.

To God all glory.

DECLARATION

I know that plagiarism is wrong. Plagiarism is to use another's work and pretend that is it one's own. I have used a recognized convention for citation and referencing. Each significant contribution and quotation from the works of other people has been attributed, cited and referenced.

I certify that this submission is all my own work.

PATIENT NZONDE (NZNPAT001)
MCOM Development Finance 2014/2015
August 2017

Table of Contents

ACKNOWLEDGEMENTS	i
DECLARATION	ii
List of Abbreviations	v
List of figures	v
List of tables	vi
ABSTRACT	vi
1. Background of the study	1
1.1 Research problem	2
1.2 Research questions	2
1.3 Research objectives	3
1.4 Research relevance	4
1.5 Research summary	4
CHAPTER 2	6
LITERATURE REVIEW	6
2.1 Introduction	6
2.2 The theory of remittances	6
2.2.1 Motives for remitting	7
2.2 Empirical evidence of remittances impact on households' socio-economic development	8
2.3 Overview of the Democratic Republic of Congo	9
2.3.1 General overview	9
2.3.2 Financial sector and banking system overview	11
2.3.3 Emigration	12
2.3.4 Congolese migrants in the Western Cape	13
2.3.5 Remittances industry in the DRC	14
2.4 Remittances industry in South Africa	15
2.4.1 Process of sending and receiving remittances	17
2.4.1.1 Sending remittances	17
2.4.1.2 Receiving remittances	17
2.4.2 Remittance-sending methods from South Africa to the Democratic Republic of Congo	18
2.4.2.1 Formal channels	18
2.4.2.2 Informal channels	20

2.4.2.3 Brief look into the Hawala system	21
2.4.2.4 Channel preferences	23
International remittance flow, SADC Region Source: World Bank 2015.....	24
2.4.2.5 Factors influencing the use of informal channels	24
2.5 Innovative financing mechanisms leveraging on migration and remittances	27
2.6 Obstacles and opportunities of the enhancement of the development potential of remittances from South Africa to the DRC.....	28
CHAPTER 3	31
METHODOLOGY	31
3.1 Introduction	31
3.2 Research approach and strategy	31
3.2 Data collection.....	32
3.3 Data analysis method	33
3.4 Research limitations	33
CHAPTER 4	35
RESEARCH RESULTS AND DISCUSSIONS.....	35
4.1 Introduction	35
4.2 Interpretation of surveys and interviews results	35
4.2.1 Survey results	35
4.1.2. Interview results	44
4.2 Factors preventing improved macro/micro economic status in relation to remittances in the DRC and South Africa	50
CHAPTER 5	54
RECOMMENDATIONS, CONCLUSION AND FUTURE RESEARCH DIRECTION.....	54
5.1 Recommendations to the government of the DRC.....	54
5.2 Recommendations to the government of South Africa	55
5.3 Conclusion	57
5.4 Future research direction	58
6. REFERENCES	60

List of Abbreviations

List of Abbreviation
SADC : Southern African Development Community
ECGLC: Economic Community of the Great Lakes Countries
ECCAS: Economic Community of Central African States
DGM: Direction Générale de Migration
DRC: Democratic Republic of Congo
BCC: Banque Centrale Du Congo
OCHA: Office for the Coordination of Humanitarian Affairs

List of figures

List of Figures
Figure 1: Transaction flow in Hawala system
Figure 2: ZAR-USD movement in the last 12 months
Figure 3: Age group of Congolese migrants living in the Western Cape
Figure 4: Gender of Congolese migrants living in the Western Cape
Figure 5: Province of origin of Congolese migrants living in the Western Cape
Figure 6: Current place of residence of Congolese migrants living in the Western Cape
Figure 7: Time lived in SA by Congolese migrants living in the Western Cape
Figure 8: Types of residence permits used by Congolese migrants living in the Western Cape
Figure 9: Employment information of Congolese migrants living in the Western Cape
Figure 10: Monthly income of Congolese migrants living in the Western Cape
Figure 11: Employment information of Congolese migrants living in the Western Cape
Figure 12: Information of remittance senders based in the Western Cape
Figure 13: Nature of remittances sent by Congolese migrants living in the Western Cape
Figure 14: Money Transfer Operators in the Western Cape
Figure 15: Frequency of receipt of remittances by DRC-based households
Figure 16: Remittance amounts received by DRC-based households
Figure 17: Nature of remittances received by DRC-based households
Figure 18: Information on whether remittances improve DRC-based households' living standards
Figure 19: Usage of remittances by DRC-based households
Figure 20: Comparison between remittances and other external finance flow

List of tables

List of Tables
Table 1: International remittance flow within SADC (by Category, by percentage)
Table 2: Estimated diaspora income and savings for developing regions, 2013

ABSTRACT

More than two decades of internal fighting and political unrest have seen millions of Congolese people leave their home country in search of a better future for themselves and their families in other parts of the world. This migratory movement exposed most of them to the significance of remittances as a means to support the loved ones left behind. Remittances from abroad play a key role in enhancing the standard of living of households in the Democratic Republic of Congo (DRC).

The study therefore analyzed remitting behaviours of migrants based in the Western Cape province of South Africa and the impact of their remittances on recipients' livelihood in the Democratic Republic of Congo. This study made use of primary and secondary data collected from various sources, then applied qualitative methods for analyzing both the remittance senders' behaviour and the impact on recipient households.

After a critical analysis, the study found that remittances increase the income of recipients, help alleviate poverty, improve recipients' ability to access basic services such as health and education, and contribute to employment creation by providing capital for microenterprises and community based projects. The study also found that migrants based in the Western Cape would rather use informal channels instead of formal channels due to high costs and compliance requirements. One contribution of this study is the finding that current policies in relation with the remittance industry in South Africa and in Congo can definitely be improved in order to increase remittances inflows both ways, and thus meaningfully impact both countries' economies.

Key Words: Central Banks Regulation, Democratic Republic of Congo, Development, External Financing, Government, Migration, Remittances, South Africa, Western Cape.

CHAPTER 1

INTRODUCTION

1. Background of the study

Migration is an important factor for economic growth and development. Many conceptual and empirical elements such as migrants' economic activities prior, during and after the migration process, can explain this importance. De Haas (2007) argues that although few scholars would deny the direct contribution of migration and remittances to the livelihoods and survival of families left behind, the extent to which migration and remittances can bring about sustained human development and economic growth in migrant-sending areas and countries is quite a different question. This topic has been the subject of heated debate over the past four decades. In the Migration and Remittance Facts Book 2016, the World Bank estimates that migrants remitted US\$ 601 billion in 2015, of which developing countries are estimated to have received \$441 billion. To put the known volume of remittance flows into perspective, in 2015 migrants sent approximately three times more to developing countries than these countries received in official development assistance, and they sent an amount equal to about half of foreign direct investment (FDI) in these countries. In some countries, remittances represent more than 20% of the gross domestic product (GDP) -- and this is just what can be measured. Actual amounts may be much higher, as money sent through informal channels often goes unrecorded.

Remittances play an increasingly important role and are considered a fairly stable source of external finance for many developing countries. Azeez and Begum (2009) have defined remittances as "that portion of migrants' earnings sent from the migration destination to the place of origin". The word 'remittance' used in this dissertation refers to international remittance. Despite the fact that within this dissertation 'remittance' is used to refer to cash transactions, this should not be mistaken as implying that all remittance transactions are strictly cash-based. On the contrary, remittances can be in the form of jewellery, furniture, clothing, electronic goods, skills transfer or even basic goods such as groceries. However, for the purposes of this dissertation the scope is limited to cash-based remittances. This research paper will attempt to analyze the remitting behaviour of Congolese migrants based in Western Cape, South Africa, as well as the impact of their remittances on socio-economic development in the DRC at macroeconomic level, microeconomic level, and on recipients' households.

1.1 Research problem

Over the past 20 years, thousands of Congolese nationals, attracted by better socio-economic conditions, political stability, security, and aided by geographical proximity, have migrated to South Africa. Despite being a fairly large community, the impact of their remitting activities can hardly be measured due to a serious lack of organized, well-documented and easily accessible statistical data. Therefore, establishing an accurate estimation of remittance flow from Congolese migrants based in South Africa will require availability of reliable data on their approximate total number, a deep knowledge of the various remitting channels at their disposal, and a good understanding of their remitting behaviour.

Assessing the impact of remittances in the DRC does not come without its own set of obstacles. Access to up-to-date information related to remittance movements in the DRC still remains a challenge despite the fact that the Direction Générale des Migrations (DGM) and the Banque Centrale du Congo (BCC) are meant to produce annual reports on remittance activities. In principle, these reports should register the movements of Congolese nationals and foreigners entering and leaving the country, as well as inflows and outflows of currencies. The unfortunate reality is that these reports have not been made public for a lengthy period. In addition, information on immigrants and emigrants' activities from the Ministère de l'Intérieur public archives are not up to date. Therefore, for the purpose of this study, statistical data from the World Bank, the United Nations and the International Organization for Migration (IOM) were extensively used, although, given the lack of national information in DRC, these international sources also have important gaps in some crucial areas.

All of this suggests that currently, information such as characteristics and profiles of Congolese remittance senders in the Western Cape, recipients in DRC as well as remittance flows are not entirely tracked, analyzed and documented, let alone understood. It is hard to establish the impact of remittances on socio-economic development with so many unknown factors (Makina, 2012).

This paper will attempt to fill this research gap by focusing on the characteristics of both senders and recipients, the channels used to send remittances, the actual remittances being transferred and their usage, in order to establish the role that they play in improving the standard of living in DRC-based households, and in promoting socio-economic development.

1.2 Research questions

As noted in International Organization for Migration 2009 report, 215 million people of the world's population live outside their home countries. While political

persecution, violent conflict and trafficking are the main reasons of international mobility, more than 9 out of 10 international migrants move for economically related reasons. By and large, migration has positive economic impacts on the migrant's origin household, the sending country as well as the receiving country. To enhance adequate data in the research, the following were the questions used:

Question 1

Do remittances received by DRC households improve their socio-economic status? How is such status improved?

Question 2

What is the past and current socio-economic status of remittance senders and receivers? What channels are used to send and receive remittances? What is the process involved in sending and receiving remittances?

Question 3

Do remittances received by DRC households stimulate economic activity in communities where such households are located? To what extent do they stimulate economic activity?

1.3 Research objectives

The objectives of this study are as follows:

1. The main objective of this research paper is to assess whether remittances that are received by DRC households improve their socio-economic status and how such status is improved.
2. This paper will also investigate the past and current socio-economic status of remittance senders and receivers. Throughout this process, channels used to send and receive remittances will also be examined.
3. The paper will assess whether and to what extent remittances received by DRC households do stimulate economic activity in communities where they are located.
4. Finally, the study will contribute to scarce literature on remittance inflows in the DRC, and also fill the gap in the literature on the intra-Africa remittance inflow-outflow. This will be important to DRC since it will be able to establish means on which the remittances flow in the country, thus providing important information to DRC's government agencies and policy makers.

1.4 Research relevance

Little literature is visible on the socio-economics of international migration in sub-Saharan Africa (Lucas and Stark, 1985). This situation persists despite a flurry of interest in the international migration and the flow of remittances in this region. Lack of adequate data remains a major problem in the research. To date, few countries in the region report estimates of remittances on the balance of payment. Since large numbers of migrants are irregular, official counts of international remittances are few. Estimates of remittance flows are usually gross underestimates of the true volumes because a large portion is sent through informal channels. Findings on this research will also improve data collection, hence facilitating better policies to enhance migration for development.

Research results contained in this study will also shed some light on the nature of remittance flows. Profiles of remittance senders and recipients, including their socio-economic and demographic characteristics, have not been researched. Hence, the findings of this research will contribute to the body of knowledge and will be useful to various policy makers.

As highlighted by a 2010 World Bank report, reporting of remittances and migration by the DRC's institutions is often of poor quality. Few statistics measure migration flows, and data are even scarcer when it comes to transit and circular. The findings in this research will give the required insight into trade-offs that would be encountered by the DRC when looking to harness remittance inflows for more socio-economic development (World Bank, 2010).

1.5 Research summary

This chapter introduces the topic and provides some background on the remittances industry. In this chapter, high-level facts about remittances and migration are presented. The role and importance of remittances on countries' economies are discussed, specifically the DRC. Some critical questions were asked about how remittances received by DRC based households change their socio-economic status. In this section, objectives to be achieved by this paper were set. It was also shown that this study would help fill the gap in literature on the socio-economic impact of remittances at household level in the DRC. Chapter 2 provides an overview of the DRC and the socio-economic situation of its local population. It presents a comprehensive literature review on the motives for remitting, remittances channels and mechanisms and empirical literature on remittance industries in the DRC and South Africa. Chapter 3 will describe the research methodology utilized in this study. Chapter 4 will present and discuss the research findings of this qualitative research.

This chapter also provides conclusions based on those findings followed by recommendations to the governments the DRC and South Africa. Chapter 5 will give conclusions to the study and provide comments for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter is divided in three main sections. The first one introduces the theory of remittances, identifies migrants' motives for remitting, and provides empirical evidence of the impact of remittances on households' socioeconomic development. It then goes on to provide an overview of the DRC's current political, economic and social status followed up by a brief historical background highlighting events at the root of the massive migratory movement of Congolese nationals. This section ends with a brief description of the Congolese community based in South Africa's Western Cape province as well as a general overview of the remittance industry in the DRC. The second section begins with an overview of the remittance industry in South Africa, then dives into a detailed description of remittance processes and channels. It ends with the analysis of dynamics between the various players in the remittance industry in DRC and in South Africa. The last section expands on various factors influencing the popular choice of informal channels among Congolese nationals, then moves on to list innovative financing mechanisms leveraging on migration and remittances. This last section ends with a brief look at the factors hampering the development of remittance flows between South Africa and the DRC.

2.2 The theory of remittances

The constant increase in the remittance flows to the developing countries and their potential economic effects have attracted a lot of interest from the scholars worldwide. Ranking second to FDIs and staying resilient even in times of economic crisis, remittances remained an important source of external financing for developing countries (Prabal and Ratha, 2012). The two main theoretical approaches to remittances are "the family approach", stating that altruistic reasons determine the immigrant to send money in order to support the relatives left behind, and "the portfolio approach" which considers remittances as investments made by the immigrant in his/her country of origin. In both instances remittances should trigger economic effects, either by increasing consumption (demand side) or production (supply side) and consequently boosting economic development in receiving countries (OECD, 2006). Depending on their concrete use, the remittance flows either provide additional revenues for household consumption or are invested and fuel economic growth. For the purpose of this study, remittances are understood as cross-border, private, voluntary monetary transfers made by migrants and diaspora,

individually or collectively, to people or to communities not necessarily in their home country.

2.1.1 Motives for remitting

As for the motives for remitting, because remittances are embedded in a complex reality and driven by different kinds of socio-economic links between the sender and recipient, the following have been submitted as the underlying reasons behind senders' and receivers' remitting behaviour. The most recurrent are:

1. 'Insurance' motives in which remittances are viewed as potential sources of income to insure households against external shocks (part of a risk spreading strategy);
2. 'Altruism' motives, which assume that migrants remit because of emotional ties to relatives in home countries (Karpestam, 2009);
3. 'Self-interest' motives (Agunias, 2006), which cover investment or entrepreneurial purposes as well as personal consumption, considering remittances as a means of overcoming the lack of opportunities and a failing financial inclusion.
4. Often overlooked, the 'contractual arrangements' and 'bargaining power' within a family or household (Stark, 1991), for example, the migrant worker abroad reimburses the debts that the family accumulated to pay for the migration or makes payments based on an agreement made with the family before migrating.

Such differentiation in the motives is important, especially regarding the prospective uses of the remitted money by migrants and/or recipients. As observed by UNCTAD (2013), the sender's motives may change at different periods, based on changing needs, from the direct household consumption (food, rent and medicines), to the long-term capacity building of households (health insurance, education and home comfort), as well as savings or investments.

Some studies have demonstrated the gendered aspects of the remittances chain from the senders to the receivers, arguing that the motives to remit and the use of remittance incomes may vary from women to men. For instance, the findings of De La Cruz (1995) reveal that women from rural Mexico remit to assist and ensure the wellbeing of their relatives, while their male counterparts remit for investment purposes. The volume of female remittance outflows may be less than those of men, considering also that men tend to gain higher earnings than women (see IOM, 2013a).

Differences in the remittances' uses could depend on the source country of the remittances. For instance, a World Bank (Ratha, Mohapatra et al., 2011) study found that remittances received in Kenya from within Africa were primarily used for the

construction of houses, while inflows coming from outside Africa were devoted to long-term investments. Given the characteristics of senders and recipients, a number of factors may indeed influence the motives and ability to remit, as well as the utilisation of remittances. Many (Ghosh, 2006; IOM, 2013a) have pointed out other influences on the final uses of remittances, such as the sender's migratory status and living conditions, the income level and number of dependents, as well as the balance of power (for example influenced by gender, age, authority). In addition, it appears that while the sender may retain the decision-making power over the remittances' uses in some cases, in others recipients may use remittances independently and/or contrary to the sender's instructions (Lubambu, 2014).

Because reasons to migrate and remit are intricate, distinct motives may coexist and depend upon the situations of both senders and recipients, which generally imply different priorities of need (for example immediate needs versus prospects); therefore, the previously mentioned motives for remitting and the various hypotheses regarding remittances' uses should be viewed as complementary rather than contradictory.

2.2 Empirical evidence of remittances impact on households' socio-economic development

The empirical literature documents various economic effects of remittance inflows. Firstly, they are expected to reduce inequalities in income distribution, thus improving the standards of living of recipient households. Secondly, remittances act as a source of capital and support higher employment and economic growth in the receiving economies (Ratha, 2003).

Evidence from around the globe suggests that recipient households have higher levels of consumer spending and lower incidences of poverty than those that do not receive remittances. According to Ratha and Shaw (2007), remittances play a key role as a "powerful anti-poverty force". The reason behind this thinking is that remittances tend to increase the income of households in the developing world. A recent study by Stratan et al. (2013) found that remittances contribute to reducing the severity of poverty as migrants' relatives directly receive remittances.

Remittances are driven by migration, which in turn, is viewed as a household reaction to income risks since migrant remittances serve as income insurance for households of origin (Lucas and Stark, 1985). This can theoretically justify why people migrate even when substantial income differentials are lacking. Makina (2012) supports this view by stating that, while the ensuing brain drain through migration has had serious implications for Zimbabwe's ability to attain its

developmental goals, migration has offered the country an opportunity to benefit from migrants' remittances. The livelihoods of families and relatives left in the country have been sustained by remittances sent home by Zimbabwean migrants; these remittances have provided a safety net for many families facing economic hardship. Similarly, Kapur (2003) reveals that remittances are often part of the risk-spreading strategies of households and arise as a social insurance in countries affected by economic and political crises.

The direct impact of remittances on economic growth depends of the share allotted to productive investments. Consequently, a significant part of the literature on remittances explores their alternative destinations and the underlying factors. It is largely accepted that most of the money goes to household consumption, health care and housing (OECD, 2006), although savings propensity seems to be higher for remittances compared to domestic money (Adams, 1998). The household's decision to invest is determined by the money that remains available after the basic needs are satisfied, but it also depends on the broader economic environment, especially the financial market, interest rates, tax policy, etc (Puri and Ritzema, 1999).

Even if remittances are not invested, remittance-based consumption can also trigger economic growth via bigger employment and production. In sum, as reported in the literature, significant remittance inflows in a country seem to have important, mostly positive, economic effects, compensating for the workforce loss through emigration. This study examines the impact of remittances from Congolese migrants based in the Western Cape, South Africa, on recipient households in the Democratic Republic of Congo.

The next section gives an overview of the Democratic Republic of Congo, its financial sector as well as its banking system, and the main reasons behind the massive international exodus of its population. Section 3 discusses local trends in remittances in the DRC, the remittances channels used by Congolese migrants based in the Western Cape, and the money transfer industry in South Africa and the Democratic Republic of Congo. Section 4 discusses data analysis and the results of the study. The last section states the study conclusions and gives recommendations.

2.3 Overview of the Democratic Republic of Congo

2.3.1 General overview

The Democratic Republic of the Congo (formerly Zaire) is located in Central Africa and has a land surface of 2 345 000 km², making it the second largest country in Africa in terms of land area. Its population is estimated at nearly 75 million for 2017,

the fourth largest on the continent. Most of the population is concentrated along the periphery of the country, which highlights the need for sound management of the country's 10 292 km of borders and interaction with its nine neighbouring countries. The country has rich natural resources, particularly mineral resources. Over the years, copper, cobalt, diamonds, gold, zinc, other base metals, plus petroleum extraction, have contributed significantly to its foreign exchange and export earnings, making up a big fraction of the GDP. The DRC is also host to the second largest rainforest in the world, with plentiful arable and fertile land, in addition to ample rainfall (World Bank, 2015).

Despite this rich potential, the country wallows near the bottom of the poorest and most deprived areas in the world. More than 60% of the population live in rural areas and the number of malnourished people in the country has more than doubled over the past 20 years. Per capita income declined steadily from about US\$ 380 in 1983 to US\$ 92 in 2001, before picking up again to stand at US\$380 in 2014 (World Bank,2015). The World Bank Doing Business report ranks DRC 181/184 as one of the world's most difficult countries to do business in.

The United Nations' Human Development Index (HDI) 2015 ranked the DRC 176th out of 188 countries with an HDI of 0.435. This is below the average of 0.497 for countries in the low human development group and below the average of 0.523 for countries in Sub-Saharan Africa. From Sub-Saharan Africa, countries which are close to the DRC in 2015 HDI rank and to some extent in population size are Ethiopia and Nigeria, which have HDIs ranked 174 and 152 respectively(United Nations, 2015)

In October 2010, an estimated 4.5 million Congolese were in a situation of acute food and livelihoods crisis, according to the Integrated Phase Classification of October 2010 (Ministère de l'Agriculture, Pêche et Elevage 2010, p.2). The May 2011 IPC shows that 'the country overall remains chronically food-insecure, confirmed by the nutritional situation which remains very serious in many parts of the country, mainly in the stabilized areas' (OCHA 2011a, pp.38-39). Key findings of the 2010 MICS analysis show that DRC has made important progress, but that there remains much to be done. Today, three out of four children go to primary school, (secondary education: 32%), an increase of 23% compared to 2000, with near parity for girls and boys -- though only around half the women aged 15-24 are literate.

Although the under-five mortality rate is still high (158 out of every 1 000 children die before their fifth birthday), there is a positive trend compared to 2008, when 205 out of every 1,000 did not reach the age of five. Twenty-four percent of children under five are underweight, 43% are stunted and 9% are wasted. Only one in seven people uses an improved sanitation facility (14%) and less than half the population (47%) has access to safe drinking water, with a large difference between rural (31%) and urban (83%) areas (Institut National de la Statistique 2010).

2.3.2 Financial sector and banking system overview

Due to a number of political, historical and structural factors, the banking sector in the Democratic Republic of the Congo has been beset with a number of challenges. Endemic corruption during the Mobutu era, especially big graft within the higher echelons of the state bureaucracy, saw widespread looting of the state coffers and public funds, leading to the near total collapse of the financial system. It was not in the interests of that regime to improve the infrastructure, because Mobutu feared that the emergence of a vibrant, nationwide banking sector in the Congo would propel a demanding middle class that could challenge the regime. With the downfall of Mobutu, the DRC descended into the civil war and political instability, which had ramifications for the entire economy, of which the banking sector is a part. Over the past decade, the financial system in the DRC has been punctuated by widespread insolvency, leading to very low confidence in the system, as many bank clients found great difficulty in accessing their deposits, whose value was considerably eroded through hyperinflation (La Prosperite, 2015).

The Central Bank still operates as a “Government safe” where senior government officials, mainly the presidency, initiate payment transactions using often unscrupulous and illegal means (Kuesadila, 2004). The banking law passed in 2002 was intended to establish the Central Bank’s independence. In reality, the bank continues blatantly to flout Ministry of Finance regulations and procedures, making budget management and monetary control extremely difficult.

The country’s financial system severely suffered from the effects of war, political instability, and unpredictable monetary policy. Financial intermediation is almost non-existent. Most credit is informal and formal bank credit to the private sector accounts for less than 3% of GDP. Retail banking is largely undeveloped, and most banks act as financial agents for the government or extend credit to international institutions operating in the country (World Bank, 2015).

Access to banking services for both entrepreneurs and retail customers is very limited and frequently restricted to the wealthy. The DRC has around 4% bank penetration rate, one of the world’s lowest. Bank loans to individuals account for less than 5% of total bank lending (GSMA, 2013). Around 16 microfinance institutions (MFIs) operated in the country, with an overall penetration of around 0.6 branches per 100 000 adults. This figure has grown by more than 100% in 2015 (BCC, 2015).

Banking system soundness and vulnerability remain an important issue. Many banks have been unable to observe required liquidity and net foreign exchange position ratios and the ratio of nonperforming loans to total gross loans increased from 4.77% in 2013 to 10.6% in September 2014, though this may be attributable, in part, to improvements in reporting accuracy (BCC, 2015).

Authorities have recently embarked on several financial sector reform processes to strengthen supervision of the banking sector and reinforce compliance with prudential regulations. These reforms envision reorganization and restructuring plan for the banking sector, as well as a tightening of prudential ratios and sector monitoring. Authorities are also switching away from foreign currency payments to domestic suppliers and tax collection in favour of local currency in the hopes of stopping the dollarization of the economy and boosting financial market development.

The institutional investor base is undeveloped, featuring one insurance company and one state pension fund. The DRC suffers from a weak and fragile financial infrastructure. The national payment systems are not subject to central legislation, although a legal reform process is being introduced by the National Committee for Payments and Settlements. The DRC's only credit bureau is supervised by the Central Bank; its operations are largely manual and it is widely considered as ineffective, with a fairly small client base comprising mainly corporate clients with large loan requests (World Bank, 2015).

Nonetheless, despite several challenges and the difficult past the DRC's economy went through, there has been some positive notes emanating from the DRC in recent years. The World Bank reported that inflation has been maintained at 1% since 2013 as a result of the implementation of prudent fiscal and monetary policies. In the past year, the DRC's Congolese Franc fluctuated between 0.32 and 1.1% against the USD. The currency is considered one of the most stable in Sub-Saharan Africa (World Bank, 2015).

2.3.3 Emigration

Migration is clearly an important part of life in the DRC. The socio-economic climate, conflicts and bad governance, generating strong internal and international mobility, are the main factors in the migratory tendencies observed in the DRC since the early 1990s. A main feature of emigration from the DRC is the increasing diversity of destination countries. Traditional destinations include Belgium and France, even though in recent years, other countries in Europe and beyond have played an increasing role. Nonetheless, most migrants have remained on the continent, opting for the Republic of South Africa as their main destination. Refugees and asylum-seekers generated by armed conflicts are a considerable group. Figures on emigration vary depending on the source. According to estimates from the Development Research Centre based on the 1995-2005 census round, the number of Congolese emigrants, mainly in African countries, was 821 057.

Emigrants from the DRC are above all long-term migrants. The Human Development Report 2009 claims that, based on figures from the Development Research Centre,

between 2000 and 2002, 79.7% of emigrants from the DRC were living in Africa, and 15.3% in Europe. The report continues that the number of migrants from the DRC in OECD countries is 100,700 persons. Of these migrants, 25% have less than an upper secondary education level, 32.5% have an upper secondary or post-secondary education, and 35.5% have a tertiary education. According to the same data, the migration rate to OECD countries among persons with a higher education in the DRC is 9.6%. In 2000, 14% of the population with a higher education level emigrated, but this group represented only 11% of the total migrant population. Thus, it can be said that emigration from the DRC mainly concerns persons with a relatively low level of education and income.

2.3.4 Congolese migrants in the Western Cape

A major social conflict between tribes in the Katanga Province saw natives from Kasai provinces violently attacked and forced out of their homes and jobs between 1992 and 1994. This conflict was the root cause of the first wave of Congolese migration to South Africa. Then came the end of the Mobutu regime in 1997, with the ensuing Congo wars. Thus, from the late 1990s, thousands of refugees from the Democratic Republic of Congo started pouring into South Africa. Their status as refugees was not officially recognized by the state until the Refugee Act of 1998 came into effect in 2001. In terms of the Act, refugees and asylum seekers in South Africa have the right to freedom of movement, to work and the right to access basic social services. The aim of the act was to allow refugees to be self-sufficient. This factor made South Africa a reasonably attractive destination for asylum seekers and refugees from across the African continent (Amisi and Ballard, 2005).

The exact size of the Congolese diaspora in South Africa is hard to determine. However, it is estimated that there are between 150 000 and 200 000 Congolese migrants living in the Western Cape. A significant number of these migrants are refugees, asylum-seekers and undocumented migrants. The Congolese community in the Western Cape is composed of students and workers in the formal, as well as informal sector. In the formal sector, Congolese are mainly employed as doctors, engineers, teachers, lecturers and call centre agents. In the informal sector, they are car guards, security guards, waiters, taxi drivers and small-business owners, mainly in the African craft market.

Most Congolese migrants prefer life in the suburbs rather than in the townships (where the cost of renting a flat is four times cheaper than in suburbs) for safety reasons. However, due to limited financial means, Congolese migrants often have to live in larger than recommended numbers and in confinement in apartments and houses in order to spread the high rental costs. When ranking the Congolese diaspora in South Africa and the Western Cape by tribal group, natives from Kasai provinces come first, making up more than 70% of the Congolese community. It is estimated

that there are approximately 30 Congolese diaspora associations in the Western Cape.

2.3.5 Remittances industry in the DRC

It is difficult to give figures relating the amount of remittances sent to the DRC by emigrants since most of these money transfers are made through informal channels. Even international sources such as the World Bank and UNCTAD are not in a position to present data on the remittances sent home by the Congolese diaspora (International Organisation for Migration, 2009). Literature on this subject mostly contains qualitative analyses, not quantitative information. However, various documentary sources and studies indicate that many families in the DRC (up to 80% in large cities) depend on remittances. Most of the funds remitted are used to cover the immediate needs of the beneficiaries, with investments in community development or the economy being few and far between. The direct transfer of material goods, for example cars and various goods used for economic activities in the informal sector, also plays an important role in the DRC.

Unfortunately, due to a lack and/or shortage of studies and reliable data on these issues and the predominance of the informal economy, it is difficult to estimate the overall impact of remittances on the country's economy. A large part of the remittances literature is derived from migration, trying to assess both their contribution to the household consumption of the receiving families and the influence on economic development in the countries of origin. One of the chief reasons remittance flows in and out of the DRC are hard to measure is the lack of a clear migration management policy. Since independence in 1960 until the 2000-2005 period, the DRC has not had a clear migration policy. Furthermore, the legal framework on this issue is incomplete and lacks clarity.

At the institutional level, the Government of the DRC established the Directorate General for Migration (DGM), an institution responsible for migration and the movements of the national and foreign population. The Ministry of Labour and Social Affairs is responsible for migrant workers, and a Vice-Ministry for Congolese Nationals Abroad was created within the Ministry of Foreign Affairs in 2006 to strengthen links and cooperation with Congolese migrants abroad, in order to, among other things, capitalize on migrants' remittances and fast track socio-economic development. The other main institutions in this area are the Ministry of Interior which houses the Office of the Border Police and the National Commission for Refugees, and the Direction Generale des Migrations (Migration en République Démocratique du Congo: Profil National 2009). Other ministries also have responsibilities concerning specific migration issues.

The DRC also collaborates with various international institutions and other national governments. The key challenge in terms of migration policies remains political

coordination. Migration is mentioned in the country's Development and Poverty Reduction Strategy Document (DSCR) as a means to mobilize resources and competences in fighting poverty. This document also includes the plan to establish a national programme on migration. The DRC is also a member of several regional and sub-regional cooperation groupings, particularly SADC, ECGLC and ECCAS, which promote, among other things, the free movement of persons within particular regions or areas. Unfortunately, most of these initiatives have not produced concrete results to date. The DRC has signed cooperation agreements on migration with several other states, notably European countries such as Switzerland and Belgium, to identify migrants and build the capacities of relevant institutions. With other African countries, agreements or special arrangements have been concluded to promote the movement of persons without visas within defined areas.

Statistical gaps

The lack of reliable data indicated at the outset by the National Technical Working Group on the Migration Profile when preparing the DRC's profile, was a major obstacle. Obtaining more and better information will remain a challenge when updating the profile in the future. The Direction Generale des Migrations (DGM) produces annual reports on its activities; in principle, these reports should register the entries and departures of Congolese nationals and foreigners. However, to this date, these reports have not been made public. Thus, this Profile mainly uses statistical data from the World Bank and the United Nations. However, given the lack of national information, even these international sources have important gaps in some crucial areas.

2.4 Remittances industry in South Africa

The remittances industry is subject to the Exchange Control Regulations of South Africa. Exchange control in South Africa is currently regulated by the Exchange Control Regulations of 1961, issued in terms of section 9 of the Currency and Exchanges Act. The Act forms the foundation of exchange control in South Africa and empowers the President to issue regulations concerning to any matter that affects or relates to, directly or indirectly, banks currency or exchanges (Exchange Control Manual, D2).

The administration of the Exchange Control Regulations is a function that has been bestowed upon the Treasury. The Minister of Finance has, however, as empowered by the Exchange Control Regulations, delegated some of the powers and functions of the Treasury to the SARB (South African Reserve Bank). The SARB in turn established the Exchange Control Department, now known as the Financial Surveillance Department, to administer the regulations. The Department has

subsequently appointed certain banks as authorized dealers and these assist in the administration of exchange control laws in South Africa (Exchange Control Manual, D4).

Exchange control in South Africa is a means of ensuring, among other concerns, that the foreign currency reserves that are available are utilized in the best interests of the country. Exchange control laws and regulations accommodate the latter purpose by making provision for the movement of funds and goods, into as well as out of, South Africa to monitor while at the same time avoiding interference with the industrial and financial systems of the country (Exchange Control Manual, D4).

An authorized dealer, in regard to foreign exchange transactions, is a person that has been authorized by the Treasury to deal in foreign currency. In terms of the Exchange Control Regulations, only authorized dealers may deal in foreign currency, unless an exception is granted by the Treasury. International remittance transactions that go beyond the CMA (Common Monetary Area) require service providers to deal in foreign currency. Therefore, in order to provide cross-border remittance services in South Africa, an institution or person is required to be in possession of an authorized dealer licence and this technically renders the provision of informal remittance services an illegal activity (Exchange Control Manual, D4).

Treasury has delegated certain powers and functions to the SARB. Among the powers that have been delegated to the SARB is the power to appoint authorized dealers. Applications for authorized dealer licences have to be presented to the Financial Surveillance Department of the SARB. Upon approval, an applicant is awarded either a licence that grants full authority to deal in foreign currency or, alternatively, a limited authorized dealer licence (Exchange Control Manual, D7).

Limited authorized dealer licences, as their name suggests, limit the transactions regarding which the licensee is permitted to deal in foreign currency. Such licences are commonly awarded to *bureaus de change*, and previously restricted the licensee to transactions that are of a personal nature, such as those involving the purchase and sale of foreign currency for travel-related purposes. (SARB, 2015)

Until fairly recently the only institutions that were permitted to carry out cross-border remittances were those in possession of a licence granting full authorization to deal in foreign currency, with the Post Office being the only exception to this rule. The SARB was, and currently still is, only willing to grant authorized dealer licences to institutions with banking licences. Institutions with limited authorized dealer licences were expressly prohibited from partaking in any cross-border remittance businesses. The SARB has, however, extended the services that ADLAs are permitted to provide to include the provision of cross-border remittance

services; hence, foreign exchange bureaus such as American Express and Travelex Africa are now able to provide remittance services within as well out of South Africa.

At present, banks and *bureaus de change* are the only entities that the SARB is willing to grant authorization to carry out remittance transactions. Hence RSPs such as MTOs have to form partnerships with the latter institutions, or the post office, if they wish to provide services in South Africa. The reasons behind the SARBs restrictive policy, with regard to institutions to which it is willing to grant authority to conduct remittance transactions, are not clear-cut. One could, however, argue that such an approach is a necessity in order to avoid systemic risk to the NPS. The conservative approach of the SARB could also be attributed to its previous encounters with Western Union. Even if MTOs were allowed to provide their services as standalone entities, they would still face a potentially significant barrier in accessing the remittance industry by virtue of the reporting requisites imposed by the SARB. These require foreign currency dealers to have a reporting system, known as the South African Cross-Border Foreign Exchange Transaction Reporting System, in place. The system is reportedly relatively expensive to install and it is submitted that these costs can act as a barrier to potential RSPs that wish to enter that remittance market.

2.4.1 Process of sending and receiving remittances

2.4.1.1 Sending remittances

The sender has to complete a form with his or her personal details as well as the details of the recipient. Furthermore, the sender has to provide proof of identity, proof of income and proof of residence. The sender then hands the official the money being remitted, including commission fee, which could be flat or amount-dependent. In South Africa, this fee varies between 5 and 20%. The sender then signs a confirmation document outlining the transaction in question. This document summarizes all the information pertaining to the transaction. The transfer agent it processes into the computer and gives the sender a receipt and a code. The sender has to give this code to the beneficiary (by calling him or her on the telephone, texting or emailing).

2.4.1.2 Receiving remittances

The receiver gives the code and proof of identification to the local transfer agent. The transfer agent asks what the amount being received is and the name of the person who sent it. These questions are considered to be a final security check before the money is handed to the recipient in local currency or in US Dollar together with a receipt (Carling, 2005).

2.4.2 Remittance-sending methods from South Africa to the Democratic Republic of Congo

A number of studies have identified the methods used to remit money to the DRC, as well as their pros and cons (International Organization for Migration, 2006). Various methods of remittance for the Congolese diaspora living in South Africa have been described. This information has been confirmed through the interviews conducted for this study.

In the following paragraphs, first the main formal remittance systems will be discussed, and then the informal methods.

2.4.2.1 Formal channels

Banks and MTOs

In South Africa, in order to deal in foreign currency, the individual or institution is required to have an authorized dealer licence. Currently only banks are given fully authorized dealer licences, affording them a considerable level of leeway regarding foreign currency transactions. Banks are traditionally an important means of effecting cross-border transactions, which can be attributed to their extensive networks in both sending and recipient countries as well as their participation in the international payment and settlement systems. Banks that have an international presence may use their own networks to make cross-border transfers of money, whereas those that have a limited presence can, among other options, use correspondent banking relationships or a franchised network operated by a global money transfer operator.

The common method utilized by banks in transferring funds is by means of telegraphic transfers. These are cross-border account-to-account transfers that are subject to a minimum commission fee as well as the payment of a SWIFT fee. Telegraphic transfers require that both the sender and recipient be holders of bank accounts, the transfer can take as little as 10 minutes to effect but 2 days to clear (De Bruyn and Wets, 2004).

Bank telegraphic transfer services are tailored mainly for individuals with bank accounts and who are at the upper end of the income scale. The minimum fees charged make it unfavourable to send small amounts of money as the sender can face transaction charges equal to 16% of the amount they wish to send. Studies indicate that low-income migrants in the SADC remittance market tend to remit fairly small amounts of money. Taking the latter into account, minimum fees charged by banks may make it unfavourable for a low-income migrant to utilize the services of a bank when they wish to remit funds (De Bruyn and Wets, 2004).

Other than telegraphic transfers, banks also offer internet as well as mobile international transfer services. Previously, in South Africa such services were only available for domestic transfers. ABSA and Western Union have recently introduced such services to ABSA's internet and cell phone banking clients, allowing them to send as well as receive cross-border remittances electronically. (Holman, 2010) Mobile payments can be described as transactions whereby customers are able to give payment instructions by means of their cell phone to either a merchant, payment service provider, or, as in the case of South Africa, a bank. Upon being given the instruction, the institution proceeds to pay the specified amount towards the beneficiary. Transactions, reportedly, take between 2-3 minutes to execute, thereby offering much convenience and appeal. The appeal of electronic services for the purposes of cross-border remittances is hampered by the fact that currently such services are only available to clients of ABSA and Standard bank thereby restricting the capacity of many individuals to access such services. (Holman, 2010)

The SARB is concerned that internet and mobile payment services can be utilized to circumvent Exchange Control laws and has therefore made their provision subject to certain restrictions. With regard to mobile and internet cross-border transfer transactions, money may only be sent under, and for, the following conditions and purposes:

- As earnings of foreign nationals who are temporarily resident in South Africa
- Alimony payments in respect of a court order
- As gifts other than those to charitable, religious, cultural or educational organizations.

Apart from the restrictions mentioned above, constraints have also been placed in regard to the amount that an individual may transfer per transaction as well as annually. In respect of each individual transaction the limit is either R30 000 or the maximum allowance applicable in respect of the sender's ordinary internet or cell phone banking transactions, or alternatively whichever is the lowest between the two (SARB, 2015).

In the DRC, this method is very new and mostly underutilized. Only the Standard Bank of South Africa facilitates this method of payment towards the DRC. Bank accounts are held by a very small proportion of the Congolese population. The Banking system as a remittance method is unpopular for a number reasons, high costs is cited as the main one (BCC, 2015).

Cash-based transfers via MTOs

Migrants who are unbanked have the option of engaging the services of money transfer operators. MTOs are financial companies that provide services in regard to cross-border transfer of funds using either their own internal network or another

cross-border banking network. The services of MoneyGram and Western Union, two of the worldwide leaders in this field of the formal remittance market, are currently available in South Africa.

Global MTOs mostly implement franchised networking in the provision of their services, engaging entities such as, inter alia, banks, post offices and retail shops as agents. MTOs such as the two mentioned above have the benefit of having a vast distribution network around the globe that caters for the speed and convenience that remitters seek when sending funds. In the appropriate environment, MTOs can present banks with formidable competition regarding to provision of remittance services. Foreign currency exchange bureaus may, in addition to their foreign currency conversion business, also provide remittance services. They may do so on their own behalf or as agents of MTOs.

2.4.2.2 Informal channels

The IMF has defined informal RSPs as “provider functioning without regulation or oversight of financial supervisors for its remittance services”. Taking into account the definition mentioned above, informal remittance channels can be described as being those that are operated outside the legal and regulatory framework. Such remittance channels are often, but not necessarily, illegal (IMF, 2015).

Informal transfers are based on informal relationships and involve a high level of trust between the sender and the RSP. These channels entail a high level of risk, on the part of the sender, as there is no guarantee of delivery and the sender has no legal recourse should the RSP fail to deliver. In the South African remittance market, common providers of informal remittance services are long distance taxi drivers and friends.

When sending funds via taxi drivers the procedure appears to vary dependant on whether the remitter is a friend or stranger to the taxi driver. If the remitter is familiar with the driver, transaction costs are lower or even foregone. No record of the transaction is maintained, making trust an essential component. On the other hand, if the remitter is a stranger the procedure is more formalized. The sender approaches a taxi association office and together with the driver, who will be entrusted with the funds, counts the amount to be sent. The value of the amount entrusted to the driver is recorded in a book kept at the office specifically for such purposes. The recipient collects the funds from the taxi association office in the destination country and is required to know the number plate of the taxi as well as the name of the driver that delivered the money. Senders are often not insured against losses incurred due to theft or accidents. Taxi drivers, on the other hand, are at times insured against such losses, more specifically in cases where transactions have been recorded in books at the taxi association office.

Remittances via friends or family are similar to those channelled via taxi drivers and are also highly trust based. Remittances via these people are favourable as they allow for funds to be sent to recipients located in remote areas where infrastructural facilities may be inadequate or non-existent. Furthermore, transactions costs are low or may be foregone where the relationship between the sender and person entrusted with funds is close. On the broader international context, more complex informal systems have developed, the 'Hawala' remittance system being chief in terms of notoriety (IMF, 2015).

2.4.2.3 Brief look into the Hawala system

The term 'hawala' means *transfer* in Arabic, and gives a hint of where the system originated from. The hawala remittance system originated in the Middle East, more specifically India and Pakistan, and was developed before western banking practices were established in the Middle East. The hawala remittance system has gradually spread all over the world, albeit under varying terminology. For instance, in Pakistan it is known as *hundi*, whereas in China it goes by the name *fei chien*, and in Zambia by the name *Mali a mbeleko* (Maimbo et al., 2003). The term 'hawala' can be broadly viewed as a reference to money transfer mechanisms that exist in the absence of, or parallel to, conventional formal financial remittance channels.

Regarding the nature of the remittance network, hawala transactions can be classified under negotiated networks. Networking amongst hawaladars is crucial in order for the system to function efficiently. Transfers are implemented by means of communications between members of a network of hawaladars. The prominent feature that distinguishes hawala remittance transactions from their counterparts in the formal financial sector is the heavy reliance on trust and the minimal, if any at all, use of negotiable instruments (Maimbo et al., 2003).

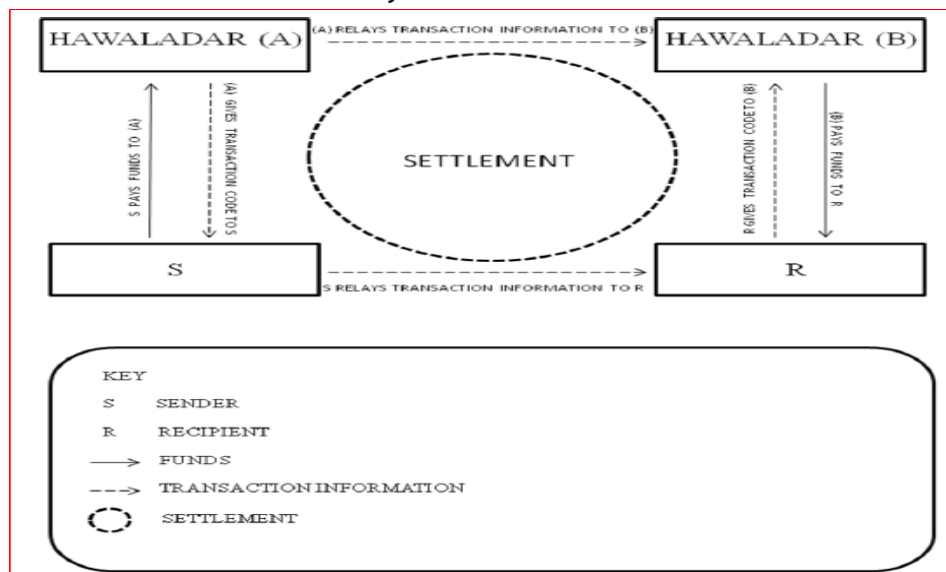
Hawala remittance transactions typically involve the transfer of funds without necessarily physically or electronically moving funds between points. Such may, however, be done for purposes of settling net positions. The functioning of the system is illustrated by means of a hypothetical transaction. S, who is a migrant worker in South Africa, wants to send R5000 to his brother R who is located in Zambia. S approaches A, a hawaladar in South Africa, whom he hands over the R5000 he wishes to send to R as well as a commission fee. Hawaladar A then proceeds to contact B, a hawaladar counterpart in Zambia, by phone, e-mail or any other convenient communication device. A gives B details pertaining to the amount that S wishes to send and the identity of the recipient. A and B also agree on a transaction code.

Upon agreeing upon a transaction code, with B, A gives it to S who in turn provides it to R by way of, amongst other possibilities, a phone call or even a fax message. S then approaches B and upon being provided with the correct transaction code B pays the funds to S in Zambian kwachas, before actually receiving funds from A. Transactions are not usually receipted and are therefore highly trust-based.

Hawaladar A subsequently remains indebted to hawaladar B, the latter has no guarantee of settlement and only has the expectation that A will settle the debt in future. There are a number of ways in which settlement can transpire; a reverse transaction, which is, in the case of the aforementioned example, a transaction from Zambia to South Africa, is one way in which the debt can be extinguished. At times a business relationship may exist between the hawaladars. B may, for instance, supply timber to A. In the latter scenario, the debt could be settled by means of over invoicing which would entail B supplying timber to A worth, for instance, R10 000 but instead writing an invoice of R15 000 so as to cover the R5 000 that A owes him (Maimbo et al.,2003)

The transaction described above can be outlined by means of an illustration:

Figure 1: Transaction flow in Hawala system



The working of the Hawala system

Source: IMF 2015

Hawala transactions are inevitably coupled with a high level of risk towards the consumer in that they are not receipted and are heavily reliant on trust. The sender typically has no guarantee that the intended recipient will receive the funds and is forced to rely on the hawaladars word. Despite this high level of risk, migrants continue to utilize hawala systems to send funds across borders, which begs the question as to why such systems continue to be utilized.

The persistent utilization of hawala systems can be primarily attributed to the fact that remittance transactions channelled through hawaladars are cheaper than those executed through formal channels. It has been estimated that hawala transactions can be lower than 2% of the amount sought to be remitted.

The speed of hawala transactions also contributes to their continued usage. Funds can be available almost immediately, which is much quicker in comparison to formal remittance mechanisms such as bank international wire transfers. The latter transfers may at times take a minimum period of a week to be effected, which is partially a consequence of the need to comply with domestic as well as international regulations put in place to ensure the source or purpose of the funds are not illicit. Furthermore, in contrast to formal financial systems, hawala systems are not affected by weekends, holidays or time differences (Maimbo et al., 2003).

Hawala systems, apart from the reasons mentioned above, also cater for migrants who do not valid travel documents in their possession or are illegally in a country. In some cases, the legal and regulatory regime of a country may require that some form of identification be presented before one can carry out a financial transaction with a formal financial institution. It may also be required that the latter inform the immigration department of any individuals who lack any or proper documentation. Hawala channels eliminate the bureaucracy that most formal financial institutions enforce as no passport or identification card is required prior to a transaction being carried out and transactions are carried out under anonymity. In the absence of systems such as hawala, the migrant without proper, or any, documentation would be unable to remit funds (IMF, 2015).

Formal transfer agencies are only accessible to individuals with a legal status in South Africa. Individuals without proof of identity, proof of address, and proof of income as well as those without legal status cannot make use of this channel. These conditions are imposed on remittance senders by remittance agencies in accordance with the Exchange control and FICA laws of South Africa. While these measures are legitimate, they exclude a particular class from participating in the formal process of remitting funds and encourage the use of informal channels (Interviewee Joe Mbombo).

2.4.2.4 Channel preferences

As submitted by Ghosh (2006), remittances within the SADC are predominantly channelled via informal mechanisms, a circumstance that is not unique to South Africa alone but commonplace in the international remittance industry as whole. In South Africa, it has been estimated that more than 50% of remittances transactions are executed outside the formal sector with taxi drivers and friends being the preferred RSPs, while on the formal side, the Post Office is the preferred means of remitting funds. The preferences can be illustrated by means of the table below:

Table 1: International remittance flow within SADC (by Category, by percentage)

RSPs	% of total international remittance flows
Taxi drivers	21,3
Friends/relatives	31,9
Post office	31,9
Bank	5,0
Other	10
Total	100
Implied % of formal remittances (assuming that 'other' refers to formal mechanisms)	46,9

International remittance flow, SADC Region

Source: IMF 2015

2.4.2.5 Factors influencing the use of informal channels

Migrants who choose to send funds through informal channels do so for a variety of reasons. Factors such as cost, speed of the service, as well as consumer perceptions of formal remittance channels, amongst other factors, affect a remitter's choice of channel. High transaction costs have been cited as being the principal factor that inhibit migrant from using formal remittance services, and as such, the cost aspect of remittances shall be discussed below.

Cost

For migrants, the costs of sending funds through formal remittance channels is often expensive relative to the amount sought to be sent as well as their often-low incomes. The costs of remitting from South Africa to other African countries have been reported to range between 11-35% of the value sought to be sent. The World Bank database on worldwide remittance prices for the fourth quarter of 2014 outlined South Africa as having some of the highest remittance prices on a global front, with the South Africa-Zambia corridor being ranked among some the most expensive corridors in the world (World Bank, 2015). Joe Mbombo, a stakeholder in the remittance industry and business owner in the DRC and South Africa confirmed that "it costs between 12-20% to send money to the DRC through Western Union and MoneyGram while it only 5% when sending through informal agencies from Cape Town".

Remittances through informal mechanisms have been cited as being generally cheaper than those executed through formal channels. The prevalence of high remittance costs can be attributed to the following factors:

- Lack of transparency in the market;

- Infrastructural inadequacies;
- Legal and regulatory provisions;
- Lack of competitive market conditions; and
- Risk.

Lack of transparency

The lack of transparency in the global remittance market has been cited as being one of the principal factors that facilitate high remittance prices. Transparency, in the context of remittance transactions, entails giving a consumer a full outline of the overall price and speed of service. Apart from enabling consumers to make informed decisions with regard to which RSPs services to utilize it makes the market as a whole more efficient (Freund and Spatarofa, 2010).

It is generally difficult for consumers to calculate and compare prices due to the variables that make up remittance prices. Remittance prices are composed of the fee charged for sending a certain amount, a margin taken on the exchange rate when remittances are paid and received in different countries, and at times a fee is charged to the recipient. The latter fee components may also differ depending on aspects such as inter alia whether the recipient is paid in cash, or the funds are credited to their account, as well as the speed of the service.

The variables comprised in remittance transaction fees make calculation of remittance costs, by a consumer, a difficult task and may in turn prohibit them from determining which services are more suitable to their needs and financial abilities. The inability to determine remittance costs has a negative effect on competition as consumers continue to patronize traditional RSPs, as they are unable to compare the services of these RSPs against those of other service providers. As a means of making remittance prices more transparent and to put pressure on RSPs to improve their services and cut down transaction prices, the World Bank group has created a global database on remittance prices (Freund and Spatarofa, 2010).

Infrastructural inadequacy

In order for a remittance system to function adequately it is necessary to have access points where consumers can pay and retrieve funds. RSPs, particularly those that provide franchised or unilateral services, often have to partner with institutions in receiving countries so as to provide access points.

At times, the domestic financial infrastructure in recipient countries is underdeveloped and the banking, or other potential network of agents, may not have an adequate geographical coverage, which creates access problems for recipients. In remittance terminology, this is referred to as “the last mile challenge”. In circumstances where such geographical coverage is inadequate,

recipients may find themselves travelling over long distances to access funds and hence overall transaction costs are increased (Freund and Spatarofa, 2010).

The legal and regulatory environment

Like most financial services, remittance services are subject to anti-money laundering and combating financing of terrorism legislation. These laws impose know your customer or customer due diligence obligations that require financial institutions to gather, what at times can be extensive information from their clients as well as report on suspicious transactions. These regulatory requisites may impose compliance costs that can have an impact upon remittance transaction fees.

Regulatory requirements can also bear significant implications for the competition within the remittance industry, especially in circumstances where RSPs are required to be in possession of a licence or registered to provide remittance services. A potential effect of the latter would be the limitation of competition within the remittance market by excluding potential RSPs from entering into the remittance industry. More so, if the fees for licensing and registration are expensive or were only certain financial institutions are awarded such licences or are entitled to registration. Economic theory suggests that the less competitive a market is, the higher the price of products and services in the market will be (Freund and Spatarofa, 2010).

Lack of competitive market conditions

It has been said that the key method to reducing the price of remittance services and making them more accessible, lies in increasing the level of competition within the international remittance industry. The international remittance industry in Africa is characterized by a limited level of competition attributable to a variety of reasons.

The low level of competition can partially be attributed to the exclusivity agreements that MTOs enter into with their agents. These agreements prohibit the latter from acting as agents of any other RSP. Such agreements have negative implications for competition within the industry, particularly where the financial infrastructure is underdeveloped. In instances such as the latter, potential RSPs may find themselves in a position where they are unable to provide services due to lack of access points. The latter subsequently deprives consumers of a variety with regard to available remittances services, culminating in an increased likelihood of monopolistic conditions ensuing. Apart from exclusivity agreements, the level of competition within the industry is also affected by the lack of transparency in the international remittance industry. The latter constrains competition between RSPs in that consumers are unable to compare prices and instead tend to patronise traditional market players. The regulatory environment also potentially constrains competition in circumstances where licensing is a pre-requisite for an individual or

institution to deal in foreign currency. Such pre-requisites can compromise a potential RSP's ability to enter into a remittance market.

Risk

In providing remittance services RSP's face a variety of financial, legal, operational, fraud and reputational risks. A mutual concern for all participants in a remittance transaction is the risk that funds will be lost while in transition. The question of who bears the risk depends on the nature of the remittance service. With regard to unilateral and franchised networks, the RSP usually bears the risk. It is submitted that the exposure to such risk is inevitably taken into account when providing remittance services and plays a role in determining the costs of a transaction.

2.5 Innovative financing mechanisms leveraging on migration and remittances

Remittances have been proven a resilient and stable source of external finance. In many financial circles, Diasporas are considered credible and reliable sources of external financing. Thus, credit rating agencies and investors are paying close attention to remittances in the analysis of sovereign creditworthiness in middle-income countries and debt sustainability in low-income countries. In addition, many countries are considering the issuance of diaspora bonds and securitization of future remittances.

Diaspora bonds

Diaspora bonds, as their name indicates, are bonds issued to the diaspora by the government of their country of origin. The aim is for the government to raise low-cost funding from its diaspora through patriotism. Diaspora bonds as a financing method have been successfully implemented in many countries. Some of the advantages of diaspora bonds are listed below:

- Migrants likely have better knowledge of their origin country's creditworthiness and likely have more legal recourse in the event of a default.
- A diaspora bond would offer a higher interest rate than the rate a diaspora saver earns from bank deposits in her country of residence.
- Credit enhancement and tax breaks are often offered.
- Low-cost capital for the issuer (Country of origin)
- Opportunity for a government to market the country to its diaspora.

Securitization of future remittance flows

Securitization refers to the initiative taken by a country in securitizing its future remittance receipts to raise lower-cost and longer-term financing for infrastructure, public works, and commercial development initiatives (World Bank, 2015).

Securitization as a financing structure mitigates several elements of sovereign risk and thereby facilitates developing countries' access to international capital markets at substantially lower cost and for longer maturities. (World Bank, 2015)

Table 2: Estimated diaspora income and savings for developing regions, 2013

	Diaspora stock (millions)	Diaspora Income (\$ billions)	Diaspora Savings (\$ billions)
East Asia and Pacific	31	579	116
Europe and Central Asia	32	402	80
Latin America and Caribbean	34	645	129
Middle-East and North Africa	24	275	55
South Asia	38	402	80
Sub-Saharan Africa	23	181	36
All Developing Countries	182	2,484	497

Source: World Bank staff calculations using the latest bilateral migration matrix, data on skill level from the Database on Immigrants in OECD Countries (DIOC), and World Development Indicators database.

Estimate of Diaspora income and saving per developing region

Source: World Bank 2015

2.6 Obstacles and opportunities of the enhancement of the development potential of remittances from South Africa to the DRC

Exchange rate effects

The recent depreciation of the Rand against the dollar is reducing the Rand value of remittances. Although the official currency of the DRC is the Congolese Franc, the DRC is fairly considered as being a dollarized environment. As a result, remittance senders based in the Western Cape and earning their income in rand are under pressure to meet the dollar value required by beneficiaries in the DRC. For example, from December 2014 to December 2015 the rand fell by 30% (From 11.6187 to 15.1145 to the USD). The depreciation of the Rand vis-à-vis the US Dollar causes the value of remittances to decrease, since during the remitting process, the currency at origin and destination are converted into USD (SARB, 2015).

Figure 2: ZAR-USD movement in the last 12 months



Source: OANDA website December 2015.

Tighter immigration controls and Visa regulations

The Immigration Regulations of 2014 came into effect on Monday 26th May, marking the commencement of the Immigration Amendment Acts of 2007 and 2011. These regulations, as stated by the then Home Affairs Minister, Mr Malusi Gigaba, aim to balance the need for better security with the contribution migration makes to economic development and prosperity of South Africa (DHA, 2015). However, there have been a number of concerns about these rules. The two rules which directly affect Congolese migrants and remittances are:

Quota work permits and exceptional skills work permits, which have been repealed and replaced with a critical skills work visa. With this rule, Congolese migrants using a work permit are required to demonstrate that the skills they possess are critical to South Africa. Some Congolese migrants have not been able to prove they possess critical skills and as a result have been unable to renew their work permit. Without a valid work permit, a migrant cannot work in South Africa. Chances of such migrant in sending remittances to the DRC diminish considerably or vanish completely.

In addition to a passport and visa, children under the age of 18 years are required to have an unabridged birth certificate in the possession when travelling to South Africa. For tourists, there is a requirement to now appear in person during the visa application process in order to obtain a biometric visa. In 2015, an impact assessment report compiled by the Tourism Business Council of South Africa claimed that the number of foreign tourists lost because of changes in the immigration regulations was expected to reach 100 000, with a direct tourism spend of R1.4bn, the total net loss to the South African GDP of around R4.1bn and a loss of 9 300 jobs (News24, 2015).

Congolese migrants operating in tourism-related industries have been negatively affected by these rules, and remittances destined to be sent to the DRC by migrants in this category are set to reduce considerably or vanish completely.

CHAPTER 3 METHODOLOGY

3.1 Introduction

In this chapter, the study introduces first the researcher's approach and strategy as well as his thinking behind the choice of a qualitative analysis. It then continues to describe the various methods used by the researcher for data collection followed by a detailed description of the analysis method. The chapter ends with a list of shortcomings that may have, in one way or another, influenced the results of the study.

3.2 Research approach and strategy

The study employs various suitable methods of data collection that help in a systematic evaluation data sources. As such, this study draws on both secondary and primary data on migrant situations in general and on remittance senders-receivers from the DRC in particular.

The study is based on document analysis and literature review as a secondary method of data collection and analysis of previous studies undertaken by other researchers. These sources include articles, research materials and academic books on the subject. The essence is to review literature about migrants' remittance-centered studies that will assist in the document analysis as well as serve as both theoretical and empirical base for the analysis of the data collected.

The study also draws on primary data collected by the use of few semi-structured open-ended interviews and informal discussions with strategically selected key informants that took place between April and December 2015. The information of the key informants was written down as field notes during the discussions. Due to the small number of informants, it was easy to take down notes. Most literature on social scientific methods such as Chamblis et al. (2010) argue that whether one relies on written notes or a tape recorder, it appears to be largely a matter of personal preference of the researcher, for both have strengths and weaknesses. The information sourced from the informants was actually more through conversation than the strict type interview. This was so in order to encourage informants to give their own explanations openly. The informants were industry stakeholders based in Cape Town and the DRC.

A literature review gives high-quality findings but of a more general nature, not particularly related to remittance senders based in the Western Cape and the impact

of remittances at household level in the DRC. Hence, only this methodology may not be helpful in collecting the valuable data for the study.

Document analysis (from the government agencies, NGOs and other organizations in the DRC and South Africa) are valuable and "close" to the situation in both the DRC and South Africa.

Interviews (or questionnaires with open questions) get the researcher even closer to how the situation is actually perceived "on the ground". Qualitative interviews as a methodology offers a systematic scheme of understanding the burden or opportunities that migrants place on their hosts socio-economically.

3.2 Data collection

Primary Data Collection: 13 semi-structured qualitative interviews were conducted using closed and open-ended questions. These interviews were conducted with key stakeholders with a vested interest on the subject matter. The stakeholders included industry experts, academics, MTOs and business owners operating between the DRC and South Africa. Ten out of the 13 interviews were conducted telephonically due to interviewees not being based in Cape Town. Semi-structured interviews were chosen due the flexible nature of this interview process. It allows the interviewee to frame his/her understanding of an event or impact (Bryman, 2008). In addition to the interviews, two surveys were conducted in which more than 375 respondents participated and more than 4 600 responses were gathered for a total of 27 questions.

The surveys were conducted both online and physically at strategic locations such as MTOs' offices. Both the online and physical methods were applied in order to cover the geographical areas targeted by this study. A total of 265 online respondents were selected and 200 physical forms were handed out randomly at the various locations in Cape Town and Kinshasa (these places included Money Transfer Operators offices, universities in Kinshasa, and waiting areas in the city centre). The assumption was that 90% of respondents have had an experience with remittances. The link to the online survey was distributed by email and other social media platforms such as Facebook and Twitter. The link was also sent to WhatsApp contacts.

Secondary data collection: a thorough literature review was done on secondary sources including books, journal articles, international organizations' reports and newspapers.

3.3 Data analysis method

According to Green et al. (2007), there are four steps in conducting data analysis for qualitative research. These are immersion, coding, creating categories and identification of themes. Our immersion stemmed from experience in the local remittance industry. Questions to respondents were all administered in French and English, although sometimes Swahili, Lingala and other local dialects were used to probe further for more clarity and insight. These face-to-face interviews were not tape-recorded or otherwise electronically or digitally captured; copious handwritten notes were made.

In terms of analysis, the coding and grouping steps were used to put questions and answers into themes. The respondents' responses were compared according to the different themes linked to the socio-economic development of recipient households in the DRC, which were revealed through interviews and the survey. A deductive approach was taken especially while interpreting responses received from recipient households. This approach was used due to time constraints and similarity of respondents' responses.

3.4 Research limitations

- The limitations of secondary analysis of data include the lack of familiarity with data not collected primarily by the researcher. There is no control of the data quality and complexity of data. As secondary analysis of data collected by others for their own purposes may mean that a key variable is absent. There are also issues in terms of reliability and validity of secondary statistical data. (Bryman and Bell, 2007)
- Availability and access to stakeholders to gather information.
- Willingness of stakeholders to complete the survey.
- Some language-related limitations, as the survey was conducted in French, English and in one instance Lingala.
- Time constraints on the part of the researcher.
- Convenience and snowball sampling used are an unlikely representative of the population (Bryman and Bell, 2007)
- Ability of the researcher to make accurate records of interviews. Since most of the DRC interviews were telephonic.
- A key limitation in the collection and analysis of data is if the remittances records by region and country is not fully recorded by Congolese officials due to informal channels prominence.
- Statistical data from the World Bank, the United Nations and the International Organization for Migration (IOM) were extensively used; however, these

international sources also have important gaps in some crucial areas when it comes to the DRC.

CHAPTER 4

RESEARCH RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings and analysis, grouped into two sections. The first section deals with the primary findings and reveals characteristics of Congolese remittance senders living and working in the Western Cape, as well as the characteristics of remittances receivers (households) in the DRC. In the second section, findings discuss remittances impact at household, micro-economic and macroeconomic level.

4.2 Interpretation of surveys and interviews results

The research findings and analysis are grouped into two sections. The first section which deals with the primary findings reveal characteristics of Congolese remittance senders living and working in the Western Cape, as well as the characteristics of remittances receivers (households) in the DRC. In the second section, findings discuss remittances impact at household, micro-economic and macroeconomic level.

According to the interviewees and the survey responses collected, remittances constitute an important source of revenue for the beneficiaries. Remittances allow the receiving families to meet their basic needs (such as for food and clothing). Remittances have an income stabilizing effect on the receiving household and local economy. Remittances improve the lives of the recipients in a number of ways. Moreover, the migrants also direct remittances to education and health care, and to the needs of their elder family members.

4.2.1 Survey results

Remittances senders survey findings

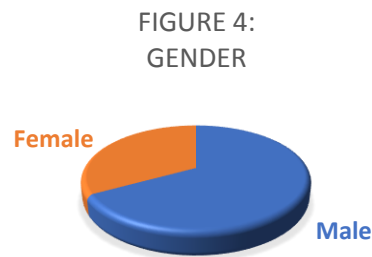
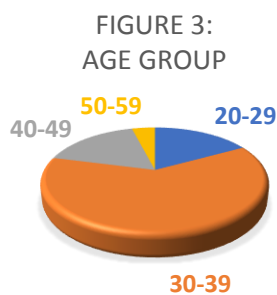
Two surveys were conducted during the course of the study. The first one was conducted across the entire Western Cape Province. Because the survey was electronic, the researcher was able to gather responses from 200 Congolese migrants from all corners of the province. One of the main objectives of this study was to probe the characteristics of remittance senders based in the Western Cape. The

survey results presented in this section provide an overview of such characteristics. Based on survey questions and responses, the researcher will interpret the findings with the objective of “painting a picture” of what the profile of remittance senders based in the Western Cape looks like.

- Age group and gender of remitters: 62% of respondents were aged between 30-39 years. Respondents aged between 20-29 and 40-49 years made up 17% each. People between 50-59 years made up 4%; 67% were male and 33% were female.

Figure 3: Age group of Congolese migrants living in the Western Cape

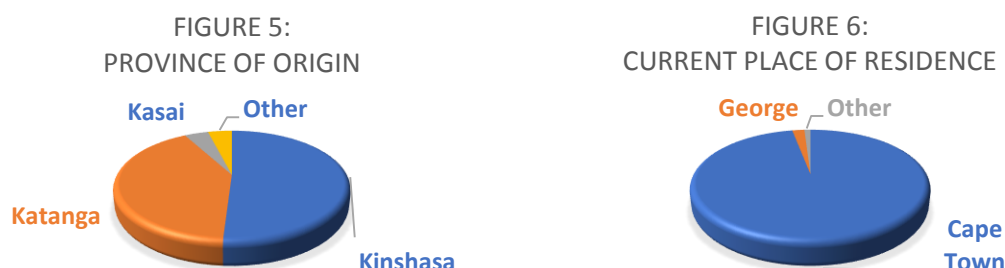
Figure 4: Gender of Congolese migrants living in the Western Cape



Source: Research Data

- Where they lived in DRC versus where they live presently in the Western Cape: 51% of respondents come from Kinshasa, 41% from Katanga, 4% from Kasai Oriental and 4% from other DRC provinces. The high scores for Kinshasa and Katanga can be attributed to the fact that they are respectively the first and second most developed and most populated provinces. They attract larger numbers of internal migrants too. Furthermore, means of access to South Africa from these two provinces is easier compared to other provinces. A total of 97% of respondents lived in Cape Town while 2% lived in George and 1% were divided among other cities in the Western Cape. Cape Town is the biggest metro with the largest economy and infrastructure in the province. Remitters living in Cape Town have easy access to MTOs than those in the other cities. This explains the high score for Cape Town.

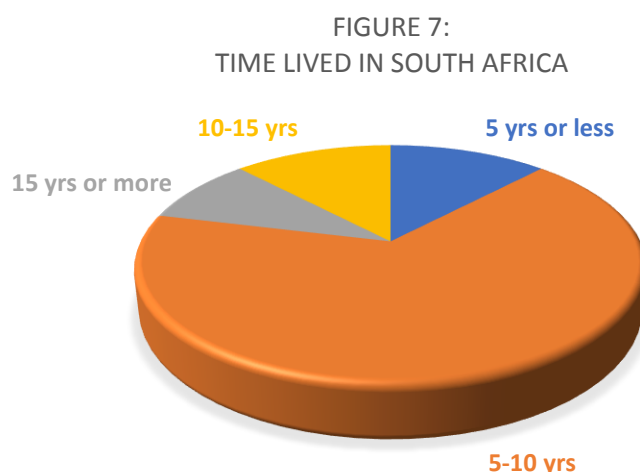
Figure 5: Province of origin of Congolese migrants living in the Western Cape
 Figure 6: Current place of residence of Congolese migrants living in the Western Cape



Source: Research Data

- Time lived in South Africa and type of permit being utilized: 44% had lived in RSA between 5-10 years; 38% had lived here between 10-15 years. Those who have lived here between 0-5 years and 15-20 years account for 8% and 6% respectively. These results reveal that the majority of Congolese migrants living in the Western Cape have not lived in South Africa for more than 20 years. This period also corresponds to the time the DRC was facing its worst security and humanitarian crises caused by the first and second Congo wars between 1998 and 2013.

Figure 7: Time lived in SA by Congolese migrants living in the Western Cape

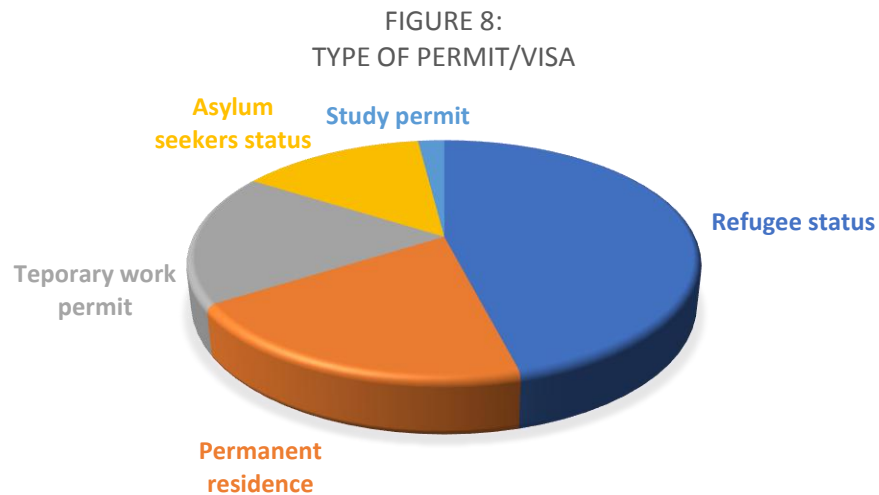


Source: Research Data

With regards to the type of document permits/visas Congolese migrants use in South Africa, 46% have refugee status, 20% have permanent residence permits, 18% use temporary work permits (usually between 1-5 years), 14% are on asylum-seekers status and 2% use study permits. These results confirm the 2010 UNHCR

report which states that most immigrants from the DRC in South Africa are long-term refugees. Note that Refugee Act of 1998 only came into effect in 2001. In terms of the Act, refugees and asylum seekers in South Africa have the right to freedom of movement, to work and the right to access basic social services.

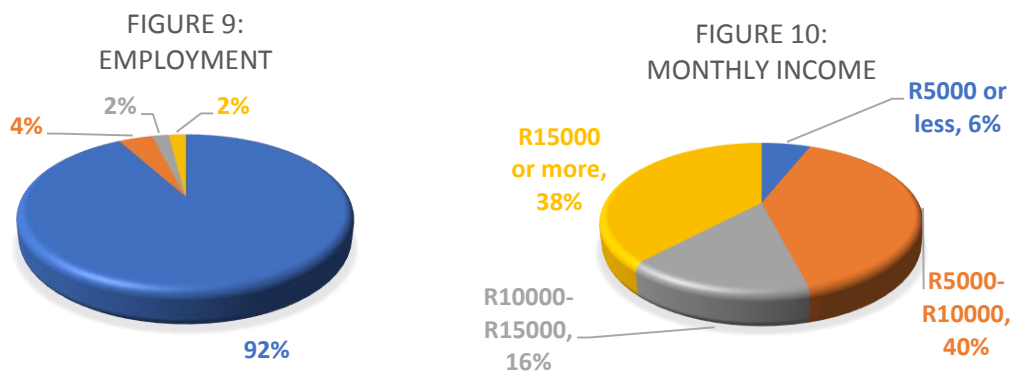
Figure 8: Types of residence permits used by Congolese migrants living in the Western Cape



Source: Research Data

- Employment data: 92% of respondents are employed. Self-employed migrants and students scored 4% and 2% respectively. Unemployed and other scored 2%. Those that are employed further indicated the type of employment contract they have. Figure 9: Employment information of Congolese migrants living in the Western Cape

Figure 10: Monthly income of Congolese migrants living in the Western Cape

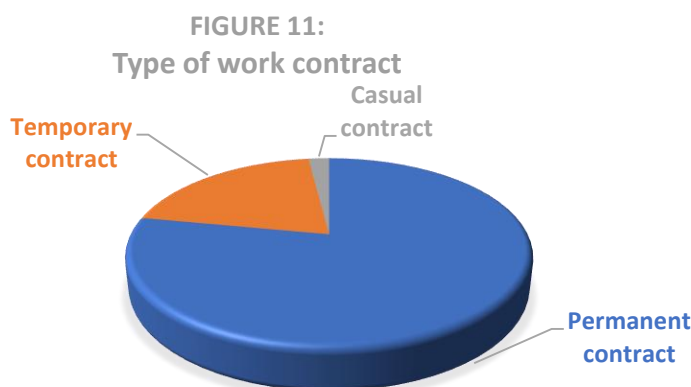


Source: Research Data

Seventy-eight percent have permanent employment contracts while 20% have temporary employment contract and 2% are casual workers with no contract in

place. Regarding their monthly income before tax, 6% earn below R5 000 a month while 16% earn between R10 000-15 000; 38% earn between R15,000-20,000. Western Cape-based Congolese migrants' average monthly income appears to be standard in most industries. The fact that 78% of respondents claim to have a permanent contract reinforces the finding by the UNHCR that Congolese are long-term migrants.

Figure 11: Employment information of Congolese migrants living in the Western Cape



Source: Research Data

Remittances outflow information

- Data and information on remittances: 75% of respondents send remittances to the DRC while 25% does not. Of the 75% that send remittances, 65% affirmed they remit cash while the remaining 35% remit in kind, mostly machinery, electronics and clothing; 90% of respondents remit once a month, 8% remit twice a month and the remaining 2% remit more than twice. Eighty-three percent of remitters send their remittances to family members while the remaining 17% send their remittances to churches, schools, hospitals and various NGOs. This finding gives an indication in the type of underlying motive fuelling the remitters' behaviour. Family ties are by far the main factor influencing remitters' behaviour. The changing needs of family members dictate senders' motives and behaviour.

Figure 12: Information of remittance senders based in the Western Cape

Figure 13: Nature of remittances sent by Congolese migrants living in the Western Cape

FIGURE 12:
REMITTANCE SENDERS

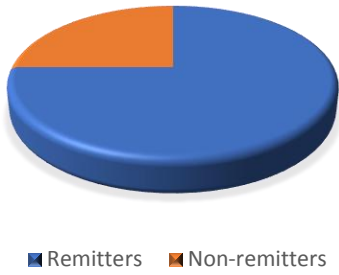
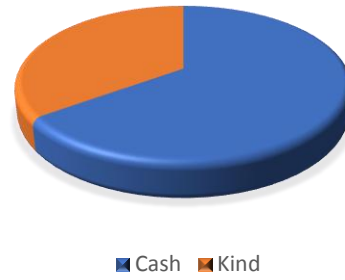


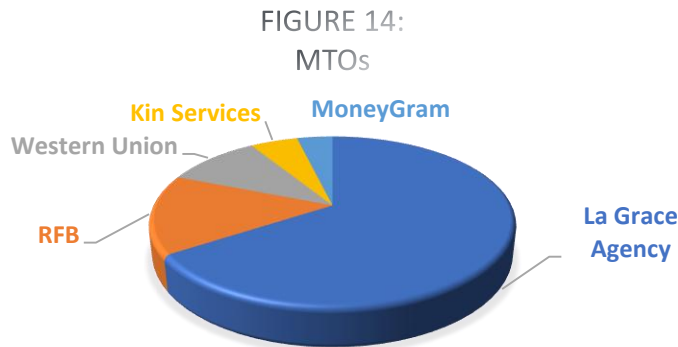
FIGURE 13:
NATURE OF REMITTANCES



Source: Research Data

Amongst Congolese migrants in the Western Cape, La Grace Agency seems to be the most preferred MTO with 52%, followed by RFB with 12%, then Western Union, Kin Service Express and MoneyGram with 8%, 4% and 3% respectively. The remaining 21% were classified as “other”. When probed for clarity, respondents indicated that they use smaller agencies and friends to remit to the DRC. Some of the smaller agencies are All Zoe Agency and MYO Agency. Ninety-seven percent of respondents indicate they pay between 1-15% in commission fees to MTOs; 69% of remittance senders consider the commission fee to be fair; while 26% consider it expensive. Unsurprisingly, this proves that most remitters in the Western Cape prefer by far informal remittance channels to the formal ones. The type or permit/visa seems to be the main deterrent factor shifting their behaviour in that direction. Sixty percent of them have refugee-related permits, which are hardly accepted as valid identity papers by the major banking institutions. In South Africa, since formal MTO such Western Union and MoneyGram do operate in partnership with banks and not as stand-alone organizations, they lose out on remittances from all migrants using refugee related permits. Informal players are not as strict as formal MTOs.

Figure 14: Money Transfer Operators in the Western Cape



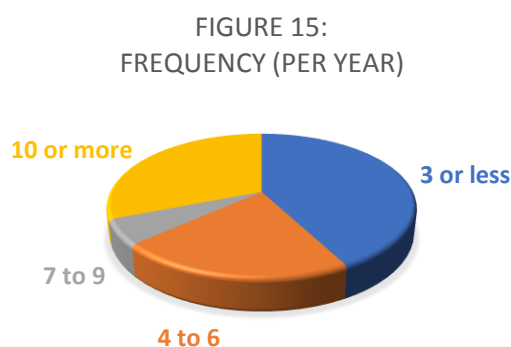
Source: Research Data

Remittance recipients survey findings

The second survey was conducted in Kinshasa, capital city of the DRC and one of the biggest cities in Africa, where 175 respondents (households) selected randomly across the city provided insightful feedback on the profile of remittances recipient households in the DRC. These will serve as the basis for interpreting the findings and bring additional information relating to receivers' characteristics and usage of remittances in the DRC.

- Frequency (per year): 74 out of the 175 respondents said they receive remittances once to thrice per year, 37 said four to six times, 10 receive them seven to nine times, and 22 said to receive them ten times or more. Sixty-three percent of respondents receive remittances six times or less per year. This shows that Congolese migrants are not regular remitters in general. However, when compared to responses collected from Western Cape based Congolese migrants who all claim to be monthly remitters, the researcher is drawn to the conclusion that this discrepancy in numbers lies in the motives for remitting. This may be an indication that 'contractual arrangements' and 'bargaining power' might be the main underlying motives fuelling the remitting behaviour of Western Cape-based Congolese migrants.

Figure 15: Frequency of receipt of remittances by DRC-based households

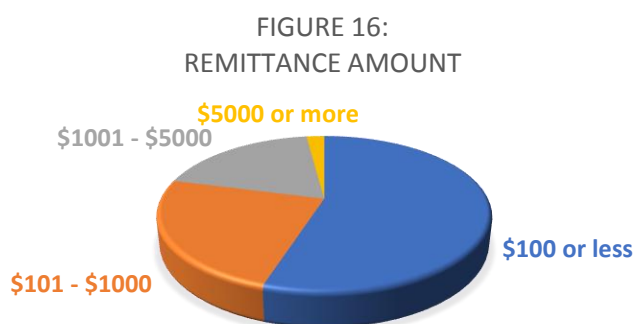


Source: Research Data

Remittance amount per year: 77 respondents said they receive US\$100 or less per year, 33 receive amounts between US\$101 and US\$1000; 26 said they receive amounts between US\$1001 and US\$5000, and 39 between US\$5001 and US\$10,000. Only one respondent claimed to receive regularly amounts over US\$10,000 per year. The survey shows that 63% of respondents receive US\$1000 or less per year. These numbers back up the fact that savings and investments are at the bottom of recipients' household priority list. As highlighted in numerous studies including this one, remittances receivers tend to spend money on high priorities items such as education, food and housing and health first; 110

out of 175 respondents claim to have received \$1000 or less in a year. The surplus, if there is any, can barely be allotted to substantial savings and business investments.

Figure 16: Remittance amounts received by DRC-based households

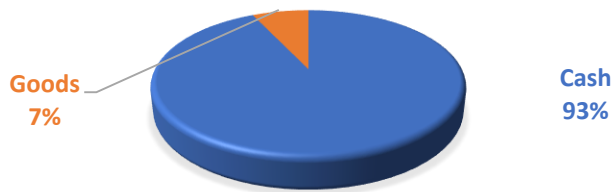


Source: Research Data

- Asked if they do receive remittances in a form other than cash, 161 (92%) respondents said YES while 14 (8%) said NO. The fact that most recipients attest to receiving mainly cash instead of goods corroborates the finding that 65% of Western Cape remitters send cash while only 35% remit in kind. Cash seems to be more popular among Congolese nationals around the world. Proximity explains the higher percentage in non-cash remittances by Western Cape migrants. Compared to other areas of the world such as Belgium, France, the UK or the US, the shipping costs from South Africa to the DRC are very low. One of the main conclusions that can be drawn from this finding is the fact that only a small portion of remittances is spent by remitters on production tools exports to the Congo, due to high shipping costs. Most remittances recipients are consumer-driven and spend on necessities of life such as healthcare, food, housing and education to improve their standards of living. This also shows that although there is a huge impact on individual households, the impact on the macro-economic of the country still has room for improvement.

Figure 17: Nature of remittances received by DRC-based households

FIGURE 17:
NATURE OF REMITTANCE



Source: Research Data

- Asked if remittances received improved their standard of living, 76 (43%) respondents said they definitely do while the remaining 99 (57%) said they don't see any improvement at all. This finding can lead to a number of interpretations and outcomes depending on the respondent's perception of the term 'standard of living'. However, the World Bank defines standard of living as *'the level of wealth, comfort, material goods and necessities available to a certain socio-economic class or a certain geographic area. The standard of living includes factors such as income, gross domestic product, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate, and safety.'* Based on this definition, there is definitely an improvement, as attested by another finding in this survey that shows that the top three uses of remittances are education, food and housing, and clothing and entertainment, all of which are important factors in determining the standard of living. Other than their ability to reduce the severity of poverty, remittances have developmental consequences for receiving households in the DRC for the extra income provides buying power and higher consumption propensity.

Figure 18: Information on whether remittances improve DRC-based households' living standards

FIGURE 18:
IMPROVED LIVING STANDARDS



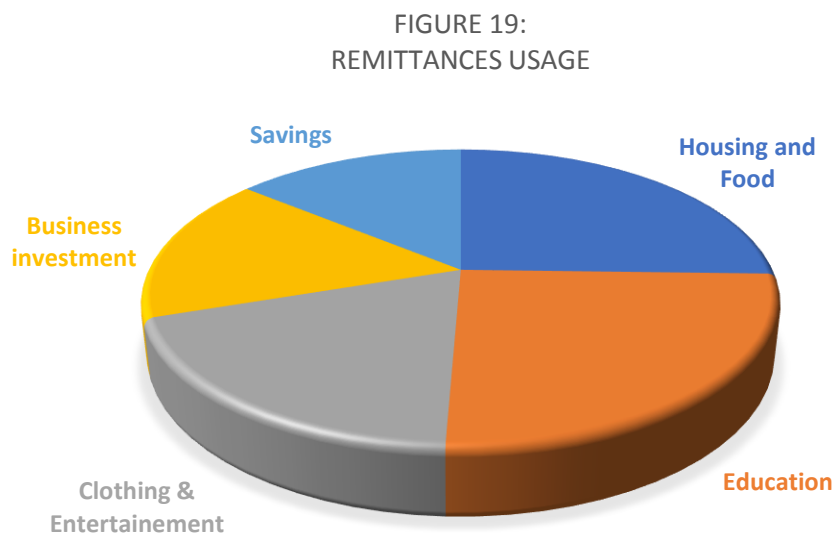
Source: Research Data

Recipients' usage of remittances:

According to respondents, in order of importance, beneficiaries give the highest importance to rent and food, then education, followed by clothing and entertainment, business investment and in final position savings. This finding reveals that only a small percentage of recipient households use remittances for business investment and savings purposes, which means that the impact at the macro-economic level, although present, is not significant enough since the majority does not invest in productive activities. One can also argue that the impact is significantly positive taking into consideration the fact that there is future benefit to be derived from educating of the population. Whether education will end up paying off for the country is largely dependent on political willingness and macro-economic policies.

At the micro-economic level, the impact is tangible and can be seen in the fact that most receiving households to be spending on goods and services such as healthcare, education, food, rent, home improvement, etc. These do improve the standard of living of remittances recipient households.

Figure 19: Usage of remittances by DRC-based households



Source: Research Data

4.1.2. Interview results

As previously mentioned in section 3.2, the researcher conducted 13 semi-structured qualitative interviews using closed and open-ended questions. All interviewees are stakeholders with a vested interest in the remittance industry. The choice of semi-

structured interviews was motivated by two factors. Firstly, this process allowed interviewees to frame their understanding of an event or an impact (Bryman, 2008) without the need of a specific script. Secondly, due to the cultural and linguistic diversity of interviewees, the researcher had to conduct interviews in several languages including French, English, Swahili and Lingala. The researcher made sure that all questions and carefully designed to revolve around targeted themes, and to address the study objectives. The themes are as follows:

- Economic status of recipient households in the DRC
- Social status of recipient households in the DRC
- Micro and macro-economic impact of remittances in DRC

The questions are as follows:

- What are your general thoughts on why informal channels exist and why they thrive?
- What are your general thoughts on how remittances received by DRC households improve their socio-economic status and how such status gets improved?
- Is the SA/DRC government giving MTOs enough support to thrive? Elaborate your response.
- What are your general thoughts on how remittances directly stimulate economic activities in the communities in which recipient households are located?
- How is the remittance money spent in the DRC? Can the recipient do without it?

Economic status of recipient households in the DRC

When asked his general thoughts about remittance inflows and their impact on the beneficiaries in the DRC, Joseph Kazadi, a truck driver on the DRC to South Africa truck route and Lubumbashi resident said:

“Of course remittances are assisting many families to make it through the months. As you know, government, the biggest employer in the country, does not pay its employees regularly.”

This was corroborated by another interviewee, M Aimé Kasongo, a finance lecturer at the University of Kinshasa. When asked why Congolese people tend to spend money received from remittances on rent, food and other basic necessities rather than investments, he responded that:

“... the state which employs most people does not pay them regularly at all. Take for instance SNCC which is the National railway company, the company has more than fifty months of arrears in wages. How are the people supposed to invest and save remittance money? You see why most time the remittances are used to survive first.”

It is difficult to prove the extent to which remittance inflows into the DRC impact socio-economic development of the Congolese population due to lack of monitoring and reporting of remittance inflows by the BCC. However, these interview responses reinforce findings from the two surveys performed for this study. Rent and food scored the highest on the list of priorities in relation to expenses incurred by households which are remittance recipients. Education came second, clothing and entertainment came third, business investment and savings took fourth and fifth place respectively. This confirms the assertion that most of the funds remitted is used to cover the immediate needs of the beneficiaries, with business investments and savings being few and far between (International Organization for Migration, 2009). Mr Eric Ntambwe from CADECO (Caisse generale D'Epargne du Congo) is well positioned to give us an insight on the status of the population's savings. In a telephonic interview, he confided to us that:

“... the average Congolese citizen can barely survive month to month. Nowadays, people are not capable of putting aside money for future use. I can tell because our organization is in charge of managing that money and right now, the savings are extremely low.”

It has been proven in many researches that remittances sent home by migrants provide a safety net in sustaining the livelihoods of families and relatives left in the country. Kapur (2003) revealed that remittances are often part of the risk-spreading strategies of households and arise as a social insurance in countries affected by economic and political crises. This is accurate in the case on the DRC. Despite a reduction in the poverty rate from 71% in 2005 to 64% in 2012, the poverty rate still remains high. The country is among the poorest countries in the world and was ranked 176 out of 187 countries on the latest United Nations Human Development Index (2015). Most people rely upon the regular help from family members and friends living abroad.

As posited by Mara et al. (2012), remittance inflows tend to reduce the liquidity constraints of households hence allowing them to increase educational expenses. A good example of this is the case in the Philippines (Yang, 2004). In Guatemala, research shows that households receiving both internal and international remittances spend 45.2% and 58.1% respectively on education than doing non-remittance households.

According to Ratha and Shaw (2007), recipients' households make relatively higher investments in health care than those who do not receive remittances. This reveals itself fully in Mexico and Sri Lanka where recipient households having higher birth weights. Lower rates of infant mortality, higher weight levels during early childhood and higher health-related knowledge than other households that do not receive remittances are evidenced.

Despite having evidence that remittances are primarily utilized for basic necessities by recipient household, there is evidence that some portion of the total value of remittances received is allocated to property investment. Housing construction is one example of how remittances contribute to the development of the local economy. Currently, the continued decline of the South African rand against the US Dollar has eroded the value of remittances being sent from South Africa to the DRC. For example, from December 2014 to December 2015 the rand fell by 30% (from 11.6187 to 15.1145 to the USD).

Social status of recipient households in the DRC

DRC's 2014 Human Development Index score is 0.239, which puts the country in 168th place (just above Zimbabwe, which is in last position), far below the average of Sub-Saharan Africa (0.389) and the rest of the world (0.624) (UNDP 2010). The composite index shows that in terms of health, education and income, it is the low per capita income level which is chiefly responsible for the country's low rank.

When asked about the effect of remittances on the social life of remittance beneficiaries in the DRC, Mrs Anne Mukalayi, a Sociology assistant lecturer at the University of Lubumbashi, responded that:

“We have a lot of social challenges in this country especially as women. Many women support their families alone due to various reasons. One of them is that due to two decades of war, we have lost many men who were husband and fathers and the sole breadwinners in the family. This has left an empty space where women are left to take care of the children. Most of the time remittances from family members are what makes the children eat and go to school. Remittances sent to non-profit organizations assist in the social as well with the support of the poverty-stricken people. Remittance is the answer to many of the social problems we have. Without remittances, we would be worse.”

Many types of research show how Congolese migrant's remittances have led to an enormous development in the social economy in DRC. For instance, in the case of education, findings suggest that migration and remittance inflows positively add value to the local human capital and ensure greater school attendance and educational achievement (de Haas, 2007). According to research done by (Ratha and

Shaw, 2007), DRC shows a strong, positive correlation between average number of household members with a secondary education and the receipt of international remittances. Of the survey respondents in the DRC, 25% said they use remittances primarily for paying for their education and that of other family members.

When asked if they could do without regular remittances sent by family members abroad, Jacques Yav and Carine Kadima, two regular remittances receivers in Kinshasa, gave very insightful answers. They both admitted to having education on top of their priority list.

“... I use the rest of the money on rent, food and until I finish my studies and get a decent job, preferably in private sector. The remittance amount is not significant enough to include investment in business, bearing in mind that the DRC is one of the most difficult countries to conduct business in, in the world. It takes quite a bit of money to operate an honest business here” (Jacques).

Besides education, Carine said that she makes sure the rest of the money is spent on home improvement, clothing and medicines for the children, and a little bit on savings. Probed if she thought remittances improved the status of recipient households, she replied: *“Of course! Look around us! My family would not be living in this beautiful, clean house and in this neighbourhood if it weren't for remittances. Today, I can afford to send the children to decent schools, we can afford private medical treatment and we can eat decently every day. So, yes! Remittances do improve social status provided they are used productively” (Carine).*

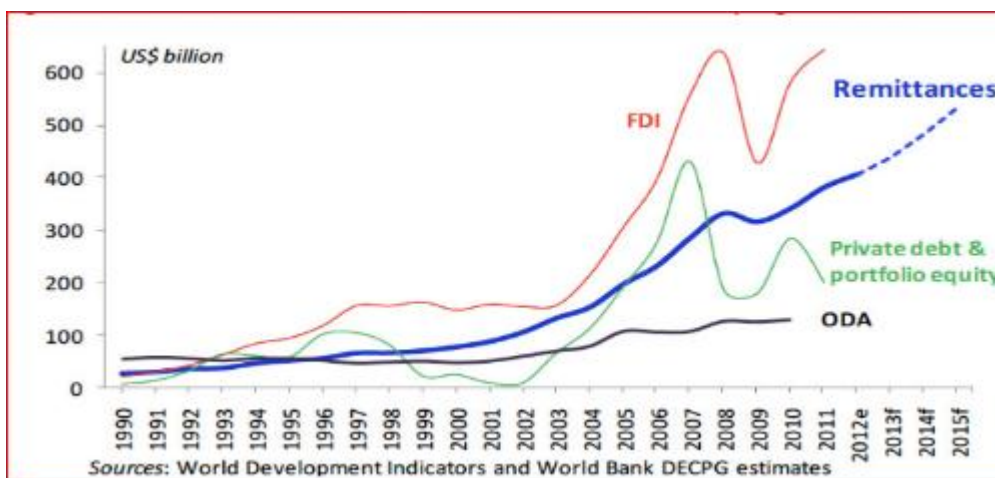
Macro-economic impact of remittances in the DRC

Most theories and conclusions on remittances are based on either analysis of macroeconomic data or empirical microscale studies. Because the former only takes into consideration formal transfer methods and the latter being very context specific, it is difficult to draw conclusions that apply to all remittance receiving regions. In addition, social effects of remittances are generally sacrificed at the expenses of economic effect or impacts.

At the macroeconomic level, remittances can stimulate the import of capital goods and resources that are needed for industrial development. A country's balance of payment can be strengthened due to inflow of remittances, provided the central bank has the right reporting and monitoring tools in place, which is not always the case with the DRC. Remittances can also have a negative effect on the macro-economy as large influxes of foreign exchange can cause an appreciation of the local currency and thus make exports less competitive (Carling, 2005).

Remittances are a more stable money influx than, for instance, foreign direct investments. Even in times of political and economic crisis migrants tend to send remittances to support their families. Remittances even tend to be countercyclical; in other words, the remittance influx is higher in times of crisis. On the other hand, remittances tend to decrease the longer the migrant community is in the destination country. When an economy is too dependent on remittances, a decrease of this money can have severe negative effects on the national income (Bokumbo, 2005).

Figure 22 Comparison between remittances and other external finance flow



Source: Economics help, 2015

The lack of data makes it difficult to determine the actual macroeconomic impact of remittances. Other inhibiting factors for a positive macroeconomic impact of remittances are the estimated importance of informal remittance methods as well as the underdeveloped banking system, and the poverty and other socio-economic problems of the Congolese population. When asked about the size of the remittance industry and its impact on the economy, Mr Tresor Banda (Western Union Kinshasa) said:

“Western Union is a successful international MTO with a track record like none other. Wherever they go, they abide by the laws of the country and work tirelessly to earn their share of the business. Here in Congo, informal channels are numerous that no one really knows the size of remittance flows Therefore, we will never be able to know the real impact on the economy of the country unless the industry is regulated properly”.

Ms Wivine Mukendi (MoneyGram Kinshasa) stated unequivocally:

“The DRC government needs to get its act together. This mess can be cleaned up if only there was some political will. The government regulates the industry. If they want to reap the benefits of remittances, they should regulate properly and level the field for everyone.”

The impact of financial remittances on the DRC is very difficult to define due to lack of accurate and comprehensive data. The lack of scientific studies and the prominence of the informal sector also contribute to this problem. However, it must be noted that not all remittances sent to the DRC are utilized for consumptive purposes. This study found that although the bulk of remittances is used for day-to-day survival, the extra revenue gained by remittances opens up opportunities for investing in local businesses. It is submitted that social pressures exerted by family members on the diaspora often prevents productive investments.

4.2 Factors preventing improved macro/micro economic status in relation to remittances in the DRC and South Africa

Although the findings in this study assert that socio-economic development at macro-economy, micro-economy and household levels is achieved through remittances, there are still barriers which prevent the desired level of remittance-motivated socio-economic development on the part of the DRC and South Africa.

The key factors that emerged from the questions posed to the interview respondents as to what the Governments of the DRC and South Africa could do to improve the current state of the remittance industry to a level at which optimal Socio-economic development is achieved are the following:

DRC:

Enhance legislation to encourage the use of formal channels for remittances: “Entry requirement for the remittance industry seems less stringent in the DRC compared to South Africa. For example, in the DRC, an approved MTO can operate without having ISYS-DDR (the BCC’s electronic reporting system) installed. In such a case reporting of transactions is done manually. However, turnaround time for licence issuance is 4 to 6 months long.

“We had to bribe BCC officials for our licence to be issued two months after applying. This is what discourages companies from entering the formal remittances market in the DRC because in the informal sector you start operating almost immediately” -- Mr Mbombo, a stakeholder in the remittance industry and business owner in the DRC and South Africa.

Put systems in place to track inflow and outflow of remittances: the ISYS-DDR system of the BCC is the reporting system which all MTOs are required to have prior to starting remittances activities. The cost of this system is included in the application fee and applicants are obliged to pay such fee before being awarded a licence to operate. However, the system is never made available to MTOs when they start operating. To date, MTOs operate without the ISYS-DDR system (BCC, 2015).

An employee at BCC, Patricia Ngoie, confirmed this when she stated *“The bank has the capability to provide accurate numbers relating to remittances flows. However, corruption being a day-to-day reality in this country, certain employees of the bank with the help of highly ranked officials are torpedoing every effort made in order to get informal as well as formal MTOs onto ISYS-DDR. That’s the unfortunate reality.”*

Improve the business environment: 70% of the respondents are of the opinion that the business environment is not conducive to remittance industry development. Building the financial sector requires improving the business environment. The World Bank’s Doing Business survey ranks Congo last among 181 over 184 economies in terms of ease of doing business. A poor judicial system, pervasive corruption, and ill-defined property rights also contribute to macro/micro-economic developmental constraints.

In July 2012, the DRC officially became the 17th member country of the Organization for the Harmonization of Business Law in Africa (OHADA). OHADA was established in 1993 to improve the legal security and predictability of doing business in West and Central Africa. By joining OHADA, the DRC replaced the majority of its outdated and inefficient business legislation with a modern legal framework that includes improved rules for business transactions, sophisticated corporate governance regulations, improved dispute resolution mechanisms (including arbitration), and strict corporate accounting and auditing standards. Although this has been a step in the right direction, much remains to be done.

SOUTH AFRICA:

The application of Exchange Control Laws in South Africa: the laws effectively stifle the formalization of remittances from the country. The problem, more particularly, centres on the issues of licensing and the SARB’s stance in regard to whom it is willing to award authorised dealer licences, the need to report transactions via the SARB Cross Border Foreign Exchange Transaction Reporting System and the residential status of the remitter. These factors can pose significant barriers to low-income migrants who wish to use formal remittance channels. They can also prohibit potential RSPs from entering the remittance industry thereby stifling competition, which can lead to high remittance prices. Mr Andre Lukusa from RFB Cargo, and

import and Export Company with offices across Africa, gave us insight as to why most Congolese migrants in Cape Town choose to remit using informal channels. *“Most Congolese migrants are low income remitters. All they want is to send a little bit of money for their family to be able to buy some food and pay for education. The problems they face when trying to use formal RSPs are multiple, cost being one of them. Competition, which is supposed to drive cost down, is not encouraged. That’s why informal channels are popular among the Congolese migrants. Despite the risk factor, informal channels offer them a cheaper alternative”* -- Mr Andre Lukusa from RFB Cargo,

Enhance legislation to encourage the use of formal channels for remittances: It is submitted that the market structure of the remittance industry in South Africa is one within which a limited number of RSPs exist. This is attributable to the fact that potential RSPs face considerable regulatory barriers when they attempt to enter the remittance market. Among the barriers that RSPs face are factors such as the need to be in possession of an authorised dealer licence in order to deal in foreign currency. Remittances transactions inevitably require the RSP to deal in foreign currency prompting individuals or institutions wishing to provide such services to obtain authorised dealer licences.

Ms Kalala from La Grace Agency based in Cape Town, also with offices across the continent, said:

“We help a lot of people with their remittances in kind. Many of them ask us on a daily basis if we can remit cash for them. They claim that remitting through a formal RSP in South Africa comes with so many requirements, making the process so lengthy that remitters choose to use informal channels instead. Unfortunately, for a small organization such as ours, obtaining a permit in South Africa is a real challenge.”

At present, the SARB is only willing to award authorised dealer licences to banks and bureaux de change, which limits the number of RSPs in the market and makes banks and Bureaus de change prominent downstream suppliers. Note that an authorised dealer is a bank registered with the Registrar of Banks that is subsequently authorised to deal in foreign exchange. In South Africa can be considered to be Western Union and MoneyGram are prominent upstream suppliers of remittance services therefore, taking into account the nature of the market structure, vertical agreements between them and authorised dealers are more likely to be anti-competitive.

South Africa’s Exchange Control laws combined with the SARB’s policies foster an anti-competitive environment by requiring that an institution or person be in possession of an authorised dealer licence in order provide remittance services, with

the Post Office being the only exception to this law. Currently only banks and *bureaus de change* possess such licences hence MTOs such as Western Union has formed partnerships with these institutions to provide its remittance services in South Africa. MTOs such as Western Union often require agents to enter into exclusivity agreements that prohibit them from being the agents of other money transfer providers. Such agreements effectively affect the ability of other MTOs to enter the remittance market and foster conditions that allow prices to be set beyond competitive levels.

The low level of competition is also exacerbated by the fact that all foreign exchange transactions must be reported to the SARB by using the Cross Border Foreign Exchange Transaction Reporting System. The time within which transactions must be reported is very limited and more or less forces RSPs to invest in an in-house reporting system. The costs of installing SARB's reporting system are, reportedly, quite extensive. It is submitted that such costs can pose a significant barrier to potential RSPs that may wish to enter the remittance industry, but lack the finance to invest in the system.

CHAPTER 5 RECOMMENDATIONS, CONCLUSION AND FUTURE RESEARCH DIRECTION

5.1 Recommendations to the government of the DRC

Findings in this study have shown that remittances have an impact at household level in the DRC, and they also tend to improve the socio-economic status of receiving households by providing them with basic needs such as education, food, housing and health. However, in order to capitalize fully on the opportunities offered by remittances flows that will allow remitters and receivers to engage in activities that might significantly impact the country at both the macro and the micro-economic level, the government of the DRC needs to take some drastic measures.

The recommendations below consider the difficulties against and opportunities for improving the development potential of remittances from South Africa to the DRC. Political and economic stability constitute the two biggest and most important conditions for the DRC to attain its developmental potential through remittances.

First, the Central Bank must improve regulation pertaining to remittance services providers. 40% of the respondents consider that there is need for the central bank to reinforce its regulation practice, but more importantly, the Central Bank should be ready to punish MTOs that are not in compliance with existing regulations. The regulation and supervision of banks are key elements of a financial safety net. By providing well-defined prudential guidelines and enforcing them, the safety net can guarantee that risk-taking is limited, or at least provided for in a proper manner, and hence can reduce the likelihood of systemic crises (Arturo et al., 2005).

Second, to increase the level of monitoring and reporting transactions executed by MTOs as currently the reporting system of the BCC is not in place and it is not being utilized by MTOs. The government of the DRC should take all necessary steps to ensure the BCC delivery of this system is done in order for inflows and outflows to be effectively monitored. This will enhance control of the country's balance of payment. The system will give authorities the right data for information management.

Third, at the highest level, the government of the DRC needs to demonstrate its commitment to implement governance reforms and its political will to fight corruption and by taking swift and concrete actions against corrupt official. The culture of impunity vis-à-vis corruption especially in government has earned the DRC the reputation of being one of the most corrupt countries in the world.

Lastly, the government should put in place policies that ease remittance flow-reduction in fees or tax breaks. The objective is for positive effects of remittance receipts to show and for formal channels of remittances to be promoted.

5.2 Recommendations to the government of South Africa

Taking into account the negative implications that the exchange control environment poses for the formalization of remittances from South Africa the following recommendations are proposed.

Firstly, it is suggested that the SARB consider the option suggested by Genesis Analytics, which recommends introducing an ADLA (Authorized Dealers with Limited Authority) licence that caters for remittance businesses. Doing so would allow RSPs such as MTOs to operate independently, and can increase the competitive level of the remittance market and subsequently lead to lower remittance prices.

In awarding such licences it is recommended that the SARB follow an approach similar to that applied in the DRC, whereby any financial institution, regardless of its form, is capable of being awarded authority to provide remittance services provided that they are able to provide appropriate financial and risk guarantees. Taking into account that remittances are low value payments, RSPs, in the event of incurring credit, liquidity, or operational failure, are unlikely to pose systemic risk to the financial system. In South Africa, the risk of systemic risk being presented by RSPs is curbed further by the fact that they are not able to handle business remittances, which are by nature large value payments.

Secondly, in the event that an ADLA licence is introduced for the remittance market, it would be preferable for the SARB to adopt a more lenient approach with regard to the manner in which foreign exchange transactions are to be reported to it by remittance businesses. It is recommended that it consider the option suggested by Truen et al. (2005), who recommend permitting institutions to report directly to the SARB as opposed to requiring them to report strictly via the Cross Border Foreign Exchange Transaction Reporting System. Allowing such would allow RSPs that lack the funds to invest in the reporting system to partake in the provision of remittance services thereby facilitating competition within the market.

Furthermore, the SARB could consider allowing such remittance businesses to report through institutions that have installed the SARB reporting system. This would make it unnecessary for remittance businesses to have an in-house reporting system. In order to facilitate the latter, the requirement that foreign exchange transactions must be reported within 24 hours would have to be addressed. Increasing the latter period could, however, compromise the efficient monitoring of the country's foreign currency reserves.

Thirdly, agency agreements concluded by MTOs and their agents ought to be closely scrutinized and those consisting of exclusivity clauses ought to be prohibited. Such agreements are detrimental to competition, particularly in a remittance environment such as that in South Africa where only authorized dealers may engage in the provision of remittance services and MTOs do not operate as stand-alone entities. It would be more favourable for agents to be able to act as the agents of more than one MTO.

Fourthly, remittances that are channelled through means such as long-distance taxi drivers result in a country's currency physically leaving its borders. The latter can necessitate the printing of more money that can lead to an increase in the rate of inflation. It would be in the interests of South Africa, which has a monetary policy framework that focuses on targeting inflation, for more remittances to be channelled formally.

Fifthly, instead of the SARB requiring that all foreign exchange transactions be reported it could, as suggested by Truen et al. (2005), introduce a threshold amount and system whereby only transactions that go beyond the specified threshold amount are reported. Truen et al. (2005) recommended a threshold amount of R5000. By setting a threshold amount, the cost of carrying out transactions on amounts that fall below the threshold would be reduced and formal remittance channels can become more accessible for low-income remitters who are price sensitive.

Introducing a threshold amount would, however, compromise one of the purposes that Exchange Control law is imposed for, which is to provide for the country's foreign currency flows to be monitored. The SARB, as custodian of the country's foreign currency reserves is responsible for monitoring and supervising such flows. Allowing certain transactions to be exempted from being reported would compromise the SARB's ability to carry out its responsibilities sufficiently. In conclusion, it is recommended that the provision of formal financial services be separated from the policing of immigration laws.

Lastly, the government should put in place policies that ease remittance flow-reduction in fees or tax breaks. The objective is for positive effects of remittance receipts to show and for formal channels of remittances to be promoted.

5.3 Conclusion

The objective of this research was to investigate socio-economic conditions of Congolese migrants living in the Western Cape province of South Africa, their remitting behaviours towards the DRC and the impact of their remittances at household level in the DRC.

Through the gathering of primary data it was discovered that the majority of Congolese migrants have not lived in South Africa for more than 15 years. It was found that 60% of Congolese migrants have refugee and refugee-linked status in South Africa. It was further found that 75% of Congolese migrants in the Western Cape send remittances to the DRC, mainly to family members.

Analysis of secondary data revealed that remittances could play a key role in fostering economic growth in developing countries. They can contribute to foreign exchange reserves of a country that finds itself in a situation where foreign currency is scarce and assist in the purchase of imports and settlement of national debts. When remittances are channelled through informal mechanisms, they do not contribute to the recipient country's official foreign currency reserves, and cannot make a meaningful contribution towards its development. Formalization of remittance transactions will allow for the full developmental potential of recipient countries to be attained. In addition, remittances also act as a valuable form of income support to households to which they are sent and alleviate the plight of many low-income households.

Furthermore, the surveys and interviews revealed that, in order of importance, beneficiaries give the highest importance to rent and food, then education, followed by clothing and entertainment, business investment and in final position savings. This finding reveals that only a small percentage of recipient households use remittances for business investment and savings purposes, which means that the impact at the macro-economic level, although present, is not significant enough since the majority does not invest in productive activities.

Remittances from abroad play a key role in enhancing the standard of living of households in the Democratic Republic of Congo (DRC). The study found that remittances increase the income of recipients, help alleviate poverty, improve recipients' ability to access basic services such as health and education, and

contribute to employment creation by providing capital for microenterprises and community based projects. Remittance income provides buying power and higher consumption propensity that are important ingredients in DRC's economic stimulation.

The DRC's pieces of legislation that apply to remittance services adopt an open policy in regard of the institutions that are able to obtain a licence. It is submitted that by doing so these laws give room for a positive level of competition to exist within the remittance industry. However, political instability, bad governance, corruption and the central bank's inability to monitor remittances prevent the country from fully benefiting from the remittances industry. In South Africa, Exchange Control and FICA laws combined with the SARB's policy in regard to whom it awards licences granting authority to deal in foreign currency, place significant barriers to potential RSPs that may wish to enter the remittance market. They also contribute to the persistent use of informal remittance mechanisms by migrant remitters as they face significant barriers in accessing formal remittance channels depending on the legality of their presence in South Africa.

The recommendations made to address the issues highlighted in this paper centered on remittance policy revision and enhancement; leniency in regulatory requirements, reduction in money transfer charges and improved monitoring of remittance flows.

5.4 Future research direction

This study was limited to studying the socio-economic status of remittance senders based in the Western Cape Province of South as well as the look at the socio-economic status of recipient households in the DRC. The paper then proposed some solutions as what it had identified as issues preventing the DRC and South Africa from benefiting from inflow and outflows of remittances. The theme is vast and could not be contained in the present paper. We have no pretensions to have covered all the aspects of the questions concerning this topic. There is therefore undoubtedly room for further research in this area, and other possible solutions.

Schumpeter (1911) discovered that a well-functioning financial system fosters technology, innovation that in return fosters growth. We are of the opinion that the DRC's financial system development should be in the heart of the Congolese authorities as a means to grow the country economy. The following areas can serve for future research: Financial intermediation and remittances in the DRC, factors affecting SMEs access to finance in the DRC and mobile banking as an alternative channel for access to finance in the DRC.

In conclusion, it is hoped that this research has contributed in providing insights on Socio-economic status of Congolese migrants as remittance senders based in the Western Cape and the effect of remittances on the households as well as the DRC economy as a whole. It is hoped that recommendations outlined in this paper will be helpful to the different governments of the DRC and South Africa. It is up to the two governments and their Central Banks to undertake what has emerged from this research to foster a stronger and more profitable remittance industry.

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