

DIASPORA REMITTANCES AND FINANCIAL INCLUSION IN KENYA

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University. No part of this thesis should be reproduced without the authority of the author and/or Kenyatta University.

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ABSTRACT

Financial inclusion is important in maximising the developmental impact of diaspora remittances. It formalises remittance inflows, reduce transfer costs and facilitate their investment into productive activities. It plays a multidimensional role in facilitating domestic and international transactions through financial institutions to mobilise migrants' savings remitted back to their home country and to broaden the credit availability to those at the diaspora and the citizens within. The Kenyan government's commitment to include the Kenyan diaspora into the national development process led to the launching of Kenyan Diaspora Policy in 2015 as part of the Kenya's vision 2030 blue print of which financial inclusion is a pillar. Despite this policy interventions by government, the influence of the policy interventions on financial inclusion is not known. This study sought to check if the policy interventions achieved its objective. It examined the effect of diaspora remittances on financial inclusion in Kenya for a quarterly period from 2008 to 2018. The specific objectives of this study were to examine the effect of formal diaspora remittance received per corridor, transaction cost per corridor and remittance channels per corridor on financial inclusion in Kenya. The study also tested the moderating effect of diaspora policy on the relationship between diaspora remittances and financial inclusion. This study was anchored on pure altruism theories, financial literacy theory, asymmetric information theory and financial growth theory. Descriptive and causal research designs were employed in this study. The target population comprised 42 commercial banks and 19 money remittance providers registered with Central Bank of Kenya while the sample population is quarterly data from 2008 to 2018. The census and stratified sampling design were utilised where census method was first used to include the formal diaspora remittance inflows for the ten-year period and then stratified into corridors for the period under study. Secondary data from the Central Bank of Kenya, Kenya National Bureau of Statistics and World Bank was analysed using time series multiple regression analysis. Diagnostic tests were carried out to ensure the time series assumptions were not violated. The results of the study shows that formal diaspora remittances had a positive and significant effect on financial inclusion, remittance transaction costs had a negative but significant effect on financial inclusion while remittance channels had a positive and significant effect on financial inclusion in Kenya. Although diaspora policy had a significant effect on the relationship between diaspora remittances and financial inclusion, the effect was weak. The study recommends that remittances might be volatile due to economic uncertainties hence sound macroeconomic policies and favourable business environment may be put in place by policy makers to maximize the potential benefits of these inflows. Government may consider formulating and implementing policies that seeks to reduce transaction costs within Rest of the World since it greatly affects financial inclusion in Kenya. The financial sector particularly commercial banks may be restructured to embrace formal transfer of diaspora remittances at a cheaper fee. The use of Fintech and MPesa could be greatly encouraged since it turns to positively impacts of financial inclusion. The study also recommended that the ever-increasing threat of terrorism necessitates the close monitoring of international flows of funds, which is considerably easier to accomplish when funds flow through transparent, formal channels.