

## COMPARATIVE ANALYSIS OF DIASPORA REMITTANCE TRANSFER CHANNELS IN PROMOTING ECONOMIC DEVELOPMENT IN KENYA

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### ABSTRACT

**Purpose of Study:** The purpose of this study was therefore to conduct a comparative analysis of diaspora remittance transfer channels in promoting economic development in Kenya using a desktop review methodology.

**Problem Statement:** Remittance inflows in Kenya reached approximately USD 4.19 billion in 2023, accounting for over 3 percent of GDP and exceeding earnings from key export sectors. Despite this growth, challenges including youth unemployment, poverty, income inequality, and structural economic imbalances raise concerns regarding the extent to which remittance inflows are effectively translated into serious economic development.

**Methodology:** The study adopted a desktop review methodology, guided by a development economics perspective to review peer-reviewed journal articles, institutional reports, policy documents, and empirical studies focusing on remittance channels, financial intermediation, digital inclusion, macroeconomic performance, and regulatory frameworks.

**Result:** Formal and regulated transfer channels including commercial banks and digital platforms, demonstrate stronger associations with financial inclusion, deposit mobilization, credit expansion, and sectoral multiplier effects compared to informal channels.

**Recommendation:** The Government of Kenya through the Central Bank of Kenya, financial institutions, fintech providers and diaspora engagement agencies should support formal remittance corridors, reduce transaction costs, promote financial literacy, and integrate remittance management into national development planning frameworks.

**Keywords:** *Diaspora Remittances; Remittance Transfer Channels; Financial Intermediation; Economic Development; Financial Inclusion; Kenya*

## INTRODUCTION

Diaspora remittances are important, stable and countercyclical sources of external financing for developing economies, in most cases exceeding foreign direct investment (FDI) and official development assistance (ODA) in terms of reliability and resilience. According to the World Bank (2024), officially recorded remittance flows to low- and middle-income countries reached USD 669 billion in 2023 and increased to USD 685 billion in 2024, maintaining steady growth despite global economic slowdowns. In contrast, FDI flows to developing economies have exhibited greater volatility due to shifts in global investment conditions and geopolitical risks. The International Monetary Fund (IMF, 2024) further notes that remittances tend to be countercyclical, increasing during periods of economic distress in recipient countries, thereby providing a stabilizing buffer for household consumption and foreign exchange reserves. This relative stability positions diaspora remittances as a more predictable and resilient external financing source compared to other capital inflows that are highly sensitive to global market fluctuations. Remittance flows provide direct income support to households, enabling spending on food, healthcare, education, housing, and small-scale enterprise development, which collectively stimulate domestic demand and local economic activity (Fakeye, 2025; Mutai, Ibeh, Nguyen, Kiarie & Ikamari, 2025; Fernandes, 2022).

Beyond immediate consumption, remittances influence savings behavior, asset accumulation, and long-term investment decisions, thereby influencing both microeconomic welfare and macroeconomic performance. Their sustained inflows contribute to exchange rate stability, improved current account balances, and supported national savings rates, reinforcing their structural importance in economic development (Day, Mbeky & Karanja, 2025; Amenya, 2023). Despite these benefits, the developmental effectiveness of remittances is closely tied to the efficiency, accessibility, and regulatory oversight of the channels through which funds are transferred. The transfer channels used to send diaspora remittances to a greater extent determine their traceability, cost structure, security, and developmental impact. Formal channels such as commercial banks, licensed money transfer operators, and regulated digital platforms provide higher levels of transparency and regulatory compliance, ensuring that remittance flows are captured within national financial statistics and integrated into formal banking systems (Mutai, 2025; Dibal, 2025). These formal mechanisms reduce transaction risks, enhance consumer protection, and facilitate the mobilization of remittance-linked savings and credit products. In contrast, informal channels often operate outside regulated systems, limiting visibility within national accounts and weakening policy leverage over these financial flows (Ferdous, 2024; Kalume, 2023). Consequently, understanding the comparative efficiency and developmental implications of different remittance transfer channels remains central to maximizing their economic contribution.

Globally, remittance flows to low- and middle-income countries reached USD 669 billion in 2023 and rose further to USD 685 billion in 2024, reflecting sustained growth despite inflationary pressures and global economic uncertainty (World Bank, 2023; World Bank, 2024). The International Monetary Fund (2024) reports that remittances account for more than 20% of GDP in several emerging economies, serving as stabilizers during economic shocks and downturns. These flows are countercyclical in nature, often increasing during domestic crises when households face unemployment or income volatility (UN DESA, 2023). However, global transaction costs averaging 6.2% per USD 200 transfer remain a barrier to maximizing remittance-driven development, particularly in corridors where competition among transfer providers is

limited (IMF, 2024; KNOMAD, 2024). The efficiency of transfer channels therefore directly influences the net resources available for household and productive investment.

Technological development has transformed the global remittance ecosystem, particularly through digitalization and mobile-based transfer platforms. Digital remittance channels have increased transfer speed, reduced settlement delays, enhanced traceability, and expanded access to formal financial services (OECD, 2022; World Bank, 2023). These innovations facilitate smaller, more frequent transfers, which empirical evidence associates with improved consumption smoothing and better financial planning among recipient households (Fakeye, 2025; Mutai et al., 2025). Furthermore, digital platforms integrate remittances into broader financial ecosystems that include savings accounts, mobile wallets, credit scoring systems, and digital payment networks, thereby supporting financial inclusion and expanding access to capital (Demirgüç-Kunt et al., 2022; Klapper & Singer, 2023). The structural design of transfer channels therefore influences not only remittance volume but also the depth of financial system integration.

Across Africa, diaspora remittances have become central to macroeconomic stability and household resilience. The continent received USD 54 billion in remittances in 2023 and USD 56 billion in 2024, reflecting gradual growth amid global economic adjustments (World Bank, 2024; Kalume, 2024; Fernandes, 2025). Nigeria, Ghana, Kenya, and South Africa rank among the leading recipients, with remittances supporting foreign exchange reserves and private sector expansion (IMF, 2024; Okara, Boly, Simpasa & Chuku, 2025). African governments increasingly recognize that optimizing transfer channels through regulatory reform and digital integration can enhance transparency, reduce costs, and improve economic impact. Initiatives such as Nigeria's "Naira 4 Dollar" program illustrate targeted efforts to formalize remittance inflows and support official transfer corridors (CBN, 2023). In East Africa, Rwanda and Tanzania demonstrate how regulatory reforms and digital infrastructure influence remittance channel efficiency and developmental outcomes. Rwanda's investment in mobile money interoperability and remittance-linked savings products has expanded formal transfer usage and encouraged productive investment (NISR, 2023). Tanzania has reduced remittance transaction costs while promoting licensed operators to enhance security and accessibility (BoT, 2024). These reforms illustrate that beyond remittance volumes, the structure and competitiveness of transfer channels determine how effectively remittances support enterprise development, housing investment, and financial inclusion (UNCTAD, 2023).

Kenya presents a strategic case for examining the comparative impact of remittance transfer channels. In 2023, Kenya received approximately USD 4.19 billion in remittances, with 2024 inflows exceeding this level due to improved digital integration and supported diaspora engagement (World Bank, 2023; Central Bank of Kenya, 2024). Remittances now surpass earnings from traditional exports such as tea, coffee, and tourism, positioning them as a major source of foreign exchange. The Kenyan government has institutionalized diaspora engagement through structured investment conferences and policy frameworks aimed at channeling remittances toward productive economic sectors (GoK, 2024). Mobile money platforms, particularly M-Pesa, have fundamentally transformed Kenya's remittance transfer landscape. M-Pesa enables fast, low-cost transfers that connect global remittance corridors directly to household mobile wallets, increasing frequency and immediacy of fund access (Suri & Jack, 2025; Mbiti & Weil, 2025). This integration enhances consumption smoothing and encourages participation in digital savings and credit ecosystems (World Bank, 2023; Central Bank of Kenya, 2024). The digital architecture of M-Pesa also improves data capture and regulatory oversight, supporting macroeconomic planning.

However, disparities in smartphone ownership, digital literacy, and network reliability limit uniform access across rural regions (Ouma, Odongo & Were, 2025).

Commercial banks and licensed money transfer operators remain central to Kenya's formal remittance system. Banks provide secure international transfer services, foreign exchange management, and remittance-linked savings instruments, thereby facilitating larger-value transfers suited for investment purposes (Mutai, 2025; Dibal, 2025). Licensed operators such as international remittance firms offer competitive pricing and global reach, enhancing corridor diversification. However, transaction costs, documentation requirements, and geographic accessibility sometimes limit full formal channel utilization, especially among lower-income households (Amenya, 2023; Fernandes, 2022). Comparing these channels against mobile-based systems is essential in understanding differential developmental outcomes. Regulatory frameworks further influence remittance channel effectiveness. Kenya has supported licensing requirements for money transfer operators and enhanced interoperability between mobile money and banking platforms to increase transparency and efficiency (Central Bank of Kenya, 2024). The Kenya Diaspora Policy and related investment frameworks position remittances as strategic development instruments rather than purely private transfers (GoK, 2024). Effective regulation must balance compliance standards such as anti-money laundering safeguards with incentives that promote formal transfer usage and productive investment (Dibal, 2025; Amenya, 2023). The regulatory environment therefore conditions how transfer channels influence economic development.

Remittance frequency and volume interact closely with transfer channels to influence development outcomes. Smaller but frequent transfers often sustain consumption and stabilize household budgets, while larger lump-sum transfers may support enterprise formation, housing development, and asset acquisition (Fakeye, 2025; Ferdous & Das, 2025). Channel efficiency affects both the cost and reliability of these transfers, influencing household planning and investment decisions (Mutai et al., 2025). Digital channels may encourage higher transfer frequency due to convenience, whereas banks may facilitate larger investment-oriented transfers. Despite extensive literature on remittance volumes and poverty reduction, limited empirical research in Kenya compares how different remittance transfer channels influence broader economic development outcomes. Existing studies emphasize aggregate inflows or household welfare without integrating channel efficiency, regulatory context, transfer frequency, and usage patterns within a single analytical framework (Didia & Tahir, 2022; Ogege, 2025). Furthermore, regulation is rarely examined as a conditioning factor shaping the relationship between remittance channels and economic development (Okara et al., 2025; Amenya, 2023). This gap underscores the need for a comparative and policy-relevant investigation that evaluates how diaspora remittance transfer channels differentially promote economic development in Kenya.

### **STATEMENT OF THE PROBLEM**

Even though Kenya is ranked among the leading recipients of diaspora remittances in Sub-Saharan Africa, the country continues to face persistent socioeconomic pressures, including a national poverty rate of 16.4 percent, youth unemployment exceeding 35 percent, and widening income disparities (Kenya National Bureau of Statistics, 2023). These structural challenges raise critical questions about the extent to which rising remittance inflows are effectively translating into broad-based economic transformation. According to the Central Bank of Kenya (2024), remittances reached a historic high of USD 4.19 billion in 2023, accounting for more than 3 percent of GDP and surpassing earnings from key export sectors such as tea, horticulture, and tourism. Although

these inflows contribute to foreign exchange stability, household welfare, and domestic consumption, their developmental potential remains insufficiently harnessed due to fragmentation across transfer channels, inconsistent regulatory coordination, and limited integration into national development planning frameworks (World Bank, 2024; IMF, 2023).

Moreover, fluctuations in remittance frequency and monthly inflow volumes raise concerns regarding their reliability as a sustainable development financing mechanism. For instance, remittance inflows increased to USD 412.4 million in January 2024 before declining sharply to USD 321.5 million in February, representing a 22 percent month-on-month drop (Central Bank of Kenya, 2024). Such volatility affects household planning, savings behavior, and investment decisions. While aggregate annual inflows remain substantial, variations across transfer channels such as banks, licensed money transfer operators, and digital platforms create differences in cost structures, speed, accessibility, and traceability. The dominance of informal channels in certain corridors further reduces visibility within national accounts and limits policy leverage over these financial flows (World Bank, 2024). Consequently, the developmental effectiveness of diaspora remittances in Kenya cannot be understood solely through aggregate volumes but must be examined through the structure and performance of transfer channels.

Existing scholarship largely conceptualizes remittances as aggregate macroeconomic inflows, emphasizing their correlation with poverty reduction or GDP growth without systematically comparing the mechanisms through which different transfer channels influence development outcomes (Didia & Tahir, 2022; Ogege, 2025). This narrow focus has resulted in conceptual fragmentation, with limited integration of transfer frequency, volume, channel efficiency, usage patterns, and regulatory oversight within a unified analytical framework (Berisha, 2024; Ferdous, 2024). In addition, many empirical investigations rely on national-level secondary data, overlooking regional disparities, diaspora heterogeneity, and variations in channel preference, which are particularly significant in Kenya given differences in rural–urban access, digital penetration, and financial inclusion levels (Kalume, 2023; Mutai et al., 2025). The dominance of macro-level econometric approaches has further constrained attention to institutional and behavioral dimensions that influence remittance transmission and utilization.

In light of these conceptual, contextual, and methodological gaps, there was a need for a comparative examination of diaspora remittance transfer channels to determine how variations in channel efficiency, accessibility, regulation, and cost structures influence economic development outcomes in Kenya. The purpose of the current study was therefore to conduct a comparative analysis of diaspora remittance transfer channels in promoting economic development in Kenya, with particular attention to how channel characteristics interact with regulatory frameworks to influence household welfare, investment behavior, financial inclusion, and macroeconomic stability.

### **RESEARCH OBJECTIVE**

To determine the effects of financial transfer channels on economic development in Kenya.

### **RESEARCH QUESTION**

What effect does financial transfer channels have on economic development in Kenya?

### **THEORETICAL FRAMEWORK**

The study was underpinned by Financial Intermediation Theory. The theory was developed by Gurley and Shaw (1960). The theory explains how financial intermediaries mobilize funds from

surplus units and allocate them efficiently to deficit units within an economy. McKinnon (1973) and Shaw (1973) argue that efficient financial intermediation enhances capital accumulation and supports economic growth. Levine (1997) and Levine (2005) further demonstrate that financial development improves productivity by reducing transaction costs and improving information flow. Mishkin (2019) emphasizes the role of intermediaries in mitigating asymmetric information and enhancing liquidity transformation. Beck, Levine, and Loayza (2000) provide empirical evidence linking financial intermediation depth to long-term economic expansion. In the context of diaspora remittances, banks, licensed money transfer operators, and digital platforms function as intermediaries that determine how effectively remittance inflows are transmitted into Kenya's domestic economy.

The theory was considered appropriate for this study because remittance transfer channels differ in cost efficiency, transparency, accessibility, and integration within the formal financial system. Diamond (1984) explains that intermediaries reduce monitoring and transaction costs, while King and Levine (1993) demonstrate that financial sector development predicts future economic growth. Levine (1997) and Levine (2005) argue that strong financial institutions facilitate savings mobilization and productive investment. Mishkin (2019) notes that regulated intermediaries enhance trust and stability within financial markets. McKinnon (1973) and Shaw (1973) assert that liberalized and competitive financial systems improve intermediation efficiency. Beck et al. (2000) further confirm that financial depth supports economic resilience. Applied to diaspora remittance transfer channels, the theory suggests that formal and efficient channels are more likely to convert remittance inflows into savings, credit access, and investment opportunities that promote economic development in Kenya.

Financial Intermediation Theory also informs the study by explaining how variations in transfer infrastructure influence economic outcomes. Levine (2005) contends that financial systems affect growth by facilitating risk management and capital allocation. Diamond (1984) emphasizes delegated monitoring as a mechanism that enhances financial efficiency. Mishkin (2019) argues that intermediaries reduce adverse selection and moral hazard, thereby improving resource allocation. King and Levine (1993) highlight the importance of financial innovation in sustaining growth. Beck et al. (2000) demonstrate that countries with developed financial intermediaries experience higher rates of entrepreneurship and productivity. Gurley and Shaw (1960) stress the role of intermediaries in linking external capital to domestic investment. McKinnon (1973) further notes that financial repression weakens development outcomes. These perspectives are directly relevant to comparing banks, licensed money transfer operators, and mobile money platforms in determining how effectively diaspora remittances stimulate Kenya's economic development.

The theory provides a structured framework for analyzing how the efficiency, regulation, and depth of remittance transfer channels condition the relationship between remittance inflows and economic development. Levine (1997) and Levine (2005) argue that financial intermediaries influence growth through improved savings mobilization and capital productivity. Mishkin (2019) emphasizes that well-regulated financial systems support macroeconomic stability. Beck et al. (2000) link financial development to poverty reduction and income growth. Diamond (1984) explains how monitoring efficiency enhances trust in financial systems. King and Levine (1993) demonstrate that financial sector development precedes economic expansion. Shaw (1973) asserts that competitive financial markets accelerate capital formation. Therefore, Financial Intermediation Theory was chosen because it explains how differences in diaspora remittance

transfer channels can influence financial inclusion, investment behavior, and broader economic development outcomes in Kenya.

### **EMPIRICAL REVIEW**

Empirical evidence increasingly demonstrates that diaspora remittances interact with other external financial inflows in shaping development outcomes across emerging economies. Mary (2023) examined the joint influence of remittances and foreign direct investment (FDI) on sustainable development and financial stability, emphasizing how these inflows can either complement or offset each other depending on policy coordination. Using cross-country comparative analysis, the study found that remittances primarily supported household welfare, human capital formation, and poverty reduction, whereas FDI supported structural transformation through industrial growth, infrastructure development, and technology transfer. The findings suggested that when both inflows are managed within coherent regulatory and macroeconomic frameworks, they reinforce economic diversification and financial system resilience. However, weak institutional oversight and fragmented governance structures were found to increase dependency risks and macro-financial vulnerability. The study concluded that strategic alignment between remittance management and FDI policies is essential for sustaining inclusive development in emerging markets.

Country-specific studies also reveal that the macroeconomic effects of remittances vary depending on policy stability and structural conditions. In Nigeria, Eyo, Ugah, and Ogwihi-Ebelle (2025) analyzed time-series data from 1987 to 2021 using an Autoregressive Distributed Lag (ARDL) model to assess the short- and long-run relationship between remittances, exchange rates, and economic growth. The results indicated that while remittances contributed positively to growth in the short term, their long-term effect was negative but statistically insignificant. Exchange rate instability was identified as a major constraint on sustained growth performance. The study further observed that remittance impacts fluctuated across lag periods, reflecting the dynamic and time-sensitive nature of such inflows. The authors concluded that without macroeconomic stability and infrastructure investment, remittances may provide temporary relief rather than durable growth benefits.

At the household level, financial channel choice has been shown to influence the developmental returns of remittances. Abdul Mannan (2023), using instrumental variable estimation and propensity score matching on 2,165 remittance-receiving households, found that funds transmitted through bank accounts and mobile banking significantly increased account ownership and digital financial usage. Households receiving remittances via electronic banking platforms were substantially more likely to maintain savings accounts and engage in mobile transactions, thereby supporting formal saving behavior and reducing transfer frictions. In contrast, reliance on ATM-only withdrawals did not meaningfully expand financial inclusion. The study argued that channeling remittances into regulated banking and mobile wallet systems enhances deposit mobilization, supports microenterprise working capital, and expands the financial sector's intermediation capacity.

Complementary macro-level evidence from Inoue (2024) using system GMM on panel data from 123 developing countries between 2000 and 2020 demonstrated that both remittance inflows and digital financial inclusion independently reduced poverty. However, the interaction effect suggested partial substitution, indicating that the marginal poverty-reducing effect of one declined when the other was already high. The study interpreted this as evidence that mature digital payment

infrastructure reduces reliance on remittances for consumption smoothing, while large remittance volumes may diminish the incremental benefits of additional digital expansion. Nevertheless, the research affirmed that expanding regulated mobile and account-to-account transfer corridors supports integration into formal financial systems, where savings and credit linkages amplify long-term development gains.

Sectoral transmission mechanisms further highlight the role of formal transfer channels in amplifying economic multipliers. Kikkawa (2024) integrated household survey data with an input–output analytical framework to trace how remitted funds circulate across production sectors. The study found stronger output multipliers when remittances were deposited into formal banking accounts, as this facilitated access to credit products and savings instruments. In contrast, purely cash-based pickups generated weaker economy-wide spillover effects due to limited reinvestment capacity. The findings suggested that policies encouraging account crediting and wallet-to-account transfers deepen financial intermediation and increase the sustainable growth impact of remittances.

Regional evidence from sub-Saharan Africa reinforces the importance of formal channel utilization. Odhiambo (2024), using dynamic panel estimation across 26 countries from 1996 to 2022, demonstrated that remittances transmitted through regulated banking systems significantly enhanced private sector credit, domestic savings, and per capita income growth. The study highlighted that countries with strong financial regulation and correspondent banking networks experienced greater developmental returns from remittance inflows. Shifting remittances from informal networks to formal banking and mobile systems was found to support deposit mobilization and credit expansion, particularly for small and medium enterprises. The study concluded that lowering transaction costs and improving financial literacy are central to maximizing the growth-enhancing role of remittances.

Similar findings were reported in South Asia. Barkat (2024), applying structural equation modeling to panel data from Bangladesh, India, Pakistan, and Sri Lanka between 2000 and 2021, found that remittances transmitted through banks and digital platforms contributed more effectively to capital formation, human development, and entrepreneurship than informal channels. While informal transfers supported short-term household welfare, they lacked sustained investment effects. The study emphasized the importance of integrating digital payment systems with traditional banking frameworks to enhance transparency and reduce high service fees. Coordinated regulation and central bank collaboration were identified as critical for aligning remittance flows with national development priorities.

Finally, Mamvura, Sibanda and Rajaram (2024) examined remittance volatility and macroeconomic stability within Southern African Development Community (SADC) countries using a panel vector autoregressive model. The findings indicated that formal remittance flows through licensed operators and banks positively influenced liquidity conditions and financial market depth, thereby stabilizing economic performance. In contrast, volatility in informal remittances often triggered by exchange rate fluctuations and regulatory inconsistencies generated uncertainty and dampened investment incentives. The study recommended expanding digital interoperability and harmonizing regional payment systems to reduce volatility and support remittance predictability. The evidence across regions indicates that the developmental impact of diaspora remittances is significantly mediated by the transfer channels through which funds are transmitted.

## **METHODOLOGY**

This study adopted a desktop review research design anchored on financial development and development economics perspective, with the objective of synthesizing existing empirical and theoretical evidence on how diaspora remittance transfer channels influence economic development outcomes in Kenya. The reviewed secondary data sources to identify patterns, mechanisms, and documented relationships between remittance transmission channels such as commercial banks, licensed money transfer operators, mobile money platforms, and other regulated digital systems and indicators of economic development including GDP growth, financial inclusion, capital formation, poverty reduction, and macroeconomic stability. Relevant literature was identified through a structured and replicable search process using academic databases such as Scopus, Web of Science, Google Scholar, EconLit, and institutional repositories including the World Bank, International Monetary Fund, Central Bank of Kenya, KNOMAD, and UNCTAD. Key search words included diaspora remittance transfer channels, formal versus informal remittance systems, remittances and financial intermediation, digital remittances and economic growth, remittance regulation in Kenya, mobile money and development, and remittances in Sub-Saharan Africa.

Inclusion criteria focused on peer-reviewed journal articles, working papers, policy reports, and official statistical publications produced between 2000 and 2025 that examined the developmental implications of remittance channels using quantitative methods such as panel regression, ARDL models, system GMM, structural equation modeling, input–output analysis, and dynamic panel techniques, as well as qualitative institutional and policy evaluations. Studies were screened for methodological rigor, contextual relevance to Kenya or comparable developing economies, reliability of data sources, and clarity in distinguishing between formal and informal transfer mechanisms. Through thematic synthesis and comparative evaluation, the study categorized evidence based on channel type, regulatory environment, transaction cost structures, and development outcomes, enabling identification of convergent findings, divergent results, and existing conceptual and methodological gaps.

## **FINDINGS AND DISCUSSION**

The review revealed that the developmental impact of diaspora remittances is strongly conditioned by the transfer channels through which funds are transmitted rather than by aggregate inflow volumes alone. Across the reviewed studies, formal and regulated channels such as commercial banks, licensed money transfer operators, and digital platforms consistently demonstrated stronger and more sustained development outcomes compared to informal mechanisms. Mary (2023) showed that remittances, when managed within proper policy and regulatory frameworks, supports financial system resilience and economic diversification, particularly when aligned with complementary external inflows such as FDI. Similarly, Odhiambo (2024) established that remittances routed through formal banking systems significantly supported financial intermediation by increasing deposit mobilization and expanding credit to the private sector. These findings indicate that the structure and institutional embeddedness of remittance channels determine whether inflows merely support short-term consumption or stimulate broader economic transformation.

The study found that remittance effects on growth are highly sensitive to macroeconomic stability and exchange rate conditions. Eyo, Ugah, and Ogwihi-Ebelle (2025) demonstrated that in Nigeria, remittances had positive short-term growth effects but insignificant long-run impacts under

conditions of exchange rate instability. This suggests that even when remittance inflows are substantial, weak macroeconomic management can dilute their growth potential. Mamvura, Sibanda, and Rajaram (2024) further found that volatility in informal remittance flows contributed to macroeconomic uncertainty, whereas remittances channeled through regulated financial institutions enhanced liquidity and financial market depth. These findings collectively reveal that the predictability, regulation, and transparency of transfer channels significantly influence their macroeconomic contribution.

The review also indicated that financial inclusion outcomes are closely linked to channel choice. Abdul Mannan (2023) found that remittances transmitted through bank accounts and mobile banking significantly increased savings account ownership and active digital financial usage, thereby supporting formal financial participation. Inoue (2024) similarly established that regulated digital corridors complemented remittance inflows by integrating households into formal savings and credit ecosystems, which amplified poverty-reduction effects. In contrast, reliance on cash-based or ATM-only withdrawals did not generate meaningful expansion in financial inclusion. These findings indicate that digital and account-based remittance channels do more than transfer funds; they create financial footprints that enhance long-term economic engagement and asset accumulation.

Beyond household welfare, transfer channels influence sectoral multiplier effects and productive investment outcomes. Kikkawa (2024) demonstrated that remittances deposited into formal accounts generated stronger economy-wide output multipliers due to enhanced access to savings instruments and credit facilities. Similarly, Barkat (2024) reported that in South Asia, remittances transmitted through banks and digital platforms supported capital formation, micro-entrepreneurship, and human capital development more effectively than informal channels. Informal transfers were associated mainly with short-term consumption benefits without sustained investment effects. These results suggest that formal financial intermediation amplifies the productive potential of remittance inflows by linking them to broader capital markets and credit systems.

Furthermore, regulatory quality and institutional coordination mediate channel effectiveness. Mary (2023) emphasized that fragmented governance structures and weak oversight increase dependency risks and limit the sustainable integration of remittances into national development strategies. Odhiambo (2024) further showed that countries with strong financial regulation and correspondent banking networks achieved greater developmental returns from remittance inflows. Similarly, Mamvura et al. (2024) argued that digital interoperability and harmonized regional payment systems reduce volatility and support remittance predictability. These findings underscore that efficient transfer channels must operate within supportive regulatory frameworks to maximize development gains.

The review similarly established that the economic impact of diaspora remittances is not automatic but mediated by the characteristics of transfer channels, including cost efficiency, accessibility, regulatory compliance, digital integration, and financial intermediation depth. Formal banking systems and regulated digital platforms consistently demonstrated stronger associations with financial inclusion, deposit mobilization, credit expansion, poverty reduction, and macroeconomic stability. Informal channels, while sometimes cheaper or more accessible in the short term, were associated with weaker transparency, limited reinvestment capacity, and greater volatility. Collectively, the evidence suggests that supporting formal remittance corridors, reducing transaction costs, expanding digital infrastructure, and enhancing regulatory coordination are

central to ensuring that diaspora remittance transfer channels effectively promote sustainable economic development.

## CONCLUSION

Diaspora remittance transfer channels constitute a decisive structural determinant of how remittance inflows translate into economic development outcomes. While remittance volumes remain important, the evidence indicates that the institutional and technological channels through which funds are transmitted significantly influence their developmental effectiveness. Formal banking systems, licensed money transfer operators, and regulated digital platforms consistently show stronger linkages to financial deepening, investment expansion, and macroeconomic stability compared to informal mechanisms. Consequently, diaspora remittances cannot be viewed merely as private income transfers; rather, their economic value is mediated by the efficiency, transparency, and integration of the channels through which they enter the domestic financial system.

Remittance channels influence not only growth performance but also economic stability and resilience. Remittances transmitted through regulated and reliable channels enhance liquidity conditions, stabilize foreign exchange flows, and support financial market depth. In contrast, volatility associated with informal channels weakens predictability and reduces long-term investment incentives. Thus, the growth-enhancing potential of remittances depends significantly on macroeconomic coordination, exchange rate stability, and institutional capacity. Stable and transparent transfer corridors therefore function as macro-financial stabilizers that enhance the counter-cyclical properties of remittance inflows.

Moreover, financial inclusion is strongly conditioned by transfer channel choice. Bank-based and digital remittance systems integrate recipients into formal savings, credit, and payment ecosystems, thereby extending the developmental impact of remittances beyond immediate consumption. When remittances are credited directly into accounts or mobile wallets, they create financial histories that improve access to credit and expand deposit mobilization. Conversely, cash-based or informal pickup mechanisms generate limited financial footprints and restrict long-term intermediation benefits. Therefore, digital and account-linked channels amplify the inclusive development potential of diaspora remittances.

In addition, formal transfer channels generate stronger sectoral multiplier effects than informal systems. Remittances routed through regulated institutions are more likely to circulate within formal production networks, stimulate enterprise development, and support capital formation. By linking remitted funds to savings products, working capital financing, and investment instruments, formal channels deepen financial intermediation and expand productive capacity. Informal channels, although sometimes convenient in the short term, exhibit weaker reinvestment pathways and limited contribution to sustainable structural transformation.

Regulatory quality and institutional coordination are central to maximizing the developmental returns of remittance transfer channels. Countries with strong supervisory frameworks, reduced transaction costs, interoperable digital systems, and clear policy alignment experience stronger growth and financial inclusion effects from remittances. Weak regulatory environments, fragmented oversight, and high transfer costs, on the other hand, constrain channel efficiency and encourage reliance on informal systems. Therefore, governance structures serve as conditioning factors that determine whether remittance inflows are absorbed productively or remain confined to short-term welfare support.

Diaspora remittances become a transformative development instrument when embedded within efficient, regulated, and digitally integrated financial systems. The comparative evidence suggests that supporting formal remittance corridors, expanding digital interoperability, improving financial literacy, and aligning remittance management with broader economic policy frameworks are essential for enhancing sustainable economic development. Thus, the developmental impact of diaspora remittances is not inherent in the volume of inflows alone but is fundamentally influenced by the structure, regulation, and performance of the transfer channels through which they are channeled.

## **RECOMMENDATIONS**

Based on the review findings, the Government of Kenya and the National Treasury should strengthen policy coordination between remittance management and national development planning frameworks. Remittance inflows should be formally integrated into medium- and long-term development strategies, particularly within sectors such as infrastructure, affordable housing, manufacturing, and SME development. The government should establish structured remittance-backed investment vehicles, including diaspora bonds and targeted savings instruments that channel funds toward productive sectors rather than predominantly consumption activities. Clear fiscal incentives, such as tax concessions for diaspora-funded enterprises, should be introduced to encourage investment-oriented transfers. In addition, national planning frameworks should incorporate remittance data into macroeconomic forecasting and capital mobilization strategies to enhance policy alignment.

The Central Bank of Kenya (CBK) and other financial regulators should scale up regulatory oversight while promoting innovation in remittance transfer channels. The CBK should further reduce transaction costs by encouraging competition among licensed money transfer operators and digital payment providers. Regulatory frameworks should promote interoperability between mobile money platforms, commercial banks, and international remittance corridors to enhance efficiency and transparency. In addition, the CBK should strengthen supervisory mechanisms to discourage informal transfer systems that undermine financial stability and data accuracy. Clear compliance standards that balance anti-money laundering safeguards with user convenience should be enforced to enhance trust and promote formal channel adoption.

Commercial banks and licensed money transfer operators in Kenya should increase accessible and affordable remittance-linked financial products. Banks should develop low-cost diaspora accounts, investment savings plans, and remittance-backed credit facilities targeted at small and medium enterprises. Financial institutions should thus design digital onboarding processes to reduce documentation barriers that discourage formal participation. Furthermore, banks should collaborate with fintech providers to create seamless wallet-to-account transfer options that increase deposit mobilization and expand credit access. These institutions should also improve rural outreach through agency banking and digital kiosks to enhance geographic accessibility.

Mobile network operators and fintech firms should enhance digital infrastructure to maximize the development impact of remittances. Digital platforms should invest in improving network reliability, cybersecurity safeguards, and user-friendly interfaces to increase uptake across rural and low-income populations. Fintech providers should expand cross-border partnerships to reduce settlement times and lower service charges. In addition, mobile money platforms should integrate savings, microinsurance, and microcredit products within remittance wallets to deepen financial inclusion. Digital literacy programs should be rolled out in collaboration with community

organizations to ensure that recipients understand how to leverage digital transfers for long-term wealth creation.

The Ministry of Foreign Affairs and the Diaspora Affairs Unit should strengthen structured diaspora engagement initiatives. The government should institutionalize regular diaspora investment forums and provide transparent information on vetted investment opportunities within Kenya. Diaspora communities should be engaged in consultative policy dialogues to align remittance flows with national priorities. In addition, bilateral agreements with major remittance-sending countries should be strengthened to facilitate secure, low-cost, and regulated transfer corridors. Clear communication strategies should be adopted to encourage the use of formal and digital remittance channels.

Moreover, academic institutions and research agencies should conduct continuous monitoring and evaluation of remittance transfer channel performance. Research bodies should generate disaggregated data on channel usage, transaction costs, frequency patterns, and developmental outcomes to inform evidence-based policymaking. Longitudinal studies should be undertaken to assess how shifts from informal to formal channels affect financial inclusion, enterprise growth, and macroeconomic stability over time. Collaborative partnerships between universities, financial regulators, and development partners should be strengthened to enhance analytical capacity. Continuous empirical evaluation should guide reforms to ensure that diaspora remittance transfer channels effectively support sustainable economic development in Kenya.

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