CONTRIBUTIONS OF REMITTANCES TO AFRICA'S DEVELOPMENT: THE CASE STUDY OF KENYA

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ABSTRACT: *For many African households, remittances are a very important source of finance and foreign exchange, helping to supplement regular incomes and to build human capital. Remittance receiving households are typically better off than their non-receiving counterparts. Remittances increase household incomes and are therefore a powerful anti-poverty force in African countries. Given the diversity of the African region, the paper uses Kenya as a case study to enhance our understanding of remittance flows. Specifically, the paper looks at trends in Diaspora remittances, source markets for remittances, remittances as a share of Gross Domestic Product, and finally the uses of Diaspora remittance.*

Keywords: *Migrants, Africa, Kenya, Remittances*

INTRODUCTION

The number of African immigrants in Diaspora has increased steadily especially during the last three decades. The severe economic difficulties, increased poverty, and political instability that have plagued many African countries have resulted in the large scale migration of Africans to other countries outside the continent. "Unlike their counterparts in the 1960s and 1970s, who were anxious to contribute to the task of nation building, overwhelming bulks of recent immigrants were more interested in establishing permanent residence in overseas countries (Takongang, 2003)." Many of these immigrants act immediately when seeking an employment opportunity they can acquire. In most cases, these immigrants would use some of the money earned not only to support their families abroad, but also their relatives. According to Bodomo (2014), no one knows the exact amount of remittances Africans send home, since not all remittance go through official channels. The World Bank figures show that remittance to different regions in the Africa Hoover are between 1% and 5% of GDP, with West Africa receiving around 4% of its GDP in remittances. Total remittances to Africa stood at US 41.6 billion dollars in 2011, while in 2012 the figure rose to 60 billion dollars.

Until recently, the importance of remittances that migrants send to their home countries received minimal attention. Much of the attention has been dedicated to Foreign Direct Investments and Official Development Assistance. Nonetheless, in recent years, remittances allocated particularly to developing countries which have grown exponentially and will continue to increase in future. This has attracted the interests of many migration researchers. For example, "the 2013 Edition of World Banks' Global Development Finance (GDF) brought migrant workers' remittances to the attention of a broad audience of professionals and experts in development finance (Ratha, 2003). " Over the past few years, the Multilateral Investment Fund of the Inter-Development Bank has raised awareness about remittances in Latin America and the Caribbean. The general consensus among researchers is that remittances represent an outlet for reducing the scale and severity of poverty especially in developing countries. According to Ratha (2003), other than monetary gains, remittances are associated with greater human development outcomes across a number of areas such as health, education and gender equality. This money acts as a lifeline for the poor, increasing income for individuals and families. Also, there are other positive spillover effects with some of the expenditures made by the remittance received by households accruing to entire communities. It can be argued that the inflow of foreign exchange of migrants can increase the home country's creditworthiness and can allow them to gain more favorable terms of debt service, as lenders identify a lower risk of default. Since 2009, the "World Bank has revised its analysis of how much debt a country can carry at various levels of risk to include remittances so that countries with high remittance inflows can borrow more" (World Bank, 2013).

Sanders (2003), points out that Africa has received minimal attention in studies or discussions on remittances. This may be partly explained by the low share of remittances going to Africa (15%) in comparison with other developing regions, and by the small number of international migrants from Africa compared to migrants from other developing regions. Remittances in Africa are nevertheless an important financial inflow with significant developmental effects. The purpose of this paper is to enhance our understanding of the contributions made by remittances to Africa using Kenya as a case study. Four key questions will be addressed:

(1) What is the volume and source of remittances to Kenya from countries outside of Africa?
(2) To what extent do remittances contribute to economic development?
(3) How are remittances used?
(4) What can be done to increase the flow of remittances to Kenya?

In order to get a better understanding of remittance inflows to Kenya, it is important to have an understanding of the reasons why Kenyans have migrated to foreign countries. A brief historical background will provide a stage for understanding the reasons leading to contemporary migration flows. This is examined in the section below.

KENYAN DIASPORA: HISTORICAL BACKGROUND

Upon receiving independence in 1963, Jomo Kenyatta, the first president of Kenya initiated the rhetoric of education as the path to development, a belief that took hold in the country and remains virtually unchanged. In order to fulfill the country's urgent need for qualified native professionals and other technocrats in diverse fields, young Kenyans were sent abroad for higher education, many of them on government scholarships with guaranteed government jobs upon completion of their studies and return to the country. Most students went to Britain, United States, and the Soviet Union. "The United States Exchange programs such as the famed Kennedy Student Airlifts of the 1960s were successful in bringing a cadre of Kenyans for training in the United States (Okoth, 2003)." The Soviet Union made arrangements to have Kenyans trained in fields such as medicine, agriculture, engineering, and economics in East Germany, Cuba, Russia, and Ukraine. By the 1970s, India was also emerging as a favored destination for Kenyans eager to earn university credentials abroad, but unable to independently fund the higher expenses associated with the U.S, the Soviet Union, and the United Kingdom.

The second president of Kenya, Daniel Moi, who came to power in 1978, followed in the policy footsteps of President Kenyatta. Moi began with a consolidation of free universal primary education. Under president Moi, educational opportunities at all levels increased dramatically, but could not match the needs of the country's growing population. The competition for minimal vacancies at Kenya's universities left many Kenyans in the 1980s and 1990s with no option but to pursue educational opportunities abroad. During this time, the United States has consistently attracted Kenyan students and continued to harbor them because many Kenyans believe that the U.S. had many more opportunities for employment. While in the United Kingdom, their attractiveness to Kenyan students diminished because of their strict rules against the employment of foreign students, the U.S. was quite advantageous.

Apart from the shortages of educational opportunities, another factor behind outward migration from Kenya since the mid 1980s has been the stagnation of the economy. "Vital sectors such as tourism took a serious beating due to government mismanagement. Others, such as textiles and manufacturing collapsed completely, unsupported by inefficient government policies and bogged down by widespread corruption, tribalism and nepotism (Okoth, 2003). " The government was unable to recruit or maintain enough teachers, police officers or doctors. Morale amongst underpaid civil servants and other government employee professionals diminished drastically. Qualified secondary school and university graduates found themselves idled and frustrated, or took up menial jobs in order to survive. Majority of Kenyans saw their standard of living deteriorate steadily beginning in mid 1980s through 1990s. Public spending on health and education at all levels suffered the largest budget cuts and many civil servants were laid off.

After an unsuccessful military coup in 1982, President Moi ruthlessly consolidated his power and for more than ten years; there was a strong coordinated elimination of crucial political freedoms and a transfer of power from all branches of government to the executive branch. The constitution was amended under President Moi's rule turning Kenya into a de jure single party state, and paving the way for the political, economic, and judicial persecution of many perceived enemies of the state. Many intellectuals not closely tied to the then ruling party KANU and President Moi's ethnic Kalenjin community, were forced into exile in such countries such as Sweden, Britain, United States and Canada.

The above political and economic circumstances led to a shift in the perceptions of migrants towards circular migration. Throughout the 1960s and 1970s, Kenyans were engaged predominantly in circular migration in order to search of higher education and advanced training abroad, which was then later applied to nation building through employment in Kenya. According to Hugo (2003), this trend shifted to a one way mass exodus to the political and economic stability of foreign lands in the 1980s and 1990s. "Faced with great uncertainty at home, many Kenyan families that could afford the initial financial costs began to view the sending of one or more of their family members abroad on a long term or permanent basis as an investment or a form of economic insurance (Kahura, 2003)."

International migration has become a strategy for individuals and families in Kenya to cope with poverty and the economic crisis. Migrants attempt not only to improve their own livelihoods, but they also send a considerable share of their earnings back to their families in Kenya. The importance of remittances in Kenya is supported by the numerous money transfer institutions and the rapid increases in both international and local remittances.

REMITTANCE FLOWS TO KENYA

"Remittances refer to money or goods that are transmitted to households by migrant workers working outside their country of origin (Adams and Quecueacha, 2010)." According to Business Daily (2013), remittances are a major source of foreign exchange in Kenya after tea, horticulture and tourism. A survey of 2,424 Kenyan adults by the World Bank in 2010 yielded the following results: 14% of Kenyan adults received remittances regularly, the recipients get money from their family members on average seven times per year, the average received each time was U.S. $105, 38% said their relatives were in North America; 12% in Asia/Middle East, 25% in Europe, 25% in other African countries. While these amounts may not be noteworthy to an average middle class American, they are of imperative importance in Kenya and to people were a few hundred dollars can determine livelihood or education.

Trends in Diaspora Remittances

The Central Bank of Kenya (CBK) conducts a survey on remittance inflow every month through the formal channels that include commercial banks and other authorized international remittances and service providers such as Western Union and Money Gram. A review of available data shows that remittances have been on an upward trend in the last few years. **Figure 1** shows that remittance inflows increased by 55% from U.S. $574 Million in 2007 to $891 in 2011. The Central Bank of Kenya believes that mobile phone companies' partnership with international money transfer players such as Western Union has made it cheaper and more convenient to send money.

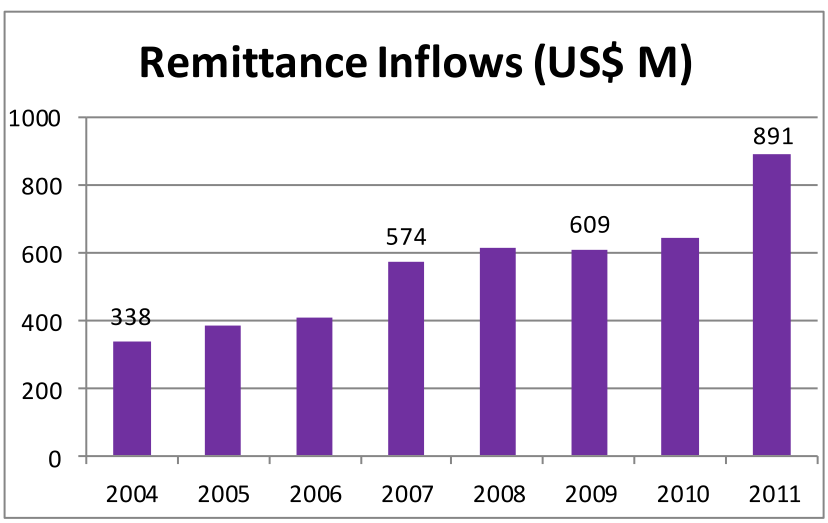

Figure 1. Source: Government of Kenya Vision 2030

The main source markets for remittances to Kenya are North America and Europe with an average of 51% and 28% of the total remittances between 2007 and 2011 **(Figure 2).** According to the Herald (2013), North

America has retained its position as the leading source of remittances accounting for 49% of total remittances for February 2014, while Europe and the rest of the world accounted for 27% and 24% respectively **(Table 1).** North America's dominant position is a reflection of the large number of Kenyans with gainful economic activities in the region.

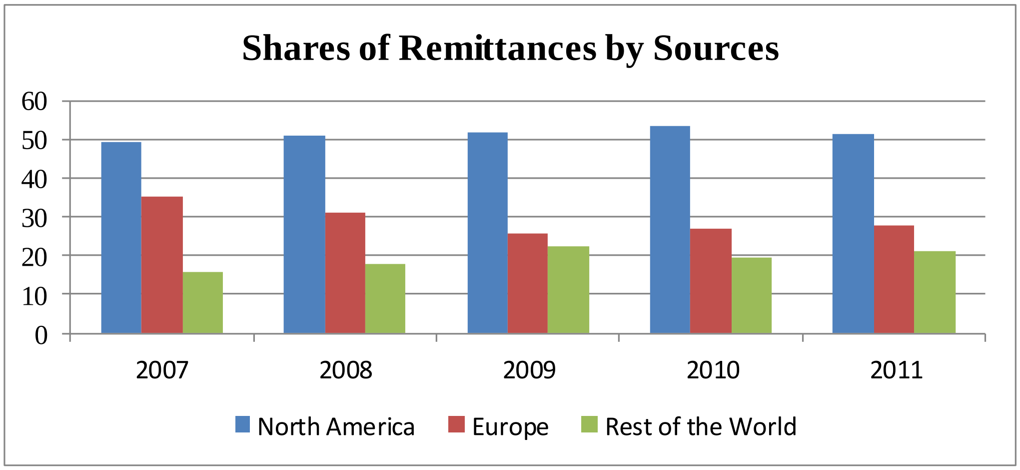

Figure 2. Source: Government of Kenya Vision 2030

Table 1. Source: World Bank, 2010

Remittance Inflows to Kenya (US $ Million) by Region				
	North America	**Europe**	**Rest of the World**	**Total**
Dec 2013	56.0	30.49	26.72	113.2
Jan 2014	56.04	28.94	25.89	111.0
Feb 2014	54.59	29.94	25.89	110.4
% Shares of Remittances by Region				
Dec 2013	48.38	27.86	23.76	100
Jan 2014	48.41	27.78	23.80	100
Feb 2014	48.56	27.68	23.76	100

Remittances as a Share of Gross Domestic Product (GDP)

According to Simiyu (2013), remittances constitute an important source of income for a majority of Kenyan households. The World Bank (2011) reported that the steady increase in inward remittance flows to Kenya reached U.S. $1.7 Billion in 2009, representing 5.4% of Kenya's GDP, which is significantly higher than the official aid related flows to the country. The wealth of Kenyan Diaspora is significant, estimated at 5.4% of Kenya's GDP in 2010 making Kenya among the highest recipients in Sub-Saharan Africa (**Figure 3).**

Uses of Diaspora Remittances

Kenyans abroad have been sending money to help their relatives back home meet consumption as well as investment needs. A study by the World Bank (2010) reported that households have been making productive investments in land, housing, businesses, farm improvements, agricultural equipment accounted for 55% of total remittances**.** This can be compared to remittances spending on consumption activities such as food, marriage/funerals, and rents of 21% (Table 2).

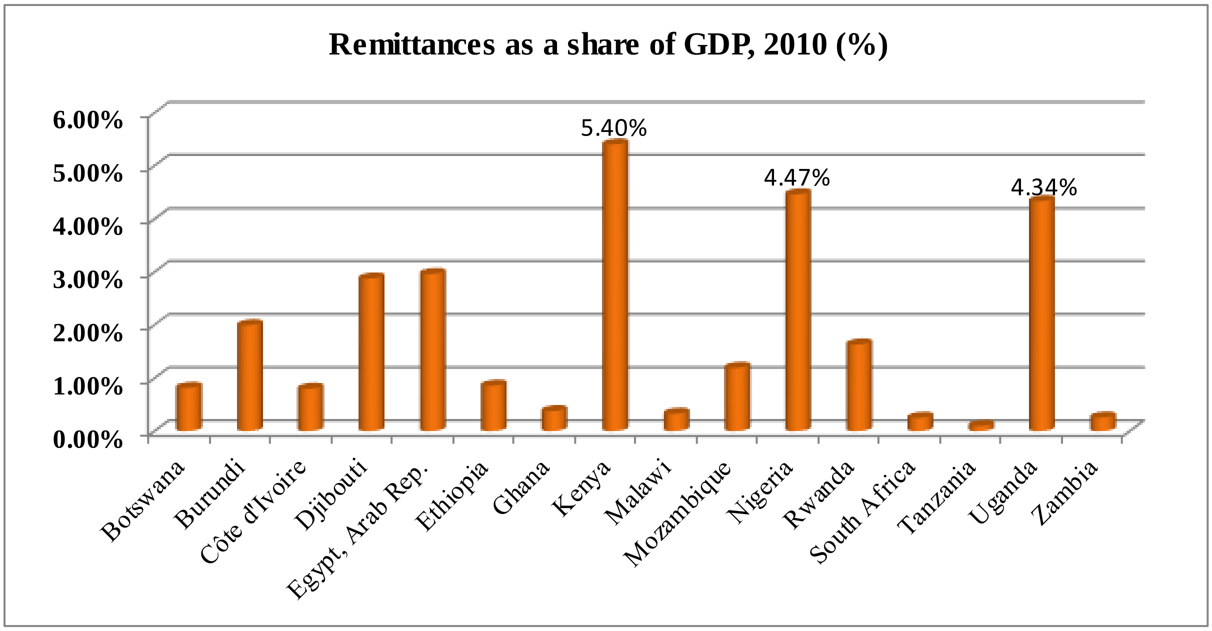

Figure 3. Source: Government of Kenya Vision 2030

Kenyans living abroad have recently shifted the use of cash sent home as remittances from the traditional consumption of investing particularly in the real estate sector. According to Kigunda (2012), the opening up of investment opportunities to citizens by the government, plus the rapid growth and the revolution brought about by mobile money transfer, has been cited as the reason for the increase in remittance inflow and more investments established in the country. These increments in cash sent home by Kenyans living abroad and the huge investments going on is a result of an aggressive campaign by the government to encourage the Diaspora community to give back to the society. The campaign is also in a bid to tap remittance inflows into the country and into the formal economy, where it's easier to quantify and utilize these resources for the nation's common good. According to experts, the huge inflows of remittances in Kenya has forced the government to provide recipients with many options to put their money; to change the idea that money is only for consumption. For instance, the government has tried to formalize the use of remittances through offering Diaspora Infrastructure Bond to encourage the Diaspora community to invest in the country's infrastructure. Because of this, the Kenyan Diaspora has started to invest in the Savings Development Bond.

Table 2. Source: World Bank, 2010

Uses of Diaspora Remittances in Kenya	**(% of total remittances)**
Construction of a New House	11.2%
Food	12.8%
Education	9.6%
Health	7.3%
Business	3.9%
Clothing	0.05%
Marriage/funeral	0.9%
Rent/house, land	5.7%
Rebuilding of Home	5.3%
Cars/trucks	1.3%
Purchase of land	8.4%
Improvement of Farm	2.3%
Investment	24.2%

CONCLUSIONS AND RECOMMENDATIONS

Remittance in flows to Kenya has steadily increased in recent years; particularly from Europe and North America. Due to the huge sums involved, remittances are now being recognized as an important contributor to Kenya's growth and development. Remittances sent to Kenya are used the following ways:

(1) Supporting domestic investments (such as buying land, housing, agricultural improvement).
(2) Meeting household consumption needs (such as food, clothing school fees for children)
(3) Financing both short term and long term development projects (such as real estate, businesses)
(4) Providing money for families during a crisis/natural disaster (such as war, violence, drought)

The government of Kenya has realized that although remittances are private funds, they can be maximized for proper development and poverty reduction. In this regard, they have sought to promote Diaspora participation on a national scale. However, there is need to provide the Kenyan Diaspora information on the investment opportunities available in different sectors of the economy. The government of Kenya needs to improve consular services so that they can effectively address the issues created by Kenyan Diaspora's.

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