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POLITICAL STABILITY, MONEY REMITTANCE FACTORS AND THE GROWTH OF THE FINANCIAL SECTOR IN KENYA

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ABSTRACT

The aim of the study was to establish the moderating effect of political stability on the relationship between money remittance factors and the growth of the financial sector in Kenya, this study adopted a descriptive research design. The population of this study consisted of all the 18 money remittance companies operating in Nairobi as of 31st December 2019. SPSS software version 21 was used for the process of data analysis and report processing. Quantitative data were presented through statistical techniques such as tables and bar charts while descriptive data was be presented descriptively. The results showed that there is a need of ensuring political stability to ensure growth in the financial sector.

Keywords: *Political stability, Money remittance factors & Growth*

1.0 INTRODUCTION

Background of the study

Money remittance refers to financial services that involve the acceptance of cash, cheques, other monetary instruments, or other stores of value and the payment of a corresponding sum in cash or another form to a beneficiary through a communication, message, transfer, or through a clearing network to which the service provider belongs (Azam, 2015). Transactions performed by such services can involve one or more intermediaries and final payment to a third party and may include any new payment methods. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including hawala, hundi, and fei-Chen (Theingi et al., 2017).

The World Bank estimates that remittances to developing countries were at $436 billion in 2014, a 4.4 percent increase over the 2013 level. Recent research shows that these remittances are as important as direct investment flows and have grown at a faster rate than the amount of official development assistance. While remittances have gained increasing interest from both economists and policy makers, there is far less consensus about the factors that influence remittances in migrant-sending areas and countries. Remittance inflows into Sub-Saharan Africa are not only from developed countries. It is estimated that about 20% of Sub-Saharan African migrants are within the region and also remit regularly (Barajas *et al., 2018*). As of the end of 2006, 33% of remittance inflows within Sub-Saharan Africa were from South Africa, 18% from Cote D'Ivoire, 11% from Uganda, 7% from Angola, 4% from Botswana, and 27% from other sources in the region (Theingi et al., 2017).

The Irish Diasporas that spread across the British Empire supported rural communities in Ireland and became their most important source of capital after the Great Famine of 1846 to 48. Current interest in remittances has been high and has led them to be dubbed the new development finance. As rich nations increasingly open, their borders to foreign nationals at any time, remittances to poor countries will soar. For example, from 1980 to 1990 remittances to developing countries soared from US$ 17.7 billion to US$ 30.6 billion, and nearly US$ 80 billion in 2002. This is an indication of a percentage of approximately 7.3 percent yearly increase while from 1990 to 2002, the percentage increase is that of 13.45 percent yearly increase (Kratou & Gazdar, 2015).

The biggest source of foreign exchange for poor countries has been remittances because the above-mentioned short calculations show that the remittances from the rich countries have emerged as an important source of foreign exchange for poor countries. Remittances were double the amount of foreign aid and ten times higher than the net private capital transfers in 2001 knowing that the net private capital transfers are the product after deducting all financial flows, such as interest payments and profit repatriation. Lower and/or lowest middle-income countries are the main beneficiaries of remittances, especially those with a gross national income per capita between $736 and $2,935 receive nearly half of all remittance's world (Azizi, 2020). According to Quartey et al. (2019), innovations in the financial sector are the arrival of a new or better product and/or a process that lowers the cost of producing existing financial services. Huay et al. (2019) also note that innovation in the financial services sector has led to recent fundamental changes including; deregulation, increasing competition, higher cost of developing new products and the rapid pace of technological innovation, more demanding customers, and consolidation of corporations.

According to Dary and Ustarz (2020), the developing countries overcome the high poverty levels and improve the standard of living needs a substantial inflow of external resources to fill the savings and foreign exchange gaps. This will increase the rate of capital accumulation and growth. One of these external resources is remittances. Remittances are not only a source of foreign exchange but also have become the second-largest source of external finance for developing countries after foreign direct investment (FDI). Remittances have been found to enhance growth through human capital accumulation and can mitigate poverty by increasing the recipient family's income and living standards.

Dary and Ustarz (2020) state that the African diaspora currently consists of more than 160 million individuals living outside their countries of origin. IFAD estimates that these migrants jointly contribute about US$40 billion in remittances to their families and communities back home every year. Particularly in these times of financial turmoil, workers' remittances are being recognized for their contribution to the economic health of the region's nations, as well as for their vital importance to recipient families. For the region as a whole, remittances far exceed official development assistance, and for many countries, they exceed foreign direct investment as well. With investment and aid flows heavily under pressure as a result of the financial crisis, remittances remain a resilient and vital lifeline for tens of millions of African families. Nevertheless, despite the significant direct impact of remittances on the lives of recipients, these flows are not yet reaching their full development potential.

According to Awad and Sirag (2018), In India people working abroad sent more money home to the low- and middle-income countries in 2018 than ever before, and the biggest individual chunk went to India: a total of $79 billion, equal to nearly 3% of the country's GDP. The Philippines, meanwhile, received an equivalent of about 10% of its GDP in remittances. Eliminating flows to China, remittances to low and middle-income countries in 2018 were knowingly larger than the $344 billion in total foreign direct investment flows that year. This year, these remittances are poised to grow even further, to $550 billion - making them the single biggest source of external funding for recipient economies. The World Economic Forum has used World Bank data to build a visualization of global remittance flows, to help convey both their magnitude and their necessity for the less fortunate all over the world. India regularly tops the list of remittance-receiving nations due to its big diaspora and migrant workforce.

As summarized by Gautam (2017) money transferred through financial institutions paves the way for receivers to request and access other financial products and services. Moreover, providing remittance transfer services permits banks and financial institutions to collect recipients' information, which is important for mitigating adverse selection problems. They noted that remittance networks can be used to sell financial service packages geared toward low-income individuals. This discussion takes on special importance in the case of Kenya, where cross-border remittance transactions have been widely transformed using mobile phone technology. Kenya is one country used as a worldwide example of what adopting technology can achieve, as with its well-known M-Pesa products. An international remittance allocation service is one such product with considerable potential to reach millions of people, including low-income and unbanked populations in rural areas.

Statement of the Problem

Remittance flows to Kenya constitute about 3.0% of the nation's GDP based on 2018 estimates (CBK, 2019). They are Kenya's largest source of foreign exchange, ahead of tea, horticulture, and tourism. Remittances in Kenya averaged $79,815,980 from 2004 until 2017, reaching an all-time high of $185503870 in October 2017 and a record low of $25,154,000 in January 2004 (CBK, 2017). Unfortunately, in 2020, lockdown measures instigated in many countries due to the COVID -19 pandemic initiated many migrants to lose their jobs, subsequently reducing remittance flows to developing countries. In 2020, the World Bank estimated a historical deterioration in global remittances of about US$110 billion, with Sub-Saharan Africa (SSA) expected to experience a decline of about 23.1% (Ouyang et al., 2018). Previously, remittances in Kenya have been on the rise over the years. According to CBK regulations, the number of outlets in place, the volume of transactions, and money laundering issues remain some of the factors that influence the performance of the sector.

There is limited transparency in the informal remittance market and informal transfers are very difficult to track. Thus, informal remittance statistics are based on questionnaires and surveys as a basis for projections, which vary widely depending on the source of estimations and the underlying assumptions. The World Bank Group's suggestions are somewhat in the middle of other assessments and indicate that the informal sector is about half the size of the formal remittance sector in 2016 (Asongu et al., 2019). The formulation of new rules on anti-Money Laundering and Financing of Terrorism standards by the CBK is in most cases seen as part of the regulator's effort to curb money laundering, require operators of cash remittance firms to register with CBK and pay an Sh5 million licensing fee in addition to maintaining a minimum core capital of Sh20 million (CBK 2014). However, trading using the money remittance systems remains informal and this raises questions regarding the safety and intended nature of transactions that are conducted therein, some of which might have sinister motives such as money laundering and financing of terrorist activities. The informal nature of the system also translates to the lack of appropriate legislation which leaves the sector unregulated.

However, even though remittances take place and their prospective influences on financial sector development, few country-specific studies have empirically studied the remittance-financial development connections in the African region. Moreover, no agreement exists concerning the impact or direction of the relationship between remittances and financial development. Preceding studies on remittances have focused on remittances and the growth of the economy and have overlooked the channels through which money remittances affect economic growth (Ajide & Olayiwola, 2021). The limited studies that have deliberated on these channels have mainly focused on investment and consumption channels, disregarding those that could promote financial development. Some studies, such as that by Ontunya (2006) surveyed consumer adoption of mobile phone banking in Kenya; Otieno (2008) did a study on the challenges in the implementation of mobile banking Information systems in commercial banks in Kenya; Macharia (2019) studied the effect of electronic banking on the operating costs of commercial banks in Kenya while Mugane and Njuguna (2019), conducted a study on mobile banking services with financial performance on commercial banks in Kenya. Misati, Kamau, and Nassir (2019) undertook a study to find out if migrant remittances matter for financial development in Kenya. Little was known

about the moderating effect of political stability on the relationship between money remittance factors and the growth of the financial sector in Kenya.

Research Hypothesis

The study sought to test the following hypothesis:

Ho1 Political stability does not have a significant moderating effect on the relationship between money remittance factors and the growth of the financial sector in Kenya.

2.0 LITERATURE REVIEW

Money Remittance Factors

Regulations that restrict, limit or authorize institutions to carry out foreign currency transfers include those regulating foreign currency management and authorizing institutions to perform foreign currency transactions. The decision to allow a particular institution to perform international money transfers is instrumental to expanding financial access for remittance senders and recipients. Authorized paying institutions African countries primarily authorize banks, and secondarily foreign exchange bureaus, to perform international foreign currency payments. Of the 50 countries reviewed, eight authorize banks only, and 32 authorize banks and foreign exchange bureaus (Alice, 2014).

Six countries allow banks, foreign exchange bureaus, and MFIs to pay out directly, and four allow the above plus retail locations to pay remittances. For countries with a low number of banks, this restricts access to international payments and creates an incentive to use informal methods of money transfer. Currently, 80 percent of the banks in 39 African countries pay remittances, but the percentage jumps to 90 percent in countries where only banks are allowed to pay. This situation strongly discourages other market actors from entering the market. In countries where only banks are authorized to perform money transfers, there are fewer places to withdraw remittances. Market entry is complicated further when only a limited number of MTOs have effective control of the available bank agents paying remittances. In countries where only banks are authorized to pay remittances, half are agents of Western Union. The combination of exclusivity agreements and restrictive regulation leads to the concentration of payments in a few MTOs. Several countries have banned such exclusivity agreements, including Nigeria (Mniwasa, 2019).

Fehling (2019) suggests that money remittance potential for financial accessibility to finances is considered a key determinant to business success. One challenge posed by financial sectors is the lack of securities to act as collateral to access finances especially from mainstream financial institutions such as the banking sector. Considerably higher bank charges are among the factors that have contributed to low enrolment rates in the financial sector. Lack of an account with the bank to make savings is a contributory factor limiting the capability to access finances. Aslam et al. (2021) state that money remittances were originally designed to help microfinance institutions streamline their operations, raising efficiency and boosting business growth. Mobile payment platforms allow for the sender to immediately receive confirmation data of the recipient as the receiver is getting the payment. This information is stored within the phone short message service (SMS) storage option allowing for future retrieval and tracking if the need arises. Additional

information services that can be made through money remittance include requests for and viewing of bank statements, requesting for bank balances, and many more.

Blauw and Franses (2011) studied the impact of money transfer companies on the economic development of households in Uganda. They examined the impact of money transfer companies on the economic development of individual households. Unique cross-sectional data 18 were collected in personal interviews with heads of households (N=196) in Uganda. Economic development was measured at the household level by the Progress out of Poverty Index. They found strong support that mobile phone use positively impacts economic development. Malakoutikhah (2020) find that the introduction of mobile phones reduced price dispersion in fish markets in India and grain markets in Niger respectively. In these instances, mobile phone technology has increased information flows, which has resulted in price reductions. In contrast, the development and introduction of Mpesa in Kenya can be viewed as a "disruptive technology" or an example of "creative destruction", where MPesa revolutionized the money transfer industry. MPesa became the dominant money transfer mechanism within 2 years of its inception.

Van Hove and Dubus (2019) explored Mpesa and financial inclusion and mobile money and socioeconomic development in Kenya and Sub-Saharan Africa. The study found ethnographic evidence that MPesa has changed the savings behavior, the pattern of remittances, and has increased rural livelihoods. While these studies provide suggestive evidence of the impacts of MPesa, they are generally unable to quantify the effects of the system and are limited by their small sample sizes. Available data from World Bank indicates that increased penetration of money remittance especially mobile money has made Kenya financial transactions up to 20% of National GDP. This effect can be replicated in the financial sector industry. With increased financial transactions, more money is spent on business transactions, giving the financial sector increased accessibility to financial services for savings and micro-credits. These services have a net effect of improved financial sectors business performance and competitiveness.

The volume of Transactions may influence exchange rate operations since they can affect the supply and demand for foreign currency. While informal hawala and other IFT transactions are conceptual parts of the national balance of payments (BOP) accounts, the accurate compilation is highly unlikely. Published BOP accounts contain little numerical-and certainly no identifiable traces of this system and, thus, their consequences are difficult to explore (Nessa, 2021).

Chauhan (2015) found that estimating the size of hawala and other transactions cannot be undertaken with any reliability. Despite the difficulty of this task, certain judgments can be made about the possible dimensions of hawala, and there are some approaches to quantification that can give indicative results. Using a select sample of 15 countries, a simulation model in the paper suggests that informal transfers in these countries have declined over time as countries liberalized their financial systems. The use of IFTs for criminal purposes is not taken into consideration in the simulation.

When comparing remittances estimates over time, it is important to note that the documented growth in remittances globally in recent years may have derived from changes in how remittances are measured, rather than actual increases in such financial flows. Almost 80 percent of the increase in recorded remittances during the period 1990—2010 may be accounted for by changes in measurement, and only a fifth may reflect changes due to higher numbers of international migrants and the incomes they are likely to be earning in destination countries. In addition, both

reporting of remittance transactions has been improved and migrants have increasingly used more formal payment methods as informal channels decreased as part of anti-money laundering measures (Pal & Pal, 2019).

It is also important to keep in mind that IMF and World Bank estimates focus on remittances transferred through official channels, such as banks. Not all small transactions by migrants conducted via money transfer operators (such as Western Union), post offices, mobile transfer companies (like MPesa in Kenya) are included in all the countries, neither are informal transfers (such as via friends, relatives, or transport companies returning to the origin community), depending on the sources of data used by different central banks. As these transfers that are not systematically included in the balance of payments can be significant in volume, in particular in the context of South-South corridors, the official figures are likely to under-report the phenomenon by as much as 50 percent. Due to the largely unknown scope of informal transfers, some countries, in particular in sub-Saharan Africa, do not report remittances figures to the IMF in their balance of payments. Data on remittances also vary from country to country due to differences in the availability of data, national legislative and policy frameworks, using citizenship instead of residency status in the definition, and the simplification of processing the data (Rehman et al., 2020).

Hawala are some of the most popular informal money transfer systems. They have been used for a long time, and there are reasons why they still represent an interesting choice for customers. First of all, compared to formal channels, they are cheaper and simpler to use, mostly because they do not need particular formalities to be done; this is why they number at least 30 percent of the money transfers that flow from Italy to abroad (Jaffery et al., 2020). However, all these aforementioned systems work similarly, mostly because they are based on unwritten rules or trust. On the other hand, informal channels are less secure than formal ones, especially in terms of uncertainty about costs, times, and the potential risk of losses faced by customers. Moreover, there is no written agreement, so customers cannot prove the existence of the transaction and, finally, legal authorities cannot monitor and control cash flows made through these informal channels. These unmonitored circuits of financial exchanges and transfers of funds present huge risks both in terms of money laundering of cash that has an illicit origin or in terms of funds related to international terrorism. We tend to underestimate the financial side of terrorist attacks that can have such a devastating impact – Charlie Hebdo, the Bataclan, or the 2007 London underground attack are just a few examples illustrating that huge funds are not needed (Naheem, 2019).

Exceptional financial businesses have for several years played an accumulative role in providing certain types of services, including money remittance (MR), foreign currency exchange (CE), and the organization of means of payment to an assortment of actors. The globalization of financial markets and the progress of information technology have made the movement of funds globally easier and have thus further prompted the growth of these specialized financial services (FATF, 2010). While AML/CFT regulators presume banks to have robust and effective risk-based controls, they do not expect banks to be able to avert all money laundering activities from occurring (Lee, 2017). Developments in both private-sector financial technology (FinTech) and technology enhancing public sector regulatory compliance (RegTech) offer remarkable promise for expansion and the reinforcement of the global financial system. By hugely reducing the cost of availing of financial services, FinTech makes critically expanded and sustainable financial inclusion a genuine goal. Similarly, more automation, basic operational processes, and more detailed and less costly

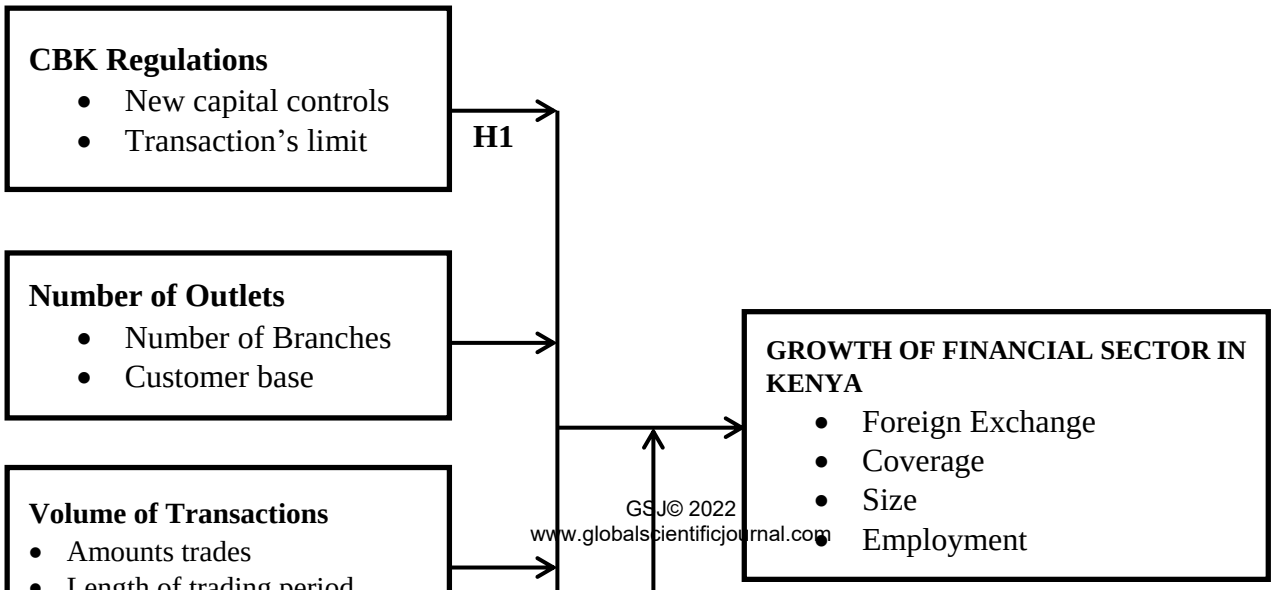
analytics create the prospective to enable superior transparency while maintaining or improving personal confidentiality and security of financial activity. Such transparency will in turn support enriched financial regulation and supervision as well as consumer protection (Esoimeme, 2018).

Political Stability

Political stability as determined by specific indicators refers to a qualitative assessment of the political ability in a country to support the needs of its people (Bratton, 2010). Political stability is derived from five sub-indicators, measuring the likelihood of social unrest, the strength of constitutional mechanisms, accountability, international disputes, and the likelihood of an antagonistic opposition. It is perceived to be among the twenty-two (22) indicators of peace measured by the Global Peace Index. It is an "internal" indicator of peace, meaning it measures peace within a country. Political instability in the governments creates uncertainty for business and investors which may, in turn, reduce investment and the speed of economic development, poor economic performance, and eventual government collapse and political unrest.

Political stability is connected to the voting procedure as it determines the issues of public accountability and transparency in government procedures, rule of law, and public-sector management are emphasized (Kapur, 2009). Political instability can be caused by many factors, including conflict between rival political parties, insufficient internal resources, and the proximity to other nations in conflict. Political instability may occur when there is a sudden change that leaves citizens in doubt about their nation's situation and may even lead to general revolt or sporadic mass demonstrations. This means that a country's leadership can be responsible for political instability when they hold onto power for too long amidst opposition or enact controversial legislation. Political instability can also be caused by a conflict between two or more ethnic groups within a nation or Community. Some of the documented indicators for political stability as defined by Olorunmola (2016) include the following: The practice of and respect for rule of law and the privileges and liberties of the citizens, low levels of corruption and efficient management of the public fund, free and fair elections in the country, low unemployment, and a generalized low poverty levels, suppression of other hostile parties by the presiding government. As a result, members of the opposition parties are deliberately targeted and prosecuted for no apparent reason, Transparency, respect, and tolerance for the views and opinions of others; ethnic prejudices have over the years and clear electoral processes that are adhered to and respected by all consistently.

Figure 1: Conceptual Framework



H2

H3

Dependent Variable

Moderating Variable

Independent Variable

3.0 METHODOLOGY

Research Design

This study adopted both exploratory and correlation research designs. Exploratory research is conducted for a problem that has not been clearly defined. Through exploratory research design, the hypothesis was tested, definitive conclusions were drawn with extreme caution. Correlation research design was used to show relationships between two variables thereby showing a cause-and-effect relationship, predictions of a future event, or outcome from a variable (McDonald, 2017).

Target Population

The population of this study consisted of all the 18 money remittance companies operating in Kenya as of 31st December 2019 as shown in appendix I. The headquarters of all the money remittance companies was in Nairobi. The population consisted of all the Money remittance companies licensed and governed by the CBK Act CAP (491) 2013. A census of the 18 money remittance companies will be conducted. Five respondents were picked per company as the target population who included the firm owners, finance managers, operation managers, customer care, and tellers to reduce bias that would have been caused if one respondent is to be picked per Remittance Company. This made the total target respondents' population 90 as shown in Table 1.

Table 1: Sample Size

	MRP	Unit of observation	Unit of analysis
1	Amal Express Money Transfer Ltd	11	5
2	Amaana money Transfer Ltd	10	5
3	Bakaal Express Money Transfer Ltd	7	5
4	Continental Money Transfer Ltd	15	5
5	Dahabshill Money Transfer Ltd	8	5

6	Flex Money transfer Ltd	9	5
7	Global Money Transfer Limited	8	5
8	Hodan Global Money Remittance and Exchange Ltd	10	5
9	Iftin Express Money Transfer Ltd	11	5
10	Juba Express Money Transfer Ltd	8	5
11	Kaah Express Money Transfer Ltd	6	5
12	Kendy Money Transfer Ltd	9	5
13	Real Value Money Transfer Ltd	8	5
14	Safaricom Money Transfer Services Ltd	10	5
15	Tawakal Money Transfer Limited	8	5
16	UAE Exchange Money Remittace Ltd	11	5
17	Upesi Money Transfer Ltd	12	5
18	Mobex Money Transfer Services Ltd	9	5
	Total	**170**	**90**

Data Collection Instruments

Primary data was collected through a questionnaires that was administered to senior management of the money remittance companies. The questionnaire had both open-ended and closed-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that was not captured in the close-ended questions.

Methods of Data Analysis

Smith (2015) defines data analysis as a systematic manipulation, processing, arrangement, and organization of data to produce meaningful information. Data gathered using the questionnaires were analyzed quantitatively using analyzed by both descriptive statistics and inferential statistics. SPSS version 26 which generates both descriptive and inferential statistics were employed. Descriptive statistics including the mean and standard deviation were used to capture the characteristics of the variables under study. Descriptive analysis is defined by Nachmias and Nachmias (2008) as statistical procedures that are used to describe the population one is studying. They also contended that descriptive statistics use graphical and numerical summaries to give a picture of a data set. Inferential statistics were used in the study.

Effect of CBK regulations on financial sector growth

To test the effect of CBK regulations on the growth of the financial sector, inferential statistics namely; regression analysis and correlation analysis were used. The following linear regression model was used in the determination of coefficients of the predictor variable (CBK regulations) in relation to the dependent variable (growth of the financial sector).

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

Where: Y = Growth of the financial sector; X_1 = CBK regulations; and ε = Error term

In the model, $\beta 0$ = the constant term while the coefficient $\beta_i i$ was used to measure the sensitivity of the dependent variable (Y) to a unit change in the predictor variable while ε is the error term that captures the unexplained variations in the model. Results were presented in form of tables. T-test and F- Statistic at 5% level of significance were used to examine the significance of the model.

4.0 RESULTS

Response Rate

The number of questionnaires, administered to all the respondents, was 90. A total of 80 questionnaires were properly filled and returned from the respondents. The results were presented in Table 2. The results represented an overall successful response rate of 88.8%. According to Mugenda (2008), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Therefore the researcher accepted the response rate as being appropriate for further analysis.

Multiple Linear Regression Model - Moderation Analysis

The study was to establish the moderating influence of political stability on the relationship between money remittance factors and the growth of the financial sector in Kenya. As underscored by Baron and Kenny (1986), to assess the moderating effect, the study applied the hierarchical regression method. Baron and Kenny (1986) defined a moderator as a variable that affects the direction and or strength of the relationship between a predictor and a criterion variable. The hypothesis is stated thus;

> ***HO: Political stability does not have a significant moderating effect on the relationship between money remittance factors and the growth of the financial sector in Kenya.***

Regression Results of the Moderation effect

In the first step [Model 1], regression analysis was used to examine the effect of money remittance factors [CBK regulations, number of money remittance outlets, volume of transactions, and money laundering] on the growth of the financial sector in Kenya by assessing the contribution of money remittance factors on growth. In the second step [Model 2], regression analysis was used to examine the effect of money remittance factors [CBK regulations, number of money remittance outlets, volume of transactions, and money laundering] on the growth of the financial sector by assessing the contribution of money remittance factors on growth after including the interaction terms.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711[a]	.505	.479	.68844
2	.722[b]	.521	.489	.68141
3	.737[c]	.544	.492	.67926
a. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions, and money laundering				
b. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions, and money laundering				

c. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions and money laundering, and the interaction terms

From the results in Table 2 [Model 1], the R-square for the association between money remittance factors [CBK regulations, number of money remittance outlets, volume of transactions, and money laundering] and performance is 0.505. This implies that money remittance factors can only explain 50.5 % of the variation in growth. The remaining 49.5% of variation can be explained by other factors affecting growth. The R square value is an important indicator of the predictive accuracy of the equation. These findings imply that money remittance factors play a significant role in enhancing growth.

From the results in Table 2 [Model 2], the R-square for the association between money remittance factors [CBK regulations, number of money remittance outlets, volume of transactions, and money laundering] and growth after including the interaction terms is 0.521. This implies that money remittance factors and the interaction terms can only explain 52.1% of the variation in growth. The remaining 47.9% of variation can be explained by other factors affecting growth. The R square value is an important indicator of the predictive accuracy of the equation. These findings imply that money remittance factors and the interaction terms play a significant role in enhancing performance, R square change is 0.017 i.e. [0.521 – 0.505].

ANOVA for Moderation Effect

Analysis of variance (ANOVA) was used in this study to establish the significance of the regression model. The statistical significance was regarded as considerable if the p-value was less or equal to 0.05. Both models 1 and 2 had p values less than 0.05.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.253	4	9.063	19.123	.000[b]
	Residual	35.547	75	.474		
	Total	71.800	79			
2	Regression	37.441	5	7.488	16.127	.000[c]
	Residual	34.359	74	.464		
	Total	71.800	79			
3	Regression	39.041	8	4.880	10.577	.000[d]
	Residual	32.759	71	.461		
	Total	71.800	79			

a. Dependent Variable: growth

a. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions, and money laundering

b. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions, and money laundering

c. Predictors: (Constant), CBK regulations, number of money remittance outlets, the volume of transactions and money laundering, and the interaction terms

The findings in Table 3 illustrate the results of the regression models with a p-value of 0.000 which is less than 0.05. The results also demonstrate that the regression model was statistically noteworthy in predicting the dependent variable. The ANOVA results indicate that F-critical (4, 79) was 2.49 while the F-calculated was 19.123 for model 1. Also, the ANOVA results indicate that F-critical (5, 79) was 2.33 while the F-calculated was 16.127 for model 2. Lastly, the ANOVA results indicate that F-critical (8, 79) was 2.06 while the F-calculated was 10.577 for model 3. This shows that F-calculated is greater than the F-critical; therefore there is a positive significant linear association in predicting the dependent variable. This means that when there is variation in the independent variables, there is a considerable variation in growth. Also, the p-value was 0.000, which is less than the significance level (0.05).This goodness of fit of the model predicting the positive and significant influence on growth.

Table 4: Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	.808	.394		2.049	.044
	CBK regulations	.305	.083	.334	3.694	.000
	Number of transactions	.413	.107	.443	3.842	.000
	Money laundering	.296	.099	.319	3.002	.004
	Number of outlets	.370	.127	.344	2.918	.005
2	(Constant)	1.123	.437		2.569	.012
	CBK regulations	.010	.147	.010	.066	.947
	Number of transactions	.394	.107	.423	3.682	.000
	Money laundering	.370	.127	.344	2.918	.005
	Number of outlets	.413	.107	.443	3.842	.000
	Political stability	.100	.063	.132	1.599	.114
3	(Constant)	.824	.354		2.327	.023
	CBK regulations	.201	.092	.233	2.183	.032
	Number of transactions	.328	.113	.352	2.896	.005
	Money laundering	.293	.134	.254	2.183	.032

	Number of outlets	.201	.092	.233	2.183	.032
	Political stability	.358	.119	.332	3.002	.004
	Pol*CBK Reg	-.174	.076	-.229	-2.285	.025
	Pol*Numb	.305	.083	.334	3.694	.000
	Pol*Volt	.480	.113	.447	4.231	.000
	Pol*MoLa	.296	.099	.319	3.002	.004
a. Dependent Variable: Growth						

The results in Table 4 shows that interaction terms had a significant effect (P values > 0.05). Money remittance factors (Predictors) and political stability (moderator) are significant with the interaction terms added, implying that moderation occurred, the main effects are also significant. The equation for regression of the moderating effect of political stability on the relationship between money remittance factors and growth of the financial sector in Kenya is shown below:

$$Growth = 0.824 + 0.201X_1 + 0.328X_2 + 0.293X_3 + 0.201X_4 + 0.358X_5 - 0.174X_6 + 0.305X_7 + 0.480X_8 + 0.296X_9 + \varepsilon$$

Where: X_1 = CBK regulations; X_2 = Number of transactions; X_3 = Money laundering; X_4 = Number of outlets; X_5 = Political Stability; X_6 = Pol*CBK Reg; X_7 = Pol*Numb; X_8 = Pol*Volt; X_9 = Pol*MoLa

5.0 CONCLUSION AND RECOMMENDATIONS

A moderating relationship was confirmed when political stability moderating effect was assessed in the relationship between money remittance factors and growth of the financial sector in Kenya. In the study, political stability explained 54.4% of the growth with a p-value of 0.000, which was a strong association. From these outcomes, the study confirmed that money remittance factors affected growth with this relationship being moderated by political stability. The research findings provided a set of important implications for both scholars and practitioners, especially those interested in understanding and expanding their knowledge of money remittance within the financial sector growth discourse. It is recommended that there is a need for ensuring there is political stability to ensure growth of financial industry.

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