

Remittances, Financial Institutions and Economic Growth in Eastern Africa

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Abstract

This paper investigates remittances, financial Institutions and economic growth in Eastern Africa, focusing on the interaction between remittances and financial institutions, as well as the role of institutional quality and governance. Remittances are a crucial financial flow for many developing economies, and their potential to contribute to economic growth is significant. However, the extent to which remittances foster growth in Eastern Africa largely depends on the strength of financial institutions and governance systems. The findings indicate that while remittances positively influence economic growth, their full potential is undermined by weak financial infrastructure and poor institutional quality in many countries in the region. The study emphasizes the importance of strengthening financial institutions to improve access to credit and other financial services, particularly for remittance-receiving households. It also highlights the need for better governance and the reduction of corruption to create a conducive environment for remittances to be effectively utilized. Additionally, promoting financial literacy among remittance-receiving households is essential for maximizing the productive use of these funds. To enhance the impact of remittances on economic development, governments are urged to create policies that encourage investment, especially in sectors like small and medium-sized enterprises (SMEs), agriculture, and infrastructure. Finally, continuous monitoring and evaluation are recommended to assess the effectiveness of policies and track remittance utilization. By addressing these areas, Eastern African countries can fully leverage remittances to drive sustainable economic growth.

Keywords: Remittances, economic growth, financial institutions, governance, Eastern Africa, institutional quality, financial literacy, investment.