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EFFECTS OF INSTITUTIONAL REFORMS ON FINANCIAL SECTOR DEVELOPMENT IN SELECTED EAST AFRICA COMMUNITY MEMBER STATES

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Effects of Institutional Reforms on Financial Sector Development in Selected East Africa Community Member States

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Abstract

Purpose: The purpose of the study was to investigate the effect of institutional reforms on financial sector development in selected East Africa community member states.

Methodology: Secondary panel data were collected from electronic secondary sources such as World Bank, International Monetary Fund, Central Banks, previous surveys, financial reports and regulatory authorities' data bases in the respective countries for the periods spanning from 1987 to 2016. An exploratory study design involving econometric analytic techniques was used to analyze the data collected. In this study, panel data model was used to analyze panel data and estimate the effects of institutional reforms on financial development in Kenya, Uganda and Tanzania.

Results: The findings indicated that regulatory quality and access to information have a significant effect on financial sector development in Kenya, Uganda and Tanzania. In addition the study found out that corruption had a negative and significant effect on financial sector development in Kenya, Uganda and Tanzania. The study concluded that regulatory quality and access to information are important aspects in financial sector development. However corruption slows down the development of the financial sector. In addition, institutions play a key role in financial sector development.

Unique contribution to theory, practice and policy: In light of the research findings, the study recommends that suitable institutional changes ought to be started so as to enhance transparency and responsibility of open establishments, common administration, upholds strict controls and prudential guide for business exercises.

Keywords: *Institutional reforms, Financial sector, East Africa community member states.*

1.0 INTRODUCTION

Financial sector plays a key role in promoting economic growth and development. Currently, nations are in their interest to balance out the institutional condition in order to encourage strong business trust in the financial segment (Manasseh, Asogwa, & Attama, 2014). To foster financial reforms, institutional development such as infrastructural development, control of corruption, regulatory quality and access to reliable financial information cannot be overstressed as a catalyst for financial sector development not only in East Africa but also worldwide (Rao, Abida, Rabia & Aisha, 2010). Improvement of money related markets and foundations are useful in lessening poverty because they promote long-term economic growth. An established financial sector results to accessibility of financial services and also adds to economic growth (McDonald & Schumacher, 2007).

Financial institutions have created cutting edge products and have advanced a broad variety of services with the aim of becoming more competitive. Financial sectors in developed countries are said to be developed thus are efficient in facilitating resource mobilization which enhance economic growth while most of the third world and developing countries, have less efficient and under developed financial sectors that have lower levels of banking intermediation (Kar, Nazlıoğlu & Ağır, 2011).

Institutional reform is the way toward reviewing and restructuring state establishments with the goal that they regard human rights, safeguard the rule of law, and are responsible to their constituents. By consolidating a transitional equity component, change endeavors can both give responsibility to single culprits and cripple the structures that enabled abuses to happen (Sabel & Simon, 2004). Institutional reform can incorporate numerous equity related measures, for example, vetting, structural reform, oversight, changing lawful structures, demilitarization, grounding, and reintegration and training. Institutional reforms which affect financial sector might take diverse structures starting with one nation then onto the next. Many developing countries especially those in sub-Saharan Africa executed financial sector reforms as part of a wider market place oriented economic reforms (McDonald & Schumacher, 2007).

Financial sector reforms have benefited many countries in support of positivism on reforms on regulating financial sector operations in various areas. Reforms can lead to availability of specialized financial intermediation institutions and also attract funds from savers of surplus funds. Financial intermediation helps to motivate savers of funds to supply capital and banks having a positive and significant impact on cultivating competitiveness and performance of the sector (Sunil & Bisheng, 2007). At the same time institutional reforms are likely to minimize the destruction of the local budgetary markets and subsequently prompt enhanced allocative proficiency and speedier yield development in the financial sector. However, reforms are considered to be harmful if there are no pre-requisite conditions to support the reforms. Therefore Success or failure of reforms programmes depends on many contextual factors in the industry environment (Ioannidou & Penas, 2010).

Kenya has been reported to have improved outcomes on financial sector as result of various reforms than the rest of the countries in Africa. In terms of physical infrastructure whilst Kenya has few bank branches relative to its population, the growth in ATMs, in agency banking and mobile payments suggests it is doing relatively well due to formulation of laws and policies which

promote financial development. The safety and soundness of financial service providers is improving with much wider prudential regulation, but much more is required to build core capacity across a large range of different institutional players (Putin, 2011). Further, Credit Reference Bureaus (CRBs) have been set up. These CRBs, launched in July 2010, and are being used by many institutions. Through the CRBs, banks are able to know the credit history of loan applicants and make informed decisions on probability of loan repayments by the customers. Despite undertaking the market oriented reforms, results show marginal gains in with economic growth and investments (Central Bank of Kenya, 2010).

Despite the comprehensive reviews and studies on of links between financial sector development and economic growth, there are limited studies in Kenya and regionally which have comprehensively assessed the aim of institutional reforms on financial sector development in the region. This aspect has been inadequately researched which presents a missed opportunity for financial sector development. Emergence of new institutional financial reforms with far reaching effect such as capping of interest rates in Kenya, regional integration and increasing corruption rates across the region continues to face myriad of challenges as well as opportunities which affects both financial and economic development of a country. Each of the East Africa community countries especially Kenya, Uganda and Tanzania has experienced many similar reforms in the financial sector which has a regional effect both economically and financially. Therefore, the region provides a suitable opportunity for examining the effect and extent to which the institutional reforms have affected financial sector development in the region.

1.2 Statement of the Problem

In the East Africa region, there have been many institutional reforms that have been undertaken to foster financial sector development. These reforms are closely linked to economic growth of the countries. Reforms include improved regulatory framework, access to financial information, control of corruption, maintenance of rule of law and promotion of investor's protection (Yartey, Charles & Amo, 2010).

However, despite the many institutional reforms carried out, the East Africa's frontier market economy is not yet at the same level as other emerging financial sectors in other developing nations such as South Africa and Ethiopia. Subsequently, the financial sector's contribution to real GDP growth rate in Kenya, Uganda and Tanzania remains unimpressive. For instance, in Kenya, despite her advanced frontier market economy, the contribution of the financial sector to the real GDP has dropped from 6.5 percent in 2006 to 6.2 percent in 2015 (Republic of Kenya, 2014). In addition, two measures of the depth and coverage of financial systems that is the ratio of M2 to GDP and private credit to GDP remains far below that of other developing nations in Africa (Republic of Kenya, 2014). This means that institutional reforms have not made significant contribution to the financial sector development (Odhiambo, 2011).

Further, despite of many studies on economic and financial development in the region (Yartey, Charles & Amo, 2010; Manasseh, Asogwa, & Attama, 2014; Demetriades & Fielding, 2009), evidence of effect of institutional reforms on financial sector development is both insufficient and inconclusive. Therefore, this study seeks to investigate the effects of institutional reforms on financial sector development in Kenya, Uganda and Tanzania and make suggestions for improvement.

1.3 Objectives of the Study

The general objective of the study was to investigate the effect of institutional reforms on financial sector development in selected East Africa community member states.

1.3.1 Specific Objectives

The specific objectives of study were to:

- i. Examine the effects of reforms in regulatory quality on financial sector development in selected East Africa community member states;
- ii. Determine effect of reforms in accessing reliable information on financial sector development in selected East Africa community member states;
- iii. Establish the effect of reforms intended to reduce corruption on financial sector development in selected East Africa community member states.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 McKinnon-Shaw Model

McKinnon and Shaw (1973), analyzed the benefits of financial repression, at least reducing its impact on the domestic financial system within developing countries. Their analyses concluded that alleviating financial restrictions in such countries can exert a positive effect on growth rates as interest rates rise toward their competitive market equilibrium. According to this tradition, artificial ceilings on interest rates reduce savings, capital accumulation, and discourage the efficient allocation of resources. Additionally, McKinnon (1973) pointed out that Financial Repression can lead to dualism in which firms that have access to subsidized funding will tend to choose relatively capital-intensive technologies; whereas those not favored by policy will only be able to implement high-yield projects with short maturity.

In relation to this study the underlying assumption is, of course, that saving is responsive to interest rates. The higher saving rates would finance a higher level of investment, leading to higher growth. This theory is deemed relevant to this study since it explain growth-inducing effects of financial liberalization. The theory argues that the financial sector could raise the volume of savings as well as the quantity and quality of investment.

2.1.2 Asymmetric Information

The theory of asymmetric information was developed in the 1970s and 1980s by George Akerlof (1970), Michael Akerlof (1970) and Greenwald and Stiglitz (1990) as a plausible explanation for common phenomena that mainstream general equilibrium economics couldn't explain. In simple terms, the theory proposes that an imbalance of information between buyers and sellers can lead to inefficient outcomes in certain markets (Akerlof, 1970). Akerlof (1970) stated that car buyers see different information than sellers, giving sellers an incentive to sell goods of less than average market quality. He used the colloquial term "lemons" to refer to bad cars and it espouses a belief that buyers cannot effectively tell lemons apart from good cars. Thus, sellers of good cars cannot

get better than average market prices. This argument is similar to the since-challenged Gresham's law in money circulation, where poor quality drives out bad.

Akerlof (1970) models employees as uncertain investments for firms; the employer is unsure of productive capabilities when hiring. The model then compares this situation to a lottery. Spence (1973) identifies information asymmetries between employers and employees, leading to scenarios where low-paying jobs create a persistent equilibrium trap that discourages the bidding up of wages in certain markets. It's with Greenwald and Stiglitz (1990), though, that information asymmetry has reached mainstream acclaim. Through their work, asymmetric information was placed into contained general equilibrium models to describe negative externalities that price out the bottom of markets. For instance, the uncertain health insurance premium needed for high-risk individuals causes all premiums to rise, forcing low-risk individuals away from their preferred insurance policies.

According to the development hypothesis theory, lack of a developed financial infrastructure restricts financial sector development hence economic growth. Thus, the focus of policy at each point in time should be to ensure that the financial system operates efficiently such that the real sector will receive the necessary support. The acceptance of the hypothesis theory made economic theorists to conclude that a measure of intervention is important and in fact necessary for meaningful growth. Various policies should thus be put in place to encourage and promote the activities of financial institutions in this regard (Nzotta & Emeka, 2009).

2.1.3 Financial Repression Theory

Developed by McKinnon and Shaw (1973), the theory posits that financial repression is correlated with sluggish growth in developing countries. Such economies are typically characterized by high and volatile inflation and distorted interest and exchange rate structures, low savings and investments and low level of financial intermediation, as interest rates do not reflect the cost of capital.

Other schools of thought believed that financial development follow economic growth while others refuted the ideology. According to the demand following hypothesis economy expands as its demand for certain financial instruments increases which in turn lead to financial development (Gelb, 1989). Conversely, law and finance theory in it view, argued profusely that institution is a forerunner to financial development, especially those protecting private property right of investors in explaining international differences in financial development. This law holds that in countries where legal systems enforce private property rights, support private contracts, and protect the legal right of investors, savers/lenders tends to be more eager to finance firms, which reciprocate the promotion of financial development (Thorsten & Levine, 2005).

Specifically, legal theories highlighted two inter-related mechanism through which legal origin influences financial development; political mechanism and protection of private contracts rights (Hayek & Friedrich, 1960). The political mechanism argued that legal traditions differ in terms of the importance they attach to private property rights of the State and the protection of private contracts rights that forms the basis of financial development. However, Merryman (1985) added that legal traditions differ in their ability to evolve with changing conditions and legal traditions

that adapt efficiently to minimize the gap between the contracts needs of the economy and the legal system's capabilities will foster financial development more effectively than rigid legal systems.

2.1.4 Financial Development Theory

This hypothesis was first put forth by Schumpeter (1911) and later supported by the works of Shaw and McKinnon (1973), Gupta (1984), Fry (1988), Jovanovich and Greenwood (1990) and Smith and Bencivenga (1991). The theory posits that a strong developed sector of finance facilitates vital services that reduce transaction, information and monitoring costs and enhance the effectiveness of intermediation. As such it identifies and funds good business projects, mobilizes savings, enables trading and risks diversification, promotes exchange of services and goods, monitors the performance of managers. All these services results in effective allotment of resources; lead to a quick increase of human and physical capital; and enable faster technological innovation. This eventually brings the outcome into faster and long-term economic growth (Schumpeter, 1911).

Besides, intermediation of finance is a practice that entails surplus component deposit finances with institutions of finance that loan to deficit component. Bisignano in (1992) recognized the intermediaries of finance may be differentiated in four categories. Firstly, the major category of deposits or liabilities is precise for a predetermined sum that is not associated to a portfolio performance. Secondly, deposits are characteristically considered to be temporal compared to the assets. Thirdly, a high quantity of its liabilities is liquid that can be withdrawn as demanded; fourthly, assets and liabilities for the most part are not convertible. The vital influence of intermediaries is a stability and stable movement of finances from surplus then to deficit components.

According to Wensveen and Scholtens (2003) the function of the intermediary of finance was fundamentally more specific to commodities of finance. Every time an intermediary realized they could sell them at prices which will cover all the cost associated with their production which are both opportunity costs and direct costs. Market imperfections created the existence of financial intermediaries. Hence, in a situation of a perfect market, where there is no information or transaction, there would be no existence of financial intermediaries. Differences of information between sellers and buyers dominated numerous markets. Bias information is noticeable in financial markets. Typically, borrowers are aware of their industriousness, collateral and moral integrity well enough than the lenders. Pyle and Leland (1977) found out that entrepreneurs are informed of private information regarding their viable projects they need to finance. Information transfer among participants in the market is vital factor for ventures of better quality to be well financed however the moral hazard poses a bottle neck to its flow.

2.2 Empirical Review

Miletkov and Babajide (2008) conducted a study on legal institutions, democracy and financial sector development. The study used descriptive research design. The study found a connection between the nature of lawful organizations and financial sector development while discoveries demonstrate no relationship. The study concluded that that adjustment in the nature of lawful organization doesn't foresee changes in the level of money related advancement. The study focused on legal institutions, democracy and financial sector development thus presenting a conceptual gap.

Anayiotos and Toroyan (2009) conducted a study on institutional factors and financial sector development: evidence from Sub-Saharan Africa. The study used descriptive research design. The study found that profundity of credit data has the most grounded effect on the non-performing advance, while political soundness influences access to financial services the most. In view of these discoveries, they presumed that organizing institutional change upgrade financial sector improvement for one nation and nation gatherings. This infers nations willing to diminish non-performing advance with the assistance of institutional changes ought to think about setting up credit registries, increment straightforwardness and measure of shared data.

Angelopoulos, Economides and Vassilatos (2010) conducted a study how institutions matter for economic fluctuations in Mexico. The study used descriptive research design. The study found that data revelation assumes a vital part in deciding financial advancement. For example, nations where companies distribute moderately thorough and precise financial statements have preferable created financial intermediaries over nations where distributed data on organizations is less dependable. Such data gives the premise to settling on choice seeing monetary issue. The study was conducted in Mexico thus presenting a scope gap. The current was conducted in Kenya.

Gries and Meierrieksy (2010) examined part of institutional quality on budgetary advancement in 19 Sub-Saharan Africa nations utilizing a period crossing from 1984 to 2007. The study showed that a few factors related with high institutional quality apply a positive causal effect on monetary improvement. The study used desktop research design and concluded that enhancements in institutional quality, for example, access to dependable data, administrative quality and political security can help advance monetary improvement through money related improvement.

Sanusi (2011) conducted a study on banking reforms and economic development in Nigeria. The study used panel data analysis. The study found that the principle factors of financial development are connected to money related markers, macroeconomic execution and foundations quality which uncover the significance of institutional factors on financial sector improvement. The study was conducted in Nigeria while the current study was conducted in Kenya.

Hami (2017) conducted a study on the effect of inflation on financial development indicators in Iran (2000–2015). The study used panel data to do the analysis. The results showed that inflation has a negative significant effect on financial depth and also positive significant effect on the ratio of total deposits in banking system to nominal GDP in Iran during the observation period. The study focused on inflation as the only factor that affects financial sector development.

3.0 METHODOLOGY

Secondary panel data were collected from electronic secondary sources such as World Bank, International Monetary Fund, Central Banks, previous surveys, financial reports and regulatory authorities' data bases in the respective countries for the periods spanning from 1987 to 2016. An exploratory study design involving econometric analytic techniques was used to analyze the data collected. In this study, panel data model was used to analyze panel data and estimate the effects of institutional reforms on financial development in Kenya, Uganda and Tanzania.

4.0 FINDINGS AND DISCUSSIONS

4.1 Descriptive Statistics

4.1.1 Descriptive Statistics for Variables

Descriptive for GDP per capita, trade openness, inflation, domestic credit to private sector and broad money in Kenya, Uganda and Tanzania were computed.

Table 1: Descriptive statistics for Kenya, Uganda and Tanzania

Variable	Obs	Mean	Std.dev	Min	Max
Domestic credit to private sector by banks	90	12.187	6.130	2.782	25.850
GDP Per capita	90	511023	555099	6204.052	1994375
Trade Openness	90	18.486	6.080	7.063	38.904
Inflation	90	70.878	45.629	3.794	166.622

The results in Table 1 revealed that the mean domestic credit to private sector in Kenya, Uganda and Tanzania was 12.187. The minimum reported domestic credit to private sector was 2.782 while the maximum was 25.850. The domestic credit to private sector was spread within a standard deviation of 6.130 and this implies that there was a wide spread of reported domestic credit to private sector from the mean domestic credit to private sector.

Results further revealed that mean GDP per capita in Kenya, Uganda and Tanzania was 511023. The minimum reported GDP per capita was 6204.052 while the maximum was 1994375. The GDP per capita was spread within a standard deviation of 555099 and this implies that there was a wide spread of reported GDP per capita in Kenya, Uganda and Tanzania from the mean GDP per capita.

Further, the mean trade openness in Kenya, Uganda and Tanzania was 18.486. The minimum reported trade openness was 7.063 while the maximum was 38.904. The trade openness was spread within a standard deviation of 6.080 and this implies that there was a wide spread of reported trade openness from the mean trade openness.

The mean for inflation in Kenya Uganda and Tanzania was 70.878. The minimum reported inflation was 3.794 while the maximum was 166.62. The inflation was spread within a standard deviation of 45.629 and this implies that there was a wide spread of reported inflation in Kenya from the mean inflation. Trend analysis results were presented as follows:

4.1.2: Trend Results

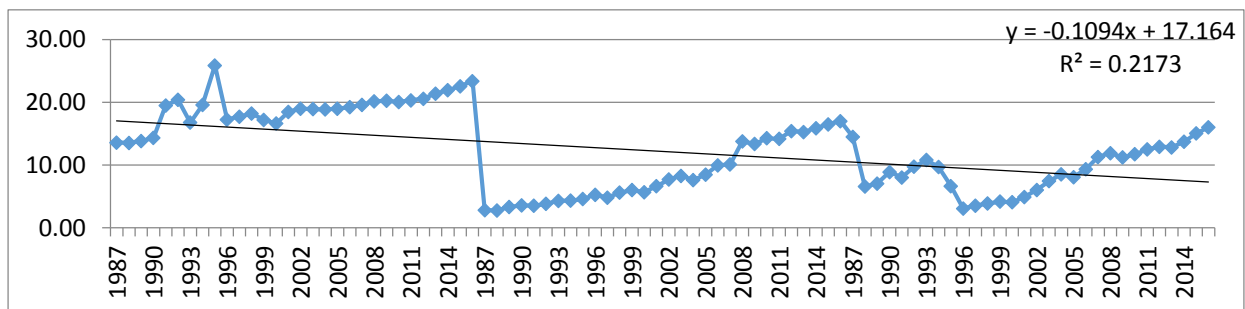


Figure 1: Domestic Credit to private sector by banks

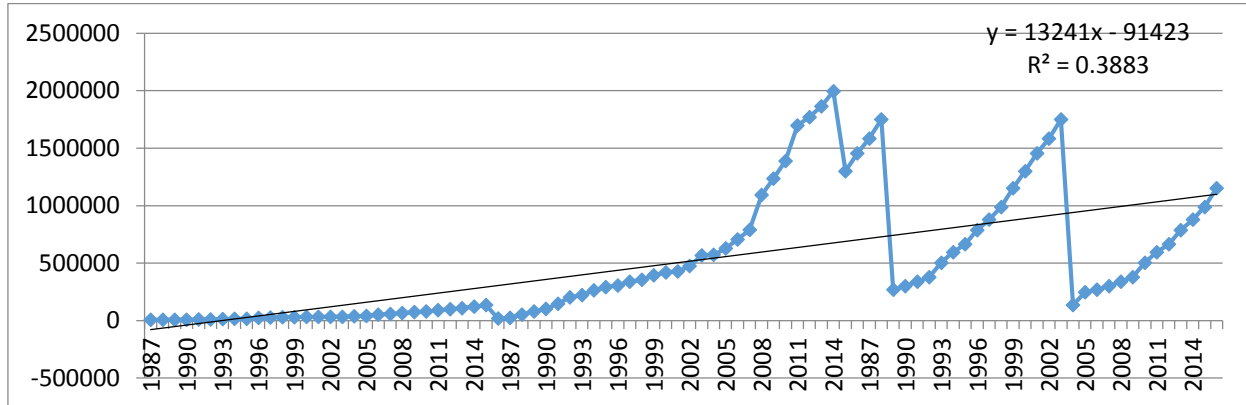


Figure 2: GDP per Capita (LCU)

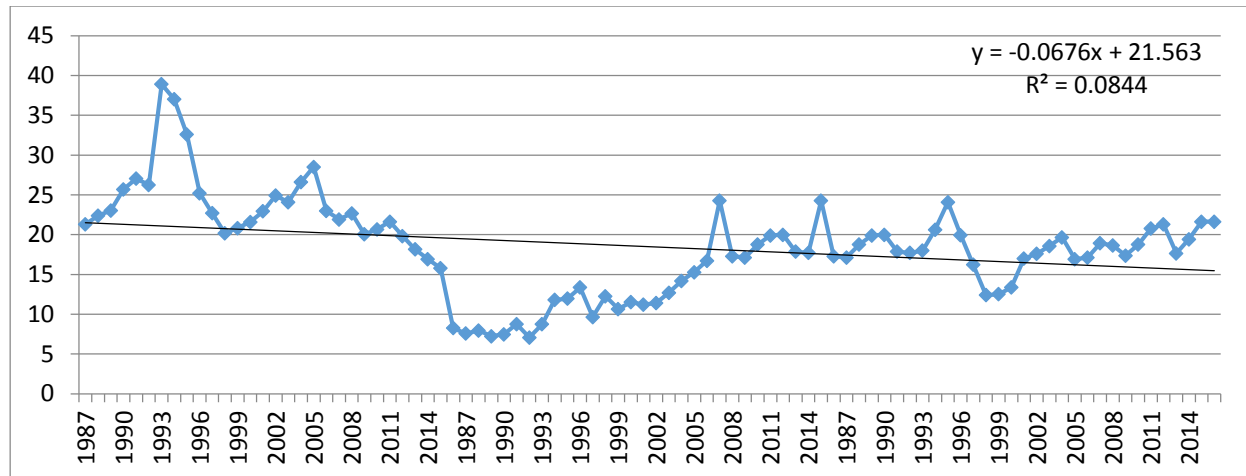


Figure 3: Export of goods and services (% of GDP)

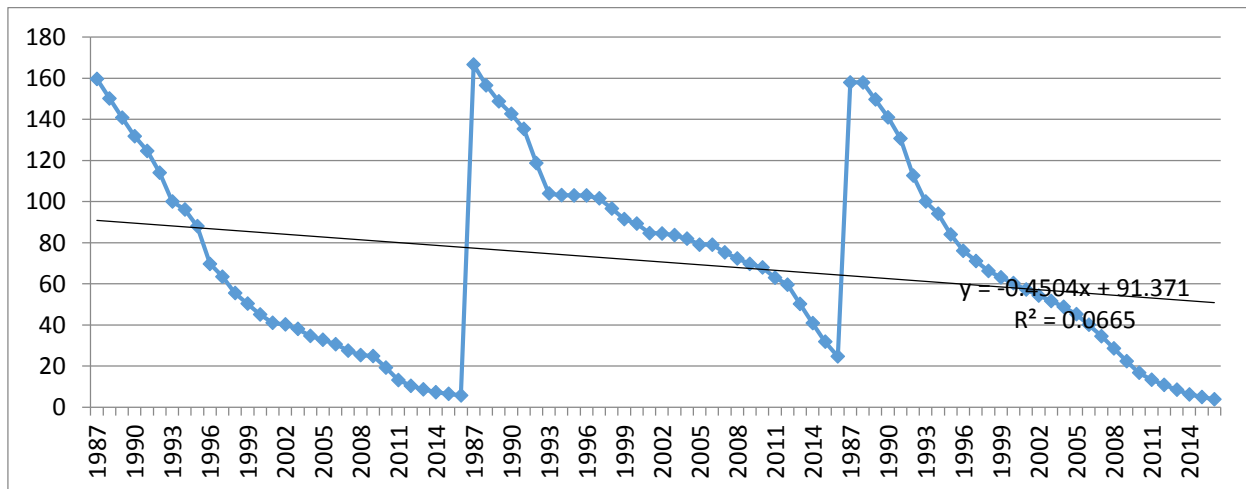


Figure 4: Consumer price index

4.2 Regression Analysis

Table 2 shows the regression model results for the study.

Table 2: Regression Model

Variables	β	t	p>t	[95%Conf. Interval]	
Regulatory quality	1.772	2.190	0.031	0.162	3.382
Access to information	0.460	3.940	0.000	0.227	0.692
Corruption index	0.579	2.120	0.037	0.036	1.121
GDP per Capita	0.011	1.870	0.065	0.000	0.000
Trade openness	0.189	3.220	0.002	0.072	0.306
Inflation	-0.019	-2.160	0.034	-0.036	-0.001
_cons	7.276	5.510	0.000	4.647	9.904
p=0.0000					
F = 43.98					
R squared=0.718					

The model R- squared was 0.718. This implies that the goodness of fit of the model explains only 71.8% of the variation in financial sector development in Kenya. The overall model was significant as illustrated by an F- statistic of 43.98 (significance = 0.000). This shows that the regulatory quality, access to information and corruption influence financial sector development in Kenya, Uganda and Tanzania.

4.2.1 Effect of Reforms in Regulatory Quality on Financial Sector Development

The first objective of the study was to examine the effects of reforms in regulatory quality on financial sector development in selected East Africa community member states. The results showed that the coefficient for regulatory quality was positive and significant at 5 percent level. This means that regulatory quality influences financial sector development in Kenya, Uganda and Tanzania. A unit increase in reforms in regulatory quality would lead to an improvement in financial sector development. This further implies that introduction of regulatory quality reforms such as price controls would lead to improvement in financial sector development. These findings are supported by that of Angelopoulos, Economides and Vassilatos (2010) who argue that financial sector development is compelled by institutional changes or change in the institutional condition, for example, administrative quality.

4.2.2 Effect of Reforms in Access to Information on Financial Sector Development

The second objective of the study was to examine the effects of access to information on financial sector development in selected East Africa community member states. The results revealed that the coefficient for access to information was positive and significant at 5 percent level. This means that access to information influences financial sector development in Kenya, Uganda and Tanzania. In addition, a unit increase in access to information would lead to an improvement in financial sector development. In addition, improvement in scope, accessibility and quality of credit information available through either public or private credit registries would boost the financial

sector development. These findings are supported by those of Anayiotos and Toroyan (2009) who found that institutional factors such as reliable information and political stability have a positive and significant effect on financial sector development.

4.2.3 Effect of Reforms Intended to Reduce Corruption on Financial Sector Development

The third objective of the study was to examine the effects of reforms to reduce corruption on financial sector development in selected East Africa community member states. The results showed that the coefficient for corruption coefficient was negative and significant at 5 percent level. This means that corruption influences financial sector development in Kenya, Uganda and Tanzania. In addition, suitable institutional changes that reduce corruption and enhance transparency and responsibility of open establishments, common administration, upholds strict controls and prudential guide for business exercises leads to improvement in financial sector development. These findings are supported by those of Angelopoulos *et al.* (2010) who found that control of corruption had a significant effect on financial sector development.

Extraneous variables which included GDP, inflation and trade openness were also introduced in the regression model. Their results were as follows; the coefficient for GDP Per Capita was positive and insignificant at 5 percent level. This means that GDP per capita positively affects financial sector development in Kenya, Uganda and Tanzania. These findings agree with that of Sofia and Ghulam (2011) who found that GDP Per Capita positively affect financial sector development.

The coefficient of trade openness was positive and significant at 5 percent level. This means that trade openness influences financial sector development in Kenya, Uganda and Tanzania. This implies that a unit increase in trade openness would lead to an improvement in financial sector development. In order to be financially developed, East African countries should be very open to trade. These findings were supported by those of Le, Kim and Lee (2016) who found that trade openness affects positively financial sector development for subpanel of developed economies.

The results further revealed that the coefficient for inflation was negative and significant at 5 percent level. This means that inflation adversely affects financial sector development in Kenya, Uganda and Tanzania. This implies that a unit decrease in trade openness would lead to an improvement in financial sector development. Guaranteeing low premiums and inflation rates pull in more speculators into the market and thus advancing the private sector improvement. These findings were consistent with those of Hami (2017) who found a negative relationship between inflation and financial development indicators.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In the East Africa region, there are many institutional reforms that have been undertaken to foster financial sector development. These reforms are closely linked to economic growth of the countries. Reforms include improved regulatory framework, access to financial information, control of corruption, maintenance of rule of law and promotion of investor's protection. However, despite the many institutional reforms carried out, the East Africa's frontier market economy is not yet at the same level as other emerging financial sectors in other developing countries such as

South Africa and Ethiopia. Consequently, the financial sector's contribution to real GDP growth rate in Kenya, Uganda and Tanzania remains unimpressive.

The study sought to determine the effect of regulatory quality reforms on financial sector development in Kenya, Uganda and Tanzania; determine the effect of reforms in accessing information on financial sector development in Kenya Uganda and Tanzania; and establish the effect of reforms in reducing corruption on the financial sector development in Kenya, Uganda and Tanzania.

In this study, panel data estimation techniques was used to analyze the data and estimate the effects of institutional reforms on financial development in Kenya, Uganda and Tanzania. The study found out that regulatory quality and access to information had a positive effect on financial sector development whereas corruption had a negative effect on financial sector development. In addition trade openness, GDP per capita have a positive effect on financial sector development. However inflation had an adverse effects financial sector development.

5.2 Conclusions

The study concluded that regulatory quality and access to information are important in boosting financial sector development. However corruption slows down the development of the financial sector. In addition, the study concluded that improvement in GDP would lead to improvement in financial sector development. Trade openness also enhances financial development of a country. High rate of inflation slows down financial sector development.

The study also concludes that introduction of regulatory quality reforms such as price controls would lead to improvement in financial sector development. In addition, improvement in scope, accessibility and quality of credit information available through either public or private credit registries would lead to improvement in financial sector development.

5.3 Recommendations

Loan specialists or savers ought to be more anxious to back firms which respond to budgetary part advancement. Solid lawful frameworks for the authorization of agreements and insurance of legitimate right of speculators ought to be given judiciousness. This is because the study found that regulatory quality had a positive effect on financial sector development. The study recommends that suitable institutional changes ought to be started so as to enhance transparency, common administration, upholds strict controls and prudential guide for business exercises. This help far in lessening the stature of defilement and ingrain more trust in the segment and the economy when all is said in done. This is because the study found that corruption had an adverse effect on financial sector development.

The study recommends that macroeconomic solidness–low premiums and inflation rates, ought to be guaranteed to pull in more speculators into the market along these lines advancing the private sector improvement. Thus, for the advancement of the Kenya budgetary part and its commitment to economic growth, this study considers policy suggestions from the findings of this study plausible. This is because inflation has a negative effect on financial sector development.

With respect to trade openness, East African countries should be very open to trade and be financially developed. However, too much money may result to a disaster that adversely influences

growth, occasionally even beyond the short term. This is because the study found that trade openness has a positive effect on financial sector development. The study recommends that practical institutional reforms should be introduced to improve transparency and accountability of public institutions and foster improved regulatory framework. This will lead to a positive contribution of the financial sector to real GDP of a country hence economic growth and development which is the focus of any government. This is because the study found that GDP per capita has a positive effect on financial sector development.

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