

**CHALLENGES FACED BY FAMILY BANK LIMITED IN
SERVICING DIASPORA REMITTANCES**

BY

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DECLARATION

This research project is my original work and has not been submitted for examination to any university.

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this project to my loving parents Mr. Jackson Kieya Mwaniki and Mrs. Mary Mumbi Kieya. You have been my source of inspiration throughout my life. Thank you for your love and support during this journey both emotionally and financially. God bless you always.

ABSTRACT

The contribution of migration and immigrants to the development of countries of origin is increasingly receiving attention, especially as the volume of remittances from migrants worldwide has sharply increased in the past decade. As Kenya gets increasingly connected to the rest of the world and more Kenyans move abroad to live, work or study, remittances are becoming an increasingly important revenue source for both the government and commercial banks in Kenya. This study therefore sought to establish the challenges faced by Family Bank Limited in servicing diaspora remittances. This research was conducted through a case study since it is a research on one organization. A case study was chosen because it enables the researcher to have an in-depth understanding of the challenges faced by Family Bank Limited in servicing diaspora remittances. The researcher used both primary and secondary data. Primary data was collected using an interview guide while secondary data was collected by use of desk search techniques from published reports and other documents. The data collected using interview guides which was qualitative in nature, was analyzed thematically using conceptual content analysis. From the findings, the study found that there are numerous challenges faced by The Bank in servicing diaspora remittances. The researcher found that the challenges are both Bank oriented and customer oriented. The Bank oriented challenges included ICT under-development, financial constraints lack of sufficient trained agents for marketing, fluctuating market rate. The customer oriented challenges include lack of demographic data on Kenyans in the diaspora, ignorance on the part of the immigrant, low income jobs leading to low savings and investments. The study also found that lack of duo-citizenship in some countries leads to these Kenyans opting to denounce their Kenyan citizenship. These and other challenges are discussed in this paper. The researcher has made several recommendations to Family bank limited, other commercial bank and policy makers on how to deal with these challenges. She has also pointed out areas for further research.

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LIST OF ABBREVIATIONS AND ACRONYMS

AfDB African Development Bank

ICT Information and Communication Technology

FDI Foreign Direct Investment

ODA Overseas Development Assistance

IOM International Organization for Migration

PKO Persons of Kenyan Origin

CBK Central Bank of Kenya

PWC Price Waterhouse Coopers

ATM Automatic Teller Machines

SWIFT Society for Worldwide Interbank Telecommunication

KBA Kenya Bankers Association

DPF Deposit Protection Fund

ABC alternative banking channels

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Over the last few years, many African countries that were once suspicious of the diaspora have begun to realize the promising role the diaspora can play in development. Many countries are exploring approaches to engagement. Development organizations, such as the World Bank and the African Development Bank (AfDB), as well as foreign governments have highlighted the role that the diaspora can play in the development of the continent (AfDB, 2011; Plaza & Ratha, 2011; Shimeles, 2010).

The diaspora comprises of two groups; the voluntary immigrants and the involuntary immigrants. The voluntary immigrants are those who migrated out of their home countries by choice while involuntary are those that were forced to migrate. The latter include the African Americans and are mostly found in North America and the Caribbean.

The contribution of migration to the development of countries of emigration is increasingly receiving attention, especially as the volume of remittances from migrants worldwide has sharply increased in the past decade. Traditional sources of national income are being relegated to the background and, for good reason; brain drain is turning to brain gain, as records show that migrants are contributing more to the development of their countries of origin. Remittances “are emerging as an important source of external development finance” (Kapur, 2003). Globalization is enabling migrants abroad to remain connected to their native countries, thus diminishing their loss of identity and the negative effects of separation (Page and Plaza, 2006). Consequently, migration is now viewed as a resource or extension of the nation or state.

Migration in Africa is an emigration–diaspora– return continuum (Adepoju, 2006). A growing number of developing countries and international institutions now view migrants in the diaspora as an antidote to brain drain, with a greater role to play in national development. A paramount factor here is that migrants can contribute to developing their countries of origin through remittances, gifts or even investments.

The volume of emigrants from Kenya has increased in the past decade; large communities of Kenyans are now found in the United Kingdom, the United States, and the Far East. Recent evidence suggests that Kenyans in the diaspora represent 8 per cent of all Kenyans, and many of them are profitably engaged in the socio- economic sectors of their host countries (World Bank, 2011).

Kenyan commercial banks in general and Family bank in particular are racing to tap in to this growing market in order to get a competitive advantage on each other and to increase their profitability.

1.1.1 International Business

Globalization has rendered international expanding activities increasingly important for the survival, growth and success of modern firms (Spyropoulou *et al.*, 2011). Globalization is the universal trend in economic markets and the focal point in the twenty-first century (Tsai *et al.*, 2006; Gordon, 2011). In this respect, International business refers to all commercial transactions—including sales, investments, and transportation—that take place between two or more countries (Pearson education Inc., 2009.). It is concerned with the issues facing international companies and governments in dealing with all types of cross border transactions.

These transactions include the transfer of goods, services, technology, managerial knowledge and capital to other countries.

International business dates back to the days of Phoenician traders who carried out commerce in Mediterranean seaports and expanded inland to most of Asian Minor. Through various stages of developments, facilitated by the development of banking and finance, international business has become a complex and sophisticated arrangement involving multinational industrial corporations and multinational banks.

Today, international business has taken a more defined structure with the ease of movement of both people and goods. This has necessitated the transfer of funds from one country to another and hence the need for international banking. Banking organizations have shifted from highly centralized domestic organizations to dispersed global organizations (Krumm, 1998)

1.1.2 International Migrations

International migration occurs when people cross state boundaries and stay in the host country for a minimum length of time. According to the United Nations, around 175 million persons currently reside in a country other than where they were born, which is about 3 per cent of world population. Sixty per cent of the world's migrants currently reside in the more developed regions and 40 per cent in the less developed regions. Most of the world's migrants live in Europe (56 million), Asia (50 million) and Northern America (41 million). Almost one of every 10 persons living in the more developed countries is a migrant. In contrast, nearly one of every 70 persons in developing countries is a migrant.

The emigration of Kenyans abroad in large numbers is a relatively recent phenomenon. It can be seen in three distinct waves. First, in the period preceding Kenya's independence in 1963, a small number of Kenyans were able to travel abroad in search of better education and training opportunities. Second was in the first two decades after independence where tens of thousands of European and Asian residents left the country, but only a few Kenyans were able to migrate and live abroad due to cost and other factors (Ghai, 2004: 2). Many of these pioneers participated in the struggle for independence and constitute part of the Diaspora. The third wave occurred during the great airlift where young Kenyans were taken abroad to acquire further education.

The most important reason for this shift in migration patterns was the deterioration in the economic performance of Kenya. While the first two decades witnessed high economic and employment growth, with new opportunities opening up for Kenyans in all sectors, the situation was reversed over the past 25 years, especially in the 1990s, with negative per capita income growth and worsening income distribution. Millions of Kenyans have suffered declining living standards; even those with higher education and technical skills are finding it difficult to get remunerative employment opportunities. It is therefore understandable that increasing numbers of Kenyans have been seeking employment opportunities abroad.

In addition, the rapid pace and intensity of globalization and the growing gap in living standards between Kenya and developed countries, as well as political repression, the spread of corruption and an increase in personal insecurity, have also encouraged emigration. However, in recent times, migration has also been a result of business opportunities, especially in countries neighboring Kenya (Ngugi, 2011). Official estimates from the Ministry of Foreign Affairs in Kenya indicate that there are about 3 million Kenyans in the diaspora, approximately 8 per cent of the country's population.

The Kenyan Diaspora has a potential to play a key role in the development of the country. This potential has remained untapped although its significance can be seen in terms of remittances and in the transfer of technology.

1.1.3 Diaspora Remittances

As Kenya gets increasingly connected to the rest of the world and more Kenyans move abroad to live, work or study, remittances are becoming an increasingly important revenue source. In 2012, according to African Economic Outlook, remittances became the largest source of external finance to Africa, ahead of Foreign Direct Investment (FDI) and Overseas Development Assistance (ODA). That year, 89 per cent of all remittances to Africa were received in northern Africa and western Africa. Due to the huge sums involved, remittances are now being recognized as an important contributor to the country's growth and development. The Central Bank of Kenya conducts a survey on remittance inflows every month through the formal channels that include commercial banks and other authorized international remittances service providers in Kenya.

Remittances to Kenya increased by 8.6 percent, to USD 119.7 million in May 2014 compared to USD 110.1 million in May 2013. In relation to the previous month remittances in May 2014 were larger by 5.5 percent. The cumulative twelve month remittances increased by 11.89 percent to USD 1,341 million in May 2014 from USD 1,198 million in May 2013 while the average annual flow sustained an upward trend to peak at USD 111.7 million in May 2014 from an average of USD 99.9 million in May 2013.

Remittance inflows from all regions remained resilient, with North America accounting for 47.3 percent of total inflows, or USD 56.62 million in May 2014. Inflows from Europe accounted for

28.7 percent and amounted to USD 34.35 million, while inflows from the rest of the world amounted to USD 28.69 million, accounting for 24 percent of total inflows.

1.1.4 Diaspora Banking

The continued rise of inflow in remittances to Kenya has led to the development of Diaspora banking. The International Organization for Migration (IOM) has defined Diaspora as members of ethnic and national communities who have left, but maintain links with their homelands. The African Union defines the African Diaspora as, —Consisting of people of African origin living outside the continent irrespective of their citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union. The Kenyan Diaspora is defined as consisting of Persons of Kenyan Origin (PKO) and Non-Resident Kenyans (NRK's). PKO status designates foreign citizens of Kenyan origin or descent. On the other hand NRK status is for Kenyan citizens holding a Kenyan passport and/or having dual citizenship and residing outside the country for an indefinite period whether for employment, business, vocation, education or any other purpose.

Diaspora banking is a platform whereby commercial banks offer banking services to Kenyan citizens residing outside the country. Most commercial banks in Kenya have set up Diaspora banking departments to run their affairs. These banks include Co-operative bank, Kenya commercial bank (KCB), Equity bank, I&M bank etc.

Family bank has not been left behind in the race to get a piece of the Diaspora pie. Diaspora banking in Family bank was started in 2012. It involves services like current and savings accounts dubbed 'Mkenya Daima Diaspora current account' and 'Mkenya Daima Savings

Account' respectively. The reason behind the name according to officials at the bank is because the accounts help the Kenyans to remain connected to their origins and enable them invest. Mkenya Daima Diaspora Accounts can be denominated in major currencies including the Kenya Shilling, Euro, British Pound and the US Dollar

Other facilities available to Kenyans in the diaspora include access to loan facilities, investment advice and money transfer services. The latter is made possible through online access of accounts, SWIFT transfer and through other money transfer options for example Western Union, MoneyGram and M-pesa. The bank is able to negotiate and initiate purchase of assets for example land on behalf of its clients in the diaspora and provide financing for the same.

The bank has recruited numerous agents in various countries to market the services on its behalf. The agents are also served with the responsibility of verifying authenticity documents and scrutinizing the clients to avoid frauds and forgeries

1.1.5 The Banking Industry in Kenya

The banking industry in Kenya has emerged as one of the fastest growing sectors in the economy. The growth has been mainly underpinned by; firstly an industry wide branch network expansion strategy both in Kenya and in the East African community region. The banking industry is governed by the Companies Act, the Banking Act, and the Central Bank of Kenya Act. Central Bank of Kenya (CBK) is mandated to formulate and implement monetary policies and to foster liquidity and solvency and foresee the proper functioning of the financial systems in the country (PWC, 2010). This sector was liberalized in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the

financial system. There are forty six commercial banks in Kenya, large, small and medium sized (PWC, 2010). The banks are under the Kenya Bankers Association which serves as a lobby for the banking sector's interests. The banks offer both corporate and retail banking services depending with clientele that the banks serve. With increased competition in the industry banks are also embracing technology in their service delivery. To this regard, most banks have installed ATM (Automatic Teller Machines) in order to increase their network coverage. Quite a good number of banks too have also introduced Agency Banking, where they have recruited agents to offer flexible banking services on their behalf in both the rural and urban centers; and especially in areas where the banks do not have branches. Most of these commercial banks have also established a Diaspora banking department to tap into the international market. This is especially for Kenyan citizens residing in other countries.

1.1.6 Family Bank Limited

Family Bank Limited (FBL) was founded on 1st October 1984 as Family Finance Building Society under the Building Societies Act (Cap 489 Laws of Kenya). On 30th April 2007, Family Finance converted into a fully-fledged commercial bank and was formally licensed under the provisions of the Banking Act (Cap 488 Laws of Kenya) and the Central Bank of Kenya (CBK) Prudential Guidelines. Family Bank is a member of the Deposit Protection Fund (DPF) and a full member of the Kenya Bankers Association (KBA). The bank is regulated by the Central Bank of Kenya (CBK) and is also regularly inspected using the CAMEL ratings which look at Capital, Assets, Management, Earning and Liquidity (www.familybank.co.ke).

The bank has seventy two branches and over 120 ATMs countrywide. Family Bank provides financial services to the low and medium income earners as well as institutions and corporate. The bank was the first to introduce the paperless banking system giving it a competitive edge over the rest. The banks performance had been on an upward trend having marked the largest growth percentage of 132% in their 2013 half year results. In the long run, the bank hopes to be the financial institutions that will enable people create and sustain wealth through access to flexible, affordable financial services (www.familybank.co.ke).

1.2 Research Problem

The reasons for internationalization are numerous and may differ from country to country and from one firm to another. Faced by saturation of the domestic market and stiff competition from other local firms, companies opt to expand to the international market. Adam Smith, in his book “the wealth of Nations”, outlined the possession of absolute advantage in the production of certain products as the reason behind international business.

The rapid pace and intensity of globalization and the growing gap in living standards between the developing and developed countries, as well as political repression, the spread of corruption and an increase in personal insecurity, have encouraged emigration. However, in recent times, migration has also been a result of business opportunities. The diaspora and their contribution to the host country as well as their country of origin has become an important phenomenon.

Several studies have been conducted on the diaspora and remittances. Chikezie (2012) discussed the importance of reinforcing the contribution of the African diaspora to development. He noted that tapping into the diaspora will serve an additional source of income to home grown sources but cannot replace them.

Kamau and Kimenyi (2013) noted the importance of engaging the diaspora as means of economic development for Kenya. They discussed the strategies that can be used to harness the full potential of the diaspora. Kiiru (2010) found that remittances have a positive impact on domestic household consumption in Kenya. Money sent home has improved the living standards of the recipients. On the other hand, it has also led to dependence of recipients on the sender which increases voluntary unemployment and hampers economic growth. Kaberia (2013) wrote on the strategies adopted by KCB Ltd to attract Kenyan investors in the diaspora. She found that banks have employed different strategies in the diaspora including opening branches in other countries for example Sudan. They have also recruited agents in foreign countries to market their products on their behalf.

Despite the numerous studies on the diaspora, no research has been conducted on the challenges faced by banks in servicing the diaspora. With growing competition in the Kenyan banking sector, commercial banks are expanding their business to the diaspora population by sourcing deposits from them and offering them mortgages and other services. This research seeks to answer the question:

What are the challenges faced by Family Bank Limited in servicing diaspora remittances?

1.3 Research Objective

The objective of the study was to find out the challenges faced by Family Bank Limited in servicing diaspora remittances and deduce the best strategies to solve them.

1.4 Value of the Study

The study will be valuable to the management of Family Bank Ltd as they will understand the challenges they face in their quest to expand to the diaspora and how best to resolve them. This

will help the bank to gain competitive advantage over other local commercial banks. This study will also be used by different stakeholder groups which include other banks, employers, investors and the general public. Better performance by the bank will mean higher profits for its shareholders. Other banks can adapt the findings of this study to improve their affairs in the diaspora.

The findings will also benefit the government and other policy makers concerning the role they play towards the operations in the banking sector. This way they may be in a position to improve or come up with new policies that guide them towards effective operations of stakeholders in the banking sector. They will also provide pertinent information that can be used to help credit unions, and other financial institutions identify opportunities for growth and understand how to most effectively position themselves in the market so as to take full advantage of the opportunities surfaced through the research.

The study will also be beneficial to academia as it will help fill a study gap. It will also provide a basis for further study in the topic of diaspora and remittances.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The main areas to be reviewed include international migrations, remittances and challenges facing diaspora banking.

2.2 Theoretical Background

The research is based on the theories of international business. There are various theories of international business and trade. This shall however discuss only two of these: the mercantilism theory and the theory of absolute advantage.

2.2.1. Mercantilism Theory

Mercantilism is a philosophy from about 300 years ago by William Petty, Thomas Mun and Antoine de Montchrétien model. The base of this theory was the “commercial revolution”, the transition from local economies to national economies, from feudalism to capitalism, from a rudimentary trade to a larger international trade. Mercantilism was the economic system of the major trading nations during the 16th, 17th, and 18th century, based on the premise that national wealth and power were best served by increasing exports and collecting precious metals in return. It superseded the medieval feudal organization in Western Europe, especially in Holland, France, United Kingdom, Belgium, Portugal and Spain. The monarch controlled everything. Their policy was to export in the countries that they controlled and not to import (to have a positive Balance of Trade).

Geographical discoveries not only stimulated the international trade, but also produced an affluent flow of gold and silver, which could be used to encourage the economy based on money

and prices. The state exercised much control over economic life, chiefly through corporations and trading companies. Production was carefully regulated with the object of securing goods of high quality and low cost, thus enabling the nation to hold its place in foreign markets.

The theory states that the world only contained a fixed amount of wealth and that to increase a country wealth; one country had to take some wealth from another, either through having a higher import/export ratio. So, this tendency, to export more and import less and to receive in exchange gold (the deficit is paid in gold) is called MERCANTILISM. The theory was criticized by the newly appeared class. More money was associated with less products and inflation. The standard of living is weaker. Mercantilist ideas did not decline until the coming of the Industrial Revolution and of laissez-faire.

2.2.2 The Absolute Advantage Theory

In the second half of the XVIII century, mercantilist policies became an obstacle for the economic progress. Adam Smith (father of liberalism and economical science) brought the argument in his book “The Wealth of Nations”, published in 1776, that the mercantilist policies favored producers and disadvantaged the interests of consumers.

Adam Smith’s theory starts with the idea that export is profitable if you can import goods that could satisfy better the necessities of consumers instead of producing them on the internal market. The essence of Adam Smith theory is that the rule that leads the exchanges from any market, internal or external, is to determine the value of goods by measuring the labour incorporated in them.

In order to demonstrate its theory, Adam Smith analyzed for the beginning country A, using one factor of production, the productivity of labour, evaluated in the necessary of hours needed to produce a unit of measure of the products X and Y. He used a one factor system of economy.

Symbolizing H-hours, L-labour, and the unitary necessary of labour for product X is HLX and for Y HLY.

Because all the economies have limited resources, there are limits in the level of production, and if a country wants to produce much of one product it has to give up producing another goods, existing in this case renounce of trade.

2.3 Internationalization and International Business Environment

In seeking reasons for internationalization Ferdows (1997) acknowledged ‘access to low cost production’, ‘access to skills’ and proximity to the market’ as the three major causes for selecting a location. Dunning (1998) differentiates between ‘resource seeking’, ‘marketing seeking’ ‘efficiency seeking’ and ‘strategic asset seeking’ as the main types of FDI. The globalization of business and commerce has become an increasingly significant reality worldwide: in 2000, the global trade in goods and services reached 25% of world GDP (Govindarajan & Gupta 2000), while in terms of manufactured goods, international trade has multiplied by more than 100 times since 1955 (Schiffers 2007). The rise of globalization poses a number of important challenges to a business seeking international presence. Numerous strategic aspects must be taken into account prior to commitment at an international level, and afterwards. Constant flexibility is required to adapt to changing patterns at local, regional and international levels.

The growing economic interdependence among countries as reflected in increasing cross-border flows of three types of commodities: goods and services, capital, and knowhow” (Govindarajan &

Gupta 2000, p.275), or as “the closer integration of the countries and peoples of the world brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders has provided a fertile ground for the growth and expansion of international business” (Stiglitz 2002, p. 9).

When studies refer to “the internationalization of banks”, they are concerned with two different aspects of internationalization (Drogendijk and Hadjikhani, 2008). The first aspect refers to the exchange in terms of import and export of banking services and transactions in foreign currency. The second aspect, however, is related to the strategy of banks when internationalizing (Vasiliadis, 2009). Swary and Topf (1992) concluded that the loss of a comparative advantage by commercial banks as providers of credit to large borrowers, competition from non-bank financial firms, and increased competition from foreign banks have created the impetus for adoption of universal banking (Cameron, 1995).

Dating back to the origins of the international business (IB) discipline, scholars such as Vernon (1966), Fayerweather (1960), and others, have articulated the importance of the international business environment (IBE) in international business studies. For example, Nehrt, Truitt, and Wright (1970: 109) suggested that international business research is "concerned with the interrelationship between the operations of the business firm and international or foreign environments in which the firm operates", and that "more attention is being devoted to the environment of international business". (Guisinger, 2000:4) environmental dimensions and encapsulate some of the main features of the IBE. These dimensions are: culture, legal system, political risk, income profile, tax regimes, exchange rate, and restrictions.

2.5 International Migration and Diaspora Remittances

A fundamental characteristic of people is their movement from place to place. The right to move was recognized globally over a half century ago with the adoption of the Universal Declaration of Human Rights. The Declaration states in Article 13 that “Everyone has the right to freedom of movement and residence within the borders of each state” and “Everyone has the right to leave any country, including his own, and to return to his country.”

According to Plaza and Ratha, International immigrants can be divided into two distinct groups: voluntary immigrants-those who migrated by choice and involuntary immigrants-those forced to migrate such as African-Americans. This group is located primarily in North America and the Caribbean. Members of the voluntary diaspora have more education, significantly higher incomes and larger amounts of money in banks outside Africa. This group also sends huge amounts of money to their mother countries, estimated at \$40 billion in 2010 (Plaza & Ratha, 2011, p. 7).

The Migration Policy Institute estimates that there are approximately 30.6 million Africans in the diaspora (2012). A majority of them are migrants within Africa (14.5 million), whereas 8.2 million and 2 million Africans, respectively, call Europe and the Americas home (Migration Policy Institute, 2012).

Remittances are emerging as an important source of external development finance (Kapur, 2003). Globalization is enabling migrants abroad to remain connected to their native countries, thus diminishing their loss of identity and the negative effects of separation (Page and Plaza, 2006).

Knowles and Anker(1981) found that urban–rural remittances provide only a limited picture, accounting for less than half of all transfers, and that transfers have very little effect on the

overall distribution of income. The amount of income transferred tends to be mostly related to education, income levels, urban residence, migration status, length of stay, ownership of a house in the home area, and the number of wives and children living away.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with methodological aspects of the study. In this chapter the research methodology is presented in the following order, research design, data collection methods, instruments of data collection and finally the data analysis.

3.2 Research Design

This research was conducted through a case study since it is a research on Family Bank Limited. Bromley (1990) defines a case study as a systematic inquiry into an event or a set of related events which aims to describe and explain the phenomenon of interest. Mugenda and Mugenda (2003) observes that a case study is an in depth investigation of an individual institution or phenomenon. This design also allows a thorough, meticulous and systematic data collection on the research problem (Yin, 2003). The importance of a case study is emphasized by Mugenda and Mugenda (2003) who both acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

3.3 Data Collection

For the purpose of this study, primary and secondary data was used. The primary data was collected using an interview guide. Secondary data was gathered from documents of the bank and other published reports.

An interview guide was used to collect in depth information from the senior managers in the bank including the Diaspora banking manager, the finance manager, the Managing director, the marketing manager and the Head of business club in family bank. Interview method generally

offers high response quality, takes advantage of interviewer presence and its multi-method data collection (Owens, 2002).

3.4 Data Analysis

Content analysis technique was used. This is a technique where the key themes guide the analysis in making inferences by systematically and objectively identifying specific characteristics of responses and using the same to relate to trends. Responses with common themes or patterns were grouped together into coherent categories. The qualitative data was presented thematically in prose based on the objectives of the study and the content matter of the responses.

Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Qualitative analysis categorizes phrases, describes the logical structure of expressions and ascertains associations in order to interpret the results of the findings.

CHAPTER 4: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, interpretation and presentation of the study which was on the challenges faced by Family Bank Limited in servicing diaspora remittances. The qualitative data was analyzed by use of content analysis in answering the various questions in regard to the study objectives.

4.2 Response rate

The study targeted a total of 7(seven) respondents who constituted one branch manager, the business club manager, the diaspora banking manager, the marketing manager, the finance manager, the managing director and one diaspora banking officer. A total of 7 interview guides were therefore distributed. Out of these, 6 interviews guides received responses while 1 was not returned.

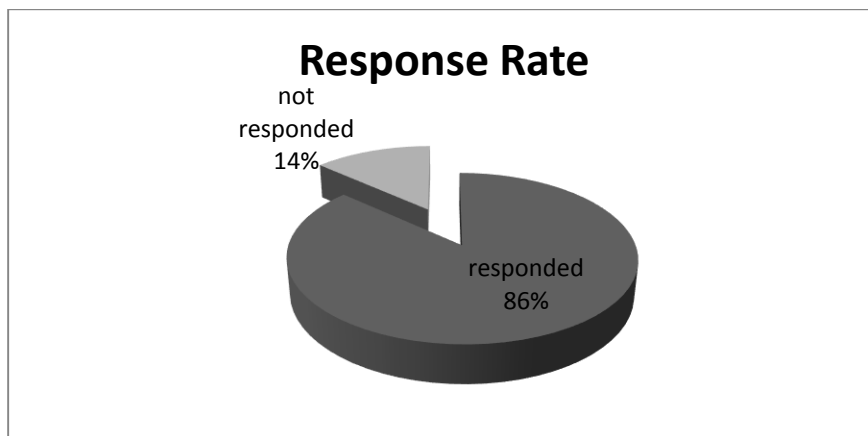
Figure 4.1 Response rates 1

	Frequency	Percentage
Responded	7	86
Not responded	1	14
Total	30	100

Source: Researcher (2014)

The figure below presents the response rate of the study at 86%.

Figure 4.2: Response rate 2



Source: Researcher (2014)

4.3 Demographic information of the respondent

The study required the respondents to indicate their respective positions in the bank. According to the study findings, the respondents who participated in the study were in top management of the organization. These are the people tasked to handle the diaspora and service their remittances.

The respondents were required by the study to disclose the duration they had served in the organization. According to the research findings, the study established that most of the respondents had served in their respective departments for period of 5 years and above. This made them suitable candidates for the study as they have had sufficient experience in the field.

4.4 RESULTS

4.4.1 Internationalization

The study required the respondents to state their understanding of the word “internationalization”. Some of the respondents described internationalization as the process of going global. They said that it involves all the processes of expanding a firm from local to beyond its home country’s borders. The organization has to abide by international laws and restrictions of trade. Some of the respondents felt that internationalization is the process of reaching clientele beyond the country’s borders. The organization can either be physically present in the foreign country or device ways of reaching the foreign market. Internationalization therefore involves making the organization’s presence felt in the foreign market. Internationalization in Family bank is relatively new and has only gained momentum over the past three years.

The study found that the bank has employed several strategies in its quest for internationalization. The bank has established a diaspora banking department charged with handling all Kenyans based outside the country. The department is in charge of marketing of the banks products to the diaspora. They act as a link between the bank and the clients in the diaspora. This is done mainly through phone calls and email correspondence.

The study showed that the bank has employed foreign based agents to market its products. This has been an effective strategy as it is cost effective and poses a lower risk to the organization. The agents are carefully selected and trained. They act as correspondents between the bank and the diaspora based clients. They assist clients fill account opening forms and verify the

authenticity of their documents before scanning the same to officials in the diaspora banking department back in Kenya. This minimises the risk of opening fraudulent accounts.

The availability of alternative banking channels (ABCs) has helped the bank to internationalize. The study found the availability of VISA branded ATM cards has been an effective way of internationalization. This was made possible through partnership with the international card agency VISA. These cards can be used in any country at any VISA branded machine. The bank's clients can therefore service their accounts even when outside the country. Internet banking as an ABC has been used by clients outside the country to do EFTs (electronic money transfers) and to view the bank balances and statements.

Other strategies include the provision of import duty financing which helps position the Bank as an international brand. Foreign exchange trading has also been effective as the bank in touch with the international money market. This has made it possible to make money transfers faster and more effective through SWIFT transfers. The bank has also partnered with international money transfer agencies for example Western Union to make money transfer to and from Kenya possible and more efficient.

The study showed that the Bank has been able to cope with international competition through vigorous marketing of its products and services. This is done through advertisements on Radio, TV and billboards. This has helped portray the Bank as an international brand. Its good products and services also give the Bank some competitive advantage over its rivals

4.4.2 Diaspora banking and Remittances

The respondents were required to state their understanding of the terms ‘Diaspora’ and ‘Remittances’. Some respondents felt that the term Diaspora refers to anyone living outside the geographical borders of their country of origin. These people can be Kenyan citizens, those that hold dual citizenship or those that were originally Kenyan citizens but have since denounced their citizenship in favour of that of another country.

According to the study, remittances refer to money sent to Kenya by people in the diaspora. Remittances can take several forms. It can be physical notes and coins given delivered by the sender himself or sent by mail to the recipients. It can also take the form of Electronic funds. These are remitted through fund transfer agencies for example western union and money gram or through bank to bank transfers commonly referred to as SWIFT transfers.

The study found that the Bank derives many benefits from the diaspora. The major benefit derived by the bank from the diaspora is mobilization of deposits. Money remitted through Family bank acts as source of deposits for the bank. These deposits, when pooled together with other sources, are used for lending to clients. The Bank also benefits from commission on transactions. It charges commission on all withdrawals and transfers. It also gains commission on all VISA cards and cheque books applied. Other benefits include interest on loans borrowed by clients in the diaspora. Clients also act as brand ambassadors for the Bank as they market through word of mouth to their friends and acquaintances.

The study sought to find out the country’s most targeted by the bank for diaspora banking. It was established that the most common targets were in the North America, Europe, Middle East countries, Asia and other African countries. The Americas and Europe are targeted as they are

frequented by Kenyan looking for higher education and better paying jobs especially in the field of Medicine. The Middle East and Asian countries on the other hand are frequented by Kenyans of lower education levels and lower professional qualifications. It is easier to get employment in these countries than in Kenya. Businessmen also prefer the Middle East countries for example Dubai, Qatar and China as they can access high quality goods at a low cost. Kenyans also migrate to other African countries especially to the neighbouring East African countries to invest. The most favourite destinations have been Southern Sudan and Rwanda. The young nations are a hub for Kenyan businessmen. Family Bank has therefore been targeting these nations for diaspora banking.

The study established that servicing remittances is an important part of maintaining the relationship between the Bank and the diaspora. The Bank has therefore put in place strategies to tap into these remittances. These strategies include establishment of the internet banking platform. This enables customers to transact online on their Family bank accounts. Money transfer has therefore been made more convenient and safer for the customers. Family bank has partnered with VISA to provide it clientele with VISA branded cards which can be used in most countries in the world in ATM machines and for goods purchase. It can be swiped in most goods and service stores and online purchase. Its partnership with major money transfer agencies like Western Union has made money transfer from the foreign country to Kenya much faster and safer.

Other ways of servicing remittances include the introduction of foreign currency accounts. The bank has made it possible for its clients to open accounts in the major world currencies for example Dollar, Euro and Pound. This eliminates currency conversion losses as they are able to save their money in the currency earned. For those with Kenya shillings accounts the Bank

negotiates competitive exchange rates to minimise losses. The Bank has also partnered with mobile network Safaricom to enable clients transfer funds from their Family bank accounts to their mobile phones and vice versa. The platform dubbed 'Pesapap' enables Kenyans in the diaspora access their accounts through their Safaricom lines on roaming.

4.4.3 Challenges in Servicing Diaspora Remittances

The study sought to establish the challenges that Family Bank faces in its quest for internationalization. The respondents felt that the Banks rate of internationalization has been generally slow as compared to other banks in the country. This can be attributed to several challenges facing the bank. These challenges include high cost of internationalization. The cost of expanding to a foreign country is very high as the organization has to consider capital and labour expenses. It has to invest in new infrastructure for example buildings and computers. Training of personnel for the new branches is also an expense to the branch. Another challenge to internationalization according to the respondents is competition from local banks in the new country. These banks are well known and generally accepted. People may be resistant to new organizations in their country.

The study sought to establish the challenges faced by family bank in identifying clients in the diaspora. Some of the challenges include lack of data on the Kenyans in the diaspora, some of the Kenyans are illegal immigrants in the foreign country hence none of their records exist, some of them are too busy to attend the road shows organized and some have changed their Kenyan names in favour of names from their host country. These reasons make it harder for Family Bank to identify and approach the Kenyan in the diaspora.

The respondents were also asked to identify some of the challenges faced by the bank in servicing diaspora remittances. The study established that lack of consular services for the Kenyans in the diaspora has made it hard to educate them on their rights and the opportunities available for them. There is also lack of administrative structures for the diaspora meaning that they don't know who to report to in the host country. This lack of an administrative figure to guide the new immigrants denies them the chance to know ways of channelling their savings back to the home country. The respondents felt that some Kenyans in the diaspora are ignorant about the existence of banking channels.

The Bank is also faced with challenge of knowing and understanding the diaspora. The respondents were of the view that it is impossible to engage effectively or meaningfully with the diaspora without first understanding what their strengths are and how to communicate with them. There is also lack of accurate and reliable data on demographic profiles (population, location, income levels, education and training and work experience) of the Kenyan Diaspora. Without access to timely, simplified, reliable and relevant data on the Kenyan Diaspora, both the banks and the Diaspora will lose the mutual benefit of the same.

The respondents also cited the shortage of trained Family bank agents in the diaspora as a hindrance. The Bank does not have enough agents to handle the numerous Kenyans in the diaspora. As a result they lack a proper channel linking the Bank to its clients. The process of recruiting agents is also tedious and time consuming as there is need to scrutinize the potential agent to avoid frauds. There are also ICT related problems which include system downtime and low capacity systems. The Bank therefore needs to invest in high capacity systems which are costly.

4.5 Discussion

The study was pegged on the Mercantilist theory of international business. The study found that the migration of Kenyans to the diaspora is due to short supply of employment opportunities in Kenya. According to the theory the short demand of labour means that Kenyans must venture to international markets. The laws of demand and supply as presented in the theory therefore play a significant role in the migration of Kenyans to the diaspora. According to the study most Kenyans move to foreign lands in search of employment, education and investment opportunities. The major reason cited for choosing specific countries is the availability of these resources.

According to the study Family bank has adopted the use of Foreign based agents as a strategy for internationalization. This is a cheaper option as compared to foreign direct investment (FDI) adopted by other commercial banks. It is also poses less risks to the Bank since it does not have to employ and long-term assets for example buildings and machinery. The cost of FDI is also heightened by the employment of top management for example regional and branch managers. The study established that Foreign based agents are effective as they work on a commission and are therefore more aggressive in their marketing. Since they are well endowed with the knowledge of the host country's culture they are able to blend in with the locals and potential clients. Their knowledge of the local languages also acts as an advantage.

The study also linked the bank's challenges to the international environment as discussed in the literature review. Some challenges emanate from the external factors in the host countries. Legal aspects affect the Bank's ability to transact with the citizens of these countries. Some countries have strict legal requirements before registration. Banks are therefore limited in terms of strategies for internationalization. Information technology, another aspect of international

business environment, was also cited as a major challenge. Acquiring a globally operational network is expensive and requires a very experienced ICT team to manage. Competition from other international financial institutions also acts as a barrier to internationalization in Family bank. Clients will opt for established international banks for financial services instead of upcoming ones.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations of the study which was on the challenges faced by Family Bank in servicing diaspora remittances. The findings have been discussed relative to the interview guide aspects which were on; demographic data on the respondent, internationalization, diaspora banking and remittances and challenges faced by Family bank in servicing remittances. The chapter is therefore structured into summary of findings, conclusion, recommendations for policy and practice, limitations of the study and suggestions for further research.

5.2 Summary of Major Findings

According to the study internationalization is the process of increasing involvement of enterprises in international markets, international trade and international alliances. The study found that Family bank has embarked on a path for internationalization by setting up a diaspora banking department to cater for its clientele based outside the country. The bank also has plans of expanding to other countries in East Africa for example South Sudan by establishing branches in these countries. The employment of diaspora based agents has helped the bank in reaching the Kenyans in the diaspora.

The study found that remittances are the biggest contribution derived by the Bank from the diaspora. Remittances act as a supplementary source of income for the bank in addition to income generated from its local clientele. The bank has therefore devised means of successfully tapping into these remittances. It has set up the Diaspora Banking department to handle any queries and offer all the necessary assistance to clients in the diaspora. The department operates

for 24 hours a day to ensure that clients in all corners of the world are catered for despite the time differences. The study also found that the establishment of the internet banking platform has gone a long way to assist the bank to connect with its clients in the diaspora.

The study also found that the Bank has designed a number of products to suit the clients in the diaspora. These products include VISA cards, internet banking, and foreign accounts, and competitive foreign exchange rates, bankers' drafts for foreign payment, loan facilities, money transfer services, import duty financing and facilitation of investments. These products have been an attraction to Kenyans in the diaspora enticing them to bank with Family bank.

According to the study there are a number of challenges faced by the bank in servicing diaspora remittances. One of the major challenges is ICT. Getting the right type of technology with adequate capacity is a big challenge. System downtime emerged as a major complaint among the respondents. High cost of internationalization has led to the slow pace by the bank to venture into other countries. Ignorance on the part of the clients was also mentioned as a major challenge. Some clients are unaware of the services at their disposal from Family Bank. Others, on the other hand, are aware but choose not to use these services. The bank hence has a big task of sensitizing them on the importance of investments and savings.

Some Kenyans in the diaspora earn too little to be able to save. The money earned is used for their own survival and to sustain their families back home. This means that none of this cash is remitted through the banks. Lack of enough demographic data on Kenyans in the diaspora was also cited as a major challenge. The Bank does not possess sufficient information on Kenyans in the diaspora. Marketing to them is thus a gruelling task. This lack of data is partly due to the fact

that a large number of Kenyans in the diaspora are illegal immigrants. No legal records, therefore, exist on them.

On the strategies employed by Family bank to tackle these challenges the study found that the Bank has invested in number of them. According to the respondents, the Bank has set up a department purely to deal with Kenyans in the diaspora. The Diaspora banking department is fully equipped with well-informed personnel and machines to ensure it runs 24 hours a day. The ICT department works hand in hand with Diaspora Banking department to ensure the network is running and stable at all times. The Bank has also invested in one of the best networks in the world. It also ensures constant maintenance by the service providers to minimise instances of system downtime.

The Bank conducts training to its agents to ensure that they are conversant with its products and services. They are sensitized on the account opening processes and requirements to ensure that all the necessary documentation is collected. They are educated on frauds and forgeries and ways of detecting them. This is to reduce their likelihood of falling prey to fraudsters and potentially exposing the bank to the same. The Bank organises road shows in the diaspora where they get to interact with the Kenyans in the diaspora. During these forums they are trained on the savings culture and methods available to them. The clients also get to learn from each other and act as marketers for the Bank.

According to the study, the Bank has been working with the government to collect information on the Kenyans in the diaspora. Through the various embassies in different countries, Family Bank has been able to track down some of the Kenyans residing there. The consulates are able to point out the most favourite destinations for Kenyans in the respective countries. Thereafter, the

Bank relies on referrals from existing clients. The Bank has designed various products for the diaspora to entice them to bank with it. Financially, the Bank has several tactics to raise funds for expansion for example partnering with external investors and sale of shares. Some of these funds are allocated to the Diaspora Banking department and in ICT development.

5.3 Conclusions

The study concludes that the path to internationalization is diverse. Different organizations choose different methods to gain international status. Family Bank has chosen the use of diaspora based agents as a means to reaching out to its international clients. The study found that the Bank has plans to use FDI (foreign direct investment) as a means to internationalization. This is by setting up branches in the neighboring countries.

The study also concludes that remittances are an important contribution by Kenyans in the diaspora to the Bank's growth. It found that the money remitted through Family Bank is useful for growth in deposits and as a source of income. Diaspora Banking in Family bank has gone a long way in ensuring that the bank is reaching out to its existing and potential clients in the diaspora. The use of VISA branded cards and internet banking has also proved very helpful.

The study concludes that there are many challenges facing the Bank in servicing diaspora remittances. The challenges are both Bank oriented and customer oriented. The bank oriented challenges include system downtime, low capacity systems, lack of enough trained agents in the diaspora to sensitize the clients. There are also financial challenges which include high costs of recruiting and training agents, the cost of organizing road trips and costs of maintaining the diaspora banking department. Other challenges include ignorance by Bank staff on the importance of diaspora remittances. They are hence unable to market for these products as they

are unaware of existence of the same. There are also Customer oriented challenges. These include the lack of demographic data on Kenyans in the diaspora due to the existence of illegal immigrants and the lack of administrative structures for the diaspora. Ignorance on the part of the client and lack of sustainable income in the diaspora were also mentioned as major challenges.

5.4 Recommendations

5.4.1 Recommendations to the Organization

The study recommends that Family bank invest in ICT to ensure that there is a system powerful enough and to minimize system downtime. It should also work with the government to get and maintain demographic data on the diaspora. It is important that the organization reviews the challenges discussed above and implements strategies to eradicate them. The Bank should also look into strategies used by other commercial banks in the country to deal with similar challenges.

5.4.2 Recommendations to Policy Makers

The Government should create necessary structures to address the high cost of transmitting remittances with a view to attracting remittances for investment and trade. The government should also set up investment opportunities to encourage Kenyans in the diaspora save more. Proper records of Kenyans leaving the country should also be kept and updated regularly.

5.4.3 Recommendations for Further Research

This study only looked at one organization, it would be better if an industry-wide analysis can be done to establish whether different commercial Banks face different challenges in servicing diaspora remittances. It is important to carry out further research on the different strategies used

by different commercial banks in their quest for internationalization. Further research needs to be done on the effects of remittances to the Kenyan economy and spending habits of Kenyans.

5.5 Limitations

The study only focused on one organization thus is not sufficient to draw conclusions of whether the challenges faced by Family Bank as discussed in the study are common to all commercial banks and financial institutions. Different organizations may face unique challenges that may not have been portrayed in the study.

The study results cannot be used for comparison of different challenges faced by the different Commercial banks and financial institutions as they are based on a single unit. Comparison is very important as it gives one organization an insight on strategies used by other organizations in dealing with similar challenges.

Other aspects of diaspora remittances for example the amounts received by different banks, the trends in growth of remittances and the causes of such trends were not addressed by the study.

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APPENDICES

Appendix I: Letter of Introduction

Family Bank limited

P.O Box 74145,

00200, Nairobi.

To Whom It May Concern,

RE: JANE GATHONI KIEYA

The above mentioned Ms. Jane Gathoni Kieya of ID number 24561952 is an MBA student at the University of Nairobi. She is conducting a research on the **challenges faced by Family bank in servicing diaspora remittances**. This is in partial fulfillment for the requirements of Masters of Business administration. Kindly accord her all the necessary assistance.

Regards,

Dr. John Yabs.

Lecturer, school of business

University of Nairobi.

Appendix II: Interview Guide

SECTION A: RESPONDENTS PROFILE

1. Which department are you working in?
2. What position do you hold in the bank?
3. How many years have you been working for Family bank?

SECTION B: INTERNATIONALIZATION

4. What do you understand by the term internationalization?
5. What strategies does the bank employ to internationalize?
6. How does the bank cope with international competition?

SECTION C: DIASPORA BANKING AND REMITTANCES

7. What do you understand by the term diaspora?
8. What benefits does the bank derive from the diaspora?
9. How does the bank reach out to its clients in the diaspora?
10. Which countries does the bank target for diaspora banking and why?
11. What products has the bank designed to suit its clients in the diaspora?
12. What do you understand by the term remittances?
13. What strategies does the bank use to tap into diaspora remittances?

SECTION D: CHALLENGES

- 14.** What are the challenges faced by Family bank in internationalization?
- 15.** What challenges does Family bank encounter in identifying the diaspora?
- 16.** What are the challenges encountered by the bank in servicing diaspora remittances?
- 17.** How does the bank cope with these challenges?