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Effect Of Sustainable Development Financing On Economic Growth In Kenya

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Abstract
For any economy to grow, financing is a very vital aspect. This study looks at how Kenya's economy is affected by financial resources for sustainable development. It specifically looks at the impact on Kenya's economic growth of foreign direct investment, remittances, external debt, and domestic credit to the private sector. The study was founded on the four theoretical foundations: Electric Paradigm Theory, Dependency Theory, Financial Intermediation Theory, and Institutional Theory. The study adopted correlational research design. Yearly data was collected from 1990 to 2023 on FDI inflows, remittance, external debt, domestic credit and GDP. The study used time series data since the data was collected on yearly basis. Once the data was collected, it was analyzed using STATA software. Descriptive statistics and inferential statistics were carried out as well as pre and post diagnostics tests. The findings showed that foreign direct investment (FDI) had a favorable effect on economic growth. It was also demonstrated that remittances, which encourage investment and the development of human capital, are essential to Kenya's economy. The findings also showed that, despite the possibility that they would negatively impact economic growth, legislative measures should be implemented to maximize their developmental effects. Based on the results, it can be said that Kenya's external debt is a barrier to its economic development. It was suggested that in order to draw foreign capital into important industries like manufacturing, technology, and infrastructure, governments should concentrate on diversifying investment opportunities. Enhancing financial inclusion initiatives is vital; further research is needed to expand on the discoveries about remittances' impact on development. There is also a need to conduct longitudinal studies to monitor the long-lasting effects of sustainable financial development on sustainability and financial stability.
Keywords: *Economic growth, Foreign Direct Investment, Remittances, External Debt, Domestic Credit to Private Sector*

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I. Introduction

The issue of sustainable development financing is of global relevance, and regions on different continents confront similar problems that can be overcome through the adoption of various strategies to achieve economic development as well as social and environmental objectives. Regions struggle with similar issues throughout continents: encouraging economic growth while upholding social fairness and preserving the environment for future generations. The main objective of the study is to determine the effect of sustainable development financing on economic growth in Kenya.

In 2002, during a crucial UN summit in Mexico, the idea of financing for development first emerged. This marked a change in the world's view, understanding how crucial financial resources are to the achievement of development aspirations. Currently, financing plays a crucial role in pushing low-income and developing nations toward the aspirational goals defined in the Sustainable Development Goals (SDGs) (Özekin, 2020). Achieving the SDGs depends more heavily on income than it does on attaining the Millennium Development Goals. The primary objective of this study is SDG 8, which is "Decent Work and Economic Growth." Development has historically depended largely on economic growth, as shown by GDP. Sustainable economic growth, however, needs significant resources for it to achieve SDG 8. Older models frequently put short-term profits ahead of sustainability in the long run. The goal of financing sustainable growth is to end this cycle. Funding ecological and socially beneficial efforts may boost the economy and pave the way for a prosperous future.

European countries consider public and private funding alongside each other for the achievement of sustainable development goals, with the European Green Deal among the strategies to make investments in clean energy, infrastructure and technology that drive economic growth, minimize carbon emissions and enhance social equity (Singh & Gal, 2020). In the same vein, countries in Asia, for instance, China and India, concentrate on infrastructure development and foreign investment so as to achieve economic growth and poverty reduction, where sustainable development financing oftentimes involves large-scale projects in the energy, transport, and urban sectors, among others (Yu, 2020).

In Australia, sustainable development financing is about balancing economic growth with environmental conservation and social inclusion, with government policies promoting investment in renewable energy, sustainable agriculture, conservation projects, and other social issues such as indigenous rights and healthcare access (Chana et al., 2019). In the US, sustainable development financing usually involves mobilizing private investment through mechanisms such as impact investing and green bonds with policies and incentives that encourage businesses to integrate sustainable practices, which in turn foster innovation and economic growth (Zhan & Santos-Paulino, 2021).

Africa faces significant challenges in achieving 1 sustainable development, with poverty, food security, and infrastructure development being pressing concerns across the continent. Due to these issues, sustainable development funding has become essential for economic growth and social equality. For infrastructure, industrialization, and job growth in Africa, foreign direct investment (FDI) is crucial. Remittances from the African diaspora sustain households and boost consumption and investment. However, Africa's dependence on external debt raises worries regarding debt sustainability and foreign lender dependency (Sahoo & Bishnoi, 2021). Debt servicing can prevent African nations from investing in education, healthcare, and social welfare. Corruption in many African countries undermines development financing attempts and public trust in government institutions (Lassou et al., 2021). Infrastructure issues also restrict economic growth and access to healthcare, education, and clean water in Africa. Transportation, energy, and telecommunications infrastructure investments and novel financing structures are needed to mobilize resources to address infrastructure shortfalls. African nations are collecting internal resources and using foreign investment to support sustainable development despite these obstacles (Nyasha & Odhiambo, 2022). To effectively employ development money to reduce poverty, food insecurity, and infrastructure in Africa, governance, transparency, and corruption must be improved. Government, civil society, and the corporate sector must work together to achieve sustainable development and establish resilient economies.

For a long time, the biggest problem facing nations worldwide has been how to promote economic growth in order to guarantee their total economic progress. This holds true for economies in both developed and developing countries. Because of this, several nations have made the decision to encourage sustainable development with the goal of achieving financial advancement and growth. In 2015, the United Nations approved the Sustainable Development Goals (SDGs), additionally referred to as the Worldwide Goals, as an international call to action to eliminate poverty, preserve the environment, and make sure that by 2030, all people live in prosperity and peace.

Simson and Savage (2020) described sustainable development as an approach that meets current needs without sacrificing the capacity of future generations to meet their own. The SDGs are a global effort that aims to guarantee that all people can live in peace and prosperity, eliminate poverty, and safeguard the planet's environment and climate. Following global issues like resource depletion, socioeconomic inequality, and climate change, the pursuit of sustainable development has become an essential mandate for all countries (Kuznets, 2019). Kenya is an outstanding example of how to achieve a balance between sustainability and economic development due to its location at the crossroads of these two fields (Odhiambo & Nyasha, 2022).

II. Statement Of The Problem

Kenya's economy grew broadly between 2015 and 2019, with an average annual growth rate of 4.8%. This led to a significant reduction in poverty, which went from 36.5% in 2005 to 27.2% in 2019 (the $2.15/day poverty line). The COVID-19 pandemic shock of 2020 caused major disruptions in the global economy, including in the hospitality, urban services, international trade, and transportation sectors. Fortunately, the economy's main pillar, farming, remained strong and helped to keep the GDP decline to a feasible 0.3%. The economy recovered nicely in 2021, developing at a rate of 7.5% despite pressure on specific industries, such as tourism.

However, GDP growth slowed to 4.8% in 2022 and was predicted to rise to 5.0% (World Bank, 2022). Comparing to other Africa countries, Nigeria has the biggest GDP in Africa, coming in at over 477.4 billion US dollars in 2022. As a result, South Africa had the second-highest GDP on the continent, valued at 405.7 billion US dollars (Scalamonti, 2023). Two more North African nations, Algeria and Morocco, ranked fourth and fifth on the list of economies, respectively, after Egypt, the third largest. The economies of Africa are expanding quickly. African nations topped the list of nations with the fastest GDP growth rates globally. Kenya was ranked eighth with 115.99 billion US dollars (World Bank, 2022). Comparing to top three countries (Nigeria, South Africa and Egypt) clearly indicates that, Kenyan economy is not significantly growing considering its available economic resources.

Although Kenya has made progress in the direction of sustainable development, strong economic growth is still a challenge. This calls for research into the role of financing for sustainable development. Although a range of finance methods, such as FDI, Remittance, external debt and domestic credit, are utilized to support sustainable development projects, it is unknown how these mechanisms will affect Kenya's economic growth

outcomes. The aim of this study is to evaluate how well financing for sustainable development contributes to Kenya's economic expansion.

III. Review Of Literature

The Eclectic Paradigm Theory

The Ownership, Setting, and Internalization (OLI) paradigm, or eclectic paradigm theory, was initially put forth by John Dunning in 1988 and is widely recognized as an essential theory in the investigation of the tactics and motives of multinational enterprises (MNEs) that engage in foreign direct investment (FDI). The Eclectic Paradigm offers three primary advantages that help explain why firms choose to invest in foreign direct investments. Firms have a competitive advantage in global marketplaces due to ownership advantages like strong brands or copyrights. Certain countries appeal for investment owing to their benefits, such as big markets or workers with advanced skills (Lea, 2019). Lastly, the advantages of internalization help explain why firms may prefer FDI to outsourcing. Businesses have greater authority over their assets, decisions, and earnings when they invest directly. This model covers the different rationales for foreign direct investment (FDI), such as resource acquisition, market access, and efficiency benefits.

The eclectic paradigm hypothesis has changed significantly as a result of improvements in theoretical and empirical research. It addresses the reasons behind organizations' desire for foreign direct investment (FDI) and the factors that affect those decisions. Understanding the behavior of multinational firms is made harder by variations in ownership, location, and internalization advantage frameworks between industries and countries. Dunning's paradigm stresses practical global market difficulties such as knowledge gaps and market faults while stressing numerous FDI objectives such as resource access, market expansion, firm growth, and asset acquisition. Research is also ongoing to improve our understanding of how businesses use these advantages for shareholder value creation, global expansion, and operational optimization.

The theory has a number of strengths and weaknesses as well. The broad approach to FDI that defines the Eclectic Paradigm is its strength. It provides a strong framework for examining MNE conduct in the global marketplace by taking ownership, location, and internalization benefits into consideration. This multimodal method offers an excellent foundation for studying the site choices and motivations of foreign direct investment (Lea, 2019). Critics counter that the method could simplify MNE decision-making by ignoring additional important factors such as institutional contexts, political risks, and cultural variances. In addition, some academics believe that the theory is capable of accurately capturing the dynamic character of global markets and the manner in which multinational enterprises (MNEs) change their strategies in response to evolving technological, financial, and geographic environments.

Eclectic paradigm theory is significant in the context of this study as it explains the vital role played by foreign direct investment in Kenyan economy. The theory offers a solid theoretical foundation for investigating the whereabouts and causes behind MNEs' foreign investment decisions when utilized in empirical research and situations in the real world. Researchers can learn much about MNE strategy decisions and how they affect the economic growth of the nations where they operate by examining the relationship between possession, geographical, and internalization benefits (Lea, 2019). Moreover, the theory's recognition of MNE heterogeneity and host country circumstances highlights the worth of executing context-specific analyses when examining international business phenomena, which strengthens our knowledge of the details of business approach and integration of the global economy.

Empirical Literature Review

With regard to the ways in which economic freedom (EF) affects the dynamics of foreign direct investment (FDI), Singh and Gal's (2020) research offer helpful details about the complex connection between EF and FDI influx across various sectors. Based on their research, they found that areas with more economic freedom, like Europe, Latin America, and South Asia, tend to draw more foreign direct investment. The correlation between the two variables indicates that business-friendly policies, protection of property rights, and investment freedom are among the key factors that draw in international investors.

The presence of extra factors, such as geopolitical instability, regulatory obstacles, and governance issues, that may outweigh the impact of economic freedom is highlighted by North Africa and Eastern Europe. Expanding on this knowledge, Okwu, Oseni, and Obiakor's (2020) study examines the direct effects of foreign direct investment (FDI) inflows on economic growth in a global setting, emphasizing the vital role that FDI plays in promoting sustainable economic development. Their empirical analysis shows that FDI and economic growth are positively correlated in all of the nations they looked at, suggesting that increased FDI leads to improved output expansion and general economic prosperity. This finding underscores the importance of attracting foreign investment through proactive policies and strategies aimed at creating an enabling environment for investors, including investment promotion, infrastructure development, and regulatory reforms.

The emphasis on adequate gross fixed capital formation (GFCF) also draws attention to the complementary role that domestic investment has in maximizing the beneficial impact of FDI inflows on economic growth through the use of its benefits. Furthermore, in the context of Asian rising nations, the research of Sahoo and Bishnoi (2021) offers important data on the effects of outward foreign direct investment (OFDI) on the economy. Their study clarifies how foreign direct investment (OFDI) contributes to economic growth by enabling trade and creating beneficial spillover effects that support overall economic growth. The identification of a substitution impact for domestic investment, however, emphasizes how important it is for policymakers to find a middle ground between fostering local investment and boosting foreign direct investment in order to guarantee sustained growth.

The study carried out by Opeyemi (2020) offers significant perspectives on the complex interplay among foreign direct investment (FDI), inflation, and economic expansion within the African setting. Their study, which focuses on five randomly chosen African states, shows that foreign direct investment (FDI) has a beneficial effect on economic growth in the majority of these countries, highlighting FDI as a major force behind regional economic progress. The necessity of taking into account nation-specific characteristics, such as regulatory frameworks, institutional quality, and market conditions, that may alter the relationship between FDI and economic growth is shown by Egypt's exception.

Furthermore, their results on the negative impact of inflation on economic growth show the vital role of macroeconomic stability and cautious monetary policy in promoting long-term economic progress in Africa. Similarly, Acquah and Ibrahim's (2020) study explores the intricate relationship between foreign direct investment (FDI), economic expansion, and the development of the banking sector in a variety of African nations. According to their findings, foreign direct investment (FDI) has a complex and sometimes unclear relationship with economic growth. Although FDI may boost GDP, its effects are dependent on how developed each nation's financial sector is. The observed dampening effect of the financial sector on the positive relationship between FDI and economic growth highlights the importance of a well-functioning financial system in channeling foreign investment towards productive activities and facilitating economic expansion.

Additionally, Yeboua's (2021) analysis shows how institutional development affects the link between foreign direct investment and growth in Africa. Their findings highlight the crucial role that high-quality institutions play in maximizing the potential of foreign direct investment (FDI) for economic growth, with institutional development serving as the foundation for realizing the rewards of FDI. Their research emphasizes the need for African countries to prioritize institutional reforms aimed at enhancing governance, rule of law, and regulatory frameworks in order to attract and effectively utilize foreign investment for sustainable development. This is because it highlights the conditioning effect of institutional quality on the relationship between FDI and economic growth.

Odhiambo's (2022) research offers crucial new information about the causal relationship between foreign direct investment (FDI) and Kenya's economic expansion. Based on their findings, which show a one-way causal flow from economic growth to FDI, Kenya's solid economic performance and sound macroeconomic policies have played a major role in attracting large inflows of FDI. This underscores the role of economic growth as a magnet for foreign investment, indicating that a thriving economy creates an environment conducive to FDI attraction. Building on this foundation, Gutola and Milos (2022) delve deeper into the broader impact of FDI on the overall economic growth trajectory of Kenya.

Their study, focusing on key macroeconomic indicators such as GDP, balance of payments, and exports, elucidates the positive effects of FDI on the Kenyan economy. By employing a descriptive research design, they highlight the multifaceted benefits of FDI, including income growth, modernization, and poverty reduction. This underscores the pivotal role of FDI in fostering economic development, as it contributes to various aspects of the economy's performance and resilience. Furthermore, Macheru (2023) contributes additional insights by examining the specific effects of FDI on both GDP and employment in Kenya. Their study, spanning from 1990 to 2016 and employing time series data and the ordinary least squares method, uncovers a robust positive relationship between FDI and output growth, as well as employment generation in the country. This highlights the role of FDI as a catalyst for economic growth and job creation, emphasizing its potential to stimulate output expansion and contribute to employment opportunities in Kenya.

IV. Research Methodology

This study used a correlational research design to look at the impact of sustainable development finance resources on Kenyan economic growth. Employing a correlational research approach, the investigation provided a comprehensive assessment of the problem, creating a foundation for informed data analysis and interpretation.

This study focused on data on Kenyan economic growth from 1978 until 2022. This information was gathered from the Kenya World Bank Economic Report, the Kenya Central Bank website, and the Kenya National Bureau of Statistics.

This study will use secondary data. The project collected annual time series data on foreign direct investment, remittances, external borrowing, domestic credit to the private sector, and changes in economic growth. The study collected data using time-series data collection forms in accordance with the research goals. In this study, data was gathered, assessed for completeness, and then transformed using natural logarithms. The data was studied with descriptive metrics such as mean, kurtosis, skewness, and standard deviation. It was also examined using inferential statistics, such as multivariate time series analysis and multiple linear regression. Pre and post estimation diagnostic tests were carried. Tables and graphs were used to present the results. The model that was tested in the study is as follow:

$Yt = \beta 0 + \beta 1X1t + \beta 2X2t + \beta 3X3t + \beta 4X4t + \acute{\varepsilon}t$

Where:
Y= Economic Growth in Kenya
X1= Foreign Direct Investment
X2=Remittances
X3= External debt
X4= Domestic credit to private sector
έi= error term

Multivariate time series analysis will also be carried out. Vector Error Correction Model (VECM) econometric model will be utilized in this case. Below are multivariate equations:

$Economic\ growth_{t} = \sigma + \sum^{K}_{h=1} \delta h FDI_{t-h} + \sum^{K}_{i=1} \beta i\ Remittances_{t-i} + \sum^{k}_{j=1} \gamma j\ External\ debt_{t-j} + \sum^{k}_{m=1} \theta m Domestic\ credit_{t-m} + \mu_{1t}$

$FDI = \sigma + \sum^{K}_{h=1} \delta h Economic\ growth_{t-h} + \sum^{K}_{i=1} \beta i\ Remittance_{t-i} + \sum^{k}_{j=1} \gamma j\ k\ External\ debt_{t-j} + \sum^{k}_{m=1} \theta m Domestic\ credit_{t-m} + +\mu 2t$

$Remittance t = \sigma + \sum^{K}_{h=1} \delta h Economic\ Growth_{t-h} + \sum^{K}_{i=1} \beta i FDI t-i + \sum^{k}_{j=1} \gamma j\ External\ Debt_{t-j} + \sum^{k}_{m=1} \theta m Domestic\ credit_{t-m} + \mu_{3t}$

$External\ Debt t = \sigma + \sum^{K}_{h=1} \delta h Economic\ growth t-h + \sum^{K}_{i=1} \beta i FDI_{t-i} + \sum \gamma j\ k\ j=1\ Remittances_{t-j} + \sum^{k}_{m=1} \theta m Domestic\ credit_{t-m} + \mu 4t$

$Domestic\ credit t = \sigma + \sum^{K}_{h=1} \delta h Economic\ Growth_{t-h} + \sum^{K}_{i=1} \beta i FDI_{t-i} + \sum^{k}_{j=1} \gamma j\ Remittances_{t-j} + \sum^{k}_{m=1} \theta m External\ debt_{t-m} + \mu 5$

V. Finding And Discussion

Descriptive Statistics

The aim of this study was to examine the effect of sustainable development financing on economic growth in Kenya. Sustainable development financing was operationalized as Foreign Direct Investment, Remittances, External debt and domestic credit to private sector. There were times when economic growth was inverse, but on average it was 3.94% with a maximum of 8.06%. The standard deviation was 2.321, which amply demonstrated the significant fluctuations in the rate of economic growth over the period in consideration. The average Foreign Direct Investment was 1.459 with a maximum of 4.9107 and minimum of -2.087. The average Remittances was 2.528 with a maximum of 6.171 and minimum of -1.944. The average external debt was 5.906 with a maximum of 8.496 and minimum of 2.821. On the other hand, the average of Domestic credit was 5.318 with a maximum of 8.345 and minimum of 2.186.

Table 4.1 Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.
GDPGrowth	45	3.943	2.321	-.799	8.058	-.799	8.058	-.278	2.216
LnFDI	45	1.459	2.142	-2.087	4.911	-2.087	4.911	.087	1.75
LnRemit	45	2.528	2.303	-1.944	6.171	-1.944	6.171	-.181	1.883
LnExternalDebt	45	5.906	1.519	2.821	8.497	2.821	8.497	-.255	2.378
Lndomestic Credit	45	5.318	1.962	2.186	8.345	2.186	8.345	-.029	1.711

Time series Analysis

Stationarity Test

Augmented Dickey Fuller (ADF) was applied to examine the stationarity of variables under examination. The null hypothesis indicated presence of unit roots (non-stationary) against lack of unit roots (stationarity). The result indicated that both Economic growth, Foreign Direct Investment and Remittances were stationary at levels while External debt and Domestic credit were stationary at the first differences.

Table 4.2 Stationarity Test

	At levels			At the first difference	
	T	CV	Sig	T	CV
Economic growth	-4.294	-3.528	0.0032		
LnFDI	-4.324	-3.528	0.0027		
LnRemittances	-4.448	-3.528	0.0018		
LnExternal debt	-1.837	-3.528	0.6869	-1.995	-1.950
LnDomestic credit	-2.207	-3.528	0.4858	-2.073	-1.950

Lag Selection Criteria

The results indicate that the number of optimal lags is one as indicated by both Schwarz information criterion, Hannan-Quinn information criteria, Final prediction error and Akaike information criterion. On the other hand, Sequential modified LR test statistic criterion indicate optimal lags as four.

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-158.579				0.002453	8.17896	8.25529	8.39007
1	-85.1184	146.92	25	0.000	0.00022*	5.75592*	6.2139*	7.02258*
2	-71.1016	28.034	25	0.306	.000405	6.30508	7.14472	8.62729
3	-45.6087	50.986	25	0.004	0.000465	6.28044	7.50173	9.6582
4	-16.1014	59.015*	25	0.000	0.000525	6.05507	7.65801	10.4884

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Johansen Cointegration

Johansen Cointegration was carried out to examine the long run effect of sustainable development financing on economic growth in Kenya. The null hypothesis stated that there was no cointegration. The results indicate that, there is a maximum of four cointegrated equations. Since there was cointegration in the model; Vector Error Corrected Model (VECM) was applied to examine the effect of sustainable development financing on economic growth in Kenya.

Vector Error Corrected Model

VECM was applied to examine the effect of sustainable development financing (foreign direct investment, remittances, external debt and domestic credit) on economic growth. Since the selected lag was one, all variables were lagged for only one period.

In the long run, both FDI and Remit has a positive impact on GDPgrowth. The coefficients are statistically significant at 5% level. On the other hand, both Domestic credit and External debt have asymmetric effects on GDPgrowth in the long-run, on average, ceteris paribus.

$Economic\ growth\ t = 1.4973 + \sum_{h=1}^{K} 2.78\,\boldsymbol{t-h} + \sum_{i=1}^{K} 4.86 Remittances\ t-i - \sum_{j=1}^{k} 5.55\ External\ debt\ t-j + \sum_{m=1}^{k} 0.3173 Domestic\ credit\ t-m + 0.05481t$

The adjustment term (0.0548748), suggesting that previous year's error (or deviation from long-run equilibrium) are corrected for within the current year at a convergence speed of 5.49%. Results of the study indicates that 44.76% of changes in economic growth was explained by FDI, remittances, external debt and domestic credit for current period. The remaining proportion was attributable to extraneous attributes excluded in the model. Further, economic growth lagged for one period have positive statically significant relationship with current period economic growth. Although, FDI has positive relationship it was not significant with economic growth.

Moreover, remittances lagged for one period had positive though not statistically significant positive relationship with economic growth. External debt had negative though not significant effect with economic growth in Kenya. Domestic credit had positive effect but not statistically significant.

Table 4.4 VECM Model

	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	-.821	.229	-3.58	0	-1.27	-.372	***
L	-.544	.666	-0.82	.413	-1.849	.76	

L	-.644	.759	-0.85	.396	-2.131	.843	
L	-.944	1.167	-0.81	.418	-3.231	1.343	
LD	.142	.193	0.74	.46	-.235	.52	
LD	.188	.434	0.43	.664	-.663	1.039	
LD	.982	.758	1.30	.195	-.503	2.468	
LD	1.62	3.45	0.47	.639	-5.142	8.383	
LD	-1.103	4.231	-0.26	.794	-9.394	7.189	
Constant	.001	.947	0.00	1	-1.856	1.857	
L	.099	.084	1.18	.239	-.066	.265	
L	-1.154	.245	-4.71	0	-1.634	-.674	***
L	.251	.279	0.90	.368	-.296	.799	
L	-.492	.43	-1.14	.253	-1.334	.35	
LD	-.067	.071	-0.95	.342	-.206	.072	
LD	.184	.16	1.15	.25	-.129	.497	
LD	-.456	.279	-1.63	.102	-1.003	.091	
LD	-.146	1.271	-0.11	.909	-2.636	2.345	
LD	2.858	1.558	1.83	.067	-.195	5.912	*
Constant	.002	.349	0.01	.996	-.682	.685	
L	.043	.05	0.86	.387	-.055	.141	
L	-.142	.145	-0.98	.325	-.426	.141	
L	-.757	.165	-4.59	0	-1.08	-.433	***
L	.274	.254	1.08	.281	-.224	.771	
LD	-.015	.042	-0.35	.723	-.097	.067	
LD	.102	.094	1.08	.28	-.083	.287	
LD	.334	.165	2.03	.043	.011	.657	**
LD	.28	.75	0.37	.709	-1.191	1.75	
LD	.86	.92	0.93	.35	-.943	2.663	
Constant	.002	.206	0.01	.993	-.402	.405	
L	.004	.013	0.31	.758	-.022	.03	
L	-.022	.038	-0.59	.555	-.097	.052	
L	-.001	.043	-0.02	.983	-.086	.084	
L	-.092	.066	-1.39	.164	-.222	.038	
LD	-.009	.011	-0.80	.421	-.03	.013	
LD	-.023	.025	-0.92	.355	-.071	.026	
LD	-.06	.043	-1.39	.163	-.145	.024	
LD	.333	.196	1.70	.09	-.052	.718	*
LD	.306	.241	1.27	.204	-.166	.778	
Constant	.025	.054	0.47	.64	-.08	.131	
L	.001	.008	0.14	.886	-.015	.017	
L	.038	.024	1.59	.112	-.009	.084	
L	.015	.027	0.55	.582	-.038	.068	
L	.039	.042	0.93	.353	-.043	.12	
LD	.011	.007	1.59	.111	-.003	.024	
LD	-.027	.015	-1.76	.078	-.058	.003	*
LD	-.011	.027	-0.42	.671	-.064	.041	
LD	.067	.123	0.55	.584	-.174	.308	
LD	.389	.151	2.58	.01	.093	.685	***
Constant	.084	.034	2.48	.013	.018	.15	**

Post Estimate Analysis
Post estimation analysis was carried to examine the stability of the model.

Autocorrelation test
Residual autocorrelation test was carries out and the results indicated that there was no autocorrelation at lag order.

Roots Characteristics Polynomial
The result indicates that the roots characteristics were unit hence the model was stable

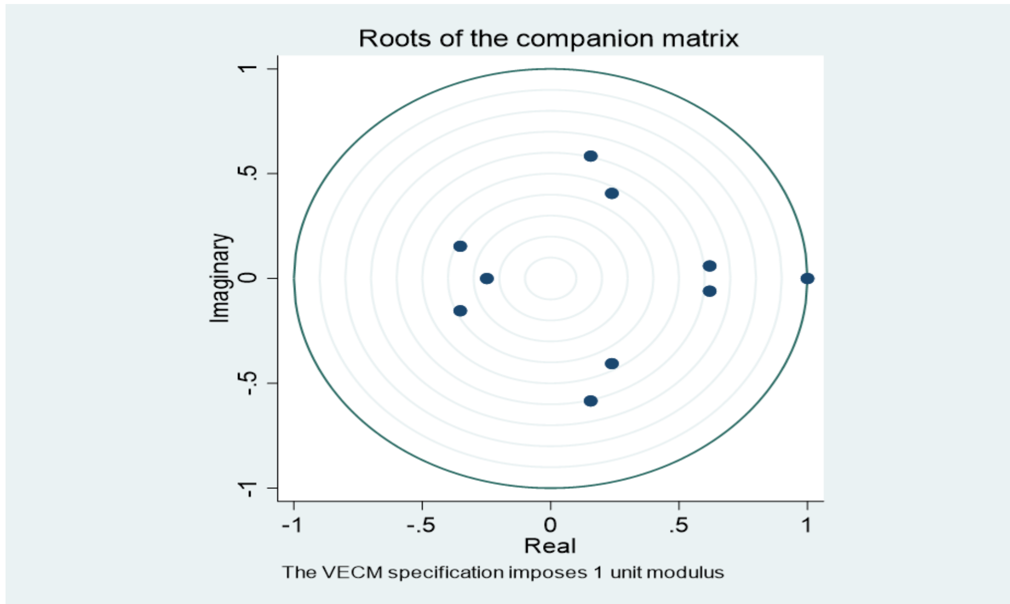

Figure 4.1 Roots Characteristic Polynomial

Impulse Response

The results indicate that economic growth responds to shocks of FDI, remittances, external debt and domestic credit to private sectors. There was a positive shock of shocks of FDI, remittances, external debt and domestic credit to private sectors on economic growth in Kenya.

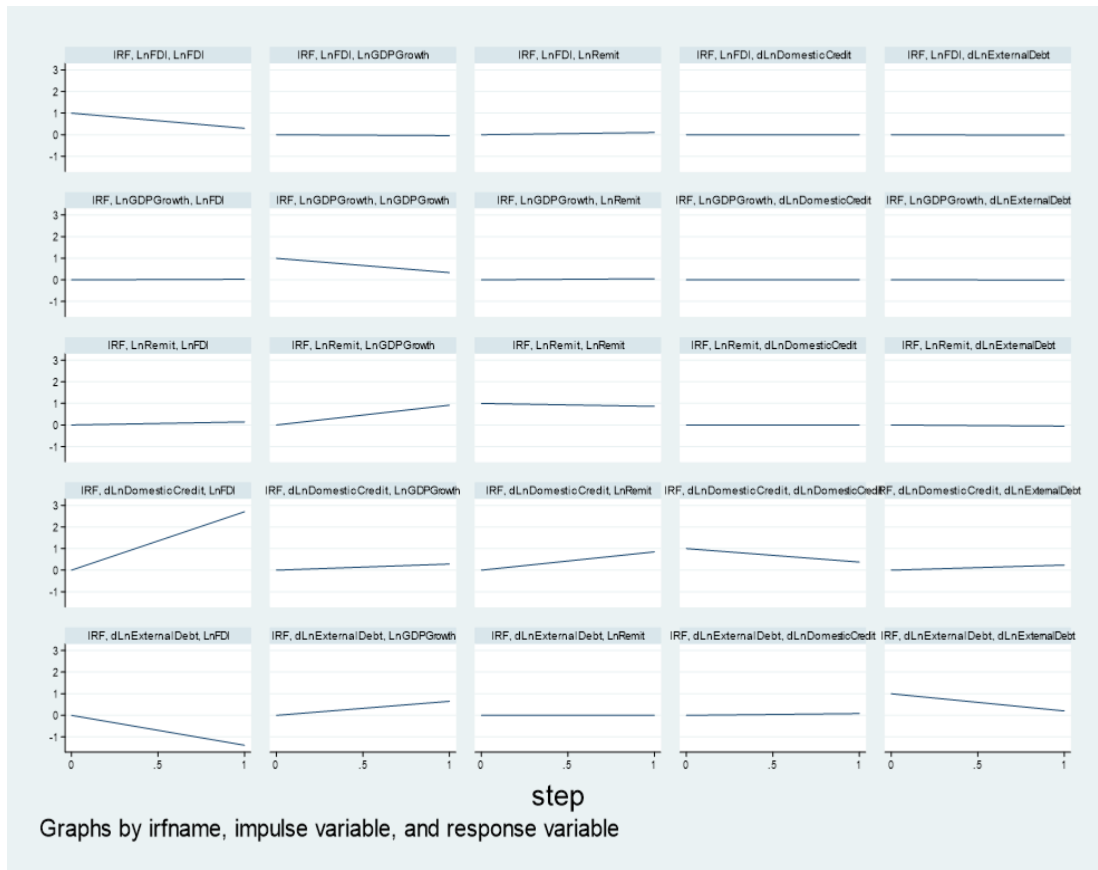

Figure 4.2 Impulse Response

VI. Conclusion And Recommendations

Conclusion

The first objective was to determine the effect of FDI on Economic growth in Kenya. Results analysis showed that Foreign Direct Investment has a positive effect on economic growth and at 5% significate level is not statistically significant. This positive correlation implies that business-friendly policies, property rights protection, and investment versatility are only a few of the favorable economic variables that draw in foreign capital. The study's findings demonstrated the beneficial impact of foreign direct investment on economic expansion. The study further demonstrated that while foreign direct investment (FDI) has the potential to raise GDP, its benefits depend on the state of each country's financial sector.

The second objective was to determine the effects of Remittances on economic growth in Kenya. According to regression analysis, remittances have a negative impact on economic growth, although this effect is not statistically significant at the 5% significance level. These findings demonstrate the critical role that remittances play in propelling global economic growth. Remittances have a detrimental impact on economic growth, whether the research is conducted in the short or long term. Additionally, it has been shown that remittances promote investment and the growth of human capital. This emphasizes how important it is to create an atmosphere that is welcoming to remitters in order to stimulate the flow of remittances into Kenya. To optimize the developmental impact of remittances on the economy and to enhance their flow, legal measures are required.

The third objective was to determine the effect of External debt on economic growth in Kenya. Results shows that External debt also has a negative effect on economic growth and at 5% significate level is not statistically significant. High levels of foreign debt may make it more difficult for a country to experience long-term economic growth by reducing government spending on needs like infrastructure, healthcare, and education. The findings emphasized the importance of financial reforms in advancing economic growth and the role that a sound financial system plays in encouraging real growth.

The fourth objective was to determine the effect of Domestic Credit to Private Sector on economic growth in Kenya. According to results, Domestic credit has positive effect on economic growth but still at 5% significant level is not statistically significant. To accomplish economic change and sustained growth, open economies like those in Africa need to diversify their export sources. Liquidity restrictions can be solved with development funding, which is why domestic credit is a crucial instrument for export diversification programs.

Recommendation

Firstly, in order to attract foreign money into key sectors like manufacturing, technology, and infrastructure, policymakers should focus on increasing the range of investments. This is necessary because FDI has a beneficial impact on economic growth. This diversification can improve the country's resistance to external shocks and help minimize risks. Additionally, to strengthen financial inclusion programs, more work has to be done, building on the findings about the effects of remittances on development. This includes making banking services more readily available, promoting digital financial solutions, and providing financial education initiatives to empower communities and individuals.

Improving fiscal discipline and debt management procedures is imperative given the challenges caused by large levels of foreign debt. This involves putting sensible borrowing practices into place, increasing debt transparency, and making investments in sectors with strong growth potential the highest priority. Additionally, authorities need to give priority to initiatives that encourage SME financing, given the importance of domestic credit for the growth of the private sector. This can involve putting in place credit guarantee applications, increasing SMEs' access to financing, and providing technical support to speed up their growth. Additionally, because human capital is the main driver of economic growth, it is important to make investments in healthcare, education, and training. Policymakers may develop a competent workforce that promotes innovation, productivity, and longevity by investing in human capital.

Policy interventions need to focus on setting in place investment promotion regulations that meet the different needs of those involved. Policymakers may draw in a number of investors, including large corporations, small and medium-sized enterprises, and local entrepreneurs, through customized incentives and support systems. This will encourage economic growth and generate employment opportunities. Strategies for financial inclusion that respond to the special needs of those with limited resources and marginalized groups should also be given top priority. Through improving access to financial services, promoting financial literacy, and establishing a favorable regulatory environment, authorities may allow people to engage deeper in the economy to improve their means of living. In addition, to ensure the sustainability of external borrowing and protect the best interests of all stakeholders, a structure for open and transparent debt management is necessary. Governments can reduce the risks associated with foreign debt, preserve financial stability, and promote long-term expansion and investment through the use of best practices in debt management.

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