

TABLE OF CONTENTS

APPROVAL PAGE	i
DECLARATION	ii
ABSTRACT	iii
ABSTRAKSI	iv
FOREWORD	v
TABLE OF CONTENTS	vii
LIST OF FIGURES	x
LIST OF TABLES	xi
CHAPTER I	1
INTRODUCTION	1
1.1 Background	1
1.2 Problem statement	9
1.3 Research Objectives and Benefits of Findings.....	10
1.3.1 Objectives of this study	10
1.3.2 Benefits of the findings	11
CHAPTER II	12
LITERATURE REVIEW AND THEORETICAL FRAMEWORK	12
2.1 Theoretical Review	12
2.1.1 Fiscal Displacement Effect.....	12
2.1.2 External Debt Theory	15
2.1.3 Debt Overhang Theory	16
2.1.4 Crowding Out Effect.....	18
2.2 Empirical Literature Review	19
2.2.1 External Debt Service and Education Access	19
2.2.2 External Debt Service and Government Expenditure on Education	20
2.2.3 Sectoral and Social Implications of External Debt: Education Access.....	21
2.3 Conceptual Framework.....	26
2.4 Theoretical Hypothesis	29
CHAPTER III	30
RESEARCH METHODS	30
3.1 Operational Definition of the Variables.....	30
3.1.1 Primary School Enrollment Rate (%)	30

3.1.2 External Debt Service	30
3.1.3 External Debt Stock	31
3.1.4 Gross Domestic Product	31
3.1.5 Government Expenditure on Education	31
3.2 Types and Sources of Data	32
3.3 Analysis Techniques	32
3.4 Empirical model	34
3.4.1 Theoretical Functional Relationship	34
3.4.2 First-Stage OLS Model	35
3.4.3 Second-Stage ARDL Model	36
3.4.4 ARDL Specification	36
3.5 Autoregressive Distributed Lag (ARDL)	37
3.5.1 Estimation Procedure and Model Validation	38
3.5.2 Justification of the ARDL Approach	39
CHAPTER IV	41
GENERAL DESCRIPTION OF THE RESEARCH OBJECTIVES	41
4.1 Introduction	41
4.2 Description of the Study Area: Kenya	42
4.3 Overview of External Debt in Kenya	44
4.4 Trends in External Debt Servicing	46
4.5 Government Expenditure on Education	48
4.6 Trends in Education Enrollment	49
4.7 GDP and Economic Growth	51
CHAPTER V	54
RESULTS AND DISCUSSION	54
5.1 Results	54
5.2 Description of the Variables	55
5.3 Results of the Two-Stage OLS–ARDL Model	56
5.4. Discussion	63
CHAPTER VI	69
CONCLUSION AND RECOMMENDATION	69
6.1 Conclusion	69
6.2 Recommendations	70

6.3 Practical Implications	70
6.4 Limitations of the Study	71
6.5 Research Suggestions.....	73
Reference	74
Appendices	79



LIST OF FIGURES

Figure 1.1 Debt Service On External Debt 1970-2023 (in million US\$)	15
Figure 1.2 Government Expenditure On Education 1970-2023 (% Of GDP).....	17
Figure 1.3 School enrollment, primary 1970-2023.....	18
Figure 2.1 Debt Laffer Curve.....	30
Figure 3.1 Conceptual Framework.	41
Figure 5.1: CUSUM Stability Plot (5% Significance Bounds).....	74
Figure 5.2: CUSUM of Squares Stability Plot (5% Significance Bounds)	75



LIST OF TABLES

Table 2.1 Summary of the Previous Studies.....	37
Table 5.1: Description of Variables	68
Table 5.2 OLS	69
Table 5.3 Phillips–Perron Unit Root Test Results	70
Table 5.4 Error Correction Term (Speed of Adjustment).....	70
Table 5.5 Long-Run (Levels) Equation Coefficients.....	71
Table 5.6 ARDL Bounds Test for Cointegration.....	72
Table 5.7 Short-Run Conditional Error Correction Regression.....	72
Table 5.8 Breusch–Godfrey LM Serial Correlation Test.....	72
Table 5.9 Jarque–Bera Normality Test	73
Table 5.10 Breusch–Pagan–Godfrey Heteroskedasticity Test.....	73

