ABSTRACT

This study examines the effect of external debt service on education access in Kenya, measured by the primary school enrollment rate. The study is motivated by concerns that increasing external debt obligations may reduce fiscal space available for social sector investment, particularly education. The study adopts a quantitative research approach using annual time-series data covering the period 1970 to 2023. Secondary data were obtained from the World Bank, the International Monetary Fund (IMF), and the Central Bank of Kenya.

The novelty of this study lies in the application of a two-stage estimation approach to address potential endogeneity between government expenditure on education and education access. In the first stage, government expenditure on education is estimated using an Ordinary Least Squares (OLS) model based on external debt service, external debt stock, and economic growth. The fitted values of government expenditure on education are then incorporated into the Autoregressive Distributed Lag (ARDL) model to examine their effect on primary school enrollment. This approach improves estimation by reducing potential simultaneity bias and capturing the fiscal transmission mechanism from debt-related pressure to education access.

The ARDL results show that external debt-related fiscal pressure has a negative and statistically significant short-run effect on primary school enrollment. The short-run coefficient is -9.955, with a probability value below the 5 percent significance level, indicating that an increase in debt-related fiscal pressure reduces education access in the short run. However, the bounds test does not confirm a stable long-run relationship at the 5 percent significance level, suggesting that long-run effects cannot be established with strong statistical confidence.

The study concludes that external debt service affects education access mainly through short-run fiscal constraints. The findings recommend strengthening debt management strategies, prioritizing sustainable borrowing, and protecting education expenditure during periods of fiscal adjustment to maintain access to primary education and support human capital development in Kenya.

Keywords: ARDL, Education Access, Debt Service, Debt Sustainability, Human Capital, Kenya.