

Abstract

This paper investigated the effect of foreign debt on literacy rate in Kenya. In the fiscal year 2021/2022, public debt as a percentage of gross domestic product was 67 per cent, which was higher than the debt ceiling of 55 per cent of gross domestic product. External debt accounted for 52% of this total debt as of 2022, exhibiting a consistent increase since 2013, surpassing domestic debt. The burden of servicing foreign debt may subsequently pose a challenge to the government in fulfilling its commitments in the education sector. Consequently, lower literacy rates impede a nation's socio-economic progress as literacy is critical for promoting peace and adopting new technologies, both of which drive development. This study used the primary school completion rate as a proxy for literacy. Secondary data published in international and national organizations from 1990 to 2021 was employed for analysis. The study's theoretical framework was pegged on a consumer utility maximization of a merit-good education constrained by the government's financing. The relevant time series and diagnostic tests were performed on the data series and models. Auto Regressive Distributed Lag model was used for estimation using ordinary least squares. The findings were that foreign debt hurt literacy rate in the long run and had a positive effect in the short run. The study recommends prudent management of foreign debt, so that it can facilitate improvements in the education sector..