

**EFFECT OF GOVERNMENT'S HUMAN CAPITAL EXPENDITURE  
ON POVERTY RATES IN KENYA**

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Chuka University**

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## DECLARATION AND RECOMMENDATIONS

### Declaration

This thesis is my original work and has not been submitted for the award of a diploma or conferment of a degree in any other institution.

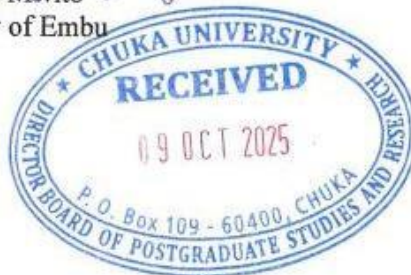
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### Recommendation

This thesis has been examined, passed and submitted with our approval as university supervisors.

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## **DEDICATION**

To my incredible parents, for your endless love, tireless sacrifices, and for instilling in me the value of education. This achievement is as much yours as it is mine. And to my beloved brother and sisters, thank you for your constant encouragement, laughter, and for always being my greatest cheerleaders.

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## ABSTRACT

Poverty remains a significant socio-economic challenge in Kenya, with approximately 36 percent of the population living below the international poverty line of \$2.15 per day despite substantial government investments in human capital. This study utilized a causal research design to investigate the effect of government expenditure on education, health, and technology on poverty rates in Kenya from 1975 to 2024. Employing an Autoregressive Distributed Lag model, the study analyzed both short-run and long-run relationships, using secondary data from the Kenya National Bureau of Statistics and the World Development Indicators, with the Stata software used for the econometric analysis. The findings revealed a stable long-run cointegrating relationship among the variables as confirmed by the Autoregressive Distributed Lag Bounds Test. The error correction term was statistically significant at the 1 percent level, indicating a moderate speed of adjustment, with over half of short-run deviations in poverty levels corrected each year. The findings further revealed that government expenditure on education had a statistically significant poverty-reducing effect in both the long run and the short run, significant at the 1 percent and 10 percent levels respectively. Similarly, government expenditure on health demonstrated a strong and statistically significant poverty-reducing impact in both the long run and the short run, each significant at the 1 percent level. In contrast, government expenditure on technology and innovation was statistically insignificant in both the short run and the long run. Overall, the model exhibited strong explanatory power with a high goodness of fit. These results underscore that increased investments in education and health significantly contribute to poverty reduction in Kenya, guiding targeted policy formulation for efficient resource allocation. Based on these findings, the study recommends enhancing both the scale and quality of government expenditures in education and health to sustain and deepen their poverty-reducing impact. It further advocates for a strategic reorientation of technology expenditure to prioritize digital inclusivity and its integration into essential services like education and healthcare. The study also highlights areas for further study on optimizing human capital spending, particularly in the technology sector, to ensure inclusive effect on poverty alleviation.