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IMPACT OF PUBLIC DEBT ON ECONOMIC GROWTH IN THE PUBLIC SECTOR IN KENYA: A CRITICAL REVIEW OF LITERATURE.

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1.0 Abstract:-
The main purpose of this paper was to review the literature on the how public debt components influence economic growth in the public sector. The specific objectives of the review were to identify trends in published literature on public debt components and economic growth in the public sector; identify major conflicts and or inconsistencies in theory, concepts, methodology, findings and conclusions; identify the gaps and flaws in research within the context of public debt components and economic growth; and build propositions based on identified thematic areas. Literature on public debt components adopted to influence economic growth in the public sector was collected and analyzedfrom secondary sources. These sources included books, research publications, academic publications and journals. The general trend focused on public debt components that are important in influencing economic growth in the public sector. Major conflicts in theory, concepts and methodology were identified and documented. The gaps revealed that majority of publications reviewed were not grounded in theory for their studies. The literature too revealed a lack of agreement on the overall impact of public debt components on economic growth. A conceptual gap was noted in which all the research publications ignored the impact of intervening variables on the relationship between the predictor variables and the output variables. Also most publications considered public debt components as first order constructs, leaving a gap on what type public debt components to guide and help prioritization of the components during adoption and none of the reviewed studies has investigated the influence of a moderating variable on the relationship between the public debt components and economic growth. From the reviewed literature, the study findings led to the following prepositions: To examine the effect internal and external debts on economic growth in the public sector; To assess the impact of Productive and unproductive Debt on economic growth in the public sector; To evaluate the effect of Compulsory and Voluntary Debt on economic growth in the public sector; To assess the impact of Redeemable and Irredeemable Debt on economic growth in the public sector. This study recommends further research to compare and ascertain the strength of the relationship between the thematic areas and economic growth in the public sector; further research is also required to establish the influence of public debt on economic growth in the public sector. Another area that requires further research according to the reviewed literature is on assigning weights to public debt components to assist the country.

2.0 INTRODUCTION

2.1 identification and definition of general topic.

Fiscal policy is the use of taxation and government spending for the purposes of achieving set macroeconomic goals in the economy. Such goals includes, increase in economic growth, reduction in unemployment, reduction on rate of inflation and money supply etc, by the use of either expansionary or contractionary means.

Expansionary fiscal policy is fiscal strategies adopted to enlarge an economy such as reducing tax rates, increasing direct payments to consumers through tax refunds and increase in government spending in order to boost economic activity as the activity of the private sector decreases. These policies contribute to growth in total demand as well as expansion in total supply leading to greater production and improvement in economic output. It is followed by expansionary monetary policies such as reducing interest rates and increasing money supply in money markets thus making access to money easier in order to maintain economic activity or enhance it during a depression. On the other hand, contractionary policy remains those measures adopted to decrease activities in the economy in order to achieve growth in the long run, such as increasing taxes and reducing government spending. It is essentially adopted to control inflation and can be denoted as “cooling down" an economy as the policy reduces the total demand and total supply which in turn brings down production and economic output at large. The policies are usually accompanied by contractionary monetary policies such as increasing interest rates and decreasing money supply in the money markets thus making access to money more difficult in the economy.

Public debt also known as government debt or national debt is money owed by government or total debt of all governmental units, including state and local governments. Public debt is defined as the total financial responsibilities acquired by governmental bodies of a nation, which includes money that is owed to individuals, mutual funds, hedge funds, pension funds, foreign governments and others. It considers government liabilities, future pension payments and payments for goods and services that the government contracted but not yet paid for. Public debt is one of the methods of financing government operations; governments can also create money to settle her debts in order to avoid interest payment, though creation of money will only reduce interest cost and will not cancel the debt itself which may cause hyperinflation. And in some other times government might

2.2 Identify the General Trend In Published Literature

Non-performing loans (NPLs) denote those financial assets from which banks no longer receive interest and/or instalment payments as planned. This is because the loan ceases to “perform” or generate income for the bank. Joseph, Edson, Manuere, Clifford, and Michael (2012) defines NPLs as loans that are ninety days or more past their due date or not accruing interest anymore. Badar and Javid (2013) state that a loan is considered as nonperforming if it is in default or close to being in default. High NPLs stock is a noteworthy predictor of bank failure, and distorts banks cost structure and efficiency (Lu &Whidbee, 2013; Maggi &Guida, 2009; Cucinelli, 2015).

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Many studies have addressed the issue of public debt to developing countries. Most studies have dealt with the economic impact of loans on the economic activity of the state, such as the study (Momani, 1995) aimed at identifying the causes of external indebtedness of Jordan and a statement of the size of this debt in addition to measuring the burden of these loans, as I dealt with the economic effects of foreign loans on a number of macroeconomic variables during the period (1967-1991). The study concluded that the loans did not help to achieve high growth rates and did not reduce the deficit in the trade balance. And in the study (AlTaei and al- Ubaidi, 1997), which aimed to demonstrate the direct and indirect effects of external indebtedness on the Turkish industrial output during the period (1970-1994) and through this study the researcher found that the impact of external indebtedness on industrial output in Turkey.

Al-Hashemi (1999) examined debt in Algeria and focused on the main causes, burdens and effects of these debts on the Algerian economy during the period from 1967 to 1994. The study concluded that there is a negative impact on foreign economic at the economic and social level.

Lioha (1999) used simulations to check the impact of external debt on the economic growth of a number of countries of the African continent during the period 1974-1994 and found that external debt reduces investment and thus adversely affects economic growth.

As for (Kahira, 2007), in which the researcher tried through it to identify the main factors that led to the aggravation of the external indebtedness of developing countries, away from traditional theories. The study concluded that the fiscal and monetary policies adopted by industrialized and developed countries are reflected in the global financial activity and especially affect developing countries. As well as the study (Adepoju 2007) where it was found that the accumulation of external debt hinders economic growth in the study country Nigeria.

The Panizza-2008 study also presented alternative and modern definitions of internal and external public debt. The main outcome of the study was that the trend of internal borrowing would have a positive role in reducing sovereign risks, especially financial risks resulting from external borrowing. These findings were confirmed by the study of (Malik et al. 2010) in a study of the Pakistani economy during the period (1972-2002) that showed that the external debt service has a negative impact on economic growth.

2.3 Conflicts in Theory, Methodology, Concept Findings and Conclusions

2.3.1 Theories:

The Life-Cycle Consumption theory was advanced by Franco Modigliani and his pupil, Richard Bromberg in1954. The theory suggests that people design their consumption and savings activities over their life-cycle. It assumes that all individuals elect to sustain stable lifestyles. This infers that they usually do not save up a lot in one period to spend furiously in the next period, but keep their consumption levels nearly the same in every period. The choice of GDP growth rate, unemployment rate and interest rate as the primary determinants of NPLs may be justified from the theoretical literature of life-cycle consumption models. According to Lawrence (1995) borrowers with low incomes have higher rates of default because of their increased risk of facing unemployment and being unable to repay their loans. They are also charged higher interest rates since banks consider them to be riskier clients (Rinaldi&Sanchis-Arellano, 2006).

The Deflation theory developed by Fisher in 1934 suggests that when the debt bubble bursts, the following sequence of events occurs; debt liquidation leading to distress selling and contraction of deposit currency, as bank loans are paid off. This contraction of deposits causes a fall in the level of prices, which leads to greater fall in the net worth of business, hence precipitating bankruptcies which leads the concerns running ata loss to make a reduction in output, in trade and in employment of labor. These cycles cause complicated disturbances in the rates of interest and a fall in the money value. The complicated turbulences described above can be summed up as both external and internal forces (macro and micro factors) influencing state of over indebtedness existing between, debtors or creditors or both which can compound to loan defaults.

The Financial Accelerator theory was developed by Bernanke and Gertler (1989) and Bernanke,Gertler, & Gilchrist (1998). The theory argues that credit markets are procyclical and that information asymmetries between lenders and borrowers as well as the balance sheet effect work to amplify and propagate credit market shocks to the economy. This theory seeks to explain how lending and borrowing activities of organizations are largely affected by small economic tremors. The theory also designates that due to economic tremors, borrowers may not have the aptitude to borrow and there is a probability of them avoiding to repay their loans or external finance.

Theory of Allocative Efficiency in Public Expenditure

All financial plans ration resources by allocating money for some uses and withholding it from other areas depending on the desired direction of the government in power. The efficacy of public programs depends on these allocations, but governments face numerous challenges to making accurate competent allocations in the economy. The main task of modern public expenditure management is to create the conditions that promote allocative efficiency. Allocative efficiency means the ability of government to allocate resources on the basis of the effectiveness of public programs in meeting its strategic target. This involves the power to transfer resources from previous priorities to new ones, and from less to more useful programs in the economy. Allocative efficiency demands that the government establishes and prioritizes targets and that it assess the real contribution of government spending to those set targets. To allocate efficiently government must be tactical and evaluative; it must both look ahead and identify what it wants to realize and look back to scrutinize the outcome. The relationship of deliberate planning and program appraisal to ongoing budget technique has been a regular issue in government expenditure management. Establishing a tight link has been a frequent theme in budget reform during the past half century in developing economies yet many governments have tried, only few have succeeded.

The rate of failure had been soaring for the reason that striving for allocative efficiency increases informational burdens, transaction costs, and political conflict in an economy. Informational needs are higher because of the demand for additional facts on program impacts; political conflict escalates because of efforts to redistribute budgetary resources. The duty of modern public expenditure management is to improve allocative efficiency without overstraining the ability of government to process information and deal with conflict. Except information demands and budgetary conflict are manageable, governments may favour sub optimal allocations that permit them to muddle through the yearly financial plan exercises which has become an annual ritual in developing economies. It is instructive to note that allocative efficiency cannot be achieved under the current incremental budgeting system in Nigeria. Incremental budgeting suited the times but it is an improper means of allocating resources. It promotes inefficiency and has the tendency to swell the size of the public sector. Incremental budget does not encourage fiscal discipline by supposing that expenditure will grow annually and thereby expanding the totals as such budgeting principle calls to question due process assumption in public finance. Consequently, recent developments in the field of public finance tend to favour planning-programming-budgeting systems (PPBS) and Zero based budgeting (ZBB) instead of incremental budgeting. PPBS gives budgeting a longer time period to grow its analytical capacity while zero based budgeting seeks to redistribute resources within the context of initial programs and expenditure. Even though the duo are procedurally different, both PPBS and ZBB seek to intensify competition for budget resources while PPBS provides information on the cost effectiveness of alternative means of realizing government goals, ZBB strives to have every spending unit prepare alternative budgets each with incremental resources and output.

Dependency Theory

Dependency theory is based on a Marxist view of the world, which sees globalization in terms of the spread of market capitalism, and the exploitation of cheap labour and resources in return for the obsolete technologies of the Western economies. The foremost view of dependency theorists is that there is a leading world capitalist system that depends on a division of labour between the rich 'core' countries and poor 'peripheral' countries which makes the core countries use their supremacy over an increasingly marginalized periphery. The theory advocated an innermost approach to development and an increased role for the state in terms of imposing barriers to trade, making inward investment difficult and promoting nationalization of key industries. Dependency theory states that the poverty of the countries in the border is not because they are not integrated or fully integrated into the world system as is often argued by free market economists, but because of how they are integrated into the system. This means that dependency theory is the notion that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the developed at the expense of the developing nations. It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the world system. The theory arose as a reaction to modernization theory, an earlier theory of development which held that all societies progress through similar stages of development, arguing that underdeveloped countries are not merely primitive versions of developed countries, but have unique features and structures of their own; and, importantly, are in the situation of being the weaker members in a world market economy. Dependency theory no longer has many proponents as an overall theory, but some writers have argued for its continuing relevance as a conceptual orientation to the global division of wealth.

Liberal Economic Theory

The liberal economic hypothesis also offers reasonable argument on the debt predicament in developing countries. The key disagreement here is that economic liberalization will help in the increase of flow of overseas investment into the developing countries, as a result of the reduction of trade and exchange limitations. The idea is that in the process of homogenizing the political economy of every member state of the international community that the purpose of creating a market society on an universal scale is within reach (Biersteker, 1993).

One of the major objectives of liberalization is to decrease the resource gap in the LDCs, by improving the trade balance and encouraging a net capital inflow. Thus, the rising significance of global organizations such as the G7, IMF and World Bank is indicative of the sway of liberal economic internationalism in the post-Cold War period.

Nevertheless, events in the developing world provide us with some reasons why attempts made in redressing the situation through the encouragement of increased foreign borrowing have contributed to the current debt crisis by increasing the resource gap even further. These influential transnational bodies which embody free trade liberalism as their governing ideology however impose free market restrictions on developing societies.

The Resource Curse Theory

The clamor for public sector financial management reforms are encouraged by the argument presented under the “resource curse theory”. Studies and life experiences had shown that resource producing countries like Nigeria are faced with challenges of resource revenue management of which the populace are daily struggling andclamoring for government to do more. People realized that the effectiveness and efficiency of government financial control is not felt on the life of people and their economy.

The resource curse theory put light to our understanding of the great danger that lay ahead of resourceproducing countries like Nigeria. The dangers is that the revenue funds are derived from depleting an exhaustible asset and can, in some occasions, be generated without the scrutiny of taxpayers, donors, and lenders, resource revenues may pose important intergenerational, political, economy, civil unrest and governance challenges.

Other curses are abandonment of other sources of revenue like tourism, agriculture, taxation, and so on. Resource curse theory explains a complex phenomenon through which an abundance of resource revenues can translate into stagnation, waste, corruption and conflict. According to Daban and Helis (2010), some of the challenges are derived from the macroeconomic and budgetary difficulties associated with managing large and volatile funds. Therefore, resource revenue if well managed; it can translate to a big economic opportunity for the natural resource generating countries. To achieve this economic objective and to overcome the challenges associated with resource revenue generation, macroeconomic reform through robust PFM discipline with strong and comprehensive reporting platform is paramount. Here the importance of IPSAS as a tool in a financial management reporting and measurement system must be in place for information provision that is informative in guiding decision by policy makers and to encourage public lender and donor organizations.

2.3.2 Methodology:

Research can be defined as "an activity that involves finding out, in a more or less systematic way, things you did not know" (Walliman and Walliman, 2011, p.7).

"Methodology is the philosophical framework within which the research is conducted or the foundation upon which the research is based" (Brown, 2006).

Research Methodology chapter of a research describes research methods, approaches and designs in detail highlighting those used throughout the study, justifying my choice through describing advantages and disadvantages of each approach and design taking into account their practical applicability to our research.
O'Leary (2004, p.85) describes methodology as the framework which is associated with a particular set of paradigmatic assumptions that we will use to conduct our research. Allan and Randy (2005) insist that when conducting a research methodology should meet the following two criteria:

Firstly, the methodology should be the most appropriate to achieve objectives of the research. Secondly, it should be made possible to replicate the methodology used in other researches of the same nature

Descriptive Research design:

Descriptive research can be explained as a statement of affairs as they are at present with the researcher having no control over variable. Moreover, "descriptive studies may be characterized as simply the attempt to determine, describe or identify what is, while analytical research attempts to establish why it is that way or how it came to be"[1].

Descriptive research is "aimed at casting light on current issues or problems through a process of data collection that enables them to describe the situation more completely than was possible without employing this method."[2]
In its essence, descriptive studies are used to describe various aspects of the phenomenon. In its popular format, descriptive research is used to describe characteristics and/or behavior of sample population.

An important characteristic of descriptive research relates to the fact that while descriptive research can employ a number of variables, only one variable is required to conduct a descriptive study. Three main purposes of descriptive studies can be explained as describing, explaining and validating research findings.

Descriptive studies are closely associated with observational studies, but they are not limited with observation data collection method. Case studies and surveys can also be specified as popular data collection methods used with descriptive studies.

Most of The Studies picked for this paper were majorly quantitative in nature and so the other qualitative aspect was not dealt with at all. The sampling designs employed by most of the studies were probability in nature.

2.3.3 Concepts:

Samia R,Sarwar, S, (2015).The paper investigates the impact of financial fragility on the sovereign bond spreads of the four rapidly rising emerging economies Brazil, Russia, India and China (BRICs). Using fixed effect model, a comparison is being made among different models after including and excluding Financial Stress Index (FSI) from the base line model. The results suggest that financial fragility is a major determinant of sovereign bond spreads than other macroeconomic factors as it appears to be highly significant in all estimations. Moreover it has been observed that by adding FSI, the explanatory power of the model has increased quite prominently. The significance of FSI depicts the importance of idiosyncratic financial environment in financing conditions of BRICs by showing the transmission of financial stress through financial and economic linkages. The results also indicate the importance of local factors in explaining the sovereign bond spreads of BRICs economies that is in conforming to past studies.

Wairimu, M. M,Gitundu,E, W (2017). The study examined the Macroeconomic determinants of non-performing loans in Kenya. Time series data for periods 1998 to 2015 was analyzed using a linear regression model. The dependent variable was the ratio of nonperforming loans to total loans. The independent variables were GDP growth rate, inflation rate, interest rate, exchange rate, remittances, unemployment rate and public debt. The empirical results indicated that inflation rate, interest rate, GDP growth rate, public debt, and exchange rate were not statistically significant while unemployment rate and remittances were statistically significant at 0.05 level of confidence. The study concludes that the significant macroeconomic determinants of non-performing loans in Kenya for periods 1998 to 2015 were remittances and the unemployment rate.

Nnamdi, I. S (2015).Demetriades and Hussien (1996), Levine and Zervous (1998) as well as Crowley (2008) argue that bank credits allocated to the private sector of an economy are more productive than those allocated to the public sector because they are disbursed under more stringent credit conditions. This study basically, attempts to evaluate the comparative efficacies of bank credits allocated to the private and public sectors of Nigeria's economy in relation to economic growth. The Augmented Dickey Fuller (ADF), Johansen's co integration, error correction model and the standard pair-wise Granger Causality tests were employed in processing data sourced from Central Bank of Nigeria's

Statistical Bulletin over the period 1981 to 2011. The results reveal a significant long run relationship between credits allocated to the public and private sectors of the economy and Nigeria's gross domestic product. The Granger Causality tests indicate significant bi-directional causality only between credits to private and government sectors. Significant unidirectional causalities are observed between gross domestic product and credits to both private and public sectors with causality flowing from GDP to those economic sectors. The study concludes that irrespective of the prevailing long run relationship between Nigeria's economic growth and bank credits to the private and public sectors of the economy; (i) Nigerian banks largely play demand following roles; (ii) None of the bank credits to the government and private sectors is efficient as they two largely fail to promote the economy. Measures including creation of more capital market debt products, which will enable the government source more long term development funds and reduce pressure on operating banks, as well as replication of this study in other economic settings to facilitate understanding of country specifics are recommended for implementation.

Idenyi, O. S, Ogonna, I. C, Ifeyinwa, A. C. (2016). This study investigated the causal relationship between total public debt and public expenditure in Nigeria from 1980 to 2015.The focus of the study is to determine if government borrowing in Nigeria is based on the need to provide social services and infrastructure as provided in the budget or by mere reason of privileged access to financial institutions both domestically and internationally as posited by Adam Smith (1776) in his theory of public debt. Applying co integration, vector error correction model and Wald test econometric tools of analysis to public debt, government capital expenditure, government recurrent expenditure and interest rate variables within the study period, the study obtained the following results. The trace statistics indicates two (2) co integration equations at five percent (5%) level of significance, suggesting that there is a long run relationship among the variables tested and that the results can be relied upon in taking long run policy decisions in the economy. The findings of the VEC test indicate that government capital and recurrent expenditure has significant positive relationship with public debt in the Nigerian economy. The Wald test result shows that unidirectional causality runs from both capital and recurrent expenditure to public debt in Nigeria. An obvious implication of this result is that government borrowing in Nigeria is triggered by government deficit budgeting, a situation which is well known in Nigeria at both federal and state levels. It therefore becomes necessary that the government budgeting process need to be re-examined to ensure that allocative efficiency is achieved in our budgeting system and that borrowing to finance budget deficit must be done objectively and realistically. This study therefore recommends the introduction of planning-programming budgeting systems (PPBS) and Zero based budgeting (ZBB) in preference to the current practice of incremental budgeting (IB) in our public finance at both federal and state levels as is the current global practice considering that these budgeting approach seeks to intensify competition for budget resources and consequently aids the realization of government fiscal policy goals in the economy.

Uche T. Agburuga. (2018). This study investigates whether the expected outcome of better performance management, accountability and transparency in government following public sector accrual accounting reform would improve fiscal performance in terms of fiscal stability and fiscal sustainability. Measured as budget deficit and public debt as percentages of gross domestic product respectively, fiscal stability and sustainability were found to have improved after the implementation of accrual accounting reform by the sample of 41 central governments of developed countries. This study provides evidence of the benefits of and justification for the huge cost of implementing accrual accounting reform.

Al-Masaeed, A.A, Tsaregorodtsev, E. (2019). The aim of this study was to investigate the structure of public debt in Jordan and its impact on economic growth, over the period 19802012. The statistical techniques which were employed in this study included Johansson cointegration test, Vector Error Correction Model (VECM) to explore the association between domestic debt and external debt ratio of GDP as independent variables and the total debt relative to GDP as the dependent variable. Fully modified least squares (FMOLS) approach also employed in order to describe the impact of internal and external debt on economic growth. The co-integration test procedure reveals that there is one relationship; consequently an (VECM) was estimated revealing that 9% of the departure from equilibrium is cleared annually, and the results of Causality test showed that independent variables have unidirectional relationship with the total debt as the dependent variable. Based on regression coefficient, it was found that external debt has a negative influence, and domestic debt has positive influence on economic growth. The study recommended that the external debt must be re-oriented toward invested in productive projects in order to the burden of debt service.

2.3.4 Findings:

Samia R, Sarwar, S, (2015). The results suggest that financial fragility is a major determinant of sovereign bond spreads than other macroeconomic factors as it appears to be highly significant in all estimations. Moreover it has been observed that by adding FSI, the explanatory power of the model has increased quite prominently. The significance of FSI depicts the importance of idiosyncratic financial environment in financing conditions of BRICs by showing the transmission of financial stress through financial and economic linkages. The results also indicate the importance of local factors in explaining the sovereign bond spreads of BRICs economies that is in conforming to past studies.

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Idenyi, O. S, Ogonna, I. C, Ifeyinwa, A. C. (2016). This study investigated the causal relationship between total public debt and public expenditure in Nigeria from 1980 to 2015.The focus of the study is to determine if government borrowing in Nigeria is based on the need to provide social services and infrastructure as provided in the budget or by mere reason of privileged access to financial institutions both domestically and internationally as posited by Adam Smith (1776) in his theory of public debt.

Uche T. Agburuga. (2018). This study investigates whether the expected outcome of better performance management, accountability and transparency in government following public sector accrual accounting reform would improve fiscal performance in terms of fiscal stability and fiscal sustainability. Measured as budget deficit and public debt as percentages of gross domestic product respectively, fiscal stability and sustainability were found to have improved after the implementation of accrual accounting reform by the sample of 41 central governments of developed countries. This study provides evidence of the benefits of and justification for the huge cost of implementing accrual accounting reform.

Al-Masaeed, A.A, Tsaregorodtsev, E. (2019). The aim of this study was to investigate the structure of public debt in Jordan and its impact on economic growth, over the period 19802012. The statistical techniques which were employed in this study included Johansson cointegration test, Vector Error Correction Model (VECM) to explore the association between domestic debt and external debt ratio of GDP as independent variables and the total debt relative to GDP as the dependent variable. Fully modified least squares (FMOLS) approach also employed in order to describe the impact of internal and external debt on economic growth. The co-integration test procedure reveals that there is one relationship; consequently an (VECM) was estimated revealing that 9% of the departure from equilibrium is cleared annually, and the results of Causality test showed that independent variables have unidirectional relationship with the total debt as the dependent variable. Based on regression coefficient, it was found that external debt has a negative influence, and domestic debt has positive influence on economic growth.

Impact of external public debt on economic development was the gap established from literature and therefore forms the basis of this critical review.

3.0 LITERATURE REVIEW

3.1 Group Research Studies in Logical Sequence.

Uguru, Leonard C. (2016) studied the link between public debt and government expenditure in Nigeria from 1980 to 2013. Using data from Central Bank of Nigeria Statistical Bulletin for the years under consideration, the author estimated a model with public debt as the dependent variable and the independent variables were capital expenditure and recurrent expenditure respectively. The author made use of the ordinary least square estimation technique at 5% level of significance which revealed a significant relationship between public debt and government expenditure in Nigeria.

Obademi (2012) undertook an analysis of the long-run relationship and impact of debt from the perspective of the value impact and proportional impact on the Nigeria economy. The value impact variables used include the external debt value, domestic debt value, total debt value and budget deficit.
Adofu and Abula (2009) investigated the relationship between domestic debt and economic growth in Nigeria. The result shows that domestic debt has affected the growth of the economy negatively. The study recommended that Government domestic borrowing should be discouraged and that increasing the revenue base through its tax reform programmes should be encouraged.

Antra Bhatt (2015) investigated the active nature of public expenditure components and public debt through an intertemporal optimization framework based on Turnovsky (2007). He explained that public expenditure is classified as 'productive' and 'less-productive' based on the rationale that a percentage of the productive public expenditure corrects disequilibrium in the public debt in the long-run. He reported the 'second order' conditions from the model which stated that as physical infrastructure increases, the marginal social value of a unit of capital reduces, meaning that beyond its optimal level, an increase in physical infrastructure could still affect public debt inversely; however, this will be at the cost of 'crowding out' of private investment. He used Indian Public Finance data (1980-2013) to test the theoretical representation and analyses of the relationship between public expenditure and debt, using time series methods to discuss the hypothesis that capital expenditure of government is productive public expenditure

Duc-Anh, Phu and Arnelie (2015) analyzed the correlation among government expenditure, tax on returns to asset, public debt, and economic growth. The authors described public debt in two forms, domestic and external debt. Their study show that an increase in the tax rate on returns to asset leads to an increase in government expenditure, consumption, and domestic debt which brings uncertain impact of tax rate on external debt. They further explained that when the productivity of capital on production is low (high) and the tax rate is lower (higher) than a threshold, the relation between external debt and the tax rate will have a bell-shaped form, i.e. external debt firstly rises then decreases with the tax rate.

3.2. Establish Trend in Specific Area/Body of Knowledge/Topic/Objective

From the findings of reviewed empirical literature, a summary of public debt on economic growth are indicated as follows: Public Debt and Government Expenditure: Public debt and economic growth: Duc-Anh, Phu and Arnelie (2015); Turnovsky (2007). Nature of Public expenditure component and Public Debt,:Antra Bhatt (2015) ; Relationship between domestic debt and Economic growth: Adofu and Abula (2009) ;Long run relationship and the impact of debt: Obademi (2012) ;Uguru, Leonard C. (2016)
The above reviewed literature can bethemed into four public debt determinants that bestow improved of the economy.
Public Debt: Public Debt refers to "Obligation of Government particularly those evidenced by securities, to pay certain sums to the holders at some future date.
In simple words, Public Debt can be defined as the amount of debt taken by government from internal as well as external sources to meet out its deficit. Government needs to borrow when current revenue falls short of public expenditure.

Types of Public Debt:

(1) Internal and External Debt: Public loans floated within the country, are called Internal Debt. Public borrowings from other countries are referred to as External Debt. External debt permits import of real resources. It enables the country to consume more than it produces. The sources of internal debts are RBI, commercial banks, etc. and of external debts are loans from foreign government, IMF, World Bank etc.
(2) Productive and unproductive Debt: When government borrows for development expenditure like on power projects, establishing heavy industries. etc. so that it generates revenue then the debt is productive. When government borrows for no development uses, such as was finance, etc. the debt becomes unproductive as it does not create any income in return.
(3) Compulsory and Voluntary Debt: When government borrows from people by using coercive methods, loans so raised are referred to as compulsory public debt. e.g. Tax, When government floats loans by issuing securities, the members of the public and institutions like commercial banks may subscribe to them. e.g. Public Borrowings.
(4) Redeemable and Irredeemable Debt: Loans which the govt. promises to pay off at some future date are called redeemable debts. Loans for which and all that the govt. does is to agree to pay interest regularly for the bonds issued, are called irredeemable debts

3.3 Highlight Major Theories in the Area of Study.

The Life-Cycle Consumption theory was advanced by Franco Modigliani and his pupil, Richard Brumberg in1954. The theory suggests that people design their consumption and savings activities over their life-cycle. It assumes that all individuals elect to sustain stable lifestyles. This infers that they usually do not save up a lot in one period to spend furiously in the next period, but keep their consumption levels nearly the same in every period. The choice of GDP growth rate, unemployment rate and interest rate as the primary determinants of NPLs may be justified from the theoretical literature of life-cycle consumption models. According to Lawrence (1995) borrowers with low incomes have higher rates of default because of their increased risk of facing unemployment and being unable to repay their loans. They are also charged higher interest rates since banks consider them to be riskier clients (Rinaldi&Sanchis-Arellano, 2006).

The Deflation theory developed by Fisher in 1934 suggests that when the debt bubble bursts, the following sequence of events occurs; debt liquidation leading to distress selling and contraction of deposit currency, as bank loans are paid off. This contraction of deposits causes a fall in the level of prices, which leads to greater fall in the net worth of business, hence precipitating bankruptcies which leads the concerns running at a loss to make a reduction in output, in trade and in employment of labor. These cycles cause complicated disturbances in the rates of interest and a fall in the money value. The complicated turbulences described above can be summed up as both external and internal forces (macro and micro factors) influencing state of over indebtedness existing between, debtors or creditors or both which can compound to loan defaults.

The Financial Accelerator theory was developed by Bernanke and Gertler (1989) and Bernanke, Gertler, & Gilchrist (1998). The theory argues that credit markets are procyclical and that information asymmetries between lenders and borrowers as well as the balance sheet effect work to amplify and propagate credit market shocks to the economy. This theory seeks to explain how lending and borrowing activities of organizations are largely affected by small economic tremors. The theory also designates that due to economic tremors, borrowers may not have the aptitude to borrow and there is a probability of them avoiding repaying their loans or external finance.

Theory of Allocative Efficiency in Public Expenditure

All financial plans ration resources by allocating money for some uses and withholding it from other areas depending on the desired direction of the government in power. The efficacy of public programs depends on these allocations, but governments face numerous challenges to making accurate competent allocations in the economy. The main task of modern public expenditure management is to create the conditions that promote allocative efficiency. Allocative efficiency means the ability of government to allocate resources on the basis of the effectiveness of public programs in meeting its strategic target. This involves the power to transfer resources from previous priorities to new ones, and from less to more useful programs in the economy. Allocative efficiency demands that the government establishes and prioritizes targets and that it assess the real contribution of government spending to those set targets. To allocate efficiently government must be tactical and evaluative; it must both look ahead and identify what it wants to realize and look back to scrutinize the outcome. The relationship of deliberate planning and program appraisal to ongoing budget technique has been a regular issue in government expenditure management. Establishing a tight link has been a frequent theme in budget reform during the past half century in developing economies yet many governments have tried, only few have succeeded.

The rate of failure had been soaring for the reason that striving for allocative efficiency increases informational burdens, transaction costs, and political conflict in an economy. Informational needs are higher because of the demand for additional facts on program impacts; political conflict escalates because of efforts to redistribute budgetary resources. The duty of modern public expenditure management is to improve allocative efficiency without overstraining the ability of government to process information and deal with conflict. Except information demands and budgetary conflict are manageable, governments may favor sub optimal allocations that permit them to muddle through the yearly financial plan exercises which has become an annual ritual in developing economies. It is instructive to note that allocative efficiency cannot be achieved under the current incremental budgeting system in Nigeria. Incremental budgeting suited the times but it is an improper means of allocating resources. It promotes inefficiency and has the tendency to swell the size of the public sector. Incremental budget does not encourage fiscal discipline by supposing that expenditure will grow annually and thereby expanding the totals as such budgeting principle calls to question due process assumption in public finance. Consequently, recent developments in the field of public finance tend to favor planning-programming-budgeting systems (PPBS) and Zero based budgeting (ZBB) instead of incremental budgeting. PPBS gives budgeting a longer time period to grow its analytical capacity while zero based budgeting seeks to redistribute resources within the context of initial programs and expenditure. Even though the duo are procedurally different, both PPBS and ZBB seek to intensify competition for budget resources while PPBS provides information on the cost effectiveness of alternative means of realizing government goals, ZBB strives to have every spending unit prepare alternative budgets each with incremental resources and output.

3.4. Identify Major Flaws and Gaps on the basis of the Specific Objective of the Study. From the above reviewed literature findings, gaps and flaws can be identified. The gaps are grouped on the following basis: theoretical, conceptual, contextual and methodological

3.4.1. Thereviewedstudies indicate a major flaw in: Lack of clarity in the definition of critical public debt components influencing economic growth in Kenya. All the studies reviewed did not give weight to any public debt components. It is important to give weight or rank the components to assist the country with the scarce resources, to prioritize on public debt management that are significant to the country at large during the time of study. Further, the above studies examined the influence of Public debt and economic growth, Long run relationship and the impact of debt, Relationship between domestic debt and Economic growth, Nature of Public expenditure component and Public Debt. Nevertheless, the public debt components do not work in isolation. Moderating and intervening factors are always at play as control factors. The above studied literature did not reveal any investigation of a moderating or intervening factor on the relationship of public debt and the growth of economy.

3.4.2 Identified gaps:

Conceptual Gaps:

Most reviewed studies only considered public debt determinants/ components as first-order abstraction (one variable) creating a huge gap on which public debt determinants /components are highly effective in managing public debt:Samia R,Sarwar, S, (2015); Wairimu, M. M,Itundu,E, W (2017). Nnamdi, I. S (2015).Idenyi, O. S, Ogonna, I. C, Ifeyinwa, A. C. (2016 Uche T. Agburuga.(2018).Al-Masaeed, A.A, Tsaregorodtsev, E. (2019).Therefore, it is essential to examine public debt components as higher order constructs because they were ignored by previous studies.

Theoretical Gaps:
Though there has been increased attention towards the area of public debt and economic growth as witnessed over a decade now, there still exists a lack of research grounded on theory, creating a considerable gap that need to be bridged. A multifaceted system like public debt sometimes cannot be comprehended and expounded by one theory. Henceforth, research in public debt should be grounded on more than one theory. Most reviewed studies did not use grounding theories: Daban and Helis (2010), (Biersteker, 1993), Bernanke and Gertler (1989) and Bernanke, Gertler, & Gilchrist (1998) and (Rinaldi&Sanchis-Arellano, 2006).

Methodological gaps:
Majority of the reviewed studies used subjective data obtained from self-report questionnaires and some used objective data. Allan and Randy (2005)," (Brown, 2006), O'Leary (2004, p.85), (Walliman and Walliman, 2011, p.7). Subjective data has a high probability of being biased, thus leading to results and deductions that may be inaccurate.

4.0 DISCUSSION.
The outcomes from studied empirical literature have helped to gather and build evidence of the public debt components that contribute to economic growth in the country. This section puts together a summary of public debt components i. e. Internal and External Debt, Productive and unproductive Debt, Redeemable and Irredeemable Debt, Compulsory and Voluntary Debt and points out inconsistencies in theory, concept and inferences and provides propositions based on initial thematic areas.

4.1. Summary of major contributions.
The studied empirical literature has helped to gather and build evidence of public debt components that contribute to economic growth in the country. These variables can be themed into four major public debt components i.e. Internal and External Debt, Productive and unproductive Debt, Redeemable and Irredeemable Debt, Compulsory and Voluntary Debt

4.2 Major inconsistencies in theory, Concept, Findings and Conclusions/ inferences. From the studied empirical literature, the following inconsistencies/ gaps were discovered *theoretically:*
Majority of studies reviewed did not have grounding theories: Daban and Helis (2010), (Biersteker, 1993), Bernanke and Gertler (1989) and Bernanke, Gertler, & Gilchrist (1998) and (Rinaldi&Sanchis-Arellano, 2006). This means that theoretically, the empirical studies were not well grounded.

Conceptually:
The study of public debt (IV) that lead to economic growth (DV), were studied in isolation without including controlling variables/factors. Samia R, Sarwar, S, (2015); Wairimu, M. M ,itundu,E, W (2017). Nnamdi, I. S (2015).Idenyi, O. S, Ogonna, I. C, Ifeyinwa, A. C. (2016 Uche T. Agburuga.(2018). Al-Masaeed, A.A, Tsaregorodtsev, E. (2019).

***Methodologically**:*
Majority of the studies under review used subjective data obtained through self –report questionnaires. Subjective data has a high probability of being distorted, thus leading to results and conclusions that might be inaccurate.

Contextually:
Majority of studies reviewed investigated public debt components that influence economic growth. Adoption of public debt components to influence economic growth is critical to the management of debt in the public sector. Public debt and economic growth: Duc-Anh, Phu and Arnelie (2015); Turnovsky (2007). Nature of Public expenditure component and Public Debt,:Antra Bhatt (2015) ; Relationship between domestic debt and Economic growth: Adofuand Abula (2009) ;Long run relationship and the impact of debt: Obademi (2012)
;Uguru, Leonard C. (2016)
These inconsistencies/gaps fall within the context of theory, concept, context and methodology. These gaps form the foundation for further investigations on the broad scope of public debt and economic growth.

4.3. Insight into the relationship between the topic and the general discipline. **What is Public Debt Management and Why is it Important?**

1. Sovereign debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.
2. In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives. Sovereign debt managers share fiscal and monetary policy advisors' concerns that public sector indebtedness remains on a sustainable path and that a credible strategy is in place to reduce excessive levels of debt. Debt managers should ensure that the fiscal authorities are aware of the impact of government financing requirements and debt levels on borrowing costs.[1] Examples of indicators that address the issue of debt sustainability include the public sector debt service ratio, and ratios of public debt to GDP and to tax revenue.

3. Poorly structured debt in terms of maturity, currency, or interest rate composition and large and unfunded contingent liabilities have been important factors in inducing or propagating economic crises in many countries throughout history. For example, irrespective of the exchange rate regime, or whether domestic or foreign currency debt is involved, crises have often arisen because of an excessive focus by governments on possible cost savings associated with large volumes of short-term or floating rate debt. This has left government budgets seriously exposed to changing financial market conditions, including changes in the country's creditworthiness, when this debt has to be rolled over. Foreign currency debt also poses particular risks, and excessive reliance on foreign currency debt can lead to exchange rate and/or monetary pressures if investors become reluctant to refinance the government's foreign-currency debt. By reducing the risk that the government's own portfolio management will become a source of instability for the private sector, prudent government debt management, along with sound policies for managing contingent liabilities, can make countries less susceptible to contagion and financial risk.
4. A government's debt portfolio is usually the largest financial portfolio in the country. It often contains complex and risky financial structures, and can generate substantial risk to the government's balance sheet and to the country's financial stability. As noted by the Financial Stability Forum's Working Group on Capital Flows, "recent experience has highlighted the need for governments to limit the build-up of liquidity exposures and other risks that make their economies especially vulnerable to external shocks."[2] Therefore, sound risk management by the public sector is also essential for risk management by other sectors of the economy "because individual entities within the private sector typically are faced with enormous problems when inadequate sovereign risk management generates vulnerability to a liquidity crisis." Sound debt structures help governments reduce their exposure to interest rate, currency and other risks. Many governments seek to support these structures by establishing, where feasible, portfolio benchmarks related to the desired currency composition, duration, and maturity structure of the debt to guide the future composition of the portfolio.
5. Several debt market crises have highlighted the importance of sound debt management practices and the need for an efficient and sound capital market. Although government debt management policies may not have been the sole or even the main cause of these crises, the maturity structure, and interest rate and currency composition of the government's debt portfolio, together with substantial obligations in respect of contingent liabilities have often contributed to the severity of the crisis. Even in situations where there are sound macroeconomic policy settings, risky debt management practices increase the vulnerability of the economy to economic and financial shocks. Sometimes these risks can be readily addressed by relatively straightforward measures, such as by lengthening the maturities of borrowings and paying the associated higher debt servicing costs (assuming an upward sloping yield curve), by adjusting the amount, maturity, and composition of foreign exchange reserves, and by reviewing criteria and governance arrangements in respect of contingent liabilities.
6. Risky debt structures are often the consequence of inappropriate economic policies-fiscal, monetary and exchange rate--but the feedback effects undoubtedly go in both directions. However, there are limits to what sound debt management policies can deliver. Sound debt management policies are no panacea or substitute for sound fiscal and monetary management. If macroeconomic policy settings are poor, sound sovereign debt management may not by itself prevent any crisis. Sound debt management policies reduce susceptibility to contagion and financial risk by playing a catalytic role for broader financial market development and financial deepening. Experience supports the argument, for example, that developed domestic debt markets can substitute for bank financing (and vice versa) when this source dries up, helping economies to weather financial shocks.: *A European Forum* (October 1992), pp. 428-463, Report of the Working Group on Capital Flows," April 5, 2000, p. 2, World Bank Group and the International Monetary Fund, Program of Seminars, Washington, D.C., September 27, 1999

4.4. Propositions based on thematic areas.

(i) To examine the effect internal and external debts on economic growth in the public sector;
(ii) To assess the impact of Productive and unproductive Debt on economic growth in the public sector;
(iii) To evaluate the effect of Compulsory and Voluntary Debt on economic growth in the public sector;
(iv) To assess the impact of Redeemable and Irredeemable Debt on economic growth in the public sector;

5.0 Conclusion.

Results from the studied literature show the following as the main determinants of public debt that influence economic growth: internal and external debts, Productive and unproductive Debt, Redeemable and Irredeemable Debt, Compulsory and Voluntary Debt. From the same studies however, some gaps were noted, methodically, majority of the reviewed studies used subjective data obtained from self-report questionnaires. Subjective data has a high possibility of being distorted, thus leading to findings and conclusions that may be inaccurate. Theoretically, most studies did not ground their research on theories; hence there is still a dearth of theory focused research in public debt, leaving a substantial research gap to be filled.

5.1 *Perspective and Recommendations.*

Public debt components i.e. internal and external debts, Productive and unproductive Debt, Compulsory and Voluntary Debt and Redeemable and Irredeemable Debt have an influence on economic growth in any country. This paper recommends further research to unravel the link between moderating variables and economic growth.

A hypothetical conceptual framework can be drawn from the foregoing conclusions. Public debt components that influence economic growth in the public sector are Internal and external debts, Productive and unproductive Debt, Compulsory and Voluntary Debt and Redeemable and Irredeemable Debt. The dependent variable is economic growth. The moderating variable Government policies, which affects both the strength of the relationship between the predictor variables and the output. Below fig. 1 shows the hypothetical conceptual framework.

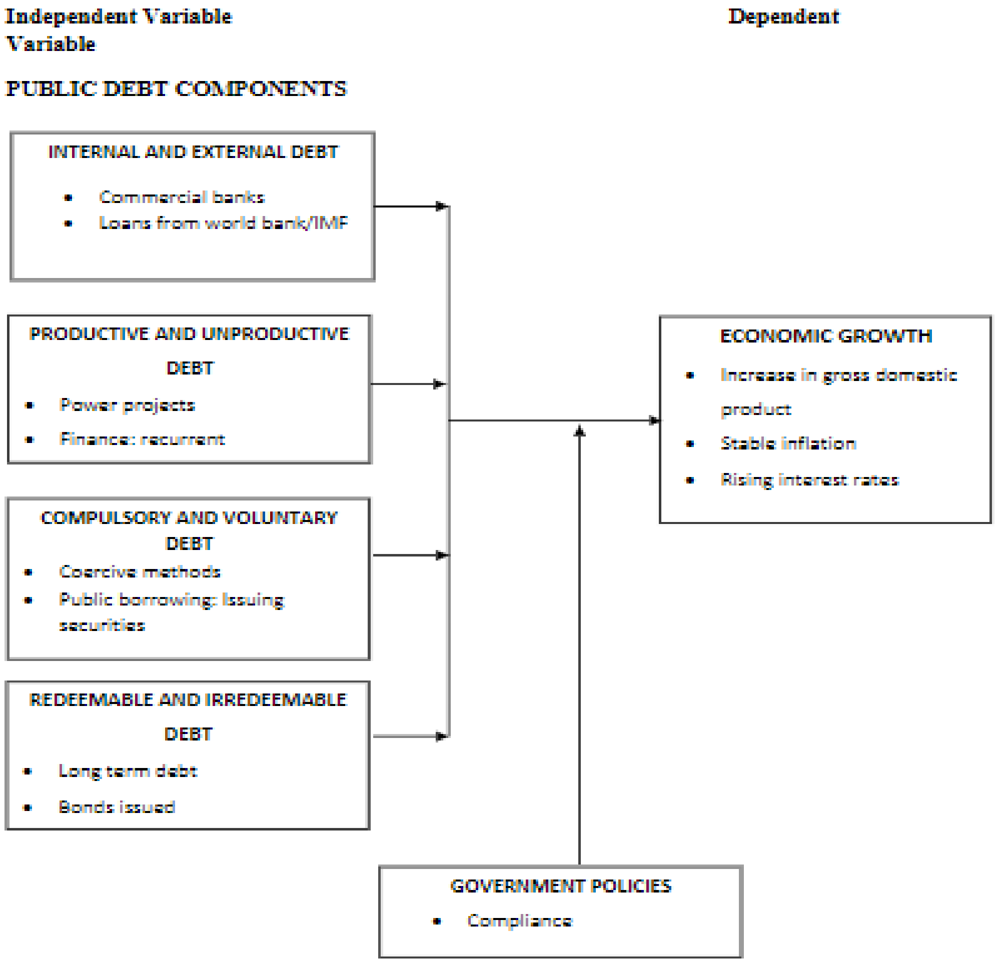

FIG. 1: Schematic Conceptual framework

Source: Researcher, 2020

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