

Abstract

Foreign aid has significantly influenced medium- and long-term development initiatives in Eastern African countries. Project aid and non-project aid are the two main categories that describe foreign economic assistance (loans, credits, and grants). The primary aim of foreign aid has been to supplement the internal resources needed to quicken the economic development of the nations in Eastern Africa. This study investigated the influence of external debt on the economic growth of Eastern African countries (Kenya, Uganda, Rwanda, Burundi, and Tanzania) using the autoregressive distributive lag mode and panel data (1970–2020).

The findings revealed that external debt had a significant adverse effect on economic growth. In Burundi, an increase in external debt reduces GDP by 5% in the short run, while in the long run, it reduces GDP by 19%; in Tanzania, it decreases GDP by 22%; and in Kenya, it reduces the GDP by 13%. Conversely, the findings indicated that the increased level of external debt positively influenced Uganda's GDP (0.03%) but was not statistically significant. Therefore, it is recommended that Eastern African countries source their income, apart from more external concessional debt, through bilateral or multilateral arrangements to plug into their budget deficits. Also, it is recommended that East African governments develop their external debt initiatives that offer further profitable investment opportunities to repay their foreign debt gradually. Moreover, strategies in the East African countries must be geared towards strengthening revenue mobilization to provide avenues to balance their external debts. For instance, improving the informal sector in these countries is a viable base for increasing revenue through taxes

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