

Public Debt and Foreign Direct Investment Among East Africa Community Member Countries: Evidence from Developing Economies

Boniface Kinyua¹, Dr. Duncan Elly Ochieng², Dr. Ronald Chogii³

¹PhD Candidate, Department of Finance and Accounting, Faculty of Business and Management Sciences, University of Nairobi, Kenya

²Senior Lecturer, Department of Finance and Accounting, Faculty of Business and Management Sciences, University of Nairobi Kenya

³Lecturer, Department of Finance and Accounting, Faculty of Business and Management Sciences, University of Nairobi, Kenya

Abstract

This study investigates how public debt affects foreign direct investment (FDI) in East Africa Community (EAC) member states. It distinguishes between external and domestic borrowing to determine how each component influences the region's investment attractiveness. A quantitative, longitudinal panel design was applied, analyzing 126 country-year observations from 2004–2025. Secondary data were sourced from the World Bank, IMF, UNCTAD, and national statistical agencies. Descriptive statistics, Correlation analysis, and Weighted Least Squares (WLS) panel regression were employed following diagnostic tests. Results show that both external and domestic debt significantly reduce FDI inflows. External debt had a stronger negative effect ($B = -1.143$, $p = 0.004$), while domestic debt also exerted a notable negative influence ($B = -0.862$, $p = 0.002$). Rising debt levels increase fiscal risk and macroeconomic instability, thereby discouraging foreign investors. Through analyzing external and domestic debt separately, the study advances development finance literature and supports Debt Overhang Theory by demonstrating that excessive public borrowing discourages foreign investment while showing that the investment effects of public debt depend on its composition. The study recommends strengthening debt sustainability management, improving fiscal transparency, financing productive investments, enhancing regional debt management frameworks and fiscal coordination to promote macroeconomic stability and attract FDI.

Keywords: Public Debt, External Debt, Domestic Debt, Foreign Direct Investment, East Africa Community

Date of Submission: 07-08-2026

Date of Acceptance: 09-09-2026

I. Introduction

Foreign direct investment (FDI) is a crucial source of external capital for developing economies, facilitating capital formation, technology transfer, employment creation, productivity growth, and long-term development. Within the East Africa Community (EAC), governments have pursued fiscal and macroeconomic policies to attract foreign investors, while simultaneously relying on public debt to finance infrastructure, social programs, and fiscal deficits.

Public debt plays a dual role in economic development. When managed prudently, borrowing enables governments to fund infrastructure, strengthen institutions, expand productive capacity, and stimulate growth. This aligns with Keynesian perspectives, which view debt-financed spending as a driver of economic activity and investment. Conversely, excessive borrowing undermines fiscal sustainability, elevates sovereign risk, increases macroeconomic volatility, and weakens investor confidence. Debt Overhang Theory suggests that high debt levels discourage foreign investment because future returns are expected to be diverted toward debt servicing rather than productive ventures.

For the EAC, the relationship between debt and FDI is particularly significant. Member states—including Burundi, Kenya, Rwanda, Tanzania, Uganda, South Sudan, the Democratic Republic of the Congo, and Somalia—have experienced fluctuating FDI inflows alongside rising debt burdens. This dynamic raises concerns about debt sustainability and the region's ability to attract and retain foreign capital. By distinguishing between external and domestic debt, this study provides a clearer understanding of how different borrowing structures influence FDI and offers policy insights for sustainable debt management and investment promotion.

Problem Statement

Despite extensive research examining the relationship between public debt and FDI, the nature of this relationship remains inconclusive. Some studies report that rising public debt discourages FDI by increasing fiscal risk, debt-servicing obligations, macroeconomic instability and investor uncertainty. Others argue that debt-financed public investment improves infrastructure, stimulates economic activity and enhances investment attractiveness. Additional studies report statistically not significant or mixed relationships, suggesting that the effect of public debt on FDI varies across countries depending on debt composition, institutional quality and estimation approaches (Dao & Le, 2024). Consequently, the relationship between public debt and FDI remains insufficiently understood, particularly in developing economies.

Existing evidence is further constrained by the way public debt is conceptualized and measured. Many previous studies treat public debt as a single aggregate indicator, implicitly assuming that all forms of government borrowing influence foreign investment in the same manner. However, external debt and domestic debt differ substantially in their financing sources, associated risks and transmission mechanisms. External debt exposes economies to exchange rate volatility, foreign creditor obligations and external financing risks, whereas domestic debt influences domestic financial markets, interest rates and the availability of credit to the private sector (Ighodalo, Omankhanlen, Osagie, & Iwiyisi, 2020). Failure to distinguish between these two components may conceal important differences in their effects on FDI.

The existing literature is also limited by its methodological approaches and the context. Many studies rely on single-country analyses, relatively short study periods or estimation techniques that limit the robustness and generalizability of their findings. Moreover, most empirical evidence is drawn from developed or emerging economies, while comparatively little attention has been given to the EAC, despite the region's increasing public debt levels, changing debt structures and continued efforts to attract foreign investment. The diversity in debt composition and fiscal conditions across EAC member countries suggests that evidence from other regions may not adequately explain the relationship between public debt and FDI within the EAC.

Theoretical explanations of the public debt–FDI relationship also remain incomplete. Existing theories provide valuable insights into economic growth, government borrowing and investment decisions but do not adequately explain how different forms of public debt influence FDI under conditions of fiscal constraints and debt sustainability commonly experienced in developing economies. This limitation highlights the need for further empirical investigation grounded in complementary theoretical perspectives.

Accordingly, this study examined the individual effects of external and domestic debt on FDI among EAC member countries using panel data. By distinguishing between these two components and providing evidence from a developing regional economic bloc, the research contributes to a better knowledge of how different forms of public debt influence FDI and provides policy insights for sustainable public debt management and investment promotion.

II. Literature Review

Theoretical Framework

The Debt Overhang Theory (Krugman, 1988) is one of the central explanations of how debt influences investment. It describes a situation where the expected future resources of a country are insufficient to meet its outstanding debt obligations. In such circumstances, investors anticipate that economic returns will be diverted toward debt repayment instead of productive ventures, discouraging both domestic and FDI. Expectations of higher taxation, fiscal adjustment measures, and macroeconomic instability further reduce profitability and weaken investor confidence.

Subsequent research emphasizes that unsustainable debt levels generate negative macroeconomic effects, including heightened uncertainty, reduced incentives for investment, and slower growth (Karadam, 2021). Pokou (2020) similarly argues that once debt surpasses sustainable thresholds, economic growth and investment performance deteriorate. Evidence reported by Turan and Yanikkaya (2021) and Musiita et al. (2023) also associates excessive borrowing with weaker macroeconomic outcomes and reduced attractiveness to investors. In developing economies, rising debt burdens amplify sovereign risk and create uncertainty about future fiscal and macroeconomic policies. Because foreign investors base decisions on long term expectations of stability and profitability, high debt levels discourage FDI inflows. Accordingly, the Debt Overhang Theory predicts a negative public debt–FDI nexus, particularly when borrowed resources are inefficiently utilized or when borrowing exceeds the productive capacity of the economy.

Although the theory provides a useful explanation of the debt–investment relationship, it has limitations. It assumes a common debt threshold despite differences in institutional quality, debt management, and macroeconomic conditions across countries. Furthermore, it does not fully account for the possibility that weak economic growth may itself contribute to rising public debt. However, the main theoretical framework for

explaining how both domestic and external debt may impact FDI within the EAC is provided by Debt Overhang Theory.

An alternative explanation for the connection between public debt and FDI is provided by Keynesian Theory of Public Debt (Keynes, 1935). According to the hypothesis, when borrowed funds support profitable public investment, government borrowing can boost aggregate demand, raise national income, and foster economic growth. During periods of economic slowdown, governments may increase expenditure through borrowing to stimulate employment, output, and private sector activity.

From the Keynesian perspective, public debt does not necessarily discourage foreign investment. Instead, its impact depends largely on the productive utilisation of borrowed resources. Infrastructure, education, healthcare, and institutional development investments lower production costs, boost a nation's appeal to international investors, and improve the business environment (Horton & El-Ganainy, 2022). Consequently, debt-financed public investment may strengthen investor confidence and stimulate FDI inflows when supported by sound fiscal management. However, excessive borrowing may generate inflationary pressures, exchange rate instability, and fiscal imbalances that ultimately discourage investment (Rangarajan & Srivastava, 2023). Furthermore, the theory does not distinguish between external and domestic debt or between productive and recurrent government expenditure. These restrictions imply that the public debt – FDI connection is still an empirical problem that needs to be studied in particular regional contexts like the EAC.

Theoretical Synthesis

The Keynesian Theory of Public Debt and the Debt Overhang Theory offer complementary explanations of the connection between FDI and Public debt. The Keynesian concept contends that productive public borrowing can enhance infrastructure, promote economic growth, and create favourable conditions for foreign investment, in contrast to the Debt Overhang Theory's prediction that excessive borrowing deters investment due to increased fiscal risk, sovereign uncertainty, and debt-servicing obligations. The contrasting perspectives suggest that the impact of public debt on FDI is contingent upon the composition of debt, sustainability, and productive use in addition to its total amount. Guided by these theories, this study empirically examines whether external and domestic debt significantly influence FDI among EAC member countries.

Conceptual Review

The study is anchored on two key concepts: public debt and FDI. Understanding these concepts serves as the foundation for analyzing the relationship between the study variables.

Public Debt

The total amount of money owed by a government to both domestic and foreign creditors as a result of borrowing done to fund public spending, budget deficits, and development initiatives is known as public debt (Joy & Panda, 2020; Yusuf & Mohd, 2021). While borrowing gives governments more money for development, too much debt can increase debt-servicing responsibilities, limit fiscal space, discourage private investment, and undermine macroeconomic stability (Liu et al., 2023).

External and domestic debt are the two main parts of public debt. While domestic debt refers to borrowing from domestic financial markets through Treasury bills, bonds, and other government securities, external debt represents borrowing from foreign creditors, including multilateral organizations and international financial markets (Ighodalo et al., 2020). These two forms of borrowing influence investment through different transmission mechanisms and are therefore examined separately in this study.

Foreign Direct Investment

According to Adebayo et al. (2020), FDI is a long-term investment that gives an investor a permanent ownership stake and administrative power in a corporation situated a foreign country. Unlike portfolio investment, FDI enables foreign investors to participate in the governance and strategic direction of enterprises through equity participation, reinvested earnings, and intra-company transactions. Foreign ownership has also been identified as one of the key dimensions of ownership structure that influences governance and value creation within firms (Kinyua & Ochieng', 2022).

Through advancing capital formation, knowledge transfer, employment creation, managerial efficiency, productivity improvement, and industrial expansion, FDI makes a substantial contribution to economic development (Mandisodza, 2023; Shiyalini & Suresh, 2022). FDI is expressed in this study using net FDI inflows as a percentage of GDP, indicating how well EAC member nations are able to pull in long-term foreign investment.

Public Debt and Foreign Direct Investment

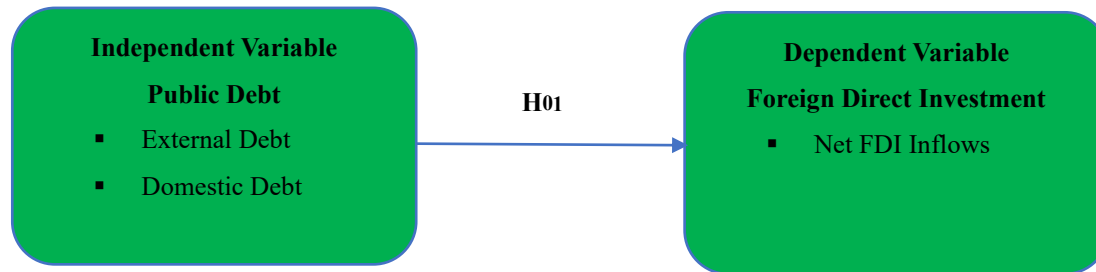
The quantity, structure, and use of government borrowing determine how public debt and FDI are related. Through funding infrastructure and enhancing the investment climate, moderate debt levels may promote

investment. Conversely, excessive borrowing may discourage FDI through increased sovereign risk, fiscal instability, and concerns regarding debt sustainability (Dao & Le, 2024). While domestic debt may impact domestic financial markets by raising interest rates and discouraging private investment, external debt may expose nations to exchange rate volatility and foreign repayment obligations (Ighodalo et al., 2020). Therefore, a more thorough understanding of how public borrowing affects foreign investment can be obtained by looking at these debt components independently.

Conceptual Framework

This illustrates the hypothesized variable relations. Public debt is operationalised using two independent variables, namely external and domestic debt, while FDI constitutes net FDI inflows as the dependent variable.

Figure 1: Conceptual Framework



Source: Authors (2026).

According to the framework in Figure 1, changes in both domestic and external debt influence FDI. Empirical evidence regarding the public debt-FDI nexus remains uncertain. Several studies report that increasing public debt discourages FDI by increasing sovereign risk, reducing fiscal sustainability, and weakening macroeconomic stability. For example, Shiyalini and Suresh (2022), using the Autoregressive Distributed Lag (ARDL) model for Sri Lanka, realized that government borrowing discouraged long-term investment. Similarly, Bedianashvili and Kokhraidze (2023), applying Vector Autoregression (VAR) and ARDL models to selected European economies, concluded that increasing public debt weakened economic performance despite positive contributions from FDI. Otieno (2024), using a Spatial Durbin Fixed Effects model for EAC countries, also reported that public debt negatively affected regional economic growth.

Conversely, other studies suggest that productive public borrowing may encourage foreign investment. Awuor et al. (2021) found a positive, although statistically not significant, connection of public debt and FDI in Kenya, implying that productive debt-financed investment may improve investment attractiveness under favourable macroeconomic conditions.

Other researchers report mixed findings. Triatmanto et al. (2023), employing a Panel Vector Auto Regression (PVAR) model across selected Southeast Asian economies, found that external debt supported economic growth while GDP was negatively associated with FDI. These divergent findings indicate that the debt–FDI relationship is context-specific and largely based on macroeconomic conditions, institutional quality, fiscal management and debt composition. Overall, the literature demonstrates that empirical evidence remains inconclusive, reinforcing the need for further investigation within the EAC using separate measures of external debt and domestic debt.

III. Methodology

Research Design

This study used a longitudinal panel research design and a quantitative research methodology grounded in positivist research philosophy. The panel design was appropriate because it combined cross-sectional observations across EAC member countries with time-series data, enabling the examination of both cross-country differences and changes over time. An unbalanced panel was used to accommodate variations in data availability across member countries during the study period.

Data Sources

The study utilized annual secondary data for EAC member countries covering the period 2004–2025. Data was obtained from reliable sources, including the World Bank, World Development Indicators (WDI), the IMF, the UNCTAD, and official publications of EAC central banks and national statistical agencies. These sources provide consistent FDI and public finance data suitable for panel data analysis.

Variable Indicators

Table 1: Study Variables Indicators

Variable	Indicator
Foreign Direct Investment (FDI)	Net FDI inflows as a percentage of GDP
External Debt	External debt-to-government revenue ratio
Domestic Debt	Domestic debt-to-government revenue ratio

Source: Authors (2026).

The study operationalised public debt using two indicators—external and domestic debt—whereas FDI was measured using net FDI inflows in proportion to GDP.

Model Specification

To estimate the effect of public debt on FDI, the following panel regression model was specified:

$$FDI_{it} = \beta_0 + \beta_1 ED_{it} + \beta_2 DD_{it} + \varepsilon_{it}$$

Where:

- FDI = Foreign Direct Investment
- ED = External Debt
- DD = Domestic Debt
- i = country
- t = year
- ε = error term

The Statistical Package for the Social Sciences (SPSS) was used to analyze the data. To summarize the traits of the research variables, descriptive statistics was employed. The associations of the variables were investigated using correlation analysis, and the impacts of both domestic and foreign debt on FDI were estimated using WLS panel regression.

IV. Results

Descriptive Statistics

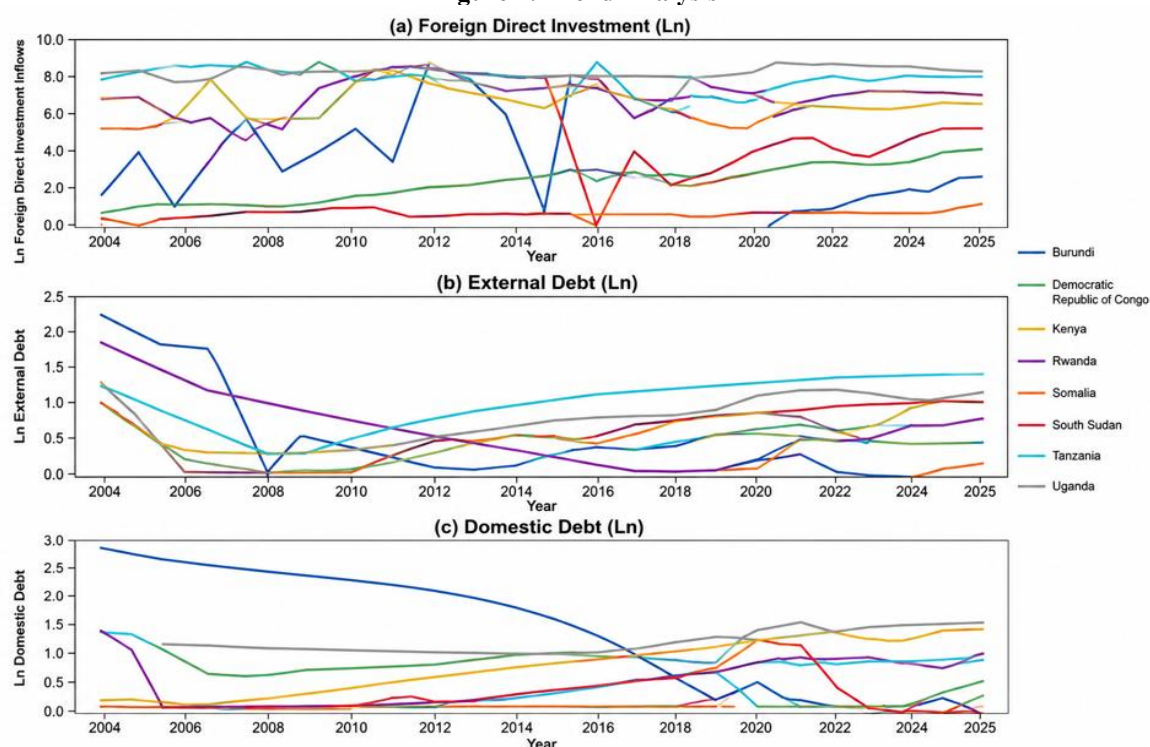
Descriptive statistics were computed for FDI, external, and domestic debt based on 126 country-year observations from EAC member countries over the period 2004–2025 as shown Table 2 below.

Table 2: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Minimum	Maximum
Foreign Direct Investment	126	6.794	1.860	0.351	9.001
External Debt	126	0.719	0.420	0.005	2.156
Domestic Debt	126	0.855	0.595	0.001	2.849

Source: Authors (2026).

The results in Table 2 indicate that FDI recorded a mean value of 6.794 with moderate variability (SD = 1.860), reflecting differences in the ability of EAC member countries to attract foreign investment. External debt recorded a mean of 0.719 (SD = 0.420), while domestic debt recorded a slightly higher mean of 0.855 (SD = 0.595), indicating greater variation in domestic borrowing across the region. These descriptive statistics suggest considerable heterogeneity in both public debt accumulation and foreign investment performance among EAC member countries.

Figure 2: Trend Analysis

Source: Author's computations based on World Bank, IMF and UNCTAD databases (2004–2025).

Domestic debt also increased in several member countries, particularly around 2020, reflecting governments' reliance on domestic financing to support economic recovery during the COVID-19 pandemic. Overall, the observed trends in Figure 2 demonstrate substantial variation in public debt accumulation and foreign investment performance across the EAC, providing justification for the subsequent econometric analysis.

Correlation Analysis

Correlation coefficients for FDI, external and domestic debt were computed to provide preliminary evidence of the association of the variables.

Table 3: Correlation Analysis

Variable	1	2	3
Foreign Direct Investment	1.000		
External Debt	-0.258**	1.000	
Domestic Debt	-0.276**	0.364**	1.000

Note: $p < 0.01$.

Source: Authors (2026).

The findings in Table 3 suggest a statistically significant negative link of public debt and FDI. There was a substantial negative association between FDI and both external and domestic debt ($r = -0.258$, $p < 0.01$ and $r = -0.276$, $p < 0.01$, respectively). These results imply that fewer FDI inflows are linked to rising public debt levels.

Diagnostic Tests

Diagnostic tests were performed to ensure that the fundamental assumptions of panel regression analysis were established before generating the regression models. Table 4 displays the findings.

Table 4: Summary of Diagnostic Tests

Test	Result	Decision
Normality (Residual Histogram & P-P Plot)	Approximately normal	Assumption satisfied
Variance Inflation Factor (VIF)	Maximum = 9.895	No severe multicollinearity
Breusch–Pagan Test	$\chi^2 = 28.98, p = 0.001$	Heteroscedasticity detected
Estimation Method	Weighted Least Squares	Corrected Heteroscedasticity
Durbin–Watson Statistic	1.826	No autocorrelation

Source: Authors (2026).

According to the diagnostic findings, the regression model addressed the main presumptions needed for panel regression analysis. Although the Breusch–Pagan test revealed the presence of heteroscedasticity ($\chi^2 = 28.98, p < 0.05$), this problem was corrected using the WLS estimation technique and so as to obtain efficient and unbiased parameter estimates. The maximum Variance Inflation Factor (VIF) of 9.895 indicated lack of multicollinearity. In addition, the Durbin–Watson statistic of 1.826 suggested there is no significant autocorrelation, while the residual plots confirmed approximate normality. These findings demonstrate that the estimated regression models are appropriate for hypothesis testing.

Regression Results

Separate regression models were estimated. The model summary, analysis of variance (ANOVA), and regression coefficients are presented in Tables 5, 6 and 7.

Model Summary

Table 5: Model Summary

Model	Predictor	R	R Square	Adjusted R Square	Std. Error of Estimate
1	External Debt	0.258	0.067	0.059	1.804
2	Domestic Debt	0.276	0.076	0.069	1.795

Dependent Variable: Foreign Direct Investment (FDI)

Source: Authors (2026).

The results from Table 5 indicate that external debt explains approximately 6.7% of the variation in FDI, while domestic debt explains approximately 7.6%. Although the coefficients of determination are relatively modest, they are expected because FDI is influenced by numerous macroeconomic, political and institutional factors beyond public debt. Nevertheless, the models provide statistically meaningful evidence.

Analysis of Variance

Table 6: Analysis of Variance (ANOVA)

Model	Predictor	Regression df	Residual df	F	Sig.
1	External Debt	1	124	8.849	0.004
2	Domestic Debt	1	124	10.212	0.002

Dependent Variable: Foreign Direct Investment (FDI)

Source: Authors (2026)

The ANOVA results confirm that both regression models are statistically significant. The external debt model is significant ($F = 8.849, p = 0.004$), so is domestic debt ($F = 10.212, p = 0.002$). These findings indicate that each predictor contributes significantly to explaining variations in FDI among EAC member countries.

Regression Coefficients

Table 7: Regression Coefficients

Predictor	Model 1: External Debt				Model 2: Domestic Debt			
	B	Std. Error	Beta	Sig.	B	Std. Error	Beta	Sig.
Constant	7.616	0.319	—	0.000	7.531	0.281	—	0.000
External Debt	-1.143	0.384	-0.258	0.004	—	—	—	—
Domestic Debt	—	—	—	—	-0.862	0.270	-0.276	0.002

Dependent Variable: Foreign Direct Investment (FDI)

Source: Authors (2026)

From the findings in Table 7, external debt exerts a significant negative impact on FDI ($\beta = -1.143$, $p = 0.004$). This finding implies that increasing external borrowing reduces the attractiveness of EAC economies to foreign investors, primarily because of heightened concerns regarding debt sustainability, sovereign risk, exchange rate vulnerability, and future fiscal adjustments. Similarly, domestic debt exhibits a significantly negative influence on FDI ($\beta = -0.862$, $p = 0.002$). The findings imply that high domestic borrowing could lower investment appeal by raising domestic interest rates, crowding out private sector credit, and signaling fiscal pressures that weaken investor confidence.

Despite the fact that both models account for a small percentage of the variation in FDI, the statistical significance, consistency of the coefficient indications and theoretical alignment indicates that public debt remains an important determinant of FDI within the EAC. Comparatively, the domestic debt model exhibits slightly greater explanatory power than the external debt model, as reflected by its higher coefficient of determination ($R^2 = 0.076$) and standardized regression coefficient ($\beta = -0.276$).

V. Discussion

The results show that FDI in EAC member nations is negatively impacted by both domestic and external debt in a statistically significant way. The Debt Overhang Theory, which contends that excessive public debt deters investment by raising uncertainty about future taxes, debt-servicing responsibilities and macroeconomic stability, is empirically supported by the findings. As governments accumulate unsustainable debt, foreign investors may anticipate higher fiscal risks and reduced prospects for stable returns, thereby lowering investment inflows.

Additionally, the results align with prior empirical investigation undertaken in developing economies. Makatiani et al. (2024) opined that rising external debt reduced FDI in Kenya due to growing concerns regarding debt sustainability. Similarly, Abdulhamid et al. (2024) found that excessive external borrowing significantly reduced FDI inflows into Nigeria, particularly where debt exceeded sustainable levels. Epor et al. (2024) likewise concluded that excessive public debt constrains economic performance and weakens the capacity of developing countries to attract foreign investment.

However, the findings offer only partial support for the Keynesian Theory of Public Debt, which posits that productive government borrowing can enhance economic activity and encourage investment. The observed negative relationship suggests that, within the EAC during the study period, the adverse effects associated with rising debt levels outweighed the potential advantages of public investment funded by debt. This result emphasizes how crucial debt sustainability, effective use of borrowed funds, and competent fiscal management are in deciding whether public borrowing promotes or deters foreign investment. Overall, the findings demonstrate that managing public debt responsibly remains fundamental to boosting investor confidence and enhancing the EAC's investment environment. Governments should therefore balance development financing needs with long-term fiscal sustainability to maintain the region's attractiveness to foreign investors.

VI. Conclusions

This study investigated how public debt affects FDI among EAC member countries over the period 2004–2025. In particular, the research investigated the individual effects of domestic and external debt on FDI using a quantitative research approach and longitudinal panel data. Descriptive statistics, correlation analysis, and WLS panel regression were employed following diagnostic testing. The findings revealed that both debts negatively affect FDI. External debt exhibited a significant negative effect ($\beta = -1.143$, $p = 0.004$), while domestic debt also

had a significant negative effect ($\beta = -0.862$, $p = 0.002$). These findings suggest that increasing public debt heightens concerns regarding fiscal sustainability, sovereign risk, and macroeconomic uncertainty, consequently, foreign investors find EAC member nations less appealing.

The analysis comes to the conclusion that FDI in the EAC is significantly influenced by public debt. It is greatly decreased by both domestic and external debt, with external debt exerting the stronger adverse influence. The findings indicate that excessive public borrowing weakens investor confidence by increasing perceptions of fiscal risk, debt-servicing pressures, and macroeconomic instability. The study further concludes that the composition of public debt matters. Treating public debt as a single aggregate measure may conceal the distinct effects of external and domestic borrowing on foreign investment decisions. By separately examining these components, the study provides more nuanced empirical evidence on how public debt influences FDI in developing economies. Overall, prudent public debt management remains essential for sustaining foreign investment and promoting long-term economic development within the EAC.

VII. Recommendations

The findings provide empirical support for the Debt Overhang Theory by demonstrating that excessive public debt discourages FDI through increased fiscal risk and macroeconomic uncertainty. At the same time, the findings offer only limited support for the Keynesian Theory of Public Debt, suggesting that the expected benefits of debt-financed public investment depend on the sustainability and productive utilisation of borrowed resources. Future studies should integrate debt composition, institutional quality, and fiscal governance into theoretical models to provide a more comprehensive explanation of how public debt influences foreign investment in developing economies.

Governments and public debt management institutions should strengthen debt management practices by maintaining sustainable borrowing levels and ensuring that borrowed resources are invested in productive sectors capable of generating long-term economic returns. Priority should be given to infrastructure, industrial development, technology, and other investments that improve productivity and enhance the investment climate.

Debt management offices should also strengthen debt monitoring systems and conduct regular debt sustainability assessments before contracting additional borrowing. Improved transparency in public debt reporting and prudent fiscal management will enhance investor confidence and contribute to a more stable investment environment.

Governments of EAC member countries should strengthen national debt sustainability frameworks by establishing clear borrowing limits, improving fiscal discipline, and promoting transparent public financial management. Public borrowing should be aligned with long-term development priorities to ensure that debt-financed projects generate sufficient economic returns to support future debt servicing.

At the regional level, the EAC Secretariat should promote greater coordination of debt management policies among member states. Harmonizing debt sustainability frameworks, strengthening regional macroeconomic surveillance, and encouraging the exchange of best practices in debt management would improve fiscal stability and enhance the region's attractiveness to foreign investors. Policies that strengthen macroeconomic stability, institutional quality, and investor protection should be prioritized too, as these factors complement prudent debt management in attracting and sustaining FDI.

References

- [1]. Abdulhamid, J., Aliyu, U. S., Rabi, S., Ibrahim, S. S., & Cavusoglu, B. (2024). A Novel Bootstrap Approach for the Effect of Exchange Rate Shocks on Growth Performance in Nigeria. *Sage Open*, 14(4), 21582440241304248. <https://doi.org/10.1177/21582440241304248>
- [2]. Adebayo, T., Onyibor, K., & Akinsola, G. (2020). The impact of major macroeconomic variables on foreign direct investment in Nigeria: Evidence from a wavelet coherence technique. *SN Business & Economics*, 1. <https://doi.org/10.1007/s43546-020-00018>
- [3]. Agostini, C., Hurtado, U. A., & Tulayasathien, S. D. (2023). Tax Effects on Foreign Direct Investment Location: Evidence from American States.
- [4]. Awuor, O. C., Kashu, D., Kamande, M. J., Kilonzo, M., Ruth, W., & Musau, A. (2021). Public Debt and Foreign Direct Investment in Kenya. 3(7).
- [5]. Bedianashvili, G., & Kokhraidze, G. (2023). Public Debt and Foreign Direct Investment in Small Countries in the Context of Economic Growth.
- [6]. Bhimjee, D. (2023). The euro area sovereign debt crisis and the sovereign debt Laffer curve: A historic assessment for 1999–2014 | *Humanities and Social Sciences Communications*.
- [7]. Dao, T. B. T., & Le, T. H. (2024). Foreign Direct Investment, Public Debt and Economic Growth in Developing Countries. *International Journal of Social Science and Economic Research*, 9(8), 2875–2891. <https://doi.org/10.46609/IJSSER.2024.v09i08.021>.
- [8]. Epor, S. O., Yua, H., & Iorember, P. T. (2024). Foreign direct investment and economic growth in developing countries: The role of international trade and foreign debt. *Modern Finance*, 2(1), 1–17. <https://doi.org/10.61351/mf.v2i1.87>.
- [9]. Grynspar, R. (2022). Trade and Development Report 2022 | UNCTAD. <https://unctad.org/tdr2022>.
- [10]. Heimberger, P. (2023). Do higher public debt levels reduce economic growth? *Journal of Economic Surveys*, 37(4), 1061–1089. <https://doi.org/10.1111/joes.12536>.
- [11]. Hickey, R., Lozej, M., & Smyth, D. (2020). Financing government investment and its implications for public capital: A small open economy perspective. *Economic Modelling*, 93, 620–641. <https://doi.org/10.1016/j.econmod.2020.08.006>.

- [12]. Horton, M., & EL- Ganainy, A. (2022). Fiscal Policy: Taking and Giving Away. IMF. <https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Fiscal-Policy>
- [13]. Ighodalo Ehikioya, B., Omankhanlen, A. E., Osagie Osuma, G., & Iwiyisi Inua, O. (2020). Dynamic Relations Between Public External Debt and Economic Growth in African Countries: A Curse or Blessing? *Journal of Open Innovation: Technology, Market, and Complexity*, 6(3).
- [14]. Jackson, R. H., & Rosberg, C. G. (2022). The States of East Africa: Tanzania, Uganda, and Kenya. In *Politics and Government in African States*. Routledge.
- [15]. Jiang, W., Sargent, T. J., Wang, N., & Yang, J. (2022). *A Theory of Government Debt and Taxes* (SSRN Scholarly Paper 4074211). <https://doi.org/10.2139/ssrn.4074211>
- [16]. Joy, J., & Panda, P. K. (2020). Pattern of public debt and debt overhang among BRICS nations: An empirical analysis. *Journal of Financial Economic Policy*, 12(3), 345–363.
- [17]. Karadam, D. Y. (2021). *The Validity of the Debt Overhang Theory in Developing Countries*.
- [18]. Keynes, J. M. (1935). *The General Theory of Employment, Interest and Money*. Harcourt, Brace and Company.
- [19]. Kinyua, B., & Elly, D. O. (2022). Firm Characteristics, Corporate Governance and Financial Leverage: A Critical Literature Review. *African Development Finance Journal*, 4(3).
- [20]. Krugman, P. (1988). *Financing vs. Forgiving A Debt Overhang*.
- [21]. Liu, Q., Bai, Y., & Song, H. (2023). The crowding out effect of government debt on corporate financing: Firm-level evidence from China. *Structural Change and Economic Dynamics*, 65, 264–272. <https://doi.org/10.1016/j.strueco.2023.03.005>
- [22]. Makatiani, T., Ngala, C., & Mungai, A. (2024). Impact of Tax Incentives on Foreign Direct Investment Inflow in Kenya. *African Journal of Empirical Research*, 5(4), 1672–1681. <https://doi.org/10.51867/ajernet.5.4.140>
- [23]. Mandisodza, T. (2023). *Impact of Public Debt on Foreign Direct Investment in Zimbabwe (1990-2021)* (SSRN Scholarly Paper 4711435). <https://doi.org/10.2139/ssrn.4711435>
- [24]. Marglin, S. A. (2020). *Raising Keynes: A Twenty-First-Century General Theory*. Harvard University
- [25]. Musiita, B., Kijjambu, F. N., Katarangi, A. K., Kahangane, G., & Akampwera, S. (2023). Uganda's Debt Sustainability: Testing the Efficacy of Debt Overhang Theory. *Journal of Economics and Behavioral Studies*, 15(4(J)), 37–54. [https://doi.org/10.22610/jebs.v15i4\(J\).3657](https://doi.org/10.22610/jebs.v15i4(J).3657)
- [26]. Nazir, M. S., Hafeez, Q., & U-Din, S. (2022). Did reduction in corporate tax rate attract FDI in Pakistan? *International Journal of Finance & Economics*, 27(2), 2256–2267. <https://doi.org/10.1002/ijfe.2271>
- [27]. Otieno, B. A. (2024). Public debt, investment and economic growth dynamics: Do geographical proximity and spatial spillover effects matter? *CoLab*. <https://colab.ws/articles/10.1016%2Fj.rspp.2024.100059>
- [28]. Pokou, K. (2020). Sustainability of Public Debt and Economic Growth in Cote d'Ivoire: Is There a Threshold Effect? *Journal of Economic Science Research*, 3(3).
- [29]. Prah, G. J., & Ofori, C. (2022). External Debt and Foreign Investment: An Empirical Analysis on the Economy of Ghana. *Eurasian Journal of Economics and Finance*, 10(2), 54–67. <https://doi.org/10.15604/ejef.2022.10.02.002>
- [30]. Rangarajan, & Srivastava. (2023). *Fiscal Deficits and Government Debt: Implications for Growth and Stabilisation*.
- [31]. Reis, R. (2022). Debt Revenue and the Sustainability of Public Debt. *Journal of Economic Perspectives*, 36(4), 103–124. <https://doi.org/10.1257/jep.36.4.103>
- [32]. Shiyalini, S., & Suresh, K. (2022). The impact of public debt on domestic and foreign direct investments in developing market: An ARDL bounds testing approach. *Corporate Law and Governance Review*, 4(1), 8–18. <https://doi.org/10.22495/clgrv4i1p1>
- [33]. Simidi, P. M., Nyamute, W., Elly, D. O., & Barasa, L. (2021). *Public Debt, Selected Macroeconomic Factors, Governance and Sustainable Economic Growth in the East Africa Community Member Countries*.
- [34]. Triatmanto, B., Bawono, S., & Wahyuni, N. (2023). The contribution and influence of total external debt, FDI, and HCI on economic growth in Indonesia, Thailand, Vietnam, and Philippines. *Research in Globalization*, 7, 100163. <https://doi.org/10.1016/j.resglo.2023.100163>
- [35]. Turan, T., & Yanikkaya, H. (2021). External debt, growth and investment for developing countries: Some evidence for the debt overhang hypothesis. *Portuguese Economic Journal*, 20(3), 319–341. <https://doi.org/10.1007/s10258-020-00183-3>
- [36]. Yusuf, A., & Mohd, S. (2021). The impact of government debt on economic growth in Nigeria. *Cogent Economics & Finance*, 9(1), 1946249.