THE IMPACT OF EXTERNAL DEBT ON POVERTY IN ZIMBABWE

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ABSTRACT

The major aim of the study was to analyze the impact of external debt on poverty in Zimbabwe over the period 1980 – 2013. The Ordinary Least Squares (OLS) estimation technique was applied on annual changes in house hold consumption per capita (a measure of welfare) which was the dependent variable and a proxy for poverty. Independent variables were budget deficit, external debt, private investment and annual GDP growth. Results obtained indicated that external debt is a driver of poverty. Therefore, the government of Zimbabwe should put efforts in reducing the external debt so as to open capital injections from foreign institutions to stimulate economic growth and poverty reduction schemes.

Keywords: - *External Debt, Poverty, Zimbabwe*

1.0 INTRODUCTION

Poverty and external debt are some of the challenges that are faced by Zimbabwe currently such that it is regarded as a low income country. The economy of Zimbabwe suffered from a backsliding trend after the year 2000 as a result of unfavorable economic conditions such as inflation that did not propel economic growth and the end result was widespread poverty (Jones, 2011). World Bank (2002) defined poverty as a lack of basic requirements, failure to access education, health, clean water, exposure to violence and social exclusion. The most commonly used measure of poverty is income (Ferraro and Rosser, 1994). The assumption is that poverty is a direct function of income and purchasing power. The rationale behind the income approach is that individuals with higher incomes have access to basic goods and services that satisfy their daily needs. It argues that countries that have a high Gross National Product (GNP) tend to have

high living standards compared to those who have a lower gross national product. The income analysis approach make use of indicators such as Gross National Product, Gross National Product per Capita, Gross Domestic Product and Household consumption and these measures are both economic and social.

There are a number of ways in which poverty can be measured such as through the use of the Human development index which employ the literacy rate, life expectancy and per capita income. However this study will make use of change in Household consumption per capita as a proxy of poverty. This variable was also used by Mwanza (2015) in his study. World bank (2015) defined final household consumption per capita as expenditure that is incurred by a household on goods and services divided by the total population, and it measures welfare of citizens in a country. An increase in household consumption implies an improvement in welfare and living conditions of citizens whereas a reduction in household consumption is associated with a decline in welfare, thus poverty. External debt is mainly used as a source of finance to supplement domestic sources of finances to facilitate development and needs of a nation. External debt is defined as part of a debt borrowed from institutions outside a country, including that acquired by commercial banks and the government itself (Ajayi and Khan, 2000). Countries that have low domestic savings suffer from foreign exchange shortage, hence incur external debt so as to engage in development activities and meet national objectives. However, accumulation of the external debt occurs if the initial external debt is not used for income generating activities and thus the ability to pay back for a nation that has borrowed is significantly reduced (Todaro,2000). It is argued that an increase in debt creates an impediment to a sustainable economic growth and poverty reduction as well (Berensmann, 2004) as resources will be diverted to debt repayment other than investing in productive sectors of the economy.

Commitment to pay back the debt that was incurred in the past by the past regimes weakened the ability of many countries in the third world to break through the poverty cycle (Jones, 2011). Poverty can create a poverty trap whereby an economic system requires a large amount of capital to escape poverty. A country can be locked in a poverty trap if steps are not taken to break it (Sachs, 1989). An obligation to service the debt implies resources will be diverted to debt services thereby draining away the resources needed for development and the social sector. Ajayi and Khan (2000) indicated that countries with a high external debt and high debt servicing obligations face a decline in living standards due to a reduction in spending in sectors of the economy that are indispensable such as education and health facilities. Economic variables such as private investment, budget deficit and GDP growth rate have a significant effect on poverty. Private investment helps to improve welfare of citizens by reducing unemployment hence reducing poverty (Mehmood and Sadi, 2010). Economic growth can be measured using GDP growth which refers to a change in GDP expressed as percentage and it shows how much national income for a nation has changed and an increase in GDP is associated with poverty reduction (Osunubi, 2005). Budget deficit has mixed outcomes and it is defined as the amount by which government expenditure exceeds government revenue (Mankiw, 2010). A budget deficit associates unfavorably with inflation, employment, economic growth and private investment and this implies that a budget deficit reduces the welfare of a nation, thus poverty (Makochekanwa, 2011).

Several observations have been made over the impact of external debt on poverty and economic growth and some conclusions made were that external debt is one of the causes of poverty (Loko

et al, 2003). Uzochukwu (2002) concluded that a negative relationship exists between poverty and debt indicators hence the effect of external debt on poverty is not clear probably because of varying measures of poverty that were applied in these studies. Therefore as a result of diverse findings, this study seeks to analyze the impact that external debt has on poverty in Zimbabwe using OLS estimation technique and change in House Hold consumption per Capita as a proxy of poverty.

1.1 Statement of the Problem

Poverty is a multidimensional phenomenon and it can emanate from a number of factors. In order to fight the prevalence of poverty there is need for one to know its causes. Poverty results in poor living conditions such as lack of basic requirement, failure to access education, clean water and health facilities. If steps are not taken to address poverty, the cycle continues and gives birth to more problems. The government of Zimbabwe has been at war against poverty since 1980 and researchers have been trying to look at the causes of poverty. External debt is a serious problem in Zimbabwe like any other developing country that can perpetuate poverty through mechanisms that are direct or indirect. Saungweme and Mufandaendza (2013) found a positive relationship between poverty and external debt variables. External debt and poverty seem to be moving in the same direction as depicted in the background of the study hence there is a need to analyze the relationship between external debt and poverty in Zimbabwe.

1.2 Research questions

i. What impact does external debt have on poverty in Zimbabwe?
ii. What is the impact of budget deficit, private investment and GDP growth rate on poverty in Zimbabwe?

1.3 Relevance of the Study

Many studies on poverty have been carried out for the nation but a few are on the relationship of poverty and external debt. Studies by Saungweme and Mufandaedza (2013), Reinstadler and Ray (2010) and Chani et al (2011) examined factors that affect poverty and this has resulted to an increase of knowledge in the factors that determine poverty. External debt and Poverty have been on an up and downward trend in the economy of Zimbabwe for the past years and there is no major empirical evidence that explain the relationship between external debt and poverty in Zimbabwe hence there is need to investigate the relationship that exists between external debt and poverty.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 Crowding out Effect

Crowding out effect takes place when the government uses borrowed money either from domestic or international market to finance projects with deficit spending. An increase in government borrowing results to an increase in the interest rates such that private businesses and individuals find it costly to borrow money to finance growth and expansion. Stiglitz (2000) stipulated that government borrowing crowds out investment which then reduces output hence

affecting the welfare of citizens negatively. Thus, crowding out effect leads to a decline in private sector consumption and therefore slows economic growth. A decline in private investment results to unemployment which makes it difficult for households to meet their daily requirements thus a reduction in welfare as is the case in Zimbabwe.

2.1.2 Debt sustainability

Debt sustainability is defined as the ability of a nation to meet current and future servicing of a debt without changing the initial debt agreement or defaulting in payments which would result in accumulation of arrears compromising growth of a nation. It is also a situation whereby a debt can be serviced without affecting economic variables such as inflation, employment and investment. Debt sustainability is feasible only if the rate at which the output is growing is greater than that of the interest rate of the debt (Czerkawski, 1991). A growth rate that is greater than that of the interest rate enables a country to meet its debt servicing obligations opening up a channel for more loans. Access to credit facilities and more income can propel development which then improves living conditions. Zimbabwe does not have enough funds to meet its debt servicing obligations due to a lower growth rate. This has led to default in debt repayment and accumulation of arrears making it difficult to access financial assistance from international financial institutions to invest in productive sectors of the economy that create employment and undertake poverty reduction schemes.

2.1.3 Debt Overhang Hypothesis

Debt overhang occurs when a country has a large debt such that it cannot take on additional debt so that it can finance future projects even those which are profitable to enable it to reduce its level of debt (Krugmann, 1988). A debt that is high implies high expected future tax to the private sector. Investors are dissuaded to invest because of the fear of future tax increase to finance the debt. The theory stipulates that as the debt stock increases, expectations that debt can be financed by distortionary measures also increase. Uzochukwu (2003) highlighted that external debt stocks results to a low growth rate by reducing investment partly. A decline in investment implies that unemployment will be prevalent leading to a decline in household consumption thus perpetuating poverty.

2.2 Empirical literature review

Loko et al (2003) studied the relationship of external debt and poverty using development indicators which are infant mortality, life expectancy and primary gross enrollment rate. The study comprised of 67 low income countries and 41 of them were highly indebted poor countries. The period of the study covered the years 1985 to 1999 and the estimation technique employed was the simple ordinary least squares. The study found that external debt indicators negatively impacts on Life expectancy and positively impacts on Infant mortality and gross primary enrollment rate. They concluded that debt affect poverty not only through the negative impact on investment and income but through debt servicing which then crowds out government spending on the social sector**.** Saddique (2015) studied the impact of external debt on economic growth focusing on highly indebted poor countries (HIPC) over the period 1970 to 2007 using recent developments in time series and cross sectional analysis. The Auto Regressive Distributed Lag Model (ARDL) was used with GDP as an independent variable whilst the explanatory variables

consisted of external debt, capital formation, total trade and population. Results obtained from the study indicated that capital formation has a positive relationship with GDP and population increase has a positive influence on economic growth. On the other hand external debt was found to have a negative effect on economic growth. Saddique concluded that counties that are debt ridden repay their debt using a large proportion of the produced output hence creating a disincentive to invest. Thus a reduction in investment affects employment hence perpetuating poverty.

Patillo et al (2002) investigated the effect that external debt has on developing economies. The study took into consideration 93 developing countries and it covered the period 1969 to 1998. The study used four different debt burden definitions which are the ratios of nominal and net present values of external debt to both exports and gross domestic product. Per capita growth was the dependent variable whereas the control variables consisted of lagged income per capita, investment rate, secondary school enrollment rate and the population growth rate. In that study, the estimation techniques employed are ordinary least squares, two-stage least squares, fixed effects and the generalized method of moments. The study concluded that doubling of a debt ratio would result in reduction of annual per capita growth due to debt servicing which can deter a country from investing in productive sectors of the economy that create employment and improve welfare of citizens of that nation. Uzochukwu (2003) carried out a study in Nigeria to examine the effect of external debt on poverty applying per capita income approach. Variables that were used in the study include population growth, fiscal balance, lagged income per capita whilst the debt variables consists of external debt and domestic debt. Empirical literature given in the study suggested that school enrollment, fiscal balance and terms of trade have a positive impact on poverty in Nigeria. However the study concluded that population, domestic debt and external debt have a negative relationship with poverty using the per capita income approach. The conclusion that was made is that population, domestic debt and external debt are poverty elastic hence are significant in pulling all measures towards poverty reduction.

Reinstadler and Ray (2010) analyzed the effect of regional unemployment and GDP on individual's income poverty status in 26 European countries. The study made use of panel data for the years 2005 and 2006 obtained from European Union-Statistics on Income and Living Conditions (UE-SILC). Results obtained indicated that GDP has a negative effect on one being poor and unemployment had a positive effect on one being poor probably influenced by low unemployment in developed countries. Thus GDP can reduce poverty hence can be used as an independent variable. Amaeteng and Amoako- Adu (2002) studied the impact of foreign debt service on GDP growth using VAR analysis for Africa covering the period 1983 to 1990. The study employed six measures of indebtness that proxied multiple mechanisms. The study revealed that an unidirectional and positive causal relationship exist between foreign debt and GDP growth and the growth of poverty was found to be influenced by the patterns of growth and the distribution of income as well. Adegbite et al (2008) investigated the impact of external debt on economic growth between 1975 and 2005 in Nigeria. The study applied a Solow-type neoclassical growth model and regressed the ratio of external debt to gross domestic product along with other macroeconomic variables. Both ordinary least square and generalized least square estimation techniques were used. They concluded that external debt impacts positively on economic growth up to a certain extent at which after that point its contribution becomes negative showing non linearity in effects. Another result obtained from this study is that Nigeria's large debt crowds out investment. A decline in investment lowers the chance of one

getting employed hence making it difficult for a family or household to consume and the end result is wide spread in poverty.

Fosu (1999) carried out a study in 35 Sub-Saharan countries examining the effect of external debt on growth using data obtained from the World Bank for the period 1980 to 1990. GDP growth was regressed against capital, exports, labor and external debt. Results showed that outstanding debt and economic growth are negatively related for a given levels of production. The study also revealed that in the absence of the debt, growth rate would have been 50% greater than that of the period the study was carried out. This implies that debt servicing divert resources from productive sectors of the economy hence impeding growth minimizing resources that can be channeled towards the social sector and poverty reduction schemes. Boboye and Ojo (2012) carried out a study in Nigeria on the effects of external debt burden on economic growth and development for 27years. The study employed an OLS estimation technique on national income, external reserves, population and debt service payment amongst others. Results from the study show that there is a positive relationship between national income, debt service payment, external reserves and interest rate. Medmood and Sadiq (2010) investigated the relationship between government expenditure (GE) and poverty. Budget deficit was used as a proxy for government expenditure. Error correction modeling was employed and results obtained indicated that GE reduces poverty as they found out that it was negatively related to poverty in Pakistan using time series data covering the period 1976 to 2010. The relationship can be explained by GE that stimulate aggregate demand hence perpetuating economic growth which is said reduces poverty.

Hameed *et al*. (2008) analyzed the relationship between external debt and economic growth in Pakistan. By using a production function model for time series data of gross domestic product, debt service, capital stock and labour force from 1970 to 2003, the study examined the dynamic effects that these variables have on economic performance. Multiple cointegration procedures were employed to identify long-run relationships between the variables. The long-run relationship shows that debt service affects gross domestic product negatively, most likely through its adverse impacts on capital and labour productivity. Granger causality was also estimated through a vector error correction model, and further indicates that short-run and long-run negative causality runs from debt service to gross domestic product. Makochekanwa (2011) carried out a study in Zimbabwe examining the relationship between budget deficit and inflation for the period 1980 to 2005. Results obtained showed that a positive relationship exists between budget deficit and inflation. An increase in price levels implies that a currency loses its purchasing power hence it becomes difficult for households to meet their daily consumption requirements resulting in poverty. A study by Musarira (2013) came to a conclusion that inflation is positively related to poverty meaning that a budget deficit may have a positive effect on poverty. Using a headcount ratio of poverty Chen and Ravallion (1997) showed that poverty falls systematically with higher GDP per capita. It seems like growth normally reduces poverty but its effects vary across countries. Some empirical evidence indicates that external debt has an impact on growth which was found to be the key determinant of poverty. Gupta *et al*. (2001) found out that high debt service directly reduce government resources available for the poor thereby having a negative effect on non income poverty indicators.

Empirical studies point out that there is no a clear relationship that exists between external debt and poverty. Diverse conclusions have been made by researchers probably because of various

measures of poverty employed in those studies. From the empirical literature, poverty is a function of many variables. This study is going to use poverty as a dependent variable proxied by household consumption per capita which measures welfare. Basing on the theories and empirical studies, adopted independent variables include external debt, budget deficit, annual GDP growth rate and private investment.

3.0 METHODOLOGY

3.1 Methodology

The estimation technique that will be used in this study to explore the relationship among variables is the Ordinary Least Square approach. According to Gujarati (2003) the approach minimizes the value of the residual and that is the difference between the estimated value and the actual value. Time series data will be used. Nhokwara (2013) and Mwanza (2015) also used time series data in their studies. Time series data is data that is collected over distinct intervals of time and it is usually shown by a subscript (t).

3.2 Model Specification

The study employed the monetary approach to poverty and the function was developed basing on the theory and empirical studies reviewed in chapter two.

Poverty= f (external debt, private investment, budget deficit and annual GDP growth)

$$\Delta PERCONS = \alpha + \beta_1 XTD + \beta_2 BDEF + \beta_3 INVEST + \beta_4 GDPGR_{t-1} + \mu_t$$

Where:

ΔPERCONS is Annual change in household consumption per capita a proxy for poverty

XTD is External debt

BDEF is Budget deficit

INVEST is Private investment

$GDPGR_{t-1}$ is lagged GDP growth

α is a constant

μ is the error term which follows a normal distribution with a mean of zero and a constant variance.

4.0 RESULTS PRESENTATION & ANALYSIS

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

	ΔPERCON	XTD	BDEF	GDPGR $_{t-1}$	INVEST
Mean	10.97547	61.55768	-7.105417	1.781661	9.405732
Median	12.72907	64.63295	-5.784182	2.366663	13.68200
Maximum	210.0121	143.7647	2.073597	14.42068	21.87775
Minimum	-206.0099	12.03110	-27.30000	-17.66895	-69.94717
Std.Dev.	84.22088	27.44190	7.199900	7.768081	15.85944
Skewness	-0.366071	0.606851	-1.492963	-0.673012	-3.858287
Kurtosis	4.023984	4.010636	4.621711	3.244268	19.69936
Jaque-Bera	2.244812	3.533814	16.35641	2.651221	479.4199
Probability	0.325496	0.170891	0.000281	0.265641	0.000000
Sum	373.1661	2092.961	-241.5842	60.57647	319.7949
Sum Sq. Dev	234074.2	24850.91	1710.672	1991.322	8300.215
Observations	34	34	34	34	34

Kurtosis of all variables was found to be closer to three except for the INVEST variable. Hence there is a possibility of normality in other variables except for the INVEST variable. This is also in consistency with Jaque- Bera probabilities which has to be greater than 0.05 for the variables to be normal.

4.2 Stationarity

The unit root test was carried out to check for stationarity so as to avoid spurious regressions. The null hypothesis is that there is a unit root meaning that the process is not stationary and the alternative hypothesis is also stated otherwise. Results from Dickey-Fuller tests are presented in table 2 below.

Table 2: Unit root test results

Variable	t-ADF statistics	Critical 1%	Critical 5%	Critical 10%	Integration	Conclusion
DXTD	-6.060588	-3.653730	-2.957110	-2.617434	1	Stationary*
ΔPERCONS	-4.681965	-3.646342	-2.954021	-2.615817	0	Stationary*
INVEST	-3.422466	-3646342	-2.954021	-2.615817	0	Stationary**
BDEF	-4.087617	-3.646342	-2.954021	-2.615817	0	Stationary*
GDPGR $_{t-1}$	-3.306889	-3.646342	-2.954021	-2.615817	0	Stationary**

The null hypothesis which states that there is a unit root was rejected for variables BDEF, INVEST, GDPGR and ΔPERCONS that were found to be stationary in their level form. Variable XTD was not stationary at level form and was integrated of order one for it to be stationary.

4.3 Multicollinearity test

The problem of multicollinearity is said to be present if the partial correlation coefficients of the variables are greater than 0.8. However results obtained from the test indicate that partial correlation coefficients of the variables are less than 0.8 hence there is no multicollinearity among variables. Results obtained from the test are presented in table 3 below.

Table 3: Correlation matrix

	ΔPERCON	XTD	BDEF	GDPGR	INVEST
ΔPERCON	1.000000				
XTD	-0.587467	1.000000			
BDEF	0.443424	-0.399347	1.000000		
GDPGR $_{t-1}$	0.042865	0.233745	0.030868	1.000000	
INVEST	0.009986	-0.226725	0.339335	0.351911	1.000000

4.4 Diagnostic Tests

Table 4: Diagnostic tests results

TEST	**PROBABILITY**	**DECISION**
Jarque-Bera (Normality)	0.1043	Normally distributed
Breusch- Godfrey Serial LM	0.9017	No autocorrelation
Breush-Pagan-Godfrey	0.2283	Homoscedastic
Ramsey RESET (Model specification)	0.1615	Correctly specified

4.4.1 Normality of Residuals

The probability value of the Jarque- Bera was found to be 0.1043 which is greater than 0.05 the level of significance. Since the probability value exceeds the level of significance, we accept the null hypothesis that errors follow a distribution that is normal.

4.4.2 Autocorrelation

The null hypothesis when testing for autocorrelation states that there is no autocorrelation. The probability obtained is 0.9017 which is greater than 0.05 the level of significance. Therefore we fail to reject the null hypothesis at 5% level of significance and conclude that there is no autocorrelation.

4.4.3 Heteroscedasticity

When using the Breush-Godfrey-Pagan test the null hypothesis is that error terms are homoscedastic. From the test carried out, the p-value of the F statistic was found to be 0.2288.

The p-value is greater than 0.05 the level of significance hence we do not reject the null hypothesis and conclude that errors are homoscedastic.

4.4.4 Ramsey RESET

The F statistic of the Ramsey RESET test was found to be 0.1615 exceeding the level of significance which is 0.05. Therefore, this leads to the acceptance of the null hypothesis which states that the model is correctly specified.

4.5 Regression results

Table 5: Regression results with PERCON as a dependent variable.

Variable	Coefficient	Std. error	t-statistic	t-prob
CONSTANT	50.52712	19.28393	2.620168	0.0140
DXTD	-3.277611	0.831207	-3.943197	0.0005
BDEF	3.524587	1.753728	2.009768	0.0542
GDPGR $_{t-1}$	3.143551	1.620041	1.940415	0.0625
INVEST	-1.755258	0.817133	-2.148070	0.0405

R-squared 0.502959 F-statistic 7.083355

Adjusted R-squared 0.431954 Prob(F-statistic) 0.000452

The value of R-squared is 0.502959 and it is used to measure goodness of fit of the model and the predictive power the model has. R-squared is slightly over half which implies that 50.3% of the variations in ΔPERCONS(annual change in household consumption per capita) is explained by the variation in regressors hence the model is slightly a good fit. Half of the variations in the dependent variable are explained in the model, thus the model is a good fit. The value of the F-probability is 0.000452 which is less than 0.05. Therefore it can be concluded that the whole model is significant at 1% level.

4.6 Interpretation of results

External debt stocks as a % of GNI (XTD)

The external debt variable was found to be statistically significant and negative as expected. The coefficient of the variable is -3.277611. This implies that an increase in external debt by one percentage will result in a decline in household consumption per capita by 3.28%. A decline in household consumption perpetuates poverty, therefore external debt positively relates to poverty. Thus external debt is significant in explaining the causes of poverty in Zimbabwe. This result is also in line with the findings of Nhokwara (2013) who came to a conclusion that external debt is negatively related to GNI resulting to an increase in poverty.

Budget deficit (BDEF)

Contrary to expectations, the BDEF variable was found to have a positive influence and statistically significant at 10% level of significance. The co-efficient of the variable was 3.524587. Thus an increase in budget deficit, holding all other things constant by 1% will result to an increase in household consumption per capita by 3.52%. This means that budget deficit

positively impacts on welfare and this can be interpreted as a decrease in poverty. Therefore it can be concluded that budget deficit has a negative impact on poverty. This result is also the same as to what was concluded by Mwanza(2015).

Annual GDP growth (GDPGR $_{t-1}$)

The Annual GDP growth lagged by one period was found to be significant at 10%. The coefficient had a positive value of 3.143551. This is in line with expectations. A percentage increase in annual GDP growth results to an increase in household consumption per capita by 3.14%. Hence an increase in household consumption can be noted as an increase in welfare, therefore GDP growth reduces poverty

Private investment

Contrary to what was expected, the coefficient of private investment as a percentage of GDP was found to be negative and significant at 5%. The coefficient was -1.75528. Interpreting this result, a 1% increase in private investment will lead to a reduction in household consumption per capita by 1.76%. Therefore a reduction in welfare implies an increase in poverty. This unexpected outcome can be explained by firms that are shutting down and others that are downsizing. This then result in unemployment hence people will not be able to meet their daily consumption requirements.

5.0 CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Conclusion

The major objective of the study was to analyze the impact of external debt on poverty covering the period 1980-2013 using time series data in Zimbabwe. Based on previous studies, a proxy for poverty used was annual change in household consumption per capita (ΔPERCONS). Results obtained from the study indicate that there is a significant negative relationship between external debt and annual change in household consumption per capita. This implies that an increase in external debt results in a decline in welfare, thus it is positively related to poverty. This can be explained by an increase in commitment by the government to service the debt hence diverting resources from productive sectors of the economy and poverty reduction schemes. Debt default can result in a country being denied opportunities in accessing foreign assistance and loans as is the case with Zimbabwe. This makes it difficult for the country to finance projects hence a result is poor living conditions and low employment opportunities thus perpetuating poverty. All other explanatory variables; budget deficit, GDP growth and private investment were statistically significant. In line with expectations, external debt was found to be a driver of poverty in Zimbabwe. Budget deficit and GDP growth were found to have a positive relationship with welfare which implies that they reduce poverty. Contrary to what was expected, Private investment was found to have a negative and significant relationship with welfare hence it is a factor that increases poverty. Results that were obtained through regression analysis proved that external debt is positively related to poverty in Zimbabwe hence the acceptance of the study hypothesis.

5.2 Policy Recommendations

External debt was found to be a driver of poverty in Zimbabwe hence the government should mitigate debt accumulation so that the debt can be sustainable. The government can also implement debt audit in order to form the basis of transparency and cancellation. Debt audit enables the government to assess resources to be allocated towards other sectors such as health delivery, education and any other social services. The government needs also to seek for debt relief from the Paris club so that its arrears can be cleared. Debt relief contributes to reduction in poverty as resources will be diverted to social services and other sectors of the economy. Zimbabwe is a mineral endowed country and the government can use domestic resources to pay off the external debt. Using domestic resources to pay off the external debt enables the government to focus on other projects that are income generating and undertake poverty reduction schemes there by combating poverty. The government can also seek assistance from friendly countries in form of medium to long term loan facility to clear arrears so that fresh capital injections can be unlocked to accelerate economic growth and poverty reduction.

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