

# **A SOLUTION TO AFRICA'S EXTERNAL DEBT PROBLEM AFTER HIPC**

Professor Moustapha Kasse

## **INTRODUCTION**

Foreign borrowing has long been considered as a source of financing for domestic and external deficits (double deficit model, Chenery and Strout 1966). Chronic balance of trade and public finance deficits will entail inadequate domestic savings to finance investment needs. The additional resources necessary have to be sought from outside, in the form of borrowings, donations, or direct investments. The debt problems of the developing countries actually began at the end of the 1960s. During that period, the developing countries had high growth rates of between 4 and 8 per cent (M. Kasse, 1992) as a result of a favourable global economic situation.

However, the first oil crisis of the 1970s and the shortages that followed increased deficits and led the developing countries to borrow heavily, not so much to finance investments as to meet their deficits. The dramatic decline in export earnings and the rise in real interest rates created a vicious circle of indebtedness. Indeed, foreign borrowing eases domestic constraints and makes it possible to put off unpopular economic policy decisions such as increases in tax ratio or restrictions on hyper-consumption by the urban elite. Increasingly, new borrowings were used only for the repayment of past loans, and in the worst cases, were not even used for debt servicing. This is the snowball effect: interest rates on borrowings being higher than the growth rate of the economy, with the debt burden in the GNP growing constantly.

In the face of a possible crisis of insolvency, multilateral creditors took international debt management measures. These included structural adjustment programmes (SAP) and the debt rescheduling, in addition to interest rate reductions, debt repurchase, conversion of the debt into equity or obligations and debt cancellation. However, despite these different treatments the debt ratios literally soared.

The persistent external debt payment difficulties in low income countries led the World Bank and the International Monetary Fund (IMF), to establish, in 1996, on the proposal of the G7 at its Summit in Lyon, a new mechanism entitled the "Highly Indebted Poor Countries (HIPC) Initiatives, which was to give relief to the poorest countries. In June 1999, the G7 Summit held in Cologne improved on the mechanism, some of whose aspects such as the severity of its eligibility criteria, its slow implementation or its too narrow scope were widely disputed. It is thus proposed that there should, first of all, be a total cancellation of bilateral official development assistance debt and then a relief of commercial and multilateral debts to ensure that countries reach a debt level deemed to be sustainable.