EVALUATION OF THE NON-CONCESSIONAL DEBT ACCUMULATION POLICY (NCDAP) OF THE AFRICAN DEVELOPMENT BANK

Approach Paper,
Final (30 June 2021)
# ACKNOWLEDGEMENTS

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<td>African Development Fund</td>
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<td>AfDB</td>
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<td>Finance Complex</td>
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<td>GDP</td>
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<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
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<td>HIPC/MDRI</td>
<td>Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).</td>
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<td>IADB</td>
<td>Inter-American Development Bank</td>
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1 Introduction

This Inception Report lays out the objectives, scope, design, framework, and methodology for carrying out the “Evaluation of the AfDB’s Non-Concessional Debt Accumulation Policy (NCDAP)” (the ‘Evaluation’) launched by the Independent Development Evaluation (IDEV).

This evaluation is to provide evidence-based information on the effectiveness of the NCDAP for the purpose of accountability. In addition, reporting on the results of the NCDAP and identifying lessons of its implementation is necessary in the context of the development of a follow-up policy by the Bank. In this context, this evaluation is to support the preparation of the next generation of the policy by the Strategy and Operational Policies Department (SNSP). The recommendations of the evaluation are also expected to promote learning by other MDBs, countries affected by the policy, and other organizations collaborating with the Bank on non-concessional borrowing. In this regard, IDEV has retained the services of BKP Economic Advisors GmbH to support its evaluation team in carrying out the assignment. Annex 1 provides the Terms of Reference.

2 Background

The African Development Bank Group approved in 2008 a Non-Concessional Debt Accumulation Policy (NCDAP) with the view to mitigating the impact of rapid accumulation of non-concessional debt on grant-eligible post-HIPC/MDRI debt relief ADF countries and guiding the use of its concessional resources. The design of the NCDAP was explicitly informed by lessons learnt from the review of the World Bank’s International Development Association’s (IDA) Non-Concessional Borrowing Policy (NCBP), which had been approved in 2006, and its implementation up to that point. The NCDAP was revised in 2011 with the introduction of amendments that aimed at providing a more flexible and streamlined approach and reflecting recent changes adopted by the IMF with regards to its external debt limit policy and concessionality framework.

The NCDAP is structured around four clusters of policy measures, which can be regarded as four specific objectives:

1. **Deepen partnership and coordination** with sister multilateral development banks and bilateral donors on issues related to non-concessional borrowing – e.g. through the adoption of a common strategy, participation in IMF/IDA Debt Sustainability Analysis (DSA) assessments, joint outreach events, etc.

2. **Strengthen borrower’s reporting and donors’ monitoring** on non-concessional debt accumulation – e.g. through the creation of an inter-departmental committee to monitor regular reporting on status of non-concessional borrowing by HIPC/MDRI debt relief beneficiary Regional Member Countries (RMCs) and the inclusion of specific provisions in Bank Group grant/loan agreements, in particular the inclusion of a clause in all grant/loan agreements requiring advance reporting on planned new non-concessional borrowing.

3. **Enhance collaboration in capacity-building** with other partners (especially IDA), specifically with regards to actions aimed at improving debt quality, recording, and reporting, and building capacities in (RMCs) in debt management, macroeconomic and fiscal management.

4. **Apply disincentives measures on a case by case basis:** the policy provides for the replication of IDA’s disincentive measures on RMCs that breach the World Bank Group’s non-concessional borrowing policy, by applying volume discounts and
hardening of terms on borrowers. The measures are tailored to the countries’ risk of debt distress which is based on the Debt Sustainability Analyses (DSAs) under the Joint World Bank-IMF Debt Sustainability Framework (DSF).

During the scoping phase, background documentation has been reviewed to identify how changes in the context could/may impact the evaluation approach. In this respect the following facts stand out as laid out in the Approach Paper “Revision of bank non-concessional debt accumulation policy” developed by the Strategy and Operational Policies Department (SNSP) dated March 2020:

- Public debt in ADF countries has risen steadily during the past decade, reaching a weighted average of 69% of Gross Domestic Product (GDP) in 2019, up from 42% in 2008. As of February 2020, 11 countries in Africa were classified as being at high risk of debt distress, as opposed to 7 in 2015.\(^1\)

- The implementation of the policy has been uneven. While it has achieved positive results in interventions related to partnerships, coordination and capacity building, the critical internal mechanisms needed to apply the compliance measures have not been set up. The inter-departmental Committee provided for in the policy to monitor the status of non-concessional borrowing and the inclusion of clauses requiring reporting on new non-concessional borrowing in all ADF grant/loan agreements was not established. Consequently, the Bank group has not been able to monitor the compliance with the policy by ADF countries. The following paragraphs provide more details.\(^2\)

The detailed status of implementation of the Policy as presented in the Approach Paper cited above is presented in Annex 1.

3  Purpose, Scope, and Evaluation Questions

3.1  Purpose

This evaluation is to support the preparation of the successor policy of the NCDAP by the Strategy and Operational Policies Department (SNSP). The recommendations of the evaluation are also expected to promote learning by other MDBs, countries affected by the policy, and other organisations collaborating with the Bank on non-concessional borrowing.

The evaluation of the NCDAP and preparation of the next policy comes at an opportune time as the last review of IDA’s Non-Concessional Borrowing Policy (NCBP) – which as mentioned above was a key reference point for the design of the NCDAP – was completed in September 2019 and the findings of that review informed the design of the new IDA’s Sustainable Development Finance Policy (SDFP), which has been in effect since July 2020. The 2019 review of the NCBP was undertaken in the context of the World Bank – IMF Multipronged Approach (MPA) to address debt vulnerabilities and in parallel with the IMF review of its debt

\(^1\) See Section 4.1.1 of the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 (AfDB)

\(^2\) See Annex 7 of the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 (AfDB)

\(^3\) We note that the successor policy will not necessarily have the same objectives and scope. The evaluation team is aware that IDA’s “Sustainable development finance policy”, which is the successor policy of IDA’s Non-Concessional Borrowing Policy (which was similar in terms of scope and objective to the NCDAP), is much wider in scope as suggested by its title.

\(^4\) From its onset, the NCBP framework included periodic implementation reports to IDA’s Board of Executive Directors. The 2019 review was the last one to be carried out, but previous reviews and updates were completed in 2007, 2008, 2010 and 2015.
limits policy. In this context, it will be important for the present evaluation to also take into consideration the findings from the 2019 review of the NCBP and IDA’s new SDFP (as well as IMF’s current debt limits policy) in the analysis and the formulation of recommendations.²

3.2 Scope

The evaluation will cover the implementation of the NCDAP from 2008 to June 2020. It includes the review of the 2008 policy, the 2011 amendments, and the operational guidelines approved by the Operations Committee (OpsCom) in November 2011. The assessment will cover all measures envisaged as part of this policy, including its implementation measures and the coordination with other agencies. The key concerns that this evaluation will cover are the following:

i. The policy design and alignment with the Bank’s policy framework and the evolving needs of the ADF countries from 2008 to 2020.

ii. The extent of the implementation, the results achieved, and the factors affecting the performance.

iii. The elements of a relevant and practical policy in the new context (a decrease of Official Debt)

iv. The recommendations to support the revision and implementation of the policy.

3.3 Evaluation questions

1. Relevance: The extent to which the policy objectives and design align with the AfDB’s priorities, policies, and the needs of ADF countries considering the evolution of the lending landscape over the reviewed period.

   ▪ To what extent was the design of the NCDAP appropriate and relevant?²

   ▪ What were the main changes between the 2008 and 2011 policy? Were they useful and practical? How have these changes affected the countries affected by the policy?

   ▪ How has the debt of ADF countries evolved since the inception of the NCDAP?

   ▪ What are the changes in lending landscape over the period of implementation? How did they affect the policy’s relevance over time?

2. Coherence: The extent to which the policy was compatible with internal policies and the policies of sister organisations.

   ▪ How coherent was the policy with other related Bank policies, the policies of sisters organisations, and the overall development framework during the period?

3. Effectiveness: The extent to which the policy provisions were implemented and achieved its expected objectives and results. The factors that enabled or hindered the implementation, explaining the results.

   ▪ Was the policy implemented as specified in AfDB internal documents?

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² In addition, from ECVP, ECMR delivers an annual Debt Report and regularly produces flagship publications focused on debt dynamics on the continent. These knowledge products will be a useful tool to enhance the formulation of recommendations and policies.

² We will look at the issues such as: 1) the relevance of the elements of the policy, 2) the clarity and realism of its objectives, 3) the identification of the actors of its implementation and their role clearly defined, 4) is the approach appropriate? 5) have the guiding principles of the policy been clearly defined? 6) Have the resources necessary for the implementation of the policy been properly estimated, 7) have the timetables for implementing the elements of the policy been clearly defined and realistic? .... etc.
Why has the bank not implemented the planned action of inserting provisions requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clause against collateralized resources, in the legal agreements for grants and loans?7

Given that the clause of required reporting of non-concessional borrowing has not been inserted into grants and loans agreements, to what extent were the countries monitored under this policy? To what extent was the information on the external debt of these countries known?8

Given the limited implementation of the policy, is there any evidence that the issue of subsidizing non-concessional financing with concessional financing has decreased during the evaluation period? To what extent has non-concessional debt accumulated in the concerned RMC’s during the period?

How was coordination and partnership among sisters MDBs and bilateral agencies carried out? To what extent was it effective? How could coordination with other organisations be improved?

Was the capacity building to support economic and debt management effective?

4. **Efficiency**: The extent to which the policy was implemented timely with adequate resources and processes.

- How have the responsible departments worked in the absence of committee9?
- Was the working of the responsible departments compliant with the Bank’s operational standards and guidelines?

5. **Sustainability**: The likelihood of the continuation of the benefits, if any, generated by the policy.

- Did this policy generate any sustained benefits for governments in RMCs?
- Are these benefits likely to endure without the continuation of the policy?

6. **Impact**: The extent to which the policy has generated significant positive or negative, intended or unintended, higher-level effects.

- Has AfDB contributed to capacity building to support debt management capacity?
- How was the capacity building provided by the Bank?

4 Approach and Methodology

4.1 Guiding Principles

Based on the level of implementation of the NCDAP (as described in the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 but not yet verified by the evaluation team), and the evaluation context (inter alia the accumulation of NC

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7 See Annex 7 of the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 (AfDB)

8 Ibid.

9 In order to grant the exceptions provided for in the policy, the Bank was expected to establish a permanent inter-departmental Committee to monitor regular reporting on status of non-concessional borrowing by ADF-only RMCs. This Committee, described in the terms of reference of the 2011 Operational Guidelines to the policy, was never constituted.
debt by ADF countries during the evaluation period), we propose to revise and specify the evaluation approach in two main ways:

- Focus on reasons for non-implementation of certain policy elements (as described in Section 4.1.1).
- Focus on policy elements that were actually implemented (as described in Section 4.1.2).

### 4.1.1 Focus on reasons for non-implementation of certain policy elements

According to the Approach Paper cited above, a majority of the key elements contained in the policy were not implemented. These include the following key elements:

**Under the policy measure “Strengthen Borrower Reporting and Donor Monitoring”**

- Reconstitute a permanent inter-departmental Committee to monitor regular reporting on status of non-concessional borrowing by ADF-only RMCs
- Include clause with all Bank Group grant/loan agreements requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clause against collateralized resources.
- Add specific clause in grant agreements for recipients of Fragile States Facility (FSF) supplementary funds indicating that volume discount will apply, or the supplementary funds cancelled, in case there is non-concessional borrowing.

**Under the policy measure “Apply compliance measures on a case-by-case basis”:**

- Application of compliance measures on countries breaching the Bank Group NCDA policy
- Application of compliance measures on countries breaching reporting requirement of planned non-concessional borrowing

Hence, in a number of evaluation questions we propose to focus on identifying the underlying reasons for non-implementation of these key policy elements. This concerns the following questions under the effectiveness and efficiency criteria:

**Effectiveness:**

- Was the policy implemented as specified in AfDB internal documents?
- Why has the bank not implemented the planned action of inserting provisions requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clause against collateralized resources in the legal agreements for grants and loans?
- Given that the clause of required reporting of non-concessional borrowing has not been inserted into grants and loans agreements, to what extent were the countries monitored under this policy? To what extent was the information on the external debt of these countries known?
- Given the limited implementation of the policy, is there any evidence that the issue of subsidizing non-concessional financing with concessional financing has decreased during the evaluation period?

**Efficiency:**
How have the responsible departments worked in the absence of committee 10?
Was the working of the responsible departments compliant with the Bank’s operational standards and guidelines?

4.1.2 Focus on policy elements that were actually implemented

Other elements of the policy were implemented or partially implemented according to the Approach Paper cited above. These include the following key elements:

Under the policy measures “Deepen Partnership and Donor Coordination”:
- Strengthen partnerships and coordination with sister MDBs and bilateral donors, to adopt a common strategy in dealing with the free-rider issue, including advocacy
- Deepen Bank Group participation in forward-looking IMF/IDA DSA exercises, including information sharing on non-concessional borrowing (partially implemented)
- Bank Group participation in joint outreach exercises with MDBs and bilateral donors, through sensitization seminars and workshops in order for all to adopt DSF as common creditor approach to concessionality.

Under the policy measures “Enhance collaboration in Capacity Building”:
- Collaborate more closely with other partners, especially IDA, in work to improve debt data quality, recording and reporting, as well as in building international capacity in RMCs in debt management, macroeconomic and fiscal management

Under the policy measure “Apply compliance measures on a case-by-case basis”:
- Application of policy waiver (partially implemented)

The focus of questions linked to effectiveness, impact and sustainability will therefore be on the above measures of the policy that were implemented as reflected in the revised evaluation framework, and the factors contributing to or hampering implementation. This includes the following questions:

Effectiveness:
- How was coordination and partnership among sister MDBs and bilateral agencies carried out? To what extent was it effective? How could coordination with other organisations be improved?
- Was the capacity building to support economic and debt management effective?

Sustainability
- Did this policy generate any sustained benefits? / Are these benefits likely to endure without the continuation of the policy?

Impact:
- Has AfDB contributed to capacity building to support debt management capacity?
- How was the capacity building provided by the Bank?

4.2 Approach

The evaluation methodology will include the use of mixed methods to ensure triangulation and
validity of the findings. The tools involved in this evaluation are:

- In-depth document review
- Statistical analysis
- Interviews with key internal and external informants
- Country case studies
- Benchmarking of the policy with other multilateral development organisations

The tools are described in detail below.

4.2.1 In-depth document review

The evaluation team will analyse all available documents (secondary data) that are related to the evaluation questions. The document review to be undertaken aims at providing elements of response to the evaluation questions. The document review will be especially useful in the context of the relevance, coherence and effectiveness criteria as follows:

- Under the **relevance criterion**, we will document the changes to the policy between 2008 and 2011 and review the relevance of the policy with the evolving context, especially the evolution of the debt levels of ADF countries and the share of “traditional creditors” and loans during the period (which is well documented in the literature).

- Under the **coherence criterion**, we will review the level of alignment of the NCDAP with AfDB (in particular, the Transition Framework for Countries Changing Credit Status (2011) and the Amended Credit Policy (2014)) and sister organisations’ policies and strategies, and with the evolution of the development framework/paradigms during the period (transition from MDGs to SDGs, Addis Agenda on Alternative Financing for Development, etc.).

- Under the **effectiveness criterion**, we will focus on policy measures that have been implemented. This will include all documentation related to partnerships, coordination, and capacity building. Regarding other aspects of the policy that have not been implemented (for instance the critical internal mechanisms needed to apply the compliance measures have not been set up), we will focus on understanding the reasons for non-implementation as documented in the Bank’s internal documents.

4.2.2 Statistical Analysis

Despite the non-implementation of a number of key policy elements as describe above, it will be of key importance to undertake statistical analysis to contextualize the NCDAP, as well as to answer the following question under the relevance criterion: “*How has the debt of ADF countries evolved since the inception of the NCDAP? To what extent has non-concessional debt accumulated in the concerned RMC’s during the period?*”.

For the sake of consistency and to make comparisons possible, the proposed analysis will use data from the World Bank’s International Debt Statistics (IDS), which itself is based on data from the World Bank’s Debtor Reporting System (DRS). The World Bank’s DRS is the most detailed single source of verifiable information on the external indebtedness of low-and middle-income countries. Specifically, the analysis will focus on the evolution of the following indicators over the period:

- Total external debt stocks, in nominal value and as percentage of GDP.
- Total debt service on external debt, in nominal value and as percentage of GDP.
- Total non-concessional external debt stocks, in nominal value and as percentage of GDP.
- Share of non-concessional debt in total external debt stocks.
- Composition of external debt stocks, by creditor
- Composition of non-concessional external debt stocks, by creditor.

Data will be collected for all ADF countries, so as to be able to analyse the evolution of debt levels at overall level (i.e. based on aggregate figures accounting for all ADF countries), per ADF country lending category (i.e. ADF-Only, ADF-Gap and Blend) and at country level (e.g. for the country case studies). Data will also be collected and analysed for countries eligible to concessional resources from other multilaterals that have adopted similar policies on non-concessional borrowing, in particular IDA countries since IDA’s NCBP was adopted only two years before the NCDAP.

### 4.2.3 Interviews with key internal and external stakeholders

Interviews will be complementary to the previous tasks and serve the following main purposes:

- Informally present preliminary findings to some key stakeholders in order to seek their feedback and views on these findings.
- Gather additional factual information on points that need further clarity.
- Discuss complex issues such as contribution analysis linked to effectiveness and impact with a broad number of stakeholders in order to substantiate and triangulate the findings of the document review.

We foresee three main types of interviews with internal and external informants:

- **Interviews with AfDB staff at the central level**: we will interview stakeholders within the Bank involved in the design and implementation of the NCDAP and its successor, *inter alia*:
  - Departments involved in the implementation of the Policy such as the Operations Complexes, the Strategy and Operational Policies Department (SNSP), the Finance Complex (FNVP), the Chief Economist’s (ECVP) Complex, and the Legal Department, etc.
  - Parties foreseen to be part of the inter-departmental Committee which should have been created to monitor regular reporting on the status of non-concessional borrowing in grant-eligible and HIPC/MDRI relief beneficiary RMCs;
  - Bank Board and Management members involved in the decision-making process regarding the management of debt sustainability.
  - The Operations Committee (OpsCom) who approved the operational guidelines in November 2011.
  - The Strategy and Operational Policies Department (SNSP) which is responsible for the preparation of the next NCDAP.
  - Etc.

- **Interviews with stakeholders at the national (or regional) level**: the main focus will be on the countries that were affected by the NCDAP. Towards the end of the inception phase, the evaluation team will liaise with the AfDB local offices in the selected case studies to gather more specific information and documentation on how the external debt of the...
countries under review has evolved in the covered period (2008-2020).

- **Interviews with sister organisations at the central level:** upon official recommendation by the Bank, contacts will be taken with the WB/IDA and IMF resource-persons in charge of monitoring their respective policies concerning non-concessional borrowing at HQ in Washington.

### 4.2.4 Country case studies of the application of the policy

We propose to select ADF countries of Cameroun, DR Congo, Ethiopia, Ghana, Rwanda and Zambia and based on the following selection criteria:¹¹

- **Different levels of debt sustainability / debt management performance:** one country has been performant in managing its debt (Rwanda), two countries have failed (Ethiopia and Zambia); and two countries are doing poorly and are likely to fail (DRC and Cameroun).

- **Level of implementation of** the NCDAP: We will focus on countries that have been impacted by the Policy. For instance, application of the NCBP measures were simultaneously triggered between the AfDB and the World Bank in Ghana (2008) and Ethiopia (2018)¹². In addition, Rwanda and Zambia have benefited from waivers which will allow us to assess the Application of policy waiver under NCDAP)¹³;

- **Geographic criteria:** we have ensured to select a representative sample of countries from different regions across Africa (East Africa with Rwanda and Ethiopia, southern Africa with Zambia, Central Africa with DR Congo or Cameroun, and West Africa with Ghana).

The scope of the analysis for these case studies is discussed in Annexes 3 and 4 and can be summarized as follows:

- Identify if the NCDAP was implemented in the selected country
- Determine if the NCDAP influenced country borrowing choices
- Draw some lessons learned from the implementation of the NCDAP in the country which could be useful for establishing the future policy of the Bank

It should be noted that the country case study methodology, presented in Annexe 4, is constrained by current working conditions, namely the impossibility to do groundwork due to the COVID-19 pandemic and the limited time available until the submission of the final report.

### 4.2.5 Benchmarking of the policy with other multilateral development organisations

As for the case studies, the benchmarking of the Policy with other multilateral development organisations is considered as a specific sub-deliverable which will be produced with attention to the issue under the following tasks described above, in particular:

- As part of the in-depth document review, under the coherence criterion, we will review the level of alignment of the NCDAP with AfDB and sister organisations’ policies and

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¹¹ One additional country that might be added to the list of case study countries is Ethiopia as suggested by the Bank. The evaluation team is currently reviewing the rationale for including Ethiopia as a case study country and a final decision will be made in consultation with the Bank.

¹² See Section 3.2.2 of the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 (AfDB)

¹³ See Annex 1 of the Approach Paper “Revision of bank non-concessional debt accumulation policy” dated March 2020 (AfDB)
strategies mainly through the review of documents. In this context, it will be important to take into consideration the findings from the 2019 review of the NCBP and IDA’s new SDFP (as well as IMF’s recently revised debt limits policy) in the analysis.

- As part of the statistical analysis, the evolution of non-concessional debt will be analysed for countries eligible to concessional resources from other multilaterals that have adopted similar policies on non-concessional borrowing, and in particular IDA countries since IDA’s NCBP was adopted only two years before the NCDAP.

- As part of the interviews with key internal and external informants, a number of discussions will be held virtually at the national / regional level, and at the central level with inter alia the WB/IDA and IMF resource-persons in charge of monitoring their respective policies concerning non-concessional borrowing at HQ in Washington.

The result of these tasks will be clear and actionable recommendations on how the Bank should position itself vis-à-vis the recent strategic policy decisions made by other donors, in particular the WB/IDA.

5 Constraints and Mitigation Measures

The methodology is contingent on the availability of stakeholders and the timely transmission of documents to the evaluation team. Frequent and regular progress / monitoring meetings between BKP and IDEV will take place in order to ensure that any issues / delays are discussed, and that appropriate mitigation measures are taken.

6 Deliverables, Work Plan, and Timetable

This assignment will last a maximum period of 6 months, beginning in December 2020. The evaluation team shall be ready to start work from early October following the signature of the contract.

In addition to this approach paper, the expected deliverables for this evaluation are the following:

- Following the data collection and analysis, a draft technical evaluation report detailing the emerging findings of the evaluation; and

- Following comments from the reference group and the quality assurance process, a final technical evaluation report detailing the findings of the evaluation, including case studies, lessons, and suggested recommendations.

The summary evaluation report for presentation to the Board of Directors will be prepared by the IDEV evaluation team based on the technical report.

The table below presents a revised indicative timetable of the tasks, tentative dates, and deliverables for the evaluation.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Deliverables</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document review</td>
<td>Drafting of the approach paper</td>
<td></td>
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<tr>
<td>Drafting of the approach paper</td>
<td>Comments by the evaluation reference group and peer reviewers on the approach paper and revision</td>
<td>Final approach paper</td>
</tr>
<tr>
<td>Data collection</td>
<td>December - March 2021</td>
<td></td>
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<tr>
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<td></td>
</tr>
<tr>
<td>Data collection (interviews and macroeconomic data).</td>
<td>Draft technical Evaluation report</td>
<td></td>
</tr>
<tr>
<td>Drafting of the technical evaluation report</td>
<td>April 2021</td>
<td></td>
</tr>
<tr>
<td>Comments on the draft report (peer reviewer and IDEV management).</td>
<td>April 2021</td>
<td></td>
</tr>
<tr>
<td>Comments by the evaluation reference group and peer reviewers on the report.</td>
<td>Final technical Evaluation report</td>
<td></td>
</tr>
<tr>
<td>Finalize technical Evaluation Report using comments from IDEV and ERG.</td>
<td>April 2021</td>
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</tbody>
</table>
Annex 1: Terms of Reference

AFRICAN DEVELOPMENT BANK GROUP

Independent Development Evaluation

EVALUATION OF THE NON-CONCESSIONAL DEBT ACCUMULATION POLICY (NCDAP)

Terms of Reference

I. Introduction

These Terms of Reference (ToR) outline the evaluation of the Non-Concessional Debt Accumulation Policy (NCDAP) by the Independent Development Evaluation function (IDEV) of the African Development Bank Group (“the Bank or AfDB”). This evaluation will provide evidence-based information on the effectiveness of the NCDAP to inform the Board and Management decision-making process regarding the management of debt sustainability.

This document also serves for the recruitment of a consultancy firm to support IDEV in undertaking the evaluation. Sections I and II provide the background of the NCDAP and the framework of the review. Section III highlights the tasks of the assessment and the technical expertise expected of the consultant firm. Section IV sets out the expected deliverables and the timelines.

II. Background

The concepts of non-concessional borrowing or debt sustainability broadly refer to a country’s current level of debt and the likelihood of prospective borrowing impacting its present and future ability to meet its debt service obligations. The issues of debt sustainability gain prominence following the end of the Highly Indebted Poor Country (HIPC) initiative and a worrying trend of countries’ public debt growing at a pace that could encumber their macroeconomic stability and long-term development prospects.

The Bank first approved the NCDAP in 2008 and amended it in 2011 as “Amendments to the Bank Group Policy on non-concessional debt accumulation.” The policy was to mitigate the impact of non-sustainable borrowing on grant eligible post-HIPC debt relief ADF countries. It also guided the use of these concessional resources. Other Multilateral Development Banks (MDBs) and Development Financial Institutions (DFIs) including the World Bank (WB), the International Monetary Fund (IMF), the International Fund for Agricultural Development (IFAD), the Asian Development Bank (ADB), and the Inter-American Development Bank (IADB)\(^\text{14}\) have similar policies.

\(^\text{14}\) For reference, the following links give access to similar policies from various DFIs

The NCDAP’s objective was to address the issue of debt distress and debt sustainability by dis-incentivizing non-concessional borrowing by countries. It built on four principles:

i. Strong partnership and coordination with sister MDBs and bilateral agencies - adopting a common strategy in dealing with the problem, including advocacy

ii. Effective implementation - setting up an internal committee to monitor the status of non-concessional borrowing;

iii. Adaptability and implementation of the policy – including a clause in all Bank Group grant/loan agreements requiring reporting on new non-concessional borrowing;

iv. Flexibility of implementation based on the diversity in country circumstances - applying the policy based on country circumstances and adopting a case-by-case approach.

The policy included triggers and conditions to reduce access to concessional borrowing or to toughen loan terms while building debt management capacities in countries. It also entails strengthening inter-organizational coordination and debt transparency. The amendments made in 2011 mainly introduced flexibility to the measures of the policy to allow for a country-differentiated approach. The operational guidelines approved in November 2011 came to support the implementation of the policy.

After 12 years of implementation, it is essential to take stock and assess the results of this policy, particularly in the light of the context of the effect of the COVID-19 on African economies to prepare help to prepare a new policy to address the issues related to debt sustainability in Regional Member Countries (RMCs).

III. Purpose, Scope, and Evaluation Questions

This evaluation is to support the preparation of the next NCDAP by the Strategy and Operational Policies Department (SNSP). The recommendations of the NCDAP will also promote learning by other MDBs countries affected by the policy and other organizations collaborating with the Bank on non-concessional borrowing.

The evaluation will cover the implementation of the NCDAP from 2008 to June 2020. It includes the review of the 2008 policy, the 2011 amendments, and the operational guidelines approved by the Operations Committee (OpsCom) in November 2011.

The assessment will cover all measures implemented as part of this policy, including its implementation measures and the coordination with other agencies. The analysis will include the year 2020 to factor the effects of COVID-19 on ADF countries. The key concerns that this evaluation will cover are the following:

i. The policy design and alignment with the Bank’s policy framework and the evolving needs of the ADF countries from 2008 to 2020;

ii. The extent of the implementation of the policy and results achieved, and the factors affecting the performance;

iii. The elements of what could be a relevant and practical policy in the new context (the COVID-19, a decrease of Official Development Assistance- ODA, and the increased access to the market financing solutions for ADF countries); and

iv. The recommendations to support the revision and implementation of the policy.

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The main objective of the evaluation is to facilitate the design of a more robust and actionable policy that will achieve its goals. Due to COVID-19, this evaluation excludes travels and missions. The team will use the relevant communications tools for all consultations, data collection, and validations.

IV. Evaluation questions

The evaluation will answer provide evidence-based answers to the following questions using the revised international evaluation criteria:

1. **Relevance:** The extent to which the policy objectives and design align with the AfDB’s priorities, policies, and the needs of ADF countries considering the evolution of the lending landscape from 2008 to 2020.
   - What were the main changes between the 2008 and 2011 policy? Were they useful and practical?
   - How have these changes affected the countries affected by the policy?

2. **Coherence:** The extent to which the policy was compatible with internal policies and the policies of sister organizations.
   - How coherent was the policy with other related Bank policies?
   - What are the changes in the lending landscape over the period of implementation of the policy? How did they affect the policy’s relevance over time?

3. **Effectiveness:** The extent to which the policy provisions were implemented and achieved its expected objectives and results. The factors that enabled or hindered the implementation, explaining the results.
   - To what extent was the policy applied to countries, and why?
   - Which measures were applied in cases on breaches to the policy, and how coherent was the implementation?
   - Which measures and approaches showed results, and why?
   - Has the clause required reporting of non-concessional borrowing been implemented in all Bank grants and loans?
   - To what extent was the policy successful in ensuring that RMCs have been meeting that requirement?
   - Was coordination and partnership among sister MDBs and bilateral agencies carried out, and how effective was it?
   - To what extent were the countries monitored under this policy? To what extent was the information on the external debt of these countries known?
   - Was the capacity building to support economic and debt management effective?

4. **Efficiency:** The extent to which the policy was implemented timely with adequate resources and processes.
   - Was the policy intervention delivered in a timely, economical, and results-oriented manner?
   - Was the implementation of the policy compliant with the Bank’s operational standards and guidelines?
5. **Sustainability**: The likelihood of the continuation of the benefits, if any, generated by the policy.
   - Did this policy generate sustained benefits?
   - Are these benefits likely to be sustained without the continuation of the policy?

6. **Impact**: The extent to which the policy has generated significant positive or negative, intended or unintended, higher-level effects.
   - Has AfDB contributed to capacity building to support economic and debt management capacity?
   - To what extent has non-concessional debt accumulated in the concerned RMC’s during the period?
   - Could the increase in debt post-HIPC have been prevented? And to what extent the policy may have contributed to or detracted from it?

**V. Objectives of the Assignment**

The mission of the consulting firm is to support the evaluation of the NCDAP by IDEV. It will be responsible for:

i. Evaluating the policy using the international evaluation criteria and the good practices from the Evaluation Cooperation Group (ECG);

ii. Identifying, collecting, and systematically synthesizing evidence from various sources;

iii. preparing the deliverables of the evaluations as described by these ToRs.

**VI. Tasks of the Consultant**

Under the guidance of the Evaluation Task Manager, the consultant firm will undertake the following functions:

i. Conduct a desk review of all relevant documents (including assessment of the policy, operational guidelines, and other internal and external appropriate documentation);

ii. Conduct interviews with key internal and external informants as part of qualitative data collection processes for the assignment;

iii. Conduct case studies of the application of the policy on selected countries;

iv. Analyze macroeconomic statistics of ADF countries from 2008 to 2020, the portfolio of ADF countries during 2008–2020, and; the Bank’s implemented programs in the ADF countries during the period;

v. Benchmark the policy with other Multilateral Development organizations, including WB, IMF, IFAD, and ADB, IADB;

vi. Produce the deliverables of this evaluation based on the various evidence collected by the evaluation team;

vii. Undertake other duties identified as supporting the smooth conduct of the NCDAP evaluation.

**VII. Timeline and Deliverables**
This assignment will last a maximum period of 6 months, beginning in October 2020. The evaluation team shall be ready to start work from early October following the signature of the contract.

The expected deliverables for this evaluation are the following:

i. Following the scoping mission, an approach paper detailing the methodology and activities of the evaluation including the data requirements, sources of evidence, and estimated timelines;

ii. Following the data collection and analysis, a draft summary report detailing the emerging findings of the evaluation;

iii. Following comments from the reference group and the quality assurance process, a final summary report detailing the findings of the evaluation, including case studies, lessons and recommendations, and a comprehensive executive summary.

The table below presents an indicative timetable of the tasks, tentative dates, and deliverables for the evaluation.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Deliverables</th>
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</tr>
</thead>
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<tr>
<td>Document review</td>
<td>Final approach paper</td>
<td>October—November 2020</td>
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<tr>
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<td>Comments by the evaluation reference group and peer reviewers on the approach paper and revision</td>
<td>Draft Summary report</td>
<td>December—January 2021</td>
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<tr>
<td>Data collection (interviews and macroeconomic data).</td>
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<tr>
<td>Drafting of the summary report</td>
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<td>February 2021</td>
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<tr>
<td>Comments on the draft summary reports (peer reviewer and IDEV management).</td>
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<tr>
<td>Comments by the evaluation reference group and peer reviewers on the summary report.</td>
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<tr>
<td>Finalize Summary Report using comments from IDEV and ERG</td>
<td>Final Summary report</td>
<td>March 2021</td>
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</table>

VIII. Consulting Firm’s profile

The consulting firm must demonstrate the following qualifications and staffing:

i. Proven background in evaluation of development assistance, multilateral development banks policies and strategies, public debt management policies, and experience working in Africa;

ii. Strong knowledge of multilateral development agencies’ interventions. Previous work for the AfDB would be an asset;

iii. Experience in the :

   a. analysis of macroeconomic data and the aid development landscape data;

   b. evaluation of thematic issues such as public debt management policies in Africa, debt management policies of multilateral development institutions, cooperation activities in multilateral institutions, policy dialogue and Policy Based Operations
c. research, analysis, consolidation, and compelling presentation of quantitative and qualitative data;

iv. Highly skilled and multidisciplinary evaluation team with proven technical experience in evaluating strategies and policies of multilateral development banks and institutions, fluency in both English and French with knowledge of Portuguese being an advantage.

IX. Management and Reporting

The Consulting Firm will report to IDEV’s Evaluation Team of the evaluation of the Non-Concessional Debt Accumulation Policy (NCDAP). The Evaluation Team comprises of IDEV team (led by Mirianaud Oswald Agbadome supported by Roland Akabzaa and Yao Perfait Kouassi)
### Annex 2: Evaluation Matrix

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Question</th>
<th>Indicator(s)</th>
<th>Methods and sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevance:</strong></td>
<td>To what was the design of the NCDAP appropriate and relevant?</td>
<td>▪ The relevance of the elements of the policy, ▪ The clarity and realism of its objectives, ▪ The identification of the actors of its implementation and their role clearly defined, ▪ Is the approach appropriate? ▪ Have the guiding principles of the policy been clearly defined? ▪ Have the resources necessary for the implementation of the policy been properly estimated, ▪ Have the timetables for implementing the elements of the policy been clearly defined and realistic?</td>
<td>▪ Document review ▪ Interviews</td>
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<td></td>
<td>▪ What were the main changes between the 2008 and 2011 policy? Were they useful and practical? How have these changes affected the countries affected by the policy?</td>
<td>▪ Number of changes made to the policy between 2008 and 2011 ▪ Quality of the rationale / justification for these changes linked to the context ▪ Number of countries that have been affected by these changes.</td>
<td>▪ Desk review of AfDB documents ▪ Interviews with AfDB staff</td>
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<tr>
<td></td>
<td>▪ How has the debt of ADF countries evolved since the inception of the NCDAP?</td>
<td>Statistical analysis: ▪ Total external debt stocks, in nominal value and as percentage of GDP. ▪ Total debt service on external debt, in nominal value and as percentage of GDP ▪ Composition of external debt stocks, by creditor.</td>
<td>Statistical Analysis</td>
</tr>
<tr>
<td></td>
<td>▪ What are the changes in the lending landscape over the period of implementation? How did they affect the policy’s relevance over time?</td>
<td>▪ Market shares of main concessional and non-concessional lenders (including the evolution of the role of China during the review period)</td>
<td>▪ Document review of literature on changes in the lending landscape</td>
</tr>
<tr>
<td><strong>Coherence:</strong></td>
<td>How coherent was the policy with other related Bank policies, the policies of sisters organisations, and the overall development framework during the period?</td>
<td>▪ Internal coherence: Level of alignment between NCDAP and other AfDB policies and strategies related to debt / lending and to development financing.</td>
<td>▪ Desk review of AfDB policies and strategies, policies of sister organisations, and the overall development framework</td>
</tr>
<tr>
<td>Categories</td>
<td>Questions</td>
<td>Methods</td>
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<tr>
<td>Effectiveness:</td>
<td>Was the policy implemented as specified in AfDB internal documents?</td>
<td>Interviews with AfDB staff</td>
<td></td>
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<td></td>
<td>Why has the bank not implemented the planned action of inserting provisions requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clause against collateralized resources in the legal agreements for grants and loans?</td>
<td>Documentary review</td>
<td></td>
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<tr>
<td></td>
<td>Given that the clause of required reporting of non-concessional borrowing has not been inserted into grants and loans agreements, to what extent were the countries monitored under this policy? To what extent was the information on the external debt of these countries known?</td>
<td>Interviews with Bank staff</td>
<td></td>
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<tr>
<td></td>
<td>Given the limited implementation of the policy, is there any evidence that the issue of subsidizing non-concessional financing with concessional financing has decreased during the evaluation period? To what extent has non-concessional debt accumulated in the concerned RMC’s during the period</td>
<td>Interviews with Bank staff, Case studies, Statistical Analysis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>How was coordination and partnership among sisters MDBs and bilateral agencies carried out? To what extent was it effective?</td>
<td>Interviews with Bank staff and sister organisations</td>
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### How could coordination with other organisations be improved?

- Was the capacity building to support economic and debt management effective?
  
  - Number / nature of capacity building provided
  - Reasons / quality of justifications for limited implementation (if relevant)

### Efficiency: The extent to which the policy was implemented timely with adequate resources and processes.

- How have the responsible departments worked in the absence of committee?
  
  - Number / nature of working mechanisms of departments / internal collaboration including case studies that involved policy waivers – Rwanda and Zambia

### Sustainability: The likelihood of the continuation of the benefits, if any, generated by the policy.

- Did this policy generate any sustained benefits for governments in RMCs?
  
  - Evidence that any of the benefits identified as part of the other evaluation questions are likely to continue yielding positive effects in the long-term based on the above.

### Impact: The extent to which the policy has generated significant positive or negative, intended or unintended, higher-level effects.

- Has AfDB contributed to capacity building to support economic and debt management capacity?
  
  - Number of positive effects:
    - Evidence of improvement of debt sustainability of RMCs
    - Evidence of improvement in debt management capacity in RMCs
    - For negative effects:
      - Evidence of negative impact of the policy on RMC’s capacity to access needed development finance
      - Evidence of negative impact of the policy on the Bank’s relationship with RMCs

- Evidence of improvement of debt sustainability of RMCs
- Evidence of improvement in debt management capacity in RMCs
- For negative effects:
  - Evidence of negative impact of the policy on RMC’s capacity to access needed development finance
  - Evidence of negative impact of the policy on the Bank’s relationship with RMCs
Annex 3: Case Study Outline

1. Introduction/ Short Country Context (Did the country participate to a Debt relief initiative? Was it part of Debt management capacity building program from the AfDB or another multilateral?)

2. Status of the country risk of debt distress based on the WB-IMF Debt Sustainability Framework (DSF)

3. Country recent cases of non-concessional borrowing (including issuance of Eurobonds, if any)

4. Remedial measures taken by the AfDB against the country breaching the NCDAP or waivers granted by the AfDB to the country

5. Assessment of the progress made by the country in strengthening debt management, including improvements in debt reporting (based on interviews and DeMPA reports if available)

6. Conclusion and lessons learned (Was the NCDAP implemented in the country? Was the country borrowing influenced by the NCDAP? What were the main results?)
Annex 4: Country Case Study Methodology

Three countries are selected as case studies for the evaluation of the NCDAP: we propose Rwanda, Zambia, the Democratic Republic of Congo, Cameroon and Ghana.

The Country case study methodology is based on two activities: (i) gathering public documentation about the country, and (ii) interviewing representatives of the Ministry of Finance of the country and other stakeholders such as the Resident Debt Advisors of the IMF’s regional technical assistance centres.

Indeed, this methodology is constrained by current working conditions, namely the impossibility to do groundwork due to the COVID-19 pandemic and the limited time available until the submission of the final report. Therefore, case studies do not aim at providing an in-depth analysis of the implementation of the NCDAP in the selected countries and a whole understanding of the country surrounding context.

Thus, the objective of the country case study is rather to identify some lessons learned from the implementation of the NCDAP in the selected country which could be useful for establishing the future policy of the Bank.

The consultants will undertake the following tasks to draft country case studies:

- Review WB-IMF DSF Country Reports to determine the status of the country risk of debt distress and gather other relevant debt information
- Extract from the World Bank International Debt Statistics (IDS) Database quantitative debt data, notably the share of non-concessional borrowing compared to the External debt stock.
- Receive from the AfDB research unit information on the country domestic debt.
- Verify what are the debt documents published in the Ministry of finance website (Annual Debt Report, Quarterly Statistical Bulletin, MTDS document, etc.)
- Review DeMPA reports for the country if available on the World Bank website
- Interviews with representatives of the Ministry of Finance of the selected countries will provide information on the implementation of the NCDAP and the progress made in building up debt management capacity
- Interviews with other multilaterals staff will offer information on the results of multilateral borrowing policies and the country efforts to strengthen debt management
- Interviews with AfDB staff will provide information on the remedial measures taken, or not, if the country breached the NCDAP
Annex 5: Interview Templates for each category of stakeholders

Based on the three main types of interviews with internal and external informants identified in the section 4.2.3 of this document, we propose 4 interviews templates:

Template 1. Interviews with AfDB staff at the central level

1. What were the main changes to the NCDAP policy over the reviewed period? What about the specific period 2008-2011?
2. How have these changes influenced countries borrowing choices?
3. How coherent was the policy with other related Bank policies?
4. What are the changes in the lending landscape over the period of implementation? How did they affect the policy’s relevance over time?
5. To what extent was the policy implemented by country? What are the main remedial measures taken by the AfDB against countries breaching the NCDAP? Were waivers granted by the AfDB to countries?
6. Why has the bank not implemented the planned action of inserting provisions requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clause against collaterized resources in the legal agreements for grants and loans?
7. Given that the clause of required reporting of non-concessional borrowing has not been inserted into grants and loans agreements, to what extent were the countries monitored under this policy? Was non-concessional external borrowing of these countries known by the bank?
8. Given the limited implementation of the policy, is there any evidence that the issue of subsidizing non-concessional financing with concessional financing has decreased during the evaluation period?
9. How was coordination and partnership among sisters MDBs and bilateral agencies carried out? To what extent was it effective? How could coordination with other organisations be improved?
10. How have the responsible Bank departments worked in the absence of a permanent interdepartmental Committee?
11. For the implementation of the policy, was the working of the responsible departments compliant with the Bank’s operational standards and guidelines?
12. Did this policy generate any sustained benefits? Are these benefits likely to endure without the continuation of the policy?
13. Has AfDB contributed to support debt management capacity building?
14. How was the capacity building provided by the Bank? How was capacity building coordinated with other MDBs and bilateral agencies?
15. Could the increase in debt post-African HIPC have been prevented? And to what extent the policy may have contributed to or detracted from it?
16. Is ADB aware of “gaps” in debt data recordings? How do you manage these issues?
Template 2. Interviews with stakeholders at the national (or regional) level: the representatives of Ministry of Finance

1. Are you aware of the AfDB’s Non-concessional debt accumulation policy (NCDAP)?
2. Has this policy influenced somehow your government borrowing decisions?
3. To what extent was the policy implemented in your country?
4. Has AfDB contributed to building debt management capacity in your country? How?
5. Did your country borrow on non-concessional terms in recent years? For what purpose?
6. According to you, what are the main reasons for the increase in borrowing at non-concessional terms? Is this threatening debt sustainability in your country?
7. How do you report government borrowing at non-concessional terms? With which frequency? Are you always aware of government loans negotiations or issuance intentions?
8. What could be done to improve debt sustainability in your country? Do you think non-concessional borrowing should be curbed?
9. Could the increase in debt post-HIPC in your country have been prevented?
10. Do you (= MinFin officials) report to the WB and IMF systems all external debts incurred by your country? What about the “confidentiality clauses” in some debt contracts? How do you manage the concerned loans? How do you report “circular lending”?
11. What are your difficulties in reporting accurate debt data?

Template 3. Interviews with stakeholders at the national (or regional) level: other MDBs local staff

1. Are you familiar with the AfDB’s Non-concessional debt accumulation policy (NCDAP)?
2. Did you participate to any event/activity in relation with this policy?
3. Is the coordination with AfDB working well? How could it be improved?
4. Has non-concessional borrowing increased in recent years in the region? Is this threatening debt sustainability in the region?
5. From which sources do you get information on government borrowing at non-concessional terms? With which frequency? Do you think government reporting is adequate?
6. How do you rate debt management capacity in the region?
7. What do you think of authorities’ debt data quality? What are the main gaps to be fulfilled? Are you satisfied of authorities’ debt reporting?
8. From which sources do you get information on domestic debt? What do you think of the increase in domestic financing sources?
9. What could be done to improve debt sustainability in the region? Do you think non-concessional borrowing should be curbed?
10. Could the increase in debt post-HIPC in your country have been prevented?
11. Are you aware of “gaps” in debt data reporting?

Template 4. Interviews with sister organisations at the central level.

1. Are you familiar with the AfDB’s Non-concessional debt accumulation policy (NCDAP)?
2. Has your organisation a similar policy on non-concessional borrowing? What are the main features of your policy in your area coverage expertise?
3. Has your policy been reviewed recently? What were the main difficulties in implementing your policy in the African countries you are covering?
4. Has your organisation decided to modify its policy? Why?
5. Is there any evidence that the issue of subsidizing non-concessional financing with concessional financing has decreased during the evaluation period?
6. Did your policy generate any sustained benefits? Are these benefits likely to endure without the continuation of the policy?
7. How was coordination and partnership among sisters MDBs and bilateral agencies carried out? To what extent was it effective? How could coordination with other organisations be improved?
8. What kind of policy would be needed to improve debt sustainability in LICs?
9. What should MDBs do to support countries in implementing such a policy?
10. What is your experience of countries not reporting accurate debt data? How do you manage the gap in data reporting?
11. Are you aware of “circular lending”? How do you capture this phenomenon in your own debt assessments?
Annex 6: Report Outline

1. Executive Summary

2. Introduction
   a. Background
   b. Purpose, Rationale, Scope
   c. Evaluation Methods

3. Evaluation Findings
   a. Relevance
   b. Coherence
   c. Effectiveness
   d. Efficiency
   e. Sustainability
   f. Impact

4. Findings, Lessons and Recommendations
   a. Findings
   b. Lessons
   c. Recommendations

5. Annexes
   a. Terms of Reference
   b. Project Review
   c. Case Studies
   d. Interview Results
   e. Others