Evaluation of the AfDB Group Non-Concessional Debt Accumulation Policy

Executive Summary

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This report presents the findings, lessons, and recommendations of the evaluation of the Non-Concessional Debt Accumulation Policy (hereafter NCDAP or the Policy) of the African Development Bank Group (AfDB or ‘the Bank’), launched by the Independent Development Evaluation function (IDEV) of the Bank, and covering the period 2008–2020.

Debt Landscape in Africa

The build-up of sovereign debt can become a concern for countries if the debt is not, or insufficiently, used to finance growth-enhancing investments. African countries and the international aid community have long been aware that the growing debt levels of Low-Income Countries (LICs) could potentially constitute an impediment to development and contribute to perpetuating poverty. This issue first gained prominence in the mid-1990s and was addressed through the launch of debt relief initiatives, mainly the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 and the Multilateral Debt Relief Initiative (MDRI) in 2005.

To support these initiatives, and with a view to helping LICs to balance debt levels with their need for development financing, the International Monetary Fund (IMF) and the World Bank (WB) developed a framework to help guide countries and donors in mobilizing the financing of LICs’ development needs, while reducing the chances of an excessive build-up of debt in the future. This new framework, called the Debt Sustainability Framework (DSF), was introduced in April 2005 and since then has been periodically reviewed.

The DSF acts as a complement to the HIPC Initiative and the MDRI and consists of a common approach to the challenges of debt distress and the re-accumulation of non-concessional debt by post-HIPC countries. Since its adoption by the African Development Fund (ADF) in 2005, the DSF has informed the terms of ADF financing, including grant eligibility, and has framed its broader dialogue with LICs and development partners.

The above mentioned debt relief initiatives have had an immediate impact in alleviating debt burdens of LICs, but debt, both in levels and as ratios to Gross Domestic Product (GDP), has started to rise again over the past decade. With respect to ADF countries, total external debt stocks have grown from USD139.0 billion in 2008 (18.2 percent of the countries’ combined GDP) to USD370.6 billion in 2019 (29.9 percent of combined GDP), accounting for a Compound Annual Growth Rate (CAGR) of 9.3 percent over the period.1

Other factors driving debt accumulation in Africa include governance issues, large public investment programs, defence-related expenditures, and weak institutional capacity. The discovery of hidden debt has also caused a sudden surge in debt burdens in several countries. In addition, the current COVID-19 crisis is adding to debt vulnerabilities and contributing to a further deterioration of LICs’ debt trajectories.

Presentation of the NCDAP

The AfDB approved in 2008 an NCDAP with the view to mitigating the impact of the rapid accumulation of non-concessional debt on grant eligible post-HIPC/MDRI debt relief ADF countries, and to guiding the use of its concessional resources. The design of the NCDAP was explicitly informed by lessons learned from the review of the International Development Association’s (IDA) Non-Concessional Borrowing Policy (NCBP), which was approved in 2006, and its implementation.
The NCDAP was amended in 2011 to provide a more flexible and streamlined approach, and to reflect recent changes adopted by the IMF regarding its external debt limit policy and concessionality framework. The NCDAP is structured around four objectives articulated in four pillars:

**Pillar 1** – Deepen partnership and coordination with sister Multilateral Development Banks (MDBs) and bilateral donors on issues related to non-concessional borrowing.

**Pillar 2** – Strengthen borrowers’ reporting requirements on non-concessional debt accumulation.

**Pillar 3** – Enhance collaboration in capacity-building with other partners (especially IDA), specifically regarding actions aimed at improving debt data quality, recording, and reporting, and building institutional capacity in Regional Member Countries (RMCs).

**Pillar 4** – Apply compliance measures on a case-by-case basis.

**Evaluation objectives and scope**

This evaluation aims to: (i) provide evidence-based information on the effectiveness of the NCDAP for the purpose of accountability; and (ii) identify lessons from its implementation to inform the development of a new sustainable debt policy by the Bank.

The evaluation covers the implementation of the NCDAP from 2008 to June 2020. It includes the 2008 Policy, the 2011 Amendments, and the Operational Guidelines approved by the Operations Committee (OpsCom) in November 2011. The assessment covers all measures implemented as part of this Policy, including its implementation measures and the coordination with other agencies.

The evaluation used the revised international evaluation criteria. The main criteria assessed were relevance, coherence, effectiveness, and efficiency, on a four-point rating scale ranging from “unsatisfactory” to “highly satisfactory” (see Annex 2). The evaluation of sustainability and the impact of the Policy were dropped during the evaluation process, due to the limited implementation of the Policy. The methods and tools included: statistical analysis; in-depth document review; interviews with selected internal and external informants; country case studies; and comparison with similar policies adopted by other multilateral development organisations.

**Key Findings**

**Relevance**

The relevance of the Policy is rated as satisfactory.

Objectives, approach, and key elements of the Policy: The Policy’s four pillars are clearly defined. However, the Policy’s ultimate or overall objective could have been stated more explicitly and defined in a clearer way. In addition, one may wonder whether the policy objective of discouraging countries from contracting (unsustainable) non-concessional loans was realistic, given that AfDB resources only account for a small share of RMCs’ total development finance, limiting the Bank’s influence on RMCs’ borrowing behaviour.

Operational framework: The documents list those stakeholders that will be involved for each key element of the Policy, but do not clearly identify which entity will oversee or coordinate its overall implementation. Other related weaknesses include the lack of an appropriate monitoring framework against which implementation could be assessed and the absence of details regarding periodic reporting on the implementation of the Policy.

Main changes between the 2008 Policy and 2011 Amendments: The 2011 Amendments were intended to align the 2008 Policy with changes
adopted by the IMF regarding its external debt limit policy and concessionality framework, and to bring the AfDB’s Policy up to date with IMF/WB policies in supporting LICs’ financing needs. However, the change in tone of the discourse that is reflected in the 2011 Amendments, with greater recognition for the Financing for Development agenda and emphasis on responding to countries’ needs, is perceived to be somewhat at odds with aspects of the original 2008 Policy, including the references to the issues of free-riding and cross-subsidisation, which have been kept intact in the amended version of the Policy. As a result, these amendments have blurred somewhat rather than clarified the main objective of the Policy.

Evolution of the debt of ADF countries since the inception of NCDAP: The NCDAP has remained relevant throughout the period. Debt levels in ADF countries have risen steadily since the inception of the NCDAP in 2008. Non-concessional debt has seen rapid growth over the period, growing at a slightly faster pace than concessional debt. This has led to an increase in debt vulnerabilities across ADF countries, which are now exacerbated by the COVID-19 crisis.

Changes in the lending landscape: Overall, the changes in the lending landscape over the period and the new challenges posed by the emergence of new creditors can be viewed as confirming the relevance of a policy addressing debt sustainability in ADF countries.

Effectiveness

The effectiveness of the Policy was rated as unsatisfactory due to the limited level of implementation and results.

The evaluation found that only limited aspects of the NCDAP have been implemented. One major shortcoming found is that provisions requiring advanced reporting on planned new non-concessional borrowing, including negative pledge clauses against collateralised resources, were not included in Bank loan/grant agreements with RMCs due to the absence of political will.

In addition, the inter-departmental Committee to monitor regular reporting on the status of non-concessional borrowing foreseen by the NCDAP was not constituted. As a result, the evaluation found no evidence that non-concessional borrowing by ADF countries was monitored by the AfDB during the evaluation period. In the same vein, given the absence of reporting from countries, policy measures such as a hardening of terms or volume reduction linked to the contracting of non-concessional debt by ADF countries, were not applied.

On coordination efforts with sister organisations, the evaluation has found evidence of frequent workshops...
and seminars having taken place between the Bank and sister organisations over the past two years in the context of the preparation of the new sustainable debt policy. However, this was undermined by the fact that there has been more limited coordination with respect to substantive policy measures, among others a more limited application by the AfDB, compared with IDA, of hardening of terms or/and volume reduction measures to ADF countries.

Finally, with regard to capacity building, the evaluation found scattered evidence that the Bank has provided capacity-building support in debt management to ADF countries during the evaluation period. While the evaluation found evidence that the World Bank/IDA has provided more substantial support, this has not translated into a tangible improvement of ADF countries’ debt management capacities.

**Efficiency**

The efficiency of the implementation of the Policy was rated as unsatisfactory.

In the context of the limited implementation of the Policy, the evaluation found limited evidence of inter-departmental coordination linked to the implementation of the NCDAP. Rather, Bank departments seem to have mostly worked independently of one another. This is not to say that the individual departments have not performed some of their envisaged role as contained in the NCDAP.

In addition, the Policy did not comply with commonly accepted monitoring and evaluation principles, as exemplified by the fact that the Bank has not conducted/published reports on the implementation of the NCDAP. In sum, the absence of coordination and monitoring points to limited operational efficiency of the NCDAP.

**Lessons**

**Lesson 1:** The accumulation of non-concessional debt is an important factor driving debt distress on the continent. The issue of debt has grown beyond the original policy coverage and should be considered as a major topic for the foreseeable future.

There has been a sharp increase in debt vulnerability of ADF countries, and this is not limited to ADF-Only countries. The increased debt vulnerability of ADF countries is reflected in the increase in recent years of the number of African LICs assessed to be at high risk of, or already in, debt distress based on the Debt Sustainability Analyses (DSAs) under the Joint WB-IMF DSF. This concerns not only ADF-Only countries, but also Blend and Gap countries, which have been more heavily affected.

**Lesson 2:** A lack of clear objectives weakens the basis for collaboration and coordination.

When the overall objective of a policy is not clearly defined, this can lead to a lack of common understanding among Bank stakeholders. It is also important to ensure that a policy is broadly communicated internally and externally, to ensure awareness and ownership during the implementation period.

**Lesson 3:** Clear political will and consensus on the application of a policy are key factors for success.

Political will to support policies such as the NCDAP is vital. Their implementation should be supported by sufficient internal and external buy-in and a strong legal basis for the measures that could be difficult to implement. The absence of political will to apply the NCDAP within the Bank can be partly explained by the fact that ADF countries experienced relatively low debt levels and ratios at the beginning of the review period. The fact that crucial policy measures contained in the NCDAP were not implemented, however, remains problematic in hindsight, as the relevance of this policy remained high during the rest of the evaluation period.

**Lesson 4:** The absence of strong ownership of a policy by a “Champion” in the subject matter,
and of a strong coordination mechanism, can undermine effective policy coordination and implementation.

In the case of the NCDAP, for instance, several actions were not implemented due to the fact that no single entity was the real “owner” of the policy and could lead the Bank-wide efforts for the implementation of the planned actions.

**Lesson 5:** A strong capacity-building component can contribute to the success of a policy.

When designing a policy, capacity-building actions should be clearly defined. They should be reinforced by a coordination mechanism and have strong linkages with the objectives of the policy to ensure its overall effectiveness.

**Lesson 6:** Consistent monitoring and reporting are essential to ensure a policy remains relevant and pertinent.

Periodic reporting on the implementation of the policy could contribute to raising awareness, communicating with stakeholders, and improving relevance and effectiveness over time.

**Recommendations**

**Recommendation 1:** Ensure a robust design for the new sustainable debt policy.

It is recommended that the Bank’s new policy take into consideration the following elements:

a. **Particular attention for formulating clear policy objectives** to ensure that all internal and external stakeholders develop a shared and common understanding of the main goals of the policy, for example by developing monitorable and assessable indicators for each objective.

b. **Consider the current level of political will and legal feasibility.** The consultation process should ensure that any measure contained in the new policy is accepted and will be applied, including the legal basis needed for implementation.

c. **Ensure the coherence of the new Policy with IDA’s Sustainable Development Finance Policy (SDFP).** While it is encouraged that the new policy considers the specific African context, it is also recommended that the main features of the IDA policy be transposed to the Bank’s new policy in terms of overall objective and scope.

d. **Expand the coverage to additional countries.** The Bank should consider the possibility to enlarge the coverage of the future policy to Gap and Blend countries, due to the sharp increase in debt vulnerability of all ADF-eligible countries.

**Recommendation 2:** Place increased focus on data and transparency.

It would be beneficial for the new policy to contain a more substantial focus on data and transparency than IDA’s SDFP, since the accumulation of non-concessional debt is an important factor driving debt distress on the continent, but there are still few data available on the issue.

**Recommendation 3:** Ensure strong ownership of the policy and strengthen coordination within the Bank.

The Bank should define and ensure clear responsibility for overseeing, implementing, and monitoring the new policy in line with the One Bank approach. Roles should be clarified at the strategic, central, and country levels, including coordination with other partners. Arrangements should be made for operationalising the policy through specific activities and raising awareness of the policy within the Bank and with RMCs. Finally, it is recommended to establish a functional coordination mechanism to ensure: (i) a common understanding of the
new policy across all departments involved in its implementation; (ii) that these departments work in a synergetic way; and (iii) adequate monitoring and reporting of the policy.

**Recommendation 4: Clarify the approach to debt management capacity building**

The Bank is advised to implement debt management capacity building for RMCs and debt surveillance internal capacity building for Bank staff. The Bank needs a more focused approach to ensure that capacity-building actions linked to the new sustainable debt policy are explicitly articulated and implemented in a coordinated manner, including through coordination with sister organisations, to avoid gaps and duplications.
About this Evaluation

This report presents the findings, lessons and recommendations of the independent evaluation of the AfDB’s Non-concessional Debt Accumulation Policy (NCDAP) covering the period from 2008 to 2020.

The objective of this evaluation was to assess the Bank’s performance in implementing the NCDAP, since its approval in 2008 and amendment in 2011, for the dual purpose of accountability and informing the development of a successor sustainable debt policy. The report examined all measures implemented as part of the Policy and presents its findings under the four criteria of relevance, coherence, effectiveness, and efficiency.

The evaluation found the relevance and coherence of the NCDAP to be satisfactory, due to its alignment with other Bank and sister organizations’ policies, a well-defined overall approach and clear pillars. However, given the limited influence of the Bank on countries’ borrowing behavior and with the worsening debt situation of African countries over the evaluation period, the Policy’s ultimate goal could have been more realistically stated and defined in a clearer way to avoid differing interpretations among stakeholders as well as lack of ownership. Despite improved coordination with other IFIs, the effectiveness and efficiency of the Policy were found unsatisfactory, due to its limited implementation. The evaluation found multiple challenges, among which weaknesses in internal coordination, monitoring, data recording and transparency, application of compliance measures to countries, and scattered engagement of the Bank in capacity-building actions linked to debt management in African countries.

The evaluation recommends the Bank to ensure a robust design for the new sustainable debt policy, with a more substantial focus on data and transparency and a clearly defined responsibility for overseeing, implementing, and monitoring the new policy in line with the One Bank approach. The Bank should also clarify the approach to debt management capacity building for regional member countries and internal debt surveillance capacity building for Bank staff.