Empowering Growth: Key Strategies for a Successful 17th African Development Bank Replenishment

May 2025.

1. Introduction

The 17th replenishment of the African Development Fund (ADF-17) is slated for November 2025. The African Development Bank (AfDB) seeks to raise USD 25 billion during this replenishment which, if achieved, would be historic for the ADF, but still a very small amount compared to the financing needs of African countries, especially for infrastructure. For instance, analysis by Development Reimagined indicates that Ethiopia would need to spend between USD 23.6 – 34.8 billion per year on infrastructure to meet its SDGs.

ADF-17 comes at a critical time, amidst a tightening funding squeeze from major donor countries and rising fiscal constraints faced by recipient countries. The U.S., which has been the largest donor for ADF, has announced plans to cease contributions worth USD 555 million to the ADF. There is also uncertainty as regards European commitment to the ADF, especially as several major European donor countries such as the UK have recently announced plans to cut their aid budgets. Meanwhile, outgoing AfDB President Akinwumi Adesina's push to leverage capital markets to expand the ADF resource pool signals a transformative shift in how the Fund secures its resources.

This policy brief is therefore written with the intention to support planning and negotiations in the lead-up to ADF-17. The conclusion of the first ADF-17 replenishment meeting in March 2025, and the next ADF-17 meetings scheduled to take place alongside the African Development Bank Group Annual Meetings in Abidjan between May 31–June 1, 2025, presents an opportune moment to analyze the ADF's historical performance and reflect on strategies to enhance the Fund’s effectiveness.

The Brief outlines the ADF’s purpose, structure, and *modus operandi*. It also highlights the key challenges facing ADF in fulfilling its mandate and provides recommendations to AfDB leadership, donor countries, AfDB Regional Member Countries (RMCs), and prospective new donors, with the aim of strengthening the ADF’s effectiveness and capacity to meet African countries’ evolving development financing needs.

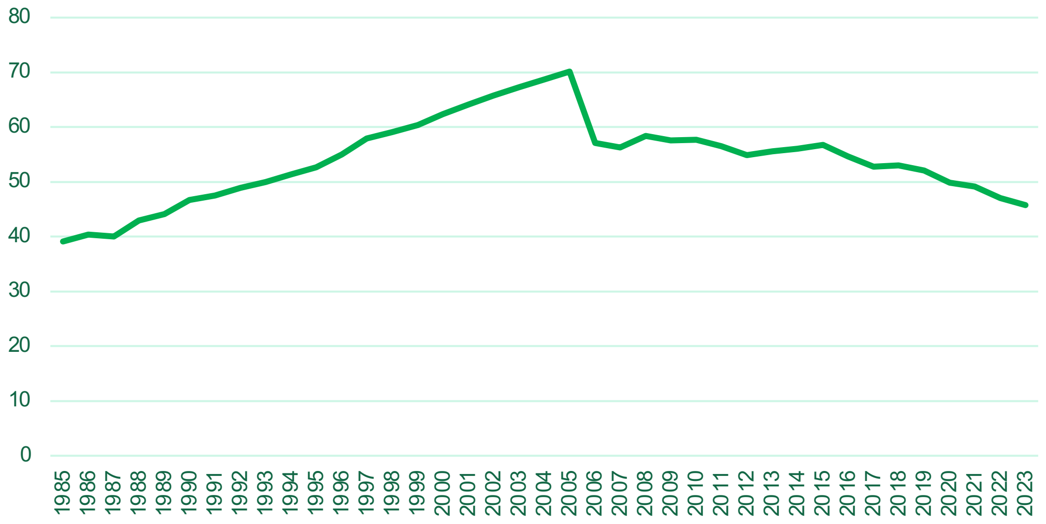
The policy brief is primarily targeted at policy makers in AfDB member countries, especially RMCs, donor countries as well as the AfDB leadership but should also be of interest to all stakeholders including other MDBs such as the World Bank and other African Multilateral Financial Institutions (AMFIs).

2. Context setting

2.1 Background to African Development Fund (ADF)

Over the past two decades, the volume of multilateral concessional finance flows to Africa have declined significantly. In 2005, concessional lending stood at 70% as a share of total multilateral lending to Africa (World Bank, 2024). By 2023, the proportion of concessional lending had fallen to 45%, close to the 1985 share of 39% (Figure 1).

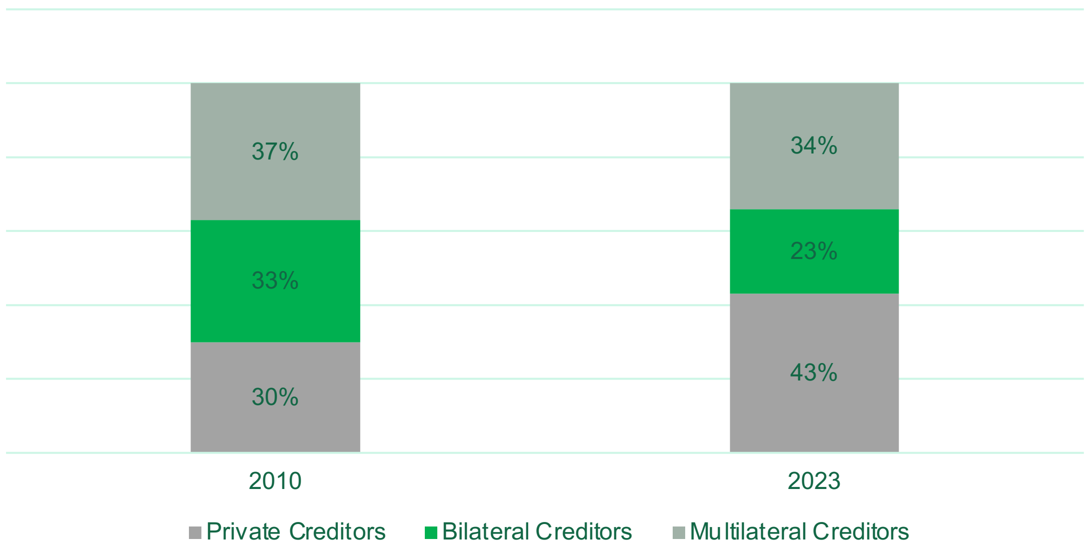
Figure 1: Concessional debt as a share of total multilateral debt



Source: World Bank 2024

To compensate for the declining concessional finance, African countries have turned to more expensive alternative, especially private capital markets. As such, the share of private creditors in Africa's external debt has grown while that of concessional finance has reduced. As of 2023, private creditors account for 43% of Africa's total external debt with multilateral banks accounting for 34% (UNCTAD, 2024). In 2009, the respective share for private and multilateral creditors was 25% and 38% (Figure 2).

Figure 2: Creditor Composition of Africa's External Debt



Source: UNCTAD 2024

Yet, access to affordable financing remains crucial for low-income countries striving to meet their development goals, especially in Africa. According to the African Development Bank (AfDB), between 2024 and 2030, African countries will need approximately USD 402 billion collectively to fast-track their structural transformation. Thus, the implications of declining concessional financing are significant as affordable development finance underpins economic structural transformation, climate-resilient infrastructure, agricultural transformation, and poverty reduction initiatives in African countries.

Over 50 years ago in 1972, the African Development Bank (AfDB), Africa's largest Multilateral Development Bank, established the African Development Fund (ADF). The remit of the ADF is to provide concessional funding (grants and low-interest rate loans with long-term maturities) for social and economic development projects in the least developed countries in Africa that are ineligible for traditional AfDB loans. The ADF's investment portfolio plays a crucial role in supporting fragile states, climate initiatives, fostering cross-border cooperation, and helping to close Africa's infrastructure gap.

Since its inception, ADF has mobilized approximately USD 53 billion across 16 replenishment rounds held every three years. During these fundraising rounds, donor countries, both from Africa and across the world, replenish the ADF's resources.

Now, the Fund's 17th replenishment (ADF-17), scheduled for November 2025, is aiming to raise USD 25 billion, which would make it the largest replenishment in the ADF's history.

Drawing on donor contributions, the ADF provides concessional funding to low-income countries, as well as fragile and transitional states, in Africa. As of April 2024, the ADF has disbursed a total of USD 58.5 billion across 2,847 projects. The ADF's historical commitments represent just over 50% of AfDB's historical disbursements of approximately USD 105 billion.

At a sectoral level, the ADF has allocated its largest investments to transport infrastructure (28%), multisector initiatives (27%) and agriculture & rural development (17%). However, ADF's sectoral focus has evolved over the years.

Between ADF-1 and ADF-16, the proportion of ADF funding going to rural agriculture has declined significantly, while the proportion of power has increased in turn. The sectoral distribution of ADF's disbursements reflects the Fund's targeted commitment to the economic transformation of African countries.

2.2 Who is eligible for ADF resources?

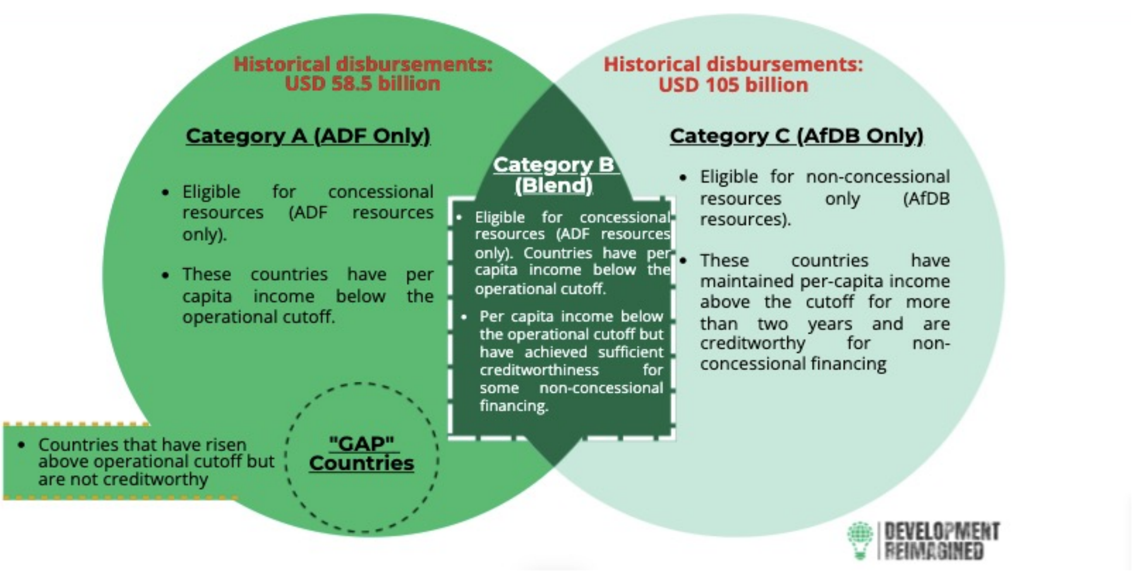
Access to ADF resources is determined by the African Development Bank Group's Credit Policy, which determines eligibility for the Group's different financing windows based on per capita income and creditworthiness of regional member countries.

There are two categories that can access ADF resources, Category A and Category B (Figure 3). For a country to be eligible for ADF resources, it must have a per capita income less than USD 1,335 and/or lack creditworthiness.

Countries in Category A are referred to as ADF-only countries which are further divided into two sub-groups: countries that are below the cut-off point and lack creditworthiness and (ii) countries that are above the cut-off point but lack creditworthiness.

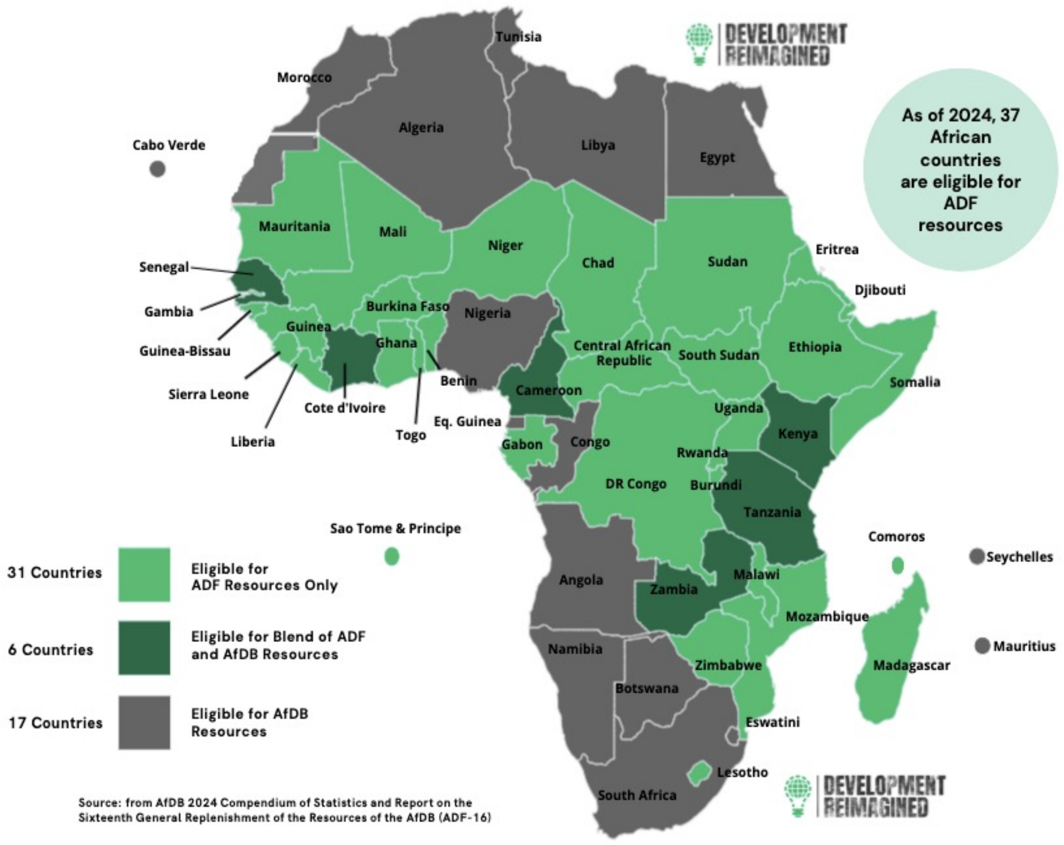
Countries in the second sub-group are referred to as "Gap countries". Countries in Category B are referred to as "Blend countries" which includes countries that are below the cut-off point but have enough creditworthiness to access traditional AfDB resources.

Figure 3: ADF Eligibility



As of April 2025, 37 countries are eligible for ADF resources, including 31 countries in Category A and six in Category B (Figure 4). AfDB has a third Category (Category C) which includes countries that are ineligible for ADF resources and only eligible for AfDB resources.

Figure 4: Countries Eligible for ADF Funding



Graduation between these categories refers to the process by which countries transition from one category to another. For example, a country that is initially eligible only for ADF resources may graduate to become eligible for both ADF and AfDB resources (Blend status) or for exclusively AfDB resources. Notably, countries graduating from Category A to C, which temporarily have access to ADF resources during the transition phase, are not considered Blend countries.

The ADF's Transition Framework provides a mechanism to manage the transition between categories. The transition period can range from two to five years, tailored to a country's specific needs. The transition framework ensures a progressive phasing out of concessional financing while simultaneously phasing in AfDB non-concessional funding, to adapt to the non-concessional funding's stricter terms.

There are two key challenges with the ADF's credit assessment procedure.

First, reliance on data that engenders rather than alleviates the Africa risk premium places an artificial ceiling on the borrowing capacity of Africa countries, regardless of their financing needs. In its credit assessments, the AfDB utilizes the World Bank/IMF Debt Sustainability Analysis (DSA) Framework.

However, the DSA includes arbitrary debt thresholds at 60% for low-income-countries or 70% for emerging markets in market-access countries, yet many middle- and high-income countries have developed with much higher external debt-to-GDP thresholds.

Moreover, the DSA does not account for high-quality debt, which can catalyse economic growth, with a positive effect on the balance sheets of borrower countries. As such, the resultant creditworthiness determination places an artificial ceiling on the borrowing capacity of ADF recipients, which can be counterproductive as developing countries in fact need more, not less, debt.

Second, while the AfDB's classification of countries is important for the Bank's credit management, it inadvertently limits countries' access to the full range of AfDB resources by locking them out of some financing options.

For instance, ADF-only countries (Category A), which arguably have a greater need for development financing, do not have access to traditional AfDB loans. Consequently, given the limited scale of the ADF and the constrained concessional financing landscape globally, these countries must make do with meagre resources.

Similarly, AfDB-only countries (Category C) are ineligible for concessional funding from the ADF. Consequently, these countries must look elsewhere for often more expensive funding alternatives.

As an example, in 2023, Nigeria and Cameroon had virtually the same per capita GDP of USD 1,640 and USD 1,720, respectively. The strict classification rules applied by the AfDB meant that Cameroon could access ADF resources as a Blend country, whereas Nigeria could not since it was classified as a Category C country.

2.3 How are ADF resources allocated?

ADF resources are allocated based on country performance via the Performance Based Allocation (PBA) framework as the core allocation mechanism.

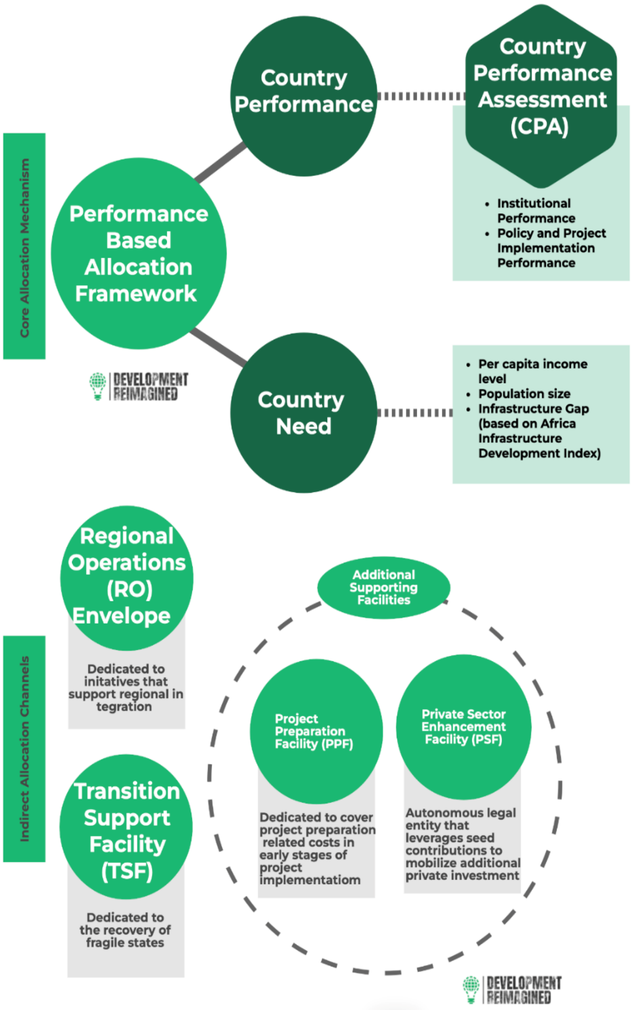
A significant portion of ADF resources is allocated through special envelopes and facilities (Figure 5).

These investments support the AfDB's High 5 priorities, with the largest contributions advancing priorities 4 (Integrate Africa) and 5 (Improve Life of People in Africa).

Furthermore, ADF's largest allocation of resources goes towards regional/multinational projects which is one of the unique features of ADF funding relative to other concessional funding pools.

Funding of multinational projects is critical in unlocking the benefits of economies of scale through the integration of African markets and value chains.

Figure 5: ADF Resource Allocation

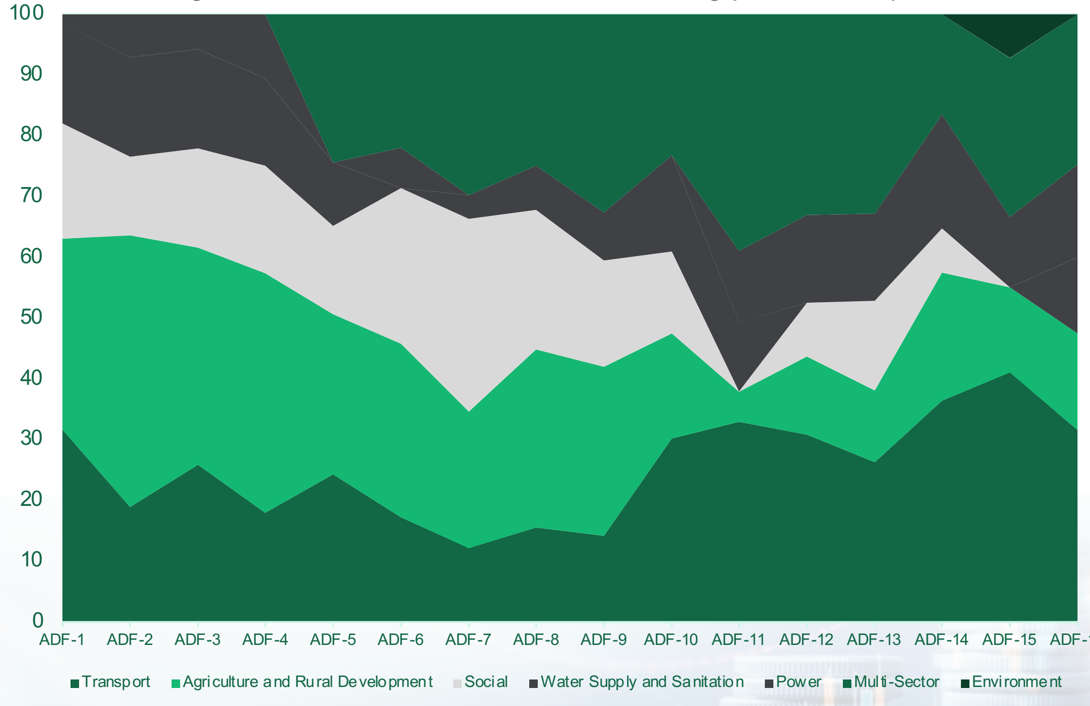


Sectoral focus

At a sectoral level, the ADF has allocated its largest investments to transport infrastructure (28%), multisector initiatives (27%) and agriculture & rural development (17%) (Figure 6). However, ADF's sectoral focus has evolved over the years. Between ADF-1 and ADF-16, the proportion of ADF funding going to rural agriculture has decline significantly while the proportion going to power projects has increased.

Between ADF-1 and ADF-16, the proportion of ADF funding going to rural agriculture declined significantly by about 50% from 31% to 16%; the share of funding dedicated to power increased tenfold from 1.5% to 15%; while the share of social projects declined from about 20% to approximately 0%. Furthermore, since ADF-14, Environment has been a key focus area, with a dedicated financing window since ADF-17. The sectoral distribution of ADF's disbursements reflects the Fund's targeted commitment to the economic transformation of African countries which is one if the AfDB's unique offerings amongst MDBs engaged with African countries.

Figure 6: Sectoral distribution of ADF Funding (ADF1-ADF16)



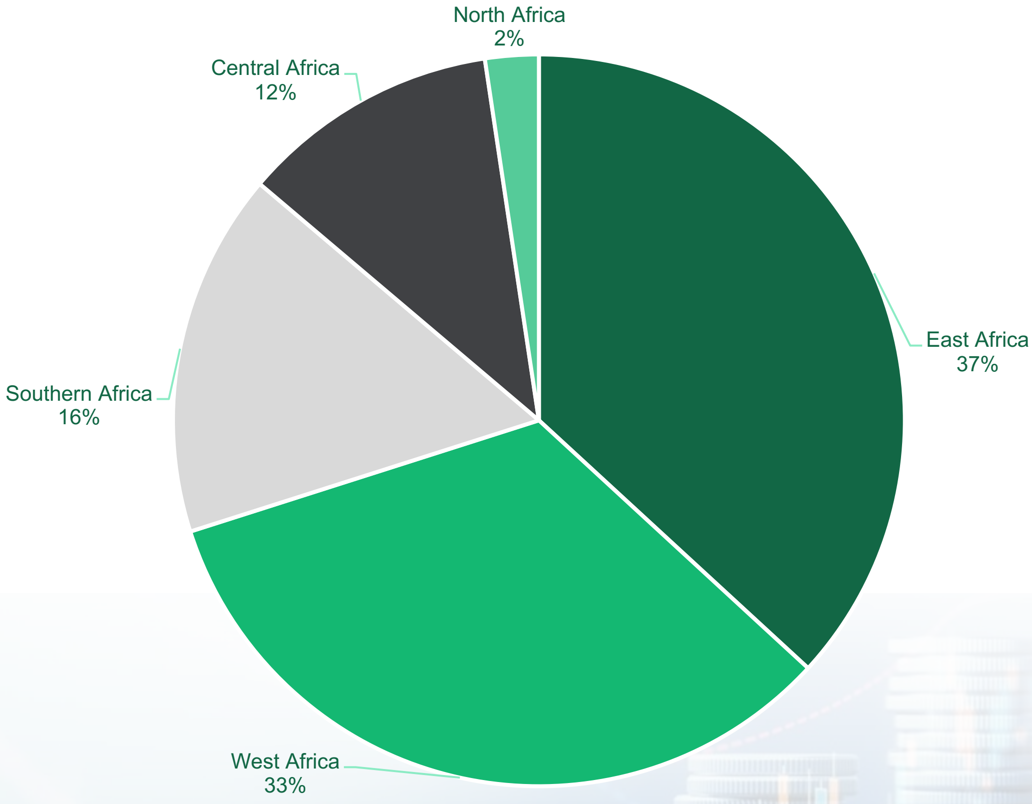
Source: African Development Bank Group

Regional and country-level focus

At a regional level, East-Africa has been the leading recipient of ADF resources throughout ADF-1 – ADF-17, followed by West-Africa, and Southern Africa (Figure 7). In East Africa the leading sectors are transport and multisector projects. In both West Africa and Southern Africa, the leading sectors were multisector projects, and agriculture & rural development. In Central Africa, most funding goes to transport and multisector projects whereas in North Africa it goes to social projects and agriculture & rural development.

Because of the nature of its creditworthiness assessments as discussed earlier, majority of ADF resources end up going to countries with better creditworthiness as per the DSA. For instance, five countries Tanzania, Ethiopia, Uganda, DR Congo, and Nigeria, all with moderate risk of debt distress as per the DSA—account for 34% of ADF historical disbursements (Figure 8).

Figure 7: Regional distribution of ADF resources



Source: African Development Bank Group

Meanwhile, countries such as Central African Republic, Comoros, Gambia, and Guinea-Bissau, all with a high risk of debt distress, account for less than 1% of ADF's historical disbursements. A similar pattern can be observed with AfDB's historical disbursements (Figure 9). The implication of this is that those with most need may not be best served which may inadvertently create a self-perpetuating cycle of poverty and underdevelopment.

Figure 8: Top recipients of ADF funding (ADF1 - ADF16)

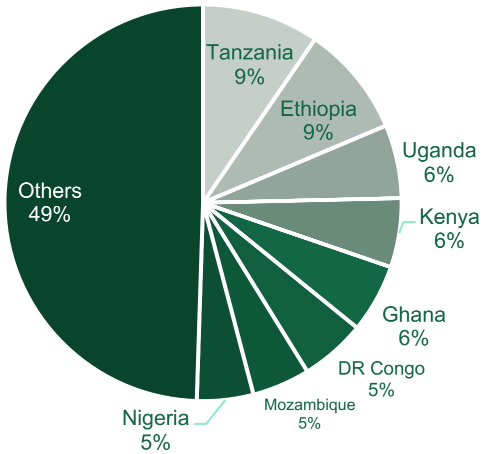
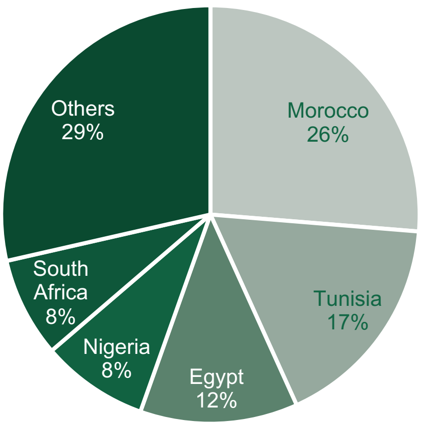


Figure 9: Top recipients of AfDB funding

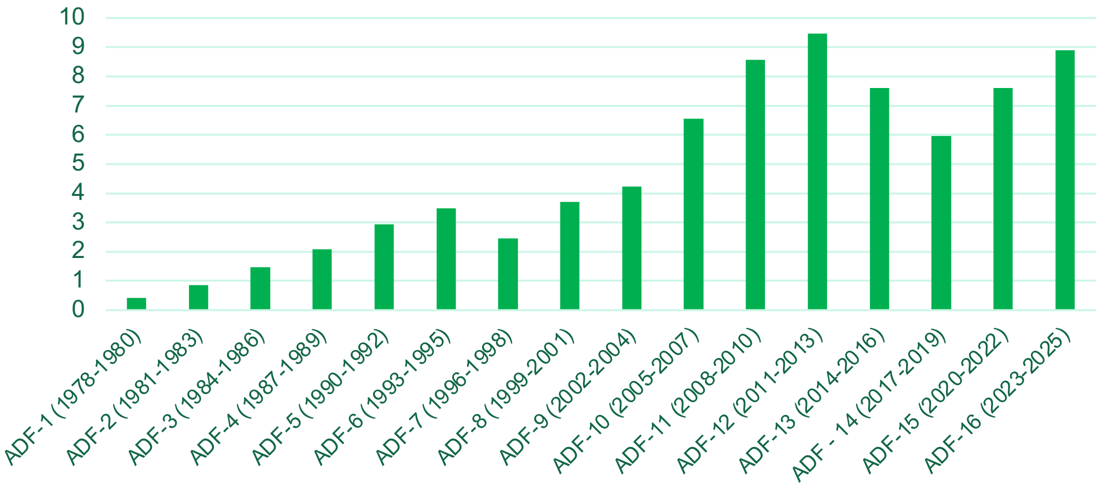


2.4 How does the ADF secure financing for its operations?

The ADF is primarily financed donor contributions through replenishment rounds held every three-years. Since its inception in 1972, the ADF has been replenished 16 times, raising approximately 53 billion. The most recent replenishment, ADF-16, took place in 2022 and raised USD 8.9 billion for the period 2023-2025 (Figure 10).

ADF's major contributors are all located outside of Africa: the U.S., U.K., Germany, France, Japan, Canada, Italy, Norway, Sweden, and the Netherlands (Figure 11). The U.S. is overall the largest single donor with cumulative contributions of USD 5.7 billion. Collectively, European donor countries account for 62.5% of all donor contributions (USD 32.5 billion). China, a major development partner for Africa, accounts for only 1.78% of contributions in the ADF (USD 1 billion).

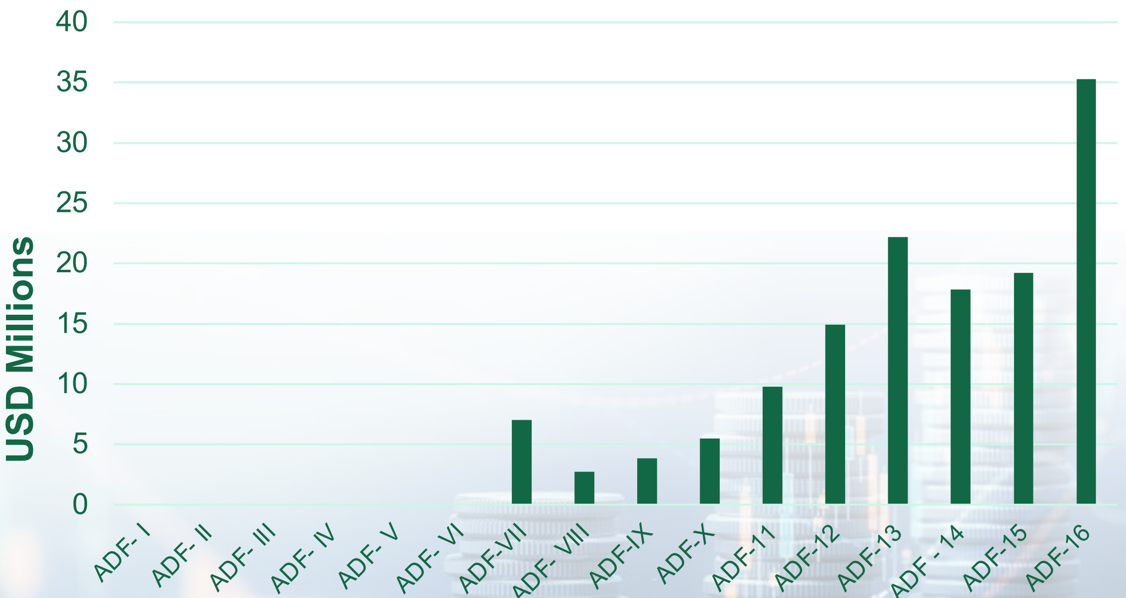
Figure 10: Total Donor Contributions Across ADF Replenishment Cycles (USD Billions)



Source: African Development Bank Group

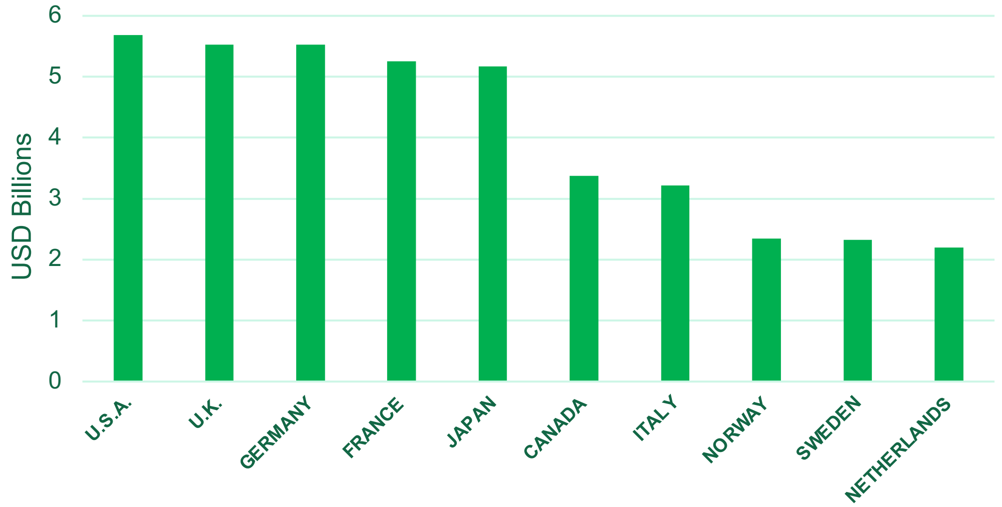
Collectively, African countries account for 0.21% of aggregate contributions to ADF (Figure 15), which ranks 30/35 historically, ahead of smaller donors like Ireland, Luxembourg, Turkey, Argentina and the UAE). African countries started contributing during ADF-VII (Figure 11). Since then, only six African countries (Algeria, Angola, Botswana, Egypt, Morocco, and South Africa) have contributed across the replenishment cycles, with South Africa alone providing two-thirds of African contributions throughout ADF history.

Figure 11: Africa's Contributions to ADF Replenishments (USD Millions)



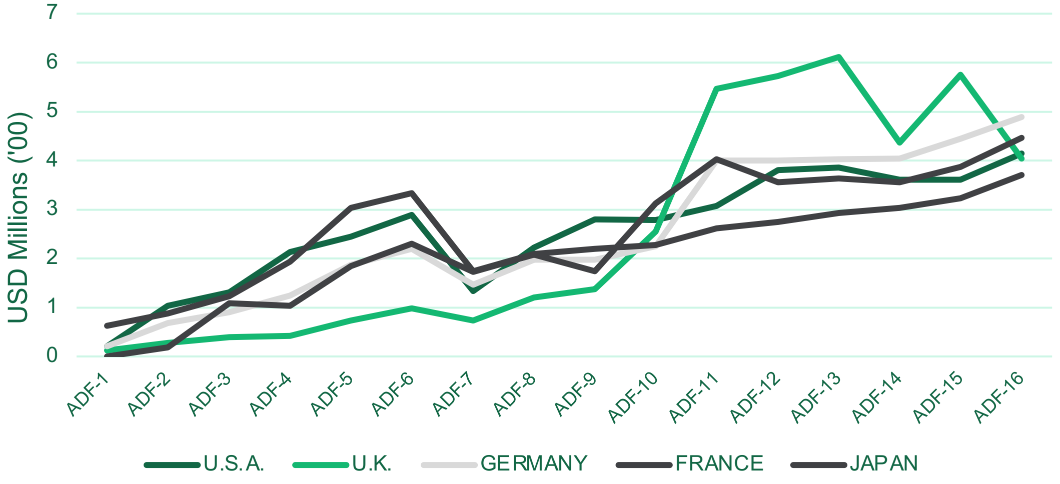
Source: African Development Bank Group

Figure 12: Top 10 Donor Countries to the African Development Fund (ADF 1-16)



Source: African Development Bank Group

Figure 13: Trends in Contributions of Top Donors

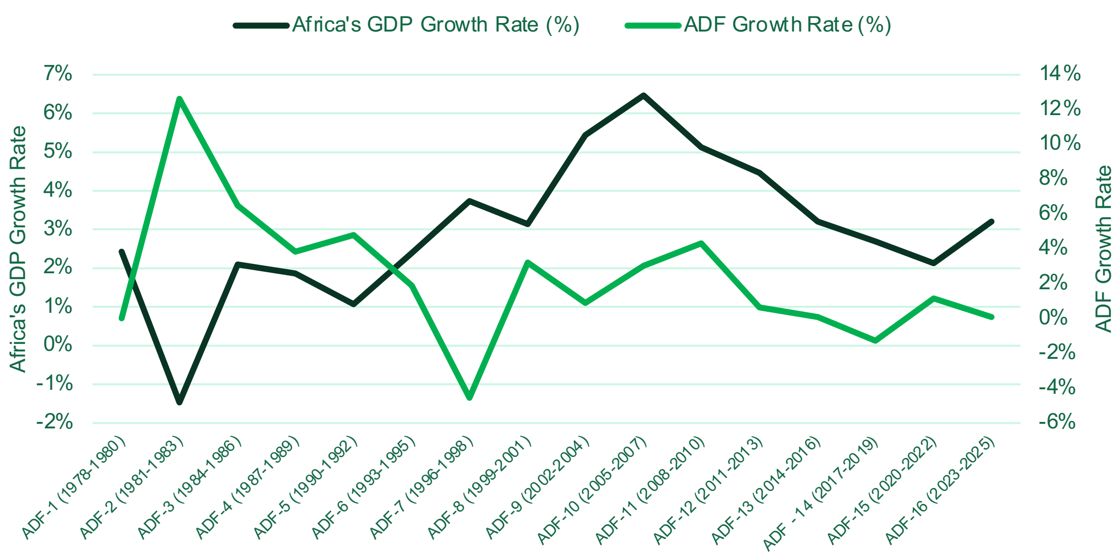


Source: African Development Bank Group

Despite its growth and performance over the past five decades, the ADF remains insufficient to meet the needs of its recipients. As African countries have grown, their need for more funding has also increased. Yet, the ADF's growth rate has not kept pace with the growing financing needs of African countries (Figure 13). Between ADF-1 and ADF-16, total ADF donor contributions grew at a slower pace than Africa's GDP). Subsequently, countries may turn to more expensive alternative financing sources to cover this gap. Indeed, the share of private debt in Africa's external debt has risen over the past two decades while multilateral lending has declined as earlier indicated (Figure 2).

The limited scale of ADF resources is partly due to ADF's financing model, that has a heavy reliance on donors, without leveraging these to increase the amount of funding available to its beneficiary countries. ADF-17 has set for itself an ambitious target of USD 25 billion which, if achieved, would be unprecedented in the history of the Fund. However, it remains far below Africa's needs, especially given the fiscal constraints faced by many African countries in the present moment.

Figure 14: ADF Growth Rate vs Africa's GDP Growth Rate



2.5 ADF-17

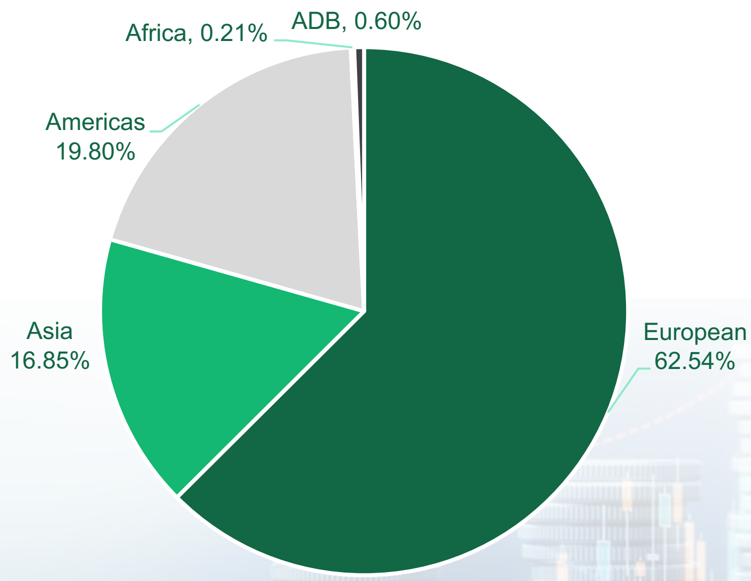
The upcoming 17th replenishment of the ADF (ADF-17), represents a critical juncture as the Fund navigates a constrained fundraising environment characterized by shrinking aid budgets amongst the major donor countries in Europe and North America.

While the three-year replenishment cycle follows established procedures, this round carries strategic importance in reaffirming multilateral funds' central role in facilitating regional development coordination and integration.

A robust ADF-17 replenishment is not merely about maintaining current operations; it concerns growth in activity and adapting to evolving financial realities and strengthening Africa's capacity to determine its development priorities. Several key factors are shaping this replenishment round:

- The Fund is aiming for its largest replenishment at USD 25 Billion.
- Concerns exist regarding shrinking aid budgets amongst major donor countries
- President Akinwumi Adesina is advancing major reform to strengthen ADF’s financing framework and expand its resource base by leveraging capital markets, a *Market Borrowing Option*.

Figure 15: Average regional contribution per ADF cycle



Source: African Development Bank Group

3 Recommendations

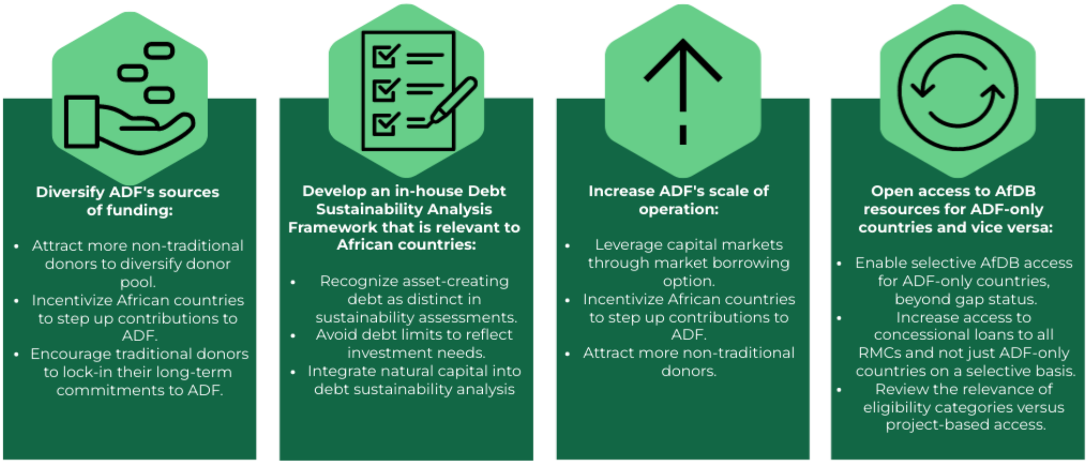
3.1 Overview of challenges

The recommendations that follow are directed at a range of stakeholders, including AfDB leadership, AfDB RMCs, ADF donor countries, and prospective new donors (Figure 16).

Together, they aim to respond to the key and interconnected challenges identified in this policy brief:

1. Shrinking foreign aid budgets amongst major donors
2. Reliance on the debt sustainability framework in credibility assessments
3. Limited scale of ADF financing relative to the continent's development needs
4. Restrictive eligibility rules that limit access to concessional resources

Figure 16: Overview of Recommendations



3.2 Recommendations for a strong ADF-17

Challenge 1: Shrinking aid budgets amongst major donors

Amidst a tough fundraising environment characterized by diminishing foreign aid budgets and competing fundraising drives, AfDB should seek to diversify the ADF's funding pool by:

1. **Urge/Incentivize Regional Member Countries to step up contributions to ADF**: Ultimately, African countries must take charge of their development. Extreme reliance on external donors has left the ADF in a precarious position amidst the shifting foreign aid landscape. AfDB should remedy this unsustainable situation by encouraging and incentivizing African countries to step-up their contributions to ADF replenishments. The forms of incentives could include granting selective access to AfDB resources for ADF-only countries and selective access to AfDB-only countries that contribute to the replenishment. ***Regional Member Countries, African Development Bank.***
2. **Attracting more non-traditional donors to diversify donor pool:** As traditional donors scale back their foreign assistance budgets, AfDB should seek to attract non-traditional donors to increase their contributions to ADF and/or contribute to the replenishment for the first time. For instance, AfDB could target gulf countries such as UAE and Saudi Arabia, as well as other middle powers with growing economic heft to step up in a big way in ADF replenishments not only to make up the gap left by receding traditional donors but to significantly scale the ADF's scale of operations. At the same time, where possible, AfDB should encourage traditional donors to protect the value of their contributions to the ADF to avoid significant reductions in donor contributions. ***African Development Bank, Donor countries.***

3. **Increasing the level of contributions from AfDB income resources**: The AfDB has historically contributed to ADF replenishments by drawing on its income resources. Since the inception of ADF, AfDB has contributed less than 1% of total replenishment amount. As such, amidst tightening financing conditions from traditional donor countries, the AfDB should step up by increasing the share of its income that goes to ADF replenishment to shore up the Fund in these turbulent times. ***African Development Bank Board of Governors.***

Challenge 2: Reliance on WB/IMF DSA framework in credit eligibility assessment

Given the gaps in the creditworthiness determination assessments, AfDB should develop its own DSA that is relevant to, and promotes, Africa's development aspirations to more effectively meet the needs of its recipient countries.

Such a DSA should consider:

1. The developmental-value of asset-creating debt: not all debt is the same. Asset-creating debt can accelerate economic growth and thereby a country's ability to meet its debt obligations. Such differentiation of debt ought to be factored into Africa's debt assessments as opposed to a uniform, demonization of debt. ***African Development Bank, other MDBs.***

2. The fact that African countries need more, not less debt: At their present level of development, African countries need more debt for the structural transformation of their economies. For instance, Africa's infrastructure financing gap is estimated at USD 100 billion per year, and Africa needs to spend approximately USD 1.3 trillion per year to achieve SDGs by 2030. Therefore, any debt sustainability analysis must take care not to create artificial limits on debt levels, or undue bias against borrowing. Rather, it should proceed from the development imperative facing Africa. ***African Development Bank, other MDBs.***

3. Africa's natural capital to as to more accurately capture the continent's economic value: natural capital has the potential to increase the country's longer-term resources – but the current DSA fails to capture these assets. ***African Development Bank.***

Challenge 3: Limited scale of operation/limited availability of resources.

To increase the ADF's scale of operation, the AfDB should **adopt the recommendations under Challenge 1 above in addition to leveraging capital markets through the market borrowing option** championed by the outgoing AfDB president: Clearly, ADF is not raising enough funds to meet the needs of its recipients. Therefore, in line with the outgoing AfDB President's recommendation, ADF should leverage donor contributions to tap capital markets to augment its resource envelope, like IDA's approach. ***African Development Bank.***

Challenge 4: Limited access to ADF and AfDB resources

Rather than restricting access to traditional AfDB loans for ADF-only countries, AfDB should develop innovative ways to broaden access to development financing for its shareholders in a way that also upholds and maintains its standing as an MDB. As a borrower owned, regional MDB, AfDB should seek to provide as much concessional financing as possible to *all* members. The AfDB could consider making all RMCs eligible for concessional or very highly concessional financing with necessary variation. For instance, AfDB could consider granting access to traditional AfDB loans for ADF-only countries on a project-by-project basis. This is because whereas some countries may be perceived to have low creditworthiness, some projects may be viable despite being located in those countries. By expanding access to such projects on a selective basis, the AfDB, could broaden access for its shareholders and therefore more effectively achieve its objectives.

Recommendation: The AfDB should increase access to concessional resources for RMCs by:

1. Exploring pathways for selective access to AfDB non-concessional financing for ADF-only countries, beyond current provisions for gap countries. currently, “Gap countries” can access AfDB resources in a selective way. ADF should extend similar selective access for ADF-only countries. ***African Development Bank Board of Governors.***

2. Increasing access to concessional and highly concessional loans to all RMCs and not just ADF-only countries on a selective basis. ***African Development Bank board of Governors.***

3. Commission an independent review of the pros and cons of maintaining eligibility categories to determine whether this is still a more viable approach than project-based financing.

The Africa Growing Together Fund (AGTF) is exemplary in this regard with its focus on project feasibility rather than country eligibility. AGTF was a USD 2 billon, 10-year co-financing instrument established in 2014 by the People’s Bank of China and managed by the African Development bank.

Running until 2024, AGTF provided low-cost financing for sovereign and non-sovereign development projects in Africa on the same terms as AfDB loans. Over ten years, AGTF allowed for an additional USD 200 million in large-sized projects annually across the continent, covering a total of 55 projects with more than a third being in the transport sector. 63% of AGTF resources went to ADF-only countries; 31% to AfDB countries and 6% to Blend countries.

Next Steps.

ADF-17's replenishment is scheduled for November 2025, providing an eight-month window for both African and international partners to mobilize resources.

Figure 17 highlights key global events along the way offer opportunities to build momentum.

Figure 17: Key Events to Build Momentum for ADF-17 Replenishment

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