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ECONOMIC AND FISCAL IMPLICATIONS OF USAID WITHDRAWAL ON KENYA

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The abrupt withdrawal of USAID (and broader US Government) funding will have significant economic implications for Kenya. It will place downward pressure on the currency, reduce government revenues, and further tighten fiscal space. Given the current macroeconomic conditions, this development exacerbates existing vulnerabilities and necessitates pressing policy considerations.

• NEGATIVE PRESSURE ON CURRENCY AND EXTERNAL BALANCE

$1.5
Billion

USG's Role in Dollar Inflows

US Government injected substantial dollar inflows into sub-Saharan economies, helping to stabilize foreign exchange reserves. In 2023, US Government had an allocated budget of **$887 million** for Kenya, equivalent to **~12% of total exports.**[1] To appreciate the scale, Kenya's largest export in 2023 was tea at **$1.5 billio**n, meaning USG inflows were **~60%** of exported tea value.

Continued Need for Dollar-Based Imports

Even if alternative domestic funding sources emerge, a large portion of USG spending went toward essential imports, including medical supplies, food, and fuel. The absence of these inflows increases the need for hard currency.

Dollar Strengthening Worsens the Situation

The U.S. dollar is appreciating due to global capital flight to the U.S. amid trade protectionism and high-interest rate policies.[2] This increases the cost of servicing current external debt, raising import costs and making currency management more challenging.

• LOSS OF GOVERNMENT REVENUE

40K Jobs

Direct Job Losses and Tax Implications

The funding freeze has impacted thousands of US Government funded jobs in the country, estimated at over **40,000 jobs**.[3] This is in addition to the withdrawal of direct USAID staff, who number in the hundreds in Kenya. Many of these jobs are substantially above minimum wage. As such, payroll-related receipts (PAYE and SHIF) will be reduced.

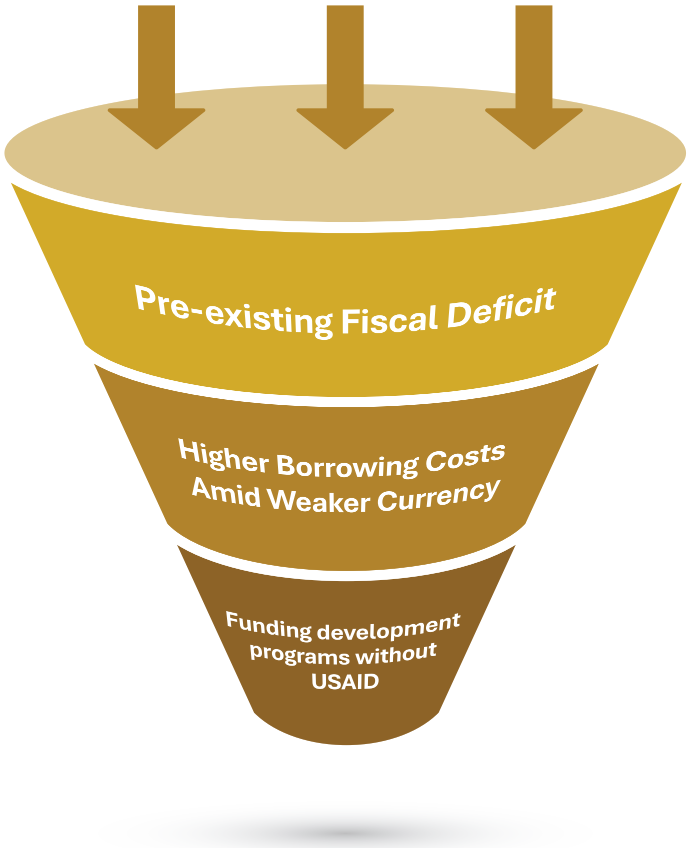
Ripple Effect on Domestic Consumption

USAID personnel and program staff on the projects funded by the USG spend their incomes locally on housing, school fees, support staff salaries, personal services, etc. in the country. The sudden loss of jobs will directly reduce domestic consumption, with a multiplier effect on indirectly supported industries. Consequently, overall government revenue collections, including VAT and business taxes, will see some decline, particularly in urban centers where these employees are concentrated. And even if the directives are reversed, those individuals will be cautious in their spending going forward.

Impact on local business ecosystem:

Sectors reliant on the above spend - such as real estate, private education, and domestic services - are already reporting declining revenues, potentially leading to further layoffs and second-order economic effects.

• INTENSIFIED FISCAL SPACE PRESSURES



- Kenya faces a fiscal deficit, and USAID's direct impact—depending on actual expenditure—may range from **0.3% to 0.7% of GDP**. Additionally, the demand multiplier is likely to amplify this effect, making the overall impact significant. The pain will be felt particularly in critical social and development programs for which there isn't an easy fix.

- The government will likely need to borrow more to finance this new gap. International borrowing will be more expensive as weaker macro- economic conditions crystallize, as well as a weaker shilling as noted above. Borrowing domestically will be similarly challenging at a time when the government is looking to stimulate credit to the private sector so the government could crowd that out.

- USAID-funded programs have covered healthcare (HIV/AIDS, maternal health), education, and infrastructure. With these gaps now unfunded, the government will need decide whether to reallocate it's already limited fiscal resources, seek emergency financing, or allow service disruptions—each carrying political and economic risks.

• INFRASTRUCTURE DEVELOPMENT DELAYS

$200 Million

Stalled Investments

USAID assisted in mobilizing investments in Kenya's infrastructure. For example, through its partnerships with Kenyan pension funds, USAID facilitated over **$200 million** in infrastructure investments targeted at key sectors such as roads, energy, and water systems.[4]

$1 Billion

Energy Sector Impact

Under the Power Africa initiative, USAID had committed over **$1 Billion** to mobilize private investment in Kenya's geothermal and wind energy projects. The withdrawal will impact progress toward universal energy access.[5]

30%

Economic Consequences

A lack of investment infrastructure projects could increase business operational costs by up to **30%** due to inefficiencies and logistical challenges.[6] Without external funding, the government must reprioritize fiscal resources, likely diverting funds from other critical areas.

• IMPACT ON TRADE AND REGIONAL INTEGRATION

Investment Facilitation

$520 Million

USAID has played a role in promoting trade and investment in Kenya. Through the Kenya Investment Mechanism (KIM), USAID facilitated approximately **$520 Million** in private-sector investments across agriculture, manufacturing, and trade sectors.[7] The discontinuation of this program could significantly reduce investment inflows.

Challenges for SMEs

10,000 SME's

USAID-supported financial mechanisms, including credit guarantees, have helped expand access to finance for over **10,000 SMEs** in Kenya. The withdrawal of these programs could lead to a **15–20%** drop in SME financing availability.[8]

Trade Facilitation Programs and AfCFTA Participation

10%

Kenya's trade competitiveness. Initiatives like the Trademark East Africa partnership have streamlined customs procedures and reduced trade barriers, benefiting Kenya's participation in the African Continental Free Trade Area (AfCFTA).[9] The withdrawal of this support could increase cross-border trade costs by up to **10%**, limiting Kenya's ability to expand its exports within the continent.[10]

While this note is focused on the impact of USG action, geo-political realities indicate this is trend is likely to be followed by other development governments as they too have tighter fiscal space and growing domestic pressure to reduce foreign aid. As such, navigating capably through this crisis with an eye to strengthening Kenya's ability to determine its destiny will serve the country well in the long run.

1. *https://www.bloomberg.com/news/articles/2025-02-07/usaid-cuts-in-kenya-reveal-risks-to-lives-and-american-influence-worldwide U.S. Department of State. (2024). Congressional Budget Justification-Foreign Operations*
2. *IMF. (2024). Sub-Saharan Africa: Economic Outlook and Debt Sustainability.*
3. *Politico. (2025). 'Catastrophic' layoffs hit foreign aid groups amid Trump admin funding freeze; https://www.citizen.digital/news/over-40000-kenyans-jobless-after-usaid-funded-health-facilities-shut-down-n357126*
4. *Prosper Africa. (2023). Kenya Mobilizes Large-Scale Infrastructure Investments*
5. *USAID. (2023a). Power Africa in Kenya*
6. *World Bank. (2024). Kenya's Economic Outlook and Infrastructure Investment Needs*
7. *USAID. (2023b). Kenya Investment Mechanism (KIM) Annual Report*
8. *USAID. (2023c). Supporting SMEs in Kenya through Access to Finance*
9. *USAID. (2020). Kenya - Economic Growth and Trade*
10. *UNCTAD. (2023). Trade Costs and the AfCFTA: The Role of Trade Facilitation in Africa*

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