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# ECONOMIC AND FISCAL IMPLICATIONS OF USAID WITHDRAWAL IN TANZANIA

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The abrupt withdrawal of USAID funding will have notable economic implications for Tanzania. It is projected to place downward pressure on the currency, reduce government revenues, and further tighten fiscal space. Additional implications are expected for trade, regional integration, and sector growth. Given the current macroeconomic conditions, this development exacerbates existing vulnerabilities and necessitates pressing policy considerations.

## • LOSS OF GOVERNMENT REVENUE


### Direct job losses and tax implications:

The funding freeze is expected to impact thousands of USAID-funded jobs in Tanzania, especially in healthcare, agriculture, and SME support programs, while also resulting in the withdrawal of direct USAID staff—leaving only 12 personnel to manage all of Africa.[1] Many of these jobs offer significantly higher pay than minimum wage, leading to decreased PAYE tax receipts and VAT revenues at a time when the government seeks to expand its tax base. Additionally, cuts to climate and conservation programs—where Tanzania is recognized as a regional leader—threaten to undermine its role in biodiversity protection, sustainable land management, and climate adaptation efforts.

**$4**
Million

### Ripple effect on domestic consumption:

USAID-supported employees drive domestic consumption through spending on housing, education, and local services. A decline in their income could impact over 20,000 people, reduce **$4 Million** in monthly expenditures, and lower VAT collections, weakening demand for goods and services, especially in areas such as Dodoma and other regions aand Arusha.[2]

**$6.6**
Million

### Impact on local business ecosystem:

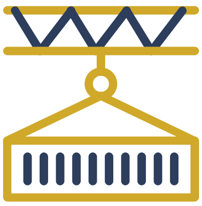
The withdrawal of USAID funding, including **$6.6 Million** in SME-focused programs in 2024,[3] will hinder credit access, training, and investment facilitation and undermine broader business sustainability. As enterprises struggle to operate, the impact extends beyond SME-specific losses, contributing to broader economic contraction, job losses, and reduced tax collections—further straining Tanzania's business environment and fiscal stability.

# • MACROECONOMIC PRESSURES AND EXTERNAL BALANCE

**$454** Million

## USG's role in dollar inflows:

The U.S. government has provided substantial financial support to Tanzania, which has helped stabilize its foreign exchange reserves. USAID disbursed **$454 Million** in foreign assistance to Tanzania in 2023, dropping to **$334 Million** in 2024.[4] The USAID disbursements primarily focused on supporting health activities, including agriculture and SMEs. This is equivalent to approximately **6% of the country's total exports.** The withdrawal of this funding represents a significant loss of foreign currency inflows, and reducing these inflows will put pressure on the external balance.



## Continued need for dollar-based imports:

USAID funding has been utilized to acquire vital imports such as medical supplies, agricultural inputs, and energy infrastructure. Without these inflows, Tanzania will likely face heightened demand for hard currency, which could impact exchange rate stability.

**$42** Billion

## Impact on local business ecosystem:

Tanzania's external debt reached **$42 Billion** in 2023,[5] with public debt service obligations on an upward trend. The strengthening of the U.S. dollar and reduced external support will increase borrowing costs and further pressure the country's debt sustainability.

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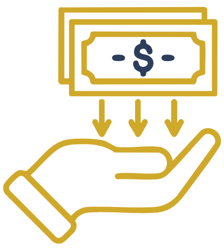
## • INTENSIFIED FISCAL SPACE PRESSURES

**3.3%**
of GDP

### Pre-existing fiscal deficit:

Tanzania recorded a fiscal deficit of **3.3% of GDP** in 2023.[6] The withdrawal of USAID support may impact economic output by **0.5%–0.8% of GDP,** with broader economic multipliers amplifying the fiscal strain. However, this figure does not fully account for the cascading effects, particularly job losses from funding cuts, which will directly erode government revenue from PAYE, VAT, and corporate taxes. This, in turn, will weaken the government's ability to service debt, exacerbating fiscal pressures in sectors heavily reliant on external funding, such as healthcare, education, and agriculture.



### Higher borrowing costs:

The government may need to borrow to finance this new gap, but international borrowing will be more expensive as weaker macroeconomic conditions take hold, coupled with higher demand for sovereign debt and currency risks. Domestic borrowing will also become costlier, as the government competes with the private sector for capital, potentially crowding out investment. Alternatively, a budget reallocation could be pursued, but this would slow the growth of key productive sectors, further constraining long-term economic expansion and limiting Tanzania's ability to drive sustainable development.

**80%**
Reduction

### Reallocating funds for essential programs

USAID supported essential social services, such as tuberculosis detection and treatment, malaria treatment, HIV/AIDS programs, and maternal healthcare. With these programs now at risk, the government may have limited options—reducing service coverage is unlikely given the extensive progress made in improving health outcomes (for example, over **80%** reduction in maternal mortality), which makes stimulus measures through budget reallocations (slowing growth in key sectors) or a drawdown of reserves as more viable pathways. However, both options come with long-term trade-offs, potentially affecting Tanzania's economic trajectory and fiscal resilience.

### Weakened ability to respond to future shocks:

USAID funding has historically provided rapid disaster relief during periods of shocks such as during the pandemic.[7] The withdrawal limits Tanzania's ability to mobilize emergency resources during future crises (e.g., natural disasters).

# SECTORAL GROWTH CONSTRAINTS

**$470 Million**

### Delayed infrastructure investments:

USAID has been crucial in funding Tanzania's transport and energy infrastructure. A significant example is the **$470 Million** Tanzania Rural Roads Program,[8] which has enhanced rural communities' access to markets and services. The cessation of such support could postpone future projects, impacting economic productivity

**$655 Million**

### Energy access setbacks:

Under the Power Africa initiative, USAID facilitated over **$655 Million** in investments in solar, hydro, and natural gas projects across Tanzania.[9] The withdrawal will impact progress toward universal energy access.

**$24 Million**

### Stress on food systems:

USAID was a key funder in strengthening Tanzania's food security and climate resilience. In particular, its Feed the Future program supported initiatives like 'Tuhifadhi Chakula' (**$24 Million**) to reduce post-harvest losses,[10] creating a significant funding gap. Already, farmers are facing the impacts of this withdrawal, particularly in horticulture,[11] and the impacts will only grow with increased climate risks. Regenerative agriculture opportunities can tap into climate financing to provide some relief.

# IMPACT ON TRADE AND REGIONAL INTEGRATION

**34%**

### Investment Facilitation:

USAID has promoted trade and investment in Tanzania, especially regarding exports to U.S. markets through AGOA.[12] The loss of this support and potential disruptions, as AGOA (about **34%** of Tanzania's total exports to the U.S.)[13] is up for renewal, which will affect exports to the U.S.

**$52 Million**

## Challenges for SMEs:

USAID-supported financial mechanisms, including credit guarantees, have expanded access to finance for MSMEs in Tanzania, such as the recent **$52 Million** credit guarantee facility in partnership with DFC to Amana and CRDB Bank.[14]

**10%**

## Trade Facilitation Programs and AfCFTA Participation:

USAID-supported programs have enhanced Tanzania's trade competitiveness. Initiatives like the Trademark East Africa partnership have developed border infrastructure, streamlined customs processes, and lowered trade barriers, benefiting Tanzania's involvement in the African Continental Free Trade Area (AfCFTA).[15] The withdrawal of this support could raise cross-border trade costs by as much as **10%**, limiting Tanzania's capacity to increase its exports within the continent.[16]

Every crisis brings an opportunity for change. While the extent of USAID's reduction in Tanzania is still unfolding, swift and strategic action is essential. The government can take **proactive steps** to adapt, ensuring financial stability, preserving key programs, and enhancing domestic revenue generation to lessen dependence on external support. Preliminary considerations include:

## Managing the exchange rate:

Stabilizing the currency to avoid depreciation should be a priority. This will maintain the cost of external flows, mainly servicing debt and importing key products. In addition to utilizing existing reserves in the immediate term, efforts should be made to accelerate dollar inflows (through tourism, exports, remittances, etc.) and seek bridge financing from partners. *Speed of execution will be critical before a negative spiral crystalizes.*

## Addressing health sector gaps:

Given that USAID-funded health programs (and USG broadly) relied heavily on imported medical supplies, the government should develop alternative supply chains (e.g., switching to regional generics) to minimize service disruptions and lower overall cost of service delivery. Short-term support from funders with increased commitments to the country from philanthropies can provide financing to allow for a smooth transition.

## Accelerating efforts to manage public debt:

Mechanisms such as debt-for-nature swaps that provide both debt payment relief and currency stabilization should be actively developed and concluded.

## Auditing USG programs to identify gaps:

Develop a full understanding of the programs that were being funded by the USG to then develop alternatives as appropriate. The majority of the current discussions have understandably centered on the health sector, but as noted above, there are other areas that will be negatively impacted.

## Seeking alternative funding sources:

Engage with multilateral development banks, regional financial institutions, and private sector investors to secure funding for stalled projects. A change towards business-led approaches for development financing can also enable access to expected increased US funding from DFC.[17]

## Developing revenue recovery strategies:

Modeling the government revenue losses identified above will enable actions taken to be appropriately calibrated. The Presidential Commission for Tax Assessment and Advisory should explore measures such as accelerating digitization and tightening tax enforcement to mitigate revenue shortfalls.

## Continued focus on efficiency:

With less money and less delivery capacity (given lost jobs), efficiency of public service delivery will be critical to maintain across all areas impacted.

## Tapping into local funding sources:

Corporate Social Responsibility (CSR) funding from large corporations, private sector foundations, and high-net-worth individuals (HNWIs) should play a larger role in addressing critical funding gaps, particularly in health, education, and climate programs. Promoting domestic philanthropy and structuring blended finance mechanisms could mobilize local capital on a large scale.

*While USAID's withdrawal presents substantial challenges, it also provides an opportunity for Tanzania to enhance domestic resource mobilization, improve fiscal discipline, and strengthen regional economic partnerships. Proactive policy measures, efficiency-driven spending, and innovative financing mechanisms will sustain Tanzania's economic resilience despite reduced external funding.*


1. *Reuters. (2025). Trump administration to keep only 294 USAID staff out of over 10,000 globally, sources say.*
2. *Based on Axum analysis, incorporating data from IntraHealth International (2022), ASAP Salary Survey Technical Brief, the estimate assumes 20,000 affected people, $4M monthly income loss, and 18% VAT loss*
3. *U.S. Department of State. (2024). Congressional Budget Justification-Foreign Operations*
4. *ForeignAssistance.gov. (2024). Tanzania disbursements from the U.S Agency for International Development*
5. *Bank of Tanzania. (2023). Statistical bulletin for the quarter ending December 2023*
6. *World Bank. (2023). The World Bank in Tanzania*
7. *USAID. (2022). Tanzania Fact Sheet on COVID-19 Assistance*
8. *USAID. (2023). USAID assistance to Tanzania: Annual report*
9. *USAID. (2023a). Power Africa Tanzania*
10. *U.S. Embassy in Tanzania. (2024) U.S. Launches five-year project to cut post-harvest loss in Tanzania*
11. *Kizito Makoye. (2025). 'Without help, we will starve': Tanzania farmers left struggling as US climate aid disappears*
12. *USAID. (2021a). Trade and investment hubs*
13. *U.S. Trade. (2023) Tanzania*
14. *U.S. Embassy in Tanzania. (2024) USAID partners in progress: Unleashing economic potential with private sector collaboration*
15. *Trademark Africa. (2024). Tanzania*
16. *Trademark Africa (2024). Trade Facilitation Report*
17. *Brookings. (2025). Congress, Africa, and Trump: What does the future hold?*

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