

POLICY ADVISORY

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REFLECTIONS ON U.S. FOREIGN AID SHIFTS: LESSONS FOR TANZANIA'S ECONOMIC AND POLICY ADAPTATION

Recent shifts in United States of America (USA) foreign aid policy have introduced significant uncertainties regarding the future of its assistance for international development (USAID), which is the primary vehicle for the country's foreign assistance. The 90-day suspension of development assistance programs pending a comprehensive review has raised concerns about the potential impact on global development and humanitarian efforts.



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As Tanzania's largest bilateral donor, the U.S. government contributed more than USD 7.5 billion to Tanzania in the past 20 years to strengthen security, boost economic growth, expand democratic participation, and improve the health, education, and nutrition for ordinary Tanzanians^[1].

Over time, USAID's contributions to development assistance to Tanzania has been instrumental in achieving measurable improvements in global well-being, including reducing child mortality, preventing maternal deaths, and increasing access to healthcare services. A disruption in USAID's funding could have far-reaching consequences, including the suspension of health programs, mass layoffs, and economic downturns in aid-dependent regions. The Economic and Social Research Foundation (ESRF) has taken the initiative to assess the immediate implications of a potential funding shutdown or reprioritization and reorganization on Tanzania.

MACROECONOMIC IMPLICATION

The USAID funding freeze poses significant macroeconomic risks to Tanzania. The potential loss close to USD 450 million in annual aid, equivalent to 12 percent of Tanzania's exports in 2022, could reduce foreign exchange reserves, weaken the Tanzanian shilling, and consequently increase import costs. This potential decline in foreign exchange inflows may exacerbate fiscal pressures, leading to reduced government revenue collections and decreased tax receipts, potentially widening the fiscal deficit.

[1] USAID (2024). Tanzania Project Briefer. December 2024.

The freeze will have a devastating impact on employment, particularly in the NGO sector, with about 60 of them engaged in the agricultural sector's value chains alone. USAID-funded NGOs and programs employ thousands of Tanzanians, with many facing potential job losses. This could lead to reduced consumer spending and decreased economic activity. Similarly, the suspension of funding by USAID is likely to impact service providers with existing or pending contracts with the agency or its implementation vehicles [NGOs].

HIGHEST POTENTIALLY IMPACTED SECTORS

The U.S. foreign aid suspension to Tanzania will have far-reaching consequences, affecting various sectors and undermining the country's development progress. In 2024, the U.S. provided approximately USD 450 million in foreign assistance to Tanzania, focusing on health, education, agriculture, infrastructure, democracy, and economic development. The aid suspension will disrupt the flow of funds to critical programs, jeopardizing the progress made in these sectors, and threatening the continuity of essential services. Furthermore, the suspension will have a ripple effect on other funding sources, creating significant uncertainty and undermining the long-term sustainability of development programs in Tanzania.

HEALTH SECTOR: THE MOST AFFECTED

The U.S. foreign aid suspension to Tanzania has significant implications for the country's health sector, particularly in HIV/AIDS programs, maternal and child healthcare, and malaria prevention initiatives. These programs have been critical in improving health outcomes in Tanzania, and the suspension poses a risk to the continuity of essential programs and health services, including antiretroviral treatment, HIV testing, and prevention services.

Programs like the Afya Yangu Southern Project (2021-2026) and Kizazi Hodari Project (2023-2028) are at risk of closure. The potential disruption to these services could have far-reaching consequences for the health and well-being of Tanzanians due to budget implications, particularly vulnerable populations such as pregnant women, children, and people living with HIV/AIDS.



HIV/AIDS accounts for approximately 70% of USAID's health sector funding disbursed to Tanzania

The suspension also raises concerns about the potential ripple effect on the health sector, given the significant role that USAID has played in supporting Tanzania's health development goals. As USAID has been a key player in the health sector, other funding sources have often relied on USAID's commitments. This interdependence creates a risk that the aid suspension could have a ripple effect, amplifying its impact on the health sector. The potential reduction in funding could lead to a decrease in the overall capacity of the sector, making it challenging for Tanzania to achieve its health development goals.

Another area of concern is the potential impact on jobs, particularly for healthcare workers and program staff employed under U.S. funded initiatives. The suspension raises questions about the potential for job losses and the resulting loss of critical skills and expertise, which could undermine Tanzania's healthcare system. The potential loss of jobs could also have broader economic implications, particularly in rural areas where healthcare workers often play a critical role in supporting local economies.

The USAID funding freeze also raises a concern on the budget reallocation whereby the Tanzanian government may need to allocate more resources to HIV/AIDS programs, diverting resources from other critical sectors.

The funding suspension threatens closure of clinics directly funded by USAID, termination of home-based care programs, and a halt in essential services provided by NGOs. This poses also serious risks to both recipients and service providers along the value chain.

EDUCATION SECTOR: DECLINING SUPPORT FOR LEARNING INITIATIVES

USAID's funding for education has been on a downward trend, with the higher allocation of USD 25.2 million in 2021 to USD 11.5 million in 2024. Foreign aid has played a significant role in supporting Tanzania's education sector, contributing to improvements in infrastructure, curriculum development, and teacher training. For instance, the Global Partnership for Education provided a grant aimed at enhancing the quality of pre-primary, primary, and non-formal education by strengthening teacher training, distributing quality teaching, and learning materials to underserved areas.

The current freeze of USAID support to Tanzania will affect the education sector in many parameters. It is anticipated that this course of action will affect programs like basic education as well as research and development; and scholarships and vocational training programs, which have helped bridge the skills gap in Tanzania.

Given that Tanzania is already grappling with challenges in teacher shortages and learning quality, the freeze could derail progress made in accessibility and inclusivity in education. A reduction in foreign aid could exacerbate these challenges, potentially leading to decreased funding for essential educational programs, infrastructure projects, and teacher development initiatives. This may result in larger class sizes, insufficient learning materials, and a decline in educational quality.

To mitigate the impact of reduced foreign aid, Tanzania may need to explore alternative funding sources, such as public-private partnerships, external borrowing, and increased domestic revenue generation. Diversifying funding sources can help sustain and further develop the education sector, ensuring continued progress in educational outcomes.

AGRICULTURE SECTOR: RISKS TO FOOD SECURITY AND RURAL LIVELIHOODS

Although agriculture receives relatively lower funding compared to health and education, U.S. assistance has been instrumental in smallholder farmer support programs, climate resilience, and agricultural productivity improvements. The funding freeze also threatens this key sector in the country in several ways including:

- Food security, as many USAID-supported programs focus on improving crop yields and resilience to climate change.
- Small-scale farmer support programs, which depend on funding for training, access to inputs, and infrastructure development.
- Employment in rural communities along the agricultural value chain, potentially exacerbating poverty, and economic inequality.



Photo credit: The Citizen

Project like Feed the Future Tuhifadhi Chakula, funded by USAID, is at risk due to the funding freeze, increasing the threat of post-harvest losses in horticulture.



NAVIGATING THE FUTURE: ECONOMIC AND POLICY ADAPTATION

CONDUCTING A COMPREHENSIVE IMPACT ASSESSMENT

A thorough impact assessment is essential to understanding the far-reaching consequences of the funding freeze on Tanzania's economy, NGOs, affected communities, and ongoing projects. This assessment should encompass a wide range of factors, including identifying vulnerable sectors, populations, and projects requiring urgent support. It is also crucial to monitor the effectiveness of mitigation measures and evaluate the freeze's impact on various aspects of the economy and society, such as economic growth, foreign exchange reserves, exchange rates, inflation, health and education sectors, and ongoing development projects.

MITIGATING ECONOMIC IMPLICATIONS

Effective management of economic implications is critical to minimizing the negative effects of the funding freeze. To achieve this, it is essential to diversify foreign exchange sources to reduce exchange rate vulnerability. Implementing currency stabilization measures, prioritizing essential health spending, allocating resources efficiently, and maintaining transparency in financial management and reporting are also vital strategies. Furthermore, engaging international partners for technical assistance and support can provide valuable expertise and guidance during this challenging period.


FOSTERING RESILIENCE IN DONOR SUPPORT

Building resilience in donor support is vital to ensuring the long-term sustainability of development projects in Tanzania. To achieve this, it is essential to diversify donor sources, foster partnerships with international organizations and governments, and develop contingency plans for future funding disruptions. Enhancing transparency and communication among donors, NGOs, and government agencies is also crucial, as it facilitates collaboration and coordination. Additionally, encouraging collaborative funding initiatives and resource pooling can help to leverage resources and expertise, ultimately supporting the resilience of donor support.

In conclusion, the suspension of U.S. foreign aid presents a critical juncture for Tanzania, necessitating swift and strategic economic adjustments. To navigate this new landscape, Tanzania must prioritize long-term sustainability by diversifying funding streams, strengthening institutional capacity, and fostering a self-sufficient economy. Moreover, it is crucial to anticipate and adapt to potential changes in funding allocations from other key donors, proactively engaging with them to assess implications and adjust development financing strategies accordingly, thereby minimizing risks and maximizing opportunities for diversified and sustainable funding.

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