Aurora Africa Report – Impact of USAID Cuts on African Economies, March 24, 2025

The Tearsheet

- We view the recent decision by the Trump administration to terminate ~90% U.S. Agency for International Development (USAID) programs as a significant development for the security situation in African markets.
- In this piece, we look at give key African countries that will likely see the most significant deterioration in both their finances and the security situation: **Ethiopia, Somalia, Nigeria, the Democratic Republic of the Congo, and South Sudan**.
- All are among the top ten global recipients of USAID assistance, with the United States being the leading bilateral donor to each.
- Contrary to popular belief, we doubt that either China or other ambitious foreign donors (e.g. Türkiye and the GCC) will be able to match the depth, breadth, and areas of focus of U.S. assistance.
- Nonetheless, the cuts will help increase in their geopolitical clout in the region, exacerbating supply chain, security, and geopolitical risks.
- For corporates and investors alike, the reshuffling represents both risks and opportunities; early positioning for the region's new geopolitical realities is likely to confer a significant advantage.

April	Mandate renewal for UN Mission in South Sudan
May	African Development Bank Group annual meeting in Côte d'Ivoire
June	Local, regional, and municipal elections in Somalia
June	U.S.-Africa Business Summit in Angola
July	Mandate renewal for DRC sanctions regime at UNSC
August	Mandate renewal for UN Group of Experts on the DRC
September	Federal member state elections in Somalia
December	Mandate renewal for AUSSOM in Somalia
December	Mandate renewal for MONUSCO in DRC

Source: ForeignAssistance.gov

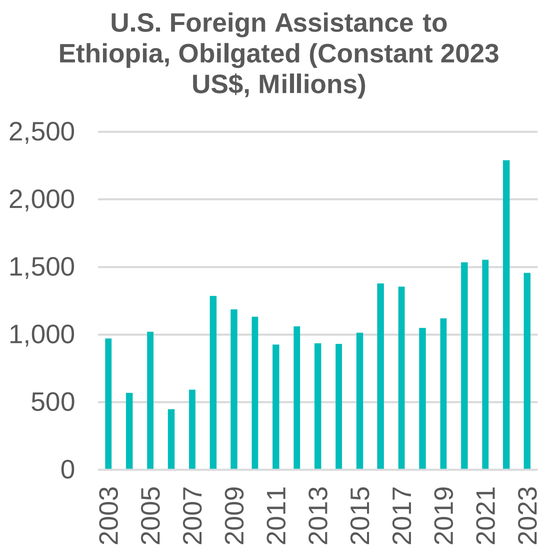
1. Ripping off the band-AID

- Since the administration first announced an initial "pause" in January, there has been a flurry of court cases brought by federal employee unions and non-profit organizations. Earlier this month, a federal judge ruled that the administration exceeded its constitutional authority but stopped short of mandating the reinstatement of terminated contracts.
- More recently, another judge indefinitely blocked the Department of Government Efficiency (DOGE) from making further cuts to USAID, ruling that the entity's actions likely violated the Constitution.

- Africa has traditionally received the lion's share of global foreign assistance dollars — ~27% in 2023 (the latest full year for which data is available).
- Discounting emergency humanitarian aid for unforeseen crises, U.S. bilateral assistance to Africa totaled ~$8bn in FY23, approximately 70% of which supported health programs. (This figure includes everything from "bread and butter" development projects, such as agriculture, democracy and governance, and education to law enforcement capacity building and some security assistance.)
- Given the abrupt nature of Trump administration cuts, some view this as an opportunity to decrease Africa's dependence on foreign assistance. Notably, according to Afrobarometer polling conducted between 2019 and 2021 across 34 African countries, 65% of respondents expressed willingness to pay higher taxes if it meant their countries could finance development independently. Ethiopia stood out as one of the few countries surveyed where the majority did not support this view.
- Globally, other leading donors to Africa are also critically examining their foreign aid budgets and considering cuts in upcoming years to prioritize increased defense spending. The U.K.'s aid budget may decrease by around £6 Bn by 2027, France plans to slash upwards of €2 billion, and Germany's new government, inheriting previous foreign aid cuts, is expected to maintain the current trajectory.
- Responding to these developments at the margins of the 38th Ordinary Session of the Assembly of the African Union Summit, and mindful of the objectives outlined in Agenda 2063, African leaders have stressed the importance of financial self-sufficiency. They called for stronger domestic resource mobilization, strategic investments, enhanced African financial institutions, and intensified efforts to attract external investments.

2. Ethiopia

- In FY23, aid to Ethiopia was $1.46bn, representing roughly 15% of the country's revenues and nearly 70% of its deficit at the current ETB/USD rate using latest IMF projections.
- Approximately $900 million of this assistance is humanitarian in nature, supporting the nearly 1.1M refugees and asylum seekers Ethiopia currently hosts from throughout the wider Horn of Africa.
- In addition to this, Ethiopia has 3.3 million internally displaced persons (IDPs) – mainly as a result of recent conflicts in Amhara, Tigray, and Oromia. As of February 2025, the United Nations estimated that the humanitarian response in Ethiopia is only 10% funded.

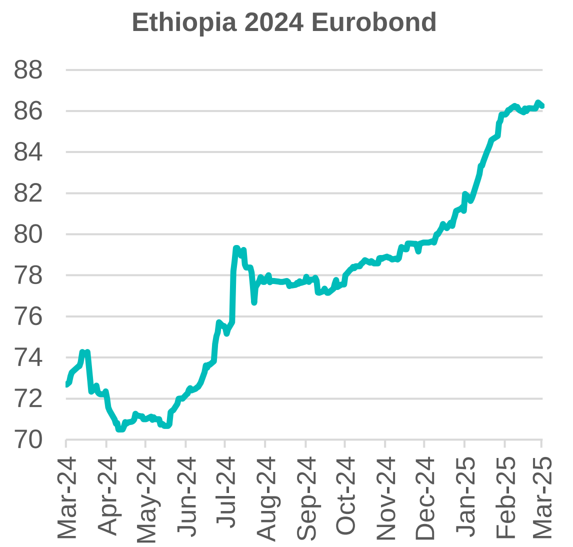


Source: ForeignAssistance.gov

- Ethiopia is also currently managing or recovering from several conflicts across the country. Political violence has been decreasing since the signing of a peace agreement between the

Oromia regional government and a breakaway faction of the Oromo Liberation Front/Army in December 2024.

- In the Tigray region, a power struggle between the chairman of the Tigray People's Liberation Front (TPLF) and the head of the Interim Regional Administration of Tigray has the potential to escalate and could threaten the 2022 agreement that ended the conflict between the Government of Ethiopia and the TPLF. In the Amhara region, Fano militia, which previous fought alongside the Ethiopian military and Amhara special forces against the TPLF, have been waging an insurgency against the government since August 2023.

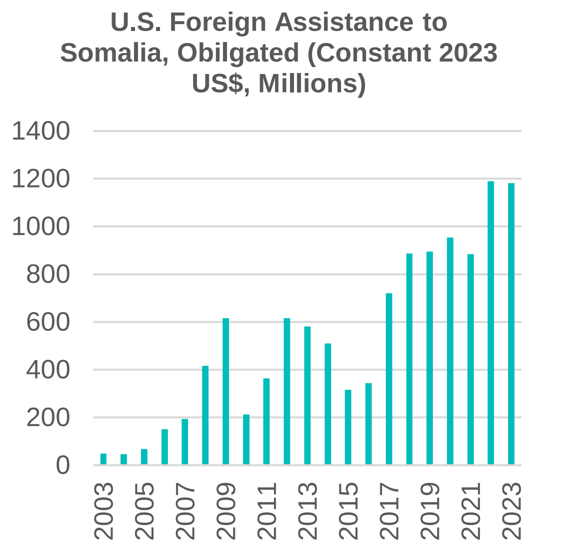


Source: Bloomberg

- This is not Ethiopia's first rodeo; the first Trump Administration cut some foreign assistance to Ethiopia in deference to Egypt over the dispute surrounding the construction and filling of the Grand Ethiopian Renaissance Dam in 2020.
- The IMF predicts that Ethiopia's real GDP growth will be 6.6% in 2025. However, Ethiopia is in default on its Eurobond, repayment of which is due this year, and is negotiating a restructuring with its external creditors.
- In this context, losing U.S. assistance could lead to a deeper economic crisis, reduced access to international financing, and worsening domestic and regional instability.

3. Somalia

- In FY23, U.S. foreign assistance to Somalia was \$1.18 billion, of which, \$869 million was humanitarian and \$229 million was for conflict, peace, and security and for government and civil society. This amount comprises 130% of the government's estimated total revenues in 2024 and dwarves its projected \$24 million deficit. Somalia has insufficient reserves (\$265 million) to cover the shortfall and lacks a developed domestic bond market to absorb the difference.



Source: ForeignAssistance.gov

- As a result of the two-decade long al-Shabaab insurgency and a succession of humanitarian emergencies, Somalia has six million people in need of humanitarian assistance and nearly four million IDPs. Meanwhile, against the backdrop of below-average rainfall during the recent *deyr* (October–

December) and upcoming *gu* (April–June) rainy seasons, the United Nations estimates that the humanitarian response was only 4% funded as of January 2025.

- Across many parts of the country, al-Shabaab remains a threat and still controls large swathes of rural territory, despite the efforts of the internationally-supported Somali National Army and the long-standing presence of an African Union peacekeeping force (AUSSOM – the African Union Support and Stabilization Mission in Somalia). On the political front, infighting over federalism, power-sharing, and control over resources continues between the Federal Government of Somalia and federal member states Jubaland and Puntland, and has limited progress achieved on the security front in previous years.
- Somalia has also had to manage neighboring Ethiopia's quite vocal, and growing territorial ambitions to gain access to the Red Sea. Last year, Ethiopia signed an agreement with Somaliland to establish a naval base in exchange for recognizing its independence, prompting Somalia to accuse Ethiopia of violating its sovereignty and escalating regional tensions. Facilitated by Türkiye through the Ankara Declaration in December, Ethiopia and Somalia agreed to cooperate to secure the former's access to the sea while respecting the latter's territorial sovereignty.
- Since late 2023, there has been an uptick in attacks by Somali pirates in the Gulf of Aden and Indian Ocean, in addition to attacks by Yemen-based, Iranian-backed Houthi rebels on maritime commerce in the Red Sea in response to the Israel-Hamas conflict.
- Consequently, global maritime trade volume along this critical sea line of communication (SLOC) has decreased and will likely continue declining as shipping companies increasingly opt for safer but longer (and costlier) routes around Africa to avoid the Red Sea and Gulf of Aden—even as incident levels remain significantly below what they were during the Captain Phillips era.
- The IMF predicts that Somalia's real GDP growth will be 4% in 2025. Yet the country depends heavily on remittances and foreign assistance, and has neither an active bond market nor a robust domestic financial sector, making the aid cut a severe financial blow that is likely to have the most tangible impact on the security and humanitarian situation in the country.

4. Nigeria

- In FY23, U.S. foreign assistance to Nigeria was $1.02 billion, of which $590 million was for health and population and $292 million for humanitarian assistance – mainly to respond to conflict-related food insecurity and displacement in the country's northeast. In response to USAID cuts, the Nigerian government approved an additional $200 million in spending for the country's health sector in February.
- Earlier in President Bola Tinubu's term, the government undertook economic reforms that included currency liberalization and the removal of fuel subsidies. In response to a cost-of-living crisis, the government also rolled out cash transfer programs and food distribution initiatives targeting low-income households.

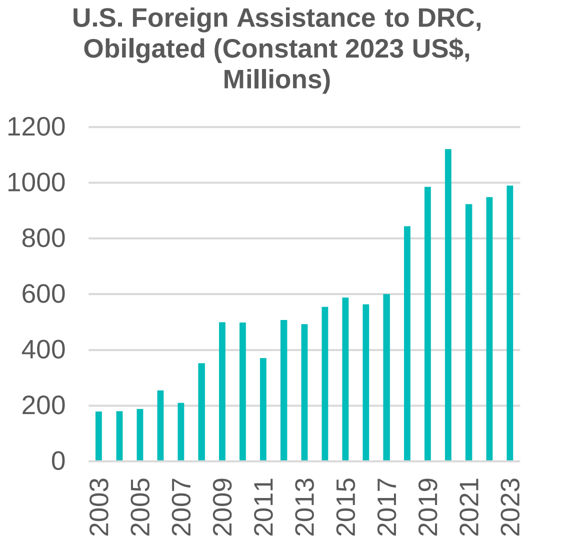
Source: ForeignAssistance.gov

- The IMF predicts that Nigeria's real GDP growth will be 3.2% in 2025. U.S. foreign assistance to Nigeria was only 2.7% of the national budget and 8.2% of its deficit, and the country has sufficient foreign reserves and a relatively deep domestic bond market.
- Nonetheless, cuts to U.S. foreign assistance mean Nigeria may have to borrow more to maintain public services, leading to a weaker currency and higher inflation. Notably, inflation was already at 24.5% in January 2025.
- For almost two decades, Nigeria has grappled with multi-faceted security threats across the country: Boko Haram and the Islamic State West African Province in the northeast, banditry in the northwest states of Zamfara, Kaduna, and Katsina, farmer-herder conflict in the Middle Belt states of Benue and Plateau, a Biafran separatist movement in the southeast, oil bunkering in the Niger Delta, and piracy and armed robbery at sea along its Gulf of Guinea coastline.
- In our view none of these security challenges poses an existential threat to the central government, although the resultant reduction in public services could make it more challenging to address the root causes of these conflicts.

5. Democratic Republic of the Congo

- In FY23, U.S. foreign assistance to the Democratic Republic of the Congo was $990 million, of which, $557 million was humanitarian and $250 million was for health and population. This amount comprised 10.9% of the government's revenues and nearly 67.8% of its projected deficit. Around 6% of government revenues are spent on debt service, and we expect additional financing to be necessary to keep current.
- Fighting has sharply intensified in eastern Congo as government forces clash with Rwanda-backed M23 rebels (Mouvement du 23 Mars), who seized the strategic hubs of Goma and Bukavu earlier this year, and more recently, the town of Walikale.

- Following January's deadly attacks on peacekeepers, the Southern African Development Community (SADC) announced it would commence a phased withdrawal from the DRC, which will compound the country's security challenges. (Note that these troops are separate from those deployed under the auspices of the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), which was supposed to draw down by the end of 2024, but instead had its mandate extended until December 2025.)

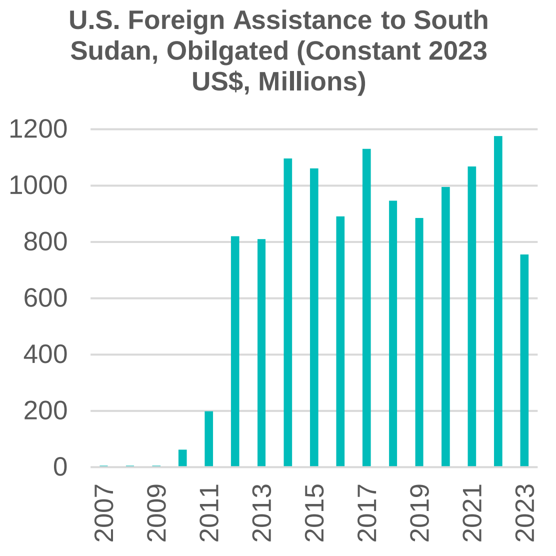


Source: ForeignAssistance.gov

- The humanitarian crisis continues to deepen, with internally displaced persons (IDPs) surging to 8 million—up from 6.7 million pre-conflict—with nearly half concentrated in North and South Kivu, the insurgency's epicenter.
- Crucially, these conflict-ridden provinces are also at the heart of global production chains for strategic minerals, including coltan, gold, lithium, tin, tungsten, and tantalum, raising geopolitical and supply-chain risks.
- Farther afield and over a thousand miles to the south, the African Development Bank, European Union, and the United States are among the leading investors in the Lobito Corridor, which links other mineral-rich regions of the DRC and Zambia to global markets through the port of Lobito in Angola. Once finalized, the infrastructure associated with the corridor will enhance regional connectivity and access to global markets, boosting trade and investment.
- Notably, Angola was slated to receive $235 million over five years to support the country's national development plan and fund a variety of projects along the corridor, but it is not clear whether DRC received any funds for the development of the corridor in their country. It's worth keeping an eye on the impact of reduced USAID funding on the development projects associated with the Lobito Corridor – especially if they are not taken over by other U.S. government agencies.
- The IMF forecasts the DRC's real GDP growth at 5% in 2025, but this projection excludes escalating risks from the intensifying M23 insurgency and declining foreign aid—factors that could push Kinshasa to monetize its predominantly short-term domestic debt. Such monetization would accelerate inflation, raise import costs, and further destabilize the economy.

6. South Sudan

- In FY23, U.S. foreign assistance to South Sudan was $756 million, of which $554 million was humanitarian.
- Over 9 million people—approximately 75% of South Sudan's population—currently rely on humanitarian assistance, including 2 million IDPs and 1 million refugees fleeing Sudan's conflict; yet critically, the UN-led response remains severely underfunded at only 13%.



Source: ForeignAssistance.gov

- South Sudan's economy remains critically dependent on oil, accounting for roughly 90% of exports and nearly 80% of government revenue. Throughout much of the past year, exports through the northern pipeline were halted after Sudan declared force majeure due to significant infrastructure damage from its ongoing civil war, severely constraining South Sudan's access to vital foreign exchange.
- In January 2025, Sudan lifted force majeure and South Sudan resumed exporting oil. The IMF predicts that South Sudan's real GDP growth will be 27.2% in 2025, which reflects an anticipated economic recovery from the oil disruptions of the previous year.
- For those tracking historical conflict indicators in South Sudan, several familiar dynamics have resurfaced: oil export disruptions, pre-election political maneuvering, abrupt dismissals of key ministers, deepening mistrust within the security apparatus, and the return of Ugandan Special Forces to safeguard the government. These conditions notably mirror those preceding the outbreak of civil war in December 2013, prompting the Intergovernmental Authority on Development (IGAD) to urgently convene an emergency summit earlier this month.
- In this context, reductions in foreign assistance would act as an accelerant—not the root cause—of worsening security conditions in South Sudan, given existing vulnerabilities that could ignite conflict in coming months. Notably, U.S. foreign assistance accounts for 53.7% of the national budget, substantially exceeding the IMF's projected ~$100 million deficit, and is nearly double the government's anticipated non-oil revenues and reserves. Although South Sudan's reserves are inadequate to cover shortfalls, the government could—albeit with considerable difficulty—resort to oil-backed loans to bridge financing gaps.

7. Takeaways

- The recent decision by the United States and other donors to significantly reduce foreign assistance will trigger diverse political, economic, and security disruptions across the African continent in the coming months. Economically, countries such as Ethiopia and Nigeria may possess sufficient fiscal buffers to absorb these shocks—though Ethiopia remains constrained by its ongoing debt crisis, while Nigeria will likely compensate by increasing borrowing.
- In contrast, the DRC, Somalia, and South Sudan face heightened risks of severe macroeconomic shocks, exacerbating their already precarious humanitarian and security situations. Across the continent, governments will confront difficult tradeoffs as they attempt to fund essential services, potentially compromising their ability to service existing debt obligations.
- For the foreseeable future, many within the foreign assistance community anticipate that the sector will not revert to pre-January 20 conditions. Historically, USAID investments in education, democracy and governance, public health, and conflict mitigation reduced operational risks, promoted economic predictability, and cultivated skilled workforces. Until domestic or alternative funding streams emerge, global corporations operating in these environments may soon face a critical inflection point—necessitating the reframing of their corporate social responsibility strategies to address emergent governance, public health, and supply chain vulnerabilities directly impacting profitability.
- Even if certain former USAID functions are absorbed by institutions such as the State Department, the U.S. International Development Finance Corporation, or the Millennium Challenge Corporation, these agencies will be unable, in the short to medium term, to match previous assistance levels. Critically, future programming at these agencies will likely pivot toward achieving short-term trade and investment outcomes rather than long-term developmental commitments in sectors such as water and sanitation, food security, and civic engagement.
- While many observers identify China as the primary beneficiary of recent U.S. foreign assistance cuts, this perspective warrants nuanced analysis. Historically, U.S. assistance prioritized long-term developmental stability through grants and technical support, in contrast to China's infrastructure-driven, resource-extractive model relying heavily on loans and state-backed investments geared toward immediate economic returns and geopolitical influence rather than governance improvements.
- Although Beijing may be well-positioned to exploit perceptions of American disengagement, portraying itself as a dependable partner, it is improbable that China will—or even could—fully replace the breadth and depth of U.S. assistance previously extended to these African nations.
- The wildcard in this scenario is the role of the Gulf states and Türkiye, which have been increasing their diplomatic, economic, and security relationships across the continent over the past two decades. These actors are also unlikely to have the same scope of long-term development assistance as the United States and European donors, but like China, their investments could provide an element of financial breathing room for countries navigating ongoing shocks.

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