

Economic and welfare implications of the reduction of US foreign assistance in Malawi

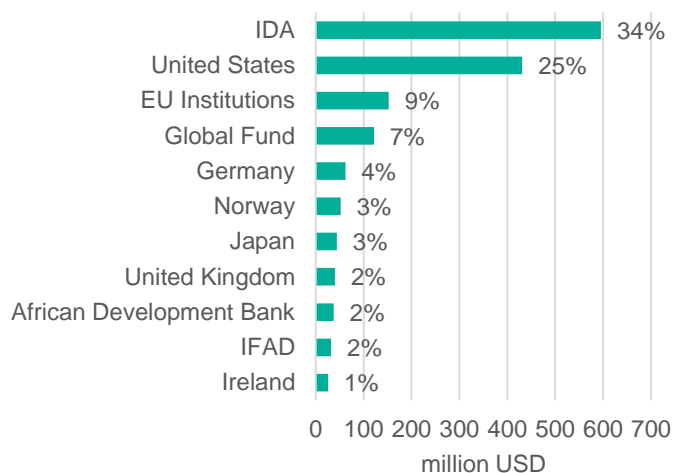
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For over a decade, the US has consistently ranked as either the largest or second-largest donor to Malawi. Annual foreign assistance disbursements have averaged over \$360 million between 2020 and 2023. In January 2025 the US government suspended all US-funded foreign aid programs. As of April 2025, the available information suggests that funding for many of these programs in Malawi has been withdrawn, resulting in an estimated decline in US foreign assistance to Malawi of around 59% for 2025. As a result, Malawi faces a potential decline in foreign exchange inflows of around \$177 million in 2025, a loss equivalent to approximately 6.3% of the annual merchandise import bill. With Malawi's economy currently highly vulnerable, lacking the buffers needed to absorb shocks, the economic and welfare implications of these recent events are concerning. The suspensions may lead to an economic contraction from reduced activities by US implementing partners, immediate pressure on the exchange rate (endangering the affordability or availability of critical imports) and declining productivity in key sectors such as agriculture. Deteriorating health and education outcomes could further affect the productivity of workers in the longer run. In this policy note we combine qualitative and quantitative information gathered in-country with modeled results of the possible economywide impacts of the reduction of US foreign assistance on key economic and welfare indicators over the next six years. We also discuss policy options that could help mitigate some of the adverse impacts.

US Government assistance to Malawi

In 2023, the most recent year for which complete information is available, the US government disbursed over \$431 million of Official Development Assistance (ODA) to Malawi (see Figure 1). While Malawi ranks 23rd among all recipients of US bilateral aid in terms of disbursements received, the country relies heavily on this assistance. The 2023 disbursements accounted for a quarter of total ODA received and more than 3.1% of Malawi's Gross National Income (GNI), making the US the largest bilateral donor and second largest overall donor preceded only by the World Bank's International Development Association (IDA).

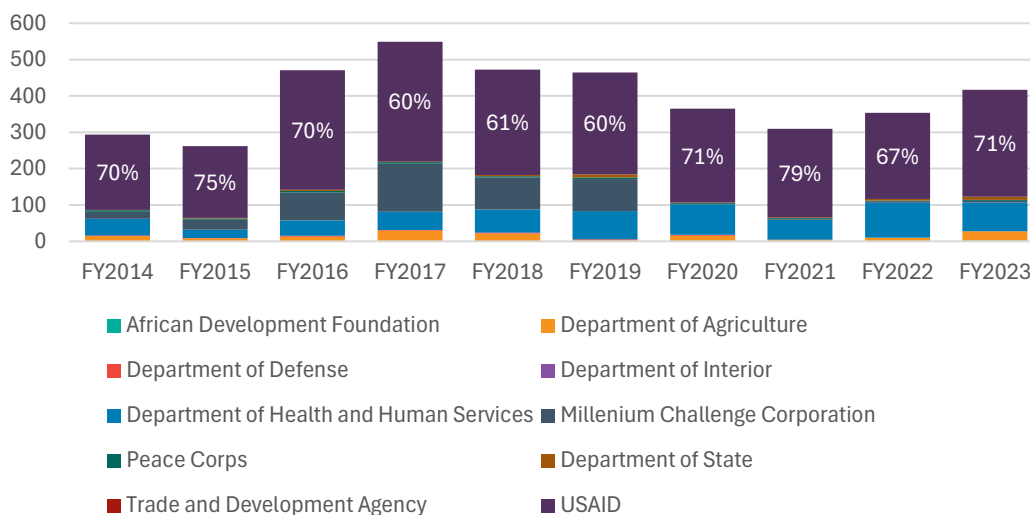
Figure 1. 2023 Net ODA disbursements to Malawi



Source: OECD-DAC (2025)

US bilateral assistance to Malawi is managed by different agencies, with the United States Agency for International Development (USAID) typically overseeing around 70% (see Figure 2). The US Department of Health and Human Services – through its Centers for Disease Control and Prevention (CDC) – also manages significant funding to Malawi. For instance, in 2023, the CDC disbursed over \$79 million for activities mostly aimed at controlling HIV/AIDS. Another agency, the Millenium Challenge Corporation (MCC), played a modest role in the last five years, but was set to spend around \$350 million under the 5-year Malawi Transport and Land Compact that entered into force in 2024.

Figure 2. US foreign assistance by managing agency

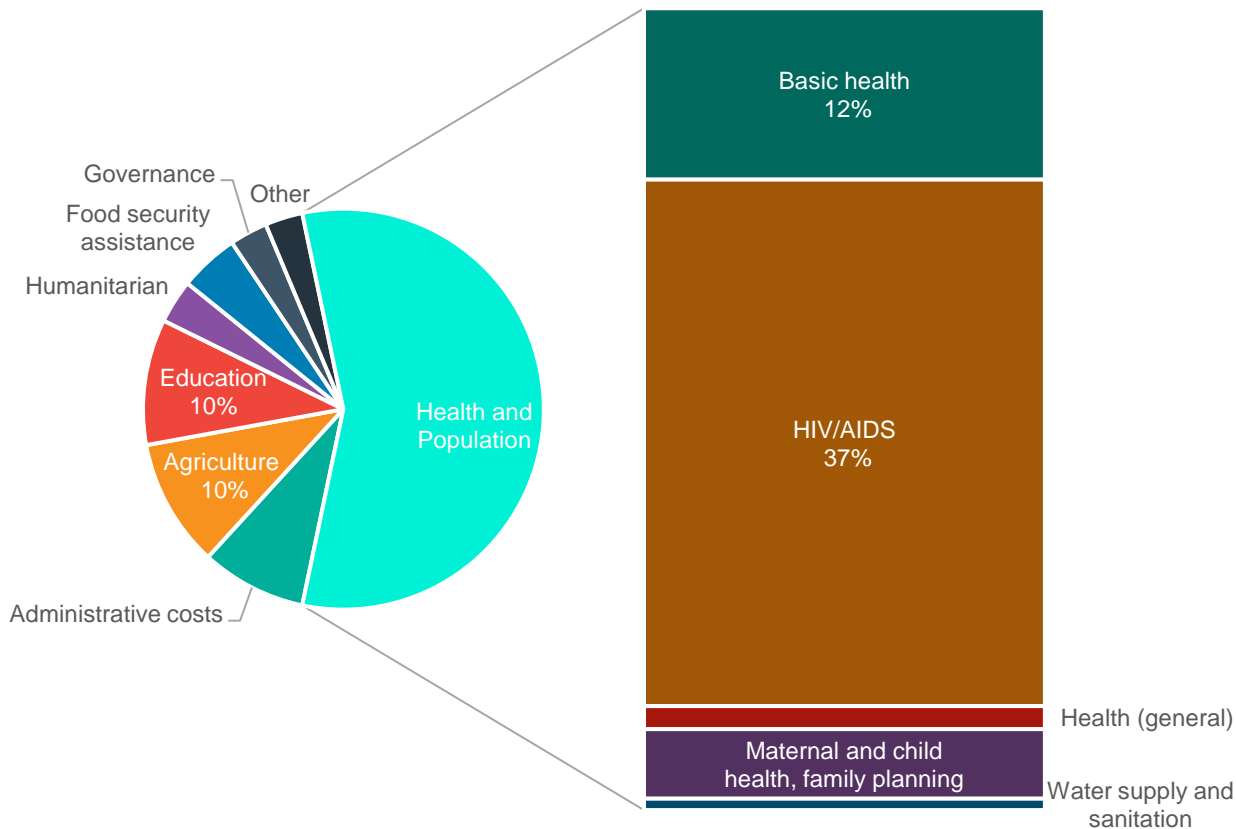


Source: USAID and US Department of State (2025)

US foreign assistance to Malawi is primarily oriented towards the health sector. In 2023, for instance, health sector programs accounted for 57% of total disbursements, with more than two thirds of those funds dedicated to combatting HIV/AIDS (see Figure 3). Other priority sectors include agriculture, for which funding has increased over the last five years, and education. In part because of this focus, Malawi's health sector is highly exposed to US health aid cuts. This is compounded by very limited domestic financing for key health programs. In 2022, US bilateral health disbursements alone were equivalent to 207% of domestic government health expenditures, making Malawi the 4th most dependent country globally (Baker et al., 2025). Funds to combat HIV/AIDS in Malawi come almost

exclusively from donors, with the US government providing around one fifth of that funding in 2023 (Global Fund, 2024). Similarly, the USAID-led President's Malaria Initiative accounted for nearly half of the funding for malaria control for 2023. The other half came from the Global Fund, with no meaningful domestic funding (WHO, 2024).

Figure 3. Total US disbursements by sector (FY 2023)



Source: USAID and US Department of State (2025)

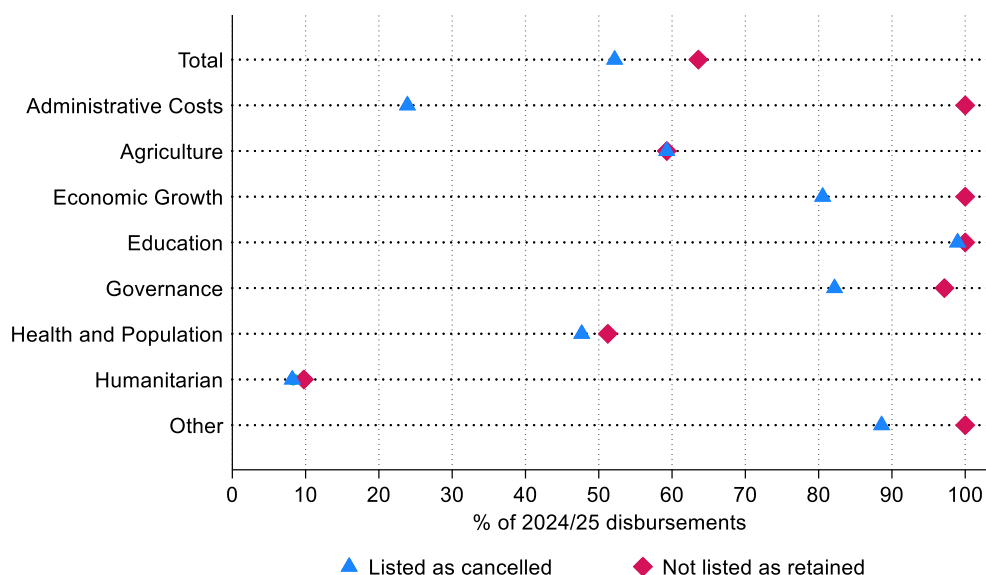
In addition to its bilateral assistance, the US is an important contributor to multilateral agencies with important activities in Malawi. Notably, the US is the Global Fund's largest donor with pledged contributions accounting for 42% of the total 2023-2025 replenishment. As of March 2025, only 30% of the pledged amount had been transferred by the US (Global Fund, 2025). The Global Fund disbursed over \$226 million to HIV/AIDS and malaria programs in Malawi in 2024. In addition to being the largest shareholder of the World Bank, the US has historically been among the leading donors to the World Bank's International Development Association (IDA), which provides grants and concessional loans to low-income countries. With its pledge to the IDA replenishment for fiscal years 2022-2025, the US accounted for 15% of all partner contributions. For the next replenishment, the US previously committed to increase its contribution, which would have raised its share of total partner contributions to 17% (Landers, Keller, Martinez, and Eldridge, 2024). IDA disbursed over \$595 million to Malawi in 2023 (OECD-DAC, 2025).

How much US government assistance to Malawi was cut?

There is no officially verified information on which US foreign assistance programs have been terminated, an unofficial list of cancelled and active (or retained) USAID-funded grants has been circulated on media platforms (Paun, 2025). Following Kenny and Sandefur (2025), we compare this list to the official US foreign assistance database (USAID and US Department of State, 2025). For Malawi, the database includes information for 21 and 72 awards that are listed as retained and cancelled respectively. Yet, the unofficial list includes activities that do not appear in the official database and vice

versa, which implies some uncertainty in estimating the financial implications for Malawi. As shown in Figure 4, the value of awards explicitly listed as cancelled amounts to 52% of total USAID disbursements in fiscal years 2024 and 2025 for activities for which the end year was not specified as earlier than 2025. The value of all awards not explicitly listed as retained accounts for 64%.

Figure 4. Estimated USAID cuts by sector



Source: Authors' calculations based on Paun (2025) and USAID and US Department of State (2025)

As is evident from Figure 4, there is considerable variation in funding cuts across the different sectors in which USAID-funded programs are implemented. Most retained awards are in the humanitarian (4) or health (15) sectors, with estimated spending cuts of 9–10% and 48–51%, respectively. Further analysis reveals significant differences across different purposes within the health sector. For example, while spending cuts in HIV/AIDS programming are estimated to be relatively lower (36% - 39%), most awards related to maternal and child health and family planning were terminated (96% - 100%). Apart from agriculture, for which the spending cut is estimated at 59%, activities in most other sectors appear to have been suspended completely.

For our economic impact analysis, we conservatively assume that awards not explicitly listed as retained have been cancelled. While the estimates of spending cuts discussed above pertain only to USAID-funded activities, our analysis intends to estimate the effect of spending cuts across all US-funded activities. In the absence of information about non-USAID activities, we assume that the sectoral spending cuts shown in Figure 4 also apply to non-USAID funded programs. Since most of the non-USAID foreign assistance to Malawi was managed by the Department of Human and Health Services (see Figure 2) which operates in the less-affected health sector, the weighted average spending cut across all US-funded foreign assistance programs is slightly lower at 59%.

Estimating the shock to the Malawian economy

We use IFPRI's Rural Investment and Policy Analysis (RIAPA) economywide model to estimate the short and longer-term impacts of the reduction of US foreign assistance to Malawi. RIAPA models the behavioral relationships between producers and consumers. It also accounts for the role of government and transactions with the rest of the world (e.g., imports, exports, or financial flows).

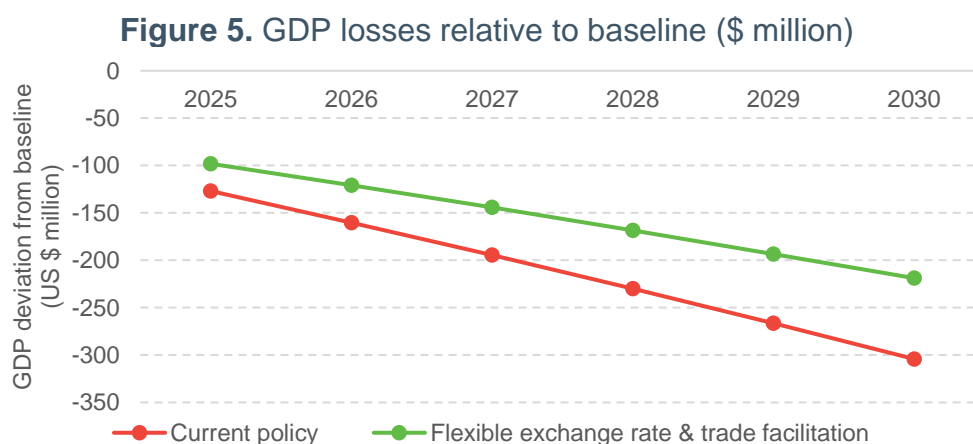
To reflect the current policy context, we assume a fixed exchange rate regime where foreign exchange shortages result in an adjustment in the premium on foreign exchange acquired in a parallel market

(Pauw, Dorosh, and Mazunda, 2013).¹ With the exception of some “priority” imports (e.g., fuel), imports are paid for at the parallel market rate. Export earnings, on the other hand, are valued at the official exchange rate. We also impose structural rigidities that limit the ease with which Malawian producers can switch to export markets or domestic consumers can substitute domestic goods for imports (World Bank, 2023). The model is calibrated to a Social Accounting Matrix (SAM) representing the economy of Malawi in the year 2023. We first generate a baseline scenario that assumes a “business-as-usual” growth path until 2030, without the reduction in US foreign assistance. Next, we simulate the impact of the reduction of US foreign assistance spending on GDP and poverty relative to the baseline scenario outcomes over the period 2025–2030.

We consider three primary impact channels. The reduced activities of US implementing partners is a first impact channel. This results in a direct decline in both demand for support services (e.g. trade, transport, or business services) and supply of other services such as health or education.

The second impact channel is the loss of foreign exchange. To understand the magnitude of this shock, we need to estimate how much of the US disbursements would typically enter the Malawian economy to finance local operations, salaries, and expatriate living expenses. Based on information on budget allocations gathered through an informal survey of 21 local and international organizations implementing US-funded projects in Malawi, we estimate that, on average, around 72% enters the economy.² The rest is retained abroad to cover operational overheads and wages of staff outside of Malawi. Starting from total disbursements in the model base year (\$417 million), \$298 million would have likely entered the economy through the foreign account to finance economic activities in Malawi. Applying the 59% spending cut estimated earlier, the likely reduction in foreign exchange inflows is around \$177 million. This loss is equivalent to approximately 6.3% of Malawi’s annual merchandise import bill, or 3.5 weeks’ worth of imports. Under the fixed exchange rate scenario, the resulting foreign exchange shortage makes buying dollars more expensive on the parallel market. This means that imports become more expensive without formal exports becoming more competitive thanks to a weaker kwacha because they remain valued at the official exchange rate. In fact, exports might become even less competitive in global markets due to the increased cost of imported inputs.

While the economy adjusts by shifting productive resources towards less-affected sectors, the net effect of these two impact channels in 2025 is still a \$127 million (or 1%) decline in Malawi’s GDP in 2025 compared to what it would have been had US assistance continued unimpeded (see “current policy” in Figure 5).



Source: RIAPA model results

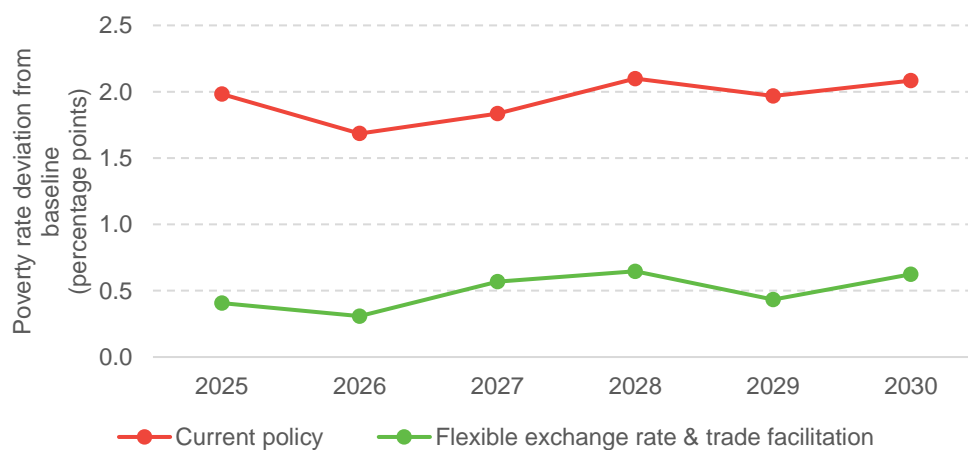
¹ Officially, Malawi operates a managed float regime, but the official exchange rate has not been adjusted since November 2023.

² The survey was completed by different types of US foreign assistance implementing partners, including (local and international) NGOs, private enterprises, and research institutes. We calculate the average share of expenditures on local operations and salaries of staff based in Malawi weighted by the share of 2023 US disbursements channeled through each type of implementing partner.

Beyond 2025, a third impact channel comes into play as reduced health and education spending results in declining labor productivity, while less support for agriculture results in lower agricultural productivity. Together, these three impact channels cause annual GDP losses to accelerate each year, so that by 2030, Malawi’s economy will be \$304 million smaller than it would have been in the absence of the US foreign assistance shock. Cumulatively, six years of losses mean the economy will have lost around \$1.3 billion in GDP. Over four fifths of these losses will occur within the services sectors of the economy.

The combination of reduced employment opportunities and suppressed wages following the contraction of the service sector and higher costs of living driven by rising import prices affect welfare outcomes in Malawi. Relative to the baseline, we estimate that 435,000 additional people will live below the national poverty line in 2025. With roughly half of the population estimated to live below the poverty line in the baseline scenario, this represents an increase in the poverty rate of 2 percentage points (see Figure 6).

Figure 6. Poverty rate increases relative to baseline (percentage points)



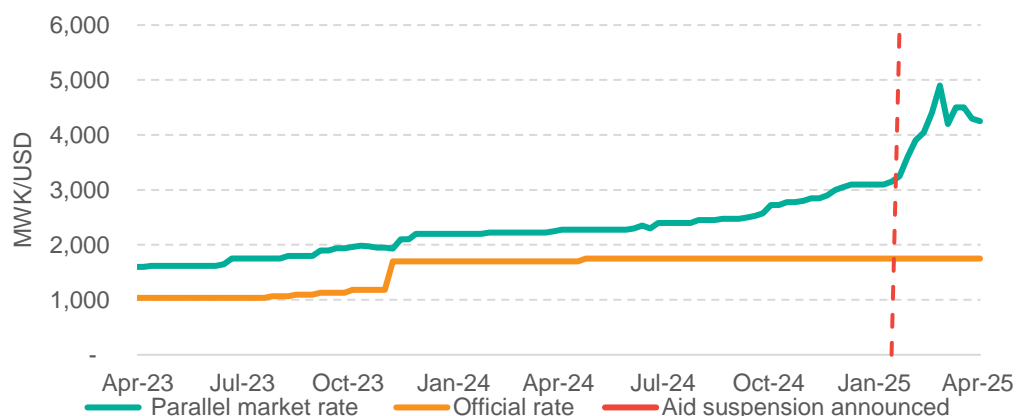
Source: RIAPA model results

Mitigating the impact of aid cuts

Our simulations suggest that under the current policy environment, the economy could face significant losses in terms of output and welfare. However, policy reforms offer a pathway to mitigate the worst impacts. In particular, the government has the ability to introduce “shock absorbers” — mechanisms that help the economy adjust more effectively to external disruptions, which have increased in frequency in recent years.

As foreign exchange shortages drive much of the losses, the exchange rate policy is especially relevant. The exchange rate represents the price of foreign currency such as US dollars in local currency, i.e., Malawi kwacha. When the supply of US dollars declines, basic economic principles suggest that their price will rise, meaning the kwacha depreciates. This is what we observe on the parallel market, where the steady depreciation of the Malawi kwacha accelerated in expectation of a tighter US dollar supply as soon as suspension of US foreign aid was announced on January 20th, 2025 (see Figure 7). Under a free-floating exchange rate regime, depreciation serves as a natural adjustment mechanism: exporters benefit from a higher exchange rate because they receive more kwacha per US dollar earned, while imports become more expensive, which tends to reduce import demand. Together, these shifts help to stabilize the balance of payments, support domestic production and exports, and create employment — ultimately reducing the impact of a negative foreign exchange shock on growth and poverty.

Figure 7. Effective exchange rates



Source: Commodity Insights Africa

However, under the current exchange rate regime, this adjustment mechanism is not available. The official rate of the kwacha does not respond to changes in dollar supply, which limits the economy's ability to self-correct. As a result, US dollar shortages are more likely to persist. Importers face longer delays accessing foreign exchange at the official rate, with many resorting to buying US dollars at a premium in the parallel market, while exporters lack the incentive to scale up their operations as they are forced to exchange their US dollars at the official rate. In short, the absence of a flexible exchange rate undermines the economy's resilience to external shocks.

Figure 5 above also reports GDP losses under an alternative scenario where the government ensures the kwacha remains aligned with its market value and adopts policies that promote domestic production, reduce imports, and facilitate exports. In this scenario, producers face fewer obstacles and uncertainties to expand exports and supply local markets.³ Our simulations show that this could reduce cumulative GDP losses to \$944 million by 2030 (i.e., 26% less than under the current policy regime). A flexible exchange rate regime combined with policies that promote trade can also substantially improve poverty outcomes. Whereas under the fixed exchange rate scenario we expect around 505,000 additional poor people by 2030, that number declines to only 151,000 under a policy regime that allows the economy to adjust more flexibly. The corresponding increase in the poverty rate would then be limited to 0.6 percentage points (see Figure 6).

The estimated poverty impacts, however, do not account for the value of access to subsidized or free health or education services. When these services are suspended, we likely underestimate the welfare impacts. Moreover, while the model accounts for some labor productivity losses due to reduced funding for health and education, we do not evaluate the broader implications for human wellbeing. Even though key health programs, such as those related to HIV/AIDS and malaria, appear to be subject to more modest cuts, several services are interrupted or operating at reduced capacity. As of March, 4,451 health staff reliant on US funding had had their contracts terminated and 18 drop-in centers serving populations living with HIV had closed down (UNAIDS, 2025). More broadly, cuts to treatment and prevention activities, including for example vaccination efforts supported by GAVI, will aggravate the spread of many infectious diseases leading to loss of lives and quality of life.

³ Several possible policy changes are laid out in Chapter 4 of the 2023 Malawi Economic Memorandum (World Bank, 2023). These include the removal of the foreign exchange surrender requirements after exports, reduction of trade costs, eliminating export bans and stabilizing the macroeconomy.

Conclusions

For over a decade, the US has consistently been the largest or second-largest donor to Malawi, accounting for a quarter of total ODA inflows in 2023. Based on a list of cancelled and retained awards and information on FY2024-25 disbursements, we currently estimate that US foreign assistance to Malawi could decline by around 59% in 2025. While the estimated share of discontinued activities in the health sector is lower (51%), this sector – which typically accounts for over 60% of disbursements – is faced with the largest absolute reduction in US bilateral assistance.

As a result of the large reduction in US foreign assistance, Malawi also faces a potential decline in foreign exchange inflows of around \$177 million in 2025. Under the current policy framework, the resulting foreign exchange shortages as well as contractions in the services sectors of the economy are expected to give rise to a GDP loss of \$127 million or 1% in 2025 with an additional 435,000 people falling below the national poverty line. By 2030, the 6-year cumulative GDP losses will likely amount to \$1.3 billion and over half-a-million additional people will fall into poverty compared to the model baseline that assumes no reduction in US foreign assistance.

These numbers illustrate Malawi's extremely limited resilience to shocks — a vulnerability that has been eroding over decades and has worsened in recent years (Upton, Duchoslav, and Tennant, 2024). This fragility is compounded by longstanding and deepening macroeconomic imbalances, alongside the ongoing external debt restructuring process. As a result, shocks whose impacts could otherwise be managed by deferring large-scale investments or by borrowing become devastating. Malawi's economy is at one of its weakest points in three decades, with no buffers to absorb shocks – be they in the form of drought, cyclone, pandemic, high fertilizer prices or reduced donor support. How can such buffers be built?

- ▶ The adoption of a more adaptive exchange rate regime, coupled with policies that facilitate trade (e.g., abolition of export bans, simplification of administrative requirements, removal of foreign exchange surrender requirements, etc.) would help the economy adjust by restructuring towards export-oriented sectors. In the case of the reduction of US spending in Malawi, such measures could mitigate up to 26% of the cumulative GDP losses, resulting in significant welfare benefits. Crucially, the policy changes needed to build economic resilience would require no government spending—an important advantage given current fiscal constraints.
- ▶ For example, Malawi's industrial mining sector holds vast potential, with substantial deposits of rutile, graphite, uranium, and rare earth metals. Likewise, the export capacity of the agricultural sector remains underutilized. With the right policies and investments, these sectors could generate export earnings several times higher than current levels, contributing meaningfully to economic development and stability.
- ▶ Increased fiscal space can help the government better address unexpected shocks. Currently, high fiscal deficits are driven in large part by statutory expenditures (debt servicing, subventions, public sector wages and pensions) and insufficient revenues. However, there is already significant scope to improve public finances by increasing tax collection and improving the efficiency and efficacy of public expenditures. Over the medium term, a portion of the expected windfalls from mining revenues could be allocated to a stabilization fund that would help cushion the effects of future shocks.
- ▶ Donor-funded services should be better integrated into government systems, rather than operating through parallel structures that make them difficult to sustain if funding is withdrawn. Achieving this will require transparent and accountable government systems, making it attractive for donors to co-invest in them.

- ▶ The government should evaluate the vulnerability of crucial services to aid cuts and collaborate with development partners to identify those whose loss would have the most severe impact. This will help ensure that the remaining assistance is effectively prioritized. If service cuts are unavoidable, they should target those delivering the lowest value for money.
- ▶ Funding sources for the most essential programs should be diversified to reduce reliance on any single donor, which can jeopardize service continuity. In the current environment where traditional bilateral donors are reducing their development assistance budgets, a more balanced approach is needed. Where domestic funding sources are insufficient, this can be partly achieved by pooling donor resources to spread the risk more effectively.
- ▶ Finally, the consequences of aid cuts outlined in this note illustrate the risks associated with reliance on aid for basic services. Even if other bilateral donors fill some of the funding gaps in the short term, financing service provision from domestic tax revenues in line with the Malawi 2063 vision of an inclusively wealthy and self-reliant nation remains the best way to strengthen the country's resilience to future exogenous shocks.

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