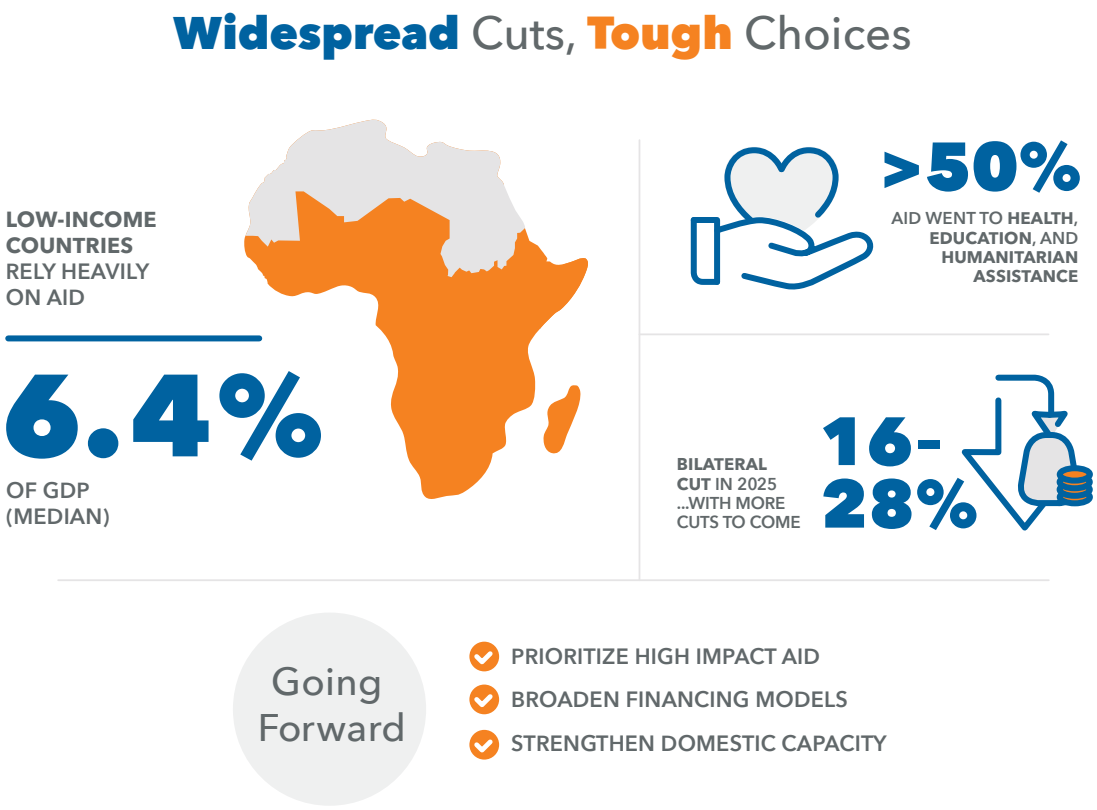
2. Aid Cuts in Sub-Saharan Africa: This Time Is Different

Sub-Saharan Africa is the largest global recipient of aid, with official development assistance playing a critical macro-financial role. Although aid flows have evolved over time, the sharp cuts that began in 2025 differ in scale, nature, and breadth, hitting low-income countries and fragile and conflict-affected states hardest. The 2025 contraction is donor driven, is exogenous to recipient conditions, and occurs across development partners. At the same time, traditional buffers—including multilateral institutions and nongovernmental organizations—are significantly diminished compared to those in previous downturns. Moreover, after six years of successive shocks, domestic fiscal space has become very tight, thereby constraining the room to maneuver. The ultimate macroeconomic impact is dependent on each country's exposure, preexisting buffers, and the policy responses they adopt. Navigating this new environment requires a coherent response from development partners and authorities across three priorities: protecting and prioritizing high-impact aid while strengthening coordination; broadening the development finance toolkit—including scaling blended finance; and deepening domestic and regional capacity to design policies, mobilize resources, and deliver services.



This chapter of the April 2026 *Regional Economic Outlook for Sub-Saharan Africa* was prepared by an IMF team comprising Athene Laws (team lead), Chie Aoyagi, Maurizio Leonardi, and Hamza Mighri, under the guidance of Antonio David and Amadou Sy.

A Shock Like No Other

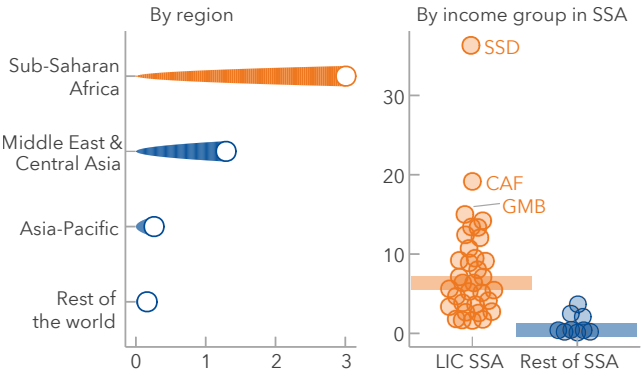
In sub-Saharan Africa, a region that is highly dependent on aid, the contraction of aid that began in 2025—starting with an estimated 16–28 percent cut in bilateral aid—stands apart from the past aid shifts: it is larger, more synchronized across countries, and predominantly donor driven rather than based on recipient-side developments. At the same time, many traditional shock absorbers—including multilateral development partners and nongovernmental organizations (NGOs)—are struggling with their own cuts, and years of successive shocks have left sub-Saharan African countries with limited fiscal space to adjust on their own. Low-income countries (LICs) and fragile and conflict-affected states (FCS) are the most exposed yet face the most binding constraints in their response. The impact of the cuts is magnified by how integral aid became to budgets, financial flows, and service provision prior to 2025.

Aid Has Been a Critical Resource for Many

Sub-Saharan Africa is more reliant on aid than any other region in the world. Official development assistance (ODA) comprised nearly 3 percent of regional GDP in 2024, which is more than twice the share of the Middle East and Central Asia, the next most reliant region (Figure 2.1).[1] However, aid is not spread equally across the region, but instead it flows more intensively to the most vulnerable countries: as a fraction of GDP, LICs (6.4 percent) and FCS (6.0 percent) receive substantially more aid than emerging market economies (0.4 percent). At the extreme end, aid represents 36 percent of GDP in South Sudan, largely financing humanitarian needs, especially those arising from the neighboring Sudanese conflict.

Figure 2.1. Sub-Saharan Africa Reliance on Official Development Assistance, 2024

(Percent of GDP)



Sources: The Organisation for Economic Co-operation and Development, Development Assistance Committee-Table 2A; and IMF staff calculations.

Note: CAF = Central African Republic; GMB = The Gambia; LIC = low-income countries; SSA = sub-Saharan Africa; SSD = South Sudan.

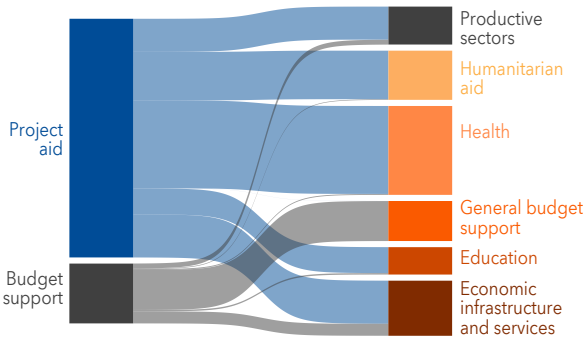
Given significant development needs and extremely scarce domestic resources, aid has played a critical development role. More than half of aid to the region is directed toward the health, education, and basic humanitarian assistance sectors (Figure 2.2). Most of the remainder finances infrastructure and other productive investments, including roads, energy projects, and private sector development. Only 19 percent is provided as budget support, with the vast majority delivered as non-budgetary support, often implemented through local and international NGOs. As a result, aid provides not only financing but also delivery systems, capacity, and institutional structures for a sizable fraction of social services.

Aid has also served as a significant source of external financing with important macroeconomic implications (Figure 2.3). Aid tends to act as a stabilizing factor during economic downturns in LICs (Lastauskas and Shang forthcoming). Throughout the cycle, aid remains a key inflow that is larger in magnitude than foreign direct investment (FDI) at the regional level and substantially so for LICs. As countries become wealthier, aid declines and FDI grows more important. Aid is also similar in scale to migrant remittances, which also typically flow proportionately more to LICs and FCS with well-documented poverty-reducing impacts at the household level (Maimbo and Ratha 2005).

[1] ODA consists of grants and concessional loans from official sources to support development in poorer countries (OECD definition). ODA is provided both by bilateral donors (individual governments and their agencies) and by multilateral institutions such as international organizations and development banks. ODA includes grants (transfers with no repayment obligation) and concessional loans (repaid on softer-than-market terms, typically featuring low interest rates and long maturities)—only the grant-equivalent concessional portion is measured as ODA.

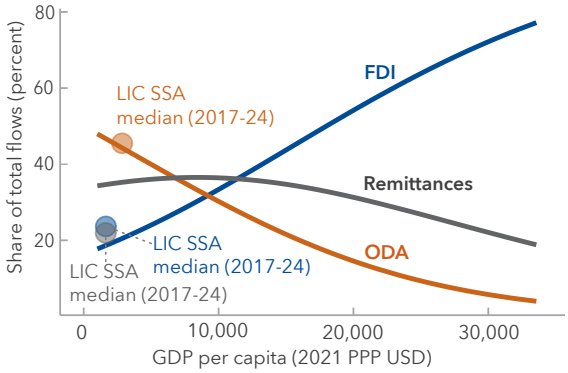
Figure 2.2. Official Development Assistance Sectoral Distribution, 2024

(By modality, and sector)



Sources: The Organisation for Economic Co-operation and Development Credit Reporting System; and IMF staff calculations.

Figure 2.3. Composition of External Financing by Income Level, 2010–24



Sources: The Organisation for Economic Co-operation and Development, Development Assistance Committee-Table 2A; World Bank; and IMF staff calculations.

Note: Estimates are derived from a pooled Dirichlet regression on period averages (2010–16, 2017–24). Lines show predicted composition of external financing as a function of GDP per capita (2021 PPP USD). FDI = foreign direct investment; LIC = low-income countries; ODA = official development assistance; PPP = purchasing power parity; SSA = sub-Saharan Africa.

Flows Have Shifted Toward Multilateral Lending and Concessional Loans in the Past Fifteen Years

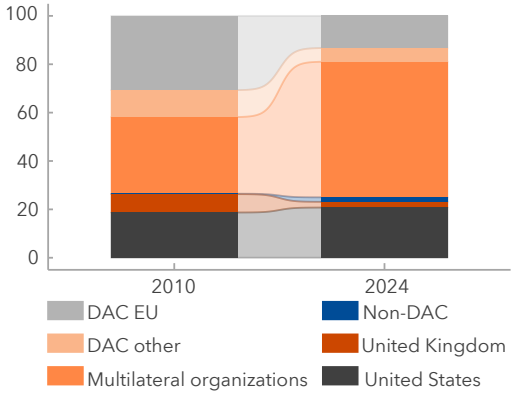
Aid flows have responded to a mix of crisis-driven surges, postcrisis contractions, and structural shifts in donor priorities. Although most sectors experienced growth over the past fifteen years, the pattern was uneven, dominated by sharp spikes during emergencies, such as health sector ODA during the Ebola crisis and humanitarian assistance during the Sudanese conflict, alongside long-term declines in debt-related assistance. In 2020, the pandemic marked a turning point, with unprecedented increases across most sectors and countries, driven by large-scale emergency financing and macroeconomic support. Financing to the region was concentrated in multilateral channels, with the IMF accounting for more than half of the increase in ODA.[2] At the beginning of 2022, Russia's invasion of Ukraine absorbed a substantial portion of global ODA resources, and the increased spending on defense led to a shift in donor priorities (April 2026 *World Economic Outlook*, Chapter 2).

Over time, budget constraints, stronger emphasis on borrower ownership and policy discipline, and the graduation of recipients to middle-income status shifted aid modalities away from grants toward concessional loans. In 2010, grants accounted for 97 percent of ODA, but by 2024 they had fallen to 68 percent, whereas concessional loans increased from 3 percent to 32 percent during the same period.

The sources of aid have also evolved (Figure 2.4). Although traditional donors (Development Assistance Committee [DAC] members including the US, the UK, and European countries) historically contributed to the bulk of aid, their share

Figure 2.4. Official Development Assistance Distribution by Donor

(Percent, share of total ODA)



Sources: The Organisation for Economic Co-operation and Development, Development Assistance Committee-Table 2A; and IMF staff calculations.

Note: DAC = Development Assistance Committee; EU = European Union; ODA = official development assistance.

[2] The concessional portion of loans, including IMF concessional lending, is classed as ODA per OECD definitions.

declined from 68 percent in 2010 to 42 percent in 2024. Currently, by contrast, multilateral agencies account for the majority of aid flows. This rising reliance on multilateral channels reflects a stronger support for coordinated and pooled responses to increasingly global and cross-border challenges.

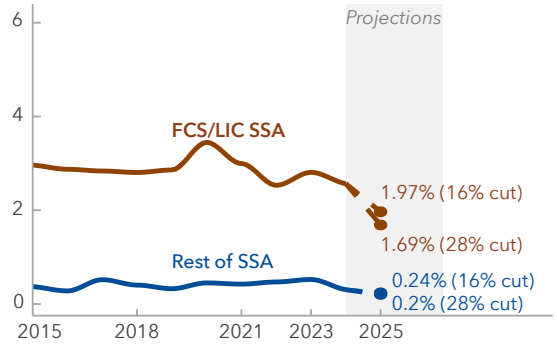
The region has also experienced a gradual diversification of funding sources toward non-traditional donors. According to the Organisation for Economic Co-operation and Development (OECD) data, contributions from non-DAC countries grew from a negligible amount in 2010 to $1.06 billion, or 1.9 percent of the total aid, in 2024. However, limitations in reporting imply that there is an undercount of actual aid flows.[3] The most significant non-DAC donors are the Gulf States and China.[4] The UAE alone accounted for 72 percent of non-DAC flows captured in the OECD data. There are alternative informative sources that capture additional flows that are not reported in the standard ODA statistics. According to AidData (2025), China's grant-based aid to sub-Saharan Africa peaked at $1.2 billion in 2018 before declining to $633 million by 2022. Chinese grants flow predominantly to LICs in the region, focusing on health, education, and government and civil society sectors. Additional ODA in the form of concessional loans is primarily directed toward energy, transport, communications, and other infrastructure sectors in emerging markets, and it similarly peaked in 2018. These ODA trends broadly mirror the recent decline in China–Africa financial flows, with overall Chinese lending to Africa turning net negative as repayments now exceed new loans (China Lending to Africa Database 2025; April 2026 *World Economic Outlook*).

2025 Marked a Sharp Break, Particularly for Vulnerable Countries

While aid had gradually declined in post-COVID years, the closure of the United States Agency for International Development (USAID), substantial reductions in US development budgets announced in January 2025, and reports of funding cuts from other major donors, including France, Germany, and the United Kingdom, signaled a sea change.[5] According to a donor survey conducted by the OECD, African bilateral aid budgets decreased by 16–28 percent (potentially cutting between $4 and $7 billion) in 2025 relative to the 2024 levels (Figure 2.5)—a range broadly corroborated by other publicly available estimates. In terms of dollar value, the largest losses could hit Ethiopia, Democratic Republic of the Congo, and Nigeria (between $240 and $780 million each). Smaller countries and FCS receive more aid as fraction of GDP and government revenues. Therefore, the impact on these countries could be even more acute: South Sudan and Central African Republic could lose aid exceeding the equivalent of 10 percent of their government revenue, with humanitarian aid most affected.

Figure 2.5. Bilateral Official Development Assistance by Income and Fragility Level, 2015–25

(In percent of GDP, median)



Sources: The Organisation for Economic Co-operation and Development, Development Assistance Committee-Table 2A; IMF, World Economic Outlook database; and IMF staff calculations.

Note: 2025 projections assume 16–28 percent cuts to 2024 bilateral ODA levels with 2025 GDP.
FCS = fragile and conflict-affected states; LIC = low-income countries; ODA = official development assistance; SSA = sub-Saharan Africa.

[3] This diversification in donors extends to multilateral financing instruments too, with non-traditional donors increasingly funding the IMF's Poverty Reduction and Growth Trust, and Resilience and Sustainability Facility.

[4] China and the Gulf States play an even larger role in non-ODA development finance flows to sub-Saharan Africa (Selassie, Hume, and Schipke 2025). Opaqueness can be an issue in non-ODA lending too, as many financing transactions are not included in standard debt statistics (Horn and others 2023, 2024).

[5] Policies are still shifting: for example, in December 2025, the US signed several health system–strengthening agreements with several sub-Saharan African countries, including Kenya, Uganda, and Lesotho (United States Department of State 2025a, 2025b). Moreover, not all countries are cutting: Japan, Spain, Italy, and some Nordic donors are maintaining ODA or increasing aid budgets, although the magnitudes do not compensate (Donor Trackers 2026). Overall, the global direction in aid is down.

Some countries and sectors may fare better or worse than the OECD's estimated cuts. Humanitarian aid has been particularly hard hit. Initial estimates suggest that humanitarian aid flows to sub-Saharan Africa dropped by 42 percent in 2025 relative to the 2024 levels (United Nations Office for the Coordination of Humanitarian Affairs Financial Tracking Service [UNOCHA FTS]). Chad, the largest host country for refugees per capita in Africa, could face a halving of its aid receipts in the coming year, severely crippling life-saving humanitarian aid for both the hosted refugee camps and its own population (United Nations High Commissioner for Refugees [UNHCR]). By contrast, other countries will fare much better. For example, Cabo Verde and São Tomé and Príncipe do not expect large aid reductions because their primary donors still maintain their funding.[6]

These 2025 bilateral cuts are likely only the first wave. Most bilateral donors plan aid on multiannual cycles, and further reductions will occur when new programming periods begin.[7] Furthermore, many multilateral agencies, which are traditionally shock absorbers for the region, face their own steep budget cuts following decreased contributions from bilateral donors. For example, the World Food Programme, the United Nations Children's Fund, and the World Health Organization project 34, 27, and 39 percent less funding in the coming years than in 2023–24, respectively. The United Nations Office for the Coordination of Humanitarian Affairs estimates that less than half of the people in need of humanitarian assistance can be reached with available resources in 2026. An estimated 3 million children in sub-Saharan Africa may be pushed out of school by 2026, and 75 million children globally may miss routine vaccinations in the next five years (United Nations Children's Fund; Global Alliance for Vaccines and Immunizations).

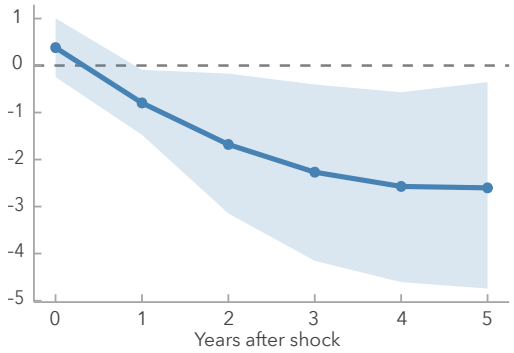
Although uncertainty remains elevated, driven in part by rapidly evolving donor policy decisions, the direction of travel is clear: significant and widespread reductions in aid envelopes across the region. Moreover, the countries most affected by the cuts tend to be those already facing multiple sources of vulnerability, such as conflict, insurgency, high poverty rates, and political instability. Distributionally, the most vulnerable populations within these vulnerable countries will bear the biggest burden.

Countries in the Region Have Faced Sizable Cuts in the Past…

A statistical analysis of "surges" and "collapses" in ODA reveals that, since 1960, there have been 149 recorded episodes[8] in sub-Saharan Africa, with approximately 55 percent classified as collapses. The average aid reduction was about 40 percent, but tended to be isolated to individual countries. Using local projections methods, the estimated effects of aid collapses on macroeconomic variables indicate a sharp deterioration in fiscal balances. This goes beyond a purely mechanical loss in grants: the fiscal balance excluding grants continuously eroded over time and was, on average, 2.6 percent of GDP weaker after five years (Figure 2.6). Decomposing the channels shows that the deterioration was driven by declining non-grant revenues, combined with no significant reduction in expenditures: spending commitments continued after aid was cut, and revenues fell. Impacts on growth and external balances were less consistent across episodes.

Figure 2.6. Fiscal Balance Response to an Official Development Assistance Shock

(Percentage points of GDP, excluding grants)



Source: IMF staff calculations.

Note: The impulse response is based on Jordà's (2005) local projections and is smoothed across horizons to reduce finite-sample noise; shaded areas denote 95 percent confidence intervals from the original estimates.

[6] In Cabo Verde, Portugal and Luxembourg are the main providers of aid, with broadly similar magnitudes of support. São Tomé and Príncipe's largest donor is the World Bank.

[7] For example, the largest cuts to UK aid budgets will likely come in 2026–27, the Netherlands plans large cuts in 2027, and Sweden plans cuts between 2026 and 2028.

[8] Episodes are identified by detecting structural breaks in ODA flows time-series data (following Combes, Ouedraogo, and Tapsoba 2016).

However, the statistical analysis cannot identify the underlying drivers of aid shocks. Reductions in aid may stem from domestic developments—positive ones, such as countries growing sufficiently to no longer qualify for aid, or negative ones, such as coups. Other reductions reflect the completion of large one-off projects, and yet more arise from external factors, including shifts in donor budgets. A notable example is the conclusion of the debt-restructuring initiatives of the 1990s: because debt relief was classified as aid, the measured ODA fell mechanically once restructurings ended, even though countries emerged with a stronger debt position by design. Clearly, the nature of the reduction matters for the macroeconomic impact.

A narrative analysis of IMF and World Bank country documents[9] highlights several drivers of past aid shocks. Large declines occurred as countries became wealthier (for example, Angola's above 50 percent cut in the mid-2000s and Equatorial Guinea's sharp drop in 2010–12 with rising oil exports) or because of domestic conditions (for example, Eritrea's 2006 reduction after an improved humanitarian situation and a policy decision to limit aid). Other drops reflected the completion of major infrastructure projects (for example, Cabo Verde's sharp decline in 2018). Favorable economic developments offset the macroeconomic effects of declining aid in the former cases, whereas the predictability and completed projects mitigated the impact in the latter cases. Most countries adjusted through a combination of revenue mobilization, stronger public financial management, and spending reprioritization.

…But This Shock Is Different

Several unique, striking features of the current shock stand out:

- Firstly, the scale and breadth of the cuts are significant. A large majority of traditional development partners are cutting or re-prioritizing funding in response to shifts in their geopolitical priorities and domestic spending needs. Almost all recipient countries in the region are affected. Although individual countries have experienced aid cuts of a similar magnitude before, they were usually confined to the country in question and were in response to recipient country–specific conditions.
- Secondly, the speed, simultaneity, and unexpected nature of the cuts are striking: funds were often withdrawn mid-project with minimal warning, leaving little time for governments or implementing partners to adjust.
- Next, uncertainty is extremely elevated: authorities are contending with a severe lack of information regarding the extent, timing, and specific program impacts of the cuts.
- Lastly, alternative sources of support are limited. Many UN agencies and other multilateral organizations—historically a stabilizing counterweight—are themselves facing budget cuts and scaled-back operations, which reduces their ability to offset bilateral cutbacks. NGOs also play an active role in aid but are insufficient in scale to compensate for lost bilateral, or multilateral, budgets.

Therefore, it is not feasible to rely too heavily on the past to predict the impact of the current shock.

The Macroeconomic Impact Will Be Most Significant for the Region's Most Vulnerable…

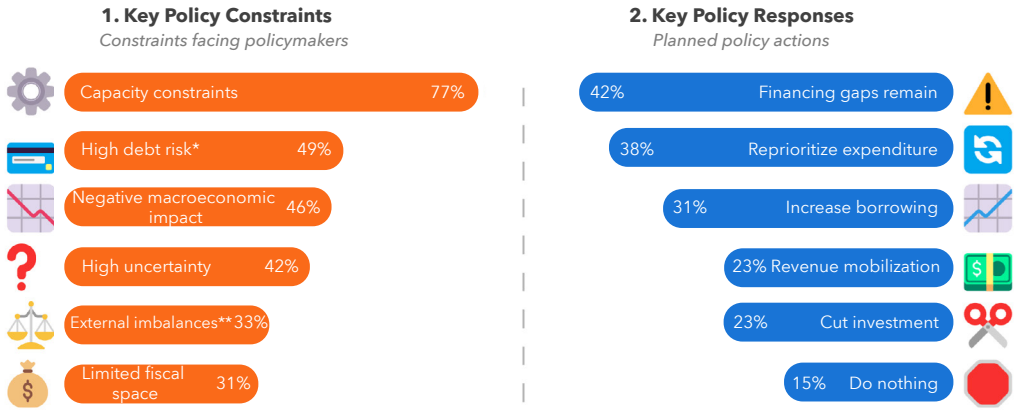
Although many countries in sub-Saharan Africa receive relatively little aid and will experience limited effects from the cuts, the shock will be significant for a sizable number of countries. These tend to be LICs and FCS: precisely the ones with the least capacity to cope. Among the 15 countries most reliant on ODA in the region, 73 percent

[9] Documents include publicly available IMF Article IV reports and program review documents, and World Bank Public Expenditure Reviews and Systematic Country Diagnostics.

are currently in high debt risk or debt distress, pointing to a worrying overlap between aid dependence and fiscal vulnerability. IMF-administered surveys shed light on the multiple constraints country authorities are facing, the expected macroeconomic implications, and the measures being considered to mitigate the shock (Figure 2.7).[10]

A large majority of IMF country teams reported the high degree of uncertainty confronting authorities, particularly regarding off-budget programs. The lack of clarity around the extent, timing, and details of the cuts severely complicates any policymaking response. Nearly all teams raised capacity constraints as binding: be they constraints over collecting information on the programs affected, assuming service-delivery roles previously carried out by development partners, or implementing alternative social support mechanisms.

Figure 2.7. Key Issues Raised by Country Teams



Sources: IMF Country Team Survey Data; IMF, World Economic Outlook database, and IMF staff calculations.
Note: Respondents could select multiple answers.
* "High debt risk" reflects the share of countries with a debt risk status high or in distress from IMF countries debt sustainability analysis.
** "External imbalances" reflects the share of sub-Saharan African countries with either reserves in months of imports less than 3 months or a current account deficit exceeding 10 percent of GDP from World Economic Outlook database.

…And Will Depend Crucially on Policy Choices

Countries entered the crisis with different macroeconomic buffers, and their policy choices will shape the macroeconomic impact of the shock. So far, about one in seven countries have no formal plans to mitigate or replace the lost aid, *de facto* letting programs and services lapse. In these cases, many of which primarily involve off-budget aid cuts, the short-term fiscal effects may be less pronounced than if programs were brought onto the budget. However, the unmitigated humanitarian costs are likely to be high, affecting the most vulnerable members of the population hardest. Over the longer term, the erosion of basic health and education services risks weakening human capital and, consequently, future growth and development outcomes. Sustained cuts also risk undermining economic opportunity and domestic stability in ways that can amplify migration pressures, deepen fragility, and weaken social cohesion within affected countries.

Other countries plan to cover at least some of the lost aid programs. For example, Nigeria—which received over $440 million from USAID's health funding in 2024—has increased its domestic health spending by $200 million (ODI 2026). Others are finding new donors or signing new agreements, such as health system–strengthening agreements with the US. Four in ten countries plan some reprioritization of existing spending: reducing budget allocations in one area to cover some of the shortfall. Of these, nearly two-thirds plan to cut public investment budgets. Although such cuts may be politically easier than more visible spending reductions, they often weigh

[10] Every member country has a dedicated team of IMF economists who engage with authorities and development partners, conduct macroeconomic surveillance, and provide policy advice. Some countries are also in a lending relationship. Surveys on aid cuts were sent to the 45 country teams of the sub-Saharan African Department in November 2025. Twenty-eight teams were able to provide detailed insights on the cuts, drawing on a mix of country data, and discussions with authorities and donor communities.

on long-term growth and development. Of the countries with estimates, on average, approximately 30 percent of the lost ODA budgets will be covered through spending reprioritization, another 30 percent is estimated as no longer needed, and the remaining 40 percent currently remains unfunded. This is roughly in line with anticipated responses to aid cuts in other regions (April 2026 *Fiscal Monitor*, Chapter 1).

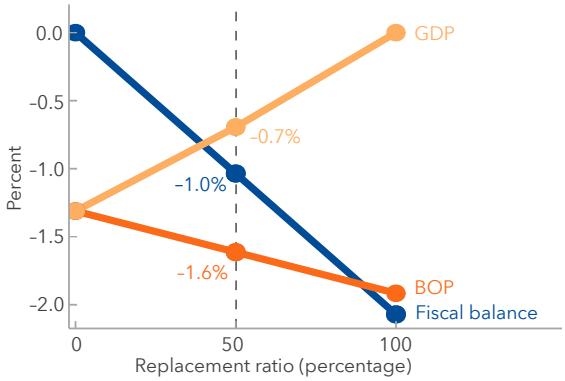
In addition, one-third of countries—some overlapping with the reprioritization group—plan to increase borrowing to partially offset the lost aid, which in some cases may raise debt-sustainability risks. Many plan to rely more heavily on domestic debt markets, a growing trend in the region that, in excess, can heighten debt-sustainability risks and intensify sovereign-bank nexus vulnerabilities (Sy and Laws 2026; October 2025 *Regional Economic Outlook for Sub-Saharan Africa*).

Furthermore, about one-quarter of countries—again with some overlap—plan to cover some of the shortfall with domestic revenue mobilization, a long-standing priority in the region. Ethiopia, for example, introduced a temporary tax on public and private workers, with proceeds channeled to a new Disaster Risk Response Fund (ODI 2026).

Partial-equilibrium simulations of a 25 percent bilateral ODA cut illustrate that the overall macroeconomic effects depend critically on policy responses (Figure 2.8). The average emerging market economy is far less aid-dependent and therefore experiences only muted macroeconomic impacts under any scenario. However, the picture differs markedly for poorer countries. If a low-income country replaces half of the lost ODA through the domestic budget, the fiscal deficit is projected to widen by about 1 percent of GDP, growth falls by roughly 0.7 percentage point, and the balance of payments deteriorates by 1.6 percent of GDP. By contrast, replacing none of the aid programs would result in no direct fiscal deterioration, but a larger growth shock and significantly worse humanitarian outcomes.

Figure 2.8. Sub-Saharan Africa Low-Income Countries: Impact of Official Development Assistance Cuts

(Average impact)



Sources: The Organisation for Economic Co-operation and Development; IMF, World Economic Outlook database; and IMF staff calculations.

Note: Domestic replacement is assumed to be 50 percent less import-intensive than donor funding. BOP = balance of payments.

The preexisting tight fiscal environment further exacerbates policy trade-offs. Aid cuts are only the latest in a six-year sequence of shocks (the global pandemic, tightening of global financial conditions, rising food and energy prices, and geopolitical tensions and tariffs) that have increased debt burdens and eroded fiscal space across the region (April 2025 *Regional Economic Outlook for Sub-Saharan Africa*). As a result, one-third of country teams identified limited fiscal space as a critical constraint, severely restricting the options available to authorities.[11] Unfortunately, addressing this challenge remains complex: Abdel-Latif and others (2026) note that efforts to build more fiscal space often result in larger output losses when aid inflows are low because the loss of external financing removes important buffers and weakens the confidence of economic agents.

In summary, aid cuts will deliver the largest macroeconomic blow to LICs and FCS—where heightened uncertainty around the cuts, binding capacity constraints, limited fiscal space, and painful policy trade-offs mean the reductions will translate into steeper growth headwinds, worsened humanitarian conditions, and sharper fiscal pressures than previous shocks. Even those countries with sufficient buffers to offset the cuts will face deteriorating fiscal positions: there are no winners.

[11] The message of constrained policymaking aligns with Bedasso's (2026) data set of announced responses by African governments. There, the most aid cut-exposed countries face the steepest capacity and fiscal constraints, and are the ones announcing the fewest mitigating measures.

Difficult Choices in a Less-Benign World

Amid a shifting context, the international community and recipient countries have three priorities:

- The first priority is official development assistance policy itself: protecting, prioritizing, and coordinating aid to maximize impact. Despite competing demands on scarce development-partner resources, a strong case must be made to protect high-impact aid that measurably improves development outcomes. Aid should flow where its impact is greatest and alternatives are most limited. The poorest LICs and FCS—where the cuts have the steepest consequences—should be prioritized, and essential humanitarian assistance should be preserved.

  Coordination is also critical at the recipient, development-partner, and international level. Fragmentation, duplication, and inconsistent processes reduce impact and raise costs. A changing geopolitical landscape may exacerbate the fracturing, placing a greater premium on recipient countries enacting coordination mechanisms. The Democratic Republic of the Congo, for example, intends to strengthen its national reporting system, *Plateforme de Gestion de l'Aide et des Investissements* (PGAI), to track and manage a more complex aid landscape. Predictability and alignment with national development plans remain essential to managing aid transitions effectively.

- The second priority is to broaden the toolkit. Although aid may remain the primary source of financing for humanitarian needs and fragile contexts, alternative models are viable for projects with market-based elements. Blended finance—which uses development funds to de-risk and crowd in private investment through guarantees, insurance, first loss capital, and other mechanisms—stands out as one of the few scalable investment tools in today's fiscally constrained global environment (United Nations 2025). Eyraud and others (2021) estimate that including the private sector could raise up to 3 percent of regional GDP in additional finance. Recent examples include Rwanda's 2023 sustainability-linked bond, supported by a World Bank escrow account (World Bank 2023), and a joint Africa–Europe initiative using guarantees to mobilize private capital for energy and local enterprises (European Commission 2026). Clean energy and climate-related investments currently account for about two-thirds of global blended finance flows (Convergence Blended Finance 2025).

  Scaling up blended finance, however, faces several barriers. Global volumes remain small relative to aid, and although sub-Saharan Africa hosts nearly half of transactions, most flow to emerging markets rather than LICs (Convergence Blended Finance 2025). High transaction costs hinder scale, and limited scale, in turn, keeps costs high. Expanding the number of transactions can help standardize processes, build best practice knowledge, develop a project pipeline, and lower costs over time. Like traditional aid, fragmentation, weak coordination, and transparency gaps remain key obstacles. Moreover, macroeconomic stability, governance quality, and structural reforms to the business environment are critical to attracting private capital of all types, including blended finance. Importantly, blended finance is not a panacea: although it can increase financing volumes, it is more costly than grants and can add to debt service burdens.

- The final priority is to draw more on domestic and regional resources while strengthening recipient-country policy design and service-delivery capacity.[12] In the context of lower aid and increasingly uncertain global economic policies, resilience must increasingly come from within. Other external flows, such as FDI and remittances, remain critical for development and should be supported through appropriate policy (IMF 2023; Ricci and others 2025). However, these flows cannot compensate for aid as they play distinct roles; remittances themselves may decline as global migration policies evolve.

  Aid cuts reinforce the criticality of domestic revenue mobilization in sub-Saharan Africa. Sub-Saharan Africa has the lowest tax-to-GDP ratio in the world, with the median country collecting 13.8 percent of GDP. Improved tax administration and policy reforms can raise this figure, but doing so requires strengthening technical

[12] The IMF–World Bank three pillar approach, particularly Pillar 1 (Domestic Revenue Mobilization), provides a useful framework (Pazarbasioglu and Saavedra 2024).

capacity and building public support and trust (October 2025 *Regional Economic Outlook for Sub-Saharan Africa*; Baer and others 2025). Aid-dependent FCS face more urgent revenue needs, yet also contend with very high rates of informality, weaker private sectors, significant governance constraints, and limited economic registries. Progress under these conditions requires tailored technical, institutional, and political solutions (Chen and others 2025; IMF forthcoming).

In a constrained fiscal environment, every dollar must be well spent to shield hard-won development gains. Priority social and capital expenditures must be protected to avoid sacrificing long-term development priorities, such as health and education. Although short-term multipliers could understate their impact, cuts to social and humanitarian spending would generate lasting scars to human capital, growth, and long-term prosperity. Poorly targeted spending, such as energy subsidies, could be redirected toward sectors previously reliant on aid,[13] and public financial management, governance, and investment efficiency should be strengthened to maximize development returns (Dabla-Norris and others 2011; October 2025 *Fiscal Monitor*). Medium-term fiscal frameworks and effective debt management, can also stabilize public finances and help lower borrowing costs, thereby protecting budget room for social spending (Comelli and others 2023; October 2025 *Regional Economic Outlook for Sub-Saharan Africa*).

Finally, because aid has historically provided not only financing but also policy design and implementation, bringing services in-house will require sustained investment in domestic institutions and capacity. Capacity development support from international partners and regional peer learning will be critical to strengthen domestic health, education, and social service delivery in the face of reduced aid. In parallel, the IMF's Global Public Finance Partnership combines donor funding and IMF expertise to strengthen fiscal and public finance capacity. As development-partner delivery systems scale back, there is also scope to minimize duplication, streamline processes, and reduce costs. Ultimately, strengthening the domestic ownership of essential programs is not only a fiscal and development necessity but a pivot away from external aid dependence toward greater domestic resilience, enabling countries to respond directly and sustainably to the needs of their populations.

[13] World Bank (2025) provides an overview of priorities for health financing in the context of declining aid.

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