

# Pakistan's aid reckoning: Turning the end of the grant era into an opportunity

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## ■ Introduction

For seven decades, Pakistan's development story ran on a familiar script: Western governments wrote checks, and Islamabad created projects. That script effectively ended on January 20, 2025, when US President Donald Trump signed an executive order suspending nearly all US foreign assistance. Thirty-nine major USAID-funded projects in Pakistan, totaling more than \$845 million, were halted overnight—among them the Mangla Dam Rehabilitation Project, the Integrated Health Systems Strengthening Program, and a \$380 million portfolio of energy, health, and education work in Khyber Pakhtunkhwa.<sup>1</sup> The United Nations estimates that 1.7 million people in

Pakistan, including 1.2 million Afghan refugees, were directly affected.

The suspension of aid was the sharpest disruption, but not an isolated one. The United Kingdom, too, has been cutting its official development assistance, moving from 0.5 percent to 0.3 percent of gross national income between 2025 and 2027.<sup>2</sup> Germany's development budget is contracting as well, and even the European Union—whose funding is comparatively stable—has kept Pakistan's envelope essentially flat, rather than expanding it.<sup>3</sup> Total Western bilateral flows to Pakistan fell from a range of roughly \$1.0 billion to \$1.2 billion a year between 2022 and 2024 to about \$550 million in 2025.<sup>4</sup> For a country that has leaned on Western

1. Azaz Syed, "Washington Suspends \$845m USAID Projects in Pakistan," *The News*, February 4, 2025, <https://www.thenews.com.pk/latest/1279385-washington-suspends-845m-in-usaid-projects-in-pakistan>.
2. Philip Loft and Philip Brien, "UK Aid: Reducing Spending to 0.3% of GNI by 2027/28," Research Briefing, House of Commons Library, July 1, 2025, <https://commonslibrary.parliament.uk/research-briefings/cbp-10243/>.
3. Marcel Furstenu, "Germany: The Harsh Reality of Cutting Development Aid," DW, January 15, 2026, <https://www.dw.com/en/germany-the-harsh-reality-of-cutting-development-aid/a-75516453>. The EU has allocated about \$155 million in development assistance to Pakistan between 2025 and 2027. See European Commission, "International Partnerships," Pakistan, [https://international-partnerships.ec.europa.eu/countries/pakistan\\_en](https://international-partnerships.ec.europa.eu/countries/pakistan_en). This is a small portion of the roughly \$17 billion that Pakistan will receive in development finance by 2027.
4. Fabrice Ferrier, "ODA 2025: Historic Drop in Official Development Assistance in 2025," Focus 2030, April 9, 2026, <https://focus2030.org/en/historic-drop-in-official-development-assistance-in-2025/>.

grant aid since the 1950s, the message looked, at first glance, unambiguous: The money is drying up.

But it isn't. What is drying up is a particular kind of money—grant-based, Western, bilateral—and what is replacing it is larger in volume, but structurally different in composition. Understanding that difference, and building the institutions to manage it, is now the central challenge facing Pakistani development policymakers.

## ■ A bigger, different pool of capital

Multilateral development banks (MDBs) have moved decisively to fill the gap left by retreating bilateral donors, and then some. The World Bank's Board approved a ten-year, \$20 billion Country Partnership Framework for Pakistan in January 2025, with roughly half of that sum expected to come from private-sector operations led by the International Finance Corporation. The Asian Development Bank followed in March 2026 with its own five-year, \$10 billion Country Partnership Strategy. Together with smaller commitments from the Islamic Development Bank, the Asian Infrastructure Investment Bank, and the OPEC Fund, total MDB financing to Pakistan is estimated at roughly \$5.3 billion in 2025, potentially rising to \$7 billion by 2027.<sup>5</sup>

That is a striking number—several times the scale of what Western bilateral aid ever provided. But it comes with two important caveats. First, it is overwhelmingly loan financing rather than grants, raising legitimate debt-sustainability questions for a country already managing an International Monetary Fund (IMF) program. Second, it is concentrated in energy, transport, and water infrastructure—sectors that are bankable and generate revenue, while giving comparatively little weight to health and education, where returns are real but harder to monetize.

Non-Western bilateral donors are filling part of the remaining gap. Japan's infrastructure lending, running above \$300 million

a year, continues to grow as Tokyo pursues its “free and open Indo-Pacific” strategy,<sup>6</sup> though Japanese officials remain wary of the debt-sustainability risks associated with large-scale lending. Gulf states (e.g., Saudi Arabia, the United Arab Emirates, Kuwait) are expanding concessional loans, budget-support deposits, and revolving credit facilities that supply Pakistan with critical macroeconomic liquidity, particularly at moments when Islamabad is negotiating with the IMF.<sup>7</sup> South Korea, still a comparatively modest donor, is one of the few bilateral partners actively expanding its aid envelope, with roughly two-thirds of its assistance delivered as grants focused on water systems, nutrition, and vocational training.<sup>8</sup>

## ■ The UN system and the philanthropic layer

UN agencies and vertical funds (financing tools that target a specific area) —UN Children's Fund, World Health Organization, World Food Programme (WFP), UN Refugee Agency (aka UNHCR), alongside the Global Alliance for Vaccines and Immunization, the Global Fund, and the Green Climate Fund—together contribute an estimated \$2.9 billion to \$4 billion annually to humanitarian responses, health, food security, and climate resilience.<sup>9</sup> This layer of financing is not a substitute for the bilateral and multilateral flows described above; it fills specific gaps, particularly in disease control and climate adaptation, that MDB infrastructure lending is not designed to address. But much of it, especially the humanitarian components delivered through WFP and UNHCR, is under sustained pressure from donor fatigue and competing global crises.

Private philanthropy, though smaller in absolute terms, is growing in relative importance. Western foundations—led by the Aga Khan Development Network and the Gates Foundation—contributed an estimated \$440 million to \$690 million in 2025, pairing community-level development in places like Gilgit-Bal-

5. See “Country Partnership Framework for Pakistan,” World Bank Group Brief, February 14, 2025, <https://www.worldbank.org/en/country/pakistan/brief/country-partnership-framework-for-pakistan-fy-2026-up-to-fy-2035>; “Pakistan Country Partnership Strategy (2026-2030),” Institutional Document, February 2026, <https://www.adb.org/documents/pakistan-country-partnership-strategy-2026-2030>; “Pakistan Signs \$603 Million Agreements with Islamic Development Bank to Enhance Infrastructure, Poverty Alleviation, and Education,” Profit by *Pakistan Today*, January 20, 2026, <https://profit.pakistantoday.com.pk/2026/01/20/pakistan-signs-603-4-million-agreements-with-islamic-development-bank-to-enhance-infrastructure-poverty-alleviation-and-education/>; “AIIB to Support Pakistan in Meeting Development Goals,” Associated Press of Pakistan, November 5, 2024, <https://www.app.com.pk/business/aiib-to-support-pakistan-in-meeting-development-goals/>; and “OPEC Fund for International Development,” Pakistan, <https://opecfund.org/where-we-work/countries-a-z/asia/pakistan>.

6. “Free and Open Indo Pacific Strategy,” Japan Ministry of Foreign Affairs, [https://www.mofa.go.jp/policy/page25e\\_000278.html](https://www.mofa.go.jp/policy/page25e_000278.html).

7. “Pakistan Eyes Over \$6 Billion in Saudi Support as Top Foreign Financier in FY 2026,” *Arab News*, June 13, 2025, <https://www.arabnews.com/node/2604355/pakistan>

8. “KOICA: Pioneering Sustainable Development in Pakistan,” *The Nation*, March 24, 2025, <https://www.nation.com.pk/24-Mar-2025/koica-pioneering-sustainable-development-in-pakistan>.

9. This estimate is generated from figures listed in public documents posted on the websites of these UN agencies and vertical funds.

tistan with large-scale immunization and disease-control work.<sup>10</sup> Islamic philanthropy is growing faster still: Formal giving from Gulf-based foundations and funds, including the Saudi Fund for Development, King Salman Humanitarian Aid and Relief Centre, and Qatar Charity, reached nearly \$1 billion in 2025 and could exceed \$2 billion by 2027.<sup>11</sup> That figure does not even capture the substantially larger flow of informal zakat-linked giving from Pakistan's roughly four-million-strong diaspora in the Gulf, which goes largely unmeasured in official development statistics. Corporate social responsibility (CSR), buoyed by Pakistan's 2017 Companies Act, which mandates CSR spending by large, listed firms, adds a further \$110 million to \$200 million a year—a domestically generated philanthropic ecosystem that has no real parallel in most comparable countries.<sup>12</sup>

Add it all up, and the headline trajectory is not the story of retreat that the US Agency for International Development suspension seemed to announce. Total development finance available to Pakistan could reach \$17.2 billion by 2027, up from roughly \$10.9 billion to \$13.3 billion in 2025. Pakistan's problem is not a shortage of money.

Pakistan's position within this philanthropic landscape is itself worth underscoring. As the world's second-largest Muslim-majority country, with a population of roughly 260 million, it sits at the natural center of gravity for Islamic philanthropy—a role reinforced in recent months by Islamabad's emergence as a more active regional security partner and peacemaker, including its coordination with Gulf states on efforts to de-escalate the US-Iran conflict. That positioning gives Pakistan real leverage to deepen ties with Gulf-based sovereign funds and humanitarian organizations, provided it engages them with the same strategic rigor it applies to traditional bilateral and multilateral donors.

## ■ The real problem: Composition, not volume

The real problem is what kind of money is available, and for what. As financing shifts from Western grants toward multilateral and Gulf loans, an increasing share of Pakistan's development assistance envelope must eventually be repaid. That is manageable if the borrowed capital is deployed into

sectors that generate returns—e.g., energy, transport, water, minerals—which is precisely where MDB and Gulf financing is already concentrated. It is far less manageable if debt service crowds out the “soft,” nonrevenue sectors that this new architecture largely bypasses: girls' education, maternal and child health, and humanitarian support for vulnerable populations, including Afghan refugees.

This is the compositional gap at the heart of Pakistan's development finance challenge. Infrastructure lending can build dams, grids, and highways, but it cannot by itself produce the educated, healthy, and skilled workforce needed to turn that infrastructure into sustained economic output. Pakistan's female net literacy rate in Khyber Pakhtunkhwa province, for instance, does not rise above 15 percent to 37 percent<sup>13</sup>—a gap that concessional infrastructure loans will do nothing to close. Left unaddressed, the compositional mismatch between where the money is flowing and where the country's human-development needs lie risks becoming Pakistan's next structural vulnerability, even as the topline financing numbers look reassuring.

## ■ A framework: Stacking capital in three tiers

Rather than treating the end of USAID-style grant dependency as a crisis to be mourned, Pakistan has an opportunity to build a more deliberate, multichannel financing architecture—one organized around what might be called the strategic “stacking of capital” across three tiers.

The first tier consists of macrolevel engines: the World Bank's \$20 billion framework and the ADB's \$10 billion strategy, which function less as budget backstops than as tools to mobilize private investment and create a bankable environment in energy, minerals, and infrastructure. The second tier comprises existing and emerging bilateral partners—China, Japan, South Korea, and the Gulf states—whose support is increasingly geared toward productivity-led growth: digital transformation, vocational and information technology training, and the next phase of the China-Pakistan Economic Corridor focused on agriculture and special economic zones. The third tier is the one Pakistan will have to build largely on its own: a new so-

10. These estimates are generated from figures in public documents found on the websites of the Aga Khan Development Network, Gates Foundation, Wellcome Trust, Children's Investment Fund Foundation, Rockefeller Foundation, and Pathfinder International. This research and report are funded by the Gates Foundation.

11. These estimates are generated from figures provided in public documents posted on the websites of the Saudi Fund for Development, King Salman Humanitarian Aid, Abu Dhabi Fund for Development, Kuwait Fund, Qatar Fund for Development, Qatar Charity, Islamic Relief Worldwide, and UAE Red Crescent Authority.

12. Securities and Exchange Commission of Pakistan, The Companies Act, 2017, updated August 18, 2022, <https://www.secp.gov.pk/companies-act-2017/>

13. National Census Report, 7th Population & Housing Census 2023, Pakistan Bureau of Statistics, Government of Pakistan, <https://www.pbs.gov.pk/wp-content/uploads/2020/07/National-Census-Report-2023.pdf>.



Aerial view of Islamabad with the Faisal Mosque in the background. [Unsplash/jessica\\_anderson](#)

cial safety net funded through nontraditional grant sources, including mandatory corporate CSR, formalized Islamic philanthropy such as zakat and waqf funds, private foundations, and global health-security financing, potentially including a US health-sector compact that frames disease control in Pakistan as a matter of regional security.

## ■ What Pakistan should do next

Capturing the value of this more complex, more diversified financing architecture will not happen automatically; it requires institutional capacity that Pakistan does not yet fully possess. There are four important initial steps it should take.

First, Islamabad should designate or create a central donor-and-development-coordination entity, one empowered to map the donor landscape on a continuing basis, match donor contributions against national sectoral priorities, and oversee not just traditional bilateral, multilateral, and UN partners but also the growing universe of Western and Islamic foundations and CSR-providing corporations. As these nontraditional sources come to occupy a larger share of the landscape, they

need the same strategic engagement historically reserved for governments and MDBs.

Second, because loan-based financing now dominates the picture, Pakistan cannot simply keep borrowing without a parallel plan to generate the income and foreign-currency inflows needed to service that debt. That means being deliberate about which sectors receive investment, prioritizing those with genuinely higher rates of return, while recognizing that infrastructure alone does not create prosperity. It is productive, healthy, and educated people who convert infrastructure into economic output, which is exactly why the compositional gap in “soft” sector funding cannot be treated as a secondary concern.

Third, as an early and relatively low-cost step, Pakistan should convene separate donor conferences: one bringing together traditional bilateral and multilateral donors and UN agencies, and another bringing together Western and Islamic foundations and CSR-providing corporations. Their objectives should be to assess how each donor’s programming aligns with the country’s own long-term priorities, flag underfunded sectors such as girls’ education and maternal health, and reduce du-

plication of effort. Splitting these conversations by donor type would allow each group the focused attention it needs, rather than diluting both in a single, generic gathering.

Fourth, Pakistan should study its own history more rigorously than it has. The Kerry-Lugar-Berman program, under which more than half of the \$7.5 billion authorized by the US Congress was never disbursed or had to be returned, stands as a cautionary tale about absorption capacity, not just donor generosity.<sup>14</sup> More broadly, Organisation for Economic Co-operation and Development figures suggest that Pakistan has received roughly \$80 billion in official development assistance since 1960—equivalent to some \$150 billion to \$165 billion in today's dollars—and yet many of the country's core development challenges persist.<sup>15</sup> Understanding why, by drawing on the considerable expertise of Pakistani and expatriate professionals who have designed and delivered these programs over the decades, should be treated as a priority in its own right, not an afterthought.

## ■ Conclusion

The end of USAID's presence in Pakistan understandably reads, in the first instance, as a loss. But the aggregate numbers tell a more complicated story: Pakistan's development finance landscape is not contracting—it is being restructured toward a larger pool of capital than the one it replaces. The country's 2026–2027 trajectory will not be determined by how much assistance is available because there is, in fact, more of it than before. It will be determined by how effectively Pakistan manages a far more complex, multichannel portfolio: one that balances hard-infrastructure loans against the domestic-led social grants needed to fund education, health, and humanitarian priorities, and one that is governed on Pakistan's own terms rather than the donors'. That is a demanding agenda. It is also, for the first time in decades, one substantially within Pakistan's own control.

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14. Leon S. Waskin, "The USAID Experience in Pakistan: Lessons from the Kerry-Lugar-Berman Era," *Daily Times*, May 22, 2026, <https://dailytimes.com.pk/1496629/the-usaid-experience-in-pakistan-lessons-from-the-kerry-lugar-berman-era/>.

15. See Statbase.org, "Foreign Aid Received: Pakistan," <https://statbase.org/data/pak-foreign-aid-received/>.

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