



Broken Promises: The Impact of Sudden Aid Cuts

Digital Development Dialogue (3D)
26.06.2025 Seminar Summary

The final session of the summer term's Digital Development Dialogue (3D) explored the consequences of sudden development aid cuts, focusing on how disruptions in donor funding can undermine institutional trust and development progress. The seminar featured [Angelika Budjan](#) (University of Stuttgart) and [Md. Abu Bakar Siddiq](#) (Tetra Tech), who shared complementary insights from rigorous impact evaluation and field-level implementation in South Sudan and Bangladesh.

Angelika Budjan opened the session by challenging the dominant media narrative that portrays health-related aid cuts as the most pressing concern. Drawing on recent data from the New York Times, she showed that while health programs have indeed suffered, the largest proportional reductions have occurred in economic development and social protection sectors. In response, Budjan presented findings from her research project, [Broken Promises](#), co-authored with Utz Pape and Laura Ralston. The study investigates the socio-economic and psychological consequences of an interrupted youth entrepreneurship program in South Sudan. Originally designed as a randomized controlled trial (RCT), the program combined a week-long business training with a government-backed loan of \$1,000, disbursed via formal application at the Kenya Credit Bank. However, due to the re-eruption of conflict in 2016, the program was abruptly cancelled, and only a subset of intended beneficiaries ever received the loan.

By exploiting geographic variation in access to the bank, the study estimates causal impacts on the group that received training but was ultimately denied the loan. Budjan highlighted that this group experienced a significant decline in consumption—approximately 0.4 to 0.7 standard deviations—more than a year after the program was halted. This decline was driven by reductions in food variety, food expenditure, and asset acquisition. Moreover, participants also reported a notable drop in institutional trust—especially towards NGOs, local authorities, and financial institutions—suggesting that the psychological fallout extended beyond immediate economic loss. Experimental measures further confirmed lower levels of trust in the World Bank, pointing to broader disillusionment with development actors. Budjan concluded that the erosion of institutional trust might not only impair current well-being but also undermine the effectiveness of future development interventions. She emphasized the importance of incorporating risk mitigation into program design, maintaining transparency with beneficiaries, and engaging communities even after program interruptions.

Md. Abu Bakar Siddiq followed with a detailed account of how USAID funding cuts are reverberating through Bangladesh's development landscape. A densely populated and climate-vulnerable country, Bangladesh has long relied on external support to strengthen its health, education, agriculture, energy, and humanitarian sectors. Since 1971, USAID alone has provided over \$8 billion in assistance, with approximately \$300 million annually distributed across nearly 60 active programs. However, the sudden cessation of 55 of these programs in early 2025 has left more than 50,000 professionals unemployed and has disrupted essential services for millions.

Siddiq illustrated the breadth of these disruptions. In the health sector, 48 facilities are facing closure, directly affecting around 300,000 people, and the prominent research institute ICDDR, B has laid off over 2,000 staff. In education, dropout rates are rising, especially in rural areas, as teacher training and school support programs are scaled back. In agriculture, farmers are losing access to market opportunities and climate-smart technologies, threatening food security and resilience. USAID's climate adaptation and clean energy programs, including solar irrigation and EV charging projects in host communities near Rohingya refugee camps, are now in limbo. The effects extend to governance and humanitarian support: assistance to civil society organizations has been reduced, and funding for over one million Rohingya refugees has dropped from \$16 to \$6 per person. Siddiq stressed that these cuts are not only logistical setbacks but also deeply symbolic breaches of trust, especially for communities that have come to depend on such partnerships.

During the Q&A session, participants raised critical questions about how to maintain credibility and accountability in light of such disruptions. Budjan reiterated that institutional trust is fragile and easily lost, particularly in fragile contexts where state legitimacy is already low. She argued that open communication and consistent engagement with beneficiaries—even when delivering bad news—can mitigate long-term damage. Siddiq echoed this view, calling for greater local ownership, diversification of funding sources, and stronger domestic institutions to reduce dependence on single donors. When asked whether other donors, such as the EU or China, might step in to fill the void in Bangladesh, Siddiq noted ongoing collaboration with European actors, especially in renewable energy, but warned that no immediate substitute has yet emerged.

Both speakers emphasized that the effects of aid cuts extend far beyond budgetary shortfalls. They reflect a deeper crisis of confidence in international cooperation and risk exacerbating social fragmentation and institutional decay. Restoring trust requires more than technical fixes—it calls for a fundamental rethinking of how aid is planned, communicated, and delivered. The session closed with the shared understanding that development is not only about financial flows, but also about sustaining credible, transparent relationships between donors, governments, and the communities they serve.

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