MARCH 2025

DONORS' GPS

BY HAI PHAM

AID FUNDING AT A BREAKING POINT

Hai Pham
TRUONG HAI PHAM

Global aid money is vanishing at a record speed

I've worked in international development for two decades, and I've never seen anything like what's happening right now. The stable funding environment we all relied on is collapsing faster than anyone anticipated. And unlike previous fluctuations, this isn't temporary.

Let me share what I'm seeing from the inside.

For decades, development organisations could count on a relatively predictable source of income: Official Development Assistance (ODA) from North American and European governments. Planning cycles were consistent, priorities shifted gradually, and organisations that learned the system could build sustainable operations.

That world is gone.

Across 16 major donor countries, ODA budgets have plummeted by $34.6 billion — a staggering 17% drop — from 2023 to 2024. We've gone from $202 billion to $168 billion practically overnight. And the projections show another dip to $166 billion in 2025.

Think about this: nearly one-fifth of global development funding has simply disappeared.

Why this matters more than you think

As someone who has helped organisations secure multi-million dollar contracts from institutional donors and philanthropic organisations, I can tell you this isn't just about numbers. It's about organisational survival.

When I sit down with clients, executive teams at international non-profits and development organisations, I see the same patterns. Most have built their entire operational models around a handful of donors. They've specialised in writing proposals for specific funding mechanisms. Their teams know exactly how to report against particular frameworks.

And now those donors are cutting back or disappearing altogether.

One INGO I've recently consulted for saw their core DFAT funding cut by 60% with just three months' notice. Another German consultancy had relied on EU funding for over 15 years, only to discover their entire programme area was being deprioritised.

The question every organisation needs to ask isn't "*When will funding return to normal*?" but "*What's our strategy now that normal doesn't exist*?"

Where has all the money gone?

Understanding why funding is disappearing helps us respond more effectively. I've identified three major factors:

First, domestic priorities are overshadowing international commitments. The UK's successive cuts to foreign aid (from 0.7% to 0.5% of GNI in 2020) weren't just a pandemic measure — they've become permanent. Let alone the announced reduction to 0.3% scheduled for 2027, which is estimated at about a 40% cut in cash terms compared to current levels.

Similar patterns are playing out across Europe, where the past year has been nothing short of a reckoning for European development aid. Once one of the most generous donors, Germany cut €1.7 billion from its 2023 development budget and another €1 billion in 2024, halving its humanitarian aid for 2025. France is reducing aid by €1 billion in 2025, Belgium is slashing its foreign aid budget by 25% over five years, and the Netherlands is set for the largest aid cuts in its history, reducing development cooperation by €2.4 billion annually from 2027. Even Sweden, a long-time champion of development aid, abruptly terminated all funding agreements with its NGO partners in the name of "*localisation*", shifting its aid policy toward domestic priorities such as trade and immigration.

Meanwhile, across the Atlantic, the new U.S. administration froze foreign aid within hours of taking office, fulfilling a campaign promise to "*cut aid by one-third*" and prioritise funding for "*friends and allies*". The brutal reality is that politicians have calculated that voters care more about domestic spending than international aid.

Second, geopolitical realignment is changing how aid flows. Traditional donors are redirecting funds toward Ukraine and away from previous priority regions. The money hasn't disappeared completely — it's been redistributed based on immediate political concerns rather than long-term development strategies.

Third, skepticism about aid effectiveness has grown among policymakers. I've been in forums where donor representatives openly question whether decades of traditional development assistance have delivered sufficient returns.

This is a permanent shift, not a temporary blip

This isn't just budget-cutting rhetoric; it represents a fundamental shift in thinking about how development should be financed. The drivers of this shift are also equally clear — political winds are blowing inward. The rise of right-wing populism and nationalism in many donor countries has led to governments focusing on defence, migration control, and fiscal tightening, often at the expense of foreign aid.

Aid is no longer just about humanitarian commitments; it is becoming a strategic tool, and as a result, some governments no longer pretend that their ODA is purely about poverty reduction. For instance, the EU's aid agenda has shifted decisively toward securing its own strategic interests, financing infrastructure, border control, and trade partnerships rather than direct poverty alleviation.

At the same time, economic pressures are forcing hard choices. Governments facing inflation and public spending crises are cutting aid not necessarily because they want to, but because they see it as politically expendable. Many justify reductions as part of broader austerity measures. These changes pose an existential threat to organisations that have long relied on major bilateral donors. The funding streams that once seemed secure are evaporating before our eyes.

New funding frontiers: Where to look next?

Despite this grim picture, I'm actually optimistic about the organisations I've been speaking with. Why? Because I've seen how adaptation works in practice.

As traditional aid declines, new players and funding models are emerging. The landscape isn't shrinking — it's shifting. Those who adapt quickly will find new opportunities. Non-Western donors such as Gulf states, China, and middle-income countries are expanding South-South cooperation. Private philanthropy, particularly from high-net-worth individuals and family foundations, is stepping into gaps left by government donors. Corporate partnerships linked to ESG-driven funding are growing, especially in climate resilience and social impact. Innovative financing mechanisms like impact bonds, blended finance, and pay-for-results models are gaining traction. Meanwhile, climate finance remains one of the few areas of development funding that continues to expand.

In this shifting landscape, organisations that thrive will be those who not only recognise these emerging opportunities but actively embrace new strategies.

1. Radical donor diversification

The organisations thriving today have dramatically expanded their donor base. One environmental NGO I know went from three primary donors to eleven within 18 months. This wasn't just about applying for more funds — it required building entirely new capabilities.

They created specialised teams for different donor types: bilateral institutions, multilaterals, foundations, corporate partners, and high-net-worth individuals. Each team developed expertise in the specific language, priorities, and processes of their donor segment.

What surprised them? The skills needed for the EU proposals barely transferred to approaching impact investors. The reporting requirements for the Gates Foundation looked nothing like those for UN agencies. For them — and this is a learning for all of us — diversification required genuine organisational transformation, not just broader application strategies.

2. Embracing new funding mechanisms

Traditional grants are shrinking, but other funding approaches are growing. I'm currently advising organisations pivot toward:

- *Blended finance*, where public funds leverage private investment to scale impact. An SME development programme I was involved used a $5 million grant to unlock $30 million in private capital by creating the right risk-sharing structure.
- *Results-based financing*, where payments depend on verified outcomes rather than activities. An education initiative secured funding that only paid out when participants achieved and maintained learning outcomes according to preset metrics — but the total potential funding was 40% higher than comparable grant programmes.
- *Impact investing*, where social and financial returns align. A sustainable agriculture organisation created a subsidiary that attracted investment capital while their non-profit arm provided technical assistance using more traditional funding.

These mechanisms aren't just theoretical alternatives. They represent growing pools of capital that many organisations haven't yet learned to tap.

3. Building stronger internal fundraising capacity

The most successful organisations I know have stopped treating fundraising and business development as separate functions and integrated them throughout their operations. Programme teams understand donor priorities and funding trends. Country directors actively participate in donor relationship management. Technical specialists can articulate their work in terms that resonate with different investor types.

One multi-sector development organisation I met with in the U.S. created an internal high-tech global donor dashboard operated by "*donor intelligence cells*" — small teams that constantly monitored specific donor segments, tracking priority shifts and funding forecasts. These teams shared insights across the organisation, enabling rapid adaptation to emerging opportunities. However, this approach required a significant financial, digital transformation, and change management investment. On the contrary, organisations that continue to treat fundraising as a back-office function will continue to struggle with the current changing funding environment.

Shifting from transactional fundraising to strategic relationship-building is the key for future griwtg. Fundraising is no longer just about writing successful proposals —it's about cultivating long-term partnerships across multiple funding types. The future belongs to organisations that maintain a diverse funding portfolio across bilateral, multilateral, foundation, and private sector sources, have the flexibility to pivot programmes in response to changing donor priorities, build deep relationship networks across different donor ecosystems, and invest in data capabilities to demonstrate value across multiple impact metrics.

What this means for your organisation

If you're leading or working in an organisation that depends on traditional ODA funding, you face a clear choice: adapt now or risk obsolescence.

Start by honestly assessing your donor concentration risk. If more than 30% of your funding comes from a single source, you're vulnerable. If more than 60% comes from the same type of donor (bilateral, multilateral, foundation), you're equally at risk.

Then evaluate your organisation's capability gaps. Do you have the skills to approach new donor types? Have you developed proposals for results-based financing? Can your M&E systems support the reporting requirements of impact investors?

Most importantly, build a transition strategy. Diversification takes time. The organisations I've seen navigate this strategy shift successfully planned 18-36 month transitions, managing the tension between delivering on existing programmes while building new funding streams.

The future isn't what it used to be

When I look at the development funding landscape today, I don't see temporary disruption. I see permanent transformation.

Traditional ODA will continue to play an important role, but it won't return to previous levels or predictability. The organisations that thrive will be those that build diverse funding portfolios, develop new capabilities, and remain adaptable as funding mechanisms evolve.

In many ways, this transformation may ultimately strengthen the aid sector, as organisations with diverse funding sources are more resilient to political shifts. At the same time, funding mechanisms that blend public and private capital can reach scales that traditional grants never could, while results-based approaches can drive greater focus on measurable impact.

But the transition will be painful. Organisations that delay adaptation, hoping for a return to the old normal, face existential risk. The evidence is clear. The funding paradigm has changed permanently. The question isn't whether to adapt, but how quickly you can transform your approach to survive and thrive in this new reality.

I'm seeing organisations reinvent themselves and emerge stronger. It's possible. But it starts with acknowledging the uncomfortable truth: the stable, predictable funding world we knew is gone for good. The future belongs to those who adapt fastest.