Financing Multilateral Development: Challenges and Future Directions

Digital Development Dialogue (3D)

30.10.2025 Seminar Summary

In this seminar session, [Marijana Markotić Andrić] (Dag Hammarskjöld Foundation) and [Angela Heucher] (DEval) examined the growing financial pressures facing the multilateral development system and discussed potential avenues to ensure more predictable, sustainable, and effective funding. While Markotić Andrić provided an empirical overview of recent trends in UN financing, Heucher presented evaluation findings on Germany's multilateral priorities and the implications of the shift towards earmarked contributions.

Markotić Andrić summarized the key findings of a recent report produced jointly by the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office and highlighted the policy implications arising from current trends in multilateral financing. She opened by noting a significant projected decline in Official Development Assistance (ODA)—approximately 17 percent from 2024 to 2025—as major donors reduce their aid budgets. She showed that although core contributions to the UN have remained relatively stable, the overall UN budget is shrinking due to a steep decline in earmarked funding. Increasingly, financial flows are crisis-driven, leading to a larger share of resources going to humanitarian assistance at the expense of long-term development and peacebuilding. A small group of OECD-DAC donors, especially the United States, Germany, the EU, the UK, and the Netherlands, continues to dominate UN financing, while Scandinavian countries and the Netherlands stand out for their comparatively high contributions relative to their size, reflecting a strong commitment to multilateralism.

A central concern raised was the dominance of earmarked funding, which limits flexibility and undermines strategic planning in the UN system. Inter-agency pooled funds remain marginal despite their potential to enable more coordinated and predictable financing. Although Germany, the Netherlands, the UK, Norway, and Sweden are the largest supporters of such pooled instruments, their overall scale remains small. Markotić Andrić discussed the UN Funding Compact as one potential solution: it sets ambitious targets—such as increasing voluntary core contributions to 30 percent of all voluntary funding by 2027—but these targets are unlikely to be met. She emphasized that donors often choose hard earmarking to secure visibility and influence, while the UN needs to strengthen reporting and engagement around pooled and thematic financing. To diversify the funding base, she underscored the need for more proactive engagement with private actors and other non-traditional sources.

Angela Heucher presented key findings from DEval's evaluation of the German Ministry for Economic Cooperation and Development's multilateral engagement and outlined the implications of current funding trends for the effectiveness of the UN system. She situated her remarks within the broader context of a multilateral system under pressure—both in terms of the quantity and the quality of available resources. While Germany is likely to become the largest donor to multilateral organizations, its contributions, like those of many other donors, increasingly take the form of earmarked funding. Drawing on the evaluation, she examined how the Ministry's geographic, thematic, and institutional priorities shape its multilateral funding. The assessment showed that geographic priorities are largely being met, whereas thematic priorities are only weakly reflected in funding patterns and institutional priorities remain difficult to identify. Although the Ministry's overall multilateral contributions have increased, this growth is driven mainly by earmarked funds, while the share of core contributions continue to decline.

Heucher also summarized insights from a systematic review on the effectiveness of earmarked funding. Evidence shows that extensive earmarking can undermine process, cost, and outcome effectiveness, for example, by raising transaction costs, fragmenting efforts, and making it harder for UN agencies to address complex cross-cutting issues. Earmarked resources can, however, be beneficial when they are narrowly targeted and strategically aligned. Her policy recommendations included shifting from strict earmarking toward softer forms that preserve donor priorities while allowing greater flexibility and strengthening stable core financing for UN organizations.

During the discussion, participants raised questions about how to incentivize more core funding. Markotić Andrić highlighted the need to better communicate the impact of core resources, citing UNICEF as an example, and to demonstrate improvements in the use and effectiveness of core funding. Heucher emphasized that donors often perceive a lack of accountability and visibility around core contributions. Questions regarding data availability prompted Markotić Andrić to explain that reporting delays stem from the time needed for UN agencies to consolidate financial data, though the report does include projections for more recent years. Other questions focused on the public's limited engagement with UN financing, the role of institutional reform within the UN development system, and the persistent drivers of earmarking despite longstanding evidence of its drawbacks. Both speakers noted that donors often turn to earmarking because they lack confidence in system-wide accountability mechanisms and because there is insufficient high-quality evidence demonstrating the effectiveness of core funding.

Overall, the seminar underscored that multilateral development financing faces both quantitative and qualitative challenges. With declining budgets, increased crisis-driven spending, and a heavy reliance on earmarked contributions, the UN system struggles to sustain long-term development work. Both speakers stressed that improving the quality of funding—through stronger core support, better reporting, and more diversified financing—will be essential to enable the UN to meet global challenges effectively.

Author: Finn Sauermann
Research Assistant to Assistant Professor of Development Economics, Sarah Langlotz, and Master's Student in Development Economics at the University of Göttingen.

***Organized by [Sarah Langlotz](#) & [Lennart Kaplan](#) in Cooperation with*:**