Mind the Mission, Not the Gap: Rethinking blended finance for public purpose

Mariana Mazzucato

Professor in the Economics of Innovation and Public Value, University College London and Founding Director of the UCL Institute for Innovation and Public Purpose

Rogério Vieira de Sá

Research Fellow (Public Finance), UCL Institute for Innovation and Public Purpose

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Mariana Mazzucato and Rogério Vieira de Sá

Abstract

Blended finance—the use of concessional public resources to mobilise private capital for development—has become a prominent feature of the post-2015 development finance discourse. Popularised by the "billions to trillions" narrative, it was promoted as a mechanism to close financing gaps in development by leveraging private investment at scale. However, despite widespread institutional adoption, blended finance has mobilised limited additional private capital, flows primarily to lower-risk sectors and geographies, and exhibits imbalanced risk–reward allocations, socializing risks and privatizing rewards. This paper interrogates the conceptual foundations of blended finance and its viability as a scalable development instrument. It challenges three core assumptions: first, that development is primarily constrained by a financing gap, rather than by the absence of mission-oriented investment pipelines; second, that public finance is inherently insufficient to meet development needs, rather than recognising that existing public wealth remains underutilised; and third, that modest de-risking interventions are sufficient to mobilise private capital at scale, overlooking the structural constraints that shape private capital allocation. The paper concludes by arguing for a strategic reframing of blended finance as a targeted tool within a broader mission-oriented approach to development finance—one that prioritises structural transformation, builds productive capacities, and generates long-term public value. Realising this potential requires a shift from market-fixing to market-shaping: blended finance must move beyond filling financial gaps to actively directing and aligning capital with public purpose.

Reference

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1. Introduction

Blended finance—commonly defined as the strategic use of concessional public resources to catalyse private capital flows for development—has become a prominent feature of the post-2015 development finance architecture (OECD, 2018). Codified in the Addis Ababa Action Agenda and popularized through the “billions to trillions” narrative, it was positioned as a mechanism to address the purported gap between constrained public budgets and the estimated $4 trillion required annually to meet the Sustainable Development Goals (United Nations, 2015; World Bank, 2015).

In this paper, we interrogate the conceptual underpinnings of blended finance and question its positioning as a scalable response to the current constraints facing development finance. We argue that the turn to blended finance reflects a revival—rather than a departure—from the long-standing “financing gap” paradigm: the notion that development is primarily constrained by a shortage of investable capital (Harrod, 1939; Domar, 1946; Chenery and Strout, 1966). While politically expedient and institutionally tractable, this framing is analytically limited. It abstracts from the deeper structural constraints to inclusive and sustainable development: the absence of strategic direction in the economy, the weakness of public capabilities to translate finance into outcomes, and the failure to construct mission-oriented investment ecosystems that crowd in private capital around clearly defined public missions (Easterly, 1997; Mazzucato, 2021; Rodrik and Subramanian, 2009).

The turn to ‘blending’ as a development finance strategy also rests on a misdiagnosis of fiscal space. The issue is not an absolute shortage of public resources, but their persistent misallocation and underutilisation (Mazzucato, 2025b). Regressive subsidies, rigid accounting frameworks that treat investment as cost rather than asset, and the underutilisation of public development banks constrain the strategic use of existing public wealth for development (Coady et al., 2023; IMF, 2024; Mazzucato and Penna, 2016; Mazzucato, 2023). Treating private capital mobilisation as a default objective obscures what should be the central task: directing public finance toward shaping markets and building the institutional and productive capacities needed to generate long-term public value.

Finally, the prevailing approach to blended finance rests on a stylised view of investor behaviour, underestimating the systemic constraints that limit the flow of global capital toward development. It assumes that limited public de-risking can redirect private finance at scale, while ignoring the institutional logics that shape portfolio decisions—such as benchmark-driven performance metrics, regulatory capital requirements, fiduciary duties, and structural preferences for liquidity, scale, and creditworthiness (Attridge et al., 2023; Gabor, 2021; Braun, 2022). These constraints are not incidental, but core features of how private capital is structured and governed. As such, financial engineering at the margins has limited capacity to realign private investment with mission-oriented priorities, which are defined by long term horizons, uncertainty, and the pursuit of public value.

We conclude by arguing for the strategic repositioning of blended finance—not as a default development finance strategy, but as a subordinate instrument within a broader mission-oriented investment framework. Its role is not to compensate for a purported scarcity of public capital, nor to accommodate the structural preferences of global finance, but to support clearly articulated public objectives. The legitimacy of blended finance should rest not on the volume of private capital it mobilises, but on its contribution to long-term structural transformation, the expansion of productive capacities, and the generation of public value. Realising this potential requires moving beyond market-conforming financial engineering toward purpose-driven institutional design—anchored in the principles of directionality, additionality, fair risk and reward sharing, and transparency. If blended finance is to serve a meaningful role, it must be stripped of its current function as a vehicle for risk socialisation and redeployed as a policy tool subordinate to public missions—not to accommodate market preferences, but to shape them.

The paper proceeds in three parts. Section 1 reviews the empirical performance of blended finance across five dimensions: scale, additionality, impact, distribution, and risk-sharing. Section 2 interrogates the conceptual foundations of blended finance, challenging the assumptions that underpin its current rationale and examining the structural and behavioural constraints that limit its effectiveness. Section 3 proposes a revised framework for blended finance, repositioning it within a mission-oriented approach to public investment and grounded in four principles: directionality, additionality, fair risk-sharing, and transparency.

2. Blended Finance in Practice: The Performance Gap Between Ambition and Results

Blended finance is broadly defined as the use of concessional development finance to mobilise private capital flows for development in emerging and frontier markets (OECD, 2018). It emerged as a response to a structural paradox in the global economy: the coexistence of abundant private capital alongside a perceived shortage of public resources to fund growing development needs. The core rationale is straightforward: concessional public finance can be used to absorb or reduce investment risks, crowding in private capital at scale to investments that are critical for development (United Nations, 2015; World Bank, 2015; Mazzucato, 2018).

The Addis Ababa Action Agenda of 2015 formalised this approach within the international development finance architecture, describing blended finance as a means to scale up resources from "billions" in official assistance to "trillions" in total investment to meet the Sustainable Development Goals (SDGs) (United Nations, 2015; World Bank, 2015). Building on a long-standing framing of development as constrained by insufficient capital, international financial institutions (IFIs) and donor governments adopted blended finance as a core instrument for addressing a perceived "financing gap" in low- and middle-income countries (LMICs).

Nearly a decade after its endorsement in major policy frameworks, blended finance continues to fall short of its stated objectives. Mobilisation remains limited, additionality is often weak, and flows are concentrated in commercially viable sectors and lower-risk geographies (Attridge and Engen, 2019; Convergence, 2024; Mazzucato, 2025b). These patterns reflect deeper structural issues that raise questions about its effectiveness as a development financing instrument. This section examines five core dimensions—scale, additionality, impact, distribution, and risk sharing—drawing on available evidence to assess how blended finance has functioned in practice.

Table 1: Key Issues Affecting Blended Finance

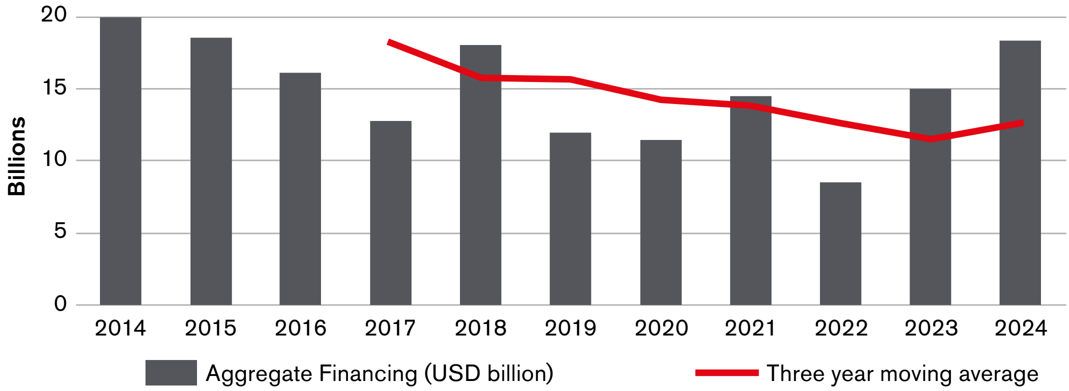
Scale: Turns billions into trillions for development	The blended finance market has averaged only $15 billion per year (2015–2023) — less than 0.4 per cent of SDG financing needs.
Additionality: High leverage potential for concessional finance	Public finance makes up 73 per cent of total blended finance flows; only 27 per cent is genuine private capital.
Impact: Steers private capital towards development	There are no agreed standards to verify the development impact of blended finance deals.
Distribution: Benefits the poorest and hardest to reach	Most blended finance goes to middle-income countries (74 per cent), bankable sectors (88 per cent), and larger investors (83 per cent).
Risk Sharing: Fair risk allocation between public and private sectors	Risk is heavily borne by the public through senior debt, guarantees, and PPPs, creating hidden liabilities and fiscal risks.

Source: Mazzucato, 2025a; Mazzucato, 2025b; Convergence, 2024; Convergence, 2025; Attridge and Engen, 2019; Mazzucato, 2025; UNDESA, 2024.

2.1 Scale: A Drop in the Trillions

Despite its prominence in development finance discourse, the annual volume of blended finance remains limited. Between 2015 and 2023, annual blended finance commitments averaged approximately $15 billion (Mazzucato, 2025a; Convergence, 2024). This is negligible compared to the estimated $4 trillion in annual investment required to achieve the SDGs (UNDESA, 2024). This stark mismatch highlights a widening gap between the expectations surrounding blended finance and its real-world capacity to mobilise private capital at scale.

Figure 1: Blended Finance Market 2014-2024: Annual Financing Glows (USD billions)



Source: Convergence, 2024; Convergence, 2025; Mazzucato, 2025a; Authors

In addition to its limited scale, the overall trajectory of blended finance over the past decade has remained relatively flat. After a modest increase in the mid-2010s, coinciding with the expansion of dedicated blending facilities and wider institutional uptake, annual commitment volumes have largely stagnated and, in some years, declined (Mazzucato, 2025a; Convergence, 2025). During the COVID-19 pandemic, blended finance flows decreased further as private investors redirected capital toward safer and more liquid assets (Sial, 2024). Rather than functioning as countercyclical instruments, blended finance mechanisms have tended to move in line with broader market conditions. This pro-cyclical pattern points to structural limitations linked to their reliance on risk-sensitive private capital and exposure to shifts in financial market dynamics.

2.2 Additionality: Counting What Doesn't Count

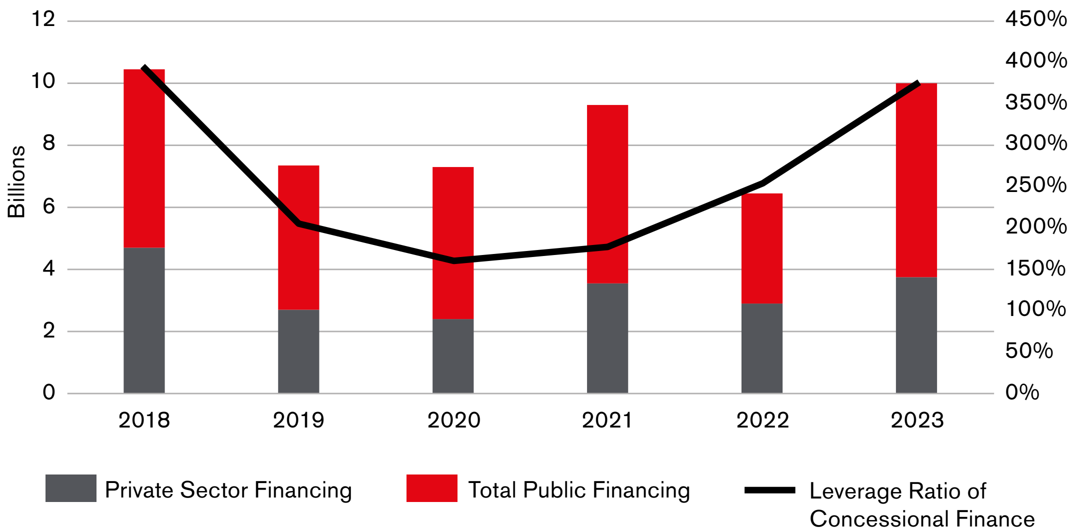
The principle of financial additionality is central to the rationale for using concessional public resources in blended finance arrangements. Demonstrating additionality requires credible evidence that public funds catalyse private investment that would not have materialised in the absence of such support, particularly in high-risk or underserved sectors where commercial capital is otherwise limited (Andersen et al, 2021). However, both empirical data and project-level evaluations suggest that this core premise is frequently overstated and inconsistently verified (Attridge and Engen, 2019).

Further, project documentation and monitoring frameworks often conflate financial additionality with simple co-financing ratios, presenting leverage multiples that reflect scale but do not demonstrate causal mobilisation (Attridge and Engen, 2019; Mazzucato, 2025a). Rigorous counterfactual analyses—showing what level of private investment would have occurred without concessional public support—are seldom developed, and few blended finance facilities apply binding requirements to guarantee minimum private capital mobilisation relative to the size of the public subsidy (Andersen et al., 2021; World Bank Group, 2020; Sial, 2024).

Recycling Public Finance: Leveraging the Public to Finance the Public

Between 2014 and 2024, an estimated 73 per cent of total blended finance commitments were sourced from public entities, including concessional grants, below-market-rate loans, and non-concessional finance provided by development finance institutions (DFIs); only 27 per cent originated from private investors (Convergence, 2024; Mazzucato, 2025a). This composition suggests that, in aggregate, concessional public resources are being used to leverage non-concessional public resources rather than private capital. This pattern raises questions about the cost-effectiveness and strategic coherence of blended finance as a tool for private sector mobilisation. It also raises important questions about the efficiency and integrity over the use of blending mechanisms when concessional resources support transactions already within the operational portfolios of DFIs.

Figure 2: Sources of Finance to Blended Deals (Exc. Guarantees and Insurance) 2018-2023



Source: Convergence, 2025; Convergence, 2024; Authors

In the absence of rigorous ex ante assessments to justify both the necessity and extent of concessionality, blended finance risks functioning primarily as a subsidy mechanism—diverting scarce public resources to projects that could have secured commercial financing on standard terms or that merely crowd in other public funds. Such misalignment weakens the intended catalytic role of blended finance and raises critical questions about its opportunity cost relative to more direct or strategic uses of public capital (Mazzucato, 2025a).

2.3 Impact: Claiming What Can't Be Proven

In addition to financial mobilisation, blended finance is expected to deliver developmental additionality—that is, measurable development impacts that arise as a result of investment that otherwise would not have occurred (Andersen et al, 2021). This entails assessing whether investments supported by blended arrangements generate public value that would not have materialised through direct public spending or standard development interventions alone. However, empirical evidence on the development impact of blended finance projects remains limited, with impact metrics often poorly defined and few robust frameworks to assess whether outcomes exceed those achievable through direct public investment or alternative instruments. (Attridge and Engen, 2019; Andersen et al., 2021; Mazzucato, 2025a).

Most blended finance initiatives continue to monitor development additionality primarily through financial metrics—such as capital disbursed, loans repaid, or leverage achieved—rather than through credible and independently verified indicators of social or economic outcomes (Attridge and Engen, 2019; Mazzucato, 2025a). Impact assessments often rely on self-reported data provided by investors or intermediaries, with minimal requirements for independent evaluation or robust public disclosure (World Bank Group, 2020). As a result, claims of developmental additionality frequently lack a solid empirical foundation and are seldom tested against rigorous counterfactuals.

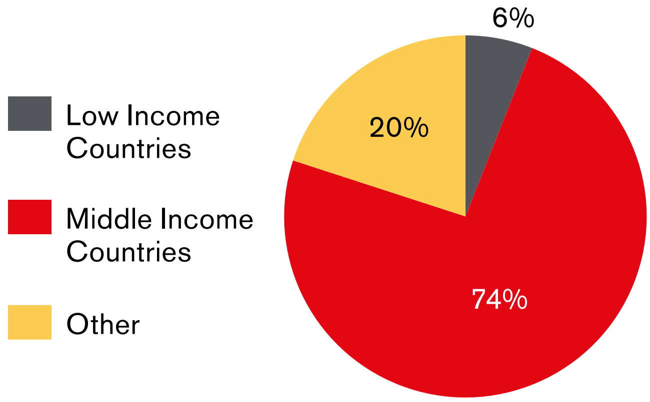
2.4 Distribution: Targeting the Bankable, Missing the Transformative

Patterns of capital deployment under blended finance reveal structural asymmetries that undermine its effectiveness as an instrument for inclusive development. The geographical and sectoral concentration of mobilised finance, alongside the profile of its main beneficiaries, suggests a persistent misalignment between where blended finance flows and where development needs are most acute.

Geographical Bias: Concentration in Lower-Risk Markets

Blended finance flows remain heavily concentrated in middle-income countries (MICs), least developed countries (LDCs) receive a marginal share. Between 2012 and 2018, LDCs accounted for just 6% of total mobilised private capital, compared to approximately 74% directed toward LMICs (OECD/UNCDF, 2020). Even within the LDC group, investment is clustered in a small subset of relatively more "bankable" economies—those with stronger market institutions, greater natural resource endowments, or more favourable risk profiles (OECD/UNCDF, 2020). For example, five countries—Bangladesh, Uganda, Myanmar, Senegal, and Angola—each received more than USD 1 billion in blended finance, while over 30 LDCs received less than one-quarter of that amount individually (OECD/UNCDF, 2020). These concentration patterns challenge the rationale of blended finance as a means of expanding the frontier of investment into higher-risk, undercapitalised regions.

Figure 3: Share of Mobilized Private Finance by Income Group 2012-2018

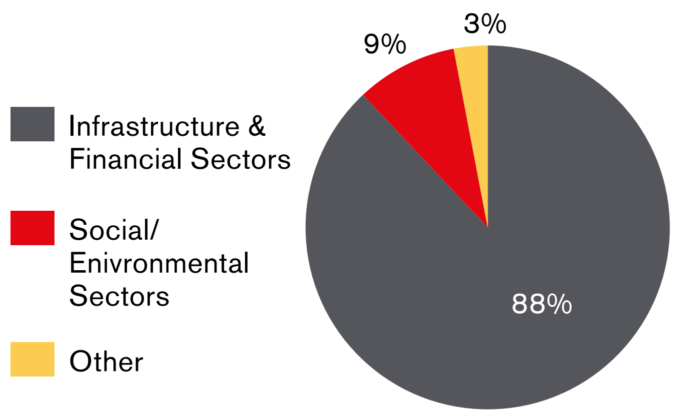


Source: Convergence, 2025; Authors

Sectoral Bias: Preference for Revenue-Generating Sectors

Evidence shows that blended finance is concentrated in sectors with stable and predictable revenue streams, such as infrastructure and financial services. Together, these sectors have absorbed 88 percent per cent of total blended finance commitments between 2022-2024 (Convergence, 2025). Their appeal lies in established payment mechanisms—tariffs, user fees, loan repayments, and off-take agreements—that provide sufficient cash flow to attract private capital and make risk-sharing arrangements financially viable. Conversely, sectors characterised by high social returns but limited direct revenue generation receive only a marginal share of blended finance flows—8 per cent of total allocations between 2022-2024 (Convergence, 2025). This pronounced sectoral skew reflects the inherent tension in relying on profit-seeking capital to deliver public goods whose benefits are diffuse, non-excludable, or inadequately monetised through market transactions. Without deliberate policy measures to extend the reach of blended structures beyond commercially bankable sectors, the instrument risks reinforcing existing patterns of capital allocation rather than addressing core development deficits.

Figure 4: Share of Total Blended Finance by Sector (2022-2024)



Source: Convergence, 2025; Authors

Beneficiary Bias: Concentration Among Large, Established Actors

Between 2022 and 2024, financial institutions and mid-sized firms, including project developers, accounted for approximately 83 per cent of blended finance transactions, while microfinance institutions, small enterprises, and locally owned small and growing businesses received a markedly smaller share (Convergence, 2025). This distribution reflects persistent structural barriers to entry, including high minimum deal sizes, complex financial structuring requirements, and significant transaction costs that systematically favour larger entities with established market access and institutional capacity.

Recent figures illustrate this tendency: the median size of blended finance transactions rose from USD 38 million (2020–2023) to USD 65 million in 2024, with many facilities applying eligibility thresholds that effectively exclude community-level initiatives and smaller domestic enterprises (Convergence, 2025). This pattern raises critical concerns regarding the allocative efficiency of concessional resources, as public funds risk subsidising actors that already possess access to capital markets, rather than catalysing genuinely additional domestic capacity or fostering inclusive local economic development.

Project Origination: Structural Driver of Skewed Allocation

A critical factor contributing to the skewed allocation of blended finance is the prevailing model of project origination. In contrast to traditional development finance, which typically integrates project pipelines within national development plans and sectoral priorities, blended finance mechanisms frequently depend on private sponsors to identify and propose “bankable” opportunities (Kenny, 2018; Mazzucato, 2025a). This private-led origination introduces a structural bias towards commercially viable projects, irrespective of their broader developmental significance. Consequently, concessional public resources are often deployed to mitigate risks associated with transactions designed primarily to meet private investors’ return expectations, rather than to address strategically underfunded areas or align directly with national development objectives. This arrangement reduces the public sector’s capacity to shape investment flows toward transformative or high-risk-frontier sectors where private interest is typically weakest.

2.5 Risk Sharing: Socialising Risks, Privatising Rewards

A core structural weakness of blended finance lies in the persistent asymmetry in the distribution of risks and returns between public and private actors. While the DFI Working Group’s Principles for Blended Concessional Finance for Private Sector Projects emphasise that “risks and rewards should be shared fairly between private and public investors” (DFI Working Group, 2021, Principle 3), empirical evidence reveals a systematic deviation from this norm. Concessional providers disproportionately absorb downside risk, particularly through explicit risk-mitigation tools: between 2022 and 2025, guarantees accounted for 46 per cent of concessional commitments to financial institutions, with an additional 30 per cent provided as grants (Convergence, 2025).

In contrast, impact investors concentrated 87 per cent of their allocations in senior equity (45 per cent) and senior debt (42 per cent), with only 4 per cent exposed to guarantees or insurance. This configuration systematically places downside risk on the public balance sheet while allowing private investors to concentrate in safer, senior positions, weakening the catalytic intent of blended finance and raising concerns about the fair distribution of risk and return (Mazzucato, 2025a).

Persistent asymmetries in risk allocation between public and private actors not only weaken the catalytic rationale of blended finance but also pose significant fiscal risks for recipient governments. In many transactions, concessional public resources are used to enable deals that would not proceed absent disproportionate public exposure, often through sovereign guarantees or direct public borrowing. Between 2018 and 2022, over 60 per cent of blended finance operations in low- and middle-income countries involved such instruments (Sial, 2024; OECD/UNCDF, 2020). While these tools can enhance creditworthiness and facilitate private participation, they shift risk onto public balance sheets—typically as contingent liabilities that remain off-budget and are excluded from official debt statistics (Bova et al., 2016; IMF, 2022).

Without robust ex ante valuation, disclosure, and legislative oversight, this growing reliance on implicit public support undermines fiscal transparency and creates moral hazard (OECD, 2018; IMF, 2023). The long-term fiscal obligations embedded in these structures can constrain policy space, particularly in settings where fiscal buffers are limited and risk management frameworks are underdeveloped. In many cases, comparable developmental objectives could be more effectively and efficiently achieved through direct public investment—avoiding the administrative complexity and layered financial engineering that characterise many blended finance arrangements (Attridge and Engen, 2019).

3. Blended Finance: The Wrong Solution to the Wrong Problem

The rise of blended finance as a central strategy for development finance reflects a conceptual framing that treats financial scarcity as the primary constraint to development. Central to this narrative is a stylised paradox: the coexistence of abundant global private capital and a perceived shortfall of public resources to meet rising development needs. From this juxtaposition emerges a core policy proposition—that scarce public funds should be used to de-risk private investment, thereby mobilising capital "at scale" to close the purported development financing gap. In principle, this approach seeks to channel private savings into productive investment, advancing progress towards the SDGs without straining public budgets.

This section challenges three problematic conceptual assumptions that underpin the narrative positioning blended finance as a central strategy for development finance. First, the idea of a financing gap presumes that development failure stems from a shortfall in investable resources—an assumption that neglects the institutional, technological, and structural foundations required to convert finance into development outcomes. The central issue is not the availability of finance per se, but the absence of coordinated investment strategies, limited institutional capacity, and weak pipelines of projects aligned with long-term national priorities. Second, the narrative of public capital scarcity overlooks the vast quantities of existing public wealth that are currently misallocated—through regressive subsidies, fiscal fragmentation, and underleveraged development banks—rather than fundamentally absent. And third, the expectation that marginal de-risking mechanisms can redirect private capital at the scale and duration required is at odds with the structural features of contemporary finance, which remains governed by short-term benchmarks, risk aversion, and limited institutional capacity for patient investment. Blended finance, in this view, is not a neutral tool but a continuation of a conceptual tradition that reduces development to financial engineering—obscuring the structural, institutional, and political dimensions that underpin development.

3.1 Misdiagnosing Development: Filling Gaps, Missing Purpose

The current reliance on blended finance as a mechanism to mobilize private capital to fill a perceived development financing gap is grounded in a conceptual tradition that treats development as a problem of capital supply, rather than one of strategic direction, institutional capacity, or productive transformation. This paradigm can be traced back to mid-twentieth-century growth theories, particularly the Harrod-Domar model, which linked a country's growth rate to its savings and investment rate under a fixed capital–output ratio (Harrod, 1939; Domar, 1946). Within this framework, growth was modelled as a linear outcome of capital accumulation: once the required investment to achieve a target growth rate was specified, any shortfall relative to actual domestic savings was expected to be filled by mobilising additional external finance, typically through aid or concessional lending.

This logic was formalised and expanded by the "two-gap" model developed by Chenery and Strout (1966), which identified both a savings gap and a foreign exchange gap as binding constraints in developing countries. Where domestic savings or export earnings proved insufficient to finance necessary imports and investment, external capital inflows were presumed to bridge these deficits and thereby unlock sustained growth. Together, these models reinforced a mechanistic view of development: once the investment gap was quantified, it could be closed through external finance—thus assuming that capital inflows alone could deliver transformative development. Subsequent theoretical refinements and decades of empirical research have increasingly challenged this stylised depiction of capital-led growth.

Capital Does Not Equal Growth

A first and fundamental critique concerns the linear and mechanistic assumptions embedded in the financing gap narrative. Rooted in the Harrod-Domar model, it assumes a stable and deterministic relationship between investment and growth, identifying capital scarcity as the primary constraint on development. This assumption abstracts from both diminishing returns to capital and the heterogeneity of investment productivity across sectors and institutional contexts. Solow's (1956) neoclassical growth model illustrates these limitations, demonstrating that capital accumulation alone is insufficient to sustain long-term growth in the absence of technological progress. In the absence of technological progress or more efficient allocation, the marginal productivity of capital declines and growth converges toward a steady state. The implication is clear: capital accumulation is a necessary but insufficient condition for sustained economic growth. This theoretical proposition is empirically supported by studies showing that external financing has frequently displaced domestic savings, failed to produce consistent growth effects, and, in certain cases, contributed to dependency and incentive distortions (Griffin and Enos, 1970; Weisskopf, 1972; Mosley, 1980; Bauer, 1971).

Demand Side Constraints

A second major limitation of the financing gap approach is its neglect of macroeconomic demand-side constraints. By implicitly assuming full employment and frictionless capital absorption, this framework adopts a supply-driven logic reminiscent of Say's Law, presuming that increased investment will automatically generate proportional increases in output. Such assumptions are rarely tenable in LMICs characterised by structural underemployment, idle capacity, and chronically weak domestic demand (Prebisch, 1950). Structuralist and post-Keynesian economists have long argued that investment alone does not guarantee growth unless supported by sufficient effective demand—often constrained by low household consumption, high income inequality, and limited diversification of export markets (Blecker and Setterfield, 2019). These challenges are compounded by persistent balance-of-payments fragility and exposure to terms-of-trade volatility, which frequently limit the capacity of external capital inflows to sustain stable growth (Thirlwall, 2011; Cimoli and Porcile, 2014). By overlooking these macroeconomic realities, the financing gap approach offers an incomplete and overly optimistic account of how capital supply translate into sustained developmental outcomes.

Institutions Matter

A third core limitation of the financing gap approach lies in its failure to account for the structural and institutional conditions that mediate the relationship between financial inputs and sustained development outcomes. By concentrating narrowly on aggregate capital shortfalls, the financing gap narrative overlooks the decisive role of governance quality, state capacity, and institutional effectiveness in converting financial resources into productive investment (Rodrik and Subramanian, 2009; Mazzucato, 2013b; Mazzucato, 2021). Empirical evidence indicates that in contexts characterised by weak governance, underdeveloped financial systems, or inefficient public procurement, additional external finance often fails to generate commensurate development gains (Pritchett, 2000; Rodrik and Subramanian, 2009). For example, capital budget execution rates in low-income countries commonly range from 60–75 per cent, compared to rates exceeding 90 per cent in high-income economies—highlighting that the principal constraint often lies not in the availability of finance but in limited absorptive capacity and administrative effectiveness (World Bank, 2025). Without addressing these institutional and operational bottlenecks, expanding financial inflows—whether through aid, concessional loans, or blended finance—remains unlikely to deliver sustained developmental progress (Rodrik, 2004; Pritchett, 2000).

Political Economy Considerations

The financing gap approach has also been critiqued for advancing a technocratic conception of development—one that privileges financial inputs while neglecting the structural, institutional, and distributional dynamics of transformation. Rooted in a broader depoliticisation of postwar development economics, this approach displaces questions of state capacity, policy space, and social conflict in favour of accounting-based models of investment shortfalls (Mkandawire, 2001; Taylor, 1997; Rana et al, 2020). Reducing development to a problem of capital mobilisation obscures the political economy of aid relationships and the global asymmetries embedded in financial flows. In practice, this translates into externally determined investment targets that sideline the endogenous processes of institutional learning, technological upgrading, and strategic coordination central to long-run development.

Collectively, these critiques underscore the conceptual limitations of the financing gap paradigm. Initially invoked to justify large-scale aid flows intended to supplement domestic savings, this framework now informs efforts to crowd in private capital through instruments such as blended finance. In both cases, the underlying logic conflates the availability of capital with the conditions necessary for productive investment, neglecting the institutional, technological, and policy infrastructures required to convert financial inputs into transformative outcomes. The approach reifies a linear relationship between capital inflows and development, overlooking the need for coherent industrial strategies, dynamic learning environments, and state-led coordination mechanisms. By embedding this logic within the operational architecture of a financialised global economy, blended finance substitutes financial engineering for the public tools needed to shape markets and align capital with development priorities.

3.2 The Myth of Fiscal Scarcity

One of the principal justifications advanced for blended finance is the presumed structural insufficiency of public finance to meet the scale of investment required for the Sustainable Development Goals (SDGs). This narrative has become a dominant orthodoxy within global development discourse, particularly with respect to low- and middle-income countries (LMICs), where fiscal constraints are often portrayed as so binding that the mobilisation of private capital via concessional instruments is not merely advantageous but essential. However, the assumption of inherent fiscal scarcity is analytically contestable and empirically weak (Mazzucato, 2025b). The constraint lies not in an absolute shortfall of public resources, but in the persistent failure to govern, allocate, and deploy existing public wealth in ways that advance long-term structural economic transformation.

For illustration, substantial volumes of public expenditure continue to reinforce carbon-intensive production rather than support inclusive, green development. In 2022, global fossil fuel subsidies amounted to over US$7 trillion—approximately 7.1% of world GDP—disproportionately benefiting incumbent sectors while crowding out investment in renewable energy, sustainable infrastructure, and essential public services (Coady et al., 2023; IMF, 2024). In parallel, large-scale revenue losses stemming from tax base erosion and aggressive avoidance practices deprive states—particularly in the LMICs—of over US$600 billion annually, a figure that exceeds total official development assistance (ODA) (Tørsløv, Wier and Zucman, 2023). Tax expenditures alone can absorb up to 25 per cent of total revenue in LMICs, representing a persistent drain on fiscal capacity that could otherwise support climate adaptation, public health systems, and industrial upgrading (IMF, 2024; Mazzucato, 2025b).

These patterns of misallocation are compounded by self-imposed constraints embedded within outdated fiscal and public accounting frameworks. A majority of governments continue to operate under cash-based budgeting systems that classify capital expenditure as immediate fiscal costs, rather than long-term investments yielding productive returns. This accounting treatment discourages strategic investment, as it equates short-term consumption with long-term asset formation—penalising infrastructure, innovation, and climate-related spending within the budget process. Moreover, fiscal rules centred narrowly on debt and deficit ratios exacerbate this bias, constraining public investment even when macroeconomic conditions and empirical evidence favour expansionary policy. Numerous studies demonstrate that public investment, particularly in downturns, generates significant multiplier effects on output and employment (Deleidi and Mazzucato, 2019; Alesina and Reichlin, 2018). In response, an emerging body of policy scholarship—including within the IMF—has called for second-generation fiscal rules. These frameworks would differentiate recurrent and capital expenditures, incorporate public sector balance sheet metrics, and introduce escape clauses for countercyclical and transformational outlays (Eyraud et al., 2018; IMF, 2020).

Public development banks (PDBs) represent another substantial but underutilised source of public, long-term, patient capital for development. Collectively managing over US$22.5 trillion in assets (Xu et al., 2021), national and multilateral development banks are uniquely positioned to provide counter-cyclical finance and lead investment in strategic sectors. However, prevailing institutional mandates and risk management frameworks often prioritise the preservation of AAA credit ratings and the mobilisation of private co-financing over the direct pursuit of public missions. This conservative orientation reflects political and governance choices rather than inherent institutional constraints.

The fiscal straitjacket is further tightened by the international debt architecture. The World Bank–IMF Debt Sustainability Analysis (DSA) framework codified a narrow and static view of fiscal space, treating all public expenditure as liabilities while disregarding their differentiated macroeconomic effects. This approach fails to account for the potential growth-enhancing and revenue-generating returns of strategic public investments (Mazzucato, 2025b). As a result, the framework embeds a pro-cyclical bias that privileges immediate fiscal consolidation over long-term developmental outcomes.

Taken together, these structural features underscore that the perceived scarcity of public finance—central to the rationale for blended finance—is not an immutable economic constraint, but the outcome of political decisions, institutional arrangements, and governance failures. Framing development challenges primarily as a function of insufficient public resources, to be remedied through the mobilisation of private capital via de-risking mechanisms, diverts attention from more foundational requirements. Chief among these is the imperative to strengthen the strategic governance of public wealth—ensuring that fiscal resources, public balance sheets, and development finance institutions are mobilised and directed in support of long-term structural transformation. Reorienting development finance around mission-driven objectives entails shifting the focus from the volume of capital mobilised to the public purpose it serves. Within such a framework, blended finance may still play a role—but as a complementary instrument aligned with public missions, rather than a substitute for direct public investment and capacity.

3.3 Misreading Structural Constraints on Global Capital

The proposition that blended finance can effectively intermediate between surplus global capital and underfunded development priorities rests on a misreading of institutional investor behaviour and an underappreciation of the structural constraints that shape contemporary financial markets. Institutional investors—including pension funds, insurance companies, and asset managers—operate within tightly regulated environments shaped by prudential standards, fiduciary responsibilities, credit rating thresholds, and benchmark-driven portfolio mandates (Attridge et al., 2024). These regulatory and governance frameworks privilege capital preservation, liquidity, and standardisation, thereby excluding investments characterised by long gestation periods, high uncertainty, and limited secondary marketability. As a result, development projects—particularly those in lower-income or fragile contexts—frequently fall outside the investable universe due to uncertain revenue streams, large upfront capital requirements, and exposure to macroeconomic, political, and operational risks (Bernards, 2023).

While concessional finance and public guarantees may reduce headline risk, they rarely address the underlying institutional constraints that preclude alignment between the mandates of institutional capital and the characteristics of development investment. Accordingly, blended finance strategies that assume latent pools of private capital can be unlocked through marginal risk mitigation may overstate both the scale and viability of such mobilisation.

This structural misalignment is further exacerbated by informational asymmetries that blended finance mechanisms are often ill-equipped to address. Institutional investors, particularly those based in advanced economies, typically lack the local knowledge, presence, and institutional partnerships required to assess project-level risks in low- and middle-income countries. In the absence of granular contextual understanding, country- and sector-level uncertainties are routinely priced in as elevated risk premia or, more commonly, serve as de facto grounds for exclusion from investment portfolios (Tyson, 2018). Political volatility, weak regulatory enforcement, and limited fiscal transparency further reinforce perceptions of uninvestability. At the same time, the mandates governing institutional capital prioritise large transaction volumes, contractual homogeneity, and stable, short- to medium-term returns—criteria that development projects in areas such as climate adaptation, small enterprise development, and public service provision often fail to satisfy (Attridge, 2025). The result is a structural disjuncture between the allocation logic of private capital and the characteristics of investments that are most critical to long-run development transformation. Blended finance, as currently operationalised, has yet to resolve this fundamental mismatch.

In response to the persistent difficulty of mobilising institutional capital for development, a growing body of policy literature has proposed reframing development-related investments as a distinct asset class (Grove and Scholten, 2025; OECD, 2018). This conceptual shift aims to facilitate the aggregation of projects, enable securitisation, and enhance secondary market liquidity—ultimately reducing transaction costs and attracting long-term capital at scale. However, this approach rests on problematic assumptions and faces significant structural impediments. Most notably, development projects, particularly in fragile or low-capacity contexts, frequently lack the contractual standardisation, stable revenue streams, and enforceable legal frameworks required to support securitisation and tradability. Furthermore, the inherent heterogeneity of development investments—spanning a wide range of sectors, regulatory jurisdictions, and institutional settings—precludes the degree of uniformity necessary for asset-class construction and fungibility (Gabor, 2021). Finally, the high transaction costs associated with project identification, due diligence, risk assessment, and ongoing monitoring remain prohibitive, particularly where domestic institutional capacity is limited or underdeveloped (Bernards, 2023).

More fundamentally, recasting development opportunities as tradable assets does little to resolve the upstream deficits in project pipeline development, state capacity, and policy coherence. Without long-term public investment in planning, coordination, and institutional reform, such financial innovations risk reinforcing—rather than reorienting—the prevailing biases of private capital allocation.

Efforts to conform development finance to the preferences of institutional investors, rather than reshaping finance to meet development objectives, risk subordinating public goals to market logics, ultimately narrowing the space for structural transformation (Bernards, 2023; Gabor, 2021).

4. Towards a New Framework for Blended Finance: Anchoring in Public Purpose

The preceding sections have shown that blended finance, as currently practiced, misdiagnoses the nature of development constraints and overstates the responsiveness of global capital to marginal risk-adjustment. Its underlying logic remains tethered to a financing gap paradigm that conflates the mobilisation of capital with the achievement of developmental outcomes. However, within a fundamentally reoriented framework—one that subordinates financial engineering to clearly defined public purposes—blended finance may serve a more limited but targeted role. Rather than substituting for public investment or compensating for institutional weakness, it must be embedded within mission-oriented strategies that use concessional resources to crowd in private capital where appropriate, while strengthening domestic capacity for strategic governance and long-term planning (Mazzucato, 2013a; Mazzucato, 2021).

This rethinking entails a shift away from aggregate mobilisation targets and toward a purpose-driven framework rooted in policy directionality and public value creation (Mazzucato and Rodrik, 2023; Mazzucato, 2021). Crucially, it also demands a sober assessment of scale: given prevailing structural asymmetries and incentive misalignments, blended finance cannot deliver capital flows at the magnitude once assumed. Its relevance lies not in unlocking scale, but in its potential to channel finance in support of clearly articulated transformative missions. The remainder of this section sets out core normative and operational principles for embedding blended finance within such a mission-driven approach.

4.1 Directionality: Shaping Finance for Development

Blended finance is not a development strategy. It is a financial tool—one among several—that can support specific public missions under the right conditions. Its effectiveness depends on who defines its priorities, how projects are originated, and how risks and returns are allocated. When governed by a narrow mobilisation logic—focused primarily on leveraging headline volumes of private capital—blended finance risks reproducing the same conceptual blind spots that underpin the financing gap paradigm, including the conflation of capital mobilisation with developmental impact. To overcome these limitations, blended finance must be firmly embedded within national development strategies and deployed as one tool among many to advance long-term structural transformation. Central to this reconfiguration is placing the public sector—governments, and DFIs—at the heart of project origination, investment pipeline development, and oversight, ensuring that private capital serves clearly defined national priorities rather than driving them (Mazzucato, 2025a).

Although investor-led models remain dominant, there are documented cases where blended finance has been embedded within domestic institutional frameworks and aligned with national planning processes. South Africa's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), launched in 2011 by the Department of Energy, provides a salient example.

While project development was carried out by private actors, the programme was anchored in clearly defined public objectives: addressing electricity shortages and advancing South Africa's climate commitments under its Nationally Determined Contribution (NDC). REIPPPP reflects core elements of a mission-oriented approach—public goal-setting, private participation, and policy coherence. Implemented through a rules-based auction system overseen by a dedicated public entity, the state retained control over project selection and imposed binding developmental conditionalities, including local content, employment, and community ownership requirements (Eberhard et al, 2017; NDC Partnership, 2022). Rather than relinquishing direction to private actors, the programme channelled private capital toward nationally defined aims. It also illustrates how public-led origination need not involve top-down project specification, but can instead establish policy parameters that enable private experimentation within a clearly regulated and accountable framework.

Indonesia's SDG Indonesia One platform, launched in 2018 by the Ministry of Finance and managed by the state-owned PT Sarana Multi Infrastruktur (PT SMI, 2018), offers another example of how blended finance can operate within a framework of strategic public direction. The platform mobilises private capital for infrastructure and climate-related investment by combining concessional resources—such as grants, guarantees, and technical assistance—with commercial finance. Rather than selecting individual projects, it defines broad national priorities—such as resilience, connectivity, and energy access—within which blended instruments are deployed.

By embedding the platform within a national development finance institution, public authorities maintain oversight over project selection and ensure consistency with Indonesia's medium-term development plans and Sustainable Development Goals (PT SMI, 2018). This model facilitates the integration of multiple financial instruments under a unified public mandate, shaping the conditions under which private investment is engaged. Like REIPPPP, SDG Indonesia One demonstrates how domestic institutions can structure blended finance around clearly articulated public objectives, while allowing space for private initiative within a regulated and accountable framework.

These experiences illustrate the scope for nationally anchored investment platforms to embed strategic directionality as a constitutive feature of blended finance, moving beyond ad hoc project facilitation toward systemic alignment with national development priorities. Conceptually, this represents a departure from transaction-driven models premised on maximising financial mobilisation per se, towards an institutional architecture that governs financial flows in accordance with publicly articulated missions and explicit value-creation objectives (Mazzucato, 2013a; Mazzucato, 2021; Mazzucato and Songwe, 2024).

4.2 Additionality: Purpose Before Leverage

The principle of additionality, when situated within a mission-oriented framework, moves beyond the conventional logic of supplementing investment where private capital is absent. Rather than evaluating public finance by its marginal contribution relative to a counterfactual baseline, additionality is redefined as the capacity of public resources to shape the direction, composition, and institutional architecture of investment. The objective is not merely to increase the volume of capital flows, but to reconfigure their allocation and purpose—steering finance toward activities that generate public value, support structural transformation, and contribute to long-term systemic change (Deleidi and Mazzucato, 2021). This reconceptualization foregrounds the formative role of public finance in constructing investment ecosystems aligned with collectively defined missions, thereby displacing the narrow emphasis on leverage ratios and marginal crowding-in effects.

Operationalising this principle entails three interlocking requirements. First, ex ante developmental appraisal must rigorously specify the expected transformational outcomes—such as technological upgrading, emissions reductions, or productivity spillovers—prior to committing concessional resources. Blended finance structures must be anchored in a clear theory of change specifying intended developmental outcomes and identifying the causal pathways through which public funds will shape private incentives (Mazzucato and Rodrik, 2023). Second, these pathways must be codified through explicit conditionalities: performance-based requirements that tie concessional terms to concrete developmental results. Such conditions are critical to prevent public funds from simply de-risking private investment: examples include equity stakes for the public sector, reinvestment covenants, technology-sharing obligations, and local supply chain commitments. These forms of 'mission conditionality' align blended finance with structural transformation, not merely financial mobilisation (Mazzucato and Rodrik, 2023).

Third, ex post evaluation must assess not only the volume of private capital mobilised, but also the qualitative shifts induced in market structures, investment practices, and institutional capabilities. Key indicators should include the emergence of new asset classes aligned with national missions, enhanced domestic capacities for project origination and oversight, and evidence of learning effects and technological diffusion (Izquierdo et al., 2019).

Crucially, additionality must be assessed not as a static binary but as a multiplier effect realised over time. This multiplier logic, emphasised in mission-oriented policy, recognises that the greatest value of public risk-taking lies in cumulative systemic impacts: crowding in follow-on investment, supporting institutional capacity-building, facilitating learning spillovers, and embedding innovation ecosystems (Mazzucato, 2013a; Deleidi and Mazzucato, 2021). Conventional leverage ratios obscure these second-order effects, encouraging a focus on scale rather than depth. A more meaningful evaluation of blended finance must therefore assess whether public resources have restructured investment incentives, created new classes of investable assets aligned with national missions, and strengthened domestic capabilities to sustain transformational pathways.

Absent this rigorous anchoring, blended finance risks entrenching a subsidy-driven equilibrium in which public resources socialise downside risks while private actors capture disproportionate returns—without meaningfully shifting capital flows into underfunded transformational domains. Avoiding this outcome requires an unambiguous commitment to additionality as a structural principle: ensuring that blended instruments do not merely fill accounting gaps, but multiply public impact by shaping market behaviour, inducing innovation, and reinforcing the institutional foundations of a resilient development trajectory.

4.3 Sharing Risks and Rewards

A reformed approach to blended finance must be anchored in the principle of equitable and transparent allocation of risks and rewards between public and private stakeholders. This requires mechanisms that align returns with the degree of risk undertaken and avoid structures that socialise losses while privatising rewards (Mazzucato, 2013b; Lazonick and Mazzucato, 2013). Even where the public sector does not provide upfront capital but extends guarantees or other contingent instruments, it assumes genuine fiscal liabilities by underwriting risks that private investors would otherwise internalise (Bova et al., 2016). It is therefore both prudent and legitimate that public entities share in upside outcomes—whether through guarantee fees, profit-sharing arrangements, or equity-like returns—proportionate to the risk they bear. This ensures that guarantees do not create free-option value for the private sector, but rather embed reciprocity and fiscal responsibility. In contrast to models reliant on open-ended guarantees or unconditional risk absorption, an effective blended finance architecture must feature clear, ex ante calibration of risk–reward dynamics, aligned with developmental objectives and consistent with sound public financial management.

A practical corollary of an equitable risk–reward framework is the transition from a project-by-project de-risking model to a portfolio-based investment strategy. Rather than providing guarantees or credit enhancements on isolated transactions, public actors, including governments and DFIs, can deploy risk capital across diversified, mission-driven portfolios designed to absorb variability in project performance while delivering aggregate developmental returns (Lazonick and Mazzucato, 2013; Mazzucato, 2025a; Mazzucato and Songwe, 2024). This approach mirrors the logic of venture capital—where individual project failures are expected and acceptable so long as overall portfolio returns remain positive—but reorients that logic towards public value generation. Critically, portfolio structuring allows returns from commercially attractive investments to cross-subsidise more pioneering or socially indispensable initiatives (Mazzucato, 2013b). In this way, portfolio models institutionalise the developmental multiplier effect of public risk-taking while keeping fiscal exposures within clearly defined limits.

To ensure that public contributions to blended finance generate commensurate returns, a variety of instruments can be embedded at both the portfolio and project levels to capture upside gains systematically. For instance, performance-based grants may be structured to convert into repayable obligations once predefined performance or profitability thresholds are met, allowing public entities to recover capital in successful cases.

Royalty agreements, equity participations, and clawback provisions further enable the public sector to share in revenue streams when project returns exceed initial expectations, thereby internalising part of the upside that public risk-taking makes possible. A practical illustration is the Eastern Caribbean geothermal energy initiative, which employs a contingent financing arrangement: if exploratory drilling successfully identifies commercially viable geothermal resources, the state secures a share of subsequent revenues, thus preventing the private sector from capturing free-option value at public expense (Green Climate Fund, 2023).

Equally essential to rebalancing risk and reward is the clear delimitation of public sector exposure. This demands the systematic use of instruments such as capped first-loss tranches, time-bound guarantees, and structured risk-sharing facilities with precisely defined triggers. For example, public guarantees in renewable energy investments may be explicitly limited to covering only a fixed proportion of potential losses—such as the initial 20%—beyond which additional risk must be borne by private financiers. Such design features promote fiscal prudence and prevent scenarios in which public entities assume open-ended contingent liabilities. Collectively, these mechanisms advance a more disciplined and equitable blended finance model, acknowledging the legitimacy of public contributions not only in mitigating risk but also in participating in the upside, while ensuring that fiscal risks remain transparent, bounded, and aligned with long-term development objectives.

To further safeguard the public interest, blended finance contracts increasingly incorporate enforceable provisions that condition private returns on performance and developmental outcomes. Examples include clawback clauses, whereby concessional loan terms are recalibrated if realised internal rates of return exceed agreed thresholds, and royalty or profit-sharing arrangements that secure a share of excess revenues for public co-investors once projects surpass base-case projections. Such contractual safeguards temper excessive private gains, reinforce the principle of reciprocity, and bolster the political and fiscal legitimacy of deploying scarce public capital in high-risk, high-impact investment domains.

Taken together, these practices represent a transition from legacy models of blanket risk absorption to a more sophisticated blended finance architecture rooted in reciprocity. By embedding robust ex ante calibration, conditionality on developmental results, and rigorous ex post accountability, blended finance can evolve from a subsidy-centric mechanism into a strategic tool that aligns public risk-taking with sustainable, transformative development pathways.

4.4 Transparency and Governance: From Disclosure to Institutional Integrity

Transparency and governance are not ancillary to blended finance—they are prerequisites for ensuring that public resources are used to advance developmental goals rather than subsidise private interests. Without full visibility into subsidy levels, risk-sharing arrangements, and outcome metrics, it becomes impossible to assess whether public contributions are justified, whether additionality is being achieved, or whether concessional terms reflect a fair distribution of risks and rewards.

Opacity—often defended under the guise of commercial confidentiality—obscures fiscal exposure, weakens institutional accountability, and prevents ex post evaluation of impact (Attridge and Engen, 2020). In such conditions, blended finance loses its claim to legitimacy as a developmental instrument and risks entrenching extractive subsidy regimes that are neither transparent nor democratically governed.

Strengthening transparency in blended finance begins with systematic disclosure at the transaction level. This includes clearly defined project selection criteria, detailed reporting of subsidy instruments deployed—such as concessional loans, guarantees, and equity tranches—and rigorous ex ante and ex post evaluations of developmental outcomes. While some development finance institutions (DFIs), including the IFC, have begun disclosing concessionality estimates within their blended portfolios, and frameworks such as the OECD's Tri Hita Karana Roadmap have called for harmonised reporting standards, implementation remains uneven and incomplete (OECD, 2022). Collaborative efforts like the Global Emerging Markets Risk Database Consortium (GEMS)—which pools default and recovery data across DFIs and multilateral development banks—illustrate the value of joint transparency on risk exposure. However, the absence of disaggregated, project-level data on subsidy use and development outcomes continues to limit the ability to evaluate whether public risk-taking contributes to systemic transformation or merely facilitates isolated, investor-led transactions.

Robust governance is essential for ensuring that blended finance operates in the public interest and is aligned with developmental objectives. This entails institutional arrangements that embed accountability across all stages of the investment process, including project origination, appraisal, approval, and monitoring. Key mechanisms include independent investment committees, mandatory ex ante assessments of development impact, structured stakeholder engagement processes, and periodic third-party evaluations. In contexts where national development banks or host governments oversee blended finance operations, reporting lines to legislative or public oversight bodies play a critical role in maintaining democratic accountability for the use of public resources. In multi-donor platforms, governance structures must reflect balanced co-ownership between contributing and recipient countries, limiting discretionary authority by private fund managers or intermediaries and ensuring that decision-making remains anchored in collectively defined development mandates.

A structural governance challenge arises within multilateral development banks and DFIs that operate both concessional and commercial finance windows. The co-location of these functions creates potential conflicts of mandate, particularly when concessional public capital is used to de-risk transactions undertaken by the institution's own private-sector arms. Such internal cross-subsidisation can skew investment priorities toward commercially viable projects at the expense of initiatives with high developmental value but lower financial returns. Addressing this requires governance arrangements that establish clear institutional separation between concessional and non-concessional operations, mandate transparent reporting of intra-institutional financial transfers, and enforce safeguards to prevent self-dealing and misaligned incentives.

In sum, transparency and governance are not technical upgrades but prerequisites for aligning blended finance with public purpose. They ensure that public capital is used strategically, equitably, and in ways that can be publicly justified. Absent these foundations, the risk is not only inefficiency but institutional erosion—where the public sector underwrites private returns with neither accountability nor developmental justification.

5. Conclusion: From Financing Gaps to Public Purpose

Despite being framed as a scalable solution to bridge the so-called development financing gap, blended finance has mobilised private capital at marginal volumes relative to global investment needs, with questionable financial and developmental additionality and a persistent bias towards lower-risk markets, commercially viable sectors, and large incumbent actors. Risk-sharing arrangements remain structurally asymmetrical, with public entities absorbing disproportionate downside exposure while private investors secure privileged positions and predictable returns.

These patterns reflect not simply implementation deficits but a persistent misdiagnosis of development as primarily a problem of capital scarcity, to be addressed by mobilising private finance through marginal de-risking. This gap-filling paradigm rests overlooks the structural, institutional, and political economy conditions that shape how financial inputs translate into productive, inclusive, and sustainable investment. Moreover, it misreads the structural imperatives of global capital, which remains governed by regulatory and fiduciary norms that systematically favour liquidity, short-term returns, and market-standardisation over the long horizons and uncertainty inherent to development projects.

Correcting these deficiencies demands a paradigmatic shift. Blended finance must be reconceptualised not as a substitute for robust public investment but as a carefully governed complement within a broader, mission-oriented framework. This requires strategic directionality; rigorous ex ante and ex post verification of additionality that assess genuine developmental impact; equitable and transparent risk–reward sharing that avoids free-option value for private actors; and binding governance architectures that secure transparency and accountability in blended deals.

In sum, advancing the Sustainable Development Goals and navigating the intertwined climate, economic, and social transitions ahead requires moving decisively beyond the narrow logics of financial gap-filling and risk mitigation. It demands rebuilding development finance as a tool for structural transformation—anchored in strategic public investment, institutional innovation, and financial governance that aligns both public and private capital with clearly defined collective missions. A reformed approach to blended finance can contribute to this vision, but only when governed by purpose and public value.

Development is not a gap to be filled. It is a process to be led. And it begins not with capital, but with purpose.

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