Mind the Mission, Not the Gap

Rethinking Blended Finance for Public Purpose

Executive Summary

By Mariana Mazzucato and Rogério Vieira de Sá

UCL IIPP Institute for Innovation and Public Purpose

This executive summary provides key insights from *'Financing What? Mind the Mission, Not the Gap'*, a working paper by the UCL Institute for Innovation and Public Purpose (IIPP). The paper offers a conceptual and empirical critique of how blended finance has been used to mobilise private capital and proposes a new framework and principles to align it with shared public value and structural transformation.

Scan the QR code to access the full working paper, annexes, and supplementary tools for policymakers and practitioners.

www.ucl.ac.uk/bartlett/public-purpose

Email: iipp@ucl.ac.uk

Published by
UCL Institute for Innovation and Public Purpose (IIPP)
11 Montague Street London, WC1B 5BP
www.ucl.ac.uk/bartlett/public-purpose

This report can be referenced as follows:
Mazzucato, M., & Vieira de Sá, R. (2025). *Mind the mission, not the gap: Rethinking blended finance for public purpose.* Institute for Innovation and Public Purpose, University College London.

Available at:
https://www.ucl.ac.uk/bartlett/publications/2025/jun/mind-mission-not-gap-rethinking-blended-finance-public-purpose

Executive Summary: The Promise and Limits of Blended Finance

Blended finance emerged as a response to a paradox in the global economy: the coexistence of abundant private capital with a perceived shortfall of public resources to meet growing development needs. The premise was that deploying concessional public funds to de-risk investments would incentivise private capital to flow towards development objectives. In practice, this narrative obscures two underlying structural conditions.

First, while global private financial assets now exceed $400 trillion, structural conditions within the global financial system channel this capital into in short-term, low-risk, high-yield activities within self-referential markets, rather than flowing into long-term, productive investments needed for sustainable development (Financial Stability Board, 2024; Mazzucato, 2018).

Second, public capital is not inherently scarce. The notion of scarcity masks deeper issues of misallocation and underuse. Public development banks collectively manage more than $22.5 trillion in assets but often lend conservatively and in silos rather than strategically (Mazzucato, 2023; Mazzucato & Penna, 2016). At the same time, inefficient tax systems, vast fossil fuel subsidies (over $7 trillion annually), and rigid fiscal rules unduly limit fiscal space for public investment (Mazzucato, 2025b).

Overlooking these structural barriers, the 2015 Addis Ababa Action Agenda positioned blended finance as a central tool for development finance, promising to turn "billions into trillions" (World Bank, 2015). A decade later, however, its actual results fall far short of this ambition.

Table 1: Myths Surrounding Blended Finance

The Myth	The Evidence
1. 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.
2. 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.
3. Impact: Steers private capital towards development	There are no agreed standards to verify development impact of blended finance deals.
4. 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)
5. 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.

> *"A common misconception held us back — the belief, popularised as 'from billions to trillions', that private capital was sitting on the sidelines, ready to be deployed. Not only was this unrealistic, it also bred complacency"*
>
> *Ajay Banga, 2025*

Section I: The Limitations of Blended Finance

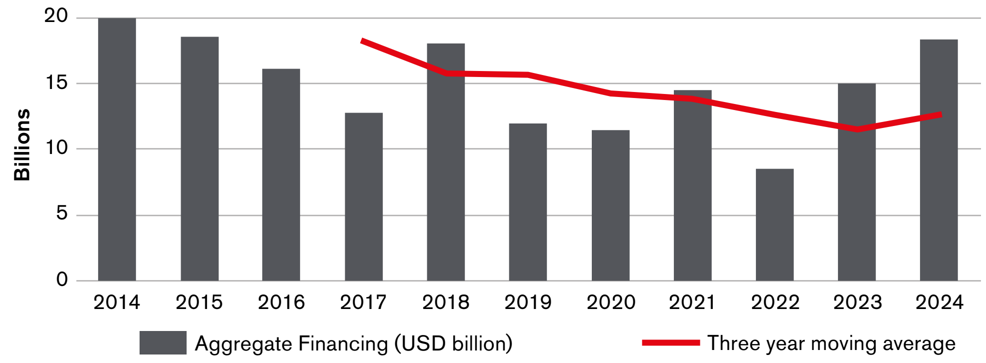
1.1 The Illusion of Scale

Blended Finance Is Not Filling the Gap—It's a Drop in the Trillions.

Blended finance was presented as a means to turn *"billions into trillions"* by using limited public resources to mobilise private capital at scale for sustainable development (World Bank, 2015). In practice, however, a decade of experience shows that mobilisation has remained modest. Between 2015 and 2023, annual blended finance flows averaged only $15 billion — less than 0.4% of the estimated $4 trillion required each year to achieve the Sustainable Development Goals (United Nations, 2024; Mazzucato, 2025a; Convergence, 2024).

This persistent underperformance reflects structural constraints on investment demand at scale—weak innovation ecosystems, limited industrial capabilities, and constrained state capacity hinder the generation of credible pipelines for investment (Mazzucato & Penna, 2016; Mazzucato, 2013b; Mazzucato, 2021). Rather than addressing these foundational barriers, blended finance practice has focused narrowly on de-risking individual transactions to attract private capital to specific projects.. As a result, blended finance has remained transactional rather than catalytic, generating limited public value and failing to reshape the conditions for sustainable and inclusive growth.

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



Source: Convergence (2024); Convergence (2025); Mazzucato (2025); Authors own contributions

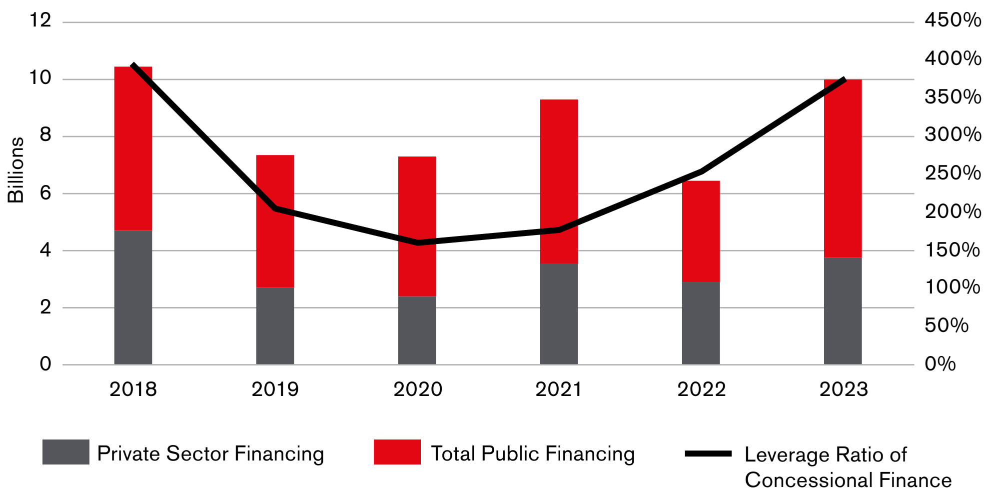
1.2 The Additionality Problem

Public Money Leads, Private Capital Lags—The Mirage of Private Capital Mobilization.

Blended finance rests on the premise that limited concessional public funds can be used to de-risk investments and crowd in substantial private capital for development (Mazzucato, 2025). In practice, however, public finance continues to dominate: between 2014 and 2024, roughly 73 per cent of blended finance commitments originated from public sources — both concessional and non-concessional— while only 27 per cent was sourced from private actors (Convergence, 2024; Mazzucato, 2025a). This highlights a structural limitation in the model: concessional funds often recycle public money through blended deals rather than crowd in significant new private investment.

Moreover, most transactions provide little credible evidence that private investment would not have proceeded without public support. Robust counterfactuals are rare, and binding leverage conditions are uncommon (Andersen et al., 2021). As a result, headline mobilisation figures often overstate the catalytic impact of investments, raising questions about whether scarce concessional resources are effectively being deployed to attract private capital to where it is most needed.

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



Source: Convergence (2025); Convergence (2024); Authors own contributions

1.3 Impact Without Evidence

Counting Money, Not Results

Blended finance is meant to steer private capital towards investments with demonstrable development impact. In practice, however, there is no consistent standard, predefined metric, or binding obligation to verify whether stated development objectives are met (Andersen et al., 2021; Mazzucato, 2025a). Most transactions report progress primarily in financial terms — disbursements, repayments, leverage ratios — rather than through independently validated indicators of social or economic outcomes. Impact assessments commonly rely on investor self-reporting, with limited independent evaluation or public scrutiny (Attridge & Engen, 2019).

This measurement gap is compounded by structural features of project origination: identification and design frequently rest with private sponsors, funds, or intermediaries whose incentives favour bankability and predictable cash flows over transformative or inclusive outcomes (Kenny, 2022). As a result, concessional public subsidies frequently support ventures that produce stable cash flows but contribute little to broader economic transformation or wider social benefit.

Without clear ex ante metrics for developmental additionality and robust mechanisms for independent verification, blended finance risks becoming a vehicle for financial engineering rather than a catalyst for genuine, measurable progress towards sustainable development.

> *"The process usually starts with a private company (the project sponsor) asking a development finance institution (…) for financing. To bridge the gap, the DFI puts together a bespoke package of subsidised donor capital (grants, guarantees, low-cost senior debt, sub-debt, or cheap equity)."*
>
> *— Kenny, 2022*

1.4 Distributional Bias in Blending

Safe Returns, Missed Development Targets

Blended finance exhibits persistent distributional biases that limit its developmental reach across three key dimensions: geography, sectoral allocation, and ultimate beneficiaries.

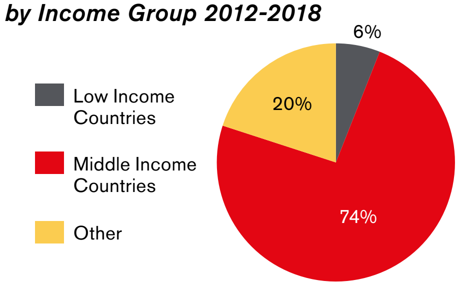
First, geographically, blended finance remains concentrated in relatively lower-risk contexts. Between 2015 and 2023, an estimated 74 per cent of total blended finance commitments flowed to middle-income countries (MICs), while low-income countries (LICs) received only about 6 per cent (Sial, 2024; OECD/UNCDF, 2020).

Second, financial flows are heavily skewed towards commercially bankable sectors. Between 2022 and 2024, infrastructure and financial services together accounted for approximately 88 per cent of total commitments, while social sectors—where development needs are often greatest—received only a marginal share (Convergence, 2025; Mazzucato, 2025)

Third, in terms of beneficiaries, blended finance flows continue to be highly concentrated among corporates, financial institutions, and mid-sized project developers. Between 2022 and 2024, these actors accounted for approximately 83 per cent of all blended finance transactions, while microfinance institutions, smaller enterprises, and locally owned small businesses captured only a marginal share (Convergence, 2025). This concentration raises questions about local value capture and the extent to which blended finance supports genuinely inclusive economic development.

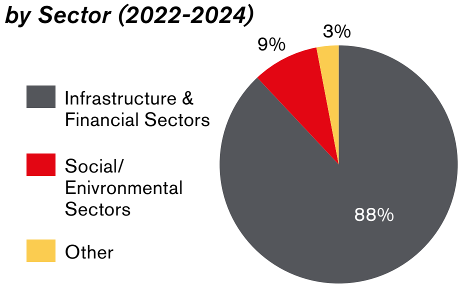
Taken together, these patterns reveal a structural misallocation: scarce concessional public resources are used to de-risk non-concessional public and private investment in commercially secure contexts, rather than being deployed where their developmental impact would be greatest.

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



Source: Convergence (2025); Authors own contributions

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



Source: Convergence (2025); Authors own contributions

1.5 Unbalanced Risk Sharing

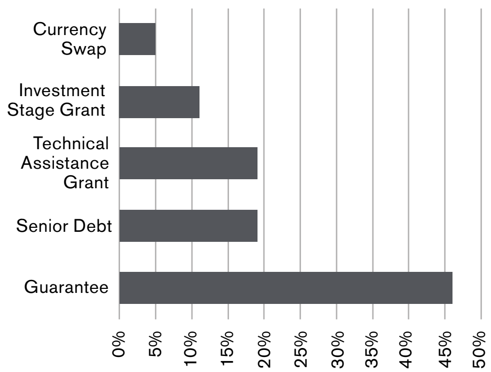
Blended Finance Can Socialise Risks, Privatise Gains—and Escape Scrutiny.

Aggregate data on blended finance instruments reveals a persistent asymmetry in the distribution of risks and returns. Concessional public capital is predominantly used for explicit risk-mitigation instruments: between 2022 and 2025, guarantees alone account for 46 per cent of concessional commitments to financial institutions (Convergence, 2025). In contrast, impact investors place 87 per cent of their capital in senior equity (45 per cent) and senior debt (42 per cent)(Convergence, 2025). This configuration results in the public sector absorbing a disproportionate share of downside risk, while private investors concentrate in senior tranches and capture most of the upside.

eavy reliance on senior debt further compounds fiscal exposure for beneficiary governments who often back support structures with sovereign guarantees, on-lending, or other credit enhancements—assuming repayment risks if revenues underperform or shocks materialise (Mazzucato, 2025; Bova et al., 2016). This can undermine debt sustainability and constrain fiscal space, particularly in contexts with volatile revenue streams and high foreign exchange risks.

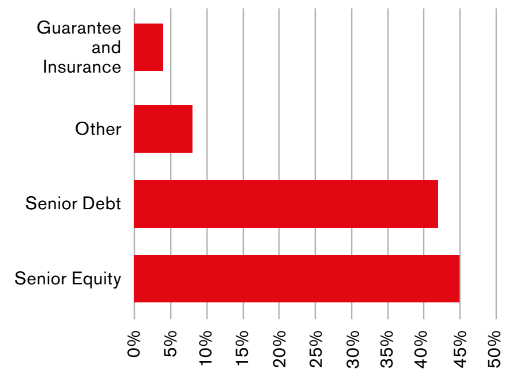
Absent enforceable provisions for equitable risk-sharing, blended finance risks institutionalising a model in which public resources systematically underwrite private returns, rather than mobilising genuine private risk-taking for transformative investment (Mazzucato, 2012; Lazonick & Mazzucato, 2013).

Figure 5: Breakdown of concessional instruments used in blended arrangements with financial institutions, proportion of investments (2022-2024)



Source: Convergence, 2025

Figure 6: Breakdown of financial instruments used by impact investors 2022-2024, proportion of investments



Source: Convergence, 2025

Section II: Principles for Reform

Blended finance must address structural shortcomings to remain a relevant tool for sustainable development.

Blended finance has mobilised significantly less capital than initially projected and remains insufficient, on its own, to meet the multi-trillion-dollar investment needs of sustainable development. Used more selectively, however, it can play a constructive role in directing private capital towards activities that align with clearly defined public objectives.

This paper advances four principles to reframe blended finance within a mission-oriented framework:

1. Directionality	Concessional resources steer private capital towards defined public missions and long-term structural transformation objectives, rather than narrowly targeting individual project bankability.
2. Additionality	Concessional funding linkstied to clear counterfactuals and measurable results to ensure support only for genuinely catalytic investment.
3. Sharing risks and rewards	Risk-sharing arrangementsshould allocate downside exposurelosses and gains proportionately to, preventing public capital from merely underwriting private investors and secure a fair share of upside returns for the public sector.
4. Transparency and Governance	Rigorous ex ante and ex post disclosure, with independent verification, should be standard practice to safeguard fiscal integrity and developmental outcomes.

The goal is not indiscriminate leverage, but the disciplined alignment of private finance with transformative public missions.

2.1 Directionality

Development Is Not a Gap to Be Filled. It Is a Mission to Be Led—and It Begins Not With Capital, but With Purpose.

A directional approach to blended finance uses concessional resources not simply to reduce risks for private investors, but to steer private capital towards broader public missions (Mazzucato, 2021). It situates blended finance as one instrument among others, deployed where appropriate within a coherent development strategy that shapes markets and drives structural transformation.

This does not imply top-down control of individual project design. Rather, it requires capable public institutions able to define priorities, and ensure that risks and rewards are shared fairly between public and private actors (Mazzucato, 2021; Mazzucato, 2013b). When blended finance operates within a clear strategic framework, it helps build new capabilities and can shape markets rather than reinforcing existing market dynamics (Mazzucato and Penna, 2016).

Used in this way, blended finance complements regulation, public procurement, and direct public investment as part of a wider policy mix. Without this directional anchoring, it risks remaining fragmented, reactive, and insufficient to deliver lasting public value.

2.2 Additionality

No Public Support Without Proven Impact.

Concessional finance must be conditional—not assumed. If blended finance is to serve public purpose, it must be deployed only where it demonstrably shifts investment behaviour or generates outcomes that would not occur otherwise.

This requires enforceable ex ante standards for financial and developmental additionality. Projects must articulate a clear counterfactual: what would happen without public support? Impact targets should be embedded in design, and mechanisms must be in place to adjust, revoke, or reclaim subsidies if outcomes are not met.

Conditionality should also include clawback provisions—ensuring that public risk-sharing is contingent on delivery, not assumed at disbursement (Mazzucato, 2013b; Mazzucato, 2013a). Without such tools, blended finance becomes a blank cheque: subsidising the probable instead of enabling the transformational.

"Public support must be conditional on well-defined performance standards and learning objectives. Without clear reciprocal obligations, subsidies risk becoming mere transfers that do not generate additional innovation or capabilities."

— Rodrik & Mazzucato (2023)

2.3 Sharing Risks and Rewards

Public Money Should Not Underwrite Private Upside.

Blended finance structures frequently concentrate upside returns with private actors while socialising downside risks to public institutions. This imbalance distorts incentives, undermines accountability, and erodes the legitimacy of public investment (Lazonick & Mazzucato, 2013).

A fair framework must restore reciprocity. Private partners should share in losses when risks materialise—and public actors must have a stake in the upside when public capital enables profitability (Mazzucato, 2013b). Equity stakes, revenue-sharing agreements, and performance-based repayments are tools that can operationalise this principle (Mazzucato, 2025a).

Without mechanisms to align rewards with risk exposure, blended finance becomes a vehicle for one-way transfers—not partnership. Restoring balance is not only about fairness—it is critical for public trust and long-term sustainability.

2.4 Transparency and Governance

If It's Public Money, It Needs Public Scrutiny.

Blended finance operates through complex structures with limited transparency. Many transactions lack clear disclosure of terms, beneficiaries, or development outcomes. This opacity weakens accountability and undermines public oversight of risk and impact (Attridge and Engen, 2019; Mazzucato, 2025a).

Public finance must meet a higher standard. Every dollar of concessional capital—whether through guarantees, equity, or grants—should be traceable, evaluable, and subject to democratic review. Disclosure of financial terms, development metrics, and institutional relationships is not optional; it is essential.

Reforms must also address internal governance within development finance institutions. Firewalls between sovereign and commercial windows of DFIs to prevent self-dealing, independent evaluation, and public reporting on additionality and impact are basic safeguards—not burdens.

If public money is at risk, the public has the right to know — and to hold decision-makers accountable for results.

Section III: Key Recommendations

Blended finance has fallen short of its promise to mobilise private capital at scale and deliver transformational development impact. This shortfall reflects structural misalignments, not mere technical flaws. To remain useful, blended finance must be recast as a targeted instrument embedded within a mission-driven public finance strategy, not as a stand-alone substitute for public investment.

Recommendations:

1. **Recognise Limits of Blended Finance** — Blended finance can play a supporting role in mobilising private capital for development, but without broader reforms to regulate and redirect private finance, its scale and impact will remain constrained. It should therefore be understood and communicated in key global policy platforms as one tool among many, not a substitute for robust public investment and institutional capacity.

2. **Strengthen the DFI Enhanced Blended Finance Principles** — Development finance institutions should review the Joint DFI Blended Finance Principles, providing clearer definitions and concrete operational guidance on directionality, genuine financial and developmental additionality, fair and reciprocal risk–reward sharing, and robust transparency and accountability. Updated operational manuals and appraisal criteria should translate these principles into practice to ensure concessional resources steer private finance towards transformative public value, rather than simply underwriting bankable deals.

3. **Unlock Public Finance Through Mission Orientation** — Public finance will continue to play a critical role in development, providing patient, long-term capital that private markets do not supply. Yet significant resources remain misallocated. Unlocking this requires revising fiscal and budgetary short-termism to enable sustained, productive spending; coordinating multilateral and national development banks around clear missions to achieve greater impact; and reforming tax policies to remove wasteful subsidies and close loopholes, freeing resources for development. Purpose-driven public finance shifts development from gap-filling towards structural transformation.

Blended finance, when properly designed and governed, can complement development efforts by steering private capital towards public missions. But it cannot replace the essential role of patient, long-term, risk-tolerant public capital needed for sustained transformation. Unlocking and aligning this public finance must remain the backbone of any credible development strategy, with blended finance serving as a targeted instrument within that broader framework..

Bibliography

Andersen, W, O., Hansen, H., & Rand, J. (2021). *Evaluating financial and development additionality in blended finance operations* (OECD Development Co-operation Working Papers No. 91). OECD Publishing. Available at: https://www.oecd.org/en/publications/evaluating-financial-and-development-additionality-in-blended-finance-operations_a13bf17d-en.html

Attridge, S., & Engen, L. (2019, April 10). *Blended finance in the poorest countries: The need for a better approach* (Research report). Overseas Development Institute. Available at: https://odi.org/en/publications/blended-finance-in-the-poorest-countries-the-need-for-a-better-approach/

Bova, E., Ruiz Arranz, M., Toscani, F., & Ture, H. E. (2016). *The fiscal costs of contingent liabilities: A new dataset* (IMF Working Paper No. 16/14). International Monetary Fund. Available at: https://www.imf.org/external/pubs/ft/wp/2016/wp1614.pdf

Convergence. (2024). *The State of Blended Finance 2024.* Convergence Blended Finance. Available at https://www.convergence.finance/resource/state-of-blended-finance-2024/view

Convergence. (2025). *State of blended finance 2025.* Convergence Blended Finance. Available at: https://www.convergence.finance/resource/state-of-blended-finance-2025/view

Financial Stability Board. (2024, December 16). *Global Monitoring Report on Non Bank Financial Intermediation 2024.* https://www.fsb.org/uploads/P181223.pdf

Lazonick, W. and Mazzucato, M. (2013). *The risk reward nexus in the innovation inequality relationship: Who takes the risks? Who gets the rewards? Industrial and Corporate Change*, 22(4), 1093–1128. Available at: https://doi.org/10.1093/icc/dtt019

Mazzucato, M. (2013a). *Financing innovation: Creative destruction vs. destructive creation. Industrial and Corporate Change*, 22(4), 851–867. Available at: https://doi.org/10.1093/icc/dtt025

Mazzucato, M. (2013b). The Entrepreneurial State: Debunking public vs. private sector myths. Anthem Press.

Mazzucato, M. (2018). The value of everything: Making and taking in the global economy. London: Allen Lane.

Mazzucato, M. (2021). Mission Economy: A moonshot guide to changing capitalism. Allen Lane.

Mazzucato, M. (2023). *Financing the Sustainable Development Goals through mission-oriented development banks.* UN DESA Policy Brief Special issue. New York. Available at: https://www.ucl.ac.uk/bartlett/publications/2023/sep/financing-sustainable-development-goals-through-mission-oriented-development-banks

Mazzucato, M., and Penna, C. C. R. (2016). *Beyond market failures: The market creating and shaping roles of state investment banks. Journal of Economic Policy Reform,* 19(4), 305–326. Available at: https://doi.org/10.1080/17487870.2016.1216416

Mazzucato, M. (2025a). *Reimagining financing for the SDGs: from filling gaps to shaping finance.* UN DESA Policy Brief, No. 170, Special issue. New York. Available at: https://www.ucl.ac.uk/bartlett/publications/2025/jan/reimagining-financing-sdgs

Mazzucato, M. (2025b). *Principles for an inclusive and sustainable global economy: A discussion paper for the G20.* UCL Institute for Innovation and Public Purpose. Available at: https://www.ucl.ac.uk/bartlett/ucl-institute-innovation-and-public-purpose/principles-inclusive-and-sustainable-global-economy-discussion-paper-g20

Mazzucato, M., & Rodrik, D. (2023). *Industrial policy with conditionalities: A taxonomy and sample cases* (IIPP Working Paper No. 2023-07). UCL Institute for Innovation and Public Purpose. Forthcoming in Industrial and Corporate Change. Available at: https://www.ucl.ac.uk/bartlett/public-purpose/wp2023-07

Sial, F. (2024). *Blended finance for climate action: Good value for money?* Eurodad. Available at: https://assets.nationbuilder.com/eurodad/pages/3326/attachments/original/1714126924/01_blended-finance-report-FINAL_%281%29.pdf?1714126924

World Bank. (2015). *From billions to trillions: Transforming development finance post-2015 financing for development: Multilateral development finance* (Discussion Note DC2015-0002). Available at: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/622841468323819439/from-billions-to-trillions-transforming-development-finance-post-2015-financing-for-development-multilateral-development-finance

United Nations. (2015). Addis Ababa Action Agenda of the Third International Conference on Financing for Development (A/CONF.227/20/Add.1). Available at: https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf#

United Nations. (2024). *The Sustainable Development Goals Report 2024.* Department of Economic and Social Affairs. Available at: https://unstats.un.org/sdgs/report/2024/The-Sustainable-Development-Goals-Report-2024.pdf

About the UCL Institute for Innovation and Public Purpose (IIPP)

The Institute for Innovation and Public Purpose (IIPP) at University College London (UCL) brings together cutting-edge academic theory with teaching and policy practice, to rethink the role of the state in tackling some of the biggest challenges facing society.

IIPP works with partners to develop a framework which challenges traditional economic thinking, with the goal of creating, nurturing and evaluating public value in order to achieve growth that is more innovation-led, inclusive and sustainable. This requires rethinking the underlying economics that have informed the education of global public servants and the design of government policies.

IIPP's work feeds into innovation and industrial policy, macroeconomic and financial reform, institutional change and sustainable development. A key pillar of IIPP's research is its understanding of markets as outcomes of the interactions between different actors. In this context, public policy should not be seen as simply fixing market failures, but also as actively shaping and co-creating markets. Re-focusing and designing public organisations around mission-led, public purpose aims will help tackle the grand challenges facing the 21st century.

IIPP is uniquely structured to ensure that this groundbreaking academic research is harnessed to tackle real world policy challenges. IIPP does this through its high-quality teaching programme, along with its growing global network of partners, and the ambitious policy practice programme.

IIPP is a department within UCL – and part of The Bartlett, ranking number one in the world for architecture and the built environment in the world.

www.ucl.ac.uk/bartlett/public-purpose

INNOVATION IS POLITICAL

www.ucl.ac.uk/bartlett/public-purpose