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Reimagining financing for the SDGs: from filling gaps to shaping finance

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Reimagining financing for the SDGs: from filling gaps to shaping finance

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ABSTRACT

The United Nations Sustainable Development Goals are dangerously off track. The prevailing "gap-filling" approach to SDG financing has proven inadequate, failing to deliver the scale, impact or equity required. Global efforts remain fixated on mobilizing additional financing rather than embedding the SDGs at the core of economic and financial systems. Blended finance, often heralded as a silver bullet, has fallen short: public resources dominate blended deals, often de-risking private initiative in lower-risk, lower-impact projects. To redirect this trajectory, the international financing architecture must be reshaped around the SDGs. First, the SDGs must be placed at the centre of economic planning, supported by robust public investment pipelines. These pipelines enable the public sector to guide and strategically mobilize private investment toward high-impact, mission-driven projects. Second, SDG-anchored conditionalities should be embedded across public-private ventures to ensure concessional public finance actively steers investments, rather than merely subsidizing private returns. Third, mechanisms to socialize risks and rewards must be introduced, reinvesting returns to scale transformative SDG financing. Finally, while mobilizing additional financing remains critical, an equally pressing challenge lies in effectively utilizing significant public funds already available in budgets and development bank balance sheets.

KEYWORDS

Blended finance, public investment, directionality, SDGs, NDCs, public-private partnerships, conditionalities.

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1. INTRODUCTION

The **2030 Agenda for Sustainable Development** is at a critical juncture. With only five years remaining, nearly half of the Sustainable Development Goals (SDG) targets are off track, hunger levels have regressed to those of 2005, and no target under SDG 13 (Climate Action) is on course (UN, 2024). The prevailing **"gap-filling" approach to resource mobilization has proven inadequate**, failing to deliver the scale, impact or equity needed. Achieving the SDGs demands more than incremental financing; it requires embedding the SDGs and climate action at the core of economic and financial structures rather than treating them as add-ons. The independent report by the group of experts for the G20 Taskforce for Global Mobilization against Climate Change (Mazzucato and Songwe, 2024) underscores how this shift can be orchestrated, aligning industrial strategies with nationally determined contributions (NDCs) to integrate global goals into the financial system, driving coordinated and transformative investments. **Public resources must take the lead in this transformation**, strategically mobilizing private capital through **reciprocal partnerships** that align with **mission-driven objectives** (Mazzucato, 2023). This means rethinking critical mechanisms like blended finance, which so far have failed to deliver the necessary scale or impact. This note argues that while mobilizing private finance is essential, the fragmented approach to blended finance misdirects resources and undermines progress. Instead, it calls for a mission-driven strategy that leverages public finance to direct private investment toward transformative, high-impact projects aligned with the SDGs.

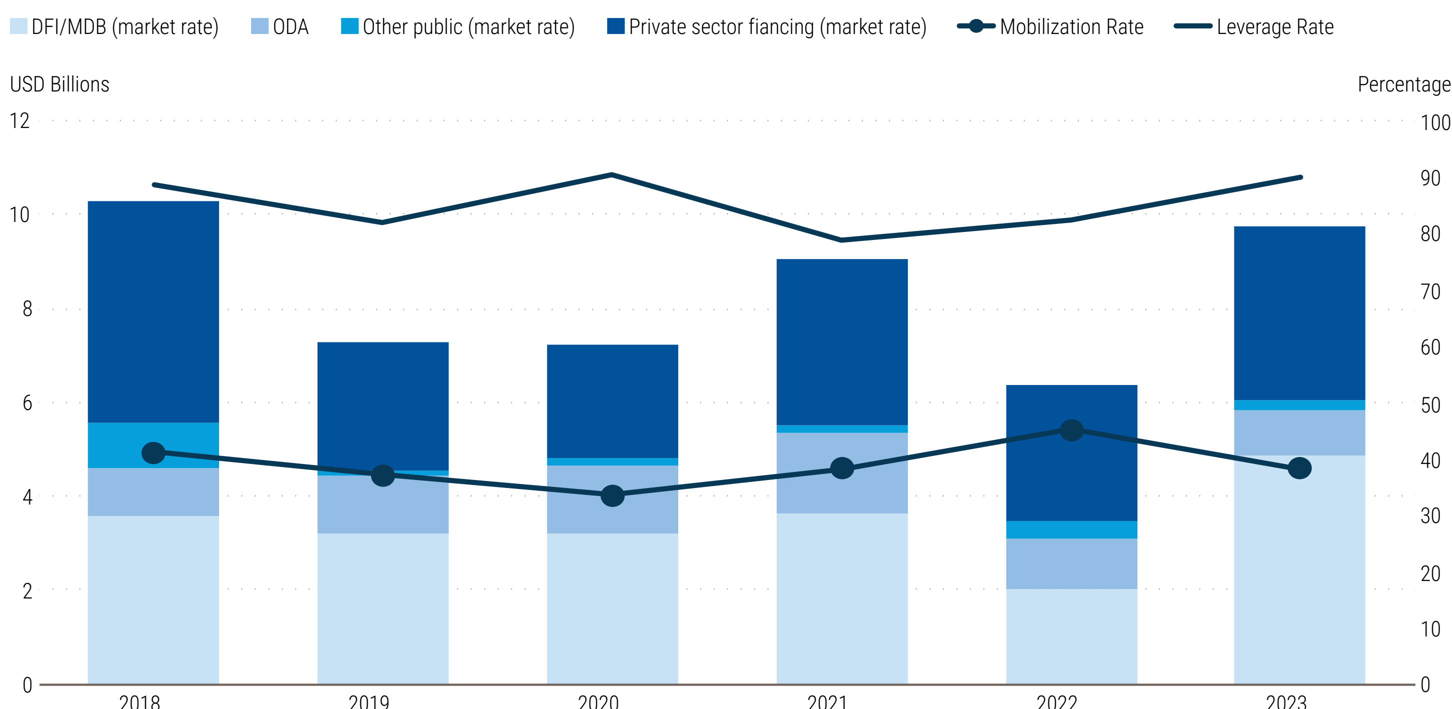
The prevailing "gap-filling" approach to resource mobilization has proven inadequate, failing to deliver the scale, impact or equity needed.

2. LIMITATIONS OF CURRENT BLENDED FINANCE MECHANISMS

Blended finance mechanisms have failed to mobilize private resources at the scale needed to achieve the SDGs, with average annual volumes stagnating at just US$15 billion over the past decade—far below the $5–7 trillion required (Convergence Blended Finance, 2024; UN, 2024). In a typical blended finance deal, the process begins with a private company (the project sponsor) identifying an investment opportunity and approaching a public development bank (PDB) for de-risking and co-financing. To make the project viable, the PDB typically assembles a tailored financing package that may include grants, risk-sharing instruments such as guarantees, low-interest loans, or below-market equity. These measures aim to de-risk the project and make it attractive to private investors (Kenny, 2024). Additionally, PDBs often co-invest in the deals through their non-concessional arms such as the World Bank's IFC or the ADB's PSOD, positioning themselves as **"anchor investors" to signal**

Figure 1

Sources of Blended Finance (excluding guarantees and insurance instruments) 2018–2023



Source: Convergence (2024) and IIPP staff calculations.

project credibility and attract additional private sector participation. While having a PDB as an anchor investor may indeed provide comfort to investors, the claim that PDB involvement is indispensable often lacks evidence. The **absence of reliable metrics for additionality** makes it unclear whether PDB participation adds value or merely reallocates public resources toward projects that would likely have moved forward without public support (DFI Working Group on Blended Concessional Finance for Private Sector Projects, 2023).

In practice, concessional public finance is leveraging non-concessional public finance to support private initiatives, with limited participation from de-risked private capital.

Although blended finance structures are designed to use limited public resources to catalyse private sector investment, the reverse is happening. Public non-concessional resources make up the lion's share of blended finance volumes, with private sector contributions accounting for just 38 per cent of blended finance in 2023 (Convergence Blended Finance, 2024). In practice, **concessional public finance is leveraging non-concessional public finance to support private initiatives**, with limited participation from de-risked private capital. Moreover, these resources are disproportionately directed toward projects with **lower-risk profiles**. For example, low-income countries (LICs) mobilise only $0.37 for every public dollar, compared to $1.06 in lower-middle-income countries (LMICs), which reflects deep inequities in the distribution of blended resources (Attridge and Engen, 2019).

Table 1

Key issues affecting blended finance

Volume	The blended finance market averages **$15 billion** annually compared to the **$5–7 trillion** needed annually to close the SDG financing gap
Mobilisation ratio	The average mobilisation ratio (share of private finance mobilised per unit of public finance) in blended climate finance deals between 2018 and 2023 has remained low, at 1:0.16
Additionality	The **absence of agreed metrics** makes it difficult to assess additionality of blended finance projects.
Leverage	LICs mobilised only **US$0.37** per dollar of public financing invested, compared to **$1.06** in LMICs.
Equity	**70 per cent of blended climate finance** currently goes to international corporations.
Type of financing	**60 per cent of total climate finance was allocated to lower-risk mitigation efforts compared to 27 per cent for adaptation**
Debt risks	Blended public-private partnerships can lead to the **accumulation of contingent liabilities and fiscal risks in LMICs**, further reducing fiscal space.

Sources: Eurodad (2024); Attridge and Engen (2019); DFI Working Group on Blended Concessional Finance for Private Sector Projects (2023); OECD/UNCDF (2019)

Data on the use of blended climate finance, which accounts for nearly half (49 per cent) of all blended finance deals, is particularly instructive. A narrow focus on **de-risking private-initiated investments** often misallocates scarce concessional resources to lower-risk sectors and regions. This is particularly evident in the underfunding of vulnerable regions and critical sectors, such as **climate adaptation**, which accounted for just 27 per cent of climate finance in 2021 compared to 60 per cent for **mitigation** (Eurodad, 2024). Importantly, **70 per cent of blended climate finance flows to international corporations**, sidelining local actors and valuable knowledge.

These patterns underscore broader systemic flaws in blended finance, where resources are misdirected, risks are disproportionately borne by the public sector, and high-impact needs remain unmet. In effect, current approaches to blended finance **allow private priorities to shape the direction of public financing**, not the other way around. Finally, reliance on senior debt and sovereign guarantees in blended finance creates significant **fiscal risks for LICs**, constraining their fiscal space and increasing debt vulnerabilities (OECD/UNCDF, 2019).

3. FROM FILLING GAPS TO SHAPING FINANCE

3.1. A mission-oriented approach

Blended finance mechanisms must **shift from "filling gaps" to "shaping finance"** in alignment with the SDGs (Mazzucato, 2016). **Mission-driven frameworks** provide a strategic approach to enable this shift by organizing resources around clearly defined societal missions—such as decarbonization or universal healthcare—supported by cross-sectoral mission projects. These projects, taken together, form a **robust pipeline of public investment projects** that directly advance SDG-targeted outcomes. These pipelines fulfill two critical functions. First, they enable the public sector to prioritize and sequence projects, ensuring that scarce concessional resources are strategically deployed to the highest-risk, highest-impact initiatives. Second, they provide the private sector with **clear and credible signals of public investment priorities and direction**. This allows governments and the private sector to identify where public-private partnerships can be most effectively used. As highlighted in a recent UN DESA Policy Brief, "*Financing the Sustainable Development Goals through Mission-Oriented Development Banks*" (Mazzucato, 2023), aligning public and private resources in this way unlocks a **multiplier effect**: public investment leads, attracting private capital, mobilizing additional resources, and generating positive externalities that amplify progress toward the SDGs.

Prioritizing the **quality of finance over its quantity** is critical, as impact and direction matter more than scale alone (Mazzucato and Macfarlane, 2023). Multilateral and national development banks (MDBs and NDBs), which collectively manage over $22.5 trillion in assets—12 percent of global annual investments—are uniquely positioned to deploy patient, risk-tolerant public finance toward high-risk, high-impact projects essential for achieving the SDGs. By acting as **investors of first resort**, these public development banks can strategically allocate scarce concessional

resources to where they are most needed, particularly in underserved sectors and regions. This approach not only ensures that public capital leads the way but also mobilizes and guides private investment, maximizing the impact of existing resources.

Mission-driven public finance can further generate a significant **multiplier effect** by mobilizing additional private investment and delivering broader economic benefits (United Nations Secretary General, 2019). Evidence from Deleidi and Mazzucato (2019) demonstrates that mission-oriented public expenditure produces higher multipliers for investments, labour productivity, and economic growth, creating ripple effects across sectors and regions. Instead of merely filling financing gaps, the true value of public development banks lies in their ability to catalyse and align public and private capital in a way that reinforces systemic progress toward the SDGs (Ocampo and Ortega, 2021). Transparent and competitive processes for allocating concessional resources—linked to measurable outcomes like the SDGs—can further enhance accountability and ensure these resources are directed to where they are most transformative. By focusing on **impact over scale** and reorienting financial systems toward mission-driven strategies, existing public resources can be leveraged to drive long-term, systemic change. This approach directly addresses the shortcomings of current blended finance models, where private initiative reorients public resources toward lower-risk, higher-return investments. A structured, mission-driven framework ensures that public priorities guide and direct private finance, reversing the current imbalance and enabling resources to be mobilised equitably and strategically.

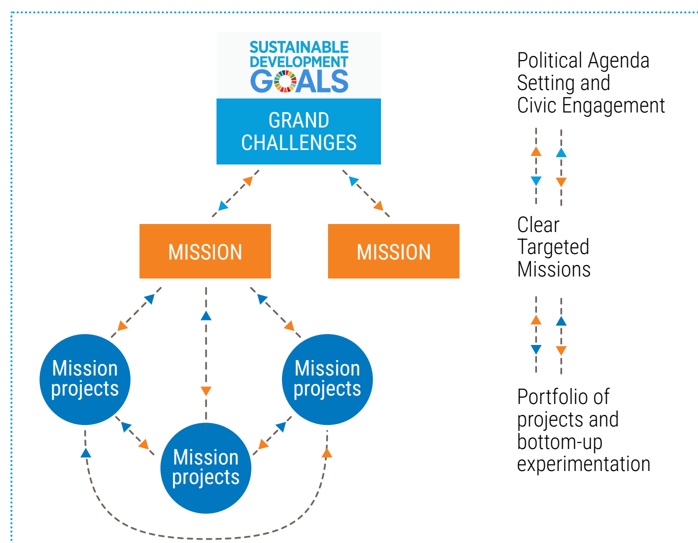
3.2. Embedding reciprocity in public-private dynamics

To harness the potential of blended finance as a strategic lever for sustainable development, **reciprocity must be embedded into all levels of public–private engagement**. The provision of concessional public financing should be tied to explicit targets, such as the SDGs, to ensure that private sector participation aligns with high-impact, mission-driven objectives (Mazzucato and Rodrik, 2023). Embedding such conditionalities not only **addresses ambiguity around additionality** but also ensures that mobilized finance prioritizes both its quality and alignment with transformative goals.

Reciprocity must be embedded at every level of public-private engagement.

By tying public investments to specific outcomes, conditionalities transform the role of public finance from merely de-risking private sector initiative to **actively shaping markets**. This approach reorients financial flows to align with long-term public value, ensuring that both public and private investments are integrated into a coherent strategy for sustainability, inclusivity, and resilience. Ultimately, embedding conditionalities into public–private partnerships provides the public sector with a **powerful tool to leverage scarce resources** for maximum impact. It creates a framework for aligning public and private investments with mission-oriented goals, ensuring that financial systems are not only mobilizing resources but also channeling them in ways that drive transformative change (Mazzucato and Rodrik, 2023).

Figure 2
From challenges to missions



Source: Mazzucato (2018).

Table 2
Myths on the role of blended finance in addressing the SDGs

Common myths	Counter argument
Myth 1: "Blended finance fills the SDG gap"	Blended finance is far from bridging the SDG financing gap, mobilising $15 billion annually.
Myth 2: "Blended finance is scaling rapidly"	Blended finance volumes have remained stable over the past 15 years.
Myth 2: "The SDG faces a supply-side issue"	The SDGs face significant demand-side constraints, including a lack of robust public investment pipelines.
Myth 3: "Blended finance delivers equitable results"	Blended finance is skewed towards lower-risk sectors and regions with higher returns.
Myth 4: "Public finance should de-risk private investment"	De-risking alone does not significantly scale private investment, nor does it ensure that resources are allocated effectively to high-impact projects.

Source: Author.

Mechanisms to **socialise risks and rewards** are essential for creating partnerships that enable the public sector to pursue long-term, mission-oriented goals while engaging private sector participation. These include retaining equity or royalties, holding a portion of intellectual property rights, or integrating conditionalities into public funding agreements (Mazzucato 2013a; Macfarlane and Mazzucato, 2018; Laplane and Mazzucato, 2020). Returns can be reinvested in new initiatives or used to offset losses from less successful ventures, fostering resource

efficiency and empowering governments and public banks to undertake more ambitious projects (Mazzucato, 2013b). Pooling risks across diversified investment portfolios, rather than evaluating them on a project-by-project basis, serves as an effective risk management strategy which enables governments and public banks to support projects that might otherwise be considered too risky. For example, in Germany, the public bank KfW provided loans to the steel industry tied to the sector's commitment to reducing its material production footprint. This approach catalysed significant investments in infrastructure and technologies focused on reuse, repurposing, and recycling, advancing the goal of carbon neutrality by 2045 (Schreck et al., 2023). By embedding such mechanisms and robust conditionalities into public-private partnerships, **blended finance evolves from a reactive, gap-filling tool to a proactive, strategic lever** for achieving mission-driven objectives.

4. CONCLUSION

The **Fourth International Conference on Financing for Development (FfD4)** in 2025 offers a pivotal opportunity to realign the international financial architecture with the SDGs. The outcome document should reflect the following priorities:

1. **Prioritise developing pipelines of public investments:** Commit to the development of robust pipelines of public investment projects structured around cross-cutting missions anchored on the SDGs. These pipelines should align with national and global priorities, such as the SDGs.

2. **Directionality and purpose in public financing:** Emphasise the need for a mission-driven financing framework across the public sector in which public finance leads the way in shaping and co-creating markets. Public budgets and public development bank balance sheets can be used to steer private capital strategically toward achieving clearly defined missions that are aligned with the SDGs and NDCs.

3. **Embed conditionalities in blended deals.** SDG-anchored conditionalities generate an SDG multiplier effect by aligning public-private partnerships with societal goals. Public finance should go beyond de-risking private ventures to share in their rewards through equity stakes, royalties, and profit-sharing, fostering a portfolio mindset and securing resources for future mission-driven initiatives.

4. **Restructure MDBs and NDBs to place the SDGs at their core:** Reform the mandates, governance structures, and operational models of multilateral and national development banks to make the SDGs the cornerstone of their activities. This includes aligning lending policies, investment criteria, and institutional incentives with mission-driven objectives that prioritize high-impact, equitable, and transformative outcomes. Development banks must take a proactive role in co-creating markets, scaling up patient and risk-tolerant capital, and fostering public-private partnerships that are explicitly tied to SDG delivery.

5. **Leveraging existing resources effectively:** Prioritise the strategic use of existing public resources to finance high-risk, high-impact projects. This requires reform of how these resources are allocated, **moving beyond a focus on scale** to prioritise impact and alignment with SDGs. At the same time, there is a need to recognise that blended finance is not a silver bullet and that additional traditional concessional financing is needed.

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