BLENDED FINANCE

– a contribution to closing the finance gap?

There is a critical shortfall in funding to achieve the Sustainable Development Goals. What role can blended finance realistically play in addressing this gap?

This analysis examines the role that blended finance can play in closing the global financing gap. Blended finance refers to the use of public development funds to mobilize private capital for investments in the Global South. The analysis seeks to strengthen and inform the debate on both the opportunities and the challenges associated with the use of blended finance. It puts forward recommendations on how an increased focus on scaling up blended finance must be matched by an equally strong emphasis on quality, accountability and measurable development outcomes.

The main recommendations of the analysis are that:

- Blended finance can serve as a supplement, but never as a replacement for wealthy countries' obligations to provide public development assistance.
- Blended finance initiatives must always align with development objectives concerning the effort to promote poverty reduction, human rights, and sustainable development.
- The different roles of civil society in blended finance as a bridge-builder, participant, and watchdog should be strengthened in order to ensure local ownership and a rights-based approach.

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INTRODUCTION

The world is facing a rapidly growing need for financing for sustainable development and climate initiatives, while several countries are reducing their development assistance. The question of how to close the global financing gap is therefore more pressing than ever. Public–private solutions such as blended finance are frequently promoted as a response, on the assumption that they can mobilize private capital for development purposes that would otherwise be difficult to finance. Blended finance combines public capital - typically from development assistance - with private capital to support projects that would otherwise be considered too risky or insufficiently profitable.

Blended finance already plays a growing role in the international development debate and is frequently presented as a key tool for closing the financing gap, based on the ambition to move from "billions to trillions." This analysis assesses the extent to which blended finance has in fact contributed to closing the financing gap. It also examines the role blended finance plays in climate action and explores the potential roles civil society can play in shaping and engaging with blended finance initiatives.

The 2025–2030 Strategy for Danish Development Cooperation indicates that blended finance will play an increasingly important role in the Danish development finance landscape. The strategy states that Danish development assistance "must increasingly serve as a catalyst for mobilising other resources" and highlights blended finance (including development guarantees, which will be increased sixfold from 2026–2030) as a key instrument in this regard. At the same time, it emphasizes that Danish development cooperation should increasingly reach "high-growth countries and countries characterised by progress and stability." [1]

This analysis presents recommendations on how the growing focus on the scale of blended finance must be accompanied by a corresponding focus on quality, accountability, and measurable development outcomes.

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CAN BLENDED FINANCE HELP CLOSE THE FINANCING GAP?

Experiences have shown that blended finance has played a role in *certain* sectors and contexts such as renewable energy in emerging economies.[2] At the same time, evidence shows that overall mobilization remains far below both needs and initial expectations.[3]

When examining international estimates of mobilized blended finance, it is important to understand two of the most widely used metrics: those provided by the Organization for Economic Co-operation and Development (OECD) and by Convergence. According to the OECD, nearly USD 70 billion was mobilized in 2023,[4] while Convergence – the leading global platform for blended finance data and knowledge – estimates the amount to be closer to USD 15 billion for the same year.[5]

Both figures serve as reference points for trends within blended finance, but they rely on different methods and definitions.

- The OECD estimate is based on reporting from official contributors and development finance institutions. It also includes private investments in which both public and private actors participate on commercial terms, but where the public investment was necessary to attract private capital.[6]
- Convergence's estimate is more narrow and includes only transactions with a concessional element – that is, where a public or philanthropic actor provides capital on more favorable terms than private investors, for example by accepting lower returns or higher risk.[7]

Thus, the OECD figure reflects the total mobilization of private capital, while the Convergence figure highlights the portion of blended finance where development funds are used catalytically to enable investments that would otherwise not take place. Because the definitions and methodologies differ, the figures are not directly comparable, and discussions on blended finance are at times complicated by actors relying on different data sources.

Regardless of whether one takes USD 70 billion or USD 15 billion as the point of departure, it is clear that blended finance currently plays only a limited role in closing the annual financing gap of around USD 4.2 trillion required to achieve the global development goals.[8] This does conclude that blended finance should be scaled back. But it highlights the need for new approaches that strengthen risk-sharing mechanisms while ensuring they are effective, equitable, and firmly grounded in a rights-based framework.

Figure 1) Overview of the amount of private capital mobilized in 2023 according to Convergence and the OECD, compared with the financing gap
Billions of USD

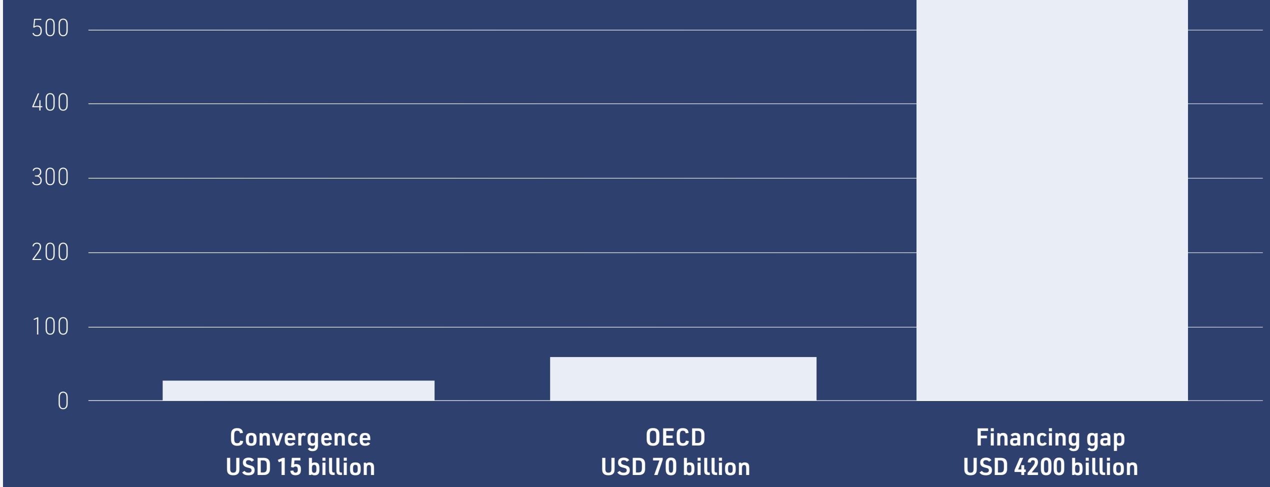
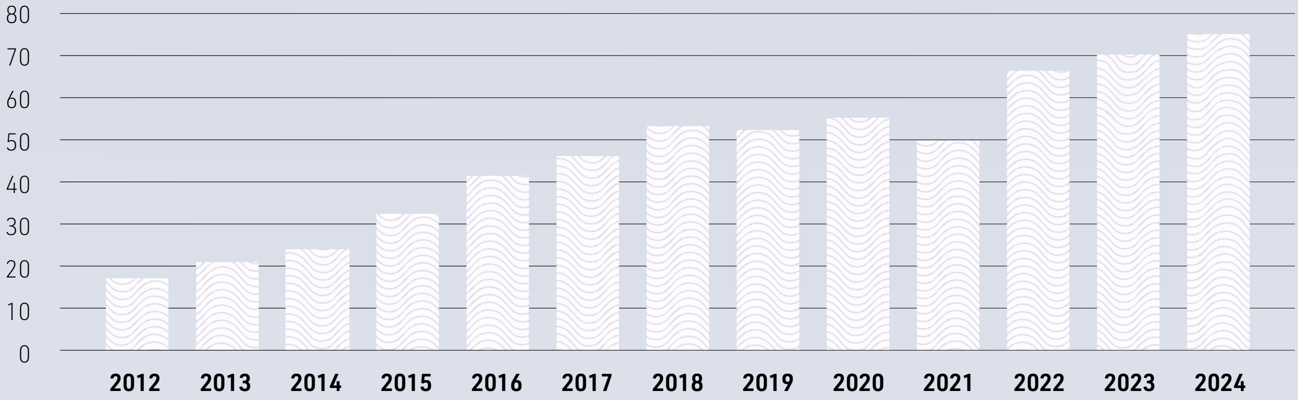


Figure 2) Development in the mobilization of private finance in the period 2012–2024
Billions of USD



SOURCE: OECD

HAS THE PROMISE OF MOVING "FROM BILLIONS TO TRILLIONS" BEEN FULFILLED?

At UN Financing for Development conference in Addis Ababa in 2015, the World Bank and several multilateral development banks launched the *From Billions to Trillions* vision.[9] The objective was to use official development assistance' – measured in billions – as leverage to mobilize private capital in the trillions to achieve the Sustainable Development Goals.

In practice, however, this ambition has proven difficult to realize. This applies both to the scale of private capital mobilization and the need to ensure that investments flow not only to emerging markets but also to low-income countries. Figure 2 illustrates developments in the mobilization of private finance over the period 2012–2024.

In 2024, the World Bank's Chief Economist, Indermit Gill, acknowledged that the slogan of moving from billions to trillions "turned out to be a fantasy".[10]

Similarly, the OECD emphasized in 2025 that "blended finance is no panecea for meeting the financing needs for the SDGs and the goals of the Paris Agreement," as blended finance "has not scaled as rapidly as hoped and has mobilised relatively limited private finance." [11]

The experience of the past ten years has nonetheless contributed to a more nuanced understanding of how and when cooperation with the private sector creates value. Mobilizing private capital in the Global South is complex and depends on a range of factors, including risk profiles, return expectations, and local market conditions.

Taken together, these insights have underscored the growing recognition that blended finance cannot operate in isolation and must be paired with broader reforms (e.g. to lower cost of capital) and greater public funding (see the recommendations presented at the end of the analysis). However, potential remains in designing more targeted, context-specific blended finance models that use public support in a transformative way to reach those contexts and communities where needs are greatest.

THE NEED TO STRENGTHEN CIVIL SOCIETY ENGAGEMENT IN BLENDED FINANCE

Today, the vast majority of traditional blended finance projects are carried out without the involvement of civil society. While blended finance helps mobilize financing, traditional blended finance projects have also often been associated with a number of risks. For example: concentrating investments in commercially attractive sectors and a few middle-income markets, sidelining local priorities and actors, distorting local markets, and potentially causing human rights violations due to weak transparency, accountability, and community involvement.

Blended finance projects have the greatest potential to contribute to sustainable development goals, local ownership, and a rights-based approach when civil society actors are actively involved throughout the entire process. Local civil society organizations that represent affected communities should not merely be informed – they must have real influence. They should be able to participate in decision-making processes that shape their daily lives and livelihoods, and should therefore be included in everything from investment decisions and environmental and social impact assessments to the drafting, implementation, and follow-up of project plans.

The OECD notes that civil society organizations are playing an increasingly important role in blended finance, where they collaborate with both commercial partners and development finance institutions. They contribute local knowledge, help ensure that projects deliver development outcomes aligned with the Sustainable Development Goals, and work to uphold high social and environmental standards. Local organizations can facilitate stakeholder engagement, provide local expertise and capacity building, and monitor and evaluate project impacts. Their involvement enhances the quality, relevance, and accountability of projects, and the OECD highlights that "further partnering with these organisations opens new opportunities for more effective blended finance".[12]

> *"NGOs and local communities can act as the boots on the ground, maintaining a focused overview of investment needs where private climate finance is most required.*
>
> (Danish Industry et al. 2025)[13]

Many of Global Focus' member organizations and their partners are already engaged in blended finance in various ways.

THERE ARE TYPICALLY THREE TYPES OF ROLES THAT CIVIL SOCIETY ASSUMES IN RELATION TO BLENDED FINANCE:

AS BRIDGE-BUILDERS:

Many member organizations and their partners in the Global South support investors with knowledge about the market and the needs of local communities. This contributes to market relevance, reduces investment risks, and lowers the risk of rights violations.[14] At the same time, they ensure that projects are rooted locally and have genuine local ownership.

One example is the Sustainability Advisory Board of Impact Fund Denmark, Denmark's state-owned development finance institution. The board serves as an advisory body that supports and strengthens the fund's work on sustainability and responsible development.[15] The panel consists of experts from various sectors, including several from Danish civil society, who advise the fund on strategic initiatives, partnerships, and new solutions.

AS PARTICIPANTS:

PlanBørnefonden has established its own business fund, the Danish Red Cross works with innovative climate finance, and DanChurchAid engages in private-sector partnerships as part of its interventions. Through such collaborations, organizations act as intermediaries between development finance, private investors, and local communities—helping make projects more inclusive and sustainable.

Civil society organizations have extensive experience providing technical assistance and training to local actors and acting as implementation partners in various projects financed through development cooperation funds.

Danish civil society organizations have also played an active role in the Danida Market Development Programme, a public–private partnership instrument under Danida supporting market-driven development projects, and its successor, the Danida Green Business Partnership, where they have contributed as key actors in project implementation.[16]

AS WATCHDOGS:

Organizations monitor how blended finance is used –including within climate finance. They work closely with local actors in the Global South to promote transparency and accountability. They ensure that projects adhere to international human rights and sustainability standards, while also increasing attention to debt sustainability, do-no-harm principles, grievance mechanisms, and trends in the dilution of official development assistance.

By continuing to work with and strengthen these three roles that civil society can assume, blended finance can more effectively support the Sustainable Development Goals, foster local ownership, and ensure that development financing is grounded in a rights-based approach.

HOW THE "POLLUTER PAYS" PRINCIPLE CAN HELP CLOSE THE FINANCING GAP

Globally, there is no shortage of money – indeed, there has never been more. The question is how the resources we already have are being used. In 2025, the world's governments spent over USD 6,700 billion on subsidies for fossil fuels – around 30 times more than was spent that same year on official development assistance (approximately USD 223 billion) – while countries in the Global South continue to lack funds for climate action and development.[17] The COVID-19 pandemic and current increases in military spending have demonstrated that resources can be reallocated quickly when the political will is there.

A promising avenue for mobilizing additional resources to achieve the Sustainable Development Goals and the Paris Agreement is the use of innovative financing mechanisms based on the 'polluter pays' principle. In 2024, a number of countries (including Denmark) joined the Global Solidarity Levies Task Force, a coalition of countries working to implement levies on, for example, fossil fuels, luxury air travel, and international shipping in support of development objectives.

In 2025, concrete coalitions of countries emerged that are leading the way in implementing these levies, including a coalition led by France and Kenya introducing taxes on private and first-class aviation, as well as a coalition led by Brazil and Spain promoting more effective taxation of very wealthy individuals.[18]

The goal is to reduce emissions, strengthen public financing, and help close the global financing gap. Estimates show that levies based on the 'polluter pays' principle could raise trillions of dollars globally – enough to cover the current financing needs of the Global South.[19]

STRUCTURAL CONSTRAINTS AND THE LIMITS OF "ENABLING ENVIRONMENTS" IN BLENDED FINANCE

In the debate on blended finance, increasing emphasis is being placed on the responsibility of countries in the Global South to ensure so-called enabling environments, for example through tax incentives, deregulation and market reforms designed to make investments more attractive to private actors.

However, placing primary responsibility on national conditions risks overstating what individual countries can realistically achieve, as international and structural factors are often more decisive in shaping investment outcomes. Debt crises, high costs of capital, and externally imposed cuts in public expenditure severely constrain many countries in the Global Souths' ability to participate in blended finance partnerships on sustainable and equitable terms.

The challenge therefore cannot be understood or addressed at the national level alone; it must be viewed in the context of the broader global economic architecture and the structural inequalities it reinforces.

ASSESSING THE POTENTIAL OF BLENDED FINANCE IN CLIMATE EFFORTS

At the UN Climate Summit (COP29) in 2024, a new climate finance goal was adopted, aiming to mobilize USD 1.3 trillion annually by 2035 for climate action.[20] To reach this target, there are high expectations that blended finance will help mobilize private capital. However, it is important to note that only wealthy states have a legal obligation to provide climate finance; the private sector can be encouraged to contribute but cannot be held accountable for meeting the targets.

In 2023, 80 percent of global blended finance went to climate-related purposes, primarily to projects focused on reducing greenhouse gas emissions, which often have commercial potential.[21]

Below is an overview of the potential role of blended finance across the three main pillars of climate action: mitigation, adaptation, and loss and damage.

MITIGATION: BLENDED FINANCE HAS POTENTIAL – UNDER THE RIGHT CONDITIONS

Blended finance can play a role in mobilizing private capital for mitigation efforts under the right circumstances – for example, investments in renewable energy in emerging economies.

It is important to be realistic about the scale of the potential though. Recent analysis shows that every $1 of concessional public finance leverages only 85 cents in private finance for energy transition projects – and in low-income countries this drops to 69 cents.[22]

Experience also shows that blended finance efforts often attract more public capital on market terms (e.g., from development banks) than actual private capital.[23] This indicates that direct cooperation between public actors may in many cases be a more effective approach to supporting climate action.[24]

Moreover, most blended finance in the energy sector flows to middle- and high-income countries and to large-scale projects, while low-income countries and smaller projects continue to receive only a very small share of investments.[25] Private financing also tends to favor large energy projects, including export-oriented ones, and places less emphasis on smaller projects aimed at expanding energy access for poorer communities.[26]

Assessing the additionality of mitigation projects financed with blended finance can be difficult: for large projects in middle-income countries, there is a risk that public funds are used to subsidize projects that could have attracted the necessary investment regardless.[27]

ADAPTATION: BLENDED FINANCE HAS LIMITED POTENTIAL

Blended finance currently plays only a very limited role in climate adaptation. Private finance accounts for just 3 percent of existing adaptation finance needs, and only 6.6 percent of total blended climate finance investments go toward adaptation projects.[28]

This is partly because adaptation projects tend to be smaller, locally anchored, and difficult to scale. Moreover, the financial returns are typically low or uncertain because adaptation primarily generates societal and public goods rather than direct private profit.[29]

New research by Watkiss and England (2025) shows that 75 percent of adaptation needs in the Global South do not generate economic returns and are therefore unattractive to private investors.[30] This leaves a theoretical investment potential of 25 percent; however, the study finds that only around 15 percent is likely to attract private investment under current market conditions. This potential is concentrated in a limited number of sectors, including climate-resilient agriculture, irrigation, and coastal protection infrastructure.

At the same time, the research warns that scaling up private-sector participation in adaptation risks shifting focus away from locally led and inclusive adaptation initiatives.[31]

Increasing current private investments from 3 percent to the realistic potential of 15 percent would require a significantly strengthened focus on adaptation and a revision of existing policies to encourage this shift. While it is positive that some potential for private investment exists, the study also underscores that a major scale-up of public financing for the remaining 85 percent of adaptation needs will remain essential to ensure that the most vulnerable communities and countries receive adequate support.

LOSS AND DAMAGE: BLENDED FINANCE HAS NO REALISTIC ROLE

Investments related to climate-induced loss and damage involve, among other things, reconstruction after climate disasters. These interventions are generally not suitable for blended finance or private capital, which seeks profit. Loss and damage responses also frequently require rapid, direct, and targeted support to the most vulnerable communities.

Blended finance structures can be complex and slow to establish, rarely matching the urgency of needs in loss-and-damage situations. This means that public support – through direct grants or aid – will need to be scaled up significantly to cover the real financing needs for loss and damage.[32]

RECOMMENATIONS

These recommendations are primarily directed at decision-makers and relevant authorities that define the framework for Denmark's blended finance efforts, but they also target public financial institutions, civil society actors, as well as private investors and companies contributing to these efforts.

The recommendations are structured around three overarching recommendations, complemented by four recommendations related to the implementation of blended finance.

OVERARCHING RECOMMENDATIONS

1) BLENDED FINANCE AS A SUPPLEMENT, NEVER A REPLACEMENT

Blended finance should be seen as a tool that can mobilise private capital and complement public development efforts, without replacing or weakening wealthy countries' commitment to allocate 0.7 percent of their gross national income (GNI) to official development assistance, or their additional financial obligations under frameworks such as the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Contributor countries must increase public financing and prioritise high-quality, grant-based, gender-responsive, and inclusive funding – including traditional development assistance.

2) ENSURE ALIGNMENT WITH DEVELOPMENT OBJECTIVES

All blended finance projects must define clear and measurable objectives demonstrating how they contribute to the core purposes of development cooperation as set out in Danish law: poverty reduction, the advancement of human rights, and long-term sustainable development.[33]

3) STRENGTHEN CIVIL SOCIETY'S ROLE AND CAPACITY

The role of civil society as bridge-builder, participant, and watchdog must be significantly strengthened to ensure that blended finance more effectively contributes to sustainable development outcomes, local ownership, and a rights-based approach. Denmark should take the lead and create a best-practice example for the involvement of civil society as an active partner and knowledge resource. Civil society should be systematically included in all phases – from planning and risk assessment to implementation and evaluation – so that investments are grounded in local needs and contexts.

Danish blended finance models should therefore actively encourage partnerships between public investment funds (such as Impact Fund Denmark) and civil society organizations with local presence and capacity.

RECOMMENDATIONS FOR THE IMPLEMENTATION OF BLENDED FINANCE

USE BLENDED FINANCE TRANSFORMATIVELY

- **Focus on transformative blended finance** – Blended finance must be targeted where needs and development impact are greatest. Today, it is often used to support investments that are already commercially attractive, where public support is not necessary and could have been allocated more effectively elsewhere. Transformative blended finance should function as a strategic and temporary tool that promotes systemic change, develops new markets, and demonstrates commercial viability so that private investors can eventually assume financing responsibilities. This includes:
  - **Supporting project preparation and feasibility studies** so that plans can be translated into investment-ready and locally tailored projects.
  - **Using blended finance as a catalyst in early project phases** to develop local financial markets and demonstrate that investments are feasible and viable, thereby attracting private actors.
  - **Ensuring that public funds are used strategically and for limited periods,** including through revolving funds, so that subsidies can be phased out as markets mature. This allows public funds to be withdrawn and redeployed elsewhere.
  - **Place greater emphasis on smaller, high-risk, high-impact investments in underserved sectors and countries** that blended finance mechanisms rarely reach today.

SET HIGH QUALITY STANDARDS FOR RESPONSIBLE AND INCLUSIVE USE OF BLENDED FINANCE

- **Target support toward fragile contexts and ensure no one is left behind** – Denmark should set targets for the share of Danish blended finance that must reach the least developed countries. Projects should actively promote the participation of women, youth, and structurally excluded groups – including as actors within value chains – thus supporting the SDG principle of leaving no one behind.
- **Promote local ownership and value creation** – Investments should always be designed with local priorities in mind. Smaller, modular, and flexible projects can strengthen local production and value creation, ensuring that benefits and jobs remain within communities and support national development plans. In particular, smaller investments in SMEs and local entrepreneurs help ensure local anchoring. Technical assistance and capacity building can support a strong and sustainable project pipeline.
- **Prioritize development additionality** – Blended finance should be measured by demonstrable development results rather than volume alone. Public funds should be used where they create real financial *and* development additionality – not for projects that the market would have financed anyway. Projects should mobilize private capital and create concrete added value in the form of job creation, gender equality, environmental improvements, and respect for human rights.

INTRODUCE BINDING REQUIREMENTS FOR RIGHTS PROTECTION

- **Binding requirements rather than guidelines** – Denmark should work to ensure that international standards on corporate responsibility and human rights protection, as recommended in the OECD DAC Blended Finance Principles,[34] are respected, and to push for these standards to be translated from guidelines into binding requirements.

- **Accessible and independent grievance mechanisms** – Projects involving multiple investors should clearly indicate which grievance mechanism affected stakeholders can use. This promotes inclusion and trust while enabling potential issues to be addressed early.

STRENGTHEN TRANSPARENCY IN BLENDED FINANCE

- **Document the Funds Effectively Mobilized** – Denmark should report how much private capital Danish development finance has mobilized, clearly showing:
  - How much private capital has *actually* been mobilized, and how much development finance this required.
  - The grant-equivalent of different types of financing
  - How Danish development assistance has contributed to both financial and development additionality in a given blended finance project.

  The updated reporting requirements from the OECD Development Assistance Committee (OECD-DAC)[35] for private-sector instruments are a step in the right direction, but Denmark should advocate for even greater transparency. Increased transparency strengthens trust in reporting and makes it easier to identify where blended finance delivers real development impact.

ENDNOTES

1 Danida (2025): A changing world – partnerships in development)

2 Eurodad (2024): Blended finance for climate action: good value for money?

3 OECD DAC (2025): Blended Finance Guidance

4 OECD (2025): Leveraging private finance for development

5 Convergence (2024): State of Blended Finance 2024

6 Further details on the OECD methodology can be found here – and the corresponding OECD guidelines – here

7 See the detailed explanation of Convergence's blended finance definition and methodology here

8 OECD (2025): Global Outlook on Financing for Sustainable Development

9 World Bank (2015): From Billions to Trillions - Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance

10 Indermit Gill (2024): For developing economies, the finance landscape has become a wasteland

11 OECD DAC (2025): Blended Finance Guidance

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13 Danish Industry et al. (2025): Whitepaper: Strategies to scale private and blended climate finance for a just green transition

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15 Impact Fund Denmark (2024): New Sustainability Advisory Board appointed

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18 Élysée (2025): Launch of a coalition for premium flyers contribution to fair transitions and resilience and Ministerio de Hacienda (2025): Spain and Brazil present an initiative to promote a more effective taxation of the super-rich worldwide

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23 Songwe, V., Stern, N., & Bhattacharya, A (2022): Finance for climate action: Scaling up investment for climate and development

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27 Recourse (2024): A safe pair of hands? How the multilateral development banks fail to live up to expectations on climate finance

28 Convergence (2024): State of Blended Finance 2024: Climate Edition

29 World Resources Institute (2025): Strengthening the Investment Case for Climate Adaptation: A Triple Dividend Approach

30 Watkiss, P. and England, K (2025): Adaptation finance and the private sector: opportunities and challenges for developing countries - Zurich Climate Resilience Alliance

31 Watkiss, P. and England, K (2025): Adaptation finance and the private sector: opportunities and challenges for developing countries - Zurich Climate Resilience Alliance

32 It should be noted that innovative finance differs from blended finance. Within innovative finance, increasing attention is being given to how different insurance solutions can potentially play a role in addressing loss and damage

33 As set out in the Danish "Act on International Development Cooperation" (2012)

34 Including: OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023), UN Guiding Principles on Business and Human Rights (UNHCR, 2012) and International Finance Corporation's Performance Standards (IFC, 2012). Source: OECD DAC (2025):Blended Finance Guidance

35 OECD DAC (2024): Guidance for reporting Private Sector Instruments in CRS

Global Focus is a platform of Danish development, environmental and humanitarian non-governmental organizations. Our aim is to strengthen and promote a diverse civil society and their capacity to promote a more just and sustainable world.

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