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Financing Industries for Development

Unlocking Private, Public, and Blended Investment in a New Aid Era

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Foreword

Industry is the backbone of economic progress and wealth creation. It creates jobs, drives innovation and strengthens resilience. For developing countries, industrialization is one of the most reliable ways to reduce poverty and build a lasting foundation for a more prosperous future. Investing now in sustainable industrialization is the smartest choice amid shrinking official development assistance worldwide. Industry is the key to generating income for workers and for businesses, as well as for the public sector through tax revenues. This in turn enables investments in broader societal development, from education and healthcare to infrastructure, thereby reducing aid dependency in the long term.

But today, financing for industrial development is endangered. Many countries are reducing development assistance as global crises put pressure on public budgets. However, new opportunities are also opening up. Domestic resources, foreign investment, remittances, and blended finance can all help countries finance their own industrial transformation.

UNIDO works with governments, international partners, local and international financial institutions and the private sector to unlock these opportunities. Our many projects across the globe as well as our country and regional programmes show how industrial strategies can be linked to investment promotion, bringing together the public and private sectors. With the right policies, tools, financial mechanisms and partnerships, countries can harness industrial development as a powerful engine of sustainable growth.

This report highlights the changing landscape of finance for developing the future of industry. It calls for an expanded approach combining both domestic and international efforts, mobilizing private and public resources, and which places industry at the center of economic development strategies. Only by investing in industry today can we build prosperity, resilience and sustainability for tomorrow.

Gerd Müller, *Director General of the United Nations Industrial Development Organization*

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Director General
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Key messages

Industrial development is a means for transforming economies and generating financial resources in a world that can increasingly less rely on Official Development Aid (ODA). Industrial growth generates strong multiplier effects on productivity, employment, and structural change, making it a powerful tool for development even in times of shrinking aid budgets. Investing in SDG 9 – industry, innovation and infrastructure – has a positive unlocking effect to all other SDGs.

Industrial development is increasingly shifting from aid dependency toward mobilizing self-sustaining domestic and foreign finance. While ODA continues to play an important catalytic role, developing countries need to strengthen domestic resource mobilization, attract diverse forms of capital, and reduce reliance on traditional aid. This requires re-conceptualizing industrial finance not as development assistance but as a capital allocation in long-term transformation amid a changing aid landscape and shifting global priorities.

ODA remains relevant, but industrial development depends largely on domestically generated and raised capital. Although external assistance remains vital for capacity building and technical support, the foundation of industrial growth also rests on domestic savings, entrepreneurial reinvestment, and commercial credit—complemented by public investment in infrastructure and enterprise support. The sustainability of industrialization depends on mobilizing these internal resources more effectively.

Industry offers high returns but depends on diversified financial systems. To unlock this potential, countries must mobilize domestic savings, foreign direct investments (FDI), and remittances, while seizing opportunities from emerging donors, institutional investors, and major asset owners—such as pension funds, insurers, and sovereign wealth funds—that hold the largest pools of development capital. Combining these sources with blended finance can further expand impact. To channel resources into productive investment, governments need to safeguard macroeconomic stability, ensure policy clarity, and build institutional trust.

Financing tools must respond to industrial transformation needs. Unlike short-term aid structures, industry requires patient capital and tailored financial instruments that align investment decisions with SDGs. Modern approaches—such as performance-based financing, catalytic capital, and blended mechanisms—are better suited to support long-term investment, innovation, and structural upgrading in developing economies.

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Introduction

Development financing is at a crossroads, and the risks of not achieving internationally agreed development goals are looming large. As major donors recalibrate their budgets and aid policies, resources for development are facing additional pressures.

Industrialization is a reliable pathway to strengthen resource mobilization in developing countries to reduce poverty and raise living standards. As workers transition from informal to formal employment, governments gain greater capacity to collect income and corporate taxes, social contributions, and indirect taxes. Industrial growth also drives higher productivity and shifts production and exports toward more value-added goods.[1] This not only raises national income but also boosts foreign exchange earnings, improving the country's external balance and financial resilience. The resulting accumulation of domestic financial resources enables governments to invest in critical development priorities such as infrastructure, education, healthcare, and climate adaptation.

Industrialization is, therefore, increasingly recognized as a key priority both in developing and developed countries alike. While the case for industrial development is gaining traction in response to the current slowdown in economic growth across much of the developing world, many developed countries are also seeking to reindustrialize and revitalize their manufacturing sectors.

The case for industrial financing is stronger than ever but improved and more effective financing mechanisms are needed, especially in developing countries. Historically, industrialization has already depended less on traditional aid than other development priorities and more on private investment, reflecting long established priorities of international cooperation. In the evolving new international aid architecture access to and affordable pricing of traditional sources of industrial development finance are under additional threat, making the strengthening of all available financing mechanisms essential.

So where does industrial development go from here, and how can it harness new financing mechanisms? This issue paper examines the current funding landscape and policy space, and explores how industrial development can be positioned as a compelling investment opportunity—capable of driving broad-based, sustainable, and inclusive economic transformation in an evolving financial environment.

1 Financing Industrial Development: The Sources

Financing for international development, of which industrial (and trade) development is a core driver, can be attributed to the following sources and mechanisms:

a) **Domestic Private Investments**: These comprise capital contributed by domestic businesses, entrepreneurs, and financial institutions into industrial activities. Industrial financing often begins with entrepreneurs drawing on personal capital or seeking loans from financial institutions to expand operations - all of which is linked to the national savings function. Empirical evidence shows that higher national savings are strongly correlated with greater investment and industrial development.[2] Support mechanisms for entrepreneurs include preferential loans, business development services, training, subsidies, incubation programs, supplier development support and the provision of technology and infrastructure.

b) **Domestic Public Investments:** Governments are critical actors in financing industrial development through national budgets, state-owned enterprises, and targeted public investment programs, including support to the enabling business environment. Tools such as subsidies, tax incentives, and concessional loans are used to support strategic sectors. Public funds are often directed towards foundational infrastructure, research and development, educational support and special economic zones and regional corridor development to catalyze private sector participation. Some governments also adopt innovative financial structuring solutions such as specialized bond offerings.

c) **Foreign Direct Investment (FDI)**: Is part of private investment as well but denotes investments made by foreign companies or investors into domestic industrial ventures, either through joint ventures, wholly owned subsidiaries, or mergers and acquisitions with a long-term business objective. FDI could not only potentially bring capital, but also technology, management expertise, and access to global markets. For developing countries, attracting qualitative and sustainable FDI can significantly boost industrial productivity and competitiveness.[3] In addition, remittances in some developing countries represent the largest inflow of foreign income and thus a potentially significant pool of capital for industrial development.

d) **Official Development Assistance (ODA):** ODA—defined by the OECD's Development Assistance Committee (DAC)—refers to concessional funding provided by donor governments and multilateral organizations to support the development goals of low- and middle-income countries. This includes resources channeled through mechanisms such as the Global Environment Facility (GEF) or the Adaptation Fund, as well as through multilateral development banks (MDBs) and development finance institutions (DFIs). In the context of industrial development, ODA plays a vital role in financing infrastructure projects, strengthening institutional capacity, supporting policy reforms, and providing technical assistance to industrial enterprises. By targeting these areas, ODA helps create the enabling conditions for sustainable industrial transformation in developing economies.

   Beyond the OECD's DAC reporting framework, there is significant development aid from other sources. The OECD estimates that non-DAC countries collectively provided US $17.9 billion in ODA in 2022, or around 10% of the total ODA. Saudi Arabia, for example, through its Saudi Fund for Development, has disbursed over US $20 billion as of 2024,[4] while India has provided more than US$48 billion since 2000.[5] Annual ODA spendings of Türkiye have been approximately USD 7.4 billion in 2024.[6] Scholars report that China, between 2013 and 2018, allocated approximately $7 billion per year with 47% in the form of grants and the rest in loans.[7] While emerging economies are playing an increasingly prominent role, their development finance is often difficult to track due to the lack of systematic documentation.

e) **Blended Finance**: Combining public, philanthropic, and private capital, blended finance channels investment into high impact but high-risk projects. By 2023-24, developing countries received US $231 billion in private finance - much of it through blended finance - along with an additional US $56.1 billion from NGOs[8]. It uses instruments such as guarantees, concessional capital, first-loss tranches, and technical support. More than a product, it is a structuring method to de-risk investments, especially in early-stage projects, emerging technologies, and frontier markets. For industrial development, it aligns commercial viability with developmental goals. Multilateral climate funds like the Green Climate Fund (GCF) and the Climate Investment Fund (CIF) are an important provider of public funding within blended finance structures, both leveraging public ODA resources to catalyze private capital.

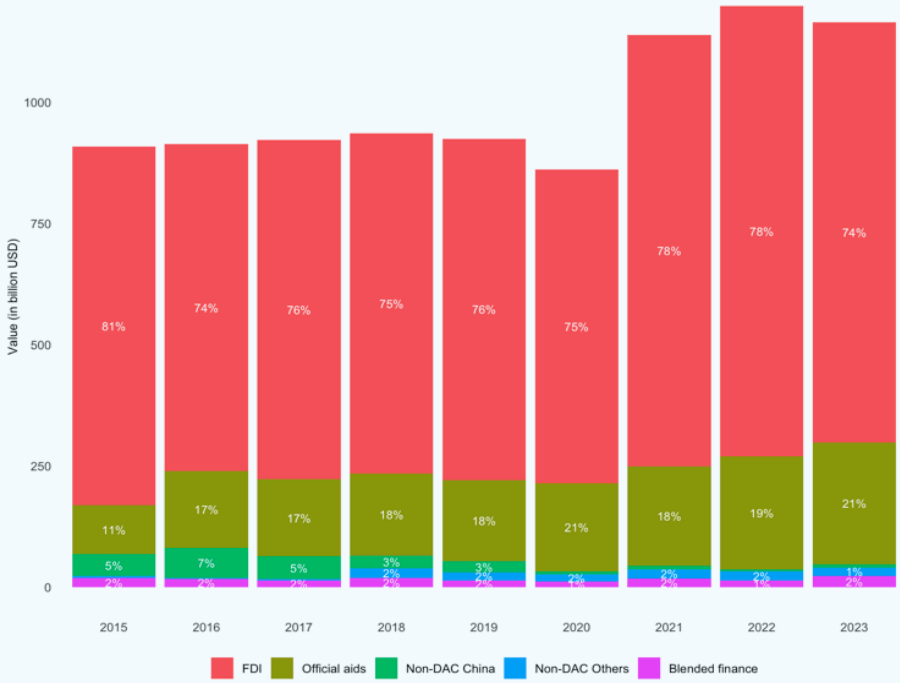
2 Financing of Industrial Development: The Trends

Industrial development is capital-intensive, long-term, and high-risk, making financing a critical challenge. Securing funding for industrial projects requires not only stable financial resources but also instruments tailored to the specific needs of industrial planning, infrastructure development, and working capital cycles.

Recent trends are reshaping the landscape of industrial finance, with implications for developing and emerging economies. Enterprises in these countries can primarily access domestic finance, foreign direct investment (FDI), and remittances, as well as, indirectly, official development assistance (ODA) and blended finance mechanisms.

Traditional funding sources continue to dominate, but new actors are diversifying the landscape. Domestic finance, FDI, and ODA remain the main channels supporting industrial development (see Figure 1). Although greater diversity is being introduced into development finance through emerging actors – such as China and other non-DAC countries, and blended finance instruments, any decline in traditional sources could significantly slow, or even reverse, developmental progress in poorer countries. The least-developed countries are particularly vulnerable, as reductions in these flows could undermine socio-economic gains.

Figure 1: Funding Sources for Development in Developing countries



Authors' calculations based on FDI data from UNCTADstat Data centre[9]; data of ODA and aid originating from Non DAC countries excluding China (Non-DAC Others), from the OECD,[10, 11] data of China's development assistance from Boston University [12] and data of blended finance from Convergence[13]

Note: The classification of countries follows that of UNIDO as of 2024. Developing countries refer to those who are not "High-income industrial economies". The FDI data in this chart exclude those received by developed countries. The FDI figures do not exclude conduit flows in this paper. Non-DAC Others include all countries listed as Non-DAC countries by the OECD, which excludes China and India. income industrial economies". The FDI data in this chart exclude those received by developed countries. The FDI figures do not exclude conduit flows in this paper. Non-DAC Others include all countries listed as Non-DAC countries by the OECD, which excludes China and India.

Any decline in traditional sources such as FDI or ODA could significantly slow, or even reverse, developmental progress in poorer countries. The least-developed countries are particularly vulnerable, as reductions in these flows could undermine hard-won socio-economic gains. At the same time, emerging actors outside the DAC, notably China and other non-DAC countries, along with blended finance instruments, and – to a certain extent – are introducing greater diversity into development finance.

Domestic Investment – Underreported but Foundational

Domestic funding is the largest and most stable source of industrial development finance. Although often underreported, the mobilisation of public and private funds provides a strategic foundation for industrial growth. Unlike external funding, they are less sensitive to donor priorities or global market fluctuations, making them crucial for infrastructure development, Mikro, Small, and Medium Enterprise (MSME) financing, and the expansion of manufacturing capacity.

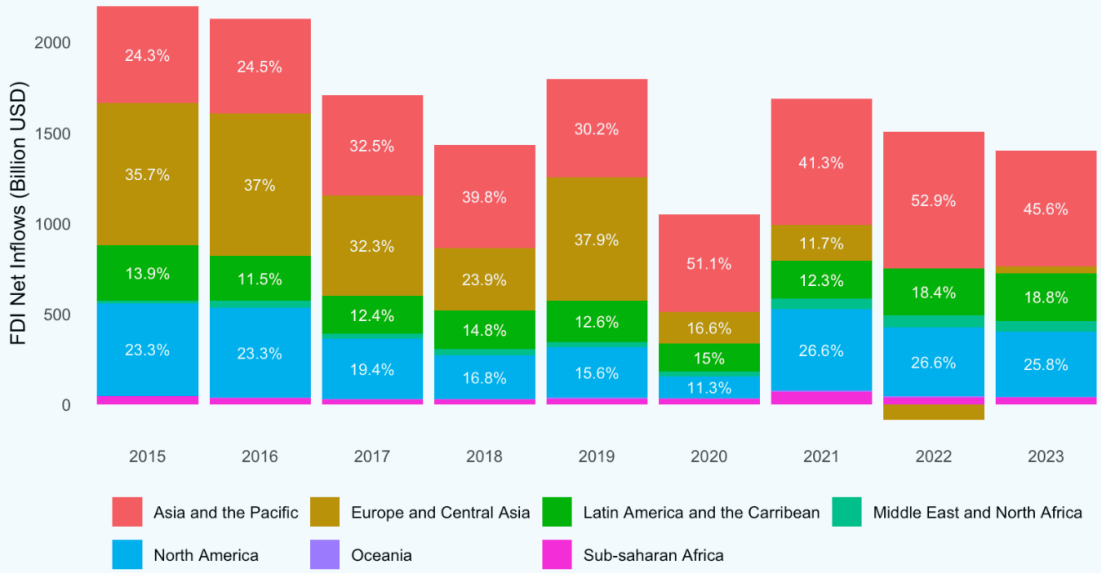
Domestic investments drive broad-based economic development by fostering jobs, productivity, and innovation. They also help build the social and economic infrastructure necessary for competitive and resilient economies. In middle-income industrializing countries, national budgets and local capital markets are increasingly channeling resources into sectoral modernization. Data from FDI flows and the IMF's Investment and Capital Stock dataset —covering capital flows of both government and private sectors— indicate that domestic fixed capital investment consistently exceed external flows, with the gap particularly pronounced in developing economies.[14]

Foreign Direct Investment – Substantial but Selective

FDI remains the largest external source of industrial development finance, but it is highly concentrated. In 2024, global net FDI flows achieved US$1.5 trillion[15], showing a global downturn of 11 per cent. UNCTAD reports sharp declines in FDI flows to developing countries in SDG-relevant sectors: renewable energy investment fell by 31%, transport by 32%, water and sanitation by 30%, and agrifood systems by 19%.[16] Over the 2015 to 2023 period, at least 40% of inflows were recorded by high-income industrial economies alone (Figure 2). Over time, accumulated FDI stocks have outpaced annual inflows, highlighting the enduring presence and influence of foreign capital in host economies.

FDI is inherently selective, cyclical, and return-driven, often bypassing countries with the greatest industrial needs. UNCTAD's 2025 World Investment Report draws an alarming picture, showing that investments in developing countries dropped by a quarter to a third across infrastructure, renewable energy, water and sanitation, and agrifood systems. Low-income economies, and to a lesser extent industrializing countries, remain largely dependent on ODA and concessiona finance.[17] Distribution of FDI closely follows market potential and perceived political or economic stability rather than development priorities. For instance, drawing from the same source, it appears that Sub-Saharan Africa received only US$97 billion in FDI in 2024, despite pressing infrastructure and industrialization needs, while Asia and the Pacific attracted nearly US$605 billion. Addressing this structural mismatch requires a pipeline of viable and return generating industrial development opportunities rather than aid-dependent projects.

Figure 2. FDI flows from 2014 to 2023 per country group



Source: Authors' calculations based on the Investment and Balance of Payment data series of UNCTADstat Data Centre.

Note: The FDI data covers over 190 countries, including all major economies from different income levels. The regional classification follows that of WHO as of 2024. –The FDI figures in this paper do not exclude conduit flows. FDI statistics are subject to measurement errors, particularly in developing countries where reinvested earnings are often not captured. As a result, actual FDI inflows into these economies are likely to be significantly underestimated.

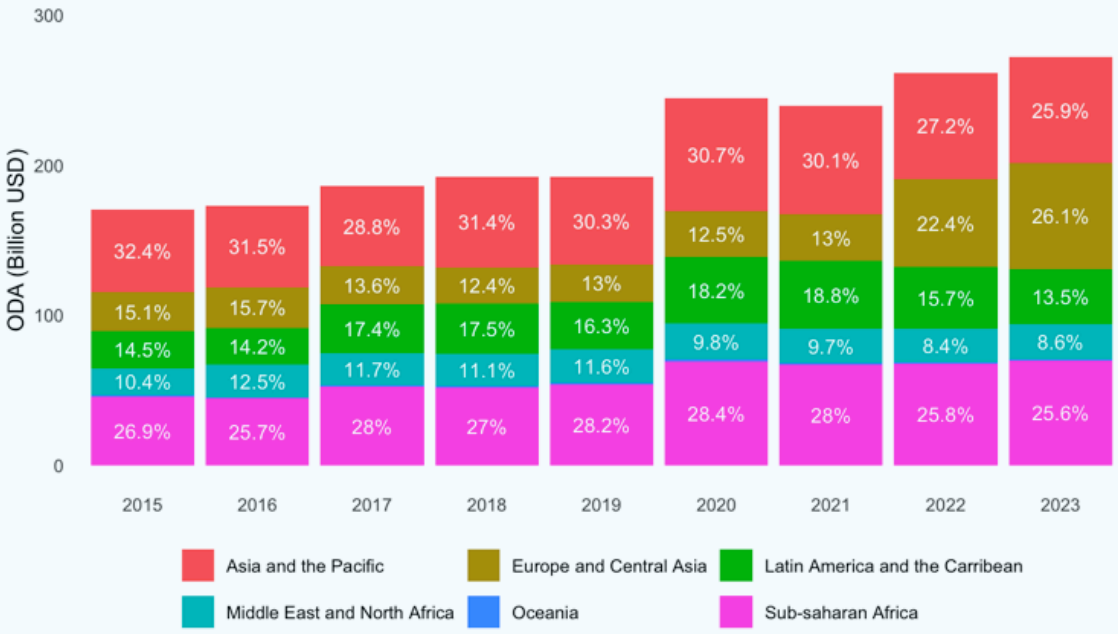
Official Development Assistance – Reliable, but for how long?

ODA remains a cornerstone of development finance, especially for low-income and industrializing economies. Its strengths lie in stability, counter-cyclical capacity, and development orientation. In 2023, Sub-Saharan Africa and Asia-Pacific each received around US$70 billion in ODA, underscoring its central role in development finance (Figure 3). ODA also demonstrated resilience during recent crises: while FDI and blended finance fell sharply in 2020 due to the COVID-19 pandemic, ODA flows remained steady, reflecting the reliability of longstanding budgetary commitments by Development Assistance Committee (DAC) members.

Yet ODA faces growing challenges to its sustainability and effectiveness. In 2024, total ODA from DAC members fell to US $212.1 billion, marking a 7.1% decline from 2023—the first drop in five years—raising concerns about long-term viability amid increasing fiscal pressures in donor countries.[18]

Beyond shrinking volumes, ODA has also faced increasing criticism for the conditionalities frequently attached to donor funding. These conditions can include requirements to source goods and services from the donor country, commitments related to human rights, governance reforms, and democratization (often justified in view of the UN Charter), or stipulations on macroeconomic and fiscal policies such as privatization, liberalization, and austerity measures. In other cases, ODA has been linked to strategic access to raw materials, geopolitical alignment in international forums, or migration control agreements. While often justified as efforts to promote human rights, good governance or accountability, such conditionalities can undermine local ownership, constrain policy capacity, and eventually reduce the developmental effectiveness of aid in recipient countries.[19]

Figure 3: ODA reception from 2014 to 2023 per country group



Source: Authors' calculations based on Credit Report System (CRS) dataset of the OECD.

Note: ODA in the chart also includes Other Official Flows (OOF), Private Development Finance and Private Sector Instrument to more fully capture the landscape of financing. The data covers over 110 countries over the years, including all major recipients of assistance. The regional classification follows that of WHO as of 2024.

OECD's DAC reporting directives apply a certain degree of flexibility on what is counted as ODA – for example, the share of in-donor refugee costs accounted for 13.9 billion EUR in 2023 which may partially explain the rapid increase of "Europe and Central Asia" in the total ODA share.[20]

Emerging Economies' Development Finance – From Momentum to Maturity?

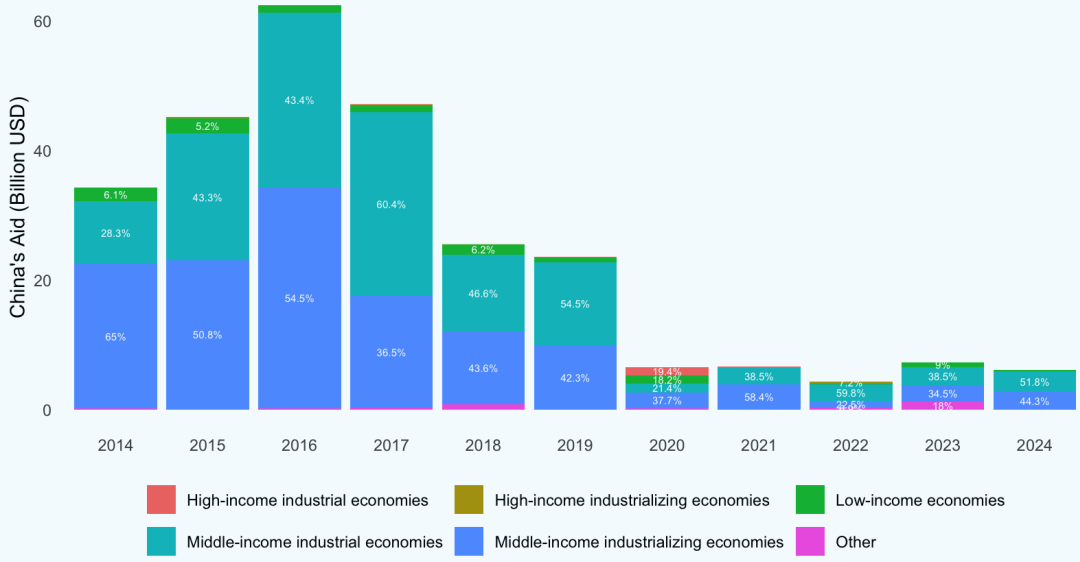
Emerging economies have become increasingly important providers of development finance. Their contributions surged from under US$4 billion in 2015 to nearly US$20 billion by 2023, reflecting their growing share of global economic output and influence. China, in particular, channels most of its development financing through state-backed infrastructure loans and investments under initiatives such as the Belt and Road Initiative (2013) and the Asian Infrastructure Investment Bank (2016), even though its official aid budget remains relatively modest at around US$3 billion annually.

China's development finance is maturing and showing signs of strategic recalibration. After a mid-2010s surge, Chinese flows stabilized at roughly US$6–7 billion per year post-2019 (see Figure 4), reflecting shifts in domestic priorities and geopolitical strategy. While still impactful, China's role has evolved from that of an emerging disruptor to a more cautious, strategically focused actor, signaling a move from momentum to maturity in its global development engagement.

Other emerging economies are also expanding their development finance footprints. Countries such as the Gulf States, India, Brazil, Türkiye and South Africa have increased their overseas financing, often focusing on regional development, infrastructure, energy, and technology transfer. India, for instance, channels concessional loans and technical assistance to neighboring countries in South Asia and Africa, while Brazil emphasizes agribusiness, social infrastructure, and capacity-building in Lusophone Africa and Latin America.

Emerging economies' contributions complement and diversify global development finance. Unlike China's large-scale, infrastructure-oriented investments, particularly under its Belt and Road Initiative, other emerging economies often prioritize smaller, targeted projects with a focus on knowledge transfer, capacity-building, and South-South cooperation. While total volumes remain smaller than those of traditional DAC donors or China, these flows help fill gaps in sectors and regions that might otherwise be overlooked, increasing the resilience and inclusiveness of global development finance.

Figure 4: China's Development aid from 2014 to 2024



Source: Authors' calculations based on China's Overseas Development Finance database of the Boston University Global Development Policy Center.

Note: China's aid in the chart follows the year of loan commitment, not implementation. All China-funded projects in around 100 recipient countries in 2014-24, as covered by the database, are included. The income classification of recipient countries follows that of UNIDO as of 2024.

Remittances – substantial but often not used for investment purpose

Remittances remain the largest source of external financing for many developing economies. In 2024, remittance flows to low- and middle-income countries (LMICs) are projected to reach around USD 680 billion, according to the World Bank[21], making them the largest external financial inflow—well above ODA. These flows are particularly critical for many small economies and fragile states, providing a stable and often countercyclical source of funds that helps households cope with shocks. For example, during the COVID 19 pandemic, remittances showed a strong resilience and played a vital role in sustaining livelihood.[22]

However, the developmental impact of remittances as an engine of industrial growth remains contested. While remittances are resilient and potentially countercyclical, their use tends to be concentrated on immediate consumption, healthcare, and education, with only a limited share directed toward investment in productive activities that generate significant multiplier effects[23]. This constrains their contribution to structural transformation and long-term economic upgrading.

To unlock the full potential of remittances, efforts are increasingly directed at creating innovative financial instruments and policy tools. These tools can channel remittances into industrial and entrepreneurial ventures. Such measures include diaspora bonds, remittance-backed securities, matched savings and investment schemes, and tailored financial products offered through local banks and microfinance institutions.

Remittances also present opportunities for digital financial inclusion. The growing use of mobile money, digital wallets, and fintech platforms enables easier transfer and aggregation of remittances, increasing the potential to link them with local investment and savings products. Some countries are piloting programs that integrate remittance flows into local industrial financing schemes, helping to crowd in private capital and support MSMEs in key sectors.

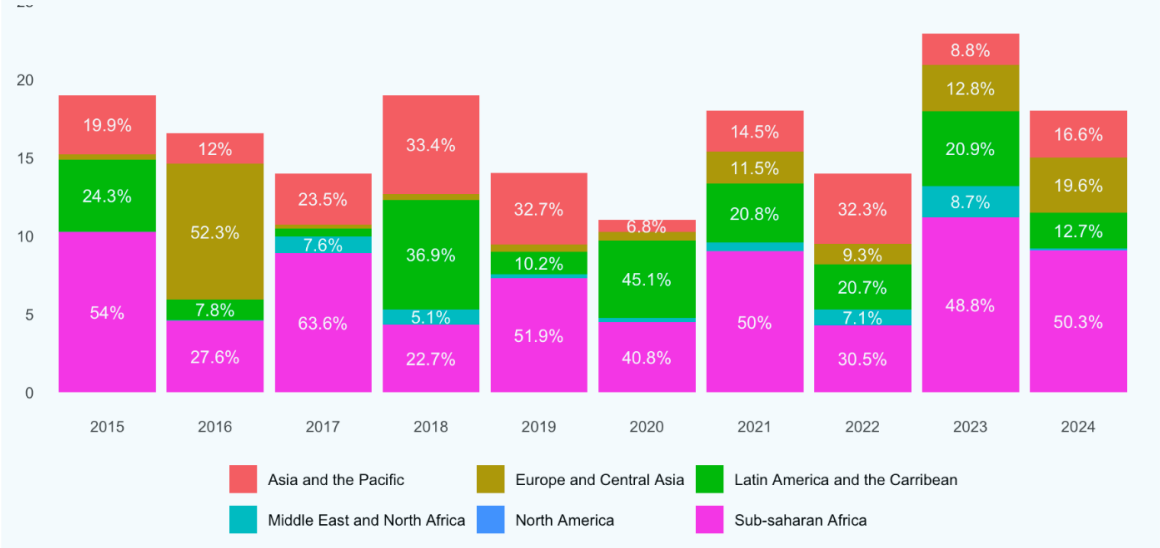
Blended Finance – High Promise, Low Momentum

Blended finance has generated interest but remains below expectations. Combining public and philanthropic capital to mobilize private investment, blended finance has plateaued at around US$20 billion annually since 2015, growing at a moderate 5.5% per year between 2015 and 2024, with noticeable declines during crisis years such as 2019 and 2020[24]. In 2024, middle-income industrializing economies attracted the bulk of industrial blended finance (estimated at US$11.3 billion), while low-income economies received only US$1.9 billion[25], reflecting both perceived and actual investment risks. And indeed, the overall complexity of preconditions for scaling up blended finance investment.

A critical policy debate questions whether blended finance generates truly additional capital or merely subsidizes investments that would occur anyway. Critics warn that without strong safeguards, blended finance can divert scarce public funds to de-risk projects already attractive to private investors, rather than supporting transformative projects needing catalytic capital. Proponents argue that well-designed mechanisms with enhanced focus on early-stage project preparation do yield additionally by addressing market failures, funding project preparation, and attracting commercial finance to underserved sectors and regions like the least developed countries.

Blended finance absorbs higher risk and enables long-term industrial investment. By pooling public, private, and philanthropic capital, blended finance absorbs higher risk and enables the execution of strategic projects with longer time horizons - particularly those that may not deliver immediate commercial returns. Its generally strong emphasis on the Environmental, Social and Governance (ESG) framework, especially in clean energy and climate-related sectors, aligns sustainability with transformative industrial objectives. This approach explains its uptake in Sub-Saharan Africa, which received US$9.6 billion in 2024, compared with US$72 billion in ODA and US$38.9 billion in FDI. Between 2022 and 2024, roughly 28% of blended finance projects by value originated at least partly in Least Developed Countries[26], highlighting its potential to drive inclusive industrialization in challenging environments.

Figure 5: Volume of Blended Finance Deals (US$ Bn) Over the Years



Source: Authors' calculations based on data maintained by Convergence.

Note: Blended finance data in the chart includes all projects in 2015-2024 as of end-May 2025, spanning across 125 countries. The values of deals of each region are estimates only and have been adjusted by a proportional deflator to avoid double counting. Regional classification follows that of WHO as of 2024.

Structural challenges limit the scale and impact of blended finance. Deal structuring remains complex, project pipelines are often insufficient, and investors' risk appetite is low. Despite these barriers, blended finance represents a critical innovation for early-stage industrial projects, frontier technologies, and less-developed markets. With more targeted de-risking instruments, improved coordination and alignment to cost cutting innovations its role in catalyzing sustainable industrial development could expand significantly – a clear message that was also given in the EU's Global Europe Strategy[27] and the Scale Private Investment Mobilization Action Plan (see Box 1).

BOX 1

EU's Mission-Driven Finance and Global Gateway Tools. The EU increasingly emphasizes strategic, flexible, and mission-driven development finance, using new tools to magnify impact and mobilize private capital. Through its Global Europe strategy—including the NDICI-Global Europe instrument with a €79.5 billion envelope—the EU embedded the European Fund for Sustainable Development (EFSD+) and the External Action Guarantee (EAG) as key de-risking tools. These enable partner countries to access affordable financing for green energy, digital networks, healthcare, and more. The Commission is streamlining these tools—slashing red tape, simplifying blending, promoting umbrella agreements, and expanding risk coverage—to boost responsiveness and delivery under the Global Gateway framework. The EU also promotes blended finance, green/social bonds, debt swaps, and concessional lending to attract private investment in fragile, low-income nations. At the policy level, the EU Council is pushing for reform of multilateral financial institutions, spotlighting private-sector mobilization, blended finance, and inclusive partnerships to help close the estimated USD 4 trillion annual SDG funding gap.[28]

The Scale Private Investment Mobilization Action Plan: Coordinated by Convergence Blended Finance and funded by a coalition of partners including the Gates Foundation and several governments, this plan seeks to overcome persistent limitations in blended finance by promoting standardized Private Investment Mobilization Models (PIMMs).[29] Developed in consultation with donors, DFIs, and private investors, PIMMs integrate risk-sharing mechanisms, structured governance, and alignment with investor mandates to lower transaction costs and improve replicability. By moving blended finance beyond fragmented, deal-specific approaches, the Action Plan aims to institutionalize scalable models that systematically channel private capital into SDG and climate priorities, aligned with the Financing for Development Forum and COP29 climate finance goals.

3 The way forward in funding industrial development

Despite the availability of multiple funding channels, there is a widening gap between sustainable industrial investment needs and actual financial flows to developing countries.

Official Development Assistance (ODA) and Foreign Direct Investment (FDI) are both showing signs of decline and have a limited contribution to industrial development finance, while remittances - though rising – tend to bypass productive or investment-oriented uses. If these trends persist, industrial development will be increasingly reliant on domestic financing, which remains insufficient to close the gap and meet the growing scale of investment required for sustainable industrial growth in these economies.

From Aid to Investment

A paradigm shift is underway: from aid to investment projects. A paradigm shift is underway: from aid programmes to investment projects. While aid remains essential for emergencies and capacity-building, it often falls short of driving structural transformation. Industrial development, supported by robust infrastructure and productive capacities, can break the cycle of aid dependency and catalyze sustained economic growth. In this context, ODA plays a catalytic role by providing initial funding, technical assistance, and risk mitigation, but it cannot drive industrial transformation alone, particularly amid declining budgets and competing donor priorities.

Investment in productive industrial sectors is key to achieving the SDGs. Industrialization underpins SDG 9 and enables progress across the broader SDG framework by establishing the economic, social, physical, and technological foundations necessary for inclusive development and a green transition. Focusing on productive sectors creates multiplier effects that extend beyond immediate economic gains, fostering broader societal and environmental benefits across various other SDGs.[30]

Development finance is adapting to drive industrial transformation. New approaches embed ESG safeguards and SDG-aligned metrics, while donors increasingly provide guarantees, concessional loans, and technical assistance to make industrial projects bankable. These innovations translate goals such as manufacturing, digitalization, and sustainable value chains into viable investments. At the same time, new supply-chain legislation and due-diligence rules in major markets are reshaping FDI and attracting impact investors along global value chains. For developing countries, this can unlock capital for MSMEs to blend domestic and foreign funds, invest in sustainable and inclusive production, and cover ESG reporting and audit costs.[31]

Persistent Funding Gaps for Industries

Industry receives only a small fraction of global development finance. Between 2015 and 2023, less than 4% of ODA and under 1% of non-DAC development finance (excluding China) were allocated to industrial projects. While FDI flows are larger overall, Least Developed Countries (LDCs) received just around 3% of global inflows over the past decade, highlighting a persistent geographic and sectoral imbalance.

Traditional aid remains focused on social sectors, leaving industrial transformation underfunded. Health, education, and humanitarian relief continue to dominate aid priorities, and it is unlikely that additional funding will be directed to what aid already provides toward mission-driven strategies that accelerate economic transformation. Industrial development, which requires substantial infrastructure, involves higher risks, and demands longer timeframes, remains underfunded. A strategic, mission-oriented approach could position industry not merely as a sectoral investment but as a core driver of inclusive and sustainable growth with spillover effects across a wider range of SDGs.

The financing gap is exacerbated by capacity limitations within both local and international financial systems. Local financial institutions and their clients often lack the expertise to assess market conditions and the specific financial needs of industrial activities, which do not align well with standard collateral-secured loans. These institutions typically have limited familiarity with advanced global financing instruments that could help refinance and spread risk. Concurrently, International Financial Institutions (IFIs) often struggle to adapt their standardized products and procedures to unique local contexts, leading to a persistent mismatch between the supply of and demand for appropriate finance for industrial development in developing countries.

Financial products and collateral practices are frequently mismatched with the operational realities of MSMEs. This specifically applies to innovative MSMEs which are most vulnerable at the "Value of Death" stage in the transition of promising technological prototypes or proof-of-concepts to a stage of commercial maturity as market-ready products. Bespoke acceleration, coordination and ecosystem building support can mitigate the risks of premature death of MSMEs especially in high-risk sectors such as cleantech, green hydrogen or smart energy solutions and bottom of the pyramid innovations (see Box 2).

BOX 2

Scaling early-stage MSMEs through bespoke acceleration of technology adoption

UNIDO's Accelerate-to-Demonstrate (A2D) Facility. Accelerating the commercialization of innovative climate solutions in developing countries, this large-scale initiative provides grant funding for catalytic demonstration projects in priority areas such as critical minerals, clean hydrogen, smart energy, and industrial decarbonization. By targeting the demonstration phase of the climate innovation chain—often underfunded in international climate finance and ODA—the Facility fills a critical gap. A2D prioritizes "lighthouse" projects with the potential for transformational impact, building a portfolio of proven clean energy solutions ready for uptake by financiers and investors.[32]

UNIDO's Global Cleantech Innovation Programme (GCIP) and the Facility for Low-Carbon Technology Deployment (FLCTD). Funded by the GEF, both initiatives support MSMEs in advancing low-carbon solutions. GCIP accelerates cleantech startups in 18 countries by fostering commercialization, scaling innovations, and strengthening ecosystems. FLCTD, focused on India's industrial sector, promotes low-carbon technologies to enhance efficiency and reduce emissions. Together, these initiatives work at different levels to accelerate adoption and commercialization of low-carbon innovations.[33]

The systemic nature of value chain development is a major yet often overlooked barrier to industrial finance. Projects may look viable in isolation but fail if upstream or downstream partners lack financial viability or access to credit, destabilizing the entire chain. This systemic risk makes investors cautious about financing standalone enterprises without assurances that related firms are also competitive and financially sustainable. In agri-based value chains, for example, additional tools such as climate risk insurance are vital given exposure to droughts, floods, and extreme rainfall. A coordinated approach is needed to de-risk interconnected businesses while providing targeted technical assistance to ensure collective viability.

Many industrial projects fail to meet ESG standards, limiting opportunities both for impact and finance. In manufacturing and infrastructure, safeguards are often inconsistently applied, undermining long-term outcomes and deterring private investment, as investors increasingly demand measurable social and environmental returns. Feasibility studies frequently treat environmental and social impacts as secondary considerations, despite their growing importance to investors, host countries, and stakeholders. Stronger ESG compliance not only enhances sustainability but also improves investment attractiveness, reinforced by emerging legislation such as the EU Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Carbon Border Adjustment Mechanism (CBAM), and the Sustainable Finance Disclosure Regulation (SFDR). Yet these regulations impose disproportionately high compliance burdens on firms from developing countries, exacerbating existing competitive disadvantages.

Financing instruments often do not match industrial development needs. Early-stage ventures in low-income settings require patient, risk-tolerant capital, yet most existing instruments are short-term and risk-averse, discouraging investment in high-impact industrial sectors. International Financial Institutions also tend to adopt conservative approaches to portfolio risk, further constraining the flow of finance toward transformative industrial projects.

Unlocking Capital for Industry: Structural and Contemporary Barriers in Developing Economies

Private investment is increasingly concentrated in knowledge-based sectors, leaving developing countries behind. Sectors such as artificial intelligence, advanced manufacturing, and other digital technologies attract high returns due to their scalability.[34] Investment facilitation services are imperative for host countries to retain such asset-light, mostly service oriented investments in their economies.[35] Furthermore, many developing countries lack credible firms, robust innovation ecosystems and cohorts of skilled (young and female) workforce to capture these opportunities, making such high-return investments largely inaccessible.

Rising debt burdens constrain long-term investment in developing countries. Despite improvements in banking regulation and macroeconomic management following past financial crises, many low-income economies continue to face mounting debt pressures.[36] Emergency financing during COVID-19, combined with rising global interest rates, pushed debt-servicing costs to $921 billion in 2023 and raised public debt-to-GDP ratios above 60% in many countries, limiting fiscal space for long-term industrial investment and increasing the risk of debt distress. Among others, IMF's framework on "Debt for Development Swaps" offers an interesting pathway for future public investments along the industrial development, climate action nexus.[37] Yet, significant concerns remain over the impact of rising private sector debt levels, which could restrict access to credit for industrial firms and hinder broader industrial transformation.

Industrial finance in developing countries is constrained by a persistent web of structural and macroeconomic barriers that heighten both perceived and real investment risks. Weak institutions, fragile governance, underdeveloped regulatory and financial systems, inadequate infrastructure, and small domestic markets limit the mobilization of private capital and raise the costs of doing business. At the same time, macroeconomic instability—including high inflation, currency volatility, and rising debt burdens—further undermines investor confidence and deters long-term, patient capital. These vulnerabilities are compounded by heavy dependence on external financial flows, which expose countries to abrupt reversals, capital flight, and heightened financial instability, as seen during the COVID-19 pandemic. Collectively, these dynamics discourage sustained industrial investment and reinforce the financing gap between developing and advanced economies.

Weak Project Preparation and Capacity Constraints mark developing country industry development. Despite strong investor interest, many industrial and infrastructure projects fail to reach funding readiness due to technical and managerial bottlenecks. Governments and developers in less developed countries often lack the expertise to design, evaluate, and implement solid bankable projects, creating a critical drop-off at the feasibility stage. This includes an inability to conduct robust market, technical and financial analyses, structure sound financial models, and navigate complex regulatory and environmental requirements. Targeted capacity-building with a focus on digital transformation is essential to increase the pipeline of investment-ready industrial projects, well-grounded in sector based industrial policy objectives and related value chain analyses (Box 3).

BOX 3

UNIDO Tools for Identifying Bankable Investment Projects in Manufacturing and Industrial Value Chains

UNIDO's Computer Model for Feasibility Analysis and Reporting (COMFAR): COMFAR supports investment planning by assessing the financial and economic viability of industrial projects through cost, revenue, cash flow, and profitability analysis. It allows entrepreneurs, investors, and policymakers to model business scenarios, evaluate risks, and test sensitivity to assumptions. Applicable to both greenfield and expansion projects, COMFAR strengthens evidence-based decisions and mobilizes finance. The forthcoming fourth edition, a digital cloud-based application, will guide users through appraisal and reporting standards, notably the international financial reporting standard (IFRS). By standardizing feasibility studies, COMFAR boosts investment success, particularly in developing countries.[38] In Ethiopia, for instance, the Industrial Project Services Agency has conducted over 250 COMFAR-based studies since 1986, supporting major industrial parks like Hawassa, which created tens of thousands of jobs and billions in export revenues.

UNIDO's Chain Analysis Tool (CAT): Designed to analyze and strengthen industrial value chains, the CAT supports policymakers, investors, and enterprises in mapping production processes, identifying bottlenecks, and assessing opportunities for upgrading and investment across a sector. CAT enables detailed evaluation of cost structures and profit margins along the value chain, facilitating informed decision-making. By integrating data on inputs in production, conversion rates in processing, outputs and market prices, the tool highlights areas where improvements can enhance both competitiveness and sustainability. The CAT also supports strategic planning and investment prioritization. CAT has been used in more than 25 developing countries to rationalize business proposals and bankable loans in agroindustry and manufacturing, supported advisory to firms based on comparative cost structures, and guide policy decisions, including pricing policies.[39]

Scaling for Impact

New industrial finance mechanisms remain constrained by scale. New industrial finance mechanisms remain constrained by scale. While their conceptual models are promising—and often more suited to industrial development than traditional aid or FDI—their current volumes are insufficient to close the persistent funding gap. Scale up private capital investment is needed from the institutional investors that represent the deepest pockets in the world (asset owners: pension funds, insurance companies, sovereign wealth funds). New financial structuring instruments like blended finance can be used to partly tap into this source but face barriers to scaling up.[40]

Collaboration across stakeholders is critical to de-risk investment. Governments, development institutions, investment promotion agencies, and private investors can jointly use public-private partnerships, risk-sharing arrangements, and structured exit options to encourage industrial investment.[41] A strong national industrial strategy is essential to align investment with long-term development goals, embedding sustainability into economic planning, and supported by transparent metrics and standardized reporting.

Building financial partnerships and frameworks amplifies resources. Alliances with international financial institutions, industry leaders, and philanthropies mobilize capital through blended finance while expanding guarantees, funding structures, and financial inclusion. Platforms such as the GMP, the ACP BF initiative, and UNIDO's ITPO Network help consolidate investment data, reduce information gaps, and connect national priorities with global partners through dialogue, targeting, and matchmaking (see Box 4). At the global level, frameworks like the Addis Ababa Action Agenda (AAAA) and the 4th Financing for Development Conference (FFD4) strengthen commitments to align public and private resources for sustainable development and industrialization.

BOX 4

Platforms for Investment, Technology Transfer, and Industrial Decarbonization

UNIDO's ACP Business Friendly (ACP BF) Programme, Invest-in-ACP Platform, and Global Matchmaking Platform (GMP): The ACP BF Programme created two digital tools—the Digital Investment Promotion System (DIPS) and the Invest-in-ACP portal—which form the Invest-in-ACP Platform. Launched in 2022, DIPS manages Investment Opportunity Profiles (IOPs) and Investment Opportunity Summary Sheets (IOSs), while analyzing investor data, including FDI targeting. The portal functions as a one-stop shop on investment in 79 African, Carribean and Pacific (ACP) countries, showcasing value chains, industrial parks, and 1,000+ bankable opportunities in greenfield, brownfield, and joint ventures. It enables Investment Promotion Agencies (IPAs) to manage the full workflow from profiling to tracking investments.[42] Complementing this, the GMP links country-specific decarbonization needs with international technical and financial support, targeting heavy-emitting sectors such as steel, cement, and concrete. Together, these platforms help governments, investors, and development partners identify and implement strategic industrial investment and decarbonization opportunities.[43]

UNIDO's Investment and Technology Promotion Offices (ITPOs) network: UNIDO's ITPO network supports industrial development in developing and transition economies by facilitating investment, technology transfer, and strategic partnerships. ITPOs act as one-stop platforms for investment promotion, providing advisory services to governments, investors, and enterprises to identify and develop bankable industrial projects. They connect local industrial opportunities with international investors, mobilizing both public and private finance and enabling technology and knowledge transfer. By offering tools for project preparation, matchmaking, and monitoring, ITPOs enhance the investment readiness of local enterprises, attract foreign direct investment, and contribute to sustainable industrialization aligned with national development priorities.[44]

Holistic, country-tailored approaches maximize impact. Aligning public, private, domestic, and international sources with each country's development priorities fosters policy coherence while retaining flexibility for local contexts. This strengthens governments' ability to mobilize and manage resources, builds investor confidence, and accelerates the scaling of private development finance.

Emerging donors and South-South collaboration diversify industrial finance. Infrastructure-focused investments by donors such as China, the EU's Global Gateway, and the OECD-backed Blue Dot Network will mobilize large sums of investments toward industrialization, albeit with concerns about debt sustainability and adherence to DAC norms. Simultaneously, South-originated investments and collaborative frameworks, resembling venture capital models, increase local ownership and ensure projects align with context-specific industrial needs.

Emerging Promise and Pathways Forward

While the status quo for **financing industrial development remains inadequate,** there are promising developments that could pave a new path forward.

Strengthen policy frameworks for financial ecosystems. Advisory support can help governments design policies that foster finance for industrial transformation by improving regulation, offering targeted incentives, and building technical capacity. Aligning resources with national priorities is also key. Integrated National Financing Frameworks (INFFs), for example, align public, private, domestic, and international finance with national development goals and the SDGs through four components: assessing financing needs, developing coherent strategies, establishing monitoring systems, and ensuring effective governance. UNIDO's Programme for Country Partnerships and the ACT Coffee Programme illustrate how advisory support can strengthen enabling environments at both country and sector levels (see Box 5).

BOX 5

Driving Country-Level and Sector-Specific Development

UNIDO's Programmes for Country Partnership (PCPs). The PCPs are designed to leverage and coordinate investment for industrial development at the country level, closely embedded within national industrial policymaking. They align with each country's industrial strategy and broader development agenda, ensuring that investment mobilization directly supports nationally defined priorities. It brings together governments, development partners, financial institutions, and the private sector in a structured framework that combines policy advice, institutional capacity-building, and technical cooperation with investment facilitation. UNIDO acts as a convener and integrator, helping to translate industrial policies into bankable projects while building the institutional capabilities required for effective implementation.[45]

UNIDO's Advancing Climate-Resilience and Transformation in African Coffee (ACT) programme: The programme supports African coffee-producing countries, transforming the sector through technical assistance, financial instruments, and policy support to ensure a sustainable, climate-resilient coffee economy. A flagship under the Mattei Plan, it aligns with the African Union Agenda 2063, African Coffee Summit recommendations, and the EU Global Gateway and Team Europe approach, highlighting coffee's global economic importance. ACT Coffee advances structural transformation of the value chain, socio-economic sustainability, and climate resilience through targeted assistance, partnerships, and mobilization of financial resources. Initially focusing on East Africa (Ethiopia, Kenya, Tanzania, Uganda, Malawi), it is designed for continent-wide scale-up.

Support for project preparation and MSMEs is essential to strengthen investment pipelines. Targeted technical assistance for designing and structuring industrial projects—together with tailored support for MSMEs—helps generate a robust pipeline of investment-ready opportunities. For example, through the Private Financing Advisory Network (PFAN), hosted by UNIDO between 2016 and 2024, businesses gained project development and investment facilitation support, mobilizing significant financing. Similarly, tools such as COMFAR and CAT, alongside early-stage enterprise support facilities like A2D, GCIP, and FLCTD, enable enterprises—including MSMEs—to design, structure, and scale successful projects.

Complementary investment promotion and facilitation services amplify these efforts, improving the capacity of firms to attract both local and international investment and driving high-impact industrialization. By prioritizing project preparation and early-stage enterprise development, investor confidence is strengthened, capital is directed toward viable opportunities, and private finance mobilized becomes genuinely additional—rather than displacing funds that might otherwise flow through traditional development channels.

Co-design blended finance mechanisms. Collaborating with industry and local and international finance partners to create investment funds and loan facilities including a technical assistance facility can de-risk projects and generate multiplier effects. Targeted technical assistance for both enterprises and policymakers is crucial to ensure effective use of these instruments. Investment strategies in each country will need to be specific to the local policy context, needs of existing financial systems and local industrial sectors. This tailoring ensures both additionality and complementarity of the provided finance, as well as successful uptake of the funds' offerings in the local context. Specific UNIDO examples include blended finance initiatives focused on decarbonization of industry (see Box 6), where finance is tailored to meet private investors' risk/return expectations.

BOX 6

Blended Finance Initiatives for Decarbonization

Renewable Energy Innovation Fund (REIF): Launched in 2022, REIF is a blended finance mechanism accelerating Uruguay's Second Energy Transition, focusing on decarbonizing transport and industry. Backed by a US $10 million UN Joint SDG Fund grant and implemented by UNIDO, UNDP, and UN-Women, it partners with seven banks covering over 80% of Uruguay's banking sector. REIF provides concessional financing for up to 30% of project costs alongside commercial loans, technical assistance, and social and gender support. With leverage of 1:6–1:12, it catalyzed around US $13 million in early clean energy projects—including electric buses, heat pumps, and efficiency upgrades—and is expanding to electromobility, storage, power-to-X, and waste-management technologies. Over 45% of its portfolio targets gender equality, aiming to unlock US $68 million in combined finance with replication planned across the Southern Cone and the broader Latin American region.[46]

Transformation Pathways Initiative (TPI): A joint initiative by the United Nations Industrial Development Organization (UNIDO) and Finance in Motion (FiM), mobilizes private capital to decarbonize and future-proof industry in partner countries through capital investments in efficiency and circularity measures, industrial renewables, electrification, sustainable fuels and climate-smart inputs that align with NDCs and national priorities. The targets are to deliver up to $3bn of investments, reduce GHG emissions by 56 Megatons of CO_2eq, and support at least 600,000 jobs. TPI aims to blend investment capital with technical assistance to support resilient, climate-smart value chains—exploring how private finance can be deployed to achieve industrial transformation, food security, and decarbonization in developing economies.[47]

4 Conclusion and Policy Recommendations: Building a New Era of Industrial Finance

Industrial development is a cornerstone of sustainable economic growth and transformative development. As traditional aid flows come under pressure, developing countries must pivot toward mobilizing public, private, and blended finance to build resilient and future-ready industrial sectors. Without such a shift, cuts in development assistance risk undermining hard-won progress.

Yet, the promise of new financing mechanisms has not matched their full potential. Emerging instruments—such as blended finance, remittance-backed products, and innovative bonds—remain small compared to traditional aid, FDI and domestic public finance. Bridging this gap requires deliberate efforts to unlock new capital sources, strengthen investor confidence, and align financial flows with long-term industrial priorities.

The international community—including UNIDO, governments, and financial partners—must shape an improved and more effective financing architecture tailored to industrial development. With the right mix of policies, tools, and partnerships, industrialization can drive inclusive, sustainable, and transformative change.

To advance this agenda, the following policy actions are critical:

1. **Strengthen Domestic Investment:** Prioritize industrial development, R&D, and technical education in national budgets and public financing. Use prudent and evidence-based fiscal incentives to crowd in private capital and mobilize domestic savings, including remittances, into productive investment. Foster regulatory reforms with clear self-correcting channels involving private sector investors through public-private dialogues, to improve the ease of doing business.

2. **Deepen Domestic Financial Markets:** Expand beyond bank lending by developing local currency bond and equity markets to provide long-term financing for industry. Broaden financial products, including digital financial services, to increase efficiency, inclusion, and access to capital by underserved market segments in developing countries, including MSMEs.

3. **Mobilize More FDI for Industry:** Support the development of special economic zones, industrial parks, and regional corridors that align with national strategies. With solid feasibility studies and enabling policies, such platforms can significantly improve investment climates, develop regional value chains and attract foreign capital.

4. **Scale Up Blended Finance:** Widen the use of guarantees and risk-sharing tools for MSMEs, process innovations and industrial infrastructure. Ensure blended finance aligns with national priorities and SDGs, while increasing flows to least developed countries and underserved regions.

5. **Leverage Remittances for Industrial Investment:** Create financial instruments such as diaspora bonds, remittance-backed securities, and matched local savings schemes. Strengthen financial literacy and build trust between diaspora communities and domestic institutions to channel remittances into productive industry.

6. **Improve Investment Data and Monitoring:** Establish comprehensive systems to track industrial investment flows, provide access to financial performance data sets, conduct investor mapping, profile opportunities, and monitor ESG compliance. Robust evaluation tools with measurable indicators should assess financing impact on structural transformation and SDGs.

7. **Engage New Investors:** Expand the financing ecosystem by mobilizing philanthropy, impact investors, high-net-worth individuals, and diaspora communities. Promote innovative instruments, such as green, blue, or SDG bonds, and explore debt-for-nature or debt-for-development swaps.

8. **Strengthen the Catalytic Role of Development Agencies:** UNIDO and other international organizations should work together as conveners, capacity builders, and facilitators of sustainable finance for industrial transformation. They can be instrumental in unlocking new flows, particularly in low- and middle-income countries.

9. **Meaningful Integration of Marginalized and Vulnerable Groups:** When designing or expanding specific financial products that have a lasting effect on income distribution, foster inclusive participation in value chains and enhance the social recognition of women, youth and persons with disabilities.

In sum, financing industrialization requires both scaling existing mechanisms and creating new and more effective ones. By leveraging domestic resources, deepening financial markets, crowding in private capital, and strengthening international partnerships, a new era of industrial finance can be built— one that secures industrial development as a driver of inclusive, sustainable, and resilient growth.

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