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REVITALIZING DEVELOPMENT POLICY:

A MISSION-ORIENTED STRATEGY FOR SUSTAINABLE FINANCE AND REGIONAL SYNERGY

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Abstract
This study aims to examine the evolving role of the state in development policy and finance in the context of today's rapidly changing, innovation-driven economy. It explores Mariana Mazzucato's mission-oriented policy framework, which emphasizes the state's active role in fostering sustainable development. The study concludes by proposing a financial system that effectively supports sustainable development goals, involving public development finance institutions and a blended finance system that integrates public resources with private investment. Additionally, Mazzucato's framework calls for regional development finance institutions to coordinate territorial development initiatives, ensuring alignment with regional strategic priorities.

1 Introduction: Entering the Age of Technology: The Rise of the Network Economy

The 21st century is defined by two interrelated phenomenon of megatrends: increasing global complexity and rapid innovation [32]. Technological progress, particularly in information and communication technologies (ICT) has transformed the structure of the global economy and redefined the relationships within it. Innovations in digitalization, automation, and robotics have reshaped business models and introduced a digital ecosystem that facilitates new economic arrangements [24]. These shifts are collectively building a network economy, an economy in which digital platforms serve as hubs, coordinating supply and demand with unprecedented efficiency and enabling interdependent networks among businesses, consumers, and governments [4].

The network economy is marked by new organizational procedures and complex inter-industry collaborations, where competition is increasingly based on relationships, consumer communities, and partnerships rather than on product differentiation alone [24]. As Molenaar (2020) also notes, digital platforms create intricate consumer relationships that drive competition based not solely on product quality but on customer engagement and experience. Moreover, ICT advancements are transforming traditional business models by integrating digital tools across industries, fostering collaborative environments. This is in align with Mazzucato's entrepreneurial state model [23] in which she challenges the traditional notion that innovation is primarily a private-sector endeavor, highlighting instead the state's critical role in shaping markets and ecosystems through collaborative and mission-oriented approaches. This evolving landscape, with its emphasis on interconnected networks, necessitates a policy framework that adapts to rapid technological change, facilitates collaborative innovation, and integrates multi-stakeholder approaches to problem-solving [4].

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2 The Framework of a Mission-Oriented Development Policy: The Evolving Role of the State

After the 2008 great financial crises (GFC), there have been several policy debates related to the role and responsibilities of the state, and the concept of the developmental state has been redefined and renewed compared to the 1980s [26]. Among these concepts, which discuss the state's functioning along new roles in development policy, one of the most elaborated frameworks is Mariana Mazzucato's mission-driven approach.

Mission-oriented policies are built on the premise that the state’s role in economic development is to not merely correct market failures but to actively shape markets, stimulating innovation and enabling societal transformation. This shift requires the state to extend its traditional functions to become a proactive agent, capable of setting and achieving ambitious goals. Governments can now leverage market-shaping power, mobilizing diverse actors to collaborate on large-scale societal missions and create positive spillover effects [20].

In a mission-oriented policy, governments not only define the mission but also direct resources, coordinate stakeholder efforts, and establish frameworks for innovation. According to Mazzucato (2021), this state-led, mission-oriented approach enables governments to design and implement policies that align with national and global challenges. For instance, governments could strategically fund green energy innovations or health technologies by acting as the "first investor" and thus de-risking investments that encourage further private sector involvement. This mission-oriented state role redefines the public sector’s capacity, moving from passive oversight to proactive participation in economic direction and resilience-building [20].

3 New Capacities and Organizational Capabilities for Delivering Mission-Oriented Policies (the ROAR model)

A critical concept for implementing mission-oriented policies is agile governance, based on the principles of Beck et al. [2], which requires an adaptable, responsive and cooperative policy structure. To implement such a dynamic governance style, Mazzucato (2021) introduced the ROAR model—Route, Organizations, Assessment, and Risks:

1. **Route and Directions**: The state must define clear, mission-oriented goals that serve as the backbone for innovation across economic sectors. By setting these overarching goals, governments can direct resources toward specific societal challenges, whether climate change, public health, or digital inclusion.
2. **Organizations**: Effective mission-oriented policies are built upon innovative and agile organizations that promote decentralized networks. These networks embrace a culture of learning, allowing for a trial-and-error approach that fosters dynamic partnerships across public, private, and civil sectors. Decentralization allows these organizations to respond quickly to changes, supporting resilience and flexibility [8].
3. **Assessment:** Traditional static cost-benefit analysis does not suffice for assessing mission-oriented policy impacts. Instead, evaluation must capture the dynamic and market-creating effects, measuring investments’ economic and social contributions and their spillover effects. This type of assessment emphasizes learning and adaptation over time, aligning with the agile governance and agile leadership approach [8] [2].
4. **Risks and Rewards**: Mission-oriented policy should balance risks and rewards across public and private sectors. Governments and private entities alike need to recognize both the potential benefits and risks associated with innovation, creating mutually beneficial partnerships where costs and gains are shared.

Through these principles, the ROAR model supports agile governance, providing the flexibility needed to address complex, evolving challenges while encouraging cross-sector collaboration and accountability [20].

4 Guiding Principles for the Implementation of Mission-Oriented Policies

Implementing mission-oriented policies effectively requires adhering to a set of guiding principles that align goals, stakeholders, resources, and evaluation mechanisms [20]:

1. **Ambitious Goals for Societal Challenges:** Missions should be built around bold goals that address pressing societal issues, such as climate change, healthcare accessibility, or digital inequality. These ambitious goals create a unified focus, mobilizing resources and fostering a shared sense of purpose among stakeholders. In practice, this can also be supported by the communication technique of formulating goals. A mission-driven policy framework formulates the goals in such a way that the actors interested in the developments can relate to it and it is motivating for them. The goals catalyze investment and innovation in many different sectors and inspire new collaborations at the project level. A mission map can also enhance the transparency of this frameworks (Figures 1)

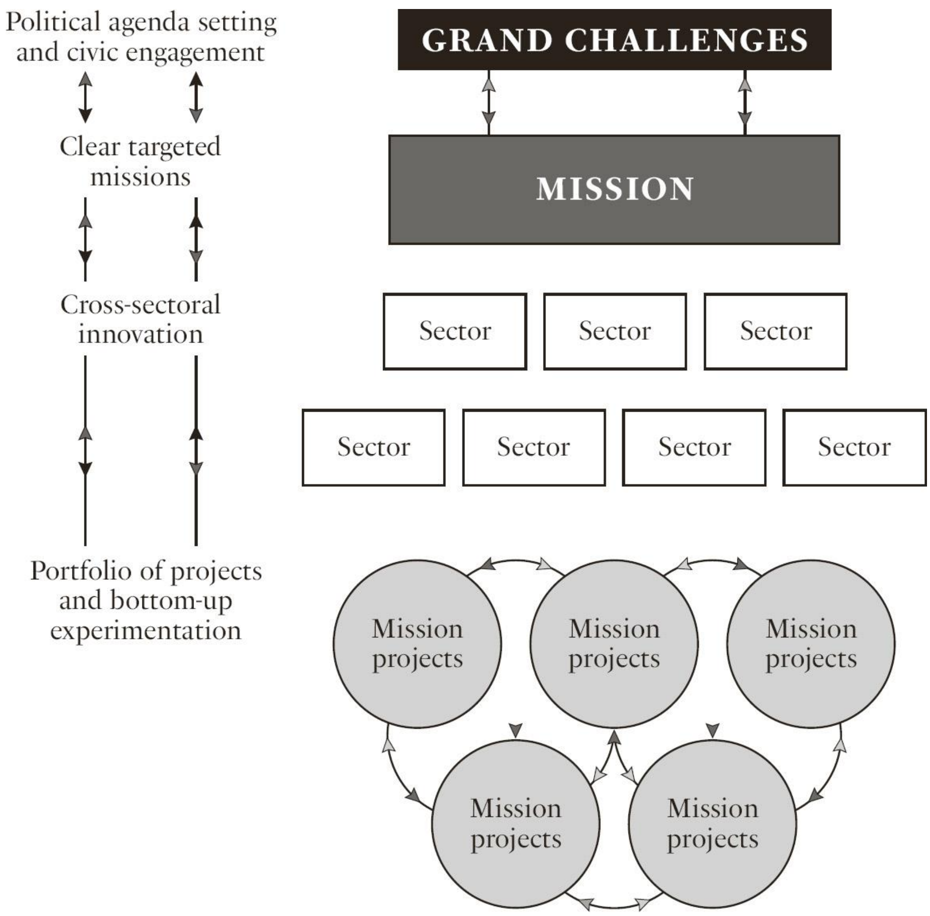

Figure 1: Mission-map

Source: [20]

2. **Involvement of a Broad Range of Stakeholders:** Addressing complex challenges necessitates collaboration across sectors. Effective mission-oriented policies bring together public agencies, private companies, and civil society organizations (NGOs), facilitating dialogue and cooperation that harness diverse expertise and perspectives.
3. **Public Procurement for Innovation**: Strategic procurement practices enable governments to set clear objectives and conditions, steering innovation toward societal goals. By acting as a lead customer, the state can stimulate the development of new products and services that align with the mission, providing a secure market that encourages further private investment [20].
4. **Long-Term Financing and Risk Tolerance**: Mission-oriented policies require sustained, long-term financing mechanisms that evolve alongside the mission's progress. Financing tools, including grants, loans, and equity investments, must be adapted to each stage of

development, blending public and private capital while sharing risks and rewards. A well-chosen mix of financial instruments can ensure that projects receive the necessary resources to build on their strengths and to grow effectively. ([20] based on [1]; [27])

5. **Monitoring and Adjustment**: Monitoring progress is essential to ensure that policies remain aligned with the mission goals. Regular assessments and adjustments allow policymakers to refine strategies, adapt to new developments, and maintain momentum toward achieving the desired outcomes.

As Mazzucato states, these principles are not static rules, but tools for a dynamic approach that also evolve as the mission progresses. By adhering to these guiding principles, mission-oriented policies can foster sustainable, inclusive growth and address the challenges that define the age of technological innovation.

5 Development Finance in a Mission-oriented Policy Framework (Based on Mazzucato 2023 [18])

As was partly mentioned above (Basic Principles for the Implementation of Mission-Oriented Policies No. 4), a mission-oriented approach to development finance has the potential to reconfigure the landscape by leveraging public and private resources strategically to create long-term value and impactful outcomes. This section of the paper examines the role of mission-oriented finance, the importance of aligning financial structures with development goals, and some UN-recommended mechanisms through which the mission-led approach can catalyze both the public and private investments necessary for sustainable development.

5.1 The Consequences of a Technology and Innovation-Led Economy for Development Finance

As technology and innovation drive today's economies, the structure of national and international financial systems is key to achieving sustainable development goals. [12] [29]. In the theocratical background in this context O'Sullivan (2006) highlighted that financing is far from neutral; instead, it actively shapes economic activities and influences which sectors and projects receive investment [25] [23]. It has been also a well examined statement that the structuring and the mix of financial instruments and institutions has profound implications for what types of economic activities are prioritized and whether economic growth can happen [1] [27].

Mission-oriented approaches recognize the complex and multi-stakeholder nature of innovation, advocating for financing models that incorporate both public and private contributions while socializing risks and rewards. In this policy framework public investments, instead of merely correcting market failures, should actively shape markets, create demand, and set new technological and industrial priorities [19]. In terms of finance this perspective redefines the government's role as not just the investor of last resort but the investor of first resort, establishing foundational markets and new development pathways through public venture capital, procurement programs, and state banks [18] [15].

5.2 Institutions and the potential role of Public Development Banks (PDB)

Mission-oriented finance is grounded in the belief that financial instruments should be specifically designed to support societal missions, such as climate resilience, healthcare access, and equality. Innovative instruments like social and green bonds, credit enhancement mechanisms, and results-based financing are essential to channel resources from a variety of sources [16].

By delivering this mission -oriented policy framework public financial institutions has crucial importance. They serve as catalysts acting as "investors of first resort" to bring together commercial, nonprofit, and philanthropic actors around shared goals [16] based on [13] [14].

Internationally, Development Fnance Institutions (DFIs) are also aligning with mission-driven principles by providing financing that supports projects aimed at addressing specific global challenges (especially the UN's sustainable development goals, SDGs). Through blending public and private capital, these DFIs can amplify their impact and ensure that projects supporting SDGs receive adequate funding [6] [30]. Mission-driven finance has therefore evolved as a critical approach to ensuring that financing systems remain not only robust and abundant but also directed toward high-impact, sustainable goals [11]. In mission-oriented finance by focusing on long-term investments that private entities might avoid due to perceived risks Public Development Banks (PDBs) and multilateral development banks (MDBs) play a pivotal role. These banks can take on higher-risk projects across sectors such as green technology and social infrastructure by diversifying their risk portfolios across a range of financial instruments [11] [18]. This approach allows PDBs to balance their risk-return profiles, ensuring that high-risk investments are subsidized by lower-risk assets, thus maintaining financial stability while maximizing developmental impact.

In terms of public finance this concept also drawned the lessons from internationally recognised successful development organizations like DARPA (Defense Advanced Research Projects Agency in US), ARPA-E (Advanced Research Projects Agency–Energy in US), Yozma Fund (often referred as the creator of the Israeli venture capital industry), SITRA (The Finnish Innovation Fund) or Vinnova (the Swedish Innovation Agency). These institutions have achieved their goals by aligning their procurement practices with mission and development goals, encouraging high-risk innovation, and drawing on a broad network of expertise, for example they have temporarily hired top scientists from other fields into the civil service to benefit from their expertise [23].

5.3 Revisiting the International Financial Architecture and Unlocking Business Investment through Progressive Conditionality

To close the funding shortfall needed to achieve the Sustainable Development Goals (SDGs), we need to change international financial institutions to support mission-driven strategies. The United Nations' (UN) *Our Common Agenda* policy brief highlights the need to increase funding and improve lending conditions so that financing is more accessible and effective for developing countries. [28]. The UN’s recommendations include altering Multilateral Development Banks’ (MDB) business models to focus on SDG impact, increasing climate finance, and tailoring lending practices to better support the developing countries and disadvantaged social groups [29] [31]. These changes would transform MDBs from reactive funding entities to proactive institutions, facilitating mission-driven investments globally.

By recalibrating public and private sector relationships, mission-led finance can foster sustainable development in ways that traditional financing models could not. A renewed concept of Public-private partnerships (PPPs), structured around SDGs, should incorporate conditions that support knowledge sharing, mutual risk-reward sharing, and value co-creation. These partnerships enable private investors to participate in high-impact projects while ensuring accountability and adherence to development goals [22].

Adding progressive conditions to development finance is important to make sure that private sector investments support meaningful goals. Unlike past conditions that limited financial options for developing countries, progressive conditions ask businesses to follow ethical and sustainable practices. This includes having fair labor policies, responsible supply chains, and restrictions on stock buybacks [22]. Blended finance approaches that combine public and private capital have shown promise in expanding access to resources for high-risk, high-impact projects in developing countries, provided that these partnerships are grounded in reciprocity and clear shared objectives [18].

Moreover, Mazzucato emphasizes that aligning development finance with regional development strategies is critical for ensuring that resources are deployed effectively and sustainably. By coordinating at the regional level, public development banks can address region-specific challenges and contribute to the achievement of localized SDG targets [3]. This targeted approach enables development finance institutions to optimize their impact, recognizing the diverse socio-economic conditions of different regions.

5.4 Toward Purpose-Driven and Abundant Finance

Mission-oriented development finance completely transforms what finance can achieve by focusing on both the quantity and the purpose of resources. National development banks and multilateral institutions are pivotal in providing the long-term, risk-tolerant finance necessary for addressing SDGs and socio-economic challenges. Mazzucato (2023) emphasizes: a mission-led approach can transform broad global challenges into targeted investment opportunities, where government-set goals catalyze coordinated actions toward shared objectives. Aligning financing structures with mission-driven policies, development banks can pave the way for sustainable solutions that balance profitability with societal good. [18]

6 Discussion

Some parts of the cohesion policy of the European Union already integrate a mission-oriented approach, for example through the use of financial instruments as blended finance, such as combined microloans that mix grant-based and repayable support. These financial instruments aim to mobilize additional private resources while maintaining the flexibility for Member States to structure these supports' financial intermediary systems according to their local needs, within an overarching EU regulation framework.

A key question arising from this structure is whether the current financial intermediary systems in Member States, which manage repayable EU subsidies, are truly effective in achieving regional cohesion goals while keeping costs low. Public Development Financial Institutions responsible for distributing development funds are expected to operate efficiently, but this raises additional questions: What standards should be used to measure cost-effectiveness, and how can we fairly assess the socio-economic impacts from this perspective? This highlights the need for new ways to evaluate policies that are specifically designed to address local development needs.

Development coordination is another important issue. In Hungary, there have been examples of regional development agencies that understood local needs. However, the idea of having public financial organizations responsible for intermediating development funds and ensuring that development efforts are consistent and aligned with regional strategies would be a completely new concept.

Discussing and further examining these issues can enhance the EU cohesion policy framework and make Hungary's institutional system more effective in achieving its goals for territorial development and development policy.

7 Conclusion

The need for mission-driven, innovative development finance is becoming increasingly important as global challenges grow. By changing financial tools, restructuring development finance institutions, and creating new public-private partnerships based on mutual benefits, flexible conditions, and shared risks and rewards, mission-oriented finance provides a way to bridge the gap between ambitious Sustainable Development Goals (SDGs) and current funding realities. If development banks embrace the principles of this mission-oriented approach, integrate strategies tailored to the regional specificities, and promote inclusive investment partnerships, a more fair and sustainable future becomes possible. Mission-driven finance not only offers a pathway for global development but also redefines finance as a tool for promoting shared human prosperity and resilience.

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