

Financing Climate Solutions:

Exploring findings from the Transition Finance Pilot

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1 Foreword

The transition to a low-carbon economy is moving from ambition to delivery. Growth in renewable generation, batteries and electric vehicles shows that progress is already real. But pace matters. Recent volatility in global energy markets has reinforced why energy security and resilience are important.

Climate risk represents a source of growing financial risk and is already shaping investment decisions, asset values, and market outcomes. Scaling finance for climate solutions is therefore not only a climate imperative, but an economic and strategic one. It is an opportunity to innovate, build a more resilient economy, and strengthen long-term competitiveness.

For the UK, this is also a growth opportunity. We have deep pools of capital, global financial expertise, and a strong pipeline of innovative companies. This provides a strong foundation for the UK to be a leading centre for sustainable finance.

Globally, countries are competing to capture the economic gains from investment, growth, jobs, and productivity that can be achieved from scaling climate solutions. The UK's challenge is not a lack of innovative ideas or ambition. It is our ability to convert these ideas into a consistent pipeline of repeatable, financeable opportunities.

This report focuses on practical challenges to scaling finance for climate solutions. Drawing on direct market insight, it highlights where progress is being made, and where further action is needed. There is capital. There is opportunity. But more can be done to bring these together effectively.

The building blocks are in place. But realising this potential will need continued momentum across policy, markets and industry. Our aim is to reduce frictions, support effective capital allocation, and strengthen the UK's growth and competitiveness.

There is no single solution. The UK does not lack initiatives, but it does need more coordinated action to unlock their full impact. Acting collaboratively will be critical to accelerating the domestic transition and financing the global one. The priority now is to build on existing momentum and turn this opportunity into delivery.

Alicia Kedzierski

Head of Department, Sustainable Finance

2 Executive Summary

The economic context

The UK is entering a decisive phase in its transition to a low-carbon economy. The climate solutions sector is expanding rapidly, fuelled by technological innovation, growing commercial opportunities, and energy security and resilience needs. Yet despite strong investor interest and an increasing pipeline of projects, market participants have reported that many climate solutions companies continue to face challenges accessing finance as they scale.

The FCA's Transition Finance Pilot was established to examine barriers to scaling finance for climate solutions and to identify practical actions to address them. We focused on UK-led climate solutions and drew on extensive engagement with capital providers and climate solutions companies at different stages of maturity.

Our findings

Our evidence shows that there is no silver bullet. We did not identify material barriers within the FCA's regulatory remit that prevent viable climate solutions from accessing finance. However, our engagement highlighted a set of system-level challenges that affect how efficiently capital is matched to opportunity.

Figure 1: Key findings



Looking ahead

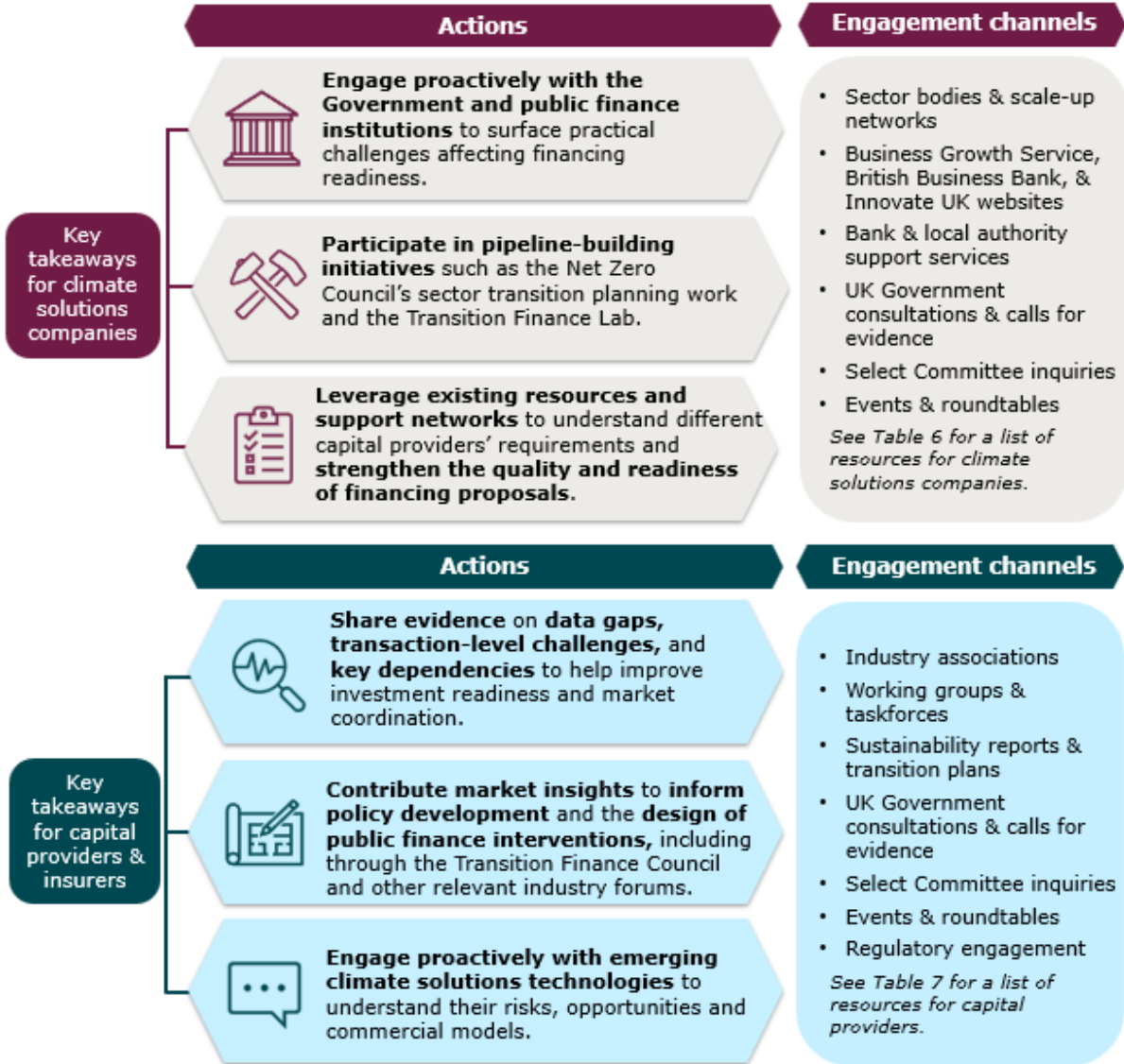
Our findings show that many of the barriers identified can be overcome through coordinated action. A range of initiatives are already underway to improve policy clarity, strengthen the public finance landscape, mobilise long-term capital, and improve information flows.

With strong momentum across market participants, regulators and Government, the UK is well positioned to scale finance for climate solutions – unlocking economic opportunity, improving resilience, and meeting our climate commitments.

What this means for market participants

Market actors, including climate solutions companies, capital providers, and insurers, can use this momentum to strengthen proposals, build capacity, and shape finance-ready projects. We have collated a list of supportive resources in section 6 to guide next steps.

Figure 2: Key takeaways for market participants



Next steps for the FCA

We are sharing our findings with UK and international stakeholders to inform policy development and market coordination. We will continue to advance our broader sustainable finance work to strengthen market integrity, transparency and trust, including supporting the development of industry-led transition finance metrics through the Climate Financial Risk Forum. We are also exploring how our regulatory framework can better support SME access to finance.

3 Introduction

The climate solutions opportunity

The world is investing more in low-carbon technologies than ever before, with annual investment now estimated at around \$2.3 trillion globally. However, this still falls short of what is needed to finance the transition to net zero. The Climate Change Committee (CCC) estimates that meeting the UK's legally binding commitment to net zero by 2050 will require around £26 billion of investment per year, representing a more cost-effective long-term economic pathway than continued reliance on volatile fossil fuels.

Closing the investment gap is a strategic growth opportunity. The transition is driving the development of technologies, industries, and jobs that will shape the future economy, while strengthening energy security and resilience. The UK is well placed to seize this opportunity. It is a leading financial services hub with a thriving start-up ecosystem and world-leading academic institutions. A recent report from the Confederation of British Industry found that climate solutions companies are growing three times faster than the wider economy.

Climate change is also reshaping financial markets. From rising insurance costs due to extreme weather events, to shifts in asset valuations and lending criteria, the effects of climate change are being felt across the sector. The transition is creating opportunities for capital providers to invest in new technologies, infrastructure, and services. The Government's Financial Services Growth and Competitiveness Strategy highlights the sector's central role in supporting investment in the real economy and delivering long-term economic growth. This is also reinforced in the Treasury's remit letter to the FCA which asks us to have regard to leading the world in sustainable finance, including by unlocking the full potential of the financial services sector to fund the green transition.

Despite this positive momentum, including a growing pipeline of climate solutions and strong interest from the financial sector, market participants told us that many projects still struggle to access finance. In many cases, projects are unable to meet the risk-return requirements of private capital providers, and as a result companies are getting stuck, unsure where to turn to bridge this gap. The Transition Finance Pilot was established to explore these barriers and consider practical actions to help address them.

This paper sets out the background to our work and summarises the key findings. It also highlights ongoing work by a range of stakeholders to address the challenges raised, and where continued efforts will be important. While we identified a range of commercial and structural challenges, we did not find material barriers within the FCA's regulatory remit and do not consider there to be a need for new rules or changes to existing rules as a result of this work. Findings outside our direct remit are included to inform wider market and policy discussions.

Figure 3: UK climate solutions in numbers



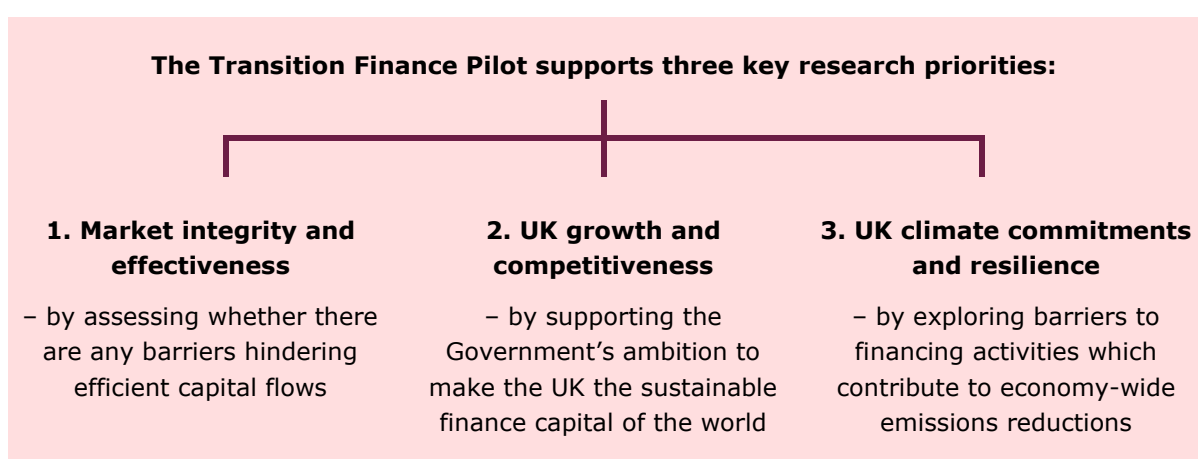
Sources: [CCC](#), [CCC](#), [CBI](#)

Background to the Transition Finance Pilot

Announced as part of the [Financial Services Growth and Competitiveness Strategy](#) in July 2025, the Transition Finance Pilot (the Pilot) was a market engagement exercise led by the FCA and supported by the Prudential Regulation Authority (PRA) and the Green Finance Institute (GFI). Our findings are based on a literature review and bilateral engagement with a wide range of stakeholders, including finance providers and climate solutions developers.

Through the Pilot we sought to develop a clearer understanding of how effectively the UK financial system supports climate solutions projects and companies, identifying any practical actions that could support the market to work more effectively. This focus emerged in response to market feedback that there may be particular barriers hindering the flow of capital to this sector.

Figure 4: Our objectives



Our evidence base

Our findings were informed by a review of published literature and a wide programme of engagement. Over several months, we engaged with more than 45 market participants, in two main categories:

- Capital providers across the project lifecycle, including venture capital, private equity, banks, institutional investors, and public finance institutions.
- Climate solutions companies and project developers at all stages of development, from early-stage spinouts and start-ups through to commercially mature businesses.

The findings in this paper are based on feedback from market participants and do not reflect our own judgements. We would like to thank all the organisations that engaged with us for their time, insights, and openness, which were essential to the development of these findings.

Scope of our work

As a broad concept, financing the transition refers to the mobilisation of capital for the transition to a resilient, low-carbon future. This will include both finance for the decarbonisation of existing assets and entities, and the financing of new climate solutions that enable the wider economy to decarbonise.

This Pilot focused specifically on scaling finance for climate solutions, encompassing the technologies, products, and services which will facilitate the UK's transition, reducing emissions across energy, transport, buildings, industry, agriculture and the wider economy. While the transition presents a global challenge, we focused primarily on UK climate solutions, recognising that strong domestic progress can drive wider international opportunities.

We are not seeking to define transition finance for the purposes of this paper. However we do emphasise that where labels are applied to financial products, it is important to be clear about what those labels mean. Through our engagement with firms and industry associations we aim to support greater clarity and shared understanding in this area.

This work aims to complement existing initiatives such as the UK Government-commissioned independent Transition Finance Market Review which explored how the UK can become the leading hub for raising and deploying transition capital, and the Transition Finance Council which was co-launched by the UK Government and City of London Corporation in early 2025 to drive forward the Review's roadmap and recommendations. The Council has developed Transition Finance Guidelines which support practical assessment of a credible transitioning entity, and are particularly relevant to financing companies in high-emitting sectors. We act as observers to the Council, and anonymised findings from the Pilot have been shared with both the Government and the Council.

4 Findings

4.1 Summary of our findings

There has been significant momentum in scaling climate solutions globally, notably rapid growth in renewables and emerging growth in batteries and electric vehicles. However, many key transition technologies have yet to attract a consistent flow of capital.

Climate solutions projects span a wide range of technologies, business models, and market contexts. These varying characteristics shape financing needs, risk-return profiles, and the suitability of different types of capital. For example, early-stage digital solutions (such as energy optimisation software) may be well suited to venture capital investment, whereas capital-intensive solutions with long payback periods (such as electric vehicle charging infrastructure) may be better suited to project finance. Because many climate solutions are deployed as part of broader system transitions requiring aligned changes across multiple actors, markets, and value chains, their risk-return profiles are often more influenced by the pace and credibility of policy, demand creation, and system-level coordination than comparable projects in other sectors. This means that even technologically mature climate solutions can face elevated risks where markets, infrastructure or regulatory frameworks are still evolving. These features help to explain why climate solutions companies may face particularly acute financing challenges.

Our findings on the key barriers to scaling finance for climate solutions companies can be grouped into three broad areas:

1. Some climate solutions struggle to reach a commercial maturity sufficient to attract private capital

Our engagements consistently highlighted challenges that climate solutions companies face progressing from technical readiness to commercially investable propositions. While underlying technologies may be proven, projects often struggle to demonstrate revenue certainty or risk-adjusted returns that meet private capital requirements. These challenges are shaped by dependencies on policy, demand creation and delivery across wider systems, which can delay or constrain investment even where technologies are mature.

2. Capital is not always well-matched to opportunity, despite strong appetite

The UK financial system has depth and diversity of capital, and regulatory frameworks were not viewed as a material constraint. However, for some climate solutions that are considered commercially viable, the scale, structure or risk profile of opportunities does not align well with the typical requirements of available capital. Mismatches in ticket size, tenor, liquidity needs, and risk appetite can limit the efficient deployment of capital, particularly where projects are first-of-a-kind, lack a repeatable pipeline, or are insufficiently scaled or aggregated to meet capital providers' requirements.

3. Information and capacity gaps create frictions across the market

We heard that uneven access to information, skills and data can affect how confidently market participants engage in the climate solutions market. Stakeholders highlighted difficulties navigating a complex and evolving policy landscape, limited visibility over credible deal pipelines, and gaps in both financial and technological understanding across public and private actors. While not typically a binding constraint on their own, these frictions can increase transaction costs, slow decision-making and reduce confidence, particularly for smaller companies.

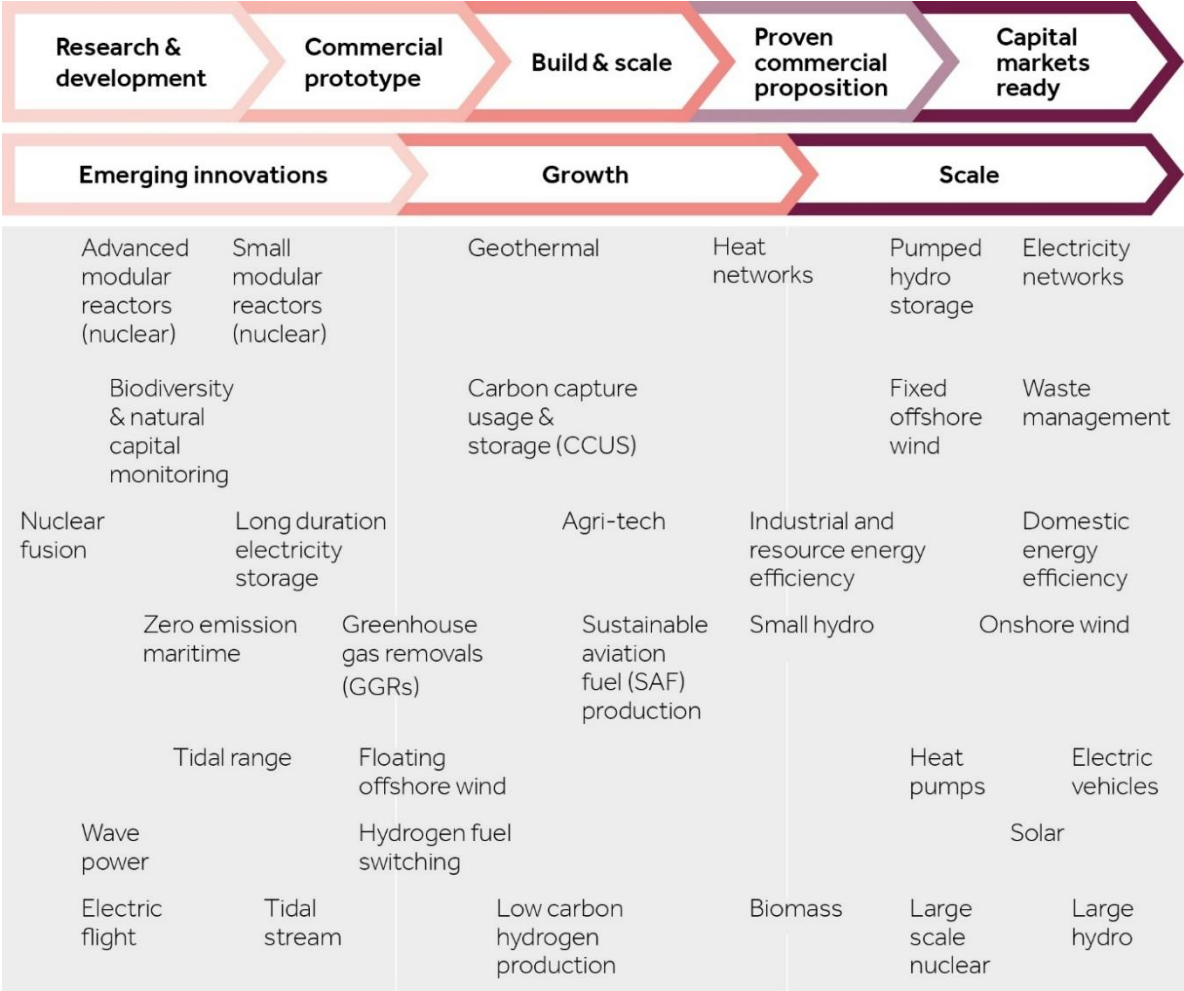
These barriers should not be considered in isolation but understood as features of a system undergoing structural change. The following sections expand on each of these findings in more detail, illustrating the challenges and opportunities we uncovered and providing insights into how the market can operate more effectively.

4.2 Improving the commercial maturity of climate solutions

Throughout our engagement we identified a notable gap between the pipeline of climate solutions projects and those reaching a level of maturity sufficient to attract private finance. In this paper, *commercial maturity* refers to whether the conditions required to support predictable and scalable returns are in place, rather than technical readiness alone. This includes the extent to which revenues can be demonstrated, demand signals are credible, and enabling conditions such as infrastructure, planning and supply chains are sufficiently developed.

Finance providers highlighted that they frequently turn away climate solutions companies where a number of these conditions are not yet in place, resulting in a risk-return profile that doesn't align with their requirements. In particular, we heard that bank debt typically depends on established and predictable cashflows, meaning that proof-of-concept and early commercialisation stages often fall outside the scope of bank finance until revenues have been demonstrated at scale. Figure 5 shows an indicative snapshot of the commercial maturity of certain UK climate solutions technologies and sectors.

Figure 5: Commercial maturity of key UK climate solutions sectors and technologies



Source: **HM Government**

We heard that uncertain revenues and gaps in the enabling net zero policy environment were often key blockers to financing decisions. In some cases, these challenges were unanticipated by climate solutions developers, who had expected the broader policy and commercial environment to evolve in step with technology development, or that sufficient external support and risk-taking capital would emerge to bridge the gap. Capital providers also noted gaps in the investment readiness of some proposals, for example where financial modelling, underlying assumptions, or offtake strategies required further development.

Creating an enabling policy environment

Climate solutions often depend on demand signals and policy frameworks that remain uncertain. This reflects the scale of the transition challenge: reducing emissions across the economy requires the transformation of energy systems, transport, buildings, land use, and industrial systems, underpinned by coordinated infrastructure planning, market design, and public investment.

Investors consistently linked gaps in policy certainty to heightened perceived risk. They noted that even where Government targets for technology deployment are clear, if they

are not accompanied by clear assumptions, credible interventions, and coordinated delivery roadmaps it can be difficult to assess revenue certainty and other commercial readiness risks. [The Clean Power 2030 Action Plan](#) was cited as an example of a strategy that establishes certainty across a number of key elements. Where elements of policy certainty are missing, finance providers reported caution in committing capital, particularly for early-stage solutions or those with material dependencies on wider policy, infrastructure, or delivery timelines.

Two key policy issues that were common across our engagements were uncertain demand signals and delivery risks. Capital providers and developers reported challenges assessing whether demand for low-carbon products and services were sufficiently clear and durable to underpin long-term revenues. These challenges were particularly pronounced where low-carbon alternatives currently face a cost premium relative to incumbent options and demand depends on how costs are shared across value chain participants. Examples included uncertainty around the scale, coverage, and durability of carbon markets, as well as limited use of policy interventions such as regulation or procurement frameworks to create predictable revenues for climate solutions. Stakeholders highlighted that clear demand-side frameworks can play a market catalysing role; by underpinning early offtake and investment, they can support learning effects, cost reductions, and the transition toward commercially self-sustaining markets.

Developers and capital providers also highlighted delivery constraints arising from dependencies on planning processes, grid and wider infrastructure availability, workforce skills, and supply chains. These challenges were particularly acute for solutions that rely on coordinated delivery across multiple parts of the system.

By sharing insights on where projects and sectors face policy dependencies and highlighting systemic barriers, market participants can help inform policy development. A constructive dialogue between private finance, Government and regulators can help create a virtuous circle, enabling markets to deploy capital more effectively and at greater scale.

Case study 1: Turning local heat networks into investable infrastructure

A rapidly scaling company is developing energy from waste assets and associated heat networks in the UK and internationally. With a core focus on long-term economic fundamentals, its business model treats local heat networks as core infrastructure, seeking stable, long-term cashflows and contract structures designed to support debt financing.

While energy-from-waste assets are now well understood by lenders and can be financed using established project finance models (supported by gate fees), heat networks were viewed as higher risk by capital providers. A key challenge identified in the UK was demand risk; although experience suggests that churn is low once buildings are connected, lenders were concerned about initial customer uptake and the absence of Government-backed demand assurance. The company highlighted that public sector anchor customers and long-term heat supply contracts could significantly reduce risk, enabling early capital recovery and improving bankability. The company also noted that wider deployment of heat networks has historically been constrained by

planning and land access challenges, emphasising the need for an enabling regulatory framework.

Box 1: Sectoral policy

Clear, detailed policy roadmaps are essential for investor confidence. To help address policy and coordination gaps impacting the investability of climate solutions projects, the Transition Finance Council published Sector Transition Plans: The Finance Playbook in 2025. The Playbook sets out a practical framework for developing sector transition plans and technology scale-up roadmaps that explicitly integrate financial considerations, helping to create more investable opportunities.

Building on this, the Net Zero Council, a partnership between the Government, industry, and civil society, has adopted the Playbook's finance planning elements in its recent guidance. The Net Zero Council is working with organisations leading the development of sector transition plans that connect the Government's national transition plan with individual business growth plans. This co-creation process aims to provide each major sector with a clearer, more detailed view of expected policy pathways, assumptions, and delivery milestones, supporting greater certainty around the commercial opportunities presented by the transition.

Accelerating growth through the public finance landscape

Stakeholders consistently highlighted that public finance has a critical role to play in helping climate solutions projects progress through maturity stages where commercial capital providers face constraints or lack the necessary risk appetite. We heard that the ability of public finance institutions to de-risk climate solutions projects as they scale can be essential for unlocking private capital, particularly where policy frameworks are still emerging.

Stakeholders we engaged shared mixed views on the catalytic impact of public finance institutions. Several climate solutions developers reported that the financial terms available to them were broadly comparable to those offered by commercial providers. In these cases, stakeholders questioned whether public finance institutions are consistently providing the additionality (through risk-bearing, flexible terms, or concessionality) to unlock activity that would not otherwise proceed.

As set out in the public investment landscape many of the UK's public finance institutions have a higher risk appetite than commercial capital providers, with mandates to support companies at different stages of maturity. The extent to which capital is offered on concessional terms depends on the individual institution and its strategy. We found that there is often an expectation amongst market participants that public finance would be provided on concessional terms. Stakeholders also had differing views on its role and appropriate use. In practice, this can lead to a mismatch between market expectations and reality.

These themes echo findings from the Transition Finance Market Review which highlighted the importance of coordination, clear additionality, and market-building over one-off transactions. We also heard feedback on the accessibility and user experience for

developers engaging with the public finance landscape, including challenges navigating institutions, processes, and points of entry, which is discussed further in section 4.4.

Box 2: Recent reforms to expand the catalytic capacity of the UK's public finance institutions

The UK Government has recently strengthened the role of public finance institutions to more actively de-risk early-stage climate solutions and accelerate commercial maturity in priority net zero sectors. As part of wider efforts to support SME growth, the [Backing your business](#) policy paper sets out measures to remove barriers to accessing finance, including expanding the British Business Bank's total financial capacity to £25.6 billion and boosting start-up loan and guarantee schemes.

The transformation of the UK Infrastructure Bank into the £27.8bn National Wealth Fund gives the Government a catalytic vehicle able to use equity, debt, and guarantees to crowd in private finance at a targeted 1:3 mobilisation ratio. In its recent [Five-Year Strategic Plan](#) the National Wealth Fund identified ten priority sectors (from a total of 25 active sectors) where it sees the most substantive and catalytic opportunities to support development at pace and scale. These were electricity grids, carbon capture, utilisation and storage (CCUS), energy storage, hydrogen, nuclear, batteries and the electric vehicle supply chain, green steel, transport infrastructure, place-based regeneration, and ports. The Strategy highlights the importance of a higher risk tolerance, additionality, and addressing market failures, alongside a commitment to monitor and respond to any evidence of crowding out.

Great British Energy has also published its [Strategic Plan](#), establishing its role as a publicly owned developer, investor, and owner of clean energy projects. Great British Energy will focus on accelerating priority and emerging technologies such as floating offshore wind and clean energy storage, and supporting domestic supply chains. Its mandate includes providing early-stage grant or loan support to crowd in private investment, as well as equity partnerships for more mature projects.

Illustrative example: Impact of policy certainty and credit enhancement on the cost of capital

Policy and public finance support were consistently highlighted as key tools to improve the ability of climate solutions companies to access private finance. The illustrative example in Table 1 shows how different combinations of policy support (particularly revenue certainty) and public finance support could affect commercial terms. In practice, projects will not access private finance unless they can demonstrate commercial viability, which in the case of project finance requires established and predictable cashflows.

This example considers a hypothetical first-of-a-kind commercial CCUS facility, developed by a company with less than five years of operating history, seeking approximately £150m of project finance secured against the project's assets. Ranges are illustrative and informed by analogous infrastructure transactions and stakeholder engagement, rather than observed deal data.

Table 1: Illustrative project finance terms for a CCUS project seeking £150m

Scenario	Credit spread over base	Max tenor	Max. Loan-to-value	Key driver
No additional support	650–900 bps	7–10 yrs	40–50%	Lenders would require high returns due to limited trading history and high revenue uncertainty. The project is effectively not bankable on a standalone project finance basis.
Policy support: Access to CCUS cluster & revenue support mechanism	300–450 bps	12–15 yrs	60–70%	Long-term contracted revenues reduce price and volume risk and enable investment-grade aligned project finance structures. Terms could improve further for a developer with strong fundamentals, depending on the extent of revenue support coverage and delivery risk.
Public finance support: Credit enhancement guarantee	100–250 bps	15–25 yrs	70–85%	Partial credit guarantee (50-80%) enhances credit quality, reduces regulatory capital requirements for lenders, and may enable access to long-tenor institutional debt.

4.3 Matching capital to opportunity

Beyond the commercial readiness challenges, we sought to explore scenarios where climate solutions projects that demonstrate commercial readiness were still not able to access the finance they needed to scale. This reflected misalignments between the scale and risk profile of projects and the structure of available finance, including gaps in patient and growth capital.

Challenges for climate solutions developers included:

- Ticket size and tenor can limit access to finance, with some projects seeking small amounts or longer payback timeframes than capital providers would typically provide.
- The depth of risk-taking capital can constrain scaling, with many companies facing a persistent ‘missing middle’ of growth capital.

Challenges for capital providers included:

- The economics of transaction due diligence and deployment can constrain participation in smaller or first-of-a-kind projects, particularly where ticket sizes are modest and there is limited visibility of a repeatable pipeline of opportunities.

- Risk assessments and capital frameworks can constrain financing, and these frameworks typically do not reflect the wider-economy emissions-reduction benefits of climate solutions.
- Concerns about greenwashing can deter investment for capital-intensive solutions, although many capital providers also emphasised that viable solutions would still be financed irrespective of whether the instrument carries a sustainability label.

These challenges mean that even commercially mature projects may require tailored financing approaches, highlighting the opportunity to develop scalable models that help structure and aggregate projects so they meet the needs of capital providers, including through effective collaboration with local or regional partners. Insurance solutions will also play a role in supporting transaction structuring, including by providing risk transfer and structuring tools that improve investability.

Regulation within the FCA's remit was not viewed as a key constraint, with limited support for the development of additional definitions, labels, or products unless accompanied by meaningful incentives.

Enabling capital allocation to productive assets

Climate solutions companies highlighted a gap in risk-taking patient capital and a 'missing middle' of finance. This gap emerges as companies seek to scale, before they become eligible for more traditional forms of financing such as bank debt or institutional investment. For example, the Startup Coalition identified a post Series A funding cliff in its [2025 ClimateTech Index](#), finding that only a third of companies raising a Series A went on to raise a Series B.

The 'missing middle' and growth capital challenges are not specific to climate solutions companies, although they can be heightened due to the typical characteristics of climate solutions companies such as high upfront capital expenditure, limited revenue certainty, and long payback periods. The FCA is working alongside the UK Government to unlock capital investment and liquidity across UK markets, as part of the measures to support growth set out in our recent [letter to the Prime Minister](#).

Box 3: Unlocking finance for productive assets

Recent reforms aim to unlock institutional capital and strengthen the channels through which it can be deployed into productive UK assets. For example, the [Mansion House Accord](#) is a voluntary, market-led initiative where major UK pension providers have pledged to invest in private markets, while the [Pension Schemes Act](#) will create larger, consolidated schemes and introduces a value for money framework that shifts the focus from cost to overall performance, enabling larger schemes with greater capacity and incentives to invest in productive assets. For insurers, the [Matching Adjustment Investment Accelerator](#) is intended to streamline approvals and accelerate investment into infrastructure and energy projects.

Alongside these measures, policymakers are seeking to strengthen the investment pipeline. The [British Infrastructure Taskforce](#) brings together Government and institutional investors to scale investment into strategic UK infrastructure projects. [PISCES](#) provides a new trading venue for private company shares and the FCA has introduced significant reforms to the listing regime to make it easier for a wider range

of companies to list on a UK stock exchange. Together, these reforms seek to better connect the UK's large savings pools with opportunities to finance productive assets across the economy.

Considering capital requirements in financing decisions

Capital providers highlighted that in practice capital requirements can influence climate solutions financing decisions. Prudential frameworks require institutions to hold capital in proportion to assessed risk, which can make financing growth companies, including climate solutions, difficult, particularly where developers do not have an established trading history and projects involve high upfront costs or uncertain returns. Some respondents noted that continued prudential recognition of the comparatively low risk profile of well-structured essential infrastructure lending would support banks' lending capacity and debt pricing.

Capital providers highlighted that sustainability and transition finance frameworks can help to identify risks and opportunities but generally do not change the underlying credit profile of a climate solutions project. A key challenge is that the emissions reduction benefits of a project affect the wider economy, rather than being captured in financial models, which typically focus on asset or portfolio-level risk and return. Regulators and industry are starting to consider more forward-looking metrics that aim to improve the measurement and understanding of the broader impacts of financing activity on climate-related risk and opportunity.

Box 4: The development of forward-looking climate metrics

UK regulators are actively supporting the development of more forward-looking approaches to managing climate-related risks, including through participation in forums such as the [Network for Greening the Financial System](#). This direction has been reinforced by the PRA's recent Supervisory Statement (5/25) on [enhancing banks' and insurers' approaches to managing climate-related risks](#), which sets clearer expectations that firms embed climate risks into strategic decision-making, develop forward-looking assessments over short, medium and longer time horizons, and strengthen data, metrics, and scenario analysis capabilities.

The FCA and the PRA jointly convene the [Climate Financial Risk Forum](#) (CFRF) which brings together UK regulators and industry to accelerate capacity in addressing climate-related risk. The CFRF has launched a Transition Finance Metrics Working Group to support the development and standardisation of practical, forward-looking transition metrics. These metrics are intended to complement existing frameworks including the Transition Finance Guidelines developed by the Transition Finance Council. Stakeholders highlighted that consistent, comparable metrics would help firms to assess transition risks and opportunities with greater confidence, meet fiduciary obligations, and better understand and communicate progress toward transition goals.

Addressing caution in relation to greenwashing

Some stakeholders expressed caution about financing capital-intensive climate solutions, citing a perceived risk of greenwashing if financed emissions rise in the short-term, even when the project is expected to reduce emissions across the wider economy in the longer-term. Transition pathways are often non-linear, which can make sustainability impacts harder to explain. The Bank of England has previously warned against 'paper decarbonisation' or 'balance sheet-greening'.

The FCA's anti-greenwashing rule and guidance aims to ensure that firms operate with integrity and that sustainability claims are fair, clear, and not misleading. The guidance is clear that sustainability claims should reflect the full context of a product or service, including life cycle impacts. It also states that claims should be substantiated at the point in time they are made, and that firms should regularly review and ensure the evidence remains relevant for as long as the claims are communicated.

In practice, this does not prevent firms from financing capital-intensive climate solutions, provided any sustainability claims are transparent and contextual, in line with the guidance.

Illustrative example: Communicating climate solutions investments as part of a sustainability claim

The following illustrative examples show how different types of financial institutions might communicate their climate solutions financing.

Mobilising climate finance within a bank

A bank increases lending to support the energy and industrial transition in an emerging market, including financing electric vehicle charging infrastructure, which may increase financed emissions in the short-term due to the embodied emissions in the materials, manufacturing, and installation of the infrastructure.

When communicating this activity in its sustainability report, the bank explains the long-term rationale for the lending, including how the financing supports national and sectoral transition pathways, addresses structural barriers to decarbonisation, and is expected to contribute to emissions reductions over the life of the assets financed.

Portfolio alignment for a large asset owner

A large asset owner monitors financed emissions at the portfolio-level as one of several tools to track progress towards its climate objectives. When reporting these metrics, the firm explains how point-in-time emissions metrics are used alongside qualitative information and forward-looking indicators to assess progress towards its climate objectives.

The firm identifies emissions associated with climate solutions and notes that emissions associated with these investments could rise, for example as manufacturing, construction, and installation scale. The firm provides context by explaining how these investments are expected to deliver emissions reductions to the wider economy over time, including through reference to forward-looking metrics and credible pathways.

4.4 Improving information sharing and capacity

A consistent theme emerging from Pilot engagement was that information asymmetries and capacity gaps can limit private sector confidence and participation in the climate solutions market.

Challenges for climate solutions developers included:

- Navigating a complex policy landscape, including uncertainty about timelines, support mechanisms, and enabling infrastructure and planning processes, which affects their ability to build robust commercial and financing models.
- Complexity of the public finance landscape, driven by differences in mandates, risk appetites and financial tools across institutions, which can make it difficult for developers to identify the most relevant source of support.
- Challenges understanding which types of capital are suited to which business models, and the requirements, risk appetites, and expectations of different private capital providers.

These challenges were particularly acute for smaller developers, reflecting more limited internal capacity and reduced access to specialist advice and networks.

Challenges for capital providers included:

- Difficulties interpreting policy including the role of different climate technologies, how demand will be mobilised, and how quickly enabling infrastructure will come into place.
- Gaps in understanding of novel technologies and the complexities of the associated business models.
- Limited visibility of the pipeline of investable climate solutions projects.

Although these frictions do not always prevent financing outright, they can increase perceived risks, increase transaction costs, slow decision-making, and reduce confidence, particularly where projects rely on coordinated action across policy, infrastructure, and finance.

Case study 2: Capacity and coordination challenges in financing carbon dioxide removals (CDR)

A UK-based CDR start-up faced financing challenges due to capacity and coordination gaps across the market. The company successfully operated a pilot facility using grant funding and limited pre-purchase of carbon credits but had difficulty accessing finance for its first commercial-scale project.

The company's business model sits between established financing categories. Venture capital was not viewed as appropriate given the infrastructure-like returns profile, while lenders perceived the commercial proposition as higher risk. Although the business model is asset-backed, lenders were cautious about valuing the unfamiliar machinery, and the minimum ticket size and terms offered by capital providers did not fit the company's needs well. The company engaged a public finance institution which could not offer better terms than were available commercially.

Significant effort was put into de-risking revenues through offtake arrangements, forward sales and insurance solutions, but capital providers lacked familiarity with these structures and found it difficult to incorporate them into existing credit frameworks. Regulatory and policy uncertainty further increased perceived risk, including ambiguity around permitting and the treatment of CDR within emerging policy frameworks.

The company noted that greater capacity within financial institutions to assess new business models, clearer regulatory pathways, and better alignment between sectoral policy and public finance mandates could help unlock investment in emerging CDR solutions.

Box 5: Creation of a Transition Finance Lab

Building on Pilot findings and the recommendations of the [Transition Finance Market Review](#), the GFI is launching a Transition Finance Lab to help bridge the gap between the Government's climate solutions ambitions and investable opportunities.

The Transition Finance Lab will create ecosystem connectivity by facilitating outcomes-focused connections across the public finance institutions and Government departments, notably but not only the Department for Energy Security and Net Zero, catapults, and private sector partners to identify barriers and catalyse solution development for investment in key strategic sectors.

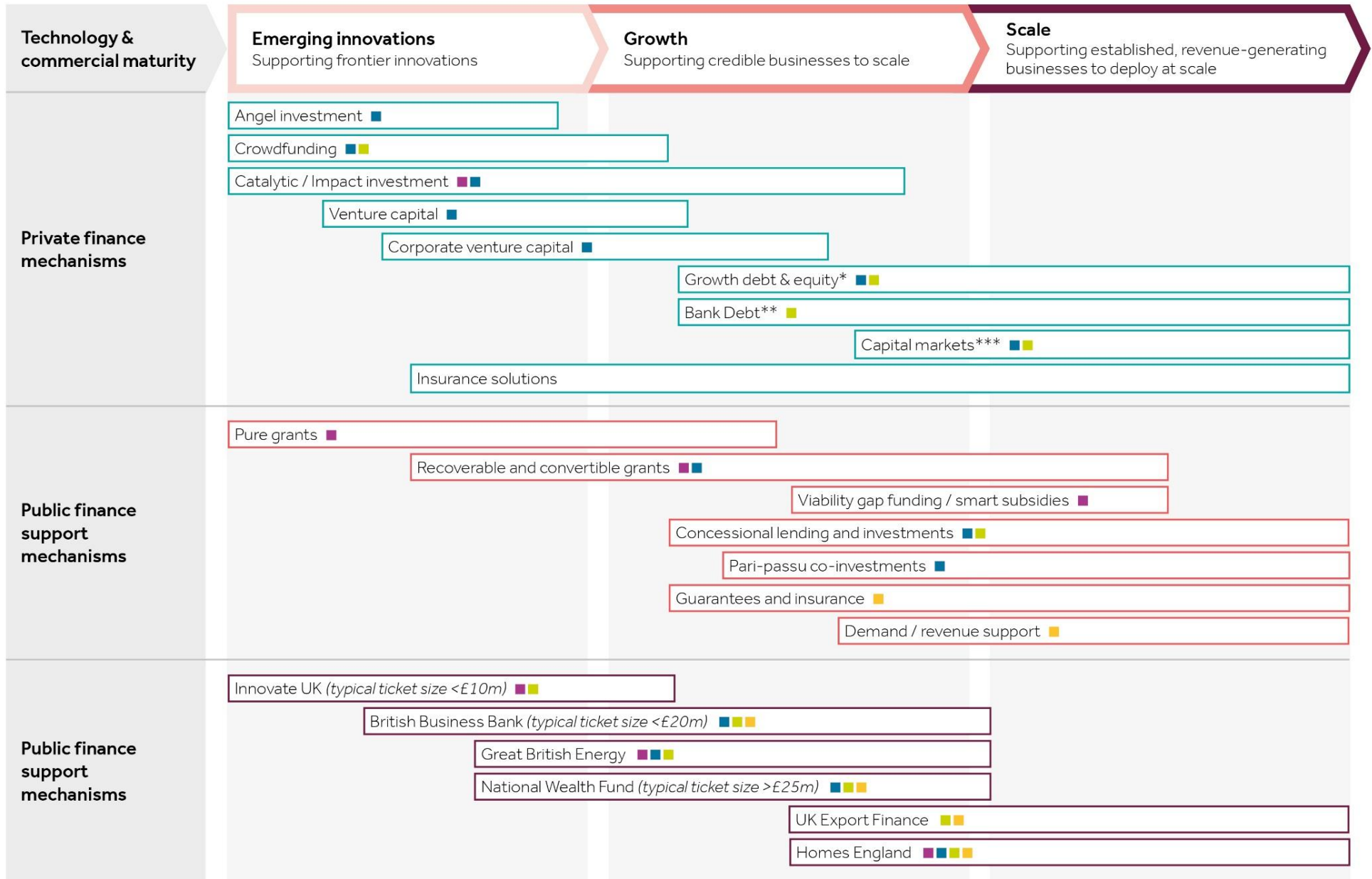
It will provide a practical environment where these participants collaborate on solutions for real pathfinder deals, accelerating the passage to final investment. It will also offer financial advisory to project sponsors or companies seeking access to equity, debt, or concessional capital to demonstrate first-of-a-kind transactions and reach full commercialisation.

As set out in GFI's [Green Finance Quarterly](#), by accelerating origination, de-risking, and structuring, the Lab strengthens the overall system's ability to deploy capital efficiently and in line with Government policy.

Supporting early-stage companies through their financing journey

Pilot engagement highlighted that climate solutions companies often struggle to access information and guidance to support their efforts to secure finance. Access to support can be uneven, particularly outside of major financial centres or university networks. Climate solutions companies highlighted the desire for better opportunities to learn from experienced founders, access to centralised information on grants and concessional capital, and upskilling on the requirements of different types of capital providers. Figure 6 provides an illustrative high-level overview of the types and sources of finance available to companies as they scale, separated into private and public sources.

Figure 6: High-level overview of public and private finance mechanisms and sources



Key:
 ■ Grant ■ Equity ■ Debt ■ Guarantee

* Mezzanine finance, private/growth equity, convertible debt
 ** Commercial loans, overdrafts, syndicated loans, project finance
 *** Corporate bonds, publicly listed shares, securitised assets

Box 6: Government support for SMEs

Governmental support for SMEs is complex and decentralised, spanning various departments and organisations. The Government is seeking to address this through the launch of the [Business Growth Service](#) which aims to make it easier and quicker for SMEs to find Government advice and support. The Government is also upgrading the British Business Bank's Finance Hub to make it easier for companies to identify and secure appropriate finance. Additional measures include supporting founders from under-represented backgrounds via targeted investor and diversity programmes, and extending finance availability outside London through regional angel and investment fund initiatives.

Improving navigation of the UK's public finance landscape

As previously highlighted, support from public finance institutions plays an important role in helping climate solutions projects progress through different stages of development. Feedback from our engagement highlighted that navigating the UK's public finance landscape can be challenging for companies seeking finance, particularly where projects span multiple sectors or strategic priorities. Climate solutions companies we engaged with universally had difficulties interpreting the differences in mandates, risk appetites, and financial tools across institutions, and had mixed experiences in engaging directly with different UK public finance institutions. To address this challenge, a number of initiatives are underway to improve coordination, clarity, and access across the public finance landscape.

Box 7: Recent initiatives to improve navigation of the public finance landscape

To support understanding of and access to the UK's public finance landscape, HM Treasury has established a [Public Investment Roundtable](#), a forum of public finance institution CEOs chaired by the HMT Second Permanent Secretary. The Roundtable aims to drive strategic alignment and facilitate practical collaboration across the landscape, supporting a more coordinated system that can address financing gaps and help projects move from early-stage development to commercial readiness. The UK public investment landscape has committed to developing a 'no wrong door' approach, under which each organisation has a shared responsibility to improve access to the right expertise and referrals across the ecosystem.

In October 2025 the Government published [An introduction to the UK public investment landscape](#) to help companies understand the landscape and the roles and offers of key institutions. It also includes case studies demonstrating how these institutions collaborate to unlock projects and investment opportunities across the UK.

Improving policy and pipeline visibility

Both climate solutions companies and financiers highlighted challenges navigating fragmented Government policy communications, lacking a centralised and up-to-date source of decision-useful information such as sectoral policy, technology-specific assumptions and scale-up pathways, and available public finance support. This creates

uncertainty and can slow decision-making. A related barrier raised by investors was insufficient visibility of the pipeline of opportunities. In response to these challenges, a number of recent initiatives are beginning to improve the accessibility and coherence of policy and provide capital providers with decision-useful information.

Box 8: Improving the accessibility of policy and pipeline information

The UK Government has taken several steps to improve the accessibility and coherence of information for private capital providers. The Investor Prospectus, part of the 2025 Carbon Budget and Growth Delivery Plan, summarises investment opportunities and available Government support.

A suite of clean energy publications is planned for investors, including *sectoral factsheets* which will provide guidance on key policies, interventions, and timelines for the Carbon Budget and Growth Delivery Plan sectors. In parallel, the Net Zero Council is planning a digital home for sector transition plans co-created with industry under its leadership.

The National Infrastructure and Service Transformation Authority (NISTA) has recently updated the 10 year infrastructure project pipeline to provide forward visibility of planned and prospective infrastructure projects, particularly where public backing exists. The Office for Investment is also being strengthened as a concierge service to help investors navigate opportunities and access relevant parts of Government.

5 Market context

Interaction with broader FCA work

The Pilot contributes to the FCA's wider work to support SME access to finance, linked to our secondary international competitiveness and growth objective. Our findings highlight that many barriers faced by climate solutions companies, such as scale, risk perception, and access to long-term capital are not unique to the sector.

Alongside this, it complements our broader sustainable finance work, which focuses on market integrity, transparency, and trust. This includes work on sustainability disclosures, investment labelling, and the anti-greenwashing rule, helping to ensure that sustainability claims are fair, clear, and not misleading. Together, these initiatives support market integrity and effective capital allocation, protect consumers, and reinforce confidence in the UK's sustainable and transition finance markets.

Beyond setting policy, the FCA works with industry to hone best practice, including product markets that can be used for transition finance. In 2025, we engaged stakeholders to raise standards in the sustainability-linked loans (SLL) market. Our August 2025 [letter](#) highlighted progress and remaining gaps, noting barriers to SME access and opportunities to widen participation, and [clarifying expectations](#) on SLL key performance indicators.

Further detail on our approach to climate change and sustainable finance, including disclosure requirements, investment labels, and ESG ratings is available on our [Climate Change and Sustainable Finance](#) webpage.

Global context

The Pilot focused on the opportunity presented by financing UK climate solutions, which will support UK growth, energy security and resilience. However, the transition is inherently global. Scaling finance for the transition of emerging markets and developing economies (EMDE) is essential for sustainable growth, and the UK's position as an international financial centre means it has a key role to play. A successful global transition also strengthens the UK's own economic and financial resilience, by reducing exposure to international climate-related shocks and supporting more stable global supply chains.

A strong, well-functioning domestic market for climate solutions helps position the UK as a hub for both seekers and providers of transition finance, enabling the mobilisation of capital, expertise, and innovation internationally. As such, our findings should be understood within the wider international market for financing the transition.

To help unlock private investment for transition in EMDEs, the UK Government launched the industry-led [EMDE Investor Taskforce](#) in 2025, complementing wider initiatives to support blended finance and mobilise private capital internationally. The FCA is a representative on the Taskforce and continues to engage with international partners to help ensure UK market progress translates into wider global impact.

6 Next steps

Our engagement has surfaced a set of systemic challenges that require coordinated action across the market, including Government, public finance institutions, financial services, and climate solutions companies. While there is no single intervention that will resolve these challenges in isolation, a number of initiatives to address the barriers identified are already in motion.

Initiatives underway across the market

Table 2: Summary of key initiatives

Work underway across the market	Supports climate solutions developers	Supports capital providers
<p>Strengthening policy clarity – The Government and the Net Zero Council are working with relevant partners to support development of sector transition plans and investment roadmaps to provide clear, credible signals to the market on transition. Greater clarity on timelines, assumptions, interventions, and the enabling environment can reduce uncertainty and help climate solutions progress to commercial maturity more quickly.</p>	✓	✓
<p>Enhancing the UK’s public finance architecture – Reforms to institutions such as the National Wealth Fund, British Business Bank, and Great British Energy aim to deploy catalytic capital that can de-risk early-stage projects, crowd in private finance, and help new climate solutions reach commercial maturity.</p>	✓	✓
<p>Supporting productive UK investment – Policy and market developments such as the Mansion House Accord, the Investment Delivery Forum, the Matching Adjustment Investment Accelerator, and the Pension Schemes Act are strengthening channels for long-term institutional capital to flow into productive assets including climate solutions.</p>	✓	✓
<p>Improving access to finance for scaling companies – Upgrades to the Business Growth Service and additional measures such as founder support networks and regional investment initiatives will help growing companies better</p>	✓	

navigate financing options and improve readiness to engage with capital providers.		
Providing targeted support for early-stage climate solutions to reach investability – The GFI Transition Finance Lab will help first-of-a-kind and early-stage projects address structuring, de-risking and financing challenges, turning technically promising ideas into investable propositions.	✓	
Improving information accessibility – The Public Investment Roundtable is facilitating collaboration across the UK’s public finance institutions to embed a ‘no wrong door’ approach for projects and businesses seeking support and a new publication simplifies the policy landscape for market participants. In parallel, the NISTA Infrastructure Pipeline has created a searchable database of upcoming projects where the Government is providing support.	✓	✓

Alongside these initiatives, the FCA will continue to play a role in supporting an effective market for financing climate solutions. While many of the barriers identified through our engagement fall outside our direct remit, we will continue to support market integrity and UK growth and competitiveness through a number of our activities.

Table 3: Summary of key actions being taken by the FCA

Work underway within the FCA	Supports climate solutions developers	Supports capital providers
Sharing insights on the UK market – We are sharing our findings to relevant parts of the Government, public finance institutions, regulators, and the Transition Finance Council to help inform ongoing policy design and market coordination.	✓	✓
Sharing insights internationally – We are engaging with international regulatory counterparts to share our findings and to identify areas where greater alignment in approaches to transition finance may exist or be cultivated.		✓
Strengthening market integrity and transparency – Through our broader sustainable finance programme we will continue to ensure markets operate with efficiency and integrity. Where appropriate, we will integrate insights from our engagement into ongoing workstreams.		✓

<p>Supporting SME access to finance – Reflecting evidence gathered, we will explore opportunities to support initiatives that help SMEs navigate the financing landscape and strengthen investment readiness. We are currently <u>undertaking work</u> to understand how our regulation affects SME access to finance. We are also looking at access to finance for SMEs within the <u>defence and dual-use</u> sector.</p>	✓	
<p>Developing practical transition finance metrics – Through the <u>Climate Financial Risk Forum</u>'s industry-led Transition Finance Metrics Working Group we will support the development and standardisation of practical, impact-focused transition metrics.</p>		✓

Key takeaways for market participants

Complementing the actions being taken across the market, industry leadership remains essential to accelerate the financing of climate solutions. Based on our engagements we encourage a set of actions for market participants.

Table 4: Actions for climate solutions companies

Climate solutions companies to:
<ul style="list-style-type: none"> • Engage proactively with the UK Government and public finance institutions, including through sector bodies, to surface practical challenges affecting investment readiness. • Participate in pipeline-building initiatives such as the Net Zero Council's sector transition planning work and the Transition Finance Lab. • Leverage existing resources and support networks to understand different capital providers' requirements and expectations, and to strengthen the quality and readiness of financing proposals.

Table 5: Actions for capital providers and insurers

Capital providers and insurers to:
<ul style="list-style-type: none"> • Share evidence on data gaps, transaction-level challenges, and key dependencies to help improve investment readiness and market coordination. • Contribute market insights to inform policy development and the design of public finance interventions, including through the Transition Finance Council and other relevant industry forums. • Engage proactively with emerging climate solutions technologies to understand their risks, opportunities and commercial models.

Supportive resources

A variety of resources and networks are available to support market participants in undertaking these actions. Table 6 outlines some of the resources available to support scaling climate solutions companies and UK SMEs more broadly to access finance.

Table 6: Resources for climate solutions companies

Resources and support for small and scaling UK businesses:
<ul style="list-style-type: none">• Business Growth Service: the Government’s recently launched service which provides a single-entry point for businesses seeking guidance on starting, growing, and exporting, as well as information on finance options, compliance, and skills development.• Finance Finder: British Business Bank service for small businesses to explore finance options with practical guidance and resources. The British Businesses Bank administers schemes which support access to finance for small businesses such as the Start Up Loans scheme, the Growth Guarantee Scheme, and the ENABLE programmes.• Scaling up Support: Innovate UK collation of complementary support services for scaling businesses.• Enquiry portal: National Wealth Fund portal for developers who have a project that would like to discuss with the National Wealth Fund.• Support for SMEs: UK Export Finance homepage for SMEs seeking support securing finance to export.• An introduction to the UK public investment landscape: an overview of UK public investment bodies developed by the Government, outlining their support, funding offers, and guidance for businesses, investors and local government bodies.• Small business funding: How to secure the right support: a guide from the Federation of Small Businesses which breaks down different funding types, explains how to find investors, and highlights opportunities such as Government grants for businesses.• Local Growth Hubs: a directory of Local Growth Hubs which offer support to help local businesses start, grow, and succeed including free, expert advice, local support, and connections to wider UK Government resources and opportunities.• Local authorities also offer advice to businesses, usually available through their websites.• Business Support Helpline: a free Government advice service for all stages of the business journey.• Guide to green investing with insurers: an Investment Delivery Forum guide for engaging with insurers as a source of funding for green projects.• How to grow: support from ICAEW on starting, growing, and renewing businesses in the UK.• Join our UK-wide tech community: a free community run by the Startup Coalition’s to feed into policy relevant to UK tech start-ups.• UK Business Climate Hub: a repository of net zero information for SMEs run by the Broadway Initiative.

- **Innovation Zero**: an annual congress which brings together innovators, funders, policymakers, and business leaders.
- **Carbon Budget and Growth Delivery Plan, UK Industrial Strategy, UK Infrastructure Strategy, and Clean Power 2030 Action Plan**

Table 7 details some of the reports and repositories which make up a growing body of literature supporting the development of the transition finance market, as well as additional resources and forums where capital providers can engage with and build capacity in the climate solutions market.

Table 7: Resources for capital providers and insurers

Transition finance reports and repositories:

- UK **Transition Finance Market Review** (2024)
- **OECD** transition finance stocktake (2021) and guidance (2022) papers
- **European Commission** Recommendation on facilitating finance for the transition to a sustainable economy (2023)
- **International Platform on Sustainable Finance (IPSF)** Implementing transition finance principles (2023)
- **ICMA** sustainable finance Principles and related guidance for the bond and wider debt capital markets
- **LMA, APLMA and LSTA** sustainable lending resources for the loan market
- **RMI** Transition Finance Resource Hub
- **World Economic Forum** transition finance hub
- **GFANZ** Secretariat Technical Review Note on Scaling Transition Finance and Real-economy Decarbonization (2023)
- **G20** Sustainable Finance Working Group high-level principles on transition finance (2022)

Resources and platforms for capital providers and insurers to engage in the climate solutions market:

- **Transition Finance Council**: co-launched by the UK Government and City of London Corporation to drive forward the Transition Finance Market Review roadmap and recommendations.
- **EMDE Investor Taskforce**: an industry-led initiative convened by UK Government Ministers to support investment opportunities in EMDEs to help deliver economic growth and tackle climate change.
- **Investment Delivery Forum**: brings together the major insurance and long-term savings firms to help accelerate investment in projects that grow the economy, reduce emissions and enable innovation.
- **British Infrastructure Taskforce**: brings together Government and institutional investors to scale investment into strategic UK infrastructure projects.
- **Sterling 20**: investor-led partnership between 20 of the UK's largest pension funds and insurers to channel finance into key UK infrastructure and fast-growing businesses.

- **Mansion House Accord**: a voluntary initiative where major UK pension providers have pledged to invest in private markets.
- **Net Zero Council**: a partnership between the Government, industry, and civil society with priorities including government strategy development, sector transition plans, supporting SMEs, and public engagement.
- **Climate Financial Risk Forum**: convened by the FCA and the PRA, bringing together UK regulators and industry to accelerate capacity in addressing climate-related risk. **Transition Finance Lab**: to be launched by the GFI to help bridge the gap between the Government's climate solutions ambitions and investable opportunities.
- **An introduction to the UK public investment landscape**: an overview of UK public investment bodies.
- **Carbon Budget and Growth Delivery Plan** and accompanying Investor Prospectus: outlining how investors can support the UK's net zero transition by highlighting policy-backed, high-impact investment opportunities.
- **National Wealth Fund, Great British Energy, Innovate UK, and British Business Bank** strategic plans.
- **NISTA Infrastructure Pipeline**: a searchable database of upcoming projects where the Government is providing support.
- **UK Industrial Strategy, UK Infrastructure Strategy, Financial Services Growth and Competitiveness Strategy, and Clean Power 2030 Action Plan**
- **Matching Adjustment Investment Accelerator**: framework intended to reduce barriers to timely and capital-efficient investment by insurers.
- **Pension Schemes Act 2026**: enables scheme consolidation and establishes a new Value for Money framework to support investment into productive assets.
- **Climate Change and Sustainable Finance**: further detail on the FCA's approach to climate change and sustainable finance.
- **FG24/3: Guidance on our anti-greenwashing rule.**
- August 2025 letter reflecting our observations of the **SLL market**, and additional clarification around key performance indicators.
- Our work to understand how our regulation affects SME access to finance.
- PRA Supervisory Statement (5/25) on **enhancing banks' and insurers' approaches to managing climate-related risks.**
- **UK Sustainability Reporting Standards**: Information on the UK Government's framework to create UK Sustainability Reporting Standards (UK SRS) by assessing and endorsing the global corporate reporting baseline of IFRS Sustainability Disclosure Standards.
- IFRS **guidance on disclosures about transition plans** and Transition Plan Taskforce resources
- **Innovation Zero**: annual congress which brings together innovators, funders, policymakers, and business leaders.
- **London Climate Action Week**: an annual event bringing together climate-focused individuals and organisations, with over 700 in person and virtual events.

