International Climate Finance

Bridging the funding gap to a sustainable future

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International Climate Finance[1]

Bridging the funding gap to a sustainable future

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1. According to the UNFCCC, Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.

Executive summary

1

Our world today is experiencing unprecedented impacts of climate change and biodiversity loss, with wide-ranging economic and social implications. Addressing the impacts of climate change and biodiversity loss is critical for social, economic and environmental stability. Business and government must understand and manage risks and dependencies related to climate and nature, as strategic risks. With this view, climate finance and investment present an opportunity to increase resilience, mitigate business risks, create jobs and invest in new industries.

Current levels of international climate finance are insufficient, and with rising global demand for climate-related funding, the gap in international climate finance continues to widen.

The demand for climate finance cannot be addressed by public finance alone, and this has been amplified by reduction in international development budgets, including USA, Germany, the UK and the Netherlands, with knock-on effects to international climate finance funding. In this context, there is an opportunity for the private sector to increase levels of international climate finance, and engage in new opportunities in green industry, whilst generating returns and contributing to social, economic and environmental stability. This will also enable business to address risks including rising costs, supply chain disruption and access to products. For the private sector to increase investment, governments must create environments that facilitate private investment and enable the private sector to mobilise finance for climate and nature positive solutions, creating opportunities through public and private financing mechanisms and blended finance. By doing so, private companies will be incentivised to both take and mitigate risk, investing in domestic and global climate mitigation and adaptation projects. By sharing financial commitments and cultivating ecosystems that promote innovation, governments can build capability, capacity and drive systemic change to catalyse private sector investment and transformative finance at scale.

> “Addressing the systemic risks of climate change requires comprehensive funding solutions for both mitigation and adaptation. A holistic approach that leverages the entire value chain—from innovation to commercialisation—is essential, necessitating a connected network of organisations and individuals to accelerate climate solutions.

Mark Wesley, EY Global Head of Grants and Relief Funds Management

In this report, we explore the ever-increasing international climate finance gap and provide suggestions on how public and private sectors can work together to help reduce the gap.

Despite increasing global demand for climate-related funding, the current financing landscape remains fragmented, and supply is insufficient to meet the demand. Governments and investors lack a cohesive and actionable plan to mobilise finance as reflected by the complexity of reaching the New Collective Quantified Goal (NCQG) and the geographical disparities in funding distribution, often leaving lower income nations, particularly those most affected by climate change, underfunded.

The report underscores the need for enhanced cooperation between public and private sectors to significantly boost funding calling for governments to create enabling environments to unlock private capital and secure the most effective deployment of public funds.

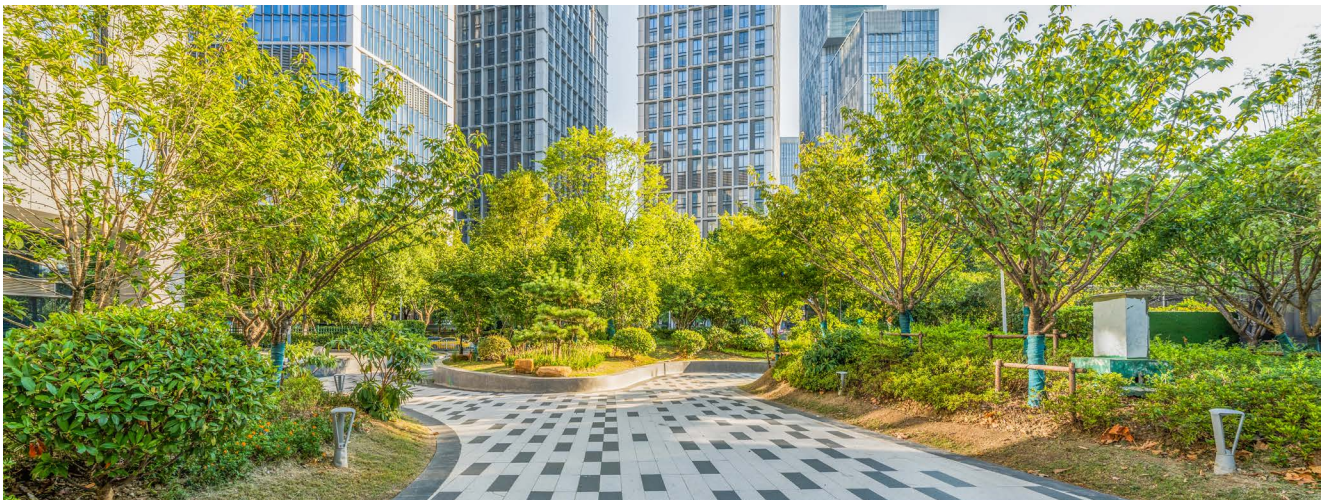
The report outlines proposed actions for change. Change is needed to help shrink the significant gap between the required climate investments—estimated at $5–9 trillion annually by 2030—and the current levels of funding, which have only recently doubled to approximately $1.4 trillion.[2]

The report also discusses the imbalance in climate finance allocation, with over 90% directed towards mitigation efforts, whilst adaptation finance remains critically low. It advocates for a holistic approach that includes financing mechanisms, such as blended finance and advanced market commitments, to de-risk investments and attract private capital, particularly in hard-to-abate sectors.

The report calls for urgent action from both public and private sectors to collaborate effectively, align on tangible strategies, and mobilise the necessary funding to address climate, nature and social risks, and achieve sustainable economic growth.

2 Cognizant. (2024). How the world can fund the trillions needed for net zero. https://www.cognizant.com/us/en/insights/insights-blog/how-the-world-can-fund-the-trillions-needed-for-net-zero-wf2410500

	Summary of Proposed Actions for Change	Who
1	**Strategic use of limited government budget to leverage maximum funds** (e.g. by the use of guarantees). Public funding should prioritise i. sectors and projects where a 'first-mover' is required, ii. areas where investment is needed to create a system to which the private sectors and innovators can then connect, or iii. neglected or hard to abate sectors.	Policy makers (of G7 or G20 countries) and development finance institutions
2	**Enable better coordination between funding providers and projects,** including data sharing to give investors visibility of the existing pipeline of projects. Governments and the private sector can also support projects by funding and providing technical assistance to help projects structure their processes and financial information in alignment with what investors want to see in attractive opportunities.	Development finance institutions, policy makers, private sector, accelerators, NGOs
3	**Government intervention to actively direct and shape the policy and regulatory environment to increase confidence and incentivise climate finance.** For instance, establishing coherent and consistent tax incentives and enabling regulations to encourage the market to invest in green projects.	Policy makers
4	**Public sector and regulator development of high integrity carbon markets with higher weighting for Nature-based Solution (NbS)** due to wider biodiversity benefits. For example, initiatives like the Core Carbon Principles established by the Integrity Council for the Voluntary Carbon Market could be leveraged for this purpose.[3] Private sector can also innovate into nature-related financial products, such as creating mechanisms to enable debt-for-nature swaps, nature-focussed sustainability bonds, ESG-linked loans, and the pooling of projects into biodiversity offset funds.[4]	Policy makers and private sector
5	**Collaboration in the lead up to upcoming global sustainability fora,** to bring private and institutional investors as well as policy makers together to align on tangible points to be agreed on.	Investors, policy makers, DFIs, innovators



3 ICVCM Leading the way to a high integrity Voluntary Carbon Market

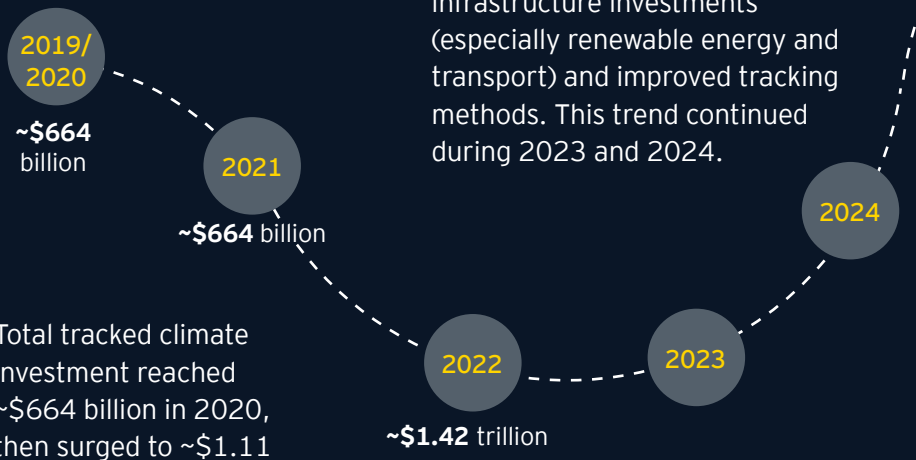
4 El Salvador announced $1bn DFN in October 2024 for river conservation. (JPMorgan Wraps Up $1 Billion Debt-Swap Deal for El Salvador – JPMorgan concluye acuerdo de canje de deuda por $1,000 millones para El Salvador – El Salvador Now)

The climate finance landscape

2

The quantum of climate finance

Global annual climate finance has roughly doubled since 2019/2020.[8]



Total tracked climate investment reached ~$664 billion in 2020, then surged to ~$1.11 trillion in 2021 and ~$1.42 trillion in 2022.

The jump in 2021/2022 was driven by a boom in energy transition and some infrastructure investments (especially renewable energy and transport) and improved tracking methods. This trend continued during 2023 and 2024.

In 2025, we have seen climate finance impacted by geopolitical events which have caused a shift in priorities and added to the strain on climate and international development budgets across the world. Even with the steady increase, demand continues to significantly outpace this supply as we see not only extreme weather events but new technologies and innovations needing capital to pilot, scale and commercialise.

There is a **significant gap** between the climate finance investment needed and the level of actual investment today. Analyses show that to limit warming to 1.5-2°C, the world needs $5-9 trillion in climate investments per year by 2030, rising to over $10 trillion annually from 2030 to 2050.[5] In other words, the investment level must increase 5-fold by 2030 to align with Paris Agreement goals.[6] Whilst daunting, this figure is proportionate to the size of the global economy and achievable with the right mechanisms in place.

Geographic imbalance

1 Climate finance mobilisation and spend are highly concentrated geographically and unevenly distributed.[7]

Mobilisation: Most climate funding is mobilised from a few concentrated regions. In 2021/2022, East Asia & Pacific, Western Europe, and North America (U.S./Canada) together accounted for ~84% of total climate finance. These regions represent the largest sources of climate capital, driven by mature financial systems, the largest public budgets and active investment flows.

Spend and distribution: Around 15% of global climate finance reached middle and low income countries (excluding China). In LDCs and many low-income countries, private finance comprised under 10% of climate funding (often near 0% for adaptation) and public finance – often from international sources – dominates.[8]

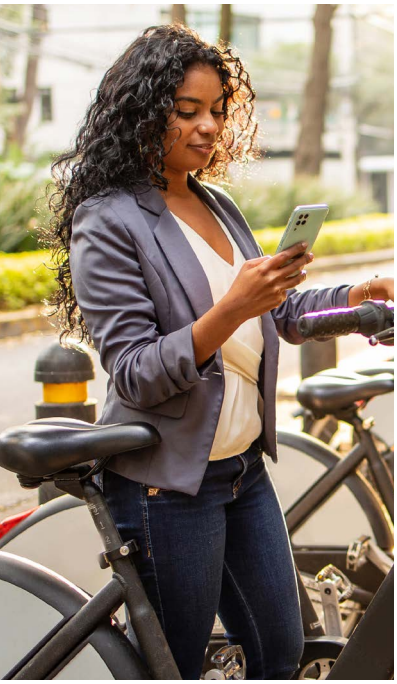
5 https://www.cognizant.com/us/en/insights/insights-blog/how-the-world-can-fund-the-trillions-needed-for-net-zero-wf2410500
6 Climate Policy Initiative. (2023). Global landscape of climate finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf
7 ibid
8 ibid

2 Structural and significant geographic imbalances on both public and private climate finance flows puts middle and low income countries at a disadvantage. Whilst it makes sense for climate finance to be significant in high income countries as these are the largest polluters, it is important that the share of climate finance rapidly and materially increases to middle and low income countries, and in particular for adaptation. Many middle and low income countries are on the frontlines of climate change, facing rising sea levels, extreme weather events and more but often lack the infrastructure and financial clout to support mitigation and adaptation solution innovation and growth. This has led to calls for reforms, for example, increased grants or concessions for middle and low income countries and more "loss and damage" funding.

The public/private funding split and types of financing

3 Public funding has reduced from $655 billion in 2021/22 to $624 billion in 2022/23, a 4.7% reduction when more, not less investment is required.

4 Public and private climate finance are now roughly equal in volume. By 2021/22, the split was about 51% public ($655 billion) vs. 49% private ($625 billion) on average.[9]



5 Public finance is delivered mainly via development banks and is skewed toward loans. Development finance institutions (DFIs) – multilateral and national – remain the largest public financiers, channelling about 57% of all public climate finance in 2021/22.[10]

A concern is that a significant portion of public climate finance is delivered as debt: over 17% of public climate funds going to middle and low income countries came as market-rate loans, adding to debt burdens.[11] Only ~6% of total climate finance in 2019/20 was grant finance. Where possible, governments should think about making the business case for development, and improve investment opportunities, to strengthen the business case for investors and wider society. Governments can look to expand the proportion of grants in total climate finance by exploring the use of specific and targeted finance mechanisms, such as pull financing for incentivising demand of a known technology or supply of a particular solution.

9 ibid
10 ibid
11 ibid

Project Types

6 The distribution of climate finance by sector is significantly imbalanced. Over 90% of tracked climate finance is directed towards mitigation efforts, with renewable energy generation receiving the largest share.[12] In contrast, adaptation finance receives less than 7% of total climate finance.[13] Sectors such as Agriculture, Forestry and Other Land Use (AFOLU) received disproportionately low investment despite their high potential emission reductions and climate resilience. These sectors account for less than 5% of total climate finance even though deforestation linked to land use for agriculture and sustaining livestock has a large climate impact. These figures primarily reflect flows through formal public and private finance channels and may not fully capture activity via voluntary carbon markets, which remain less transparent. Yet, these underfunded sectors are vital to tackling climate change and delivering broader social benefits like food security and public health.

The Climate Investment Funds' (CIF's) Nature, People, and Climate Program supports projects that harness the potential of land resources and nature-based solutions.[14] An example is the $500 million initiative in Ethiopia aimed at restoring degraded lands, safeguarding forests, and enhancing food security.[15] This program includes a $37 million investment from CIF and anticipates $492 million from other investors, such as the World Bank and African Development Bank. The funding is expected to help restore more than 320,000 hectares across various regions, supporting smallholder farmers and boosting economic sustainability.[16] Such initiatives highlight the importance of directing more climate finance towards adaptation and underfunded sectors to achieve comprehensive climate goals.

12 Baysa Naran, Barbara Buchner, Matthew Price, Sean Stout, Maddy Taylor and Dennis Zabeida. (2024). Global Landscape of Climate Finance 2024. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2024/

13 Climate Policy Initiative. (2023). Global landscape of climate finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

14 CIF. CIF Funding. https://www.cif.org/cif-funding

15 Simon Jessop. (2024). Climate Investment Funds board backs $500mln Ethiopia nature plan. https://www.reuters.com/sustainability/sustainable-finance-reporting/climate-investment-funds-board-backs-500-mln-ethiopia-nature-plan-2024-12-04/

16 ibid

7 The bulk of public climate finance goes to energy transition projects. Renewable energy deployments (solar, wind) have been major recipients – accounting for ~91% of investment in recent years. This reflects their growing commercial viability and investor confidence. Public funds (usually via DFIs) often co-finance large infrastructure like solar farms, grids and transport electrification, helping crowd in private capital. With renewable technologies now cost-competitive, private investors (corporate project developers, banks, institutional investors, households) have poured money into solar PV and wind projects – these received over 90% of mitigation investment in recent years. Low carbon transport is also another rising priority, with EVs making up 48% of transport finance in 2019/2020. Electric vehicle (EV) purchases have boomed – households spent about $147 billion on EVs in 2021, doubling from 2020, thanks to falling costs and supportive policies.[17]

However, there is significant underinvestment in other critical sectors – such as AFOLU, industry and buildings, which play a vital role in climate change mitigation, biodiversity and land restoration. According to UNOPS, an estimated $484 billion annually is needed by 2030 to meet global targets for climate, biodiversity and land degradation, but current financing levels are only about $150 billion, leaving a gap of $330 billion per year.[18] – <4% of mitigation funding went to agriculture and industry combined, despite these sectors' large emissions reduction potential and the potential for nature-based mitigation interventions.

17 UNOPS. (2023). Nature-Based Infrastructure: How natural infrastructure solutions can address sustainable development challenges and the triple planetary crisis. https://content.unops.org/publications/Nature-based-Infrastructure_EN.pdf

18 Climate Policy Initiative. (2023). Global landscape of climate finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

8 There are also significant blockers and gaps impacting the market offer (i.e. available climate initiatives and projects). There is a broad range of climate-related multilateral initiatives globally, e.g. Loss and Damage Fund (FRLD), Africa Carbon Markets Initiative (ACMI), Forest Carbon Partnership facility (FCPF) to name a few – yet most of these are affected by delays in rollout, complex allocation mechanisms, integrity concerns, policy gaps and high costs. Significant gaps also remain in the pipeline of bankable climate projects (most due to lack of revenue visibility and/or untested business models) – particularly in low income and emerging economies.[19,20,21] There is also a demand for greater standards and frameworks for evaluations, helping investors make better decisions by establishing transparent structures that are agreed and followed by investees. These gaps stem from limited coordination among potential sponsors and promoters, poor visibility of the pipeline, a shortage of technical assistance for project preparation and capacity building (including for local policy makers), and insufficient risk-sharing mechanisms for early-stage project development.[22,23] Additionally, many regions face challenges due to political instability, combined often with underdeveloped local capital markets, Forex (FX) risks and limited technical capacity.[24] Reports highlight a lack of early-stage project preparation support, inadequate de-risking instruments, and limited visibility into investment-ready opportunities. For example, The Climate Finance Asia Brief[25] highlights that many bankable projects exist but lack the proper structuring and support needed to reach investment ready status. As explained below, there is an opportunity for the private sector to step in here and support closing this gap.

Ulu Masen REDD+ Project, Indonesia[26]

The Ulu Masen REDD+ project designed to protect over 750,000 hectares of forest in Aceh, Indonesia, generating carbon credits for sale on international markets. It was among the earliest jurisdictional REDD+ initiatives designed to link conservation with sustainable finance.

However, despite the strong environmental potential, the initiative was undermined by market volatility following the 2008 financial crisis, political instability that reduced institutional support, and conflicting economic interests due to resource discoveries within the project area.

These challenges reflect broader issues in the climate finance landscape, where projects may be technically viable but fail to attract investment due to poor structuring, shifting governance and inadequate risk mitigation.

19 Climate Change News. (2025, April 11). Loss and damage fund to hand out $250 million in initial phase. Retrieved 21 May 2025, from https://www.climatechangenews.com/2025/04/11/loss-and-damage-fund-to-hand-out-250-million-in-initial-phase/

20 Trencher, G., Nick, S., Carlson, J. et al. Demand for low-quality offsets by major companies undermines climate integrity of the voluntary carbon market. Nat Commun 15, 6863 (2024). https://doi.org/10.1038/s41467-024-51151-w

21 Global Forest Coalition. (n.d.). REDD: The climate illusion. Retrieved 21 May 2025, from https://globalforestcoalition.org/redd-climate-illusion/

22 Institut De La Finance Durable. (2024). Forum IFD « Finance, environnement et développement »

23 Nawazish Mira, Farhad Taghizadeh-Hesary. (2024). Climate Finance Priorities for Emerging Markets and Developing Economies: Policy Recommendations in the Context of COP29. file:///C:/Users/JM185KT/Downloads/CF_Asia_Policy_Brief.pdf

24 World Bank (2023). Scaling Up to Phase Down: Financing Energy Transition in Developing Countries. https://www.worldbank.org/en/news/press-release/2023/04/20/scaling-up-to-phase-down-financing-energy-transition-in-developing-countries

25 Nawazish Mira, Farhad Taghizadeh-Hesary. (2024). Climate Finance Priorities for Emerging Markets and Developing Economies: Policy Recommendations in the Context of COP29. file:///C:/Users/JM185KT/Downloads/CF_Asia_Policy_Brief.pdf

26 Cut Augusta Mindry Anandi, Ida Aju Pradnja Resosudarmo, Andini Desita Ekaputri, Mella Komalasari, Pangestuti Astri and Riza Aryani. Ulu Masen REDD+ initiative, Aceh, Indonesia. https://www2.cifor.org/redd-case-book/case-reports/indonesia/ulu-masen-redd-initiative-aceh-indonesia/

Challenges to closing the climate finance gap

3

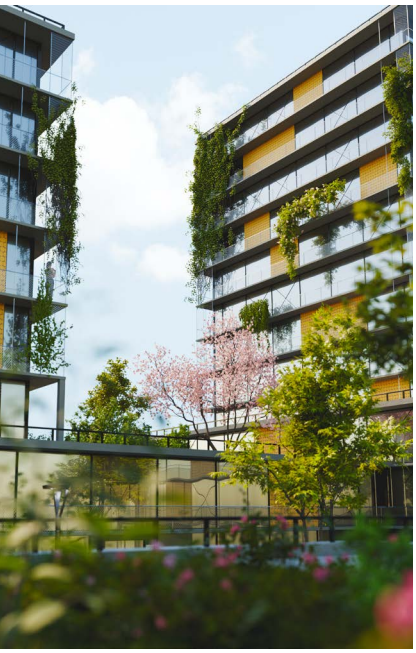
Public sector finance challenges

There are increasing public finance challenges, including:

1 **Limited funds and competing priorities:** Governments must balance funding for priorities such as healthcare, education, infrastructure and national security. Dependent on political will, funding for international development may be deprioritised in favour of domestic need, irrespective of previous commitments or the structure of financing (e.g. ring-fenced budgets). In recent years, a number of countries, including USA, Germany, the UK and the Netherlands have reduced their international development budgets, with knock-on effects to international climate finance funding. This has decreased the funding available for middle and low income countries to mitigate and adapt to the impacts of climate change.[27]

2 **Capacity and governance:** Countries require skilled personnel, resources to design, execute, and monitor climate projects, and suitable governance frameworks. Weak governance can lead to inefficiencies, lack of accountability, and challenges in aligning climate finance with national priorities, ultimately hindering the effectiveness of climate action.

Private investor challenges



For investors, there are challenges in investing in international climate finance projects.

1 **Perceived risk/return balance:** A significant concern is the risk/return imbalance, where there is a view that green investments may not provide competitive returns compared to traditional infrastructure assets, leading to a preference for more established options as the timeline for returns for 'green' solutions are often longer than some traditional investments). Whilst this is solution and sector dependent, the level of uncertainty means investors would require a higher level of return to invest. This concern is heightened in emerging and developing markets, projects denominated in a currency other than the domestic currency of the investor, and for innovative technologies.

2 **Project scale:** Many international climate finance projects are designed to address specific local or regional environmental issues, resulting in limited scope and smaller budgets compared to larger infrastructure initiatives. This small scale can create barriers to attracting the necessary capital. For instance, investors typically seek opportunities that can deliver substantial returns, and smaller projects may not meet the minimum investment thresholds that institutional investors prefer, with these projects viewed as sub-scale, leading to a lack of interest from potential funders.

27 Donot Tracker. (2025). The Budget Cuts Tracker. https://www.cgdev.org/blog/uk-aid-ten-times-more-scrutinised-other-government-spending

3 **Awareness of suitable projects:** Climate finance projects which deliver for people with economies are often created and developed by local communities and businesses, who do not have connections to large scale investors. When a project is designed in another country but needs to attract international funding, connecting the two is even more challenging. There is a lack of suitable "match-makers" bringing local projects and knowledge to the attention of international investors.

4 **Legal complexity:** The intricate and convoluted legal frameworks, agreements, and regulations governing international climate finance can significantly increase project risk. This complexity stems from multiple jurisdictions, a variety of funding sources, numerous international agreements, accountability requirements, and continuously evolving regulations. Such factors can create obstacles that can make investors hesitant to invest.

Project leader challenges

As a result of the challenges faced by public and private sector investors, project leaders pay the price in lack of finance, or unsuitable finance:

- **Persistent Risk Premiums:** Even when global interest rates decline, Emerging Markets and Developing Economies (EMDEs) often face higher risk premiums due to perceived economic instability, political risks, or creditworthiness concerns. Lenders may charge higher interest rates to compensate for the increased risk associated with lending to these countries.
- **Creditor reluctance:** When a loan has been granted to an international climate finance project, creditors can be resistant to modify loan terms to provide more favourable conditions for countries facing challenges in meeting their financial obligations. This reluctance can hinder efforts to support countries in transitioning to sustainable practices or recovering from climate impacts, as they may prioritise immediate repayment over providing the necessary financial flexibility for restructuring debts.
- **Foreign influence:** Whilst foreign investment and support can provide essential resources for climate initiatives, it may also lead to concerns about sovereignty, prioritisation of foreign interests over local needs, and potential imposition of conditions not aligned with the country's climate or national goals. Balancing foreign influence with domestic priorities is crucial for effective climate finance.

What is needed to close the gap and how do we achieve that?

4

Reducing risk and incentivising investment

> Governments must take the first step in de-risking investments to create the confidence needed for private sector participation.
>
> **Marco Duso** – EY Partner, Climate Tech

Blended finance initiatives are being pursued to "de-risk" projects and mobilise private capital to green markets. To be successful, blended finance needs to be used strategically by governments and the DFI/MDB sector – it should be tailored to specific market conditions and investment objectives. Governments can assume first-mover risk in higher-risk markets – for example, by strategic use of guarantee structures to mobilise private capital towards climate initiatives or by providing initial support to the development of required strategic infrastructure, building up the "connective tissue" around a particular project.[28]

A combination of push and pull finance mechanisms is required to incentivise climate innovation. Push finance is defined as the funding of new ideas to boost the supply of innovative solutions – this involves direct support to projects or initiatives in the form of subsidies, grants or direct investment.

On the other hand, pull finance aims to attract investment by supplementing purchasing power to create demand for climate solutions – i.e. a credible commitment to buy to make the market viable to potential innovators. Pull finance can take the form of advanced market commitments, bulk government procurement or tax rebates. Pull finance creates the demand required to scale innovations and trigger economic tipping points – all essential to de-risking investment. By credibly signaling the existence of a profitable market, pull finance induces the entry of innovators into the market and creates incentives for them to 'race' each other to fill the gap in the market.[29,30] Pull financing is more efficient when there is an understanding of the type of innovation required (the solution to the problem).[31] An overview of pull finance typologies and examples of application is included in the Annex of this report.

28 World Economic Forum. (2024). Private Climate Finance: 4 Things You Need to Know. https://www.weforum.org/stories/2024/04/private-climate-finance-4-things-you-need-to-know/

29 Bernat Camps Adrogué, Ranil Dissanayake (2022), Can Pull Financing Support Both Climate and Development Goals?. https://www.cgdev.org/blog/can-pull-financing-support-both-climate-and-development-goals#:~:text=Pull%20financing%20operates%20by%E2%80%94in%20some%20way%E2%80%94making%20market%20entry,pays%20them%20to%20exert%20effort%20on%20a%20problem.

30 Ranil Dissanayake. 2021. "Navigating the Straits: Pull Financing for Climate and Development Outcomes." CGD Policy Paper 239. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/ navigating-straits-pull-financing-climate-and-development-outcomes

31 ibid

> Strong market-based interventions are the ultimate pull-financing mechanism necessary to de-risk investments in climate projects. When backed by governments, they offer policy stability and predictability, helping attract sustained private sector engagement.

Dr. Gbemi Oluleye – Assistant Professor at Grantham Institute – Climate Change and the Environment, Imperial College London

Pull Finance (Private Sector Market-based) – Advanced Market Commitment for Deploying Direct Air Capture

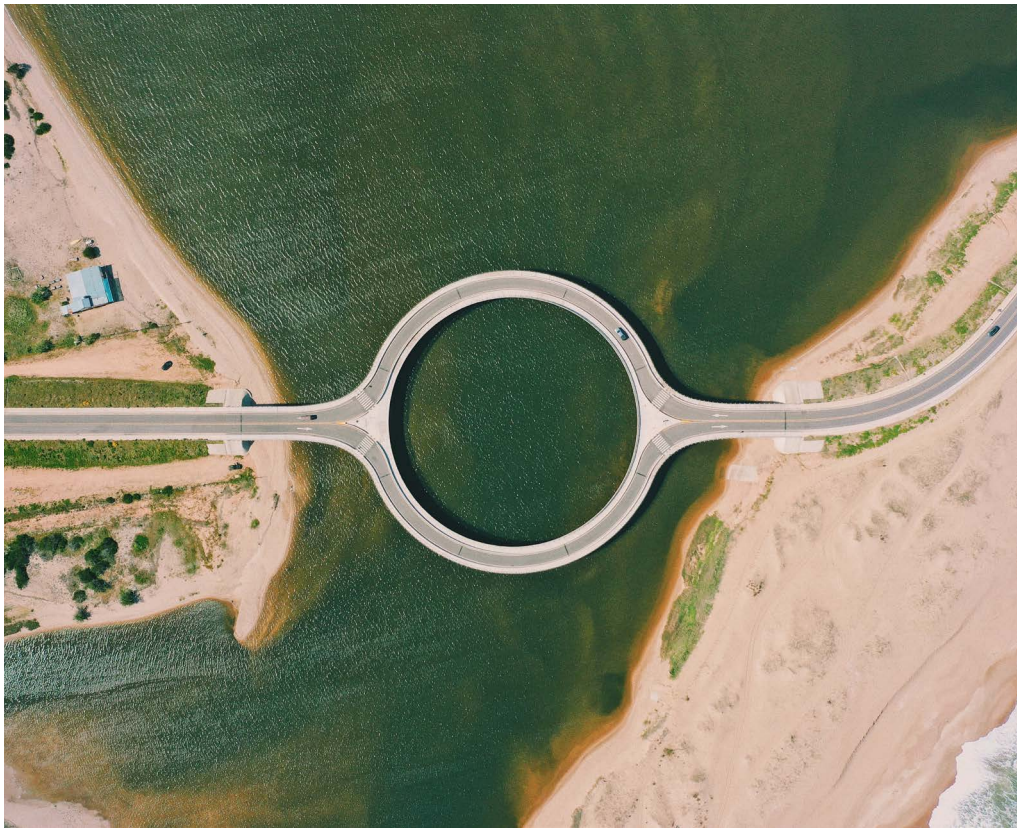
Advance Market Commitments (AMCs) have emerged as a market-based pull financing tool to stimulate early Direct Air Capture (DAC) deployment by guaranteeing demand at pre-agreed prices. According to the Frontier Initiative, "members have committed to purchase over 1 million tons of permanent carbon removal by 2030, backed by nearly $1 billion in advance market commitments". Early transactions show DAC purchase prices ranging between "$500 and $1,000 per ton of CO_2 removed," reflecting high early-stage costs. Despite promising momentum, current commitments are still a fraction of what is needed. The Energy Transitions Commission estimates that "capital investment of $100–300 billion will be required by 2050 to scale DAC technologies to meet climate goals". Economic modelling highlights that "advance market commitments at a price floor of $250 per ton CO_2 could stimulate sufficient early demand to catalyse DAC project finance," filling the gap left by uncertain carbon market prices. Without large-scale AMCs, DAC risks remaining commercially unviable due to high costs and lack of secure revenue streams for investors.[32,33,34]

32 Frontier (2023). An Advance Market Commitment for Carbon Removal. Available at: https://frontierclimate.com
33 CDR.fyi (2024). CDR Market State of the Industry Report 2024. Available at: https://cdr.fyi
34 Energy Transitions Commission (2022). Mind the Gap: Emissions Gaps and Carbon Removals to Meet Climate Goals. Available at: https://www.energy-transitions.org/publications/mind-the-gap/

Tailoring blended finance to market conditions – Nepal Renewable Energy Programme (NREP)

NREP has provided blended finance through the Sustainable Energy Challenge Fund (SECF), a mechanism structured to support creative problem-solving in the renewable energy sector. For example, NREP's blended finance tools include interest rate buydowns of 50% of the interest amount for five years and generation-based incentives of up to 1.1 cents per kWh for five years for solar rooftop projects. Loan loss guarantees are offered for up to 20 percent of loans for SECF projects. The project has supported capital expenditures for public-private projects focussed on mini-hydro, and discounted—with support of up to 50% of overall costs to a maximum of $70,000—for EV charging stations and biogas to bio-compressed natural gas conversion projects.

The results: NREP has leveraged $16 million in private financing for renewable energy projects, with 22.5 Megawatts of installed renewable energy capacity established across solar rooftop and mini hydro projects. Since it started, the project's broader efforts have led to an estimated 38,000 tons of greenhouse gas emissions (tCO_2e) being reduced or avoided through renewable energy projects.



Key enablers for blended finance include[35]:

- **Foundations:** Congruence in objectives of the blended finance vehicle and incentives across stakeholders and robust and credible impact framework.
- **Risk mitigation:** Use of risk management tools and catalytic capital to improve the risk return nexus and investment rating; understanding of local landscapes and experience to bolster investor confidence in the blended finance vehicle; generating a robust pipeline of projects and an effective filtering process.
- **Timeliness:** Senior leadership buy-in early-on with continuous support; simple but flexible design to expedite the alignment of all stakeholders; focus on lowering the blended finance vehicle development time and facilitating replicability potential.

It is widely recognised that Systemiq and the Shell Foundation that providing loan guarantees is one of the most effective way for developed country governments to leverage public funds and mobilise private investment in EMDEs at scale required to meet 2050 net zero goals.[36,37]

However, latest data suggests that perceived risk is higher than (historic) actual realised risk. GEMs database for private sector lending in EMDEs shows a 3.56% average annual default rate with average recovery of 72.2%, which is evidence that the perceived risks are much higher than historic actual realised risks.[38] One notable initiative in the guarantee space is Emerging Markets Climate Investment Compact (EMCIC).

35 EY. (2024). Blended Finance Best Practice: Case Studies and Lessons Learned. https://www.cdpq.com/sites/default/files/medias/pdf/en/Blended_Finance_Booklet_Climate_Week2024.pdf

36 SYSTEMIQ. (n.d.). Guarantees for climate in emerging markets. Retrieved 21 May 2025, from https://www.systemiq.earth/guarantees-climate-emerging-markets/

37 Shell Foundation. (n.d.). Improving effectiveness of guarantees to encourage growth. Retrieved 21 May 2025, from https://shellfoundation.org/news/improving-effectiveness-of-guarantees-to-encourage-growth/

38 Global Emerging Markets. (2024). Leveraging data from Multilateral Development Banks and Development Finance Institutions to support investment and development.

EVN Finance Green Bond[39]

The EVNFinance Green Bond represented a landmark transaction in Vietnam, demonstrating how transparency and de-risking mechanisms can unlock institutional investment in sustainable infrastructure. Supported by a partial credit guarantee from GuarantCo ($50 million), $75 million bond issuance marked Vietnam's first onshore, local-currency, internationally verified green bond.

The guarantee and associated due diligence processes significantly enhanced the credibility of issuance. Key transparency features included:

- Independent third-party verification of green credentials and use of proceeds
- Enhanced credit risk evaluation during the structuring phase
- Disclosure of expected financial and environmental performance
- Alignment with best practices in sustainable practices

These measures were instrumental in attracting investors such as Manulife and AIA – institutions previously only active in fully guaranteed bonds. The project illustrates how greater transparency, coupled with targeted risk mitigation, can expand investor participation, especially in markets where familiarity with green assets is still developing.

There is also a need for enhanced data transparency which is vital for investors to assess risks and opportunities accurately. Governments, MDBs and DFIs need to provide better disaggregated data to facilitate informed investment decisions.[40] For example, the National Carbon Registry (UNDP) is accredited as a digital public good and is a platform to allow countries to manage their data and processes for trading carbon credits. This data is accessible to all and helps countries keep track of their registry of carbon credits.[41]

39 Network for Greening the Financial System. (2023). Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies (EMDEs). https://www.ngfs.net/system/files/import/ngfs/medias/documents/scaling-up-blended-finance-for-climate-mitigation-and-adaptation-in-emdes.pdf

40 Real Instituto Elcano. (2023). Resetting the private capital mobilisation narrative: From rhetoric to reality. https://www.realinstitutoelcano.org/en/analyses/resetting-the-private-capital-mobilisation-narrative-from-rhetoric-to-reality/

41 A newly accredited digital public good, the National Carbon Registry will help countries meet their climate targets | United Nations Development Programme

Proposed actions for change

For development finance institutions and policy makers

1. Strategic use of limited government budget to leverage maximum funds:
    - Public funding should be prioritised towards areas where a 'first-mover' is required or where investment is needed to create a system to which the private sector can then connect.
    - This could mean the public sector assumes technical and first loss risks supporting an initiative through the innovation cycle until launch, monitoring it to adjust as required.
    - The private sector can then invest in commercialising and scaling up the initiative.
2. Enable better coordination between funding providers including data sharing, e.g. by setting up registry of projects and initiatives seeking funding at country level in line with the countries' NDCs (Nationally Determined Contributions).
3. Explore the use of guarantees as an instrument to de-risk and mobilise private capital and maximise value for the taxpayer.

There are a number of tools available to incentivise private sector investment. National investment funds (e.g. British International Investment (BII), Norfund) can be used to de-risk investment with public capital. BII, for example, deployed almost £450 million of climate finance in 2023. Successful innovations from Europe show that limited public funds can go further when public and private actors work together to create effective catalytic vehicles.

Case Study: The Danish DFI Investment Fund for Developing Countries (IFU) and Climate Investment Fund and Sustainable Development Goals Fund (SDG) Fund, mobilised over $2bn to EMDEs, with Danish pension funds providing the majority of capital and Danish industry positioned as a solutions provider for invested projects, bolstering exports.[42]

Case Study: In the Netherlands, pension provider APG provided a cornerstone investment of $750m in the FCDO backed ILX fund of ~$1bn, whose innovative model invests alongside MDB/DFI originated debt.[43]

Case Study: The Norwegian Climate Investment Fund, operated by DFI Norfund in partnership with pension fund KLP, will allocate ~$1bn to EMDEs by 2026.[44]

Leveraging policy and regulation to encourage private climate investment

Governments should enable more coherent policy and regulatory frameworks that encourage the private sector to choose climate finance investments simply because it makes sense from a business standpoint. Regulation should make private investors think about how to maximise innovation in climate technologies and avoid being 'left behind' whilst also making clear the cost of non-compliance.

Governments should use a 'carrot and stick' approach when aiming to incentivise the private sector to invest in green initiatives, accelerating regulation and incentives that make investing sustainably the right choice for businesses' profits.

Some jurisdictions, for example, the UK have established regulatory requirements on large pension funds to assess climate risks as part of their prudential obligations and these regulations are now being expanded to smaller firms.

Recipient countries have a role to play by establishing policies that strengthen their overall attractiveness to private investors through, for example, ease of doing business, robust institutionality and debt management. These countries can help support their local industries and entrepreneurs in the same way more developed countries can. Without a trusted environment, however, or

42 Network for Greening the Financial System. (2023). Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies (EMDEs). https://www.ngfs.net/system/files/import/ngfs/medias/documents/scaling-up-blended-finance-for-climate-mitigation-and-adaptation-in-emdes.pdf

43 ibid

44 IIGCC. (2025). The UK as a climate finance hub: Unlocking capital from institutional investors towards EMDEs. https://www.iigcc.org/resources/report-uk-climate-finance-hub-2025

the means to invest 'responsibly,' many developing nations will be unable to attract suitable finance for their solutions, which can leave a country's innovation on hold. This could force entrepreneurs and start ups to relocate, resulting in potential 'brain drain' and a loss to the country on establishing mitigation and adaptation solutions.[45,46]

One way to help high income nations is to reduce countries' debt, conditioned to the development of initiatives that reduce CO_2 emissions or promote sustainable outcomes (e.g. Debt for Nature swaps). An early example was the landmark 2023 Ecuador swap.[47] Overall, the regulatory and policy landscape needs to be evolved to support innovation.

Proposed actions for change

For Policy makers

4. Government intervention to actively direct and shape the policy and regulatory environment to incentivise climate finance. For example, establish coherent and consistent tax incentives and subsidies to encourage the market to invest in green projects.
5. Accelerate adoption by removing barriers (perceived or otherwise) for Debt for Nature swaps.
6. Encourage pension funds to invest in ways that support their own ends and deliver outcomes for global climate interventions.
7. Working with the insurance markets to provide incentives (lower premiums) to projects that operate and invest sustainably.

For insurers

8. Enhance monitoring and evaluation of sustainability practices which can lead to more accurate risk assessments and lower premiums, providing incentives for investors possibly by leveraging AI technologies.

For Legislators

9. Pursuit of a holistic, sign-posted "Polluter Pays"[48] approach to channel funding from extractive industries to mitigation investment.

45 World Economic Forum. "Private Climate Finance: 4 Things You Need to Know." World Economic Forum, 2024. https://www.weforum.org/stories/2024/04/private-climate-finance-4-things-you-need-to-know/

46 ibid

47 ibid

48 Christopher W.Callahan, Justin S.Mankin. (2025). Carbon majors and the scientific case for climate liability. https://www.nature.com/articles/s41586-025-08751-3.epdf?sharing_token=hFF5X-DPA5lt3b637JIgrdRgN0jAjWel9jnR3ZoTv0PNVn5qNJQAINIGB8DI-ZFRseL9v-xVGqFBTn1TeHE_3mMp93_kac0sjjbnY-wJIIPAYcKiMtG5PRe8xUEEmrLghLxS2gJmveD5oOX0jLn2QYGj5K-89NDM5tiavJYzaXwFJqHpbZ-TAWVEx9pujqb11JqEOocNnpL8-ACNLXZ_3KY5eCaz--FwakHekujJrvo%3D&tracking_referrer=www.washingtonpost.com

Neglected and hard to abate sectors

> Blended finance is crucial for addressing cash flow constraints in nature-based solutions, helping generate returns and make them investable at scale.
>
> **James Naughton** – Head, Development Finance and Investment, DAI

Certain sectors are particularly underfunded in climate finance due to difficulty in reducing emissions or in generating consistent revenue streams. They require specialised attention to deliver the financing required.

For instance, funding of EVs and renewable energy is growing as their return of investment potential becomes self-evident, whilst sectors such as industry and agriculture have historically been labelled as "hard-to-abate" sectors. These industries typically have high emissions profiles and face significant technical and economic barriers to implementing effective decarbonisation strategies. Given these sectors reflect a high proportion of climate emissions industry and agriculture alone reflected almost 20% of global greenhouse gas emissions in 2021, they should be a focus for public sector investment.[49] The public sector should prioritise investment and risk-sharing instruments in these areas given the difficulties for the private sector in being a first mover.

49 World Resource Institute. (2024). Where Do Emissions Come From? 4 Charts Explain Greenhouse Gas Emissions by Sector. https://www.wri.org/insights/4-charts-explain-greenhouse-gas-emissions-countries-and-sectors#:~:text=The%20energy%20sector%20produces%20the%20most%20greenhouse%20gas,%2813.7%25%29%2C%20manufacturing%20and%20construction%20%2812.7%25%29%20and%20buildings%20%286.6%25%29.

Conservation and restoration projects can also struggle to secure investment, given natural capital is not currently factored into market values. The funding of NbS is developing, however falls far short of what is required. Investment can be encouraged through a number of mechanisms, such as:

- **De-risking:** Similar to the hard-to-abate sectors, public sector investment to de-risk nature-based projects is beneficial in attracting private investors.
- **Patient Capital Structures:** Matching investment timelines to ecological returns, particularly for reforestation and peatland restoration given the longer timeframes for results to be evident.
- **Monetising Ecosystem Services:** Provide incentives for preserving services like flood protection, clean water, and carbon sequestration.
  - One way of doing this is through payment for ecosystem services (PES): These are contracts where beneficiaries pay for ecosystem benefits, funding NbS like watershed protection or pollinator habitats with direct payments from businesses or municipalities that benefit from the ecosystem service.
- **Nature-focussed Sustainability Bonds:** Explicit financial linkage to biodiversity outcomes, enhancing accountability.
- **ESG-Linked Loans:** Loans with favourable terms tied to environmental, social, and governance performance, financing NbS like sustainable forestry or green roofs in cities implementing Sustainable Energy and Climate Action Plans (SECAPs).

Example method to generate returns from an NbS project – sustainable mangrove aquaculture

To create a bankable nature-based solution (NbS) for sustainable mangrove aquaculture development, a structured approach could be employed that integrates mezzanine debt, carbon credit pre-purchase agreements, and ecosystem service monetisation.

- Mezzanine Debt Structure: This flexible, subordinated capital can be provided to mangrove aquaculture operators, such as shrimp or oyster farmers. The repayment terms would be linked to production yields or revenues from ecosystem services, like blue carbon and biodiversity credits. This structure reduces the initial debt burden, as repayments are contingent on performance, making it more attractive for operators.
- Carbon Credit Pre-Purchase Agreements: Engaging corporate ESG buyers or carbon funds to agree on purchasing future carbon and biodiversity credits generated from mangrove restoration creates a securitised revenue stream. This arrangement serves as collateral for mezzanine lenders, thereby lowering the risk of default and enhancing the financial viability of the project.
- Special Purpose Vehicle (SPV): Establishing an SPV allows for the integration of equity options, where lenders can receive warrants or profit-sharing rights linked to the long-term appreciation of the mangrove ecosystem's value. This aligns investor returns with ecological health, as benefits can also stem from ecotourism and nutrient trading.
- De-risking with DFI Guarantees: To further mitigate risks, incorporating Development Finance Institution (DFI) guarantees can attract additional mezzanine debt.

This support enhances the project's bankability by ensuring reliable cash flows, addressing a common limitation in NbS investments.

CFE- Hydrogen Rehabilitation Program (Fideicomiso de Energias Limpias)[50]

The CFE – Hydrogen Rehabilitation Program exemplifies a co-funded, nature-based investment aimed at modernising renewable energy infrastructure whilst preserving and enhancing natural resource use. Led by Comisión Federal de Electricidad (CFE), Mexico's state-owned electric utility, the project upgrades seven existing hydropower plants through the replacement of turbines, generators, and ancillary systems.

By increasing the plants' generation capacity by 113 MW and extending their operational lifespan, the project harnesses existing water resources more efficiently – making it a clear example of a nature-based solution. The improvements are expected to yield 1,426 GWh of additional electricity annually, reduce maintenance costs, and lower the levelised cost of energy.

The project is co-financed through a $33.6 million loan from JPMorgan Chase and HSBC, backed by a $536 million guarantee from MIGA. This collaboration between the public and private institutions showcases how blended finance can enable long-term, sustainable investments in renewable energy grounded in natural systems.

Proposed actions for change

10. Public sector prioritisation of hard-to-abate and neglected sectors using investment and de-risking mechanisms.
11. Public sector and regulator development of high integrity carbon markets, with higher weighting for NbS due to wider biodiversity benefits.
12. Private sector innovation into nature-related financial products, such as nature-focussed sustainability bonds, ESG-linked loans, monetising eco-system services, patient capital structures, and the pooling of projects into biodiversity offset funds.

50 Network for Greening the Financial System. (2023). Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies (EMDEs). https://www.ngfs.net/system/files/import/ngfs/medias/documents/scaling-up-blended-finance-for-climate-mitigation-and-adaptation-in-emdes.pdf

Case study of hard-to-abate funding

A notable exception to the lack of investment in hard-to-abate sectors is the **H2 Green Steel** project in Sweden, which illustrates how substantial capital can be mobilised for industrial decarbonisation.[51] In 2024, the project secured over €4.5 billion in funding to build the world's first large scale green steel plant, powered by green hydrogen in Boden, Sweden. The financing structure involved a combination of equity, green bonds, and public guarantees from institutions like the European Investment Bank and the Swedish Export Credit Corporation. This case underscores both the potential and the financing complexity involved in scaling solutions for hard-to-abate sectors and highlights the continued need for targeted public-private collaboration to address the investment gaps beyond the energy transition mainstream.[52]

However, even with this substantial investment (push financing), green steel production remains economically uncompetitive without stronger demand-pull mechanisms. In Sweden, where the H2 Green Steel project is based, the national carbon tax is about €125 per ton of CO_2, among the highest globally, and the EU ETS prices averaged €80–€100 per ton CO_2 in 2024. These market-based mechanisms create an economic disincentive for conventional fossil-based steel, thereby providing pull financing for cleaner alternatives. Nevertheless, despite these strong carbon prices, green hydrogen-based steel production remains 30–40% more expensive than conventional methods. Analysis shows that to fully close this cost gap, carbon prices would need to rise beyond €300 per ton CO_2, which is politically and economically challenging. This highlights that additional pull financing from green procurement, price premiums, and contracts for difference (CfDs) may be required.

Bankable climate initiatives: Project Identification

> Significant gaps in early-stage project pipelines and risk-sharing mechanisms highlight the need for integrating capacity building and project preparation support into structuring to unlock investment-ready climate projects.

Artyom Sitnikov – Impact and Climate Finance Expert

51 Hydrogen Europe. (2024). H2 Green Steel secures €4.5bn funding for world-first project. https://hydrogeneurope.eu/h2-green-steel-secures-e4-5bn-funding-for-world-first-project/

52 ibid

Having a favourable regulatory framework and incentivising private sector to invest is only one side of the coin. The flipside of closing the investment gap is that we need bankable projects sufficiently scaled up to attract and deploy investment. The existence of a financing gap does not automatically translate into sufficient investable opportunities. Misalignment between project pipeline and investor requirements, and underdeveloped capital markets often hinder private investment.[53]

We need projects with robust business cases to make the case for investment across the green economy. The private sector has an important role to play here in collaboration with government. Technical assistance can be provided to projects to help them meet investment requirements. The private sector can also work with government to identify regulatory areas that hinder project growth and operation. The Global Innovation Lab for Climate Finance identifies, develops and launches innovative finance instruments that can drive billions in private investment to action on climate change and sustainable development. The United Nations Development Programme (UNDP), and the governments of Canada, Germany, and the United Kingdom (UK) funded the Lab's 2024 programmes. Climate Policy Initiative serves as the Secretariat and analytical provider.

Case Study: Climate Investor One (CIO), is a $930m blended finance vehicle designed to accelerate the development, construction, and implementation of renewable infrastructure projects in emerging markets, founded by Climate Fund Managers (CFM) in 2017. CFM was established as a joint venture between the Dutch development bank FMO and Africa's largest non-banking financial institution Sanlam in 2016. Recognizing that only a fraction of global renewable energy financing from institutional investors flows to EMDEs, CIO was designed to address market barriers in attracting private sector investments in renewable energy projects in EMDEs.[54]

Case Study: In 2025, the Climate Finance Lab will develop at least nine project ideas. Six ideas will focus on five regional programmes, with two ideas targeting Latin America and the Caribbean, and three thematic ideas.

The Global Innovation Lab for Climate Finance identifies, develops, and launches innovative finance instruments that can drive billions in private investment to action on climate change and sustainable development. The United Nations Development Programme (UNDP), and the governments of Canada, Germany, and the United Kingdom (UK) fund the Lab's 2024 programmes. Climate Policy Initiative serves as the Secretariat and analytical provider. Coincidentally, the UK is an important source of funding for several ideas selected in 2025.

53 Real Instituto Elcano. (2023). Resetting the private capital mobilisation narrative: From rhetoric to reality. https://www.realinstitutoelcano.org/en/analyses/resetting-the-private-capital-mobilisation-narrative-from-rhetoric-to-reality/

54 Network for Greening the Financial System. (2023). Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies (EMDEs). https://www.ngfs.net/system/files/import/ngfs/medias/documents/scaling-up-blended-finance-for-climate-mitigation-and-adaptation-in-emdes.pdf

Proposed actions for change

For government/NGOs/ Private Sector accelerators

13. Where possible, aggregate opportunities so that the scale of projects are investible and attractive, e.g. by leveraging expertise and local presence of established fund managers in EMDEs.

14. Governments, NGOs and private sector accelerators can support projects by funding technical assistance to help them structure and set up their processes and financial information in a way that aligns with what investors are looking to see in attractive opportunities. These stakeholders should also create spaces where innovators can connect with the private sector so investors can have visibility of the existing pipeline and its needs.

For investors and financial institutions

15. Investors and financial institutions can work with the governments and projects to set out their requirements and, collaboratively, adapt them in a way that considers the specific characteristics of the green sector.

Collaboration to move forward

The issues are complex and multidisciplinary. Collaboration across industry and the private and public sectors is critical to progress. There are a wide-range of stakeholders required to play their part, from industry experts taken from across the private sector, academics, NGOs and local and regional development organisations. Under present circumstance, the public sector (including DFIs) will continue to act as facilitators, helping to align competing priorities, identifying which areas require market creation or are ready for large-scale mobilisation, driving policy and regulatory change and enhancing global governance of climate finance and climate technology solutions.

Convening stakeholders is crucial for closing the gap on climate investment, particularly in connecting private investors with viable climate projects. The private sector must be made aware of and exposed to quality investment opportunities that align with government initiatives. This requires enhancing the visibility of project pipelines, clearly articulating their needs and potential impacts, and sharing an understanding of sector-specific climate risks, to improving the efficiency and targeting of climate finance.[55]

Climate innovators benefit from early partnerships with corporates and public entities to pilot, scale and commercialise breakthrough technologies. Additionally, collaborative platforms can help monitor the impact and alignment of finance flows with climate targets, ensuring that capital is effectively deployed.[56,57]

Proposed actions for change

For all stakeholders

16. Collaboration in the lead up to upcoming global sustainability fora to bring private and institutional investors as well as policy makers together to align on tangible points to be agreed on.

55 Climate Policy Initiative. (2023). Global landscape of climate finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

56 IEA. (2022). Energy Technology Perspectives

57 OECD. (2022). Climate Finance Provided and Mobilised by Developed Countries in 2016-2020

Conclusion

5

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Climate finance is essential for economic and social stability. Now is a crucial time for public policy to create an enabling environment, encouraging collaboration and attracting private investment to projects and solutions that can scale. By fostering innovative financial mechanisms and ensuring effective use of public funds, we can mobilise resources to combat climate change and biodiversity loss and drive sustainable development for all.

Charlotte Weston – Sustainability, Clients and Markets Leader, EMEIA Public Policy, EY

Achieving sustainable climate finance requires a comprehensive and collaborative approach that engages all stakeholders, including governments, the private sector, financial institutions and development agencies. Central to this effort is the strategic use of limited government budgets to de-risk climate finance and mobilise investments for sustainable initiatives. By prioritising funding towards mechanisms that mitigate potential losses for investors and enhance the overall bankability of climate initiatives, governments can create a more favourable investment landscape that attracts private sector participation. Effective allocation of public funds can catalyse private investments, ensuring that climate finance flows to projects that yield both ecological and economic benefits.

The private sector also has an active role to play. Private organisations and accelerators can provide technical assistance to align project structures with investor expectations and work closely with financial institutions to collaboratively adapt investment requirements, taking into account the unique characteristics of the green sector. The public and private sector can work together to create platforms for innovators to connect with investors and improve the visibility of project pipelines and to aggregate project opportunities to enhance their investability. Regarding neglected sectors such as nature conservation and restoration, financial institutions should also amplify the use of mechanisms to fund less attractive nature-based solutions such as nature-focussed sustainability funds, ESG-linked loans or biodiversity offset funds.

This alignment is crucial for ensuring that climate finance flows to where it is needed most. As the urgency for climate action intensifies, it is imperative for governments to maximise the impact of available budgets and deliver effective, efficient finance in partnership with the private sector. The rising costs and disruptions caused by natural disasters, which have resulted in over $200 billion in global economic losses in 2023 alone, underscore the critical need for immediate action. By aligning financial incentives with ecological outcomes and fostering a collaborative ecosystem, we can pave the way for a resilient future that harmonises economic growth with the preservation of our planet’s natural resources.

Annex

Pull Finance typologies and examples of application

Pull Financing Mechanism	Category	Who Provides It	Market-Based/ Non-Market-Based	Example/Application
Pull Financing Mechanism	Category	Who Provides It	Market-Based/Non-Market-Based	Example/Application
Contracts for Difference (CfD)	Revenue certainty for low-carbon products	Governments	Market-based	CfDs for offshore wind projects or SAF (Sustainable Aviation Fuel)
Carbon Contracts for Difference (CCfD)	Revenue certainty linked to emissions reductions	Governments	Market-based	CCfDs for industrial decarbonisation projects (e.g., green steel, e-fuels)
Advance Market Commitments (AMC)	Guaranteed demand once technology is delivered	Governments/ Private Coalitions	Non-market	Gavi AMC for vaccines; could apply to SAF, DAC carbon removal
Public Procurement Contracts	Direct purchase agreements from governments	Governments	Non-market	Public sector commitment to buy zero-emission buses, green cement, green hydrogen
Private Sector Offtake Agreements	Corporate pre-purchase or long-term contract	Private Sector	Non-market	Microsoft advance purchase of DAC carbon credits
Emissions Trading System (ETS) Revenue Recycling	Support linked to market carbon price outcomes	Governments	Market-based	Using ETS revenues to fund low-carbon projects (e.g., Innovation Fund EU)
Minimum Price Guarantees (Floor Price Commitments)	Guarantees a minimum sale price for products	Governments or Corporate Buyers	Market-based	UK's planned carbon floor price support for hydrogen
Buyer Alliances/ First Movers Coalition	Corporate pledges to create demand for clean technologies	Private Sector	Non-market	Amazon, Microsoft, Apple pre-committing to green steel, green fuels, DAC credits
Green Procurement Standards	Policy-driven purchasing rules for low-carbon products	Governments/ Public Sector	Non-market	EU Green Public Procurement criteria for construction and transport

Further reading

EY Articles

EY. (2024) COP 29: A summary of Finance Day for financial services. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/industries/financial-servicesemeia/documents/ey-cop29-summary-for-financial-services-following-finance-day-2024.pdf

EY. A new economy: Exploring the root causes of the polycrisis and the principles to unlock a sustainable future. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/climate-change-sustainability-services/documents/ey-gl-neu-a-new-economy-report-05-2024.pdf

EY. The climate and nature agenda. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/sustainability/documents/ey-gl-the-climate-and-nature-agenda-key-developments-shaping-2025-and-beyond.pdf

Other Articles

Atlantic Council (2023) Guarantees 2.0: Meeting climate finance needs in the Global South

https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/guarantees-2-0-meeting-climate-finance-needs-in-the-global-south/

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IIGCC. (2025). The UK as a Climate Finance Hub: Unlocking capital from Institutional Investors towards Emerging Markets and Developing Economies. https://www.iigcc.org/hubfs/2025%20resources%20upload/The%20UK%20as%20a%20Climate%20Finance%20Hub%202025%20report.pdf

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World Bank (2023). Scaling Up to Phase Down: Financing Energy Transition in Developing Countries. https://www.worldbank.org/en/news/press-release/2023/04/20/scaling-up-to-phase-down-financing-energy-transition-in-developing-countries

Online Resources

Climate Policy Initiative. CPI's Climate Finance Tracking Program provides the most comprehensive data and insights into finance flows and supporting climate change mitigation and adaptation outcomes. https://www.climatepolicyinitiative.org/the-programs/climate-finance-tracking/

Climate Policy Initiative. (2024). Accelerating Sustainable Finance for Emerging Markets and Developing Economies. https://www.climatepolicyinitiative.org/publication/accelerating-sustainable-finance-for-emerging-markets-and-developing-economies/

Climate Policy Initiative. (2024). Global Landscape of Climate Finance 2024. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2024/

Climate Funds Update. Data Dashboard. https://climatefundsupdate.org/data-dashboard/

World Bank Group. State and Trends of Carbon Pricing Dashboard. https://carbonpricingdashboard.worldbank.org/

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Whilst the world has made significant improvements to eradicate poverty in recent decades, approximately 700 million people still live on less than US$1.90 a day. Developing nations face wide-ranging challenges, from poor infrastructure and low economic development to rapid population growth and skills gap.

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Key contacts

Marco Duso
EY Partner, Climate Tech
marco.duso@parthenon.ey.com

Charlotte Weston
EY Sustainability, Clients and Markets Leader, EMEIA Public Policy,
charlotte.weston@uk.ey.com

Mark Wesley
EY Partner
mwesley@uk.ey.com

Joe McQuaid
EY Partner
jmcquaid@uk.ey.com

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