

Unlocking Scale For UK Climate Tech

A Practical Blended Finance Proposal

Carbon Limiting Technologies
May 2026



Scaling UK Climate Tech Using Blended Finance - Executive Summary

The UK has over 2,600 climate technology-oriented start-up and scale-up companies in operation, building on world-leading research to innovate and commercialise new solutions to address the climate crisis. These solutions play a crucial role in supporting the UK to meet its legal commitment to reaching net zero emissions by 2050, with the IEA forecasting that ~35% of emissions reductions will come from technologies which are not yet deployed to market. In addition, scaling these technologies enables the UK to realise the strategic and economic benefits of commercialising innovation.

Climate tech scale-ups are capex-hungry

Scale-up companies face significant challenges in accessing the capital they require to reach commercial maturity. Whilst the UK has strong support for early-stage companies via grant and venture capital funding, once technology is ready to be deployed at first commercial scales, suitable funding is scarce. Climate technologies are often highly capital-intensive to scale, with requirements of £25-100M+ to build manufacturing facilities, well above the cheque sizes venture capital funds are able to deploy. Yet, technical and engineering risks are still high, and this capital is required pre-revenue, ruling out debt financing. As a result, UK climate tech start-ups are struggling to commercialise, preventing their vital technologies from unlocking emissions reductions, or are moving operations overseas to secure capital.

Private capital needs incentive to invest due to climate tech risk profile

Research initiated and overseen by Innovate UK and delivered by Carbon Limiting Technologies highlighted that there is a need to incentivise institutional investors to deploy more capital into climate-focussed VCs, particularly for Series B-C-oriented funds, to increase the volume and magnitude of deal-flow into the sector whilst ensuring that investment decisions are made by experts. In order to enable institutional investors to allocate capital to unlisted equities, a funding

vehicle which enables large-scale deployment into a diverse, flexible fund providing market-rate returns and a clear route to liquidity is required.

Blended finance has the potential to mobilise capital at scale

The research led to an illustrative example vehicle where public investment is deployed as a cornerstone investment into a large-scale umbrella fund, whilst also providing a guarantee on institutional capital invested into the fund. The funds would then be distributed between equity, topco debt, and project debt funds by expert fund managers to provide climate start-ups and scale-ups with flexible scale-up financing. Crucially, the fund also uses public and philanthropic funding to provide technical and commercial assistance to these companies, in the form of a FOAK Builder programme, to de-risk operations and accelerate progress.

A coalition for action is the next step to support progress

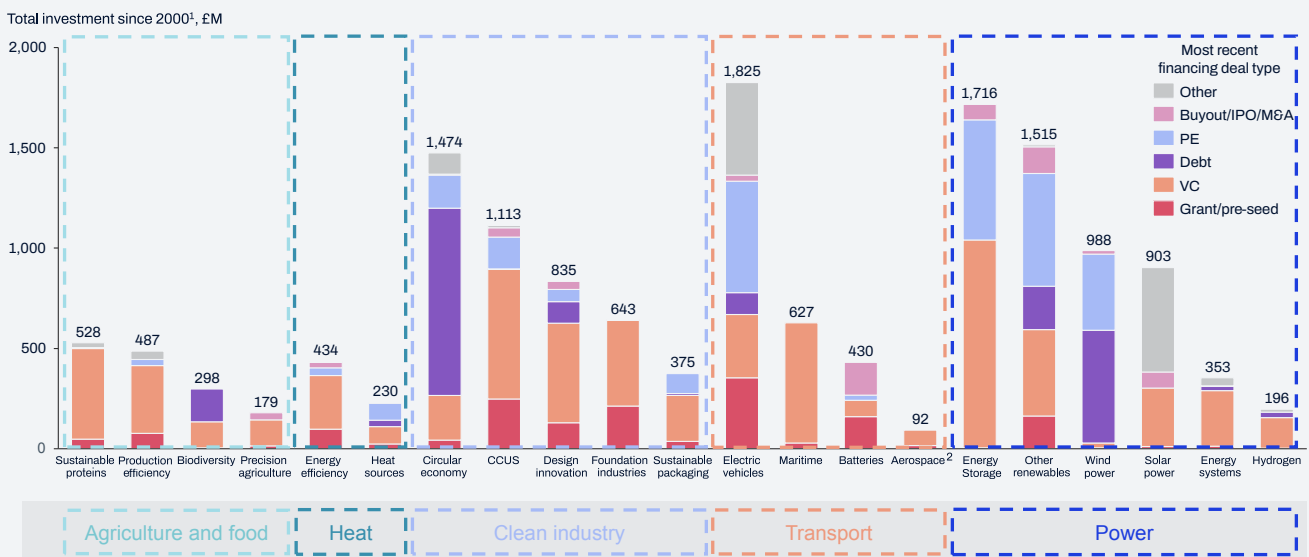
Since this research was completed, Innovate UK have begun detailed design of the FOAK Builder programme, with the formal launch planned for summer 2026, and are now establishing a Coalition of Interested Investors to promote the need for a scale-up fund. This coalition will bring together institutional and specialist investors to complete a detailed co-design phase to produce a final fund proposal whilst securing support for the fund from government.

The UK needs a thriving climate technology innovation landscape

The UK has an ambitious, legally-mandated plan to reach Net Zero emissions by 2050, in line with the international target of maintaining a maximum of 1.5°C of global warming above pre-industrial levels^[1]. However, current policies and action against the domestic decarbonisation pathways outlined in government strategy is currently rated as Insufficient by the independent assessment body Climate Action Tracker^[2], with more aggressive progress required to meet both Net Zero targets and 2030 NDCs. Whilst some of the emissions reductions required will come from continued expansion of renewables and other more mature technologies, the International Energy Agency has shown that approximately 35% of CO2 emissions reductions required to reach Net Zero by 2050 must be delivered by technologies which are not yet deployed at commercial scale^[3].

The UK climate technology innovation ecosystem encompasses a wide range of technologies across industrial sectors, from renewable energy production to clean chemicals and sustainable aviation fuels. There are over 2,600 UK-headquartered climate-oriented start-up and scale-up companies in operation across a range of hardware and software products^[4]. These innovations have the potential to support industries across the UK to become more efficient and reduce their CO2 emissions. However, an assessment of the funding received by these companies highlights a varied picture across sectors – some technologies, like renewables and electric vehicles, are highly commercially mature, whilst others are struggling to progress beyond preliminary technological feasibility.

¹ Climate tech in the UK covers a broad range of sectors, some of which have commercialised successfully, but many have not progressed beyond early-stage venture capital funding



¹ Data sourced from Pitchbook

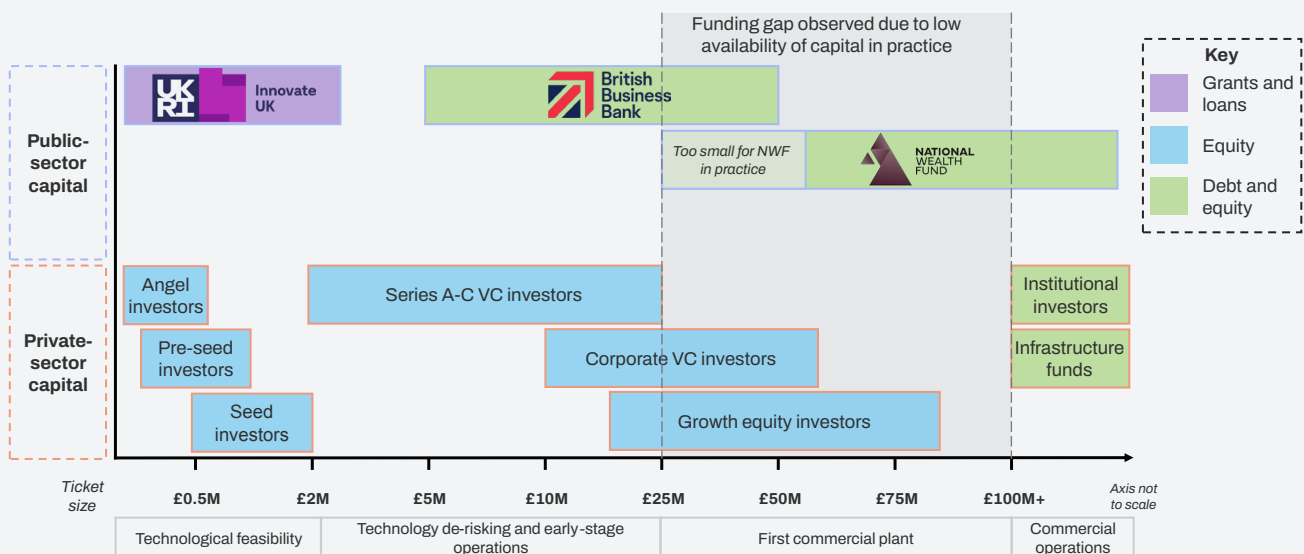
Funding is available for UK innovation, but it doesn't go far enough

Climate tech businesses have several characteristics that have restricted their access to growth funds, compared to start-ups in other sectors:

- They typically involve an engineering or hard-tech component which is scientifically complex and capital-intensive to scale – software-based businesses operate under conditions much more acceptable to VC investors
- Technologies have long development times, with years of research required to develop a viable product which reliably meets precise standards
- They tend to be highly novel and innovative, making it harder for investors to develop a deep understanding the product and conduct the necessary technical due diligences
- Identifying a suitable business model and viable market can be challenging and reliant on regulatory drivers, increasing revenue uncertainty

Unlike other novel technologies, climate tech solutions also typically need to go through extensive testing and demonstration at increasing scales and in progressively more “real life” environments in order to sufficiently derisk an eventual commercial offer. This journey requires development of pilot and demo-scale plants to de-risk the technology under operational conditions before scaling up operations and progressing towards manufacturing at commercial scale, usually via the development of a First-Of-A-Kind (FOAK) industrial plant. Once the FOAK plant is complete, production can then be expanded via conventional corporate financing routes. A number of private and public-sector financial institutions already exist to provide funding during the scale-up journey, but in practice there is a gap at the FOAK stage where capital is not readily available.

The UK innovation funding landscape is broad, but in practice a funding gap remains at the FOAK stage



A funding gap is preventing progress at the scale-up stage

The First-Of-A-Kind stage refers to the first deployment of a technology on commercial operating terms – often requiring development of a full manufacturing facility or production plant. Successfully completing these projects allows companies to evidence successful operations at scale and secure product offtake, acting as a key enabler to unlock large-scale project finance for future expansion. However, the unique profile of capital requirement and risk at FOAK stage means, despite a diverse ecosystem of funding providers in the UK, many companies fail to secure funding.

Securing the right finance these projects is challenging for the following reasons:

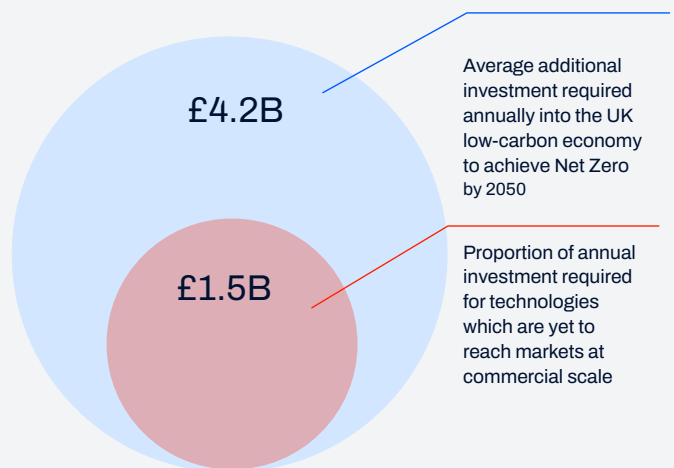
- **Magnitude of capital required is high**
 - Establishing commercial-scale manufacturing operations generally costs upward of £25M, and costs of over £100M are not unusual. This goes well beyond the standard capital availability of climate tech VC investors in the UK
- **Technology and engineering risk remains high**
 - Whilst the technology has been proved at pilot stage already, scaling up to industrial volumes under new operating conditions introduces new risks. This level of risk means mature infrastructure funds usually cannot invest
- **Lack of proven offtake**
 - Companies have usually secured preliminary trial-volume offtake before constructing a FOAK plant, but at-scale offtake is generally not achieved. Without evidence of offtake, most debt providers are unable to provide capital
- **Uncertainty around business model**
 - Climate tech start-ups often have highly technical founders, with limited commercial experience. Novel technologies don't always have clear paths to revenue whilst key operating assumptions, such as whether to pursue direct sales or a licensing-based model, can significantly alter expected revenues and thus return on investment
- **Complex markets**
 - The technologies being developed are often highly scientifically complex and challenging for less specialist investors to fully understand. Additionally, policy and regulatory environments can change rapidly, altering commercial viability of the technology

The scale-up funding gap is stifling commercial progress

The impacts of this funding gap on innovative climate tech start-ups are clear – although there is a strong pipeline of early-stage ventures in the UK, as well as a large number of specialised, climate-oriented Seed-Series A VC investors, deal flow drops off dramatically at Series B and beyond. Recent research by World Fund showed that for 2015-2024, European climate tech companies raised 68% of the funding that US companies raised at breakout stage (\$15-100M), falling to just 43% for scale-up rounds (\$100M+). They also found that UK climate tech companies have one of the smallest average Series B rounds amongst comparable economies, at \$25.7M, compared to \$55.7M for Germany, \$45.5M for the US, \$41.7M for France, and an average of \$35.2M across Europe and Israel [6].

This failure to invest in scaling up the UK’s climate tech start-ups matters. If sufficient funding does not flow into these businesses, the UK will be unable to meet its climate targets. It will also miss out on the competitive advantages of being at the forefront of delivering commercial solutions to a future global market. In addition, more scale-ups means more jobs and more opportunities to support economic growth. PWC’s Green Jobs Barometer found that, in 2024, the green jobs multiplier rose to a record high, with jobs rising across every region of the UK and every 10 green jobs creating 27 additional jobs [6]. A number of companies have also reported receiving substantial offers of international investment, conditional on moving operations overseas and preventing the UK from reaping the rewards of its strengths in research and early-stage company development. Addressing these issues is therefore critical to sustainable, successful growth of the UK economy.

Research presented in the Climate Change Committee’s Seventh Carbon Budget shows that an average net investment of approximately £4.2B per year in additional capital for decarbonisation solutions, on top of investments already being made, will be needed from now until 2050 for the UK to meet its Net Zero commitments [7]. While a substantial proportion of this capital will be required for technologies which have reached commercial maturity, such as offshore wind, the International Energy Agency has shown that approximately 35% of CO2 emissions reductions required to reach Net Zero by 2050 must be delivered by technologies which are not yet deployed at commercial scale [9]. Therefore, it is estimated that additional investment in the range of £1-2B per year will be required to support the commercialisation of UK climate tech.



Diverse challenges currently prevent closure of the funding gap

It is clear that the funding gap for climate tech, particularly for FOAK-stage scale-ups, needs to be addressed. However, engagement with stakeholders across the funding landscape highlighted a diverse set of challenges which currently prevent capital deployment at scale.

Stakeholder	Key Investment Challenges
Specialist Private Investors (e.g. VCs)	<ul style="list-style-type: none"> • Climate tech perceived as complex, capital intensive and difficult for non specialists to assess • Fund sizes are not adequate to provide magnitude of capital required whilst remaining diversified • Risk profile of FOAK-stage projects is high, particularly when compared to long timeframes to potential returns • Uncertainty around viability of business model and offtake • Unclear exit pathways • Policy and regulatory uncertainty reduces risk appetite • Partnership with public-sector investors seen as administratively burdensome compared to independent investment
Institutional Investors (e.g. Pension Funds)	<ul style="list-style-type: none"> • Lack of sufficiently large, diversified and standardised investment vehicles • Limited familiarity with climate tech asset classes • Rigid mandated requirements around risk tolerance and return profiles • Difficulty aligning long term climate tech investment horizons with existing mandates
Government & Public Investors	<ul style="list-style-type: none"> • Insufficient public capital to support climate tech companies as they scale to commercial volumes • Difficulty designing investment vehicles that meet public value for money requirements and commercial investor expectations • Legacy concerns over value for money from past public-private initiatives (e.g. PFI)

Stakeholder	Key Investment Challenges
Climate Tech Start ups	<ul style="list-style-type: none"> • Financing horizons required (>10 years) exceed most investors' timeframes • Unproven business models limit access to debt while equity dilution is unattractive to founders • Weak financial, commercial and project delivery expertise in early stage teams • Limited experience in scaling capital intensive infrastructure and FOAK projects • Gaps in commercial, financial and governance capability (e.g. CFO, NEDs) • Limited access to customers, offtakers, and industry insight at early stages
Insurers & Risk Providers	<ul style="list-style-type: none"> • Limited familiarity with novel climate technologies and FOAK projects • Lack of standardised data, protocols and benchmarks to price risk accurately • Poor early engagement with technology developers and project sponsors
Project Developers & Offtakers	<ul style="list-style-type: none"> • Insufficient certainty of demand for novel climate technologies • Lack of proven contractual and market support mechanisms (e.g. AMCs) • Difficulty securing affordable insurance and risk mitigation
Wider Climate Tech Market / Ecosystem	<ul style="list-style-type: none"> • Public investment not crowding in private finance at sufficient scale • Lack of shared playbooks, data and standard approaches for scaling companies • Fragmented expertise, networks, and knowledge across sectors



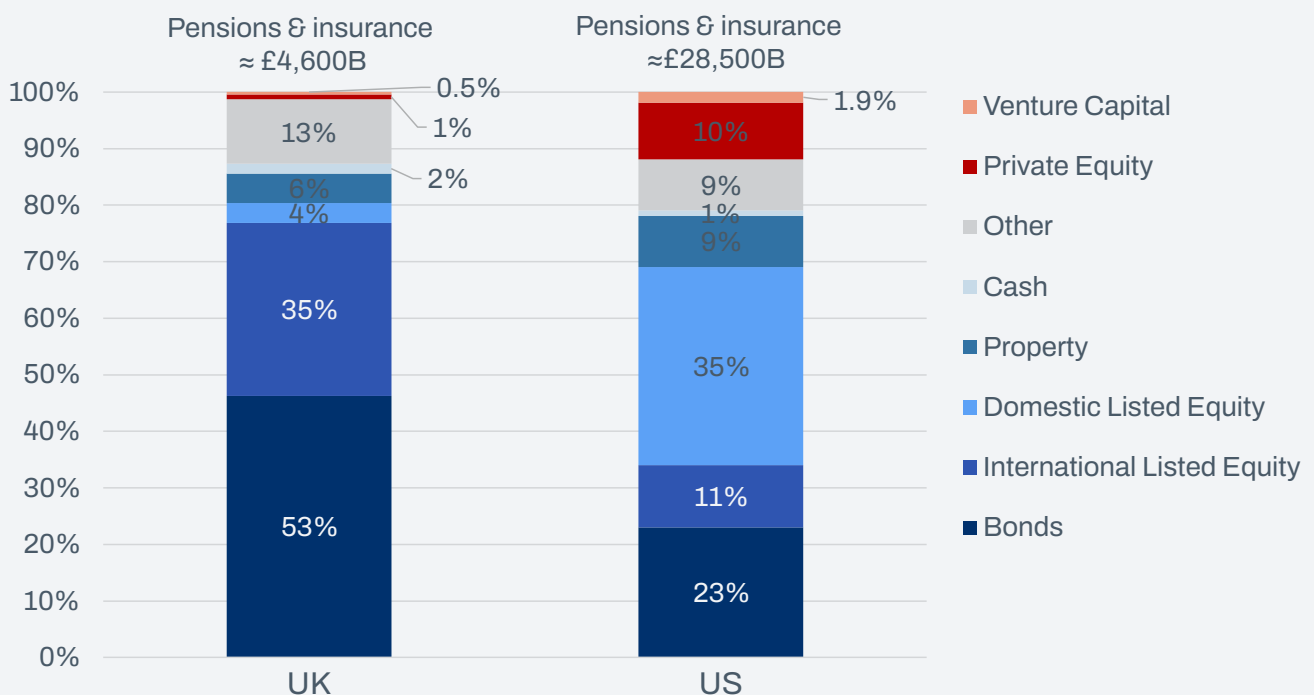
A lack of suitable investment capital is a key driver of the funding gap

All of the investment challenges faced by stakeholders must be addressed for the ecosystem to thrive. However, the critical bottle-neck is a lack of high-magnitude, risk-tolerant scale-up capital, deployed by specialist investors. There are a number of specialist climate tech investors in the UK, but many focus on Seed and Series A investments, and most are unable to invest beyond Series B. This is predominantly because UK funds are smaller than their international equivalents, particularly when compared to the US, and must therefore make smaller investments to remain adequately diversified.

The LPs for these funds are typically institutional investors like pension funds and insurers, looking for higher-risk, higher-return exposure for their portfolios. Currently the deployment of UK institutional capital into unlisted UK equities is very low, at ~1.5% of total capital^[8], with ~0.5% of this going to venture capital specifically^[5]. Countries with stronger funding into climate-tech scale-ups, like the US, have much higher investment into unlisted equities. Therefore, there is an opportunity to bridge the “missing middle” funding gap by using public-sector capital to incentivise and support institutional investors to deploy capital into unlisted UK equities, unlocking a larger proportion of the £4,600B pool of institutional capital available.

Institutional capital, predominantly from pension and insurance funds, is invested much more conservatively in the UK compared to the US, with substantially lower deployment to private equity and venture capital






Allocation of institutional capital by asset class



² Data sourced from New Financial, the Federal Reserve System, the National Association of Insurance commissioners, and Wellington Management

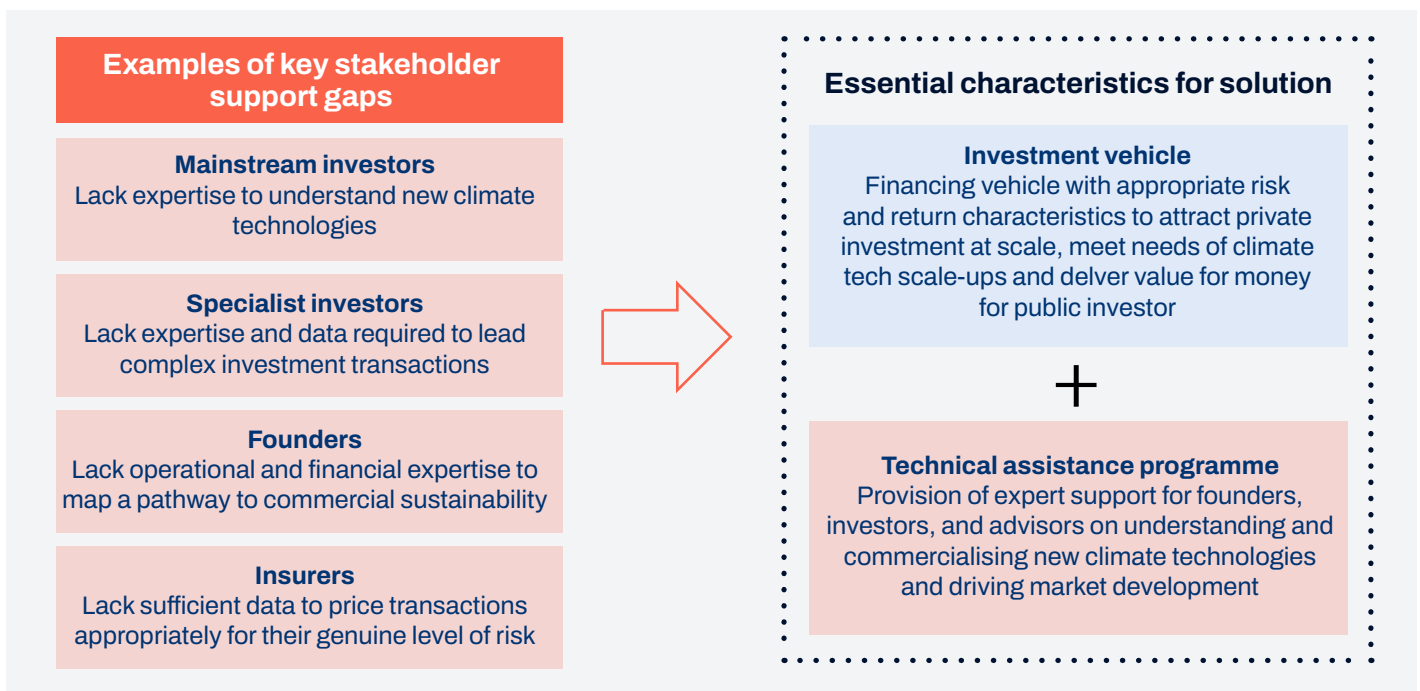
The needs of institutional investors must be met to unlock progress

Any proposed solution to the funding gap must meet the needs of the stakeholders involved. Engagement with institutional and specialist investors suggested that a credible solution to the climate tech funding gap must address six critical issues to tackle the failures of the current market whilst supporting investors to meet the mandates of their funds and their commitment to shareholders, which are as follows:

 <p>Scale</p> <p>Large enough to meet minimum ticket size for institutional investors and needs of climate tech scale-ups</p>	 <p>Diversification</p> <p>Diversified to reduce the risk of investment in nascent technologies</p>	 <p>Flexibility</p> <p>Able to provide the right type of capital with an appropriate time horizon for climate tech scale-ups</p>	 <p>Return</p> <p>Able to deliver a market-rate return for institutional investors</p>	 <p>Value for money</p> <p>Uses public funds appropriately and effectively to deliver value for money to the taxpayer</p>	 <p>Liquidity</p> <p>Provides clear exit routes for public and private investors, as well as investee companies</p>
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In addition, a consistent theme during testing and validation of potential solutions was that other gaps beyond funding need to be addressed. These gaps relate to expertise, knowledge, and data.

To address these gaps and support investees and investors to better navigate a pathway to financial and commercial sustainability, it became clear that a technical assistance programme is necessary to complement any funding solution.

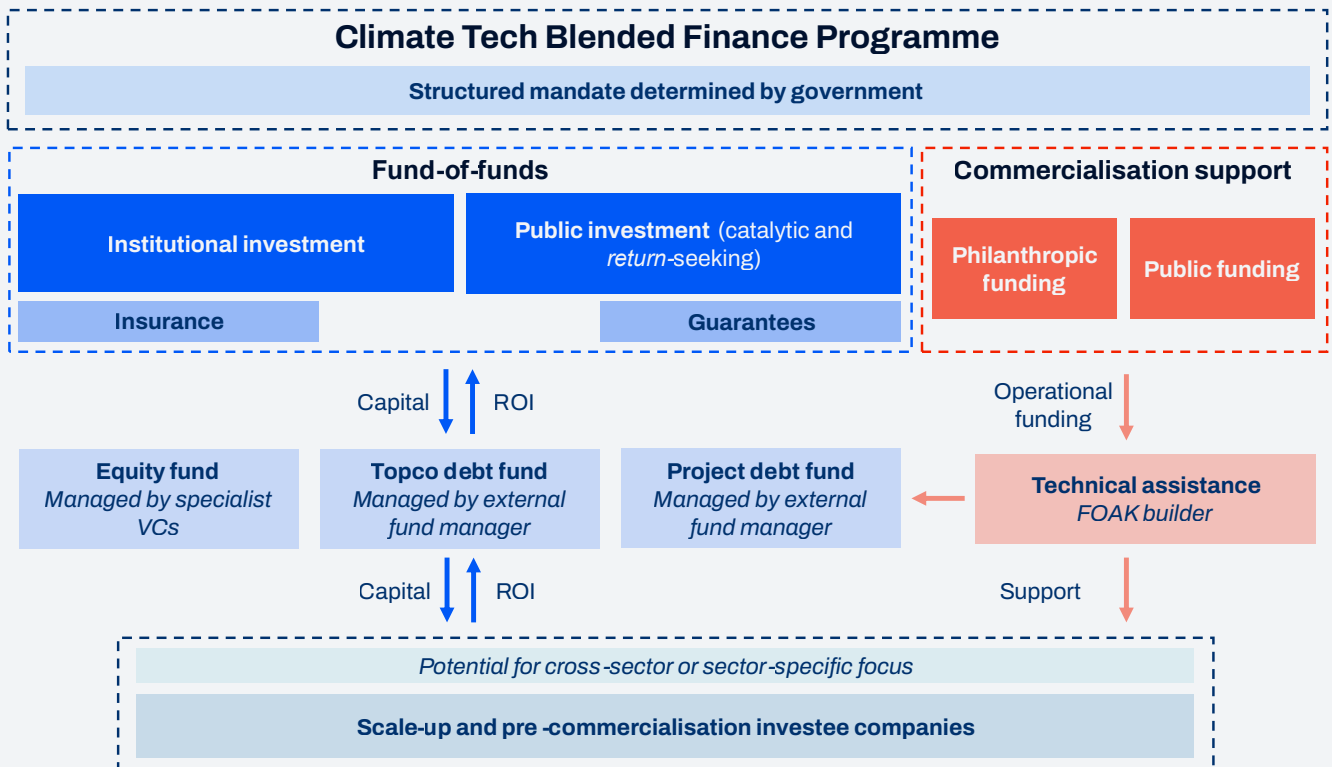


An umbrella vehicle effectively meets investor needs

In designing a solution that deploys public sector capital to tackle the challenges facing the climate tech ecosystem, the model which best addresses the funding gap and was most favoured by investors and entrepreneurs was an “umbrella” vehicle which pools public and private-sector investment ^[9]. This type of pooled structure would provide an appropriate level of diversification and scale to allow mainstream institutional investors to allocate capital into it which would then be invested in partnership with specialist venture capital firms into climate tech businesses and projects.

The fund should be designed to provide flexible capital, either equity or debt, depending on the requirements of the climate tech sector or business. Both public and private investors would expect a market-competitive financial return from their equity and debt investments. However, the public investment element will likely contain one or more concessionary characteristics, for example, a first-loss component or, in the case of debt, longer or otherwise more lenient payment terms. The exact nature of the concession should be developed during a detailed design phase of the vehicle, which would be a collaborative process involving the relevant public and private stakeholders. Evidence has shown that this is a key factor for success when designing and implementing such a programme ^[9].

Outline structure of a blended finance fund which addresses key investment barriers for UK climate tech



The umbrella fund would use public investment as catalytic capital to attract private investment at a target leverage ratio of 1:6, i.e. each £1 of taxpayer money would aim to catalyse an additional £6 of commercial capital. Research suggests that a minimum fund size of £900M is required to bridge the funding gap experienced by climate tech scale-ups in the UK (i.e. 30 investments of £30M each) and ideally much higher. This is one reason why it is so critical to design a vehicle which will attract scale investment from asset owners and managers with large pools of capital under management such as pension funds.

The fund would be governed by a mandate decided by the relevant government actors, including HM Treasury, and supported by an appropriately robust governance structure. Ideally it would be housed and managed independently of central government, for example in the National Wealth Fund or the

British Business Bank, in order to ensure transparency, particularly around performance.

Preliminary impact modelling highlights attractive returns for all stakeholders. A fund of £900M would require a nominal capital requirement of £247M from the public sector to cover both catalytic investment and the cost of administration and technical assistance, whilst bringing in a further £771M of investment from the private sector. Over ten years, this fund would provide highly attractive returns to both private investors and the public sector, including a forecast GVA to the economy of £839M (£484.6M discounted). Increasing the number of scale-up companies remaining operational in the UK is also forecast to secure an additional ~7,600 jobs, as well as a wide range of other benefits including improved technological sovereignty, alignment with key Modern Industrial Strategy and Net Zero policy ambitions, and retention of UK talent and expertise.

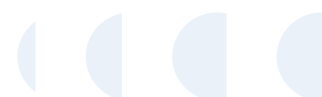
Modelling of the structure and forecast returns for the proposed fund indicates strong incentive for both public and private sector participation

Fund	Nominal capital invested, £M
Equity fund	-300.0
Topco debt fund	-150.0
Project debt fund	-450.0
Additional public-sector cost	-117.9
<i>Guarantees</i>	-113.3
<i>FOAK builder</i>	-2.5
<i>Administration cost</i>	-2.2
Total	-1,017.9
Public sector	-246.5
Private investors	-771.4

Private sector returns	Rate of return
Equity fund	19%
Topco debt fund	18%
Project debt fund	12%

Public sector returns	Nominal return, £M	NPV of return, £M
Equity fund	167.2	97.0
Topco debt fund	22.1	14.0
Project debt fund	37.0	19.3
Additional public-sector cost	-117.93	-92.4
Total return	108.4	37.9

Fund element	Nominal GVA, £M	NPV of GVA, £M
Equity fund	268.2	241.1
Combined debt fund	571.2	243.4
Total return	839.4	484.6



A programme of technical and commercial support is also required

The barriers for climate tech start-ups to access investment capital – both public and private – span a range of issues and simply increasing the amount of capital directed into the sector will not adequately address these barriers. Commercialisation requires not just more investment alone, but also better skills, tools and relationships. To be successful, any blended finance programme needs to include a number of non-investment features which address the needs and, in some cases, knowledge gaps, of the different stakeholders involved.

One of the fundamental challenges is a lack of familiarity and therefore effective communication of priorities and requirements between the different stakeholders in the investment chain, whether climate tech founders, specialist private investors, public investors such as government agencies or departments, asset owners such as pension funds, and supporting actors including insurers, lawyers, and advisors. One specific example is that insurers, both of real assets and of financial transactions, lack the necessary data to accurately price risk in climate tech sectors, resulting in unfairly highly priced insurance premiums offered by a small number of specialist insurers. Insufficient or fragmented data and lack of expertise in climate tech also drives a misperception of risk by non-specialist investors, which discourages them from allocating to even fast-growing climate tech start-ups.

Meanwhile, founders tend to have a highly sophisticated understanding of their technology but are less experienced in a range of operational needs as their businesses grow, including operational planning, project development, attracting and retaining the right talent, and identifying a pathway to commercial sustainability. Founders' ability to present their businesses as realistically investable propositions to a range of funders at the scale required is a particular weakness identified by the research. There is a clear need for more robust knowledge transfer to establish an ecosystem of scaling support, sharing best practices for FOAK projects as well as second-of-a-kind and additional projects further along the development path.

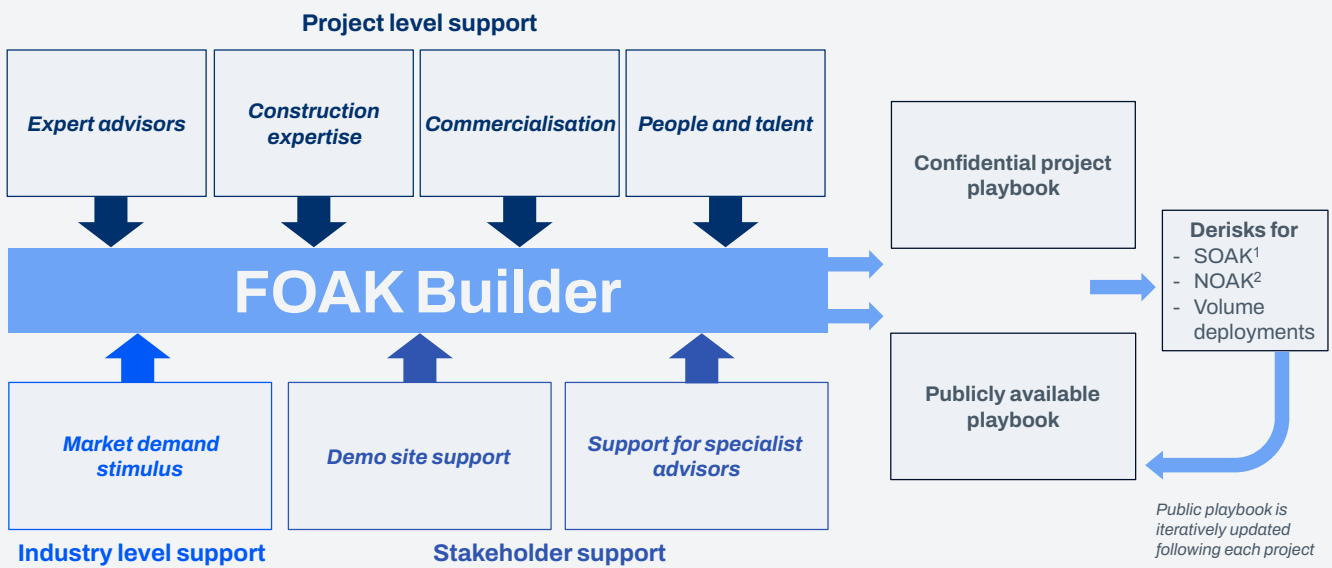
Broad technical assistance is therefore required both for the success of individual investments and the investment vehicle but also to support the development of a sustainable climate tech market in the UK, as expertise, knowledge, and performance track record are accumulated by different participating stakeholders. Whilst some technical assistance is already available to early-stage founders, particularly through strategic grant funding and accelerator programmes, there is a need for more thorough later-stage commercialisation support for scale-ups, as well as potential to utilise knowledge better to support investors and other stakeholders.

Through engagement with climate tech start-ups, investors, and supporting actors, a range of technical assistance needs were identified. These included:

- Support for founders in developing commercially viable business plans and strategies, for example by providing a fractional Chief Financial Officer
- Support to establish a commercial plant through identification of potential Engineering, Procurement, and Construction (EPC) partners and advice on site selection, supply chain, and legal considerations
- Standardised offtake contracts and demand aggregation
- Identification of potential corporate partners and customers at an early stage of technology development, and thus better assessing commercial viability
- Raising the expertise of non-specialist investors, whose limited knowledge of climate tech currently discourages them from investing in unfamiliar opportunities
- A data bank of information to enable insurers to price the risk of underwriting new technologies appropriately
- Better data collection and dissemination to aggregate fragmented data whilst ensuring stakeholder privacy and IP protections
- Advance market commitments and other market pull mechanisms to support the demand for new innovations

A FOAK Builder concept could provide project and industry-level support to deliver this range of technical assistance to investee companies, public and private investors, and other associated stakeholders, such as lawyers and insurers.

Outlined requirements for a FOAK Builder which addresses commercialisation challenges by providing project, stakeholder, and industry-level support to climate tech start-ups and scale-ups



Engagement with investors indicates strong feedback for the proposal



This is exactly what we need. We're interested in the opportunity to co-design this fund.

Institutional investor



The flexibility in the umbrella fund is key, and the provision of guarantees could unlock quite a lot of capital. This would be genuinely interesting to us.

Corporate VC investor



I really like that a single fund manager would be able to support their portfolio with different types of product – this is the right capital stack design.

Specialist VC investor



The support offered through the FOAK Builder is foundational – there's a big gap here. If the government can establish the facilitation of this support, that would be a good outcome.

Corporate VC investor



Appropriate scale, appropriate diversification, more than just capital – this is a no-brainer for big pools of institutional capital.

Institutional investor



The FOAK Builder is great – there is a really big gap in knowledge around identifying EPCs and setting up commercial plants. Most start-ups don't know how to do this.

Growth investor



I love the first-of-a-kind loan aspect – it should be a key component within the umbrella fund structure. This could be really quite catalytic.

Specialist VC investor



The guarantees in this structure are important. They help take some risk off the table, which makes it much easier to price capital efficiently. One of the biggest challenges is getting comfortable with how to price equity and risk in these early-stage projects.

Institutional investor



This fund would be truly catalytic.

Growth investor

Next steps

FOAK Builder

Acting on clear market need, as a result of this work and other engagements, Innovate UK has begun the design process to launch a custom FOAK Builder programme to market. The programme will be overseen by Innovate UK and delivered by an expert delivery partner to support high-potential FOAK-stage companies in the UK de-risk and prepare to secure scale-up capital. The programme's capabilities will include:

- Project definition, front-end engineering design, and technology readiness support, including EPC/EPCM strategy
- Site and planning support, with access to planning and permitting authorities and guidance on stakeholder and community engagement

- Risk identification, mitigation, and allocation, insurance support, and residual risk management
- Commercial strategy, offtaker and supplier engagement, and counterparty readiness
- Capital structuring and financing readiness
- Operational and maintenance readiness
- Team, governance, and board capability
- Knowledge-sharing, learning, and replication

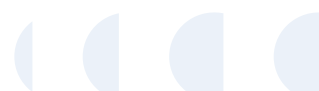
The programme is currently in the final design stage, with procurement for delivery due to begin by the end of H1 2026.

Coalition of Interested Investors

In order to ensure that the blended finance fund proposed in this paper meets the needs of stakeholders, Innovate UK are also establishing a 'Coalition of Interested Investors'. This coalition will bring together relevant institutional and specialist investors to:

- Understand exact requirements for future investment into a climate tech scale-up fund e.g. alignment with internal KPIs, internal approval
- Complete detailed co-design phase to develop a final fund proposal
- Demonstrate clear demand to government and secure ministerial support for the proposed fund

The commitment required would be to attend ~3-4 collaborative working group sessions, hosted by Innovate UK, over the next six months. If you would like to join the coalition, please reach out to Sarah Tennison (Head of Clean Growth Strategy and Impact at Innovate UK) on sarah.tennison@iuk.ukri.org



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About Innovate UK



As the UK's innovation agency, Innovate UK backs the nation's most promising deep tech businesses in the UK's priority sectors: providing the funding, expert support, connections, and capital pathways that help them start, scale and stay in the UK. Since its formation in 2004, Innovate UK has granted over £7.7B to more than 1,500 innovative UK-based climate technology companies.

About CLT



CLT is an innovation consultancy committed to identifying and solving the most complex decarbonisation challenges. We provide bespoke commercialisation support for clean technology start-ups, working closely with Clean Growth Fund, our partner VC, and have worked with hundreds of entrepreneurs to turn pioneering ideas into reality. We have also supported national and regional governments in shaping policies that drive clean growth and collaborated with corporate partners to implement sustainability commitments and accelerate the adoption of clean technologies.

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