



Understanding the Climate Finance Gap: 2026 Update



October 2026

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Authors

Emily Spittle

Advisory Team

espittle@creosyndicate.org

Alex Smith

Advisory Team

asmith@creosyndicate.org

Owen Loudon

Investment Facilitation Team

oloudon@creosyndicate.org

Acknowledgments

This report continues a body of research originated by Featherlight Capital Ltd, which commissioned the initial 2024 edition to address the lack of data on private capital flows into climate. Featherlight is a GP anchoring platform that provides anchor capital and hands-on operational support to help emerging climate-specialist managers launch and scale. CREO thanks Rowan Finnegan, Patrick Lynch, Eoin Ó Hógáin and Tom Rotherham-Winqvist of [Featherlight](#) for their contributions to the research methodology. The current edition was carried out independently by CREO, and all opinions, analysis, and conclusions are solely CREO's own.

Executive Summary

Globally, climate finance has doubled in under a decade to \$2 trillion in 2025. This momentum has shifted the trajectory of warming from a ~3.6°C end-of-century trajectory in 2015 to ~2.7°C today. Despite progress, global climate finance still needs to scale 3-4x by 2030 to bring emissions in line with a trajectory toward net zero. Capital continues to concentrate in the Energy, Transport, and Built Environment sectors with technologies that are cost-competitive with higher-emission alternatives. Though funding is insufficient across all sectors, the scale-up required will be materially smaller in these sectors at 2-4x by 2030, compared to 25-80x scale-up needed in Industry, Agrifood, and Carbon Management. Public sector capital deployment has stagnated across regions, and it is the private sector that has stepped up and will be increasingly essential to accelerate the deployment of capital.

Mega-funds (>\$1 billion) continued to drive fundraising and have attracted ~65% of capital over the last five years. This is both wonderful news as capital is flowing into climate, but also a challenge as most sectors and early-stage rounds require smaller checks that these large funds are not well positioned to serve. Climate fund returns lagged the broader market by two percentage points over the period of 2010 - 2025 but are roughly at parity with the overall market in the Growth Equity, Private Equity, and Real Assets asset classes. Median net IRR returns in climate Venture Capital and Debt lag their all-market peers by 5p.p. and 2p.p., respectively. Debt's share of climate deals grew at double the rate of the overall market, while Private Equity continued to be left behind at just 9% of fundraising compared to 33% in the overall market. Emerging managers saw a resurgence with an increase in capital raised despite an overall contraction of climate fundraising. Dry powder sits above benchmarks for comparable sectors, presenting both a challenge and an opportunity to deploy more capital. Based on the data, current climate finance trends, and CREO's analysis and insights, we believe that there are five imperatives for climate investors:

1. **Get comfortable operating under geopolitical uncertainty:** Closing the finance gap means deploying capital in a policy environment that's only getting harder to predict. The US, EU, and China account for ~80% of climate capital flows; waiting to invest in these markets has a high opportunity cost. Investors who can stomach the risk may access material returns, instead of waiting for clarity that is unlikely to come.
2. **Prompt Private Equity to get off the sidelines:** PE remains significantly underrepresented in climate finance, but with returns in line with the overall market and more technologies reaching market readiness every year, the obstacles that kept PE on the sidelines may be softening. Rising interest rates, however, pose a challenge to investors as the cost of leverage compresses returns.
3. **Back mid-sized funds:** Climate funding faces a deployment mismatch, with 65% of capital absorbed by mega-funds over \$1 billion that typically write large checks, leaving the 80% of deals with checks under \$50 million relatively underserved. To deploy more capital to underserved segments, back the managers writing \$30 to \$50 million checks, sized for the companies that need to scale.
4. **Build risk transfer to unlock capital:** Large institutional asset owners collectively hold \$120 trillion+ in capital, yet many struggle to deploy against their climate mandates due to a lack of investment-grade opportunities. Building the risk transfer infrastructure to understand, segment, and transfer residual risk out of the capital stack

could unlock these funds that are currently sitting by, waiting to be deployed toward closing the climate finance gap.

5. **Continue disciplined investing, particularly in early stages:** Progress has been made on reducing inflated climate deal pricing. Deals attracting checks above \$100 million now trade close to parity with the overall market, but smaller deals where the check sizes are below \$100 million, remain at a 40% to 120% premium to the market. Disciplined investing, especially in early stages, can increase returns and bring climate in line with the market.

Introduction

Over the past decade, global advancements in technology, policy, and finance have created strong momentum in addressing the climate crisis. Yet, despite this progress, the world remains on a trajectory to exceed the widely cited 1.5°C threshold by ~2030 and, without further abatement, the 2°C threshold by ~2050^{1 2 3}. Addressing this significant challenge requires large-scale investment. CREO has analyzed private sector capital flows to better understand:

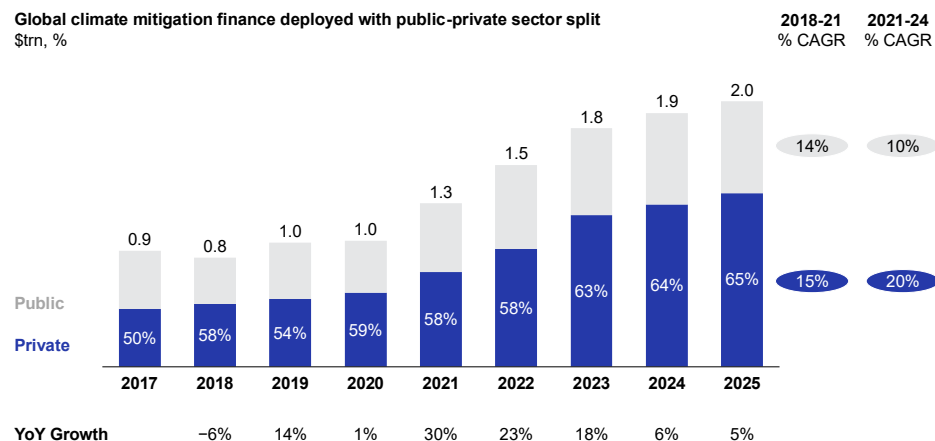
- The scale of the global climate finance challenge
- Sector-specific financing needs and opportunities
- Recent shifts in private capital flows
- Key imperatives for climate investors to close the funding gap.

This report summarizes the findings and offers guidance on the actions private investors and philanthropists can take to put the world on the path to a net-zero future. It builds on the initial 2024 report, [“Understanding the Climate Finance Gap”](#), commissioned by Featherlight Capital, and last year’s [“Understanding the Climate Finance Gap: 2025 Update,”](#) incorporating new insights from the global climate finance landscape and highlighting recent shifts in private capital flows.

The Global Climate Finance Challenge

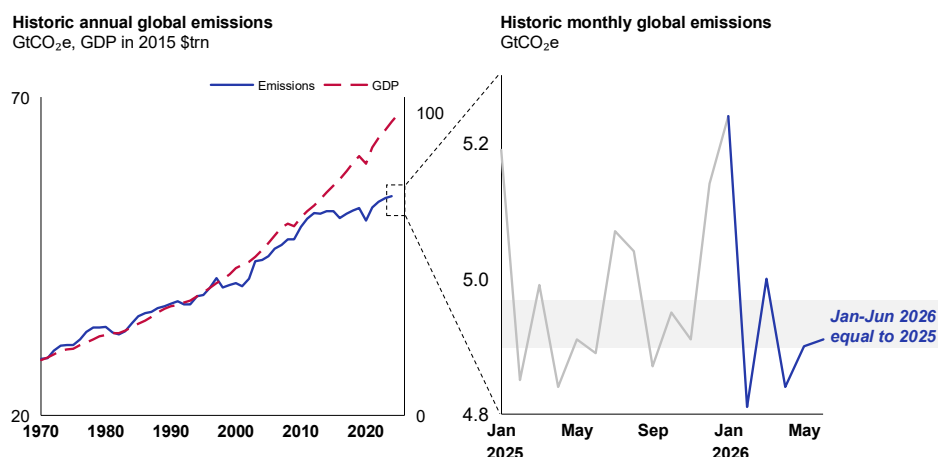
Climate finance has scaled materially over the past decade, approximately doubling to ~\$2 trillion in 2025 from ~\$0.9 trillion in 2017⁴. The private sector has played an outsized role in this progress, growing at a compound annual rate of ~20% since 2021 compared to ~10% for the public sector. This has increased the private sector's share of financing to approximately 65%, up from 50% in 2017.

Figure 1: Climate finance doubled to \$2 trillion in less than a decade⁴



Mitigation efforts and momentum in financing the energy transition have realized a measurable impact on global emissions and shifted the trajectory of warming. In 2015, when the Paris Agreement was signed, the world was on track for upwards of 3.6°C of global temperature rise relative to the pre-industrial baseline^{1 5}. A decade later, investment in the transition has reduced this trajectory to ~2.7°C^{1 2 3}. As Figure 2 illustrates, emissions growth has effectively decoupled from GDP growth, progressing toward a stabilization of annual emissions, with initial data showing 2026 emissions in line with 2025. This decoupling is not uniform across all regions, but as of 2025 applies to over 90% of the global economy⁶.

Figure 2: Mitigation efforts have decoupled emissions from GDP growth^{7 8 9}



There is much to celebrate in the continued growth of climate financing and realized impact on emissions, but the steady decline in the annual growth of capital from a high of ~30% in 2021 to just ~5% in 2025 is contradictory to the continued need for scaling. The world is not on track to limit warming below the Paris Agreement's stated "well below 2°C" goal, with an even greater gap to the widely accepted 1.5°C threshold¹⁰. The exceedance of the 1.5°C target does not, however, mean that mitigation efforts are in vain. In fact, the acknowledgment of falling behind this goal can be recognized as an opportunity to redouble efforts and limit warming as much as possible while the window to stay "well below 2°C" remains.

Figure 3: Global emissions on trajectory to ~2.7°C end-of-century warming¹⁵

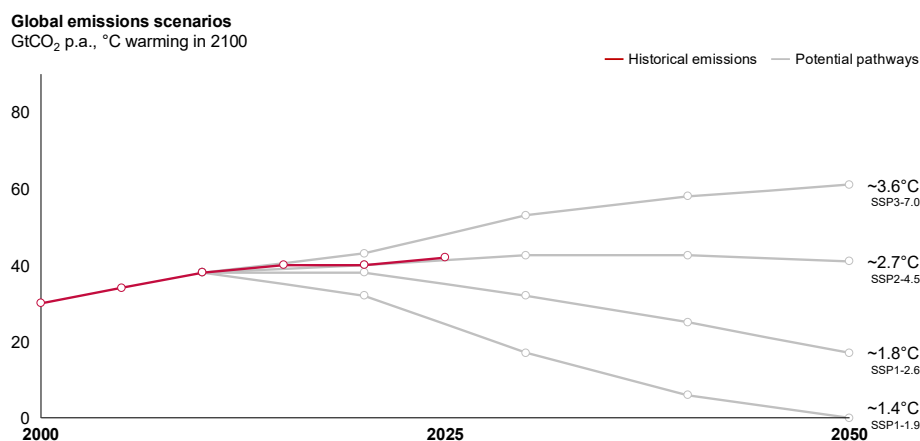
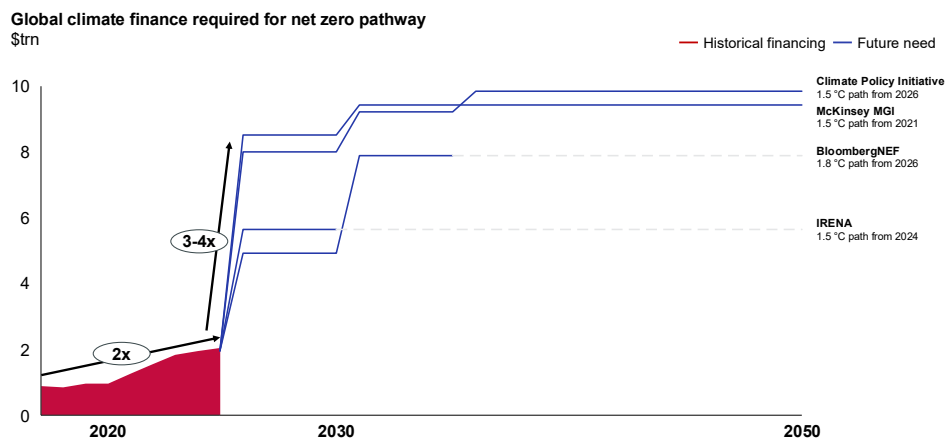


Figure 4: Achieving a net zero pathway requires 3-4x increase in financing^{4 14 16 17}



Despite doubling since 2017, global climate finance needs to scale 3-4x by 2030 to bring emissions in line with a trajectory toward net zero. Reducing emissions to net zero in ~2050 may well keep global warming "well below 2°C," BloombergNEF estimates a peak temperature of ~1.8°C under such a trajectory¹⁴.

Climate finance faces significant headwinds and policies globally are shifting to deprioritize, or retreat from, actions to limit the impact of global warming. Climate Action Tracker shows that 98% of the global economy is in countries that have demonstrated "insufficient" progress

toward the Paris Agreement, with 34% categorized as “critically insufficient.”¹⁸ In the US, the One Big Beautiful Bill Act passed in 2025 repealed much of the Inflation Reduction Act’s tax credits, grants, and loan guarantees, while the repeal of the 2009 Endangerment Finding has enabled a drawback on vehicle emissions standards and paves the way for further emissions deregulation across sectors^{19 20}. The EU reiterated its commitment to mitigation by setting a binding goal to reduce 2040 emissions 90% relative to 1990, but there was no real growth in the 2028-2034 proposed climate allocation (~€700 billion in 2025 Euros) compared to the 2021-2027 allocation (~€705 billion in 2025 Euros)^{21 22}. In China, the phasing out of renewable energy subsidies and calls for greater private sector participation highlight a common trend of declining public climate investment^{23 24}.

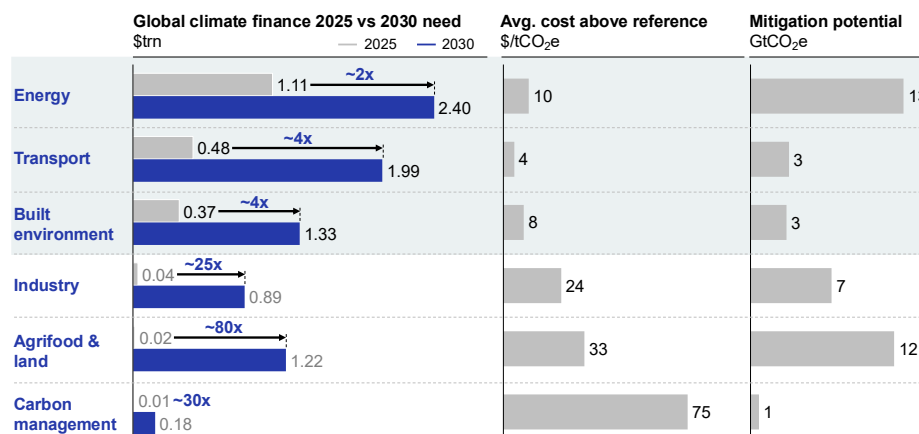
The challenge to close the global climate finance gap may be exacerbated by competing priorities with rising defense spending, energy security concerns, and AI-driven energy demand acceleration. The European Council on Foreign Relations believes that “defense and security are overriding priorities that will get extra spending and could further crowd out climate priorities”²⁵. In the US, Executive Order 14261 explicitly calls for increased use of coal to meet demand from AI²⁶.

As the public sector pulls back, private finance plays an increasingly central role in advancing mitigation. On the ground, the private sector has momentum upon which it can build, despite the retrenchment evident in the public sector. Executive orders aside, solar, wind, and batteries are still expected to provide 90%+ of incremental US power capacity in 2026²⁷.

Climate Finance Needs Across Sectors

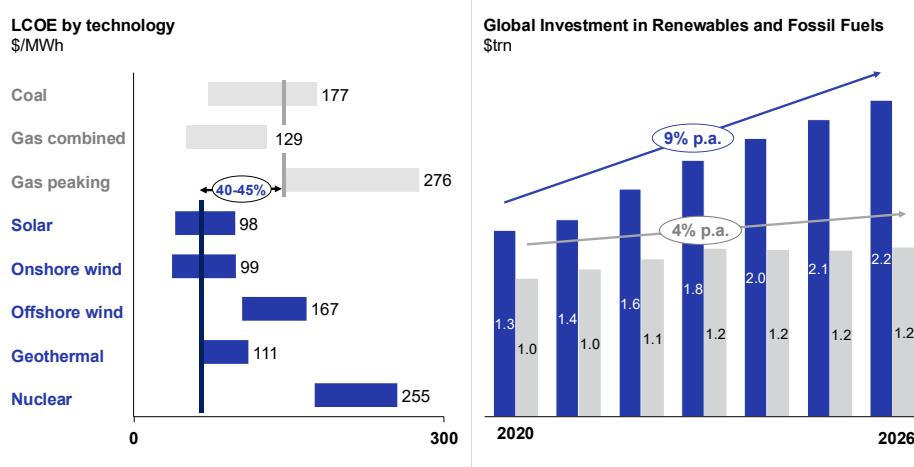
Climate finance must scale across all sectors. Capital continues to take few risks and ~95% of financing flows to the Energy, Transport, and Built Environment sectors that have proven cost-competitive solutions^{4 28}. Even in these sectors, the need is 2-4x the current level of investment. The scale-up required is even higher in other sectors.

Figure 5: The financing gap persists across all sectors^{28 4 29 14 16}



The Energy sector has the highest overall mitigation potential, the largest share of cost-competitive technologies, and the most funding today. Renewables are attracting more capital as they become cheaper, with a 9% p.a. growth in investment since 2020, doubling both the total investment and the growth rate of fossil fuels. Renewables are on average 40-45% lower cost to deploy than a fossil-fuel alternative, a cost advantage that will continue to drive the transition as energy demand continues to grow.

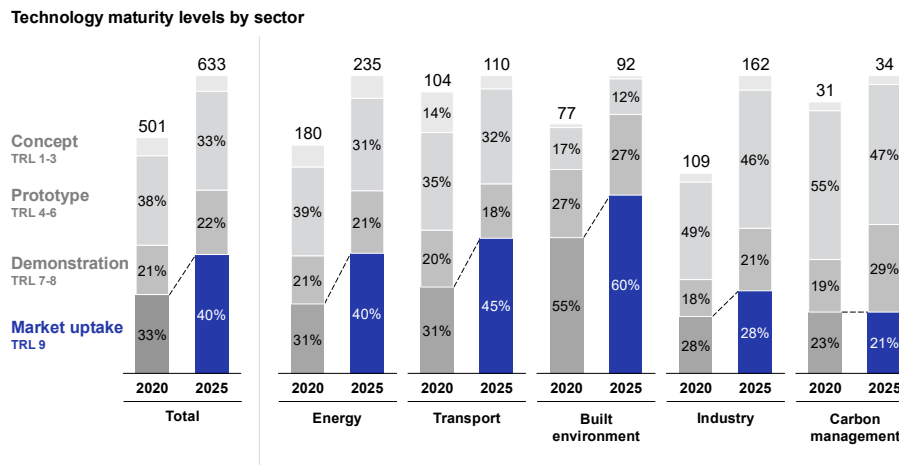
Figure 6: New renewable buildout is 40-45% cheaper than fossil fuel alternatives^{30 29}



Across sectors, clean technologies are progressing through the development pipeline, with 85 new technologies reaching market readiness since 2020. This raises the total to ~40% of

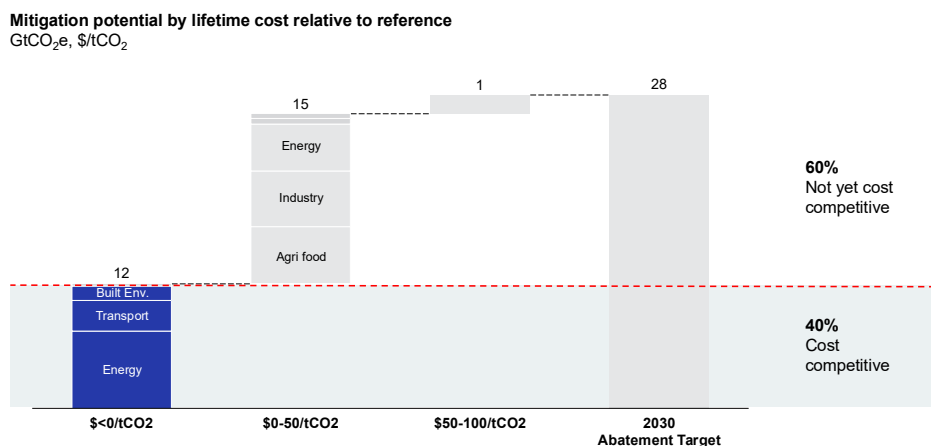
technologies ready for market uptake, up from ~33% in 2020. The cost-competitive sectors receiving 95% of funding today have 40% or more of their technologies ready for market uptake, while Industry and Carbon Management are less mature, with ~50% of technologies still in the prototype stage. Data is not tracked for Agrifood solutions.

Figure 7: 85 technologies have reached market uptake readiness since 2020³¹



Existing technologies can deliver ~40% of the 2030 mitigation targets through cost-competitive technologies, up from ~35% in last year's report²⁸. Progressing the technologies that are currently just \$0-50/tCO₂ above the reference cost toward cost competitiveness and readiness for market scale-up will unlock material emission reductions toward a net zero trajectory.

Figure 8: ~40% of technologies needed to reduce emissions for 2030 are cost competitive^{28 17 30 32}



Mobilizing private capital across solutions could unlock an opportunity of \$9-12 trillion in annual new revenue by 2030³³.

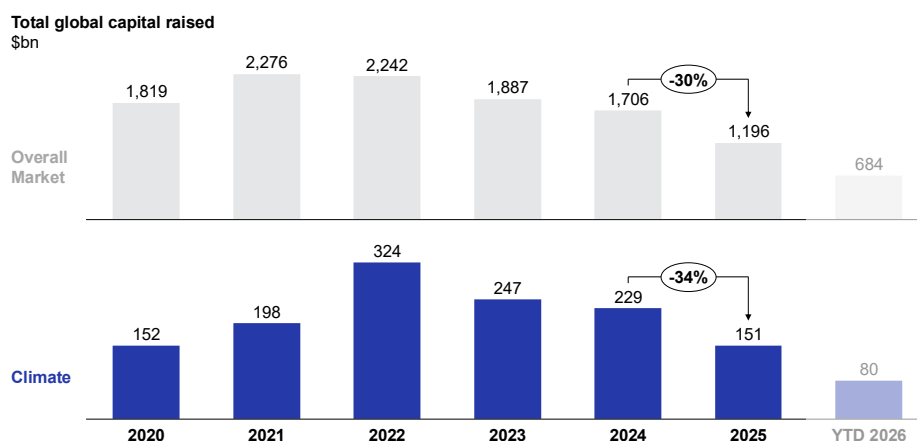
Eight Insights on Climate Capital Flows

Analysis of private markets fundraising and deal flow data tracked by PitchBook and CREO's own data platform highlight eight key insights:

#1 Fundraising decline outpaced the market

Climate fundraising contracted for the third consecutive year, as anticipated in the 2025 edition of this report, declining slightly more than the overall market at -34% from 2024 to 2025 compared to -30% in the overall market³⁴. Climate fundraising has more than halved to \$151 billion in 2025 since peaking in 2022 at \$324 billion, a -53% decline compared to -47% in the overall market.

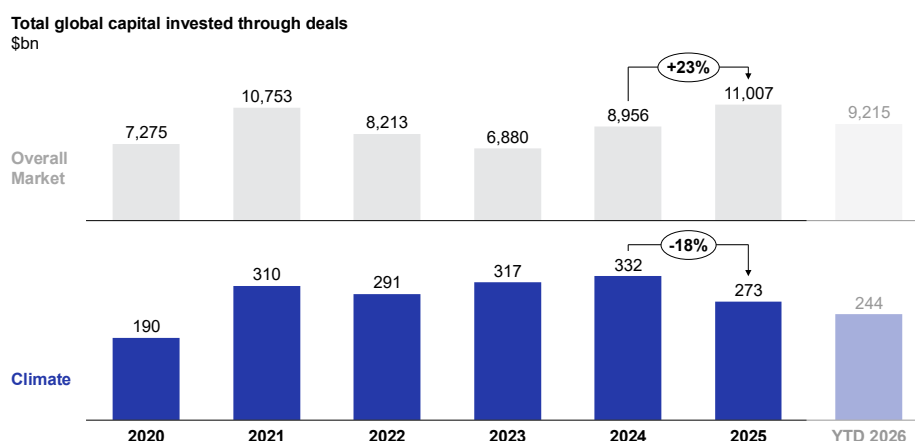
Figure 9: Climate fundraising declined more than overall market



#2 Deal flow contracted

While the trend in climate fundraising broadly follows the overall market, deal flow tells a different story. Climate deals grew 4x above the rate of the overall market in the decade 2014 to 2024, at ~17% p.a. compared to ~4% p.a. in the overall market. However, 2025 marked a reversal of this trend, with climate deal flow contracting ~18% while the overall market grew ~23%.

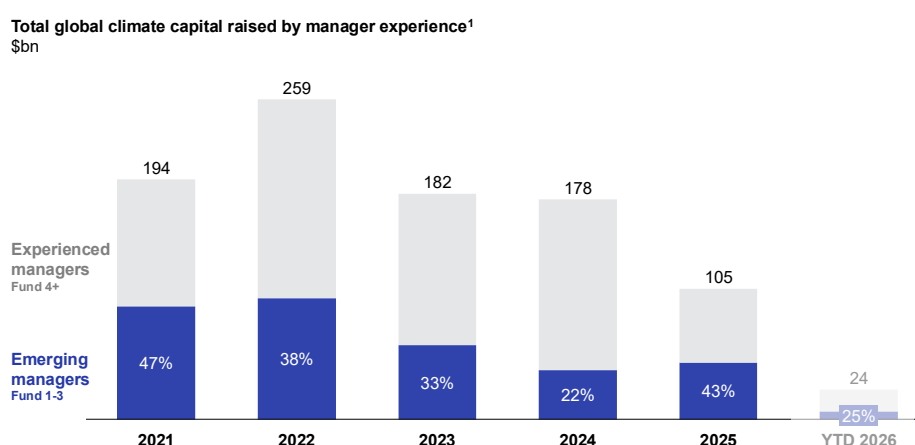
Figure 10: Climate deal flow contracted after several years of growth



#3 Emerging managers gained share

Emerging managers, defined as launching funds 1-3, rebounded to a 43% share of climate fundraising in 2025 following several years of declining share. Capital raised by emerging managers increased from ~\$40 billion in 2024 to ~\$46 billion in 2025, despite declines in overall climate and overall market fundraising in the same period. By count, emerging managers launched half of climate funds in 2025. In 2024, emerging manager share was down to 22% from a previous high of 47% in 2021.

Figure 11: Emerging managers' share of fundraising rebounded in 2025

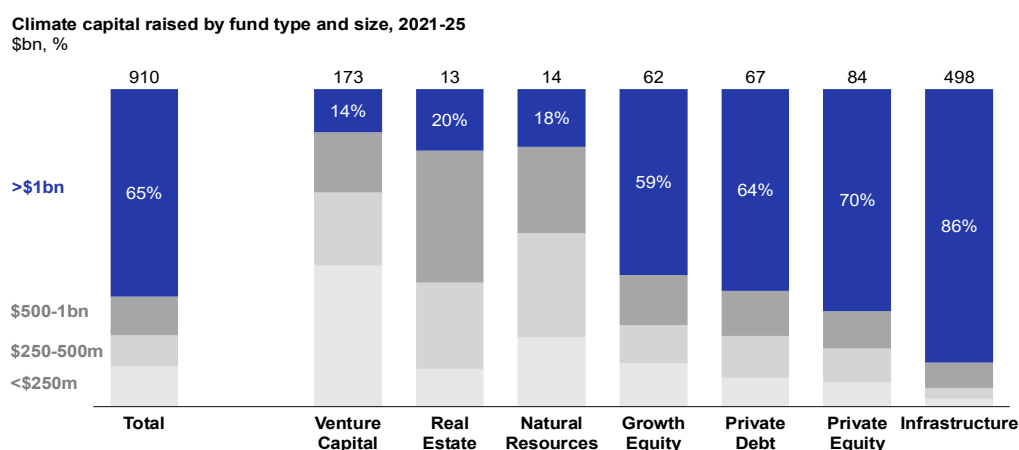


Analysis applied only to funds where fund number was available, exclusion of funds without fund number data available results in sum of fundraising below total fundraising values reported in Figure 9

#4 Mid-sized funds are missing

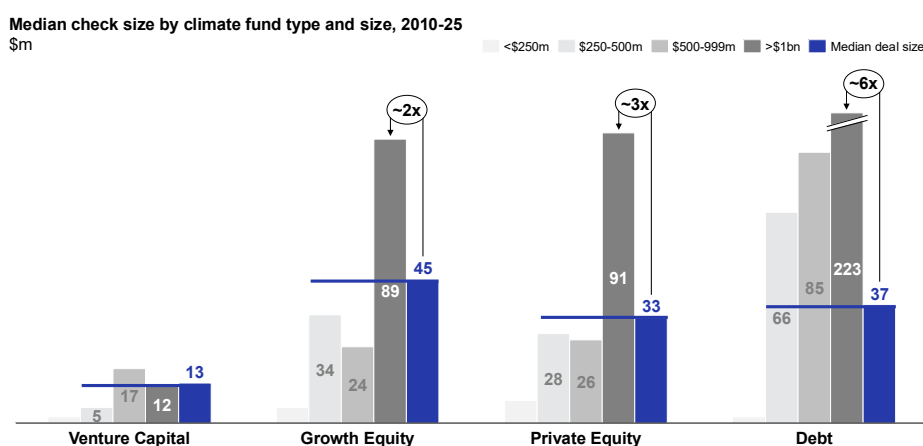
Mega-funds, with over \$1 billion capital raised, attract ~65% of all climate capital. Large funds typically write large checks, and while there is a role for large deals in climate, the concentration in mega-funds potentially leaves smaller deals underserved.

Figure 12: Mega-funds account for 65% of fundraising over the last 5 years



Mega-funds are particularly highly represented in Growth Equity (59%), Private Equity (70%), and Private Debt (64%). Mega-funds in these asset classes typically write checks 2-6x larger than the median deal size. Climate deals in these asset classes may be better served by the typical check sizes deployed by mid-sized funds.

Figure 13: Mega-funds typically write checks 2-6x larger than the median deal size

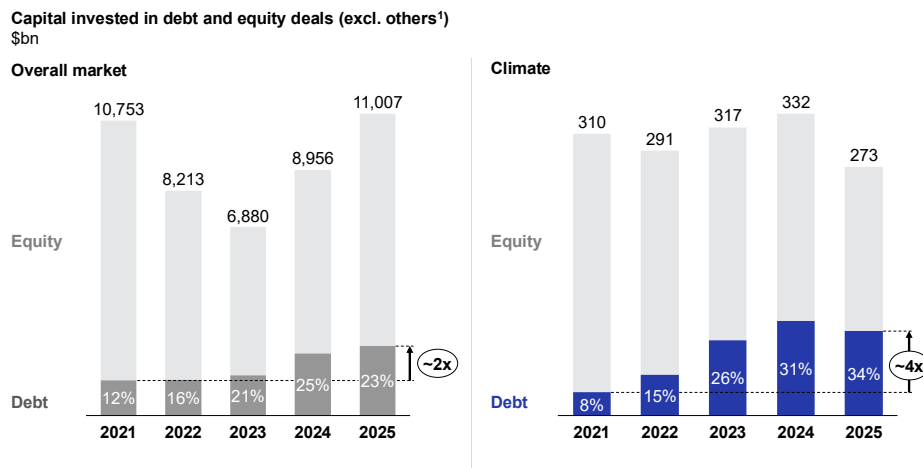


Mid-sized funds writing smaller check sizes are especially critical for less-mature sectors. Large deals (over \$500 million) represent a material share of equity and debt deal value in Energy (61%), Transport (52%), Built Environment (49%), and Industry (48%) for the period 2021-2025, compared to only 20% and 17% in Carbon Management and Agrifood, respectively.

#5 Debt is joining the mix

Growth in debt financing significantly outpaced all other asset classes over the last five years (2021-2025). Climate debt grew 38% p.a., double the growth of overall market debt at 19% p.a. Accelerator and Seed funding was the only other asset class to net grow through this period, at 6% p.a. for climate and 2% p.a. for the overall market, while Early- and Late-Stage VC, Growth Equity, and Private Equity contracted for both climate and overall deal flow.

Figure 14: Debt's share in climate grew twice as fast as in the overall market

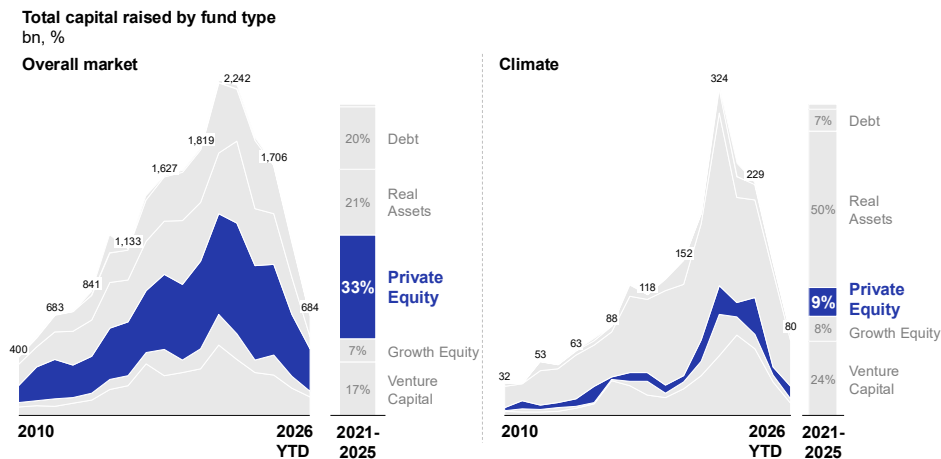


Debt's share of climate finance increased 4x over the last 5 years to ~1/3 of total deal flow in 2025. Debt now represents a larger share of climate deals than overall market deals, at 34% compared to 23%. The higher weighting of debt in climate can be understood through climate's higher proportion of hardware deals compared to software, with an estimated ~90% of climate deals for hardware companies compared to ~55% in the overall market. Hardware may be more suited to debt financing, with an average ~40% debt share compared to ~25% for software company deals in the overall market for the period 2021-2025.

#6 Private Equity remains on the sidelines

Private Equity remains underrepresented in climate at just 9% of fundraising over the last five years compared to 33% in the overall market. While Growth Equity remains underfunded in both climate and the overall market at 7-8% of fundraising for each, the missing middle for climate persists through Growth and Private Equity stages. Funding historically has prioritized Real Assets (50%), predominantly Infrastructure, which is suited to mature technologies in Energy and Transport. Bridging the missing middle will be essential to scale climate solutions across sectors as additional technologies advance toward market scaling and cost competitiveness.

Figure 15: Private Equity is underrepresented compared to the overall market

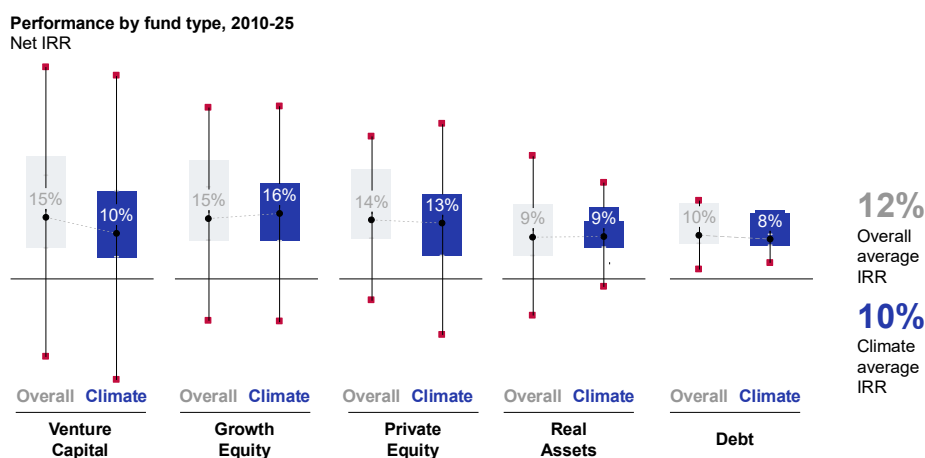


#7 Green discount is not universal

Climate fund returns lag the market by 2 p.p. with a median net IRR of 10% versus 12% for the overall market. This difference must be understood in the context of the asset class weighting for each, with climate funding overweighted in the relatively lower-return Real Assets while the overall market is heavily skewed to the higher-returning Private Equity asset class.

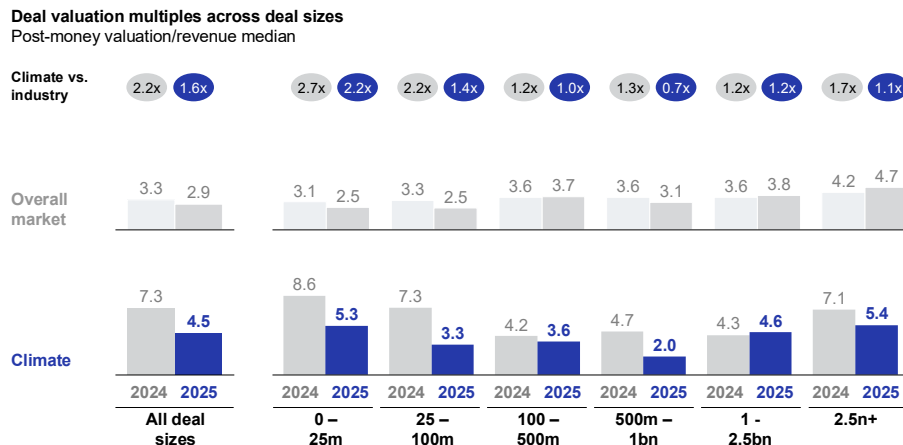
Climate fund returns are comparable to the overall market in Growth Equity, Private Equity, and Real Assets. Market rate returns remove the need to accept a “green discount” in these asset classes. VC and Debt median net IRR returns, however, lag the market by 5p.p. and 2p.p., respectively. Debt returns, which exceeded the overall market by 1 p.p. in 2024, were dragged down a full percentage point by a single negative outlier. Adjusting for this outlier would place returns within a percentage point of the overall market.

Figure 16: Climate fund returns lag the broader market by 2p.p.



Deal premiums are also decreasing to align with the overall market for deals over \$100 million. Valuation multiples in climate declined 49% on average over the last five years, compared to 45% in the overall market, with the highest decline in mid-sized deals, at -75% for deals \$500 million -1 billion and -65% for deals \$100-500 million. Smaller deals under \$100 million still feature a notable premium of 1.4-2.2x the overall market.

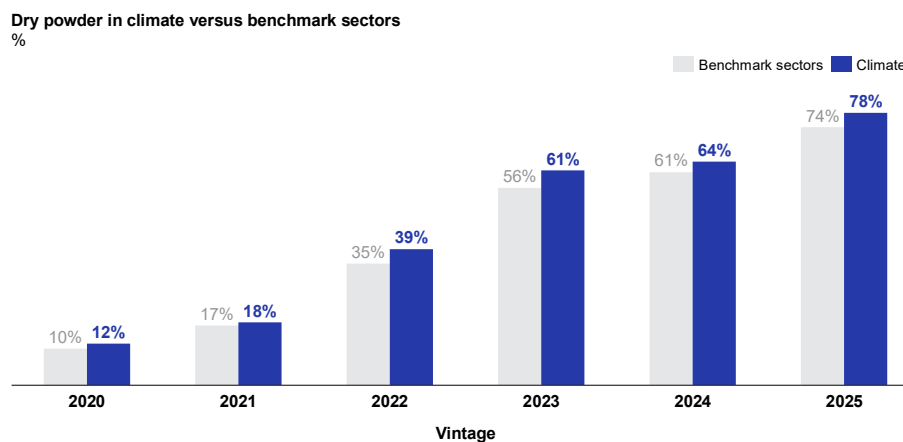
Figure 17: Climate valuation multiples are approximately at parity for deals over \$100m



#8 Too much dry powder, time to work

Dry powder in climate funds is consistently higher than the market across all vintages, presenting both an opportunity and a challenge to deploy more capital; the “excess dry powder” in climate funds raised from 2022–2025 represents a \$12.8 billion deployment opportunity.

Figure 18: Climate dry powder is consistently higher than benchmark sectors



Climate Investing Imperatives

Advancing global mitigation requires an increase both in the scale and effective deployment of capital. Rooted in the CREO analysis and insights elaborated, five imperatives for climate investors in 2026 are highlighted:

- 1. Get comfortable operating under geopolitical uncertainty:** Closing the finance gap means deploying capital in a policy environment that is only getting harder to predict. Approximately half of global climate deployment is in China and the US, with the former opening nuclear projects to private capital while tightening controls on critical minerals, while at the same time the latter is undergoing a widespread policy reversal including cancelling billions in clean energy funding along political lines^{35 36 37}. Investors who can stomach the risk may access material returns, instead of waiting for clarity that may not come.
- 2. Prompt Private Equity to get off the sidelines:** PE is a large, untapped source of capital for closing the climate finance gap, but it remains significantly underrepresented. With climate PE returns in line with the overall market and more technologies reaching market readiness every year, the obstacles that kept PE on the sidelines may be softening. Rising interest rates, however, may pose a challenge to investors as the cost of leverage compresses returns. Beyond building new assets, PE has a role to play in optimizing existing assets, with structures emerging to acquire stranded renewable assets, retrofit them, and transform them into contracted, yield-generating assets. The opportunity for PE is material; it is up to investors to take it.
- 3. Back mid-sized funds:** Climate funding faces a deployment mismatch, with 65% of capital absorbed by mega-funds over \$1 billion that typically write large checks, leaving the 80% of deals with checks under \$50 million relatively underserved. To deploy more capital to underserved segments, back the managers writing \$30 to \$50 million checks, sized for the companies that need to scale.
- 4. Build risk transfer to unlock capital:** Large institutional asset owners collectively hold \$120 trillion+ in capital, yet many struggle to deploy against their climate mandates due to a lack of investment-grade opportunities. Building the risk transfer infrastructure to understand, segment, and transfer residual risk out of the capital stack could unlock these funds that are currently sitting by, waiting to be deployed toward closing the climate finance gap.
- 5. Continue disciplined investing, particularly in early stages:** Progress has been made on reducing inflated climate-deal pricing. Deals above \$100 million now trade close to parity with the overall market, but smaller deals where the check sizes are below \$100 million remain at a 40% to 120% premium to the market. Disciplined investing, especially in early stages, can increase returns and bring climate in line with the market.

* * *

Private capital is increasingly taking up the mantle of meeting the global climate finance needs. Success will require investors to manage increasingly complex geopolitical dynamics to accelerate deployment across markets, increase the scale of private equity, expand allocations to mid-sized funds writing checks sized for scaling companies, and building risk-transfer infrastructure to scale investment-grade opportunities for institutional capital. Disciplined investing, especially in the early stages, can increase returns and ensure that climate finance drives market returns as well as emission reductions.

Appendix

Definitions

Throughout this report, the term “climate” refers to both climate and sustainability-related themes. This covers all areas that improve environmental outcomes and reduce emissions.

The report uses the PitchBook definition to identify Growth Equity deals and includes:

- Later-Stage VC deals that are Series E or later or involving companies that are seven or more years old and have previously raised at least six VC rounds.
- All PE Growth/Expansion deals.

This report also analyzes the investment gap, mitigation potential, and private company investment flows across six broad climate sectors as defined below.



Involved in large-scale clean energy production, transmission, and distribution. This covers renewables, nuclear power, and advanced grid-scale energy storage, along with supportive technologies for integrating and transmitting clean energy.



Focused on decarbonizing transportation services for moving people and goods, covering logistics, air freight, airlines, marine, road, and rail. Encompasses electrification, sustainable biomass and hydrogen fuels, and enhanced mobility efficiency.



Efforts that decarbonize and enhance the efficiency of industrial processes like steel, cement, manufacturing, and waste management. Key initiatives include electrification, green chemicals, sustainable biomass and hydrogen fuels, and circular and decarbonized industrial processes.



Developing resilient and sustainable buildings, including energy-efficient heating and cooling, lighting, appliances, eco-friendly materials, air purification, and smart technologies.



Enhancing biodiversity and building a resilient food system to meet global demand, while addressing emissions. This includes nature-based solutions, sustainable farming methods, biological carbon sequestration, sustainable diets, consumer products, and packaging solutions.



Facilitating the reduction, avoidance, and removal of carbon emissions. This covers tracking and accounting technologies, operating carbon credit marketplaces, point-source carbon-capture solutions, and atmospheric engineered carbon removal technologies like Direct Air Capture (DAC).

Data Sources

Any analysis completed is as good as the data on which it is based. Every effort has been made to ensure that the best available data was used in the completion of this report and, where possible, multiple data sources were consulted and cross-referenced to increase confidence in the analysis. Data on private companies and funds is notoriously difficult to source, often incomplete, and sometimes unreliable. The CREO team has invested significant time to secure, review, and validate data from the best sources available; but it is important to acknowledge that the data is unlikely to be perfect, and the results of analyses should be viewed as directional and used to inform rather than as a source of truth. Below are the primary sources of data used for the analysis:

The macro analysis of climate finance flows included in the Global Climate Finance Challenge is based primarily on research and data provided by the Climate Policy Initiative (CPI) that has been comprehensively tracking global climate finance since 2011. CPI consolidates data from a wide range of primary and secondary sources, and while the landscape is the most comprehensive available, it faces limitations of data availability, uniformity, and granularity as outlined in CPI's methodological documentation. The 2026 release of the CPI dataset extends through 2024, with preliminary total finance estimates only available for 2025. Supplementary insights on finance flows were drawn from Clean Investment Monitor, and on emissions from the Global Carbon Budget, EDGAR, Our World in Data, Climate Trace, and the IPCC; mitigation finance requirements were compared across CPI, McKinsey, BloombergNEF, and IRENA. Additional contextual insights were sourced via Climate Action Tracker and broader press search.

The analysis on financing needs across sectors draws on a triangulation of top-down third-party sources, with a foundation in the IPCC's 6th Assessment Report for total mitigation requirements and baseline cost competitiveness across technologies, updated leveraging recent cost data from IEA, IRENA, and Lazard. Historic financing and future needs by sector are drawn from CPI, except for Industry and Carbon Management sectors, which leverage triangulation of IEA, BloombergNEF, and McKinsey Global Institute to cover gaps in CPI dataset. Analysis of technological maturity is based on IEA data. Given the multiple sources and lack of harmonized methodologies, the data and analysis should only be considered indicative of the size and pattern of investment gaps.

The funds analysis draws on a deduplicated dataset of 6,230 funds with 2010-2026 vintages, combining PitchBook (5,482) and the CREO Data Platform (748), including relevant Preqin funds and funds sourced through CREO dealflow. A PitchBook fund was treated as climate if it met any of the following criteria: a CleanTech, Climate Tech or AgTech vertical, a Biodiversity & Ecosystems or Climate impact category, a Renewable Energy real asset preference, a Seeks ESG Investments stated preference, or a climate-related keyword in the fund name. Because these are fund-level flags, not every investment made by an identified fund is necessarily climate-focused.

Company and deal analysis leveraged a combined dataset of 28,277 deals from PitchBook (26,524) and the CREO Data Platform (1,753) with 2014-2026 vintage. Climate deals in PitchBook were identified via the Clean Tech, Ag Tech, and Climate Tech verticals, then manually verified against company activities. For CREO data, only deals that have complete key variables and have gone through an internal quality check are used. Data from CREO were deduplicated against PitchBook by looking at company name and year of the deal. Companies from the CREO Data Platform also went through a similar manual check as PitchBook to be categorized as climate.

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