



How to pay for the climate and nature transition

A repository of high-impact transition finance strategies




Kat Hunt



Garrett Kephart

Earth Finance

Two Union Square, 601 Union Street,
Suite 3525, Seattle, WA, 98101

 [linkedin.com/company/earthfinance](https://www.linkedin.com/company/earthfinance)
 earthfinance.com

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Leading companies know that proactively mitigating and [adapting to planetary risks and opportunities](#) is essential to long-term survival. To reach 2030 goals and thrive amid changing planetary conditions, businesses need operationally feasible and financially viable pathways to execute high-impact initiatives. This is the essence of sound transition finance strategy.

Transition finance remains one of the largest barriers corporations face in achieving their goals. Companies typically either don't understand [how much initiatives cost](#) in the first place, or they don't have the internal budget or cross-departmental buy-in to justify the high upfront investment.

Unfortunately, the risk profiles of climate and [nature investments](#) don't match the financial products on the market today. Traditional financing mechanisms such as bonds, debt instruments, and equity investments have

fundamentally different time horizons and definitions of value than the climate, water, and nature crises demand. As a result, effective transition finance strategies often require creative partnerships and outside-the-box thinking to derisk investments and right-size costs to operational realities.

This piece aims to help corporations determine **how to pay** for climate, nature, and other sustainability initiatives within the context of macro-uncertainty. It provides a repository of finance strategies for consideration, most independent from political chaos and regulatory rollbacks, that innovate on the risk profiles and payback periods of traditional financing mechanisms. For companies further along their transition finance journey, it also provides a high-level analysis of recommended financing strategies by initiative and prioritization criteria.



See also: [How much does the corporate climate transition cost?](#)

Corporate transition finance strategies

Transition finance strategies can generally be categorized into 3 mechanisms depending on the source and flow of capital – self-financing, 3rd party financing, and public financing. Definitions and capital flow for each mechanism are provided below.
















Overlap of financing mechanisms:

Many transition finance strategies can be funded through multiple financing mechanisms. For example, with sustainability-linked loans, your company could provide loans directly to high-performing vendors (self-generated), you could partner with a bank or investor (3rd party), or you could receive public loans for qualifying initiatives (public).

The right financing or partnership structure has the potential to unlock funding for emerging technologies tackling hard-to-abate sectors, high-impact corporate value chain initiatives, and more.

Where to start – developing the business case:

Business value at risk (BVaR), co-benefit analysis, and shadow pricing, while foundational to sound transition finance strategy, do not generate capital and therefore are not explicit financing mechanisms. Rather, they help you define the value of climate, nature, and water initiatives in financial terms so you can quantify risks and build the business case for targeted investments.

	How it works	Pros	Cons	Financing mechanism(s)
Business Value at Risk (VaR)	Determining what business assets, inventory, and revenue could be lost due to climate and nature events.	<ul style="list-style-type: none"> ✓ Tells the story of climate and nature risk in financial terms ✓ Helps gain cross-departmental buy-in and understanding 	<ul style="list-style-type: none"> ✗ Does not generate capital ✗ Longer-term orientation can be hard to conflate to traditional financial cycles 	 Self
Co-benefit analysis	Analysis of stacked benefits of transition strategies, such as GHG reduction, water, nature, waste, community impact, and other sustainability topics.	<ul style="list-style-type: none"> ✓ Strategies that address multiple verticals yield cost savings and efficiencies ✓ Protects against potential revenue losses 	<ul style="list-style-type: none"> ✗ Does not generate capital ✗ Not an easily quantifiable metric ✗ Can be challenging to adopt 	 Self
Shadow pricing	Putting a dollar value on hidden externalities to understand the true cost of doing business	<ul style="list-style-type: none"> ✓ Surfaces risks and opportunities ✓ Forcing function for valuing sustainability impact in financial terms 	<ul style="list-style-type: none"> ✗ Does not generate capital ✗ Can be challenging to embed in decision-making 	 Self
Natural capital fees	Putting an internal fee on carbon, water, or nature. Capital generated can seed a revolving fund, directly finance initiatives, or be added to the balance sheet.	<ul style="list-style-type: none"> ✓ Financially incentivizes sustainable behaviors ✓ Widely embraced by large global companies 	<ul style="list-style-type: none"> ✗ Departments may show resistance to being “taxed” ✗ Tension over how to best use funds 	 Self
Revolving fund	Using new revenue, efficiencies, or cost savings from sustainability projects to grow a pool for future investment, creating a revolving cycle of funding that supports initiatives over time.	<ul style="list-style-type: none"> ✓ Self-sustaining cash flow independent from budget allocation processes ✓ Enables investment in initiatives with high upfront costs, such as those in the value chain 	<ul style="list-style-type: none"> ✗ Requires an initial investment ✗ Takes time to make sizable investments ✗ Best for initiatives that generate short-term returns to replenish the pool 	 Self
Internal accelerator or fund	Allocating investment toward innovative technologies or internal tools to support climate and nature goals. Capital could come from own balance sheet, partnership with another organization, or proceeds generated from natural capital fees.	<ul style="list-style-type: none"> ✓ Brings innovative solutions to market ✓ Can test and pilot technology within value chain ✓ Can lower risk by diversifying fund over many solutions 	<ul style="list-style-type: none"> ✗ Early-stage tech investments are inherently risky ✗ Often requires high upfront capital 	 Self  3rd party
Offtake agreements	Contractually committing to purchasing goods and services (such as renewable fuels or energy) before they're available to demonstrate adequate demand and enable investment.	<ul style="list-style-type: none"> ✓ De-risks investment in novel solutions ✓ Brings solutions to market without transfer of funds 	<ul style="list-style-type: none"> ✗ Technologies may not come to fruition ✗ Setup of offtake contracts can be nuanced 	 Self  3rd party  Public
Preferential payment terms	Offering sustainability-aligned suppliers or vendors incentives, early access to payments (with or without discount), longer contracting terms, or other perks to enable better management of cash flow.	<ul style="list-style-type: none"> ✓ Less capital-intensive ✓ Easily aligns with procurement processes ✓ Highly scalable across supplier network 	<ul style="list-style-type: none"> ✗ Requires alignment from many internal parties ✗ Limited control over supplier activities 	 Self  3rd party  Public

	How it works	Pros	Cons	Financing mechanism(s)
Sustainability-linked loans	Providing a debt instrument, often at a concessionary rate, to suppliers and vendors demonstrating high performance on sustainability. Capital could come from own balance sheet, partnership with another company, a bank, or government entity.	<ul style="list-style-type: none"> ✓ Provides direct access to capital for suppliers ✓ Can support specific, high-impact supplier initiatives ✓ No direct funding required aside from programmatic costs 	<ul style="list-style-type: none"> ✗ Requires increased due diligence and ongoing management ✗ Loans need to be structured to accommodate new revenue models 	<ul style="list-style-type: none"> 🏠 Self 🤝 3rd party 🏛️ Public
Supplier subsidies	Creating an incentive structure to help suppliers or other value chain partners cover a portion of the cost of specific activities to meet sustainability goals.	<ul style="list-style-type: none"> ✓ Highly scalable across value chain ✓ Enhances supplier relationships ✓ Increased financial favorability for both parties 	<ul style="list-style-type: none"> ✗ Structuring program to incentivize right behaviors requires a strategic lens ✗ Requires robust monitoring systems 	<ul style="list-style-type: none"> 🏠 Self 🤝 3rd party
Green bonds	Offering a bond to investors for environmentally focused corporate projects, such as helping suppliers transition to clean energy, restoring habitats, or procuring certified inputs.	<ul style="list-style-type: none"> ✓ Can raise capital for a variety of projects ✓ Lower risk for investors than stock market investments due to guaranteed returns 	<ul style="list-style-type: none"> ✗ Additionality can be hard to verify ✗ Process of issuing green bonds is complex 	<ul style="list-style-type: none"> 🏠 Self 🤝 3rd party 🏛️ Public
Equity investments	Investing in an aligned technology solution or other offering in exchange for a certain percentage of company ownership. Investment can be done in partnership with other corporations, investors, or public sector stakeholders.	<ul style="list-style-type: none"> ✓ Corporate can function as a strategic investor to bring new solutions to market ✓ Lowers costs of implementing new technologies 	<ul style="list-style-type: none"> ✗ Investments in emerging technologies are inherently risky ✗ Time to market can be lengthy 	<ul style="list-style-type: none"> 🏠 Self 🤝 3rd party 🏛️ Public
Loan guarantees	Providing a loan guarantee or credit backstop on behalf of climate, water, and nature startups or specific projects requiring debt instruments for development.	<ul style="list-style-type: none"> ✓ De-risks investment in novel solutions ✓ Brings solutions to market without transfer of funds 	<ul style="list-style-type: none"> ✗ Requires heavy due diligence ✗ High costs if investment defaults 	<ul style="list-style-type: none"> 🤝 3rd party 🏛️ Public
Buyer coalitions	Multiple organizations coming together through co-investment or pre-competitive partnerships to aggregate demand for a good or service, often an emerging technology.	<ul style="list-style-type: none"> ✓ Reduces cost for each coalition member ✓ Reduces risks and helps bring innovative solutions to market faster 	<ul style="list-style-type: none"> ✗ Partnerships are internally and contractually challenging to implement 	<ul style="list-style-type: none"> 🤝 3rd party 🏛️ Public

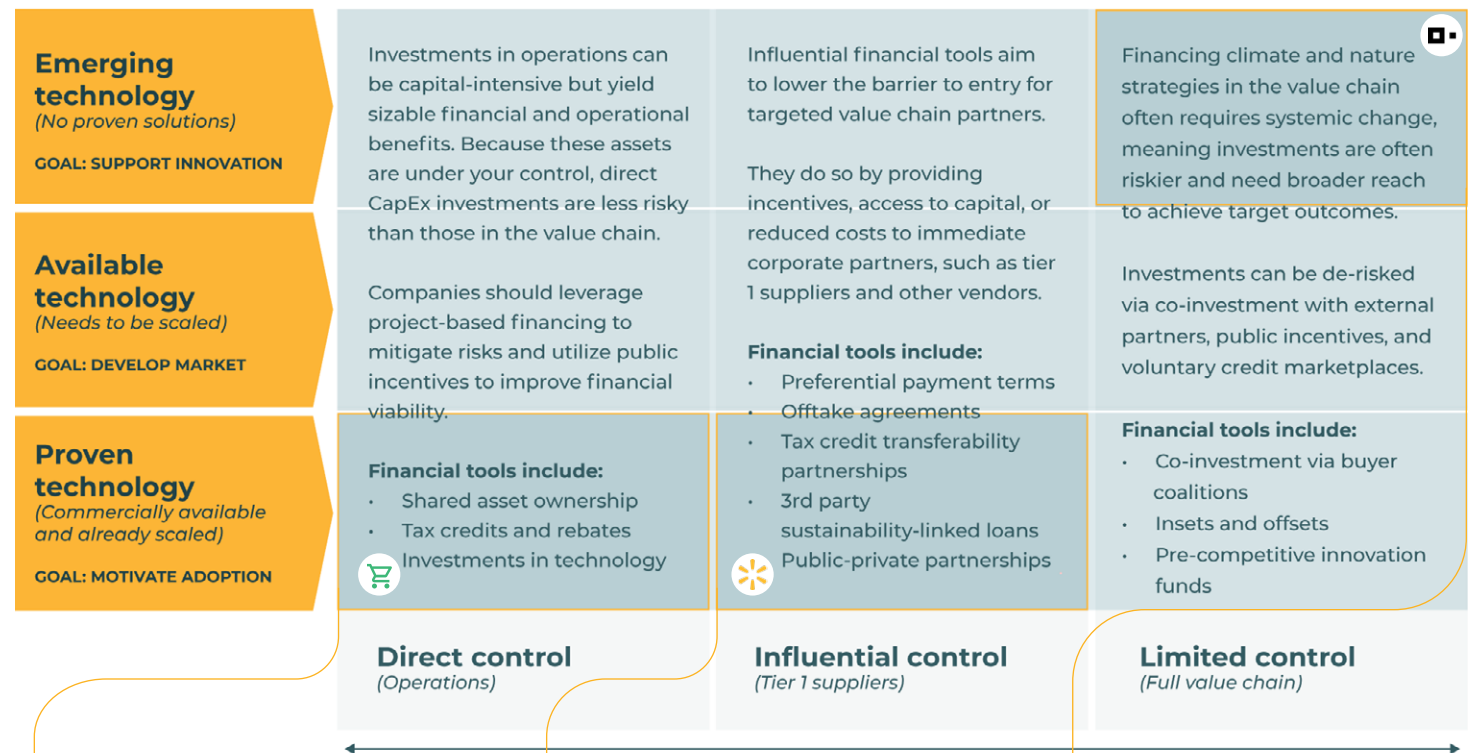
	How it works	Pros	Cons	Financing mechanism(s)
Shared or shifting asset ownership	Exploring new ownership or business models, such as cost-sharing through multi-owner asset development or lease versus own.	<ul style="list-style-type: none"> ✓ Reduces upfront costs for each partner ✓ Reduced maintenance costs 	<ul style="list-style-type: none"> ✗ Can require fundamental changes to business model (i.e., operations, legal, accounting) 	<ul style="list-style-type: none"> 🔗 3rd party 🏠 Public
Rebates	Leveraging available local, state, and federal rebates to finance specific initiatives, such as energy efficiency improvements and infrastructure upgrades.	<ul style="list-style-type: none"> ✓ Reduces capital expenditure ✓ Rebates often have ongoing availability 	<ul style="list-style-type: none"> ✗ Requires overhead time to research and implement 	<ul style="list-style-type: none"> 🏠 Public
<u>Tax credit transferability</u>	Purchasing tax credits from a clean energy developer (often marketed at a discounted rate) to save on U.S. Federal tax bill and finance climate initiatives.	<ul style="list-style-type: none"> ✓ Savings can be used to fund any initiative ✓ Helps scale innovative technologies ✓ Can finance high-impact supply chain initiatives with right partnership structure 	<ul style="list-style-type: none"> ✗ Shorter lifespan ✗ Complex to implement and build internal buy-in ✗ May be subject to policy rollbacks 	<ul style="list-style-type: none"> 🔗 3rd party 🏠 Public
Royalties	Applying a compliance-driven fee for high emitting activities, materials, and use of natural resources. Traditionally leveraged for fossil fuel production on federal lands but can be applied to corporate value chains (i.e., imposing a royalty on vendors as a funding collection mechanism).	<ul style="list-style-type: none"> ✓ Seeding mechanism for other climate and nature investments ✓ Has potential to directly mitigate Scope 3 emissions 	<ul style="list-style-type: none"> ✗ Stick versus carrot approach with suppliers ✗ Requires robust data collection systems to manage ✗ Not applicable to most industries 	<ul style="list-style-type: none"> 🔗 3rd party 🏠 Public
Grants	Leveraging federal, state, and local incentives with no repayment requirements to fund applicable climate, energy, and nature projects (such as electrification infrastructure and community development).	<ul style="list-style-type: none"> ✓ Non-dilutive capital with no repayment terms ✓ Can provide significant sums of capital ✓ Builds relationships with key public agencies 	<ul style="list-style-type: none"> ✗ Time intensive to identify eligibility, apply, and comply ✗ Specific eligibility requirements ✗ Funding timeline may not align with project expenditures 	<ul style="list-style-type: none"> 🏠 Public

Landscape of corporate transition finance tools

The appropriate transition finance tool(s) for your company will depend on your unique organizational structure, value chain, industry, business priorities, and of course the scope of your climate and nature initiatives. While there's no exact formula on the best financing strategies to use and when, some are more appropriate than others when it comes to degree of control. Below, specific financing tools are recommended for initiatives across your operations, tier 1 suppliers, and full value chain.

Note: The financial tools in this matrix are categorized to reflect the typical risk tolerance seen among corporate stakeholders, with direct investments in operations perceived as less risky and investments across the full value chain as more risky. No matter your risk tolerance, there are financial tools to match.

The spectrum of control



FINANCIAL TOOLS IN ACTION: F15 retailer tax credit transferability

A global multi-line retailer used the Inflation Reduction Act's tax credit transferability mechanism to seed a revolving fund designed to help suppliers switch to clean energy.

The retailer utilized the IRA'S 48E Clean Electricity Investment Tax Credit to enter a tax credit transfer deal with a renewable energy provider.

Through this deal, the retailer purchased the energy provider's tax credits at a discount. The Retailer was able to save ~\$7 million on their total tax liability for the year, the savings of which could be used to seed its green revolving fund.

[>> See how it works](#)

FINANCIAL TOOLS IN ACTION: Walmart preferential payment terms

Walmart's Supply Chain Finance Program incentivizes its suppliers to pursue sustainability initiatives across energy, waste, and more.

To lower Scope 3 emissions specifically, Walmart partnered with HSBC to provide early payment to suppliers who meet climate expectations.

HSBC's early payments are short-term loans which Walmart pays off on invoice due dates. HSBC benefits from the early payment fee, while Walmart benefits from improved supplier climate progress and reporting due.

[>> More about the program](#)

FINANCIAL TOOLS IN ACTION: BASF sustainability incubator

To maintain its competitive advantage in the chemical industry and accelerate low-carbon solutions, BASF launched its corporate incubator, Chemovator.

Chemovator experiments with high-risk ideas that wouldn't typically receive funding through traditional corporate R&D or venture capital.

The incubator structure reduces risk for BASF by nurturing nascent technologies and business models in-house before they are scaled or spun off, and portfolio companies receive early-stage or pre-seed investment.

[>> Learn all about it](#)

Framework for prioritizing financing strategies

All transition finance strategies take time and internal resources to understand and implement. It's critical to determine what matters most to your company and how this varies by team to assess which strategies are worth the upfront investment. For instance, finance teams might be particularly interested in cost type, while operations teams might prioritize strategies by their impact on cash flow.

The framework below outlines principles and underlying criteria to help you assess, score, and compare the utility of various transition finance strategies.

Principles for prioritization	Operational feasibility	Financial favorability	Impact potential
	How challenging would it be to implement this strategy in my organization? What resourcing and time horizon would be required?	Will the opportunity unlock capital, improve ROI, reduce costs, or be an expense? How will the opportunity impact cash flow?	What is the magnitude of impact of the opportunity on one or more of our sustainability goals, and is there an impact multiplier?
Underlying criteria	Precedent of execution within own company	Impact on cash flow (ROI, cost reduction, etc.)	Scalability across operations and value chain
	Precedent of execution in other organizations	Rough order of financial magnitude	Application to multiple sustainability initiatives
	Level of resourcing & cross-department collaboration required	Investment risk profile	Contribution to business intangibles (such as brand or relationships)
	Time to see results of investment	Accounting cost type (COGS, SG&A, etc.)	Rough order of impact (carbon, water, nature)


Bridging the transition finance gap

Innovation often occurs in environments of limitation. When it comes to financing climate and nature initiatives, the confluence of macro-level uncertainties and the barriers of traditional financing mechanisms means that businesses need to utilize new resources, tools, and relationships to succeed.

While some financing strategies, particularly tax credits, grants, and loans, may be tied to the political pendulum, most function independently from the federal landscape. Capitalizing on these opportunities requires careful planning and programmatic development, but novel financial and partnership structures do exist.

Innovative transition financing mechanisms can help de-risk investments, unlock new funding models, and deliver long-term value for all stakeholders involved.

The case studies linked throughout this piece are just a snapshot of the creativity seen to date. Over the years, sustainability professionals have never failed to rise to the occasion with innovation and outside-the-box solutions – no doubt the same will be true for the world of transition finance.



Earth Finance helps organizations determine how to finance climate and nature commitments in an ever-changing landscape.

The Earth's natural systems are changing, and the need for climate action has never been higher. Our team helps you quantify costs and develop innovative strategies to finance a broad spectrum of climate and nature initiatives.

[Get in touch](#)

