



Capitalization Strategy Guide



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Introduction

The Capitalization Strategy Guide provides a high-level step-by-step guide of elements to consider when developing a capitalization strategy for a climate finance program. The process steps include key questions to ask regarding project and program technology types (e.g., solar, building decarbonization, or EV charging), community foundation (CF) grant vs impact investing roles, fundraising considerations, and steps to complete a proof-of-concept project. This tool is best suited for CFs who are considering the capital provider role for climate finance, **as it supports answering key questions about your organization's capacity and strategy to implement grantmaking and/or impact investing for climate projects and programs.**

Why is Capital Strategy Important?

A capital strategy enables CFs to deploy resources effectively and sustainably for climate action in alignment with organizational capacity and community needs. In developing their approach, CFs can leverage diverse funding mechanisms—from traditional grantmaking to impact investing—while building partnerships with climate-focused donors and investors. It is essential for CFs to understand both their organizational constraints and the range of financial tools available to support climate solutions.

A capitalization strategy allows your foundation to:

- Align climate finance approaches with your investment policies and fund restrictions.
- Select project types and program areas that match your capacity and community priorities.
- Clarify your role across the capital spectrum, from catalytic grants to impact investments.
- Expand fundraising efforts to engage climate-focused donors and investors.
- Build sustainable funding models through proof-of-concept projects that demonstrate impact.



Step-by-Step Capitalization Strategy Process

Step 1: Evaluate your organization's current structure and restrictions.

This exercise can be done in collaboration with other interested staff members, such as program, finance, or donor relations staff, and, if appropriate, board members or donors. Collect the documents below:

1. Investment Policy Statement
2. Annual Report
3. Financial Statements

Then, reflect on the following questions:

- Do you have a strategy to pursue climate capital?
- Does your organization already provide climate grants? If so, evaluate the purpose, amounts, and number of annual recipients. Can you grow this portfolio of grants and knowledge?
- Does your organization undertake impact investing or lending, such as climate-focused Program Related Investments (PRIs) or Mission Related Investments (MRIs)? If so, would you consider adding climate lending? Is climate integrated into your investment policy statement (IPS)? Does the IPS include responsible investing such as Environmental, Social, and Governance (ESG) framework integration, fossil fuel exclusion, or net-zero commitments?¹
- Is your endowment a majority of restricted funds? If so, has your organization considered new funding models for climate grantmaking such as regranting pool funds, donor collaboratives, new designated funds, public-private partnerships, and/or utilizing a percentage of the unrestricted endowment?
- If you have unrestricted funds available, has your organization considered using those unrestricted funds for climate finance? You may consider using a percentage of your endowment or other grant funds toward climate projects. Next, decide on your organization's focus regarding technology types (e.g., solar, building decarbonization, or EV charging) and programs.

1. ESG is a globally-recognized framework or criteria to measure the sustainability and ethical impact of an investment or a company focusing on 3 fields: Environmental, Social and Corporate Governance



Review your organization's current grant and/or impact investing program areas to understand potential synergies with climate projects and programs.

- Do any of your existing program areas include topics relevant to climate change, such as public health and health equity, housing, environment, resilience, or racial justice?
- Does your leadership have any specific objectives that are relevant to climate?
- What types of climate projects do you want to focus on? Examples include renewable energy development, net-zero buildings, infrastructure scale projects, and resilience hubs.
- Is your organization more interested in “quick wins” like renewable energy deployment or long-term infrastructure projects?
- Have your grantees or other community members identified interests in specific climate program areas, or are there climate projects being implemented locally?

Step 2: Determine whether to focus efforts on grantmaking or impact investing (or both).

Assess whether grantmaking or impact investing are appropriate first steps when pursuing climate projects and programs. For example, setting up a new impact investing arm will require significant staff capacity, fundraising, and organizational strategy. Using your stated project and program area targets, explore what avenues might be most appropriate for your organization in the short and long term, considering what will have the greatest impact in your community.

Climate Grants:

- What types of climate grants do you want to focus on? Examples include grants that buy down interest rates, fund feasibility studies, provide technical assistance and early-stage project design, support project readiness, and/or reduce investor risk.
- What existing grantmaking programs might be a good fit for building out climate related activities? For example, integrating solar into an existing housing program or enhancing a disaster recovery program by supporting resilience hubs are effective ways to achieve climate goals without building independent climate programs.
- What new grantmaking programs or donor interests might catalyze a climate project initiative?

Impact Investing:

- What impact investing opportunities do you want to focus on? Review targeted technology types to determine timelines and structure for impact investments in renewable energy, decarbonization, and other climate projects.
- What existing impact investing experience does your organization have that could be leveraged for climate projects?
- What projects are you aware of with your grantees or in your community that might have climate elements and need additional financing for deployment?

Step 3: Conduct a market analysis to understand where your organization fits within your local climate finance ecosystem.

Understanding both potential community priorities and current market gaps in your community will help your organization determine the optimal climate finance role to serve your local market. The [Market Analysis Template](#) provides in-depth instructions on how to conduct a market scan.

Step 4: Create a plan to capitalize a climate fund, or secure required resources to support a climate finance strategy.

Consider the following options to begin capitalizing your proposed climate finance activities, whether it is grantmaking or impact investing.

- Start with a climate-focused donor education campaign to evaluate existing donor interest and identify potential climate supporters. This should be done in parallel with partnership building and convening efforts outlined in Step 3.
 - Evaluate the interest of your donors by including questions about climate in surveys.
 - Consider conducting efforts to attract new climate-interested donors who may add resources to a climate finance effort.
 - Ensure that your communications are tailored using donor segmentation. Develop a diversity of frameworks to appeal to longtime donors, new donors, corporate/institutional donors, family foundations, and others.

- Create an operations resources strategy that sizes operating needs to achieve established goals. Consider staffing needs, capacity building inputs, costs of impact assessments, etc.
- Revise your IPS to incorporate ESG language and relevant goals.
 - Incorporating climate language into financial documents allows organizations to easily identify proof of concept projects, fundraise for staff capacity, and define potential as a capital provider role without a restricted fund base.
- Determine repayment terms, including interest amounts, that will cover the cost of capital, origination fee, operating costs, legal fees, and underwriting.
 - Align repayment strategy with program goals, taking into consideration the lender's tolerance for risk, expected community outcomes, and overall organizational goals.
 - Size the loan based on project needs and ability of the borrower to repay.
 - Consider including grants or other subsidies as part of the financing structure to enhance the affordability of the project.
 - Determine whether you want loan repayment to revolve with the aim of creating a sustainable model.

