

Navigating Funding in Climate Tech: Securing and Allocating Capital

Given how sustainability initiatives have significant ticket sizes, there's currently a **climate tech funding gap** that must be filled. Multiple investors, from governments to VCs and banks, have stepped up their game.

If you're looking into the **climate capital stack** to fund your company, read on as we discuss the current climate tech funding landscape alongside strategies for securing funding and intelligently allocating capital to maximize the marketing impact and overall business growth.

Understanding the **Climate Tech Funding** Landscape

Investment in climate tech has been greater than ever before. Public support in the form of demand, corporate commitments in the form of net-zero emission pledges, and government support in the form of subsidies, tax incentives, and grants is currently at an all-time high, so the time is right to develop climate tech ventures.

Partnerships between public and private sectors are becoming more common, combining grants with private investment to maximize impact. Investors are increasingly looking for scalable solutions that can be deployed globally, addressing climate change at a large scale.

Let's now discuss all these aspects in detail.

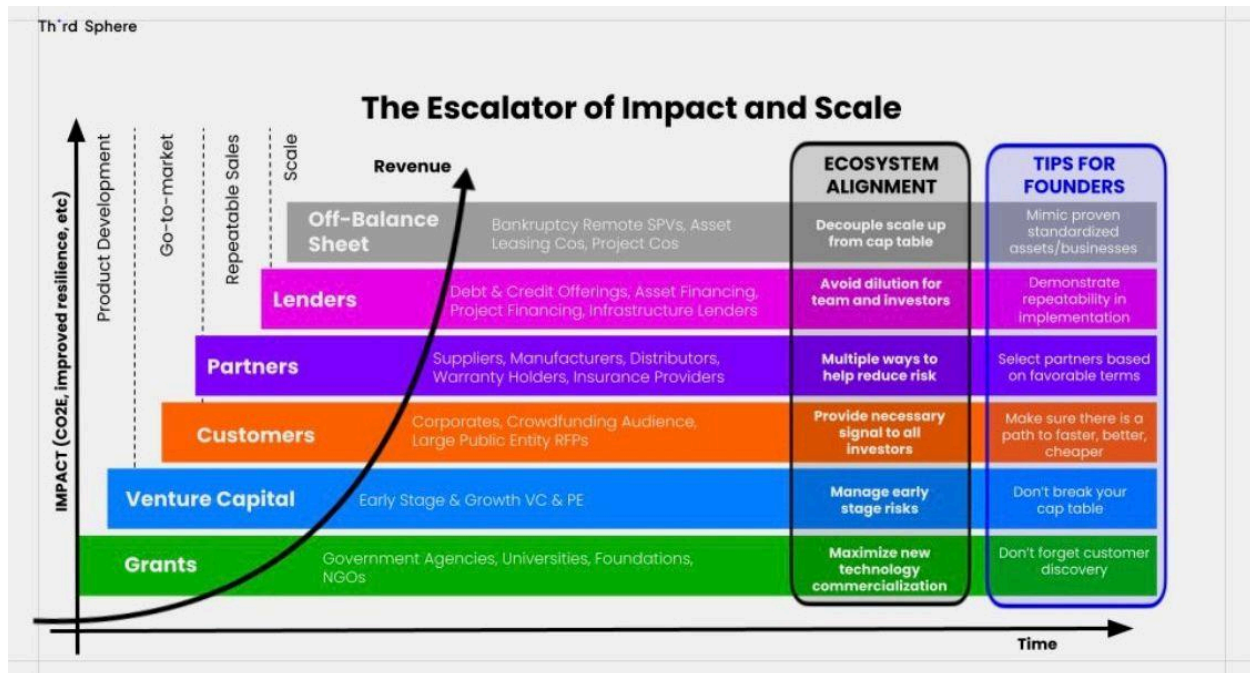
Net Zero Q1 2024 **Climate Tech Funding** Report

[Global funding data](#) shows that banks are dominating **climate tech funding** in 2024, at least in Q1. More than 60% of the total funding in the quarter was non-dilutive, and it has already seen more giga-round (\$1B+) funding than total annual amounts between 2019 and 2023, owing in part to certain unusually large debt rounds. In fact, the average investment value was \$3.25B.

Q1 was predominantly marked by the allocation of capital toward capacity expansion, focusing on output growth, production ramps, efficiency enhancement, and new market entries, followed closely by investments in facility construction.

Types of Climate Tech Investors

[Third Sphere](#) simplifies and summarizes the **climate tech capital stack** beautifully while adding some valuable tips:



Here's a rundown of all these investors, approximately ordered by the time of investment:

1. Grants

As UEP's Gabe Cowles notes, "Generally speaking, venture [capital] firms don't want you to go through a long period of trial and error . . . and that's really what's needed for a technology."

Grants from government agencies, nonprofits, and international organizations are a critical source of non-dilutive funding, allowing companies to develop their technologies without giving up equity. **This is especially true during the premature research stage.** Multiple state and national governments also have energy-/sustainability-focused organizations like [NYSERDA](#) that provide not only funds but also technical expertise.

Other notable examples include the US Department of Energy's ARPA-E program, which funds high-potential, high-impact energy technologies, and the European Union's Horizon 2020 program, which supports research and innovation in climate-related areas.

2. Angel Investors

Angel investors provide seed funds and, often, personal mentorship and industry connections. These individuals provide capital, usually \$25,000 to \$100,000, to startups in exchange for equity, often investing their personal funds and bringing a wealth of experience, mentorship, and networking opportunities to the table. More importantly, they are typically more willing to take risks on innovative but unproven technologies, making them a vital source of support for nascent climate tech companies.

3. Venture Capital (VC)

Given the high potential for climate tech returns, VCs are on the lookout for profitable startups. In recent years, numerous specialized climate tech funds have been established, such as Breakthrough Energy Ventures, founded by Bill Gates, which focuses on transformative climate technologies. Traditional VCs are also increasingly allocating funds to climate-related startups, recognizing the sector's growth potential. We've listed some notable **climate tech VC funding** providers later in the section.

However, it is of note to [quote McKinsey here](#): "As capital-intensive climate businesses need more capital sooner, they may not quite fit traditional VC ventures."

4. Private Equity (PE)

PE and infrastructure funds are becoming more involved in climate tech, particularly in areas like renewable energy infrastructure. Note that they typically invest in more mature companies or projects with stable cash flows instead of startups in their early stages.

PE funds often make substantial investments, providing the capital necessary for significant growth initiatives, such as large-scale production, international expansion, or major R&D projects. They also typically take an active role in the companies they invest in, offering strategic guidance, operational support, and expertise to drive growth and improve performance.

Additionally, private equity investments usually have a longer investment horizon, often spanning five to 10 years, which aligns well with the longer development cycles common in climate tech.

5. Infrastructure Funds

Infrastructure funds are geared toward capital-intensive projects that require substantial upfront investment but offer stable, long-term returns. Many infrastructure projects involve collaborations between private investors and public entities, leveraging public funding, subsidies, and incentives to enhance financial viability.

6. Customers

Many experts voice that customer capital is the smartest capital you can attain, especially in climate tech. Buyers provide steady revenue streams, validating the business model and attracting investors. Early adopters, especially in B2B markets, can offer feedback for product improvement and serve as case studies for marketing.

Strong customer relationships also demonstrate market demand and product viability, essential for securing additional funding. Customer contracts can be leveraged as collateral for loans or to negotiate better terms with investors as well.

7. Crowdfunding

Crowdfunding platforms like Kickstarter and Indiegogo provide opportunities for climate tech projects to raise funds directly from the public. This can be particularly effective for consumer-facing products or technologies with strong public appeal.

8. Partners

Strategic partners, including suppliers, research institutions, and corporate allies, provide valuable resources, expertise, and market access. They can offer funding through joint ventures, grants, or co-development agreements. Such collaborations enhance innovation, reduce costs, and accelerate time to market for new technologies.

Partners also help in navigating regulatory landscapes and expanding into new markets, which can attract further investment.

9. Bank Financing

As [Net Zero Insights founder points out](#), the climate tech industry needs a level of capital that goes beyond the venture model. Fortunately, more and more banks are taking active interest in finding and financing such solutions. As noted in the [Net Zero Q1 2024 Climate Tech Funding Report](#), discussed earlier in the article, banks were the largest investors this quarter.

Climate tech businesses have the following options when looking for bank investors:

Traditional Banks

- Commercial loans: For equipment, working capital, or expansion
- Project financing: Large-scale renewable projects, repaid from project cash flows
- Green bonds: Debt securities for climate projects

Development Banks

- Examples: World Bank, EIB, etc.
- Purpose: Concessional loans for sustainable projects, focusing on developing countries

Green Banks

- Examples: Green Investment Group, New York Green Bank, CEFC
- Purpose: Leverage public funds to attract private investment in clean energy

Syndicated Loans

- Examples: Multiple banks
- Purpose: Large loans for major projects, distributing risk among lenders

10. Corporate Funding

With many large corporations establishing venture arms or innovation labs focused on climate tech, corporate funding has become another significant avenue. Such companies invest to both support innovation and stay ahead in terms of sustainability and regulatory compliance. Examples include Shell Ventures, which invests in clean energy startups, and Google's sustainability initiatives through its parent company Alphabet.

11. Impact Investors

Impact investors focus on generating measurable social and environmental benefits alongside financial returns. They are increasingly interested in climate tech due to its potential for large-scale impact. Funds like Generation Investment Management, co-founded by Al Gore, are examples of firms that prioritize sustainability in their investment strategies.

12. Government Programs and Incentives

Government programs and incentives are crucial for de-risking investments in climate tech. Tax incentives, subsidies, and other support mechanisms can make it more attractive for private investors to enter the sector.

Notable Climate Tech Investors

1. [Breakthrough Energy](#): Founded by Bill Gates, they support early-stage companies in clean energy, agriculture, and transportation.
2. [Khosla Ventures](#): Investing in early-stage companies in renewable energy, energy storage, sustainable materials
3. [Energy Impact Partners](#): For startups working on innovative solutions for cleaner, more efficient energy systems
4. [Obvious Ventures](#): Investing in clean energy, sustainable agriculture, and circular economy solutions
5. [Clean Energy Ventures](#): For startups revolutionizing the energy sector with technologies that reduce emissions and enhance efficiency
6. [Aster](#): For companies driving the transition to a low-carbon economy in hard-to-abate sectors
7. [Elemental Excelsior](#): Investing in growth-stage companies developing climate technologies
8. [SOSV](#): For deep tech, biotech, and climate tech/clean tech

Strategies for Securing Funding in Climate Tech

Investors are increasingly looking for scalable solutions that can be deployed globally, addressing climate change at a large scale.

Here are some strategies to keep in mind:

1. Create a Data-Driven Picture

Investors need to be assured of their returns, and nothing can make the case for your company as strongly as data and information can. In your pitch decks, be transparent and descriptive about the following:

- **Financial projections:** Provide realistic financial forecasts, including revenue models, cost structure, and profitability timelines.
- **Market analysis:** Present a thorough market analysis showing the size, growth potential, and competitive landscape.
- **Scalability:** Highlight how your technology can scale and its long-term growth potential.
- **Team qualifications:** Showcase the expertise and experience of your team, emphasizing their ability to execute the business plan.

Due diligence is key here. Investors will scrutinize every detail of your business, so ensure your financial records, legal documents, intellectual property rights, and any other relevant information are well-organized and transparent. This shows professionalism, builds trust, and expedites the process.

2. Understand Your Potential Investors

Relationships with potential investors often begin long before formal negotiations start. Engaging with investors early, maintaining open lines of communication, and keeping them updated on your progress can build a foundation of trust. During negotiations, this trust can translate into more favorable terms and a smoother process.

You must also carefully analyze the interests and motivations of your investors. Different investors have varying priorities, like financial returns, impact metrics, or strategic synergies. They also invest in different stages of company growth, like angels helping with seed capital and PEs investing in you after your business is established. Tailoring your negotiation approach to align with these priorities and stages can create a more robust case for your funding and build a diverse climate tech funding stack.

3. Map Out the Impact and Risks

Investors are scrutinizing the big picture with all its details, so it's vital to map out the decarbonization puzzle, risks, and mitigation strategies.

To describe the impact, provide virtual demonstrations and build a story that helps them grasp your vision. Show how your product or version is better than its precedents, and map out its lifecycle assessment.

As McKinsey advises, transparency regarding risks is crucial to retaining investor trust and planning for the long term. Demonstrate how you have mapped out your risks and how you're taking active measures to reduce them, for instance, by securing an early agreement with supply chain partners.

4. Plan Strategically and Navigate Negotiations Flexibly

Aim big, but aim strategically. Your goal must be to secure just enough to move to the next valuation milestone. As [Jeffrey Bussgang from Harvard Business School says](#), avoid selling more than 20%–30% of your company in one round.

Navigating negotiations is a critical phase in securing **funding for climate tech** ventures. It begins with understanding your company's valuation and being prepared to justify it with solid financial data, market analysis, and growth projections. Confidence in your valuation can set a strong foundation for the discussions.

While it's important to have clear goals, flexibility is also essential in negotiations. It demonstrates your willingness to find a mutually beneficial agreement and helps build trust. Being open to different deal structures, like equity arrangements, board representation, or milestone-based funding releases, can facilitate a successful outcome.

Effective negotiation also involves clear communication and active listening. Articulating your needs and constraints while also understanding the investor's perspective can help find common ground. Patience and persistence are valuable traits, as negotiations can be lengthy and complex.

Allocating Capital Efficiently

Once you gather funds, you must allocate them efficiently to maximize impact. Plan strategically, prioritize high-impact areas, and maintain flexibility to adapt to changing circumstances.

1. Talent and R&D funds: Climate tech is all about fostering innovation and creativity, and the right hires are crucial for that. Invest in attracting and retaining top talent by offering competitive salaries, benefits, and a stimulating work environment. Also, invest significantly in R&D to advance your technology and maintain a competitive edge. This includes funding for prototypes, testing, and continuous improvement.

2. Marketing and sales: In order for your climate tech solutions to drive impact, you must make sure they reach people through powerful delivery. This entails robust marketing and sales strategies to increase brand awareness and customer acquisition. Allocate funds toward [digital marketing for climate tech](#), social media campaigns, public relations, and participation in industry events. Work on streamlining your [marketing-to-sales handoff](#) as well.

Also, consider community and stakeholder engagement through educational programs, sustainability projects, and transparent communication strategies.

3. Customer engagement: Invest in customer relationship management tools and strategies to enhance customer engagement, driving satisfaction, loyalty, brand advocacy, and growth.

4. Growth and impact monitoring: Implement systems to continuously monitor and evaluate the impact of your investments, using data and [marketing analytics in climate tech](#) to measure performance and make informed decisions about reallocating resources if needed.

5. Scalability and risks: You must have a strategy in place for dealing with spurts of growth or shrinkage. Use your capital stack to invest in infrastructure and technology that can handle changing production or service delivery without a proportional increase in costs. Set aside a portion of funds for risk management and contingency planning to prepare for unforeseen challenges so you can maintain stability during uncertain times.

6. Partnerships and collaborations: Keep strategic partnerships and collaborations in mind when allocating your funds. Partnering with other companies, research institutions, or governmental bodies can provide access to new markets, additional funding, and valuable expertise.

7. Compliance: Invest in a team that makes sure all your practices are environmentally sustainable and compliant with regulations to avoid legal issues and enhance your brand's reputation.

Conclusion

Given the varying climate tech landscape, new investment opportunities are on the rise, whereas old ones may be becoming redundant. It's best to stay up to date with quarterly reports and financial news to ensure you pitch to the right players. Follow us at Destiny Marketing Solutions to stay in the loop about climate tech finance, business, marketing, and company growth.

Frequently Asked Questions

1. What are the most effective strategies for securing climate tech funding?

The most effective strategies for securing climate tech funding include developing a clear value proposition, showcasing strong financial projections, and engaging in strategic partnerships. Diversifying funding sources, building an impactful narrative, and maintaining transparent communication with investors are similarly crucial. Emphasizing scalability and impact, along with demonstrating regulatory expertise, further strengthens the case for investment.

2. How should climate tech companies approach capital allocation to ensure growth?

Climate tech companies must plan strategically to allocate capital. They should prioritize R&D to innovate and improve technology, maintain robust risk management, and ensure scalability. It's also essential to find and retain top talent. Externally, finding partnerships, investing in marketing, and engaging stakeholders is key. Monitoring performance metrics and being flexible to adjust allocations as needed ensures efficient use of funds and supports sustained growth.

3. What are common pitfalls in climate tech funding, and how can they be avoided?

Generally, common pitfalls in climate tech funding include overestimating market demand, underestimating regulatory challenges, and insufficiently diversifying funding sources. To avoid these, it's best to conduct thorough market research, engage regulatory experts early, and seek a mix of funding options like grants, VCs, and angel investors.

Additionally, you must ensure realistic financial projections, maintain transparent communication with stakeholders, and implement robust risk management strategies. This minimizes risks and enhances the likelihood of securing and effectively utilizing funds.

4. How does effective capital allocation influence marketing success in climate tech?

Essentially, effective capital allocation ensures sufficient resources are dedicated to high-impact marketing activities. Companies can increase brand visibility and attract more customers by prioritizing funds for digital marketing, public relations, and customer engagement initiatives. Similarly, investing in tools to track and analyze data helps tailor marketing strategies to target audiences and measure success more efficiently. Allocating funds for partnerships and industry events can also enhance credibility and reach.

5. What role do investors play in the strategic growth of climate tech companies?

Climate tech businesses have rather large ticket sizes, making innovations challenging. Investors play a crucial role here by providing necessary capital, offering industry expertise, and facilitating valuable connections. They also help shape business strategies, support scaling operations, and drive innovation through their experience and insights.

Alongside this, investors play a role in governance by participating on boards, ensuring companies adhere to best practices and regulatory requirements. Their involvement often enhances credibility, attracting further investment and partnerships, which are vital for sustained growth and market success.