

strategy&

Abu Dhabi Sustainability Week Roundtable

Scaling climate tech innovations



Introduction

The emergence of climate tech innovation has created new opportunities to invest in novel solutions that help mitigate the climate challenges that we face today. This, in turn, drives sustainable development, reduces greenhouse gas emissions and builds resilience against climate impact.

At the recent COP28 in Dubai, the roundtable on Scaling Climate Tech Innovations – hosted by ADSW and co-hosted by PwC Middle East and Strategy& – created an opportunity for private sector and semi-government organisations to come together with investors and innovators themselves. Following on ADSW’s 2023 report on climate tech innovation and investment, the discussion addressed the opportunities around leveraging continued large-scale investment in sustainability infrastructure in the Middle East, to position the region as a global leader in climate tech.

The discussion also emphasised the importance of Middle Eastern investors investing locally to ensure more capital is deployed in the region and how to build the local ecosystem with incentives and policies to create local climate tech hubs being critical for success. Projects and technologies that had immense potential to drive global climate action were also a special topic of conversation.

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Climate tech: A global perspective



Valerie Aillaud-Peyre, Director of ADSW, introduced the session as a continuation of a series of dialogues that began at the UAE Climate Tech forum earlier in the year. Stephen Anderson, PwC Middle East's Strategy Leader, then began the conversation by providing a global perspective on climate tech, with key insights from PwC's State of Climate Tech 2023 report. Globally, climate tech is a massive market, worth approximately US\$27 billion in North America, US\$15 billion in Europe and US\$12 billion in China. Since 2013, over 32,400 climate tech deals and 8,400 climate tech startups have been tracked in the global space, with more than 900 megadeals (worth \$100m+) signed during the same period.

But the last two years have been challenging for investors in climate technology. Despite recent PwC research indicating that the world needs to decarbonise seven times as fast as the current rate to limit warming to 1.5°C above pre-industrial averages, funding for climate tech startups decreased to levels last seen five years earlier. The good news, according to Anderson, is that climate tech's share of private market equity and grant investment rose to 11.4% in Q3 2023.

Also, in the context of a difficult market, early-round investing is holding up well, as indicated by PwC's global report. This is crucial to support the next waves of climate innovation, and first-time funding has been noted, with new investors still attracted to the category.

Interestingly, the Middle East seems to be showing a striking exception to this trend, and the regional climate technology report suggests that the Middle East players almost tripled their funding of climate tech innovation globally in the year to end-September 2023, to US\$5 billion, supporting innovators in the United States, China and across Asia, and in Europe.

It was also clear from discussions that no matter how much innovation funding climate tech companies have raised globally in recent years, relatively little investment goes into the sectors that generate the biggest shares of global emissions, such as industrials, food, agriculture and land use, built environment, mobility and energy. Again, the Middle East has shown an exception here with most of the investment since 2018 (about US\$1.4 billion of the US\$1.85 billion invested) going towards companies working on technologies relating to energy and mobility, the two main sources of carbon emissions.

As investors, startups and corporates navigate the climate tech market, some common challenges remain. For investors, it is primarily to identify new investments into climate tech and integrate climate impact into investment decisions and reporting. For startups, the concern is to grow the business by raising funding, accessing government incentives and grants and reporting back on impact. For corporates, the challenge has been to integrate climate innovation and net zero agenda into their strategic business plans.

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Climate tech: Reflections from the Middle East



Later in the session, Jon Blackburn, Partner, Energy, Utilities & Resources for PwC Middle East, described the Middle East investor story as ‘a tale of two halves’. Despite a global investment slowdown, Middle East players are continuing to invest massively in climate technology outside of the region. In the last 12 months, US\$3.5 billion has been invested in North America, US\$202 million invested in Europe and US\$738 million invested in China. Saudi Arabia, UAE and Qatar were the top three Middle East countries investing globally in the last 12 months.

So, what was happening to investment in Middle East climate tech? Blackburn discussed the hypothesis that given the assets of the region, the knowledge economy and raw material, such as solar and wind power – there was a vibrant market for energy startups. This finally led to the launch of PwC’s first ever Net Zero Future50 report in the region, revealing 50 pioneering startups in the Middle East that are driving innovation focused on reducing greenhouse gas emissions and addressing the impacts of global warming across key economic sectors in the region.

The Future50 report underlines the dominance of female founders in the region’s climate tech landscape, with the majority of the startups featuring women in senior leadership positions. Also, the largest share of Net Zero Future50 companies are innovating within sectors responsible for the majority of greenhouse gas (GHG) emissions in the region. And, among the biggest challenges for startup growth were complex regional legal and regulatory environments, funding limitations and the ability to find experienced talent.

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Roundtable discussions: Key takeaways



Moderated by Charles Clifton, Director, International Clients, PwC Middle East; Janan Greer, Global Sustainability, Major Events Client Engagement Driver, PwC Australia and Jon Blackburn, the roundtable discussions offered insightful takeaways.

A focus on water

Due to rapid economic growth, unsustainable water management and ongoing conflicts, water scarcity in the Middle East is likely to worsen, roundtable participants indicated. Moreover, desalination plants in the region are an energy intensive means of treating water and could potentially harm local wildlife and have negative impacts on the region's climate. A US water technology company spoke about joining Abu Dhabi's innovation ecosystem to advance global climate change solutions. With technology that reduces water usage across sectors and filters wastewater for reuse, the company aims to help position Abu Dhabi and the UAE at the forefront of innovation in water solutions.

Abu Dhabi – a fertile ground for startups

While Middle East players are investing massively in climate tech outside the region, especially in the United States and Europe, and attracting international companies to the region in return, it is equally important to build the local ecosystem. This would entail a cooperation between the public and the private sector. Incentives and policies could be designed that effectively encourage increased private and public capital flow towards climate tech.

In line with this, participants spoke at length about Abu Dhabi as a favourable destination for developing startups, with its government support, reforms and growing entrepreneurial ecosystem, which together provide a strong base for developing global startups.

A strong regulatory landscape

According to the participants, obtaining seed funding was relatively easy, but advancing to the next stage proved to be challenging. A robust regulatory framework could be the key to addressing this issue. A supportive regulatory environment is vital for encouraging innovation and driving transformative change, which in turn boosts the confidence of startups. Furthermore, regulatory frameworks would pave the way for the development of technologies that could be deployed globally.

At the event, leaders spoke about the need for a shared vision for climate action in the region. Innovative technology and partnerships were discussed as critical pillars in corporate strategies to achieve net zero emissions by 2045. Instead of competing with other organisations in the race to net zero, leaders described how crucial it was to build partnerships, be transparent and work and achieve sustainable solutions.

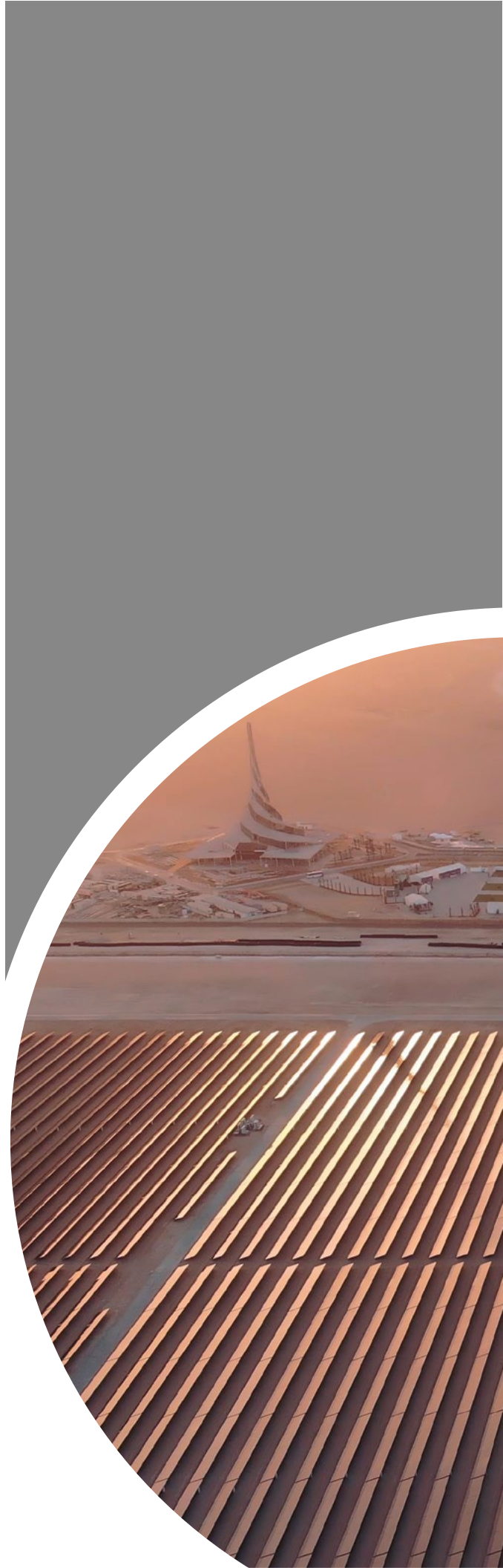
ADSW unveils new platform


The session concluded with the introduction of an innovative platform created by ADSW. In the works for the past 10 months, the Net Zero Navigator will be formally unveiled in 2024 and is designed to provide the most conducive environment for startups to scale. The platform uses 3D modelling and machine learning technologies to bring together innovators, investors and policymakers and foster a unique community where global stakeholders can map investments to innovations, explore the different technologies being used to combat climate crisis, find out about policy and partnerships, and even understand which policy intersects with which technology.

Looking ahead

1. Climate tech innovation in the Middle East is being driven by some of the most dynamic entrepreneurs in our region. They are championing new technologies that are pushing the boundaries when it comes to accelerating the path to net zero. However, latest data from our 27th Annual CEO Survey indicate that 63% of Middle Eastern CEOs would not be willing to invest in climate-friendly products and services if they perceive a low return on investment.
2. Complexities in regulations were identified as another significant factor inhibiting decarbonisation, and leaders revealed that clear and predictable government policies were needed to give companies the confidence to invest in decarbonisation.
3. In this context, the ADSW roundtable was a step in the right direction, as its discussions reiterated that no single actor can address the challenges of climate change alone.
4. Startups pioneering climate tech were the driving force of the future. Entrepreneurs and investors, therefore, need to step up with the right funding and support to not be left behind. Investment in transformative technologies from the early stages can unlock the potential of startups in the region and accelerate progress.


This report was a partnership between Abu Dhabi Sustainability Week, Strategy& and PwC.





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This thought leadership paper has been produced in collaboration between Strategy& and PwC. Together, we build our foresight on solid analytics combined with deep and diverse industry expertise. This gives us rich and surprising insights and a keen eye for new opportunities. We believe in sharing our insight and foresight so that organizations can benefit from them.

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About Abu Dhabi Sustainability Week

Abu Dhabi Sustainability Week (ADSW) is a global initiative championed by the UAE and its clean energy powerhouse, Masdar, to accelerate sustainable development and advance economic, social, and environmental progress. Established in 2008, ADSW provides a global platform for all who have a stake in the future of our planet. ADSW brings together leaders from across governments, the private sector, and civil society to discuss and engage in bold climate action and innovations that will ensure a sustainable world for future generations.