Policy Recommendations Brief

Financing Our Sustainable Future Roundtable Series:

Increase Venture Capital Investment in Climate-Tech Start-Ups Across the Arab World

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Arab Youth Council for Climate Change
In partnership with HSBC and Posterity Institute

INTRODUCTION

The Middle East and North Africa region (MENA) is projected to experience the most severe impacts resulting from climate change, as the region's existing conditions of water scarcity and high temperatures will only be further exacerbated with the onset of the climate crisis[1]. Recognising the gravity of these effects, including excess deaths, increased conflict, food and water challenges, and mass migration, most MENA nations have set forth ambitious decarbonisation strategies in line with international treaties such as the Paris Agreement and the Net-Zero by 2050 Coalition to ensure the forecasted scenario of regional climate change is averted.

In order to meet these objectives, climate technologies must be deployed. These are technologies that address the reduction of greenhouse gas emissions, the driving force of climate change, and facilitate the adaptation to climate consequences that have already occurred. While many regions of the world boast an active and diverse climate-tech sector, there is an opportunity for the MENA Region to tap into and leverage this sector, to meet its growing need for it.

Thus, the Arab Youth Council for Climate Change (AYCCC), in partnership with HSBC and Posterity Institute, hosted its first closed roundtable as part of its 'Financing Our Sustainable Future Roundtable' Series to address the state of climate-tech start-ups across the Arab World. This series strives to create a collaborative platform for key financial institutions, public and private entities, SMEs, start-ups, and youth to explore ideas and encourage Arab youth to switch to greener lifestyles. Led by Her Excellency Minister Shamma Al Mazrui, the UAE's Minister of State for Youth, and with the active participation of representatives from all segments of the economy, discussions took place to distil possible policy considerations for regional governments.

Roundtable participants included representatives from the UAE's public sector, including the Ministry of Climate Change and Environment, the Ministry of Economy, and the Dubai Future Foundation, representatives from the private sector and financial institutions including HSBC, First Abu Dhabi Bank (FAB), Abu Dhabi Global Market (ADGM), VentureSouq, Majid Al Futtaim, and PepsiCo, in addition to representatives from start-ups and accelerators including HUB71, FortyGuard, and Uvera, and intergovernmental organizations including the World Bank and the UN Resident Coordinator Office.

ROUNDTABLE KEY DISCUSSION POINTS

The main question that the roundtable sought to address was: How can we increase climate-tech funding for start-ups by 10x in the region? The roundtable started out with a discussion of the most pressing challenges that climate-tech faces in the region, as well as progress made in this domain. Thereafter, ideas and possible solutions to increase climate tech funding in the region were proposed by roundtable participants.

1 Alaadin, R. (2022). Climate change may devastate the Middle East. Here's how governments should tackle it. Brookings. https://brook.gs/3LQgxDg

The main points that were discussed during the roundtable were the following:

1. The goal to increase the existing venture capital investment in climate-tech by 10x is achievable

Today, only a little over 1% of VC-funded start-ups in the region focus on climate-tech. This low starting point makes the 10-fold growth of venture capital investment more realistic, as the Arab World has amassed $3 billion in total funding for start-ups, most of which were fintech or e-commerce related. Thus, mobilising a larger share of the amassed start-up fund sum towards climate-tech would realise the increase by 10x goal.

2. There is a lack of dedicated platforms to support the development and growth of climate-tech start-ups

Platforms such as specialised incubators, accelerators, and venture builders that focus on climate-tech, and can support the ideation, identification and curation of solutions that the region needs to implement, do not currently exist as most of the present platforms focus on start-ups that are geared more towards those that are perceived to be more profitable / popular with investors as noted above.

3. A comprehensive index that clearly defines and showcases the existing climate-tech start-up ecosystem in the region must be developed

Such an index would highlight and celebrate existing climate-tech start-ups and demonstrate the commitments of both public and private sector entities who invest in and support such start-ups in the region. The index could also be used to foster partnerships between start-ups and create synergistic opportunities that fulfil gaps in the regional market.

4. Overall demand for climate-tech must be stimulated

The demand for climate-tech needs to be stimulated and driven such that the start-ups that specialise in creating these technologies have a market within which they can operate profitably. Policies and regulation could markedly increase the market demand for climate-tech solutions and hence rapidly increase the scope of climate-tech start-ups. This demand can also be pushed higher via integrating such focus into government procurement (one of the largest economic drivers in the region).

5. There is a lack of regulations that support climate-tech start-ups in the region

A regulatory framework and policies that facilitate business set-up and mandate support for climate-tech start-ups in the region must be established. This could include policies that mobilise resources, reduce investment uncertainty, promote collaboration, and incentivise or drive private support of climate-tech (such as climate-risk disclosure or assessment reporting).

6. Setting and enforcing a price on carbon is important to incentivise decarbonisation efforts

An effective tool that heavily incentivises decarbonisation efforts, especially from the private sector, is adding a price on carbon emissions. Enforcing such marketisation for carbon and enabling carbon trade would allow the demand for climate-tech to flourish, leading to the development and growth of the corresponding start-ups, which would in turn lead to sustainable solutions for sustainability.

7. Heavy regulations from banks are a disincentive to start-ups especially in a new domain, such as climate-tech start-ups

The financial obstacles and heavy regulations that start-ups in general face, including those in climate-tech, discourage them from getting funding from banks in the region. Due to the high perceived risks of this category of businesses, banks are less likely to support and loan out the required funds that could support the start-up's initiation. Governments should consider a fund to guarantee such clean-tech loans.

8. It is important to maximise the growth of the industry by foreign direct investment (FDI)

The lack of support for climate-tech in the region has caused multiple entrepreneurs to seek funding elsewhere, especially in the West. Not only could increased support retain the existing talent pool in the Arab World, but foreign direct investment could be used to kickstart climate-tech globally and attract international talent to the region to expand their operations. This would require tailored and specific FDI attraction incentives.

9. Creating meaningful relationships between Ministries of Economy in the Arab World and the Local and Global VC Community

Ministries across the Arab World could support and collaborate with VC entities keen on investing in climate-tech. Leveraging their relationships with government stakeholders, such as embassies, Ministries could foster relationships with seasoned climate-tech VC firms locally, regionally, and globally and develop the case for these start-ups in this space, encouraging foreign investment into the region.

10. High net-worth individuals (HNI) have not been adequately engaged in this space

While the region has experienced rapid growth in the presence of high net-worth individuals, which is only expected to rise even further, they have not been significantly involved in the climate-tech start-up space. This is due to lack of awareness, as well as lack of meaningful engagement mechanisms.

11. It is necessary to establish a green fund and provide climate-tech grants to support climate-tech start-ups from the first stage (A to Z support)

A green fund, allocated by the government, could be established in partnership with financial institutions where banks would be responsible for the appropriate screening and identification processes to determine start-up eligibility for funding. Furthermore, governments could dedicate grants for climate-tech start-ups to help kickstart innovation especially during their early stages of development (pre-seed stage, R&D stage, etc.).

12. Increased education must be prioritised amongst VC limited partners (LPs) and major investors to further raise awareness on climate-tech

The Arab World has one of the lowest rates of research investment, and there is a lack of awareness and education on climate change and the severity of its impacts. Therefore, programs and initiatives that focus on educating major investors must be developed to potentially attract them to actively participate in solutions for this cause, and hence drive their investments in that direction.

POLICY CONSIDERATIONS

While there are many possible policies that could be pursued, the roundtable conversation concluded that there are two main areas for policy considerations:

1. Create, stimulate, and maintain demand for climate-tech

Governments should consider driving demand by developing policies and regulations for government procurement first and foremost, followed by regulations that require companies to effectively decarbonise. This would require companies to embed sustainability into their operations, supply, and value chains, such that the demand for and support provided to climate-tech start-ups increases. There should also be a structured approach to regulating the built environment at the municipal level to ensure it is all marching toward net zero.

2. Educate the investment community

It necessary to promote the growth of venture-capital funds directed to climate-tech start-ups from leading investors. This will only happen if there is a clear and concerted effort (possibly led by a partnership between governments and banks) to 'educate the money' and create programs to appeal to and pique the interests of high net-worth individuals, philanthropists, and venture capital limited partners (VC LPs) such that they are keen to invest in the climate change agenda.

This document has been prepared by Posterity Institute as the knowledge partner for the Arab Youth Council for Climate Change.

Posterity Institute is an independent, non-profit, and non-partisan think tank that strives to create a better tomorrow, and a more sustainable shared future for the coming generations. The Institute aims to develop a deeper understanding and awareness of sustainable development challenges in emerging economies through conducting research, leading programmes and initiatives, and fostering strategic partnerships with the public and private sectors.