Climate Fintech’s scorecard: Germany goes top but Europe beating the US is the real story

Once a niche off-shoot of the fintech scene, climate fintech - simply understood as fintechs enabling decarbonisation - has emerged as an established and much-needed global sector. Attracting annual investments of $2.3B in 2023, climate fintechs are providing vital solutions businesses urgently need to support their climate transition

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Climate fintech is an important part of the UK’s booming fintech sector. While this should be a source of national pride, there is a cloud on that horizon. Our research has shown that for the very first time, the UK lost its dominance over climate fintech startup funding last year. In fact, German climate fintech startups received *over triple* the VC funding that British ones did, receiving $710M in comparison to the UK’s $210M.

This is the first time the UK has been overtaken in three years and by quite a significant margin. So, should we be worried about a decline in the UK’s climate fintech sector?

The quick answer - no. I can assure any concerned Brits reading these findings the thing to focus on is not a perceived fall from grace for the UK’s climate fintech sector. The real conversation to be had is around just how vibrant Europe’s climate fintech sector has become - especially in comparison with the US, and what that means for the European investor landscape.

Bouncing back harder

In bull years it's relatively simple to evaluate the strength of sectors by examining the funding activity both by count of deals and the overall size of funding. The reverse is true in difficult years, such as 2023. In these situations, it's as important to track climate fintech's resilience by measuring its comparative performance throughout a year of significant headwinds.

In 2023, funding volumes into climate fintech saw a reduction of 19 per cent in 2023. Meanwhile, the wider VC market contracted by 38 per cent over the same period, underlining both the quality of the founders in this space and the strength of the market's appetite for climate fintech solutions.

The growth of climate fintech in Europe

Germany's surge in climate fintech funding last year can be mostly attributed to the concentration of capital-intensive startups emerging from the country, especially around renewable energy financing, carbon management and heat pump installation companies like ENPAL and 1Komma5, which jointly attracted over €400M from global investors.

This concentration of big-ticket rounds was responsible for finally pushing Germany ahead of the UK, indicating there is still strong demand for fintech solutions that help companies manage, plan and reduce their carbon footprint. Beyond Germany and the UK, this demand was also being met by countries like the Nordics and France have had success in the climate fintech sphere - with big rounds for startups such as ClimateView and the Ecosystem Restoration Standard.

While it may be tempting to focus on the UK's move down the leaderboard, it would be a mistake. The UK's startups are just as likely to secure similarly sized funding rounds over 2024 at Series B or later, which will restore them to the top spot. A more significant trend to consider is that the US, despite the traditional advantages it enjoys for startups - such as access to capital, talent and customers - is comfortably behind Europe, as it has been for the last three years.

Onlookers might assume that US startups are outperforming their international competitors, as they tend to do across most sectors. Instead, our figures show that at $1.3B, Europe’s climate fintech raised 1.5x more than their US counterparts in 2023. Going further, climate fintechs from Germany and the UK together, raised more than their counterparts over the pond ($910M vs $881M).

Climate fintech stands alone as one of the very few tech sectors in Europe that has a clear advantage over the US in terms of growth and VC funding. What conclusions can we draw from this?

Europe’s climate consensus

Climate fintech in Europe has certainly benefited from Europe’s strong network of regulations on carbon emissions and disclosure, such as the CSRD, which will take off this year. As well as creating a positive market environment for reducing emissions, these regulations will inevitably generate demand for climate fintech solutions that can help businesses stay compliant with them.

Contrary to the norm, it is the US which has an inconsistent patchwork of regulations making life difficult for rapidly growing businesses, by contrast, Europe’s broad suite of regulatory standards delivers a much stronger foundation for climate fintechs.

Regulations are only part of the picture, however. A factor that can’t be underestimated is the broad societal consensus in Europe about the pressing nature of the climate crisis. This naturally grants businesses much greater confidence across the region and translates into a greater number of startups and investments.

These factors have contributed to producing a dynamic and competitive climate fintech ecosystem across Europe, where each year several countries stand a good chance of claiming the top spot. It can be fun to celebrate whoever comes first that year - especially if you’re German. Ultimately, it’s more important to celebrate how Europe’s climate fintechs are leading a global avant-garde, delivering essential innovation to facilitate decarbonisation at a colossal speed and scale.

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