



Climate Neutrality
Foundation



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International climate and transformation partnerships

*Strengthen international cooperation,
promote large-volume investments, establish
new forms of financing.*



CLIMATE & DEVELOPMENT ADVICE

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Dear readers,

Germany needs to realign its international partnerships. It is not only the changing geopolitical challenges and the climate crisis with ever new temperature records that pose a threat to future economic development. The one-sided import dependencies of a few countries for important raw materials, basic industries and strategically crucial key technologies for the transformation to climate neutrality must also be given much greater attention. One-sided import dependencies must be reduced quickly and purposefully in order to manage the transformation and successfully compete internationally in key climate protection technologies.

In Germany, the Climate Foreign Policy Strategy 2023 sets a new political framework for an ecologically and economically successful transformation to climate neutrality. Internationally, COP28 in Dubai marks an important milestone: In close cooperation with its European and international partners, Germany has successfully campaigned for a global shift away from fossil fuels while at the same time multiplying renewable energies and making accompanying investments in energy efficiency.

In this study, we show how international partnerships should be further developed programmatically, institutionally and strategically in the future in order to be able to overcome the challenges described under the new framework conditions. These new international “Climate and Transformation Partnerships” are being developed along strategic guidelines, whereby transformative investments in particular are to be promoted and new forms of financing established. Based on extensive consultations with key stakeholders from politics, implementing organizations and think tanks, we propose an adapted impact-oriented governance structure with the partner countries.

Dear readers, time is pressing — in terms of climate policy and industrial policy — and we should act quickly together. Our partner countries are very interested, and the preparation of pilot partnerships in line with the formulated strategic guidelines would be an obvious next step.

With this study, the Climate Neutrality Foundation is pleased to provide an impetus for strengthening international cooperation for a successful transformation to climate neutrality and to remain in conversation with you about this.

Yours sincerely,

Regine Günther

International climate and transformation partnerships

Climate change, the decarbonization and digitalization of the economy and the shift in the geopolitical balance of power pose major challenges for politics and society and are forcing structural changes. Implementing the Paris Agreement and Germany's foreign climate policy strategy requires new forms of international cooperation.

With the tripling of renewable energies and the doubling of the rate of increase in energy efficiency by 2030, as well as the move away from fossil fuels, investments in new infrastructure and green industrial development are at the center of the implementation agenda. Acceleration and scaling are decisive factors here, firstly because climate damage is increasing rapidly, and secondly because global competition for resources, influence and future markets is in full swing.

Strategic raw materials

1 - **International climate and transformation partnerships serve to advance the transformation to climate neutrality of all participating partners in line with the Paris Climate Agreement.** The aim is to pursue a profound and systemic transformation in at least one sector with a focus on transformative key technologies (net-zero technologies) by providing and leveraging substantial investments. *Achieving the COP28 target of tripling renewable energy capacity by 2030 serves as a key benchmark and objective for all international climate and transformation partnerships.*

2 - **International climate and transformation partnerships (CTP) help to secure the industrial and economic transformation, i.e. to make it resilient.**

In geopolitically turbulent times, CTPs help to diversify and secure supply chains, especially for critical raw materials and components, for the partners involved and to strengthen economic-political relationships through the development and promotion of private sector cooperation and investment in key transformative industries.

3 - **International climate and transformation partnerships promote sustainable economic prosperity in the partner countries involved,** promoting welfare gains for society as a whole and the achievement of sustainable development goals. International climate and transformation partnerships are therefore an important instrument for strengthening a transformative industrial policy against the backdrop of current and expected geopolitical challenges. They also contribute to the support, social legitimization and acceptance of climate policy goals.

Our understanding of transformation

By *transformation*, we mean actively shaping the far-reaching structural change required to achieve climate neutrality, both in industrial production and in terms of its social impact.

Constituent elements

- 1 - **Climate and transformation partnerships should trigger large-volume investments** and encourage greater financial commitment from the private sector in the participating countries by improving investment conditions and reducing risks. Investments in the transformation are driven forward by all partners involved and the foundations are laid for long-term and reliable investment planning, which makes it possible to mobilize private capital on fair terms. The bundling and focusing of publicly supported financing programmes, by national development/transition banks such as KfW, the EU and its financial institutions as well as multilateral development banks (MDBs) play a central role here.

- 2 - **We see the involvement of the private sector in these investment and implementation partnerships as a *conditio sine qua non***. The early involvement of the private sector and companies is of the utmost importance in order to achieve the strategic goals: CTPs improve the framework conditions, allowing German and European capital to flow as foreign direct investment into the development of green supply chains in the Global South and thus promote sustainable economic prosperity. By flanking the partnerships with public funds, the German government should provide important incentives to leverage the necessary private capital.

- 3 - **International climate and transformation partnerships aim to achieve broad social participation, the involvement of civil society groups and the mobilization** of all partners involved. In this way, CTPs are helping to increase and shape social opportunities and participation for society as a whole through green structural change. A broad-based mediation strategy supports public understanding of the benefits of this international cooperation and contributes to the social legitimization and acceptance of climate policy goals.

Implementation

International climate and transformation partnerships create the political framework for combining the economic and social interests of the partners. They are based on reciprocity, interdependence and common interests.

This is done by **specifying and, if necessary, supplementing the strategic goals and jointly defining the operational goals** in accordance with the principle of inclusivity, for example with regard to security policy and economic interests, increased local value creation, social cushioning of the transformation or social advancement and employment opportunities.

At the heart of international climate and transformation partnerships is the initiation of large-scale investment programmes, in Germany by KfW, and instruments such as debt-for-climate / debt-for-transformation swaps. These are supplemented by accompanying and reinforcing operational objectives and measures, such as:

- Capacity building / training opportunities and exchange of experts, e.g. via the German organisation for international cooperation GIZ and German chambers of foreign trade;
- Flagship projects with a high visibility and a role model effect;
- Joint projects in which all forces are pooled, e.g. putting together financing packages and securing parts of the value chain for both partners through *foreign direct investment (FDI)*;
- Structural facilitation of cooperation between partner countries, e.g. for SMEs, research institutions, NGOs, cities, e.g. through joint transformation dialogues and forums;
- Promoting business-to-business cooperation.

Based on the understanding of a necessary and opportunity-oriented transformation and the strategic goals, the partners jointly formulate the fields of implementation they consider strategically important, such as promoting specific transformation industries (e.g. green hydrogen); reducing dependencies in the supply chains of raw materials and goods that are essential for transformation; increasing (local) value creation, jobs and sales markets on both sides; capacity building/ training or increasing resilience to climate impacts.

Initiated by Germany with openness to other partners: International climate and transformation partnerships are Germany's starting point and contribution to international pioneering alliances in the context of the Climate Club / G7 or the OECD. Within the EU, Germany sees itself as an initiator of climate and transformation partnerships, offering third parties the opportunity to participate in the sense of a plurilateral partnership and a shared understanding of the strategic goals. The initiation and design of climate and transformation partnerships takes into account existing EU initiatives and regulations, such as the EU Global Gateway Initiative or the Africa Europe Investment Package.

International climate and transformation partnerships are characterized by their programmatic approach and impact orientation with regard to the formulated goals, as well as by an explicit and partnership-specific theory of change that enables regular evaluation and follow-up. Climate and transformation partnerships go beyond the implementation of individual projects and pursue a broad programmatic approach. They serve as powerful transformation and pioneering alliances with a focus on key transformation challenges.

The specific design of the climate and transformation partnership is based on the partner capacities: Partnerships with developing and emerging countries with a common core interest in implementing the Paris Climate Agreement and protecting global environmental assets can be expected to require considerable financial support. In contrast, partnerships within OECD countries, for example, will hardly be dependent on transnational financial support and will rather focus on trade and industrial policy framework conditions for securing supply chains for strategic Net-Zero technologies.

Many aspects are at least partly based on existing partnerships. In this respect, it is a matter of further development and improvement with selected countries in order to do justice to the scale of the challenge and the urgency of the accelerated transformation.

Governance

Joint governance between the partner countries:

Heads of state and government should play a decisive role in climate and transformation partnerships. The Federal Foreign Office is to take the operational lead with the involvement of the other key departments. The embassies and the globally unique German network of forerunner and economic organizations have a key role to play in implementation and coordination. An international steering group, supplemented by national coordination groups and with the support of a secretariat, ensures impact-oriented implementation, evaluation and follow-up. The political work of the steering group is closely supported by extended, permanent transformation forums. Further accompanying business panels and civil society panels serve as important sources of inspiration for design and implementation.

Strategic interdepartmental governance in Germany:

A Cabinet Committee for International Transformation (“Climate Foreign Policy Cabinet”) under the direction of the Federal Chancellery, the operational leadership of the Federal Foreign Office and the active participation of all relevant departments serves to coordinate the overall program of international climate and transformation partnerships. This also ensures the link with international negotiations (e.g. IMF/MDB reform). The partnerships themselves are each managed by a specialist department - with the active involvement of all relevant departments. The central starting point is a joint strategy with principles and priorities as well as a clear division of labour. Forces are bundled into a coherent external image.

We consider an early and continuous participation process with new **multi-stakeholder participation formats and transformation dialogues** in the partner countries to be an important basis for success.

With this paper, we want to initiate a political discussion and decision-making process in order to better position Germany internationally in view of the major challenges in the fight against climate change and the transition to the post-fossil industrial age. Many proposed elements require elaboration and consultation with the relevant stakeholders. Nevertheless, we recommend a rapid practical trial of the conceptual core with selected key partners.

1 - Introduction

We are experiencing a time of growing global tensions, multiple crises and profound changes. The **risks of climate change** pose a fundamental threat to prosperity and development as well as social peace, political stability, human security and biodiversity. In addition, the change processes towards climate neutrality are leading to a wide range of resistance and uncertainties in business and society. In view of the extent of this, the measures taken to **decarbonize** and increase **climate resilience** are not nearly progressing fast enough, despite undisputed successes.

“With the tripling of renewable energies and the doubling of the rate of increase in energy efficiency by 2030, as well as the move away from fossil fuels, investments in new infrastructure and green industrial development are at the center of the implementation agenda.”

In the first review of the implementation of the Paris Agreement, all 197 signatory states recognized that the global community is not yet on track to limit global warming to 1.5 degrees. At the same time, the international community has committed to accelerating science-based climate protection measures in this decade. The resolution of COP 28 in Dubai therefore envisages, among other things, tripling the capacity of renewable energies by 2030, doubling the rate of increase in energy efficiency by then and moving away from fossil fuels in the long term. This clearly sets the political framework for the transformation to climate neutrality.

Neither Germany nor any other country can manage the necessary, massively accelerated transformation alone. It is a global challenge and requires in-depth international cooperation: This applies to the financing, development and rapid dissemination of **key technologies for decarbonization**, for the further development, diversification and increased **resilience of value chains**, as well as for the **design of the green lead markets** that will shape the next phase of industrial development. In times of increasing polarization and demarcation, an imperative prerequisite for deeper cooperation is **fairness**, which is based on **common interests** and creates recognizable added value for all parties involved.

Climate and transformation partnerships can make an important contribution to this by accelerating decarbonization both in Germany and in the partner countries, promoting economic prosperity, improving the resilience of transformation-related value chains and increasing investment activity.



In developing and emerging countries in particular, transformation requires easier access to sufficient and affordable capital. A climate and transformation partnership can help to reduce capital costs for transformation-related projects and channel higher investment from both the private sector and development banks into the partner country. Why is this so important? Although **investment in the transformation** to climate neutrality is now increasing in many developing and, above all, emerging countries, it still falls well short of what is required. The biggest obstacle for many countries is the disproportionately high investment costs due to illiquid national capital markets, often critical foreign debt and very limited access to international financial markets or access with high risk premiums. **Climate and transformation partnerships can help to reduce these financing bottlenecks, lower investment costs and accelerate the transformation in the interests of both the partner country and Germany.**

The financing problem has been known for some time and is becoming more acute without traditional climate financing having found adequate solutions. To illustrate the scale of the problem: The World Bank and other institutions estimate that many trillions of US dollars of additional investment will be required between 2023 and 2030 in order to achieve the internationally agreed targets.¹ The report by the Independent High-Level Expert Group on Climate Finance (2022) concludes that USD 2.4 trillion will need to be invested annually in emerging and developing countries (excluding China) in the energy transition, climate adaptation and protection against climate-related damage and losses as well as the restoration of natural areas by 2030.²

1 World Bank, Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution, <https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf>

2 Independent High-Level Expert Group on Climate Finance, Finance for climate action - Scaling up investment for climate and development, November 2022; <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf>

This would roughly quadruple current investments. This is the only way to achieve the goals of the Paris Agreement. Even if the required investments are very high, the costs of not investing would be even higher.

In Germany and the EU, mobilizing sufficient investment capital for transformative change is also a problem. However, high energy costs, regulatory barriers and one-sided import dependencies for strategically relevant key technologies and critical raw materials are currently perceived as at least as great a challenge for structural change in this country. The focus here is on PV panels, lithium-ion batteries, permanent magnets, electrolysers, heat pumps and green steel production plants — a few **technologies** that are crucial to the success of the transformation, but for which there is a high dependency on only one or very few sources of supply for either primary products or raw materials.³ The Russian war of aggression against Ukraine has clearly demonstrated the economic and, ultimately, security risks that can result from this. Building resilient supply chains with the aim of ensuring the secure **availability of the technologies required for the transformation** is therefore of strategic importance and can be improved through climate and transformation partnerships.

In addition, there is a lack of adequately trained **specialist personnel** in almost all countries for a faster and successful transformation, i.e. engineers, planners, skilled workers and craftsmen. A recent study puts the gap at 7 million skilled workers worldwide by 2030 for the renewable energy sector alone, with the biggest shortages being in solar, wind and bioenergy.⁴ Transformation partnerships can help to address the skills shortage through targeted education and training programmes and the promotion of skills-based labor migration.

3 Prognos, Öko-Institut, Wuppertal-Institut (2023), Securing Germany's Sovereignty – Resilient supply chains for the transformation to climate neutrality by 2045

4 See: <https://www.bcg.com/publications/2023/will-a-green-skills-gap-put-climate-goals-at-risk>

At the same time, **strategic competition for green and other key technologies and resources** is already in full swing. This accelerates the transformation into a new industrial era of “**zero carbon industries**” with new jobs, business models and profound emission reductions. Competition is not purely market-liberal, but is also characterized by geostrategic and industrial policy motives or considerable government support (e.g. “**Inflation Reduction Act**” in the USA). Germany and the EU are in fierce competition with the USA, Japan and China, as well as new competitors such as India, Indonesia and Brazil.

With the **European Green Deal**, the EU made green growth the central focus of its policy relatively early on and created a far-reaching regulatory framework as well as many initiatives for the promotion of environmentally friendly technologies.⁵ In this respect, it was in a good starting position. However, the lack of strategic raw materials and components, dependencies in semiconductors and ensuring military security are strategic challenges that can only be overcome in cooperation with third countries. Competitors such as China and the USA have established simpler and faster-acting incentive systems for transformation. Germany and Europe must not miss the boat, especially in important lead markets such as those for electromobility, renewable energies, digitalization and artificial intelligence.

The increase in fragmentation, confusion and uncertainty is a global phenomenon: Many countries in the Global South are also currently experiencing a juxtaposition of growth and transformation dynamics on the one hand and fears of being left behind economically by new technologies and business models on the other. In this situation of upheaval, transformation partnerships can contribute to greater **reliability and fairness** on the one hand and initiate **cooperation on the basis of re-defined value chains for the benefit of both sides** on the other. Improving investment conditions would play a key role here.

5 A good overview can be found in the European Commission's communication "Report on EU policy initiatives for the promotion of investments in clean technologies", October 2023; https://commission.europa.eu/system/files/2023-10/COM_2023_684_1_EN_ACT_part1_v11.pdf

Climate and transformation partnerships should therefore be a multi-layered and flexible instrument to help meet the **challenges** described above, which are not only faced by Germany and Europe, but also in specific forms worldwide. They are an important element of **at least partially realigned international cooperation**. Without this, Germany and Europe can neither survive in the technological, financial and economic competition for tomorrow's markets nor adequately contain the climate and biodiversity crisis. The same applies to our partners.

However, it would be too short-sighted to view transformation solely in terms of capital, human capital, natural resources and markets. The UN report “Synergy Solutions for a World in Crisis: Tackling Climate Change and SDG Action Together”⁶ and the “Global Sustainable Development Report 2023”⁷ show — like many other reports before it — that overcoming the climate crisis, which is an expression of the failure of a model of unsustainable development, requires a profound **transformation of economic, political, social and human-environmental systems**. Transformation can therefore only succeed if the social systems also change successfully. This in turn requires joint participation, inclusion and fairness in the negotiation of solutions based on common interests and values. Transformation partnerships must therefore be designed in such a way that they also take appropriate account of the political and social dimension of transformative change.

6 https://sdqs.un.org/sites/default/files/2023-09/UN%20Climate%20SDG%20Synergies%20Report-091223B_1.pdf

7 https://sdqs.un.org/sites/default/files/2023-09/FINAL%20GSDR%202023-Digital%20-110923_1.pdf

The **Climate Neutrality Foundation** has commissioned **Climate & Development Advice** to develop a⁸ concept for climate and transformation partnerships⁹ based on the evaluation of existing climate and energy partnerships presented by Ecologic, further preliminary work and a political consultation process organized by the Climate Neutrality Foundation, which addresses the international challenges of transformation outlined above, is attractive for partner countries from the Global South as well, and can be implemented politically relatively quickly on the basis of existing partnerships.

In developing the concept, we were guided by the following seven **key questions**, which have been briefly outlined in this introduction and will be explored in greater depth in the following chapters:

8 Ecologic, 2023. Developing Germany's Partnerships for Transformation. Published by Ecologic Institut; <https://www.ecologic.eu/sites/default/files/publication/2023/50128-Developing-Germanys-Partnerships-for-Transformation.pdf>

9 See, among others, Germanwatch, 2021. Paris-Partnerschaften; www.germanwatch.org/de/19693

- 1 - What are the goals and key features of a climate and transformation partnership that distinguish it from previous energy, climate or raw materials partnerships?
- 2 - How do climate and transformation partnerships fit into the broader framework of German, European and international transformation policy?
- 3 - What requirements should partner countries fulfill for a climate and transformation partnership to come about and how do they benefit from these?
- 4 - What should political governance look like in Germany and together with the partner country?
- 5 - Which social players should be involved in climate and transformation partnerships and what could participation formats look like?
- 6 - What would be the timeframe and process of climate and transformation partnerships?
- 7 - What would be the financing pillars of climate and transformation partnerships?

The results of the consultation with experts from the Bundestag, federal ministries and the Chancellery, development cooperation, the Federal Environment Agency, science and think tanks, companies and business associations, political foundations and non-governmental organizations and, last but not least, partner countries have been incorporated. We would like to thank everyone involved for their suggestions and experiences, which have provided us with important impetus. The authors and the Climate Neutrality Foundation as the client are solely responsible for the content of the analysis.

2 - Goals and characteristics of climate and transformation partnerships

The international partnerships that Germany has entered into to date, which have a more or less pronounced connection to transformation issues, are characterized by diversity: Energy partnerships and dialogues, raw materials and hydrogen partnerships, as well as climate and development partnerships. In addition, there are other collaborations funded by the International Climate Initiative (IKI), as well as the **Climate Club**, the “**Just Energy Transition Partnerships**” (JETPs) and, finally, partnerships to hedge against climate risks under the umbrella of the **Global Shield Initiative**.

Germany has been using the instrument of partnerships for years, is an attractive partner for many countries and has been able to provide many positive impulses for climate-friendly development in this way: Partner countries are advised and supported in a variety of policy areas, capacities and human capital are built, pilot projects are financed and climate-friendly investments are promoted.¹⁰

However, the existing partnership landscape also has its **limits**: It is characterized by **fragmentation**, is driven by very different interests and the financial resources are too limited. For example, climate and development partnerships essentially promote climate protection and adaptation in developing and emerging countries, while energy, hydrogen and raw materials partnerships are driven more by German foreign trade and energy policy interests. Our **central argument** that transformation partnerships must be guided by the **common interests of both partners** plays at best an indirect role in the existing partnerships. To date, there is no **overarching overall strategy** and no **coordination** of the many

partnership programmes, which are managed by several ministries and the Chancellery. In addition, the objectives and priorities are not clearly defined for all partnerships and the financial and other **resources** available to most partnerships are rather modest.¹¹ The most recent form of partnership, the large-scale, multi-donor JETPs, differ from this in that they aim to accelerate the energy transition in strategically relevant emerging countries on the basis of coordinated **investment plans** and with considerable resources.

¹¹ For a detailed analysis, see *ibid.*

“International climate and transformation partnerships help to secure the industrial and economic transformation, i.e. to make it resilient.

¹⁰ A good overview is provided by the study from Ecologic, Developing Germany's Partnerships for Transformation, Sept. 2023, <https://www.ecologic.eu/sites/default/files/publication/2023/50128-Developing-Germanys-Partnerships-for-Transformation.pdf>

International climate and transformation partnerships

The first global stocktake at COP28 has once again made it clear that the existing instruments will not come close to achieving the international climate protection targets. It illustrates the worldwide implementation problems and inadequate ability to respond appropriately to the global megatrends of climate change, fragmented globalization and geopolitical realignment. Given the scale and urgency of the challenges and the limitations of existing partnerships, it seems logical to develop an expanded **concept of climate and transformation partnerships** with at least some key countries, which are **more effective** because they are based on common interests, pursue ambitious goals, contribute to more resilient value chains and, above all, can mobilize significantly higher investments. The following concrete objectives can be derived from this:

1 - Accelerating decarbonization, securing prosperity

Climate and transformation partnerships are intended to support modernization and change processes to achieve the goals of the Paris Agreement in the participating partner countries and thus accelerate their economic structural change towards **climate neutrality**.

Climate and transformation partnerships are intended to promote sustainable **economic prosperity** in both partner countries and thus help to achieve the **goals of sustainable development** and welfare gains for society as a whole. This helps to **legitimize the implementation of national and international climate targets in society**.

“Climate and transformation partnerships should trigger large-scale investments and encourage greater financial commitment from the private sector.”

2 - Increase public investment and leverage private investment

Climate and transformation partnerships should trigger **large-volume investments** and encourage greater financial commitment from the private sector in the participating countries by improving investment conditions and reducing risks. Much higher investments than today are a prerequisite for a successful transformation process.

In this way, climate and transformation partnerships can also contribute to **geopolitical stability and security** by promoting trust-based intergovernmental cooperation on equal terms, with the participation of social players, with the opportunity to reduce inequalities, mitigate tensions, protect global environmental assets and reduce risks to human security, which in turn reduces climate-related refugee movements.

3 - Creating resilient value chains and organizing robust support

Climate and transformation partnerships are intended to increase the **resilience of the economy and society** in both partner countries in a dual sense, i.e. in the form of greater adaptability to the consequences of climate change and in the sense of more diversified, reliable and thus secure international supply and value chains, including energy, raw materials and other trade relations. At the same time, they should help to flank structural change in society in such a way that the transformation process meets with majority approval, is seen as the right thing to do and has a positive impact.

4 - Strengthening capacities, training specialists and promoting social participation

Climate and transformation partnerships should help to strengthen **capacities** and train and develop **skilled workers** in transformation-related professions in order to overcome the serious lack of capacity and skilled workers in many places and thus overcome an important hurdle for transformation processes. At the same time, this creates opportunities for social advancement and participation for more active individual and **social involvement in the transformation process**.

International climate and transformation partnerships

1 - Reciprocity, interdependence and common interests

Climate and transformation partnerships should be based on reciprocity, interdependence and common interests with regard to strategic transformation processes. In this sense, they serve both economic and social change processes in the partner country (for example in the development of production capacities for battery storage systems) as well as German or European interests (for example with a view to more diversified supply chains and trade relations when importing or exporting products that are essential for transformation). Climate protection is strategically linked to powerful interests such as security policy and economic interests. Both partner countries define and communicate their respective core interests in the run-up to a partnership. Open communication and transparency in this regard create trust.

2 - Implementation and investment partnership with the involvement of KfW

Above all, climate and transformation partnerships should be **implementation and investment partnerships** that mobilize considerable financial resources for the transformation. This requires both public and private investment on the basis of an investment plan and a functioning national and international financial ecosystem.¹² The involvement of the private sector and companies (both private and public) is of the utmost importance here: Transformation partnerships are intended

12 See e.g. Independent Group of Experts, Strengthening MDBs: the triple agenda, July 2023; https://icrier.org/q20-ieg/pdf/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf; Independent High-Level Expert Group on Climate Finance, Finance for climate action - Scaling up investment for climate and development, November 2022; <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf>

to improve the framework conditions for more German and European capital to flow into the transformation of partners in the Global South. The basis for this would be the willingness of the federal government to provide partnerships with public funds in such a way that private capital can be leveraged. To this end, we propose that **KfW be given a prominent role as a source of financing by launching a set of financing instruments there for transformation partnerships.** The participation of other development banks should also be sought.

3 - Value creation in both partner countries

Climate and transformation partnerships should go beyond the rather selective cooperation of existing partnership models and be based on a broader programmatic approach in order to contribute to solving important transformation challenges on the path to climate neutrality. The specific measures taken and the players involved should be derived from a concept of transformative change developed jointly by the two partner countries. The greater the expected economic and social benefits for both partner countries, the greater the chances of success for climate and transformation partnerships, particularly with a view to maximizing local value creation as a result of the cooperation.

4 - Close economic cooperation and broad social participation

Close economic cooperation and broad social involvement and participation in both partner countries are another key feature, as economic cooperation, social participation and cohesion are important prerequisites for transformative change to succeed and not be too disruptive. Transformation partnerships should therefore offer comprehensive opportunities for participation for the relevant stakeholders from business and society. In times of great geopolitical rivalry and economic competition, transformation partnerships should be attractive both in our own interests and in the interests of our partners.



ФОТО Per-Anders Pettersson

3 - Partnerships within the framework of German, European and international transformation policy

Climate and transformation partnerships in the national context

Climate and transformation partnerships can play an important role in the transformation, but of course they can by no means take on all the tasks. In particular, they should help to shape the **far-reaching structural change** required to achieve climate neutrality. The links to structural and industrial policy are correspondingly close. Partnerships can create **transformative lighthouses** that inspire imitation. They can secure transformation processes internationally by pooling the comparative strengths of the partners.

Climate and transformation partnerships are dependent on the **social, political and legal framework conditions in the partner countries and on international standard-setting** and operate in a competitive environment. The better they are dovetailed with other change processes, such as the negotiation processes under the Framework Convention on Climate Change and the reform efforts with regard to the international financing architecture for climate and development, the more effective they will be.

The transformation to greenhouse gas neutrality and the competition for future technologies will massively change the global markets and bring comparative advantages for new locations that, for example, have more favourable conditions for renewable energies. There will also be relocations because the Global South is rightly claiming a larger share of global value creation and is itself becoming an increasingly interesting market. Countries rich in raw materials will not simply export critical raw materials, but will endeavor to establish additional stages of the value chain by processing them. In Germany, we therefore need to discuss how our value chains will continue to change, for example with regard to the chemical and automotive industries. Structural and industrial policy can play a role in shaping this process and support it internationally through climate and transformation partnerships. They should therefore be closely coordinated with our economic interests and industrial policy instruments. The same applies to partner countries. Climate and transformation partnerships can help those involved to secure parts of the value chain and at the same time maintain competitiveness vis-à-vis third parties.

“International climate and transformation partnerships promote sustainable economic prosperity in the partner countries involved.”

European climate and transformation partnerships

Germany is well placed to enter into transformation partnerships. These include wide-ranging diplomatic relations, a high international reputation on sustainability issues, economic, technological and financial strength, as well as a civil society that is sophisticated and experienced in cooperation. However, it goes without saying that all EU-related issues should always be taken into account in a partnership. Germany should proactively offer interested EU member states and the EU the opportunity to participate in climate and transformation partnerships.

Furthermore, in the case of climate and transformation partnerships, all implications arising from EU initiatives and regulations should be examined for synergies as early as the initiation phase. This is particularly true with regard to the **EU Green Deal** and its international flanking measures, for example in the area of education and training in the EU's eastern and southern neighborhood countries, as well as other flanking¹³ green partnership agreements.¹⁴ A close link with the **EU Global Gateway Initiative** with its investments (e.g. **Africa Europe Investment Package**) and projects is also obvious.¹⁵

13 <https://www.etf.europa.eu/en/news-and-events/news/eu-neighbourhood-green-deal-and-skills-development>

14 <https://globaleurope.eu/europes-future/green-partnership-agreements-how-they-advance-the-eu-green-deal-and-strengthen-eu-relations-with-its-southern-neighborhood/>

15 https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en

Some projects within the framework of climate and transformation partnerships could also be classified as **Important Projects of Common European Interest (IPCEI)**¹⁶ and thus benefit from simplified competitive conditions. The **EU Net Zero Industry Act**¹⁷ can also offer special opportunities for climate and transformation partnerships.

The **EU Critical Raw Materials Act**¹⁸ and **supply chain-related regulations** with their ESG requirements for companies¹⁹ and product-related standards, such as the **EU Regulation on Deforestation-Free Products**²⁰, also require close coordination. This creates opportunities for climate and transformation partnerships if they provide targeted support to companies in the partner countries, for example through special contact points, to understand and implement such regulations.

Transformation partnerships in a broader international context

Climate and transformation partnerships involving third parties, in particular **OECD and G7 countries as well as multilateral development banks**, also offer great opportunities. This also applies to triangular cooperation involving several partners from the Global South in view of the high level of investment in climate-friendly technologies by some emerging and developing countries, which makes them increasingly credible role models for other countries in the Global South. However, the heterogeneity of stakeholder interests is greater in such part-

16 https://competition-policy.ec.europa.eu/state-aid/legislation/modernisation/ipcei/practical-information_en

17 https://single-market-economy.ec.europa.eu/industry/sustainability/net-zero-industry-act_en

18 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1661

19 <https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Europe/EU-supply-chain-law-initiative/eu-supply-chain-law-initiative.html> beziehungsweise <https://www.bmas.de/EN/Europe-and-the-World/International/Supply-Chain-Act/supply-chain-act.html>

20 https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en

nerships, which is likely to lead to greater coordination efforts. In principle, **plurilateral climate and transformation partnerships** have advantages such as the mobilization of additional financial resources, greater transparency and the potential for additional synergy effects. Previous experience with the **Just Energy Transition Partnerships (JETPs)**, which, as discussed, have similarities with climate and transformation partnerships, but are less broad and participatory, testifies to both the potential and the challenges of plurilateral investment partnerships.²¹ The business community in particular does not seem to be sufficiently involved so far.

Regardless of how many people are involved in a partnership, it is important to coordinate with countries that have partnerships with the country in question, as well as with multilateral development banks and international organizations on the ground. The embassies and German front organizations have a central role to play here.

²¹ <https://rmi.org/jetps-101-helping-emerging-economies-go-from-coal-to-clean/>

**“Initiated by Germany,
other partners welcome”**

The **climate club**²² is another cooperation format with some parallels to climate and transformation partnerships, but also major differences: A particular focus of the Climate Club is on driving forward decarbonization in the industrial sector and at the same time preventing this from leading to companies relocating to countries with less stringent CO₂ limits (carbon leakage). It is conceivable that climate and transformation partnerships could support countries such as India in becoming a member of the climate club in the future.²³

Climate and transformation partnerships are intended to complement the multilateral negotiation processes under the umbrella of the **UN Framework Convention on Climate Change (UNFCCC)** and the **Paris Agreement**: they can support partner countries in making faster progress on climate change mitigation (and adaptation). They are also a suitable instrument for strengthening pioneering alliances. Multilateral climate negotiations, on the other hand, define minimum requirements for all countries based on the lowest common denominator they can achieve. The regulatory space covered by multilateral negotiations is much broader than the range of topics that individual climate and transformation partnerships can cover, which are based on clearly defined common interests. In this respect, the possible interplay between partnerships and multilateral negotiations could be described as a **“push and pull”**.

²² <https://www.bundesregierung.de/breg-de/schwerpunkte/klimaschutz/g7-klimaclub-2058152>

²³ According to reports, this would be interesting for India, for example.

4 - Selection criteria and partnership benefits

What conditions should partner countries ideally fulfill for climate and transformation partnerships to come about? And what are the specific advantages over a less privileged form of cooperation?

In a changing world with rapidly changing requirements for cooperation, Germany and the EU must continue to develop their international relations in line with requirements.²⁴ Most other countries face similar challenges, creating opportunities to build reciprocal relationships that serve transformation on both sides.

Consequently, the existence of **common interests** is a key criterion in the selection of partner countries. The existence of a relatively stable **legal, political and social frameworks** is a second selection criterion: Legal certainty, a functioning institutional structure and predictable social decision-making processes create trust and offer the prerequisites for investing in joint projects on a larger scale, especially those of great strategic relevance. Thirdly, partnerships are particularly attractive if they are also based on the broadest possible **shared values**.

However, it would not be realistic to expect all criteria to be met from the outset. If common values and stable framework conditions are not or only partially given, but there are major common interests, climate and transformation partnerships are still possible. However, this requires the focus of the partnership cooperation to be adjusted accordingly: Where the framework conditions or **governance** show weaknesses, cooperation offers can be made that aim to gradually reduce risks in order to enable investments.

Another important criterion in the selection of partner countries is the question of **financial viability and economic efficiency**. If there are several partner options, priority is likely to be given to those partner countries where the greatest added value can be achieved for both partners and the global transformation.

24 See also the national security strategy (https://www.bmi.bund.de/SharedDocs/downloads/DE/veroeffentlichungen/2023/nationalesicherheitsstrategie.pdf?__blob=publicationFile&v=1) and the climate foreign policy strategy (<https://www.auswaertiges-amt.de/blob/2633110/a64259603803cb057a6bf6ed99e86419/kap-strategie-data.pdf>)

What would be the **concrete partnership benefits**? It is important to communicate transformation partnerships as what they essentially are — a **privileged form of cooperation** that goes beyond the usual formats of international cooperation. In a world characterized by systemic rivalry and economic competition, partnerships offer a higher degree of **reliability and longer-term predictability**. This is their greatest advantage. This should be accompanied by **positive effects on supply and value chains, economic circularity, transformation-critical capacities, and growth and employment**.

Climate and transformation partnerships facilitate **cooperation between the partner countries** by bringing together the strands of cooperation on foreign climate policy, foreign and foreign trade, development and environmental policy. Non-governmental players can also identify contacts more easily and find a cooperation network that they can join and use. This is a great advantage for small and medium-sized enterprises in particular, but also for research institutions, non-governmental organizations, cities and many other stakeholders.

Climate and transformation partnerships support processes that have been initiated in the partner countries themselves. This promotes their implementation, such as the achievement of the **NDC goals** or their better integration into national planning processes.

Climate and transformation partnerships can help to better protect partner countries and their economic relationships against the consequences of climate change. By **reducing climate risks**, they increase human security and economic stability. This is of great interest, especially for those partner countries whose economies are increasingly suffering from climate-related losses.

These and other positive effects **promote social consent to transformation** and reduce the risk of change processes triggering social upheaval. By focusing on the participation and active involvement of diverse players, transformation partnerships promote a common understanding, create trust in the reliability of the global North and, in the best case scenario, make democracy a positive experience.

Germany already has development, raw materials, energy or climate partnerships with many potential partner countries. It is important to coordinate with them, build on them and develop them into climate and transformation partnerships. This means that they will often **build on existing collaborations and develop them further**.

Programmatically, each climate and transformation partnership will set its own priorities depending on the country constellation. What they have in common is that they must achieve a high level of visibility and a unique position through **flagship projects** in order to mobilize sufficient political and financial support as well as economic and social participation. This requires a good combination of highlighted flagship projects and an overall program that creates the necessary framework conditions and a communicative resonance space.

“International climate and transformation partnerships are characterized by their programmatic approach and impact orientation.”



foto Bloomberg

5 - Governance in Germany and between the partners

Key requirements for governance in Germany

For climate and transformation partnerships to be effective, they must be politically high-level and well-coordinated, and also follow an overarching long-term strategy. This presupposes that German, foreign, economic, climate, security and development policy are **strategically considered together, well coordinated and consistently implemented**. We can learn from other countries, such as the USA and China, where transformation issues are a “top priority”. If the German government’s new **foreign climate policy strategy**²⁵ is implemented as planned, this could lead to a more coherent overall strategy and better governance: The decision to set up a round table of state secretaries promises progress.

Overall strategy

A coherent overall strategy would benefit greatly if there were more clarity in Germany with regard to key issues for the future: What are possible climate policy, economic and geostrategic scenarios for Germany and the EU? What new infrastructure needs to be built? For which parts of value chains are we particularly predestined and who are our partners? We propose setting up an **Enquete Commission** to examine the geopolitical, economic and social issues of the transformation in addition to the climate issues.

25 <https://www.auswaertiges-amt.de/blob/2633110/a64259603803cb057a6bf6ed99e86419/kap-strategie-data.pdf>

The answers to these questions should be incorporated into a future strategy for climate and transformation partnerships, which, however, cannot wait until the results of a possible Enquete Commission are available in a few years’ time. It should be clarified much more quickly where exactly the interfaces between climate and transformation partnerships and relevant policy areas such as foreign, climate and industrial policy in particular lie. In addition, a **political narrative** on partnerships should be developed that is capable of winning a majority and enables progress to be made even under difficult conditions.

Broad political support is important for adequate funding of climate and transformation partnerships. Firstly, these must be adequately taken into account in the **federal budget**, and secondly, **agreement should be reached on a financing strategy** that involves KfW, other financial institutions and the private sector to a greater extent.

Governance structures in Germany

To ensure good and rapid coordination within the Federal Government, a steering committee for climate and transformation partnerships should be set up involving the Chancellery and the operational leadership of the Federal Foreign Office with the participation of all relevant ministries. The details of the decision-making processes and responsibilities remain to be negotiated. Strong political support for partnerships from the Chancellery is important, especially as in many partner countries the decision-making power for strategically relevant partnerships lies at the level of the heads of state and government and these would have their point of contact in the German head of government.

Establishing a cabinet committee for international transformation chaired by the Federal Chancellor could provide the necessary institutional basis.

Clearly climate protection is a matter for the top leader and all relevant ministries must contribute and report regularly on progress, obstacles and new challenges. Such a cabinet committee could meet two to three times a year. The Federal Foreign Office, which is responsible for foreign climate policy, should be responsible for managing and coordinating the departments involved between meetings. This ensures that transformation partnerships are dovetailed with other international negotiation processes, in particular the UNFCCC process. A high-ranking climate sherpa could, like the G20 sherpa, serve as the primary point of contact for overarching issues. This function could, for example, be assigned to the Special Envoy for Climate Protection at the Federal Foreign Office.

The partnerships themselves would each be managed by a specialist department as part of a coordinated division of labour. The **BMZ** and **BMWK** are likely to have the greatest expertise and resources for this. In this way, climate and transformation partnerships could be created “from a single source” and at the same time the political visibility of various ministers, which is particularly necessary in coalition governments, could be maintained.

The embassies in the partner countries and the globally unique German network of forerunner and economic organizations would play a key role: They would be the link, coordination and communication

“We propose setting up an Enquete Commission to examine the geopolitical, economic and social issues of the transformation in addition to the climate issues.”

bodies in the partner countries and countries that could become partner countries in the future. They should work hand in hand. In order to act as a transmission belt, the messages require both appropriate specialists and a high level of speaking ability on transformation topics for all employees up to management level.

Intergovernmental agreement

The basic prerequisite for an effective partnership is broad political ownership in the participating countries. The partnership must therefore be jointly developed, managed and implemented. A climate and transformation partnership should be negotiated in intergovernmental consultations and set out in a binding **intergovernmental partnership agreement** that includes common interests, principles and criteria, defines rights and obligations, and covers governance, cooperation content, investment commitments and other key aspects. Partnership goals need to be carefully defined and progress should be regularly reviewed and operational goals readjusted.

It could be argued that the conclusion of an international treaty and the coordination of a large number of players takes a lot of time. This complexity can impair the necessary speed in initiating, concluding and implementing climate and transformation partnerships. However, it must be countered that the transformation partnerships proposed here represent a privileged form of cooperation that is reserved for a small number of countries, but also requires a particularly reliable form of institutional protection over a longer period of time. The other partnerships, on the other hand, can and should continue to be driven forward primarily by the relevant departments.

Governance structures with the partner country

The details of joint governance should be regulated - below the partnership agreement — in a **Memorandum of Understanding (MoU)**.

Ideally, climate and transformation partnerships have a multi-level **governance structure**. At the highest level, heads of **state and government** should give political weight to partnerships. Regular government consultations every one or two years would be a suitable format.

A **political steering group** consisting of high-ranking players should be set up at the middle level. The joint management should be the responsibility of a politically well-connected representative from each partner country. It would be important for the people responsible for management to have direct access to the head of government in the respective partner country so that any problems can be solved quickly and proactively.

At the working level, a joint **partnership secretariat** should be set up with staff from both (or all) participating countries.

In addition, non-state players from the partner countries should be involved via **transformation forums** such as **economic and civil society panels**. Formally, these could take the form of **advisory boards**, as has already proved successful in plurilateral processes (G7, G20) and some partnerships. Adequate representation of important non-state actor groups at the secretariat level would also be desirable.

The climate and transformation partnership agreed with Brazil in December 2023 is a good example of this concept.

Important elements of climate and transformation partnerships

Transformation partnerships will have to be structured differently depending on the partner country. Nevertheless, there are a number of **elements** that appear to be particularly important:

- Firstly, transformation partnerships should build on **national development plans and climate strategies** and be compatible with the Paris Agreement.
- Secondly, they should serve **transformative economic development** and promote the achievement of defined goals based on **investment plans**.
- Thirdly, the development of common product, process or emissions standards can create **guard rails for joint trade**.
- Fourthly, **peer-to-peer networks** should be promoted at working level in order to strengthen social anchoring and learn from each other.
- Fifthly, the **social cushioning of the transformation** in the sense of a just transition should be an integral component.
- Sixthly, **reciprocal transformation dialogues** should be conducted in the partner countries. Transformation partnerships cannot be a one-way street. This applies to political, economic and social dialog as well as to duties and rights.
- Seventh, there should be a regular **peer review** of climate and transformation partnerships with the participation of experts from third countries and international organizations. This creates transparency and promotes the transfer of knowledge.

6. Multi-stakeholder approach and its gradual development

To be fully effective, climate and transformation partnerships must go beyond cooperation between governments and involve business and society. This is the only way to create the multi-stakeholder approach that is a key characteristic of transformation partnerships.

The **composition of the players involved will vary** depending on the partner country. An important criterion when selecting the players you want to attract at the start of a partnership is their relevance in the respective partnership constellation. A prerequisite for participation is the willingness of all stakeholders to recognize the partnership principles and objectives as a basis for cooperation. A fundamental willingness to invest in the partnership, be it financially or ideally, is also of central importance.

The key role of business in climate and transformation partnerships

Business stakeholders in the partner countries play a **key role in the implementation of climate and transformation partnerships** because they are the ones who develop new technologies, business models and supply chains and lead them to economic success, who have to take risks and invest or find investors, who have to recruit, train and educate skilled workers. **Chambers of commerce, business associations, companies and trade unions should therefore be involved in the political negotiation and implementation process of climate and transformation partnerships at an early stage and on an ongoing basis.** The more precise modalities for this would still have to be developed and are likely to differ to a certain extent depending on the partner country. In principle, **new participation formats such as transnational transformation dialogs and forums in economic and civil society panels** should also be developed and tested (see also below).

The rather limited **involvement of the private sector** to date is perhaps the biggest blind spot in Germany's development and climate partnerships with the countries of the global South. This may also be due to the fact that development cooperation often still lacks the instruments to promote businesses. In this respect too, climate and transformation partnerships should go beyond the existing partnerships, as the private sector in both partner countries is an indispensable player in the transformation. Especially for small and medium-sized enterprises, which play a key economic role not only for the German economy, but even more so in most countries of the global South, partnerships can make a significant difference with regard to new economic cooperation. For large companies with a global presence, the added value is less compelling, but also exists, particularly with regard to ESG standards and related obligations along supply chains.

“To be fully effective, climate and transformation partnerships must go beyond cooperation between governments and involve business and society.”

“The rather limited involvement of the private sector to date is perhaps the biggest blind spot in Germany’s development and climate partnerships with the countries of the global South.”

The role of other social players in climate and transformation partnerships

In both partner countries, we propose gradually involving other stakeholders such as scientific and educational institutions, think tanks, foundations, environmental and development organizations, as well as federal states and cities, so that partnerships gain social breadth, acceptance and momentum for change. What forms of participation can look like and which players they focus on in particular should be developed in a dialogue with the partner countries. However, the participation of social groups and subnational players should be action-oriented and programmatic in nature and thus go beyond mere consultation processes.

One field of action would be, for example, training and further education as well as the exchange of specialists. Here, the partnership could support the creation of needs analyses and corresponding training and further education offers as well as the secondment and exchange of specialists. In addition to businesses, **vocational training institutions** are of great importance here. **Universities and research institutions** could also be involved in climate and transformation partnerships through academic exchange, joint research projects and study programmes.

Transformation is most visible in space at the level of cities and municipalities. Local authorities should therefore also be involved in the implementation of climate and transformation partnerships, especially as international cities and country partnerships are an established international cooperation format. In addition to the exchange of experience at the administrative level, there is also the opportunity for exchange between social groups, for example young people, as well as for economic contacts.

Non-governmental organizations, foundations and other civil society players such as cultural institutions and the media can also make important contributions by providing information on climate and transformation issues, raising awareness and initiating change. In many countries, civil society participation is subject to strict limits. As part of a climate and transformation partnership, appropriate measures should be taken to support participation and capacity development.

Structure of a multi-stakeholder partnership

If, in addition to the governments of the partner countries, non-state players also play a key role in implementing the partnership, this should also be reflected **structurally**.

We propose that the **intergovernmental cooperation level of governments be supplemented by an independent cooperation level of key players from business and society who organize themselves in joint economic and civil society panels** both nationally and internationally (see figure). On the one hand, these would have an **advisory function** within the transformation partnership. Secondly, they should take on **implementation tasks** for the partnership, as outlined above using the example of research, training and further education. What these are in detail would have to be determined depending on the partner country.

International governance

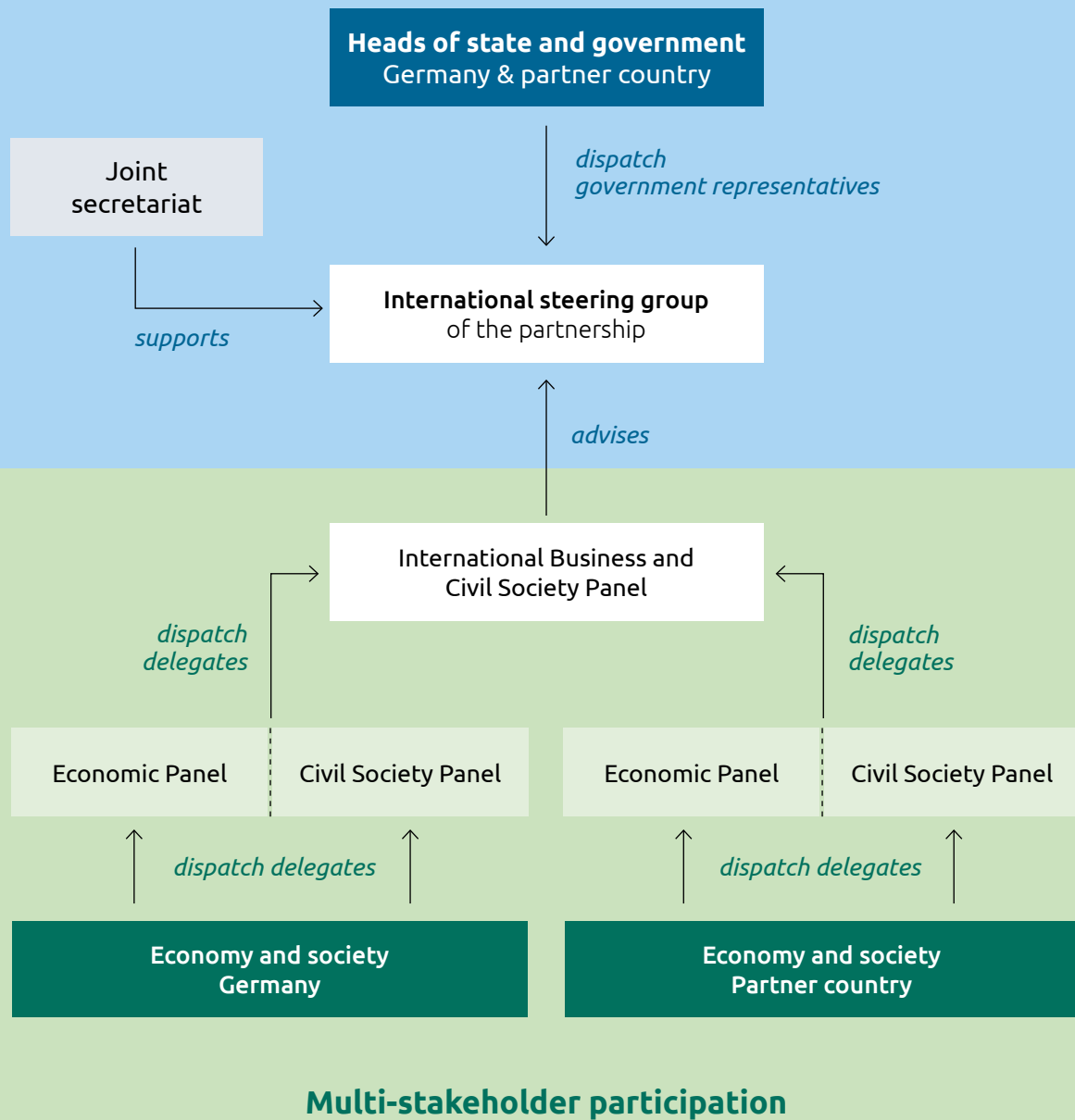


FIG. Multi-stakeholder participation and international governance

In this way, **new multi-stakeholder participation formats** would gradually emerge that go beyond the traditional channels of intergovernmental cooperation. The transformation forums need to be well interlinked at both national and international level so that no new silos are created, but rather a system of communicating tubes of the players involved.

“We see the involvement of the private sector in these investment and implementation partnerships as a conditio sine qua non.”

7 - Implementation and time frame

Climate and transformation partnerships should be designed in such a way that they can achieve their goals within ten years. A standardized process model with a **preparation, roll-out and implementation phase** is ideal for this. An **exit strategy** should also be developed at an early stage.

Since partner countries are heterogeneous, there will be variations in terms of both the time frame and the process. Transformation research also shows that many unexpected effects occur in the course of change processes. Climate and transformation partnerships should therefore show a great deal of **flexibility** and a **willingness to readjust**.

Preparation phase: Creating good framework conditions

The most important steps in the **preparation phase** (12 months) are the early identification and involvement of all key players, the establishment of governance structures and the selection of programmatic priorities.

“Climate and transformation partnerships should be designed in such a way that they can achieve their goals within ten years.”

In order for climate and transformation partnerships to become investment and implementation partnerships, they must be closely aligned with the needs and supply of stakeholders willing to invest in both partner countries. This requires their early involvement. This underlines the seriousness of the matter for everyone involved, promotes the assumption of responsibility and builds trust. In addition to companies and investors, other key players who are important for successful implementation and social acceptance should be involved in the initial consultation process.

In order to identify the most important stakeholders and their interests, a **mapping of the stakeholder landscape** should be carried out in the partner countries. In addition to studies, this could also include workshops on the socio-economic opportunities and risks of the transformation, the development of support options for affected sectors and low-emission, resource-efficient and climate-resilient infrastructure expansion.

In addition, an analysis of the existing qualifications of employees in the partner countries would be useful and **training needs and capacities** should be analyzed.

The analysis of the legal, financial, political and other relevant **framework conditions** is necessary to ensure that key feasibility aspects of the partnership are known.

In order to implement the **do-no-harm approach**, a social, environmental and human rights impact assessment should be carried out for the climate and transformation partnership. This allows risks to be identified at an early stage and **supply chain-related aspects** to be taken into account.

An initial **implementation plan** should then be drawn up to show what changes and results can be achieved through the climate and transformation partnership in both partner countries and how these can promote sustainable, economically prosperous and greenhouse gas-neutral development. In partner countries that pursue overall economic planning, the desired results of the climate and transformation partnership should be reflected in this. Harmonization should also take place with the **NDCs**. In addition, it should be explained to what extent the partnership contributes to increasing **climate resilience** and protecting against climate-related damage.

“**Carbon accounting**” will become increasingly important as carbon markets expand and converge: For competitive reasons, it is important to harmonize standards. The extent to which this can be supported by the Climate and Transformation Partnership should also be examined.

Finally, an initial **investment plan** should be drawn up under the leadership of the governments of the partner countries and with the participation of the private sector. In addition to a regulatory framework and incentive mechanisms, private investments usually also require the financial involvement of the public sector in order to reduce investment risks and capital costs. **Sufficient public funding** must therefore be secured at an early stage.

At the **political-administrative level**, sufficient technical capacities in transformation-related fields of action must be provided for the partnership. Demand planning should also be carried out at an early stage.

Roll-out phase: Successfully positioning the climate and transformation partnership

In the **roll-out phase** (12 - 18 months), it is very important to **communicate** the goals, characteristics, benefits and opportunities quickly and thoroughly and thus reach, convince and involve the key stakeholder groups. The specific benefits of the partnership in general and for the key players in particular must be clearly communicated. So this is very much about **framing** and **narratives** that generate participation and a positive attitude. Initially, it may be difficult to describe the innovation convincingly, especially²⁶ as long as there are no flagship projects where they are manifest. One positive example is the EU’s roll-out of the international flanking measures for the Green Deal.²⁷

26 See Saxer 2018, Transformatives Gestalten, <https://library.fes.de/pdf-files/iez/14602.pdf>

27 See e.g. <https://alliancejusttransition.eu/wp-content/uploads/2021/09/Solidar-Briefing-The-EU-Green-Deal-in-International-Partnerships.pdf>

Implementation phase: Promoting readiness for transformation with catalytic projects

In the actual **implementation phase**, it is very relevant to quickly bring projects with a potentially high impact to a successful conclusion and to communicate this well: Visible successes with scaling potential, i.e. “**catalytic projects**”²⁸, play a decisive role in significantly expanding the transformative alliance of those who support the change process.²⁹ It should not be underestimated that most social players and societies initially adopt a rather skeptical attitude towards change. This is all the more true when life circumstances are difficult. In such cases, change is seen as a risk rather than an opportunity. These mechanisms can be found at individual, community, company and societal level and also relate to attitudes towards the transformation of energy systems.³⁰ Catalytic projects are therefore important in order to increase confidence in transformation processes.

28 Marc Saxer 2018, Transformative Design,
<https://library.fes.de/pdf-files/iez/14602.pdf>

29 Ibid

30 See Hirsch, 2015, Learning from the Energiewende,
<https://library.fes.de/pdf-files/iez/11261.pdf>

In the further implementation process, the impact of projects should be scaled up in such a way that a transformative trend and ultimately a new overall system gradually emerge. The restructuring of the German energy system is a very good example of this, which is why our **energy transition** has attracted a lot of international attention and why Germany is a valued partner for the restructuring of energy systems.³¹ How long the implementation phase of a climate and transformation partnership will take depends primarily on the depth of the desired transformation. As this involves major infrastructure projects, the partnership should initially be set up for around ten years. This is long-term enough to implement structural changes without postponing political and economic decisions too far into the future.

Because climate and transformation partnerships can also fail, as Desertec did at the time,³² it is important to think about the criteria, timing and options for an **exit** at an early stage. A premature exit usually goes hand in hand with disappointed expectations that need to be taken into account. If it is a partner country from the Global South, it must be avoided as far as possible that an exit from a climate and transformation partnership that was initially characterized by high expectations does not lead to a further loss of trust in the already strained relationship between North and South.

31 Ibid

32 <https://desertec.org>



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8 - Financing

Without **significant financial support**, no developing country and hardly any emerging country will be able to complete the transformation to sustainability, climate neutrality and resilience at the pace required to achieve the Paris climate goals. However, if this does not succeed, many countries will be destabilized,³³ democracies will come under even greater pressure and global tensions and migration flows will increase massively. The socio-economic and political effects will also hit Europe and Germany hard and will most likely lead to further social polarization, loss of prosperity, supply chain problems, less security and, last but not least, a failure to meet climate targets. In this respect, measures that contain these risks are also in our own best interests in every respect.

33 Even today, 1.6 billion people live in countries that are highly fragile. See Fragile States Index 2023, <https://fragilestatesindex.org/2023/06/14/fragile-states-index-2023-annual-report/>

“The initiation of large-scale financing programs is at the heart of international climate and transformation partnerships.”

The amount of investment required in the Global South in the medium term of around USD 2 trillion per year is at least five times the current planned investment.³⁴ The additional costs in the start-up phase up to 2025 compared to the 2019 level are estimated at around USD 1.3 trillion for countries in the Global South (excluding China).³⁵ This financing requirement cannot be met with traditional development finance alone. Liquidity-creating measures such as the provision of special drawing rights for the **Resilience and Sustainability Trust (RST)** by the International Monetary Fund and new debt relief initiatives, such as those currently being discussed, can help to create additional scope for investment, but are not enough. New approaches to transformation financing are therefore required, especially those that lead to the mobilization of far more private capital. The plans of the **Brazilian G20 presidency** to bring the G20 discourse on global economic, financial and climate policy closer together structurally via the “Task Force on a Global Mobilization against Climate Change”, to advance robust national transition plans and to achieve progress in the structural reform of the international financial architecture with the aim of fully aligning it with achieving the goals of the Paris Agreement in accordance with Article 2.1(c) of the same are important steps in this direction. This is especially true if the World Bank and other development banks, with their large financial and technical or analytical capacities, can be closely involved.

34 <https://www.ipcc.ch/assessment-report/ar6/>

35 Bhattacharya, B. et al, 2022. Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth. Grantham Research Institute at LSE and Brookings Institution.

Climate and transformation partnerships can also make a very important contribution to this if they are designed and implemented as **investment partnerships** from the outset. This requires **blended financing**, i.e. budget funds as well as funds from development banks must be used in such a way that they leverage private capital for transformation in the Global South to a much greater extent than before. This can be achieved if investment risks for private investors are reduced in such a way that they invest, firstly, on a scale and, secondly, on terms that meet the requirements in the countries of the global South. Without **de-risking**, private investors will continue to give most transformation projects in the countries of the Global South a wide berth, with the exception of China and a few other countries.

Climate and transformation partnerships are particularly well suited to creating the **necessary framework conditions for mixed financing**, with leveraging private capital at its heart:

- The preparatory steps for a partnership described above make it possible to identify the risks of investment projects at an early stage.
- The accompanying measures to improve the political, legal, economic, social, technical and labor market conditions in the partner country help to gradually reduce potential risks.
- The long-term partnership provides planning security.
- The prospect of high added value will create incentives for public and private investors in the partner country, increase the chances of success and reduce risks.

Financing pillars of transformation partnerships

Transformation partnerships require several financing pillars:

The **first financing pillar** consists of public funds, which should primarily be used to cover costs and make investments that cannot be financed in any other way. Subsidies, subsidized loans, guarantees and also risk capital must be provided for this purpose. Transformation partnerships cannot be implemented without a **significant increase in budgetary resources**. The budget item from which partnerships are financed should therefore be significantly increased. In the interests of longer-term planning security, partnership budgets should also be secured by means of commitment appropriations.

A **second pillar of financing** are development banks, which in the case of Germany primarily means the **Kreditanstalt für Wiederaufbau (KfW)** and its subsidiary banks: The globally very well-positioned KfW Group has a very good capital base, a first-class rating, a great deal of experience, specialist expertise and excellent networks. It therefore has the potential to become a **climate and transformation bank**. For its international business, this would mean consistently focusing its funding and financing activities on the transformation-related financing and advisory needs of projects in the Global South in particular, which pursue the implementation of ambitious goals that are compatible with the Paris Agreement and the SDGs and which could not be implemented in a timely manner without targeted international funding measures. However, this would require KfW to lend more funds at favorable conditions and also accept higher financial risks of its own, which would be quite possible given its low refinancing costs and a hard core capital ratio of just under 25 percent.



KfW Group can play an important bridging role between public and private investors in climate and transformation financing.

SOURCE Report of the Climate Neutrality 2024 Foundation

Leverage instruments for mobilizing private capital for climate and transformation partnerships would primarily be guarantees, equity investments and subordinated loans as well as currency hedging. In addition, KfW could grant reform loans to partner countries in the Global South in order to develop and implement multi-year investment plans for a macroeconomic transformation (so-called “**Climate Prosperity Plans**”). This could be accompanied by advisory and capacity-building measures. In order to address the specific financing problems of micro, small and medium-sized enterprises, which usually form the backbone of the economy in developing countries, special **funds of funds** could be set up for their transformation projects. Smaller projects are bundled into these, thereby reducing transaction costs.

The export financing provided by **IPEX-Bank** and the investment promotion of small and medium-sized German companies by **DEG**, as well as the high level of expertise and market knowledge of the two KfW subsidiaries, should also be used specifically for **de-risking** and the involvement of German companies in projects with high transformation potential in the Global South. As before, the range of instruments would include long-term loans on favorable terms, equity capital, mezzanine financing, guarantees and accompanying measures, as well as support for local partner banks. Only the funding focus would shift thematically.

The further development of the integrated **risk management** approach that has already been initiated, which identifies climate and transformation risks that may arise for borrowers and takes them into account when determining the bank's own credit or investment risks, is an essential prerequisite for successful transformation-oriented financial support: Their further development in the sense of strengthening ESG and climate risk management must include not only realistically assessing risks and their influencing factors, but also identifying risk-mitigating measures so that transformative investments can be made at reasonable cost.

The identification and management of risks are personnel and cost-intensive. To ensure that risk analyses can also be carried out for climate and transformation partnerships with smaller countries, the expansion of capacities within KfW Group is another key factor.

The **third pillar of financing** is provided by **companies and private investors**. They will have to provide a large proportion of the investment funds, which can be achieved if the investment risks are limited to an acceptable level by the aforementioned measures. Not only the German, but also the international capital market will have to be used to mobilize capital, because in Germany, where the economy is largely financed by banks, the capital market is much narrower compared to Anglo-Saxon countries with their multi-layered ecosystem of financing options.

The **EU and its financial institutions** and, where applicable, member states form the **fourth financing pillar**, which comes into play when climate and transformation partnerships are agreed in larger consortia. **Multilateral development banks (MDBs)** can and should also be important partners and donors. This would significantly broaden the technical-analytical and financing basis and the pressure on the federal budget would decrease accordingly.

Finally, the **fifth financing pillar** is provided by the **partner countries in the Global South** themselves: Here, too, public and private investment in the transformation must be mobilized. It would be misleading to assess these investments entirely as additional costs, because even in a business-as-usual scenario, regular investments would be made in the energy supply, infrastructure and business models. Montek Singh Ahluwalia and Utkarsh Patel (2023)³⁶ assume that investments in climate change mitigation and adaptation in developing and emerging countries should be financed in roughly equal parts from national and international sources. In contrast, they argue that many players in the international climate negotiations still have the misconception that the donor countries must bear more or less the entire cost of adaptation and climate protection in the Global South. According to the authors, this is due to an overly narrow interpretation of Article 4.3 of the Framework Convention on Climate Change, which is controversial because the convention does not define what the “*agreed full costs*” are. Furthermore, it is not realistic to expect the traditional donor countries to cover the full costs.

However, they also put forward another economic argument: **If approximately half of the financing were to be provided by the Global South itself**, which would be affordable for most countries in view of the additional investment amounts of around 1.6 percent of gross national product that would be generated as a result, this high own contribution would help to avoid new dependencies and strengthen the **economies in the Global South in the long term**.³⁷ However, they also make it clear that the own contribution would be significantly lower for countries with low or middle incomes. We adopt this approach and advocate that transformation partnerships should be based on an appropriate financial contribution from the partner countries, which of course varies from country to country.

36 Singh & Patel, 2023. Financing Climate Change Mitigation and Adaptation in Developing Countries. Emerging Markets Forum - 2023 Global Meeting.

37 Ibid

9 - Recommendations for initial implementation steps

Climate and transformation partnerships have great potential to actively shape and accelerate the necessary economic transformation through international cooperation based on partnership. We have explained how they can help to promote key drivers of transformation, i.e. political and legal frameworks, competitive conditions, investment and skilled workers, access to technologies and raw materials, and social participation.

We therefore recommend that the German government test and further develop the concept of climate and transformation partnerships in selected pilot projects. In addition to Brazil, Chile, Colombia, India, Kenya, Namibia and Morocco, to name just a few examples, could be considered. This would have the additional advantage of providing a broader basis for comparison in the evaluation of partnership models envisaged in the climate foreign policy strategy.

“We see an early and continuous participation process with new multi-stakeholder participation formats and transformation dialogs in the partner countries as an essential prerequisite for success.”

An **initial implementation step** would be to discuss and develop the **concept** in workshops with the future players of climate and transformation partnerships, both nationally and internationally.

As a **next step**, we recommend identifying possible **pilot countries**. A background analysis and an initial implementation roadmap should then be drawn up for these.

If the results are positive, the **third step** should be to enter into a **dialogue** with these countries in order to begin the initial consultation process. The relevant stakeholder groups can be involved step by step and participation formats such as consultations on the socio-economic opportunities and risks of possible transformation projects can be tested as part of the partnership.

In the **fourth step, in-depth analyses** can then be carried out on the labour market, investment requirements and political and legal framework conditions, as well as on the possible governance structure and other important topics.

If these steps are successfully completed, the **first partnership agreements could be signed before the end of this legislative period.**



Photo: Songsak Vohprasit

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Anhang List of Abbreviations

Abbreviations

| | | | |
|------|--|--------|---|
| AA | Auswärtiges Amt (German ministry of the exterior) | IKI | Germany's International Climate Initiative |
| BMF | Bundesfinanzministerium (Federal Ministry of Finance) | IMF | International Monetary Fund |
| BMUV | Bundesministerium für Umwelt, Naturschutz, nukleare Sicherheit, Verbraucherschutz (Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection) | JETPs | Just Energy Transition Partnerships |
| BMWK | Bundesministerium für Wirtschaft und Klimaschutz (Federal Ministry for Economic Affairs and Climate Action) | KfW | Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation) |
| BMZ | Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry of Economic Cooperation and Development) | LDCs | Least Developed Countries |
| GNP | Gross national product | MDB | Multilateral Development Bank |
| COP | Conference of the Parties to the UN Framework Convention on Climate Change | MICs | Middle Income Countries |
| CVF | Climate Vulnerable Forum | MoU | Memorandum of Understanding |
| ESG | Environmental, Social and Governance Standards | NDC | Nationally Determined Contribution (climate contributions) |
| FZ | Finanzielle Zusammenarbeit (Financial cooperation) | RSF | Resilience and Sustainability Facility of the IMF (part of RST, see below) |
| GCF | Green Climate Fund | RSF | Resilience and Sustainability Facility of the IMF |
| | | UNFCCC | UN Framework Convention on Climate Change |
| | | V20 | Vulnerable 20 (Group of Finance Ministers of the CVF) |

Climate change, the decarbonization and digitalization of the economy and the shift in the geopolitical balance of power pose major challenges for politics and society and are forcing structural changes. Implementing the Paris Agreement and Germany's foreign climate policy strategy requires new forms of international cooperation.

International climate and transformation partnerships can make a key contribution to advancing the transformation to climate neutrality of all participating partners in line with the Paris Climate Agreement. They provide the framework for securing the industrial and economic transformation, i.e. making it resilient, and promote sustainable economic prosperity in the participating partner countries. Last but not least, international climate and transformation partnerships can and should be Germany's starting point and contribution to international pioneering alliances within the framework of the Climate Club and the OECD. With the tripling of renewable energies and the doubling of the rate of increase in energy efficiency by 2030, as well as the move away from fossil fuels, investments are now at the center of the implementation agenda.

With this paper, we want to initiate a political discussion and decision-making process in order to position Germany with international sovereignty in the face of the major challenges in the fight against climate change and the transition to the post-fossil industrial age.

The Climate Neutrality Foundation was established to develop robust cross-sector strategies for a climate-neutral and climate-friendly Germany. The foundation aims to provide information and advice on the basis of good research—beyond individual interests.



On behalf of the

**Climate Neutrality
Foundation**