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Climate on the Agenda

COP29: Scaling up international climate finance and operationalization of international carbon markets

Forging consensus and delivering on ambition going forward

In a year where the three "Rio Conventions"—the Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climate Change (UNFCCC), and United Nations Convention to Combat Desertification (UNCCD)— convened for their respective meetings of the Conference of the Parties within weeks of each other, the spotlight was on the international community to help deliver robust and solution-oriented outcomes at the nature-climate-land-use nexus.

In Baku, Azerbaijan for the 29th Meeting of the Conference of the Parties to the UNFCCC (COP29), emphasis was largely centered on agreeing to core finance related factors: the new collective quantified goal on finance (NCQG), market and non-market mechanisms under Article 6, closing the adaptation finance gap, operationalizing the fund for loss and damage, and ensuring the new round of nationally determined contributions (NDCs) can deliver tangible, measurable and investable pathways for Paris-aligned transformation.

With political shifts occurring globally, negotiators were keenly aware of the need to broker a successful, ambitious, and practical package. The agreed outcomes of COP29, named the **"Baku Climate Unity Pact,"** mark an important milestone for the climate negotiations at a pivotal point. However, it also illustrates the limits of multilateralism across the green transition and the crucial role private sector plays in developing solutions, innovative pathways, and enabling environments to mobilize ambition and translate negotiated outcomes into human-centric actions at a local level.

Four key outcomes | Translating outcomes into impact

1. Mobilizing finance beyond US$100 billion annually

Agreement on the new collective quantified goal on finance. Parties entered the negotiations knowing the cost of transition is high. The energy transition is projected to cost in excess of US$200 trillion by 2050,[1] with NDC commitments of developing and emerging economies estimated to require between US$5.1–6.8 trillion up to 2030, or US$455–584 billion annually, and adaptation finance estimated to need US$215–387 billion annually up to 2030.[2]

The final NCQG outcome emphasized the importance of reforming the multilateral financial architecture and removing barriers to financing climate action. It called for collaboration among actors to help scale up financing for climate action to at least **US$1.3 trillion per year by 2035.** The NCQG was agreed at **US$300 billion annually by 2035** with **developed country Parties taking the lead** and **achieved through diverse sources** of funding including through multilateral development banks (MDBs) and in the context of meaningful mitigation and adaptation action.[3]

2. Enhancing access to climate finance

Access to climate finance. Bilateral channels, MDBs, and climate funds are recognized as key mechanisms to enhance access and effectiveness of climate finance. At COP29, the importance of reducing the cost of capital, removing constraints and systemic inequities, and exploring innovative sources and instruments of finance was underscored. Parties requested periodic stocktaking of the progress toward implementation with MDBs committing to mobilize US$120 billion for low- and middle-income countries by 2030.[4] Guidance was also provided to the Green Climate Fund to simplify and streamline access.[5]

Operationalizing the Fund for Loss and Damage. Emphasizing the need for consistency, COP29 confirmed the Governing Instrument, putting in place arrangements that cover guidance by the Parties, reconsideration of funding decisions and periodic review of the Fund for Loss and Damage, as well as structural elements including cooperation between the secretariats, and representation in sessions.

3. Finalizing international carbon markets

Guidance was agreed regarding cooperative approaches for State-to-State investments under Article 6.2. COP29 outlined the content of authorized use of internationally transferred mitigation outcomes (ITMOs) to help ensure transparency, tracking, and effective reporting of mitigation outcomes. Noting the special circumstances of developing and emerging economies, the Secretariat will provide a registry service helping enable capacity-constrained jurisdictions to effectively participate in international carbon markets. Voluntary contributions are also requested to the trust fund and to the organization of ongoing dialogues to exchange information and experiences.[6]

Modalities established for the Paris Agreement Crediting Mechanism (PACM). The Parties emphasized the need for technical and scientific expertise to help support the work on methodologies, removals, and related operational elements along with the importance of engaging independent scientific and technical expertise, local communities, and the knowledge of Indigenous peoples, and called on the Supervisory Body (SB) to consider relevant international environmental agreements and strive for regulatory stability. The decision noted the adoption of the methodologies and standards for emission removals by the SB on the opening day and allows for the transition of projects from the clean development mechanism (CDM) into the Article 6.4 PACM, provides for the connection of existing national registries to further enhance traceability and avoid double counting, and empowers the SB to consider potential guidance for host Party authorizations based on experience.[7]

These steps initiate the international carbon market as a key engine for mobilization of both finance and innovation under the Paris Agreement and bring consideration of the methodologies under the purview of the Parties allowing for finance, technology and capacity building as means of implementation to flow to developing and emerging economies.

4. Charting a course for ambitious NDCs

Countries began submission of ambitious nationally determined contributions (NDCs). The United Kingdom, Brazil, and the United Arab Emirates have announced ambitious 2035 NDCs that demonstrate their commitment to high levels of ambition in addressing climate change. Additionally, the GZERO countries of Bhutan, Madagascar, Panama, and Suriname have already achieved net-zero greenhouse gas emissions.

Several countries, including Canada, Chile, the European Union, Georgia, Mexico, Norway, and Switzerland, aim to submit their next NDCs with specific characteristics in line with the 1.5°C temperature goal. The targets are expected to cover all greenhouse gases, sectors, and categories, and be aligned with the countries' respective mid-century net-zero goals.

These countries recognize the urgency of taking action to address climate change and the crucial role of major emitters in achieving the goals of the Paris Agreement and keeping the global temperature increase within reach of 1.5°C. While they acknowledge the significant economic imperatives and opportunities associated with strong climate action, these countries are committed to implementing bold actions to help achieve their next NDC targets, particularly in response to the 2023 global stocktake decision. Their commitments and actions encourage other countries to set and accelerate their net-zero greenhouse gas emissions goals.[8]

Implications | A platform for engagement of private sector and a lighthouse signal going forward

Agreement on the Baku Climate Unity Pact, in particular the NCQG, provides a market signal to private finance, investors and innovators around the direction of travel toward a climate-neutral future. **COP29 also reinforced the critical role played by the private sector as a conduit for mobilization of climate finance and sustainability solutions.**

Finance day saw the launch of the Business Climate Investment Platform. Led by CREO and the Investor Leadership Network (ILN), the collaboration committed to helping accelerate private market investments into climate and sustainability solutions. Outlining a shared vision and action plan focusing on the global energy transition and investment opportunities in emerging markets, the partners committed to leverage their networks and expertise to help scale climate finance, enhance investment portfolios' resilience, and integrate sustainable practices across asset classes. Including family offices, sovereign wealth funds, pension funds, and insurance companies, with over US$100 trillion in assets under management, the collaborating partners have the capacity to make a significant impact and will focus on addressing key friction points, such as developing investment data, sharing best practices, and increasing private capital deployment. Regular dialogues and global events will help facilitate progress over 2025, with an open call for other asset owners to join this important initiative.[9]

Climate vulnerable nations and members of civil society have criticized both the content and process underpinning agreement of the NCQG, citing a failure to take into account inflation, the insufficiency of the agreed quantum, and the manner in which the decision was agreed, procedurally silencing key dissenting voices to push through a deal.[10] These overtures illustrate the tenuous nature of multilateralism at a time where unified action to address some of the most significant impacts of climate change is urgently needed. On balance, while these critiques raise concerns, the merits of the outcome—**establishing a new floor for public finance (US$300 billion/yr) and an aspirational target including private sector mobilization (US$1.3 trillion/yr)—provide an unparalleled endorsement of the green transition** by tripling international climate finance and building on the tripling of renewable energy found in the global stocktake from COP28. Simultaneously, the outcomes highlight the limitations negotiators face to address critical systemic factors of the transition, the complementarity which is needed across the international architecture and markets to effectively mobilize climate finance and solutions, and the importance of and increasingly central role private sector leadership will need to play in navigating progress.

Like each of the COPs, consensus is the mode of decision-making and it is no small feat to get 197 countries to agree to action. Against the backdrop of geopolitical shifts, the narrowing of the window for action, growing private sector acceptance of the value proposition of action on climate change, it is fair to say that the apparent lack of sufficient action means the world is likely headed toward a 2 degree to 2.5 degree world (along with some of the challenges that will bring to economic growth and wellbeing). At the same time, a more robust agreement at this COP than what was expected by many just 72 hours before the close was a significant achievement. All in all, **raising the bar on finance, operationalizing the Loss and Damage Fund, and making advances on carbon markets will help shift the agenda on net zero forward.**

Looking forward, the private sector will likely be expected to take the lead in developing novel financial solutions to help contribute to the ambitious commitments made in Baku, innovating climate-focused solutions, disseminating technologies to climate vulnerable countries, and translating negotiated outcomes into human-centric actions. **Opportunities have been provided to buttress the operations of international carbon markets, mobilize finance, and cultivate the public-private-partnerships needed to translate the Baku Climate Unity Pact into transition pathways.**

Endnotes

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