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The global climate finance system – is the whole stronger than the sum of its parts?

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Bonn, 27 March 2017. With climate denial regaining strength in numerous countries, critics of action on climate change have set their sights on international climate finance. US President Donald Trump, who has repeatedly voiced doubts about whether human activity is altering the global climate, has announced he would "cancel billions in payments to U.N. climate change programs". In Germany, the right-wing Alternative for Germany (AfD) seeks to withdraw from all climate agreements including their financial obligations.

If other countries follow the US in scaling back their commitments, this may threaten the significant momentum that has built in recent years on international climate finance. At the 2009 Copenhagen Climate Conference, industrialised countries pledged to help developing countries reduce greenhouse gas emissions and enhance resilience to climate change by mobilising US$100 billion per year by 2020 from public and private sources. The years leading up to the landmark 2015 Paris Agreement saw a proliferation of new institutions to govern climate finance. Official development assistance (ODA) has played a major part in the scale-up of climate finance: the OECD estimates that as much as 20 percent of all ODA in 2014-15 was climate-related. Yet, developing countries and NGOs have protested that "double-counting" finance towards both climate finance and ODA targets overstates progress.

How vulnerable is the climate finance system to the changing political winds from the US and beyond? In order to know, we need a better understanding of what the climate finance system is and the forces shaping it.

A new special issue we edited for International Environmental Agreements: Politics, Law and Economics entitled "Managing fragmentation and complexity in the emerging system of international climate finance" examines the climate finance system with a focus on its governance and ways to improve it. The special issue contributions suggest that the climate finance system and its basic norm – that developed countries must pay to support climate action in developing countries – is by now sufficiently strong and institutionalized that a single player, even the US which contributes for instance 30% of the Green Climate Fund's budget, cannot engineer its collapse. At the same time, the system is complex and fragmented, and clearer international rules would make it harder for reluctant countries to defect.

Fragmentation has several causes and implications. First, because conflicts persist over the purposes of climate finance, Parties to the UN Framework Convention on Climate Change have not yet agreed on a definition of what climate finance is nor on standards for monitoring it. What counts toward "mobilizing" US$100 billion is hotly contested, as is the question of whether countries are making progress toward meeting the target.

Second, a plethora of actors is engaged in the climate finance system. In addition to dedicated climate funds such as the Green Climate Fund, other actors include multilateral development banks, bilateral development agencies, the private sector, and UN agencies such as the United Nations Development Programme (UNDP) and the International Organisation for Migration (IOM). And as the special issue contributions show, these actors have diverse understandings of what climate finance is, for instance whether and how development finance should count as climate finance Domestic political dynamics within contributor countries can bolster or undermine international funding flows, as the special issue examines.

Third, the more fragmented and contested international rules are, the more room there is for self-serving interpretation and easier defection. Fragmentation in terms of a web of institutions with different accounting standards makes it difficult to track and hold to account actors involved in raising or managing climate finance. Numerous special issue contributions therefore call for clearer definitions, agreed accounting standards and oversight mechanisms.

Although the climate finance system suffers from several weaknesses related to its fragmented nature, the system is now more extensive and institutionalized than it was a decade ago. Thus, as with global climate governance more broadly, the defection of a major player will not signal the end of cooperation among others who remain committed to the objectives and targets that underpin the system. But this is not a reason for complacency. Those contributing funding must do more than simply avoid the collapse of the system; the task remains to build a system that is fairer, more accountable, and better at addressing developing countries' needs.