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Climate Finance in East Asia and The Pacific from The Perspective of Governance and Financial Distress

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ABSTRACT

This study addresses the critical need for an efficient climate finance system in the East Asia and Pacific (EAP) region, which faces high vulnerability to climate impacts. The objective is to assess how governance and financial distress influence EAP countries' ability to access climate finance. Using a quantitative model with panel data analysis, the study drew from the World Bank's governance indicators and IMF financial data, examining variables like government effectiveness, control of corruption, and economic stability. The findings reveal that government effectiveness and current account balance significantly boost climate finance access, while control of corruption and rule of law negatively affect it. Interestingly, financial distress indicators, including debt-to-GDP ratio and inflation, show positive correlations with climate finance, indicating that donors prioritize climate vulnerability over strict macroeconomic stability. This research contributes theoretically by offering a model explaining 85.71% of climate finance variability through governance and financial conditions, introducing a novel link between financial distress and climate finance. Practically, it advises policymakers to enhance governance transparency and economic stability to improve climate finance access, providing a framework applicable globally for optimizing climate finance in vulnerable regions.

KEYWORDS

Climate finance
East Asia and the Pacific
Governance
Financial distress

INTRODUCTION

The far-reaching effects of global warming are well recognized. Increasing temperatures are expected to diminish both human productivity and agricultural yields, endangering food security in many nations. Although some Asia-Pacific countries may not face direct concerns from rising sea levels, others such as Bangkok, Jakarta, Ho Chi Minh City, the Sundarbans of Bangladesh, and China's Pearl River Delta are highly susceptible to significant flooding. Large-scale migrations from these regions could become inevitable, potentially leading to substantial domestic relocation costs

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and even political instability if not managed properly. In turn, these movements could result in cross-border migrations, posing challenges to regional security (Ahluwalia, 2023).

Climate financing plays a vital role in combating climate change globally, especially by supporting mitigation and adaptation efforts in vulnerable regions like East Asia and the Pacific. As noted by Richardson, effective governance of climate finance is essential in transitioning to a low-carbon economy, as it helps build a socially responsible financial framework that ensures the fair allocation of resources (Richardson, 2009). Such financial support is especially important for countries facing both environmental and economic challenges, as in the case of Indonesia, where urban pollution exacerbates the health impacts of climate change.

Recent research has pointed to a growing need for more efficient climate finance systems to address climate risks like the rising sea levels affecting the Southeastern US Gulf Coast, where changes in internal climate patterns have accelerated environmental impacts. Giglio and colleagues emphasized that climate funds should be carefully directed toward regions with the greatest need to simultaneously foster economic development and environmental sustainability (Stroebel et al., 2021). Countries that effectively align financial governance with climate policies are better equipped to mitigate climate risks while ensuring long-term economic stability. The effectiveness of climate finance is closely linked to international agreement (Kotchen, 2020). The researcher suggested that climate funds facilitate global cooperation by motivating countries to engage in climate change mitigation programs. As the risks associated with climate change increase, it becomes increasingly important to develop a well-coordinated and efficiently managed climate finance system to promote resilience and sustainability at both national and global levels.

The Asia-Pacific region is a major driver of global economic growth, accounting for more than 70% of total growth by 2023 while producing over 55% of global CO2 (Lim et al., 2024). Furthermore, the World Bank defined East Asia and the Pacific (EAP) as one of the world's most vulnerable to catastrophes and climate-change-affected regions (World Bank, 2023). Because of their economic growth, large populations, and carbon intensity, EAP countries are critical to addressing global issues such as environmental degradation, biodiversity loss, air pollution, and pandemics. The EAP is likely to remain a driver of global growth, and clients expect more coordination and support from multilateral development banks (The World Bank, 2022). Climate change vulnerability is growing throughout Asia-Pacific, home to six of the world's ten most disaster-prone countries. Additionally, in terms of greenhouse gas emissions, the region is quite diverse, including both the world's largest polluters and minor emitters (ESCAP, 2023).

The purpose of this research is to address the urgent need for a more efficient and well-coordinated climate finance system that can effectively manage and allocate resources to mitigate climate risks, particularly within the context of East Asia and the Pacific (EAP). Given the region's heightened vulnerability to climate change impacts, coupled with challenges in securing and managing climate finance, this study aims to examine how governance structures and financial distress influence the ability of EAP countries to attract and utilize climate-related funds. By analyzing the role of transparency, accountability, and financial stability, this research seeks to provide insights into how a robust climate finance framework can be developed to enhance resilience and sustainability. The findings are intended to offer valuable guidance for policymakers and stakeholders, emphasizing the importance of strategic governance and financial management in optimizing climate finance flows at EAP and global levels.

LITERATURE REVIEW

In his book The Economics of Welfare (1920), Arthur Cecil Pigou explained that negative externalities like pollution must be reduced through government involvement in the form of legislation such as taxation (Pigou, 1920). This tax, often known as Pigouvian taxes, encourages economic actors to continue to examine the environmental impact of their operations by internalizing the social costs of negative externalities, such as greenhouse gas emissions. Pigou's ideas are particularly significant in the context of climate financing, which serves as a tool for addressing negative externalities caused by the activities of economic actors who emit GHGs and contribute to climate change. Pigou's opinion was then known as the Polluter Pays Principle (PPP). According to the European Court of Auditors, PPP underpins the idea of climate finance, which includes financial contributions from GHG-producing industries (European Court of Auditors, 2021). Climate change involves a mix of positive and negative impacts, creating varied demands for justice. While some parties benefit, others are harmed, making it essential for beneficiaries to compensate those who suffer (Woo and Leroux, 2021).

Institutional theory suggests that organizations become more similar in their structures and practices over time. This is explained by the concept of isomorphism, which describes how entities in the same environment come to resemble one another due to shared external conditions. Organizations act not only rationally but also in accordance with social and political conventions. Institutional theory emerges to explain the structured, predominantly cultural frameworks that shape modern societies. It focuses on how these frameworks, encompassing regulatory, normative, and cognitive-cultural elements, guide organizational behavior and societal norms (Jepperson, Ronald L; Meyer, 2021). The interaction between this theory and climate finance is in understanding how financial institutions and governments in diverse nations modify their climate policies to conform with international norms pushed by global pressures. Recently, research within this perspective has transitioned from emphasizing processes that create isomorphism to concentrating on institutional change, illustrated by studies on the development of new laws, regulations, products, services, and professional roles (David et al., 2019).

Stakeholder theory posits that an organization's success depends not only on meeting the interests of its stakeholders but also on addressing the concerns of all parties affected by its activities (Freeman, 2015). Organizations must consider the interests of stakeholders while making decisions in order to attain sustainability and greater social responsibility (Freeman, 2015). Based on this theory, corporate governance mechanisms serve to ensure fairness toward stakeholders, which can be achieved through CSR activities (Nugrahanti, 2021). Recent research noted that CSR disclosure can improve the quality, efficiency, and effectiveness of corporate environmental responsibility efforts, thereby further strengthening public trust (Susilawati et al., 2024). Gupta emphasized that wide stakeholder engagement, including local communities and the commercial sector, is vital to guarantee that climate funding is managed transparently and effectively, achieving maximum impact in lowering emissions and enhancing climate resilience (Gupta & Asselt, 2019). A stakeholder-based strategy can help companies avoid making unilateral decisions that do not reflect local needs and interests. Climate investment, in contrast, can enhance an organization's social legitimacy in the eyes of society and stakeholders. It also serves as a strategic management tool to alleviate institutional pressures while fostering competitive advantages, such as increased stakeholder engagement.

Djankov et al. (2008) performed research on 108 help-recipient countries between 1960 and 1999 before developing this theory, which is detailed in his article The Curse of Help. According to this idea, international aid fosters reliance, weakens local institutions, and increases corruption, all of which can exacerbate the conditions in recipient countries (Djankov et al., 2008). Resource-rich countries typically have poor economic performance due to an overreliance on a single source of income. International aid frequently does not encourage policy reform and instead serves to bolster corrupt political leaders. Large flows of climate funding to developing nations might worsen governance issues if the funds are not adequately handled or if there are no sufficient supervision mechanisms (Buchner et al., 2019). This demonstrates that, while climate finance aims to promote mitigation and adaptation programs, nations with weak governance are more likely to experience low fund effectiveness and reliance on external donors in the absence of substantial institutional improvements.

The term 'climate finance' lacks a universally accepted definition. Broadly, it encompasses financial resources from both public and private sectors used to combat climate change, particularly through international financial transfers to developing countries (Fuglestvedt et al., 2023). Hong et al. (2020) described climate finance as the study of investments aimed at enhancing climate change mitigation and adaptation, both at domestic and international levels. Similarly, Bae et al. (2022) viewed climate finance as capital allocated to projects that boost environmental and energy efficiency while addressing climate-related risks.

Governance

Climate finance that adheres to principles of social responsibility is essential for directing investments toward sustainable projects capable of reducing carbon emissions. A strong commitment to CSR will further promote the adoption of environmentally sustainable practices (Taufik & Clevertan, 2023). The absence of effective governance presents a significant barrier to formulating targeted strategies for resource mobilization and allocation, impacting both donors and funding organizations (Watson et al., 2022). Good governance also aids in lessening the adverse environmental effects of financial development by channeling investments toward eco-friendly projects and promoting better resource utilization (Omri et al., 2021). Global initiatives, such as the Green Climate Fund (GCF), have been established to manage and direct this funding to mitigation and adaptation programs with a major impact on climate change. Research has shown that governance features significantly affect the effectiveness of climate finance. Integrating governance within climate funding mechanisms into national social protection frameworks in climate-vulnerable countries can enhance the effectiveness of distribution (Huber & Murray, 2024). Conversely, countries with weaker governance systems face challenges in securing and efficiently utilizing climate funds, even with increased international commitments after the Paris Agreement (Causevic et al., 2023).

Strong governance allows countries to adopt effective climate policies and allocate available funding to reduction and adaptation projects. Minhas et al. (2024) highlighted a positive relationship between climate change commitments and governance, noting that integrating climate change issues into governance helps businesses mitigate risks and leverage climate-related opportunities. Meanwhile, Peterson & Skovgaard (2019) argued that the involvement of the Ministry of Development increases the likelihood of lower-income countries being chosen as climate finance recipients. However, unexpectedly, this does not necessarily result in these recipients receiving a

larger amount of climate finance (Peterson & Skovgaard, 2019). Furthermore, there is a power imbalance between donors and recipients, with recipient countries frequently subjected to donor-imposed stipulations. Governance improvements are urgently required to ensure that climate change adaptation financing is dispersed more equitably and effectively, while also taking into account the real requirements of affected developing nations.

Governance can be assessed using the Worldwide Governance Indicators (WGI), a comprehensive cross-country governance measurement tool (Lubinga & Mazenda, 2024). WGI comprises six composite indicators reflecting broad governance dimensions across more than 200 countries since 1996: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. This study excludes the regulatory quality indicator, instead utilizing the other five indicators, as not all countries in the analysis provide data for regulatory quality (World Bank, 2024f).

The Control of Corruption indicator within the Worldwide Governance Indicators (WGI) assesses the degree to which public power is exploited for personal gain, encompassing forms of corruption such as bribery, nepotism, and authority abuse for individual benefit. This indicator reflects the government and state institutions' ability to manage and prevent corrupt activities within the governmental and public sectors (World Bank, 2024a).

$H_{1.a}$: Control of corruption has a positive impact on climate finance.

The Government Effectiveness indicator in the Worldwide Governance Indicators (WGI) assesses the quality of public services, the capability of the state apparatus, the quality of public policies, and the extent of government independence from excessive political influence. Furthermore, this indicator evaluates the government's proficiency in designing and implementing effective policies, including the quality of regulatory measures issued and the efficiency of public services provided (World Bank, 2024b).

$H_{1.b}$: Government effectiveness has a positive impact on climate finance.

The Political Stability and Absence of Violence/Terrorism indicator in the Worldwide Governance Indicators (WGI) assesses the probability of a government being overthrown through unconstitutional or violent actions, encompassing terrorism and political violence. This indicator examines a country's political stability by analyzing potential threats from internal unrest, such as rebellion, civil conflict, or terrorist activities that could jeopardize public order and security (World Bank, 2024c).

$H_{1.c}$: Political stability and absence of violence/terrorism have a positive impact on climate finance.

The Rule of Law indicator in the Worldwide Governance Indicators (WGI) evaluates the degree to which entities within a country, including the government, adhere to legal standards. This encompasses public perceptions of trust in legal compliance, the effectiveness of law enforcement, the quality of the judicial system, and the impartiality of courts. Additionally, it examines elements such as property rights protection, legal certainty, and fairness in the legal process, all of which are essential for sustaining economic and social stability (World Bank, 2024d).

$H_{1.d}$: Rule of law has a positive impact on climate finance.

The Voice and Accountability indicator in the Worldwide Governance Indicators (WGI) evaluates the degree to which citizens of a country can participate in choosing their government, alongside their rights to freedom of speech, assembly, and press. This indicator assesses perceptions of public involvement in the political process, citizens' capacity to express their concerns and the presence of civil liberties and independent media that are essential to a democratic society. This measure is crucial as public participation and freedom of expression form foundational elements of effective and democratic governance (World Bank, 2024e).

$H_{1.e}$: Voice and accountability have a positive impact on climate finance.

Financial distress

Climate change has the potential to generate complex systemic risks that differ from those seen in traditional economic crises. Elements such as the rising frequency of natural disasters declines in asset values associated with the shift to a low-carbon economy, and the effects of rigorous climate policies on specific sectors present substantial challenges to financial stability (Bolton et al., 2020). Based on research conducted in ECOWAS (Economic Community of West African States) member countries, countries facing higher climate risks are more likely to experience financial stress, including increased fiscal deficits, heightened financial market volatility, and reduced investment levels (Diallo et al., 2023). Several studies have also investigated the link between the financial crisis and climate finance. Various funding sources, including public funds, private investment, bilateral contributions, multilateral funding, and alternative funding mechanisms, make significant contributions to financial distress initiatives by providing financial resources for climate change mitigation and adaptation projects (Varadaraja & Chitra, 2022).

Addressing financial distress is crucial for increasing climate funding because it might impede the allocation of resources to green initiatives (Bae et al., 2022). Reducing financial distress through effective climate change disclosure and solid governance procedures can improve companies' ability to contribute to climate finance, hence helping sustainable development (Alshahrani et al., 2023). High debt levels in a country can deter donors, making it more challenging to secure climate funding (Yun, 2022). A country's financial distress can be accurately assessed using data from the World Economic Outlook (WEO) by the International Monetary Fund (IMF). The WEO offers extensive analysis and forecasts on global economic trends, covering critical indicators such as Gross Domestic Product (GDP) growth, inflation, balance of payments, and public debt (Charfi, 2024).

The Current Account Balance is a key indicator presented in the International Monetary Fund's (IMF) World Economic Outlook (WEO) report. This data is crucial in WEO analysis as it offers insights into a country's economic resilience and its dependency on foreign capital. Significant current account deficits often signal potential risks to economic stability, particularly if the deficit is financed by unstable foreign capital flows. The IMF utilizes this data in the WEO to assess global economic health and generate economic projections for different countries, aiming to support member countries in crafting stable and sustainable economic policies. Countries with current account surpluses possess greater foreign exchange reserves, enabling them to fund climate change mitigation and adaptation projects with less dependency on external financing. Conversely, countries with deficits may encounter constraints in dedicating resources to climate initiatives.

$H_{2.a}$: Current account balance has a positive impact on climate finance.

The debt-to-GDP ratio is a key indicator for the IMF in the WEO as it assists in assessing a country's fiscal stability and ability to manage long-term debt obligations. This ratio also serves as a signal to investors and credit institutions about the potential risks of investing in that country. A high debt-to-GDP ratio suggests threats to economic stability, particularly if the debt finances non-productive activities or if economic growth is insufficient to sustain the debt load. Such a high ratio may lower a country's credit rating, thereby diminishing foreign investor confidence and complicating efforts to secure investment in large-scale renewable energy and green infrastructure initiatives.

$H_{2.b}$: Debt to GDP has a negative impact on climate finance.

Inflation indicates the rate at which the general prices of goods and services rise within an economy over a specific period. Moderate inflation is seen as essential for supporting economic growth, whereas very low inflation or deflation may signal weak demand and potential economic stagnation. In contrast, high or volatile inflation can undermine economic stability by eroding purchasing power, raising production costs, and weakening investor confidence. Moreover, high inflation can escalate the costs associated with climate change mitigation and adaptation projects, such as building renewable energy infrastructure, due to increased prices for raw materials and labor. This can diminish the appeal of investment in such projects.

$H_{2.c}$: Inflation has a negative impact on climate finance.

Based on the elements that influence climate finance, a model of climate finance determinants in EAP nations is built as follows:

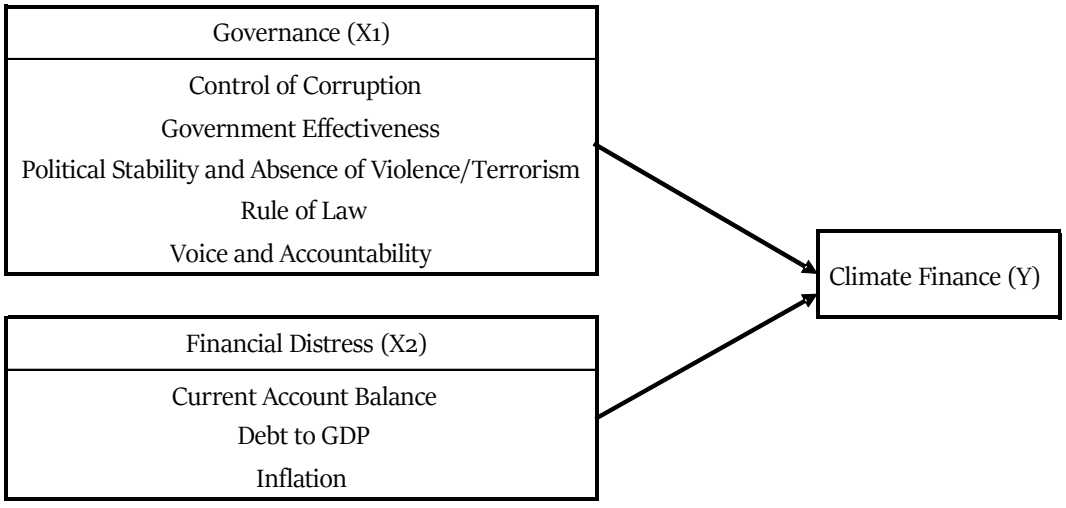


Figure 1. Research model

RESEARCH METHOD

Research Design

This study employed a quantitative design to examine the relationship between governance, financial distress, and climate finance across various countries. It utilized a cross-sectional and longitudinal approach through panel data analysis, allowing for an evaluation of variable relationships over time and across countries.

Data Collection Method

The data for this study was obtained from reputable secondary sources, including the World Bank's Worldwide Governance Indicators (WGI) for governance-related variables and the International Monetary Fund's (IMF) World Economic Outlook (WEO) for economic indicators such as debt-to-GDP ratio, inflation, and current account balance. The climate finance data was sourced from the Multilateral Development Banks (MDB) Joint Report, which records climate-related fund allocations in the countries examined.

Sampling Technique

A purposive sampling technique was used to select countries aligned with the study's objectives, focusing on developing countries and those vulnerable to climate change impacts. Sample selection was based on data availability for each variable, particularly for countries with consistent governance and financial distress data from 2015 to 2021.

Data Analysis Procedures

The collected data was analyzed using multiple linear regression on panel data to evaluate the influence of governance and financial distress on climate finance access and effectiveness. This analysis included a data normalization process for variables of varying scales, along with model validation tests to ensure result reliability. Data interpretation focused on the coefficients of independent variables on the dependent variable and statistical significance, highlighting the impact of governance and financial distress on climate finance.

RESULTS AND DISCUSSION

The data was gathered from reliable sources and analyzed using multiple linear regression approaches. Panel data from 12 countries in East Asia & Pacific in 2015 – 2021 were analyzed. The initial step of processing the panel data involved selecting the most suitable model. Various tests, such as the Chow test, Hausman test, and Lagrange Multiplier test, were applied to determine the appropriate model. The results of the Chow and Hausman tests revealed that the Fixed Effect Model (FEM) was the best choice for this study, as the p-value was below 0.05. Thus, the Lagrange Multiplier test was not necessary.

Table 1. Hausman test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.571654	2	0.0007

Since FEM was chosen, we applied the Ordinary Least Squares (OLS) technique, resulting in multicollinearity and heteroscedasticity tests. The multicollinearity test evaluates whether a strong correlation exists between governance and financial distress. In contrast, the heteroscedasticity test assesses whether the regression model exhibits unequal variance in the residuals across observations.

Table 2. Multicollinearity test

	X1	X2
X1	1.000000	-0.227624
X2	-0.227624	1.000000

Table 3. Heteroscedasticity test

Heteroscedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoscedasticity

F-statistic	0.940310	Prob. F(2,81)	0.3947
Obs*R-squared	1.906020	Prob. Chi-Square(2)	0.3856
Scaled explained SS	1.208009	Prob. Chi-Square(2)	0.5466

The outcome data of the multicollinearity test (Table 2) and heteroscedasticity test (Table 3) indicate that this research model is free of conventional assumption test issues.

Table 4. The direct impact of each indication comprising the variable X on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.792693	1.517140	0.522491	0.6031
X1_1	-1.389201	0.835216	-1.663283	0.1011
X1_2	2.057378	0.713980	2.881561	0.0054
X1_3	1.083353	0.690033	1.570001	0.1213
X1_4	-0.344839	0.750921	-0.459222	0.6476
X1_5	1.245873	1.036405	1.202111	0.2337
X2_1	0.115364	0.027203	4.240928	0.0001
X2_2	0.019380	0.012236	1.583847	0.1182
X2_3	0.017466	0.011198	1.559741	0.1238

The T table of the data used is 1.98861. Governance variables were assessed using five indicators, X1_1 to X1_5 (see Table 4): control of corruption, government effectiveness, political stability and absence of violence/terrorism, rule of law, and voice and accountability.

Control of corruption (X1.1)

The influence of corruption control on climate finance has a p-value of 0.1011 > 0.05 and a t count of 2.023305, with a negative coefficient (see Table 4). Corruption can hinder the efficient allocation of funds; however, international donors sometimes continue providing climate finance to nations with low control of corruption scores due to geopolitical considerations or commitments to global climate change mitigation efforts. While there is a negative effect, it is not always significant because donors are more focused on the urgent need for climate change mitigation and adaptation in vulnerable developing countries, regardless of corruption scores. Habib et al. (2024) explored the issue from the perspective of developed nations, finding that strong control of corruption significantly enhances the effectiveness of green financing, thereby promoting long-term environmental sustainability.

Government effectiveness (X1.2)

The p-value of government effectiveness is 0.0054 < 0.05 and the t count is 2.881561, with a positive coefficient (see Table 4). Countries with effective governance tend to have better capacity to design and implement climate policies that can attract international finance. Effective governance demonstrates strong institutional capacity, high-quality public services, and good administrative capabilities, which are critical to ensuring that climate funds are managed transparently and efficiently. In addition, effective governance also has the capacity to facilitate high-impact climate projects, thereby strengthening the trust of international institutions to channel funding. The findings of this study are consistent with Nzama's research, which revealed that nations with more effective governments tend to have stronger strategies for attracting foreign investment (Nzama et al., 2023).

Political stability and absence of violence/terrorism (X1.3)

The p-value of political stability and absence of violence/terrorism is 0.1213 > 0.05, with a t-count of 1.570001, indicating a positive coefficient (see Table 4). Climate finance is more determined by a country's policy commitments and governance capacity to address climate change than by political stability itself. While political stability is important for attracting investment and supporting project implementation, many donors and climate finance institutions continue to focus on countries most vulnerable to climate change despite political instability or threats of violence. Adebayo et al. (2022) affirmed that political stability is important for promoting sustainable environmental policies because governments with stability have a stronger capacity to plan and implement long-term policies without being disrupted by war or political instability. Political stability also promotes green investment and green projects.

Rule of law (X1.4)

The rule of law has a p-value of 0.6476 > 0.05, and a t-count of 0.459222, indicating a negative coefficient (see Table 4). It implies that the rule of law has no impact on climate finance. Climate financing is frequently distributed based on emerging nations' objectives for climate change

mitigation and adaptation, regardless of the strength of their legal systems. While the rule of law is crucial in the context of investment and economic stability, in climate finance, donors frequently prioritize sensitivity to climate change consequences and the opportunity for mitigation initiatives over the effectiveness of the law's enforcement. Various results in a Dutch study highlighted the importance of the rule of law in enforcing government obligations on climate change and demonstrated that the judiciary can play an important role in compelling governments to fulfill their international environmental obligations (Eert, 2022).

Voice and accountability (X1.5)

Voice and accountability have a p-value of 0.2337 > 0.05 and a t-count of 1.202111, indicating a positive coefficient (see Table 4). As this indicator reflects public engagement and political freedom, climate finance is significantly influenced by other factors such as governmental capability, economic governance, and effective climate policy. A country might achieve a high Voice and Accountability score, but if it lacks sufficient infrastructure or a clear climate policy, donors may be hesitant to channel climate cash. Basak & Werf (2019) underlined that while international climate funding aims to help developing nations mitigate and adapt to climate change, a lack of accountability could undermine the usefulness of these payments.

Current account balance (X2.1)

The financial distress variable was calculated using three indicators, X2_1 to X2_3, consisting of the current account balance, debt to GDP, and inflation. The current account balance has a p-value of 0.0001 < 0.05, a t-count of 4.240928, and a positive coefficient (see Table 4). Countries with healthy current account balances demonstrate economic stability and the ability to finance climate projects independently or with more targeted support. Countries with a surplus in the current account balance are usually more able to commit to climate mitigation and adaptation projects, which increases the confidence of international donors to channel climate finance. Stable economic conditions also allow these countries to be more responsive in utilizing climate funds for sustainable projects, thereby increasing their attractiveness to international donors who seek efficiency and effectiveness in the use of funds.

Debt to GDP (X2.2)

The p-value of debt to GDP is 0.1182 > 0.05, with a t-count of 1.583847 and a positive coefficient. International donors frequently emphasize the critical importance of climatic requirements and vulnerability to climate change over recipient countries' debt ratios. While high debt levels typically indicate greater financial risk and might discourage international investment in general, in the context of climate finance, many countries with high debt-to-GDP ratios continue to receive funding because they are deemed highly vulnerable to the consequences of climate change.

Inflation (X2.3)

Inflation has a considerable positive impact on climate financing, with a p-value of 0.1238 > 0.05, a t-count of 1.559741, and a positive coefficient. Climate finance tends to be prioritized based on climate mitigation and adaptation needs rather than price stability in recipient countries. While high inflation can affect economic stability and purchasing power in general, international donors and

climate finance institutions focus more on environmental risks and climate impacts than on inflationary conditions. Donors pay more attention to the level of vulnerability to climate disasters and the potential for emission reductions, without being overly influenced by macroeconomic variables such as inflation in their funding decisions. P-value F statistic 0.000000 < 0.05 indicates that the research model is a fit.

Table 5. The influence of X1 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.488540	0.275052	19.95453	0.0000
X1	0.633139	0.208978	3.029699	0.0034
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.843968	Mean dependent var		4.705505
Adjusted R-squared	0.817596	S.D. dependent var		2.019461
S.E. of regression	0.862488	Akaike info criterion		2.683395
Sum squared resid	52.81582	Schwarz criterion		3.059593
Log-likelihood	-99.70259	Hannan-Quinn criter		2.834623
F-statistic	32.00279	Durbin-Watson stat		1.850950
Prob(F-statistic)	0.000000			

The governance variable has a p-value of 0.0034 <0.05 and a t count of 3.029699 with a positive coefficient. These results indicate that this variable has a positive and significant influence on climate finance (see Table 5). Countries with good governance tend to be better able to attract and manage climate finance. Directing funds through a well-established national social protection system can effectively support the preservation of development gains, addressing previously overlooked areas such as Non-Economic Loss and Damage (NELD) and promoting long-term climate resilience (Huber & Murray, 2024). The governance variable shows an R-squared of 0.843968, indicating that 84.39% of the variation in climate finance can be explained by the governance variable (see Table 5). This high R-squared value confirms that governance has a very strong influence on access and effectiveness of climate finance, reinforcing the importance of good governance in the success of climate projects.

Governance plays a crucial role in determining how efficiently climate funds are allocated. As Richardson (2009) argued, nations with strong governance frameworks are more likely to attract climate finance as their transparency and accountability inspire confidence among international donors and investors. Effective governance not only ensures the proper allocation of climate funds but also directs them toward projects with the greatest potential for high-impact mitigation and adaptation outcomes. This is consistent with the findings of Moau, Yong, Toh., Ali, Albada., Sin, and Huei (2023), who found a positive relationship between country governance and cross-border renewable energy investment, highlighting the role of governance in promoting climate action. A robust governance system additionally enables countries to better integrate their climate policies with global initiatives, increasing their attraction to climate finance.

Moreover, governance parameters such as regulatory quality, rule of law, and corruption control play an important role in determining the long-term effectiveness of climate financing programs. According to Nina (2023), good governance in climate financing entails creating a thorough legal and institutional framework that guarantees funding is used to their fullest potential. These metrics are especially important in the post-Paris Agreement age, as climate finance accountability is under increasing security. As climate threats rise, enhancing governance will remain a critical strategy for nations looking to secure and effectively utilize climate funding to boost resilience and promote sustainable development.

Table 6. The influence of X2 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.586476	1.346393	1.178315	0.2426
X2	0.017124	0.007373	2.322542	0.0231
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.836237	Mean dependent var		4.705505
Adjusted R-squared	0.808559	S.D. dependent var		2.019461
S.E. of regression	0.883595	Akaike info criterion		2.731751
Sum squared resid	55.43253	Schwarz criterion		3.107948
Log-likelihood	-101.7335	Hannan-Quinn criter		2.882979
F-statistic	30.21280	Durbin-Watson stat		1.880549
Prob(F-statistic)	0.000000			

The financial distress variable has a p-value of 0.0231 <0.05 and a t count of 2.322542 with a positive coefficient. These results indicate that this variable has a positive and significant influence on climate finance (see Table 6). Countries facing financial challenges are often recipients of increased climate financing. This is because nations in economic distress are perceived as needing more external assistance to support their climate change mitigation and adaptation efforts, given their limited internal resources. A financially distressed company may encounter significant adverse effects, including heightened political and media scrutiny, damage to executive or corporate reputation, potential fines and penalties, and possible backlash from consumers or creditors. A corporation will participate in social and environmental initiatives when the marginal benefits of these activities exceed the marginal costs, thereby achieving an optimal balance (Alshahrani et al., 2023). In this study, the financial distress variable has an R-squared of 0.836237, indicating that financial distress accounts for 83.62% of the variation in climate funding (see Table 6). This high R-squared value implies that financial distress is a key factor in influencing the quantity of climate financing received by countries.

Financial distress has a considerable impact on a country's ability to manage and obtain climate funds. Countries with financial limitations sometimes rely largely on foreign financing to carry out climate-related projects as their limited internal resources cannot sufficiently address climate concerns. According to Alshahrani et al. (2023), economically troubled countries receive more climate money since foreign donors acknowledge their need for assistance. While financial difficulties can attract money, it can also make it difficult to manage those resources effectively.

Countries in financial crisis may prioritize short-term financial stability above long-term climate investments, thus leading to inefficient use of climate money.

In addition, as Nor & Mohamed (2024) pointed out, high levels of indebtedness in LDCs restrict their capacity to channel sufficient funds into climate action initiatives, given that financial resources are frequently directed toward pressing economic obligations rather than sustainable environmental investments. This emphasizes the need for international debt relief measures, which can help countries reduce their financial load and focus more on climate action. While a financial crisis might spur additional external climate finance, donors must collaborate closely with recipient nations to ensure that funds are used in a way that promotes long-term financial and environmental sustainability. Strengthening institutional capacity in financially troubled countries can assist close the funding gap and improve implementation.

Table 7. The influence of X1 and X2 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.291742	1.285465	1.782812	0.0790
X1	0.644809	0.201431	3.201137	0.0021
X2	0.017630	0.006937	2.541493	0.0133
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.857149	Mean dependent var		4.705505
Adjusted R-squared	0.830620	S.D. dependent var		2.019461
S.E. of regression	0.831127	Akaike info criterion		2.618943
Sum squared resid	48.35400	Schwarz criterion		3.024079
Log-likelihood	-95.99559	Hannan-Quinn criter		2.781804
F-statistic	32.30931	Durbin-Watson stat		1.969417
Prob(F-statistic)	0.000000			

The regression equation for this research model is as follows:

$$Y = 2{,}291742 + 0.644809X_1 + 0.017630X_2 + \varepsilon$$

The regression results above show the relationship between independent variables X1 and X2 with the dependent variable, with the estimation of the fixed effects model. The constant coefficient (C) of 2.291742 and a t-statistic value of 1.782812 indicate that the constant is almost significant at the 10% level (p-value 0.0790). Variable X1 has a significant positive coefficient of 0.644809 with a t-statistic of 3.201137 and a p-value of 0.0021, indicating that X1 has a significant positive effect on the dependent variable. Likewise, variable X2 has a coefficient of 0.017630 and a p-value of 0.0133, indicating a significant positive effect at the 5% significance level. The R-squared value of 0.857149 indicates that 85.71% of the variation in the dependent variable can be explained by variables X1 and X2. The F-statistic value of 32.30931 and a p-value of 0.000000 indicate that the overall model is significant. In addition, the Durbin-Watson stat of 1.969417 indicates that there are no serious problems related to residual autocorrelation in this model.

CONCLUSION

Each governance and financial distress indicator has a distinct influence on the access to and effectiveness of climate finance in the East Asia and Pacific (EAP) region. Control of corruption (X1.1) has a negative but insignificant effect, suggesting that while corruption can impede fund distribution, donors continue to offer support based on the urgency of climate needs. Government effectiveness (X1.2) shows a significant positive impact, indicating that robust governance enhances donor trust through effective policy management and implementation. Political stability and absence of violence/terrorism (X1.3) have a positive yet insignificant effect as donors tend to prioritize climate-related needs over political stability. Rule of law (X1.4) does not significantly impact climate finance, implying that donors focus more on immediate climate needs than on law enforcement strength. Similarly, voice and accountability (X1.5) are not significant, suggesting that public participation is not always a determining factor in the allocation of climate finance. Economically, a strong current account balance (X2.1) has a significant positive effect, reflecting that economic stability boosts the attractiveness of climate finance. Conversely, the debt-to-GDP ratio (X2.2) and inflation (X2.3) do not show significant impacts, indicating that donors prioritize climate vulnerability over specific macroeconomic conditions. In summary, government effectiveness and economic stability are critical factors in facilitating access to climate finance in the EAP region.

Findings

This study discovers that control of corruption (X1.1) and rule of law (X1.4) exert a negative effect, indicating that in the countries analyzed, the urgency of climate issues is a critical factor. Donors continue to provide aid, even when corruption and weak law enforcement may hinder its effective distribution. Additionally, the study reveals that the debt-to-GDP ratio (X2.2) and inflation (X2.3) have a positive impact on climate finance, suggesting that climate vulnerability takes precedence for donors over specific macroeconomic conditions.

Contributions

This research provides both theoretical and practical contributions to the field of climate finance, specifically within the East Asia and Pacific (EAP) region. This research model contributes to the literature by offering a framework that explains 85.71% of the variation in climate finance based on governance and financial condition indicators, revealing a positive relationship between financial distress and climate finance. Theoretically, the study expands the literature by demonstrating that governance and economic stability indicators have varied impacts on climate finance access and effectiveness. The findings reveal that government effectiveness and a stable current account balance are significantly associated with increased climate finance, underscoring the importance of governance capacity and economic stability. Conversely, indicators such as control of corruption and the rule of law, while generally considered crucial, show an insignificant or negative impact, suggesting that donors prioritize urgent climate needs over governance issues. Practically, the study offers actionable insights for policymakers in EAP countries, emphasizing that strengthening government effectiveness and ensuring economic

stability are essential strategies for attracting climate finance. By highlighting the limited impact of factors like political stability, public participation, and specific macroeconomic variables, the research suggests that EAP nations focus on building robust governance systems and demonstrating commitment to climate initiatives, even in contexts where corruption and enforcement challenges exist. This practical framework is adaptable for use by international donors, encouraging them to consider climate vulnerability alongside governance quality to effectively allocate climate finance.

MANAGERIAL IMPLICATION

To establish a more efficient and coordinated climate finance system in the East Asia and Pacific (EAP) region, governments should prioritize several key areas. EAP countries need to strengthen anti-corruption policies in climate fund management to enhance international donor confidence. While some donors continue to fund countries with low scores in corruption control, increasing transparency and accountability will promote effective fund distribution and improve governance reputation. Enhancing public governance effectiveness is crucial for facilitating the receipt and utilization of climate funds. EAP countries should focus on improving public service quality, administrative capacity, and policy implementation, enabling them to design credible climate initiatives and attract global funding for mitigation and adaptation efforts. Although political stability is not always a primary barrier to securing climate finance, stable political conditions can boost investment appeal and facilitate climate project implementation. Therefore, EAP countries facing political instability should adopt long-term strategies to mitigate political risks, fostering a supportive environment for sustainable climate programs. While the rule of law may not directly influence climate finance, it is vital for long-term compliance with climate policies and environmental regulations. EAP countries should strengthen judicial systems that ensure adherence to climate policies, reassuring donors of fund management according to legal standards. Though public engagement and political freedom do not directly impact climate finance, transparency and accountability mechanisms can enhance program legitimacy. EAP countries should encourage public participation in climate policy formulation to improve transparency, accountability, and public support.

Economic stability, reflected by a positive current account balance, also boosts climate finance appeal. EAP countries with significant deficits should adopt economic policies that reduce reliance on external capital, strengthening their capacity to finance climate projects independently. As donors often prioritize climate needs over debt risks, EAP countries are advised to maintain manageable debt levels to avoid increased financial risks. This strategy enhances their competitiveness for climate finance without adding debt burdens. Although inflation does not significantly affect climate finance, price stability is essential for maintaining purchasing power and attracting investment. EAP countries experiencing high inflation should implement effective monetary policies to maintain economic stability, thereby supporting the long-term efficacy of climate finance.

LIMITATIONS AND FUTURE RESEARCH

A drawback of this study is that it merely looks at 12 nations in the East Asia and Pacific (EAP) region. While the findings provide useful insights into the dynamics of climate funding in the region, they may not be fully applicable to other regions with different governance structures, economic

situations, or climatic concerns. Future research should broaden the scope to include more countries from different areas in order to better understand the global determinants of climate finance and how they vary by region.

Furthermore, this analysis is mostly based on quantitative data, which may ignore complex qualitative aspects such as political will, cultural influences, and stakeholder participation, all of which might play major roles in the distribution and effectiveness of climate funding. Future studies could include qualitative methodologies, such as surveys involving policymakers or case studies of specific climate finance projects, to gain a better understanding of the factors influencing climate finance.

At last, this particular study investigates governance and financial distress as independent variables affecting climate finance, with little emphasis on potential relationships between these variables. Future research might inquire into how governance and financial distress interact with one another, as well as other variables such as environmental risk and technological readiness. Understanding the connections between them can give policymakers a better understanding of the complex factors that govern climate finance allocation and efficacy, allowing them to build more targeted strategies for recruiting and managing climate finance.

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