

## ***Climate Finance Determinants and The Moderating Effect of Regulation in ASEAN***

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### ***Abstract***

*The purpose of this study is to examine the impact of governance and financial distress on climate funding in ASEAN countries, as well as how regulation influences this relationship. This study employs a quantitative approach with secondary data from several official sources and use moderated regression analysis (MRA) techniques. The research findings indicate that governance has a major positive impact on climate. Good governance procedures boost the confidence of international investors and donors, facilitating the flow of climate cash. In contrast, financial suffering has a negative effect, which means that growing it diminishes the country's ability to attract and handle climate fund. These findings suggest that robust environmental legislation can mitigate and strengthen the impact of governance and financial crises on climate finance. Regulation boosts governance's contribution to climate finance to 27.89 percent and financial distress to 28.04 percent. This underlines the significance of improving ASEAN countries' governance and regulatory systems in order to optimize the flow of climate funding. This study also emphasizes the need to diversify financing sources and increase fund management capacity in order to improve the effectiveness of climate finance.*

*Keyword : Climate finance, determinants, regulation*

## **1. INTRODUCTION**

### **1.1. Background**

Climate change has become one of the greatest challenges facing humanity in the 21st century. The impacts of climate change are felt throughout the world, especially in developing countries, which often have lower adaptive capacity. ASEAN countries, with their natural wealth and biodiversity, are not exempt from this impact. Extreme weather events caused by climate change, such as floods and landslides, have caused health crises and economic losses (Haryanto et al., 2020). Sea level rise is one of the most severe consequences of a warming climate, threatening hundreds of millions of people living in low-lying coastal communities (Dangendorf et al., 2023). Climate change has the potential to impact the health and well-being of every individual on the planet (Giglio et al., 2021). All sectors affected by climate change must be able to adapt and make adjustments for sustainability. For this purpose, quite a lot of funds are needed. However, there are several challenges in the current climate finance architecture, including the need for sustainable funding on a large scale and the integration of the GCF with existing funds (Kotchen, 2020).

Climate finance is an issue that is widely discussed and increasingly researched. Climate finance is the study of public and private investment financing at home and abroad to promote climate change mitigation and adaptation (Hong et al., 2020). Climate finance is the basis of sustainability efforts through funding that supports climate change mitigation and adaptation activities (Afifah & Nugraha, 2024). This financing includes the allocation of funds for renewable energy projects, energy efficiency improvements, and climate change adaptation programs (Griffith-Jones & Ocampo, 2018). ASEAN countries face a chronic infrastructure investment gap, limiting the resources available for climate finance (Yannick, 2023). Governance significantly influences climate finance by shaping its definition, management, and distribution (Nina, 2023). Fiscal constraints, such as high debt-to-GDP ratios, budget deficits, and high inflation, reduce countries' capacity to invest in climate projects (Zou & Ockenden, 2016). Additionally, although there are

many sources of funding available, access to these funds is often limited due to a lack of supportive regulations and transparency in fund management.

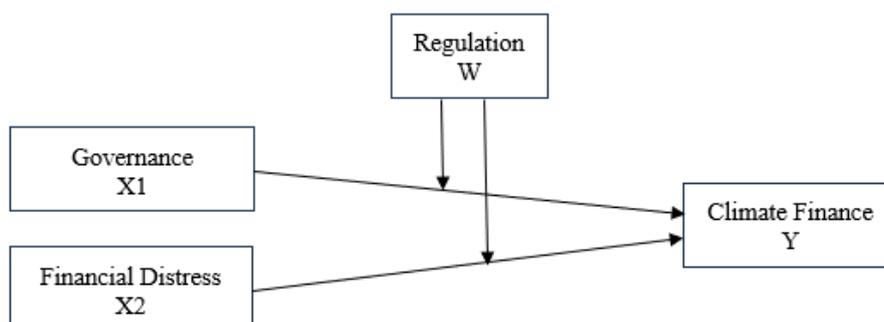
This research aims to: 1) Analyse the influence of governance on climate finance in ASEAN countries; 2) Analyse the influence of financial distress on climate finance in ASEAN countries; 3) Examine the role of regulation in moderating the relationship between governance and climate finance; 4) Examine the role of regulation in moderating the relationship between financial distress and climate finance.

Minhas et al. (2024) show that there is a positive relationship between climate change commitment and governance, with incorporating climate change issues into governance helping businesses reduce risks and capitalize on climate change opportunities. Low governance scores, which indicate problems such as corruption, weak institutions, a lack of transparency, and poor management of public resources, can impede the successful use of climate money (Causevic et al., 2023). Improved governance can assist poor nations attract more renewable energy investments, allowing them to transition to low-emission and climate-resilient pathways (Moau et al., 2023).

According to the literature on financial hardship, ASEAN countries can access a variety of funding sources, including bilateral, multilateral, and private sector funding (Buchner et al., 2019). Diverse funding sources, such as public funds, private investment, bilateral contributions, multilateral financing, and alternative funding mechanisms, contribute significantly to financial distress initiatives by providing financial resources for climate change mitigation and adaptation projects (Varadarajan & Chitra, 2022). Cochran and Pauthier (2019) discovered that countries with access to foreign finance are likely to have more advanced and effective climate policies. However, they also point out that domestic financial constraints can impede the implementation of internationally sponsored climate projects.

Based on Nakhoda et al. (2015), global standards such as strong transparency and reporting requirements might increase financing access and efficiency in some countries while adding major administrative difficulties. According to Bartram et al. (2022), firms do not cut total emissions when a portion of their assets are subject to laws. In contrast, emissions may rise for financially restricted enterprises, showing unforeseen repercussions of local climate initiatives. Policy is vital in mobilizing climate finance, both through international monetary transfers from industrialized to developing nations and by shifting financial flows from high-carbon to low-carbon assets around the world. It also underlines the significance of systematically analysing the effectiveness of these initiatives in order to advance climate financing (Steffen & Michaelowa, 2022). Global regulations, such as the UNFCCC and the Kyoto Protocol, serve as the foundation for national or country-level financial distress policies, directing how financial resources are transferred from developed to developing countries for climate mitigation and adaptation (Rossati, 2016).

Previous research has shown that several sources of international climate finance, such as the GCF, GEF, ADB, and bilateral institutions, play an essential role in assisting ASEAN nations' climate mitigation and adaptation activities. To fully profit from these funds, however, substantial administrative and regulatory competence is essential. Diversifying financing sources and strengthening fund management capacity are critical to enhancing climate fund allocation in the ASEAN area. Global rules, such as the Paris Agreement, function as moderators, influencing climate financing availability and efficiency (Buchner et al., 2019). The research model is as follows:



Picture 1. Research Model

**2. METHOD**

This research design uses a quantitative approach to analyse the influence of governance and financial distress on the climate finance, as well as how regulation moderates this relationship in ASEAN countries. This research is descriptive and explanatory, aiming to explain the phenomenon and the causal relationship between these variables. The population in this study were 7 ASEAN member countries (Indonesia, Philippines, Vietnam, Thailand, Laos, Myanmar, Cambodia). The data used in this research is secondary data obtained from various official sources, including the Multilateral Development Banks (MDB) Joint Report for climate finance data, the IMF World Economic Outlook for financial distress data, the World Bank databank for governance data, and the World Bank Regulatory Quality Index for regulation data. This research variable consists of the dependent variable, namely climate finance, independent variables, namely governance (control of corruption, government effectiveness, political stability & absence of violence/terrorism, rule of law, voice and accountability), financial distress (current account balance, debt to GDP, inflation) and the moderating variable, namely regulation (quality of regulation). Data were analysed using moderated regression analysis (MRA) techniques. All analyses were carried out with Eviews software. The following is the regression model for this research:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 W + \beta_4 (X_1 \times W) + \beta_5 (X_2 \times W) + \epsilon \quad (1)$$

**3. RESULTS AND DISCUSSION**

Climate financing plays an important role in mitigating and adapting to climate change. Several factors can have an impact on the efficiency and effectiveness of this flow of finances. The issues examined in this study are governance and financial distress in relation to climate finance, with regulation serving as a moderator. The Random Effect Model (REM) is the best fit for this study based on table 1 Chow test, table 2 Hausman test, and table 3 Lagrange Multiplier test. The results of the classical assumption test demonstrate that this model is devoid of classical assumption test issues.

Table 1. Chow Test

Redundant Fixed Effects Tests  
Equation: Untitled  
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.217312	(6,45)	0.0000
Cross-section Chi-square	40.692287	6	0.0000

Source: Processed Data (2024)

Table 2. 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	2.770619	3	0.4284

Source: Processed Data (2024)

Table 3. Hausman Test

Lagrange multiplier (LM) test for panel data  
Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	26.97537 (0.0000)	1.857077 (0.1730)	28.83245 (0.0000)
Honda	5.193782 (0.0000)	-1.362746 (0.9135)	2.708951 (0.0034)
King-Wu	5.193782 (0.0000)	-1.362746 (0.9135)	2.885390 (0.0020)
SLM	5.530590 (0.0000)	-0.855281 (0.8038)	-- --
GHM	-- --	-- --	26.97537 (0.0000)

Source: Processed Data (2024)

After evaluating the hypothesis, we can infer that there is a moderately strong positive association between governance and climate financing, as demonstrated in table 4 by a coefficient value of 0.586. The R-squared value obtained is 0.262, showing that governance has a direct impact of 26.2% on climate finance. Governments that practice strong governance, such as openness, accountability, and regulatory efficacy, are more likely to get climate finance. International investors and donors are more willing to support countries with strong and dependable governance. This study is consistent with Chaiyapa's findings, which show that effective governance has a favourable impact on climate action. Causevic et al. (2023) found a favourable association between government governance and the amount of climate funding received.

Table 4. The effect of governance on climate finance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.167430	0.468806	15.28870	0.0000
GOVERNANCE__X1_	0.586910	0.136292	4.306259	0.0001
Effects Specification				
			S.D.	Rho
	Cross-section random		0.674838	0.4960
	Idiosyncratic random		0.680213	0.5040
Weighted Statistics				
	R-squared	0.262034	Mean dependent var	1.869585
	Adjusted R-squared	0.248110	S.D. dependent var	0.774290
	S.E. of regression	0.675222	Sum squared resid	24.16404
	F-statistic	18.81902	Durbin-Watson stat	1.812986
	Prob(F-statistic)	0.000065		

Source: Processed Data (2024)

The coefficient of -1.698 as shown in table 5 indicates a substantial negative association between financial distress and financial climate. This means that as financial crisis rises, the financial climate likely to deteriorate dramatically. The R-squared value of 0.173 indicates that financial suffering has a direct influence of 17.3% on climate finance. Countries suffering financial challenges may have a limited ability

to obtain and handle climate finance. This could happen because investors and donors see increased risks and an inability to ensure the effective and efficient use of cash. In times of financial difficulty, the government may prioritize other pressing requirements, such as economic and social stability, above allocating cash for climate projects. Alshahrani's research found that financial distress causes fewer resources to be given to climate finance because it prioritizes urgent financial survival above long-term environmental investment (Alshahrani, et al., 2023).

Table 5. The effect of financial distress on climate finance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.357523	4.261877	-0.787804	0.4343
FINANCIAL_DISTRESS_X2_	-1.698622	0.111363	-2.093542	0.0411
Effects Specification				
			S.D.	Rho
Cross-section random			1.110188	0.7148
Idiosyncratic random			0.701299	0.2852
Weighted Statistics				
R-squared	0.173713	Mean dependent var	1.214586	
Adjusted R-squared	0.156236	S.D. dependent var	0.733799	
S.E. of regression	0.714905	Sum squared resid	27.08770	
F-statistic	4.217682	Durbin-Watson stat	1.888738	
Prob(F-statistic)	0.044953			

Source: Processed Data (2024)

The probability value of outputs 1 as shown in table 6 and outputs 2 as shown in table 7 in the moderation test of the influence of governance on climate financing is <0.05, indicating that regulation acts as a quasi-moderator. The R-squared value for governance's direct influence on climate finance is 26.20%. Meanwhile, after regulatory moderation, governance's contribution to climate finance increased to 27.89%. This means that regulation improves the role of governance in climate finance. Countries with strict environmental standards will find it simpler to attract climate money because investors are satisfied that their cash will be effectively managed and used for the intended purpose. Apart from mitigating the relationship between governance and climate finance, regulation can also have a direct impact on climate funding. As a result, regulation can have a direct impact on climate financing in addition to influencing how governance effects it.

Table 6. The moderation effect of regulation on governance to climate finance (output 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.236106	0.504259	14.34998	0.0000
GOVERNANCE_X1_	0.605221	0.155236	3.898722	0.0003
REGULATION_W_	0.282367	0.197646	3.482561	0.0346
Effects Specification				
			S.D.	Rho
Cross-section random			0.626296	0.4404
Idiosyncratic random			0.705980	0.5596
Weighted Statistics				

R-squared	0.287005	Mean dependent var	2.198340
Adjusted R-squared	0.255317	S.D. dependent var	0.825572
S.E. of regression	0.717478	Sum squared resid	23.16486
F-statistic	9.057038	Durbin-Watson stat	1.569583
Prob(F-statistic)	0.000495		

Source: Processed Data (2024)

Table 7. The moderation effect of regulation on governance to climate finance (output 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.206542	0.575534	12.52149	0.0000
GOVERNANCE__X1__	0.591623	0.180723	3.273642	0.0021
REGULATION__W__	0.804244	0.425552	3.440549	0.0217
MODERASI__X1__W__Y	0.605008	0.239015	4.439335	0.0226

Effects Specification		S.D.	Rho
Cross-section random		0.709552	0.4960
Idiosyncratic random		0.715204	0.5040

Weighted Statistics			
R-squared	0.278932	Mean dependent var	1.997224
Adjusted R-squared	0.269768	S.D. dependent var	0.809681
S.E. of regression	0.715046	Sum squared resid	22.49678
F-statistic	5.673521	Durbin-Watson stat	1.605475
Prob(F-statistic)	0.002248		

Source: Processed Data (2024)

Outputs 1 as shown in table 8 and outputs 2 as shown in table 9 in the moderation test of the influence of financial distress on climate finance have probability values <0.05, indicating that regulation acts as a quasi-moderator. The R-squared value of financial distress's direct influence on climate finance is 17.37%, whereas following regulation, it contributes 28.04%. This means that regulation exacerbates the impact of financial crisis on the financial climate. Strong and consistent regulations can help to mitigate the harmful impact of financial hardship on the financial system. In addition to moderating the association between financial distress and climate funding, legislation can have a direct impact on climate finance. Regulations that encourage and protect investors' usage of funds can directly improve the flow of climate funding.

Table 8. The moderation effect of regulation on financial distress to climate finance (output 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.717146	3.815162	-0.712197	0.4795
FINANCIAL_DISTRESS__X2__	-1.704172	0.135684	-2.316444	0.0245
REGULATION__W__	1.870495	0.176139	3.246601	0.0020

Effects Specification		S.D.	Rho
Cross-section random		0.743197	0.5313
Idiosyncratic random		0.697978	0.4687

Weighted Statistics			
R-squared	0.200692	Mean dependent var	1.755237
Adjusted R-squared	0.199950	S.D. dependent var	0.766126
S.E. of regression	0.701624	Sum squared resid	25.59839
F-statistic	6.528146	Durbin-Watson stat	1.811059
Prob(F-statistic)	0.002955		

Source: Processed Data (2024)

Table 9. The moderation effect of regulation on financial distress to climate finance (output 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.534555	4.088562	-1.598253	0.1171
FINANCIAL_DISTRESS_X2_	-2.456981	0.190004	-3.110087	0.0033
REGULATION_W_	2.226228	0.241543	3.470115	0.0012
MODERASI_X2_W_Y	0.105024	0.104115	3.221072	0.0286

Effects Specification			
		S.D.	Rho
Cross-section random		0.641216	0.4811
Idiosyncratic random		0.665945	0.5189

Weighted Statistics			
R-squared	0.280398	Mean dependent var	2.049736
Adjusted R-squared	0.231335	S.D. dependent var	0.813706
S.E. of regression	0.718028	Sum squared resid	22.68484
F-statistic	5.714984	Durbin-Watson stat	1.612616
Prob(F-statistic)	0.002155		

Source: Processed Data (2024)

To have a better understanding of the interactions between variables in this study, we investigated the correlation of each indicator. In Table 10, control of corruption which is symbolized by X1\_1 has a correlation coefficient of 0.656 with regulation, implying that increasing anti-corruption rules can increase control of corruption, hence strengthening the regulatory system as a whole. The connection between corruption control and climate finance is 0.608, implying that corruption control can improve transparency and efficiency in the utilization of climate finance while also attracting more funding. Better management of corruption is crucial in attracting more climate financing (Lubinga & Mazenda, 2024). Furthermore, strong anti-corruption measures will boost public faith in the government and encourage compliance with regulations. Increased confidence among donors and investors leads to more climate finance.

In Table 10, government effectiveness which is symbolized by X1\_2 has a 0.858 association with regulation, implying that high government effectiveness, accompanied by good regulations, leads to more effective policy execution. The connection between government effectiveness and climate finance is 0.608, indicating that more effective government can better manage and implement climate programs, resulting in greater investment. Government effectiveness is important because it influences the real-world outcomes of climate change policy (Meckling & Allan, 2020). Strong regulations will boost government capacity in a variety of fields, including environmental regulations. Increased capacity enables governments to attract and handle climate money more effectively.

Table 10. Correlation

	Y	X1_1	X1_2	X1_3	X1_4	X1_5	X2_1	X2_2	X2_3	W	X1_1_W	X1_2_W	X1_3_W	X1_4_W	X1_5_W	X2_1_W	X2_2_W	X2_3_W
Y	1,000	0,608	0,608	-0,186	0,481	0,677	0,276	-0,145	0,019	0,633	-0,691	-0,578	-0,194	-0,685	-0,629	0,606	0,505	0,488
X1_1	0,608	1,000	0,659	-0,411	0,744	0,564	0,400	-0,041	-0,062	0,656	-0,856	-0,509	0,021	-0,687	-0,680	0,641	0,491	0,562
X1_2	0,608	0,659	1,000	0,022	0,879	0,467	0,471	-0,101	-0,033	0,858	-0,836	-0,912	-0,524	-0,930	-0,738	0,842	0,649	0,708
X1_3	-0,186	-0,411	0,022	1,000	0,041	-0,550	-0,317	0,318	0,296	-0,320	0,383	-0,164	-0,704	0,034	0,448	-0,274	-0,417	-0,312
X1_4	0,481	0,744	0,879	0,041	1,000	0,285	0,433	0,001	0,073	0,703	-0,778	-0,780	-0,402	-0,845	-0,646	0,694	0,505	0,552
X1_5	0,677	0,564	0,467	-0,550	0,285	1,000	0,462	-0,346	-0,496	0,768	-0,739	-0,415	0,010	-0,585	-0,794	0,719	0,677	0,773
X2_1	0,276	0,400	0,471	-0,317	0,433	0,462	1,000	-0,540	-0,261	0,613	-0,589	-0,450	0,000	-0,508	-0,702	0,408	0,754	0,609
X2_2	-0,145	-0,041	-0,101	0,318	0,001	-0,346	-0,540	1,000	-0,128	-0,255	0,244	0,202	-0,280	0,185	0,437	-0,021	-0,706	-0,131
X2_3	0,019	-0,062	-0,033	0,296	0,073	-0,496	-0,261	-0,128	1,000	-0,329	0,183	-0,065	0,103	0,050	0,245	-0,360	-0,140	-0,646
W	0,633	0,656	0,858	-0,320	0,703	0,768	0,613	-0,255	-0,329	1,000	-0,935	-0,795	-0,323	-0,900	-0,935	0,954	0,832	0,920
X1_1_W	-0,691	-0,856	-0,836	0,383	-0,778	-0,739	-0,589	0,244	0,183	-0,935	1,000	0,769	0,206	0,910	0,935	-0,878	-0,792	-0,824
X1_2_W	-0,578	-0,509	-0,912	-0,164	-0,780	-0,415	-0,450	0,202	-0,065	-0,795	0,769	1,000	0,650	0,947	0,725	-0,742	-0,649	-0,627
X1_3_W	-0,194	0,021	-0,524	-0,704	-0,402	0,010	0,000	-0,280	0,103	-0,323	0,206	0,650	1,000	0,529	0,143	-0,364	-0,040	-0,352
X1_4_W	-0,685	-0,687	-0,930	0,034	-0,845	-0,585	-0,508	0,185	0,050	-0,900	0,910	0,947	0,529	1,000	0,846	-0,851	-0,720	-0,753
X1_5_W	-0,629	-0,680	-0,738	0,448	-0,646	-0,794	-0,702	0,437	0,245	-0,935	0,935	0,725	0,143	0,846	1,000	-0,840	-0,891	-0,831
X2_1_W	0,606	0,641	0,842	-0,274	0,694	0,719	0,408	-0,021	-0,360	0,954	-0,878	-0,742	-0,364	-0,851	-0,840	1,000	0,655	0,886
X2_2_W	0,505	0,491	0,649	-0,417	0,505	0,677	0,754	-0,706	-0,140	0,832	-0,792	-0,649	-0,040	-0,720	-0,891	0,655	1,000	0,710
X2_3_W	0,488	0,562	0,708	-0,312	0,552	0,773	0,609	-0,131	-0,646	0,920	-0,824	-0,627	-0,352	-0,753	-0,831	0,886	0,710	1,000

Source: Processed Data (2024)

Political stability and the absence of violence/terrorism which is symbolized by X1\_3 in Table 10, have a -0.320 link with regulation, suggesting that political instability impedes the effective execution of regulations and provides a poor regulatory environment. The association between political stability and the lack of violence/terrorism and climate funding is -0.186, implying that poor political stability will erode the trust of donors and investors, lowering climate finance. Lubinga and Mazenda (2024) discovered that a country's political stability boosts the amount of climate finance it receives. An unstable environment affects regulatory compliance owing to uncertainty. Political instability and violence undermine the success of climate projects, making them less appealing for future funding.

The rule of law which is symbolized by X1\_4 in Table 10, has a correlation of 0.703 with regulation, implying that the supremacy of law promotes fair and consistent execution of rules. Meanwhile, the association between rule of law and climate finance is 0.481, indicating that well-enforced regulations ensure that climate monies are used for their intended purpose and can boost donor confidence. Legal frameworks that provide clear norms and procedures can assist lessen the risks associated with climate finance, making it a more appealing alternative for investors concerned about the long-term effects of climate change (Amighini et al., 2022). The rule of law promotes openness and impartiality in the application of regulations. Increased transparency in the use of climate money will lead to increased funding.

Voice and accountability which is symbolized by X1\_5 in Table 10, have a 0.768 association with regulation, indicating that regulations that allow for public participation improve accountability and transparency. Meanwhile, the association between voice and accountability and climate finance is 0.677, indicating that public participation in climate decision-making boosts project support and success while attracting additional investment. Accountability methods aid in the monitoring and evaluation of climate money, ensuring that resources are allocated fairly and reach their intended beneficiaries without being exploited or diverted (Bhandary et al., 2021). Transparent and accountable regulations foster greater public trust and compliance. Increased transparency in the use of climate finance ensures that projects are completed successfully and attract additional funding.

The current account balance which is symbolized by X2\_1 in Table 10, has a correlation coefficient of 0.614 with regulation, implying that strong regulation promotes economic stability, as represented in a healthy current account balance. Meanwhile, the association between current account balance and climate finance is 0.276, indicating that economic stability attracts climate funding by demonstrating the country's financial capacity to support climate programs. A healthy current account balance shows that a government is saving more than it spends, allowing for more investment in climate financing projects (Buchner et al., 2019). Effective regulations promote better economic management. Good economic management ensures that climate money are utilized effectively.

In Table 10, Debt to GDP which is symbolized by X2\_2 has a -0.255 correlation with regulation, implying that an increase in the debt load on GDP is associated with a decline in the quality of regulation, however the association is not very high. This negative association could indicate that rising debt relative to GDP undermines investor and creditor confidence in the government's ability to enforce effective rules. Meanwhile, the link between debt to GDP and climate finance is -0.145, implying that a manageable debt burden boosts donor and investor confidence, resulting in more climate financing. External debt can constrain the ability to fund climate mitigation and adaptation efforts (OECD, 2022). Strong regulations promote fiscal stability by controlling government spending and debt financing. Fiscal sustainability boosts a country's attractiveness to climate finance.

Inflation as shown in Table 10, symbolized by X2\_3, has a -0.329 association with regulation, indicating that as the inflation rate rises, the quality of regulation tends to fall. Although the link is not high, it is substantial enough to suggest a relationship worth noticing. Meanwhile, the connection between inflation and climate finance is 0.019, indicating that, while inflation has no substantial relationship with climate finance, price stability is still vital for planning climate initiatives. Inflation plays a major role in carbon return fluctuations, therefore changes in inflation rates can induce climate finance instability (Batten, 2018). Strong regulation promotes price stability by controlling markets and eliminating behaviours that could cause price spikes. Price stability allows for better budget planning for climate programs, ensuring that funds are given in appropriate amounts to meet project objectives.

#### 4. CONCLUSION

The research conducted shows that governance and financial distress have a major impact on climate funding in ASEAN countries, with legislation acting as a moderator to reinforce the relationship. Good governance, such as transparency and accountability, has a favorable impact on the flow of climate funding. International investors and donors are more likely to help countries with great governance because they believe their finances will be well managed. Strong environmental regulations are crucial for attracting climate investment. On the other hand, financial distress has a significant detrimental impact on the financial climate. As financial instability worsens, the country's ability to attract and manage climate money suffers dramatically, as investors and donors see greater risks. Regulations also increase the impact of financial crisis on climate finance. Strong rules can help mitigate the negative effects of financial crisis by providing investors with assurances about the efficient use of capital. Overall, this study demonstrates the importance of governance and regulation in boosting the flow of climate finance in ASEAN countries, with financial distress being the main impediment.

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