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[*GOVERNANCE AND CLIMATE FINANCE IN THE DEVELOPING WORLD*]

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Overview

We investigate the relationship between governance and climate finance, particularly in the context of the energy transition in developing countries. Our aim is to examine how governance qualities in developing countries impact financial contributions from contributor countries that intend to fund mitigation projects in the energy sector. We have compiled a dataset of yearly climate finance contributions at the project level spanning from 2011 to 2019. Our analysis, which utilizes random forests and LASSO estimations, reveals that climate finance contributions, particularly those for energy-related projects, are significantly linked to good governance, including a robust legal system, rule of law, and accountability. Ultimately, this study provides valuable insights into the dynamics between governance and climate finance in developing countries and informs policy decisions to support effective climate action in the energy sector.

Methods

We use machine learning methods on the data set for climate finance funds during the period 2011-2019 at the project level to evaluate how developing countries' governance qualities impact developed countries' financial contributions. So, we study the determinants of funding contribution for climate change projects, particularly for energy-related ones.

In detail, we construct a dataset on global climate finance, governance, various indicators for energy, the environment, and the economy, and various indicators for financial and economic risks from various sources including UNFCCC Climate Finance Data Portal, 2023, IMF, 2023 , The World Bank, 2023, Global Environment Facility, 2023, Food and Agriculture Organization, 2023, Kaufmann and Kraay, 2023, The PRS Group, 2023, and Climate Watch, 2023. The dataset consists of various determinants for funding contribution for a climate change project given in US dollars, which we classified into governance indicators, energy and environment related indicators, Economic risks indicators and socioeconomic factors. We use the constructed panel dataset to estimate the