Governance and Official Development Assistance Allocation: A Comparative Case Study of Myanmar within the ASEAN Context

By

THU, Su Myat

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Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

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Committee in charge:

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ABSTRACT

Sound institutions and effective governance have long been recognized as critical determinants of foreign aid allocation in developing countries. Hence, focusing on Myanmar within the broader context of the Association of Southeast Asian Nations (ASEAN), this paper investigated Official Development Assistance (ODA) allocation patterns based on governance indicators. The study examined whether foreign aid donors reward recipient countries in the ASEAN region based on their governance quality, which I measured using the World Governance Indicators (WGI) by the World Bank from 2006 to 2020 (15 years). I find evidence and compelling insights that a positive relationship exists between the amount of ODA and governance indicators. Through the lens of donors, the analysis suggests that countries exhibiting high governance quality attract more foreign aid from developed nations. The empirical findings highlight the pivotal role of governance quality, particularly in terms of control of corruption, regulatory quality, and voice and accountability, in influencing ODA allocation. This study holds particular relevance for policymakers, government officials, donors, and development practitioners, offering valuable insights to enhance the effective allocation of international assistance to recipient countries.

Keywords: ASEAN; Myanmar; ODA; Foreign Aid; OECD; Governance; Net ODA received

ACKNOWLEDGMENT

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Abbreviations

ADB	Asian Development Bank
AIMS	(Myanmar) Aid Information Management System
ASEAN	Association of Southeast Asian Nations
CLMV	Cambodia, Lao PDR, Myanmar, Vietnam
DAC	Development Assistance Committee
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
ICRG	International Country Risk Guide
IMF	International Monetary Fund
NGO	Non-governmental Organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
UCM	Unobserved Components Model
UN	United Nations
UNGA	United Nations General Assembly
UNSC	United Nations Security Council
V-Dem	Varieties of Democracy
VIF	Variance Inflation Factors
WDI	World Development Indicators
WGI	World Governance Indicators

<center>**Chapter I**</center>

<center>**Introduction**</center>

1.1. Background

Given the substantial influx of international assistance to developing countries, a vast body of research has emerged, with contrasting arguments on the impact of the aid in driving socio-economic development (Akramov, 2012) and governance quality (Bourguignon & Gunning, 2020; Busse & Gröning, 2009) in these nations. Highlighting both positive and negative effects, one strand of literature finds that development assistance has helped enhance economic development and reduce poverty in many low-income countries (Collier & Dollar, 2002; Sachs, 2014), while other researchers argue that aid harms rather than addresses the challenges faced by less developed nations (Bräutigam & Knack, 2004; Easterly, 2006).

Foreign assistance has assumed a substantial role in assisting the development landscape of needy countries. Since the end of World War II, developed countries, as donors, have introduced development aid to facilitate security, development, and welfare in recipient countries, and over one-tenth of the GDP for half of all low-income nations was from foreign aid (World Bank, 2017). As per the OECD, Official Development Assistance (ODA) is provided as government-provided or concessional assistance (i.e., soft loans and grants) to countries in need and territories to enhance the socio-economic and well-being of the people (OECD, 2023a).

The ODA has then been allocated in developing countries for development, humanitarian, strategic, and programmatic priorities by developed countries (World Bank, 2017). OECD members have been providing aid, and the ODA to developing countries soared to an unprecedented level, amounting to US$ 204 billion in 2022 from US$ 186 billion in 2021, representing 0.36% of their combined GNI, which became one of the highest ODA growth rates (OECD, 2023b). The rationale behind donor decisions to offer assistance to countries, thus, remains a subject of ongoing inquiry. Some studies find that donor intentions

<center>1</center>

play a pivotal role in shaping aid distribution (see Alesina & Dollar, 2000; Bandyopadhyay & Vermann, 2013; Brench & Potrafke, 2014; Chong & Gradstein, 2008) and hence, a question persists: Are there any determinants for donors to allocate aid to developing countries?

1.2   Purpose of the study

The governments in many developing countries receiving significant aid are often criticized for engaging in rent-seeking activities instead of improving their governance and economies (Moss et al., 2006; Svensson, 2000). Moss et al. (2006) argue that sub-Saharan Africa exhibits a negative relationship between local institutions and high levels of international aid. Conversely, Soeng et al. (2018) identify a positive association within the group of eight ASEAN countries. This correlation indicates that increased levels of ODA were linked to enhanced corruption control and a more vital adherence to the rule of law throughout the period between 1996 and 2015.

The discussion on aid effectiveness has primarily revolved around its impact on economic development and governance. The central questions remain: Do donors distribute international assistance to foster economic development and well-being in recipient countries, or are these allocations influenced by the donors' strategic, political, or economic interests? Examining the motives behind aid allocation reveals that while recipient needs, such as promoting economic development and welfare, are vital for many donors, variations in aid flows are also significantly influenced by donors' political or economic interests. Furthermore, a recent trend involves some donors prioritizing good governance, directing more aid towards countries demonstrating positive performance across various governance indicators (Akramov, 2006; World Bank, 2017).

Given the contrasting findings, it is crucial to conduct timely research to investigate whether foreign aid donors incentivize recipient countries to adopt good governance practices. In the context of Myanmar, Carr (2018) finds that a significant volume of foreign aid has been provided after political and economic reform in 2011, and Myanmar has become one of the

notable recipients of international assistance. As the existing literature on foreign aid and governance in the ASEAN region is relatively limited, this research aims to fill the gap by undertaking a comparative study to examine the patterns of ODA allocation in Myanmar among ASEAN from 2006 to 2020 (15 years), considering data availability and utilizing a more recent dataset.

The purpose of this research is to observe whether aid donors reward recipient countries in the ASEAN region based on their governance quality, which I measured using the WGI indicators by the World Bank. As a member of ASEAN, Myanmar presents a unique case study to explore the dynamics of ODA allocation and governance. This is particularly intriguing as aid inflows have surged following political and economic reforms in the country. Understanding the relationship between ODA allocation and governance mechanisms in Myanmar is crucial for maximizing its impact on socio-economic challenges and fostering inclusive growth. By examining Myanmar's experience and other ASEAN countries, this paper aims to identify key factors that contribute to ODA allocation in developing countries.

This study seeks to examine whether the quality of governance is critical in determining aid allocation in the Southeast Asian region. Those countries are selected as target countries for studying aid allocation due to their shared development challenges, regional integration, and the potential for comparative analysis, which provides valuable insights into the ODA allocation and its relationship with governance in these contexts. Comprising ten member countries, ASEAN is home to diverse political systems, economic conditions, and governance practices.

Many ASEAN countries have undergone significant economic expansion over the years, and these countries exemplify a strong link between effective governance and economic advancement (Gonzalez & Mendoza, 2002). They find that good governance is closely intertwined with economic growth, with high-performing economies like Singapore and Malaysia demonstrating superior public management. From 1990 to 1998, Southeast Asia

consistently outperformed other regions (excluding East Asia) in achieving the dual objectives of good governance and robust economic growth (Gonzalez & Mendoza, 2002). Hence, researching the connection between ODA and governance is significant and relevant.

As Brunei Darussalam and Singapore are no longer foreign aid-receiving countries during the study period, this study considers eight ASEAN countries (Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, and Vietnam). The paper contributes to the scholarly debate on foreign aid allocation and the role of governance. This research is of interest to policymakers, government officers, donors, and development practitioners and is useful in effectively allocating international assistance to recipient countries. Additionally, it sheds light on the dynamics of donor-recipient relationships, political interests, and the role of governance in international relations and diplomacy surrounding foreign aid. The study employs various secondary data from reliable sources (mainly from the OECD and World Bank) in data collection.

1.3   Hypothesis

This research delves into the dynamic interplay between governance quality and the allocation of ODA in ASEAN countries. It aims to address the fundamental research question: What is the relationship between governance quality and the distribution of ODA in ASEAN countries? The rationale behind this inquiry stems from the consistent preference demonstrated by foreign aid donors for countries exhibiting strong governance frameworks, as noted by the World Bank (2017). Moreover, existing studies, including those by Dijkstra (2018) and Soeng et al. (2018), highlight how aid interventions enhance government capacity, combat corruption, and foster political stability. Similarly, research conducted by Jones and Tarp (2016) supports the notion that foreign aid positively influences governance and institutional structures.

By examining various dimensions of governance quality, individually and collectively, this study aims to ascertain whether aid is used to incentivize countries in ASEAN with commendable governance standards. Consequently, this paper endeavours to unravel the

intricate relationship between governance indicators (as the independent variable) and the amount of ODA (as the dependent variable), encapsulated in the following hypothesis:

H1:   There is a positive relationship between governance quality and ODA provided by donors to Southeast Asian countries.

Established observations in the literature on aid allocation underpin this hypothesis. Furthermore, this research seeks to find how different dimensions of governance quality, individually and collectively, shape the distribution of ODA in ASEAN.

1.4   Organization of the Paper

The remainder of this research is structured as follows: Chapter II presents a literature review on foreign aid and governance. Chapter III describes a methodology for analysis. Chapter IV details the findings and discussion about the correlation between aid allocation and governance. Finally, Chapter V concludes with policy recommendations.

Chapter II

Literature Review

2.1   Official Development Assistance

The growing interest in development assistance underscores the crucial role of ODA in international development efforts to enhance economic development and social progress in recipient countries (OECD, 2023a). ODA, known by various terms such as foreign aid, development aid, or overseas aid, is a policy tool high-income donors use to support low-income countries (UNDP, 2011).

According to the OECD, ODA is characterized by government-provided assistance or concessional aid, such as grants, concessional loans (with a minimum grant component of 25%), technical assistance, and humanitarian aid, but not including non-concessional loans, and military aid (OECD, 2023a). The provided grants are aimed at enhancing the socio-economic development of developing countries. Furthermore, Qian (2015) claims that development assistance is utilized as a crucial policy tool employed by affluent nations to enhance the well-being of populations in impoverished countries while also enhancing economic development and facilitating the development of institutions. As the OECD offers a widely accepted definition of foreign assistance that is commonly adopted by scholars in their research (see Acht et al., 2014 on OECD members; Carr, 2018 on Myanmar; Soeng et al., 2018 on ASEAN), the definition by OECD is used for the purpose of this research paper.

While numerous studies suggest that effectively allocated international aid can help recipient countries escape the poverty trap (see also Sachs, 2006; World Bank, 2017), several researchers argue with different findings that assistance does not stimulate investment, foster economic growth, or alleviate poverty (Babalola & Shittu, 2020; Boone, 1996; Rajan & Subramanian, 2008). On the one hand, there have been calls for providing more foreign aid by the UN, World Bank, NGOs, recipient countries, and even some European countries (Moss et al., 2006), and the international target for ODA is to meet 0.7% of donor's national income

(OECD, 2023a). On the other hand, some scholars argue that aid does not affect economic development, neither positively nor negatively (see Rajan & Subramanian, 2008). However, many institutions encouraged donor countries to provide more foreign aid to meet their GNI's 0.7 targets.

2.2   Governance Indicators

Having discussed the term ODA, we now turn our attention to the critical feature of governance, as there is no unified definition due to its complexity and different perceptions. In empirical literature exploring good governance, three dimensions, political, administrative, and judicial, are commonly differentiated (Dijkstra, 2018). The political dimension relates to the accessibility of a recipient country's socio-economic development to exercising authority (Kaufmann et al., 2010). Moreover, different institutions, such as the OECD, World Bank, Freedom House, and V-Dem, observe different phenomena that measure governance indicators. Although the definition of governance varies among institutions and researchers, according to Kaufmann et al. (2010, p. 3), governance can be defined as "the traditions and institutions by which authority in a country is exercised."

Since the 1990s, the international donor community has significantly emphasized improving governance effectiveness in developing countries (Gisselquist & Resnick, 2016; World Bank, 2017). The international community has increasingly focused on governance reform in recipient countries, recognizing that weak governance systems can impede development efforts, perpetuate inequality, hinder poverty alleviation, and undermine the SDGs. Easterly and Pfutze (2008, p. 41) claimed, "Aid is less effective at reducing poverty when it goes either to corrupt dictators or to relatively well-off countries." Several researchers, thus, find that governance and good policy play an essential role in ensuring socio-economic development (Burnside & Dollar, 2000; Kaufmann et al., 1999).

Much research mainly focused on governance in sub-Saharan Africa (Bräutigam & Knack, 2004; Moss et al., 2006), measuring with governance indicators, named "rule of law"

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and "corruption," from the ICRG, which have limited scopes (Chang, 2015). On the other hand, some studies of this sort utilized the WGI, which provides a more comprehensive measurement of the dimension of governance (for an insightful analysis of foreign aid effectiveness on governance in the ASEAN region, see Soeng et al., 2018). The indicators align with the major international institutions' definition of governance with a broader range of scale (-2.5 to +2.5) (Acht et al., 2014; Kaufmann et al., 2010). Data of WGI are incorporated from several reputable sources, encompassing over 30 diverse global data sources. These sources include surveys conducted among households and businesses, country experts and commercial data providers, NGOs, and public sector institutions. The WGI also employed the Unobserved Components Model (UCM) as its development framework, as the World Bank outlined.

2.3   Foreign Aid and Governance

Having explained ODA and governance, we now need to explore the correlation between foreign aid and good governance. When it comes to its relationship, some previous scholars challenged the determinant of aid allocation, and it has long been a subject of debate. These studies can be classified into three camps regarding the correlation between foreign aid and governance. Firstly, one strand of literature argues for a positive correlation (Dijkstra, 2018; Hansen & Tarp, 2001; see also Jones & Tarp, 2016; Sachs, 2014; Soeng et al., 2018). According to Dijkstra (2018), the overall impact of aid on democracy has shifted in a more positive direction, and there has been an improvement in aid's influence on government capacity, reduction of corruption, and promotion of political stability. In addition, Jones and Tarp (2016) claim that foreign assistance has positively affected governance and institutional quality. Their data strongly support the idea that aid has been beneficial, refuting the notion that it has had consistently negative consequences.

Secondly, the next camp consists of another flurry of research, which states that aid harms governance and has a negative influence (Bräutigam & Knack, 2004; Busse & Gröning,

2009; Easterly & Pfutze, 2008; Moss et al., 2006) and finds no substantiated evidence to support the claim that either bilateral or multilateral assistance is preferentially directed toward less corrupt governments (Acht et al., 2014; Alesina & Weder, 2002). Bräutigam and Knack (2004) claim that there appears to be a negative connection between governance quality and high levels of aid, particularly over the long term and in large amounts, as observed in sub-Saharan Africa. Furthermore, many countries that receive significant aid are often accused of becoming dependent on foreign assistance (Moss et al., 2006; Svensson, 2000). It is argued that citizens cannot hold their government accountable, which has much international assistance for their finances (Moss et al., 2006). Thus, those governments make less investment in communal institutions in sub-Saharan Africa.

Thirdly, another strand of literature argues that aid is effective in specific situations when accompanied by good governance, institutional quality, fiscal policy, and channels of disbursement of the recipient country but has limited impact in the presence of poor policies (for a comprehensive review of literature on foreign aid and governance, see Burnside & Dollar, 2000). However, the conclusions drawn by Burnside and Dollar (2000) need more robustness in their findings, and the conditional impact of aid is less compelling, as critiqued by Easterly et al. (2004). They find that giving more assistance to countries with sound policies is less advisable.

2.4   Donor-interests and Aid Allocation

When allocating foreign aid, some scholars find that donor countries provide international assistance based on their self-interests. Instead of prioritizing the developmental requirements of recipient nations, donors distribute international assistance depending on other factors, like a longer duration of the colonial past and political alliance (UN voting) for their political interests (Alesina & Dollar, 2000). Likewise, Maizels and Nissanke (1984) emphasize that foreign assistance stems from a combination of economic, political, and security interests, with aid as a tool to advance donor countries' foreign policy objectives.

Some evidence also suggests that nations serving as non-permanent members of the UNSC are more prone to attract international assistance from the United States than other countries (Kuziemko & Werker, 2005). The argument aligns with the broader literature that explores how development assistance influences the UNGA voting behavior (Bernstein & Alpert, 1971; Lundborg, 1998; Pincin, 2012; Rai, 1972, 1980; see also Wang, 1999; Wittkopf, 1973). Dreher et al. (2006) additionally reveal a robust relationship between IMF involvement and UNGA voting similarity between G7 and developing nations, suggesting that foreign aid can serve political objectives alongside economic assistance.

Moreover, growing research identifies differentiation in aid allocation patterns among various donor nations. The motivations for allocating aid vary significantly among the US, France, the United Kingdom, and Japan (Alesina & Dollar, 2000). Donors may utilize assistance as a strategy to gain access to the resources of developing countries, exemplified by Chinese assistance initiatives in Africa (Maizels & Nissanke, 1984). Likewise, Woods (2008) finds distinctive trends in emerging donor countries, like China and India, whose aid programs aim to secure energy resources, expand trade opportunities, and enhance their global economic position.

In addition, some studies underscore a beneficial impact between FDI and aid allocation for some traditional donor countries, indicating how aid can improve investment conditions and align with donors' economic interests (Bhavan, 2014; Rao et al., 2023). According to Rao et al. (2023), foreign aid positively aligns with FDI. Also, it serves as a supplementary financing option for low-income and developing countries that struggle to attract FDI. Thus, the donor self-interest perspective contends that the interests of donor countries influence the allocation of development assistance.

2.5   Recipient-needs and Aid Allocation

In contrast, the recipient-needs model posits that developed nations are responsible for offering international assistance to developing nations based on their economic, political, and social needs (Kostadinova, 2009). In the context of SADC countries, some donors consider the merits of receiving nations, such as institutional quality, policies, and government effectiveness, when making aid allocation decisions (Chikwede, 2016). In addition, foreign aid is selectively allocated and more effective in nations with strong governance structures and a solid legal framework (Dollar & Levin, 2006). Collier and Dollar (2002) also propose an approach that could lift more people out of poverty annually with foreign aid. However, they found that the effectiveness of the actual allocation was only 50 percent of that of the ideal allocation.

Hence, different studies highlight the dominant role of donor self-interests and the recipient-needs model in shaping the ODA allocation. On the one hand, donor motives encompass geopolitical, economic, and strategic considerations, driving foreign aid allocation decisions across various nations. Conversely, ODA distribution is framed by the moral duty to meet the economic growth requirements of recipient nations. A contemporary shift also emphasizes good governance (World Bank, 2017), prompting some donors to allocate more aid to countries displaying robust performance in various governance aspects.

Therefore, it raises concerns about the criteria governing aid allocation, prompting questions about whether donors genuinely prioritize their self-interests or the development of receiving countries or consider factors such as institutional quality. Akramov (2006) finds that donors started to award or withdraw aid based on the perceived quality of governance. This approach differs significantly from the Cold War period, during which donors readily supported any friendly regime without emphasizing the quality of governance. Hence, this research aims to scrutinize whether aid distribution is contingent on the governance index of the ASEAN countries, examining whether countries with commendable governance receive

greater assistance as a form of reward from donor countries or if the donor's political interests drive aid. The investigation seeks evidence from Southeast Asian countries to contribute valuable insights to this ongoing discourse.

2.6   ODA in Myanmar

With regards to Myanmar, following the country's political and economic reforms in 2011, there has been a notable receptivity to international development assistance from global donors to enhance economic growth and the welfare of its people. Myanmar stands out as an instructive case due to the swift political changes witnessed after 2011 and their profound implications for the aid sector (Fumagalli & Kemmerling, 2022). This surge in aid follows the lifting of sanctions and debt forgiveness (Bissinger, 2018; Fumagalli & Kemmerling, 2022; Holliday & Htet, 2018).

Post the 2011 reform, Myanmar has emerged as a significant recipient of aid (Carr, 2018), marking a substantial transformation in its socio-economic landscape and witnessing a considerable influx of ODA, as illustrated in Figure 2.1. Debt relief actions in 2012 and 2013 laid the groundwork for renewed aid relations, addressing a hefty US$ 10.6 billion international debt burden (Carr, 2018). In 2012, aid commitments from donors doubled, followed by a dramatic spike in 2013 due to the implementation of debt forgiveness and new loans, mainly from Japan (Carr, 2018).

The transition in Myanmar's political and economic landscape prompted significant changes in its aid scenario (Carr, 2018). Seeking international support for development endeavours, the Government's reform efforts garnered trust from the international community, leading to the normalization of aid relations. This involved substantial debt forgiveness, the return of major multilateral funders, and an increase in bilateral aid initiatives. The ODA distribution has exhibited consistent growth, escalating from US$ 324 million (at constant prices) in 2011 to US$ 1,951 million (at constant prices) in 2020 (OECD, 2023c). Hence, over a decade, brief intervals of relative openness in Myanmar sparked rapid surges in development

assistance (Fumagalli & Kemmerling, 2022). The increasing aid is instrumental in modernizing administrative systems, ensuring universal access to social services, and promoting participatory, community-centered development planning (Carr, 2018). This trajectory suggests that ODA distribution is potentially influenced by factors such as the country's openness and reforms in its governance system.

Figure 2.1:

ODA Allocation to Myanmar (2006-2020)
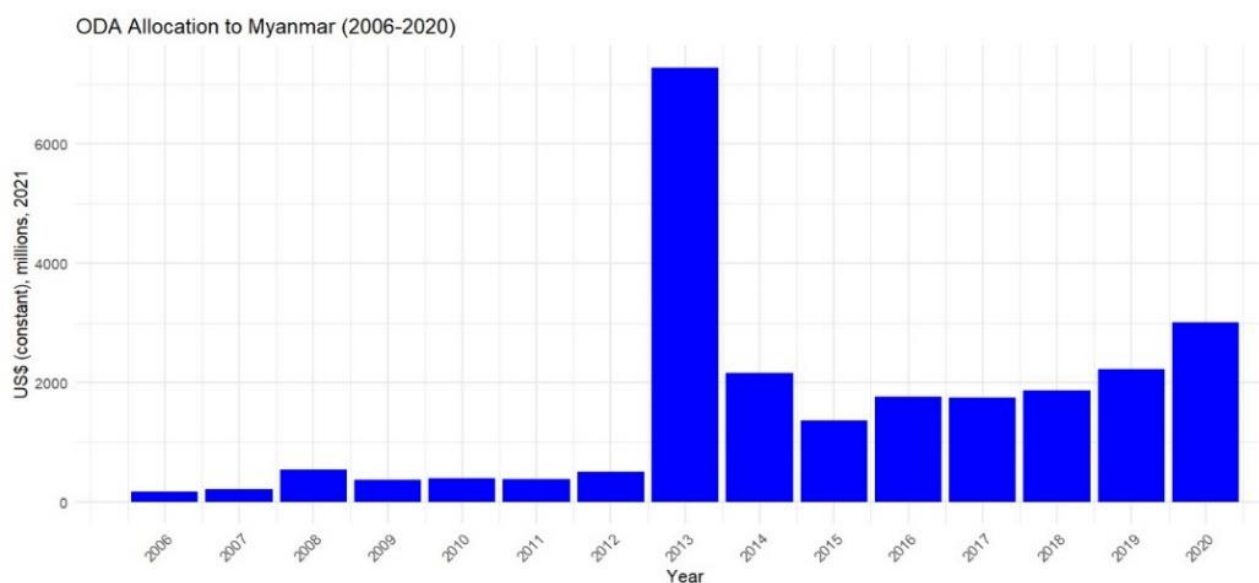
Notes. Own Elaboration in R with data adapted from OECD (OECD, 2023c)

According to AIMS (Myanmar's official aid transparency portal), the total commitments by international donor countries stood at US$ 17.34 billion, with total disbursements of US$ 8.63 billion and 1,955 total activities from January 2006 to December 2020 (AIMS, 2023). Donor countries range from bilateral countries to multilateral institutions, altogether 89 donors, with Japan as a top donor country, followed by the World Bank, ADB, EU, and the UK. The ODA has been committed in different sectors, from social infrastructure and services to conflict prevention and resolution and peace.

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2.7 Governance Indicators for Myanmar

Regarding the governance indicator, Myanmar has improved based on the WGI (World Bank, 2023b) (see Figure 2.2). Examining the percentile rank of control of corruption, this indicator has demonstrated growth, ascending from 0.5 in 2006 to 27.4 in 2020, with a scale of 0 indicating the lowest and 100 representing the highest level. For example, this indicator measures how much people think those in power use their positions for personal gain, the influence of the privileged class, and private interests on governmental decisions (World Bank, 2023b). Similarly, there have been positive advancements in governmental efficiency, regulatory standards, and civic engagement. At the same time, indicators of political stability and the prevalence of violence or terrorism have experienced a decline (World Bank, 2023b), likely influenced by the crisis in Rakhine State in 2016 and 2017, along with intensified conflicts in other states (World Bank, 2020).

A comparative analysis of governance indicators among nations, including superpowers like the US, a central Asian nation like China, and an ASEAN country like Vietnam, reveals that their metrics generally rank high in corruption control, government efficiency, regulatory standards, and prevailing law, falling within the range of 20 to 90. Although Myanmar exhibits a positive trend in governance indicators, it still lags behind major countries, including its ASEAN counterpart, Vietnam.

Governance Indicators for Myanmar (2006-2020)
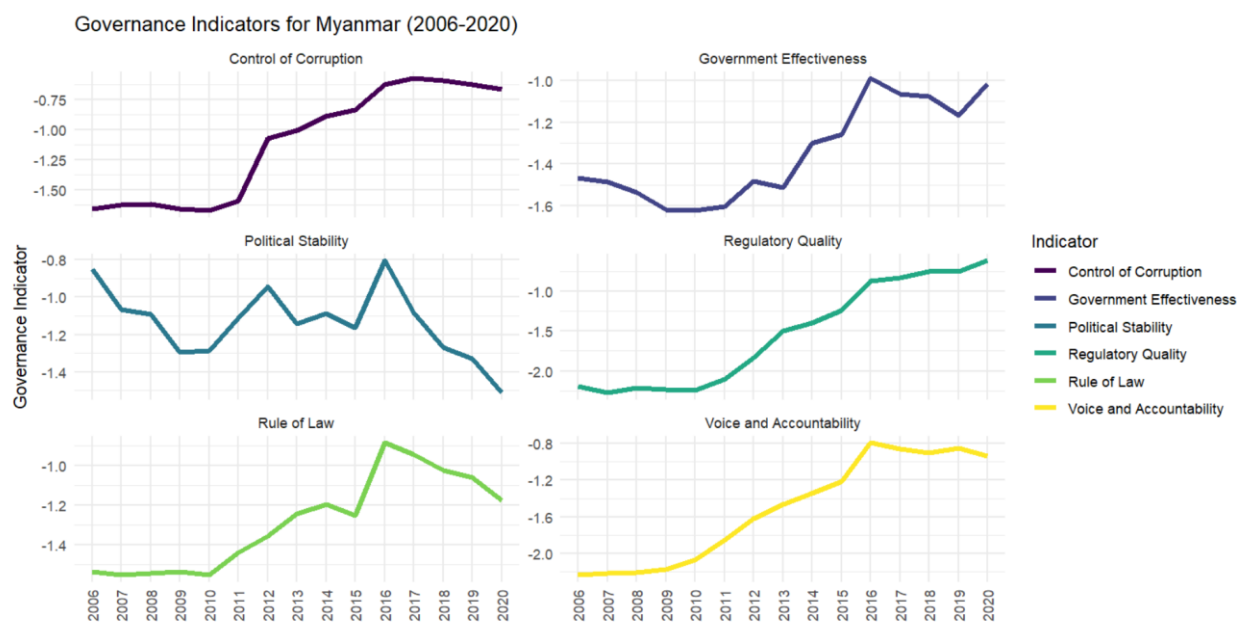
Notes. Own Elaboration in R with data adapted from WGI (World Bank, 2023b)

2.8   ODA in ASEAN

According to Soeng et al. (2018), there has been considerable attention from scholars, policymakers, and donors regarding the potential influence of international assistance on institutional quality in Southeast Asian countries. Their research of the eight ASEAN members during the 1996-2015 period indicates a positive correlation between higher levels of ODA and improved corruption control and prevailing law. Furthermore, Gonzalez and Mendoza (2002) claim that strengthening transparency and accountability is vital for fostering economic development in those nations.

In addition, DAC members and multilateral organizations' ODA distribution to ASEAN countries has also exhibited a consistent increase, as detailed in Appendix Figure A1, covering 1,000 total sectors. This allocation comprises various forms such as budget support, expert and technical assistance, scholarships, debt relief, and other in-donor expenditures (OECD, 2023c). Regarding the total ODA received by ASEAN countries from 2006 to 2020, Vietnam emerged as the top recipient, with Indonesia and Myanmar following closely behind over these 15 years

(see Figure 2.3). Drawing from the literature reviewed earlier, the ODA allocation appears to be influenced by various factors, encompassing political considerations, economic interests such as trade and FDI, or the quality of governance.

Figure 2.3:

Aggregate ODA Amount for ASEAN countries (2006 to 2020)
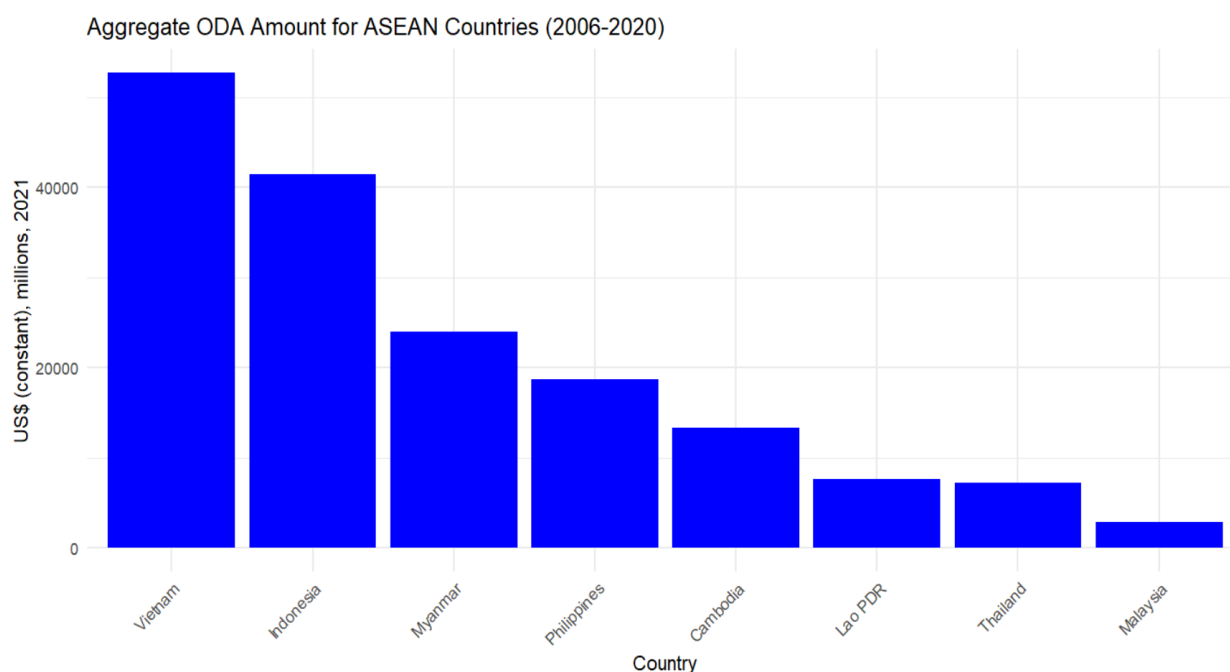
Notes. Own Elaboration in R with data adapted from OECD (OECD, 2023c)

2.9 Governance Indicators for ASEAN

Diverse intentions and outcomes characterize the actions of different aid donors (Soeng et al., 2018). When considering the percentile rank across the globe (1-100), spanning eight ASEAN nations, it becomes evident that the performance across the six governance indicators exhibits diversity (World Bank, 2023b). Figure 2.4 depicts the overall trend of the WGI with an average score of each governance indicator throughout the study period. While the overall governance score in Myanmar has shown improvement over the years, Myanmar lags in key governance indicators compared to other ASEAN nations. In terms of government effectiveness, regulatory quality, and the rule of law, Myanmar consistently ranks lower, signalling the need for improvement in these areas. These indicators assess public service

quality, policy execution, the government's ability to foster private sector development, and adherence to societal rules and law enforcement. Furthermore, Cambodia recorded the lowest score in corruption control, while the Philippines and Lao PDR had the weakest scores in political stability and voice and accountability, respectively (World Bank, 2023b).

Figure 2.4:

Average Scores of World Governance Indicators of ASEAN countries (2006-2020)
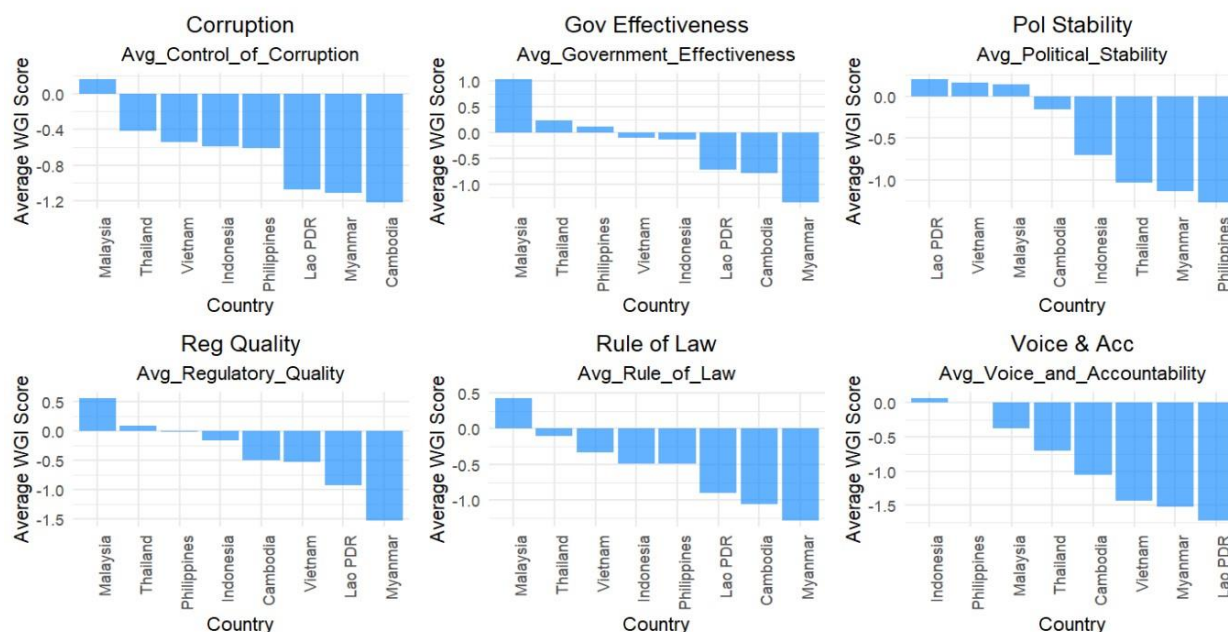
Notes. Own Elaboration in R with data adapted from WGI (World Bank, 2023b)

2.10 Literature Gap

Although much literature mainly focuses on the importance of international assistance in poverty reduction (Carr, 2018), development assistance and economic development in CLMV countries (e.g., Moolio & Kong, 2016), and domestic, regional inequality in Myanmar (see Fumagalli & Kemmerling, 2022), little attention has been given to foreign aid rewards and governance for Myanmar. With regard to ASEAN countries, much scholarship has paid attention to a particular donor's foreign aid impact on ASEAN countries. For instance, some studies assess the influence of international aid from only specific countries, like Japan, Korea, and the US, on recipient nations without considering the broader influence of overall ODA in the region.

Moreover, one of the limitations in previous studies on this subject is the need for more discourse regarding whether foreign aid donors reward recipient countries, especially Myanmar and other ASEAN countries. For example, if countries demonstrate higher governance quality, measuring with the WGI indicators, do they receive more significant levels of foreign aid as a form of reward? Alternatively, the quality of governance may be considered less critical compared to regime type or the donor's interests, particularly in terms of strategic alliances or voting support in the international arena. Hence, this paper fills the research gap by attempting to seek the correlation between ODA and governance in ASEAN countries.

Within this context, the question of whether donors reward receiving countries with aid for adopting good governance practices has become a critical matter. Thus, understanding the specific factors of whether foreign aid donors reward recipient countries with good governance or other factors remains an important research area. This section discusses a literature review of aid effectiveness and governance, and the next part of this study focuses on data and methodology.

Chapter III

Data and Methodology

3.1   Data Sources

Building upon an extensive examination of the current study on the correlation between governance and international assistance, this study aligns with the findings of Soeng et al. (2018) by recognizing the limited depth of analysis regarding the correlation between aid and governance within the ASEAN region. However, this research distinguishes itself by explicitly focusing on foreign aid rewards within this Southeast Asian context. It notably utilized a more contemporary dataset and incorporated all six governance indicators alongside various control variables, marking a substantial departure from the earlier work of Soeng et al. (2018). Furthermore, this study assessed the reverse relationship, with the dependent variable being ODA and the independent variable being governance, investigating whether countries exhibiting good governance are rewarded with ODA by foreign aid donors. To bridge such a gap, this paper seeks to find the nuanced connection between ODA rewards and governance quality in the ASEAN region with a fresh perspective.

This study, therefore, accessed secondary panel data for eight ASEAN countries from 2006 to 2020 (15 years) from the OECD and the World Bank's WDI and WGI databases. For the outcome measure, the study employed the amount of ODA data being distributed to ASEAN countries as a metric for measuring the allocation of foreign aid rewards. Regarding the independent variable, WGI was employed as a fundamental dataset for assessing governance dynamics across nations and was used to explore correlation in this study (see Appendix Table A1). Those indicators, encompassing diverse facets of governance, provide strong evidence of a connection between improved institutional quality and positive development results (Kaufmann et al., 1999). The comprehensive approach allows the WGI to offer valuable insights into various aspects of governance quality.

3.2   Methodology

This paper reflects functional studies (Alesina & Weder, 2002; Soeng et al., 2018). The observation that nations with weak institutions receive more development assistance implies that donors may prioritize institution-building assistance rather than indicating that aid negatively impacts good governance (Alesina & Weder, 2002). According to their study, however, there is no evidence that aid is allocated more than what exhibits improved governance.

Furthermore, Alesina and Dollar (2000) demonstrate that colonial connections and political alliances significantly influence bilateral aid allocation, even when accounting for numerous additional variables. Consequently, donors allocate aid disproportionately to their former colonies, irrespective of the recipient country's corruption level (Alesina & Weder, 2002). Hence, this study reflected the methodology conducted by Alesina and Dollar (2000) and Alesina and Weder (2002) and explored different datasets on the Southeast Asian region, and the selection of control variables in this study also somewhat aligned with the existing literature.

3.3   Research Design and Methods

The study attempts to establish a relationship between ODA and institutional qualities (see Table 3.1) as follows:

Table 3.1:

Variables and Definition

Variables	Definition	Sources
Dependent Variable	Official Development Assistance (Net Amount of ODA) [Foreign Aid Rewards]	• OECD
Independent Variable	Governance quality (Composite) G1 = Control of corruption G2 = Government effectiveness G3 = Political stability G4 = Regulatory quality G5 = Rule of law G6 = Voice and accountability	• World Governance Indicators (WGI)

Variables	Definition	Sources
	Democracy Index	• V-Dem (2023)
	UNGA Voting Data: UN Voting similarity • Number of times a country votes the same as country X, divided by the total number of votes in each year	• Bailey et al. (2017) • University of Denver • U.S. Department of State
Control Variables	• GDP per capita (Current US$) • Population • FDI, net flows (% of GDP) • Merchandise Trade (% of GDP) • Primary School Enrolment (% Gross)	• World Development Indicators (WDI)

Apart from aggregate governance, the democracy index and UN voting patterns were included. As democracy is another crucial variable, it captures the political context's influence on aid allocation (Pincin, 2012), and donors may exhibit discrimination against specific forms of non-democratic regimes (Alesina & Weder, 2002). In addition, the UN voting pattern, referred to as voting similarity, was included. It was determined by comparing the votes of ASEAN countries and the US and Japan (see also Alesina & Dollar, 2000; Bailey et al., 2017; Pincin, 2012) on UNGA resolutions from 2006 to 2020 and calculating the degree of voting similarity for each pair of countries. The investigation seeks to ascertain whether a receiving country's UN voting pattern influences foreign aid allocation.

Regarding control variables, GDP per capita, representing recipient need, was integrated into the analysis to adjust for a country's economic capacity, isolating the impact of governance quality on aid allocation. Secondly, population size was considered to address the influence of larger populations on aid needs and global significance. Thirdly, donor's economic interests, such as net FDI, were introduced to evaluate the influence of foreign investments on aid rewards, reflecting a country's business environment. At the same time, merchandise trade volume was incorporated to assess the influence of international trade activities on aid distribution. Additionally, reflecting socio-economic development, primary

school enrolment was controlled to measure human capital development's role in aid distribution.

Therefore, considering the conceptual discussion and empirical literature presented above and following previous empirical work (Alesina & Dollar, 2000; Alesina & Weder, 2002; Soeng et al., 2018), the econometric specification to investigate the relationship between foreign aid and the quality of governance in ASEAN members for empirical model 1 is shown below:

$$\text{Log (ODA)}_{it} = \beta_0 + \beta_1 * \text{Gov}_{it} + \beta_2 * \text{Democracy}_{it} + \beta_3 * \text{US voting similarity}_{it} + \beta_4 * \text{Japan voting similarity}_{it} + \beta_5 * \text{Log(GDP)}_{it} + \beta_6 * \text{Log(Population)}_{it} + \beta_7 * \text{FDI}_{it} + \beta_8 * \text{Log(Trade)}_{it} + \beta_9 * \text{ School enrolment}_{it} + \varepsilon_{it} + \alpha_i + \tau_t$$

In this model, β_0 is the intercept, and the coefficients β_1 to β_9 signify the incremental impact of each independent variable on ODA, with i as country and t as time (year). The error term ε accounts for unexplained variation, while α_i and τ_t introduce fixed effects for individual countries and time periods, respectively, as specified by the Hausman test. This analysis seeks to unravel the intricate interplay between ODA and the governance quality of ASEAN countries.

To seek the influence of specific governance quality, an empirical model 2 is as follows:

$$\text{Log (ODA)}_{it} = \beta_0 + \beta_1 * \text{G1}_{it} + \beta_2 * \text{G2}_{it} + \beta_3 * \text{G3}_{it} + \beta_4 * \text{G4}_{it} + \beta_5 * \text{G5}_{it} + \beta_6 * \text{G6}_{it} + \beta_7 * \text{Democracy}_{it} + \beta_8 * \text{US voting similarity}_{it} + \beta_9 * \text{Japan voting similarity}_{it} + \beta_{10} * \text{Log(GDP)}_{it} + \beta_{11} * \text{Log(Population)}_{it} + \beta_{12} * \text{FDI}_{it} + \beta_{13} * \text{Log(Trade)}_{it} + \beta_{14} * \text{School enrolment}_{it} + \varepsilon_{it} + \alpha_i + \tau_t$$

In this model, the coefficients β_1 to β_{14} correspond to the marginal effects of each of these variables on ODA, with each governance indicator: G1 corresponds to control of corruption, G2 represents government effectiveness, G3 signifies political stability, G4 denotes regulatory quality, G5 stands for the rule of law, and G6 indicates voice and accountability. By

employing this equation, the study seeks to disentangle the influence of various governance quality dimensions on ODA allocation.

This chapter discusses data sources for variables, a methodology adopted from the existing literature, and the research design and method used for data analysis in this study. The next chapter discusses the findings and discussion of the correlation and multiple regression results regarding aid rewards and governance quality.

Chapter IV

Findings and Discussions

4.1   Findings on Correlation Result

This research guided the investigation by extensive conceptual discussions and empirical literature, drawing on previous research by notable scholars (Alesina & Dollar, 2000; Alesina & Weder, 2002; Pincin, 2012; Soeng et al., 2018). First, I examined the correlation between the variables in the dataset to understand potential relationships.

The correlation analysis revealed several interesting relationships among the variables of interest while controlling GDP, population, FDI, trade, and primary school enrolment (see Appendix Figure A2). ODA displayed a strong negative correlation with aggregate governance quality, suggesting that higher ODA (logged) is associated with lower levels of governance quality in the study context (see Figure 4.1) with some outlier countries. However, in this correlation analysis, the utilization of country and year-fixed effects unveils a phenomenon known as Simpson's paradox, wherein initially observed correlations may reverse or differ when accounting for additional variables. Hence, this paradox indicates a positive relationship among specific ASEAN countries regarding the ODA allocation and governance indicators. Moreover, ODA exhibited a positive correlation with the democracy index, whereas a relatively weak negative correlation with both UN vote similarity with the US and Japan, suggesting a limited association with voting behavior in international organizations.

Figure 4.1:

Scatter Plot showing Aggregate Governance vs. ODA
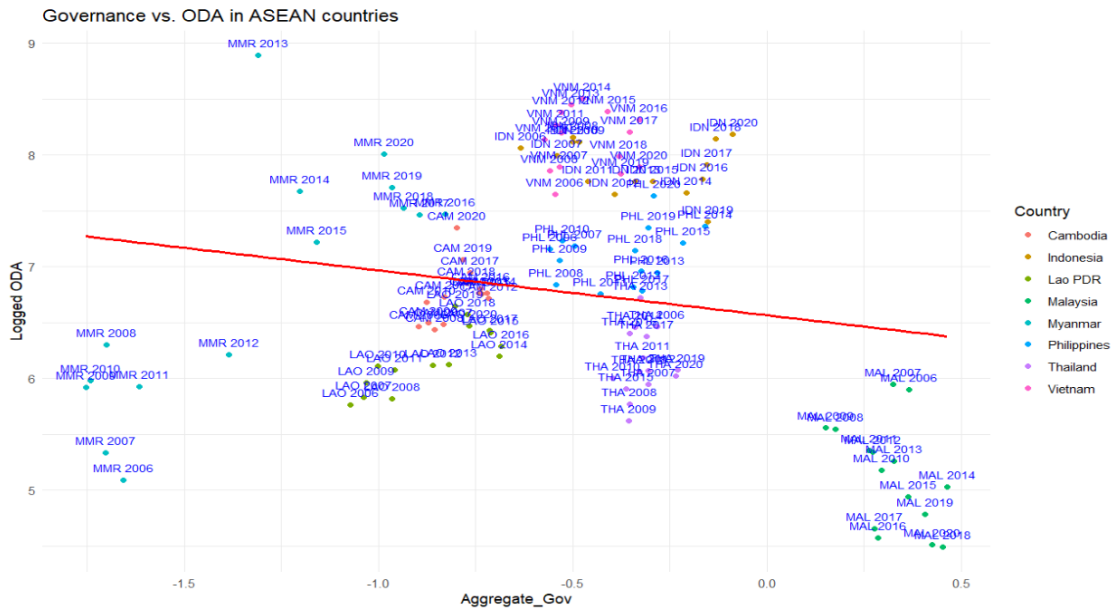
Notes. Own Elaboration in R with data adapted from OECD and WGI (OECD, 2023c; World Bank, 2023b)

Furthermore, regarding the correlation matrix between the amount of ODA and six governance indicators (see Appendix Figure A3), ODA tends to exhibit mixed positive and negative correlations (see also Figure 4.2) with different governance indicators.

Figure 4.2:

Scatter Plot showing Six Governance Indicators vs. ODA
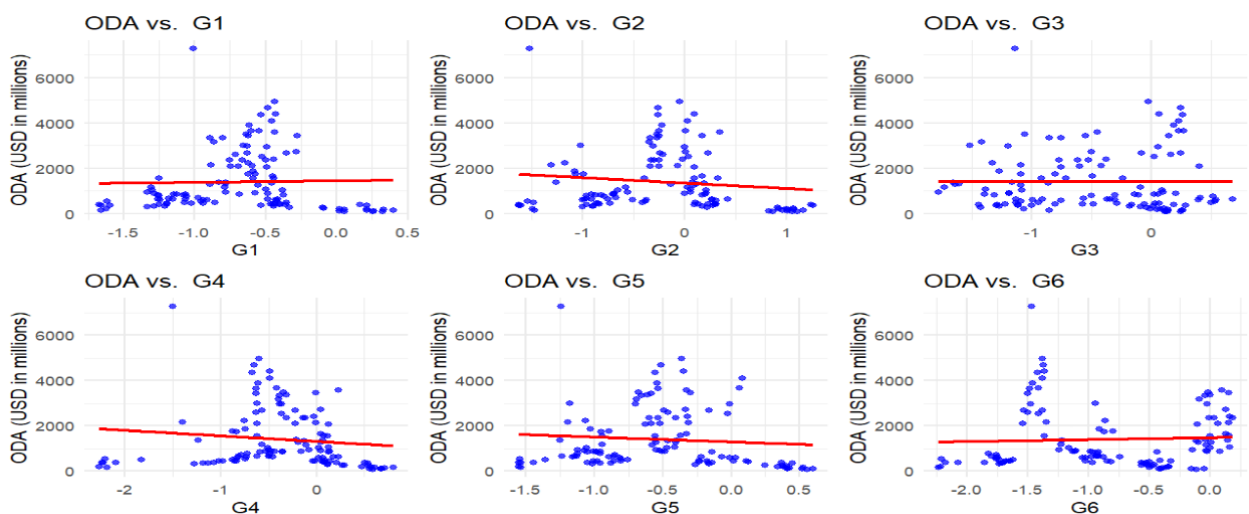
Notes. Own Elaboration in R with data adapted from OECD and WGI (OECD, 2023c; World Bank, 2023b). In this figure, G1 = control of corruption, G2 = government effectiveness, G3 = political stability, G4 = regulatory quality, G5 = the rule of law, and G6 = voice and accountability.

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To further evaluate the regression model's stability, I assessed multicollinearity using VIF and created a residual plot where residuals are plotted against fitted values. Although the data points for Lao PDR in 2019, Malaysia in 2016, and Myanmar in 2006, 2007, 2009, 2011, and 2013 are found as outliers, they are retained as they represent unique and potentially meaningful conditions within the respective countries and years, despite their deviation from the general trends. In addition, the VIF values indicate that while aggregate governance and GDP exhibited moderate multicollinearity with other predictors, most variables have VIF values below 5, suggesting that multicollinearity was not a significant issue in the model.

Regarding ODA and each governance indicator relationship, the VIF results reveal that several independent variables exhibit different levels of multicollinearity. Notably, variables of governance indicators are highly correlated with other predictors, as those are measurements of governance quality. I created a composite index to address the issue of perfect collinearity among the governance indicators. I also explored the impact by introducing only one governance indicator at a time in the second regression model.

4.2   Findings on Empirical Result of Governance and ODA

First, a regression analysis is conducted to delve into the intricate determinants of ODA and governance quality with two-way fixed effects of country and year. For empirical analysis, governance indicators are standardized across various models. Secondly, a natural logarithm for ODA, GDP, population, and trade addresses skewness, ensures linear relationships and facilitates the interpretation of coefficients as elasticities. The summary descriptive analysis is shown in Appendix Table A2.

As seen in the empirical result 1 (see Table 4.1), the coefficient for governance is consistently positive and statistically significant across all specifications (p < 0.01), indicating a robust and positive association between governance and ODA. This signifies that an improvement in institutional quality leads to a substantial increase in ODA. These coefficients are significant at a 1% significance level in all models. For example, a one-standard-deviation

increase in the governance index is associated with a 77% increase in the amount of ODA, holding all other variables constant (column 2). Furthermore, when accounting for all control variables in model 6, a one-standard-deviation rise in the governance indicator is correlated with 85% upsurges in ODA, reflecting a substantial positive impact on foreign aid allocation. This suggests that nations with higher governance scores tend to attract more ODA, confirming the hypothesis that effective governance is a key determinant in shaping aid allocation. The entire empirical result 1 is shown in Appendix Table A3.

The ODA allocation for a democratic country is expected to be around 27.76% (model 6) higher than for a non-democratic country. However, contrary to expectations, democracy does not exhibit a statistically significant relationship with ODA if governance indicator presents as the influence of governance might overshadow any potential impact that democracy could have on aid allocation. This finding suggests that, within the scope of this study, the democracy index of a country does not significantly impact the amount of development assistance received.

Furthermore, variables such as UN voting behavior appear to exert relatively minor influences on ODA. Voting similarity with Japan is linked to a marginal increase of approximately 0.60% in ODA (columns 5 and 6), but the coefficient lacks statistical significance. Conversely, voting similarity with the US takes an unexpected turn, indicating a 2.22% decrease (columns 4 and 6) in ODA at a 10% significance level. A study by Alesina and Dollar (2000) notes a similar sign, attributing it to the significant distribution of US assistance to the Middle East. Foreign aid direction is also more influenced by the recipient's policies or economic factors than political considerations (Pincin, 2012). The US might not employ the ODA channel for exerting influence but could leverage mechanisms such as providing IMF favorable treatment to some countries (Dreher et al., 2006) or offering World Bank loans (Dreher & Sturm, 2012) to secure votes at the UNGA, due to the privileged position that the US holds within the IMF and World Bank. However, this specific issue is not explored in

detail here. Additionally, the question of whether donor countries "buy" UN votes through foreign aid or if aid serves as a "reward" for past votes (Alesina & Weder, 2002) remains ambiguous.

In addition, the significant and positive coefficients for GDP and trade suggest a symbiotic relationship between foreign aid and economic prosperity within ASEAN countries. This observation implies that as countries undergo economic growth, they concurrently attract increased development assistance. This reciprocal relationship may signify a positive cycle, where economic advancement and foreign aid mutually support each other. This result aligns with previous literature indicating a robust positive causal link between enhanced institutional quality and improved development outcomes (see Kaufmann et al. 1999).

Conversely, the population exhibits a statistically significant negative correlation with ODA, indicating that larger population sizes are linked to reduced ODA allocation. This suggests that foreign aid may need help to reach all segments of the diverse population in countries with a higher population, leading to a decrease in overall aid allocation. The FDI and school enrolment coefficients do not reach statistical significance, indicating that these variables may not be strong determinants of ODA in this study context.

The outcome of this study cannot be directly compared with existing literature, as the approach differs significantly as this study assesses the reverse relationship, with the dependent variable being ODA and the independent variable being governance, to investigate whether countries with good governance are rewarded with ODA by donors. However, I draw some parallels with influential studies in the field. For instance, Burnside and Dollar (2000) suggest that aid is effective only in a "good policy environment," indicating a positive correlation between aid effectiveness and institutional quality. Similarly, Akramov (2006) finds that at the aggregate level, good governance enhances the probability of qualifying for foreign aid. This aligns with the notion that donors have recently shifted their focus toward governance quality

in recipient countries. As a result, nations with better institutional quality tend to receive more ODA at the margin.

In addition, the findings are consistent with other existing literature (Dijkstra, 2018; Jones & Tarp, 2016; Soeng et al., 2018), highlighting that donors commonly view good governance as a fundamental goal and a means to bolster development. Consequently, they utilize good governance indicators as benchmarks for aid distribution and strive to enhance governance through targeted projects or policy discussions with recipient governments.

Table 4.1:

Empirical Result of Governance and ODA

Governance and ODA

	Dependent Variable: ODA					
	Log (ODA)					
	(1)	(2)	(3)	(4)	(5)	(6)
Governance	0.923***	0.573***	0.560***	0.602***	0.607***	0.618***
	(0.177)	(0.165)	(0.166)	(0.164)	(0.165)	(0.165)
Democracy Index			0.200			0.245
			(0.264)			(0.261)
US voting similarity				-0.022*		-0.022*
				(0.013)		(0.013)
Japan voting similarity					0.006	0.006
					(0.004)	(0.004)
Controls		✔	✔	✔	✔	✔
Fixed Effect (country)	✔	✔	✔	✔	✔	✔
Fixed Effect (year)	✔	✔	✔	✔	✔	✔
Observations	120	120	120	120	120	120
R^2	0.859	0.902	0.902	0.905	0.904	0.908
Adjusted R^2	0.828	0.873	0.872	0.876	0.875	0.877

Significance levels	*p<0.1; **p<0.05; ***p<0.01

Panel regression using 15-year data (2006-2020). All columns use fixed effect (country), fixed effect (year), and controls (except column 1). Dependant variable: Net ODA amount is logged. Six governance indicators, with a wider range of scale (-2.5 to +2.5), named control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability, being aggregated and standardized as a governance variable, are used in all columns. The UN voting similarity with the US and Japan is calculated as a percentage, determined by the number of times a country votes the same as country X, divided by the total number of votes each year. Control variables such as a natural logarithm for GDP, population, and trade are employed along with FDI and school enrolment. Full regression result is provided in Appendix Table A3.

4.3 Findings on Empirical Result of Six Governance Indicators and ODA

The second empirical result (see Table 4.2) also provides valuable insights into the relationship between ODA and six key governance indicators, which are standardized, revealing significant findings across various models. In Specifications 1 and 7, the control of corruption consistently shows a significantly positive coefficient of 1% and 5% with ODA. For instance, a one-standard-deviation increase in the control of corruption index is associated with an ODA allocation increase of 63.2% and 68.2%, respectively, holding all other factors constant. This underscores the importance of effective anti-corruption measures in attracting development assistance.

Similarly, regulatory quality and voice and accountability emerge as significant determinants of ODA, while government effectiveness has a positive but insignificant coefficient. Regulatory quality stands out with a positive and significant coefficient, indicating that a one-standard-deviation rise is expected to increase ODA allocation by 73.8% and 51.6% (columns 4 and 7), underlining the importance of a robust regulatory framework in attracting development assistance. Moreover, including voice and accountability indicators reveals that one standard deviation increase in the index leads to a 53.3% increase in ODA (column 6). This suggests that countries with more transparent and accountable governance structures receive higher ODA.

While positive governance indicators play a pivotal role, other governance factors exhibit nuanced effects on ODA allocation. Political stability, the rule of law, and democracy show varied coefficients across specifications, indicating complex relationships with ODA. However, the significance levels for these indicators differ, with some coefficients being statistically insignificant. The UN voting similarity with the US and socio-economic factors such as GDP, population, trade, and FDI follow a similar trend as observed in empirical result 1. In contrast, the voting pattern in Japan is 10% significant in a country with better regulatory

quality. Hence, voting similarity with Japan is linked to a marginal increase of approximately 0.8% in ODA (columns 5 and 7). The full empirical result 2 is shown in Appendix Table A4.

Compared to global or regional findings, the research aligns with Okada and Samreth (2012) and Soeng et al. (2018), indicating a positive correlation between development assistance and control of corruption in recipient countries of ASEAN. According to Soeng et al. (2018), their research indicates a significant positive relationship between foreign aid and control of corruption at the 1% level. The finding suggests that aid positively influences corruption control, specifically in the ASEAN region. Hence, these findings are consistent with the results of this study both statistically and in terms of significance. It highlights that aid plays a positive role in controlling corruption in the ASEAN region. Moreover, this result aligns with previous empirical studies (Mohamed & Azman-Saini, 2015; Tavares, 2003).

Therefore, the empirical findings suggest that good governance, particularly in anti-corruption measures, regulatory effectiveness, and transparency and accountability mechanisms, significantly influences ODA allocation to ASEAN countries. The positive association of economic indicators, along with the nuanced effects of stability and prevailing of the law and democracy, provides a holistic perspective on the elements influencing the dynamics of ODA in the region.

Empirical Result of Six Governance Indicators and ODA

6 Governance Indicators and ODA

	Dependent Variable: ODA						
	Log (ODA)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Control of corruption	0.490***						0.520**
	(0.103)						(0.226)
Government effectiveness		0.095					-0.341
		(0.234)					(0.254)
Political stability			-0.052				0.036
			(0.129)				(0.122)
Regulatory quality				0.553***			0.416*
				(0.116)			(0.228)
Rule of law					-0.156		-0.502**
					(0.217)		(0.217)
Voice and accountability						0.427***	-0.205
						(0.114)	(0.261)
Democracy Index	0.253	0.334	0.324	0.272	0.329	0.080	0.316
	(0.250)	(0.279)	(0.280)	(0.249)	(0.278)	(0.268)	(0.267)
US voting similarity	-0.029**	-0.017	-0.019	-0.030**	-0.017	-0.025**	-0.033***
	(0.012)	(0.013)	(0.014)	(0.012)	(0.013)	(0.013)	(0.012)
Japan voting similarity	0.006	0.004	0.004	0.008*	0.004	0.007	0.008*
	(0.004)	(0.005)	(0.005)	(0.004)	(0.005)	(0.004)	(0.004)
Controls	✔	✔	✔	✔	✔	✔	✔
Fixed Effect (country)	✔	✔	✔	✔	✔	✔	✔
Fixed Effect (year)	✔	✔	✔	✔	✔	✔	✔
Observations	120	120	120	120	120	120	120
R^2	0.915	0.894	0.894	0.915	0.894	0.908	0.927
Adjusted R^2	0.886	0.858	0.858	0.886	0.858	0.877	0.896

Significance levels	*$p<0.1$; **$p<0.05$; ***$p<0.01$

Panel regression using 15-year data (2006-2020). All columns use fixed effect (country) and fixed effect (year). Dependant variable: Net ODA amount is logged. All governance variables, with a wider range of scale (-2.5 to +2.5), are standardized in all columns. The UN voting similarity with the US and Japan is calculated as a percentage, determined by the number of times a country votes the same as country X, divided by the total number of votes each year. Control variables such as a natural logarithm for GDP, population, and trade are employed along with FDI and school enrolment. Full regression result is provided in Appendix Table A4.

4.4   Robustness Check

When subjected to a robustness check incorporating the regime type variable instead of the democracy index, the analysis consistently reveals that the coefficient for governance remains positive and statistically significant, at a 1% significance level across both models (see Appendix Table A5). This underscores the notion that enhanced governance quality correlates positively with the allocation of ODA. Specifically, the coefficients suggest that a one-standard-deviation rise in the governance indicator is expected to increase ODA allocation by 77.9% and 83.7% in the respective models. However, the coefficient of regime type fails to achieve statistical significance in either model. Interestingly, when the regime type variable is run alone without controlling for the governance indicator (model 1), it shows a 10% significance level. This indicates that, after accounting for other variables in the model, the type of political regime does not exert a statistically significant impact on ODA allocation, highlighting the predominant significance of governance indicators in shaping aid allocation decisions.

4.5   Discussions

These findings suggest that governance quality and certain factors such as GDP, trade, and population are significant determinants of ODA. These findings emphasize the importance of good governance in attracting ODA. Moreover, certain economic variables, especially GDP and trade, play essential roles in shaping the direction and significance of ODA allocation, highlighting the donors' careful consideration of economic conditions in the aid allocation process.

The regression results can support the hypothesis, proposing a positive correlation between governance quality and the amount of ODA provided to recipient countries in Southeast Asia. Specifically, the governance indicators, such as anti-corruption measures and regulatory quality, consistently exhibit a positive relationship with ODA. This suggests that higher governance quality is associated with increased foreign aid allocation.

However, it is essential to note that the connection between governance quality and ODA is multifaceted, as other governance indicators, such as government effectiveness, political stability, rule of law, and voice and accountability, exhibit mixed or adverse effects on ODA in different models. The significance and direction of these indicators vary, indicating that the relationship is not uniformly positive for all dimensions of governance quality. Additionally, the negative sign indicates that when a country exhibits political stability and prevailing the law, it can deter elites within the institution from engaging in rent-seeking activities through foreign aid. The country's institutional quality is a deterrent, fostering a more transparent and accountable aid distribution process.

Therefore, while empirical results exist for a positive connection between corruption control, regulatory quality, and ODA, all governance indicators' impact must be interpreted cautiously. Nevertheless, the association between governance quality and ODA allocation in Southeast Asia appears to be influenced by various governance dimensions and economic factors. Hence, the results align with Hypothesis (H1), suggesting that foreign aid donors reward countries exhibiting positive governance indicators.

To allocate aid by the OECD, donors consistently opt to direct aid through nonstate recipients in countries characterized by poor governance (Dietrich, 2013). This strategic choice implies that donors selectively target recipients to minimize inefficiencies and optimize outcomes. Therefore, it aligns with the notion that governance quality is a pivotal factor influencing aid allocation in recipient countries. If donors perceive that development assistance is effectively utilized in countries with better institutions, it amplifies the overall influence of aid as governance quality improves (Akramov, 2006). Hence, the result of ASEAN countries aligns with this notion.

In addition, Collier and Dollar (2002) highlight that international assistance distribution is currently influenced by a desire to incentivize policy reform and historical/strategic considerations. This often results in aid being directed towards countries with policy

improvements rather than those with severe poverty problems. Similarly, Dijkstra (2018) concludes that the adverse effects of aid on governance are overstated. Instead, the aggregate effect of aid on government capacity, corruption reduction, and political stability has become more positive since the Cold War. These findings underscore the importance of donor intentions, as serious efforts towards governance improvement can mitigate potential negative unintended consequences of aid.

The finding has a different perspective than that of Latin America and Africa. Chang (2005) finds that foreign aid to the 16 Latin American countries needs to enhance governance effectively. Instead, it has detrimentally impacted the region's governance qualities, particularly regarding political stability. In addition, Moss et al. (2006) and Svensson (2000) also argue that in areas like sub-Saharan Africa, high aid levels correlate with harmful local institutions. Others, like Bräutigam and Knack (2004), claim a negative relationship between governance quality and substantial aid, mainly observed in sub-Saharan Africa.

This study, however, presents contrasting findings, revealing that foreign aid donors reward countries with good governance in ASEAN. The specificity of the ASEAN region may operate under unique dynamics compared to the broader global context, resulting in divergent patterns in aid allocation. Moreover, the concept of good governance encompasses multiple dimensions beyond corruption alone. This study utilizes composite governance indicators and separate governance measures. Consequently, the findings demonstrate a positive relationship between foreign aid and governance in ASEAN, highlighting the intricate interplay of factors influencing aid allocation and governance dynamics across diverse contexts.

Hence, it is a cyclical dynamic involving both donors and recipients. Donors allocate aid based on perceived governance quality, while recipients actively strive to enhance governance to attract more aid. On the recipient side, civil society organizations and local communities also play an active role in aid effectiveness. For instance, Myanmar has established government development platforms and policy guidelines, such as the Nay Pyi Taw

Accord on aid effectiveness (AIMS, 2023), aligning with global frameworks like the Paris Declaration and the Accra Agenda for Action (2008). Myanmar actively engaged with civil society organizations, local communities, and marginalized groups, particularly women and minorities, to ensure that development assistance aligns with national priorities. This creates a feedback loop where aid allocation is influenced by governance quality, and in turn, governance quality is influenced by the potential for receiving aid for socio-economic advancement.

It is also worth considering whether ASEAN's uniqueness stems from factors like its non-alignment with major powers like the US. In the UNGA, ASEAN and China mostly exhibit a notable alignment, showcasing shared perspectives and mutual interests (Ferdinand, 2013). On the other hand, there exists a divergence in voting patterns between the Southeast Asian region and the US (Ferdinand, 2014). This alignment demonstrates a shared focus on global affairs among states in the Asian Pacific region, notably ASEAN and China, which appears to surpass that of Western countries. The persistent divisions among ASEAN members primarily revolve around human rights issues. Jang and Chen (2019) studied voting patterns in the post-Cold War period to understand the similarity among nations' voting behaviors, revealing diverse patterns of ASEAN countries across various issues such as arms control, colonialism, economic development, human rights, nuclear weapons, nuclear material, and the Palestinian conflict. These results shed light on the multifaceted ideas and interests of Southeast Asian countries in different foreign policy contexts.

This chapter discusses findings on correlation and empirical results that support the hypothesis regarding aid rewards and governance quality. The next chapter discusses the conclusion and policy recommendations.

Chapter V

Conclusion

5.1 Policy Recommendations

The empirical findings of this study present valuable insights that can guide policy recommendations for ASEAN countries aiming to optimize ODA. The consistently positive and statistically significant relationship between governance quality and ODA allocation suggests that policymakers should prioritize enhancing regulatory quality, transparency, and accountability. Strengthening anti-corruption measures, improving regulatory frameworks, and fostering transparent and accountable governance structures could attract higher levels of development assistance. As exemplified by the positive coefficients for corruption control, regulatory quality, and voice and accountability, these governance indicators stand out as critical areas for targeted policy interventions. Governments should consider implementing reforms and policies that align with international standards of good governance to maximize ODA benefits.

Furthermore, this paper highlights the reciprocal connection between ODA and economic prosperity, emphasizing the need for policies that foster economic growth. Countries experiencing economic expansion are more likely to attract development assistance, suggesting that sustained efforts to enhance economic prosperity can contribute to a positive cycle of increased ODA. Policymakers should focus on creating an enabling environment for economic growth through investment-friendly policies, trade promotion, and infrastructure development.

On the other hand, the unexpected findings related to democracy and UN voting patterns underscore the complexity of ODA determinants. While the level of democracy does not significantly influence ODA allocation, the study suggests a nuanced relationship with UN voting behavior. Policymakers should consider these nuanced factors when engaging in international relations and diplomatic activities to align with the changing dynamics of foreign aid allocation.

5.2   Conclusion

The findings of this study not only support the hypothesis positing a positive connection between governance quality and ODA, consistent with established observations from previous studies in aid allocation, but also contribute to the broader discourse on donors' interests in aid allocation and governance dynamics. The study results align with the observations found in existing literature (Collier & Dollar, 2002; Dijkstra, 2018; Jones & Tarp, 2016; Soeng et al., 2018), suggesting that foreign aid donors are inclined to provide recipient countries with stronger governance structures. This echoes the argument put forth by Alesina and Weder (2002) that aid may be effective at institution-building rather than negatively impacting good governance.

Contrary to the findings of Alesina and Dollar (2000), who emphasized the influence of democratic institutions and political alliances on bilateral aid allocation, this study does not find evidence supporting democracy and UN voting patterns in the Southeast Asian region. The results reveal that governance quality significantly influences ODA allocation to ASEAN countries. This nuanced understanding adds depth to the existing literature and offers insights into the factors shaping aid distribution in Southeast Asia.

Fundamentally, this study confirms specific scholarly perspectives and introduces fresh insights, enriching the understanding of ODA determinants in the ASEAN region. The methodology employed aligns with the approaches taken by scholars (see also Alesina & Dollar, 2000; Alesina & Weder, 2002; Soeng et al., 2018), while the inclusion of different variables and a focus on the Southeast Asian region contribute to the study's uniqueness in the existing literature on aid allocation and governance.

While this study has provided valuable insights, it is essential to acknowledge its limitations. Firstly, the data covers a specific timeframe (2006-2020). While this period is sufficient for analyzing trends, longer-term data might provide a more comprehensive perspective on the connection between the dynamics of ODA and governance indicators.

Additionally, the study employs a panel regression framework with fixed effects for both country and year, but inherent challenges in causality identification persist in observational studies. The study's focus on ASEAN countries may limit the generalizability of findings to other regions. Moreover, while widely recognized, the governance indicators utilized may only capture part of governance complexities.

Future research endeavours could expand their scope by investigating diverse regions or incorporating additional governance dimensions to have a nuanced understanding of the intricate connection between ODA and institutional quality in Southeast Asia. The approach can also go beyond aid allocation solely from donors' interests and consider recipients' perspective: whether aid allocation aligns with the recipients' needs. This expanded perspective would capture the donor-driven dynamics and shed light on how aid aligns with the actual needs and priorities of the countries receiving assistance.

Therefore, this research comprehensively analyzes the complex interplay between ODA and governance indicators within the ASEAN context. The empirical findings consistently highlight the pivotal role of governance quality, particularly in terms of control of corruption, regulatory quality, and voice and accountability, in influencing ODA allocation. The positive association between economic indicators, such as GDP and trade, further underscores the multifaceted nature of ODA determinants. Interestingly, the study observes nuanced effects of political stability, the rule of law, and democracy on ODA allocation. Contrary to expectations, democracy does not exhibit a statistically significant relationship with ODA in the ASEAN region. While acknowledging certain limitations, this research contributes valuable insights to the ongoing discourse on the connection of aid and governance, providing a foundation for future investigations into the nuanced factors shaping development assistance in Southeast Asia.

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Figure A1:

ODA Allocation to ASEAN countries (2006 to 2020)
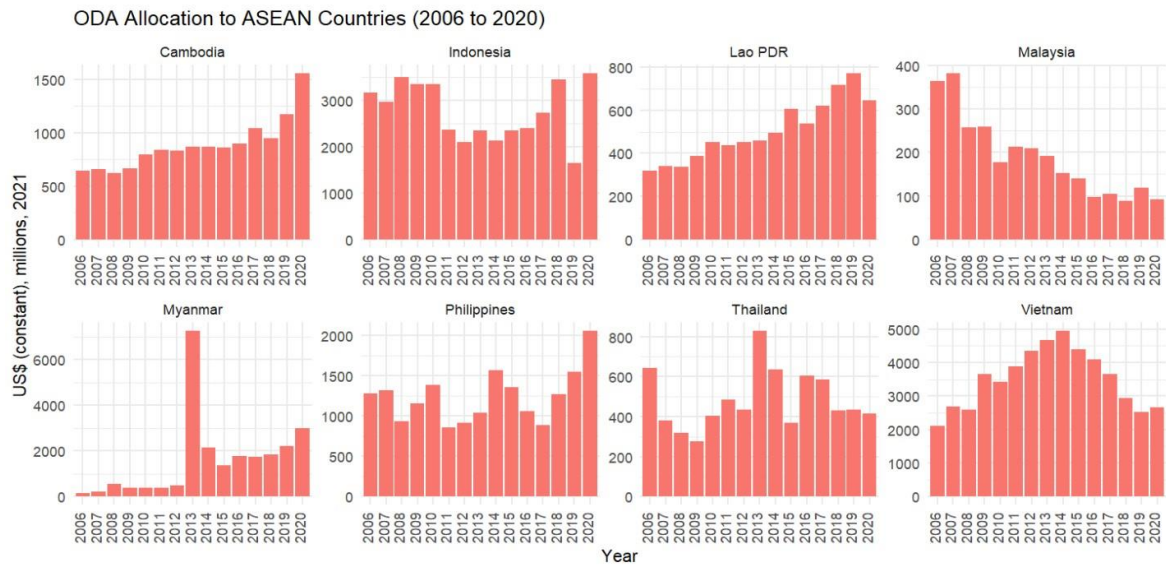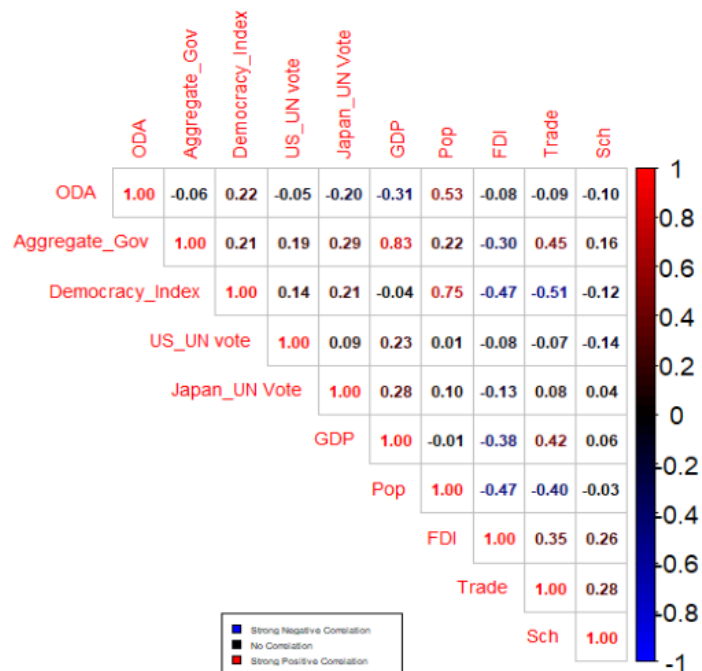

Notes. Own Elaboration in R with data adapted from OECD (OECD, 2023c)

Figure A2:

Correlation Matrix showing ODA and Variables

Notes. Own Elaboration in R with data from V-Dem (2023), WDI (World Bank, 2023a), WGI

(World Bank, 2023b), and UNGA Voting Data (n.d.)

Figure A3:

Correlation Matrix showing ODA and Six Governance Indicators

Correlation between ODA and 6 Governance Indicators

	ODA	G1	G2	G3	G4	G5	G6
ODA	1.00	0.02	-0.13	0.00	-0.12	-0.09	0.04
G1		1.00	0.90	0.13	0.84	0.92	0.59
G2			1.00	0.19	0.91	0.96	0.60
G3				1.00	0.09	0.23	-0.37
G4					1.00	0.86	0.76
G5						1.00	0.51
G6							1.00

Strong Negative Correlation
No Correlation
Strong Positive Correlation
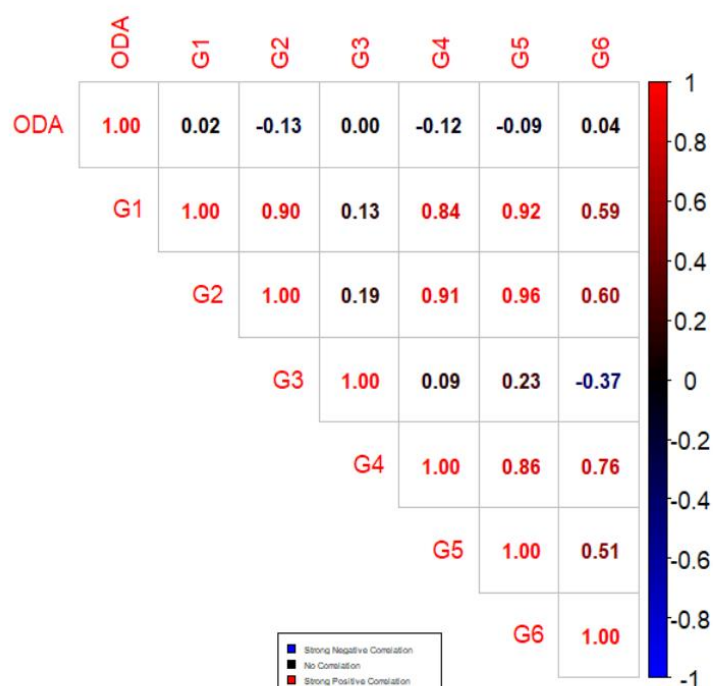
Notes. Own Elaboration in R with data adapted from WDI (World Bank, 2023a) and WGI (World Bank, 2023b)

Table A1:

World Governance Indicators and its Definition

WGI Indicators	Definition
(i) Control of corruption	Captures perceptions of the extent to which public power is exercised for private gain, including petty and grand forms of corruption and "capture" of the state by elites and private interests.
(ii) Government effectiveness	Captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
(iii) Political stability and absence of violence/terrorism	Measures perceptions of the likelihood of political instability and politically motivated violence, including terrorism.

WGI Indicators	Definition
(iv) Regulatory quality	Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
(v) Rule of law	Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, particularly the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
(vi) Voice and accountability	Captures perceptions of the extent to which a country's citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and free media.

Notes. Adapted from the World Governance Indicators (n.d.)

Table A2:

Descriptive Statistics of Variables

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
Log (ODA)	120	6.775	1.027	4.491	8.893
Governance (Aggregate)	120	-0.519	0.482	-1.753	0.465
Democracy Index	120	0.275	0.448	0	1
US_UN vote	120	26.84	11.297	5.1	52.6
Japan_UN Vote	120	58.667	13.042	0	81.646
Log (GDP)	120	7.78	0.846	5.508	9.318
Log (Population)	120	17.664	1.086	15.598	19.421
FDI	120	4.463	3.388	-0.989	14.146
Log (Trade)	120	4.327	0.522	3.36	5.187
School Enrollment	120	97.767	30.61	0	128.833
Control of Corruption	120	-0.677	0.471	-1.673	0.397
Government Effectiveness	120	-0.214	0.707	-1.623	1.254
Political Stability	120	-0.475	0.641	-1.779	0.679
Regulatory Quality	120	-0.374	0.665	-2.274	0.799
Rule of Law	120	-0.529	0.539	-1.551	0.594
Voice and Accountablility	120	-0.844	0.695	-2.233	0.185
Regime Type	120	0.842	0.733	0	2

Table A3:
Empirical result of Governance and ODA
Governance and ODA

	Dependent Variable: ODA					
	Log (ODA)					
	(1)	(2)	(3)	(4)	(5)	(6)
Governance	0.923***	0.573***	0.560***	0.602***	0.607***	0.618***
	(0.177)	(0.165)	(0.166)	(0.164)	(0.165)	(0.165)
Democracy Index			0.200			0.245
			(0.264)			(0.261)
US voting similarity				-0.022*		-0.022*
				(0.013)		(0.013)
Japan voting similarity					0.006	0.006
					(0.004)	(0.004)
Log (GDP)		1.027***	1.048***	1.023***	1.057***	1.077***
		(0.262)	(0.265)	(0.260)	(0.261)	(0.261)
Log (Population)		-5.194**	-5.352**	-5.722***	-5.119**	-5.841***
		(2.177)	(2.192)	(2.174)	(2.163)	(2.178)
FDI		0.024	0.025	0.020	0.021	0.019
		(0.026)	(0.026)	(0.026)	(0.026)	(0.026)
Log (Trade)		0.511*	0.456	0.512*	0.572*	0.502*
		(0.293)	(0.302)	(0.290)	(0.294)	(0.300)
School Enrolment		-0.001	-0.001	-0.001	-0.001	-0.001
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Fixed Effect (country)	✔	✔	✔	✔	✔	✔
Fixed Effect (year)	✔	✔	✔	✔	✔	✔
Observations	120	120	120	120	120	120
R^2	0.859	0.902	0.902	0.905	0.904	0.908
Adjusted R^2	0.828	0.873	0.872	0.876	0.875	0.877

Significance levels $^*p<0.1$; $^{**}p<0.05$; $^{***}p<0.01$

Panel regression using 15-year data (2006-2020). All columns use fixed effect (country), fixed effect (year), and controls (except column 1). Dependant variable: Net ODA amount is logged. Six governance indicators, with a wider range of scale (-2.5 to +2.5), named control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability, being aggregated and standardized as a governance variable, are used in all columns. The UN voting similarity with the US and Japan is calculated as a percentage, determined by the number of times a country votes the same as country X, divided by the total number of votes each year. Control variables such as a natural logarithm for GDP, population, and trade are employed along with FDI and school enrolment.

Table A4:
Empirical Result of Six Governance Indicators and ODA
Six Governance Indicators and ODA

	Dependent Variable: ODA						
	Log (ODA)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Control of corruption	0.490***						0.520**
	(0.103)						(0.226)
Government effectiveness		0.095					-0.341
		(0.234)					(0.254)
Political stability			-0.052				0.036
			(0.129)				(0.122)
Regulatory quality				0.553***			0.416*
				(0.116)			(0.228)
Rule of law					-0.156		-0.502**
					(0.217)		(0.217)
Voice and accountability						0.427***	-0.205
						(0.114)	(0.261)
Democracy Index	0.253	0.334	0.324	0.272	0.329	0.080	0.316
	(0.250)	(0.279)	(0.280)	(0.249)	(0.278)	(0.268)	(0.267)
US voting similarity	-0.029**	-0.017	-0.019	-0.030**	-0.017	-0.025**	-0.033***
	(0.012)	(0.013)	(0.014)	(0.012)	(0.013)	(0.013)	(0.012)
Japan voting similarity	0.006	0.004	0.004	0.008*	0.004	0.007	0.008*
	(0.004)	(0.005)	(0.005)	(0.004)	(0.005)	(0.004)	(0.004)
Log (GDP)	1.036***	1.271***	1.301***	1.101***	1.333***	1.149***	1.153***
	(0.250)	(0.284)	(0.272)	(0.247)	(0.275)	(0.257)	(0.245)
Log (Population)	-6.285***	-7.294***	-7.384***	-5.765***	-8.366***	-6.624***	-8.923***
	(2.063)	(2.346)	(2.309)	(2.078)	(2.584)	(2.144)	(2.269)
FDI	0.026	0.036	0.041	0.021	0.042	0.034	0.034
	(0.025)	(0.029)	(0.028)	(0.025)	(0.028)	(0.026)	(0.025)
Log (Trade)	0.506*	0.393	0.369	0.326	0.412	0.492	0.502*
	(0.288)	(0.322)	(0.332)	(0.287)	(0.320)	(0.299)	(0.300)
School Enrolment	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.002)	(0.002)	(0.001)	(0.002)	(0.002)	(0.001)
Fixed Effect (country)	✔	✔	✔	✔	✔	✔	✔
Fixed Effect (year)	✔	✔	✔	✔	✔	✔	✔
Observations	120	120	120	120	120	120	120
R^2	0.915	0.894	0.894	0.915	0.894	0.908	0.927
Adjusted R^2	0.886	0.858	0.858	0.886	0.858	0.877	0.896

Significance levels   *p<0.1; **p<0.05; ***p<0.01

Panel regression using 15-year data (2006-2020). All columns use fixed effect (country) and fixed effect (year). Dependant variable: Net ODA amount is logged. All governance variables, with a wider range of scale (-2.5 to +2.5), are standardized in all columns. The UN voting similarity with the US and Japan is calculated as a percentage, determined by the number of times a country votes the same as country X, divided by the total number of votes each year. Control variables such as a natural logarithm for GDP, population, and trade are employed along with FDI and school enrolment.

Table A5:

Robustness Check: Empirical Result of Governance and ODA

Governance and ODA

	Dependent Variable: ODA		
	Log (ODA)		
	(1)	(2)	(3)
Governance		0.576***	0.608***
		(0.200)	(0.198)
Regime Type	0.235*	-0.004	0.033
	(0.128)	(0.149)	(0.147)
US voting similarity			-0.021
			(0.013)
Japan voting similarity			0.006
			(0.004)
Log (GDP)	1.138***	1.028***	1.046***
	(0.272)	(0.265)	(0.262)
Log (Population)	-7.455***	-5.174**	-5.791**
	(2.252)	(2.308)	(2.302)
FDI	0.037	0.024	0.017
	(0.027)	(0.026)	(0.026)
Log (Trade)	0.449	0.511*	0.565*
	(0.306)	(0.295)	(0.293)
School Enrolment	-0.0003	-0.001	-0.001
	(0.002)	(0.002)	(0.002)
Fixed Effect (country)	✔	✔	✔
Fixed Effect (year)	✔	✔	✔
Observations	120	120	120
R^2	0.893	0.902	0.907
Adjusted R^2	0.861	0.871	0.876
Significance levels			*p<0.1; **p<0.05; ***p<0.01

Panel regression using 15-year data (2006-2020). All columns use fixed effect (country) and fixed effect (year). Dependant variable: Net ODA amount is logged. Six governance indicators, with a wider range of scale (-2.5 to +2.5), named control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability, being aggregated and standardized as a governance variable, are used in all columns. Regime type: closed autocracies (score 0), electoral autocracies (score 1), electoral democracies (score 2), and liberal democracies (score 3) are included for robustness check. The UN voting similarity with the US and Japan is calculated as a percentage, determined by the number of times a country votes the same as country X, divided by the total number of votes each year. Control variables such as a natural logarithm for GDP, population, and trade are employed along with FDI and school enrolment.