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CONSIDERATIONS OF FOREIGN DEVELOPMENT

ASSISTANCE

MASTER'S ESSAY

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TABLE OF CONTENTS

Introduction.....	4
History of Foreign Development Assistance	5
The UN MDGs and SDGs.....	7
Literature Review.....	8
Donor Interests and Strategies.....	8
Considerations of the Priorities of Receiving Countries.....	9
Infrastructure Considerations	12
Research Design and methodology.....	13
Purpose of the Research	13
Research Methodology.....	14
Sampling Strategy	15
In-Depth Interviews	16
Development Priority	17
Stimulation of Trade.....	20
Stimulation of Social Development	22
Content Analysis of Project Documents	23
Development Priority	24
Stimulation of Trade.....	25
Stimulation of Social Development	27
Findings from In-depth Interviews and Documents	27
Conclusion	31
Appendix — Interview Questions	33
Bibliography	34

CONSIDERATIONS OF FOREIGN DEVELOPMENT ASSISTANCE

INTRODUCTION

The objectives and interests of donor countries with respect to providing development assistance vary considerably from one country to another (Wood 1994). Regardless, the role of official development assistance (ODA) in the overall advancement process has been recognized widely and most developed nations have committed to allocating development assistance to developing countries, especially to least developed countries (LDC). For some recipient countries, foreign development assistance represents a significant percentage of the government budget. For some developing countries, a high degree of dependence on foreign aid exacerbates macro-economic vulnerabilities and also contributes to their ability in ensuring sustainability (United Nations 2010).

The politics of international assistance have achieved new prominence in recent decades as a result of rising nationalist sentiments in some recipient countries. Specifically, “*in countries with long histories of foreign interference, [nationalist] political forces have played to that sentiment, proudly refusing international aid, even while their economies suffer*” (Shaikh and Hamid 2012). At the same time, many receiving countries have usurped foreign aid personalizing large sums and failing to achieve the intended development results. This has stemmed growing concern about corruption by donor countries, which has ensued some sort of acknowledgment for the need to attach conditionalities to foreign aid and monitoring progress as a way of ensuring that their political agendas and specific requirements are adhered to by the receiving state.

History of Foreign Development Assistance

Foreign development assistance, usually referred to as foreign aid or official development aid, comes in the form of grant assistance or loans with good terms of return (Herinjatovo Aime Ramiarison 2010). Developing countries have been receiving ODA over seven decades since it was adopted in the UN Charter in 1945. These loans were initially given for economic and infrastructure projects, including those in production and commodity spheres. Later donors also considered allocating ODA for programs that were intended to satisfy basic human and social needs, i.e., education and healthcare.

For some developing countries ODA has served as the main source of external financing. In 2008, ODA constituted more than 10% of the GNI of 26 developing countries. Considering this relatively high percentage, dependence on aid may result in macroeconomic vulnerabilities of the recipient countries. Yet the influence of aid on achieving the UN Millennium Development Goals or the more recent Sustainable Development Goals depends on the impact of aid on development (Herinjatovo Aime Ramiarison 2010).

In the 1980s, with the adoption of the Washington Consensus, a shift in development thinking occurred proposing a significant shift in foreign aid and more emphasis or focus on macroeconomic indicators. These included trade liberalization; control of inflation; and promotion of domestic markets through privatization and deregulation. Before the Washington Consensus development trends and foreign aid packages centered on state-led development reform initiatives, which were heavily criticized for not having produced the desired results primarily because of domestic mismanagement. The Consensus triggered a total shift in priorities built upon market led development (Gore 2000).

However, like preceding protocols and development policies, the Washington Consensus also faced a lot of criticism by both economists and political scientists. For example, Saad-Filho (2007) argues that the Consensus turned out to be an ineffective approach to development due to several reasons: (1) it associated poverty with weak macroeconomic policies, but did not suggest any clear macroeconomic policy alternatives; (2) it did not address the types of priority areas of focus that the MDGs addressed later for combatting poverty; and (3) it did not particularly target societal needs by way of proposing reform alternatives that would contribute to poverty alleviation.

The mounting criticisms of aid effectiveness elicited the Paris Declaration on Aid Effectiveness in 2005, which reaffirmed the commitments made at the Rome Declaration earlier in 2003 regarding the need for harmonization of aid delivery. In order to make aid more effective, donor and partner countries were called for making changes in the delivery and management of aid. More specifically, partner countries were called for strengthening their national development strategies thereby aligning their priorities with aid; improving public accountability by donors and partners alike thereby eliminating duplication of efforts; and strengthening collaboration among donors and streamlining procedures (The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action 2005).

For member countries, the Paris Declaration was a reaffirmation of the need for enhancing aid effectiveness in spite of the associated challenges and difficulties. That is why member states emphasize the importance of state-building in fragile states and managing for results in those states that have weaker governance. Further, the Paris Declaration emphasized the importance of ownership by partner countries, in terms of (a) broader planning of projects (with assistance from donor country experts); (b) assuming a results-oriented direction; (c)

coordinating or harmonizing aid with other donors, and (d) encouraging civil society and private sector involvement throughout the process (The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action 2005).

To date, the Paris Declaration too has been criticized for not being implemented or applied as intended. Bissio (2008) argues that it did not address issues related to human rights in development. Although two of the five key principles of the Paris Declaration — i.e., mutual accountability and ownership — might include attributes related to the right to development, the other three — namely alignment, harmonization, and managing for results — do not make any reference to the right to development by the people. The author suggests that apart from the changes that the recipient or partner countries should implement, donor countries should also consider revising some of their aid-related policies, such as untying aid or making aid delivery timely and according to plan (Bissio 2008).

The UN MDGs and SDGs

Within the framework of aid effectiveness, the 2000 UN General Assembly discussed the degree to which Millennium Development Goals (MDGs) were attained and the effectiveness of aid particularly with the sustainability of achieved results. The resulting strategy was disseminated in the Sustainable Development Goals (SDGs), which set forth a more solid basis and objectives for sustainable global development. The SDGs are built on the lessons learned from MDGs, but encompass a broader framework taking into consideration the gaps and the country specificities that MDGs had not addressed, while also incorporating the shared values of solidarity, equality, dignity and respect for all (United Nations 2012).

LITERATURE REVIEW

Donor Interests and Strategies

Qian (2014) argues that donor strategic concerns essentially drive ODA. Factors like promotion of trade for economic security, national security concerns, and foreign policy objectives and the like are of great interest to ODA donors, than humanitarian concerns. The problem with this is that donor interests and concerns do not always coincide with those of recipients and their priority needs. According to the author, it is necessary to understand the proportion of ODA that is driven by donor interests, versus recipient priorities.

Similarly, Ruttan (1989) brings two arguments that explain donor motivation for allotting foreign assistance to developing countries. The first is based on the economic and political strategic interests of the donor country, which is referred to as donor-interest by the author. The second is about the rich countries' moral obligation to help the poor countries to stand on their feet. He argues that the main motive of several countries of Western Europe to deliver development assistance is its aim to diminish external aggression and its role in the international arena. He brings the example of the Carlucci report, which supports the argument that the U.S. economic and security cooperation programs are interrelated and supplement each other. Donor countries are more interested in satisfying their shorter term political objectives than the political development of the recipient country which may take much longer to realize.

Nossal (1988) points to three donor interests for providing development assistance. The first is philanthropic and refers to donors' humanitarian *sense of obligation* for helping the poor countries, and the second is about economic interests; finally, ODA is about political interests, in particular achieving diplomatic or security objectives using transfers of goods and services. Here

the author attempts to come with an explanation that best fits Canada's motivation for ODA. He brings two arguments: the first implies that ODA by Canada reflects the preferences of state actors. The second puts real material interests at the core of Canada's ODA policy considering prestige and influence in the Third World. However, the author argues that there is no proof that Canada is solely pursuing its own interests. Canada's motivation is rather a mix of the factors explained earlier.

Similarly arguing on a mix of factors, Rudner (1989) argues that philanthropic, economic and political considerations are made in ODA allocations. Analyzing Japan's ODA policy, the author concludes that foreign aid is used as an instrument for increasing the donor's political influence and economic power. Being the second biggest industry Japan uses foreign development assistance as a means of keeping its neighbors friendly and their markets open to the Japanese industry. Hence, Japan concentrates its ODA on the countries of East and Southeast Asia.

Considerations of the Priorities of Receiving Countries

According to Aime (2010) aid may not be effective because of donor priorities. When aid allocation is motivated by the donor's political interests, it does not necessarily lead to development. The author identifies several elements of decision making that may trigger ineffective aid allocation by donors. These are (1) bypassing the recipient country's absorption capacity; (2) tied aid; (3) aid volatility; (4) aid allocation bias; (5) conditionality and lack of ownership; and (6) donor fragmentation (Aime 2010).

Thérien and Lloyd (2000) argue that there is no positive relationship between foreign aid and the recipient country's development priorities and needs, rejecting the idea that foreign aid is

simply a foreign policy decision. According to these authors, foreign aid is driven by the economic and political motives of the donor. For example, many European countries deliver assistance to their former colonial countries in order not to lose ties with them. Another reason for many states to deliver ODA is using foreign assistance as a means of maintaining or improving their international standing. The authors also speak about the commercial nature of foreign aid. Donors tend to place emphasis on their economic interests, thus delivering assistance to emerging economies to further boost their own economies.

Qian (2014) argues that there also are strategic concerns embedded in what drives foreign aid. For example, in the Cold War years of 1947 to 1991, foreign aid was mostly built upon security concerns. In the period following the Cold War, the driving force of aid delivery shifted to other state priorities, often varying from one country to another. The author goes on to making generalizations based on secondary data analysis, concluding that the U.S. delivers aid based on the ideological stance of the recipient country, whereas France takes into consideration the military power of recipient countries, and Japan directs aid in consideration of the recipient's economic importance to Japan.

Qian (2014) also argues that the U.S. food-aid policy is negatively associated with the corresponding needs of the recipient countries. The type of food-aid delivered by the U.S. is wheat, which the author explains as a way of supporting U.S. farmers. During seasons when wheat production is abundant, mainly as a result of favorable weather conditions, the U.S. donates more food-aid than in other times.

Foreign aid is also conditioned by corresponding media coverage. If U.S voters speak out in favor of relief aid to a country following a disaster, then it is likely that news coverage

affects U.S. foreign aid decision to that country. The last point that the author points out as a determinant factor of foreign assistance is control of the electoral outcome. Qian (2014) argues that donor countries use aid to influence elections. That is the reason why recipient countries that have politically close ties with the donor countries are more likely to receive aid during election periods. The study summarizes that the factors that determine aid flows are in no relation to the needs of the recipient countries (Qian 2014).

Alesina and Dollar (2000) argue that foreign aid has not been successful in promoting growth in recipient countries due to two factors: (a) the weak institutional capacities of recipient countries have not allowed aid to be used efficiently and for the intended purpose; and (b) political factors that determine aid flows have also served as reasons for aid not to be effective. These factors vary significantly from one donor to the other (Alesina and Dollar 2000; Schraeder, Hook, and Taylor 1998).

According to Oya et al. (2010) geopolitical reasons also condition aid delivery, particularly in countries of Sub-Saharan Africa. Firstly, the eastern region is considered to be a *battlefield of the war on terror* by U.S. security considerations and a key motive for delivering aid to Africa in order to prevent post-conflict fragile states from becoming centers of terrorism. Secondly, aid also is a means of containing immigration from Africa to Europe. The growing flow of African immigrants to European countries is a major concern for Europe, which tries to create buffer zones offering *aid deals* clearly tied to *keeping wannabe immigrants at home* (Oya and Pons-Vignon 2010).

Another study by Schraeder, Hook, and Taylor (1998) has studied the motivation factors of aid allocation to African countries by various donors, such as Sweden, France, the U.S. and

Japan during the 1980s. The research suggests three key motives for foreign aid allocation in general: (1) the humanitarian need to alleviate poverty and suffering in developing countries; (2) considerations of national security concerns by donors; and (3) possible economic favors by the recipient country to the donor community. Other factors could include shared culture, ideological beliefs, or geographical proximity to the donor country.

Infrastructure Considerations

Ugwu et al. (2006) argue that accomplishments in infrastructure projects are an important indicator of sustainable development. The developing world has identified programs meant to achieve the objectives of sustainable development, where infrastructure projects play a key role. Unlike other objectives, such as economic or social well-being, the sustainability of infrastructure projects and their impact on development are easier to measure.

Lokshin and Yemtsov (2005) have evaluated infrastructure projects in Georgia in order to measure the effectiveness of donor assistance in that country. The poor conditions of rural Georgian infrastructure — including water and sanitation facilities, roads, basic school infrastructure — has proved to be one of the main reasons for the sluggish development of rural Georgia. The state budget did not afford financing those projects triggering major donor support for improving the rural infrastructure in Georgia. The evaluation of those projects suggests that the major portion of project-specific outputs have been achieved (Lokshin and Yemtsov 2005).

According to Weiss et al. (1995) financing infrastructure projects began in the 1980s with the power project financing in the U.S. Back then infrastructure projects were implemented through project developers, independent funding corporations. Usually, project owners presented their project designs and got financing from independent lenders. A power contract was signed

with a creditworthy partner who was then financing the development and realization of infrastructure projects. Later international financing of infrastructure projects for developing countries came into practice. Nowadays, the implementation of infrastructure projects with foreign assistance are usually public projects financed through bilateral or multilateral donor agencies, such as the World Bank. Given the high costs involved in implementing infrastructure projects, multilateral institutions play a key role in this domain in developing countries (Weiss et al. 1995).

RESEARCH DESIGN AND METHODOLOGY

Purpose of the Research

ODA is a major source of external financing for many developing countries. Over the last decade many new donors have emerged in the development arena, thereby increasing the pool of funding to developing countries. This triggers the question whether aid really matters? Do increases in aid contribute to sustainable development or do they rather create recipient dependency on aid? Aid dependency is believed to make recipient countries macro-economically vulnerable. This is reason for developing countries to become highly sensitive to the volume of aid not always submitting to donor requests (UN 2010).

Armenia has been implementing infrastructure projects with the assistance of international donors, as these are the kind of expenditures that the state budget would not afford. International donor organizations, such as the World Bank, the Asian Development Bank and others have been and are still involved in the process of implementing infrastructure improvements in Armenia. As Armenia makes further advances in strengthening its infrastructure with projects like the North-South highway, it will undoubtedly rely on donor

assistance for financing major portions of such projects. Thus the purpose of this research is to understand the motives that drive ODA in Armenia, why are they directed to infrastructure projects, and whether or not the motivating factors also contribute to sustainable development.

Research Methodology

The research question that this essay tackles is the following: What are the political considerations of foreign development assistance for infrastructure projects in Armenia?

H: Political considerations drive foreign assistance to infrastructure projects in Armenia.

In order to answer the research question, the study used a qualitative research design. Triangulation of data from different sources throughout the data collection and analysis allowed findings and conclusion on the hypothesis. In particular, the research used (1) content analysis of public infrastructure project documents, and (2) discourse analysis of interviews with development technocrats, project implementation units, as well as development experts. Content analysis of documents was performed using official assistance provision documents. Interviews were conducted with representatives of donor organizations responsible for specific infrastructure projects. The list of donor organizations was drawn from Armenia's country reports on infrastructure projects.

The operationalization of the variables allowed the identification of projects in water and sanitation, roads, railways, and subway used to measure infrastructure projects. This research was limited to reviewing activity in the years 2010 through 2015. Another limitation of the research is that it was limited to analyzing the degree to which the Government of Armenia cooperates with multi-lateral donor organizations.

Sampling Strategy

Taking into consideration the importance of the different political interests of parties involved in foreign aid decisions, data collection sources included donor and lending organizations as party to financing development projects; implementing partners, i.e., project implementation units (PIUs) within the RA Government or other local and international organizations responsible for project implementation; and the RA National Assembly that has oversight authority of all development projects.

Thus in-depth interviews were conducted with the Asian Development Bank, the World Bank and the Eurasian Development Bank as the major international lending organizations. The PIUs included in the interviews were the RA Water Sector PIU and the Rural Areas Economic Development PIU. Interviewees from the RA National Assembly included the chairperson of the Standing Committee on Financial-Credit and Budgetary Affairs.

Purposive sampling was used in the selection of documents that included official project documents, country strategy papers by multilateral development institutions currently working with the Government of Armenia. The sample was chosen for containing major infrastructure projects initiated during the last 4-5 years, in particular from 2010-2015. The projects analyzed included:

- Armenia's Transport Outlook: Transport Sector Master Plan, ADB 2011
- Armenia Water Supply and Sanitation, ADB 2011
- North-South Road Corridor Investment Program, ADB 2015
- Northern Corridor Modernization Project, EBRD 2012
- Yerevan Solid Waste Project, EBRD 2015

- Lifeline Roads Improvement Project, WB 2010
- Lifeline Roads Improvement Project Additional Financing, WB 2010
- Lifeline Roads Network Improvement Project, WB 2012
- Additional Loan on Lifeline Roads Network Improvement Project, WB 2015

IN-DEPTH INTERVIEWS

The in-depth interviews aimed at revealing the significance of infrastructure projects for the development of Armenia, as well as to make inferences on the effectiveness of the projects. Data collected from the different sources was triangulated to establish dominant themes and consistency of findings or, if otherwise, to clear differences.

The analysis of interviews followed the established categories and descriptors drawn from the literature on this topic. For each descriptor intensity was measured by the use of the phrase or concept, tone of voice, and body language of the speaker to measure the importance given to each descriptor. The frequency of appearance of the descriptor in the speech was also incorporated into the measurement of the intensity. The intensity of the categories was measured on a scale of 1 to 5, where a score of 1 meant little or no importance attached by the interviewee to the respective descriptor, and 5 meant dominant importance attached to the descriptor, frequent references made to the concept, and stated with unwavering strength of voice and eye contact.

N	Descriptor	Intensity
1.	Development Priority	
	• Creation of new jobs	4.2
	• Contributing to a business-friendly environment	2.6
	• Growing the private sector	2.4
	• Institutional capacity building	3.4

2.	Stimulation of Trade	
	• Creating regional trade routes	3.2.
	• Expanding trade beyond the region	3.1
	• Increasing access to external markets	3.1
3.	Stimulation of Social Development	
	• Access to quality healthcare	2.2
	• Access to education	2.4

Development Priority

The analysis of the interviews revealed that infrastructure projects are a development priority because they are important for ensuring Armenia’s economic growth. Creation or modernization of the physical infrastructure lays ground for further advancement. As discussed by the interviewees no significant infrastructure development was carried out by the RA government after Armenia gained independence. After the 2008 financial crisis when the labor market weakened and unemployment grew higher, creating jobs became the most critical immediate issue to resolve, hence infrastructure projects came to the center of attention of development agencies, donors, and practitioners.

Taking into consideration the number of times the interviewees have mentioned the word, phrase, or a close synonym, together with the tone with which they were stated and the importance the interviewee paid to each descriptor vis-à-vis the development of the country, the analysis showed that creating jobs, albeit temporary jobs, was the most important and immediate result that could be achieved from infrastructure projects during implementation. As a tool of promoting development, infrastructure projects also have contributed to attracting new investments by creating a more favorable doing-business environment and therefore stimulating the growth of the private sector.

The intensity of the first descriptor (4.2) shows that among the development priorities mentioned by the interviewees creation of new jobs is the most important. Infrastructure projects are the most appropriate investments which are able to create means of meeting the urgent development needs of the country. The temporary jobs that are created during infrastructure project implementation are mostly construction-related. Almost all the interviewees believe that it is important that the subcontracted firms be registered in Armenia and use locals in their labor force for the implementation of projects.

The interviewees also argue that infrastructure development projects also help lay ground for longer-term employment opportunities for the future if roads are scheduled up front for regular maintenance. When referring to the sustainability of infrastructure projects, the interviewees mentioned that the country faces considerable challenges in ensuring adequate project maintenance. Though the project agreements require that certain sums of money be allotted for the maintenance of projects, amounts afforded by the government are usually not enough to ensure long-term and proper maintenance for sustainability.

The interviewees acknowledge the importance of quality infrastructure to attract private investment and create a business-friendly environment in the country. According to them, this is the reason why many infrastructure projects are implemented in the ‘strategic’ cities of Armenia, the strategic status of cities being derived from the strategic development plan of the country. The development practitioners interviewed argue that it is important that the private sector, particularly prospective beneficiaries of infrastructure projects, be involved in the project implementation. The RA Government has plans to take steps in creating synergies between government and local private businesses by way of creating public-private partnerships (PPP) for the design and implementation of large infrastructure projects. But, for the moment, the

Government relies solely on foreign assistance by both multilateral and bilateral development organizations for the implementation of such projects.

Further, the interviewees claim that in order to attract private investment the RA Government had been allocating funds to implement infrastructure projects predominantly in Yerevan, the capital of Armenia, given the ease of attracting investments for Yerevan projects as opposed to other cities in Armenia. In the more recent years, the Government began paying higher importance to developing the regions, including strategically important cities such as Gyumri, Dilijan, Vanadzor, Dzermuk and Goris, and funds are now being allocated to implement infrastructure projects in those cities.

Growth of the private sector is directly related to the creation of a business-friendly environment. When no basic infrastructure is available to encourage growth of the private sector, it is more difficult for a country to attract new investments (including FDI). Thus, when deciding which infrastructure projects to finance, the RA Government and donors conduct various types of economic analyses, including cost-benefit analysis, before making decisions. However, as revealed by the interviewees, the RA Government does not conduct a thorough analysis of project effectiveness/efficiency before borrowing. There is no methodology or selection criteria adopted by the state other than defining the approximate values given to projects by the decision-makers. The interviewees stated that after transitioning to program budgeting by 2018, project analysis will be conducted following precise measurements and better approaches to administering public funds will be adopted.

The interviews make reference to strengthening institutional capacity to better implement infrastructure development projects (mean score is 3.4). In the past, the implementation of

infrastructure projects faced sustainability problems because of weaknesses in assessing the actual needs of the project and also, in some cases, assessing the feasibility of projects. From the interview with the National Assembly representative it was understood that these types of incongruities happen because of the absence or lack of clarity of project selection criteria.

Another issue raised by the interviewees was the lack of aid absorption capacity by the state, which often results in aid ineffectiveness. In the past, the RA Government did not have the technical capacity to ‘use donor assistance funds effectively’ for infrastructure projects because of the lack of expertise in planning and designing such large projects. According to one of the PIUs, in such cases the Government sought expertise from abroad, but often it also did not have the capacity to monitor the effectiveness of work completed by foreign experts.

Stimulation of Trade

Infrastructure projects are critical in creating regional trade routes (the intensity of the descriptor is 3.2) especially for farmers. Armenia’s economy being heavily dependent on agriculture, inter-regional trade constitutes an important component of the rural economy. As mentioned by the interviewees infrastructure needs assessment activities undertaken in rural areas show that quality of rural roads is critical to growing the economy. When farmers do not have access to good roads, for instance, there is a greater risk of getting their products damaged or degraded before getting it to markets. Hence, rural roads are an important infrastructure consideration as they contribute to regional and cross-border trade. The interviewees also cited the importance of proper irrigation, without which rural Armenia will fall short of producing to capacity.

There were differences among the interviewees on the intensity of the importance attached to irrigation. Some interviewees particularly stated the importance of infrastructure development for the stimulation of inter-regional trade routes. They refer to road development as a necessity not only for stimulating the rural economy but also to creating new employment opportunities that would decrease seasonal migration by farmers. Other interviewees referred to the importance of stimulating regional trade only marginally attaching more importance to attracting private investments.

The most important aspect in the stimulation of regional trade identified by the interviewees is that rural farmers will be able to sell their products to other regions and particularly in the capital, Yerevan. Their argument is that here the demand for agricultural products is the highest, and quality produce could be sold at higher prices. However, farmers have major difficulties in getting their products beyond immediate regional boundaries and that is why they have to sell them at lower prices because of the relatively lower demand for their products. Subsequently, this situation creates a major obstacle in inter-regional trade development. This is why the target roads to be rehabilitated are identified each year of project implementation firstly giving priority to those roads that connect the rural roads to republican highways thereby creating access to markets for farmers.

The interviewees believe that having adequate infrastructure and especially quality roads is critical for improved trade access for rural populations. Some of the interviewees stated that improving access to inter-regional trade has been life changing for many rural Armenians. More specifically, interviewees claim that after the rehabilitation of some rural roads, many farmers have decided not to migrate for work across borders and instead to try and make a living engaging in inter-regional trade even if that would decrease their overall income.

As referenced earlier, another benefit of infrastructure projects is access to external markets (the intensity is 3.1). Almost all of the interviewees mentioned that Armenia having closed borders with two of its neighboring countries needs to develop ways to get its products to international markets. That is why when considering possible infrastructure projects, both the RA Government and donor organizations must look at the value that each project adds to trading by way of facilitating access to new external markets. As understood from the in-depth interviews, most road construction projects should have the potential for contributing to development well beyond regional trade and providing access to external markets.

Stimulation of Social Development

One of the critical problems identified by the interviewees is that the rural population usually does not have access to social services. By this, the interviewees primarily refer to access to quality healthcare and education. Apart from the fact that not all communities have local hospitals and/or schools, they very often do not have quality roads and hence access to hospitals and schools in nearby communities. In many rural areas children have to walk long distances to attend school because there is no school in their neighborhood and even village, in many cases. Also, many schools close in the severe winter months because of the lack of heating and unhealthy learning environment, as a result. Similarly, the interviewees emphasized that in certain weather situations the distance from the nearest hospital presents difficulties of access because of poor road conditions that hamper transportation. These were the major issues raised by the interviewees when speaking about the infrastructure needs for social development.

CONTENT ANALYSIS OF PROJECT DOCUMENTS

The content analysis aimed to determine how much the infrastructure projects refer to the development objectives of the country as reflected in the project documents. For this purpose the official documents of donor organizations were examined using relational content analysis, which aimed at establishing dominant patterns of importance to the concepts under study. For scoring texts analyzed, first the frequency of use of the descriptors was scored, which was later incorporated into the intensity score as determined by taking into consideration each descriptor's semantic/meaningful relation to other concepts in text. Thus, the intensity of the descriptors was calculated taking into consideration the following: (1) the frequency of the descriptor, in other words how many times a descriptor appeared in text; (2) the importance attached to the descriptor measured on a scale of 1 to 5, where 1 meant very weak intensity and 5 meant very strong intensity.

<i>N</i>	Descriptor	Intensity
1.	Development Priority	
	• Creating new jobs	5.0
	• Contributing to a business-friendly environment	4.2
	• Growing the private sector	4.2
	• Strengthening institutional capacity	3.6
2.	Stimulation of Trade	
	• Creating regional trade roots	4.3
	• Expanding trade beyond the region	3.9
	• Increasing access to external markets	2.8
3.	Stimulation of Social Development	
	• Access to quality healthcare	4.5
	• Access to education	4.7

Development Priority

The findings from content analysis show that job creation (intensity is 5) is one of the most important objectives of infrastructure development. The documents particularly emphasize the importance of decreasing the level of unemployment in accordance with the strategic goal of eradicating poverty in the country. Infrastructure projects help promote employment in both farm and non-farm sectors by creating temporary, as well as long-term employment opportunities. The temporary jobs in construction are mostly created during the implementation of the projects.

One of the project documents emphasizes that the government has introduced subcontracting microenterprises for the maintenance of infrastructure, aiming at raising the operational capacity of the companies subcontracted. Other social issues, such as lack of access to basic social amenities, are directly associated with the increasing unemployment. Thus creation of jobs would also contribute to achieving other development objectives set by the development agenda of the country. Hence, the category ‘creating new jobs’ was scored at the highest level of intensity in all the documents because of the emphasis on job creation as a priority in the development agenda. The documents specifically refer to job creation as being crucial for economic growth; and infrastructure projects may serve as the main channel for creating at least temporary jobs, and often also long-term jobs.

Contributing to a business-friendly environment (intensity at 4.2) is significant for spurring growth. The descriptor is mentioned in the strategy paper of the RA Government to enable attracting investment inflows not only for the capital Yerevan, but also for rural Armenia. For this purpose, the ‘secondary cities’ of the country are targeted for implementing

infrastructure projects. However, it is crucial that rural roads also be connected to the main arteries and highways for creating an environment, which will in turn be perceived as a prosperous and healthy environment for investments.

Contributing to the private sector (intensity equals 4.2) is closely related to creating a business-friendly environment. These two categories are sometimes used interchangeably in the documents. The participation of the private sector is essential in growing the economy of the country. Thus involvement of the private sector in infrastructure development should also become an objective of the RA Government.

The financing of infrastructure projects presupposes some institutional reforms regarding infrastructure project organization and financing to be undertaken by the government. Thus strengthening of institutional capacity (intensity equals 3.6) is specifically referred to in the project documents. Capacity development mostly refers to the ministries' capacity to manage the planning, design and implementation of future infrastructure projects. The intensity of the descriptor is particularly evident in the fact that institutional strengthening activities are financed through corresponding project budgets. Thus institutional strengthening mostly refers to increasing the Government's capacity to manage and implement further infrastructure projects. Capacity building activities are predominantly carried out with project implementation units (PIUs) operating under respective ministries.

Stimulation of Trade

Most rural areas lack basic infrastructure in Armenia. This creates a major obstacle for the development of regional trade (intensity equals 4.3). Agriculture is acknowledged to be the main driving force of the country's economy. Thus infrastructure projects are aimed at providing

access to all-season roads to rural Armenia for promoting agricultural trade. The calculated intensity of the ‘creation of regional trade roots’ showed that it is given much attention when considering the long-term objectives of project implementation.

Expanding trade beyond the region (intensity equals 3.9) is a necessary criterion for trade facilitation. Connecting local production to markets remains paramount in reducing rural poverty as mentioned in the project document. The rural population has restricted connection to markets because of the poor condition of rural roads. Substantial crop is lost because of the farmers’ inability to get it to the market on time and in acceptable condition. Thus trade is not adequately accessible to communities in rural areas, which hinders the growth of agricultural production. One of the rationales of implementing infrastructure projects is to provide all-season road access to rural communities.

The project documents showed that Armenia being a ‘landlocked’ country has an economy that heavily relies on the creation of cross-border access to trade. The closed borders cause substantial increase in costs for international trade, thus also causing a weak trucking industry and diminished role of railways. In order to increase the GDP, the country has to seek access by improving its infrastructure. Thus some of the project documents, particularly those that are road construction projects emphasize the importance of creating opportunities to increase access to international markets (the intensity equals 2.8). This intensity of the descriptor has been scored on the basis of statements, such as “*acquiring access to international markets will create an efficient and competitive transport system thus supporting the economic growth and enhancing international economic cooperation.*”

Stimulation of Social Development

Enhancing social capital through better access to quality services, especially healthcare and education, is widely emphasized throughout the project documents. The roads constructed are considered to be access roads to healthcare facilities and educational institutions for the rural population. Those are the social outcomes that infrastructure projects aim at achieving. As mentioned in one of the project documents, the efforts of the international development institutions and the government of Armenia has resulted in improved access to social services for the population. The decline of access to quality healthcare, or safe drinking water for example, has serious negative impacts and results in deteriorated public health. The socially vulnerable are particularly affected by the lack of access to quality healthcare and education. Public health safety and security are among the major factors taken into consideration by the Government in the assessment of the social impact of infrastructure projects.

FINDINGS FROM IN-DEPTH INTERVIEWS AND DOCUMENTS

The findings from in-depth interviews and content analysis of project documents are analyzed using cross tabulation. The below table establishes relationships between the findings from the in-depth interviews and documents. As the intensity of the descriptors was measured using the same measurements and scoring approach in both cases (not taking into consideration that for in-depth interviews the tone and the gestures of the interviewee were also incorporated into the measurement scale) the relationship between the two data sets is established by comparing the intensities of the descriptors, respectively.

Descriptor	In-depth Interviews	Project Documents
Creation of new jobs	5	4.2
Contributing to a business-friendly environment	4.2	2.6
Growing the private sector	4.2	2.4
Institutional Capacity Building	3.6	3.4
Creating regional trade routes	4.3	3.2
Expanding trade beyond the region	3.9	3.1
Increasing access to external markets	2.8	3.1
Access to quality healthcare	4.5	2.2
Access to education	4.7	2.4

The table shows that as in the in-depth interviews creation of jobs was also given utmost importance in the project documents. It can be derived that the most tangible outcome from infrastructure projects is the creation of new employment opportunities both during and after project implementation.

Although contribution to a business-friendly environment was particularly emphasized throughout the interviews, the documents make little reference to the significance of the descriptor in infrastructure projects. Similarly, contributing to the growth of the private sector is given less importance in the project documents.

Institutional capacity building was given almost the same significance in both project documents and interviews. The analysis of data from both data sources shows that it is important for the government to strengthen its ability in managing and implementing infrastructure projects. Whereas the interviews concentrate on gaps in the capacity of the government, particularly the lack of aid absorption capacity and inadequacy in project design development

resulting in inefficient public spending, the documents concentrate on the lack of procurement skills of the responsible ministries.

Creating regional trade routes is given more importance in the interviews, where regional trade is given particular importance in the development agenda. The project documents give almost the same weight to stimulating regional or beyond-region trade and creating access to external markets.

Almost all in-depth interviews referred to the importance of creating access to social services for the development of the country. However, the same significance was not given to this category in the documents, which can be explained by the fact that project documents refer to specific project needs that might not include creation of access to education or healthcare.

Thus it can be argued that the analysis of both in-depth interviews and project documents showed that creating employment opportunities and strengthening the institutional capacity of the government are at the core of the development agenda of infrastructure projects. The importance attached to the sustainability of such projects ensues from the projects' importance in stimulating trade expansion and contributing to the social development of the country by way of improved access to healthcare and education.

From the analysis of both in-depth interviews and project documents it can be inferred that the angle of approach to the infrastructure differs among donors. Different donors give different levels of ownership to the Government and assume different degrees of oversight themselves. At the same time the donors' understanding of the project priorities and objectives differs due to the role they attach to their contribution to the project within the context of project implementation.

All the interviewees mentioned that it is the Government's respective departments and experts that set the project priorities. Further, that the Government has no clear methodology or strategy in setting country priorities. It is difficult to determine whether the investments are sound as there are sometimes no clear criteria for computing the costs and benefits of the projects under consideration. Furthermore, the project design, which is prepared by the Government's respective department or unit and approved by the donor organization, might contain miscalculations that may subsequently require additional funding for completion or, conversely, they may have surplus funds that are used for other purposes.

The findings also revealed that the maintenance capacities of the Government are not given adequate consideration while making project decisions. Some documents make clear reference to the Government's obligation to allocate some amount from the project budget to maintenance in the outyears. However, it is not clear how maintenance budgets of projects are calculated and whether or not they truly address budgetary requirements in future years. The in-depth interviews showed that the money mentioned in the project documents to cover the project maintenance costs is most often not enough to do proper maintenance. Thus there is a serious threat to the sustainability of projects because of overlooking the importance of implementing maintenance schedules by both Government and donor organizations.

Public infrastructure development is carried out either with the help of foreign assistance in particular development loans or with the help of private-public partnership (PPP) if not with state budgetary resources. The Government of Armenia is completely dependent on foreign development assistance to implement infrastructure projects. As was revealed by the interviewees, the Government does not take any serious action toward establishing PPPs for infrastructure projects firstly because such implementation is more difficult in terms of attracting

the public sector, and secondly because the public sector is not sufficiently developed and ready for public infrastructure projects (both design and implementation).

CONCLUSION

From the triangulation of data sources, the in-depth interviews and project document analysis, the following can be inferred. Infrastructure projects are crucial for the development of the country. These kinds of investments lay ground for the further development in Armenia. They also contain elements that achieve development priorities, such as creation of new jobs; and contributing to trade and institutional capacity building.

The decision-making process is one of the most important elements that impacts whether or not the project will be adopted and the bases taken into consideration for the development of the country. That is why project decisions should rely on policy analyses that use strong arguments in favor of the most critical aspects of development for both sides. However, what was derived from this research is that infrastructure project decisions may not always be based on the recipient country's needs and priorities, but more on the estimated values of outcomes as projected by the recipient government and approved by the donors on condition that the project coincides with their political interests. In that process, the absorption capacity of the Government is often overlooked by the donors. Most often, this causes aid allocation bias by the donor, as both the Government and the donors target the projects that are the most visible in terms of their results in the short run and do not take into consideration project sustainability issues.

Conditionalities attached to ODA are believed to have a positive impact on reforms realized by the Government. In the case of developing countries, such as Armenia, these are

mostly meant to strengthen the institutional capacity of government in terms of adopting a more transparent and accountable government and progress toward democratic principles.

Taking these factors into consideration and reflecting on the theory derived from the literature review it can be argued that foreign aid decision-making is most often motivated by donor interests. Thus the hypothesis that mostly political considerations drive foreign assistance decisions to infrastructure projects in Armenia is partially accepted.

APPENDIX — INTERVIEW QUESTIONS

1. Why could infrastructure be a priority in the sectoral distribution of foreign assistance to Armenia?
2. Among the infrastructure projects in consideration on what bases is the selection done?
3. What is the nature of interventions (if any) by the donor organization during the project implementation process?
4. What kinds of assistance do infrastructure projects in Armenia lack the most?
5. What impact would the termination of aid have on the implementation of infrastructure projects in Armenia?
6. Does the donor organization play any role in the formation of public-private partnership for infrastructure projects?
7. How are regional disparities tackled when deciding which infrastructure projects to finance?

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