

American University of Armenia  
Political Science and International Affairs Program

# United States Development assistance to Armenia from 2004 through 2014

Student: Mariana Javakhyan

Supervisor: Dr. Arpie Balian

Master's Essay in partial fulfillment of the requirements for the degree of Master of Arts in  
Political Science and International Affairs

Yerevan 2015

UNITED STATES DEVELOPMENT ASSISTANCE TO  
ARMENIA: 2004 THROUGH 2014

---

## **ACKNOWLEDGMENTS**

First and foremost I would like to express my gratitude to my Master's Thesis supervisor dear Dr. Arpie G. Balian. I'm thankful to Dr. Balian for her enthusiasm, encouragement and compassionate attitude towards this research study. I was lucky to have a supervisor who gave me not only valuable knowledge, research skills and experience, but also thought to fight for achieving success without giving up. Our mutual work made a huge contribution to my future career development.

I would also like to acknowledge with appreciation the American University of Armenia and especially the professors of Political Science and International Affairs.

I am grateful to my family and friends for their patience and support to overcome each difficulty, while writing my Master's essay.

Also, I would like to thank the experts who were willing dedicated their time for answering the questions.

## TABLE OF CONTENTS

Chapter I — Introduction.....	7
Understanding Foreign Development Aid .....	7
Chapter II — Literature Review .....	10
Donor Motives in Providing Development Assistance .....	10
Drawbacks in Aid Allocation.....	12
Donor Conditionalities .....	13
Considerations of Recipient State Capacity .....	14
The Negative Impact of Aid.....	16
Chapter III — Research Questions and Methodology .....	19
Objectives of the research and research methodology .....	19
Hypotheses .....	20
Research Design and Data Collection Strategy.....	20
Limitations of the study.....	23
Chapter IV — Data Analysis .....	24
Document analysis .....	25
Interpretation of Content Analysis .....	26
Competitiveness.....	26
Improved social protection .....	28
Primary Healthcare .....	29
Health and Human services .....	30
Rule of Law .....	31
Good Governance .....	32
Participatory Policymaking .....	33
Strengthening civil society .....	35
Decentralization.....	36
Corruption.....	37
Content Analysis of Interviews .....	37
Reasons for decreased funding .....	41

Chapter V — Conclusions and Recommendations for Future Research.....	44
Recommendations for Future Research .....	46
Bibliography .....	47
Annex 1 — Questions Used in Interviews with Experts .....	50

## LIST OF ACRONYMS USED

<b>AAA</b>	American Assembly of Armenia
<b>ANCA</b>	American National Committee of America
<b>EDMC</b>	Enterprise Development and Market Competitiveness
<b>ESRI</b>	Enterprise Development and Market Competitiveness project
<b>CAPS</b>	Competitive Armenian Private Sector
<b>GOAM</b>	Government of Armenia
<b>GNI</b>	Gross National Income
<b>GCR</b>	Global Competitiveness Rankings
<b>MSME</b>	Micro, small, and medium-size enterprises
<b>FY</b>	Fiscal Year
<b>USG</b>	United States Government
<b>USAID</b>	United States Agency for International Development
<b>USATF</b>	United States Armenia Joint Economic Task Force

# UNITED STATES DEVELOPMENT ASSISTANCE TO ARMENIA: 2004 THROUGH 2014

---

## CHAPTER I—INTRODUCTION

### UNDERSTANDING FOREIGN DEVELOPMENT AID

There are numerous forms of aid used by international donors, from humanitarian emergency assistance, to food aid, monetary or technical assistance, etc. all of which are determined through bilateral negotiations between donor and receiving countries. In most cases, developed nations aim at providing assistance to poor and developing countries. Development theories have shown that the intent of assistance is mostly based on post-Washington Consensus aid components related to good governance. The fundamental driver is that monetary or other forms of aid reach the target destination and contribute to alleviation of poverty or contribute to advancing developing nations. Thus, aid usually comes in the form of physical goods, capacity building through training in technical skills, and financial grants aimed at helping the underprivileged get the resources necessary for starting micro, small, and medium-size businesses (MSME).

In 1970, the rich countries of the world made an agreement to allocate 0.7% of their Gross National Income (GNI) to international development assistance every year. Since then, billions have been spent each year but, in most cases, intended targets have not been achieved. Further, in spite of the established percentage of aid, many do not actually deliver such aid. For example, despite the fact that the U.S. is the largest contributor in international

development aid, it is the lowest in terms of meeting the stated 0.7% target.<sup>1</sup> In most cases, this underperformance is related to other domestic issues of the donor countries and the strategic significance of international aid versus local programs.

As part of the above definition of international development aid, trade is regarded as an important part of development assistance by many nations and is, therefore, promoted by many. But in terms of helping countries develop at a faster speed, international aid is most widely criticized by the community of scholars and development practitioners. Discussing foreign aid from the perspective of development assistance to poor and developing nations, scholars generally look to appraise its value-added to the receiving countries, particularly with reference to its impact on development. Others treat development aid as a component of foreign assistance that directly contributes to human welfare, in general, and the development of poor countries.<sup>2</sup>

There is an ongoing debate as to the underlying, often covert purpose of humanitarian or development assistance. Many authors argue that foreign development assistance is often led by dual goals, both humanitarian and political. Much along those lines, the United States has been providing development assistance to Armenia since its independence, since the opening of the U.S. Mission in Armenia in 1992. The two countries have successively signed bilateral agreements on the provision of mostly humanitarian assistance in the early years, moving to technical assistance in many areas of development in the recent decade or more.

This essay investigates the changes in U.S. development assistance to Armenia from 1992-2004 and from 2004-2014. The primary questions raised in this study is whether U.S. assistance to Armenia is driven by political considerations or purely by economic

---

<sup>1</sup> United States Agency for International Development, *What We Do* (United States Agency for International Development, Undated), <http://www.usaid.gov/what-we-do>.

<sup>2</sup> Roger C. Riddell, *Does Foreign Aid Really Work?* (Oxford University Press, 2007).



considerations; further, the study analyzes the conditionalities imposed by the U.S. on Armenia as the aid-recipient country.

There is a generally accepted notion that the focus of U.S. development assistance has changed in the period under examination. In 1992-1998 U.S. Aid focused on humanitarian aid, emphasizing food, fuel, medicine and clothing to help Armenia cope with post-earthquake, post-war, and the post-Soviet economic collapse. In 1998-2005 the focus changed to providing technical assistance in the form of programs aimed at building local capacity. In 2005-2012, USAID there was a change in United States development assistance. There was a shift from direct assistance to development initiatives which have a goal of improving Armenia's economic capacities, as well as strengthening good governance.<sup>3</sup>

---

<sup>3</sup> United States Agency for International Development, *USAID History/Armenia. Undated*, <http://www.usaid.gov/history-07>.

## CHAPTER II — LITERATURE REVIEW

### DONOR MOTIVES IN PROVIDING DEVELOPMENT ASSISTANCE

While aid in the 1960s focused more on development, recently it has increasingly reflected strategic considerations of donor countries. Prior to WWI, U.S. government-sponsored foreign aid was almost non-existent or trivial. The United States did not intervene in the development of other nations nor did it provide assistance until after World War II, when it began to provide aid abroad, largely intended to assist Europe in post-wartime reconstruction efforts. U.S. aid, which on the surface appeared to be focused on helping European nations get out of misery, aimed at improving its own economy by way of creating new markets for U.S. businesses and increasing domestic production.

Parallel to the domestic intent, this U.S. assistance program also concentrated on “diminishing the threat of communism by helping countries prosper under capitalism.”<sup>4</sup> Decades later, this strategic driver of international development assistance by the U.S. took a dramatic turn. Thus, after the cold war ended (or appeared to have ended), Western countries were more focused on providing humanitarian assistance driven more on strategic considerations of politics and economy.<sup>5</sup> These dual considerations — humanitarian and strategic — continue to exist in the agency’s foreign aid to “develop partnerships with

---

<sup>4</sup> United States Agency for International Development, *USAID History*, Undated, <http://www.usaid.gov/who-we-are/usaaid-history>.

<sup>5</sup> Mark McGillivray, *Modelling Aid Allocation: Issues, Approaches and Results* (Wider Discussion Papers // World Institute for Development Economics (UNU-Wider), 2003), <http://www.econstor.eu/handle/10419/52825>.

countries committed to enabling the private sector investment that is the basis of sustained economic growth to open new markets for American goods.”<sup>6</sup>

Other nations have changed their donor behavior in accordance to their specific situation and changing environments. According to Mckinley and Little,<sup>7</sup> Dudley and Montmarquette,<sup>8</sup> Hindley,<sup>9</sup> Ali,<sup>10</sup> and Morgenthau<sup>11</sup> aid by developed nations to poor countries has become a common phenomenon and an integral part of foreign policy for many. As such, development assistance is not provided merely by consideration of the developmental needs of recipient countries. In most cases, foreign aid is aimed at meeting a strategic or other objective that the donor nation wants to satisfy. In that context, foreign aid serves as a tool for achieving political benefits.<sup>12</sup> Thus, as many developing nations started on their development path in the postcolonial era, former colonial powers tried to mitigate this process by providing resources in the form of foreign aid. This incentive was widely spread in foreign aid flows throughout the 1960s. However political and strategic interests have continued to be relevant in decision making in this regard.<sup>13</sup>

In contrast, some authors argue that the decision to provide foreign aid is driven as much by political and strategic considerations of donor nations, as by the economic needs and

---

<sup>6</sup> United States Agency for International Development, *What We Do*.

<sup>7</sup> R. D. Mckinley and R. Little, “The U.S. Aid Relationship: A Test of the Recipient Need and the Donor Interest Models\*,” *Political Studies* 27, no. 2 (June 1, 1979): 236–50.

<sup>8</sup> Dudley and Montmarquette, “A Model of the Supply of Bilateral Foreign Aid.”

<sup>9</sup> Hindley, “Foreign Aid to Indonesia and Its Political Implications.”

<sup>10</sup> Ali, “Aid for Development or Foreign Policy.”

<sup>11</sup> Morgenthau, “A Political Theory of Foreign Aid.”

<sup>12</sup> Ibid.

<sup>13</sup> Subhayu Bandyopadhyay and E. Katarina Vermann, “Donor Motives for Foreign Aid,” *Federal Reserve Bank of St. Louis Review* Vol. 95, No. 4, no. July/August 2013 (September 6, 2013), <http://research.stlouisfed.org/publications/review/article/9916>.

policy performance of recipient countries. Alesina and Dollar<sup>14</sup> and Hindley<sup>15</sup> argue that the recipient country's per capita GDP is an important factor in the decision of providing foreign aid. Maizels and Nissanke elaborate that there was a change in aid policies after 1970s when greater emphasis was placed on donor interest, in contrast to the earlier emphasis on recipient needs.<sup>16</sup>

Thus donors often use foreign aid as a tool of fostering trade relations with the recipient country. For example, aid to a developing nation is often used for buying goods exported from the donor nation. Moreover, larger amounts of aid are allocated to those countries that import capital goods, as imports in other category groups have no significant effect.<sup>17</sup> However donor motives differ from country to country. In the case of the United States, the main motive is not commercial self-interest, but political motives.<sup>18</sup>

## **DRAWBACKS IN AID ALLOCATION**

Nowadays, in most cases, aid is aimed at promoting growth. Thus, aid agencies give preference to those countries that can use it better.<sup>19</sup> Despite the good intent by donor country, foreign aid or (development assistance) is often considered as being too much, or used by corrupt recipient governments. In reality, both the quantity and quality of aid have been poor in many cases and donor nations have not been held accountable for the funds they have received. Furthermore, aid has often come with a price of its own for developing nations. In

---

<sup>14</sup> Alberto Alesina and David Dollar, "Who Gives Foreign Aid to Whom and Why?," *Journal of Economic Growth* 5, no. 1 (March 1, 2000): 33–63.

<sup>15</sup> Hindley, "Foreign Aid to Indonesia and Its Political Implications."

<sup>16</sup> Alfred Maizels and Machiko K. Nissanke, "Motivations for Aid to Developing Countries," *World Development* 12, no. 9 (September 1984): 879–900.

<sup>17</sup> Bandyopadhyay and Vermann, "Donor Motives for Foreign Aid."

<sup>18</sup> Jean-Claude Berthélemy, "Bilateral Donors' Interest vs. Recipients' Development Motives in Aid Allocation: Do All Donors Behave the Same?," *Review of Development Economics* 10, no. 2 (May 1, 2006): 179–94.

<sup>19</sup> McGillivray, *Modelling Aid Allocation. Issues, Approaches and Results*.

some cases, aid was wasted because of donor-imposed conditions related to acquiring overpriced goods and services from the donor country.

Also, considering the importance of strategic and political considerations by donor nations, most aid has not been necessarily allocated to the poorest that needed it the most. Aid amounts were dwarfed by rich country protectionism that denies market access for poor country products, while rich nations used aid as a lever to open poor country markets to their own products. Even if aid were provided in large quantities and on fair grounds, it has often not made a crucial difference to the overall development of the recipient nation. Other factors, some uncertain and unpredictable, have come to influence such development performance.<sup>20</sup>

Yet in other cases, foreign aid programs were often unsuccessful because they were not well targeted. For instance, the U.S. appears to favor democracies, but seems to pay no attention to the quality of governance in the receiving country. Moreover, Alesina et al. argue that private flows of funding often favor more corrupt governments.<sup>21</sup>

## **DONOR CONDITIONALITIES**

In principle, conditionalities by donor nations could partly solve problems associated with inappropriate use of aid and weaknesses in managing development assistance. This would require strong oversight and monitoring by the donor government to make sure that conditionalities are met.<sup>22</sup> In recipient states where leadership is more autocratic and unchallenged by any position (which is often inexistent), the ruling government steers

---

<sup>20</sup> Riddell, *Does Foreign Aid Really Work?*.

<sup>21</sup> Alberto Alesina and Beatrice Weder, *Do Corrupt Governments Receive Less Foreign Aid?*, Working Paper (National Bureau of Economic Research, May 1999), <http://www.nber.org/papers/w7108>.

<sup>22</sup> Jakob Svensson, "When Is Foreign Aid Policy Credible? Aid Dependence and Conditionality," *Journal of Development Economics* 61, no. 1 (February 2000): 61–84.

incoming assistance in the direction they wish, without necessarily meeting the conditionalities (often related to good governance). Thus, conditional aid has limited impact in countries where the leadership is not the least developmentally inclined and open to examining policy alternatives for improved impact.

According to the World Bank study on *Assessing Aid: What Works, What Doesn't, and Why*,<sup>23</sup> countries with able leadership and administrative strength have a better chance to becoming eligible for foreign aid. Such countries are those that have institutionalized policies related to governance. Moreover, in such countries some part of the aid received is aimed at addressing corruption, together with related macroeconomic policies that facilitate the fight against corruption. Countries that have weaker capacity are more or less left out from being considered for foreign aid.

## **CONSIDERATIONS OF RECIPIENT STATE CAPACITY**

According to the U.S. Agency for International Development (USAID), there are two dimensions of state fragility that donors seek to address: lack of political will and weak development capacity. State failure may reflect the unwillingness of a government to commit itself to policies of inclusion and human welfare, and to ensuring that available resources are utilized for productive purposes.

Where a regime is undemocratic and unrepresentative, its leadership is less likely to pursue a development agenda. Capacity determines effectiveness: in administration and service delivery, in the maintenance of order and security and in economic and resource

---

<sup>23</sup> World Bank, *Assessing Aid: What Works, What Doesn't, and Why*, World Bank Policy Research Report (World Bank, 1998).

management. Both will and capacity are important for effectiveness in the utilization of aid and for the quality of the relationship between recipients and donors.<sup>24</sup>

State leadership and governance capacity have also played a critical role in the effective use of development assistance, particularly in younger, institutionally unstructured states. Indeed, the disposition of the ruling elite, particularly the head of government, can play a major role in the fair and balanced use of development assistance. While the opposite is also true, strong leaders can initiate policies or influence the reform process, laying down norms of procedure and execution. This emphasizes the increasing role of institutions in the effective use and delivery of development aid. This is how the post-Washington consensus has put the major concentration of given aid on institutions. Moreover, the sector-wide approaches and PRSPs were prioritized.<sup>25</sup>

Browne,<sup>26</sup> and Alesina, Alberto, and Beatrice Weder<sup>27</sup> discuss the role of corruption in aid allocation. Corruption hinders the institutional capacity and aid effectiveness leading to misuse of aid. These two factors have been highlighted as significant impediments to the effective utilization of aid funds, considering that their adverse impact spreads well beyond the immediate interventions, exacerbating institutional dysfunction and further distorting the market.

While Brautigam and Knack<sup>28</sup> claim that the aid received can improve the quality of civil service, strengthening the state policy and planning capacity, and establishing strong central institutions (using the example of the East Asian region, South Korea and Taiwan),

---

<sup>24</sup> U.S. Agency for International Development, *Fragile States Strategy*, January 2005, [http://pdf.usaid.gov/pdf\\_docs/PDACA999.pdf](http://pdf.usaid.gov/pdf_docs/PDACA999.pdf).

<sup>25</sup> Stephen Browne, *Aid and Influence: Do Donors Help Or Hinder?* (Routledge, 2006).

<sup>26</sup> Ibid.

<sup>27</sup> Alesina and Weder, *Do Corrupt Governments Receive Less Foreign Aid?*.

<sup>28</sup> Deborah A. Bräutigam and Stephen Knack, "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa," *Economic Development and Cultural Change* 52, no. 2 (January 1, 2004): 255–85.

but it may also have a negative impact on accountability. States that receive large amounts of aid do not pay so much attention to improving their state capacities and accountability, because whether the government is effective or not the flow of funds remains high. Considering that government efficacy has little impact on the inflow of funds, the stimuli to increase state capacities are low. Thus, given that state revenues are not dependent on taxes collected from citizens and businesses, government feels less obligated to be accountable to its citizens.<sup>29</sup>

## **THE NEGATIVE IMPACT OF AID**

Aside from the above, large amounts of aid may have a negative impact on institutions from different perspectives as well. It may diminish the capacities of state institutions, rather than strengthening them. Firstly, the allocation of aid has high transaction costs. Secondly, the fact that aid may be derived from multiple donors who sponsor various projects and have different agendas influences the receiving state's institutional effectiveness negatively. Moreover, different donors put different conditionalities which in many cases may contradict one another. Thirdly and less directly, the large amount of aid may trigger collective action. For instance, if there are demands for reform, the political leadership will not try to cooperate and sacrifice their own interests for the sake of a given reform. That is why many cases of reform patronage end up in the misuse of aid.<sup>30</sup>

Knack (2004)<sup>31</sup> also discusses the use of foreign aid in democratization processes, which contributes to the strengthening of state institutions in different ways. In terms of technical assistance, aid could focus on electoral processes. Thus, technical assistance from donors

---

<sup>29</sup> Bräutigam and Knack, "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa."

<sup>30</sup> Ibid.

<sup>31</sup> Stephen Knack, "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48, no. 1 (March 2004): 251–66.



may improve the legislature and judiciary. Consequently, the quality of executive power will be improved, with the institution of checks and balances. Many countries allocate large amount of aid to civil society organizations, which are considered to be a cornerstone of democracy building.

In the 1980s and 1990s, donor requirements have changed from being mostly related to economic issues to political considerations, thus expanding the scope of conditionalities to include social and governmental restructuring. For instance, according to Santiso<sup>32</sup> since the 1980s World Bank conditionalities were aimed at mainly promoting good governance. The author argues that although conditionalities tend to be directed to making improvements in governance, strong commitment by the recipient country is needed. In many cases the conditionalities have failed in achieving such reform because of the lack of commitment by the recipient state. Moreover, the willingness of the recipient country to make reforms is important for aid effectiveness. Kahler 1992 shows a positive relationship between government commitment to reform and program implementation. According to his study of programs that had strong government commitment, the implementation of reforms has succeeded, while in cases of low government commitment, the programs have failed.<sup>33</sup>

However, there are also concerns that the conditionalities may have negative impact on the recipient government making them more aid-dependent. Also, if the government initially does not have good institutions the aid received cannot influence the promotion of democratic principles and institutions in that country.<sup>34</sup>

---

<sup>32</sup> Sanstiso, Carlos "Good Governance and Aid Effectiveness: The World Bank and Conditionality" *The Georgetown Public Policy Review Volume 7 Number 1 Fall 2001*, pp.1-22.

<sup>33</sup> Kahler, M., 1992: "External influence, conditionality, and the politics of adjustment", *The Politics of Economic Adjustment* Princeton: Princeton University Press.

<sup>34</sup> Stephen Knack, "Aid Dependence and the Quality of Governance: Cross-Country Empirical Tests," *Southern Economic Journal* 68, no. 2 (October 1, 2001): 310–29.



## **CHAPTER III—RESEARCH QUESTIONS AND METHODOLOGY**

### **OBJECTIVES OF THE RESEARCH AND RESEARCH METHODOLOGY**

It is known that Armenia is a recipient of United States development assistance since its independence. During the first decade since independence, Armenia received mostly humanitarian assistance from the U.S. government; subsequently, economic and political objectives changed the focus of development assistance to different areas.

This essay aims at understanding U.S. considerations in providing aid to Armenia and the priorities of Armenia in terms of areas where there are gaps requiring technical and financial aid. Such analysis provides an opportunity to examine and understand how the political and economic changes influence international aid allotments and their use.

More specifically, this essay defines and analyzes the U.S. strategic considerations with respect to aid for Armenia from 2004-2014. The main strategic goals in the above mentioned decades are examined. The essay investigates changes in the U.S. strategy with respect to Armenia together with gaining a better understanding of the underlying conditional ties with respect to issues of governance.

The research questions derived from the objectives of this research study are the following:

- What are the most essential considerations that drive U.S. government aid to Armenia?
- How do changes in U.S. strategy and development priorities affect funding levels?
- How do the advances made by Armenia in the democratization process affect U.S. government funding?

- How are U.S. government strategies reflected in the aid package or expressed in terms of conditionalities?

## **HYPOTHESES**

The following hypotheses were developed to answer the research questions.

H<sub>1</sub>: U.S. funding levels are directly related to Armenia's progress in good governance.

H<sub>0</sub>: U.S. funding levels are not directly related to Armenia's progress in good governance.

H<sub>2</sub>: U.S. funding strategies and assistance levels consider Armenia's progress in respective specific areas of development.

H<sub>0</sub>: U.S. funding strategies and assistance levels do not consider Armenia's progress in respective specific areas of development.

H<sub>3</sub>: U.S. funding strategies and assistance levels consider other U.S. priorities elsewhere in the world.

H<sub>0</sub>: U.S. funding strategies and levels do not consider other U.S. priorities elsewhere in the world.

## **RESEARCH DESIGN AND DATA COLLECTION STRATEGY**

In order to answer the research questions, a qualitative research design was used. The selected research design is most appropriate for the research questions considering that qualitative data allow a deeper understanding of the context and activities related to the research questions. For topics that are more complex and not overtly obvious, content and discourse analysis allows assessment of the circumstances surrounding issues.

In the qualitative phase of the research three USAID-Armenia Country Development Cooperation Strategy documents, plus USAID reports and evaluations were included in the sample of the study. These documents included:

- USAID/Armenia Strategy for 2004-2008
- Country Assistance Strategy Armenia 2009-2013
- Country Development Cooperation Strategy FY 2013-2017
- Evaluation of the competitiveness of the Armenia private sector project (CAPS)(September 2010)
- Performance evaluation of the energy security and Regional Integration (ESRI) project(January 2013)

Considering that country development strategies are developed for a period of five years, the above listed three country development strategies adequately cover the period from to 2004 to 2014 — the period targeted for the current study. Through content analysis of the above listed documents, the study explains how political considerations and strategy priorities affect funding levels. The classification or coding of the reviewed text (as listed earlier) was based on descriptors developed from mapping the concept. Each descriptor was measured by its corresponding frequency and strength as it appeared in the analyzed text.

The qualitative phase also included discourse analysis of speeches of U.S. ambassadors to Armenia. For this study, speeches referencing U.S. government assistance to Armenia were included. They are:

<i>Date of Speech</i>	<i>Speaker</i>	<i>Title of Speech of Occasion</i>
06.06.2009	US ambassador to Armenia	Interview on meeting with diaspora
21.07.2009	US ambassador to Armenia	Meeting with diaspora at the library of Congress
04.03.2012	US ambassador to Armenia	Ambassador's video blog/Diaspora trip
11.04.2012	US ambassador to Armenia	Ambassador's video blog/Assistance to Armenia
16.11.2012	US ambassador to Armenia	Ambassador's video blog/ US Armenian Joint Economic Task Force
18.07.2013	USAID Mission Director	Interview on US development assistance to Armenia

Discourse analysis of the above listed speeches helped fill the gaps in data gathered from the content analysis completed earlier. It also helped better understand how the U.S. government decisions are made and the underlying political considerations.

This study also used in-depth interviews to supplement the qualitative data collection and to gather other information that may not have been included in the earlier documents or video clips analyzed. The Interviews were conducted with both entities: the receiver of U.S. development assistance, with representatives of the Government of the Republic of Armenia; and the provider of assistance, with representatives of the U.S. Mission in Armenia. The selection of interviewees was based on their direct involvement in bilateral country strategy meetings, thus people who are well versed in the strategies that guide development. The representatives of ANCA and AAA were also included in the sample of people interviewed, considering that both ANCA and AAA work with the U.S. Congress on issues related to the extent, areas of priority, and amounts of development allocations to Armenia.

The people interviewed included the following:

<i>Date of Interview</i>	<i>Title of the Person Interviewed</i>	<i>Name of the Entity that the Interviewee Represents</i>
28.03.2015	Vice Premier Minister, Minister of International economic integration and reform	Government of the Republic of Armenia
02.04.2015	Ministry of Economy	Head of Department of Economic development policy
04.04.2015	Executive Director	Armenian National Committee of America(ANCA)
08.04.2015	USAID office in Yerevan	Governance sector's specialist
08.04.2015	USAID office in Yerevan	Decentralization program specialist
09.04.2015	Office of the president of RA	Assistant to the First Deputy Chief of Staff
09.04.2015	Executive Director	American Assembly of Armenia(AAA)
10.04.2015	US embassy in Yerevan	Head of Political and Economic department
10.04.2015	US embassy in Yerevan	Political and program assistant

The data on budget allotments to Armenia from 2004 to 2014 was obtained from the USAID/Armenia office. The data shows the extent to which U.S. budget allotments to Armenia have increased or decreased during the last decades

### **LIMITATIONS OF THE STUDY**

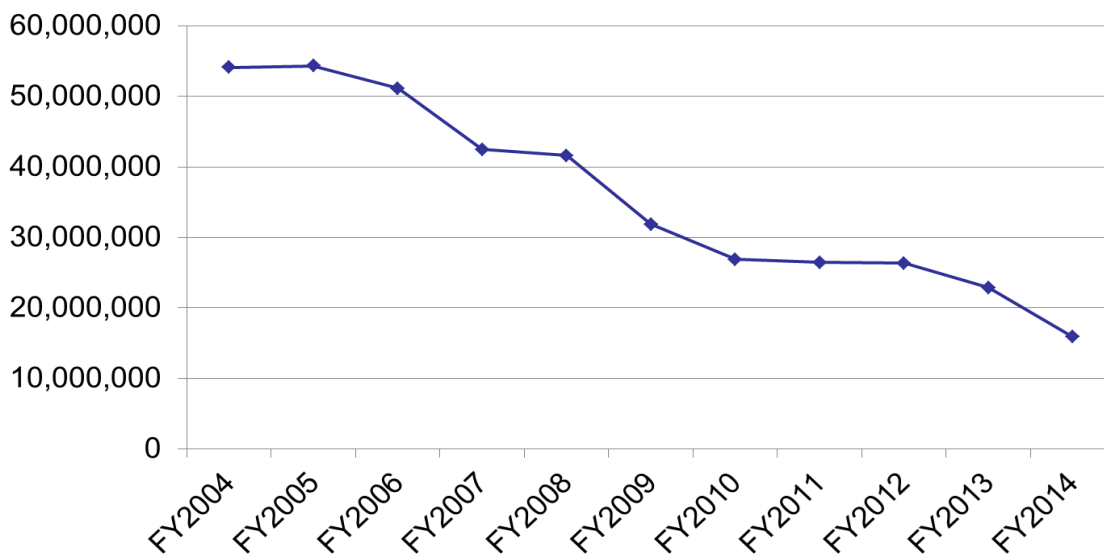
The limitations of the study include the absence or unavailability of unclassified data on budget allocations specified by sector. This limited the researcher's capacity to perform a more detailed analysis of the information showing shifts in strategy and decreased funding applicable to each separate sector.

## CHAPTER IV — DATA ANALYSIS

The graph below represents the budget appropriations to the Republic of Armenia from FY2004 through FY 2014. As stated earlier, the data was provided by the USAID Armenia mission. It is to be noted that budget appropriations have decreased dramatically during the last decade. The highest amount of budget allocated to the Republic of Armenia during the mentioned time period was in FY 2004-2005, US \$54 million (although the total U.S. government funding in that period and in earlier fiscal years exceeded US \$90 million.) As is shown in the graph, the more recent years show a sharp decrease in funding for Armenia hitting a low level of US \$15million in 2014.

Graph 1

**GRAPH 1 — U.S. FUNDING LEVELS FROM FY 2004 THROUGH FY 2014**



In order to identify the leading drivers of the changes in funding levels, the Country Development Strategies were reviewed.



## DOCUMENT ANALYSIS

The content analysis of Country Development Strategies is discussed below. For the purpose of this analysis, several descriptors were identified at start to allow measurement of the key drivers of aid. Each descriptor was measured by its frequency and strength. The frequency of descriptor shows the number of times each particular descriptor appears in the analyzed text. The strength of each descriptor found in the text was measured on a scale of 1 to 9, where 9 meant the highest importance given to that statement and 1 meant the lowest importance given to that statement, the weights between 1 and 9 were distributed such that the middle score 5 represented neutrality on the stated issue.

<b>Table 1 — Results of Content analysis of documents</b>			
N	Descriptors	Mean	
		<i>Frequency</i>	<i>Intensity</i>
	<b>Competitiveness</b>		
1	Improved trade	10.6	3.3
2	Competitive private sector	4.0	6.3
3	Energy and water resources	31.6	7.0
4	Increased Employment	11.0	4.3
	<b>Improved social protection</b>		
5	Primary healthcare	6.3	3.0
6	Health and human services	2.6	4.6
	<b>Rule of law</b>		
7	Justice sector reform	4.0	2.6
	<b>Good governance</b>		
8	Fight against / control of corruption	38.0	8.0
9	Participatory policymaking	9.3	3.3
10	Decentralization	17.6	3.6
11	Strengthening civil Society	38.6	5.6

## **INTERPRETATION OF CONTENT ANALYSIS**

### **Competitiveness**

In the 2013-2017 Country Development Strategy, competition is deemed very important and explained as an “essential element in which there is a competition of ideas and political powers within government as well as competition within the economy.” In the 2004-2008 Country Strategy, competition is translated into a number of programs, including legislative strengthening, rule-of-law, capacity building of political parties (to a limited extent and particularly to encourage women’s participation in politics), local government capacity building, and civil society strengthening.

A competitive private sector is the overarching strategic objective in U.S. country development strategy documents for Armenia (Showing an average intensity of 6.3; and an average frequency of 4.0; descriptor# 2). In the Country Development Strategy for 2004-2008, this was the leading strategy used for creating jobs and decreasing unemployment. The strategic objective was accordingly formulated in terms of “increased employment in a competitive private sector.”

While in the Country Strategy for the following period, 2009-2013, increasing the competitiveness of the private sector has taken added emphasis in terms of improving the businesses environment, so that businesses would have better access to credit, longer loan terms and competitive pricing. This shift was made considering that focusing on job creation alone was deemed insufficient for making significant improvements, as temporary or low paying jobs did not necessarily lead to development. Included under that strategy were projects such as the creation of micro, small and medium sized enterprises (MSME’s) as the principal contributor to achieving the strategic objective.

In September 2005, the Competitive Armenian Private Sector (CAPS) five year program was launched, to which USAID allocated \$14 million development assistance. The aim of the program was to assist Armenia develop its most important sectors, important in terms of their potential viability, with the specific objective of increasing employment, exports, and growing local businesses by promoting productivity, competitiveness and policy reform. Thus, the specific sectors that were identified for assistance from CAPS were information technology, pharmaceuticals, and tourism. No supporting documentation was found to determine the basis of determining the viability of these sectors for Armenia's economic growth.

What followed CAPS was the Enterprise Development and Market Competitiveness project (EDMC), launched in 2011. The aim of the project was achieving sustainable economic growth in Armenia, through supporting small and medium size enterprises (SMEs). Here the industries that received assistance were the same as those in CAPS, except for the addition of food processing. The project was initially designed for a five-year term, but it was terminated sooner in 2014, because of serious flaws in the implementation of the planned activities and the overall ineffectiveness of the interventions.

In working on the competitiveness component, energy security was deemed to play a major role. In all three strategy documents, this is accepted as an important program for reducing costs and risks of doing business in Armenia and making the country more attractive for foreign investments. (Showing an average frequency of 31.6; and an average intensity of 7.0, descriptor#3) Included under this strategic objective is the Energy Security and Regional Integration project (ESRI) awarded in the period 2009-2012. The funding of the program was U.S. \$5.9 million. This is a continuation of USAID projects aimed at supporting diversification of Armenia's energy resources including nuclear, renewable energy and international electricity trade. In line with previous project the ESRI project includes three

phases: new nuclear plant development, renewable energy development strategy and power system integration, as well as regional electricity system synchronization and future trade and market development.

In the 2008-2009 strategy sustainable economic development and country competitiveness are articulated as the priority sphere where the priorities of the U.S. and Armenia governments are congruent to each other, at least at the obvious levels of development. In 2013-2017 country development strategy it is indicated that Armenia has had successes in competitiveness, as reflect in the World Economic Forum's Global Competitiveness Rankings (GCR), increasing its ranking in 2009-2012 by 16 points (ranked 92<sup>nd</sup> out of 142 countries).<sup>35</sup>

### **Improved social protection**

In the 2004-2008 Strategy improved social protection takes on added importance and is shown under a separate strategic objective. The successes mentioned in the strategy are better legislation and more targeted interventions in this sphere. Three main directions are articulated as strategic objectives. They are:

- a. Increasing the number of social support programs for the most vulnerable;
- b. Retraining citizens who do not have jobs or are underemployed; and
- c. Creating viable, self-functioning social systems.

The above strategic objectives are directly linked to the objectives related to health and unemployment. Thus, in the 2009-2013 document there are references to social

---

<sup>35</sup> United States Agency for International Development. "Country Development Cooperation Strategy FY 2013-2017" *USAID/Armenia (August 2013)*:page 4.

protection in the context of improved health and human services. Here, emphasis is placed on strengthening the capacity of the Government of Armenia to accomplish social reform. Similarly, and with a slightly increased focus, the 2013-2017 Country development strategy, improving the social protection system is expressed as one of the four priorities necessary for the development of Armenia with USAID assistance.

### **Primary Healthcare**

In the 2004-2008 Strategy document primary healthcare (showing a frequency mean of 6.3 and intensity mean of 3.0 under descriptor#5) is a strategic objective, which is formulated in the following way “Increased Utilization of Sustainable, High-Quality Primary Healthcare Services.” The strategic objective here is the availability of an improved and sustainable high-quality primary health care. The strategy states that the assistance venue is mainly Lori, as well as vulnerable communities in other regions, with special attention to the elderly and the socially vulnerable population.

In the 2009-2013 Strategy, primary healthcare is shown under the priority goal aimed at “enhancing Armenia’s health and human services through innovative institution building to assist the Armenian people.” Primary healthcare is mentioned as a domain that will continue to receive USG assistance. The main problem stated is low public spending in this sector. The expressed ways for improving the primary health care system are assistance for policy advancement and increased share of the GDP for public health, specifically increasing from 1.2% to 2.2% of GDP by 2015. In the 2013-2017 Country Strategy, Armenia is shown as having recorded successes in providing free primary healthcare services. Also, the progress made in allowing the citizenry to choose their health provider is listed as an achievement.

## **Health and Human services**

As mentioned earlier, the health and human services sector (with a mean of 2.6 and intensity mean of 4.6) is an overarching priority goal in the 2009-2013 Strategy. This includes the fight against tuberculosis and other public health threats, as well as policies of social services, together with systems and regulations. The strategy states that despite decreased U.S. funding, ways will be explored to continue assistance with social sector programs. In reference to assistance approaches towards the social sector the tendency is to move from humanitarian to self-sustaining and capacity building assistance.

An obstacle to realizing such a shift in assistance is that the most vulnerable population continues to be in need of aid. Thus, in order to sustain the established practice of providing humanitarian assistance it was proposed that those organizations that are providing humanitarian assistance develop sustainability strategy thus avoiding sudden interruptions. According to the strategy this will encourage building the financial viability of those organizations, including NGOs and civil society groups engaged in promoting community programs. In the event of failure to achieve that, negative consequences could result in disabilities, deaths, poverty and more suffering leading to slower economic growth and further political instability.

In the 2013-2017 strategy, the health sector is presented under a separate objective entitled “Quality and utilization of selected healthcare services improved in priority areas” — which includes maternal and child health, reproductive health and multi-drug resistant tuberculosis. The reason for including the health sector under this special objective is that when it is successfully accomplished the USG would maintain its long-standing allegiance to improving the health sector in the region.

## **Rule of Law**

One of the obstacles to development articulated in the 2004-2008 Strategy is “Unequal enforcement of law”, which is directly associated with the existing issue of corruption and centralization of power. In the 2009-2013 Strategy rule of law is articulated as an important factor in fostering competition and modernization. Shortcomings in this area adversely impact economic as well as political development. Further, the 2013-2017 Strategy discusses the decline in rule of law attributed mainly to the absence of independent decision-making in the judiciary, which has reduced the effectiveness of judicial institutions. Further, the weak implementation of rather well-written laws has also contributed to the sustained issues in rule of law.

The level of importance given to the judicial system is further emphasized in the 2009-2013 Strategy, where strengthening Armenia’s institutions in this sector and structural changes are articulated under a separate goal. The desired outcomes under this goal include the increased independence of the judiciary, improvements in the justice system as a whole and an environment that upholds human rights.

In the 2009-2013 Country Strategy middle and lower level law enforcement and judicial officers are praised for being progressive and ready for change. Here USG efforts are directed toward the European convention on human rights and other international practices. Also obvious is the readiness for training assistance of Armenian law enforcement officers and high-ranking officials of the justice system, namely judges, prosecutors, defense attorneys. Despite the great importance attached to rule of law and justice, the 2013-2017 Strategy has removed attention to and funding of rule of law. This is explained by the fact that different donors have paid attention to this sector.

## **Good Governance**

For the most part, all Country Development Strategies analyzed show that constraints to Armenia's democratic development can be expressed through three inter-linked and mutually reinforcing problem areas: (a) the dominant authority of the executive branch; (b) the lack of democratic political culture in the country; and (c) corruption. All three documents specifically focus on the concentration of power in the hands of the political elite and the distinct lack of political participation.

In the 2009-2013 Country strategy, it is articulated that the U.S. and Armenian governments have instrumental differences in institutionalizing free and fair elections, human rights, and freedom of information, which serve as obstacles for closer and more constructive cooperation in achieving democracy. Such differences may be derived from the fundamental understanding of governance principles associated with democratization. Along those lines, and according to the nations transitioning to democracy of the Freedom House, democratic reform in Armenia is weak and nearly all six components related to democratization, namely civil society, governance, rule of law, electoral processes, control of corruption, independent media have recorded a decline since 2000.<sup>36</sup>

The development goals related to good governance are articulated differently in the different Country Development Strategy papers. In the 2004-2008 document, the strategic goal is articulated as "Improved democratic governance." Here, emphasis is placed on increased participation in civic life, and promoting more open and accountable government institutions. In the 2009-2013 strategy document, there is a shift in the approach to a more specific focus emphasizing "bolstering institutions that effectively promote democracy." This includes empowering Armenia's civil society, improving good governance, as well as

---

<sup>36</sup> United States Agency for International Development. "Country Assistance Strategy Armenia 2009-2013" *USAID/Armenia* (March 2009); page 7.



promoting political competition and consensus building among different parties. In addition, there is mention that the U.S. government will work on issues related to defense, military and border restructuring. Thus, reform efforts and technical assistance would focus on inculcating in the GOAM democratic principles on the use of military power.

This has changed some in the following 2013-2017 Country Development Strategy, where bolstering democratic institutions is not a separate strategic objective but is aggregated under the general development objective of creating a more participatory, effective and accountable government. Moreover, this Strategy document identifies assistance to civil society organizations with continuing attention to good governance, but incorporating change in focus compared to previous years when USAID had paid attention to more areas of good governance.

### **Participatory Policymaking**

This descriptor was scored at an average frequency of 9.3 and an average intensity of 3.3 showing that it plays an important role in strengthening democratic institutions. According to the 2004-2008 Strategy, the possible avenues for citizen participation are local governments, the National Assembly, or the legal system. The analysis of that document shows that under political participation, the document pays significant attention to the importance of strengthening government institutions in order to aptly respond to democratic processes. This descriptor is separate from citizen participation.

In the words of the U.S. government, “It is critical to view governance and civic participation as two sides of the same coin.” While referring to reforms through citizen participation, the importance of strengthening government institutions is emphasized; special reference is made to the capacity of government institutions in addressing and organizing citizen engagement in policymaking. Special mention is made of increasing political

participation through awareness and information dissemination through traditional and social media outlets, as well as through the encouragement of increased participation by non-governmental organizations and greater community involvement in addressing local problems.

A slight change in ways/approaches for achieving political participation is evident in the 2008-2013 Strategy document. The content analysis has shown that this change in strategy was driven by the prevalent political situation followed by the 2008 presidential elections. The shift was apparent in USG's preferred implementation partnership with advocacy NGOs, media, and other reform-prone officials. Moreover, in this period, USG has begun placing reduced emphasis direct technical assistance to GOAM. This action was translated to discontinuation of direct support to entities that have been chronically resistant to good-faith cooperation and moving toward partners who were prepared to move toward meaningful rather than superficial reforms. Although, the Strategy does make complimentary reference to the fact that there are potentially reform-minded/progressive officials, civil society NGOs and alternative media outlets.

In the 2013-2017 Country Development Strategy, political participation is articulated slightly differently as "Increased civil participation and oversight of reforms." The main focus here is on broadening the linkages and congruence between citizen participation and government reforms. Thus, greater importance is given to engagement of youth and women in political life. Here, added emphasis is placed on increasing civic participation in rural areas, as they are identified as target communities that could benefit the most from engagement in policymaking. Moreover, there is a shift towards making citizen participation in decision making more sustainable through the increased financial and organizational viability of civil society.

## **Strengthening civil society**

The 2004-2008 Strategy document states that in the previous years USAID was working on creating civil society, thus additional efforts will concentrate on strengthening civil society (Showing an average frequency mean of 38.6 and average intensity mean of 5.6). In all three strategies, civil society is accepted as a potential force that may bring about and sustain change. Thus, in the stated period, USAID has provided support to NGO advocacy groups and non-state media with the goal of empowering them to articulate alternative points of view on various policies and push for implementation by way of participation decision making.

The 2004-2008 Strategy clearly focuses on support and empowerment of civil society as an effective group possessing knowledgeable advocates for policy and legislative change. In this strategy civil society is one of the actors in the fight against corruption. Similarly, in the 2008-2013 Strategy there is mention of strengthening civil society further in an effort to make it stronger. There are references to augmenting their ability in providing policy advice and serving as a policy watchdog. In that context, the importance of a high level of NGO professionalism is clearly articulated and separately from improving NGO's legal and regulatory framework.

In the same Strategy another peculiarity is the changed and more emphasized role of civil society as a key player in initiating and developing political dialogue and conciliation to overcome the consequences of the 2008 presidential elections. Civil society is viewed as the best vehicle for promoting cross-border initiatives in the process of establishing peace in the region and fostering reconciliation.

The main shift in the 2013-2017 Country Development Strategy is the importance of making civil society become self-reliant and self-sufficient. Also, the increase in the capacity

of civil society organizations, namely NGOs, think tanks, research centers, as well as traditional and social media outlets is deemed very important. This will pave the way for civil society to come forth with improved skills and mechanisms for monitoring government-initiated reforms in a systematic manner.

### **Decentralization**

There is no reference to decentralization in the 2004-2008 Strategy document. In contrast, the 2009-2013 Strategy places added emphasis on decentralization, with specific reference to enhancing local government capacities especially in administrative areas. In the same document, there is mention of some progress made in drafting laws aimed at decentralization of authority to local governing bodies in 2007. This is deemed important for increasing the authority of local governments arguing that the extent of autonomy of local governments suffers because of their high dependency on state budgets.

In the 2013-2017 Country Development Strategy decentralization is shown as a separate reform area. There, discussion centers on Armenia's difficulties with realizing regional development. Decentralization is presented as an opportunity for realizing broader civic engagement. Moreover, it is argued that local government offers the better platform for making increasing competition and civic engagement. In this document emphasis is placed on advancing the abilities of municipality officials and staff. Thus, USAID assumes assistance responsibility for improving the capacity of local communities by way of assembling and directing public and private assets for local development. Thus, to enhance local political authority, the Strategy emphasizes knowledge sharing by increasing ties among local communities through information-sharing, and collaboration.

## **Corruption**

Corruption is accepted as the undermining factor in Armenia's economic, social and political reform process in all country development strategy documents (with a mean frequency of 38.0; and a mean intensity of 8.0; Descriptor #8). Among the constraints to Armenia's development corruption was identified as a cross cutting issue in 2004-2008 strategy, including *grand corruption*<sup>37</sup> and *petty administrative corruption*<sup>38</sup> are common. Moreover, the current strategy expresses dissatisfaction with the draft of the Armenian government's anti-corruption strategy. The U.S. criticism specifically refers to the partial exclusion of the significant analysis of Armenia's corruption by the World Bank and replacement by a disjointed and fragmented list of proposed legislative interventions. Among other factors serving as an obstacle for development is the insufficient law enforcement, as well as the *public pessimism and disillusionment*.

The 2009-2013 strategy paper also mentions that USG will continue to tackle corruption through each individual project. In the 2013-2017 strategy, there is some reference to the progress made by Armenia in addressing corruption, namely referring to the improved tax administration system.

## **CONTENT ANALYSIS OF INTERVIEWS**

For this analysis, several descriptors were identified at start to allow measurement of the key drivers of USG assistance. Each descriptor was measured by its intensity on a scale of 1 to 9, where 9 indicated highest strength or importance attached to the descriptor and 1 meant the lowest.

---

<sup>37</sup> Grand corruption is defined by USAID as misuse of political power at the highest level of government.

<sup>38</sup> Petty corruption as defined by USAID as misuse of political power at the lower levels of government.

<b>Table 2 — Results of Content Analysis of Interviews</b>		
<b>N</b>	<b>Descriptors</b>	<b>Mean</b>
		<i>Intensity</i>
	<b>Importance of good governance</b>	
1.	Fight against corruption	3.3
2.	Engaging civil society in policy making	6.7
3.	Effective cooperation in determining direction of assistance	8.0
4.	Conditionalities reflected in the aid package mostly worked	4.5
	<b>Reasons for decreased funding</b>	
5.	General reduction in USG development assistance levels	8.5
6.	USG foreign policy priorities elsewhere in the world	7.4
7.	The performance is connected with funding levels	2.5
8.	Shift from direct assistance to investments	6.4

According to all experts interviewed, the high level of emphasis on good governance by the U.S. government is derived from its mandate and mission, which serves as the foundation of its development activities. One of the experts distinguished between USAID assistance aimed at strengthening good governance versus assistance in the sphere of economic development, considering that the latter has more conceptual difficulties for reaching success.

One of the experts differentiated the role of civil society in good governance and pointed out that the U.S. government supports civil society in order to encourage the latter to get more involved in policymaking processes. An expert pointed out that the fact that United States pays so much attention to good governance is beneficial for Armenia, firstly from the point of view of improving democracy and secondly the positive implications and potential positive impact on the country's economic development. Further, according to another expert, good governance is the cornerstone for U.S. development assistance and a key component for achieving competitiveness.

Experts also mentioned about the difficulties in isolating the exact impact of USAID development assistance in the development advances realized in Armenia. Considering that many donors are engaged in each of the sectors and at various levels of programs directed to good governance, it becomes rather impossible to claim success by any single donor intervention. An expert also mentioned that although good governance and economic development are interrelated, USAID is more sensitive to good governance issues rather than economic development alone.

There are contradicting views among experts concerning the issue of corruption in Armenia (showing an average intensity mean of 3.3; descriptor#1). The analysis of a discourse with experts reveals only slight progress in this domain. Experts have indicated the importance of e-government for reducing corruption, reducing the human in citizen-government transactions. An expert also addressed the serious issue of corruption at the high-levels of government, while some progress has been made in reducing corruption at the lower levels. Success stories cited are the passport service and change in the business registry system. The discourse analysis completed in this study clearly shows that corruption is a major obstacle to economic growth, especially for the development of SMEs in Armenia. This would require permanent monitoring of government actions and charging violations with criminal offense. One expert also described the government actions in fighting against corruption as *artificial*.

Further, referring to good governance, experts separate the role of citizen participation in policymaking (showing an average intensity mean of 6.7). According to one of the experts the U.S. government works with civil society in a very direct and open manner. One of the experts emphasized the role of non-governmental organizations as a force that could push to realize reforms. The U.S. works using a bottom-up approach in the implementation of programs in this domain, working on raising awareness and reporting on the outcomes. Under

this component, the Armenian pension reform was brought as an example of lessons learned regarding the need to pay more attention to raising public awareness.

Citing a success story in civil society involvement in policymaking is the consortium comprising three NGOs that conduct monitoring and serve as watch dog. The main areas of concern with policymaking by the RA National Assembly are the involvement of civil society in pushing for leadership change at the level of local communities. One of the experts emphasized the importance of raising the level of education of citizens involved in decision making, arguing that the relatively low level of education may hinder the policymaking process, which results in low-quality reforms. The discourse analysis of speeches completed within the scope of the current study reveals that civil society is rather active, but there continue to be problems associated with resource and the high level of dependency on donors and low level of expertise for sustained involvement.

The majority of experts were in agreement on the importance of effective cooperation in deciding the specific direction of assistance in good governance (showing an average intensity mean of 8.0; descriptor#3). The sectors that receive assistance and are engaged in specific programs in various sectors are selected through collaboration and mutual agreement between the governments of the United States and Armenia.

However, in this regard, one expert mentioned that there have been cases where the sides did not reach consensus on assistance to several projects, which resulted in not funding the specific initiatives discussed. U.S. experts indicated that the government of Armenia listens and accepts advice, and is open to stakeholders input. This was cited as an achievement over the past and credited to creating a more open government.

Along those lines, representatives of the government of Armenia emphasized the importance of policy advice and the importance of taking advantage of such opportunities of



assistance, albeit small, keeping the bigger picture in mind. One of the experts described the cooperation between the two sides as being flexible and mostly driven by the needs of the Armenian government. The expert also clarified that economic growth assistance are, for the most part, driven by the priorities of the Armenian government in this area.

The descriptor related to those conditionalities that have mostly worked has an average of 4.5/9.0. The intensity mean is relatively lower as most of the respondents were non-committal on this statement and more inclined to take a relative negative position. Moreover, the position of experts was that the conditionalities were kept in some cases and not in others. Those conditionalities that were relatively easy, such as meeting proposed deadlines did not face challenges. Whereas, conditionalities related to establishing acceptable standards of certain goods may have been more difficult to honor or achieve. Moreover, developing, articulating and implementing some more challenging conditionalities often face technical difficulties, and take longer to develop and reach agreement between the two parties.

### **Reasons for decreased funding**

Most experts that the decreased funding is not specifically directed to the failed programs or advances made by Armenia, arguing that there were reductions by the United States Government in international aid allocations all over the world (the intensity mean is 8.5/9.0, descriptor #5). This is mostly associated with domestic priorities in the U.S., as well as other political considerations related to the region. More specifically, the discourse analysis indicated that the cut across Eurasia is attributed to resulting budget cuts by the federal government in Washington, D.C.

But, there are exceptions to the above resolution regarding amounts allocated by the U.S. to Moldova and Ukraine, in which cases development assistance has increased. This

clearly points in the direction of changing U.S. strategic priorities vis-a-vis certain countries and global interrelationships (showing a mean of 7.4, descriptor #6). Whereas the fight against the Ebola virus is the reason cited by the U.S., there are more serious political considerations that have played a part in financial assistance priorities.

The experts have expressed uncertainty and in some cases contradictory assessments of the relationship between Armenia's performances and level of funding (showing an average intensity of 2.5, descriptor #7). Generally speaking, it was clear that the U.S. government will not provide development assistance to those countries that do not express strong willingness to make tangible improvements. But, is that truly the case?

The discourse analysis of speeches revealed that in many areas of political and social freedom, Armenia is one of the best-performing countries in the region. One tangible example cited is freedom of the media. Moreover, there are rather important achievements realized in the World Bank's *doing business* ranking where, during the recent years, Armenia has moved from a rank of 50 to 32, out of 185 economies. One expert clearly indicated that recipient country performance does not play an important role in United States development assistance. However, in the case of international donor organizations such as the World Bank, performance plays a decisive role as opposed to the more political considerations that prevail in the case of assistance by countries, such as the U.S.

There is a definite shift in U.S. government assistance to Armenia, driven by a changing approach and new political players in the region. This is the key driver of the decreasing levels of funding to Armenia. Before 2004, humanitarian assistance was the predominant nature of assistance; afterwards, the approach changed to attracting investments, rather than direct assistance, monetary or technical (showing a mean of 6.4, descriptor #8).

The case in point cited by one expert was the relatively strong emphasis placed on customs regulations, programs aimed at improving the local business environment.

Further, founding the United States Armenia joint economic task force (USATF) is yet another example of the position that U.S. development assistance cannot be sustained over a longer term. Discourse analysis also points to the changing direction of U.S. development assistance. The speech clearly reveals that Armenia needs less humanitarian assistance and more long-term capacity building programs. Moreover, because of the decreased funding the assistance is now directed to those spheres, which have higher potential for change and fall within the strategic priorities of the U.S. Additionally, the U.S. is now staying away from funding areas of development that are getting attention from other international donors are.

Many experts have added that large amounts of assistance tend to create more opportunity for corruption. In most statements in this regard, there were implications that large amounts also create dependency citing Afghanistan as an example. These statements leave one to wonder if the same reasons apply to larger amounts of U.S. assistance in the region, i.e., the neighboring Republic of Georgia.

## **CHAPTER V — CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

The analysis discussed in the previous chapter has revealed that Armenia has made some progress toward creating a strong democracy, but not enough. Since the year 2000 there were positive, but often limited changes in the following six dimensions: civil society, governance, rule of law, electoral processes, control of corruption, and creation of independent media. Moreover, in the sphere of human rights and freedom of information, there are significant differences between the U.S. government and Armenia, making it difficult to reach consensus on what interventions are needed.

More importantly, the world political situation in general, and the regional politics in particular, have clearly resulted in a shift in U.S. government assistance priorities. The latter clearly directs assistance to the population, the actual target beneficiaries, in lieu of rendering technical assistance to the government of Armenia, which was the case in earlier years. In reference to institutionalizing participatory policymaking, the 2004-2008 Strategy pays special attention and importance is strengthening government institutions and empowering civil society. In the 2009-2013 Strategy, the U.S. government shifts attention almost fully to direct assistance to NGOs, advocacy groups, and think tanks.

The analysis has shown that the continuing corruption has played a significant role in the reduction of U.S. government assistance to Armenia. Inadequate progress in good governance is a key determinant of the U.S. position. This is clearly articulated in the

reviewed articles by Browne,<sup>39</sup> and Alesina Alberto and Beatrice Weder,<sup>40</sup> where the negative implications of corruption on the recipient country's institutional capacities and aid effectiveness are shown. In this case the aid was not effective for improving good governance. However, there is little if any research on the covert drivers of development assistance, including political climate and prevailing interrelationships among the big nations. The course of development assistance to various nations, whether by the U.S. or others, has shown that the neoclassical policies adopted by the Washington Consensus did not work giving rise to post-Washington considerations and good governance requirements. But, in spite of that, the completed analysis is not enough to fully accept the first hypothesis. Therefore,

H<sub>1</sub>: U.S. funding levels are directly related to Armenia's progress in good governance **is partially accepted.**

As to the second hypothesis, the completed analysis of documents and discourse has adequately shown that Armenia has made some progress in economic competitiveness. Among the global economic competitiveness ranking in 2009-2012 Armenian improved its ranking by 16 point from 92<sup>nd</sup> among 142 economies. Additionally in 2012-2013 Armenia improved its ranking in doing business by moving from a rank of 50 to 32. The completed discourse analysis also showed that the relationship between the recipient country's performance and the level of funding are not closely related and do not always change in the same direction. This suggests that recipient country performance does not consistently play a role in decisions related to funding levels of development assistance. Thus, the second hypothesis

---

<sup>39</sup> Browne, Stephen. *Aid and Influence: Do Donors Help or Hinder?* Routledge, 2006

<sup>40</sup> Alesina and Weder, *Do Corrupt Governments Receive Less Foreign Aid?*.

H<sub>2</sub>: U.S. funding strategies and assistance levels do not consider Armenia's progress in respective specific areas of development **is accepted**.

Finally, the completed analysis of discourse and interviews has revealed that the decrease in funding by the United States is not specific to the situation in Armenia and is more directly associated with U.S. priorities with domestic policies and, more importantly, with U.S. foreign policy priorities elsewhere in the world. Although not explicitly stated, despite the general cut in the Eurasian region, Ukraine has moved to a priority position with respect to U.S. assistance considering the changing U.S.-Russia political relations of the recent past. Based on analysis, the second hypothesis is accepted. Therefore,

H<sub>3</sub>: U.S. funding strategies and assistance levels consider other U.S. priorities elsewhere in the world **is accepted**.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

Given the limitations mentioned earlier in the study, a continuing study of this topic is recommended, possibly incorporating a comparative study of U.S. assistance to Armenia, Georgia, and Ukraine over a longer period extending beyond 2015. Such a longitudinal comparative study is bound to reveal other specific factors that have influenced and continue to influence U.S. funding.

## BIBLIOGRAPHY

- Alesina, Alberto, and David Dollar. "Who Gives Foreign Aid to Whom and Why?" *Journal of Economic Growth* 5, no. 1 (March 1, 2000): 33–63.
- Alesina, Alberto, and Beatrice Weder. *Do Corrupt Governments Receive Less Foreign Aid?*. Working Paper. National Bureau of Economic Research, May 1999.  
<http://www.nber.org/papers/w7108>.
- Ali, Murad. "Aid for Development or Foreign Policy: Objectives behind US Foreign Aid Allocations to Israel." *Dialogue (1819-6462)* 8, no. 4 (October 2013): 384–96.
- Bandyopadhyay, Subhayu, and E. Katarina Vermann. "Donor Motives for Foreign Aid." *Federal Reserve Bank of St. Louis Review* Vol. 95, No. 4, no. July/August 2013 (September 6, 2013). <http://research.stlouisfed.org/publications/review/article/9916>.
- Berthélemy, Jean-Claude. "Bilateral Donors' Interest vs. Recipients' Development Motives in Aid Allocation: Do All Donors Behave the Same?" *Review of Development Economics* 10, no. 2 (May 1, 2006): 179–94.
- Bräutigam, Deborah A., and Stephen Knack. "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa." *Economic Development and Cultural Change* 52, no. 2 (January 1, 2004): 255–85. doi:10.1086/edcc.2004.52.issue-2.
- Browne, Stephen. *Aid and Influence: Do Donors Help Or Hinder?*. Routledge, 2006.
- Dudley, Leonard, and Claude Montmarquette. "A Model of the Supply of Bilateral Foreign Aid." *The American Economic Review* 66, no. 1 (March 1, 1976): 132–42.
- Hindley, Donald. "Foreign Aid to Indonesia and Its Political Implications." *Pacific Affairs* 36, no. 2 (July 1, 1963): 107–19.
- Knack, Stephen. "Aid Dependence and the Quality of Governance: Cross-Country Empirical Tests." *Southern Economic Journal* 68, no. 2 (October 1, 2001): 310–29.

- Stephen Knack, "Aid Dependence and the Quality of Governance: Cross-Country Empirical Tests," *Southern Economic Journal* 68, no. 2 (October 1, 2001): 310–29,
- . "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48, no. 1 (March 2004): 251–66. doi:10.1111/j.0020-8833.2004.00299.x.
- Maizels, Alfred, and Machiko K. Nissanke. "Motivations for Aid to Developing Countries." *World Development* 12, no. 9 (September 1984): 879–900.
- McGillivray, Mark. *Modelling Aid Allocation: Issues, Approaches and Results*. WIDER Discussion Papers // World Institute for Development Economics (UNU-WIDER), 2003. <http://www.econstor.eu/handle/10419/52825>.
- Mckinley, R. D., and R. Little. "The Us Aid Relationship: A Test of the Recipient Need and the Donor Interest Models\*." *Political Studies* 27, no. 2 (June 1, 1979): 236–50.
- Morgenthau, Hans. "A Political Theory of Foreign Aid." *American Political Science Review* 56, no. 02 (June 1962): 301–9.
- Riddell, Roger C. *Does Foreign Aid Really Work?*. Oxford University Press, 2007.
- Svensson, Jakob. "When Is Foreign Aid Policy Credible? Aid Dependence and Conditionality." *Journal of Development Economics* 61, no. 1 (February 2000): 61–84.
- United States Agency for International Development. *USAID History*, Undated. <http://www.usaid.gov/who-we-are/usaid-history>.
- . *What We Do*. United States Agency for International Development, Undated. <http://www.usaid.gov/what-we-do>.
- U.S. Agency for International Development. *FRAGILE STATES STRATEGY*, January 2005. [http://pdf.usaid.gov/pdf\\_docs/PDACA999.pdf](http://pdf.usaid.gov/pdf_docs/PDACA999.pdf).
- World Bank. *Assessing Aid: What Works, What Doesn't, and Why*. World Bank Policy Research Report. World Bank, 1998.
- Sanstiso, Carlos "Good Governance and Aid Effectiveness: The World Bank and Conditionality" *The Georgetown Public Policy Review Volume 7 Number 1 Fall 2001, pp.1-22*
- Kahler, Miles, 1992 "External influence, conditionality, and the politics of adjustment", *The politics of economic adjustment* Princeton: Princeton University Press



- United States Agency for International Development . "Evaluation of the competitiveness of the Armenia private sector project (CAPS)" *Social impact, Inc.* (September 2010)
- United States Agency for International Development . "Performance evaluation of the energy security and Regional Integration (ESRI) project" *Social impact, Inc.*(January 2013)
- United States Agency for International Development. "USAID/Armenia Strategy for 2004-2008" *USAID/Armenia* (March 2004)
- United States Agency for International Development. "Country Assistance Strategy Armenia 2009-2013" *USAID/Armenia* (March 2009)
- United States Agency for International Development. "Country Development Cooperation Strategy FY 2013-2017" *USAID/Armenia* (August 2013)
- U.S Embassy in Armenia (June 30, 2009) *U.S. Ambassador Meets with Armenian Diaspora* (video file). Retrieved from <https://www.youtube.com/watch?v=XtVx9DwsQyA>
- U.S Embassy in Armenia (June 30, 2009) *U.S. Ambassador Meets with Armenian Diaspora* (video file). Retrieved from <https://www.youtube.com/watch?v=sKT82rmpdHg>
- U.S Embassy in Armenia (June 30, 2009) *U.S. Ambassador Meets with Armenian Diaspora* (video file). Retrieved from <https://www.youtube.com/watch?v=WksnlDrLjxE>
- U.S Embassy in Armenia (June 30, 2009) *U.S. Ambassador Meets with Armenian Diaspora* (video file). Retrieved from <https://www.youtube.com/watch?v=oo22CprVswk>
- U.S Embassy in Armenia (Aug 6,2009 ) *Ambassador talks about her meeting with Diaspora* Retrieved from <https://www.youtube.com/watch?v=vrC-a9Dij1s>
- U.S Embassy in Armenia (Nov 16, 2012) *U.S Armenia Joint Economic Task force- Ambassador Heffern's Video Blog-Episode 34*(video file). Retrieved from <https://www.youtube.com/watch?v=VMvt0osp5Nw>
- U.S Embassy in Armenia(April 11, 2012) *U.S Assistance to Armenia-Ambassador Heffern's video blog-Episode 16* (video file). Retrieved from <https://www.youtube.com/watch?v=wpKNJixreyU>
- U.S Embassy in Armenia (March 4, 2013) *Diaspora trip 2012-Ambassador Heffern's Video Blog-Episode 39*(video file). Retrieved from <https://www.youtube.com/watch?v=VMvt0osp5Nw>

U.S Embassy in Armenia (Jul 18, 2013) *USAID Director Karen Hilliard on Yerkir TV*  
Retrieved from. <https://www.youtube.com/watch?v=Rx3AKg9-C3U>

## **ANNEX 1 — QUESTIONS USED IN INTERVIEWS WITH EXPERTS**

1. In what fields or sub-sectors did US Government assistance focus on during in the time period from 2004-2014?
2. Is there any significant change in the focus or direction of United State development assistance? If yes, please discuss those changes.
3. How do you assess Armenia's progress in those areas where US development assistance was significant?
4. What are the key drivers or underlying strategic reasons that led the U.S. government to allocate consistently significant amounts of money to good governance?
5. What is the relationship between Armenia's level of democratization and United States development assistance funding level?
6. How would you evaluate the role of conditionalities in U.S. development assistance to Armenia? Would you say they worked?
7. Based on your knowledge of U.S. development assistance to Armenia and the respective areas of priority for assistance, would you say that the U.S. government has been able to make an impact on Armenia's development? Is Armenia still a donor-dependent nation? What would make Armenia less dependent on foreign assistance?

