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ECONOMY AND NATURAL RESOURCES CLUSTER

COUNTRY CASE STUDY: SOUTH CAUCASUS

REGIONAL COOPERATION IN THE SOUTH CAUCASUS

Lessons for Peacebuilding, from Economy and Environment

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REGIONAL COOPERATION IN THE SOUTH CAUCASUS

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ACRONYMS

BTC	Baku-Tbilisi-Ceyhan pipeline
CBC	Caucasus Biodiversity Council
CBDN	Caucasus Business Development Network
CENN	Caucasus Environmental NGO Network
CEPF	Critical Ecosystems Partnership Fund
CPAF	Caucasus Protected Areas Fund
CI	Caucasus Initiative
CSOs	Civil society organisations
EC	European Commission
ECP	Eco-regional Conservation Plan
ENP	European Neighbourhood Policy
ENVSEC	Environment and Security Initiative
ERP	EU Economic Rehabilitation Programme
ICG	International Crisis Group
IDP	Internally displaced person
IfP	Initiative for Peacebuilding
IUCN	International Union for Conservation of Nature
LoC	Line of Contact
LINKS	London Information Network on Conflicts and State-Building
MoE	Ministry of the environment
NEAP	National Environment Action Plan
NGO	Non-governmental organisation
NRE	Non-recognised entity
OSCE	Organisation for Security and Cooperation in Europe
REC	Regional Environment Centre for the Caucasus
SCPI	South Caucasus Parliamentary Initiative
SCRM	South Caucasus River Monitoring Programme
SDC	Swiss Agency for Development and Cooperation
SME	Small- and medium-sized enterprises
TJS	Transboundary Joint Secretariat
UNEP	UN Environment Programme
USAID	US Agency for International Development
WWF	World Wide Fund for Nature

EXECUTIVE SUMMARY

The conflicts in the South Caucasus seem intractable, and yet over the years, many initiatives have arisen to foster cooperation across conflict divides in the areas of environment, economy and natural resource management. These initiatives aim to support dialogue, confidence-building and conflict transformation – and they hit on fertile ground: conflict parties share a variety of interests and cooperation could satisfy many needs, while simultaneously bringing estranged communities closer together. A web of regional cooperation formats has been established throughout the South Caucasus, but it is fragmented, asymmetric and often does not involve all relevant conflict parties. Three issues are central to facilitating cooperation: (1) identifying authentic interests to assure ownership; (2) connecting agents of change capable of influencing their societies; and (3) tailoring formats of cooperation to the complex reality of the South Caucasus. All of these have shown to be possible, in the presence of political will and the readiness of third parties to stay engaged.

Keywords: Dialogue, cooperation, environment, economy, South Caucasus, confidence-building

INTRODUCTION

The conflicts in the South Caucasus have remained unresolved for many years. The military escalation in August 2008 between Georgia, South Ossetia, Russia and Abkhazia demonstrated that the conflicts could quickly, and massively, escalate. Beyond the immediate consequences for the population on the ground, such events have geo-political ramifications, given the relevance of the South Caucasus as a transit corridor between Asia and Europe and as a region where EU, US and Russian spheres of influence coalesce.

In the past few years, third parties from outside of the region have developed several initiatives to promote dialogue, confidence-building and cooperation between the main conflict parties: Armenia, Azerbaijan and Georgia, as well as the three non-recognised entities (NREs)¹ vying for independence: Abkhazia, Nagorny Karabakh and South Ossetia. In this paper, we **review selected activities that have been conducted in the areas of the environment and economy, and which may either directly or indirectly contribute to peacebuilding**. Emphasising a people-centred approach, we thereby focus on activities that aim to bring conflict parties “together”: improving or enabling people-to-people contacts, dialogue and joint efforts and cooperation across conflict divides, as well as related activities between at least two parties where the risk of violent conflict is manifest. **Our aim is to develop a synthesis of lessons learned**, not a detailed assessment of every project and initiative launched. The paper is structured as follows:

- In **The South Caucasus – An Overview**, we briefly review the major lines of conflict. Subsequently, we outline the rationale behind the idea that cooperation in the areas of the environment and economy may support peacebuilding.
- In **Lessons from Economic and Environmental Cooperation**, we discuss the different perspectives that parties have on what constitutes the South Caucasus as a region. We delve into the lessons learned, focusing on issues regarding: (1) authentic interests and ownership; (2) agents of change that could contribute to conflict transformation; and (3) the way dialogue and cooperation formats have been designed and what pitfalls the different designs may entail.
- In **Lessons Learned and the Road Ahead**, we summarise our findings and develop recommendations.
- In the **Annex**, a short overview is provided of the 12 main initiatives reviewed in the paper.

¹ At the time of writing (December 2008), only the Russian Federation and the Republic of Nicaragua recognised Abkhazia and South Ossetia. Nagorny Karabakh has not been recognised by any state so far. Thus, we will continue to refer to Abkhazia, South Ossetia and Nagorny Karabakh as non-recognised entities (NREs) throughout the text.

METHODOLOGY

This report is part of the work of the IfP regarding regional cooperation on environment, economy and natural resource management. IfP draws its rationale from the fact that much research and advocacy was done on the connection of natural resource exploitation and economic activities in fuelling violent conflicts. Attention has also been given to the positive role of transparent natural resource management in contributing to accountable governance processes. How the peacebuilding potential of regional cooperation on economic, environmental and natural resource issues can be harnessed, however, remains vague. Indeed, the ability of citizens to actively participate in and shape economic governance processes is of critical importance to the realisation of equitable livelihood opportunities and responsive government policy at local, national and regional levels. The ways in which transboundary environmental and economic cooperation, and transparent natural resource management can be operated to support such processes and promote peace needs further elaboration.

From a regional perspective, IfP's work explores ways and means of how economic and environmental cooperation, including trade and regulatory regimes, can actively contribute to the consolidation of peace. The cluster focuses on the role of external actors in supporting such processes in conflict-affected regions.

Methodologically, this report draws its content and inspiration from the following sources: firstly, more than five years of work by Adelphi Research and International Alert on issues of regional cooperation, economy, the environment, peace and conflict in the South Caucasus, including the NREs of Abkhazia, Nagorny Karabakh and South Ossetia, particularly by Alert.

Secondly, original research was conducted between September 2007 and October 2008, including three field trips during 2008 to the South Caucasus, during which a total of 81 original interviews were conducted.

Thirdly, the report was peer reviewed by a set of distinguished experts both in and outside the South Caucasus on the themes outlined in this report.

THE SOUTH CAUCASUS – AN OVERVIEW

In this section, we briefly outline two issues.

First, the conflicts: We provide an overview of the conflicts and the parties concerned. We highlight the relationships between the environment, economy, peace and conflict in the South Caucasus. The intent is thus not to exhaust any of the areas, as each of these issues has been researched/analysed extensively elsewhere.² Additionally, the wider geopolitical dynamics that add to the complexity, manifesting themselves among others in disputes between Russia, the US and NATO member states over expansion of NATO into post-Soviet space, are beyond the scope of this paper.

Second, the environment and economy as pathways to peace: We briefly discuss the main rationale behind the idea that dialogue and cooperation in the area of the environment and economy can contribute to peacebuilding. Two conceptual steps frame the discussion: In the first step, we outline the main arguments for this approach to peacebuilding, and in the second, we argue that there is indeed the potential to apply this approach to the South Caucasus.

LAYERS AND ASPECTS OF CONFLICT

The major conflicts in the South Caucasus are those concerning the status of the NREs: Abkhazia, Nagorny Karabakh and South Ossetia: The NREs are striving for independence and international recognition as sovereign states. Georgia, from which Abkhazia and South Ossetia broke away, and Azerbaijan, from which Nagorny Karabakh broke away, adamantly oppose this. Furthermore, the return of refugees and internally displaced persons (IDPs) is of grave concern. The Russian Federation has taken a protective and supportive stance particularly towards Abkhazia and South Ossetia. This has brought Russia into the conflict and, in the summer of 2008, even into a war with Georgia.³ Furthermore, Nagorny Karabakh, Armenia and Azerbaijan are also in direct confrontation with each other, as Armenia supports and protects Nagorny Karabakh.

To date, the conflicts remain unresolved. The violent escalations of August 2008 are for the moment the endpoint in a series of escalations and increasing tensions over the past years. In the summer of 2004, for example, the outbreak of large-scale violence was barely avoided.⁴ The conflicts are strongly related to identity and have an ethno-political undertone, with grievances harboured on all sides. Still, the conflicts between Georgia/Abkhazia and Georgia/South Ossetia need to be differentiated from the conflict between Armenia and Azerbaijan over Nagorny Karabakh.

Before the August 2008 war broke out, Georgian communities continued to exist in Abkhazia and South Ossetia. Interaction, via trading for example, was common between the communities and thus indirectly also with Georgia.⁵ The Organisation for Security and Cooperation in Europe (OSCE) and the UN have offices in South

² See among others: S.E. Cornell, N.L.P. Swanström, A. Tabyshalieva and G. Tcheishvili (2005). *A strategic conflict analysis of the South Caucasus: With a focus on Georgia*. Washington DC, US: Central Asia-Caucasus Institute/Silk Road Studies Program. Available at http://www.silkroadstudies.org/docs/publications/2005/050601Caucasus_Total.pdf; P. Champaign, D. Klein and N. Mirimanova (Eds.) (2004). *From war economies to peace economies in the South Caucasus*. London, UK: International Alert; T. de Waal (2004). *Black garden: Armenia and Azerbaijan through peace and war*. New York, US: New York University Press; W. Kaufmann (2007). 'Die Rolle von Nichtregierungsorganisationen bei der Bearbeitung von Konflikten im Südkaukasus' in A. Klein and S. Roth (Eds.). *NGOs im Spannungsfeld von Krisenprävention und Sicherheitspolitik* (NGOs between crisis prevention and security politics). Wiesbaden, Germany: VS Verlag, pp.299-312.

³ For an overview, see: International Crisis Group (ICG) (2008). *Russia vs. Georgia: The fallout*. Europe Report No. 195. Available at <http://www.crisisgroup.org/home/index.cfm?id=5636&l=1>.

⁴ Ibid.

⁵ P. Champaign et al. (Eds.) (2004). Op. cit.

Ossetia and Abkhazia, respectively. Following the events of August 2008, one could argue that South Ossetia is now closer to Nagorny Karabakh's situation regarding coexistence – most remaining Georgians have fled South Ossetia and their return has been denied so far.

There are no Azerbaijanis remaining in Nagorny Karabakh, and barely any Armenians left in Azerbaijan. At the same time, forces from Armenia and Nagorny Karabakh control large swathes of Azerbaijan territory outside the Karabakh area itself. Consequently, Azerbaijan has a far more adamant stand in this regard, as well as a stronger militarised frontier, than Georgia. If Baku officials do not support the promotion of confidence-building, it is not only because of the occupation of districts and the destruction of entire towns outside the disputed territory; it is also because communities do not live together anymore and therefore do not have the chance to understand each others' perspectives through daily interactions, as is the case in Georgia/Abkhazia and Georgia/South Ossetia. Aside from the OSCE-led Environmental Assessment Mission in 2006 that brought together international and local experts from Armenia and Azerbaijan to assess the damage from forest fires in Nagorny Karabakh and the surrounding areas,⁶ no officially sanctioned direct interaction has taken place between these regions for years.

The differences above explain why the number of confidence-building activities differs widely between Georgia, Abkhazia and South Ossetia on the one hand, and the Nagorny Karabakh conflict on the other hand. Abkhazia and South Ossetia have also been engaged in peace negotiations, including new negotiations started in Geneva in response to the August 2008 war, albeit in a special diplomatic format.⁷ Nagorny Karabakh, however, has not been involved in any official negotiations since 1998.

Beyond these direct conflicts, Armenia, Azerbaijan and Georgia, as well as the NREs, are far from being consolidated political systems or societies. Corruption, allegations of rigged elections and violence surrounding political events, such as the state of emergency declared in Georgia in late 2007 and Armenia in early 2008, are indicative of this. In addition, particularly in Azerbaijan and Georgia, relationships between different ethnic groups and minorities within the states remain difficult. Governments and *de facto* authorities have likewise used the conflict situation to justify their politics, internally and externally. These dynamics help determine priorities, activities and generate constraints, and thus need to be kept in mind when engaging with any of the conflict parties.

Economic and environmental issues are also factors in the conflict. The conflict parties have accused each other of a number of illegal activities, including illegal logging, black market activities, and unsustainable management of natural resources leading to forest fires and water pollution. Although evidence for these claims exists,⁸ the economy and environment are also both structural factors in the conflicts. A combination of shadow, coping and war economies has developed in response to the conflicts. This stems in part from the sealed borders and sanction regimes that the conflict parties have imposed on one another, making transport and communication across conflict divides difficult. Corruption also plays a significant role and produces stakeholders interested in continuing the “no war, no peace” situation.⁹

Environmentally, a number of issues such as pollution, destruction of land caused by the conflicts, and unsustainable national policies negatively impact livelihoods. While the latter is not an issue likely to result directly in large-scale violence, it increases the potential for local conflicts over resources, which could result in catalytic effects for the fragile South Caucasus region.¹⁰

6 Organisation for Security and Cooperation in Europe (OSCE) (2006). *OSCE-led Environmental Assessment Mission to fire affected territories in and around the Nagorny Karabakh region. Report to the OSCE Chairman-in-Office from the Coordinator of OSCE Economic and Environmental Activities*. Vienna, Austria: OSCE.

7 Russia recognised Abkhazia and South Ossetia as independent states, while Georgia conversely rejected even the presence of representatives from the break-away regions in the same room. As this would make negotiations impossible, the parties agreed to discuss issues without identifying themselves, in order to avoid status questions. See: 'Parties hail "constructive talks" in Geneva', *Civil.ge*, 20th November 2008. Available at <http://www.civil.ge/eng/article.php?id=19991>. See also the section of this paper entitled 'Authentic interests and themes'.

8 For example, see: P. Champain et al. (Eds.) (2004). *Op. cit.*

9 N. Mirimanova and D. Klein (Eds.) (2006). *Corruption and conflict in the South Caucasus*. London, UK: International Alert.

10 For example, see: UN Development Programme (UNDP)/UN Environment Programme (UNEP)/OSCE (2004). *Environment and security: Transforming risks into cooperation – The case of the Southern Caucasus*. Geneva, Switzerland: UNDP; Bratislava, Slovakia: UNEP; and Vienna, Austria: OSCE. Available at http://www.envsec.org/southcauc/pub/envsec_transforming_risk_enb.pdf.

However, economic and environmental issues could also provide avenues for dialogue and cooperation between the conflict parties. While the economy may currently be the higher priority on all sides, this cannot be separated entirely from the environment: the region is highly dependent on natural resources such as water (hydropower) and land (logging, agriculture, tourism) for employment and income generation. Finally, the Caucasus eco-region is listed as one of 34 global biodiversity hotspots, fielding an immense variety of ecosystems: from sub-tropical mountain forests, semi-deserts to the high-alpine Greater Caucasus mountain range and mountain steppes.¹¹

REGIONAL COOPERATION, ECONOMY AND ENVIRONMENT

While both sectors – the economy and environment – have been politicised in the contexts of the conflicts, technical or “apolitical” cooperation over specific aspects of the environment and economy could provide a neutral platform for dialogue between the parties. Generally, economic and environmental affairs share a number of similarities when used as entry points for peacebuilding between two parties already in manifest (violent) conflict.¹² The two main underlying assumptions regarding the outcome of potential cooperation can be summarised as follows:

- **Common needs: Environmental interdependency and overcoming poverty.** The underlying starting point for both environmental and economic cooperation is that there are issues (complex environmental problems deserving long-term commitment, the need to overcome trade barriers, fostering development, etc.) that require joint approaches and where parties share interests. In other words, conflict parties become aware of the fact that they need each other to satisfy a common need or solve a common problem, a link that proves strong enough to overcome barriers erected by protracted violent conflict.
- **Working together: Building trust by solving common problems.** As a follow-up to understanding common needs, conflict parties would ideally start to communicate and cooperate over environmental and economic issues. Successful cooperation over time could build an atmosphere of trust, confidence and stable expectations. This could initiate changes in the attitudes and mindsets of conflict parties toward each other, including “spillover” effects: initiating wider social change and facilitating peacebuilding, as interests in conflict diminish in favour of cooperation.

In the remainder of this section, we will elaborate first on the environment and peacebuilding, and subsequently on the role of the economy in conflict transformation. Finally, we will show potential areas of cooperation for both themes in the South Caucasus.

ENVIRONMENT AND PEACEBUILDING¹³

Sharing an ecosystem, such as a river basin, creates complex interdependencies between different parties. Based on these relationships, environmental problems can provide incentives for cooperation and collective action across political boundaries and ethnic divides.¹⁴ In many instances, parties whose relations are otherwise characterised by distrust and hostility, if not open violence, have found that environmental issues, such as shared water resources, are one of the few areas in which they can sustain ongoing dialogue.¹⁵

This leads to the question of whether environmental cooperation could be harnessed for peacebuilding aims. There are several pathways along which environmental cooperation could contribute to peace:¹⁶ working together on

11 International Union for Conservation of Nature (IUCN) website, ‘Programme office for the Southern Caucasus’. Available at <http://www.iucn.org/about/union/secretariat/offices/europe/places/tbilisi/index.cfm>.

12 There are more strands with regard to using either topic for peacebuilding. For example, in the case of environment, it could increase conflict prevention activities as well as sustainable peace measures by building up relevant institutions. See: K. Conca, A. Carius and G. Dabelko (June 2005). *Promoting environmental cooperation as a peace-building tool*. Worldwatch Global Security Brief No. 6. Washington DC, US.

13 We would like to thank Annika Kramer for her contribution to this section.

14 K. Conca (2001). ‘Environmental cooperation and international peace’ in P. Diehl and N. P. Gleditsch (Eds.). *Environmental conflict*. Oxford, UK: Westview Press.

15 K. Conca et al. (June 2005). Op. cit.

16 The environmental peacemaking literature has identified different mechanisms through which the link between environmental cooperation and broader forms of peace can be established. The most elaborate theoretical framework appears to be the one first proposed by Conca in 2001 and later used as a theoretical basis for the book *Environmental peacemaking*. See: K. Conca (2001). Op. cit.; K. Conca and G. Dabelko (Eds.) (2002). *Environmental peacemaking*. Washington DC, US: John Hopkins University Press.

solving common problems can help replace distrust, uncertainty and suspicion with shared knowledge and a tradition of cooperation.¹⁷ The interdependencies created by shared natural resources can further reveal mutual benefits of cooperation. In another ideal scenario, cooperation over environmental issues could lead to the internalisation of shared norms and the creation of a (eco-)regional identity and regional interests.¹⁸ Ultimately, this should become the seed of a “security community”, where violence becomes unthinkable between different parties.¹⁹

Some of the specific characteristics of environmental issues further support the argument that environmental cooperation could translate into broader forms of long-term cooperation and solutions. The ramifications of environmental cooperation can therefore encourage local and non-governmental participation and constitute “high” and “low” politics.²⁰ It cannot be expected, however, that environmental cooperation per se will contribute to peace. The way in which cooperative processes are designed and implemented remains critical for their peace and conflict impacts. In this regard, considering aspects of ownership, transparency, participation and power relationships is of the utmost importance.

The main challenge remains to transform environmental cooperation into broader forms of political cooperation, and to initiate a social and political dialogue moving beyond environmental aspects. A second challenge is the actual context of a conflict-affected region that imposes a number of conditions and restrictions, requiring approaches to be tailored to the specific situation. For instance, a situation where the conflicting parties respect each other as equals, as in the case of two sovereign states, needs to be handled differently than an asymmetric relationship, such as in the case of a separatist state.

THE ROLE OF ECONOMIC COOPERATION IN CONFLICT TRANSFORMATION

Economics and conflict are directly linked. Conflicts have economic causes and contexts. They do not only impact the economies of the conflicting sides, but also practically all regional actors. Economic cooperation may appear as a viable way for peacebuilding, as losses could be greater than potential gains achieved by war. These interactions serve at the same time as communication channels and avenues for confidence-building, by creating profitable and stable business relationships. Similar to environmental peacebuilding, the ultimate goal is to translate economic cooperation into political cooperation. The most frequently cited and most advanced example in this regard is that of the EU, which started as an economic and energy cooperative body (the European Coal and Steel Community). Over the decades, the body gradually developed into a political union, one in which violence between its members has become unthinkable.²¹

Experience shows that international trade and closer economic ties not only lower the risk of conflicts breaking out, but that they foster an atmosphere of tolerance and trust that is necessary for the resolution of conflicts at the same time as facilitating business activities. Conflicts can be settled more effectively when the settlement process is supplemented by the emergence of mutually beneficial economic activity. Creating a unified economic space and economic cooperation could thus be a means for settling conflicts. Hence, incorporating the South Caucasian economies into the wider regional market, and thus global markets, is vitally important. In this context, entrepreneurial activity must be supported both at national and regional levels.²²

ECONOMY AND ENVIRONMENT IN THE SOUTH CAUCASUS: POTENTIALS

Dialogue and cooperation over the economy and environment would allow parties to pursue two avenues: first, improving the economic and environmental situation for the populations at large; second, supporting confidence-building measures and changing attitudes through regular cooperation and dialogue. Mutually beneficial activities in these areas may even serve as a symbol to show that peaceful coexistence is possible, thus presenting a

17 K. Conca (2001). Op. cit.

18 A. Carius (2003). ‘Naturschutz als Beitrag zur Friedensentwicklung’ in *Naturschutz (Aus-)Löser von Konflikten?* Documentation of a conference by the Bundesamt für Naturschutz and the Heinrich Böll Foundation from 25th–27th November 2002 in Berlin. p.26. Available at <http://www.bfn.de/fileadmin/MDb/documents/skript98.pdf>.

19 E. Adler and M. Barnett (1998). ‘Security communities in theoretical perspective’ in E. Adler and M. Barnett (Eds.). *Security communities*. Cambridge, UK: Cambridge University Press. pp.3–28.

20 G. Dabelko (2006). *Analyzing environmental pathways to peace*. Paper presented at the annual meeting of the International Studies Association, Town and Country Resort and Convention Center, San Diego, California, US, 22nd March 2006. Available at http://www.allacademic.com/meta/p99621_index.html.

21 For example, see: O. Wæver (1998). ‘Insecurity, security, and asecurity in the West European non-war community’ in E. Adler and M. Barnett (Eds.). *Security communities*. Cambridge, UK: Cambridge University Press, pp.69–118.

22 For example, see: P. Champain et al. (2004). Op. cit.

counter-example to “hate narratives”. They would also show that there are shared interests between the conflict parties, which are best pursued jointly. Within the South Caucasus, there are seemingly many opportunities for cooperation and dialogue over economic and environmental issues. To name just a few:

- **Enabling activities**, which allow conflict parties to meet for the first time, or to enter into dialogue, cooperation, and peaceful exchange. Examples include creating special economic zones and/or free trade areas to support cross-border trade; harmonising economic and trade policies to facilitate economic integration; approaching EU environmental legislation and implementation through regional exchange and coordination; and harmonising methodologies for environmental assessment and data generation to allow scientists to “speak the same language”.
- **Cooperation activities**, which require joint action and constant communication between parties related to managing of or preparing for projects. Examples include managing and maintaining the Inguri Dam on the Abkhaz/Georgian frontier area; developing joint monitoring systems for disaster preparedness and biodiversity conservation (e.g. as a follow up of the 2006 OSCE-led Environmental Assessment Mission to territories affected by fire in and around Nagorny Karabakh region);²³ as well as jointly monitoring and sharing information on the Kura-Araks River basin.
- **Activities related to needs**, where cooperation has a mutually beneficial effect. Examples include rebuilding and managing the Sarsang reservoir and irrigation system, which connected villages in Nagorny Karabakh and Azerbaijan proper prior to the war; transboundary animal pest control and animal health-related issues to prevent agricultural economic losses; developing transboundary financially sustainable conservation parks, which could be used for eco-tourism and/or biodiversity protection; and the clean-up and joint management of the Black Sea coastline between Abkhazia and Georgia proper for transport, and tourism, etc.

Dialogue and cooperation in the economic and environmental sectors cannot alone resolve protracted conflicts. Additionally, the above-mentioned options cannot, and should not, be imposed from the outside. Indeed, the conflicts have created such a long list of grievances that people may be reluctant to cooperate in the first place, much less likely to build confidence. Such activities may only support the transformation of the contexts in which the conflicts take place, such as overcoming structural causes of conflict and changing attitudes and mindsets, and thus affecting the situation at large and in the long term. Hence, they can only be one piece in wider peacebuilding efforts, including political negotiations.

23 OSCE (2006). Op. cit.

LESSONS FROM ECONOMIC AND ENVIRONMENTAL COOPERATION

This section is divided in two parts:

In the first part, we provide an overview of different initiatives and activities conducted in the South Caucasus, as well as different stakeholders' conceptions of the region. We will argue that environmental, economic and political perceptions of the South Caucasus differ, and that this impacts on the scope and the ways in which regional cooperation activities are designed.

In the second part, we outline the main lessons learned regarding regional cooperation in the economic and environmental realms. We focus on three main aspects:²⁴ (1) the relevance of authentic interests and themes; (2) the role and potential of economic and environmental agents to initiate change; and (3) the appropriateness of platforms and formats for dialogue and cooperation.

Beyond the lessons below, it should be clear from the outset that any effort of increasing people-to-people dialogue depends on individual attitudes, behaviours and beliefs. Although it sounds like a truism, this fact cannot be underestimated. Its elaboration is beyond the scope of this report.²⁵

REGIONAL CONCEPTIONS OF THE SOUTH CAUCASUS

Economic and environmental topics attract significant interest from external organisations. This includes the engagement of international environmental non-governmental organisations (NGOs), such as the World Wide Fund for Nature (WWF) and the International Union for Conservation of Nature (IUCN), which aim to preserve the rich and unique biodiversity of the South Caucasus (e.g. through the Eco-regional Conservation Plan, or ECP). On the economic level, the consortium led by the company BP for instance utilises the South Caucasus region as a transit route for hydrocarbons, via the Baku-Tbilisi-Ceyhan (BTC) pipeline.

Although the WWF, IUCN, and other initiatives do not focus directly on peacebuilding, many of their activities strive to bring different conflicting stakeholders to the negotiating table. Other initiatives, however, such as the Environment and Security Initiative (ENVSEC), aim to couple the environment and security with the explicit goal of bridging conflict divides and transforming risks into cooperation. To name a few other initiatives, both the EU's European Neighbourhood Policy (ENP) and Germany's Caucasus Initiative (CI) engage in improving regional integration and cooperation at different levels. Thus, their goal is to facilitate cooperation between Armenia, Azerbaijan and Georgia. Similarly the Regional Environmental Centre for the Caucasus (REC) works on sustainable development and the environment in Armenia, Azerbaijan and Georgia, involving different actors from various levels of society.

On the civil society level, the Caucasus Environmental NGO Network (CENN) has worked in and frequently brings together environmental NGOs from Armenia, Azerbaijan and Georgia. Its aim is to promote a more environmentally

²⁴ Adapted from J.P. Lederach (2005). *The moral imagination: The art and soul of building peace*. Oxford, UK and New York, US: Oxford University Press.

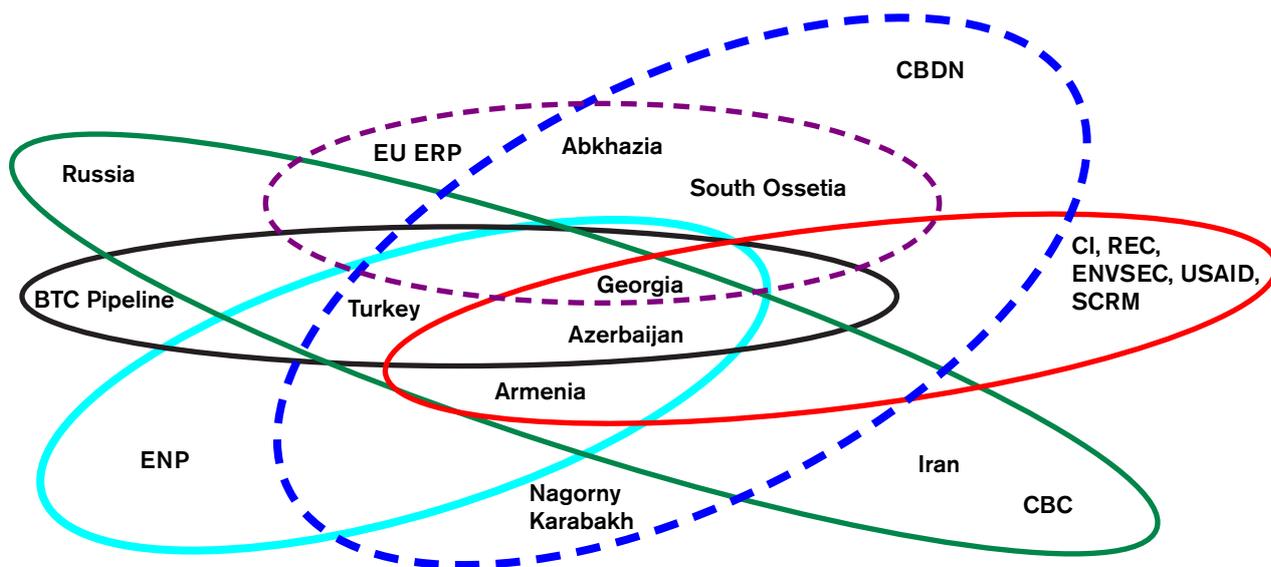
²⁵ For examples and lessons learned on this issue from the Georgian-Abkhaz conflict context, see O. Wolleh (2006). *A difficult encounter: The informal Georgian-Abkhaz dialogue process*. Berghof Report No. 12. Berlin, Germany: Berghof Research Center for Constructive Conflict Management. Available at <http://www.berghof-peacesupport.org/publications/br12e.pdf>.

friendly lifestyle in the South Caucasus countries. Additionally, the Caucasus Business Development Network (CBDN), facilitated by International Alert, has developed a network that includes people from Armenia, Azerbaijan and Georgia, as well as from the three NREs and Turkey.

Many donor organisations define the South Caucasus along the political boundaries of the three sovereign states: Armenia, Azerbaijan and Georgia, subsuming the NREs under them. However, this does not seem to reflect economic, environmental, or even political realities and perspectives: one of the key defining characteristics of the South Caucasus from an economic and environmental perspective is its role as a transit corridor, making it reasonable to include Turkey, parts of Russia, as well as the Black and the Caspian seas. From an eco-regional perspective, political borders mean little. Migratory species frequently move around in the South Caucasus, ecosystems extend across borders, and rivers such as the Kura-Araks flow through all three countries. Similarly, preventing the pollution of the Black and Caspian seas, which affects the coasts of Georgia and Azerbaijan respectively, requires a wider political format than the commonly defined South Caucasus region. Politically, the authorities in the region also have different perspectives on the region. Georgia, for instance, increasingly orients itself toward the West and the Black Sea, with strong inclinations to join the EU and NATO. Azerbaijan has an interest in strengthening its ties across the Caspian Sea and actively continues to form ties with Turkey, while attempting to exclude Armenia wherever possible. Neither Azerbaijan nor Armenia is vying for EU or NATO membership. Therefore, the suggestion that common regional identity could emerge through geographical proximity alone is hardly the case in the South Caucasus.²⁶

Hence, speaking of a “South Caucasus region” often actually means talking of a fragmented area with a number of “black holes” that are eschewed by most regional initiatives and activities in the area of the economy and environment. What these definitions have in common, however, is the absence of the NREs. Reiterating the primacy of territorial integrity, the international community subsumes the NREs under Georgia or Azerbaijan. Consequently, when it comes to regional policies, initiatives or organisations, NREs (on the level of *de facto* authorities or the civil society) are often not represented at all as a subject, and at most as an object: discussions, meetings and planning about the areas occurs, but without representation (political, civilian or otherwise) from the sides concerned. Options for integrating those actors that will be impacted are rarely considered. While there are understandable reasons for this practice (see further below), it results in an asymmetric approach toward certain areas of the region, which excludes – from an economic and environmental perspective – relevant parts.

FIGURE 1: SELECTED REGIONAL ORGANISATIONS, INITIATIVES AND PROJECTS



Discontinuous line: Includes NRE and states. Continuous line: Includes only states.

Source: Original material for this paper.

²⁶ For example, see: L. Simão and M.R. Freire (2008). ‘The EU’s Neighbourhood Policy and the South Caucasus: Unfolding new patterns of cooperation’, *Caucasian Review of International Affairs*, Vol. 2, No. 4, Autumn. Available at http://www.cria-online.org/Current_Issue.html.

As can be seen from Figure 1, a web of regional activities cover in particular the states of Armenia, Azerbaijan and Georgia and encourage cooperation amongst them, while in case of the NREs, most initiatives such as the CI, REC or CBC do not cover them, thus diminishing also the chance of direct cooperation within the framework of these approaches (see the Annex for more detailed information). Nominally, they are included and subsumed under Azerbaijan and Georgia, but in reality their voices are not heard. As a result, this re-enforces the divisions between the states and the NREs.

It can be argued, however, that where two conflicting actors are involved (e.g. Armenia and Azerbaijan, which are in conflict over the status of Nagorny Karabakh), this approach may support a positive change in the overall *status quo*, even if other conflict parties are left out. If relations between at least two involved conflict parties improve, this could have a positive side effect on the overall conflict situation, in this case between Azerbaijan and Nagorny Karabakh. However, it should be kept in mind that the NREs are not mere proxies. Thus, improving relations between recognised countries may provide a start, but the active inclusion of the NREs needs to occur in earnest if these conflicts are to be tackled through the same approach.

AUTHENTIC INTERESTS AND THEMES

Prior to any form of third party-facilitated dialogue and cooperation, consideration must be given to the issue's relevance for the conflict parties. While this sounds obvious, it should be remembered that third parties – particularly when they are powerful donor organisations – have inherent elements of both coerciveness and attractiveness. Conflict parties may superficially accept offers to meet the expectations of donors or because it may serve other purposes as well. Additionally, where activities do not touch upon core interests and are furthermore largely externally financed, conflict parties may accept projects, but not take them seriously. Finally, every conflict includes actors that seek to individually profit from a situation, including peace initiatives, regardless of whether this will have a positive or negative impact on the conflict as a whole. The following questions may serve as guidance to avoid these pitfalls: which issues have an inherent convening capacity; on which issues are people ready to meet without necessarily being like-minded and similarly located; and finally, whether these interests are authentic or tactically motivated. The following lessons can help identify whether conflict transformation measures will have a positive or negative effect.

SHARED INTERESTS

Activities in the areas of economic development and growth, as well as concerning the necessary infrastructure (e.g. roads, communication and energy corridors) are of major interest throughout the region. The economic use and management of natural resources (e.g. water for hydropower production, commercial logging, etc.) also offers potential for integrating environmental considerations, particularly sustainable resource management. “Purely” environmental activities such as conservation are not a priority in any of the three South Caucasus countries. However, supporting solutions to environmental problems may stir common interest, such as improving water quality (particularly on the Kura-Araks rivers), pest control and disaster prevention. For instance, in the case of Georgia and Abkhazia, both sides face the problem of fall webworm attacking foliage and, in the case of Nagorny Karabakh and Azerbaijan, there are concerns regarding field mice. If left unaddressed, these pests can have high economic impacts on agriculture, which is one of the most important sources of income and employment for the majority of people in the region. In addition, the forest fires in areas surrounding Nagorny Karabakh in 2006 were significant enough for Azerbaijan and Armenia to jointly send local experts on an OSCE-led mission to assess the damage – on the Azerbaijan side of the Line of Contact (LoC) and in Nagorny Karabakh. Thus, in demand-driven cases in which there is sufficient ownership, there is some fertile ground for supporting joint approaches in the areas of trade, economy, the environment, health and disaster preparedness, which could be facilitated by third parties. The potential for cooperation in trade and integrating agricultural production chains is still largely untapped. The benefits of working together remain hidden because cooperation and the related benefits are unknown, as a result of very limited communication and space for direct contact. Widening this space for knowledge and communication is critical to developing the fertile ground outlined above. Creating the necessary information-exchange infrastructure (e.g. via the internet) is vital.

The Geneva talks following the August 2008 war and the Sarkozy-Medvedev plan were originally non-starters: Russia demanded that Abkhazia and South Ossetia – which they just recently recognised as states – should participate as equal participants in the negotiations. Georgia objected, and for a time it appeared as if the negotiations would fail over this dispute. However, the participants are sufficiently interested in the negotiations and agreed that this was more important than adhering strictly to diplomatic rules. The parties agreed to continue the talks on the condition that the envoys do not identify themselves as representatives and only speak in a personal capacity. This agreement overcame the impasse and allowed the negotiations to proceed.

PERCEPTIONS, AGENDAS AND THE STATUS QUO

Information gaps in the sphere of the environment remain not only because of insufficient capacities to gather information, but also because information-sharing is a sensitive issue. Authorities may fear that information gathered is either abused for military planning or could increase public pressure to act on environmental threats. Generally, security and peace have a particularly powerful connotation for those living in the South Caucasus. Connecting these terms with projects in the environmental or economic realm could overload the projects and raise expectations to a level impossible to fulfil, ultimately leaving all involved actors frustrated. Each of the interests outlined above, therefore, has not only a potential to support peace and confidence in the region, but also the potential to re-enforce the conflict if ill-managed through an approach that is not conflict-sensitive.²⁷ This stems in part from the fact that parties apply differing time horizons. The immediate conflict parties have a far greater interest in rapid conflict resolution, in a way that least compromises their aims. Otherwise, leaders may lose their legitimacy in the eyes of their constituencies. Third parties aiming at facilitating confidence-building, however, take a more long-term approach, considering the process of trust-building a prerequisite for “real” conflict resolution. This “short-term” versus “long-term” issue generates different priorities, which could result in conflicting actions. To overcome this issue, activities need to have a recognisable peace dividend, which becomes available in the short term and can be marketed as a success for the involved conflict sides. However, cooperation in the economic and environmental realms normally involves costs and requires time upfront (i.e. for building roads, establishing monitoring systems, etc.), meaning not all activities are equally well suited for short-term successes, even if there is a shared interest. Finally, even if cooperation is initiated, some actors may oppose it: they may have an interest in continuing the “no war, no peace” situation, especially profiteers of the shadow, coping and war economies. Any attempt toward conflict transformation would threaten their interests and they may thus block progress in peacebuilding.²⁸

The Economic Rehabilitation Program (ERP) for Abkhazia and South Ossetia was developed by the European Commission (EC) in cooperation with the authorities of both NREs and the government of Georgia. Its aim is to improve living conditions and – through reconstruction efforts – to provide local employment for Abkhaz, Ossetian and Georgian communities in the NREs (prior to the August 2008 war, thousands of ethnic Georgians lived in South Ossetia, and several thousand continue to live in the Gali region of Abkhazia). Although the EC has no mandate to become directly involved in the peace process, the programme has an explicit confidence-building aim. Over time, the Georgian government grew increasingly reluctant to lend further support as the project did not deliver the intended results: instead of showing progress towards reintegration of both regions, the overall conflict situation from a political perspective remained largely the same, frustrating the Georgian government. Promising events at the local level (e.g. Ossetian and Georgian engineers working jointly on a professional level) remained largely unnoticed, because the overall situation did not visibly change.

²⁷ For example, see: M.B. Anderson (1999). *Do no harm: How aid can support peace – or war*. London, UK: Lynne Rienner.

²⁸ See: N. Mirmanova and D. Klein (Eds.) (2006). *Op. cit.*

AGENTS OF CHANGE

A major intention of promoting cooperation and dialogue between conflict parties is to increase people-to-people contacts so as to deconstruct stereotypes.²⁹ “Agents of change” play a critical role here. Such agents are both capable of bridging conflict divides to connect conflict parties, thus signalling that dialogue and cooperation are possible as well as reaching out to other social groups, e.g. business people, whose activities reach out to local politicians, workers, youth, etc. by generating employment, tax revenues, and so forth. If conducted across conflict divides, this not only shows that dialogue and cooperation is indeed possible, but may also generate an interest in further exchanges between conflict parties, either ongoing or widening them to other areas. The more visible the results, such as improved livelihoods, incomes, economic development, clean air and water, etc., the easier it will be to reach out. The following sections shortly describe the groups of actors and their potential to act as an “agent of change”.

GOVERNMENTAL INSTITUTIONS

From a purely technical perspective, there is a high potential for cooperation between ministries of the environment (MoEs) and their counterparts in the NREs: the environment is inherently an issue that ignores political boundaries of any kind. Cooperation in this area is also often less politicised, increasing the chances that conflict parties will be more open to discussing environmental issues. Indeed, as has been shown before, there is a common interest in a number of environmental issues, such as pest control. However, what is an advantage on the one hand, can prevent the institutions on the other hand from becoming key agents of change and work on the actual conflicts. As members of governmental institutions where everything related to the conflicts is by default very high on the agenda, “low profile” activity is not possible between representatives from the *de facto* authorities and the MoEs. Furthermore, the need for cooperation is not really felt, as the environment is not an important topic in the countries and the NREs. This lack of power, priority and appeal also manifests itself in other ways: MoE and their agencies often lack capacities to implement environmental regulations thoroughly, due to insufficient (trained) staff and resources. The three countries can hardly fulfil modern environmental obligations (e.g. requirements of international conventions), as the necessary capacities are only just being developed. Additionally, the Georgian Minister of the Environment has changed several times within the last years, thus leading to instability within the Ministry. Finally, although all three countries have developed a number of policies, such as producing national environmental action plans (NEAPs) and sustainability strategies among others, environment and sustainability are to some extent still distant concepts. The level of environmental awareness is low due to a mentality of treating the environment as something to be used as a necessity, disregarding the consequences – a Soviet legacy – and an education system that does not place the environment high on the agenda. And last but not least, many people continue to struggle for their daily livelihoods, consequently, environmental topics are not likely to win elections. This limits the interests of politicians and governmental representatives outside the MoEs and environment-related special interest groups to work on these issues consistently and thoroughly.

The Kura-Araks Rivers are highly polluted rivers on which all three countries – Armenia, Azerbaijan and Georgia, the latter two in particular as downstream countries – depend. Two projects, the South Caucasus River Monitoring (SCRM) programme implemented as part of the Environment and Security Initiative (ENVSEC) and the US Agency for International Development's (USAID) South Caucasus Water Program, aimed at the cooperation between the three states with regard to improving water monitoring and ultimately water quality. The aim was also to build up the capacities of the three countries in water management. While both projects produced data, worked on harmonising methodologies, held joint regional meetings and improved capacities, both projects will finish in 2008 without leaving an effective regional monitoring system in place – all three states cooperated only via the respective external organisation that provided the crucial hub. With the withdrawal of external funding, both projects cease to exist. Furthermore, both projects remained on a purely technical level, without engaging senior political officials in the context of the projects, despite this river basin's relevance for all countries.

29 See: J.P. Lederach (2005). *Op. cit.* p.65 et seq.; H. Miall, O. Ramsbotham and T. Woodhouse (1999). *Contemporary conflict resolution*. Cambridge, UK: Polity.

CIVIL SOCIETY

Environmental NGOs, and to some extent NGOs in general, are usually “below the radar”. As they do not claim to be representatives of their respective home governments, meeting with counterparts on the other side of the conflict divide is – at least in theory – easier, as it does not carry the symbolic weight of a ministry or government. Instead, it only entails people recognising and respecting one another on equal levels. Indeed, there have been a couple of events where civil society members from different conflict parties have met. This includes, among others, the Caucasus Business Development Network (CBDN), where regular meetings between business people and associations as well researchers are taking place in a variety of locations. Furthermore, there have been other events sponsored by (international) NGOs, where civil society members from the different sides met and discussed thematic issues. However, all three states may be irritated if such meetings are not communicated adequately beforehand and properly sanctioned by them. Azerbaijan in particular has a strict policy in this regard, making it difficult for NGOs from Azerbaijan to enter Armenia and impossible for those from Armenia to enter Azerbaijan. Furthermore, travel is highly restricted in the South Caucasus, making it a difficult and expensive endeavour, and a significant obstacle for NGOs. Meetings outside the region are more feasible, but consequently also far more costly. Still, although it is in principle easier for NGO members to meet, it is also more difficult for them to reach out to other parts of society: civil society organisations (CSOs) working in the environmental field are usually detached from the greater society. (Environmental) NGOs have either become more professional over the past years, and thus more akin to consultancies than to grass-roots movements, or switched to other topic areas, as projects are often externally funded. This often leads to donor-driven agendas, which may not focus on those interests shared by conflict parties, but follow instead concepts and ideas developed elsewhere, thus lacking the necessary ownership and local adaptation to become sustainable.

The Caucasus Business Development Network (CBDN) is a network of business people, researchers and civil society representatives from Armenia, Azerbaijan, Georgia and Turkey, as well as Abkhazia, Nagorny Karabakh and South Ossetia. Its explicit aim is to foster regional economic cooperation, and peace- and confidence-building, by promoting mutually beneficial cross-conflict divide economic cooperation. The work is guided by the common vision of a Caucasian economic space. Despite difficulties, CBDN established itself as a persistent and sustainable network that conducts regular meetings with its members in and outside the region. In 2007–2008, CBDN also organised several larger events surrounding agricultural production, particularly cheese and tea. The events, which took place in Armenia and Georgia, brought people from most of the countries and the NREs together. In an effort demonstrating the feasibility of transnational economic cooperation, the group established a new brand of Caucasian cheese, jointly produced by people from Armenia, Georgia and Turkey. Other efforts included a fruit juice production scheme, in the Georgian-dominated district of Gali within Abkhazia, for the Abkhazian market and other instances aimed at improving relations between different communities in conflict zones.

PRIVATE BUSINESSES

Policies have been favourable towards economic development and business organisations. Hence, where economic cooperation between conflict parties can be established, a high potential for initiating change develops, as it satisfies many needs and resonates with political decision-makers of conflict parties. On a local level, cross-border trade across conflict divides is a shared interest, and took place between Georgia/Abkhazia and Georgia/South Ossetia, although it was not officially sanctioned.³⁰ While the borders between Armenia and Azerbaijan (including Nagorny Karabakh) are effectively sealed, the Sadakhlo market in Georgia provided a corridor between the states, as traders from both sides could travel and barter there until Georgia closed it in an effort to combat contraband trade.³¹ A shared interest in trade can be inferred from these cases. Small- and medium-sized enterprises (SME) are thus best positioned to serve as agents of change in the economic realm: they are most heavily impacted by the conflict due to their relative size, and are therefore economically motivated

30 This was true at least prior to the August 2008 war. For past trade mechanisms (e.g. via the Ergneti market in South Ossetia, where Georgians and Ossetians traded), see: P. Champain et al. (2004). Op. cit.; and N. Mirimanova (2006). ‘Between pragmatism and idealism: business coping with conflict in the South Caucasus’ in J. Banfield, C. Gündüz and N. Killick (Eds.). *Local business, local peace: The peacebuilding potential of the domestic private sector*. London, UK: International Alert. pp.517–529.

31 N. Mirimanova (2006). Op. cit. p.538.

by peace. At the same time, they are better embedded in their societies than large companies and therefore have the trust of the communities they are part of. However, economic processes do not precede political ones. They are intimately intertwined, with the rules defined by political actions. Therefore, economic actors are at the mercy of the political situation and joint economic ventures can become hostage to the conflict. Furthermore, there is a myriad of economically motivated spoilers to the peace process in the region.³² Therefore, economic agents of change – such as SMEs, business associations, large corporations, etc. – are and will continue to face pressure to discontinue any confidence-building activities.

APPROPRIATENESS OF PLATFORMS AND FORMATS FOR DIALOGUE AND COOPERATION

Conflict-affected regions impose a number of restrictions on potential cooperation and dialogue between different parties, ranging from militarised frontiers, destroyed transport infrastructure, and situations of chronic insecurity and fragility. Beyond physical restrictions, the framework or format for cooperation and dialogue may also have a highly symbolic meaning, such as: should officials from states and *de facto* authorities from the NREs meet on equal terms? Consequently, the design of a specific format or platform is highly important. Key questions are: who are the actors included or excluded and on which levels; can the platform function despite various barriers, such as travel difficulties; and what does a third party symbolise for the involved conflict parties – an international organisation having territorial integrity enshrined in its charter may be perceived as biased toward the sovereign states. The South Caucasus includes a plethora of different formats and frameworks for cooperation, which – as seen in the section entitled ‘Regional Conceptions of the South Caucasus’ – asymmetrically engage states and NREs.

There is, however, no off-the-shelf master plan for appropriate confidence-building, and much less for building peace directly. Formats and platforms differ widely; all have specific advantages and disadvantages and are subject to swift political changes following phases of escalation and de-escalation. The following are, therefore, only a sub-set of important characteristics and aspects.

NOTHING IS VALUE-FREE

Bringing representatives from sovereign states and the *de facto* authorities of the NREs together could imply that states and the NREs are on an equal level. This implicit recognition as equal members in the international community may lend legitimacy to the NREs claim for independence. This is the case for governmental and non-governmental organisations alike, with the former carrying a heavier symbolic weight, as outlined above. Where a specific format implies a subordination of the NREs to the states, Georgia and Azerbaijan may agree, while the NREs may reject it. Conversely, where a format or platform implies a dependency of the NREs on the states, the former will reject it. Meetings between non-governmental entities may be easier in this regard, but this does not necessarily imply that they are neutral or impartial: NGOs on both sides may also consider their respective counterpart as illegitimate, independent of the respective format. The issue of symbolism is thus not limited to representatives of the authorities.

An international organisation such as the UN and OSCE may be perceived as biased by the NREs, since territorial integrity and sovereignty are among their core values – can they be truly neutral when a member state is facing territorial dismemberment? However, the self-determination of people is also a core value of the UN Charter. Hence, the sovereign countries may also question the integrity and impartiality of international organisations. Furthermore, the majority of external organisations, such as implementing agencies or donor organisations are only allowed to cooperate with subjects of international law, a category that does not encompass the NREs. This may extend to the sub-contractors of these agencies as well: an international NGO may be explicitly prohibited from cooperating with organisations – non-governmental or *de facto* authorities alike – from an NRE, even if a project would require them to do so. This significantly limits critical funding sources from engaging in such activities. However, overcoming these barriers is not impossible: the EC, the Swiss Agency for Development and Cooperation (SDC), and the ENVSEC member organisations decided to become involved in the NREs; the EC actively worked towards promoting human rights and democracy in both Abkhazia and South Ossetia.³³

³² N. Mirmanova and D. Klein (Eds.) (2006). *Op. cit.*

³³ For more information, see <http://www.delgeo.ec.europa.eu/en/programmes/rehabilitation.html>.

The examples of these donors demonstrate that it is possible to engage the NREs without compromising the positions of the states. Others, such as the German government, made the conscious decision not to engage with the NREs on any level – casting doubt over the reach of its Caucasus Initiative, which aims to foster peace and stability through “regional” cooperation (see the Annex).

The case is different for Nagorny Karabakh, where no international donor organisation is active. The Consortium Initiative, however, consisting of the London-based NGOs International Alert, Conciliation Resources, and the London Information Network on Conflicts and State-Building (LINKS), and financed by the British government, is active in Nagorny Karabakh, promoting political dialogue.³⁴ It can thus be inferred that, given a true interest in conflict transformation, fostering cooperation and initiating dialogue, solutions will be found – assuming there is appropriate political will and the patience for follow-through. Still, given the highly charged political atmosphere of the South Caucasus, peacebuilding and cooperation activities need to be adequately communicated. The governments of Azerbaijan and Georgia in particular may disapprove of third-party activities in their breakaway regions, such as cooperating with local *de facto* authorities, especially without their consent. While this may not prevent the activities of third parties, it can have repercussions if they try to become active in Georgia or Azerbaijan.

Western Union is one of the world's leading financial services providers for money transfers. It is often among the first choices for transferring remittances. Warning Western Union from operating in Nagorny Karabakh, Azerbaijan shut down all of the company's operations within its territory on 1st August 2008. Western Union finally gave in and stopped their operations in Nagorny Karabakh. Despite the large number of remittances being transferred to Armenia, the Armenian central bank in return shut down Western Union's operations in their country on 25th August 2008.

Impartiality is a key element that a third party can, and needs to, bring in as mediator. Still, corruption is a persistent issue in the South Caucasus – and the “peacebuilding business” is not free from it. While the overwhelming majority of key actors have sincere interests, corruption among NGOs in the area of peace is an issue that should not be ignored.³⁵ Information-gathering in conflict zones is difficult. This also includes international organisations in the peacekeeping forces, where among others, individuals may seek extra gains through receiving bribes and related activities, thus extending the web of those having an interest in continuing the status quo of neither war, nor peace to those mandated to end it.³⁶

REGIONAL COOPERATION CURRENTLY MEANS NATIONAL IMPLEMENTATION

Where cooperation officially takes place, such as within the framework of the ENP between Armenia and Azerbaijan, actual implementation occurs nationally and in parallel. Thus, actual dialogue and people-to-people contact does not necessarily occur. The civil society or official representatives meet at a neutral place, agree to implement a specific set of activities on their respective side of the conflict divide, and discuss the progress and results with one another either via telecommunication or through other meetings at neutral places. In the case of the NREs, this form of regional cooperation does not even take place. Beyond this “national” approach, most regional initiatives and organisations are based in the Georgian capital of Tbilisi. While this is understandable due to the strained relations between Armenia and Azerbaijan, it results in asymmetry, giving Georgia a heavier weight. On the other hand, as Georgia's conflicts are located on its territory, such regional organisations are of little value to it regarding peacebuilding, as they exclude Abkhazia and South Ossetia. Hence, ownership is limited on all sides.

³⁴ For more information, see <http://www.consortium-initiative.org/>.

³⁵ N. Mirimanova and D. Klein (Eds.) (2006). Op. cit. pp.33–34.

³⁶ For example, see: Ibid.

LESSONS LEARNED AND THE ROAD AHEAD

With the goal of fostering dialogue and cooperation across conflict divides, the economy and environment offer different potentials. Going back to the two underlying theses outlined in the ‘The South Caucasus – An Overview’, the findings can be summarised as follows.

- **Common needs:** While poverty and the need for economic development are present throughout the South Caucasus, there is little awareness of environmental issues among the wider society. Yet, while smaller businesses are cooperating across the conflict divides as a result of sheer necessity, large-scale businesses are hesitant to do so. Additionally, there is currently little political interest either on the side of the states or the NREs to foster economic cooperation. Indeed, the opposite is true: trade between conflict parties is more difficult.³⁷ Regarding the environment, outside of specialist circles, there is not only a lack of awareness but also a low political priority for the topic. Still, it has been demonstrated that cooperation between interested non-state actors is possible and viable across conflict divides.
- **Working together:** Capacities for cooperation across conflict divides differ between the economic and environmental sectors. In the economic realm, companies are to a certain extent independent of external (i.e. governmental) funding, giving them more freedom to act. In contrast, environmental CSOs are largely funded by governmental agencies, either national or international. Consequently, if a governmental agency prohibits cooperation across conflict divides – even if it would make sense from an environmental perspective – cooperation cannot take place. Also, the effects of activities in the environmental realm (e.g. nature conservation) do not immediately reveal themselves as beneficial to the conflict parties or the populations at large, limiting their potential to present visible peace dividends in the short term. Hence, the potential for spillover effects is currently limited largely to the non-governmental level and specialist realms.

TABLE 1: ECONOMY AND ENVIRONMENT IN PERSPECTIVE

	Economy	Environment
Authentic Interests	Authentic interest in economic development on all sides, in general. However, changes may threaten interests of those profiting from the conflict situation.	Lack of interest in environmental affairs outside of specialist circles. Lack of interest in connecting the environment with the conflicts.
Agents of Change	Reaching and affecting many groups in society, particularly at lower levels (e.g. SMEs).	Potentially high bridging capacity, but only very limited outreach capacity. Strongly dependent on donor funding.
Platforms and Formats	Cross-border trade across conflict divides could possibly provide permanent, self-sustaining cooperation.	Currently only parallel implementation, with meetings on neutral ground. Strong governmental influence results in asymmetric engagement (i.e. often excluding the NREs). Platforms are often not sustainable.

³⁷ For example, see: N. Mirimanova (2006). *Op. cit.*

In conclusion, the economic sector provides more opportunities and potentials given the far higher priority people attach to improving livelihoods and decreasing poverty. If, however, external and regional actors would purposefully link the environment to other issues such as the economy, the situation would change. Themes such as competitiveness and sustainability, economic valuation of biodiversity, improved and more cost-efficient natural resource management, could well resonate with the conflict parties and provide an avenue to combining issues of economic growth and sustainable development. Still, the role of third parties in facilitating, supporting, and initiating people-to-people dialogues, cooperation and communication will remain important, first because they are the only ones who can move relatively freely between all parties, and second because of the political disinterest of conflict party leaderships to reach out to one another in the environmental or economic realm.

It is worth noting that this is still the case despite the military escalations of August 2008. Compared to many years of political stalemate, these recent military escalations were the most serious since the signing of the cease-fire agreements in the beginning of the 1990s. In contrast to earlier escalations, the recognition of Abkhazia and South Ossetia by Russia is a qualitative change, as well as the flight of the remaining Georgian population from South Ossetia. The escalation ended in a new international negotiation format that serves as a basis for future political negotiations. However, it only continues the negotiation process of the past decade in a different format.

Thus, while the situation changed, it is not wholly different to that before the escalations. The incident could serve as a wake-up call, increasing external interest in the South Caucasus and could result in renewed vigour at the political level. It could initiate the momentum needed to create dialogue. Yet, in the near future, a number of issues should be taken into account, particularly by the EU, which is still enjoying a high level of sympathy on all sides. Against this background, the following should be considered:

- **Re-evaluate existing approaches and formats.** Continuing with business-as-usual after the recent events is unlikely, despite many unchanged or similar elements. Additionally, as outlined in the section 'Lessons from Economic and Environmental Cooperation', there are a number of pitfalls (symbolism of activities, differing perceptions, hidden agendas, etc.) even in so-called less politicised areas such as the environment. Taking the events of summer 2008 as a reference point, existing approaches and formats should be evaluated and adapted to the changed situation. Involved actors should be sincere about what is offered and not raise expectations that cannot be fulfilled. Moreover, intentions need to be clear, transparent and precise: an official goal of facilitating "purely technical cooperation" between parties covering a hidden agenda of one party to foster confidence creates unequal expectations: It increases the chance that the priorities of the facilitator and beneficiary may conflict, resulting in frustration on all sides. Thus, where political aims are pursued, this should be made clear. However, given the complexity of the situation outlined in the 'Lessons Learned and the Road Ahead' section, it is highly recommended to increase the capacities of third parties in conflict sensitivity and do-no-harm approaches, even in mainly technical exercises. Re-evaluating existing formats should also assess if any activity (either past or new) could be perceived as having dual standards, as this could limit ownership with the target audience.
- **Emphasise information sharing, capacity-building, awareness raising and education.** A key element on the agenda is to develop "human infrastructure", especially in the areas of the environment and economy. This necessitates a dual approach. First, it is necessary to raise awareness for the opportunities and potentials – and particularly the advantages – available in the economic and environmental realms. This requires not only isolated events such as capacity-building and training of specialised NGOs, but also larger education projects reaching wider parts of organised and unorganised civil society. On a far broader basis, awareness-raising, problem-solving capacity, and the ability for dispute settlement and mediation needs to be developed. Furthermore, in the area of the environment, and in particular in its linkages to economy, there exists much untapped potential not only for cooperation, but also for improving the living conditions for people on the ground. This potential can provide a common understanding in shared needs and is a pre-condition for any project aiming at dialogue and cooperation outside of expert circles. In addition, the necessary infrastructure for dialogue (i.e. channels of communication and information sharing and distribution) must be created.
- **Focus on a functional, pragmatic approach.** Attempting to bring high-level officials on environmental or economic issues together from the outset with the explicit aim of "building confidence" may simply overload

the agenda. The conflict context does not only hamper any achievements in the area, but also results in politicising issues that were formerly unpoliticised. Conversely, higher expectations at the beginning lead to increased frustration in the end, if goals are not reached. Hence, it must be made clear that any approach aiming at confidence-building between conflict parties or improving the livelihoods of ordinary people will not automatically lead to conflict resolution.

- **Find ways for meaningfully engaging all conflict parties.** The activities of the British-funded Consortium Initiative in Nagorny Karabakh, the outreach of the CBDN across all states and NREs in the region, the OSCE-led fire assessment mission in Nagorny Karabakh including experts from Armenia and Azerbaijan, as well as the EC-funded activities in Georgia, Abkhazia and South Ossetia, all demonstrate that it is possible to engage organisations and actors of all three states and the NREs simultaneously without compromising either side's position. Of course, the example of Western Union also points to the obstacles. Still, bearing the successful examples in mind, the tendency of not engaging all relevant conflict parties needs to be revisited: it tends to cement divides instead of bridging them. Additionally, it creates artificial "black holes" in the South Caucasus that reflect neither economic nor environmental needs. As the examples above show, engaging the countries and the NREs is not impossible if the political will and a real interest in conflict transformation, and ultimately resolution, in the South Caucasus exist.
- **Consider broader formats.** Where dialogue and cooperation between people from two conflict parties is not possible, larger formats may be needed that take a truly regional approach and involve a more diverse range of actors. This could mean a more technical and pragmatic approach, and would facilitate the creation of a forum where conflict parties could – together with other actors – identify common needs and interests. The Black Sea Synergy, as well as the ENP, could serve as umbrellas where CSOs from the states and the NREs are engaged on a non-political level. An example is the Kars (Turkey) Business Forum 2007, where people from Armenia, Azerbaijan, Georgia and Turkey, as well as Nagorny Karabakh, met and discussed business opportunities.³⁸ Another example is the South Caucasus Cheese Exhibition in Gyumri, Armenia in March 2008, where cheese producers from Armenia, Azerbaijan, Georgia and Turkey, as well as from Abkhazia, Nagorny Karabakh and South Ossetia, met.³⁹ Other activities, such as building information platforms, conducting environmental assessments, and providing technical capacity and competence for issues of monitoring, capacity-building and information exchange, in areas ranging from revealing business opportunities to biodiversity monitoring for the purpose of pest control and enhancing agricultural production, are all potential fields of cooperation. Novel approaches are not necessarily required: there are many initiatives, organisations and structures already in place (see the Annex). The emphasis should rather be on connecting peacebuilding and environmental issues more dynamically and synergistically, instead of an "all in one" approach.
- **Stay engaged.** The conflicts in the South Caucasus have endured for many years. The accumulated memories, distrust and conflicts cannot be resolved with a single agreement or project. Furthermore, conventional project running times are ill-suited to sustained dialogue and cooperation. Patience is needed, as well as more viable, longer-term approaches with 5–10 year horizons. Even if future negotiations and adapted formats may appear to have initial successes, this should not be considered a signal for downscaling activities.

³⁸ Caucasus Business Development Network (CBDN) (2007). *Conference report: Caucasus Business and Development Network Kars Business Forum, 23–25 March 2007, Sim-Er Hotel, Kars, Turkey*. Available at <http://www.caucasusbusiness.net/attachment.php?attachm entid=17&d=1178706268>.

³⁹ International Alert website, 'Economy and conflict in the South Caucasus'. Available at <http://www.international-alert.org/caucasus/index.php?t=3>.

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ANNEX

MAPPING REGIONAL COOPERATION

The following initiatives and organisations are those that connect at least two conflict parties in the region. They do not necessarily include an explicit peacebuilding component. Many of the initiatives and organisations mentioned below form an umbrella for other initiatives and programmes, which include many more concrete activities and projects. The Caucasus Initiative, for example, is an umbrella for the activities of German development agencies (the German Technical Cooperation, or GTZ; Reconstruction Credit Institute, or KfW; InWEnt – Capacity Building International, Germany), sharing common goals. Finally, only those initiatives and organisations are listed which were active around the time of research, i.e. early to mid-2008.

1. Caucasus Biodiversity Council (CBC)	
Type:	Forum
Area of work:	Advice on biodiversity protection
Initiator:	WWF
Head office:	Tbilisi (regional office WWF)
Funding:	MacArthur Foundation
Areas:	Countries: Armenia, Azerbaijan, Georgia, Iran, Russia, Turkey. NREs: principally covered through Azerbaijan and Georgia, but no actual activities or representation.
Involvement	Governmental, civil society and academia representatives and experts
Duration:	Active since 2004
Website:	http://www.panda.org/about_wwf/where_we_work/asia_pacific/our_solutions/caucasus/index.cfm
Description:	The CBC is an advisory board managed by the WWF, providing recommendations on nature protection, biodiversity management and environmental issues in the South Caucasus. It consists of representatives from governments, civil society and academia from the participating countries, and is facilitated by a Swiss chair. It has no decision-making power other than issuing statements. This includes, among other things, reviewing proposals submitted to the Caucasus Protected Areas Fund (CPAF). It has a strict environmental focus and has no mandate regarding peacebuilding.

2. Caucasus Business Development Network (CBDN)	
Type:	Network
Area of work:	Peacebuilding, networking and communication, regional cooperation, business development, capacity-building, research
Initiator:	International Alert
Head office:	-
Funding:	International Alert, project-based
Areas:	Countries: Armenia, Azerbaijan, Georgia, Turkey NREs: Abkhazia, South Ossetia, Nagorny Karabakh
Involvement:	Civil society, scientists, NGOs and business people
Duration:	Active since 2003
Website:	http://www.caucasusbusiness.net/
Description:	The CBDN is a regional network of individuals and organisations from the countries and NREs in the Caucasus. Its explicit aim is to promote regional cooperation as a means of supporting peacebuilding in the region. Starting with (economic) research in the South Caucasus, it increasingly aims at creating and improving communication channels and connections between different regional business communities. It provides practical means to encourage cooperation. Besides initiating cross-border projects, such as the production of "Caucasian Cheese", the CBDN conducts various meetings and business fora in and outside the South Caucasus, connecting individual businesses from the region.

3. Caucasus Initiative (CI)	
Type:	Governmental programme
Area of work:	Regional cooperation in various fields, including among others nature protection, economy and energy
Initiator:	German Ministry for Economic Development and Cooperation
Head office:	Bonn/Tbilisi
Funding:	German donor agencies
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: not covered
Involvement:	Governmental agencies, CSOs
Duration:	Active since 2001
Website:	http://www.bmz.de/en/countries/regions/europa_udssr/index.html#t4
Description:	The aim of the CI is two-fold: fostering regional cooperation and thereby supporting peace and stability in the South Caucasus. The CI is the umbrella for a variety of projects and activities conducted by the German governmental donor agencies, including among others the GTZ, KfW, Inwent, etc. Nature conservation on national and transboundary levels, improving electricity supplies, and capacity-building in the economic and environmental realms, are among the main topics and projects (see also CPAF below). What these activities have in common is that they put emphasis on regional dialogue and meetings of mid- to high-ranking officials, such as the Caucasus Conference in 2006, which brought together the MoEs of Armenia, Azerbaijan and Georgia. Most regional programmes are managed from the Tbilisi office. The German government, however, made the deliberate decision that the projects conducted within the framework of the CI will not be implemented within or in cooperation with organisations from the NREs.

4. Caucasus Protected Areas Fund (CPAF)	
Type:	Charitable foundation
Area of work:	Nature protection
Initiator:	BMZ, KfW, WWF and Conservation International
Head office:	Paris and Offenbach (Germany)
Funding:	Own funds, plus contributions from Armenia, Azerbaijan and Georgia
Areas:	Countries: Armenia, Azerbaijan and Georgia NREs: not covered
Involvement:	NGOs, governmental agencies
Duration:	Launched in 2006, operations started in 2008
Website:	http://www.caucasus-naturefund.org/index.html
Description:	CPAF has been established to provide long-term financial sustainability for nature protection activities in the South Caucasus within the context of the Eco-regional Conservation Plan. Being a charitable foundation with a volume of €50 million, the fund is self-sustaining and can disburse funds for projects in the three countries. However, each project submitted needs to have 50 percent co-funding of the respective national government to assure ownership. The fund is located as a charitable foundation in Germany, with the executive director's seat in Paris. Every proposal made to CPAF is reviewed by the CBC (see above). Expected indirect benefits of the Critical Ecosystems Partnership Fund (CEPF) to the region are an increasing cooperation between the countries, thus reducing potential for future conflict.

5. Critical Ecosystems Partnership Fund (CEPF)	
Type:	Programme/foundation
Area of work:	Ecosystem protection
Initiator:	Conservation International
Head office:	Arlington, US
Funding:	AFD, Conservation International, Global Environmental Facility, Government of Japan, MacArthur Foundation, World Bank
Areas:	Countries: Armenia, Azerbaijan, Georgia, Russia, Turkey, Iran NREs: in principle all, but no activities there.
Involvement:	NGOs
Duration:	Active since 2000
Website:	http://www.cepf.net/xp/cepf/where_we_work/caucasus/caucasus_info.xml
Description:	The CEPF provides grants to NGOs working on ecosystem protection. The Eco-regional Conservation Plan frames the activities. One of the explicit aims is to promote transboundary cooperation between CSOs along five target corridors crossing multiple borders, as well as raising awareness for biodiversity issues among decision-makers. While hotspots were also identified within the NREs and the occupied territories in Azerbaijan, there are currently no activities in these areas.

6. Economic Rehabilitation Program (ERP)	
Type:	Programme
Area of work:	Economic reconstruction and rehabilitation, confidence building
Initiator:	EC
Head office:	Tbilisi
Funding:	Primarily EC
Areas:	Countries: Georgia (conflict areas) NREs: Abkhazia, South Ossetia
Involvement:	Local people, international organisations, local businesses
Duration:	Active since 2005
Website:	http://www.delgeo.ec.europa.eu/en/programmes/rehabilitation.html
Description:	The ERP was initiated by the EC to improve living conditions in Abkhazia and South Ossetia, and to support confidence-building between the conflict parties and at the local level. The activities include, among others, joint teams of Georgian and Ossetian engineers. In South Ossetia, the OSCE was primarily responsible for implementation. The projects only operated at a technical level, as the EC is directly involved in the political side of the peace process. The activities were put on hold in Summer 2008, around the time of escalation.

7. Environment and Security Initiative (ENVSEC) – South Caucasus	
Type:	Forum/platform
Area of work:	Assessments, awareness raising, development cooperation
Initiator:	OSCE, UNDP, UNEP and REC
Head office:	OSCE regional office in Tbilisi and Headquarters in Vienna
Funding:	Project-based (various donors)
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: in principle, all three are covered, but as of October 2008, only one project was conducted in each South Ossetia and Nagorny Karabakh.
Involvement:	Governmental (Armenia, Azerbaijan and Georgia) and intergovernmental organisations. Civil society representatives (from Armenia, Azerbaijan and Georgia) are usually invited to larger workshops.
Duration:	Active since 2003
Website:	http://www.envsec.org
Description:	ENVSEC is a multi-agency initiative which aims at transforming risks into opportunities, and fosters cooperation between different parties and thus confidence. ENVSEC is active in eastern Europe, the South Caucasus and Central Asia, and regularly convenes regional meetings in these areas. Besides providing a forum for discussion, projects are also conducted by members of ENVSEC. One example is the long-running South Caucasus River Monitoring (SCRM) project, aiming at bringing together (harmonising) and developing capacities of scientific expertise of the three South Caucasus states in monitoring the quality of the Kura-Araks.

8. European Neighbourhood Policy (ENP)	
Type:	Policy framework
Area of work:	Various
Initiator:	EU
Head office:	Brussels
Funding:	EU
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: Abkhazia, South Ossetia
Involvement:	Various
Duration:	Since 2006, agreed ENP Action Plans on bilateral basis with Armenia, Azerbaijan and Georgia
Website:	http://ec.europa.eu/world/enp/partners/index_en.htm
Description:	The ENP is the EU's primary regional policy and strategy for the South Caucasus countries. Within this context, a variety of policies focused on regional cooperation between Armenia, Azerbaijan and Georgia are executed. However, regional components have largely been implemented at the national level, including the areas of the environment and economy. Additionally, within the wider umbrella of the ENP, funding instruments of the EU have been utilised to work on confidence-building measures in Abkhazia and South Ossetia, such as the ERP (see above) and with the consent of the Georgian government. In Nagorny Karabakh, however, such activities have not been conducted, as the government of Azerbaijan rejected such proposals.

9. Regional Environment Centre for the Caucasus (REC)	
Type:	Not-for-profit, non-advocacy foundation
Area of work:	Environment, sustainable development
Initiator:	EU, Armenia, Azerbaijan and Georgia
Head office:	Tbilisi
Funding:	Formerly primarily EU, now project-based
Areas:	Countries: Armenia, Azerbaijan, Georgia, Russia
Involvement:	Local authorities, NGOs, governmental officials, journalists
Duration:	Active since 2000
Website:	http://www.rec-caucasus.org/
Description:	REC was founded by Armenia, Azerbaijan, Georgia and the EU to support sustainable development and work on environmental issues like the Local Agenda 21 on a regional level in the South Caucasus. Since its creation, it has conducted a variety of projects (such as supporting mountain villages in the Georgian/Russian border area close to North Ossetia in developing sustainable development strategies), but since 2006 was largely in a stand-by mode due to managerial issues, particularly between Armenia and Azerbaijan. The REC has now a new troika structure with three directors: one each from Armenia, Azerbaijan and Georgia, jointly managing the REC.

10. South Caucasus Water Program (USAID)	
Type:	Programme
Area of work:	Water management and monitoring, capacity-building
Initiator:	USAID
Head office:	Tbilisi
Funding:	USAID
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: not included
Involvement:	Governmental officials, scientists
Duration:	2005-2008
Website:	http://www.scaucasuswater.org/
Description:	The aim of the project was to strengthen water management in the South Caucasus in order to improve economic, social and environmental conditions. According to its self-description (see website), this includes bridge-building between the countries, which is considered a precondition for regional peace and stability. This includes preventing potential conflicts of the generally abundant, yet unequally distributed, water resources in the South Caucasus.

11. Transboundary Joint Secretariat (TJS)	
Type:	Regional organisation
Area of work:	Nature conservation
Initiator:	KfW
Head office:	Tbilisi
Funding:	KfW
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: not covered
Involvement:	Local communities in the border areas of Armenia/Georgia and Azerbaijan/Georgia, civil society, governmental agencies
Duration:	Active since 2007
Website:	http://jointsecretariat.org/
Description:	The TJS was established to support the implementation of national parks within the Eco-regional Conservation Plan. Its head office in Tbilisi has staff from all three countries; national offices exist in Armenia and Azerbaijan. Currently, TJS is involved in supporting the creation of national parks in the Armenia/Georgian and Azerbaijan/Georgian border area, and works closely with all three MoEs, local communities and CSOs from the three countries. The TJS is funded by the KfW and forms part of the wider CI (see above).

12. South Caucasus Parliamentary Initiative (SCPI)	
Type:	Forum
Area of work:	Political dialogue
Initiator:	LINKS
Head office:	-
Funding:	DfID/Conflict Prevention Pool
Areas:	Countries: Armenia, Azerbaijan, Georgia NREs: discussing Nagorny Karabakh, but not actually working in/with people from Nagorny Karabakh
Involvement:	Members of parliament
Duration:	Active since 2003
Website:	http://www.southcaucasus.eu
Description:	The SCPI focuses on bringing members of parliament of the three countries together to discuss issues related to the conflicts in the South Caucasus – particularly Nagorny Karabakh. This includes discussing environmental and economic issues related to the conflicts, and developing plans for post-conflict resolution rehabilitation efforts. Among others, a plan for transboundary nature conservation between Armenia and Azerbaijan in the area of the occupied territories and Nagorny Karabakh was developed, akin to the “peace park” concept.

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