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The Role of Economic Factors in Conflict Resolution in Georgia and the Caucasus

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“One does not have to spent long in Bosnia, or Gaza or the lakes district in Africa to know that without economic hope we will not have global security. Without a better sense of social justice our cities will not be safe and our societies will not be stable. Without inclusion, to many of us will be condemned to live separate, armed and frightened lives”.

**_____James D. Wolfensonh,
President
World Bank Group
Annual Meeting
1997, Hong Kong.**

BRIEF SURVEY OF HISTORICAL, ETHNIC, SOCIAL, ECONOMIC AND POLITICAL CHARACTERISTICS OF CONFLICT ZONES IN GEORGIA AND THE CAUCASUS

The Caucasus region is clearly one of the most troubled areas of the Newly Independent States (NIS), with an unmatched level of ethnic and cultural diversity that is overwhelmed by internal contradictions, societal and economic problems, and widespread suffering resulting from numerous military conflicts.

Sadly, Georgia, Armenia and Azerbaijan – which collectively form the so-called “Transcaucasian” countries- face a new century carrying the weight of both respective and intertwined histories. The region is one of the great historical crossroads of the Western Hemisphere. As such, all three nations have long suffered from the expansionist designs of their relatively enormous neighbors, especially Iran, Turkey and Russia.

All three Trancaucasian countries have been devastated by warfare since each declared independence in 1991. Georgia has seen almost a fifth of its territory taken over by secessionist movement in South Ossetia and Abkhazia. And Armenia and Azerbaijan have not yet resolved their mutual claims to Nagorno-Khrabakh. Two years of all-out war cost over 20,000 lives before a tenuous, largely Russian-brokered peace agreement between the two countries was reached in 1994.

The Trancaucasian nations might well be fated to offer the world a tragic example of how smaller; weaker states are so rarely allowed to compete on anything vaguely like a level playing field. On the other hand, they could stand to benefit enormously from their location at the crossroad of Europe, southern Russia and the Middle East.

Comprehensive sub regional cooperation among three South Caucasian states is impossible before relations between Armenia and Azerbaijan, Georgia and Abkhazia, etc. are finally settled. Acceptance into Western Institutions like the Council of Europe are seen by many as one of the most positive developments that could happen at this stage of Transcaucasian social and political development. Many view such steps as vital for democratization processes as much as for social and economic efforts to move further into line with established Western-especially European standards.

Since 1988, Transcaucasia and parts of the North Caucasus has been the scene of turmoil. There have been numerous latent and overt claims and counterclaims concerning national statehood, administrative status, ethnic identity and borders. Never before, since the turbulent period of 1918-21, which followed the fall of the Russian empire, have conflicts raged with such deadly animosity. Old ethnic wounds have reopened, leading in some cases to sustained warfare, in others to ethnic strife punctuated by intermittent clashes.

Geopolitical changes in the region have been one of the main underlying causes of ethnic conflicts. Just as in 1918-21, when the Caucasian conflicts followed the demise of the Russian empire, these have come on the heels of the weakening and then break-up of the USSR. Geopolitics is a function of the vital interests of states and societies. Thus the Warsaw Pact

served the purpose of preserving the social system and securing the socio-economic development of the coalition, by repelling the perceived threat from the West. With the defeat of the Soviet Union in the Cold War, these interests changed abruptly, and a reorientation of the Eastern bloc's ruling elites to Western-type free-market economies ensued. The weakening of communist control from the Center put an end to common ideological interests shared between the different national elites. These persuaded public opinion in their countries that a transition to a free-market economy, personal freedom and Western aid could better be ensured by economic and political sovereignty. For the elites of the titular nationalities of the Transcaucasian republics, breaking loose from the influence of Moscow became a priority. The federal division of the USSR - in particular, the existence of higher- and lower-ranking administrative units based on ethnic and territorial principles - became an impediment to the titular elites' national projects. These projects manifested themselves in attempts to create (or, in the case of Armenia, which was nearly 90% Armenian-populated by 1988, to consolidate) statehood on an ethnic basis. In Georgia, this national project collided with the separate statehood, language and cultural interests of the Abkhazian Autonomous Soviet Socialist Republic (Abkhazian ASSR) and of the South Ossetian Autonomous Oblast (South Ossetian AO). Azerbaijan was confronted with the problem of the Nagorno-Karabakh Autonomous Oblast (NKAO) region, populated mainly by Armenians. In Armenia, the perceived injustice of the international treaties of the early 1920s, which ensured border divisions within the region, reinforced the Armenian determination to hold on to Karabakh, viewed as the only part of historic Armenia outside the republic's borders still populated by an Armenian majority. It might be added that, in both Armenia and Azerbaijan, the national movements did not start out as anti-Soviet, but initially included demands for the Kremlin to ensure the validity of their respective national claims: in the case of Armenia, for the NKAO to be attached to it, and in the case of Azerbaijan, to prevent this. It was the inability of the Kremlin to satisfy these demands that set the movements in both republics on a path of independence.

An institutional vacuum was created as titular nations asserted their rights. The nationalism of larger nationalities found a counterpart in the nationalism of national minorities. National minorities, concerned for their security and survival, mobilized their own populations, tried to ensure exclusive administrative control over their territory and appealed for help to the Center, to kindred ethnicities across the border and/or to neighboring republics; they set up paramilitary formations, and expelled "foreign" nationals along with government troops sent to subdue the "rebels".

To explain why conflicts break out, geopolitics and socio-economic interests alone are not enough. A salient factor in the conflicts under discussion is the use of history in the service of particular nationalist demands. Thus, in Abkhaz literature, one finds references to the Abkhazian kingdom which existed in the 9th and 10th centuries. This is instrumental to the Abkhazian claim for sovereignty over the region, even though the same kingdom could equally be described as a common Georgian-Abkhazian state, with a predominance of Georgian language and culture.

The Ossetian-Ingushi conflict stands apart from the basic pattern we have just outlined. This is not a case of a national minority struggling to preserve its existing autonomy within a dominant titular nation, but a dispute over parts of the region, which have seen, repeated border changes and forcible population transfers within them. In other words, it is not a conflict over ethnic status, but a purely territorial dispute.

The interests involved in gaining sovereignty and statehood can submerge socio-economic interests. In Georgia, Armenia and Azerbaijan, no price seemed too high in the national cause. The predominance within national elites of particular groups, such as leaders of military formations, criminal mafias and war profiteers, did little to favor a peaceful solution to ethnic conflicts.

Some regional leaders realized that the price paid for sovereignty had been too high. President of Georgia Mr. Shevardnadze and President of Azerbaijan Mr. Aliyev stopped ignoring economic and military factors and turned to their traditional partner, Russia. They did so while, at the same time, preserving other, newly found regional partners and striving to avoid the less palatable elements of their former relationship with their northern neighbor. This new opening up to Russia, together with the political activities of new regional states like Iran and Turkey and the policies of international organizations, has created new possibilities for crisis management in conflicts.

The validity of the right to self-determination, as against the principle of the territorial integrity of states, is a thorny issue, and one which finds no satisfactory solution among the protagonists in the conflicts within the former Soviet Union. Contemporary international law recognizes the right of independence for colonial peoples and annexed territories, but not for parts of such territories, nor for national minorities in internationally recognized states. This is designed to prevent wars between nations whose borders have been demarcated, often disregarding the ethnic composition of the territories in question, by former colonial and imperial powers. Another reason is to safeguard the rights of "minorities within minorities" and protect them from ethnic cleansing. Taken in the ex-Soviet context, the principle of territorial integrity has been invoked primarily by the countries newly admitted to membership of the UN, whose independence has been internationally recognized (Georgia, Azerbaijan) and by autonomous republics whose borders - and not status - are contested (North Ossetia). Georgia and Azerbaijan invoked this principle when they revoked the Soviet-era status of Abkhazia, South Ossetia and Nagorno-Karabakh. The declarations of independence by the latter group of republics have not been recognized by the international community, although the UN de facto recognizes Abkhazia as a negotiating partner by sponsoring peace talks in Geneva between it and Georgia. The Abkhaz, South Ossetes and Karabakh Armenians, who do not "qualify" for independence according to UN principles, invoke the right to self-determination and consequently seek the support of regional players.

Major Conflicts

Abkhazia

In the northwestern corner of Georgia lie the 3,300 square miles of snow-capped mountains and subtropical coastline that form the territory of Abkhazia.

INTRODUCTION

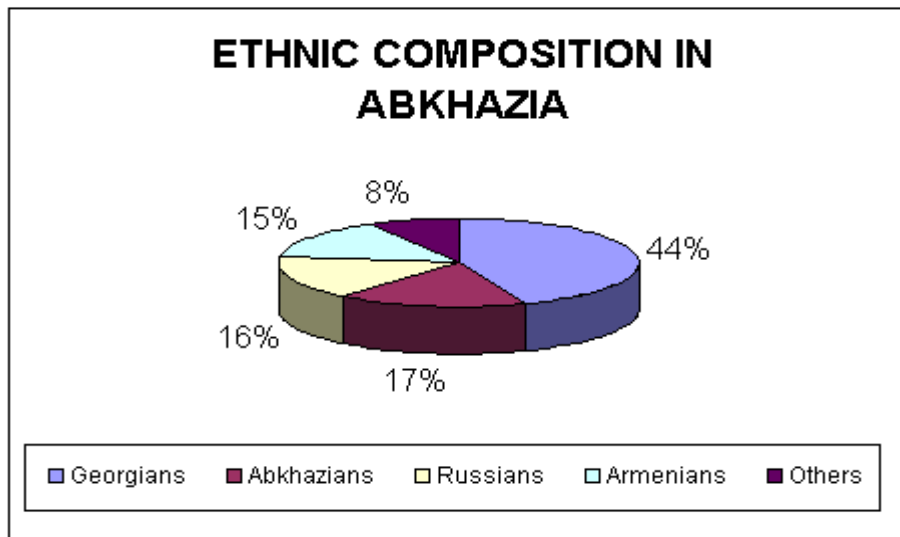
Abkhazia (Apsny, "a Country of the Soul" in the Abkhaz language, Abkhazia in Georgian), an autonomous republic of Georgia is situated in the northwestern part of Georgia on the Black Sea coast. The Abkhaz are a people close in language and origin to the North Caucasian peoples of the Adyghe group. Although they lived under Turkish rule from the late 15th to the early 19th

centuries and some of them were converted to Islam during that period, there are few Moslems now left in Abkhazia. The Abkhaz population underwent Christianization in the late 19th century, under Russian rule. The territory of the present-day republic was once part of Ancient Rome, Byzantium and Persia. Later, Arabs, Genoese colonists, Turks and Russians sought to control it. Until Abkhazia's absorption by Russia in 1810, Abkhazian rulers were in nominal or effective vassalage or union with various (although often separate) Georgian kingdoms and princedoms. So the historical evidence is ambiguous: both unity with Georgia and autonomy can be argued on historical grounds.

During the 1920s, Abkhazia enjoyed the status of a full Soviet Socialist Republic, only to see itself reduced a decade later to an autonomous republic within Georgia. With the decline of Soviet central power in the late 1980s, Abkhazia intensified its demands for more cultural, linguistic, and political autonomy from Tbilisi. Georgia rejected these demands and from August 1992 through September 1993, Tbilisi waged an unsuccessful war with Abkhazia. Thousands of civilians were killed, and hundreds of thousands fled the fighting. As of April 1995, some 250,000 people from Abkhazia, mostly ethnic Georgians, were internally displaced in Georgia. The capital of Autonomous Republic of Abkhazia is Sokhumi. Towns – Gagra, Gali, Gudauta, Ochamchire, etc.

The territory of Abkhazia is 8,7 thousand sq. km, somewhat smaller than Cyprus. This makes up 12.5% of Georgia. Only coastal areas and foothills, characterized by a mild subtropical climate, are populated and cultivated. The rest of the country consists of high mountains and deep ravines.

Prior to the war, the total population of Abkhazia was roughly 537,000, with just under 100,000 people of ethnic Abkhaz origin. Historically, the Abkhaz people allied themselves with the Russian-speaking population (notably Russians and Armenians). Together, these groups



comprised roughly half of the region's population. Ethnic Georgians comprised some 46 percent of the population.

According to the last Soviet census of 1989, the population of Abkhazia was somewhat 537 thousand. The main population groups were the Georgians (242,3 thousand, 45.7%), Abkhazians (93,3 thousand, 17.8%), Armenians (76,5 thousand, 14.6%), Russians (74,4 thousand, 14.3%) and Greeks (14,7 thousand, 2.8%).

During the conflict in 1992-1993 70% of the population were forced to leave this territory. Most of the refugees have been living in various Georgian regions since 1993.

ECONOMY

During the Soviet times, Abkhazia was one of the most prosperous regions of the former Soviet Union. The national economy was based on agriculture, light industry, mining, electric power production, and tourism. The main agricultural products were citrus fruits, tea, tobacco, oil-bearing plants, olives, figs, nuts, laurel leaf, wine and other beverages, honey, and cheese. Forestry and fishery were also of importance. In the Soviet times, Abkhazia met up to 20% of the USSR's demand for tea. Abkhazian peasants produced more than 120,000 tons of citrus fruits (mostly mandarins), 110,000 tons of tea leaves, up to 14,000 tons of aromatic tobacco, some 14,000 tons of grapes. For the most part, these products were exported. Light industry manufactured copy machines, gas-bags, radios and telephones, mixed feed for cattle, chemical products, textiles, and shoes. There were coal mining and house-building plants besides. Abkhazia's economy was oriented mainly towards the huge Soviet market, its economical cooperation with Georgia being prominent only in the energy and transport sectors.

The subtropical nature of Abkhazia, the high snow-covered mountains and the warm Black Sea used to attract hundreds of thousands of tourists every year. Hotels and sanatoriums could accommodate up to 25,000 visitors at once. The private sector was also oriented toward providing accommodation for tourists. The famous high-elevation lake Ritsa was visited by 10,000 tourists daily. The cave at New Athos, one of the deepest in the world, was seen by 3,000 people a day.

Today, Abkhazia produces a grim picture.

Of all the conflict regions, Abkhazia is now in the most miserable condition, in spite of its richly coastal territory reaching up to the Russian Frontier. The 1989-19998 conflict led not only to massive destruction, but also to depopulation of Abkhaiza's fertile southern part, formerly populated by ethnic Georgians.

The lush nature cannot conceal burned and destroyed houses, schools and kindergartens, looted factories, blown-up bridges, roads and tunnels. The majority of the enterprises are at a standstill now. Many plants are destroyed. For the rest, there are no supplies of raw materials, and no cash to pay the workers' salaries.

In the agricultural sector, many plantations and farms have been destroyed by the war, and their restoration and re-cultivation will need no fewer than 6-7 years of work and appropriate levels of investment

The overall damage inflicted to the economy of Abkhazia by the war amounts, by Abkhazian estimates, to more than US\$100bln in current prices. The Gross Domestic Product (GDP) in 1994 was US\$60.3mln, which, compared with 692.5mln in 1988, makes up only 14% of the pre-war level. Exports of citrus fruits, tea, and tobacco have plummeted to less than 19% of their 1989 levels. Industrial production has declined by 93.2%, gross agricultural production by 75.3%, and per capita income by 90%.

Material destruction can be repaired or replaced, but the human losses are irreparable. The wartime human losses of the Abkhazian side are estimated at 5,000, the majority of them

between 18 and 40 years of age. Apart from those who perished, 1256 young people became disabled. More than 6,000 children became orphans, and most of them suffer from post-traumatic stress disorders. All these people, the invalids and the disabled, the children and the elderly, badly need qualified medical care and psychological rehabilitation, food and medicines, prostheses and wheelchairs. All of these are in very short supply. Despite urgent needs, most of the international humanitarian and financial aid destined for the post-Soviet states, in particular, for Georgia, do not reach the civilian population of Abkhazia.

POLITICAL STATUS

The status of Abkhazia is still the subject of negotiation between the warring parties, with participation from the Russian Federation and the United Nations. In November 1994, the Supreme Soviet of Abkhazia adopted a constitution declaring Abkhazia an independent state, but the UN Security Council has reaffirmed its commitment to the sovereignty and territorial integrity of the Republic of Georgia. Meanwhile, a CIS peacekeeping force (PKF), comprised mostly of Russians, and a 136-member international military observation force from the United Nations have helped to prevent the resumption of full-scale fighting since the agreement on a cease-fire and separation of forces was signed in Moscow on May 14, 1994.

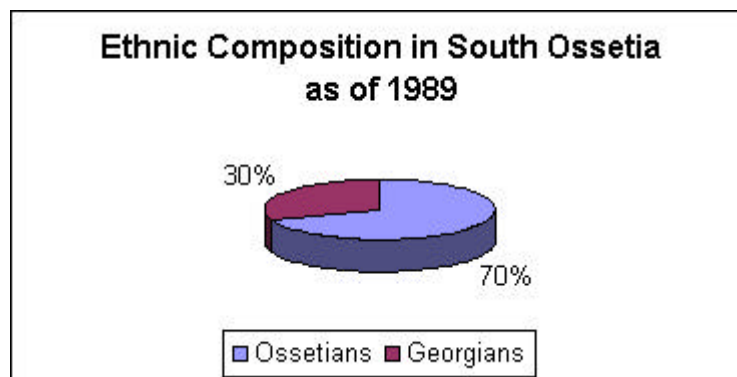
South Ossetia

In the very heart of the Georgia is situated Tskhinvali / South Ossetia.

At an altitude of 1000 meters and more above the sea level is to be found 89,3 % of the territory of South Ossetia. The mountain landscape also determined largely South Ossetia's climate. It is shielded against the cold northern winds by the Main Caucasus Range, which results in the fact that even at great heights it is warmer here than in the Northern Caucasus.

Along with them in South Ossetia reside Russians, Georgians, Armenians, Greeks, - a total of 40 nationalities.

As of 1989, the autonomous oblast of South Ossetia within Georgia had a population of nearly 100,000, of whom 66.2% were Ossetes and 29% Georgians. Along with them in South Ossetia reside Russians, Georgians, Armenians, Greeks, - a total of 40 nationalities. Half of the families in the region were of mixed Georgian-Ossetian descent. The Ossetes are descendants of the ancient Alan tribes of Iranian stock. Some of them are Orthodox Christians and some (in certain regions of North Ossetia) are Moslems.



On 20 April 1922, after the Sovietization of Georgia in 1921, the South Ossetian Autonomous Oblast (AO) was formed. Georgian writers have claimed that, like the Abkhazian ASSR, the South Ossetian AO had been formed by the Bolsheviks to create permanent sources of tension, so as to enable the Kremlin to control Georgia more easily. Both Abkhazia and South Ossetia were said to be run on an ethnocratic basis, to the detriment of Georgian national interests. Hence the perceived Georgian need to curtail if not abolish these autonomous entities. The response from the South Ossetes was either to try to secure federal status within Georgia or, failing that, to seek to be reunited with North Ossetia, forming part of Russia.

Words and concepts have played an important role in the development of the conflict. The term "South Ossetia", for instance, has never been accepted by the Georgian side, as it seems to prompt demands for reunification with North Ossetia, which is a part of the Russian Federation. The term "South Ossetia" was used in the 19th century in a cultural/geographical sense, but the area was granted administrative status only under communist rule. Although the rural population of the region has been predominantly Ossetian for the past few centuries, the Georgians consider the region a Georgian historical province, called Shida Kartli (Inner Kartli) or Samachablo, (Land of the Machabeli, from the name of the Georgian feudal family which allegedly ruled it), the Tskhinvali region.

Conflicts in South Ossetia became a political issue as a result of an attempt by the South Ossetian Supreme Soviet to upgrade the status of the AO. On 10 November 1989, it approved a decision to transform the AO into the South Ossetian ASSR, which would form part of Georgia. In a day, the Georgian parliament revoked the South Ossetian parliament's decision. The first stage of the conflict lasted from November 1989 to January 1990.

On 26 April 1990, the USSR Supreme Soviet passed a law providing for a notable enhancement of the rights of Soviet autonomies. By so doing, the Centre encouraged the autonomies to fight for their sovereignty against the majority in some multinational Union republics striving for independence (Moldova, Georgia). But instead of giving the autonomies effective protection, it merely played them against the nationalistic currents in those republics, thus paving the way for political and military interference in their affairs by the Kremlin.

The South Ossetian demand for the establishment of treaty relations between South Ossetia and Georgia was not accepted, though the Ossetian-populated districts have remained out of bounds for Georgia. The question of the status of South Ossetia has not been solved to this day.

South Ossetia, a land that seems to have been forgotten by the outside world: no ties with Georgia, and hence no supplies from there; almost no attempt made (for lack of financial resources) to rebuild what has been destroyed in the war; factories idle, with the population engaged in subsistence farming. In September 1993, Ludvig Chibirov, a colleague of North Ossetian leader Galazov, became Chairman of the South Ossetian Supreme Soviet, later renamed State Nykhas (Council of Elders); elections to that body held in March 1994 gave the South Ossetian Communist Party 19 seats out of 36. In October 1994, Shevardnadze admitted that the conflict in South Ossetia had been the grossest mistake of the former Georgian leadership, and diplomatic efforts to solve the refugee problem were stepped up by the Georgian and South Ossetian sides.

There are two main reasons why conflicts like the one in South Ossetia were hard to avoid in the process of the breaking-up of the Soviet Union.

The first is that the absence of a civic consciousness, which expressed itself in an opposition between the concepts of citizenship and nationality. Nationality was considered to be a purely ethnic and non-political characteristic of individuals and groups, while citizenship, on the contrary, was seen as a mainly external relationship linking individuals and groups with the state. This opposition between nationality and citizenship was reinforced by the Soviet system of passport registration, which had a special entry for an individual's nationality as distinct from his or her citizenship. After the demise of the Soviet Union, it was difficult for both majorities and minorities in the newly independent republics to consider their belonging to new nations in a non-ethnic sense. Since 1988, the Georgian media has presented the issue of Georgian nationhood in predominantly ethnic terms.

Despite all the manifestations of ethnic nationalism, almost nobody questioned the cultural rights of the minorities (such as the possibility of having an education, theatres, newspapers, etc., in their own languages). The political elite generally understood the need to consolidate the independence movement across ethnic lines, and consequently encouraged minority representatives to participate in pro-independence parties and movements. Of course, the representation of minorities in the national independence movement was not proportional to its numeric importance in the population, but, even though its participation may be regarded as rather symbolic, it was nevertheless important in counter-balancing the impact of ethnic nationalism.

The second reason why conflicts like this were hard to prevent from reaching the violent stage was that territory, or "soil" was at stake. The newly independent states contained disputed territories, which were claimed by different ethnic communities as "theirs". It was these conflicting territorial claims, more than the alleged mistreatment of minorities by the majority, which lay at the heart of conflicts like those in South Ossetia, Abkhazia, Nagorno-Karabakh. Mistreatment of or discrimination against minorities were used by the advocates of secessionism in order to mobilize their own communities or to gain recognition for their cause from the international community. And public opinion in modern democratic states is indeed sensitive to arguments that can be translated into the language of "minority rights".

In the case of Georgia, the allegations of the secessionist politicians from Abkhazia or South Ossetia were generally based on particular statements by some Georgian politicians or on reminiscences of ethnic strife in the past. The Abkhaz and the Ossetes reacted negatively to the first actions by the Georgian independence movement because, as they said, the flag of the Georgian Republic of 1918-21, banned during the Soviet years but raised again by the new opposition movement, "reminded them of their ancestors killed under that flag".

The abolition of South Ossetian autonomy by the Georgian Parliament in December 1990 was an unwise political move (unwise as its only predictable result would be violent clashes, giving Russia further legitimation for intervening militarily in Georgian affairs and ultimately contributing to South Ossetia's de facto separation from Georgia), but it should also be seen as an ill-considered retaliation for the declaration by the "South Ossetian Democratic Republic" of its separation from Georgia, which had been made several days before. What ensued was a territorial war in which both sides were defending "their land" and which the absence of regular armies made even more brutal.

In addition to ethnic nationalism and historical territorial claims, Russian involvement and its perception by the Georgian side may be considered a third decisive factor which helps explain the eruption of violence in South Ossetia. From the point of view shared by most Georgians, it was Russia (or the Kremlin "Centre") that orchestrated all the ethnic conflicts in Georgia, as well as in other areas of the former Soviet empire. This political support from Moscow was a factor which encouraged the minority movements in Georgia to be uncompromising in dealing with their local "centre". It also goes a long way towards explaining the Georgian independence movement's insensitivity to minority concerns. The Ossetians - like the Abkhaz separatists - were seen not as fighting for their own rights, but as siding with "them" (the Kremlin) against "us" (Georgia). The Ossetians were branded as "ungrateful and treacherous guests". The more the minorities counted on support from the "centre", the more the majority denounced them for doing so, in their turn prompting the minorities to seek protection from Moscow. The warring parties failed to find an exit from this vicious spiral.

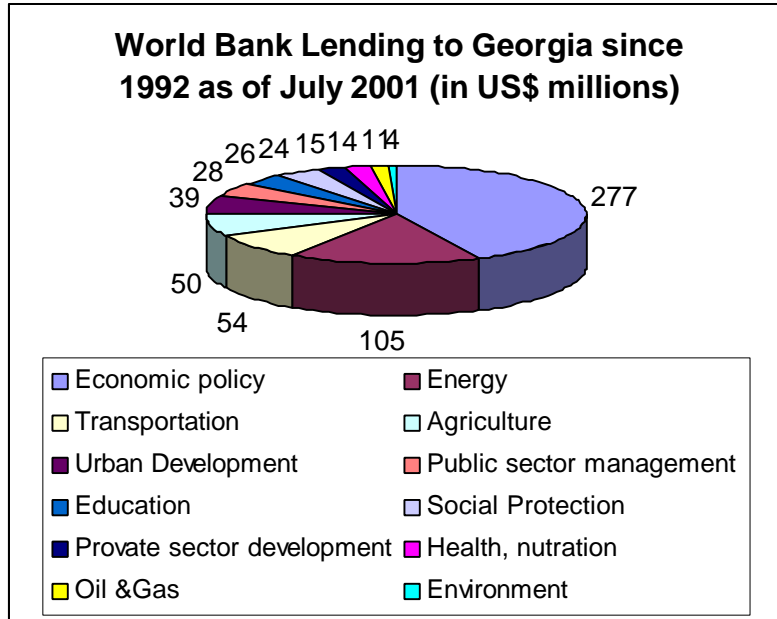
Moderate tendencies within the Ossetian movement had understood very well that secession from Georgia was a reckless move. Compromises with the Georgian government would have been possible, insofar as public opinion in Georgia had never opposed granting quite extensive cultural rights to the minorities. Only some groups within the Georgian independence movement attempted to co-operate with these moderate tendencies within the national minorities (this included the Ilia Chavchavadze Society in the years 1987-89, and supporters of the National Congress who invited minority movements to their session in May 1990). Unfortunately, such attempts were rare and inconsistent.

INTERNATIONAL ORGANIZATIONS IN THE CAUCASUS REGION

International organizations have increased interest in regional conflict resolution, but financial assistance does not work well. The amount spent and results produced are unequal.

The World Bank

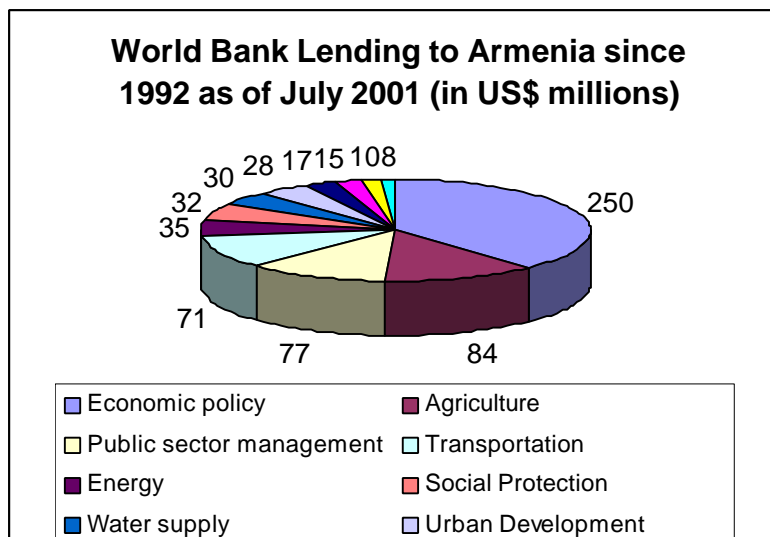
The aftermath of growing conflicts in the 1990s has tested the ability of the international community to address the devastation of economic, human and social capital. The World Bank has increased the volume of its lending to post-conflict countries by more than 800 percent since 1980, with reconstruction operation touching every region and economic sector. The bank's reconstruction lending projects have covered every sector, with the largest portion,

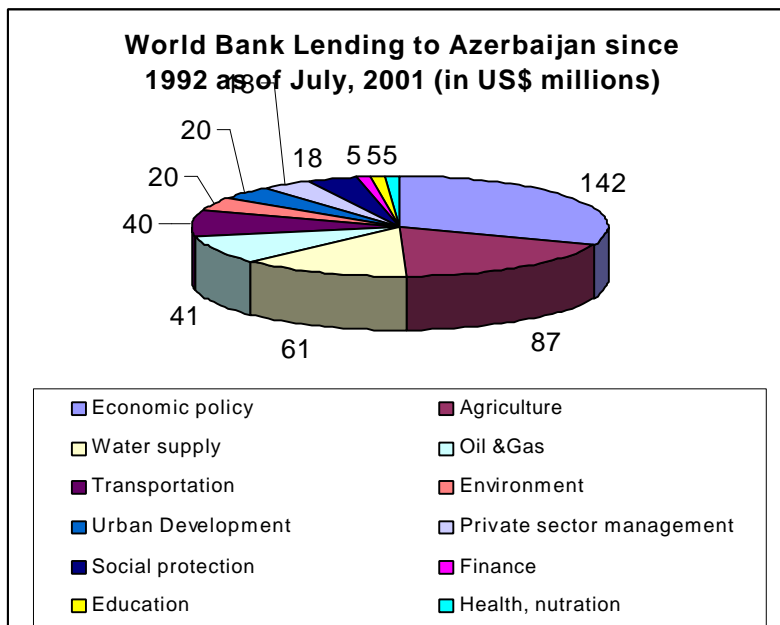


33 percent, supporting “multi-sector” projects.

In 1997 the Bank endorsed *A Framework for World Bank Involvement in Post-Conflict Reconstruction* to guide work in post-conflict countries. The Bank subsequently set up the Post-conflict Unit (PCU), which serves as a focal point for policy development and cross-country learning.

The Bank's working presence is critical in the early stages of post-conflict reconstruction. The Bank is valuable in external Aid coordination, which is important in the transition from war to





peace.

World Bank Lending to Georgia by Sector since 1992
(in nearest US\$ millions)
As of July, 2001

Economic Policy	277
Electric Power & Energy	105
Transportation	54
Agriculture	50
Urban Development	39
Public Sector Management	28
Education	26
Social Protection	24
Private Sector Development	15
Health, Nutrition & Population	14
Oil & Gas	11
Environment	4
Total	648

World Bank Lending to Armenia by Sector since 1992
(in nearest US\$ millions)
As of July 2001

Economic Policy	250
Agriculture	84
Public Sector Management	77
Transportation	71
Electric Power & Energy	35
Social Protection	32
Water Supply and Sanitation	30
Urban Development	28
Private Sector Development	17
Education	15
Health, Nutrition & Population	10
Environment	8
Total	658

World Bank Lending to Azerbaijan by Sector since 1992

(in nearest US\$ millions)

As of July 2001

Economic Policy	142
Agriculture	87
Water Supply & Sanitation	61
Oil and Gas	41
Transportation	40
Environment	20
Urban Development	20
Private Sector Development	18
Social Protection	18
Education	5
Finance	5
Health, Nutrition & Population	5
Total	462

TRACECA

The EU supports two big cooperative projects: TRACECA (Transport Corridor Europe – Caucasus-Asia) and INOGATE. Within them, the UE has supported a number of specific events and activities, for example the construction of POTI-Illichevsk ferry project (between Georgian and Ukraine), the highway in Turkmenistan and them oil-terminal in Baku. The EU has also encouraged close cooperation between TRACECA and the BSEC, particularly the joint BSEC_TRACECA conference.

One of the main objectives of the TRACECA program is to act as a catalyst to attract the support of International Financial Institutions and private investors. In order to respond to the demand of potential international financial investors the TRACECA program has carried out full feasibility studies, preliminary financial investigation, and developed business plans for potential infrastructure and equipment investment.

Status of projects and the future prospects

In order to examine the possibilities of linking the TRACECA route with the Black Sea region and the TENs, the EU organized in April 1997 a ministerial transport conference in Tbilisi, Georgia. The conference brought around the table all BSEC (Black Sea Economic Co-operation) countries and Newly Independent States involved in the Traceca programme.

The ministers of the 16 participating countries expressed the wish to integrate TRACECA and the Black Sea countries within the Trans European Networks. It was agreed that TRACECA and BSEC would co-operate closely to develop this idea by concrete actions and projects. Several countries (Bulgaria, Romania and Ukraine) used the occasion to declare their intention to join the Saraks Agreement, which aims at establishing a common policy on transport (the original agreement was concluded between Georgia, Azerbaijan, Turkmenistan and Uzbekistan).

The Conference resulted in the establishment of a Ministerial Committee for the development of concrete projects and also served as a platform of 16 countries for the Pan European Transport

Conference in Helsinki in June 1997. As a result the Helsinki Conference identified the Black Sea Region as a Pan European Transport Area (PETRA) which will further develop the TENs to the East.

In order to give substance to the idea of the Black Sea Region as a Pan European Transport Area, the EU agreed to finance the rehabilitation of the Ro-Ro ferry terminal in the port of Ilyichevsk (Ukraine) and the construction of a Ro-Ro ferry terminal in the port of Poti (Georgia). These projects (15 Mecu) will be implemented in 1998 and finalized at the beginning of 1999. In addition, the project proposals of the Fourth Working Group have been translated in 2 TA studies and 2 investments projects, worth 10 Mecu, to be implemented in 1998.

In September 1997 there was a welcome initiative by Presidents Aliev of Azerbaijan and Shevardnadze of Georgia who jointly proposed to host a presidential conference in the Caucasus early in 1998, that could lead to the adoption of the draft multilateral agreements on transport initiated within the TRACECA programme. These agreements could break open the existing Sarakhs agreement, a four-country agreement on the reduction of railway tariffs in order to facilitate the transit of cargo by railways. The formulated proposals include: an additional number of commodities for railways, to open it for other transport modes, to harness the interest of other countries that are interested by the agreement.

Consideration is currently being given to the prospect of further Working Group meetings to draw together the initiatives taken so far, to consolidate these actions and to make plans for future actions.

TRACECA has always worked in close co-operation with the IFIs and many agreements have been made with World Bank and the EBRD. These include:

The construction of highways in Turkmenistan, with the technical assistance (TA) for 0.75 million ECU being financed by the EU for the feasibility and design of two highways prior to a \$80 million EBRD loan.

The rehabilitation of Baku Port with TA financed by the EU for 1.5 million ECU for the feasibility and design of a ferry terminal to be reconstructed with a \$50 million EBRD loan.

The rehabilitation of Turkmenbashi Port with TA financed by the EU for 1.5 million ECU for the design study and preparation of the tender for the ferry terminal prior to a \$50 million EBRD loan.

The upgrading of roads in Armenia with TA financed by the EU for 0.75 million ECU in order to provide the TA package for the second half of the \$40 million WB/EBRD loan.

Construction of the Poti Grain Terminal with TA financed by the EU for 0.4 million ECU for the legal issues on the concession of the terminal, to be constructed after a \$15 million EBRD loan.

The modernisation of the Georgian Ports with preliminary discussions on the construction of ferry terminals and general cargo facilities from an investment by EBRD following a TA package of 1.5 million ECU financed by the EU

Road rehabilitation in Georgia where a TA package of 0.4 million ECU was financed by the EU for a WB loan of \$13 million.

As TRACECA now includes direct investment projects as well as TA, we are to maintain complementarity of actions with the IFI and act as a co-financer rather than a substitute donor.

The objectives of investment projects therefore still include the stimulation of participation by others. This is achieved when potential revenue streams from TRACECA investments add to and enhance the overall investment attraction of a larger package including an IFI.

The EU continues to provide support to projects that receive funding from other sources and these include:

Rehabilitation of the Caucasian Railways for 5 million ECU : An investment project in the framework of the Food Aid operation for the Caucasus in 1995. The intensive use of the Caucasian railways under the 204 Mecu food aid-operation by EU had led to the exhaustion of rolling stock and rail track. The project financed the rehabilitation of 7.5 km of track in Georgia, the reparation of the section Airum-Yerevan (Armenia border with Georgia), the rehabilitation of the bridge of Poyle (Azeri border with Georgia).

Air Traffic Control (ATC) Training and Southern Ring Air Routes for 5 million ECU: A regional project in 10 countries to upgrade ATC capabilities and to support the establishment of a rational workplan for routes to be adapted by airlines. The project includes a feasibility study for the three national Caucasian airlines to set up a joint venture for regional flights with investment opportunities for private European investors.

INOGATE (Interstate Oil and Gas Transport to Europe): A programme which aims to rehabilitate and modernise existing oil and gas transmission grid and facilities in the NIS, to assess options for possible alternative routes, to strengthen regional co-operation in oil and gas pipeline management and institution building.

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