War and Peace in the Southern Caucasus

A Strategic Conflict Assessment of *the Armenia-Azerbaijan conflict*

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Humanitarian Initiatives

Foreword

Violent conflict is one of the main causes of human suffering and is also one of the greatest obstacles to the elimination of poverty. Many of the world's poorest people suffer the consequences of conflict.

But responses to conflict often rest on an assumption that the main problem lies in the aggressive feelings of the warring parties, and that the solution therefore lies in promoting greater understanding and tolerance. This view puts much emphasis on formal peace negotiations (Track One) supported by civil society pressure (Track Two). A different view is that the problem may be embedded in the conflicting interests of the protagonists and will not be resolved without changing the nature of those interests by addressing the root causes. This brings in 'Track Three' – the role of aid.

This book demonstrates a 'political economy' approach to conflict, focused on interests and 'greed'. It is concerned with the interaction and dynamics of root causes, and the possibilities of addressing them through long-term aid policy. It explores the possibilities for 'managing' conflict in the interests of poverty-reduction, and to some extent through it.

The methodology has been developed by DFID through experimental studies over the last two years. This is the first attempt to follow the full methodology through to designing a response in the form of a Peace-Building Framework –and this is given as an example of the practical outcomes possible from this type of study. The book should be of interest not only to those who are interested in the Caucasus region but also to conflict analysts, especially those in aid agencies.

In the end, the Nagorno-Karabakh conflict offers no easy solutions. The interests of the most powerful actors in conflict are well served by the status quo. Chance events may bring about change, but otherwise for those with a strong focus on poverty and human suffering, only a long-term collective approach – addressing the problem of political exclusion – will begin to tackle the problems.

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DFID and Embassy staff have been scrupulous in allowing us full freedom to make our own judgments. Of course, this means that any errors are our own. This also means that the report does not in any way represent the views of DFID or the British Government, nor imply any commitment by DFID to any of the recommendations.

Humanitarian Initiatives is a group of analysts and consultants trying to develop deeper analysis of conflict situations and greater objectivity in humanitarian responses. We hope that this will be just the first in a series of studies. Special thanks are due to Richard Morris for guiding our first steps into publishing. Correspondence may be addressed to Tony Vaux at vauxt@aol.com

Acronyms

ADB	Asian Development Bank
CBO	Community Based Organisation
CHAD	Conflict and Humanitarian Affairs Department of DFID
CIS	Commonwealth of Independent States
DFID	Department for International Development (British Government)
ECHO	European Commission Humanitarian Office
EECAD	East Europe and Central Asia Department of DFID
EU	European Union
FCO	Foreign and Commonwealth Office (British Government)
IDP	Internally displaced person
IMF	International Monetary Fund
NGO	Non-Government Organisation
NK	Nagorno-Karabakh
ODA	Overseas development assistance
OSCE	Organisation for Security and Cooperation in Europe
PBF	Peace-building framework
PRSP	Poverty Reduction Strategy Papers (World Bank)
SCA	Strategic Conflict Assessment
SCF	Save the Children Fund
UN	United Nations
UNDP	UN Development Program
UNHCR	UN High Commissioner for Refugees

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A note on the text *In some cases there are different names and spellings for the same word from the Armenian and Azeri viewpoints. Throughout the text we have used what we consider to be the international norm and no political implication or cultural bias is intended.*

Executive summary

Introduction and purpose

The collapse of the Soviet Union triggered a geopolitical reorganisation that has led to a number of conflicts. The Nagorno Karabakh (NK) conflict has been described as a frozen conflict from which a self-declared state has emerged. The Southern Caucasus has become embroiled in a circle of blockades and non-cooperation. This has blighted the development of the region not only in terms of economic growth but also in terms of governance. Democracy cannot develop until the conflict issue is tackled more effectively than it has been so far. But it is also true that only the emergence of true democracy can finally resolve the conflict. The problem is to find where to intervene in this vicious circle.

A 1994 cease-fire led to a stalemate resulting in de facto autonomy for Nagorno Karabakh, but this has not been accepted by Azerbaijan, and it is unlikely that any government in Baku (Azerbaijan) could ever allow complete secession. With nearly a million Azerbaijani people displaced by the conflict, and still living in misery, the stakes are too high.

There have been ongoing peace negotiations through the OSCE Minsk group, however the 'no peace-no war' stalemate has yet to be broken. From time to time hopes are raised and refugees become excited, but such hopes have always been dashed. At the beginning of 2001 there was 'cautious optimism' about a diplomatic breakthrough leading up to talks in Key West, Florida, but in the end the talks were broken off without result.

Fundamental blocks remain to the settlement of the conflict, particularly problems related to political, economic and social development within Azerbaijan and Armenia. This suggests that traditional diplomacy by itself cannot deliver or sustain a peace process. Other policy instruments, strategic vision and long timescales must be used in conjunction with diplomacy. Development assistance is one such instrument that has the potential to address the contextual and societal issues that block the conflict resolution process. This report is focused on the potential and limitations of development assistance in supporting peace-building processes. It is recognised that overseas development assistance (ODA – referred to in this report as 'aid') on its own is unlikely to lead to peace, but it may provide powerful incentives or disincentives for peace or conflict in the region. If the role of aid is not properly assessed there is a possibility that it may do harm

This report was commissioned by DFID East Europe and Central Asia Department (EECAD) in January 2001 and the fieldwork was conducted in March (Armenia) and June (Azerbaijan). The main text of the report was submitted in November 2001 and only minor modifications have been made since then. Some specific details may now be out of date but we hope that the overall report – since it is based on a strategic analysis of fundamental causes- will remain valid.

The purposes of the report were

- To provide a strategic analysis of the NK conflict, including an examination of its roots, its dynamics and the various conflict stakeholders.
- To map out responses to the conflict with a particular focus on aid and the interaction between development assistance and the dynamics of violence and peace.
- In the light of our analysis, to develop a Peace-Building Framework (PBF) mapping out options and strategies for DFID and the wider international community.

Nature of the problem

The roots of the NK conflict go back to the 1920s when Leninist architects of the Soviet Union imposed administrative boundaries on the region. In 1924 NK was designated as an autonomous enclave within Azerbaijan, mainly populated by Armenians. The arrangement tended to exacerbate rather than reduce ethnic sensitivities. The dispute over its jurisdiction festered for over five decades. In the late 1980s and early 1990s, during the dying days of the Soviet empire, nationalist leaders came to the fore demanding greater links with Yerevan, the Armenian capital, and ultimately full independence. The dispute escalated into open war in 1992 and was only constrained within 'no-peace-no-war' bounds by the Russian brokered ceasefire in 1994.

The consequences of the war were serious and have added to the intractability of the underlying problems. As a result of the fighting, over one million people were displaced, mainly in Azerbaijan. A huge buffer zone of occupied territories, far larger than NK itself and amounting to 15% of Azerbaijan's territory, was occupied by NK troops. Although it lacks international recognition, NK has achieved internal sovereignty with its own government apparatus and military forces. In practice, however, NK is in a state of economic and monetary union with Armenia. 50% of NK's budget

comes from Armenia and it seems likely that without Armenian support, NK could not exist.

An economic blockade against Armenia has been imposed by Azerbaijan, supported by Turkey and less consistently by Georgia. It has not brought about peace but has had a serious effect on the economy of Armenia and contributed to a process of massive outward migration of Armenians. The price paid for NK by ordinary Armenians is high. But they are unable to express reservations about the issue. A war mentality is whipped up by Armenians abroad (diaspora) and by politicians. The economic blockade has led to smuggling, corruption and economic stagnation. The dispute undermines the economic and political framework of both the countries.

Negotiations to resolve the conflict have been ongoing through the OSCE Minsk group under the Russian, US and French co-chairs. But several key issues remain unresolved:

NK's status: NK's insistence on internal sovereignty and Azerbaijan's insistence on territorial integrity are extremely difficult to reconcile.

Occupied territories: NK refuses to withdraw from the occupied territories because it views these as a means of ensuring its own security and a lever in peace talks.

Lachin and Nakichevan: Lachin is the section of Azerbaijan connecting NK with Armenia. Nakichevan is part of Azerbaijan on the other side of Armenia and has no land connection with Azerbaijan. At different times there has been talk of a land swap in which Azerbaijan receives a corridor of land connecting Nakichevan with Azerbaijan while NK in turn retains the link with Armenia through the Lachin corridor.

Population return: Azerbaijan encourages displaced people to retain hopes of return rather than settle elsewhere. The presence of the displaced persons is indeed used as an argument against compromise, and sometimes for renewing the war.

Impact of the conflict

The direct and indirect costs of the conflict have been high. 15–25,000 people were killed and 50,000 wounded1. The conflict has caused a huge displacement of people, including 345,000 Armenians who lived in Azerbaijan before 1988. Many of these Armenians were driven out of their homes after the collapse of the Soviet Union or have chosen to leave because of the increasing hostilities. Nevertheless, some thousands of Armenians continue to live in Baku. On the Azerbaijan side, 185,000 people left Armenia itself and a further 45,000 came directly from NK. But the huge majority of the displaced, over 500,000, are Azerbaijani people from the occupied territories surrounding NK. These areas are now practically devoid of any population, while the people live in camps in Azerbaijan, waiting for a chance of return.

The indirect costs of the conflict have also been great. The economic blockade has already been referred to, but the most fundamental result is the stagnation of democracy. The threat of a return to conflict has contributed to chronic political instability which has tended to favour the emergence of autocracy while also leaving the region vulnerable to the competing agendas of international powers.

This has become a vicious circle. The personalised and highly centralised nature of power is reflected in the secrecy surrounding the peace negotiations and the absence of wider public participation. The agendas of the Presidents and mediators are not transparent to the people affected by the conflict. The people are alienated from the peace process by lack of accurate information. This is further exacerbated because the threat of conflict leaves both countries militarised both in terms of the skewing of economies towards military purposes and also in terms of governance. As another commentator put it, '*fear is both a condition and a resource for the de facto states*'[2].

The uncertainty caused by conflict has acted as a brake on the development of Azerbaijan's oil reserves, leading to huge delays in the construction of pipelines across the region. External actors can take advantage of internal divisions and oil companies can manipulate the situation to their own advantage. On one side, the oil industry offers small amounts of funding for social welfare projects, while on the other they can make massive savings by exploiting the corruption of individuals ready to sell their country's inheritance for their own immediate gain. The oil industry has led to increased corruption and conspicuous consumption that arouses the anger of ordinary people. In order to protect the extraordinary wealth of the few, the majority suffer repression and harsh political control.

But there are also more fundamental negative outcomes from the oil industry. Economists refer gloomily to the incipient 'Dutch Disease' in Azerbaijan, meaning the way in which oil wealth inflates the currency and thereby encourages smuggling, while also undermining local production. These negative effects could be countered by the imaginative use of oil revenue. But, as one interviewee commented – *'it's not clear whether Azerbaijan is to become a Norway or a Nigeria'*. Azerbaijan is more prone to waste the income in immediate luxury consumption rather than use it as capital for the long-term development of the nation.

In a strange parallel, the inward remittances from Armenia's wealthy diaspora have contributed to the concentration of conspicuous wealth in Yerevan. This

bears little relationship to the rest of the economy but by drawing talent into non-productive services and leading to price inflation undermines other sectors, especially the rural areas. In both countries there is a startling difference between the metropolis and the hinterland. If it were not for the NK conflict, people in the region might view their problems as a fight between the poor and the rich.

Problems of resolution

Conflict makes the region vulnerable to outside interference, and so the region is unable to control its own destiny. The tiny states of the Southern Caucasus are still grappling with differing and often contradictory relationships with the major powers and regional neighbours[3]. The main actors are Russia, Iran, Turkey and the United States. Their roles have been ambiguous in that all have acted from time to time as mediators, but all have also pursued self-interested agendas that have undermined regional stability. In recent years an alignment has developed, with Russia and Iran siding with Armenia and the US and Turkey with Azerbaijan. The more recent emergence of common US-Russian agendas now complicates this alignment and leads to the possibility of a geopolitical shift. But so far the uniting issue of 'terrorism' has not come to the fore in the Southern Caucasus except in relation to the indirect effects of the Chechenya war to the north. In essence the NK conflict is considered to be a low priority and therefore becomes an aspect of other political issues rather than an issue in itself.

It has been said that Russia has been both 'peacemaker and trouble-maker'[4]. While being instrumental in securing a ceasefire and playing an active role as a co-chair of the Minsk mediating group, Russia has also acted in the belief that it has historical claims to be the predominant voice in the affairs of the region. Russia views its hegemony as essential for two reasons. First to prevent the spread of instability from Chechnya or from Islamic groups further south, and second to allow the exploitation of natural resources, namely oil and gas from the Caspian. Historically, US policy interests in the region have been motivated by the existence of energy resources and by geopolitical concerns about countering Russia's influence. These two interests are in a constant state of flux. A further complicating influence on US policy has been the Armenian diaspora in the USA which has steadfastly supported Armenia, limited the flow of aid to Azerbaijan and rigidly opposed any kind of mediated settlement.

With Turkey and Iran aligning themselves respectively with Azerbaijan and Armenia, the region has become politically grid-locked. Superficially, the military balance rests in favour of NK and Armenia but Azerbaijan has the wealth to change the balance in the long term. Such an analysis is of little value because Azerbaijan could not make a military challenge unless the Russians held back support from the other side. In this way Russia continues to hold the trump cards, and the shadow of regional and international agendas exerts an overwhelming influence on the peace process. Unfortunately these agendas do not seem to be focused on peace, but rather on maintaining their grip (or in the case of the USA, avoiding the dissent of the diaspora) through the status quo.

Processes of internal change are also stalled. Both countries are suffering from 'post Soviet hangovers' in the sense that they are experiencing incomplete political and economic transitions. The conflict blocks such transition processes and gives the leaders a pretext for consolidating power and limiting the development of both commerce and democracy. But such processes were already incipient at the time of independence. Without the added advantage of easy access to European markets, few of the newly-independent states have been able to make a successful transition from Communism.

In the case of the Caucasus, conflict compounds and exacerbates the problem. The result is increasing poverty, as elsewhere, but in these countries the sense of 'grievance' has no channel of expression because it becomes unpatriotic. Government has a license for autocracy, and so the views of the people have little influence on peace negotiations.

The implication is that conventional Western approaches to peace-building through bringing groups together to analyse the situation and find ways forward are unlikely to succeed. Those in power are not so much interested in peaceful solutions as in preserving their own power. The international context also lies outside the influence of such peace-builders. We suggest that, however weak it may be, the only remaining approach is to address the long-term contextual factors, notably the issue of governance, and work to increase the voice of the affected people through democracy.

Conflict dynamics

Perhaps the most important dynamic factor in the conflict equation is the health of President Aliyev, 78 years old at the time of writing and with an apparently serious heart problem. Although he is grooming his son as successor, there is little chance that this will occur without turmoil within the ruling elite. This danger has had a galvanising effect on the recent peace negotiations as both leaders realise there may be only a limited window of opportunity to secure a peace deal. There are suggestions that President Aliyev would like to be remembered as the man who solved the problem, but the indications are that he has assessed the risk and considered it to be too great. Early in 2001 he allowed

certain peace proposals to be floated as if they came from his government, but when they met fierce opposition he disclaimed any connection with them. Currently, in spite of continuous expressions of 'cautious optimism' from Minsk group participants, a settlement remains a long way off.

Responses of the international community

Apart from geo-strategic issues of security, the international community is focused on the issue of oil, the development of the region's economic potential, and the compliance of states in the region with international and European standards, notably on human rights and good governance.

These interests have not been pursued in a co-ordinated or coherent manner. Firstly different actors have competing interests, especially around the issue of oil. Donor governments compete with one another to create business opportunities for their companies. Secondly there are tensions and trade offs between different strategic goals. The pursuit of short-term stability or business opportunities in the oil sector may clash with efforts to promote good governance.

Our analysis highlights both the need for a more collaborative approach between different actors and greater coherence between different policy instruments. This will only come about if international actors are prepared to relinquish a level of self-interest. To an extent this has been recognised in the EU supported concept of a Stability Pact for the Caucasus, which argues for a comprehensive and multilateral approach. But currently it remains little more than an idea. There is still a large gap between the statements of good intentions and the actual practice.

Development assistance to the region has primarily focused on the goals of economic liberalisation, government reform, social protection and humanitarian provision. The key actors are the IMF, World Bank, EU, United Nations and a number of bi-lateral donors, notably USAID. The IMF and World Bank have followed a standard adjustment and liberalisation package – commonly criticised for being 'one size fits all'. In this case, the policy has certainly exacerbated some of the issues and tensions underlying the conflict, notably by strengthening the hand of corrupt elites through unsatisfactory privatisations. In short, economic issues have taken precedence over governance.

In so far as international actors have addressed governance, the focus has been on 'forms' rather than real changes in the 'norms'. Cuts in public sector costs have simply resulted in underpaid officials resorting to bribery. Cuts in education and health without a concurrent spread of economic opportunity have resulted in social exclusion. The danger of such a limited approach is that it may inadvertently exacerbate conflict. Structural reforms may, for example, consolidate economic power in the hands of the elite. Privatisation, without the moderating influence of governance, provides ample opportunity for the accumulation of wealth by elites and this in turn causes the alienation of large sectors of society.

More recently donors have begun to focus more on governance, but this is often approached without reference to the huge obstacle created by the unresolved conflict. Change is most likely to be achieved by a strategic approach and much greater collaboration between members of the international community.

Strategic opportunities

The international community can exert its influence through two specific instruments. Firstly, accession by both countries to the Council of Europe obliges them to follow European standards of governance. Competition between the two countries makes this a more powerful tool than might otherwise appear. Secondly, the development of Poverty Reduction Strategy Papers (PRSP) is a condition for international assistance, notably from the IMF and World Bank. The participation of civil society is a fundamental requirement. This gives the international community a second powerful lever to improve governance and reverse the processes that have become entrenched around the conflict.

Armenia and Azerbaijan acceded to the Council of Europe in January 2001. There has been some criticism about the decision to allow accession given the poor track record of both countries in the area of governance[5]. However, there are strong indications that accession is now being taken seriously by the countries concerned, and perhaps more so than by the Council of Europe itself. The international community (or the European part of it) could exert greater influence to promote real improvements in human rights, freedom of the media and the participation of civil society in governance. Whether it is simply inertia that has prevented vigorous action, or the hidden influence of the oil issue, cannot be reliably established.

Both countries have made an official commitment to the PRSP process. This reinforces the international community's efforts to promote good governance because governments are required to consult with their people and with civil society. The main focus of the PRSP process is in relation to economic rights and in particular the right not to be excluded from processes of development – as so often happens now. In the case of Azerbaijan, for example, it draws attention to the extraordinary economic gap between Baku and the hinterland. In the case of Armenia it raises the question

why so many citizens are forced to leave their own country in order to work. There is immense scope to make the PRSP process more sensitive to conflict, evolve a strategy and use its influence to reverse current trends.

International responses have not focused on conflict and therefore have tended to let it slip completely out of view. This report argues that only limited progress can be made in the economic and governance spheres without a resolution of the conflict.

Conclusion

Substantial results are only likely to be achieved as part of a longer-term strategy with a focus on building up and protecting civil society, and allowing people to participate in well-informed and open debate about the future. This depends on the international community developing a more coherent and coordinated approach and keeping the issue of conflict at the centre of the strategic focus.

Ways forward

1 A democratic path to conflict resolution

Using established mechanisms to the full
If, after developing a stronger voice, the people of the two countries cannot resolve the conflict then at least it will be by their own decision and reflecting their own interests rather than the interests of a narrow political clique. Donors should unite around the PRSP and Council of Europe mechanisms to apply leverage opening the way for the development and participation of civil society, and thereby the development of more effective democracy,

Working together strategically
Set up national and regional 'conflict forums' in which actors would meet to review conflict-related issues. Such a forum would include representatives of the IFIs, UN, donors, civil society (international and national) and would produce a common conflict strategy. The group could provide a powerful input to processes such as the PRSP and Council of Europe Accession requirements.

Building civil society
Higher levels of participation can be achieved by building up Community-Based Organisations. These may start with simple programmes such as savings but then become involved in 'political' issues such as access to credit. The role of women in such groups – or the need for separate women's groups – should not be overlooked.

Uniting all 'Tracks':
Track Two (civil society) efforts tend to be piece meal, unconnected with Track One (government) and involve a narrow cross section of actors from Azerbaijan, Armenian and NK. Track Three (international community) has tended to follow its own separate agenda. Efforts should be made to make closer links between all the different interventions.

In the case of Track Two there is a need to go beyond isolated workshop-type 'events' towards active engagement in practical issues such as generating an effective national PRSP. Secondly, NGOs must widen their constituency to include those who are most affected by the conflict, notably the poor and displaced. In all this work, emphasis should be placed on developing and involving organisations from NK.

2 Adapting aid to a conflict environment

A conflict checklist
In a conflict situation donors generally wish to be sure that their aid will do no harm. It is important to develop a set of critical questions that can be applied to all programmes and projects. Some proposals for such a checklist are given in the main report.

Gearing up for peace:
Donors should jointly develop contingency plans in the event of a peace settlement leading to IDP return. The argument is not so much that peace is really about to break out but that the existence of a practical plan might open the way for other negotiations to move forward.

Areas of focus might include
- Joint planning and joint commitments to provide resources for rehabilitation and reconstruction.
- Research on best practice in the event of return and engaging governments in debates about the most crucial issues.
- Civic education about the potential rewards of peace.

3 Building new programmes

Donors should develop new, longer-term strategies to support the development of civil society, to engage a wider range of people in national debates, and ultimately to apply democratic pressures to issues of conflict resolution.

Such a process has to be taken in stages, with a realistic time-frames of up to five years strengthening civil society before expecting to directly address conflict issues. Funding would need to be directed not so much towards short-term project achievements but towards building the capacity and independence of such organisations and helping them to establish democratic roots.

Introduction

Terms of reference

In DFID's terms of reference, *'the goal of the project is to enhance prospects for the peaceful transformation of the Armenia / Azerbaijan conflict. The purpose is to promote opportunities for increased understanding and constructive engagement between Armenia and Azerbaijan.'* The team was asked to complete a Strategic Conflict Assessment (SCA)[6] with a view not only to influencing the policy of DFID but also other parts of the British Government. It was also the intention to influence other international actors by publishing and disseminating the report. The mechanism for translating the analysis into action for DFID is a Peace-building Framework (PBF) – a plan for interventions in support of peace-building processes over a 3-year period to be submitted to the Conflict Prevention Fund[7].

The methodology is derived from a DFID-supported Conflict Assessment Project, which involved four previous country studies.[8] Field visits by a team of three to four people were conducted to Armenia and NK in March 2001 and Azerbaijan in June 2001, totalling nearly four weeks. Interviews were conducted with government officials, civil society groups, diplomats, aid donors and others. The field-work was supplemented by interviews in UK and Germany and a review of the relevant literature.

Focus and structure of the report

Although the focus of the current assessment is on NK, the roots and dynamics of the conflict cannot be understood without looking at the wider context. This report therefore does not confine itself to an analysis of the immediate triggers and dynamics of the NK conflict. It also examines the broader structural and contextual questions related to transition processes in the region. It is argued that an understanding of these two sets of issues and how they interact with one another is an essential starting point in the search for solutions to the conflict. Underlying issues of exclusion and governance interact with those specifically arising from the conflict.

The report is structured as follows: *Section One* consists of an analysis of the underlying structural causes of the NK conflict, focusing on its security, political, economic and social dimensions. *Section Two* examines the dynamics of the conflict and potential conflict scenarios. *Section Three* maps out international responses to the conflict, with a particular focus on aid policy and programming. *Section Four* examines the strategic risks and opportunities and *Section Five* gives conclusions and recommendations.

SECTION ONE

The background, history and causes of conflict

Physical factors

Most of Azerbaijan lies in the lowland area between the mountain ranges of the Northern and Southern Caucasus. Armenia is located in the western part of the Southern Caucasus. As a broad overview, the conflict has enabled Armenians to extend their territory eastwards, establishing control not only of the mountainous region of Nagorno-Karabakh (literally 'mountain-black-garden') but also much larger areas of the surrounding plains from which large numbers of Azeri people have been displaced. In total, Armenia occupies approximately 15% of the territory of Azerbaijan of which NK itself amounts to only 3%. Armenians make no strong claim to the territory surrounding NK but the valley between Armenia and NK, known as the 'Lachin Corridor' now constitutes a crucial element, and obstacle, to even a de facto resolution of the conflict.

Demography

According to the 1996 census 7.6 million people lived in Azerbaijan compared with only 3.6 million in Armenia, but in fact the difference in populations is much greater. Out-migration from Armenia, accelerated by the economic consequences of the conflict, is estimated to be as much as two million people, while the figure for Azerbaijan may be around one million[9]. Thus, Azeri people now outnumber Armenians by as many as four to one. According to the 1989 census (the last that is remotely reliable), the population of NK was approximately 75% ethnic Armenians (145,000) and 25% ethnic Azeris (40,688)[10]. Today it is totally Armenian.

But the process of ethnic separation is not limited to NK. Even before the war (1989–1994) virtually all Armenians, except those in mixed marriages, had left Azerbaijan. Similarly Azeris left Amenia from the time of the collapse of the Soviet Union. Because of mixed marriages and some uncertainty about what actually constitutes ethnicity (see below) the process is not quite as clear as it seems. It is reported that there are still some 30,000 Armenians in Baku, mainly married to Azeris, and ethnic tensions still erupt from time to time. There may be Azeris in Armenia but people are unwilling to admit it.

The Caucasus has historically been an important meeting place and a potential fault line between powerful regional and international rivals[11]. Armenia and Azerbaijan have been both victim and beneficiary of rival empires[12]. This is reflected today in the so-called 'big brother syndrome'[13] whereby Armenians automatically equate Azerbaijan with the Turks, while Azerbaijan automatically equates Armenia with Russia. Armenians have historically viewed themselves as being situated on a religious frontier with Muslim Turkey. Despite elements of common culture and tradition, many Armenians refer to Azeris as 'Turks'.

The interpretation of historical events continues to exert an important influence on relations between the two countries. For many Armenians, the 1915 uprising of Armenians against the Turks and the subsequent massacres were a defining event – and the memory is constantly reinforced through the diaspora. Such people believe there can be no reconciliation until the massacres are recognised as genocide. The sense of being an eternal 'victim' colours their understanding of the NK war.

In the past there has been considerable fluidity in the movement and interactions of peoples. Definitions of ethnicity used to be less rigid. Yerevan was an 'Azeri' city, while Tblisi (capital of Georgia) was predominantly 'Armenian'. This issue is skirted around by those Armenians who are determined to make a stronger link between ethnicity and territory. They describe Azeris as temporary migrants in their country. But Azeris, even in Baku, refer to Susha in NK as their spiritual and cultural homeland. What seems apparent is that perceptions of ethnic difference have been steadily increasing and that the ability to travel around the region is being curtailed.

Transition

Overlaid on all this is the effect of the collapse of the Soviet Empire. During the Soviet period both nationalities were deeply affected by Soviet manipulation of territorial boundaries. Now they suffer from post-Soviet 'hangovers' in the sense of an incomplete political and economic transition. Despite some appearances of Westernisation there is an underlying continuity of the old Communist leadership. Political opposition is fractured and civil society lacks status in society separate from political processes. In the Soviet period the response to conflict was force, usually applied by the military. Political institutions have not yet developed sufficiently to handle the issue in any other way.

Conflict in the region has particularly devastating effects because during the Soviet period it had been highly integrated in terms of economic activity. For instance, raw materials from Azerbaijan's oil industry, processed through local chemical plants, formed the basis of a chemical and manufacturing industry in Armenia. With few raw materials of its own, the effects of transition and war have been particularly devastating for Armenia.

In conclusion, the problems of transition cannot be addressed without resolution of the conflict, and the conflict cannot be resolved – to an extent at least- because of the problems of transition[14].

History and impact of the conflict

Causes and current perspectives

History

Details of the 1989-94 conflict are not relevant to this report and can be found elsewhere[15]. But the historical causes are important: memories of past events exert a powerful influence on events today. The roots of the NK conflict go back far into the past. In the 1920s Leninist architects of the Soviet Union imposed new administrative boundaries on the region. NK, mainly populated by Armenians, was designated as an autonomous enclave within Azerbaijan. This might have worked except that the area was neglected by the Azeri authorities in terms of infrastructural investment and other issues[16], creating a sense of grievance and desire for closer links with Armenia.

The dispute over NK's status festered for over five decades. As the strength of the Soviet Union faded, nationalist leaders grasped the opportunity to shake off Azeri rule. In 1988 there was a first formal demand by Armenians in NK to transfer the region from Azeri to Armenian control. Moscow rejected the demand and in 1989 the Armenian Soviet responded by calling for reunification with NK. Following a brief interlude of direct rule from Moscow, NK voted in favour of full independence in January 1992. These events triggered a full-scale war between the Azeri army and the forces of NK. These were directly supported by Armenia[17]. In the early stages the Russians supported the Azerbaijan side but later switched to the Armenians, allowing NK to break away.

Political turmoil in Azerbaijan undermined the conduct of the war and the Azeri forces, after initial gains, began to suffer heavy losses. The failure of the Azeri forces and the seizure of huge swathes of Azeri territory by the Armenians created a political crisis in Baku. The post-communist government was swept away and Geidar Aliyev, a former Soviet politburo member and secretary of the Azerbaijan Communist Party, came to power. Political opposition in Azerbaijan has never overcome the consequences of defeat. Any attack on government is undermined by reference to past 'betrayal'. Thus the Aliyev Government maintains a reputation of nationalism almost regardless of its political actions.

Frozen politics and perceptions

A Russian-brokered cease-fire was signed in May 1994. Subsequently there have been many small violations of the ceasefire but no further outbreak of war. Little progress was made toward a political settlement after the cease-fire. A sustainable balance on the battlefield had been attained[18]. The military stalemate is bolstered by a political culture which emphasises historical enmities and on both sides a sense of being the victim – Armenians harking back to the Genocide and to oppression by Azeris in NK. The 'Armenian Assembly of America' for example states that, *'The twentieth century has been a period of successive tragedies for the Armenian people. Genocide in Ottoman Turkey in the first part of the century and pogroms against the Armenians in Azerbaijan as recently as the late 1980s and early 1990s lie at the core of Nagorno Karabagh's insistence on guaranteed security for its citizenry.'*[19]

Public opinion is mobilised by political entrepreneurs, particularly opposition parties, who (for fear of being labelled anti-national) tend to develop ever more extreme nationalist views. Government is able to project itself as more moderate than the opposition and therefore can avoid coming under extreme pressure either from its own people or from external actors. Political moderates are marginalised in a discourse which emphasises past injustices and a sense of cultural violation. In Baku for example, few discussions of the war proceed for long without someone asking, *'how would you feel if you invited guests into your house and then they took over two of your rooms?'* The Azeri citizen is encouraged to view himself as a kindly host whose good nature has been abused. As one Azeri government official remarked: *'so long as there is injustice there will be conflict … an occupier must be called an occupier'*.

Inevitably, presenting a picture of two extreme positions simplifies the reality. There is a kaleidoscope of views within the two countries. The views and concerns of an Azeri villager from the occupied territories, for instance may be very different those of a politician in Baku. However political debate tends to play to the extremes and the voices of those who may have an interest in the resolution of the conflict, such as the IDPs are either manipulated or excluded.

Peace negotiations

History. Negotiations have been underway for several years under the auspices of the OSCE 'Minsk Group' which comprises Russia, the USA and France. Despite many meetings and many apparent near-successes a

political settlement has remained elusive. Optimism early in 2001 was dashed when talks in Florida produced no concrete result and the next prospective round of talks in Geneva was postponed indefinitely. By July, the Minsk group officials were emphasising the need to avoid war rather than reach peace: *'this 'no peace, no war' situation is dangerously fragile … and only exacerbates tensions and increases the risk of renewed conflict'*[20].

There has been a tendency of both sides to treat the negotiations not as an exercise in pragmatism but an affirmation of ideology. NK maintains its insistence on internal sovereignty – meaning that conflict resolution cannot be achieved through federal power-sharing arrangements. Internal sovereignty therefore appears to be non-negotiable. Both sides have used international law to back up their positions: NK/Armenia pointing to the right to self-determination and Azerbaijan to territorial integrity. There is however, a growing realisation from the separatists in the Southern Caucasus (including the Abkhaz) that the international community's default position is overwhelmingly in favour of territorial integrity, not self-determination. Hence their position is maintained, ultimately, by force. Box 1 summarises the key phases of the negotiation process to date.

Box 1: Phases of the conflict and peacemaking

1989–1991: Growing tensions: Lack of international interest Soviet attempts at pacification. Western powers treated the conflict as an internal affair of USSR.

1992–1994: War years and reaching a ceasefire: CSCE mediation. 1992 meeting in Minsk, Belarus. Ceasefire arrangement (Bishkek Protocol, May 1994). Exchange of hostages and POWs. OSCE summit in Budapest, Dec. '94. Expressed support for UN Security Council Resolutions 822, 853, 874 and 884 calling for withdrawal of NK and Armenian forces from occupied districts and affirming the territorial integrity of Azerbaijan.

1995–1999: Negotiating the 'NK knot': Peace process led by co-chairs of the OSCE Minsk Conference (Russia, US and France). Dec. 1996 Lisbon summit – three principles (1) Preservation of Azeri and Armenian territorial integrity (2) self determination of NK within Azerbaijan (3) security guarantees. Armenia unwilling to accept the proposal. 1997 another proposal put forward on both consequential issues and the question of status. Several approaches – first a phased approach, then a common state model were tried.

2000–2001: 'Peace offensive' Paris, Jan. 2001. President Aliyev 'tests' Parliament but stated attitudes are bellicose. Failure of talks at Key West. New Russia-US alignment after September 11th but NK war is not the centre of attention

There has been an acceleration of the peace process, a so-called 'peace offensive' in the last year. The critical factors behind this appear to be: the convergence of US and Russian positions, Aliyev's declining health, and the economic decline of Armenia. From time to time the contours of a peace agreement have seemed to emerge. An option given serious consideration is the return of Armenian-occupied territories to Azerbaijan with the exception of NK proper and the Lachin corridor. These would receive self-governing or autonomous status in exchange for Azerbaijan receiving control over the road to Nakhichevan. This would offer Azerbaijan a land corridor to Turkey and even an opportunity to export oil through its own territory[21]. In return Azerbaijan and Turkey would lift their economic blockade against Armenia. International monitoring forces would be required to guarantee the arrangements. A variant of this solution is that NK should become a 'common state' jointly administered by the two countries.

While the 'party line' of the Minsk Group is one of 'cautious optimism', the long history of near-agreements and subsequent failure indicates more reason for 'caution' than 'optimism'. After the 1999 OSCE Istanbul summit, for instance, when the 'common state' solution was first mooted, this led to wild speculations in the two societies and eventually the breakdown of the negotiation process

It is perhaps too early to assess how the events of September 11th will influence peace negotiations. There is optimism that the rapprochement between Russia and US could lead to coordinated pressure and inducements for both sides to seek a sustainable resolution of the conflict. On October 31st 2001 the OSCE and Council of Europe issued a joint statement that urged Armenia and Azerbaijan to renew efforts to reach a political settlement. US legislators have sought to mollify Azerbaijan by voting to lift trade restrictions against Baku under Section 907 of the Freedom Support Act[22]. On the other hand, the events of September 11th are also likely to lead to a more assertive role from Russia in the region and an increased focus on counter-terrorism and political stability. This could accentuate the problem of the slow pace of political reform in both countries, which constrains the search for the sustainable solutions to the conflict.

The crux of the problem continues to be the fact that Azerbaijan stands by the principle of territorial integrity, while Armenia and NK argue for self-determination. We return to examine future prospects in Section Three.

The impact of conflict

Human consequences

The direct and indirect effects of the conflict have been devastating, especially when we consider the small size of the countries involved. 15-25,000 people have been killed and 50,000 have been wounded[23]. There are still problems relating to missing persons. The main consequence of the war today is the displacement of populations. It is worth noting that compared with the size of population the displacement of Armenians has been proportionate to that of Azeris. According to the best estimates 345,000 Armenians have been displaced from Azerbaijan (most of them now live in Armenia). 185,000 Azeris were displaced from Armenia itself and 45,000 from NK. Those Azeris displaced from the other 'occupied territories' number around 500,000, giving a total of around 730,000 on the Azeri side, or around 10% of the population, almost exactly the same as the Armenian proportion. In that sense neither side can claim to be the victim.

In the years immediately after the conflict the costs of support to the direct victims of the conflict were met by the international community rather than governments. Humanitarian aid to the region following the UN emergency appeal for the Caucasus in 1994 has been substantial and focused primarily on the needs of the displaced[24]. However, from 1998 support was cut back as donors began to demand that governments take on more responsibility. This is particularly severe for Azerbaijan because of the larger numbers and the effect of the continued promise that people will return. With Azerbaijan continuing to declare that the war is not over internally displaced persons (IDPs) have not been encouraged to settle, find jobs or invest in their livelihoods. Whereas in Armenia aid programmes have been able to focus clearly on rehabilitation, this has not been the case in Azerbaijan. There has been a deliberate reluctance to consider permanent solutions.

Political consequences

The long-term indirect costs of the conflicts have also been great. The threat of a return to conflict has contributed to chronic political instability. Fears of war enable the government in power to consolidate its position at the expense of democracy. The personalised and highly centralised nature of power is reflected in the secrecy surrounding the peace negotiations and the absence of wider public participation. The societies are militarised in the sense that *'fear is both a condition and a resource for the de facto states'*[25]. The military continue to be an important influence on political processes.

Economic consequences.

The conflict has also acted as a brake upon the process of economic transition. The imposition of economic blockades has contributed to the fragmentation of a region that used to be economically integrated. With a population of only 15 million in the Southern Caucasus, the region is too small to form separate markets. Armenia experienced a drop in GDP of 60% between 1994 and 1998. Levels of investment in the region are amongst the lowest levels in the Former Soviet Union. Particularly for Armenia, the 1999 Russian crisis caused renewed industrial decline[26]. NK is in effect a strangled economy relying for survival on subsidies from the Armenian state and the diaspora. Although the Azerbaijan economy has been buoyed up by oil revenues, it has still experienced a major decline resulting from its separation from Soviet markets. Its GDP fell by 73% from 1988 to 1994. Agricultural and industrial output fell by 43% and 60% respectively and in 1998 it had a $1.5 billion current account deficit[27].

Defence and national security absorb 20% of Armenia's central government expenditures[28]. Poverty is growing in Armenia and, with economic decline, emigration has accelerated. Up to 2 million people out of an official population of 3.7 million have left. The decline of state services and privatisation processes have tended to increase inequalities and contributed to growing social tensions. The imposition of trade embargoes and the decline of the formal economy have contributed to the growth of the informal and illicit economies. Convoys of oil tankers proceed on the road from Georgia to Yerevan under the protection of Armenian politicians who are able to keep prices at monopoly levels. The blockade and the silencing of political opposition (in the interests of 'national security') have facilitated the growth of an environment in which the shadow economy and political corruption can thrive. Similar observations can be made about Azerbaijan, substituting the effect of the oil industry for the blockade.

Regional consequences

The region's potential as a source of natural and human resources and as an important transit zone cannot be fully developed while the conflict remains unresolved. The economic benefits of peace to both countries would be huge. Opening Armenia's border with Turkey and Azerbaijan could reduce the transport cost by between 30% and 50%. The World Bank has calculated that Armenia would experience an immediate 40% rise in GDP in the event of peace. The long-term effects could be much greater when the problems of governance caused by the conflict begin to unravel. In Azerbaijan over half a million people could return to productive activity and millions of hectares of land would return to cultivation.

Currently large-scale irrigation projects are at a standstill because water held in NK is not released into the channels as and when it is required. This further compounds the problem within Azerbaijan of increasing economic disparity between Baku and the rural hinterland. Efforts have been made to use regional economic cooperation as a way to edge forward

towards wider political agreements, but they have been persistently thwarted by Baku's view that such projects make the status quo 'acceptable'. In their view such a process would allow the Armenians to consolidate their illegal occupation of Azeri territory. As the EU has observed[29] – *'The 'winners' i.e. the breakaway republics and their backers (Russia and Armenia) are proposing 'pragmatic' solutions, for instance that communications (e.g. the Baku-Yerevan railway) be opened before a final peace settlement is reached, but the 'losers' (in particular the government in Baku) fears that this would deprive them of a means to exert pressure. The step by step method seems to be difficult to apply successfully without at least some idea of how things are meant to look in the end.'*

Therefore the peace process continues to falter as the two sides cannot agree about the nature of the 'peace' or the nature of the 'process'. Both have different understandings of what constitutes 'peace' and correspondingly different interpretations of the 'common state' principle. One side argues for horizontal relations between Baku and Yerevan, while the other talks about vertical relations. Similarly, while one side argues for a phased process, the other insists on a 'once and for all' peace package.

Structural dimensions of the conflict

In the following section we examine some of the long-term structural dimensions of the conflict. We have summarised these in Table 1, which categorises the dimensions according to level (international/regional, national and local) and type (security, political, economic and social). Some of these divisions may seem artificial, but it is by dividing up the causes that we can more clearly see the connections. In the next section we examine these linkages in order to explore the dynamics of conflict.

Security dimensions

Security pacts

The present security system is a hybrid and contradictory regime[30]. Both states are members of the UN and OSCE. Both are also participants in the NATO-sponsored European-Atlantic Partnership Council and the Partnership for Peace programme. Armenia participates in CIS military cooperation, while Azerbaijan has attempted to forge a stronger relationship with NATO. Azerbaijan is also a member of the regional security alignment between Georgia, Ukraine, Uzbekistan and Moldova (GUUAM) which is seen as a more pro-Western alternative to membership of the Collective Security Treaty of the CIS. To an extent security arrangements crystalise around opposing alliances and this accentuates tensions. The cost of the present confusion is that the parties to the conflict are not receiving clear incentives and pressures to settle.

The emergence in the early 1990s of three conspicuously weak states in the Caucasus raised the possibility of a renewal of the tri-polar contest between Russia, Iran and Turkey that has been waged in different forms since the fifteenth century[31]. The primary actor in the region, at least in geopolitical terms, continues to be Russia. Russia clearly wishes to maintain its influence in the region. The Southern Caucasus is vital to Russian control over the North Caucasus, particularly Chechnya. Russia has an interest in re-establishing effective border control and resuscitating air defence networks along the Georgian and Armenian borders with Turkey and along Armenian's and Azerbaijan's borders with Iran.

Armenia has signed a 'Treaty on Friendship, Cooperation and Mutual Assistance' with Russia and has reportedly received $1 billion in military hardware[32] including the latest MIG 29 fighter aircraft. Moreover, Russia's 102nd Military Base is present on Armenian territory, primarily as a deterrent to the perceived Turkish threat. On the other side, a military cooperation treaty between Azerbaijan and Turkey signed in 1997 assures Azerbaijan of significant military support and training from Ankara. In recent months there have also been reports of a possible military alliance between Turkey and Georgia, which have alarmed Armenia[33].

Table 1: Structural dimensions of the NK conflict

	SECURITY	POLITICAL	ECONOMIC	SOCIAL
International/ Regional	Azerbaijan-Turkey military cooperation Armenia-Russian treaty GUUAM Russian military bases UN embargo	Historical claims of Russia and concerns about Chechnya US desire to limit Russian influence 'big brother' syndrome – small countries with powerful neighbours Interests of Turkey, Iran and C. Asian states Instability in Georgia Council of Europe	US/Russian interests in oil and gas Pipeline politics Influence of the Armenian diaspara Economic blockade Role of IFIs – EU, World Bank etc. – shock therapy Oil company investments	Religious fault-line – concerns of Russia over 'fundamentalism'
National	NK army Militarized states – growing military expenditure Influence of military actors Influence of veterans associations Military and the black economy	Bad governance, corruption Continuities with the Soviet elite – leadership transition Spoiler role of opposition Restraining role of public opinion? Capacity of the state to deliver Lack of independent media	International debt Rent seeking – privatization programmes, oil, aid Informalisation of the economy Cuts in public expenditure Capital city-rural divide, gini co-efficients Oil revenues in Azerbaijan Falling FDI	Hardened identities Outmigration – increasingly residual and vulnerable population. Erosion of the middle classes Declining education system Role of IDPs – instrumentalised Role of women and children The 'emotional economy' of the conflict
Local	Local fighting and tensions along the line of contact	Local government Lack of voice Limited citizens organisations	Lack of SMIs and start up capital Growing poverty Outward migration	Growing crime(?) Impacts on social capital? Atomisation Growing grievances

Armenia recently hosted a summit relating to a mutual defence treaty called the Collective Security Treaty. This obliges Russia, Belarus, Kyrgyzstan, Tajikistan and Kazakhstan[34] to come to their aid and to maintain 'rapid deployment forces' for that purpose. Turkey, of course, would look to NATO in the event of aggression. The current peace between Armenia and Azerbaijan therefore rests on a balance of global military power. The fundamental principle is deterrence but this means that any change in the balance (such as improved prospects for peace in NK) will be viewed primarily in relation to that greater security balance.

Military balance

Although it may be argued that Azerbaijan's economy is fundamentally stronger than Armenia's, this is countered by Russia's military and political backing for Armenia. According to diplomatic sources there is no immediate prospect that Azerbaijan could achieve its objective of territorial integrity by military means. Azeri forces are estimated to number some 70,000, which is considerably greater than NK's 25,000. However NK's army is better equipped and organised, and has the additional backing of Armenia's 44,000-strong army, which is considered to be the strongest in the Caucasus. With the added weight of Russian support, NK clearly has the military capacity to withstand Azeri aggression. As one NK official summed it up: *'The Azeris want to go to war but can't. NK doesn't want to go to war but can'.*

A further reason why the Azeri military will be reluctant to take military action is that the Baku-Tblisi road, as well as the railways and pipelines, are all extremely vulnerable to Armenian attack. The result has been a sustainable stalemate in which although local

detachments have engaged in fighting along the 'Line of Contact' there has been no significant violation of the ceasefire[35]. Nevertheless, rumours of an Azeri counter-attack abound. On the Armenian side these rumours cause fear and tend to undermine any expression of dissent. On the Azerbaijan side the rumours maintain hope among the refugees and IDPs and therefore divert their attention away from the poor deal they get from government.

Conclusion

In short, the perception of insecurity has contributed both to the outbreak of conflict and also blocks its resolution. Although none of the states are military states, they are dominated by the military. The Southern Caucasus has become an increasingly militarized region with each side emphasising its military capacities and reinforcing a military culture, which includes a denial of political, civil and social rights. The events of September 11th may lead to greater regional security cooperation36 but are unlikely to do much to focus attention on the negative aspects of militarization.

Political dimensions

International level: superpower involvements

The states of the South Caucasus are still grappling with differing and often contradictory relationships with the major powers. These relationships involve varying degrees of cooperation and coercion[37]. To a great extent, the resolution of the NK conflict depends on geopolitical factors and in particular how the short-term and long-term interests of Russia and the United States are balanced in the region.

in the region have been firstly to limit to Russian influence and help the non Russian republics develop as independent member of international society which are open to the West[38]. Secondly it has an interest in diversifying energy supplies. US interests are complicated by the influence of the Armenian diaspora. It is sometimes said that there are two policies: one driven by the White House following geopolitical concerns and the other driven by Capitol Hill which is much more narrowly concerned with the interests of the Armenian diaspora.

It has been argued that the Clinton administration's Caspian strategy made hydrocarbons appear more important than geopolitical interests in the area[39]. The events of September 11th may increase the pressure for American policy to move away from a primary focus on oil (the Caspian is now regarded as less important to the global supply than in the past) and focus more on the geopolitical balance and conflict prevention[40].

In this respect the Chechenya war 'against terrorism' has become a more significant geopolitical factor. Russia has played and continues to play a contradictory role. It has acted (often simultaneously) as both peacemaker and troublemaker[41]. Although Russia lacks the economic carrots of America (and the EU) it has a number of military, political and economic levers which it applies to maintain influence in the 'Near Abroad'. These include strategic alliances, conflict mediation, a military presence, debts (particularly with Armenia) and visa regimes. Its primary interests and concerns relate to security, geopolitical influence and extraction of Azerbaijan's energy reserves.

Interpretations of Russia's emerging role in the South Caucasus vary, but interviewees broadly subscribed to one of two 'schools'. The realists emphasise the continuities with previous Russian policies. Russia, it is argued, can best assert its influence in the region by fermenting conflicts and chronic instability. Following this line of reasoning Russia is seen to be the main obstacle to a peace settlement. It gains from the continuation of the status quo and a resolution of the conflict would weaken its grip on the Caucasus.

Links between the Chechen forces and Islamic groups in the Southern Caucasus are now a predominant concern. The issue also – for the time being at least reduces the chance of a peace settlement for NK. Russia is less willing to offend its Armenian client. On the other hand because Russia itself is engaged in a struggle to assert 'territorial integrity' over 'the right to self-determination' it cannot condone any compromise in which NK is allowed to secede from Azerbaijan.

Also important is a fear of an Islamic revival sweeping the Caucasus. The defence of Russian (Christian) interests against the Islamic threat is one of the popular 'myths' which President Putin is able to use for his own purposes. One of Russia's principal levers for extracting Azerbaijan's compliance with its regional agenda is the NK war. Continuation of the conflict prevents reconstruction and impedes stabilisation in Azerbaijan[42]. Therefore the status quo may be preferable for Russia rather than a strong Azerbaijan, enriched by oil, and a potential base for resurgent Islamic groups.

Instability in Georgia following September 11th perhaps lends weight to the realists' arguments. Russia's ability to pressurise Georgia (using the Abkhazia conflict and other means) has weakened the state so much that the prospect of the Baku-Ceychan (Turkey) pipeline, which is the preferred American option, looks increasingly unlikely (see below). Georgia is even more vulnerable to Russia's meddling than Azerbaijan as the Georgian President does not enjoy the same kind of autocratic power as Aliyev has. He is surrounded by warlords. With neither oil nor diaspora, no committed patron and in the glare of Russian hostility, Georgia is the least stable of the three Southern Caucasus states, and may be the greatest casualty in the long run. Under such a view it might be concluded that the frozen NK conflict

and the autocratic rule of Armenia and Azerbaijan might be preferable to what is happening in Georgia.

On the other hand, some interviewees argued that the realists are applying a fixed Cold War analysis to a changed and extremely fluid post-Cold War reality. More optimistic assessments were given of Russia's interests in resolving the NK conflict. There may be a growing convergence of Russian and US interests in the region, focusing on regional stability, conflict prevention and economic development. Both major powers have concerns about instability in Central Asia and its destabilising effects on the Caucasus.

The Southern Caucasus is a smuggling route for drugs and other commodities across the Caspian Sea (see below). Such networks are probably linked to Islamic groups in Afghanistan and Chechnya. There are concerns that Azerbaijan could become a regional support base for terrorism and it was listed by the US congress as one of 34 countries with links to Osama Bin Laden's *Al Quaida* organisation. An Azeri cell of Islamic Jihad[43] was also uncovered in Baku. Azerbaijan, in response to September 11th has pledged to assist Washington in its efforts to neutralise such militant groups. Commonly perceived threats by the international and regional powers may therefore lead to more collaborative relationships, which in turn could catalyze the NK peace process.

Regional interests

The secondary players, Iran and Turkey recognise the risks associated with directly challenging Russia in the region and appear more concerned about each other[44]. Iran shares Russian concerns that a rich and stable Azerbaijan could become a base not only for 'Wahabbism', but also for an irredentist movement among the Azeri peoples. Turkey has strong cultural ties with Azerbaijan, resting on linguistic and ethnic affinity. Azerbaijan is also an important source of energy and a market for Turkish goods. Practically all the manufactured goods available in Baku are of Turkish or Iranian origin.

Finally, the EU is likely to become an increasingly important political player in the region. Although to date the EU has been primarily the economic 'paymaster', it is increasingly taking on a political and diplomatic role. Armenia and Azerbaijan's recent accession to the Council of Europe gives the EU leverage over the two countries in terms of pressure for political reforms and resolving the conflict.

In conclusion, the NK conflict is a pivotal point in a regional system of alliances and counter-alliances. Left to themselves Azerbaijan and Armenia seem unlikely to reach a direct settlement. The 'big brother' complex already referred to means that the political elites abrogate themselves of responsibility and justify inaction by referring to external threats. The Armenian elite in particular, play on these fears. The chance of a solution may depend on a major shift in alignments, such as rapprochement between the USA and Iran or the development of closer relationships between Russia and Turkey. International pressure is vital to a peace settlement, but there is a lack of cohesion, because there are so many conflicting strategic interests. In the last resort the poverty and misery caused by the unresolved conflict may not be enough to influence these interests significantly, and greater pressure may need to come from those with the greatest interest in conflict resolution – the poor people of the two countries.

National level: governance issues

The political regimes of Armenia and Azerbaijan in many respects mirror one another, reflecting the two countries' position as small states undergoing political and economic transitions, and vulnerable to the geopolitical agendas of external powers. Insecure political elites increasingly emphasise order and continuity rather than development and change[45]. These problems may have been heightened by the events of September 11th. For instance, there have been promises of increased co-operation between Baku and US intelligence agencies to tackle 'terrorist' networks. External threats are used to justify internal repression. The fragile nature of the regimes reduces their willingness and ability to address the conflict.

Although both countries have the democratic forms (multi-party system, elections, independent judiciary etc) they lack the political culture or norms of a functioning democratic system. This is both a cause and effect of the conflict. The conflict puts a brake on the processes of political reform and the lack of political reform limits the room for meaningful debate within and between the two countries on the resolution of the conflict.

Both the leaders and the opposition mobilise support around a nationalist agenda. In June 2001, the political opposition in Baku were campaigning under the slogan of 'work, bread and Karabakh'. Similarly in Yerevan, at the same time the opposition associated the peace talks with a policy of appeasement. As one foreign diplomat in Baku noted: *'The political class is not prepared for compromise … Baku is a country within a country'*. To a considerable extent Baku operates as a kind of internal diaspora within Azerbaijan, generating extremist views and undermining the possibilities of compromise. The IDPs are often mobilised in support of Baku-based agendas, only to find that it is all talk and their feelings are simply being exploited for political gain.

In the seven years since the end of the war, a profound mistrust of politicians has developed in both countries. Presidents have been obliged to rig elections in order to be sure of 'popular support'. Since the main ticket to

success is loyalty to the political leadership, corruption has spread, deepening the sense of popular grievance. As one academic in Yerevan noted: *'How can we trust the government of the other country when we don't trust our own?'* Both countries, but particularly Azerbaijan score very poorly in the international governance index.

To an extent 'unearned income' in the form of diaspora money, oil income, foreign backing and donor support, prevents leaders from developing a social contract with their own people. An extraordinarily high level of the national income does not flow through the state at all and avoids all systems of measurement and taxation. States are more accountable to the outside world than to their citizens. It also means that politics becomes a system of top-down patronage or 'supply' rather than bottom-up 'demand'. There leads to a vicious spiral of low levels of state revenue collection, low wages in the public sector and decline in public services. The inability of both states to deliver public goods further undermines their legitimacy. In Azerbaijan, for example, only 50% of the population receive health care. The rest cannot afford the bribes.

The problem has become deeply institutionalised because incomes are not set at realistic levels. As one aid donor in Baku noted *'How do you tackle the issue of corruption if people in the Ministries are only getting $10–$20 per month?'*

Public opinion and civil society

In both countries opposition to compromise is said to come from 'public opinion'. However given the lack of genuine civic participation in political processes and the manipulation of public opinion by politicians, it seems unlikely that public opinion really acts as a constraint on political leaders. The Western concept of civil society as a balance between the state and the people has not taken root, but politicians sometimes like to pretend that it has for the benefit of Western audiences. In reality the importance of public opinion has declined since the immediate post-Soviet period and notions from the Communist period are re-asserting themselves.

Organisations outside the political apparatus such as NGOs may exist provided that they are supportive of that apparatus. But any hint of criticism is taken to imply a political motive and may be struck down ruthlessly. This is especially so in the case of the media. Instead we see a re-emergence of the kind of quasi-statal 'NGOs' that existed in Soviet times, such as mass organisations of youth, women, workers etc. Historically these were simply used to mobilise the public around the Party's objectives.

Nevertheless there are some differences between the Armenian, Azerbaijani and Karabakhi regimes in terms of the political space for autonomous organisations. Armenia is more tolerant of civic organisations, having over 2,500 registered NGOs, compared to 250 in Azerbaijan, but few of these NGOs show any interest in interacting with the State. The majority are more like personal or family trusts than real NGOs and are basically mechanisms for handling political patronage and influence.

In both countries the State attempts to control the media either directly or indirectly (through licensing, advertising revenue, supply of newsprint, legal cases etc). In Armenia the media are little more than channels for the views of a particular political group or even an individual wealthy person able to pay to promote his views in the form of a 'newspaper'. The media in Azerbaijan have a prouder record of fighting for their freedoms but remain extremely vulnerable, with only equivocal support from the international community.

In NK itself a few NGOs are struggling to exist but are in the main isolated from donor attention and work in a heavily repressive environment. Opportunities exist for donors to offer to link these organisations with the outside world. This is unlikely to bring about a transformation, but it is a necessary beginning of a process. But such activity is likely to attract the attention of the authorities. Already the regime has begun to create NGOs and manipulate them as bait for outsiders.

The weak and fractured nature of civil society has implications for the peace process. An independent channel of information about events and issues is largely lacking. People are vulnerable to propaganda and extremist views. Secondly, the views of communities and autonomous civic groups are not given an effective channel into the peace negotiations. But attempts to propel an immature and unrepresentative civil society into higher-level discussions are not the immediate answer. Much has to be done to strengthen civil society and develop a representative voice, and ultimately to mobilise the understanding and concern of those who really suffer from the war. That is a long-term process.

Economic dimensions

International level

There is a strong economic logic to regional cooperation in the Southern Caucasus. While Armenia has been supportive of economic integration, Azerbaijan opposes anything that builds upon the status quo. This is not because Armenia is less bellicose but because it has different interests.

Azerbaijan, particularly in the mid 1990s, has taken the position that because of its oil and gas reserves it has time on its side. The argument runs that as the Azeri economy goes from strength to strength the Armenian economy is strangled by the economic blockade – *'Armenia won a war but seems to be in the process of losing the cease-fire, owing to the blockade imposed by Turkey and Azerbaijan.'*[46] This argument however has lost some of its currency, as the oil boom has yet to materialise and Russian support for Armenia is as strong as ever. There is no sign that Azerbaijan is using its immediate gains from oil to re-arm.

Oil and gas deposits increase the international stakes in the region. Russia and the United States have competed with one another for pipeline routes that reflect their differing commercial and geo-strategic interests. As one diplomat in Baku commented *'pipelines are the arteries of the region'*. The US has supported the Baku-Ceychan pipeline which is seen to challenge Russian interests but so far no-one wants to foot the bill, nor risk the threat of renewed hostilities.

South Caspian oil production should reach some 1.2 to 1.5 million barrels a day by 2010, making it comparable to a new North Sea and not a new Kuwait as had been predicted[47]. Nevertheless investments in the oil and gas industry in Azerbaijan are the highest per capita among the countries of the FSU[48]. By 2000 some 19 contracts had been signed involving 27 foreign upstream investors. One, the so-called 'Contract of the Century' involves the development an existing giant oil field with firm commitments for an ongoing investment of some $10 billion. On the other hand, the fact that in 1998 two oil consortia left Azerbaijan, writing off a $200 million investment, shows that long term engagement cannot be taken for granted.

The key question is whether oil will be a positive force for change within Azerbaijan and the wider region. As one donor in Baku asked, *'will Azerbaijan become a Norway or a Nigeria?'* Massive resource flows in a poor policy environment can have de-stabilising effects. Oil wealth tends to generate an artificially high exchange rate that makes it difficult for other exporters. In Nigeria, for example, the result is that oil practically wipes out all other sectors of the economy and creates a corrupting force of black-market dealing and smuggling. This further undermines the level of governance.

In the case of Azerbaijan, growing oil revenues are likely to accentuate the problem of a bifurcated urban-oil, and rural-non oil economy. The social investment fund set aside by the Azerbaijan Government from oil revenues could be used to tackle poverty and social exclusion. But this has not happened yet and it would imply a considerable re-orientation of public expenditures. It would also imply a staggering reversal of current trends in governance.

At first sight the significant investments from the oil companies in Azerbaijan (e.g. $14 billion investment from BP alone in the next few years) would seem to imply an obvious interest by the oil companies in long-term stability and therefore in good governance. On the other hand a degree of 'weakness' in governance gives the oil companies a freer hand. A poor, misgoverned country provides a cheap and unprotected labour force. Especially in the short term, the status quo may be better for the companies than most of the alternatives. It is important to recognise however that oil companies do vary in terms of their policies and practices and the more 'enlightened' ones are aware of their potential role in helping create the right incentives for 'good governance'. A strategic shift of focus from the short to the long term might fundamentally alter the behaviours of the companies.

A final international factor is the simple fear that the costs of peace would be very high and the burden would fall on the international community. While a number of donors, including the EU, have pledged support in principle for a process of return and reconstruction, whether they will be able to deliver on these pledges is another question. It has been said that if half a million people returned to their homes the costs of reconstruction alone could exceed US$10 billion. In addition there would probably be the costs of a peacekeeping operation which would have to be open-ended and could become 'another Cyprus' extending indefinitely into the future. But interviews with displaced people suggest that they are so determined to return that they would do so anyway and gradually rebuild their property with their own resources. There is a danger that the international community may become too frightened of peace because of the costs. It may be better to examine the scenarios in greater depth and develop more realistic contingency plans – not in the immediate expectation of return, but in order to inform the debate about peace.

National level

The conventional wisdom – at least in some sections of the international community- is that there has been a transition from a Soviet planned economy to an open market economy. However, the 'hangover' from de-Sovietisation is far from over and the outcome of independence in the South Caucasus has been a hybrid

system, which in some respects combines the worst of both worlds. The problems arising from a 'stalled' transition interact with conflict-related factors as the following table shows-

Table 2: The interconnections between transition and conflict

	TRANSITION	CONFLICT
Political	Leadership continuities with the Soviet past Centralisation of state apparatus Political patron-client networks Inadequacies in the judiciary, legal frameworks, human rights protection Lack of independent media Council of Europe process	Secrecy of the Track One talks Limited links between Track One & Track Two Disconnect between leadership and society Spoiling role of the political parties
Economic	Liberalisation Urban-rural imbalances and growing inequalities Role of oil and diaspora funding and links to governance Opportunistic privatisation processes Chronic poverty, increased vulnerability	Lack of regional integration Resources diverted to military spending Costs of IDPs Impacts on investments in pipelines, private sector development and trade
Social	Social exclusion Erosion of public services – health and education	Legacy of violence Political instrumentalisation of IDPs Isolation – stereotypes and demonisation
Security	Need for security sector reform Lack of accountability of the security services and police force	Militarisation of states and societies Mining of disputes territories Russian bases

While the speed of the reform process in the two countries differed, with Azerbiajan being a 'late reformer', both have undergone the standard package of macro economic reform and liberalisation measures. Social and economic problems can be linked in part to the so-called shock therapy advice of the IMF and World Bank. Liberalisation policies, it can be argued, were pursued too rapidly before the necessary changes in governance had come about. The liberalisation of the economy without appropriate improvements in governance has created new opportunities for rent seeking, while increasing inequalities and social exclusion. The national elite manipulates the process (as the Soviet elite used to do) for personal and political gain.

The economic blockade and privatisation processes have contributed to the growth of the informal economy. In Armenia the shadow economy accounts for between 30 – 40% GDP. The informalisation of the economy leads to a decline in the state's capacity to collect revenue, which in turn limits its ability to provide services. The poor economy and limited state capacity also contribute to a decline in government legitimacy.

The World Bank describes the difficulties of dismantling the old 'command' economy and dividing up the enterprises among ordinary people – *'About 13,000 small enterprises have been sold through cash auctions, while more than 500 medium-scale enterprises have been privatised through voucher auctions. Yet, about 80 percent of medium and large-scale enterprises remain to be sold … The privatisation law has been passed in parliament early in 2000, but the program still awaits approval by the President.'*[49]

In Azerbaijan, land reform has taken place much more rapidly. 85% of titles have been distributed[50] but the development of rural credit and agribusiness is held back by failure to reform financial and regulatory frameworks, and corruption. Aid agencies offer micro-credit which may help people run tiny shops but they cannot develop further. In effect there is a 'glass ceiling' of economic development. People can survive on small plots of land but cannot rise up the economic ladder. In the rural areas this has led to chronic stagnation.

In Armenia the administrative situation is a little better-

'The authorities have divested about 85% of small and medium enterprises, 75% of large companies, most agricultural land, and all but one commercial bank'[51] There is extremely limited scope for economic development but the management of such companies as there are, according to our reports, remains focused almost entirely on the capital and is dominated by a small group of powerful families. It is practically impossible for an outsider, especially from a rural area, to rise up the economic ladder. In practice poor people cannot progress into small and medium enterprise. Thus, in both countries, we see a widening gap between the national urban elite and the rural hinterland, and this inevitably creates a sense of social grievance that is currently directed at the external threat, but could produce very different effects if channelled to issues at home.

These developments are not so evident from statistics as from physically viewing the disparities in the two countries. The poverty of the rural areas is immediately apparent and contrasts strongly with the conspicuous consumption of the capital cities. It is important to remember that a huge section of the economy is hidden in the 'black' side and therefore many of the official statistics can be deceptive. Despite the blockade, Armenia has an average annual growth rate of 5.4% according to the World Bank[52]. If there is growth it is limited to certain section of the urban population, and little of it is 'real' or sustainable. A great deal depends on the outside world. As the Bank itself says – *'The improvement resulted from a convergence of factors: the successful stabilzation program in 1994/5; a government committed to structural reform, including in core sectors such as power generation and agriculture; an expansion in private transfers from the diaspora; and an extraordinary programme of external assistance which helped finance a large current account deficit.'*[53].

Azerbaijan recorded 9.1% growth in 2000-2001, but despite this, the average Azerjaijani earns less than a $1 per day. Despite the oil revenues and limited social expenditure Azerbaijan continues to operate a consolidated budget deficit which rose from 4.2% in 1998 to 5.6% in 1999[54] The oil boom is slowing down – *'Foreign Direct Investment fell significantly fromUS$1000 million in 1998 to US$600 million in 1999, following completion of the initial round of investments in offshore oil and gas exploration, and due in part to slow progress in reaching agreement over the main export pipeline'*[55]

The economies of both countries are fragile in the sense that they depend on external resource-flows and foreign actors. Russia is Armenia's largest trading partner accounting for more than one fifth of its trade and has employed at varying times as much as 19% of its work force. Armenia owes Russia $100 million. Labour migration to Russia is extremely important for both countries. Russia's threat to close the borders or require visas (as they have done for Georgians) if they do not comply with Russia's political demands remains a powerful one.

Local level

A detailed household survey in Armenia in 1998/9 suggests that 55% of Armenia's people live below the national poverty line (defined in terms of nutrition and other basic needs). The report indicates that unemployed workers in the major towns are among the worst affected and that poverty is especially severe in the earthquake zone, with 75% of people in urban Shirak District being poor.[56]

In Azerbaijan the situation is, if anything, slightly worse. 68% of people live below the poverty line[57]. Against a minimum household consumption budget of $87 the Government estimates the general household income at $35. Over 80% of the population had an income of under $22. The UN Country Team concludes that *'The majority of people continues to live in the misery of poverty. UNDP's Human Development Report 1999 ranks Azerbaijan's level of human development among the lowest in Central Europe and the CIS – above only those of Tajikistan and Moldova.'*[58]

Undoubtedly it is the poor of both countries who suffer the most from the failure to resolve the conflict. Oil companies are able to operate freely and politicians seem to be able to retain power indefinitely. Officials can make money from corruption and smugglers can operate with little restraint. But nearly a million people still feel that they have no home and the people of NK cannot sleep easily in their beds for fear of renewed violence. In our view the conflict is not really between Armenia and Azerbaijan but between a class of people who gain and a class of people who lose.

Social dimensions of conflict

International/Regional level

Although religion does play a powerful role in defining the Armenian and Azeri identity, in the main this has not been a divisive factor in the region. To an extent the two countries have a common heritage and have been largely indifferent to attempts to promote religious extremism. Attempts by Iranian mullahs to promote Islam in Azerbaijan have achieved little. Instead, the countries (and Georgia par excellence) enjoy a culture of hospitality and 'good life'.

Even the 'ethnic' identities of the region were largely created by the Soviet system as a means of control. Historically there has been much greater intermingling of the peoples of the region and much greater fluidity with regard to ethnic identity in the past than there is now. In addition to examples already given, Baku itself had a very large Armenian population which was an

integral part of the city's culture. On top of this the common cultural vernacular developed in the Soviet years, including use of Russian, has not entirely disappeared.

Interviewees frequently referred to a 'Caucasian culture' and pointed out similarities of custom such as cuisine. Some refer wistfully to the brief period between the collapse of the Tsarist regime and the victory of the Bolsheviks when the three countries were united in a single short-lived republic.[59] Almost all adults had close friends in the other countries and admitted to a close understanding of their cultures. This derived not only from the mixing of the populations but also the exchange of educational groups, sports teams, scientific events and the freedom to travel which they enjoyed during the Soviet period. They expressed concern that this sense of a wider diverse culture was not being passed to the younger generation. At a personal level the war strikes no chord; only at the political level. An implication is that efforts to promote personal understanding – the focus of much 'conflict resolution' activity-may not be necessary. The issue is not between cultures but between political interests.

But cultural concepts are now being formed around the consequences of political interests. The youth of today have fewer opportunities to experience cultural diversity and therefore grow up with cultural stereotypes. Opportunist politicians hurl cultural labels at their enemies including the national minorities. Both Georgia and Azerbaijan have minorities in actual secession or threatening to do so. Only Armenia has created a practically mono-ethnic state[60]. Here the diaspora constantly feed fears of 'The Turks'.

Identity is becoming more closely associated with limited concepts of territory. The peace process is defined in terms of government's proprietorship of land rather than use by different social groups. Political leaders have mobilised support around this issue. Aliyev for instance states that *'when I sleep I dream of Karabakh'*. These sentiments are also felt – perhaps even more deeply- within the wider population. One Azeri IDP interviewee for example stated that *'I'm so close to my land I can smell it'*. Such feelings are very understandable, especially when the state is in such a lamentable condition. But a sustainable peace will require a level of compromise on the link between land and identity – and this argument supports those commentators who ultimately see the peace process as a re-creation of the regional identity that was fractured during the Soviet and post-Soviet period. The revival of a Caucasian culture could reverse many of the inroads into local harmony that have made by outsiders claiming a piece of the ethnic and religious cake.

National level

Out-migration is leading to an increasingly ageing and dependent population. Because it is often the frustrated 'middle class' that migrates the division between the wealthy urban political elite and the marginalized rural poor who remain is exacerbated. This has an important political impact because the middle classes are typically more active politically and play a mediating or moderating role in terms of conflict management processes. The absence of an active middle class has left a vacuum corresponding to the weak state of civil society. Arguably this could lead the way open for radical social movements but there is no sign of this as yet. Although most Azeris are Moslems they are more likely to defend their relaxed form of Islam against extremists than to worry much about non-Moslems. The kind of religious fundamentalism that is so strong in Central Asia has taken no hold at all in the Southern Caucasus.

The main issues facing ordinary people relate to the decline of services and a standard of living that had previously been taken for granted. The international community's support for 'transition' is closely linked with this process, and a strong reason for it to remain committed to finding solutions. The social safety net that functioned (however imperfectly) during the Soviet period has been steadily dismantled. The World Bank summarises the situation in Armenia – *'Overall indications are that poverty might be becoming entrenched in Armenia, with early signs that the poor have started disinvesting in human capital. Poor families have difficulties maintaining their children at school – in some cases choosing to send their children to residential institutions. There are also some indications that poor children cannot attend school regularly because they have to work to support their families. With very limited supply of free of charge health services, access of the poor to basic health care has deteriorated, notwithstanding efforts to provide a basic health benefit package free of charge.'*

People invariably state that they are materially worse off now than during the Soviet period, and this is borne out by statistics. Against an index of 100 in 1990 real wages in Azerbaijan fell to below 20 by 1994 and have subsequently come back up but only to 30.[61] The share of food in household expenditures is increasing while there is simultaneously a greater need (partly because of structural adjustment) to pay for services such as education and health. Villagers complained that water supplies were irregular and street cleaning had practically stopped.

Gender

Historically women have enjoyed high levels of education and equality of incomes in the Soviet states (indeed, they experienced compulsion to be educated and to work) but there are signs that women's opportunities to earn are declining and that significant differentials in wage rates are beginning to appear. In the health and education sectors in Azerbaijan, for example, wages paid to women are only 65–70% of those paid to men[62] Women's ability to work has been

reduced by the demise of baby-care facilities, kindergartens and declining levels of child health. In the long run these trends could undermine the political rights of women. But this has not happened yet. Women throughout the region have little hesitation in speaking out in front of men and there are few of the inhibitions to their participation in civil life which affect women elsewhere. The problem is not essentially one of social differentiation but of class divisions.

But the issue of family life is one for deep concern. Women are especially badly affected by the phenomenon of out-migration. Generally it has been men who have migrated leaving women with domestic tasks that have increased because of declining services. The care of children and older people, formerly managed by the state, now falls squarely on women. Those that have chosen to migrate are at severe risk of being tricked into trafficking rackets. One outcome of all this is an increase in the level of violence against women, especially domestic violence. Children today grow up in a culture in which violence is widely tolerated and even expected. This may have a long-term impact on the stability of the region.

Alienated Youth

The region is not yet characterised by the hordes of unemployed disaffected and potentially violent young men, which have been cited as causes of conflict in a number of countries. Drug-taking and theft are problems but have not degenerated into a breakdown of law and order. Out-migration acts as a safety valve and the repressive power of the state is considerable. But it is not inconceivable that if current trends continue and out-migration no longer offers an escape, serious internal tensions could build up to conflict levels.

In NK the team interviewed a number of young men who had been discharged from the army and were hoping to be called up again. They expressed deep frustration with the way that Karabakhi elites dominated all other possibilities of work. Their main complaint was that it was impossible to set up a small shop or business except for those who were members of a small group of 'ruling' families. They felt angry because they had risked their lives in the war only to be excluded from peace-time employment. Many other groups have lost out as a result of the 'no war-no peace' scenario, but they have limited voice. A family interviewed in NK were among the very few groups who seemed to have gained. With the departure of the Azeris they had occupied the best land. Their compound was full of combine harvesters and tractors. Whether they felt a sense of remorse from having gained so much from the suffering of their former neighbours was not clear. Evidence from other conflicts suggests that they are likely to persuade themselves that they share no common humanity with Azeris, and this will lead to ever greater social and political divisions.

By contrast a group of displaced women in Azerbaijan, gathered for their bread-making, spoke angrily about neighbours who had betrayed them and about graves left in N-K which they feared they would never see. For the older ones it was clear that there could be no solution but return, while for the younger ones the focus was on any escape from this depressed and depressing environment.

A positive feature is that interviewees on both sides of the conflict in urban and rural areas, showed themselves to be well aware of political events and even the details of peace negotiations and economic matters. Many have high levels of education. They have access to a range of information including Russian and Armenian TV. The problem is not lack of understanding but lack of any uniting process or ideology that could turn this sense of 'grievance' into a movement for political change. People cannot see a way of taking the first steps towards change and so there is a widespread sense of anomie, or despair.

Conclusions: causes of conflict

It is hard to avoid the conclusion that the conflict is grid-locked. The damage caused by the conflict is massive in terms of human suffering and economic loss. Yet it is not enough either to attract the full attention of external actors, nor to unite the peoples of the affected countries in a determination to resolve the issues. The power to resolve the conflict is completely separate from the people with an interest in resolving it, while those that have the power do not have the interest. In fact, on balance they have an interest in the status quo.

Therefore the solution must lie either in a change in geopolitical forces – which may happen by chance- or in aligning the interests of those affected with those in power. This is another way of saying that the solution lies in the development of more democratic systems. The alternative would be the emergence of autocratic power capable of forcing a peace through despite all opposition.

At the moment, democracy acts as a sufficient brake to prevent this, yet lacks the accelerating power to reach a solution. Since autocratic power would bring many other dangers, the path of democracy seems to be the only way forward.

Table 3 provides an overview of the positions of the key actors in conflict at the international and national levels, and their interests and concerns in relation to the NK conflict. In the next section our preliminary conclusions about the causes of conflict are examined in more detail in order to identify the most likely trends and scenarios.

Table 3: Interests of the main actors concerned with the NK Conflict in 2001

ACTORS	INTERESTS / CONCERNS
CONFLICTING PARTIES **Armenia**	Wants no change to territorial position. Will not withdraw from occupied territories until an overall solution has been found. Pressure from diaspora works against 'common state' types of solution or any other compromise. Has to listen to Russia. Three basic conditions are: recognition of NK, involvement of NK in negotiations and access route between Armenia and NK. Current President comes from NK.
Nagorno Karabakh	Essentially the same position as Armenia. NK would accept a sort of 'abridged statehood' based on a horizontal relationship with Azerbaijan similar to a confederation. Stepanakert insists on either a comprehensive or staged agreement that addresses status first, borders second and troop withdrawal third (Walker, 1998:39). It wants to be recognised as a party to the conflict throughout the negotiating process. Recent internal political tensions in N-K have re-asserted hardline views but also weakened opportunities for internal pluralism and debate.
Azerbaijan	Wants a packaged solution – considers that it is not possible to settle other issues (notably economic co-operation) until there is a political solution. Agrees to a high degree of autonomy for NK but this must be within the Azeri state – vertical relations rather than horizontal relations between Baku and Stepanakert. Baku's position is that ultimately the conflict is an international one between independent states. Therefore NK cannot be one of the negotiating parties in the final resolution of the conflict. Current dynamics revolve around Aliyev's health. The rich pickings of the oil industry create high stakes and may encourage some actors to take high risks.
INTERESTED COUNTRIES **Russia**	Traditionally strong relations with Armenia. Military cooperation and Russian military bases in Armenia. Axis of Russia, Armenia, Iran. From it's divide and rule tactics of '93 – '94 Russia has seemed more committed to the pursuit of regional stabilization and promotion of Russian economic interests in the Caucasus (Walker, 1998:33) but increasing US-Russian tensions may cause a reversion to the 'spoiling' role.
America	Strong interest of the Clinton Administration in regional stability to access the oil rich Caspian Basin but the Bush Administration may focus more on containing Russia. There is an open split between the White House and Congress. Under the influence of the Armenian diaspora the Freedom Support Act limits government-to-government aid in Azerrbaijan.
Iran	Iran's major preoccupation is its own Azeri population and views with suspicion any sign of Azeri irredentism.
Turkey	Traditionally has close links with Azerbaijan but makes money out of illicit trade with Armenia, the closure of borders and lack of local production in the Caucasus countries. Depends on Russia for energy supplies and therefore unlikely to go beyond limited military and economic aid to Azerbaijan.
OTHER INTERESTED EXTERNAL PARTIES **Diaspora communities**	Uses funding and political influence to support their own visions of a homeland. Denies that the war has caused economic disaster. Caricatures Azeris as 'Turks' and thereby maintains a myth that current events are 'revenge' for the Armenian genocide in Turkey.
EU	Hitherto a 'sleeping giant' but has a growing interest in Southern Caucasus, seen as the 'near abroad', especially because of accessions to the Council of Europe. Leading actor in promoting regional cooperation.
Oil companies	Interest in stability for the exploitation of oil reserves, but tend to see this in short-term perspective of wanting strong government rather than democracy. Cooperate closely with Aliyev's autocratic practices.
Aid donors	Slowly moving from emphasis on market liberalisation to poverty alleviation but do not make the connection with conflict.

SECTION TWO

Conflict dynamics

International dynamics

The issue of Nagorno Karabakh is locked into a set of geopolitical relationships that are extremely resistant to change. The no-war no-peace situation has persisted because there are significant interests in the status quo at both the international and national levels. There would need to be a significant shift in the way that Russia or United States define and pursue their interests in the region. There would need to be a significant shift in how Russia or United States in particularly define and pursue their interests in the region to break the log-jam. As already argued, the events of September 11th could lead to a significant shift in the dynamics of the conflict with the possible convergence of Russian and American interests around conflict resolution and regional stability. Conversely, this runs the danger of further freezing the situation by strengthening the position of the current political elites.

National leaders generate political capital from perceived external and internal threats. The political dynamic militates against compromise or risk taking. There may also be growing economic incentives in favour of the status quo. The region stands astride one of the major supply routes for heroin to Europe. Iran is effective in diverting the flow northwards across the Caspian to Baku or through Russia[63]. Because of widespread corruption in Azerbaijan, which perhaps has its roots in the war economy, containers arriving at Baku port can be passed through customs without examination. As a result, Baku has become a favoured route. Azerbaijan has been quick to deplore terrorism but it remains to be seen whether it is prepared to stop this lucrative sources of income.

There are persistent rumours that NK is becoming a haven for international criminal activity including the drug trade. We have not been able to substantiate these rumours but the experience of Transdniestria suggests that this is likely to happen where there is an anomalous political entity. It will be an attraction to international smugglers to be able to retreat to a mountainous area beyond the reach of any international procedure or law. As other havens are flushed out in the international fight against terrorism it could be that the issue of NK will achieve a new prominence.

The dynamics of governance

The political leadership in the region has limited room for manoeuvre and survives by balancing different external and internal pressures. The external pressures whether they come from Russia the Council of Europe, oil companies or the International Financial Institutions, have to be balanced against a range of internal pressures from for example opposition groups, economic interest groups or civil society organisations.

The dynamics at national level could be described as a balance in which popular grievance is contained by political manipulation. In both countries the political leadership has consolidated control over democratic processes using tried and tested methods from the Soviet days. Whereas in Azerbaijan President Aliyev has a strong grip on the opposition, Armenia's ruling elite remains more pluralist and therefore somewhat more prone to schism (as has happened in the last three years). Political leaders in Armenia are haunted by the spectre of President Ter-Petrosian who suggested a compromise of the 'stages' variety in 1998. The subsequent shootings in parliament are unexplained, but are often viewed as evidence that any leader suggesting such a course would be assassinated. Ter-Petrosian resigned and his place was taken by Robert Kocharian from NK itself.

Azerbaijan's stability is largely dependent on Aliyev who has achieved control by a masterly display of political brilliance which has forced his opponents into exile. But Aliyev is nearly eighty and has undergone extensive heart surgery. His age and illness now make the situation unstable and subject to external manipulation. One of the former presidents languishes in Russia and could become a puppet ruler installed by the Russians. Another has sought refuge in Iran. Aliyev's political skills have become a factor in the conflict. Observers feel that no-one else would be capable of restraining Azerbaijan's internal tensions. Equally, only Aliyev could take the enormous risk of seeking a settlement by compromise.

Non-government dynamics

There are embryonic peace constituencies in the region, but they lack organisation and remain far outside the mainstream of the debate. Civil society has either been co-opted by the political elite or seriously weakened by its opposition. But the real weakness of such organisations is their lack of a constituency at the grassroots level. Very slowly, some changes are coming about. In Armenia, Oxfam GB has been successful in forming local health committees to spread the cost of treatment across a number of people and act as watchdogs on the declining health services. These groups are now beginning to participate in their own right in debates about governance and poverty issues, such as the PRSP process. Although they seem scarcely likely to challenge the state or alter conflict dynamics in a profound way they are working in the right sectors. If change is to come it will be from greater assertiveness by the people. But such a process will not happen without a wider strategy that integrates those seriously trying to resolve the conflict.

Conclusions: conflict dynamics and scenarios

A negative equilibrium has been reached in relation to the conflict. A number of factors might 'puncture' this equilibrium. One would be renewed violent conflict and in recent months there have been concerns about military threats from both sides. However military force appears unlikely in the near future, given Azerbaijan's lack of serious military capacity and the restraining influence of international and regional actors. Two other factors have the potential to shift the equilibrium in either a positive or negative direction. First is the death of Aliyev. The imminence of his death has brought some urgency to peace negotiations in recent months. If he dies before a solution is found, the potential for increased regional instability will be much greater. A second factor is September 11th , which as already noted, could tip the balance in favour of robust and coherent support for the peace process. Conversely, it may focus attention on terrorism at the expense of the long-term reform issues.

SECTION THREE

Policy and programme responses

International engagement in the Southern Caucasus

Overview

The responses of western donor governments to the conflict reflect a number of key strategic interests in the region. These include the containment of conflict and development of 'structural stability'; access to natural resources and the development of the region's economic and commercial potential; the integration of states in the region with multi lateral organisations and the international community in general; the promotion of internationally accepted standards of human rights and good governance.

Having a commonly agreed set of interests is one thing, pursuing them in a co-ordinated and coherent manner is another. Firstly different actors have competing interests. Donor governments for example compete with one another to create business opportunities for their own companies. Secondly there are tensions and trade offs between different strategic goals. The pursuit of stability or business opportunities, for example, may clash with efforts to promote good governance. Our analysis highlights both the need for a more collaborative approach between different actors and greater coherence between different policy instruments. This will only come about if international actors are prepared to relinquish a level of sovereignty in the interests of a more coordinated approach that reflects the real needs of countries in the region.

Security arrangements in the region reflect the pro-Russian and pro-Western alignments of Armenia and Azerbaijan respectively. International policies have been criticised for forcing national leaders to take choices that are either pro-west or pro Russian, rather than allowing them to take balanced positions that are less risky. This applies to a number of policy areas including security arrangements and the choice of pipeline routes. There are arguments for developing a more coherent and robust Track Two process provided that this involves a much wider cross section of Azeri and Armenian society and is undertaken in conjunction with other efforts to democratise society. The second challenge is to develop an ongoing process rather than a series of unconnected events, as now tends to be the case. These issues are dealt with in more detail in the next section.

Peace making: track one and track two[64]

Current Status

Following on from our description of the history of the process in Section One, the salient point is that while Armenia would like to call the status quo 'peace', Azerbaijan takes the opposite view. Therefore the concept of peace is itself controversial. From the 'Baku' perspective peace implies acceptance of the status quo and therefore the territorial gains of the victorious NK army. Azerbaijan takes a strong view that steps towards regional economic co-operation (however desirable for the economy) are unacceptable. As an interviewee in Yerevan put it – *'Moral and political interests take priority over financial interests here'* Conventional 'peace-building' by bringing groups together and suggesting that they settle their differences by discussion and understanding are viewed as ways in which the Armenian seizure of territory is condoned. See box 2 on page 30 for examples of different views.

Track One: the diplomatic process

The choices presented to the leaders appear to be between a 'bad peace' (involving significant concessions and compromise), a continuation of the status quo and restarting the war. Until now, they have tended to stick with the status quo. The so-called 'peace offensive' supported by the Minsk group from 2000 onwards, has attempted to move beyond the entrenched positions of the current stalemate. However, there were concerns voiced by of the protagonists before Key West, that the peace process was being pushed by members of the Minsk Group (notably America) too quickly. As one Azeri analyst commented: *'trying to force the peace will destabilise the process'*.

A striking characteristic of the 'Track One' process has been its secrecy and confidentiality. As a diplomat in Baku said – *'Only 50 people in the region know anything about the peace process and until recently, only 6 in Azerbaijan.'* External negotiators have been unable to link the process to the wider objective of promoting pluralism. It might be argued that by excluding society, the negotiators run the risk of strengthening the position of hardliners and isolating the moderates. There is a perception that people have been denied their 'right to know' or their 'right to a say'. There is a suspicion in the two countries that the outside world is 'buying off' corrupted governments – or vice versa.

Box 2: Perceptions of the peace process

From Armenia	**From Azerbaijan**
While Armenians are discussing the parameters of a future agreement the Azeris are discussing how they can get their land back (Armenian journalist)	*Only fifty people in the region know anything about the peace process and until recently there were only six in Azerbaijan (Diplomat, Baku)*
Theoretically we know there's a need for compromise but practically we don't want it. (Armenian journalist)	*A challenge is how to move from 'encounters' to real and sustained links (Diplomat, Baku, on the Track Two process).*
This is the third summer that all the diplomats have said 'peace now' (International aid agency, NK)	*We are ready for compromise, but the Armenian side isn't (Government official, Baku)*
We will back any solution that's acceptable to the people of NK (Armenian govt. official)	*A way out of mutual recrimination is to recognize that we are all victims of this war, rather victims of each other's aggression (NGO worker, Baku)*
The Azeris say no cooperation is possible without a political solution and the Armenians say no political solution is possible without cooperation (Armenian government official)	*The word 'cooperation' is seen as an imposition (Academic, Baku)*
We need to leave behind historical debates and settle today's issues (NK official)	*We want peace, but we want a fair peace which accords to international norms (Opposition politician, Baku)*

There are strong pragmatic arguments for continuing negotiations behind closed doors. As Carey Cavanaugh, the former US representative in the Minsk group commented *'if you're dealing with fundamental issues of compromise it may not be possible to flesh them out in public'*. He went on to argue that a drawn-out negotiation process in public will inevitably get derailed. A French representative of the Minsk group also commented: *'it's up to the leadership to decide when to break with confidentiality'*. There have been hopes that a 'shock therapy' approach in which the leaders make decisions behind closed doors could then be presented to their societies as a 'done deal' and pushed through with strong support from the international community.

This would not be easy. As US mediator Cavanaugh said, '*Finding a solution at the negotiating table is not the hardest task … the more difficult task is for the Presidents to take it to their people and persuade them that it's in their interests'*. If geo-political changes created overwhelming pressure on the Presidents it would clearly be important for the international community to use all means to 'market the peace', provide massive funding for reconstruction and guarantees for security.

Track Two: building public support

The 'Track One' process may be unpredictable and may continue for many years to come. But there is a strong case for building public opinion to support a settlement and to respond appropriately if it happened. This 'Track Two' process has been sporadic, to say the least. There have been a number of regional confidence building activities bringing together different groups such as journalists, youth, women, war veterans etc. However, their impact has been very limited. Firstly, this is due to the secrecy of the 'Track One' process – there is nothing concrete to discuss. Secondly, there has been no comprehensive approach to the process: the meetings tend to be isolated events that do not reach down into society or upwards to influence the political negotiations. Supporting more of such events, without a more strategic and joined up approach will have limited impact.

Although the belligerence of public opinion is often cited as a reason for conducting negotiations between closed doors, in truth very little is known about 'public opinion'. Consultation with and canvassing civil society has been very limited. NGOs may have a potentially positive or negative role in this respect but, especially in Azerbaijan, the subject is too sensitive for them to tackle directly because of the equation of 'peace' with acceptance of the status quo.

It is not difficult to identify groups that might be important in such a process: the diaspora, opposition parties, youth networks, refugee and IDP organisations, war veterans, and journalists. All would have crucial roles in underpinning a peace process if it really got going. The real problems lie in the extremely limited nature of civil society. While these groups may have vocal spokespersons, they have little claim to any constituency. They reflect the general non-democratic nature of society. Many are funded from external

sources; further funding for a peace process could easily separate them yet further from the 'grassroots'. The issue may therefore have to be taken back a further step to long-term engagement and support for civil society.

An agenda for peace

The benefits of peace correspond to the costs of conflict described in Section One. They include lifting of blockades, regional integration, growing trade, pipelines and increased foreign investment. Derived from such macro-economic advantages would come employment and opportunities for funding of social services. In terms of governance there would be much greater opportunities for the development of pluralist societies.

In terms of mobilising society around a possible peace process there are plenty of issues to discuss.

Box 3: Issues to be addressed in the event of peace settlement

Refugees: right of return, property rights etc.

Peace keeping and demobilisation: Would there need to be peace-keepers? What would their role be? Who would they be? Command structure? To what extent would there be demobilisation and demilitarisation? What would the security guarantees be for the different parties?

Truth and reconciliation: If refugees are to return will there be a reconciliation process? Will there be a need for a truth and reconciliation commission? Is there a need for a 'history commission' to help find a common language of peace?

Rehabilitation and reconstruction: if groups do not see tangible benefits from peace there is likely to be growing grievance. Critical groups include relatives of war victims, displaced, ethnic minorities, young unemployed, rural communities. There will need to be 'quick impact' investments to get communities back on their feet. The opening of the Lachin and Nakhichevan roads would probably speed up the emigration movement unless there was large-scale investment. There is also potential for new conflicts over scarce resources eg water, land etc.

But our conclusion is that more work needs to be done to develop the ground before such 'direct' issues can be successfully tackled. The overall process of weakening governance and political exclusion needs to be tackled. This takes us to Track Three: the role of aid.

Humanitarian and development assistance

An overview of aid

Despite having only about a third of the population Armenia received 50% more aid than Azerbaijan. This is largely attributable to the level of direct US funding to Armenia (US$125 million – 40% of the total) and its near absence from Azerbaijan for the reasons discussed below[65]. The other major difference is in the multilateral non-UN category where a loan of US$75 million from the EBRD to Azerbaijan has skewed the figures. Without this factor the differences caused by US funding policies would be still greater. But even without the US factor, aid per capita to Armenia would be higher than to Azerbaijan (over three times as high if we take a real population figure of 2 million for Armenia and 7 million for Azerbaijan).

Development assistance to the region has primarily focused on the goals of economic liberalisation, with secondary priorities of government reform, social protection and humanitarian aid. The key actors are the IMF, World Bank, EU, United Nations and a number of bi-lateral donors, notably USAID. Donors have not addressed conflict but followed a standard adjustment and liberalisation package. The result is that to an extent development assistance has inadvertently exacerbated conflict dynamics. Structural reforms have consolidated economic power in the hands of the elite. Privatisation has allowed a steady polarisation of wealth, the alienation of the poor from the rich and the erosion of the post-communist middle class. Political elites use force to maintain their positions and manipulate electoral processes.

Pressures from the IMF and World Bank have hitherto focused on economic 'forms' rather than real changes in the 'norms' of governance. Cuts in public sector costs have simply resulted in underpaid officials resorting to bribery. Cuts in education and health without a concurrent spread of economic opportunity have resulted in social exclusion. But a fiction is maintained that the World Bank can avoid being 'involved' in the conflict. One official said – *'While both sides are a long way from a solution, we won't be involved'*. But of course, everything the Bank does, because it is on such a scale, has a considerable effect on the conflict.

The EU, seen in many respects as the 'paymaster' of the region, has pushed for attempts at regional economic co-operation. It is developing land transport and energy corridors via the TRACECA and INOGATE projects in pursuit of its stated aim of bringing the region closer to Europe. While economically this makes sense it cannot succeed without the cooperation of Azerbaijan. EU pressure for accession to the WTO directly threatens Azerbaijan's use of the blockade and its capacity to make Armenia sue for peace. Therefore current policy

Table 4: Summary of development assistance

Source of Aid	US$ Armenia 1998[66]	US$ Azerbaijan 2000[67]	% Armenia	% Azerbaijan
UN System	24.2	6.4	7.2	3.1
World Bank	49.7	26.5	16.1	13.1
Other IFIs	52.5	24.5	17.0	12.1
Multilateral non UN	17.5	95.0	5.7	46.9
Bilateral	166.0	50.3	54.0	24.8
Total	309.2	202.7	100.0	100.0

often appears to be insensitive to the differing interests and incentives of countries in the region.

USAID is the major bi-lateral funder in the region. However, US government-funded activities in Azerbaijan are subject to the provisions of Section 907 of the Freedom Support Act[68]. This allows some humanitarian spending in Azerbaijan but prohibits any flow of aid through the government. Since the US is such a large donor in the region the result is that overall Armenia receives three times as much aid per capita as Azerbaijan. This has political as well as economic effects. Azeris already regard themselves as double victims, of Armenia and of the international community, pointing out that their territory has been violated in contravention of the UN Charter. Now they find themselves discriminated against in terms of aid. This undermines Azeri confidence in the internationally-run peace process and the US co-chair in particular.

A second negative effect of the US position is that by limiting the flow of aid to non-government channels the US relieves the government of its responsibilities and simultaneously fails to grapple with issues of governance. Since, in our view, governance is crucial to the settlement of the conflict, the aid process undermines that objective.

In the last three years aid donors and operational agencies have increasingly switched from humanitarian to developmental programming. ECHO for instance withdrew two years ago. In Azerbaijan some pressure has been exerted by international donors on the government to support rehabilitation and reconstruction activities. The TACIS Exceptional Assistance Programme for instance has supported reconstruction and resettlement programmes in 'liberated' areas. There has also been a growing focus on poverty reduction, reflecting international trends. All donors are now expected to align their programmes behind the Poverty Reduction Strategy Papers (PRSPs). However in practice, aid coordination was identified as an ongoing problem in both countries with different donors pursuing differing objectives and approaches and often providing conflicting advice. As one donor representative in Baku stated, *we're not all playing by the same rules.*

Typically the issue of conflict is viewed by donors as something separate from the general processes of development, and even that aid can be used as a simple incentive to bring about resolution without examining structural issues – *'We need lots of quick carrots … what can we deliver so people would accept peace?'* (Diplomat, Baku). Aid workers tend to shy away from the issue because it is 'political'. As one said- *'As soon as you mention the word peace-building it becomes poisoned by politics'*.

For further analysis we may divide the international response into three categories:

- *Working 'around' conflict:* avoids the issue of conflict and treats it simply as an obstacle.
- *Working 'in' conflict:* takes account of conflict but has no direct bearing on it.
- *Working 'on' conflict:* directly concerned with conflict mitigation or resolution.

Whilst aid is unlikely to be a leading edge in the peace process, it clearly can have an impact on the incentive systems of key actors. We have argued that transition processes and the dynamics of the conflict are closely inter-linked. IFI policy advice has had and continues to have a profound influence on the political and economic transition and yet little thought has gone into how assistance programme may affect incentives or disincentives for peace. A World Bank representative in Azerbaijan recognised the need to consider conflict more explicitly, but argued that the leverage of aid was likely to decline in the future as oil revenues increased. He predicted that there would probably be just one more World Bank CAS period in which aid money could have a significant influence on incentive systems.

Working 'around' conflict.
Donors have applied economic conditionality but have been reticent to apply political conditionality in relation to governance issues. The result has been that political elites are doing rather too well out of the status quo to be seriously concerned about the issues of conflict. The impact falls mainly on the displaced people and those who lose their jobs through regional disintegration, but since they have no voice through electoral processes and civil rights the situation is static.

The problem is that by ignoring conflict donors may exacerbate the problems. The EU, for example, focuses on unrealistic regional schemes and accession to the WTO failing to appreciate that in the context of the conflict this amounts to taking sides. Lacking a deeper analysis the EU fails to use its (substantial) leverage to address issues of governance and conflict. A number of programmes tend to 'hard wire' the current negative status quo into their design and implementation. Road building programmes for instance follow routes, which in the event of a sustainable resolution of the conflict would become redundant. Donors and NGOs with a governance focus have sometimes tended to take the 'line of least resistance', by working at the local level because the constraints are perceived to be insurmountable at the central level. DFID's decision to fund programmes in Armenia but not in Azerbaijan is based upon poverty-focused objectives. This however may undermine the potential for pursuing conflict prevention objectives, because of the perceptions of bias it creates in Baku.

International NGOs pride themselves on addressing the humanitarian issues and avoiding politics but they cannot help noticing that people are as poor as ever. One such agency, the Danish Refugee Council, is aware that its micro-credit programme was scarcely more than a handout. People running small shops survive so long as they are not victims of police interference, but if they seek to expand their enterprises they will be put down by local mafias and by government officials using the bureaucratic system to extract bribes. The agency's objective was simply poverty alleviation and no more, but is that enough?

Working 'in' conflict
In a distorted attempt to recognize conflict but not resolve it, the US limits aid to Azerbaijan and gives Armenia the third highest level of aid (per capita) in the world. Instead of the US playing a leading role on the issue of democracy as in other states in the region, the role of encouraging good governance has been left to the EU particularly in the form of accession to the Council of Europe. The importance of this lever has been underestimated. Greater concessions could have been obtained before accession was granted to the two countries in January 2001. Both had just emerged from fraudulent elections which were overlooked. But it is not too late. The two countries are competing to achieve 'good marks' against the various standards of governance which they must fulfill. Each is extremely sensitive to the possibility of the other doing better, and the list of some 30 standards is one which, if implemented would bring about dramatic improvements. Both countries are hurrying to push forward institutional and legal frameworks. But are these going to remain simply as outward forms with no real meaning? There is provision for inspection, but will the EU and European donors give the Council of Europe real backing?

As one donor said *'you need to treat the society if you want to treat the conflict'*. The problem is that most donors have not wakened to the fact that all their processes are relevant to conflict and that they can be organized in a strategic way in order to bring about the conditions in which improvements in society can move forward simultaneously and interactively with processes of peace-building.

Working 'on' conflict
A number of agencies do broadly have mandates and approaches which explicitly address conflict and peace issues. The ICRC is still doing important work to settle the remaining aftermath of the war, such as tracking down missing persons, and also acting as intermediary between the military forces. One of the most important functions has been to arrange for displaced people to visit graveyard sites.

Several agencies have with varying degrees of success developed programmes which aim to build links, primarily between civil society groups in the region. The assumption is that *'NGOs are the messengers of society'* (NGO worker) and they can help counter the polarised discourse that drives the conflict. The Eurasia Programme for instance provides linking grants for projects which involve actors from Georgia, Azerbaijan and Armenia. Soros similarly have public policy programme which operates at a regional level. UNESCO and the Council of Europe have supported regional educational initiatives. NGOs such as the Helsinki Committee organises events involving civil society groups from NK, Azerbaijan and Armenia. OSCE has attempted (so far unsuccessfully) to build cross border links at a village level between communities sharing irrigation systems. They have also explored the possibility of an official crossing point, again to build links between the two sides. Finally the International Federation of the Red Cross has attempted to develop a regional programme in emergency preparedness.

Journalists have been perhaps more active than any other group in developing cross border linkages. The 'TV Bridge' series of programmes showed debates between representatives of both sides and were viewed by huge numbers of people in both countries. Considerable interest was aroused, but the secret nature of the peace negotiations prevented the process from

extending to debate of tangible issues. But it was not an entirely open process. Participants reported that they were afraid to digress from their country's official position for fear of reprisals. In both countries it is journalists who are at the forefront of civil society's attempts to adjust the balance with the state. The Press Club in Yerevan and the 'Turan' news agency in Baku are fearlessly challenging the state on fundamental issues and deserve external support.

However, the nature of the conflict is so polarised in 'nationalist' positions that support from the international community can work to the detriment of those concerned. Local organisations can be accused of being foreign agents. The difficulty of working 'on' conflict is that if it works it will be opposed.

There does however appear to be scope for building upon such activities, though in a more strategic and coordinated way. Interventions tend to be quite ad hoc and piece meal and in many respects are less than the sum of their parts. The challenge is to move from isolated encounters to sustained links on concrete issues of concern. While economic factors cannot provide a mechanism to enforce regional collaboration, they may provide a stimulus for low key cooperation. Both countries for instance have common experiences of reform processes which might be built upon. The PRSP process for example could have a 'peace dynamic' built in if it involved regional meetings to discuss common concerns on an ongoing basis.

Conclusions about aid

Development assistance by itself, does not have sufficient leverage to tip the balance in favour of peace. It is however one of a number of sticks and carrots that could be applied in a coherent and coordinated way to change the current negative stalemate. There is scope to rethink current development strategies so that they are more sensitive to conflict dynamics and place a more explicit focus on peace-building.

It is only by reversing the current lack of public involvement that the positions of the extremists (diaspora and 'political opposition') can be eroded and a genuine platform of public debate can be created. Such a debate would focus first of all on issues of internal accountability before turning to the external issue of conflict. A shared conception of governance issues across the region would build on the 'common culture' which we have earlier described. This would emphatically include the people of NK itself for it is their ability to free themselves from external pressures, increase their confidence in the functioning of the Azeri state and therefore be willing to consider some small steps compromise which is at the root of the problem.

SECTION FOUR

Strategic risks and opportnities

Strategic risks

Although both sides continue to threaten renewed military action, in the short term at least, this appears to be unlikely. There is however likely to be chronic political instability, particularly in the event of Aliyev's death. The longer the conflict remains unresolved the opportunity costs grow (for instance the lack of regional integration) and the more the negative dynamics associated with the conflict, develop and take on a life of their own. The black economy for example is likely to increasingly overshadow the official economy. In a region surrounded by great powers, and linked to a regional zone of instability, which stretches to Afghanistan, the status quo is not desirable and it is worth making some sacrifices to achieve change.

There is a risk that by tackling issues of governance more directly individual donors will find themselves politically disadvantaged either by the mobilisation of diaspora in protest or by finding 'their' oil companies discriminated against in the competitive processes.

Strategic opportunities

Political

The US appears to have softened its position on Section 907 and therefore could resume a role of honest broker in the region. With a renewed commitment to stability in this part of the world and a rapprochement with Russia (at least on some issues) it is possible that the US could reverse the current priority given to the views of the diaspora and instead focus on long-term stability. A renewed focus on governance issues in both countries could lead in that direction.

Accession to the Council of Europe offers a major instrument for the EU and European donors in both countries. Properly managed and co-ordinated the present negative trends in governance could be reversed.

Economic

The issue of oil pipelines presents some opportunities for peace strategy. Because of the declining importance of Azerbaijan's oil investors have been unwilling to finance expensive circuitous routes and might resume pressure for the direct route through Armenia. Azerbaijan already faces the risk of being bypassed (in relation to oil and gas from Central Asia) by the proposed Russian pipeline across the Black Sea to Turkey. The situation allows considerable leverage to be applied.

A second major economic lever is the PRSP process of the World Bank. Like the Council of Europe accession, this powerful instrument has not been used in a strategic way. Both instruments have the force of international agreements behind them and the threat of powerful sanctions. But the importance of the PRSP process from a strategic point of view is not so much in relieving poverty as in addressing issues of governance. There are many reasons for poverty including the conflict itself but as we have argued above there are severe and unnecessary limitations caused by failures of governance, notably the lack of a law and order situation in which small and medium enterprise can flourish.

A further advantage of the PRSP process is that it engage nearly all donors and therefore can provide the basis for the collective approach to governance which we have advocated. Finally the process of the PRSP is specifically democratic in the sense that public participation is a requirement. According to Oxfam GB a number of civil society groups are ready and eager to participate but have been given impossibly short deadlines for consultation found that their views have not been properly reflected in the outcome. As already described, there is now a tendency for governments to create their own 'civil society' precisely in order to head off any challenge from the PRSP process. This will not be a problem if donors show sufficient collective resolve.

SECTION FIVE

Conclusions and recommendations

Conclusions

We have argued that a mix of internal and external factors make it extremely difficult to resolve the NK conflict. Despite some change in the geopolitical environment there is little room for compromise by political leaders inside the region, partly because of real threats to their power and partly because the status quo allows them to consolidate their power. In general, the situation is similar for external actors. Wider strategic interests take precedence over the settlement of this relatively small conflict.

We can identify two key challenges for aid donors. One is related to short term interventions that respond explicitly to the conflict and the other is related to long term approaches which should be more conflict sensitive. To a great extent the scope for working on long-term process of internal change seems to be greater. By 'long-term' we mean time scales for planning and funding of 5–10 years.

In the short term, more could be done make Track Two initiatives more democratic and more strategic. Work could also be done to plan and gear up in the event of a peace settlement. But our conclusion is that such short-term perspectives offer only very limited possibilities. Substantial results are only likely to be achieved as part of a longer-term strategy with a focus on building up and protecting civil society, and allowing people to participate in well-informed and open debate about the future. In the long-term, development assistance should be re-orientated towards achieving such an objective through good governance and the elimination of poverty and social exclusion. This involves a particular focus on applying leverage through the Council of Europe and PRSP processes.

The short-term and long-term strategies are evidently linked, since promoting good governance and inclusion will help strengthen public participation in the peace process. Both strategies depend upon developing a more coherent and coordinated approach from the international community. In pursuing such a strategy each actor will need to adopt an approach to governance which suits their mandate. In the case of DFID the approach would be through poverty reduction. We address our recommendations primarily to international aid donors. A further set of recommendations to DFID for a peace-building framework will be presented separately.

Recommendations

Part one: Working 'on' conflict and gearing up for peace

Developing civil society:
Track Two (civil society) efforts tend to be piece meal, unconnected with Track One initiatives and involve a narrow cross section of actors from Azerbaijan, Armenian and NK. The fundamental issue is to build up civil society so that it can play a more useful role. Efforts should also be made to support longer term and more strategic Track Two interventions which link to Track One (official diplomacy) and Track Three (development assistance) processes. This includes:

- Deepen and broaden support for civil society initiatives; help them to develop in a democratic manner, and most notably include better representation of poor people.
- Build up Community-Based Organisations especially on livelihood issues and with (potentially disaffected) youth, help them to engage in national debates and ultimately in the 'Track Two' process.
- Develop longer-term strategies for building links between civil society actors going beyond isolated workshop type 'events'. Civil society needs to develop a greater capacity for policy engagement through such processes as the PRSP and Council of Europe requirements. Only then will it be able to play a constructive and substantial role in Track Two .
- Place a stronger emphasis on involving organisations from NK. At present they are extremely isolated and require exposure to alternatives view points and ways of working.
- Place a greater emphasis on dissemination and follow up activities after regional events.

Although the Azerbaijan government resolutely opposes regional economic cooperation, there may be some scope in cross-border community level projects, which the OSCE are currently exploring.

Gearing up for peace:
Although there is some scepticism about peace 'breaking out', donors should jointly develop contingency plans in the event of a peace settlement leading to IDP return. It is not assumed that there will be a sudden and wholesale return. Areas of focus would be:

- Joint planning and joint commitments to provide resources for rehabilitation and reconstruction.
- Research on best practice in the event of return and engaging governments in debates about the most crucial issues.
- While the promise of a reconstruction package is unlikely to significantly change incentives, donors could do more to influence key actors and educate the general public to make them more aware of the potential rewards of peace.

Part of the value of such a process would lie in engaging the international community around a common conflict-related concern, and from that forum other initiatives could be developed.

Part two: Conflict sensitive aid in the long term

General
Development donors should:

- Design, implement and evaluate development assistance in such a way that it minimizes the potential for aid to do harm and it can seize opportunities to 'do good'.
- Institute a 'conflict-check' process for all activities in the Southern Caucasus region. Projects and programmes should be subjected to a series of questions to test their relevance to an overall conflict strategy.
- Make greater efforts to link governance and poverty programmes with the issue of conflict.
- Set up regional and national 'conflict forums' in which actors would meet to review conflict-related issues. Such a forum would include representatives of the IFIs, UN, donors, civil society (international and national) and would produce a common conflict strategy.
- Develop longer term strategies for engaging with transition processes. Realistic time frames would be between 5–10 years.

Governance
Development donors should:

- Support and engage with the Council of Europe process to ensure a coherent approach to governance issues.
- Introduce a conflict-focused group to review the Council of Europe process against the common conflict strategy.
- Negotiate comprehensive targets for improvement in governance which are particularly relevant to the region, as well as those stipulated in international processes.
- Integrate major international companies, notably oil companies, into the process above.
- Develop conflict-related proposals for the use of the 'Oil Fund' in Azerbaijan in consultation with counterparts in Armenia.
- Fund civil society actors in such a way as to develop their independence – on a long-term programme basis (rather than short-term projects) with emphasis on capacity building.

Poverty
Development donors should:

- Engage with the PRSP process with the prime objective of developing a wider circle of consultation; this implies emphasis on opinion research and dissemination of information.
- Introduce a conflict-focused section of the PRSP process in each country to review activities against the common conflict strategy.
- Support the independence of civil society partners so that they can engage effectively in public debates.
- Commit themselves to engagement in public policy debates as an integral part of their strategy.
- Develop constituency bases among those most affected by conflict.
- Recognise that poverty alleviation is closely related to good governance and, in turn to a settlement of the conflict.
- Disseminate information to the public about governance issues, such as national accounts, oil income etc.

Notes

1 Walker 1998: 29
2 Lynch 2001
3 Fairbanks et al 2001: 1
4 Kaldor 1999
5 The timing of Azerbaijan's entry was particularly unfortunate, according to many interviewees, given that it was immediately after elections that were clearly not 'free and fair'.
6 The methodology has been published by DFID as *Conducting Conflict Assessments: Guidance Notes.* See Bibliography
7 The Conflict Prevention Fund is a fund jointly established and managed by the British Government's Ministry of Defence, FCO and DFID.
8 See Goodhand, J (2001) *Conflict Assessments – a synthesis report* (bibliography).
9 Consensus of estimates given to the SCA Team.
10 Human Rights Watch: 'Azerbaijan: Seven Years of Conflict in Nagorno-Karabakh' HRW 1994 quoting Russian sources and observing that the figures have provoked controversy.
11 Herzig 1999: 1
12 Suny 1993
13 de Waal 2001
14 Celac et al 2000: p40
15 See for example Human Rights Watch/Helsinki 'Azerbaijan- Seven Years of Conflict in Nagorno-Karabakh' HRW 1994.
16 MacFarlane and Minear 1997: p12
17 Celac et al 2000: p44
18 MacFarlane and Minear 1997
19 The Armenian Center for National and International Studies '*Nagorno Karabagh – A White Paper',* Armenian Assembly of America, Washington 1997.
20 Cited in Aliyev 2000: 2
21 van Harten 2001
22 Khalilova 2001: 3
23 Walker 1998: 29
24 MacFarlane and Minear 1997
25 Lynch 2001
26 Celac et al 2000: 40
27 Celac et al 2000: 41
28 World Bank op cit.
29 EU 2001: 6
30 Celac et al 2000: 19
31 MacFarlane and Minear 1997: 24
32 Walker 1998
33 Tadevosian 2001
34 Haroutiun Khachatrian in Eurasianet 30th May 2001. Significantly, Georgia and Azerbaijan had originally been members of this group but withdrew in 1998.
35 In 1999 35 soldiers were killed along the contact line, while in 2000 this figure had gone down to 8.
36 Two recent indications of this are the late October visit of Russian Interior Minister Boris Gryzlov to Azerbaijan which led to the Azerbaijani government agreeing not to accept Chechen refugees and to repatriate those already in Azerbaijan. Furthermore President Aliev accommodated a long-standing Russian demand to lease the Gabala early-warning radar to Russia (Aliyev, 2001: 2)
37 Fairbanks et al 2001: 1
38 MacFarlane and Minear 1997: 27
39 Fairbanks et al 2001: 3
40 The Atlantic Council of the United States- *'Strategic Assessment of Central Eurasia* 2001. See bibliography.
41 Kaldor 1999: 191
42 MacFarlane and Minear 1997: 26
43 The uncovering of a Hizb-ut Tahrir cell earlier this year confirmed fears that radical Islamic groups were still active in Baku. Though this group officially espouses non-violence, its aim to set up a pan global Islamic government is enough to cause concern (Razimov, 2001)
44 MacFarlane and Minear 1997: 26
45 Fairbanks et al 2001: 11
46 EU 2001. 2
47 Celac et al 2000: 49
48 Aliyev 2001
49 World Bank op cit page 2.
50 World Bank op cit page 2.
51 World Bank CAS Chapter iii.
52 World Bank *Armenia Country Assistance Strategy'* 2001
53 op cit Chapter ii Economic Trends para 4.
54 World Bank *'Azerbaijan Country Assistance Strategy'* 2001
55 World Bank *'Country Brief Azerbaijan'* 2001
56 World Bank Armenia CAS Chapter iii.
57 World Bank *Azerbaijan at a Glance* 2001
58 UN Country Team: Common Country Assessment Azerbaijan 2001.
59 Some also refer with some frustration to the role of the British forces in failing to confront the Bolsheviks.
60 Although this is to some extent because those in mixed marriages now describe themselves as Armenians.
61 UN Azerbaijan 2001
62 UN Azerbaijan 2001
63 See The Economist 20th October 2001 '*Another powder trail'*
64 There is universal agreement that the diplomatic channels are Track One, but less agreement after that. By Track Two we refer to civil society initiatives in support of conflict resolution and by Track Three we mean aid interventions with the same objective.
65 Armenia is the third highest recipient per capita of US development assistance after Israel and Eygpt.
66 UNDP Development Cooperation Report 1998
67 UN Resident Coordinator Report 2000.
68 Attempts have been made to get round some of these restrictions through 'carve outs' meaning certain areas of activity are not subject to 907. Since this report was written the restrictions have been further eased.

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APPENDIX TWO

A peace-building framework for DFID (abridged)

SECTION ONE
Parameters and assumptions

Background

This document is a framework for DFID's responses to the NK conflict. Although DFID has commissioned extensive research on SCA methodology and is publishing a Guide to Strategic Conflict Assessment, relatively little work has been done to develop a methodology for a Peace-building Framework (PBF). A PBF takes account of the policy of a particular agency and identifies a practical programme plan.

Policy parameters

The PBF has been developed within the following context:

- Conflict reduction as a major global policy of DFID[1]
- Conflict as a risk to major British commercial interests in the oil sector[2]
- 'Central Asia and South Caucasus' Regional policy of DFID[3]

SECTION TWO
Objectives of the PBF

The international community should:

General

- Examine all projects in the region against a strategic analysis of conflict and ensure that they pass a minimal 'do no harm' test
- Shift the balance of aid towards issues of governance and exclusion
- Promote regional and national 'conflict forums' in which actors of all kinds would meet to review conflict-related issues and develop strategies on governance
- Develop collective and coherent strategies on a 5–10 year timescale

In relation to governance

- Use the Council of Europe standards as a common agenda on governance issues
- Research problems of denial of civil and political rights
- Research links between illicit activity and governance
- Collectively monitor government performance against the standards
- Support the Council of Europe process by forming a specific group to identify those standards which are particularly appropriate to the regional situation and develop a longer-term conflict strategy.
- Integrate oil companies, into processes to create long-term stability.
- Develop governance-related proposals for the use of the 'Oil Fund' in Azerbaijan
- Support civil society actors in the governance sector with core funding to allow them to develop independently
- Provide collective support to civil society actors if their rights are violated
- Actively support the independent media
- Disseminate information relevant to governance issues, such as national accounts, oil income etc.

In relation to economic exclusion

- Focus more on the reasons in governance for economic exclusion rather than issues of financial input
- Give priority to research on such issues
- Use the PRSP process as a tool of collective strategy
- Actively encourage civil society participation in the PRSP process
- Support the development of capacity in civil society in the economic sector by long-term core funding
- Set up a group within the PRSP process to identify interactions between poverty and conflict, and develop a long-term strategy.

In relation to a possible peace settlement

- Develop joint contingency plans for IDP return and commit funds to that process
- Disseminate information about the potential rewards of peace

SECTION THREE
DFID's role

Summary

The PBF proposes that in order to achieve the above, DFID should:

- Deploy staff specifically to support conflict-related aspects of the PRSP and Council of Europe processes
- Establish budgets to support research, monitoring and collective discussion of the issues above
- Develop long-term strategies in support of specific civil society actors requiring them to develop systems of accountability to their constituencies
- Establish budgets for core support to such organizations
- Encourage collective contingency plans for support to local organizations in relation to violations of civil and political rights
- Initiate a long-term programme to build links within countries and across the region between civil society actors
- Ensure that all partners disseminate information about their activities and develop constituencies
- Support the development of community based organizations and protect their rights
- Develop specific strategies to identify and address the aspirations of marginalized/unemployed youth
- Specifically, initiate a sustainable livelihoods programme with IDPs in Azerbaijan.
- Actively pursue the development of civil society in NK

Monitoring conflict. DFID could play an influential role in developing a conflict monitoring process. Critical indicators could be developed from the SCA and agreed by a group of international agencies. It could draw on specific work done by OSCE, UNDP and others. An annual report might summarise progress in relation to conflict, ranging from direct negotiations and civil rights through to longer-term issues such as exclusion from education and the status of women. It is important that the process is independent of government and would be best done by a group of agencies. DFID might offer staff time in support of a group set up for that purpose.

Governance
Exclusion. DFID has already placed governance, along with commitment to economic reform, at the centre of its strategies in the region. The SCA notes that market liberalisation has exacerbated the difference between rich and poor as well as urban-rural disparities. Large numbers of people – including those with the most direct interest in conflict resolution- are economically and politically excluded. The objective is to develop informed debate based on free choices throughout society. 'Exclusion' should be at the centre of conflict reduction strategy. A likely partner in research and monitoring on this would be UNDP.

EU and Council of Europe. There is considerable potential to develop the work of other actors with whom DFID has strategic partnerships. The EU is a 'sleeping giant'. Regional policy commits DFID to a critical engagement with the EU and this can be focused on opportunities arising from accession to the Council of Europe. DFID could lead a group of European donors in support of the Council of Europe standards.

OSCE. A record of flawed elections in both countries suggests that DFID should actively support the OSCE to monitor and report on elections and use material from OSCE's experience to inform and interact with the Council of Europe process. A part of the PBF would be increased financial support for OSCE core activities.

Narcotics. The flow of narcotics through the region is of major concern. There is the potential for a 'war economy' based on narcotics to develop. There are reports that NK is becoming a haven for drug smugglers. Corruption in Azerbaijan has allowed the port of Baku to become an entry point to Europe from Central Asia[4]. DFID could commission and publish research on the development of such parallel economies and their interaction with conflict reduction. IOM is a possible local partner.

Oil. Our analysis suggests that oil money has a destabilising effect on Azerbaijan both because of the risk of 'Dutch disease'[5] and because it consolidates (and corrupts) political and economic power. The companies have an interest in the resolution of conflict because of the potential to hugely simplify the issue of pipeline routes. Because of BP's prominence and close links with the FCO we suggest that the SCA should be shared with BP and they should be invited to consider participation in the PBF process. An immediate outcome of this might be to influence the use of the 'Oil Fund' held by government and the philanthropic activities of the companies. In the longer-term the objective would be to prevent oil money from undermining standards of governance. It may be possible to build on work done by International Alert in this sector.

Civil society
Independence. One factor limiting the independence of civil society is that external funding is usually 'project-led', meaning that donors pay NGOs to carry out programmes that they have devised. Capacity-building of NGOs should become an end in itself and core funding should be offered to NGOs in strategic sectors. As a corollary of this DFID and the FCO should be ready to join with others to provide 'political' support such organisations if their rights are violated. Oxfam GB is a potential partner in developing such a strategy.

Constituency. The objective of involvement with civil society is to engage a wider constituency in debates about governance, and ultimately conflict. Therefore DFID should seek to support the internal democracy of organisations and their capacity to hold government to account. The focus should be on those working with critical groups (see SCA) notably IDPs. The spread of information about government is particularly important. DFID's work on Citizens' Advice Bureaux could be developed in the two countries, particularly in areas where there are large numbers of IDPs and refugees. DFID would need to identify local partners for this work or contract an international NGO.

Media. DFID recognises that civil and political rights are not adequately respected[6]. The protection of the independent media is essential. DFID should collaborate with other organisations (such as Soros Fund) already involved in that issue and be ready to use influence through the Council of Europe process..

Transparency. The transparency of government, especially in relation to fiscal policy and practice, is an essential step towards strengthening the social contract between government and people. In the long term this should alter the conflict dynamic in a favourable direction. DFID has a strong record of providing support for economic reforms: the crucial issue in relation to conflict is to make economic reforms more open to public debate. We suggest that grants might be awarded to academics and NGOs for the publication and scrutiny of national accounts.

Economic exclusion
Livelihoods. In economic projects DFID should focus on the IDPs in Azerbaijan. The objective is not to make them accept the status quo but to give them real choices. If those affected by conflict have alternatives in terms of livelihoods the debate about conflict resolution need not be driven by the desperation of extreme poverty. The problem is not so much lack of aid as lack of a level playing-field and free markets. DFID would need to identify an INGO partner.

Research. DFID recognises that 'the causes and consequences of poverty in the region will only become clearer with improved statistical and qualitative information'.[7] We suggest that the crucial area for research is on the processes by which economic and political practice marginalize the poor. In particular there is a need to study of the reasons why IDPs are unable to proceed beyond micro-credit and become victims of officials as soon as they seek to engage in small and medium enterprise. This research could be conducted through an INGO partner.

The PRSP process. Above all the PRSP process of the World Bank offers DFID an extremely appropriate way to pursue a collective approach to conflict and poverty. Without the active involvement of an actor such as DFID it seems unlikely that the process will be more than superficial. Specific roles for DFID would include:

- Leading a conflict analysis group within the PRSP process using the SCA
- Commissioning research in support of conflict-poverty connections (as above)
- Supporting the involvement of civil society in the PRSP process probably through an INGO partner.
- Offering logistic support to the process

Gearing up for peace
Contingency planning. DFID could take a lead on the issue of contingency planning by collecting and disseminating good practice. For example, there is already an assumption that houses will have to be rebuilt 'for' people whereas experience from elsewhere shows that it is much better to support owner-driven process, such as subsidising the supply of materials. DFID could lead a process of reviewing each sector and identifying the core elements of good practice. The objective is to create informed debate about choices and costs. UNHCR would be the obvious partner.

SECTION FOUR

Roles and partnerships

Support for good governance (direct DFID representation)
DFID should deploy a staff person in Yerevan and another in Baku to manage the PBF. It is important that DFID should be directly represented because DFID's direct institutional weight and influence will be needed in order to achieve the required coherence of the international response.

The prime objective would be to support the PRSP and Council of Europe processes in relation to conflict. Specifically this would involve:

- Identifying key standards, dates and activities within the Council of Europe process.
- Mobilising EU support for the Council of Europe process.
- Establishing 'conflict groups' in support of both processes.
- Dissemination and scrutiny of national finances
- Identifying further areas for research and commissioning it.
- Offering logistic support for meetings and encouraging a dynamic and transparent process
- Making contingency plans for collective action by the international community in case of violations of the rights of civil society

Support for civil society (contract through an INGO)
Crucial areas suggested are:

- Participation in the PRSP process
- Capacity-building of local NGOs
- Development of Community Based Organisations (CBOs)
- Protection of the rights of civil society
- Sustainable livelihoods programmes in IDP and refugee areas focused on youth
- Research on social exclusion notably from education and health
- Dissemination of information about government programmes
- Citizens' Advice Bureaux (CAB)

Contingency for return
DFID should establish whether UNHCR is in a position to lead on this issue (they are in process of at least withdrawal) and devise a strategy with funding to achieve the objectives above. An alternative partner would be IOM. DFID staff would take an active role.

Regional links.
It may not be appropriate to initiate regional links before significant progress on the above objectives had been achieved. This would be unlikely in the first year. The DFID staff should review the issue within the first year. A meeting of major stakeholders should take place within the first year. At the end of that period it is likely that an outline plan should be drawn up for a peace-building project across the region to be run by a specialised conflict organisation such as Conciliation Resources, International Alert and Links – all of which are active in the Caucasus.

Nagorno Karabakh.
The neglect of NK by aid donors is now adding to the conflict dynamic. Lack of engagement with the outside world undermines internal processes of reflection and understanding. Although a direct approach to conflict would be difficult, an indirect one through the development of civil society is possible. This may need to be flexible, and not necessarily limited to conventional NGOs. We were surprised to find some quite radical activity in the civil society sector in NK around issues of employment conditions.

Because there are no multilateral organisations present, and DFID would not want to be directly represented. UNDP in Yerevan could be encouraged to develop programmes for the integration of NK NGOs into activities in Armenia with a long-term view of also making links with Azerbaijan. As the long-term objective would be to integrate civil society into wider regional processes the best way forward in NK would be to commission a specialist conflict organisation. It may be best to review this issue at the end of the first year after establishing programmes and staff in Baku and Yerevan.

Security issues.
There is a substantial issue of demobilised soldiers especially in NK, and an ongoing problem that soldiers from the 1992–4 have been detained for many years in Azerbaijan and may require support for rehabilitation. These issues, and the dissemination of international humanitarian law, are being addressed to an extent by the ICRC. Support to their activities would be useful part of the overall response. In the longer-term programmes in NK could be directed, as elsewhere, towards sustainable livelihoods for youth, and identifying problems of governance which stand in their way.

The critical issue in governance is reform of the police forces and judiciary. However, it is necessary to view these as systemic rather than transitory faults. Before incentives for change, in the form of better democratic functioning, have been established it seems unlikely that the sectors can be successfully reformed. But as DFID has observed, *'once embarked upon, it is critical that security sector reform be viewed as a long-term process, with the nature of the progress shaped and conditioned by the pace of social and political change.'*[8] Accordingly we suggest that the issue should receive closer attention at the end of the first year of the programme.

November 2001

Notes

1 *'Conflict reduction and humanitarian assistance'* DFID Policy Statement 1999
2 British investments thought to total $750m (DFID sources).
3 Summarised from *'Central Asia and South Caucasus'* DFID Strategy Paper, October 2000
4 See The Economist 20th October 2001 *'Another powder trail'*.
5 Excessive activity in one sector of the economy undermines the others.
6 DFID op cit Para B7 p3
7 DFID op cit Para B20 p4
8 DFID: *'Security sector reform and the management of military expenditure'* Report of a symposium in London February 2000.para 43