International Alert.

Corruption and Conflict in the South Caucasus

January 2006

Natalia Mirimanova
Diana Klein (ed.)

Understanding conflict. Building peace.

About International Alert

International Alert is an independent peacebuilding organisation working in over 20 countries and territories around the world. We work with people affected by violent conflict as well as at government, EU and UN levels to shape both their policy and practice in building sustainable peace. Our regional work is based in the African Great Lakes, West Africa, the Caucasus, the Andean region of South America, Sri Lanka, Nepal and the Philippines. At both regional and international levels, we also research the role of business, humanitarian aid and development, gender, security and post-conflict reconstruction in the context of building peace.

The Economy & Conflict Project

This research paper is part of a project which set out in 2003 to engage the private sectors (local business and multinational corporations) in Armenia, Azerbaijan, Georgia and Turkey, as well as Abkhazia, South Ossetia and Nagorny Karabakh, in regional economic initiatives that contribute to conflict reduction in the South Caucasus. This initiative became known as the Economy & Conflict project and has been primarily funded by the UK Government's Global Conflict Prevention Pool and by the UK Department for International Development. The initiative uses economic factors and incentives to analyse and address the underlying causes of the conflicts in the region. In 2006, it launched a website providing a virtual meeting space for business people from across the South Caucasus (www.caucasusbusiness.net)

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Editor's note

Both sovereign states and self-proclaimed republics have their own authorities, parliaments and presidents and define these as government. The use of this terminology in this report does not suggest any opinion on the status of a governed territory on the behalf of the authors and the editors.

Summary

Although the active armed struggles in the South Caucasus came to an end in the early 1990s, since then, the region has been in a state of 'frozen' conflict in which official negotiations have not led to any positive results. The goals of the conflicting sides remain mutually exclusive and the threat of renewed armed confrontation is continuous, highlighted by sporadic violent incidents between the various sides. The security situation has allowed neither the development of transparent and accountable governance and civil society institutions, nor a fully-fledged private sector and market economy. In the absence of a political solution to the conflicts, the societies of Georgia, Azerbaijan and Armenia, as well as Nagorny Karabakh, Abkhazia and South Ossetia have adjusted to the persistent threat of renewed violence and corruption has become embedded in the existing institutional, legal, cultural and economic context.

Corruption and Conflict in the South Caucasus is the product of field research and subsequent analysis carried out between July 2004 and July 2005 by a team of researchers from Armenia, Azerbaijan and Georgia as well as Nagorny Karabakh, Abkhazia and South Ossetia across the South Caucasus, facilitated by the peacebuilding NGO, International Alert. Based on a series of one-to-one interviews and focus groups with a wide range of stakeholders, it examines the connections between corruption and frozen conflicts in the South Caucasus region, exploring corruption on all sides. It is the first systematic study of corruption from the perspective of conflict analysis and the first to include the unrecognised entities of the region.

The report focuses on *perceptions* of corruption, which are significant as they create public opinion, construct social agendas, build or destroy enemy images – i.e. construct a belief system that can bring peace or war. It looks first at general perceptions of corruption in the region, then goes on to examine and identify those groups who benefit from the current *status quo* of frozen conflict and/or will benefit from an escalation of the conflict (governmental institutions, the private sector, local and international non-governmental institutions, the military) and then looks at the prospects for peace in societies in the South Caucasus affected by corruption. It goes on to make recommendations for further discussion and consideration to be developed in the region with local actors as well as with decision-making institutions in the international community in order to devise peacebuilding strategies.

Acronyms

EU	European Union
IDP	Internally Displaced Person
IGO	International governmental organisation
INGO	International non-governmental organisation
NGO	Non-governmental organisation
NRE	Non-recognised entity
OECD	Organisation for Economic Co-operation and Development
SME	Small or medium-sized enterprise
TI	Transparency International
UNDP	United Nations Development Programme

1. Introduction

'Corruption is nature's way of restoring our faith in democracy' PETER USTINOV

Lasting peace in the South Caucasus will only be achieved if efforts towards it are based on a real understanding of the factors encouraging and preventing the changes in policies, institutions and relationships that would be required to build peace in the region. This report evaluates corruption as one of these factors and is the product of field research and subsequent analysis carried out between July 2004 and July 2005 by a team of researchers from Armenia, Azerbaijan and Georgia as well as Nagorny Karabakh, Abkhazia and South Ossetia.

The aim of the research project was to analyse the connections between corruption and the unresolved or 'frozen'[1] conflicts in the region and to identify opportunities for combining anti-corruption and peacebuilding strategies. It set a new interdisciplinary research agenda that bridges conflict analysis and resolution, sociology and the social psychology of corruption; an approach intended to help refine peacebuilding strategies in the case of frozen conflicts as well as broaden analysis of other categories of conflict.

In addition, the report is the first to cover the non-recognised republics of the South Caucasus region, which have not been included in previous studies of corruption conducted either by Transparency International – the leading institution in this field – or by other international monitoring organisations. This lack of inclusion has been due to the political restraints that most international actors face when engaging in the region. However, International Alert firmly believes that without a thorough understanding of *all* sides to the conflicts over Abkhazia, South Ossetia and Nagorny Karabakh, it will be impossible to open proper channels of communication and identify ways forward and so the incorporation of perspectives from both recognised and unrecognised entities was central to the research project.

The report examines whether corruption is a factor that protracts the conflicts, thereby hindering incentives for and undermining a potential peace process, or whether the frozen conflicts create an environment that encourages the spread of corruption. This requires the identification of those groups who benefit from the current *status quo* of frozen conflict and/or would benefit from an escalation of the conflict. There are three groups with sufficient power to mobilise for war: those with political power, large businesses and the military. This study focuses on the role that corrupt government and military forces can play in sustaining conflict, but rather than examining the private sector's role in financing war efforts, looks at corrupt business practices and their relevance to frozen conflict. International governmental and non-governmental organisations were also included as this group as they have often been accused of corruption because of their cooperation with the public sector and because they inject large sums of money into countries with relatively high levels of poverty. Large international companies and multinational corporations, which have also been accused of corruption, were not included because the study was focused more on the *local* dimensions of corruption that have developed since the conflicts began.[2]

Because conflicts, whether violent or frozen, can only be maintained through the perpetuation of negative enemy images, the study also looks at these images, assessing whether corruption plays a role in maintaining them. In addition, it considers whether illicit trade with the opponent side made possible by corruption within governmental institutions and customs affects prospects for conflict transformation, whether there are any prospects for change by the corrupt private sector, and whether perceptions of a government as corrupt and sponsoring illicit business networks affects public opinion as to its desire or ability to find settlements to the conflicts, either by a peace process or by military action.

It has been observed in other conflict regions that corruption and peace are not necessarily mutually exclusive, particularly in the immediate aftermath of a violent conflict. Corruption may create a sense of stability by filling the gaps created by poorly functioning public institutions, even providing a surrogate rule of law where the judicial system or law enforcement is impaired. As it becomes more cost-effective to 'buy' stability than to force resolution by launching military action, there is less of an incentive to resume war.[3] However, this stability will not bring peace because it is not based on justice, which is incompatible with corruption. The report therefore proposes alternative strategies for creating sustained peace without corruption.

Transforming the conflicts in the region into a situation of lasting peace would require a certain degree of efficiency and transparency of state structures, the private sector and civil society. Both the sovereign states and the non-recognised entities will arrive at a point when frozen conflict and corruption will need to be disentangled from each other. The report therefore concludes by suggesting points for consideration in further discussions on anti-corruption strategies and on addressing the conflicts.

1.1 Context

The specific conflicts in the South Caucasus are well-documented elsewhere.[4] However, it may be useful at this point to describe their shared characteristics and introduce the factor of corruption into the context.

Since the end of armed conflict in the early 1990s, a protracted situation of frozen conflict has had a significant impact on the political, economic and social environment in Georgia, Azerbaijan and Armenia, as well Nagorny Karabakh, Abkhazia and South Ossetia. Negotiations at the official level have not yet yielded any positive results as the goals of the conflicting sides remain mutually exclusive. A shared vision of the future and a constructive relationship between the sides has so far proved impossible to develop.

Conflicts in the region broke out soon after independent statehood was attained following the collapse of the Soviet Union, meaning 'both the central states and the breakaway republics virtually had to build up their [state] capacities from scratch'.[5] The three former Soviet republics of Georgia, Armenia and Azerbaijan all displayed characteristics of failed states during the first violent stage of the conflicts. In addition to the 'state-formation' conflicts over Abkhazia, South Ossetia and Nagorny Karabakh, there had been considerable internal political conflict within the three internationally recognised states since the late 1980s (for example, civil war in Georgia, shootings in the Armenian parliament and political imprisonment and expulsions in Azerbaijan). The notion of the 'state' was therefore highly contested throughout the armed phase of the conflicts, the political landscape stabilising only as the conflicts became frozen. Internal political contest in the non-recognised entities has been less divisive as societies had a common aim of self-determination and could not afford fault lines to be drawn along political identities. However, as the threat of violence has subsided, political oppositions have developed, albeit to varying degrees.

Statebuilding has been hampered both in the sovereign states and non-recognised entities because security situation has allowed neither the development of transparent and accountable governance and civil society institutions, nor a fully-fledged private sector and market economy. Although all of the territories in the South Caucasus have adopted the formal attributes of democracy and a market economy (elections, private business, private media, non-governmental organisations, and political parties), the region's political regimes and economies are neither truly democratic nor market-driven. Most of the governments in the region can be described as 'clan-based bureaucracies' and the economic relations created by them as 'imitation democracy'.

Although there are no grounds for assuming that corruption has been a causal factor in any of the conflicts in the region, it was nevertheless an important factor in the 'financing of the initial war efforts'[6] as the states-in-making, both internationally recognised and non-recognised, had informal corruption networks and corruption hierarchies and norms at the basis of their operations during the conflicts and it was only later that the internationally accepted norms of governance, law making and law enforcement were put in place.

This reign of corruption manifested itself in, for example, the fusion of the (para)military and business, which led to the emergence of the politically and economically powerful class of 'entrepreneurs of violence'.[7] However, today, 10-15 years since the first outbreaks of violence, the six conflict societies in the South Caucasus have moved beyond this phase of *ad hoc* sporadic corruption that directly sponsors warlordism. In the absence of a political solution and subsequent peace, they have managed to adjust to the continued threat of the renewal of violence psychologically and institutionally. Corruption has thus become an established and rather stable system for politics and the provision of services which does not undermine the state but, on the contrary, is embedded in the existing institutional, legal and cultural context. Warlords in the South Caucasus seem to have been marginalised politically and economically, although the networks of criminal activities under their patronage that are directly related to the no-war-no-peace situation (for example the weapons and drug trades) remain, with some degree of overlap with the corruption networks centered in the sector.[8]

Greater transparency is vital if corruption is to be eliminated. It is also likely to lead to improved prospects for conflict transformation. The link between the two can be illustrated by one of the key components of the conflicts in the region, namely identity discrimination.[9] The steady elimination of identity discrimination in the conflict societies is a key to sustainable peace regardless of the final political solution. However, it cannot take place unless political and economic power in the society is shared on a basis agreed among its various groups. This is not feasible in a non-transparent environment that breeds corruption. Anti-corruption measures may therefore trigger progress in the elimination of the identity discrimination that has been such an important factor in popular mobilisation for state-formation conflicts in the South Caucasus.

1.2 Defining the conflicts of the South Caucasus

The conflicts over Abkhazia, South Ossetia and Nagorny Karabakh are referred to as sovereignty conflicts and can also be classified as 'ethno-national' conflicts, which usually break out over the protection and development of a certain ethno-linguistic or ethno-religious community.[10] Alternatively, they can be categorised as conflicts of 'identification/self-determination/secession' in which groups fight to control political power and resources, struggle for autonomy, self-determination, secession from the state or control over the state.[11]

'Frozen' conflict is a prolonged phase of conflict that begins after the active armed struggle is over but when the threat of a renewed armed confrontation is present. Sporadic armed incidents between the conflict parties are a reminder of this threat, and official negotiations are periodically renewed only to end up in a deadlock.

Contenders in a 'state-formation conflict' are trying to define and take hold of sovereign statehood while fighting both a rival party and internal opposition. The latter frequently accuses the ruling party of corruption in order to erode its support base and to win next elections. If the fight for the state has been neither won nor lost, a complex scenario develops in which corruption spreads and further incapacitates the government, political opposition and civil society for building peace with the rival party at mutually acceptable terms. This study is the first to analyse the interplay between corruption and frozen state formation conflicts.

1.3 Defining corruption

As there is no comprehensive, universally agreed definition of corruption, one was developed for the purposes of the research project. The most frequently used definition of corruption: 'the abuse of public office for private gain'[12] posits corruption as a main characteristic of malfunctioning state institutions. This study project widened this definition to include 'the use or abuse of resources entrusted by the public or by an institution for personal gain'. This allowed the researchers to focus on a broader range of subjects, including not only governmental institutions but also the private sector and local and international non-governmental and governmental organisations which, frequently, within weak or failed states, take over some of the state's functions or manage resources from donor countries and then 'contract' corruption as a way of working from the host state.

These various agents and objects of corruption do not exist in isolated corruption networks within their own sector and instead overlap to varying degrees. However, the public sector remains the central hub of corruption because it is the least personalised, most institutionalised and, as a rule, better resourced than the other sectors. Even if public sector institutions are weak or virtually absent they still serve as a conduit for private interests.

Corruption within public institutions hinders conflict transformation efforts because it triggers mistrust which, if not addressed, becomes the social norm. Conflict transformation is impossible in societies in which corruption is rife, as properly functioning public institutions are crucial to the process. For example, if restorative justice is viewed as a key factor in conflict transformation the justice system needs to be functioning properly. . In the absence of public trust in the justice system, because of its reputation for corruption, there is no chance of public endorsement of conflict transformation, whether promoted by own political leadership or international community.

'Corruption hierarchy' refers to the gradient of corruption dividends along the formal power hierarchy: those at the bottom of the hierarchy pay bribes to those who are one level up in the hierarchy and the chain of corrupt deals ascends to the top leadership.

'Corruption networks' in a narrow sense refers to the cross-border links between people of comparable levels of authority from the opposing sides. These are usually local authorities and specialist law enforcement institutions such as police, border guards and customs officials. The provision of protection to illicit cross-border trade, regardless of the contested and politically and militarily closed frontiers, is clearly corrupt as the mandate of the authorities and the law enforcement institutions in the areas near the borders is to guard the economic security of their own states.

There are two main types of corruption in the conflict societies in the South Caucasus. The first is corruption as a *coping strategy* by an individual to reduce the high level of uncertainty due to the unresolved conflicts in the region. The degree and essence of uncertainty *vis-à-vis* the frozen conflicts differs between the self-proclaimed republics and the sovereign states: in the former, survival and security is perceived as uncertain while, in the sovereign states, uncertainty predominantly refers to future prospects for development. People participate in corruption hierarchies and networks in response to circumstance. This corruption practice, therefore, is *reactive*. The second type is corruption as a *proactive strategy* to leverage resources for individual enrichment amidst uncertainty, apathy, lack of rule of law and good governance, impaired economy and weak whistle-blowing agencies. This type of corruption tends to be carried out by those in positions of power.

1.4 Measuring and addressing corruption in the South Caucasus

One of the challenges for a study on corruption is to bridge the gap between perceptions and reality. Because corruption is a negative and often punishable phenomenon, people do not like to admit to it or are afraid of bearing witness to it. If fear of reprisal or punishment is affecting the respondents' answers, it is very difficult to put together an objective picture of reality.

This research focused on *perceptions* of corruption, which are equally important as they create public opinion, construct social agendas, build or destroy enemy images – i.e. construct a belief system that can bring peace or war. In order to present the most objective and balanced reflection of reality as possible, researchers interviewed those on the 'receiving end' of the corruption spectrum as well as those who merely comply with it.

Although many of the international institutions addressing poverty, development and/or governance issues in the region do focus on corruption, they neither focus directly on conflict nor take the links between corruption and conflict into consideration. This study is intended to be complementary to the work and analysis of the many national and international institutions addressing corruption in the region.

Transparency International (TI) recognises that, because corrupt acts are rarely reported to the criminal authorities, it is very difficult to collect statistical data on the issue. TI has therefore designed a Corruption Perceptions Index which, in 2004, listed Armenia at 82nd place, Georgia 133rd and Azerbaijan 140th.

The limitations imposed on organisations addressing corruption are first and foremost political, meaning that they do not engage with the non-recognised entities and are sector-oriented, focusing mainly on governance, (although also, to a lesser extent, on the private sector).

TI specialises in studying corruption and equipping institutions with tools to combat it. The organisation also serves as a corruption watchdog and it fulfils an important monitoring function in the region. TI functions through National Chapters and, although the definition of 'national' has not been limited to internationally recognised countries,[13] there is an understanding that non-recognised entities cannot form a chapter. TI is, however, starting to form 'regional chapters' which could be an option for consideration by South Caucasian organisations combating corruption.

The limited focus of other organisations (either governance or the private sector) come from the primary mandates of those organisations, such as the World Bank, the EU, UNDP and OECD which are all directing significant resources towards anti-corruption. This study and the project from which it stems do not constitute another anti-corruption strategy, but provide analysis that could be used to broaden the reach and perspectives of those working to combat corruption in the region.

1.5 Linking corruption and frozen conflict

The working hypothesis of this study was that corruption sustains a frozen conflicts *status quo* of relative stability and the absence of large-scale war. The general perception within the conflict societies is that if anyone from inside or outside the society challenges the *status quo* there will be an increased threat of renewed violence. Since any conflict transformation effort constitutes one of these challenges it is therefore an enterprise of high risk that cannot be expected to win widespread public support.

The longer the conflict goes unresolved the fewer incentives there are for risking the existing 'negative peace' for the sake of a possible but not guaranteed non-violent and just resolution of

the conflict. On the other hand, the *status quo* of frozen conflicts curtails prospects for development. Although some of the countries' economies may do better than others during a frozen conflict because of the export of raw mineral resources or the assistance of diaspora and foreign donors, this does not ensure genuine sustainable development, which requires a diversified private sector, independent entrepreneurialism and public/corporate pressure for the transparent politics and rule of law necessary for external and internal investment.

Political and economic stagnation produce fertile ground for corruption. Corruption erodes people's trust in the effectiveness and legitimacy of the institutions that need to be established and mandated by the public to implement and sustain conflict transformation. Corruption is perceived as having prevailed over the idea and enforcement of rule of law and drains energy and resources that otherwise could have been channelled into social change. Thus, social incentives to reform or rebuild institutions that are perceived as corrupt are undermined and a negative spiral of corruption, inaction and conformism is created.

Sources of corruption in the region can be grouped into two sets. The first includes sources typical to post-Soviet countries or entities such as an inherited totalitarian political and centralised economic system characterised by fusion between the authorities and business; clumsy or ineffective bureaucracy; economic collapse; lack of rule of law and accountability of power holders among the public and the authorities; legislation that is inadequate for the development of an independent transparent private sector and pluralistic democracy; weak civil society, and an overall lack of commitment to political pluralism.[14]

The second set contains sources of corruption that are intrinsically and specifically linked to the conflicts and are described in the following chapters, which elaborate on the mechanisms by which corruption and lack of progress in conflict transformation reinforce each other.

2. Generic Corruption in the South Caucasus

In order to isolate and analyse the elements of corruption specifically related to conflict, the study first measured the general scale and spread of corruption in the region, in order to provide a baseline.

In addition to geopolitics, governance and economy are the two most significant factors influencing the conflicts and so the two sectors chosen for researching generic corruption were the public and the private. While many other sectors in the Caucasus have been identified as inherently corrupt (e.g. education, health care) these sectors do not play a direct role in the conflict and so are not considered here.

2.1 The public sector

Corruption for most respondents meant bribes, extortion and nepotism in the public sector. The most despised and condemned form of corruption throughout the region was corruption in the upper echelons of the authorities. In Azerbaijan, for example, corruption was seen as holding the state structures together, as the 'nuts and bolts of the state policy'.[15] However, there was a strong belief that corruption helps solve problems when the state is unable to fulfill its functions or when disobeying official laws improves the living conditions of a considerable part of the local population.

'First thing that comes to mind when corruption is being discussed, is the government, political power, lawlessness and the rule of money'.

ARMENIA: REFUGEES, VICTIMS OF THE CONFLICT, RECIPIENTS OF HUMANITARIAN AID

'Our government machinery survives on this type of work [i.e. corruption]. A smaller number of people are currently enjoying the dividends of corruption, since all of them are power holders'.

SOUTH OSSETIA: REPRESENTATIVE OF A POWER MINISTRY

Although corruption was seen to be an inherent part of everyday life, those interviewed did not perceive it to be a traditional or inherent characteristic of their societies. It was unanimously seen as the result of having been under the control of empires with developed cultures of corruption: either Russian, Turkish, or Persian. The universality of corruption in all South Caucasian countries was believed to stem from the single 'school' of Soviet party bureaucracy.

In addition to seeing corruption as a foreign element introduced by the imperial expansion of Russia and Turkey, respondents from South Ossetia and Abkhazia believed that corruption was 'brought' to their societies by Georgia, while the Armenians of Nagorny Karabakh claimed that Azerbaijani traditions of corruption had 'infected' Armenian society. The concept of corruption as an epidemic, or as a 'plague' in the words of one respondent from Armenia, was widely shared across the societies in question.

Some victims of corruption saw it as legitimate; a kind of assistance provided to impoverished state employees as a form of aid when the state cannot provide its citizens, in particular those employed by it, with a sufficient and respectable existence. Others noted the benefits of corruption for the society as a whole.

As a result of the public's tolerance of corruption and frequent justification of it, the government's approach cannot be any different. It is justified in a fatalistic sense, it is treated as a way of life and it has been accepted as a social norm.

'Corruption has become nuts and bolts of the state policy'
(AZERBAIJAN, REFUGEES, DISADVANTAGED YOUTH)

'How can the official who receives [an official salary] of 1,000 rubles – an amount that is not enough to buy bread, to support one's family – manage a branch of the economy? But why do we have so many officials? Why aren't they fired? Because we have all accepted the conditions of this game. The government is forced to pursue corruption'.
ABKHAZIA: GOVERNMENT EMPLOYEE

'I do not regret giving money illegally because I know that it will buy bread for the children of this low ranking official…'
ABKHAZIA: LARGE BUSINESS OWNER

2.2 The private sector

The business community in the South Caucasus region sees two ways of engaging with the authorities: following the bureaucratic system of 'red tape' or using bribes. This study provides evidence that business people prefer to bribe their way through taxes and regulations. This is equally true of large businesses and representatives from small and medium-sized enterprises (SMEs), both of which choose bribery because the legislative framework is either weak or incomplete and the justice system is equally corrupt.

The price of being allowed to conduct business is, however, high; as well as providing bribes, businesses also have to demonstrate loyalty to the government to be permitted to operate.

Although many of the business people interviewed had chosen corruption as a means of continuing their businesses, they also agreed that long-term corruption causes great harm through the erosion of institutions and social fabric. This is symptomatic of a phenomenon whereby government officials, business people and ordinary citizens perceive themselves as victims of corruption, blaming prevailing social conditions and institutions rather than acknowledging their own part in creating and maintaining those institutions and conditions.

'You need to be a "political friend". That is you need to support the government politically. If you are mixed up with the opposition, then you will find it difficult to work'.
SOUTH OSSETIA: SME REPRESENTATIVE

'The person who has close political ties does not pay taxes. He does not pay money directly to the government. He supports the government politically, and not only with money'.
SOUTH OSSETIA: CUSTOMS OFFICIAL

'Do you know how our Department for the Fighting of Economic Crimes of the Ministry of Interior works? They close your business for a few days and go through all of the documentation. But the point isn't even in that. The problem is the time that they take from me. For this reason, it is better – in monetary or any other terms – for me to pay bribes and further develop my business. Especially as there is no purpose to be more principled – I could never demonstrate the correctness of my case, including through the courts'.
ABKHAZIA: LARGE BUSINESS OWNER

'…[corruption] is a useful thing for businesses working under our conditions. It is convenient for me. I pay money and quickly solve my problems. If I were to do everything officially, then it would take a lot of time, red tape, nerves and the like'.

ABKHAZIA: LARGE BUSINESS OWNER

'The classic understanding of corruption is the "merger of political and business mafias". Georgia was just such a classic example – that is, where the highest ranking officials were tied to the underworld and certain businessmen. One example of this is the energy industry where millions were eaten up'.

GEORGIA: A REPRESENTATIVE OF THE GOVERNMENT

'If one needs to choose between the possibility to do business and the need to pay bribes, then it is better to pay. After all, business creates employment and the price of goods and services is lowered by competition'.

AZERBAIJAN: ORDINARY CITIZEN

'Our taxes are so high that they make any business unprofitable. It is therefore better to pay bribes to an array of officials who populate the chain of power to the top'.

ABKHAZIA: SME OWNER

'In fact, this habit has become part of the mentality among Armenians as well as among Azeris and Georgians. In many ways, we encourage corruption among the state bureaucracy, trying to solve our problems more quickly or seeking to avoid paying large taxes or penalties'.

ARMENIA: ENTREPRENEUR

3. Corruption in Governments and Conflict

Perceived corruption tends to lead to a decline in governmental legitimacy. Legitimacy becomes an important factor if the government in question opts for a military solution to a conflict. If the government is perceived to be legitimate, it can mobilise easily. If it isn't, it will have to resort to more autocratic measures, strong war rhetoric and propaganda. If, however, the public feels threatened by an enemy regardless of the government's legitimacy or opinion, the latter might still yield to public led mobilisation.[16]

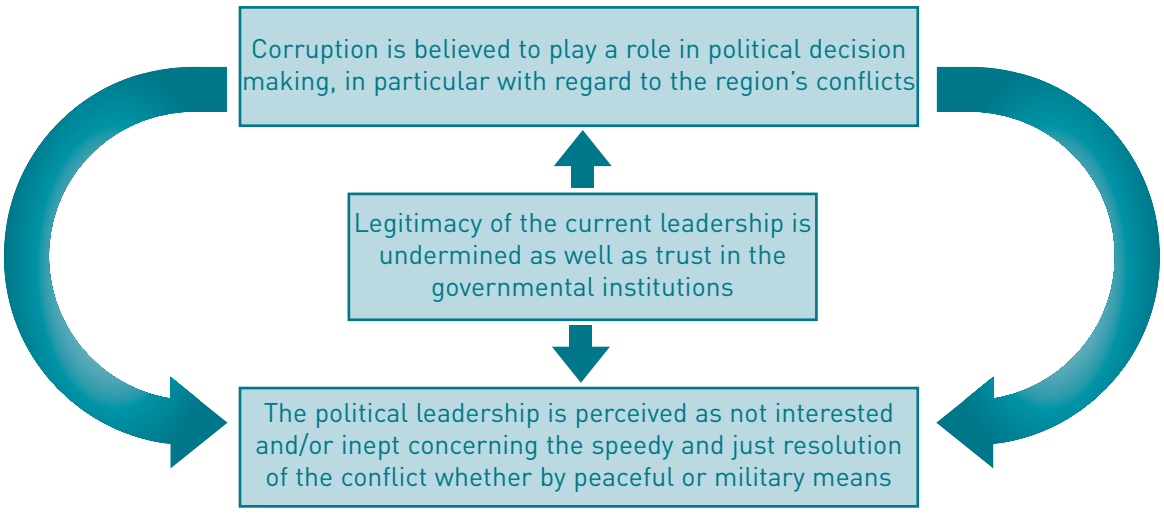
It has been suggested that public support for Track 1 peace initiatives depends on a combination of three factors: the leadership's preference for a dovish or hawkish strategy, the size of the gap between supporters and opponents of that strategy amongst the population and the sensitivity of the leadership to public opinion.[17] This study introduces an additional factor - public trust in the leadership's motivation and ability to implement a strategy (either dovish or hawkish) in order to end the protracted conflict. It suggests that trust in government ability and willingness to end the conflict to the satisfaction of its own people diminishes as perceptions of corruption increase.

Legitimacy of a leadership stems not only from it developing the 'right' conflict strategy but also from its strategies on other pressing economic, social and political issues. The longer the frozen conflict persists, the more difficult it is for the incumbent leaders to get away with nationalist rhetoric and saber-rattling. As economic development, health care, education, employment, combating crime and other issues move up on the society's agenda they, rather than issues of conflict, become the test for the legitimacy of the leaders.

3.1 Corruption and government legitimacy

Corruption within the government and the ruling political elite is generally seen to go hand-in-hand with limited commitment and ability to end the conflicts. There is a widespread belief that corrupt leaders make their decisions on the basis of strengthening their positions or financial prospects and that this includes decisions that impact on the conflicts.

Figure 1: Corruption and government legitimacy



The corrupt nature of the government in Azerbaijan, along with widespread corruption in other layers of society, was considered by Azerbaijani respondents to be both the reason for and the consequence of the deadlock in the conflict over Nagorny Karabakh.

Those interviewed suggested that despite the regime's rhetoric, conflict is treated as an issue of secondary importance, partly because the ruling elite is comfortable with the present situation and also because it has no effective plan to offer the people in terms of settlement. Corruption and incompetence were given as the main factors in the lack of decisive government action regarding the conflict. Any decisions that the government may make concerning the conflict are unlikely to be trusted because of these perceptions of widespread corruption amongst the ruling elite, which have thus destroyed the legitimacy of the government in the eyes of its own people.

Armenian respondents said that it was precisely the *frozen* nature of the conflict that allows the government to retain power without having to making any effort to resolve the situation, hence its lack of interest and decisiveness over attempts to revive the peace negotiations.

Abkhaz respondents went even further, claiming that political gains were just as strong a motivation for corruption within governments as economic ones. They saw corruption as providing leverage for the ruling elites to manipulate public opinion and democratic procedures such as elections at their will. This is made easier in a situation of frozen conflict as the public is preoccupied with the external threat rather than internal affairs.

The Shevarnadze government in Georgia was perceived to have been so corrupt and preoccupied with its own enrichment that it did not pay attention to the need to find a beneficial settlement to the country's conflicts. In contrast, the population trusts Mikhail Saakashvili to lead the fight against corruption as he immediately began to prove his commitment with real deeds, such as arresting powerful members of the elite. Hopes for the restoration of territorial integrity have been revived as well, because this is the only legal solution to the conflict in the eyes of the vast majority of Georgians, and Saakashvili has acquired a reputation of a leader that is devoted in a very practical way to the rule of law. These hopes have been reinforced by statements on his commitment to restoring the territorial integrity of Georgia. Because his government is perceived as not corrupt and further, is believed to be acting to eradicate corruption, it has a greater degree of public trust in its intentions and capacity to end the conflict in its people's best interest.

The President of Azerbaijan, Ilham Aliyev, has also taken measures to demonstrate his commitment to confronting government corruption. This was partly because the decline in the legitimacy of his late father's government meant that he needed to restore public trust in order to strengthen the public mandate for the resolution of the Nagorny Karabakh conflict. Many respondents felt that, had the government not been corrupt, the conflict would have been resolved more quickly and to Azerbaijan's benefit.

Particularly strong opinions about the Azerbaijan government's stalling to address the conflict were expressed by those directly affected by it, such as internally displaced persons, refugees, those dependent on humanitarian aid and other vulnerable groups such as unemployed and uneducated youth. These groups claimed that the government has an interest in keeping the conflicts frozen as this allows it to keep large sections of the population disempowered and in a situation of limbo in which, after 12 years of conflict, they have no permanent housing or employment. Such a population is easy to mobilise towards war, but because it lacks resources, is unlikely to mobilise for its own benefit or make claims on its government.

Similarly, conflict victims and the most disadvantaged sections of society in Armenia were the most critical of their government and believed that the public on both sides of the conflict need

to combat corruption in their respective governments in order to increase the chance of a peaceful and mutually beneficial solution.

An explanation as to the *causes* of government corruption was offered by respondents in Nagorny Karabakh, who claimed that the legal vacuum that has formed there in the post-war years provides opportunity for a shadow economy and money laundering, which can only take place if there are corrupt government structures. Because public institutions are closely identified with those occupying the top positions, many respondents were of the opinion that the current government is populated with people who are concerned not with the public good but rather with their own personal enrichment.

Similarly, prospects for combating corruption in the top echelons of power in South Ossetia were linked by respondents to specific individuals. This is not surprising as, in a small entity, all politics is personalised, which is both an advantage in the fight against corruption because of the importance of individual reputation and a disadvantage because the opportunities for whistleblowers in such a tight society are restricted. Many respondents felt that the South Ossetian authorities would compromise on the ultimate goal of full independence if a compromise would deliver personal economic benefits.

Throughout the South Caucasus, people were highly critical of corruption in their governments, seeing it as having impaired governmental competency and motivation to bring about a substantial change in the conflict dynamics, either by peaceful or by military means. However, their main criticism of governmental corruption concerned its impact on everyday life rather than on conflict. For the most part, government approaches to the conflicts have not changed since those conflicts erupted in the early 1990s, ultimately leading to conflict settlement (although not the conflicts themselves) being pushed off the public agenda by other pressing social issues. Respondents also attempted to consider other conflict factors and did not attribute the lack of resolution solely to corruption, instead noting the importance of geopolitics, for instance.

'…when the Karabakh movement started, there was no corruption; there was no mafia…later, those who enriched themselves at others' expense came to power'.

ARMENIA: CONFLICT VICTIM

'Were the conflict been resolved peacefully those in power who have been hindering the resolution process in their private interest and thus damaging democracy building would lose their political leverage"

ARMENIA, REPRESENTATIVE OF AN OPPOSITION PARTY IN PARLIAMENT.

'The ruling, corrupt regime speculates on the conflict – that is, renewal of military activities and disruption of stability. They receive additional political support from the West in the form of guarantees of their continued existence, while the same people hinder the adoption of in-depth reforms that in the end would lead to the downfall of their regimes'.

AZERBAIJAN: JOURNALIST

'Corrupt officials do not need Karabakh. They blame all of the country's problems on the war…and benefit from this. I think that the conflicts cannot be settled without rooting out corruption'.

AZERBAIJAN: ORDINARY CITIZEN

'We have a million refugees. Homes were built for some of them, but they couldn't get access to the housing unless they paid $200 in bribes. Isn't this profitable for the state? That is why the Nagorny Karabakh problem persists'.

AZERBAIJAN: REFUGEES/IDPS, DISADVANTAGED YOUTH

'…let's say simply that the conflict in South Ossetia in the end revolved around the problem of Ergneti [market at the border between Georgia and South Ossetia] and the main representative of the previous government in the figure of the governors of Kvemo Kartli and Gory [regions bordering South Ossetia] had a partial share in the Ergneti market and directly profited from the conflict'.

GEORGIA: GOVERNMENT REPRESENTATIVE

'Ten years ago when relatively young and competent people had ascended to power we had a clear understanding of who was confronting corruption and who was not. These days we teach the young generation that corruption is a norm'.

SOUTH OSSETIA: SECURITY SECTOR REPRESENTATIVE

'When negotiations were being held, they almost sold out the idea of statehood for money'.

SOUTH OSSETIA: REPRESENTATIVE OF THE SECURITY SECTOR

'I think there are officials in the government who are interested that a solution is not found to the conflict because they are able to grow fat off smuggling. If there is a decisive outcome, they will need to legalise trade flows that previously flowed illegally'.

ABKHAZIA: MEDIA/NGO

'Frozen conflicts do not provide the right conditions for a timely changing of government due to the threat of war and the like. And when the prospect of a governmental change is popular, corruption is born automatically to ensure that fresh forces don't come to power'.

ABKHAZIA, NGO/MEDIA

'The current government is believed to use the frozen conflict in order to maintain its position and economic gains by creating monopolies in the energy sector, for example'.

NAGORNY KARABAKH: ORDINARY CITIZEN

'If someone made only political dividends on the conflict, this is not considered corruption, but material enrichment is corruption'.

NAGORNY KARABAKH: A REPRESENTATIVE OF BIG BUSINESS

4. Corruption in Trade and Conflict

Corruption among middle and low-level government officials in the South Caucasus sustains smuggling and trade in contraband goods and is directly linked to the frozen conflicts. When the conflicts began, most cross-border transport and communication routes (by land, sea and air) were suspended or destroyed and areas around the contested borders were planted with landmines. However, despite the animosity between the conflicting sides, transport blockades and economic sanctions have been circumvented and economic relations have been maintained. Corruption within government institutions has meant that those who provide financial incentives have access to routes that are officially closed and are thus able to transport goods throughout the region.

In the first few months of the conflicts, the shadow economy was instrumental in enabling warlords to accumulate capital.[18] However, since then it has become more sophisticated, involving the security sector, the customs services, local governments and peacekeeping units. Methods of doing business in contraband goods have been established and protection given to shadow economy markets, routes and actors by corrupt individuals in state institutions who are ready to violate their mandate of fostering the legal economy, collecting taxes, blocking flows of contraband and observing state law.

In this way, government corruption networks have become entwined with criminal networks. Low levels of pay for government employees creates the temptation to become involved in corrupt schemes connected with smuggling and illicit trade networks. Those who control access to the market (customs officers, border guards, police, peacekeeping forces, local and in some cases central government officials) on either side of a conflict allow goods to enter in exchange for bribes. Importers pay bribes to trade but then avoid paying taxes because that would mean a double financial burden (bribes and taxes) on businesses that are not always particularly profitable to begin with.

Poverty and high business tax rates are two additional incentives for smuggling. Because it is cheaper to bribe customs and government officials than to pay official taxes, smuggled goods are therefore cheaper than those imported legally, which are not affordable by the majority of the population. In this way, corruption amongst government officials has meant access to goods that otherwise would have been out of the reach of ordinary people in the region, preventing them from plunging deeper into poverty.

4.1 Sustaining economic relations across the lines of frozen conflict

In spite of economic sanctions, corruption at the middle and low levels of the public sector enables trade in contraband across all of the closed borders.

Smuggling was seen as the most pressing current issue for Georgia's private sector and corruption tied to smuggling was viewed as dominating all other types of corruption. It is noteworthy that as the new political leadership took power, all of the respondents from Georgia's customs service stated that working for it was prestigious not because of financial opportunity, but because it meant being part of the mission to protect the economic security of the country. They did not comment on whether or not customs officials receive bribes, particularly in the current context of reorganisation and lamented that the frozen conflicts prevent the creation of an effective system of economic security on the border with Russia.

Similarly, illicit trade with Georgia was a serious concern for some respondents from Abkhazia who refuted the notion that smuggling was an acceptable economic activity, seeing it as dangerous and damaging to their national interest. However, economic relations with Georgians, although banned by both sides, were seen as a way for customs officials and businesses to cope with the difficult situation imposed and maintained by the conflict. They were also noted as a source of additional income for government employees who cannot survive on their official salary. Smuggling was seen as a part of these relations but an exception rather than the rule. Representatives of Abkhaz governmental institutions viewed the close ties of Abkhaz businesses with their Georgian counterparts essentially as treason against national interests, as they considered the external threat that remains from the undetermined status of the conflict to be more serious than the internal threat to society that corruption poses.

Likewise, South Ossetian businessmen who trade or conduct other business with their Georgian counterparts often have their property seized and their enterprises shut by government forces, who justify their real purpose, the confiscation of goods, by accusing them of betraying the national interest. However, South Ossetia is slightly different to the other societies in the region in that its budget was largely sustained by the Ergneti market until June 2004 when the Georgian authorities closed it down. According to Georgian law, this market is illegal, regardless of high turnovers of gasoline, alcohol, cigarettes and other goods.[19] Until that point, the scale of the market provided too tempting an opportunity for governmental officials on both sides and other gatekeepers such as customs officers and police to become involved in corrupt deals. The South Ossetian government itself is believed to foster corruption within its own ranks from top to bottom and therefore the engagement of the private sector in corruption networks is unsurprising. The front lines in this case become porous and corruption enables business-to-business operation between the 'enemies'.

However, some respondents from South Ossetia did question the Ergneti market's existence and the corruption infrastructure around it as a benign, albeit illicit, way for people to survive. They saw the market as having created a group of people with significant stakes in the perpetuation of the *status quo* of frozen conflict and accused the government of exploiting a situation where peace is always balanced on the edge of war by allowing a degree of stability for trade to continue, but not pushing for the conflict to be resolved. This constant nominal state of war is convenient enough for the government to design laws, regulations and social norms that enable it to rid itself of competition and to protect its networks of corruption.

Smuggling by those working at Azerbaijan's borders (including high-ranking officials) is as widespread as in other parts of the South Caucasus, although it is not seen as a major issue on the country's political agenda.[20] The link between smuggling and the continuing existence of the frozen conflict over Nagorny Karabakh was clear for many respondents in Azerbaijan who saw two ways for Azeri goods to be sold on the Armenian market: either by Georgian traders reselling these to Armenia, or as a result of corrupt deals between Azeri and Armenian officials.

As the two most profitable commodities are oil and caviar, respondents from Azerbaijan said that those involved in the smuggling from the Azeri side were motivated by sheer profiteering, while middle and low level customs officials complied with it and supplemented their low salaries by doing it. Although the unofficial trade relations between Armenia and Azerbaijan are clearly a 'supply and demand' case, Azeri respondents saw the trade relationship only through a conflict lens – i.e. those smuggling goods from Azerbaijan were traitors and goods in Azerbaijan smuggled in from Armenia had entered the country through the concealment of their origin, sometimes in order to damage Azerbaijan (for example, there were cases when people claimed that the reason why Armenian foodstuffs appeared on Azeri markets was to poison people).

Respondents from Nagorny Karabakh expressed concerns that their natural resources (e.g. iron and aluminum) have been reportedly smuggled through their borders in order to financially benefit those in charge of these resources.

Like respondents in Azerbaijan, respondents in Armenia did not consider smuggling to be a pressing issue, but the internal corruption nexus between the public and private sectors was seen to have developed in clear relation to the economic and transport blockade of Armenia by its rivals.

Trade in contraband within and across the conflict societies in the South Caucasus has been enabled by corruption at different levels of government. Smuggling goods across the politically and militarily blocked borders has not stopped even during the 'hot' phases of the conflicts. Economic sanctions and interrupted avenues of communication as a response to the conflict by one side or another seem to foster corruption, both within the self-proclaimed republics and the sovereign states alike.

Prior to the conflicts, the South Caucasus was an integrated and interconnected region and some of these links remain today. The authorities, both local and central, and those officials who hold the threads of economic security of each of the conflict societies have taken the economic imperative of trade into consideration and built an efficient and effective smuggling infrastructure using their positions in public office. Corrupt officials have enlarged these corruption networks to include the private sector and the majority of the population, thus increasing the number of stakeholders ready to maintain the *status quo* of the frozen conflicts. Because so many people are involved, efforts to combat corruption are likely to be more harmful than adopting a laissez-faire attitude towards it. It has also become difficult for anyone to challenge the *status quo* and push for either a peaceful resolution of the conflict or a risky military campaign.

The short-term benefits of these networks of corruption are outweighed by the threat that they pose to the future economic development of the individual countries and the region as a whole. The corrupt alliance between government and business that has flourished due to the impossibility of direct trade and other business links between the different parts of the South Caucasus has meant the various trade patterns have been permanently tainted by the conflict and the different societies are unwilling to accept new trade initiatives. In Azerbaijan, for example, economic incentives for opening up avenues to connect the private sectors of the conflicting societies are inconceivable, as is the prospect of reducing corruption within the Azeri private sector through legalising a number of economic relations with Armenia.

'It is common practice on behalf of entrepreneurs to bribe local government officials to get permission to do business or to smuggle goods'.
GEORGIA: BIG BUSINESS OWNER

'Of course the situation surrounding the conflict creates auspicious conditions for smuggling'.
AZERBAIJAN: CUSTOMS OFFICIAL

'… It has become easier to deal in contraband as now anything is possible for money'. Nagorny Karabakh:
CUSTOMS OFFICIALS, SMUGGLERS, AND TRADERS

'Azerbaijan's and Turkey's blockade of roads leading into the country have perhaps influenced the development of corruption in business and the appearance of monopolies. Additionally, Armenian transporters run into corruption not only in Armenia, but also on the territory of transit countries – Georgia and Iran – which, of course, hinders the normal development of the private sector'.
ARMENIA: NGO

'Contraband smuggled in [to the country] dealt a direct blow to our [company's] revenues, profits, and therefore to the amount of taxes that [the company] pays'.
GEORGIA: SME REPRESENTATIVE

'New areas for corruption connected with the conflict have appeared…in the customs service. There, corruption is connected to the economic sanctions that we face…'
ABKHAZIA: TAX OFFICIAL

'I think that there are officials in the government interested in keeping the conflict from coming to an end because they currently have possibilities to make money from contraband. They will need to legalise that which previously flowed illegally if there will be clarity with regard to the conflict…'
ABKHAZIA: MEDIA/NGO

'…as a result [of closing the Ergneti market], all of those who traded were impoverished, while officials with power and connections got rich. They cover themselves in patriotic slogans and play on popular attitudes. If I or my Georgian partner from the Ergneti market alienate him [a customs official], then he closes our business and declares us enemies of the people'.
SOUTH OSSETIA: SME REPRESENTATIVE

'… I pay Georgian policemen and we conduct our business. But, unfortunately, my Georgian colleague has been arrested for conducting business with an Ossetian'.
SOUTH OSSETIA: ENTREPRENEUR-TRADER

'… given the corruptibility of both our officials and Georgian officials, things have played out in such way that the rug has been pulled out from underneath ordinary businessmen on both sides while medium and high-ranking officials in the security sector that are occupied with the flow of goods have themselves begun active trading. In the end, the free market in Ergneti, which fed thousands of people, was turned into a real black market. And now all the benefits flow to a handful of those connected to the government'.
SOUTH OSSETIA: SME REPRESENTATIVE

5. Corruption and Enemy Images

As corruption is linked to the loss of legitimacy and trust, estimations of the extent of corruption on the opposing side of the conflict can serve as an indication of the degree to which it is seen as a prospective partner in the search for a peaceful and acceptable solution. Respondents from each of the South Caucasian societies offered opinions on and analysis of the scale, nature and causes of corruption on the side of their opponent.

This research set out to investigate perceptions of each of the sides to the conflict *vis-à-vis* its opponent and it revealed a worrying phenomenon. Perceptions of corruption on the other side are embedded in and reinforced by 'enemy images', whereby a group creates a stereotype of the opposing group by taking a set of its own negative traits and projecting them onto the enemy. Those in the 'in-group' are then convinced that these images are valid.[21]

The majority of the Azerbaijani public has had no direct contact with Nagorny Karabakh over the past 15 years and so most of its views were based on information gleaned from the Azeri media.[22] This has led to the perception of the government of Nagorny Karabakh as corrupt and hindering the settlement of the conflict because it benefits financially from the fact that the territory is not controlled by a recognised state and therefore not subject to international law. Some Azerbaijanis viewed corruption in Nagorny Karabakh as a stimulus for criminal activities between the two sides, such as trafficking in narcotics and weapons.

However, not all respondents in Azerbaijan were as critical. Representatives of small and medium sized enterprises (SMEs) differed in their opinions on the level of corruption in Nagorny Karabakh. Some considered it to be widespread and to involve highly criminalised economic activities, whilst others thought there might be less corruption there than in Azerbaijan because of the smaller economic resource base and because society is more cohesive. The view that corruption was less frequent in Nagorny Karabakh was shared by a number of representatives of NGOs, the media, and opposition parties in Azerbaijan who supported the Nagorny Karabakh government not because they considered it to be any less susceptible to corruption but because the 'pie' was too small to feed much of it.

This perception was mirrored by respondents from Nagorny Karabakh who stated that the level of corruption in Azerbaijan was probably greater because the country has oil. Armenian respondents also saw oil as a factor prolonging the *status quo*, claiming that it is easier for Azeri officials to pocket profits from the revenues in a situation of frozen conflict whereby the attention of the country is on Nagorny Karabakh. Frozen conflict, they suggested, also suits the elite, whose focus on oil revenues distracts it from having to launch a military offensive to reclaim Nagorny Karabakh.

However, some contradicting views were expressed, such as the opinion that Azerbaijan's greater mineral wealth meant that there should be less corruption as the standard of living is higher. There also was the opinion that religion in Azerbaijan is stricter and the population more religious should keep corruption in check.

The most striking views regarding corruption in Nagorny Karabakh were voiced by the most disadvantaged Azeri respondents: refugees, recipients of humanitarian aid and unemployed, uneducated youth. For the most part, they claimed to know nothing about it and did not want to attempt any guesses about it. Some suspected that life is harder 'over there' and that bribery

exists, but on a lesser scale than in Azerbaijan. Respondents from these sections of society had the least hostile attitudes to the population of Nagorny Karabakh and some even expressed sympathy for the ordinary citizens there. They were also more likely to blame their own government and officials for the conditions in which they themselves live.

This sympathy for the 'common people' was shared by customs officials and contraband traders from Nagorny Karabakh, who saw corruption as being equal on both sides of the conflict and causing an equal amount of suffering for the ordinary citizens of the two societies.

The plight of the Azeri IDPs/refugees was singled out for comment both by respondents from Nagorny Karabakh and Armenia, particularly by Armenian refugees. When talking about Azeri refugees, these Armenians claimed that the Azeri authorities profit from this part of the population being in limbo, receiving large amounts of external aid that never reaches the people.

The general sentiment amongst respondents from Nagorny Karabakh, however, was that as corruption in Azerbaijan is higher, a possible reunification with Azerbaijan would lead to a rapid increase of corruption with Nagorny Karabakh.

'…the regime in Nagorny Karabakh created good conditions for corruption in the army, for illegal sale of weapons, for trade and transport of narcotics, and for hiding criminals sought by Interpol as well as stealing of Azerbaijan's natural resource wealth – for example, the gold mine in the occupied Kelbadjar region, which is not territorially part of Nagorny Karabakh proper'.

AZERBAIJAN: MP WITH NO PARTY AFFILIATION

'It's clear that such a regime will never be interested in a quick and peaceful settlement to the conflict. Otherwise the "tap" of fantastic profits would be turned off. As long as such an illegitimate, illegal, unrecognised and uncontrolled regime continues to exist on occupied Azerbaijani territory, nothing will change. The rooting out of corruption in Karabakh should begin with the establishment there of a regime based on international legal norms and the return of territory to the legal control of the Azerbaijani state'.

AZERBAIJAN: MEDIA/NGO

'It seems to me that corruption is not as widespread in Nagorny Karabakh as in Azerbaijan. They simply don't have the resources to internalise corruption [to such a degree]'.

AZERBAIJAN: MEDIA/NGO

'I imagine it is completely realistic that the same systemic corruption exists in Nagorny Karabakh [as in Azerbaijan proper]. Corruption is simply on a different scale [there]. The natural resource wealth and independent status of Azerbaijan, unfortunately, have created big possibilities for the corrupted. Logically, the level of corruption [in Nagorny Karabakh] should then be comparatively low'.

AZERBAIJAN: LEADER OF OPPOSITION PARTY

'Narcotics businesses, human trafficking, and illegal trade in weapons are practically undeveloped in the regions of the Caucasus under the control of central governments. In the uncontrolled territories – in Abkhazia and Nagorny Karabakh – there are "special" spheres of corruption in addition to other [regular] forms. This has a negative effect on the settlement of the region's conflicts because separatists benefit from dirty money, which in turn serves to further their own goals'.

AZERBAIJAN: SME REPRESENTATIVE

'I have heard that life in Nagorny Karabakh is bad and difficult. There they also have to pay bribes, but I am unable to compare [it to the situation here in Azerbaijan]'.
AZERBAIJAN: A GROUP OF THE UNEMPLOYED, DISADVANTAGED YOUTH AND REFUGEES

'Life in Nagorny Karabakh is difficult, the population is leaving, moving to Yerevan. Therefore, the level of corruption should be comparatively small'.
AZERBAIJAN: A GROUP OF THE UNEMPLOYED, DISADVANTAGED YOUTH AND REFUGEES

'…corruption in Azerbaijan, as witnessed by the Azeris themselves, has become a national 'value'. It has a multi-level character involving a wide portion of the population, which has a destructive effect on the moral and economic structure of state'.
NAGORNY KARABAKH: REPRESENTATIVE OF THE GOVERNMENT

'While everybody is being busy with their immense illicit profits from the oil business there will be no resumption of war'.
ARMENIA: SECURITY SECTOR REPRESENTATIVE

'The Azeri authorities benefit from the unresolved social situation of refugees, most of whom do not have access to permanent housing or employment. This way, they are easy to mobilise for violence, as they are frustration with their own situation is turned against Armenians'. ARMENIA: GOVERNMENT OFFICIAL, DEAL WITH REFUGEES

'There was a rumour in Baku in 1993 that the military industrial complex was selling gasoline to the Armenians through middlemen and that this was used by the Armenians to fuel their military equipment, in turn, used to fight the Azeris'.
NAGORNY KARABAKH: NGO/MEDIA

'Possibilities for ending the conflict by joining a neighbouring state where corruption is traditionally rife would lead, of course, to the development of this phenomenon in our society and would only worsen the situation'.
NAGORNY KARABAKH: REPRESENTATIVE OF THE EXECUTIVE OR LEGISLATIVE BRANCH OF GOVERNMENT

Georgian government representatives tended to focus on their conflict counterparts, noting that although bribes line the pockets of Abkhaz and South Ossetian custom officers, bureaucrats and authorities, taxes are not paid into the [Georgian] state budget. They see this as giving the separatist republics a trading advantage, guaranteeing large profits to those taking part.

In other words, Georgian respondents representing legislative and administrative power view corruption in Abkhazia and South Ossetia not only as systematic but as *system-forming*, creating a system in which governing circles have a steady income. However, some did note that corrupt systems in Abkhazia and Georgia have at times coexisted on mutually beneficial terms.

Many Georgian respondents were of the opinion that corruption in their country is stimulated by the corruption in its opponents' territories. Corruption in the separatist republics was seen as a constant temptation for Georgian custom officers, policemen, businessmen, criminals and guerrilla fighters. Without this temptation, they suggested, there would be much less corruption in Georgia.

Representatives of the Georgian government were convinced that the option of returning to the legal jurisdiction of Georgia was unacceptable to the governments of the self-declared republics because this would mean losing the opportunity for personal gain. Government corruption in the self-declared republics was considered to be so high that finding a peaceful solution with them would be unlikely.

Both Abkhaz and South Ossetian respondents shared the view that corruption is on a greater scale in Georgia than in Abkhazia and was caused by the state budget and Western assistance. Respondents in South Ossetia mirrored their Georgian counterparts' opinion that it is the corruption on the other side that spills over borders and 'infects' people and institutions within their own society. Some of the Abkhaz respondents traced the origins of corruption in Abkhazia to becoming a part of Georgia. This was seen by many as the start of the erosion of traditional Abkhaz culture in which corrupt motives of behaviour were unacceptable.

Some respondents in South Ossetia acknowledged the successes of Georgia's new leadership in combating corruption. However, they thought that the roots of corruption in Georgia had not been addressed by its recent anti-corruption drive and considered the methods used to have been inadequate.[23]

'There is much more corruption in Georgia. They have bigger possibilities, especially because of the refugees, though they lived under different conditions before the war as well. There was no Soviet style of government there. And now Western countries are pouring a lot of money into Georgia. About one-third of the Georgian budget is made up of such aid'.

ABKHAZIA: TAX OFFICIAL

'Very large sums are dedicated to refugees and to supporting the guerrillas in Georgia. For example, $US 5 million was spent on the raids made in 1998. No one knows how much of this was embezzled. Or smuggled gasoline, which is shipped through us. A new market appeared for gasoline and nuts'.

ABKHAZIA: GOVERNMENT REPRESENTATIVE

'In Georgia, there is a direct interest in conserving the conflict in its current form – the military agencies, the humanitarian sphere, refugees – while in Abkhazia there is no such interest because those that reap profits from this simply adapted to the new conditions. For them, the settlement of the conflict will be more beneficial'.

ABKHAZIA: ORDINARY CITIZEN

'Separatist regimes are directly based on the corruption of business and on criminal businesses. It is often impossible to imagine things being any different. This is elementary as the separatist regimes do not have the legal capabilities to conduct business, making all business a crime'.

GEORGIA: REPRESENTATIVES OF THE GOVERNMENT

'They will try by all means to keep the conflict zone for a long time as they gain personally from this. I don't believe that any normal dialogue with them will bear fruit'. GEORGIA: LARGE BUSINESS OWNER

'From my professional experience, I know that the authorities in Tskhinvali survive completely on smuggled goods. I know that if a person wanted to send a shipment from the Roki tunnel to the Ergneti market, he had to pay $US 1000 to [South Ossetian President] Kokoity's authorities. And this is for every car – just imagine what sums they were dealing with! In Abkhazia, corruption and smuggling are flourishing as well. Of course there is more corruption in the conflict zones'.

GEORGIA: CUSTOMS OFFICER

'Corruption is, without a doubt, more widespread on the other side of the conflict because the state is bigger and the bureaucratic apparatus is more developed. There are examples of huge financial investments, a few billion in all that went missing'.

SOUTH OSSETIA: REPRESENTATIVE OF THE SECURITY SECTOR

'Georgia is more corrupt than any other state in the Caucasus'.
SOUTH OSSETIA: REPRESENTATIVE OF SPECIAL FORCES

'Corruption is traditional on that side [of the conflict] and that cannot be changed by the West or by anyone else'.
SOUTH OSSETIA: ENTREPRENEUR-TRADER

'…international aid gave birth to corruption in Georgia on a huge scale and still the amount of aid grows every year while international organisations close their eyes to the facts. This gives the impression that international organisations are also caught up in these machinations, though there are exceptions. In this case, we overestimate the size and extent of corruption in Georgia. Simply, corruption there is of a greater volume, receives greater assistance, and there are more targets for corruption'.
SOUTH OSSETIA: GOVERNMENT REPRESENTATIVE

'Corruption has become a weapon in the hands of those who want to destroy our young state. Georgian-Ossetian ties in corruption as well as in the criminal sphere are easy to trace. Corrupt officials much like normal criminals, car thieves, and drug dealers quickly find a common language with their counterparts on the other side of the conflict. The Georgian government is very much interested in developing corruption in the different branches of our government. In this case, they can easily deal with our state, or at least, it seems so to them'.
SOUTH OSSETIA: REPRESENTATIVE OF THE EXECUTIVE OR LEGISLATIVE BRANCH OF GOVERNMENT

'Saakashvili has done much, but not everything against corruption. He has lessened the amount of corruption in the highway patrol. He has given them large salaries, given them rights to choose new people. This has been successful without question. But the main this is the corruption of upper levels of government. There corruption remains as it was before. The leaders in the regions bordering on South Ossetia play at being patriots, in words fighting for the unity of Georgia, while they trade with our officials the whole time'.
SOUTH OSSETIA: ENTREPRENEUR-TRADER

These responses demonstrate that the stereotypes of the corrupt nature of the 'enemy' held by each side mirror one another and are maintained or strengthened by the belief that the other side is always more corrupt, immoral and criminal. Corruption is seen as a phenomenon inherited or even caught like a disease from the opponent or explained as a necessity or a coping mechanism in a difficult situation while the enemy's motivation is usually attributed to the essence of its character, which is always immoral and motivated by greed.

As a rule respondents attributed corruption on the opponent side to the ruling elite and to large businesses. No clear distinction is being made between corrupt authorities and people who suffer from corruption. On rare occasion only those most directly affected by conflict, such as refugees were able to express sympathy with their counterpart 'corruption victims.'

All groups saw the ruling circles on the opposing side as being directly interested in maintaining the *status quo* in order to protect and continue their personal enrichment through corruption. They saw these motivations as always taking priority over a peace deal and therefore did not trust the opposing side to negotiate in a serious manner or even to uphold any agreements made.

6. Corruption in Military Institutions

Army corruption in all of the South Caucasian societies is directly connected to the region's frozen conflicts. It exists around draft and compulsory service, the preparation and expenditure of military, weapons trading and the awarding of privileged positions to military leaders in the private sector.

In the event of renewed confrontation in the region, military mobilisation depends on public perceptions of the corruptibility, legitimacy and competence of security institutions. High levels of corruption are likely to mean less popular involvement in a potential military campaign.

6.1 Corruption in the armed forces during the violent phase of the conflicts

Accounts given by respondents of corruption in the army flourishing at all levels, at the front and during fighting, distort the idealistic concept of war for just cause.

In the non-recognised entities, corruption was perceived to be a post-war phenomenon. War was recalled with a certain amount of nostalgia, as a time when society was immune to corruption, both in the army and in other sectors.

Georgian respondents, for instance, noted that illegal trading in weapons by the army decreased within the Georgian security sector as soon as people had realised that such profits were 'not worth the lives of our boys'.[24]

'If we have any part of the army that isn't corrupted, then it must be on the front line'.
AZERBAIJAN: POLICE OFFICER

'…during the war corruption did not exist on a day-to-day level. Human relations and patriotism were placed above all, but now only profits count'.
NAGORNY KARABAKH: A REPRESENTATIVE OF THE SECURITY SECTOR

'When I was serving in the army (in the zone of conflict), I came across the following rule. If the number of bullets you had shot at the enemy wasn't recorded under your name within three days, then you would have to pay 10 times more. One bullet costs one dollar. I had to pay $US 100 in June 2003 so that the corresponding documentation would be signed by the commander of our unit and by the Ministry of Defence'.
AZERBAIJAN: UNEMPLOYED

'During the war the Ministry of Defence would write off a sum for a certain amount of rations, but the food wouldn't be delivered to Abkhazia and they were considered lost in Mingrelia when in reality they were either sold or stayed in Tbilisi….'
GEORGIA: SME REPRESENTATIVE

'The weapons that were sent by the Ministry of Defense were not given to us. We had to buy them on the market. That is exactly why they want the war and why they are satisfied with it. It is a possibility to steal a lot of money. One day of war cost $US 20 million. Who knows who took this money and where this money went'.
GEORGIA: THE REPRESENTATIVE OF ADMINISTRATIVE AND LEGISLATIVE BRANCHES OF GOVERNMENT

6.2 The evasion of military service

The constant risk of renewed violence has contributed to the flourishing of corruption connected with the evasion of military service or of transfers to army units far from the front lines. This is extremely widespread in Azerbaijan, Armenia and Georgia and also exists, albeit to a smaller degree, in the non-recognised entities. Some respondents viewed corruption in military conscription centres as systemic and because a portion of bribes received at lower levels are transferred up, the top officers have an interest in keeping the conflict frozen.

Only respondents from Nagorny Karabakh's security sector thought that the paying of bribes to avoid military service was currently rare. Serving in the army there and in Abkhazia was viewed as more prestigious than it was in Azerbaijan and Georgia. Military service in the non-recognised entities was widely accepted as a necessity and not everyone shared the opinion that army corruption during the war and now, in the state of frozen conflict has grown. One representative from the Armenian security sector observed that the foundations of corruption in the army have been somewhat shaken by new, stricter regulations.

Corruption can frequently undermine the morale of armed forces, especially government ones, as observed in Chechnya (Russian forces) or Vietnam, etc.[25] The three sovereign states of the South Caucasus follow this pattern, whereas army morale in the non-recognised entities has not been eroded to such an extent.

Most people in the South Caucasus perceive the ruling elites/governments as the most corrupt elements of society and may sympathise with those ordinary people from the 'other side' who are 'victims' of corruption. This has been reflected in military circles, for example, when Armenian soldiers from Nagorny Karabakh captured Azeri soldiers. On realising that the only reason for them being there was that they could not afford to bribe their way out of the front line, they released them.

'My son … didn't want to serve. All his friends' parents managed to save their children from the army (by bribing), but I didn't have such money'.
ABKHAZIA: ORDINARY CITIZEN

'You can always be reproached if you didn't serve in the army. If you care about your country, if you are a patriot, you have to serve'.
ABKHAZIA: ORDINARY CITIZEN

'Despite the lack of prestige of serving in the army, young people have the attitude that while it is not prestigious, it is necessary'.
ABKHAZIA: ORDINARY CITIZEN

'Serving in the army here is prestigious anyway, even if only for psychological reasons as it is considered shameful not to serve, not to become a real man'.
NAGORNY KARABAKH: REPRESENTATIVE FROM THE SECURITY SECTOR

'It is not prestigious to serve in the army in as much as the sons [of the elite] do not go to the army or only serve formally [but not in reality]'.
NAGORNY KARABAKH: REPRESENTATIVE OF THE MILITARY

'The Nagorny Karabakh problem is a big disaster for the Azeri people. Those that have suffered from the conflict are the local population and refugees and those that have benefited from the conflict can be found in the government. The draft into the army is renewed three times annually. Every draft takes in around 10,000 people. Of those, about 8,000 pay bribes

in order to not end up in zones of military activity. I estimate this comes to something like $US 1.5 million – it means that the frozen conflict is profitable for the higher-ups'.
AZERBAIJAN:, REFUGEES/IDPS, DISADVANTAGED YOUTH

You can get out of serving in the army for a month or for a week or altogether. You just need to pay. The amount depends on the location of your unit. It isn't a secret that for one day of absence you need to pay one to two shirvans (about $ 2 to 4).
AZERBAIJAN: POLICE OFFICER

'There is no prestige in serving in the army. Those who cannot bribe have to send their children to the army. It costs between $US 1,000-1,500 to free them from service. If you want to serve closer to Baku, it costs up to $US 500 and getting to the northern border, further away form the zone of military activity, you will pay at least $US 300'.
AZERBAIJAN: MOTHER OF A SOLDIER

'I believe that corruption knows no limits here. It exists in the army as well as the draft offices. Military commissioners build huge four- or five-story villas, which they can only afford by taking bribes. Why would they even think about liberating Karabakh?'
AZERBAIJAN: SME REPRESENTATIVE

'The level of corruption in the army and in the system of higher education [students and postgraduate students of the state universities don't have to serve in the army] is growing. People are afraid to send their children to the army and bribe to avoid serving'.
ARMENIA: ORDINARY CITIZEN

'Liberation from army service is a new market for corruption.
ARMENIA: SME REPRESENTATIVE

'… there is less corruption in the army, the draft has become more strict and it is getting more difficult (i.e. very expensive) to avoid serving'.
ARMENIA: REPRESENTATIVE FROM THE SECURITY SECTOR

'As to the army, 50 percent of the drafted soldiers had to pay between $US 25-50 for the possibility to stay at home. In addition, when these soldiers were at home, army officials still drew their rations, uniforms, ammunition, etc.…'
GEORGIA: REPRESENTATIVE OF THE GOVERNMENT

6.3 Reaping the benefits of military service

Being an ex-combatant, whether disabled through action or not, brought poverty and disillusionment to many as they could not claim any benefits that had been promised or that were inscribed in the law, but few could turn true or fake ex-combatant credentials into profit. The advantages ranged from political power to monetary benefits. Status and connections within the privileged ex-combatant club thus becomes another source of corruption that feeds into the informal economy of the region.

Ordinary Armenian citizens claimed that the practice of appointing those who fought in the war to positions of power and granting them permission to conduct profitable business has created another incentive for those already in power to practice protectionism and take bribes in exchange for granting privileges. They noted that many well-off businessmen who claimed to have fought in the war and, as a consequence, enjoyed veteran privileges had not in fact fought, and that the majority of actual veterans now find themselves in a difficult position, both socially and economically. The

upper ranks of the security sector are filled with people who had some connection to the conflict and so the public associates these structures with those specific individuals.

Getting a position in the military bureaucracy opens opportunities for personal enrichment because of the lack of transparency of these structures. Corruption in the security sector flourishes because it is never a subject of public scrutiny and is under direct government control.

In Armenia some of those who have suffered as a direct consequence of the conflict, such as refugees and relatives of those killed, believe that a specific group of people lined their pockets while the majority of the population fought in Nagorny Karabakh.

In Nagorny Karabakh ordinary citizens noted that the status of a war veteran is a new source of corruption as the documentation and rights to entitlements for disabilities resulting from war can be obtained through bribes.

'…today, the security sector hides information under the pretext of national security interests. This is sometimes used as a false pretext'.
(ARMENIA: NGO)

'Corruption in the Ministry of Defence connected with big state purchases is growing as [such purchases] are not always made by tender on equal terms for everybody'.
ARMENIA: SECURITY SECTOR REPRESENTATIVE

'There are also people who misuse their position in the budget financing of military expenses'.
AZERBAIJAN: PRESIDENT OF A PRIVATE BANK

6.4 Corruption in the military institutions and the probability of renewal of armed conflict

Respondents from throughout the region put forward two different lines of argument on the connection between war and corruption. To some, it seemed logical that corruption should decrease during times of war or when the outbreak of war seems imminent because society unites around a common cause. The opposing logic was that corruption flourishes during war time because state and social controls are lax during times of military emergency.

Those who had fought in the conflicts disputed the argument that the potential for realising material gains served as a motivation for the outbreak of war. However, they recognised that there were those who benefited from their corrupt connections or their official positions and who had made money by selling weapons, demanding ransom for prisoners of war, or embezzling humanitarian aid. Respondents said that those who had actually fought did not participate in corruption and, moreover, conducted themselves nobly in relation to their adversaries. Those that made money out of war were, they said, those occupying higher governmental or military positions who sat out the fighting in their offices.

Both ex-combatants and other groups said that they had become disillusioned with the idea of military campaigns as a 'noble' and appropriate strategy to resolve the conflicts because of the corrupt deals by military and civilian officials that had been carried out during and after the military phase of the conflicts.

This is not to say that there is no motivation to fight for a particular cause. However, those in support of war clearly understand it to be a favourable environment for corruption, which in

turn will make that same war extremely difficult to win. Support for war is motivated not by miscalculation of its consequences in terms of corruption but, more probably, by the lack of feasible alternatives to end the conflicts on a particular society's own terms or at least with minimal damage for its identity, security and development.

Recognition that war fosters corruption does not keep those in favour of enforcing the territorial integrity of Georgia and Azerbaijan from favouring a military solution to the conflict because they do not see any other means for achieving their goals.

'…Georgia will be reduced to nothing. Certain personalities will get wealthy and, additionally, people will die. God save us, but this option actually pleases some people. In the first case, this pleases the Russians. They will sell weapons to both sides and let us kill each other…'

GEORGIA: GOVERNMENT REPRESENTATIVE

'…war is big business, although that doesn't mean that all of us who are in favour of war are involved in corruption. Personally, I am in favour of war and believe that the conflicts that have been fomented on the territory of South Ossetia]and Abkhazia are practically impossible to solve without war…'

GEORGIA: GOVERNMENT REPRESENTATIVE

'The peaceful and smooth, but consistent movement towards settling the conflict will cost the country less in terms of corrupt payments made to officials. The military settlement of the conflict may cost the country large corruption-related losses. There is always more corruption during war time'.

AZERBAIJAN: SME REPRESENTATIVE

7. Corruption in IGOs/INGOs and Peacekeeping Forces

International governmental organisations (IGOS) and international non-governmental organisations (INGOs) are considered to be both a source of corruption and beneficiaries of it. Even if there is little evidence that international organisations are implicated in local corruption networks, the perception remains, in part because of their comparatively high salaries, frequent incompetence and their apparent tolerance of corruption in the societies in which they work.

These organisations arouse the distrust of the public in conflict zones, many of whom see foreign investment, support for peace and humanitarian aid as disguises for connivance in corrupt activities such as money laundering.

If an international organisation is labelled as corrupt by the public, all its actions will be considered to be motivated by corruption. IGOs/INGOs working on important issues aimed at the welfare of the public (for example, economic development or reconstruction, conflict resolution) need the trust of those people whose welfare they are claiming to promote. Accusations of corruption undermine this trust and therefore the organisation's current and future operations.

This is particularly important if the organisation is working to build trust between opposing communities but is suspected of having corrupt motives rather than working for the welfare of those affected by the conflict. The combination of low impact and high salaries and expenditures that are perceived as typical of international organisations leads to mistrust on the part of the general public regarding the capacity and intentions of the international peacebuilding community in the region.

In addition, a high degree of corruption has been reported among the peacekeeping forces in the region. Russian peacekeeping forces serving in Abkhazia and South Ossetia were seen by the respondents from Georgia and Abkhazia as links in the chain of corruption, especially in connection with the transportation of goods through the territories where they are based. Some believe that the material interest of peacekeepers in maintaining their presence in the conflict zones is so high that they can be viewed as a hindrance to the peaceful settlement of the conflicts.

'There are some people from international organisations that will take you into the conflict zone for a certain amount of money; that is, they also participate in corruption'.
GEORGIA: SME REPRESENTATIVE

'It is common knowledge that humanitarian aid as a business takes third place in terms of profitability after trade in weapons and in drugs'. Georgia: representative of big business
'The unregulated nature of the conflict satisfies in part the representatives of international organisations as well. I cannot say that they participate in corruption, although there were cases were certain individuals in the conflict zones were paid relatively large compensation. Still, everything was done openly. Cases of corruption in conflict zones are worrying and create the impression that international organisations also contributed to this. That they froze the conflict and drove the country into such a dead end that getting out of the situation will be very difficult…'
GEORGIA: MEDIA

'I don't understand why judicial reform in Armenia began with the construction of new buildings for the courts when everyone knows that construction is one of the most corrupt

areas of activity. In this way, such international aid encourages the spread of corruption in the country'.
ARMENIA: NGO

'Many international organisations occupied with the conflict simply pretend to be carrying out useful activities, prolonging their programs in the regions and receiving amounts much larger than the budgets of local NGOs. Corruption enters the scene when activities need to be faked and money spent. This is equally true for local NGOs. It is interesting that international organisations demonstrate a great deal of patience with the manifestation of corruption'.
ARMENIA: NGO

'The belief is widespread in society that many NGOs enter into conspiracies with donors or donors' representatives in order to make off with the money or humanitarian aid designated. It is difficult for me to judge the true scale of such activities'.
AZERBAIJAN: NGO

'International organisations are not especially active in the area of protecting human rights from corruption. They don't work with government officials at all, but, just the reverse, allow themselves to be lead by the officials as if it is profitable for them to support corrupted officials and show South Ossetia in a bad light'.
SOUTH OSSETIA: ENTREPRENEUR-TRADER

'There is corruption among NGOs in the area of grants. A huge number of projects financed by the West to develop friendly relations between Georgians and Ossetians actually have no relation to the peace process whatsoever. In actual fact, the projects are formally implemented by Georgian NGOs who, in the best case, give only a part of the money to their formal and corrupt South Ossetian partners. On paper, everything looks wonderful, all peace and friendship. International organisations announce to the whole world that Georgians and Ossetians are successfully coming to terms and the world stops giving enough attention to the South Ossetian problem. As a result we have what we have – the same old conflict, again people die'.
SOUTH OSSETIA: GOVERNMENT REPRESENTATIVE

'Entire agencies have appeared in areas where people never would have thought to offer bribes before. For example, there are military units that in the name of peacekeeping actively participate in smuggling and whose incomes have reached quite high levels. I specifically did not point my finger at Russian peacekeepers as the largest roles in this process are played by Georgian, Ossetian, and Abkhaz soldiers or partisans'.
GEORGIA: REPRESENTATIVES OF BIG BUSINESS

'Peacekeeping forces are an interested party. Do you know that every march here and back again costs money?'
GEORGIA: REFUGEE

'…in order to import gasoline into Abkhazia from Turkey a few years ago, I was forced to pay off Russian border guards'.
ABKHAZIA:, TAX OFFICIAL

'Peacekeepers are an interested party…they receive money. If they won't have anything to do and they will no longer be needed, no one will give them anything. They will be sent back to central Russia where they will receive a salary of a normal Russian officer of $US 20-30 [per month] at the same time as peacekeepers receive much higher salaries from international organisations, not to mention their other, corrupt sources of income'.
GEORGIA: SME REPRESENTATIVE

8. Corruption and NON/-Recognition

Opinions as to the root causes and specific characteristics of corruption in relation to the frozen conflicts differed between the respondents from the recognised states and those from the non-recognised entities (NREs). Although the purpose of this project was not to undertake a comparative study it is nevertheless important to acknowledge these differences in the principal assessment of the link between corruption and conflict in the different types of entities. De facto states not recognised by international law have emerged as a result of the state formation conflicts in the South Caucasus in the early 1990s. Manifestations of corruption that are immediate consequences of these conflicts, as well as results of the lack of statehood and functioning state institutions, are unique to these entities and are ought to be addressed through a different strategy than those in the internationally recognised states of the Caucasus. Community cohesion and mutual help in the absence of stable, resourceful and socially concerned government often conflate with corruption in the perception of the residents of non-recognised republics.

In Armenia and Azerbaijan generic corruption was rarely considered as directly linked to the conflict. A more popular opinion was that the spread of corruption was due to internal factors, such as the lack of rule of law, weak democratic institutions and low salaries in the public sector.

Respondents from Azerbaijan and Georgia saw a qualitative difference between corruption in recognised governments and those of the NREs.[26] They attributed this difference to the criminal nature of corruption in the NREs, which they saw as taking form in the production and transportation of narcotics, trafficking in human beings, smuggling, trade in illegal weapons trade, etc. The cause was identified as the lack of control of the breakaway territories by the recognised central governments or international monitoring organisations. Although they also mentioned economic incentives for their governmental officials to be involved in joint corrupt deals with the opposite side, there was a general sense that the 'upper threshold' for corrupt deals was national interest, i.e. corruption will be practiced only to the point where it might interfere with the national interest, which in this case is restoration of territorial integrity.

A different side of the same sentiment was strongly shared by those from the non-recognised entities which seemed to be more tolerant towards top-level corruption because the cause of self-determination is believed to be the highest national interest. All other social issues were measured against it and were automatically less of a priority. Some respondents in South Ossetia spoke about corruption in the government with disappointment. At the beginning of the struggle for self-determination the leading elite seemed to be committed to the cause but corruption has gradually set in.

Social apathy, a characteristic of situations in which people are preoccupied with survival, is another reason that corruption is more likely to be tolerated in the non-recognised entities. These populations are caught in the current system and distance themselves from political and social life and are therefore unlikely to play an active role in fighting corruption. This situation is compounded by high levels of uncertainty and ambiguity and the constant threat of the resumption of armed struggle. People are therefore pushed towards involvement in corrupt networks in order to accumulate resources so that they can survive if violence erupts, either by fleeing or by emigrating. Economic instability is an additional contributing factor to this instability and participation in corrupt networks

allows savings to be accumulated. In this way, corruption can inject some certainty into the economic climate of these societies.

While respondents from non-recognised entities actively discussed their feelings of uncertainty, defenselessness, and apathy, respondents from the sovereign states of the South Caucasus, who also perceived corruption to be endemic, placed an emphasis on the greed and incompetence of the power holders and on the complicity of both public and the private sector. For many in Georgia, Armenia and Azerbaijan, involvement in corruption networks was not seen necessarily as a matter of survival, but a way of increasing standards of living. Perhaps because of this, corruption was more fiercely condemned by those from the three sovereign states than those from the non-recognised entities.

'…They say that businessmen trade while our kids are fighting and standing at the guard posts and in the trenches'.
SOUTH OSSETIA: SME REPRESENTATIVE

'…I can buy gasoline or other kinds of goods that were brought in [from Georgia] across the Ingur River because it is cheap. I could reach an agreement with someone from the other side. But I don't want to work with them on a regular basis. Why would I need my wealth if we lose the independence for which I fought…'
ABKHAZIA: BIG BUSINESS OWNER

'…Cases of treason against national interests can be found everywhere…these people…consciously reach deals with the Georgian side. If we speak about company X, then it must be said that these people fought [against the Georgians], but they still make money with the Georgians. That is, they don't realise that they are selling out their own government or causing harm in any manner. But they are not so strong economically so as to be politically influential'.
ABKHAZIA: GOVERNMENT REPRESENTATIVE

'As long as the conflicts remain unsettled, people survive and do not make big, long-term plans. They give and take bribes just in order to survive. If someone says that they are fighting corruption, he will be told, "wait a minute, there is a war going on here and here you come talking about corruption"'.
SOUTH OSSETIA: REPRESENTATIVE OF AN INTERNATIONAL ORGANISATION

'...the instability and the danger of military conflict constantly cause new problems for people and under these conditions people are now prepared to pay money'.
SOUTH OSSETIA: MEDIA-NGO

'…because of the lack of more or less clear future perspectives, people live only for today, which gives birth to bribe-taking and corruption and hinders anti-corruption activities'.
South Ossetia: representative of the government

'We don't need to rejoin Georgia. It would be better to let corruption destroy us'.
SOUTH OSSETIA: CUSTOMS OFFICIAL

'…I believe it is more immoral to conduct trade with Georgia than to take bribes. After all, we are still in a state of war with them'.
ABKHAZIA: SME REPRESENTATIVE

'…it seems to me that one of the main diseases of our modern society is that most people know in their hearts that they would do the same thing if they were in the same position [of power] and therefore they are not resentful [of corruption]'.

ABKHAZIA: MEDIA-NGO

'Corruption can be justified only in the greatest necessity – for example, in the name of the nation'.

NAGORNY KARABAKH: ORDINARY CITIZEN

9. Corruption in Protracted Conflict

Protracted conflicts are characterised by frequent outbreaks of violence, which means that such violence becomes regarded as 'normal' and the conflict is institutionalised. Once this happens the conflict can, ironically, be maintained without any violence but by a range of social structures and norms that preserve the 'side-effects' of a conflict, such as insecurity, poverty, denial of needs and rights. In this way, protracted conflicts hinder the development of democratic structures, processes and culture, creating a context in which corruption also becomes regarded as 'normal'. It is therefore extremely difficult to address corruption without also making changes to the conflict context.

Corruption can also be viewed as a factor keeping the frozen conflicts from turning 'hot' again. More often than not, the times of cease-fire provide opportunities for officials from the conflicting parties to cooperate in joint ventures that circumvent the law on one or both sides and enhance dividends from corrupt deals that do not see the front lines.

Institutions in societies affected by protracted conflicts tend to be weak, whether in the public, private or non-governmental sector. As discussed in previous chapters, governments/national authorities in the South Caucasus have little experience in good governance and are as equally implicated in maintaining the cycle of corruption as other groups. Although the private sector certainly needs corruption to be reduced, and realises that it leads to the criminalisation of the sector, businesses continue to participate in corruption. These societies therefore have to rely on civil society actors such as mass media and national NGOs to fight it.

9.1 The role of civil society in monitoring corruption

Reactions to whistleblowers and watchdogs (including media, non-governmental organisations and human rights activists) are similar in both the internationally recognised states and in the non-recognised entities. Open protests or accusations are met by the threat of retaliation and punishment. Professional watchdogs that are called upon to reveal the misuse of government office often themselves suffer from corruption.

Few media representatives in the region have been able to retain their independence. Denouncing corruption is all the more difficult in the non-recognised entities as any critique of their own government is seen as an attempt at dividing society, which needs to maintain solidarity in its belief in the importance of secession. Journalists are often confronted with the argument that it is 'better to let our government be corrupt than to allow them victory'. Many of them therefore choose self-censorship as a temporary necessity and do not reveal corruption in their own societies.

Caucasian society is sceptical of the ability and motivation of non-governmental organisations to lead civil society in the fight against corruption or in the fostering of peace processes, because NGOs addressing either of these issues are often seen as corrupt or politicised – whether they are affiliated with the government or the opposition.

'Too much is attributed to the fact that we face a constant military threat. Nonetheless, you cannot ignore it. The thing is that you also need to feel your responsibility to society when disseminating information'.

ABKHAZIA: TELEVISION JOURNALIST

'Naturally, television channels and other pro-government media…live off the "fat" of the semi-legal operations [of government structures]'.
AZERBAIJAN: COMMENTATOR FROM AN OPPOSITION NEWSPAPER

'The media basically express the position of the government. The longer that the conflict remains frozen, the more profitable this is to them'.
ARMENIA: NGO

'Right after the hot phases of the war, all it took was something to be published in the free press and there was immediate criticism on the pretext that our conflict with Georgia remained unsolved. Even though the article might have been about the improper privatisation of a resort. It was nonsense, but it worked. They tell you not to disrupt society because, after all, war could break out again at any moment. And on a societal level, this works just as before'.
ABKHAZIA: JOURNALIST

'…given the advanced state of corruption, even good journalistic work leads to corrupt results because when what an official has been doing becomes well known, he has to pay bribes so that his superiors don't remove him. Nothing changes'.
SOUTH OSSETIA: MEDIA-NGO

'In as much as the "well paid" media represent and defend the interest of the current government, they produce propaganda supporting the position of the regime in questions regarding the frozen conflict. As a result, true information on the conflict does not reach society'.
AZERBAIJAN: COMMENTATOR FROM AN OPPOSITION NEWSPAPER

'…our journalists agree with the opinions and course of the government when it comes to the issue of independence or unification with Russia and on not rejoining Georgia under any circumstances, because this encourages the physical survival of our nation'.
SOUTH OSSETIA: MEDIA-NGO

'…given the conflict, the journalistic principal of giving equal coverage to both sides of the conflict could create a danger for our state and therefore the media must be subject to censorship'.
GEORGIA: CUSTOMS OFFICIAL

'The inclusion of international organisations and local NGOs in conflict settlement introduces actors in mediation with their own interests. Soon their interests clash with and sometimes even prevail over those of the conflicting sides. The delay in settling the conflict is caused by the persistence of corruption…in societal circles…and even in the media'.
AZERBAIJAN: MEDIA

This lack of effective resistance to corruption from the political opposition and from civil society has meant that corruption has become deeply rooted in the region. There has not yet been any organised expression of dissatisfaction with government corruption although the political opposition has tried to use corruption as a tool to challenge existing regimes. In Georgia this brought the downfall of the Shevarnadze regime and great hopes were invested in the new government, both in regard to the prospects for the settlement of Georgia's frozen conflicts and for reducing corruption. The new government's declared preference for settlement by peaceful means was supported by respondents, who agreed that corruption increased dramatically in a war situation, although there was a certain amount of scepticism as to the real consensus amongst the elite regarding the need to bring the conflict to an end. They also questioned its

commitment to fight corruption because of selection processes around privatisation tenders and pressure to align political views with those of the leadership.

9.2 Reducing corruption after the settlement of the conflicts

Many respondents from the non-recognised entities were of the opinion that achieving the status of an internationally recognised, sovereign state would mean that levels of corruption would automatically decline and that recognition of their independence would be the best means of fighting corruption regionally. Respondents from Georgia also believed that the settlement of the conflicts would mean that corruption would disappear on its own (if the settlement was in their favour).[27] Respondents in Armenia and Azerbaijan demonstrated greater skepticism about immediate impact of the conflict resolution on the reduction of corruption.

'…[corruption will decrease] if the territorial integrity of Georgia is reestablished and the conflict settled. This would mean in and of itself that Georgia as a state had truly come into being. Under these conditions, corruption, of course, would not exist on the same scale as it does today'.

GEORGIA: MEDIA REPRESENTATIVE

'If there is no conflict, those zones will reenter Georgia, and the same laws will be established there as exist here. That will mean that smuggling and corruption will cease. This is better for both the local residents there as well as for our people…'

GEORGIA: REPRESENTATIVE OF BIG BUSINESS

'…if the system of management remains unchanged, there is no reason to speak about a reduction in corruption in the country as a whole'.

AZERBAIJAN: COMMENTATOR FROM AN INDEPENDENT NEWSPAPER

'…[the settlement of the conflict] also could create conditions for the long-term stabilisation and conservation of the current, corrupt regime'.

AZERBAIJAN: NGO

'…the settlement of the conflict will create new forms of corruption. For example, corruption will definitely find its place in the liberated areas that will need significant reconstruction'.

AZERBAIJAN: LEADER OF AN OPPOSITION PARTY

'After the return of the occupied territories, the building of housing, roads, and schools will take place. Officials will then certainly find something to steal'.

AZERBAIJAN: ORDINARY CITIZEN

'Because of the conflict, South Ossetia is not "recognised" – a situation which fosters corruption. It is as if we exist outside of any legal framework and have nowhere and no one to appeal to. Everywhere we get the same answer, you are not recognised'

SOUTH OSSETIA: BUSINESSMAN-TRADER

'…independence with full recognition is the best possible way that events could develop. It…will further the fight against corruption because people will finally be able to believe in the future and feel themselves the unquestionable masters of their own country. The time of the favourites of the officials who grab what is not theirs will pass'.

SOUTH OSSETIA: BUSINESSMAN-TRADER

'The sooner we are recognised, the sooner corruption will disappear. There will be stability. We will be forced to play by the rules. We will have to be reckoned with. And it will be the same in Georgia'.

ABKHAZIA: REPRESENTATIVE OF BIG BUSINESS

'If Abkhazia will be recognised, then the situation here will no longer be so unstable. Maybe Georgia will come to terms with this and the situation over there will also stabilise. There will be a legalisation of economic relations with Georgia. Any legalisation will have a positive influence on the amount of corruption…'

ABKHAZIA: SME REPRESENTATIVE

'…international recognition of Nagorny Karabakh will encourage the establishment of order in the country in as much as the government will then have to answer to international structures. The state will need to observe international norms'.

NAGORNY KARABAKH: A REPRESENTATIVE OF INTERNATIONAL AND LOCAL NGOS, MEDIA

'[If Abkhazia is recognised], the possibility to develop joint efforts,…to develop some kind of mechanism for fighting corruption, will appear. Regional programs are even more effective than international programs because the problems facing post-Soviet countries are similar. If Abkhazia is recognised, there will be more possibilities to fight corruption'.

ABKHAZIA: REPRESENTATIVE OF GOVERNMENT

'If I wanted to create conditions conducive to the elimination of corruption, then my neighbours must do the same. Otherwise nothing will come of it. If the government in South Ossetia outlaws the bribery on the country's roads, then money will still be extorted in North Ossetia and in Georgia. We need an agreement between the different countries but we are currently fighting each other instead'.

SOUTH OSSETIA: SME REPRESENTATIVE

In Armenia the connection between a decisive settlement of the conflict and the prospect of reducing corruption was considered to be indirect. The precise nature of the settlement did not matter greatly to some respondents, whilst others insisted on a 'just' settlement (i.e. one that would work to their advantage). A commonly held opinion was that the settlement of the conflict would remove a number of conditions that have led to corruption in the army and in the customs service as a result of the blockade. Respondents also recognised, however, that the main mechanisms for fighting corruption need to be formed within Armenian society itself and that this can be achieved without waiting for a final settlement. As one Armenian interviewee noted, as long as Caucasian societies do not deal with their internal problems, such as corruption, it will be difficult to find solutions to the region's conflicts. Similar views were expressed among members of the public in Azerbaijan.

Respondents from the non-recognised entities unanimously agreed that the issue of corruption within their societies was irrelevant in the face of the inclusion of Abkhazia and South Ossetia in Georgia and of Nagorny Karabakh in Azerbaijan. Commenting on the chances for eliminating corruption among the Armenians of Nagorny Karabakh if the region reintegrated with Azerbaijan, a representative of a small business put forward the following radical view: 'In this case, there will not only be no corruption, but also no Armenians either'. Similar statements were made by respondents from South Ossetia and Abkhazia.

Some traders and customs service officials from Nagorny Karabakh, including some who admitted to engaging in smuggling, did not believe that achieving international recognition would help in the struggle against corruption for two reasons. First, the habit of giving bribes has become firmly entrenched in society. Second, anti-corruption measures will only be possible if the

political leadership is honest, which in their view, is not the case. One of the interviewed SME representatives from Nagorny Karabakh did not consider independence as a panacea for the ills of corruption, believing that it may even lead to a growth in corrupt practices as new development aid would flow into the country, providing new opportunities to embezzle funds. Respondents from South Ossetia and Abkhazia also expressed scepticism regarding the supposedly direct connection between independence and a decrease in corruption. There was also no unanimity as to whether the unification of South Ossetia with Russia or Nagorny Karabakh with Armenia would foster a reduction in corruption.

Any hope for decreasing the scale of corruption in Azerbaijan was connected with the return of the country's territory. Many respondents were optimistic about the chances of reducing the amount of corruption and even eliminating it if the negative consequences of the conflict and the continued threat of military conflict were to disappear. However, they also thought that this reduction would be limited to situations in which corruption is directly connected to the conflict (for example, in the army or smuggling) and that endemic corruption would not disappear with the settlement of the conflict. Furthermore, some believed not only that systemic corruption would survive, but that the existing corrupt regime would also remain. The level of distrust in the government and other corrupt institutions was so great that it was suggested that the level of corruption in society would either grow or remain at current levels even after the region's conflicts were settled. Some respondents were confident that corruption would take on new forms and that corruption would simply enter new sectors that would appear in the post-conflict period of reconstruction and rehabilitation.

'Corruption would catastrophically multiply [under a union with Azerbaijan]. Unification with Armenia would lead to a slow growth [in corruption], but a growth nonetheless. If [Nagorny Karabakh] would be recognised as an independent state, corruption would decrease'.

NAGORNY KARABAKH: REPRESENTATIVE OF SECURITY SECTOR/BIG BUSINESS OWNER

'If [South Ossetia] rejoins Georgia, there will not be any corruption among the Ossetians because there will not be any Ossetians on the territory of South Ossetia'.

SOUTH OSSETIA: BUSINESSMAN-TRADER

'It will be horrible if the conflict is settled in favour of Georgia because the problem [of corruption] will no longer exist in Abkhazia, much like there will probably not be any Abkhaz – neither the people nor the state'.

ABKHAZIA: REPRESENTATIVE OF GOVERNMENT

'In the other areas [besides the army and departments connected with the provision of humanitarian aid], the reduction of [corruption] is unlikely'.

AZERBAIJAN: JOURNALIST

'I don't think that corruption will disappear with recognition, but that it will be transformed. Some types of corruption will disappear and new types will appear. But there will be new possibilities to fight it. We will develop some kind of program and will receive new resources for fighting corruption. I also agree that corruption will spread, will transform itself into something much larger. After all, ordinary citizen cannot buy the courts'.

ABKHAZIA: REPRESENTATIVE OF GOVERNMENT

'If Abkhazia is recognised as an independent state, then the country will attract the economic interests of different countries and different individuals. Corruption might grow among the upper echelons of government because of the rise of these external economic interests. Once our pie is divided, then corruption will immediately decrease'.

ABKHAZIA: REPRESENTATIVE OF BUSINESS

'….the conflict serves as a means of feeding corruption. The end of the conflict would present difficulties for the smuggling of weapons, petroleum products, and the like. All in all, the possibilities would be reduced for corrupt regimes to use the conflict for strengthening their bases of power'.

AZERBAIJAN: A COMMENTATOR FROM ONE OF AZERBAIJAN'S LEADING OPPOSITION NEWSPAPERS

'The peaceful settlement to the Nagorny Karabakh problem will deliver a blow against corruption in the military industrial complex and in areas of social service delivery. These sectors are not the main sectors [of corruption]. The conflict is only one source of corruption'.

AZERBAIJAN: PRESIDENT OF A PRIVATE BANK

10. Conclusion

The question of whether corruption deters societies in the South Caucasus from seeking alternative solutions to the frozen conflicts and has a negative impact on peace processes at various levels remains open. This study analyses corruption as a factor in the intractability of the conflicts but does not claim that it is the only or even the key factor in this. It does not rule out the possibility of corruption providing short-term benefits to the public in the specific context of the region's frozen conflicts.

These conflicts have become chronic and have therefore created an imperative for the societies to develop manoeuvring and adjustment strategies at all levels, from the individual to institutional. This study analyses corruption as a strategy of that sort and examines how it can interfere with conflict transformation strategies, sustain the *status quo* of the frozen conflicts and revive the possibility of armed confrontation. Corruption in the societies of the South Caucasus has by no means emerged simply because of the conflicts, nor is it a root cause of the conflicts.

This study tested the proposition that corruption impairs conflict transformation processes in the South Caucasus because it leads to apathy and conformism among societies and provides incentives for authorities to sustain the *status quo*. On the other hand, lack of progress in conflict transformation was hypothesised to undermine the development of efficient and accountable public sector, licit and independent private sector and watchdog agencies that could effectively tame corruption.

The findings of this study led to the following conclusions:

Perceived extensive top-level corruption on 'own side' delegitimises the government as an institution capable and willing to initiate a peace process and to implement a peace agreement, thus eliminating chances for such an agreement to take hold in any of the societies

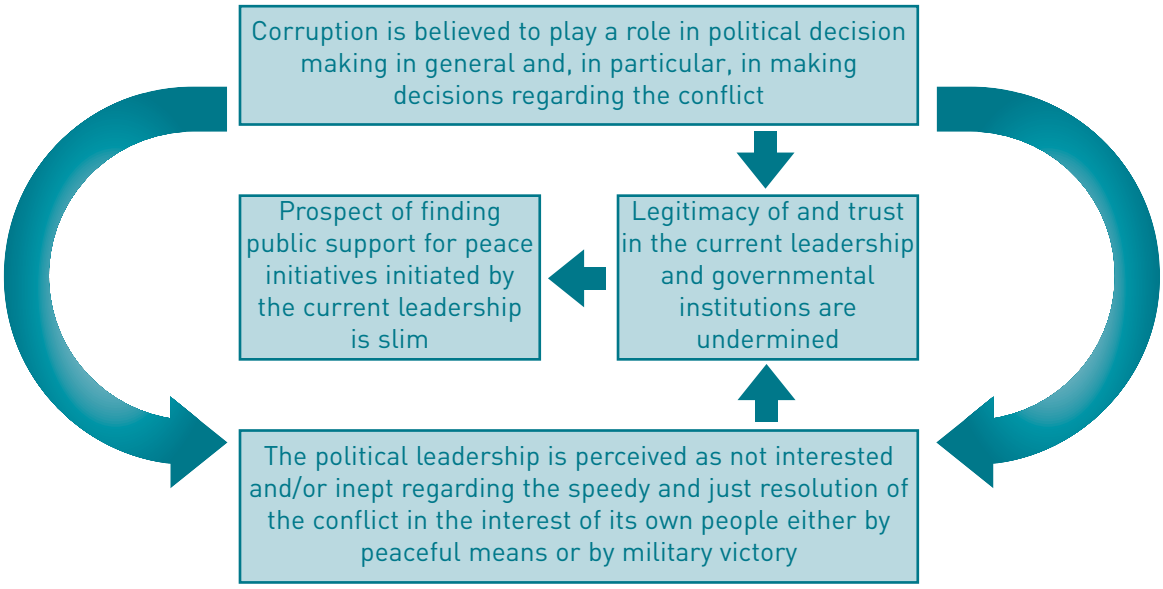
The strongest link between corruption and lack of progress in settlement of the conflicts is that corrupt governmental institutions are delegitimised in the eyes of the public.

South Caucasian societies are sceptical of the readiness of corrupt leaders to broker or accept peace and to initiate any other changes in the *status quo*. The *status quo* of frozen conflicts creates favourable conditions for accumulating personal wealth as public scrutiny of government is minimal. With the constant threat of renewed violence, the population is easily intimidated into compliance with irregular conduct, as this behaviour is justified by the need to support one's leadership in times of war.

At the same time, the public does seriously question the patriotism of corrupt rulers over the existence of high-level corruption networks across borders that may turn into front lines overnight. This is a widely-recognised possibility that contributes to instability and a constant sense of threat. Political authorities in the societies that are trapped in a situation of 'no war no peace' tend to practice a form of legitimised blackmail in which corruption is deemed to be an acceptable price to pay in exchange for peace.[28] Still, in the South Caucasus, the absence of war is not seen as a consequence of deliberate government policy to buy time and space for peace initiatives, but as a result of the geopolitical games of those with power in the region and so corruption at the elite level is not considered to be justified.

People in the conflict-affected societies of the South Caucasus commonly do not associate a post-conflict future with the current, corruption-ridden regimes as these are seen to have neither the ability nor the genuine desire to find a way out of the frozen conflicts. The lack of trust in authorities is so overwhelming that even if the current leadership in one or more South Caucasian society did develop the political will and a competent strategy for just and effective dialogue with the opponent side, such an initiative might well be rejected by the public.

Figure 2 Corruption and the legitimacy of Track 1 peace processes



The government cannot get very far in blaming hardship on its opponent or third parties and at the same time enjoy the revenues of corrupt politics without exercising authoritarian rule and political repressions, which is a slippery road as it weakens ties within its own ranks and diminishes loyalty to the cause, giving rise to political contest.

Replacing the corrupt governing elite with those who do not have a record of corruption does not necessarily mean that a society will achieve 'positive peace' through negotiations and other non-violent strategies. However, the ascendance to power of those who enjoy a mandate of public trust because of their perceived incorruptibility does open a window of opportunity for conflict transformation to take place if that is what the leadership wants.

Perceived extensive corruption on the opponent side justifies hard-liner positions on the outcomes of the conflict

Corruption on the part of the opponent was always attributed to inherent immorality, national and personal traits, whereas corruption on one's own side was justified as a way of coping with difficult conditions.

Even if the scale and spread of corruption on the opposing side was considered smaller than at 'home', the explanation for this was not greater integrity of government but fewer resources and, therefore, less opportunity for corruption. Similarly, greater corruptibility of the 'enemy' was attributed to their inherent character, whilst 'own-side' corruption was more likely to be attributed to unfavourable circumstance. These arguments were fundamentally flawed and based not on first-hand or reliable information about the actual scale and nature of corruption on the other side of the conflict, but on glimpses of information or rumours.

These unreliable pieces of information had been woven into the existing stereotypes and had strengthened 'legitimising myths' that 'provide moral and intellectual justification for social practices'.[29] In particular, the myths surrounding the scale and nature of corruption among the 'enemy' were used by the non-recognised entities to justify their drive towards secession and fed into the leaders' political discourse on the ultimate incompatibility with the national majority of the sovereign states and the impossibility of further existence within those states. In the same way, perceived inherent corruption among the breakaway minority ensured the popularity among the national majority in the sovereign states of the claim that the secessionist movements have been driven solely by the self-interest of their secessionist leaders.

These assessments of the corruption on the opposing side of a conflict can therefore be seen as legitimising myths and serve as an indicator of the enemy images created and maintained by each side. Perceived widespread corruption in the government on the other side of the conflict feeds into the militant discourse on one's own side, and the chances for fruitful peace process grow ever slimmer. Corruption on the opposing side makes the opponent an unwanted partner in any peace process and therefore the very idea of such a process is rendered useless.

One of the conditions required for a successful conflict transformation process towards and beyond agreement on and implementation of a solution is the development of a shared vision of future coexistence. All the societies in the South Caucasus want a future that is free of corruption. Developing a real understanding of how corruption has affected the opponent side may serve to undo some of the intense de-humanisation of opposing societies that has been seeded by the conflicts and thus serve as an entry point for peacebuilding in the region. In addition, all societies in the South Caucasus are frustrated with their governments. If they can understand that their frustration is shared by their counterparts they may be able to find common ground which could then be built upon in order for conflict transformation to begin.

Changing enemy images in the region would require a comprehensive reshaping of perceptions, most likely to be achieved through a large-scale intensive public information campaign.[30]

Corruption incapacitates the private sector as an agent or resource base for peacebuilding

In a situation of frozen conflict, incorporation into the hierarchy of corruption and into corruption networks becomes an imperative for everyone in order to reduce uncertainty and, in many cases, guarantee elementary survival. Corruption may then seem to be an effective system of governance and service delivery that ensures stability and the semblance of normal life.

The private sector is more ready than any other part of society to justify government and public sector involvement in corruption. The private sector in all of the societies under study was involved in corruption hierarchies and networks in order to guarantee doing business, licit or illicit. At the same time the sector also suffered from a high level of risk, lack of genuine investment, limited markets and lawlessness.

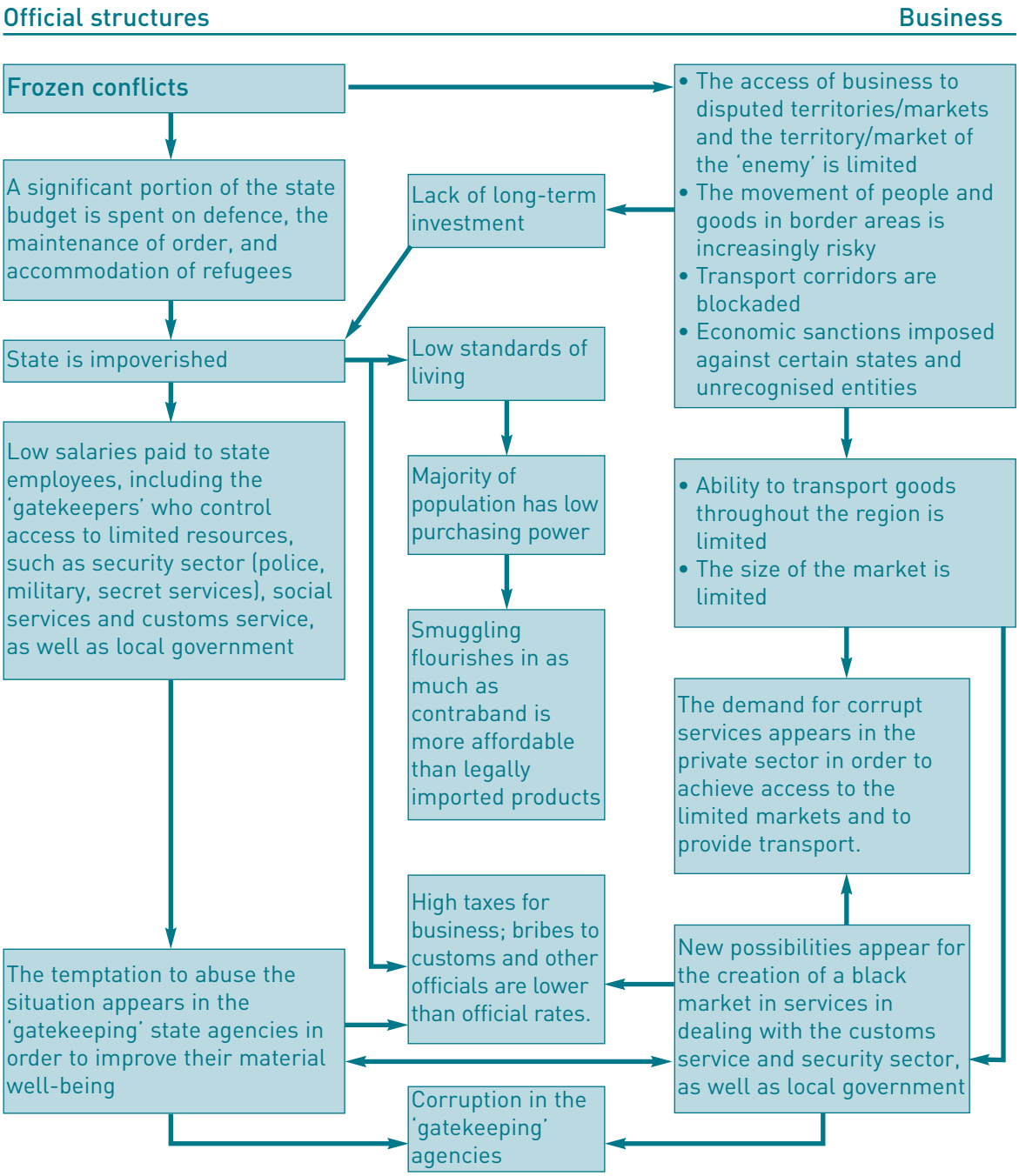
Corruption in the conflict-affected societies of the South Caucasus, especially in the self-proclaimed republics, is seen as supplementary to or even a substitute for ineffective and incompetent government with few resources at its disposal to operate effectively. Coupled with the entrenched involvement of the private sector in corruption networks, public tolerance of corruption among the leadership has risen. The transition of power is therefore unlikely to guarantee a decrease in poverty and a 'real' transition to a transparent system. If the economic context continues to suffocate small and medium business and does not attract investment, levels of poverty will rise.

The private sector has been identified both as a powerful peacebuilding actor[31] and a source of local funding for peacebuilding initiatives. However, by becoming involved in corruption

hierarchies and networks, it loses its peacebuilding potential. Thus, there is an urgent need to break the rule of the corrupt gatekeepers that exist in all sectors and enable the creation of a business environment where businesses can exist legally, function in a transparent way, assume a degree of social responsibility and develop good relations with their communities. This is likely to encourage them to play a positive role in peace. A well-functioning business environment also allows for attracting investment and for trust to be built across the conflict divides, thus encouraging cross-border cooperation.

The diagram below demonstrates the impact of conflict on the local economies of the South Caucasus, showing how it leads to endemic poverty and disrupted transport routes, while stimulating corrupt practices in the private sector in order to allow the economies to cope with the situation.

Figure 3 Mutual reinforcement of corruption in the private sector and official structures



Corruption in the South Caucasus has become a standard conduct of governance and economy. A negotiated political settlement reached under the current corrupt conditions will not take hold in any of the societies

The sustainability of peace does not solely depend on the nature of the agreement between the parties. It is the nature and performance of reformed and newly established institutions, as well as revisited and newly drafted laws that ensure the success or set the models for failure. Any solution requires good governance which includes transparency, rule of law and accountability of those in power to their public as a prerequisite. This is incompatible with the current scale and penetration of corruption in the South Caucasian societies.

Corruption circles are exclusive and predatory. They encourage nepotism and promote the sustainability of a clan-based economy. If inclusion into these systems is dependent on family relations, favours and bribes, they will be hostile towards outsiders, in particular those belonging to a different ethnic/religious group. Competition for resources is always heightened by ethnic tension, and where transparency cannot be enforced, all economic relations (which in the Caucasus have currently a strong socio-political significance) will be viewed through a prism of competition among groups, ethnic, religious or otherwise.

Excluding NREs from anti-corruption initiatives reinforces the asymmetry between the parties to the conflict

Building capacities for transparency in the three recognised states will strengthen their democracy but neglecting their conflict counterparts will increase the gap between the adversaries. Negotiations between parties with widely differing governance capacities are unlikely to result in a sustainable agreement and, if the solution includes any form of coexistence, governance structures are likely to be incompatible.

Change in the current political *status quo* will trigger opposition from its economic beneficiaries

If the current corrupt government and economic systems of governance and economy are the result of the aftermath of conflicts and the current situation of 'no war, no peace', there are also groups of people who benefit from the current *status quo* financially, politically or socially. Those for whom corruption has become a 'normal' way of functioning and of conducting their affairs will see any change of *status quo* will be seen as a direct threat to their security.

Because these groups have the strongest incentive to become the spoilers of a future peace process, they present the biggest challenge to attempts to move on from the situation of frozen conflict.[32] However, because escalation in the conflict also brings changes, they are likely also to resist attempts to re-ignite war in the region. However, this does not guarantee stability, as violence spirals out of control very quickly, particularly in a region with an abundance of small arms and light weapons.

Perceived corruption in international governmental and non-governmental organisations undermines their role as potential conflict transformation facilitators

Local perceptions of international agencies as over-resourced and lacking in impact leads to suspicions in the minds of local people of corrupt motives for working in conflict zones, undermining future projects. These perceptions pose a significant challenge for the international organisations working on conflict transformation projects in the South Caucasus, which needs to be addressed by greater transparency at public and government levels, increased effectiveness, the involvement of the public in these projects and ensuring staff integrity.

Perceptions of corruption within governing structures shape public opinion

The study shows of the extent to which public opinion is shaped by perceptions of corruption. Those who perceive their own government as corrupt either refrain from any political activity (e.g. participation in elections) because of their disillusionment with the idea or hope of democracy, or begin to actively rally to change the corrupt government into one that is more transparent. The first scenario leads to an even greater gap between the government and the population, dangerously close to the Soviet totalitarian system, while the second may lead to overthrow of regimes, as it did in Georgia and was a real possibility during the November 2004 elections in Abkhazia.[33]

Corruption in the societies of the South Caucasus is not a cultural or traditional phenomenon but a product of specific political and economic history and circumstance

Because of the longevity and cultural entrenchment of corruption, attempts to combat it are often greeted with scepticism. Some even view corruption as a 'cultural right' and therefore resist any attempts to address it. However, corruption during Soviet times differed from its present form and the current patterns of corruption are the result of the 1990s, which produced many conflicts in the region and destroyed, rather than preserved, many Caucasian traditions.

11. Recommendations

Proposals on political solutions to end the conflicts that would simultaneously lower the level of corruption in the societies of the South Caucasus are unlikely to be found at this point.

In the internationally recognised states, the restoration of territorial integrity is viewed as a just solution that would create new possibilities for effectively combating corruption. At the same time, the non-recognised entities believe that international recognition of their full sovereignty would take the fight against corruption to a new legal level through the adoption of international norms and structures.

The challenge is to marry the anti-corruption struggle within each of the conflicting societies with the transformation of relationships between the conflicting sides in order to foster greater mutual security, both at the individual level and between the conflicting societies as a whole. One of the aims of this study was to provide concrete recommendations on how to do this. However, one of its main findings was that because the problem is so immensely complex and entrenched in the respective societies, any specific recommendation for action coming solely from an external actor is unlikely to be taken on board by those societies.

Nevertheless, the research has led to key points that should appear on the discussion and decision-making agendas of the conflict stakeholders. International Alert now intends to develop these agendas through a series of roundtable seminars on corruption and conflict both in the region with local actors and elsewhere with the decision-making institutions of the international community. These seminars will develop a series of steps based on the conclusions of the study and specific to each environment. The stakeholder groups will be invited to assess the proposed mechanisms of the interplay between corruption and conflict in their societies and design double-edged conflict transformation strategies.

Discussion points for these seminars can be grouped as follows:

1. Anti-corruption strategies in the South Caucasus need to take into consideration the protracted conflicts. Likewise, conflict transformation activities need to factor in corruption in the institutions concerned. A concrete example would be the creation of a South Caucasus Regional Chapter of Transparency International that would promote and implement anti-corruption measures in all political entities, regardless of their status. On an intra-societal level, anti-corruption and conflict transformation initiatives should reinforce each other through empowering the private sector, especially small and medium enterprises (SMEs) to advocate for new models of economic interaction within the region.

2. Implementation of conflict transformation strategies should provide groups and individuals with short-term economic, social and political benefits that would encourage them to change the *status quo*, yet not deter long-term prospects for peace and development.

3. Given that corruption has been identified as a shared problem as well as a mirror enemy image, agencies fighting corruption should join efforts with conflict transformation, human rights and humanitarian civic groups in promoting a shared frame of analysis and action between the parties to the conflict.

4. International organisations working on conflict transformation in the South Caucasus need to address suspicions of corruption through greater transparency, effectiveness, ensuring staff integrity and involving the local population in projects.

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Appendix

Research Methods

The researchers based their questionnaire on the following questions:

- In what ways does corruption affect the incentives within conflict societies for conducting an effective multi-track conflict transformation process?
- In what ways has the conflict affected the scale and persistence of corruption in the conflict societies during its various stages?
- Is the interplay between corruption and conflict comparable in its scale and essence in the internationally recognised states and self-proclaimed republics?

Methodology

The *research task* was to explore the dynamics of the corruption-conflict relationship. The project featured extensive field research and qualitative analysis of the data gathered. All the data in the research were original, collected specifically for this research.

The research was conducted by a *team of local researchers* which met at the beginning of the project to jointly discuss the task and the methodology and at the end of the research phase in order to discuss next steps. This process, in which teams of researchers from across the conflict lines cooperated over a long period of time, focusing their effort on the same task, has an additional value in terms of conflict transformation. This research will be disseminated to decision-making institutions in the South Caucasus and the international community and is intended to inform national and international policy.

As the study aimed to accumulate a wide variety of perspectives on the relationship between corruption and the dynamic of conflicts, both focus groups and focused interviews were used as *research methods*. These methods allowed respondents to answer open-ended questions and tell their stories in a loosely structured format and in as much detail as they wished. In-depth interviews and focus groups made it possible to discover what the respondents understood the questions to mean in his or her context. However, it should be noted that information collected during field research is subject to the respondent's own subjectivity. It is the *perceived* reality of individuals, and their own experiences with corruption and conflict that determine their positions and behaviour. The research presented here does not describe an objective reality, but rather the sum of subjective understandings of reality and the aggregate meaning of the personal experience of the individuals who participated in the research.

Possibilities for transforming conflicts in the South Caucasus were evaluated in the context of the perceptions of different categories of respondents and their relationship with corruption and conflict. This approach is based on the assumption that the region's conflicts will be transformed from *within* the affected societies through the efforts of people living in these societies.

The research group identified various categories of the population and institutions as *conflict stakeholders*, i.e. interested in specific outcomes and specific strategies in the current conflict and with the capacity and motivation to influence the peacebuilding process. The group also chose their interviewees on the basis of the nature of their involvement in corruption (actors, subjects or bystanders). They included:

- Security sector representatives (police, army, Ministry of Interior, special forces)
- Customs officials
- Traders engaged in il/legal[34] trading in legal goods (such as fruit, vegetables, cigarettes, gasoline, alcohol, etc.)
- Representatives of the international community present in the conflict (IGOs and INGOs, humanitarian aid agencies, foreign commercial firms)
- Representatives of local non-governmental organisations
- Media representatives
- Vulnerable groups, such as unemployed, disadvantaged and uneducated youth, recipients of humanitarian aid, refugees/internally displaced persons
- Representatives of government, both executive and legislative
- Representatives of large business
- Representatives of small and medium-sized business
- Ordinary citizens not belonging to any of the above categories

The task was to discover how the respondents viewed the connection between corruption and the region's frozen conflicts, using the questions on the previous page. With a few exceptions, all research teams conducted interviews and focus groups with the full range of target groups.

The study contains a large number of quotes in order to illustrate its findings and to demonstrate the magnitude of corruption. It touches every layer and aspect of the society, everyone knows how to relate to it, how to interpret it and what their own place is within the network. Corruption shapes public opinion and it was important to show its impact in these various categories.

Research Ethics

The research presented in this report is of an extremely sensitive nature. The research teams had to ensure that the interviewees did not feel that they were in danger of giving evidence against themselves as they would either then refuse to answer or give false information. On the other hand, the questionnaires used could not be abstract and unspecific. The solution was to have respondents concentrate on corruption as a structural and cultural phenomenon without asking them to give an opinion on the actions of specific persons. The researchers did express an interest in respondents' opinions about the possibilities for structural change (laws and law enforcement, societal institutes, and shared norms of behaviour) and changes in perceptions (threshold of tolerance to corruption, images of the 'other side', hopes for the future) in order to understand the prospects for elimination of corruption and for reducing stereotypes based on these perceptions.

Endnotes

1 As the three conflicts are unresolved and have been characterised with a fairly low level of violence since the ceasefires concluded, they have been labelled as frozen conflicts.

2 International Alert produced a report in 2004 on the impact of oil on conflict in the South Caucasus: *Oil and the Search for Peace in the South Caucasus*, International Alert, London, 2004.

3 Philippe Le Billon, *Fuelling War or Buying Peace: The Role of Corruption in Conflicts*, Discussion Paper No. 2001/65, UNU/WIDER, 2001.

4 See for instance 'Conflict Analysis of the South Caucasus', by Volker Jacoby, International Alert, January 2005.

5 Baev, Koehler and Zurcher, *Case Studies on the Economics and Politics of Civil Wars*, World Bank, 2002.

6 Baev, Koehler and Zurcher, op.cit.

7 Ibid.

8 Achim Wennmann, 'The Political Economy of Transnational Crime and its Implications for Armed Violence in Georgia' in *The Illusions of Transition: Which Perspectives for Central Asia and the Caucasus?*, 2004, pp.105-117.

9 Wallensteen, P. Understanding Conflict Resolution: War, Peace and the Global System, 2002, SAGE Publications, London, Thousand Oaks, New Delhi, p. 163.

10 Chris Mitchell, 'Classifying conflicts: asymmetry and resolution' in *The Annals of the American Academy of Political and Social Science*, 518, 2001, pp. 23-38.

11 Hugh Miall, Oliver Ramsbotham and Tom Woodhouse, *Contemporary Conflict Resolution*, Blackwell Publishers, Oxford and Malden, 1999.

12 Transparency International.

13 A precedent is Transparency Palestine, which is a fully accredited TI National Chapter (www.aman-palestine.org).

14 Satarov, Georgiy. Anti-Corruption Policy, Moscow, 2004.

15 Focus group with IDPs, refugees and disadvantaged youth.

16 Stuart J. Kaufman, Modern Hatreds: *The Symbolic Politics of Ethnic War*, Cornell University Press, Ithaca and London, 2001.

17 Mor, Ben D, 'Peace Initiatives and Public Opinion: The Domestic Context of Conflict Resolution,' *Journal of Peace Research*, v.34, n.2, 1997, pp. 197-215.

18 Achim Wennman, 'The Political Economy of Transnational Crime and its Implications for Armed Violence in Georgia' in *The Illusions of Transition: Which Perspectives for Central Asia and the Caucasus?*', 2004, pp. 105-117; Baev, Koehler & Zurcher, *Case Studies on the Economics and Politics of Civil Wars*, World Bank, 2002.

19 'The monthly volume [of the Ergneti market] ranges between $8.4 million and $11.1 million, and the annual volume, correspondingly, from $100.8 million to $133.2 million', Vakhtang Dzhikaev and Alan Parastaev, 'Economy and Conflict in South Ossetia,' in *From War Economies to Peace Economies in the South Caucasus*, Eds. Phil Champain, Diana Klein and Natalia Mirimanova, International Alert, London, 2004, p.204.

20 The difference between Georgia and Azerbaijan in the ranking of importance of smuggling can be attributed to the following factors: Georgians are aware of the Ergneti market sustaining South Ossetia's economy; Georgia has two unstable borders, draining more resources, but providing more opportunities for corruption, while most of Azerbaijan's borders with Armenia and Nagorny Karabakh are heavily mined. In addition, the control over resources and the media is much tighter in Azerbaijan, allowing little space for reporting and more for manipulating public opinion.

21 J. Gross Stein, 'Image, Identity and Conflict Resolution' in *Managing Global Chaos*, eds. Chester Crocker, Fen Hampson and Pamela Aall, United States Institute of Peace Press, Washington D.C., 1996, pp. 93-111.

22 Like their Azerbaijani counterparts, politicians from the executive and legislative branches of government in Nagorny Karabakh specifically referred to Azeri media reports during their interviews.

23 The field research for this study was conducted shortly after the renewal of hostilities between Georgia and South Ossetia in July 2004, following the closure of the Ergneti market. The Georgian government justified the move as an anti-corruption measure.

24 Georgian customs official.

25 Philippe Le Billon, *Fuelling War or Buying Peace: The Role of Corruption in Conflicts*, Discussion Paper No. 2001/65, UNU/WIDER, 2001.

26 Although Armenia is a recognised state, perceptions of Armenians towards non-recognised entities should not be defined as enemy images, as Armenia is sympathetic towards Nagorny Karabakh and has acted as its ally.

27 Respondents were asked to consider different scenarios for the ending of the conflicts, but were inclined to accept only one type of solution. Acceptance of the proposal for settlement demanded by the respondents' government or ethnic group was the only outcome that would allow settlement of the conflict and fight corruption effectively.

28 Frederik Galtung, *Corruption in Post-Conflict Reconstruction: Confronting the Vicious Circle*, online version http://www.tiri.org.

29 Jim Sidanius and Felicia Pratro, *Social Dominance*, Cambridge University Press, Cambridge, 1999.

30 J Gross Stein, 'Image, Identity and Conflict Resolution' in *Managing Global Chaos*,' Eds. Chester Crocker, Fen Hampson and Pamela Aall, United States Institute of Peace Press, Washington DC, 1996, pp.93-111.

31 See for instance the model for multi-track diplomacy, developed by the Institute for Multi-track Diplomacy, www.imtd.org.

32 S. J. Stedman, 'Spoiler Problems in Peace Processes' in *International Security*, Vol. 22, 2:5-53, defines spoilers as: 'leaders and parties who believe that peace emerging from negotiations threatens their power, worldview and interests, and use violence to undermine attempts to achieve it'. Economic spoilers are simply spoilers who are motivated by economic incentives to undermine a peace process.

33 The elections stand-off in Abkhazia escalated into minor violence, but ended when the former President who was accused of corruption decided to stand down.

34 The definition of legality of cross-border trade depends on the definition of border and is therefore a politically bound definition. This study engages with those defined as traders or smugglers, trading in commodities across the conflict line. It does not, however, engage with those trading in illegal goods, such as narcotics.

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