

Country strategy for development cooperation

Southern Caucasus

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REGERINGSKANSLIET

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Regional Strategy for Development Cooperation with Southern Caucasus, 2003-2005

1. INTRODUCTION

The Government has approved a proposal to draw up a country strategy for development cooperation with the countries of Southern Caucasus, i.e. Georgia, Armenia and Azerbaijan. The strategy will determine the focus of Swedish development cooperation with Southern Caucasus during the period 2003-2005. It is based on proposals from the Swedish International Development Cooperation Agency (Sida), supplemented by the observations of the Ministry for Foreign Affairs, by the views of other ministries engaged in development cooperation with Southern Caucasus, and by priorities identified by the three countries in the course of ongoing cooperation with Swedish counterparts.

2. BACKGROUND

Southern Caucasus is situated between the Black Sea and the Caspian Sea, and comprises the countries of Georgia, Armenia and Azerbaijan, with a total population of approx. 16 million in 2000. The three states became independent in the early 1990s following the collapse of what was then the Soviet Union. Southern Caucasus is a region of geopolitical importance not only for countries like Russia, Turkey, Iran and the US but also for the EU.

In the regional overview and conflict assessment, Southern Caucasus is characterised as a region in deep political and economic crisis. A number of unresolved and potentially ethnopolitical conflicts along with the economic breakdown that resulted from the downfall of the Soviet Union have left over half of the population in a state of poverty. As a result of the various conflicts, there are large groups of refugees and internally displaced persons living in the region. Political and economic reform in the region is slow. The public sector has partially degenerated. Healthcare and educational systems have been severely hit by the economic decline that has occurred in the region, and living standards have fallen dramatically. Corruption permeates all areas of public life and constitutes a major problem in all three states.

Economic reforms have been introduced but have not yet led to an investment-friendly environment. Most foreign investment is to be found in the oil and gas sector in Azerbaijan. This is generating state income but is creating only a limited number of jobs and disseminating few effects to other sectors. The unemployment rate in the region is high and

the economic slump has had a particularly adverse effect on the situation of women. GNP per capita in Georgia is USD 590, in Armenia USD 705 and in Azerbaijan USD 650.

Since independence, some democratic progress has been made but the three states are still weak and are displaying authoritarian tendencies. The rule of law is tenuous. Reform of the judicial system has begun but is proceeding slowly. The authorities responsible for the administration of justice are still not living up to international principles defining a properly functioning society where the rule of law prevails. The police, prosecutor, courts and prisons systems are all distinctly flawed. With the establishment of ombudsman offices for human rights in Georgia and Azerbaijan, the citizens there now have greater opportunity to claim their rights. Civil society has grown in scope but is overly dependent on foreign support. A relatively free press has developed in the region, while at the same time state control of television and radio has increased.

The countries of Southern Caucasus are decidedly patriarchal societies in which women play a subordinate role. While no legal distinction is made between women and men, women are *de facto* subjected to discrimination in the region. They are clearly under-represented in governing bodies in all three countries. Women's rights have been neglected in the public debate on human rights, and the gender issue has made little impact in the shadow of the debate on economic and social problems.

Political instability, uncontrolled territory and widespread corruption have contributed to a growth in transnational crime involving criminal networks in Southern Caucasus. The region has become a transit route for trafficking in arms, drugs and humans, which has led to a deterioration in the security of both the countries concerned and of their citizens.

To a great extent, the economic decline that has occurred in Southern Caucasus has aggravated the environmental problems there, which had already become visible during the Soviet era. The greatest problems concern the pollution of soil, air and water. Forest felling has increased rapidly in recent years, due to problems with energy supply. The nuclear power plant in Mezdamor in Armenia is of the same type as the plant in the Kola Peninsula, besides being situated in an area prone to earthquakes. The exploitation of natural resources, especially oil and gas beneath the Caspian Sea, is adding to the severe environmental problems of the region and also represents a security policy factor.

3. COOPERATION TO DATE

3.1 Measures and programmes undertaken

Swedish support for Southern Caucasus began in the form of humanitarian aid to Armenia in 1991 and to Georgia and Azerbaijan in 1993. Humanitarian efforts in Southern Caucasus have primarily been channelled via the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies. The severe droughts of recent years have exacerbated the situation for both internally displaced persons and poor farmers in the afflicted area by reducing the availability of fertile soil. Consequently, Swedish assistance has also been provided to the UN Food and Agriculture Organisation (FAO) for the distribution of seed and chemical fertiliser to farms hit by drought, with a view to ensuring a proper supply of food over a 12-month period. Between 1991 and 2002, a total of approx. SEK 186 million was paid out in this way.

Long-term development cooperation began in 1992 with a project in Georgia. From 1998, when a specific sub-item for Europe was introduced into Swedish development cooperation funding, Armenia and to a limited extent Azerbaijan were both brought into the programme. In 1998-2001, Swedish support for this new region was based in considerable measure on the experience gained in other parts of the former Soviet Union. The majority of initiatives have been undertaken by Swedish parties who have worked successfully with development cooperation in the Baltic States, Russia and Ukraine. In a number of cases, experts from these partner countries have been recruited to work in parallel with the Swedish experts. As a result, it has been possible to launch a relatively large number of projects, and these have in part served as pilot projects in the quest for efficient ways of undertaking development cooperation in a complex environment.

Sweden approved funding worth approx. SEK 122 million for development cooperation with the countries of Southern Caucasus in 1996-2002, and about SEK 25 million of this sum was paid out in 2002. Assistance has been divided into four sectors: democratic governance (28 per cent), social sectors (37 per cent), enterprise, infrastructure and natural resources management (33 per cent), and environment (2 per cent). In geographical terms, the funds have been distributed to regional projects (39 per cent), Georgia (39 per cent), Armenia (20 per cent) and Azerbaijan (2 per cent).

Swedish assistance to Georgia has focused primarily on democratic governance and enterprise, infrastructure and agriculture. Support has also been provided to the health and employment sectors and, to a very limited extent, for environmental measures. The most crucial input has been support for local self-government, the ombudsman system, parliament, women's projects via NGOs, food projects, land surveying, employment, and capacity development vis-à-vis health reforms.

Assistance to Armenia has focused on the social sectors and been directed primarily at employment and at reducing the need for committing children to institutional care. In the enterprise, infrastructure and natural resources management sector, initiatives in the land surveying and forestry spheres have received support. Assistance to the forestry sector has also included environmental components. In addition, funding has been provided for a statistics project.

Besides the regional projects, the limited programme of assistance to Azerbaijan has only involved a statistics project.

Support for regional cooperation projects encompassing all three countries has included civil aviation, institutional development in the statistics field, land survey training, the roads sector, and human rights and media, as well as support for civil society in the form of NGOs. In addition, the countries of Southern Caucasus have regularly been invited to attend Sida's international courses during the period 1999-2002. Altogether, 46 people from the region have taken part in the courses at an estimated cost of almost SEK 6 million. Sweden has also financed a number of OSCE projects in the region and seconded Swedes to the OSCE centres in Georgia and Azerbaijan. Furthermore, Sweden is financing a Junior Programme Officer (JPO) with the United Nations Development Programme (UNDP).

The Swedish Institute (SI) has administered scholarship programmes in the educational and research field. In addition, the SI has funded exchange programmes in the fields of education, research and culture.

To date, only a modest amount of funding has been provided via Swedish NGOs to promote the development of civil society in the region. Since 1998, disbursements have totalled SEK 5.7 million. Of Sida's thirteen framework agreement organisations, three have been active in the region: the Southern Caucasus Pentecostal Mission (PMU) in Armenia, the Swedish Mission Council (SMR) in Armenia and the Olof Palme International Center (OPC) in Armenia and Azerbaijan. The aim of this assistance has been to strengthen the Caucasian partner organisations as regards organisational development and capacity building in the fields of democracy promotion and social welfare.

3.2 Evaluation and experience

Swedish development assistance to Southern Caucasus has hitherto been very limited. A performance analysis of the support provided to the region shows that Swedish bilateral assistance has been relevant in relation to the predetermined goals. The results have been mixed. Projects aimed at strengthening public institutions have often achieved their direct goals while it is doubtful that any long-term, sustainable effects have been achieved so far.

One of the principal difficulties in Southern Caucasus is that central government institutions are weak and that they have a lack of resources and a high staff turnover. In consequence, achieving long-term effects in cooperation with these institutions has proved difficult. Experience has shown that it is easier to obtain good results in projects located outside the capital cities and in projects with NGOs. On the other hand, the NGOs are sometimes over-dependent on foreign support, which tends to shape their actions.

The difficulty of coordinating programmes is a general problem in the region and also applies to some of the Swedish projects. Communication between international and bilateral donors is sometimes poor, and the national plans and strategies of the three governments can at time be ambivalent or outdated. In addition, the gender dimension in these programmes has been only moderately successful.

The regional projects may be considered a success, but the hoped-for impact on conflict prevention is proving more difficult to bring about. Often, there is little voluntary exchange between the countries under the regional programmes, and results have to a great extent been national in character rather than regional. One conclusion is that regional cooperation must be widely accepted and endorsed in the three countries if it is not to be seen as an imposition.

4. DEVELOPMENT COOPERATION 2003-2005

4.1 Objectives and guidelines

The overall objective of Sweden's development cooperation with Southern Caucasus is to create the necessary conditions for reducing poverty and preventing conflict primarily by means of initiatives aimed at promoting sustainable development and improving living

standards for the population, and by contributing to the development of democratic public structures, efficient government bodies and respect for human rights.

4.2 General considerations

Georgia, Armenia and Azerbaijan are classed by the OECD as developing countries, or DAC countries. The three countries will be requiring foreign aid for many years to come. The train of events in the 1990s has led to widespread poverty in all three countries, which emphasises the need for measures and reforms aiming at poverty reduction, not least in rural areas. Processes are under way in the three states to develop national strategies for development and poverty reduction, known as Poverty Reduction Strategy Papers (PRSPs). These will also be used as coordination and policy instruments in the development cooperation programmes.

The advance of the three countries towards democracy is a fragile one. Central government institutions are weak and the rule of law is inadequately developed. Local democracy, too, is a neglected area. The conflicts that have occurred in the region are inhibiting the countries' development. As a result of the conflicts around Nagorno-Karabach, Abchasia and South Ossetia, both Georgia and Azerbaijan lack control of wide swathes of their territory. Also, the Georgian state *de facto* lacks control of further regions in the country and is partially facing disintegration. At present, there are approx. 160,000 refugees and internally displaced persons in Georgia, some 900,000 refugees and internally displaced persons in Azerbaijan and around 240,000 refugees in Armenia. The greatest problem facing Armenia is the stalemate in the conflict over Nagorno-Karabach, which has left the country in a difficult socioeconomic situation.

Sweden has little interface with Southern Caucasus. Trade exchange is minimal and Swedish companies have invested to a very limited extent in the region. From a security policy viewpoint, however, peace and stability in the region is a Swedish concern. Sida has wide experience of development assistance to former Soviet states and of cooperation with developing countries, which taken as a whole will be relevant for Swedish efforts in Southern Caucasus to reduce poverty and create conditions for democracy and growth.

A basic premise when implementing development cooperation in the region is an integrated poverty and conflict perspective centring on support for the political, economic and social reform processes under way in the three countries. Despite the slow progress of reform moves, welfare and security for the region's population can only be improved by deepening democracy, strengthening the rule of law, continuing the transition to a market economy and developing efficient social systems.

Southern Caucasus receives a relatively large amount of international aid, and many bilateral and multilateral donor organisations are active in the region. Coordination of aid, however, is inadequate. If Swedish assistance is to have the desired effect, further close cooperation with international organisations such as the OSCE and the EU/Tacis and with other donors active in the region will be required. Where appropriate, direct cooperation is to be established, for instance in the form of cofinancing. Where possible, synergy effects should be sought. Also, Sweden should avoid areas where aid needs are being met by other donors, and also be prepared to terminate programmes for the same reason. Sweden should strive for coordination with the various governments' PRSPs and with any other development plans and strategies in place.

Swedish support should be concentrated in both geographical and sectoral terms. Such a concentration facilitates project follow-up, which is essential in an environment as complex as Southern Caucasus. It also facilitates coordination with other donors. When Sweden first entered into development cooperation with the region in 1996, it focused attention on the relatively extensive progress towards democracy being made by Georgia. The goal of a concentrated, long-term focus suggests that development cooperation should continue with Georgia and to a limited extent with Armenia as well, and also to a lesser extent with Azerbaijan. The focal point will be Georgia as long as no dramatic changes occur in the situation there. Priority should also be given to regional initiatives embracing all three countries, although these may be difficult to develop in view of the political circumstances.

The complicated situation in Southern Caucasus will necessitate a more pronounced sectoral concentration than Sweden had in the Baltic States, for example. At the same time, experience of activities in the region since 1998 shows that significant measures are required in a number of different sectors. Excessive sectoral concentration could bring efficiently functioning projects to a halt. Sweden has also found it can operate in several sectors by making use of established channels, partners and facilities. Contact-intensive development cooperation programmes, bringing the Swedish resource base into play, can lead to greater exchange between Sweden and the countries of Southern Caucasus. Sweden should, where applicable, seek to involve expertise and experience from other Eastern European countries, not least the Baltic countries.

The efforts of the countries of Southern Caucasus to integrate with Europe should be encouraged. The three countries have entered into Partnership and Cooperation Agreements with the EU. In addition, all three are members of the Council of Europe. The EU's cooperation with the region serves as a basis for development cooperation between Southern Caucasus and Sweden. Swedish assistance should be coordinated with EU programmes so as to complement them wherever possible. It is important that Sweden should continue to take an active part in the development of EU initiatives in the region.

4.3 Foreign aid in Southern Caucasus

In all three countries, the bulk of foreign funding comes from the US aid organisation USAID. It provides assistance in five areas: economic growth, the energy sector, democracy and governance, community development and health, and cross-sectoral regional programmes. The USAID budget per country and year is (million USD):

<i>Country</i>	<i>Budget 2000</i>	<i>Budget 2003</i>
Armenia	92	70
Georgia	89	87
Azerbaijan	44	46

Among multilateral players, the World Bank dominates. Armenia is the largest beneficiary. The World Bank and USAID supplement one another in most sectors. The World Bank is focusing on business development, energy, water, education, social sectors, health, agricultural reform, community development and judicial reform. Structural re-adjustment reforms are focusing on business development, social security, health and education. Other multilateral players in Armenia are the International Monetary Fund (IMF), the European

Bank for Reconstruction and Development (EBRD), the EU, the OSCE and the UN system. The Soros Foundation and several Diaspora-based organisations are also active in Armenia, the largest among them being the Lincy Foundation.

In Azerbaijan, the World Bank works primarily in the agricultural sector and with infrastructure. The EU, the UN system, the Soros Foundation and the OSCE are other players. Both the UN High Commissioner for Refugees (UNHCR) and the EU provide assistance targeting internally displaced persons.

The foremost multilateral players in Georgia are the World Bank, the IMF, the EBRD, the EU and the OSCE. World Bank assistance comprises structural re-adjustment credits and loans to agricultural development, health, energy and the private sector.

Other major bilateral donors in Southern Caucasus are Germany, the UK, Japan, the Netherlands, Norway, Switzerland, Turkey, Canada and Denmark.

The bulk of foreign aid goes to peace programmes and a large share to humanitarian aid, mainly extending to conflict zones and to refugees and internally displaced persons. Besides several of the above donors, a number of international NGOs are active in the humanitarian field.

4.4 Extent, forms and focus of cooperation

The strategy proposals are based on a funding allocation of approx. SEK 50 million per annum for the financing of Sida programmes in Southern Caucasus, not counting humanitarian aid and aid for cooperation with Swedish NGOs. Previous allocations have been around SEK 20 million per annum. Swedish development cooperation is to be based on a general time frame of more than 15 years. Instability in the region means that the development cooperation situation may change. Consequently, there is a need for flexibility between sectors and countries, but without any downgrading of objectives.

In view of the fact that Swedish support will be fairly limited, cofinancing and parallel financing of programmes conducted by multilateral organisations such as the OSCE and other major donors should be considered. In addition, consideration should be given to the replenishment of relevant consultancy funds in the EBRD and other international financing institutions (IFIs) active in the region.

Cooperation programmes in 2003-2005 should focus on both capacity building and on institutional and method development in the transition to democracy and the market economy. To ensure efficiency in Swedish development cooperation, initiatives must be long-term in character. Investment and equipment provision must be a further aim. During the strategy period 2003-2005, Sida will be required to pursue efforts in the following sectors:

- a) Assistance for democratic governance is to focus on initiatives to further enhance democratic development, to facilitate administrative reform, to increase respect for human rights and to prevent – or facilitate the management of – conflicts.
- b) Assistance in the social sectors is to underpin a continuation of the reform process by supporting structural change and method development in the social services and

healthcare services, particularly efforts on behalf of children and other vulnerable groups. Efforts to combat the spread of HIV/AIDS are also to be supported.

- c) Assistance is to be provided for the purpose of improving opportunities for the poor to support themselves. The transformation of the countries into market economies is proceeding slowly, and poverty is widespread. Assistance may therefore be directed at such fields as natural resource management and business development.
- d) Assistance in the environment field should concern specific environmental projects, but in addition all programmes must be informed by an environmental perspective. A preliminary study of viable measures in the environmental and energy conservation field should be undertaken. The emphasis should be on initiatives addressing the distribution and consumption of water resources and programmes where health and the environment are closely linked. A cohesive strategy on environmental issues in the countries of the Commonwealth of Independent States (CIS) will be discussed at the pan-European meeting of environment ministers due to be held in Kiev in the spring of 2003. Support for regional cooperation in the border control and migration field is also important and should be given proper consideration.

Sida will be investing in measures that proceed from an understanding of how armed conflicts can be prevented. Such programmes are to address the conflict perspective, primarily so that the measures do not have an adverse effect on the region. The possibility of influencing events in a positive direction should also be looked into. Structural conflict management initiatives may be undertaken in a number of sectors. Swedish assistance may also be focused on dialogue promotion and security enhancing measures via such means as confidence building processes. Sida's support should be framed in such a way that it benefits minority groups, refugees and internally displaced persons as well. In addition, a desirable aim is for Swedish assistance to reduce the distorted socioeconomic relationship between urban centres and rural areas and between different regions. One particular challenge is to identify appropriate regional conflict prevention measures.

All development cooperation between Southern Caucasus and Sweden must be informed by a concern for gender equality issues. When programmes are being prepared, their impact on both women and men must be analysed. Similarly, follow-ups and evaluations must consider how the programmes have affected women and men respectively. Special initiatives may be warranted specifically targeting women and/or men.

4.4.1 Georgia

In Georgia, Sweden should give priority to efforts on behalf of democratic governance and in the social sector, and to efforts aimed at enabling poor people to support themselves.

Swedish assistance should focus on further democratic development at both national, regional and local level. There is a clear link between the participation of women in the decision-making process and the degree of democracy and social welfare present. Accordingly, assistance should also be directed specifically at strengthening the position of women in

society. This is also of relevance from a conflict management viewpoint. Long-term development initiatives aimed at boosting democratic participation and the social situation of refugees and internally displaced persons may also be considered. Swedish support for efforts to increase respect for human rights should be stepped up and directed at institutions and organisations, including the ombudsman system. The problem of corruption should also be addressed.

In the social sector, cooperation efforts should encompass the fields of education and method development, and also personal guidance for social welfare officers and political representatives at local, regional and national level. The target should be socially vulnerable groups, especially children. Priority should be given to preventive measures enabling children to avoid being committed to and growing up in institutional care. A radical reform of the Georgian health system was initiated in 1995. An important part of this reform is the reduction of an elephantine healthcare service and the development of primary care. Swedish support should focus on reforming the healthcare system so as to improve both access and efficiency, and on efforts to improve public health.

In Georgia, Swedish development assistance seeks to provide the poor with proper means of support. As a first step, Sida should assist in the restructuring and development of the agriculture and food sector. Where appropriate, assistance in this area should combine environment and health measures. A food project is currently under way in cooperation with Swedish enterprise. Other important areas in need of reform are the property register – a vital component in the privatisation and land reform processes – and the employment sector. The prospects for Swedish funding of microcredits for disadvantaged groups such as refugees and internally displaced persons may also be examined.

4.4.2 Armenia

The priority area for Swedish assistance to Armenia is the social sector. As in Georgia, support in this area should extend to education, method development and personal guidance for social welfare officers and political representatives. The target should be socially vulnerable groups, especially children. Priority should be given to preventive measures enabling children to avoid being committed to and growing up in institutional care.

Rural development efforts centring on poverty reduction are also justified. Support for sustainable forestry in Armenia, which combines poverty reduction and environmental action, should continue. The development of a national property register is of importance for the Armenian privatisation process and for the country's land reform programme. The employment sector is also in need of reform. The bilateral statistics project, which has its roots in a regional project, should be allowed to continue during the strategy period.

4.4.3 Azerbaijan

In Sweden's development cooperation with Azerbaijan, priority should be given to democratic development and measures aimed at strengthening respect for human rights. Assistance should focus on institutions and organisations, including the ombudsman system. Long-term development initiatives aimed at enhancing democratic participation and the social situation of refugees and internally displaced persons may also be considered. The bilateral statistics project, which has its roots in a regional project, should be allowed to continue during the strategy period.

4.4.4 Regional action

Regional efforts in the field of democracy and human rights should be stepped up. Swedish support for programmes benefiting women, previously confined to Georgia, should if possible be expanded so as to strengthen the position of women on a number of levels throughout the region. In the human rights field, funding should if possible be made available for regional cooperation focusing on development of the ombudsman system. Southern Caucasus, primarily Georgia, is a transit area for human trafficking. Prospects for combating this type of trade should be looked into. In addition, Swedish assistance to regional media courses for the training of journalists should continue.

Assistance should be provided via Swedish and international organisations aimed at encouraging the development of civil society. If possible, such programmes should promote dialogue between different sections of the population and different social groups. At present, Swedish NGOs are few on the ground in Southern Caucasus, and steps should be taken to raise awareness about the region among Swedish framework organisations. It should be possible to raise their level of activity in the area. By strengthening civil society and creating channels for popular activation and participation, the ground can be laid for long-term, sustainable democratic development.

Funding via the Swedish Institute should continue and centre on activities such as scholarships and the exchange of experts and cultural workers. At present, cultural exchange is confined to Georgia, but may be expanded. The prospects for broadening institutional cooperation in higher education may also be examined with a view to facilitating a transition to funding via the EU's Tempus programme.

In the future, too, all three countries should be given the chance to take part in Sida's international courses.

The extent and spread of HIV/AIDS in Southern Caucasus should be looked into, as well as the situation regarding tuberculosis and illicit drugs. Sida should also examine the position of the various governments in this respect, as well as the actions of other players and the possible

need of Swedish initiatives to prevent the development or spread of HIV/AIDS, tuberculosis and drug abuse.

Regional efforts in the business promotion field should be considered, particularly measures that strengthen the prospects for economic cooperation and trade. Sida's StartEast programme is directed at Swedish entrepreneurs planning to establish businesses in Eastern Europe. Although interest has been very limited among Swedish entrepreneurs, the programme should continue. Support for regional cooperation in the transport sector – civil aviation and roads – should also be continued.

Environmental problems in the region are extensive and transnational. Regional support for environmental efforts, e.g. with regard to cross-border waterways, may be required, possibly in collaboration with other players.



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