

**GEORGIA-SOUTH OSSETIA:  
A PRELUDE TO WAR**  
*Did Economic Assistance Strengthen  
Competing Spoilers  
in Georgian-South Ossetian Conflict?*

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## I. Introduction

Sixteen years after the Sochi agreements an uneasy truce between Georgia and South Ossetia gave way to renewed violence in August 2008. The protracted peace process with lengthy and futile negotiations led to few agreements between the conflicting sides, which were often faulted at the implementation phase. Material and human costs of a failed peace process were huge: hundreds of civilian deaths, thousands of wounded, tens of thousands of people displaced, and millions of Euros spent on rehabilitation projects by local and international actors vanished within days.

With millions of aid money poured into Georgia for conflict prevention purposes prior to 2008, it is only legitimate to ask whether aid could make things worse and contribute to renewed violence, or to a lack of the sides' interest in peaceful conflict settlement. Much has been written on political, geopolitical and military aspects of the Georgian-South Ossetian conflict and failed peace settlement that led to renewed hostilities in 2008. This article, however, looks at how aid (intentionally or unintentionally) contributed to dividing lines in the Georgian-South Ossetian conflict and strengthened competing spoilers in the settlement process. It argues that economic rehabilitation projects, supported by competing actors, in the conflict zone fed into the dividing lines between the local Georgian and Ossetian communities, and the international community failed to bridge the widening gaps between them.

With the ceasefire signed in the early 1990s and stalled peace talks, many observers have branded the Georgian-South Ossetian conflict as frozen. However, the August 2008 conflict between Russia and Georgia over South Ossetia once again demonstrated the importance of the consolidation of conflict settlement and necessity to deal with threats to peacebuilding.

Although the negotiation process has been halted since 2006, it would be a mistake to call the Georgian-Ossetian conflict a frozen one. Despite low level of violence and frequent security incidents in the conflict zone, the ceasefire largely held until the summer of 2004, when Tbilisi's anti-smuggling operation in the conflict zone led to dozens of casualties and stopped short of the real warfare. Since then Tbilisi has been trying to alter the status quo in the negotiations and peacekeep-

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ing formats, which it, not without merits, saw as disadvantageous. These efforts intensified with the Georgian leadership backing up an “alternative” de facto government of Dmitri Sanakoev in South Ossetia in November 2006. Tbilisi provided Sanakoev, who controlled Georgian enclaves in South Ossetia, with strong financial and political support, putting him in charge of a temporary administration established in May 2007. Attempts were made to include Sanakoev in the established negotiations processes.

Moscow’s interventions, however, increased with strong political and financial backing of Tskhinvali and its de facto president Eduard Kokoity. Both Tskhinvali and Moscow were against any changes of the negotiation and peacekeeping formats, and their insistence on maintaining them and Tbilisi’s refusal to put up with the existing status quo led to the deterioration of the situation and complete freezing of the talks.

With Moscow and Tbilisi investing in different projects, the two communities (Georgian and Ossetian) also became physically divided. The mutual infrastructural dependency, which the sides were able to more or less maintain despite the conflict in the early 1990s, was gradually disappearing with the sides further separating from each other. Tbilisi and Moscow invested heavily in separate infrastructure and economic projects, and international aid failed to bridge the increasing gap.

All international efforts to maintain peace were unsuccessful, and the deteriorating security situation on the ground grew into a full-fledged war in August 2008. Failure to bridge the divide and address the “spoilers,” that actively thought to undermine the conflict settlement through a variety of means or at least had no interest in long-term peace, brought the renewed warfare and loss of significant human and capital resources invested in the conflict settlement.

### Defining “Spoilers”

The typology of spoilers was first introduced in Stephen Stedman’s *International Security* article, “Spoilers Problems in Peace Processes.” Stedman defined spoilers, as “those 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.”<sup>1</sup> However, this is a narrow definition of spoilers that involves violent obstruction of peaceful conflict resolution. Edward Newman and Oliver Richmond give a broader definition of spoilers, arguing that “any actors that are opposed to peaceful settlement for whatever reason” constitute spoilers.<sup>2</sup> They argue that such actors could be either within or outside the peace process and use violent or other means to disrupt the process in pursuit of their own goals, which could include gaining recognition and legitimacy, time or material benefits. Spoiling could also include actors, “which are geographically external to the conflict, but which support internal spoilers and spoiling tactics.”<sup>3</sup>

This article shows that the Georgian-South Ossetian conflict provided a rich context for a range of internal and external spoilers and spoiling behavior. All parties to the conflict at various stages had interest in renewed violence or maintaining status quo, and meddled in the conflict settlement process. This article pays particular attention to economic interests of different actors and how they initially contributed to frozen peace process from 1992-2004, and then to a growing gap between the Georgian and Ossetian communities, and renewed hostilities in the summer of 2008.

<sup>1</sup> St.J. Stedman, “Spoiler Problems in Peace Processes,” *International Security*, Vol. 22, No. 2, Fall 1997, p. 5.

<sup>2</sup> E. Newman, O. Richmond, “The Impact of Spoilers on Peace Processes and Peacebuilding,” *Policy Brief*, No. 2, United Nations University, 2006.

<sup>3</sup> *Ibidem*.

## II. Background to the Conflict

### 1991-1992 Conflict

South Ossetia was an autonomous region of the former Soviet Republic of Georgia, located along Georgia's northern frontier in the Caucasus Mountains, bordering North Ossetia within the Russian Federation, and surrounded on the south, east and west by Georgia proper. Prior to the August 2008 war the region had ethnically mixed population of some 70,000 people. Ethnic Georgians made up 20 to 30 percent of the population<sup>4</sup> and mostly lived in three valleys of Didi Liakhvi,<sup>5</sup> Patara Liakhvi and Proni, as well as a large part of the Akhagori District. The villages inhabited mainly by ethnic Georgians were administered by Tbilisi, while the Ossetian-inhabited villages were under the administration of the de facto South Ossetian authorities based in Tskhinvali.

The political cause of the conflict is the clash between the self-determination claims on the part of Ossetians and territorial integrity claims by Tbilisi. The conflict turned violent in December 1990, when South Ossetia sought greater autonomy from Georgia at the time of the collapse of the Soviet Union. The war lasted until June 1992 and had devastating consequences: some 1,000 dead, 100 missing, extensive destruction of property and infrastructure, as well as thousands of displaced people internally, but also to Russia's North Ossetia.<sup>6</sup>

The ceasefire was reached in Russia's city of Sochi in June 1992, when the then Georgian and Russian leaders, Eduard Shevardnadze and Boris Yeltsin, signed the *Agreement on the Principles of the Settlement of the Georgian-Ossetian Conflict*, also known as "Sochi Agreement."<sup>7</sup> South Ossetia de facto seceded from Georgia in 1992. The Sochi Agreement established: the Joint Control Commission (JCC), a body for negotiations with Georgian, Russian, North and South Ossetian representatives; and the Joint Peacekeeping Forces (JPKFs), a trilateral peacekeeping force with Georgian, Russian and Ossetian units.<sup>8</sup>

The peacekeeping and conflict settlement process evolved over the years, but negotiations were slow with lengthy periods of inactivity. No military confrontation occurred for twelve years. As explained below, the parties had vested economic interests in maintaining status quo, i.e. no war-no peace situation.

### 2004 Anti-smuggling Operation

In the late 1990s, negotiations in the JCC format led to some progress, particularly on issues of return, demilitarization and economic rehabilitation. However, no breakthrough in political negotia-

<sup>4</sup> See: "Facts about South Ossetia," *International Herald Tribune*, 8 August, 2008, available at [<http://www.iht.com/articles/ap/2008/08/08/news/Georgia-South-Ossetia-Glance.php>].

<sup>5</sup> The villages of the Didi Liakhvi valley were strategically placed along the TransCam road between Tskhinvali and Java. The villages Tamarasheni and Kekhvi mark the valley's boundaries, located one and eight kilometers north of Tskhinvali, respectively.

<sup>6</sup> On humanitarian law violations during the 1991-1992 conflict in South Ossetia, see: Human Rights Watch, "Bloodshed in the Caucasus: Violations of Humanitarian Law and Human Rights in the Georgia-South Ossetia Conflict," March 1992. Another conflict in Georgia was fought in the early 1990s in Abkhazia, a former Soviet Republic of Georgia located in northwestern Georgia between the Black Sea and the Caucasus Mountains. The 1992-1993 military confrontation there led to some 8,000 deaths, 18,000 wounded and the forced displacement of over 200,000 ethnic Georgians (see: Human Rights Watch/Helsinki, "Georgia/Abkhazia: Violations of the Laws of War and Russia's Role in the Conflict," Human Rights Watch Arms Project, Vol. 7, No. 7, March 1995).

<sup>7</sup> *Agreement on the Principles of Settlement of the Georgian-Ossetian Conflict*, 24 June, 1992.

<sup>8</sup> *Ibid.*, Art 3. The Organization for Security and Cooperation in Europe (OSCE) also participated in JCC meetings.

tions happened largely because of vested economic interest the political actors (spoilers) had in illegal trade. A large wholesale market was established on the administrative border of South Ossetia. Without any effective customs control the market quickly became a smuggling hub between Russia and the South Caucasus, Turkey and Iran.<sup>9</sup>

Hundreds of millions of U.S. dollars that exchanged hands at the Ergneti market provided strong interest for spoiling behavior. A number of law enforcement officials from South Ossetia and Georgia proper were believed to be participating in criminal economic activities.<sup>10</sup> The authorities on both sides cooperated to profit from illegal trade, as did Russian customs and peacekeeping troops.<sup>11</sup> Thus, smuggling and the illegal economy largely helped in maintaining the postwar status quo as potential spoilers had little interest in stopping the smuggling. Needless to say, they also had little incentives for conflict resolution.

After Georgia's 2003 Rose Revolution and Mikheil Saakashvili's coming to power, he made restoration of Georgia's territorial integrity one of his top priorities. Tbilisi's approach was to undermine vested economic interests by launching a large-scale anti-smuggling operation, thus hoping to crack down on major source of income, which benefited the spoilers to the peace process. Simultaneously Saakashvili intended to win loyalties of Ossetian people by a humanitarian aid "offensive."<sup>12</sup>

The anti-smuggling operation began in 2003 and was aimed primarily at closing the Ergneti market, followed by physically blowing up roads used for goods smuggled through South Ossetia and the market.<sup>13</sup> By June 2004 the market was closed and the Georgian police presence increased significantly in the region to conduct regular checking of vehicles for smuggled goods. Saakashvili's government also initiated economic and cultural projects, including an Ossetian language television station, pensions, free fertilizer and humanitarian aid.<sup>14</sup>

As part of the anti-smuggling campaign, in May 2004 several Georgian Ministry of Interior units landed by helicopter in the villages of Tkviavi, Pkhvenisi, Nikozi and Eredvi, adjacent to the South Ossetian administrative border, and proceeded to set up roadblocks that restricted traffic from South Ossetia. This move led to renewed hostilities in the following months that resulted in dozens of casualties, and narrowly escaped a full warfare.<sup>15</sup> Security situation on the ground, however, deteriorated since then and never recovered to the pre-2004 level.

The sides to the conflict agreed on a new ceasefire in August 2004, which formally held until the summer of 2008, however, the situation on the ground remained hostile, with frequent exchanges of fire and criminal incidents, including mutual kidnappings, detentions and occasional killings.<sup>16</sup>

<sup>9</sup> The most lucrative trade was allegedly wheat flour (worth some \$130 million a year), dairy products (\$60.5 million), cigarettes (\$60 million), petrol (\$23.2 million) and kerosene (\$12 million) (see: A. Kukhianidze, A. Kupatadze, R. Gotsiridze, *Smuggling Through Abkhazia and Tskhinvali Region/South Ossetia*, Research Report for the American University's Transnational Crime and Corruption Center (TRACC), 2003).

<sup>10</sup> See: D. Darchiashvili, G. Tevzadze, "Ethnic Conflicts and Breakaway Regions in Georgia," *Building Democracy in Georgia*, Discussion Paper No. 9, May 2003, pp. 12-13.

<sup>11</sup> Three Georgian MPs and the deputy governor of the region were considered to control parts of the market from the Georgian side, and the son of former South Ossetian leader Chibirov was seen as playing a key role on the Ossetian side (see: M. Areshidze, *Current Economic Causes of Conflict in Georgia*, unpublished report for U.K. department for International Development (DFID), 2002).

<sup>12</sup> Crisis Group Europe Report No. 159, *Georgia: Avoiding War in South Ossetia*, 26 November, 2004.

<sup>13</sup> See: "Governor Blows up By-Roads to Prevent Smuggling," *Civil Georgia*, 28 December, 2003.

<sup>14</sup> *Ibidem*.

<sup>15</sup> See: "South Ossetia Crisis Abates," Institute for War and Peace Reporting (IWPR), Caucasus Reporting Service No. 236, 3 June, 2004; "South Ossetia Tensions Still High," IWPR, Caucasus Reporting Service No. 242, 14 July, 2004; "South Ossetia Conflict Heats Up," IWPR, Caucasus Reporting Service No. 246, 12 August, 2004.

<sup>16</sup> See: "Georgian Police Targeted on Smuggling Faultlines," *Civil Georgia*, 1 February, 2005; "Five Die in South Ossetia Shootout," *Civil Georgia*, 30 May, 2005.

### 2006 Bid to Alter the Status Quo

In another bid to alter the status quo peacefully, in late 2006, the Georgian government began supporting an alternative South Ossetian administration led by Dmitri Sanakoev.<sup>17</sup> Following parallel presidential elections in November 2006, two competing governments began to coexist in South Ossetia: the secessionist de facto government headed by Kokoity in Tskhinvali and a pro-Tbilisi government headed by Sanakoev, based in Eredvi.<sup>18</sup> The Sanakoev administration maintained authority over the ethnic Georgian villages in South Ossetia and Akhalkgori District, while Tskhinvali administered the rest of the region.

With the emergence of alternative leadership in South Ossetia, security situation on the ground remained hostile,<sup>19</sup> and the negotiations between Tbilisi and Tskhinvali within the JCC framework became deadlocked. The Georgian authorities pushed for a change in the negotiation format, as it saw the JCC as a “three against one” arrangement. They called for limiting Russia’s role and insisted on the OSCE, European Union and United States participation in the talks.<sup>20</sup> Tskhinvali had been against the format change and instead pushed for a formal agreement on the non-use of force.<sup>21</sup> Russia, for its part, considered itself a guarantor of stability in the region, and since August 2004, had also been emphasizing its obligation to protect a large number of Ossetians to whom it had given Russian passports beginning in the late 1990s.<sup>22</sup>

## III. Competing Economic Projects

While the sides failed to agree on a format change in the negotiation process, they continued to pursue separate aid projects in the conflict zone, which suited their narrow, often competing interests. Tbilisi, Moscow and international community have been investing in the economic projects and infrastructure rehabilitation in South Ossetia. Georgian and Russian projects were often competing with each other and contributed to further isolation of local communities on the ground. The OSCE and European Commission (EC) failed to bridge the growing gap between the communities, and although some efforts were made to involve both sides in economic rehabilitation projects, they proved unsuccessful.

The beginning of 2008 marked further deterioration of security situation on the ground. Kosovo’s independence recognition by the Western countries and Georgia’s continued bid for NATO membership caused Russia’s harsh reactions. Moscow increased its engagement with Georgia’s break-away regions and invested heavily in potential spoilers to the peace process. Frequent exchange of fire and mutual recriminations in summer led to renewed hostilities on the ground in August 2008, which quickly turned into the inter-state conflict between Georgia and Russia. Although open hostil-

<sup>17</sup> See: “Staging ‘Alternative Choice’ for South Ossetia,” *Civil Georgia*, 7 November, 2006; “Signs of Status Quo Change in South Ossetia,” *Civil Georgia*, 14 November, 2006. Dmitri Sanakoev served in the previous Tskhinvali administration of de facto president Ludvig Chibirov (1996-2001).

<sup>18</sup> See: “Simultaneous Polls in South Ossetia,” *Civil Georgia*, 12 November, 2006.

<sup>19</sup> See: “Four Die in South Ossetia Skirmish,” *Civil Georgia*, 8 September, 2006; “Two Die in South Ossetia Shooting,” *Civil Georgia*, 25 March, 2007.

<sup>20</sup> See: “Tbilisi Proposes New Negotiating Format for South Ossetia,” *Civil Georgia*, 1 March, 2008.

<sup>21</sup> “Tskhinvali Insists on Talks in Frames of JCC,” *Civil Georgia*, 24 July, 2008.

<sup>22</sup> See: Ministry of Foreign Affairs of the Russian Federation Press Release, 30 July, 2004; “Russian Foreign Minister Warned Tbilisi Against Attempting on Russian Peacekeepers’ Lives,” *Regnum*, 20 July, 2006 (see also: P.A. Goble, “Russian ‘Passportization,’” *New York Times*, 9 September, 2008).

ities lasted for less than a week, consequences were devastating, and prospects for peaceful conflict resolution in the near future vanished. Millions of dollars invested in infrastructure and economic rehabilitation projects were completely lost.

Up until 2006 economic rehabilitation was pretty much the only field where Tbilisi and Tskhinvali cooperated. Since 1999 the European Commission had been investing in cross-community projects implemented by the Organization for Security and Cooperation in Europe. A large economic rehabilitation program was launched by the OSCE after the winter 2005-2006 needs assessment. However, this cooperation broke down as Tbilisi and Moscow invested greater sums in competing projects outside of the OSCE implemented ones. While the OSCE tried to promote confidence building through ethnic cooperation, the unilateral Georgian and Russian programs competed for loyalties, contributing to further division of local communities.

### Tbilisi's Economic Projects

Tbilisi began to heavily invest in Sanakoev's administration in order to make itself more attractive to South Ossetia's population by dramatic improvement in conditions in the zone of conflict under its control. The authorities believed that the investments in Georgian-controlled areas would demonstrate to Ossetians what they could gain by shifting loyalties to Tbilisi.<sup>23</sup>

In February 2007, the Georgian authorities allocated six million Georgian lari (app. \$3.5 million) for direct budget support to the three municipalities under Georgian control in South Ossetia: Kurta, Eredvi, and Avnevi.<sup>24</sup> After Sanakoev's appointment as a head of the temporary administration of South Ossetia, Tbilisi announced allocating further 12 million lari (app. \$7 million) for the region.<sup>25</sup> With further budgetary amendments Tbilisi invested in total over 30 million Georgian lari in Sanakoev's administration and unilateral projects in the region.<sup>26</sup> Considering the size of the territory and population under Sanakoev's control, Tbilisi's investments were huge. The money was mostly spent for infrastructure projects, including the construction of gas pipeline to the villages in the Didi and Patara Liakhvi valleys. The money was also used for renovation of schools, improvement of water infrastructures, construction of sports facilities, and lights for village streets.<sup>27</sup>

Although the villages under Tbilisi administration benefited greatly from those unilateral expenditures and progress was indeed visible on the ground, this one-sided approach to the rehabilitation and economic projects also led to a widening gap of the ethnic divide. In fact, such steps also contributed to physical separation of the sides, gradually reducing infrastructural interdependency that existed in the region from Soviet times. Geographic peculiarities of the region used to facilitate cooperation between the communities. Ossetians had to pass through the Georgian villages of the Didi Liakhvi valley in order to reach further northern Ossetian enclave of Java, and Georgians needed to go through Tskhinvali in order to get to the Didi Liakhvi valley. However, with sides investing in separate by-pass roads, this interdependency was significantly reduced. The electricity networks were also separated.

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<sup>23</sup> See: International Crisis Group, "Georgia's South Ossetia Conflict: Make Haste Slowly," Europe Report No. 183, 7 June, 2007.

<sup>24</sup> See: "Government Unveils South Ossetia GEL 6 mln Investment Plan," *Civil Georgia*, 24 February, 2007.

<sup>25</sup> See: "Finance Minister Meets S. Ossetian Administration Chief," *Civil Georgia*, 22 May, 2007.

<sup>26</sup> According to a June 2008 budget amendment, GEL 19 million was allocated to the temporary administration headed by Sanakoev in 2008, whereas it was GEL 13 million in 2007 (see: "Defense Spending to Go Up by GEL 295 mln," *Georgian Times*, 24 June, 2008).

<sup>27</sup> Crisis Group report No. 183, p. 22.



### Moscow's Economic Projects

In parallel to Tbilisi's investments in the zone of conflict, Moscow also implemented unilateral projects in support of Tskhinvali administration. At a donor conference in June 2006, Russia pledged some 3 million Euro, but continued to implement projects separately without coordination with the OSCE and the Georgian side. Moscow directly financed seven projects completed by the end of 2006.<sup>28</sup>

In the past, Tbilisi and Moscow have signed two agreements on economic rehabilitation of the conflict zone in 1993<sup>29</sup> and 2000.<sup>30</sup> While the 1993 Agreement was partially implemented, the 2000 one was never materialized. Moscow asserted that its unilateral economic assistance was within the framework of the above-mentioned agreements, however, those treaties envisaged joint implementation under the JCC's supervision. Russia chose instead to disburse the money at its own will. In late 2006, Gazprom announced the construction of a gas pipeline across the Caucasus range, linking North and South Ossetia, yet another step to decrease the region's dependency on Georgian infrastructure.<sup>31</sup>

Russia's aid to South Ossetia included not only economic rehabilitation projects, but also military, budgetary and education support. Moscow has also directly appointed Russian personnel to the de facto Ossetian authorities.

Moscow's unilateral support for Tskhinvali can be viewed in the frames of supporting the spoilers in the conflict. Russia's "investments" backed up South Ossetia's leadership leaning toward Moscow and prevented the prospect for confidence building between the communities and the impeding potential for possible conflict resolution. By attaching South Ossetia's economy to Russia, Moscow was further alienating the breakaway region's population from Georgia, thus increasing the gap between the ethnic communities.

### International Economic Projects

International aid to the conflict zone intensified after the 2004 summer hostilities following Tbilisi's anti-smuggling operations. In November 2004, the then Georgian Prime Minister Zurab Zhvania and South Ossetia's de facto President Eduard Kokoity met in Russia's city of Sochi and agreed that confidence building and economic rehabilitation could give an impetus to further negotiations and ultimate conflict resolution. They agreed that the JCC should examine economic projects that would be of mutual interest to the sides and submit them to the European Commission for funding.

The OSCE led a Needs Assessment Study in the zone of conflict in December 2005-April 2006 and identified projects for infrastructure rehabilitation (social facilities, energy supply, and roads) and economic development (agriculture, business, and finance).<sup>32</sup> Following this study, the JCC agreed on a list of priority projects worth of 10 million Euro and its implementation mechanism.<sup>33</sup> The approved projects were to contribute to the negotiation process by rehabilitation of basic infrastructure, economic development, and confidence building.

<sup>28</sup> These included the reconstruction of a secondary school, dental clinic, hotel, concert hall, sports hall and hospital lab in Tskhinvali and construction of a road (see: Crisis Group report No. 183, p. 23).

<sup>29</sup> See: *Intergovernmental Agreement between Russia and Georgia on Economic Rehabilitation in the Georgian-Ossetian Zone of Conflict*, 14 September, 1993.

<sup>30</sup> See: *Georgian-Russian Economic Agreement on Rehabilitation in the Zone of Conflict and on the Return and Integration of Refugees*, 23 December, 2000.

<sup>31</sup> See: "Russia: Ossetia Pipeline Adds Fuel to the Georgia Fire," *RFE/RL*, 6 November, 2006.

<sup>32</sup> See: Crisis Group report No. 183, p. 21.

<sup>33</sup> See: *JCC Meeting Protocol*, Tskhinvali, 11-13 May, 2006.

The OSCE chairman-in-office hosted a donors conference in Brussels in June 2006 that pledged almost 10 million Euro for the implementation of agreed projects.<sup>34</sup> Tbilisi pledged to provide a matching contribution, but allocated 50,000 Euro by the fall of 2007 and an additional 250,000 Euro since then.<sup>35</sup> In parallel, the Georgian authorities invested much more in the Sanakoev administration and in the development of Sanakoev-administered areas in South Ossetia. Moscow, on the other hand, pledged some 3 million Euro at the donors conference, but it proceeded to fund and implement projects separately and unilaterally, outside of the JCC agreed mechanism.<sup>36</sup>

Although the OSCE-led multi-donor projects were intended to build trust between the communities and contribute to confidence building and therefore to political negotiation processes, the international community failed to press the sides for continued cooperation and prevent an increasing gap resulting from unilateral programs, drifting the communities apart. Political stand-off between Tbilisi and Moscow and Sanakoev and Kokoity worsened dramatically, contributing to further deterioration of security in the zone of conflict, and leading to complete stalling of the political negotiation process.

Considering how small the territory of South Ossetia is and also relative smallness of its population, economic rehabilitation worth of millions of Euros had a significant potential of confidence building if implemented jointly. However, aid quickly became politicized competing for local loyalties and feeding into the greed of potential spoilers to the peace processes. Political hostility, deteriorated security, militarization, and a physical separation of conflicted communities led to renewed hostilities in the summer of 2008.

## IV. August War

Clear signs of rapid deterioration of security situation in the conflict zone were visible months prior to the armed hostility. Georgian and South Ossetian forces engaged in violent attacks and mutual recriminations.<sup>37</sup> The situation further deteriorated with Kosovo's independence recognition by Western countries and Georgia's continued bid for NATO membership. This led to Russia's deepening its ties with Georgia's breakaway regions and increased cooperation.<sup>38</sup> Military exercises conducted by Georgian and Russian forces in summer further escalated the tensions.<sup>39</sup>

Violent incidents between the Georgian and Ossetian forces intensified by the end of July. The sides exchanged mutual recriminations on opening fire on 29 July.<sup>40</sup>

<sup>34</sup> The pledges were: the European Commission (two million euros), the United States (two million U.S. dollars), Sweden (one million euros), Belgium (one million euros), Germany (500,000 euros), the Netherlands (500,000 euros), Norway (about 250,000 euros), Spain (200,000 euros) and Finland (200,000 euros). Estonia, Turkey, France, Hungary, the United Kingdom, Lithuania, Italy, the Czech Republic, Croatia, Poland and Andorra pledged amounts of up to 150,000 euros (see: "Donors Pledge EUR 10 mln for S. Ossetia Rehabilitation," *Civil Georgia*, 15 June, 2006).

<sup>35</sup> See: "Georgia Pledges More Aid to Promote South Ossetia's Reconstruction," *Eurasia Insight*, 5 November, 2007.

<sup>36</sup> See: "Russia's Separate Funding for S. Ossetia Angers Georgia," *Civil Georgia*, 17 June, 2006.

<sup>37</sup> See: "EU Calls for Calm After Clash in Georgia Rebel Region," Reuters, 4 July, 2008, available at [[http://uk.reuters.com/article/homepageCrisis/idUKL04712416\\_CH\\_242020080704](http://uk.reuters.com/article/homepageCrisis/idUKL04712416_CH_242020080704)].

<sup>38</sup> See: *Information for the Media: About the President's Orders to the Government of the Russian Federation in Relation to Abkhazia and South Ossetia*, Ministry of Foreign Affairs of the Russian Federation, 501-16-04-2008, 16 April, 2008.

<sup>39</sup> The Georgian army conducted a joint exercise with the U.S. forces near Tbilisi on 15 July; and the same day Russian military launched Caucasus-2008, a military exercise not far from the Roki tunnel connecting Russia and South Ossetia (see: "U.S. Troops Start Training Exercise in Georgia," Reuters, 15 July, 2008; "Kavkaz-2008, a Major Joint Exercise, Started in the North Caucasus Military District, Ministry of Defense of the Russian Federation News Release, 15 July, 2008).

<sup>40</sup> See: "M.I.A.: Five Policeman Injured in S. Ossetia Blast," *Civil Georgia*, 1 August, 2008.



The security situation further deteriorated in the beginning of August with frequent exchange of fire between the sides. On 7 August, 2008, the Georgian forces launched an artillery attack on Tskhinvali, claiming that they did so in response to the Ossetian side firing mortars on villages inhabited by ethnic Georgians. Russia's military response began the next day, with the declared purpose of protecting the Russian peacekeepers stationed in South Ossetia and the Russian citizens in South Ossetia.<sup>41</sup> However, Moscow's response was clearly disproportionate as it went far beyond South Ossetia and its forces occupied Georgia proper around the conflict zone and western Georgia, destroying military and civilian targets throughout the country.<sup>42</sup> The Georgian troops retreated on the morning of 10 August.<sup>43</sup> On 16 August, a new ceasefire was brokered by the French presidency of European Union.<sup>44</sup> Tbilisi lost control of the territories it had previously controlled in the conflict.

Political, economic and humanitarian consequences of the short war were devastating and will be felt for generations to come. Some 192,000 people from both sides were displaced at the peak of the conflict<sup>45</sup> and some 20,000 ethnic Georgians remain in displacement. Hundreds of people, including civilians, were killed from both sides. War, as well as looting and burning, perpetrated mostly by the Ossetian militia after the active fighting, caused extensive damage to infrastructure and houses. Ethnic Georgian villages in South Ossetia were practically raised to the ground.<sup>46</sup>

On 26 August, the Russian authorities recognized the independence of Abkhazia and South Ossetia<sup>47</sup> and announced its intentions to keep a total of 7,600 troops in Georgia's breakaway regions.<sup>48</sup> Diplomatic relations between Tbilisi and Moscow are down to minimal. Late October, Georgia passed a law on occupied territories calling the Russian troops occupational forces and imposing restrictions on any engagement with the breakaway regions, specifically prohibiting any property and business transactions.<sup>49</sup>

## V. Conclusions

The unresolved Georgian-South Ossetian conflict provided a rich context for a range of internal and external spoilers and spoiling behavior. At any stage of the conflict resolution process, all parties, including Tbilisi, Tskhinvali and Moscow, had interest in maintaining status quo or renewed hostilities, thus undermining conflict settlement through a variety of means. This article looked at one—economic factor, and more specifically—aid, and how it can intentionally or unintentionally make things worse if it serves vested interests, rather than confidence building on the ground. I argued that the economic rehabilitation projects in the conflict zone, supported by the competing actors with competing interests, fed into the dividing lines between the local Georgian and Ossetian communities, physically isolating the two and contributing to renewed hostilities in the summer of 2008.

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<sup>41</sup> See: *Up in Flames: Humanitarian Law Violations and Civilian Victims in the Conflict over South Ossetia*, Human Rights Watch Report, January 2009, p. 5.

<sup>42</sup> See: "Russian Invasion of Georgia, Facts and Figures," Government of Georgia Update, 1 October, 2008.

<sup>43</sup> See: "A Two-Sided Descent into Full-Scale War," *The Washington Post*, 17 August, 2008.

<sup>44</sup> See: "Medvedev Signs Ceasefire," *Civil Georgia*, 16 August, 2008.

<sup>45</sup> See: "Revised Figures Push Number of Georgia Displaced up to 192,000," on UNHCR website, 12 September, 2008.

<sup>46</sup> For more, see: Human Rights Watch Report, January 2009.

<sup>47</sup> *Statement from the Ministry of Foreign Affairs of the Russian Federation*, Ministry of Foreign Affairs of the Russian Federation, 26 August, 2008.

<sup>48</sup> See: "Russia Plans 7,600 Force in Georgia Rebel Regions," *Reuters*, 9 September, 2008.

<sup>49</sup> See: "Bill on Occupied Territories Signed into Law," *Civil Georgia*, 31 October, 2008.

With political negotiations stalled, economic rehabilitation was pretty much the only field where Tbilisi and Tskhinvali cooperated up until 2006. Since 1999 the European Commission had been investing in cross-community projects implemented by the OSCE. A large economic rehabilitation program was launched by the OSCE after the winter 2005-2006 needs assessment. However, this cooperation broke down as Tbilisi and Moscow invested greater sums in competing projects outside of the OSCE implemented ones. The unilateral Georgian and Russian programs competed for loyalties and contributed to further division of local communities. With economic cooperation breaking down and isolated infrastructure, conflict prevention mechanisms also broke down and together with many political and geopolitical factors led to renewed hostilities in the summer of 2008.

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