

# Focusing on the East and on Agriculture

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**A**ccelerating implementation of environmental integration will require increased efforts in the EECCA countries and the agricultural sector. At the 2003 Environment for Europe Conference in Kiev, there was strong support for the view that greater attention was needed to ensure environmental sustainability in the EECCA sub-region. This study confirms the validity of that assessment with respect to integrating environment into agriculture and forestry.<sup>16</sup> Annex 5 compares the two sub-regions with each other and with the relatively new EU member states Poland and Hungary. Major issues such as water and rangeland management, radioactive contamination of farmland and forests, and illegal cutting of forests are much more prevalent in the EECCA sub-region. Food safety and organic farming are much less developed in the east. As the analysis in Annex 2 suggests, policy and institutional development are less advanced in EECCA, where more of the mainstreaming indicators in Table 3 and Annex 3 are showing a worsening trend. Nevertheless, there is considerable overlap between

the two sub-regions, and the best performing EECCA countries, such as Kazakhstan, are ahead of SEE laggards, as is Uzbekistan in the area of IPM (see Box 3).

The impacts of agriculture on the environment are different from those of forestry. Except perhaps for Russia, environmental impacts from agriculture are arguably of greater magnitude than those from forestry and not as well addressed. Despite the dislocations of transition, forests in the region are managed with a considerable degree of sustainability, especially when compared with those in tropical regions. Throughout the region, harvesting is considerably less than the incremental growth (even when estimated illegal cutting is

<sup>16</sup> An internal World Bank assessment in 2005 of environmental performance of regional countries (covering all sectors) showed a clear gradation from new EU member countries, which scored 5.25 (out of 6), SEE countries at 3.75 and EECCA at 3.2. The EECCA countries have work to do to reach the level of SEE, but the latter sub-region is still well behind its EU neighbors.

## Box 3: Integrated Pest Management in Uzbekistan

In Uzbekistan the growing concern over chemical pesticide application in cotton cultivation in the 1980s gave rise to research on biological pest control methods. At that time, as many as 12 kg/ha of herbicides and pesticides were being applied to the crop. After independence, interest in IPM was revived, initially under the World Bank's Cotton Sector Project (1995–2002), which supported the production and distribution of predator insects and other IPM techniques. Uzbekistan's Ministry of Agriculture and Water Resources subsequently expanded the program, but the main work of producing predator insects is done by nearly 900 laboratories, 40 percent of which belong to the private sector; they produce 12 tons of wasps and other insects per year. Biological controls are now used on 90 percent of cotton fields, where effective pest management has been achieved. Not only has chemical pesticide use been reduced by 75 percent in the last five years, but biological methods have the added advantage that they cost less than 50 percent than do the chemicals.

included).<sup>17</sup> Generally, forest areas are increasing, for several reasons: the European forestry tradition of resource conservation, which was followed by the Soviet Union and other countries; growing external scrutiny; and enhanced incentives for sustainable management, for example, through certification. A major qualification to this optimistic picture is illegal logging, which remains prevalent in all EECCA and a few SEE countries. Most countries are now taking serious steps to curb illegal cutting, but these efforts may take years to produce full results (see Box 4). Forest fires are also a major threat in some countries, including Russia.

Proximity to the EU is a major driver for mainstreaming in both agriculture and forestry, whether proximity is defined in a purely geographical sense or in terms of progress towards EU accession. Even when accession is some time off, its possibility may focus decision makers on issues of concern to the EU, such as sustainability. In the pre-accession process itself, the need to harmonize legislation and fulfill criteria for pre-accession funding attracts greater attention to integration matters. Finally, EU funding itself may provide considerable momentum for turning good intentions into reality. Box 5 provides an overview of how this process has worked in recent and current EU candidate countries. At the same time, there is still room for improvement among new EU member states; many prefer to shift CAP Pillar 2 funds,

which could be used to support environmental integration in agriculture, to Pillar 1 income supports instead. This reveals the need for increased awareness even in these countries.

In contrast, in non-accession countries, such as those of EECCA, drivers towards integration are much weaker, and generous external support (especially grants) is less likely. These countries, therefore, need to do more with less, for example, by focusing on setting the “foundation” for integration—i.e., *governance, awareness, capacity building, and incentives*—before launching major investment programs. The cost of building these components, described in more detail in the following sections, can be relatively low. Donors and IFIs are well disposed to providing assistance to governments in the mainstreaming area. Non-accession countries, therefore, need to work closely with donors to achieve a shared vision and strategic support. But donor-sponsored and government projects can only go so far. Ultimately, incentives have to be created for the private sector to integrate environmental concerns into their production processes. A potentially powerful tool for achieving this is through trade preferences in the West

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<sup>17</sup> However, this may not be true in every locality. Often, forests are overcut close to settlements or roads, and forest quality may be decreasing.

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#### **Box 4: Russia Combats Illegal Logging**

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Access to information, stakeholder participation, and accountability are key elements of good governance that protect not only the rights of people and communities, but also their natural environment. The Russian Federation is custodian of 22 percent of the world’s forests, but faces serious economic losses from illegal logging. Estimates of the volume of illegal logging range from 10 to 60 percent of total harvest, according to region. In response, Russia has recently emerged as one of the major contributors to international efforts to improve forest governance and combat illegal logging and the associated corruption. Since 2004, the Russian Government and the World Bank have worked together to develop and launch the Europe and North Asia Forest Law Enforcement and Governance (FLEG) Ministerial Process. The Russian Government is also poised to implement its own comprehensive National Action Plan to Combat Illegal Logging and Illegal Timber Trade, which, if implemented fully and consistently with good detection practices, would be a step in the right direction.

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for environmentally sound products. This tool is just beginning to be utilized.

Selected public investments in environmental integration in transition countries are justified, especially where there are substantial economic, as well as environmental, benefits to be gained. Rehabilitation of irrigation and drainage systems (with a focus on water conservation and salinity reduction) and large-scale soil conservation programs are examples of worthwhile investments, as is reforestation with carbon sequestration benefits. Some good practice examples from EU member states Poland and Hungary are described in Box 6.

Donors and IFIs have played a critical role in successes achieved so far in integrating environment into agriculture and forestry, and must continue to do so, with the EU dominant in SEE, and the World Bank and GEF in EECCA. In fact,

the Country Reviews show that few initiatives have been undertaken without initial donor support. There are obvious reasons for this to continue: donors bring technical expertise, access to global knowledge, funding, and an ability to link project assistance to policy and institutional reforms. However, donors may need to take a more systematic and strategic view of environmental integration priorities and constraints in each country, as well as ensuring that the “foundation” is in place, rather than promoting innovations in isolation or copying projects from one country to another. It is also imperative that they coordinate with one another and take the time to build ownership by client governments. Donor support will continue to be crucial for trans-boundary issues, such as climate change, and global public goods, such as agricultural biodiversity, because in these areas,

### Box 5: Integration and the EU Accession Process

To emphasize the importance of the environment in rural development and agriculture, farmers’ eligibility for agricultural subsidies from the EU is tied to their compliance with EU environmental policies. Similarly, support for nature protection in private landscapes is integrated under the Common Agricultural Policy (CAP) Pillar 2, starting in the 2007–2013 programming period, as are support payments to promote more environmentally sustainable rural landscape management. Previous EU funds for SEE countries are being replaced with an Instrument for Pre-Accession Program for Rural Development (IPARD) in 2007–2013. Accession to the EU is a strong driver for mainstreaming; despite this, the implementation of environmental components within national agricultural strategies is still lagging in all SEE countries. For example, in Macedonia, environmental objectives are acknowledged in the national agricultural policy agenda but full financial support for implementation is lacking.

In the case of Bulgaria and Romania, EU funds played an important role in mainstreaming in agricultural and forestry sectors during the pre-accession period. Access to CAP financing required harmonization with the EU Acquis (directives, regulations, programs, plans, and projects) of national legislation in the agricultural and forestry sectors. Recent availability of EU structural funds has led, among other things, to strengthening, harmonizing, and implementing legislation for soil, water, nutrients, pests, biodiversity, crops and forestry, improved water management, and soil conservation. In Bulgaria, the National Strategy for Sustainable Development of Forests (2006–2015), a draft Action Plan for the Development of the Forest Sector (2007–2011), and a draft of the new Forestry Law (2007) are based on the envisaged use of EU Structural Funds as specific financial instruments to better support the national forest management system and the sustainable use of forest resources.

Even for the EU-8, challenges to integration remain. As a result of political and social pressures, many EU-8 countries have opted to shift CAP resources from Pillar 2 environmental programs to Pillar 1 farm income supports when given the choice. This demonstrates the need for more public awareness efforts, particularly to demonstrate that environmental integration also has important economic benefits. Further, the EU Nitrates Directive and Water Framework Directive require members to improve water management and reduce pollution. But new member states continue to have difficulties in meeting their obligations under these directives.

New EU members are rewarded for adapting well to food safety, veterinary, and phytosanitary systems. At the same time, they are aware that they may be at a competitive disadvantage with older members, as direct CAP payments will be phased in over nine years.

Sources: WB Consultants’ reports, as well as World Bank (2007b); CAP: new members have felt benefits but more needs to be done. Agriculture, European Parliament, 2007.

### Box 6: Good Practice from Hungary and Poland

Since Hungary and Poland joined the EU in 2004, both countries have made substantial progress in mainstreaming environment into agriculture and forestry. For example, in the area of **crop protection**, Poland was faced with a problem of about 23,000 tons of obsolete pesticides, some as old as 50 years, stored under very precarious conditions at numerous scattered underground sites. Since 1999, about half the products have been excavated and disposed of safely in hazardous waste incinerators, initially outside Poland but now within. The program will be completed by 2010. The key to success was grants to local authorities for the collection process. In Hungary, a program of subsidies to farmers allowed them to switch from pesticides to IPM techniques. As a result, IPM went from being practiced on zero to 12,000 ha in only three years; the area has since expanded to 290,000 ha.

Both countries have given active support to organic farming by putting in place appropriate legal and support frameworks and providing subsidies to eligible farmers. In Hungary, 150,000 ha of organic farming was reached in three years. In Poland, the figure has already reached 200,000 ha, and a new program plans to expand this to 600,000 ha (20,000 farms) by 2013. Lessons learned include: the need for careful calculation of subsidy amounts; the importance of promotion among farmers and consumers; and the need for support in marketing. Poland is also a regional leader in **nutrient management**; results from modest GEF, EU, and other grant programs in three counties were evaluated and used to design a national program, with tens of thousands of manure storage sites, to meet Poland's obligations under the EU Nitrates Directive. The result is reduced nutrient levels in aquifers, rivers, and lakes. Poland has also been active in improving the sustainability of **forestry** through a number of programs that support private forest owners, pest suppression, genetic resource conservation, reforestation, afforestation, and biodiversity protection. Among the results is an increase in Poland's forested area of 222,000 ha, of which about 50 percent is private land. Forest cover in Hungary has also grown in the last decade.

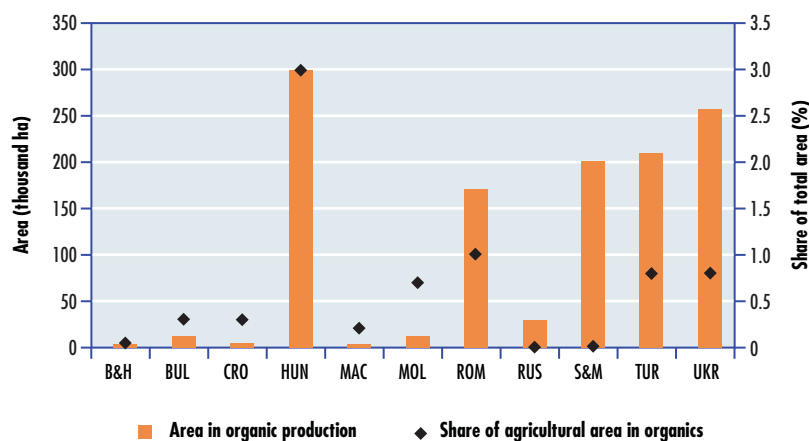
countries cannot capture the full benefits of their own investments.

Public-private partnerships have considerable potential. Examples include: water user as-

sociations for irrigation management (pioneered in Turkey); provision of extension services by private providers and even processors; community management of forests (as in Albania, Armenia,

and Georgia), and watershed programs (as in Turkey and Tajikistan). Perhaps the most dynamic example is organic farming (see Box 7 and Figure 2), which a decade ago was non-existent and is now a promising contributor to food exports in most SEE (and a few EECCA) countries. Nevertheless, it is important for countries to have realistic expectations about the potential for private sector involvement. The private sector will not take care of everything, especially where public goods are concerned (see the discussion below on advisory services).

Figure 2: Areas of Organic Production by Country (thousand hectares; %)



Source: All data from local consultant reports for this study, except Bosnia & Herzegovina (2005), Turkey (2006) and Romania (2006), which are from USDA Foreign Agricultural Service GAIN Reports: <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

### **Box 7: Prospects for Organic Farming**

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Producing food and other agricultural commodities without agrochemicals clearly reduces pressure on the environment and on ecosystems, although in most cases some yield reduction does occur. More and more consumers, especially in richer countries, perceive health benefits from organically grown products and are willing to pay a price premium, provided that a certification system guarantees that the product is what it purports to be. The EU and some regional governments are prepared to stimulate organic production through targeted subsidies.

The SEE countries have been quick to seize the opportunity offered by this new market and are setting up legal frameworks, certification systems, and support services. Bulgaria, Romania, Serbia, and Turkey are among the leaders in organic farming, although coverage remains much less than Hungary's 3 percent of farmland. In EECCA, Ukraine has managed to convert nearly 1 percent of its farmland to organic production, despite a lack of government support and no subsidies. Moldova and Georgia are also making progress without subsidies. However, little or nothing is happening in the other eight EECCA countries.

Given the scant use of agrochemicals in the past and their low labor costs, the SEE (and some EECCA) countries have a comparative advantage in organic production and need assistance to expand it through further development of legal frameworks, certification systems, marketing support, and training and advisory services. However, markets in Western Europe will remain limited, and newer EU entrants, such as Bosnia, Croatia, and Macedonia, may face stiff competition and lower prices. As environmental awareness grows, all countries may find greater marketing opportunities domestically.

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