

# 1. Introduction and Overview of World Bank Strategies for Rural, Environmental, and Social Development in Eastern Europe and Central Asia

## Introduction

This report proposes a World Bank strategy for assisting the rural, environmental, and social development of Eastern Europe and Central Asia.<sup>1</sup> It is a work in progress prepared for a general audience. Comments are invited, and will be considered in finalizing this strategy. Strategies developed for the use of specialists in these fields are published in greater detail in companion reports by the World Bank.

The World Bank finances a large number of rural, environmental, and social investment projects and conducts extensive analytical work in Eastern Europe and Central Asia. This experience and analysis provide the foundation for Bank strategies for future assistance. Published materials and consultation with scholars and professionals provide additional important inputs, as do the experience of other donor agencies and nongovernmental organizations (NGOs).

Further development of the strategies presented here will follow additional consultation with scholars, government officials, and NGOs in Eastern Europe and Central Asia. As part of this consultation process, summary strategies will be presented at the Prague Annual Meetings of the IMF and World Bank in October 2000, and full strategy documents (published separately) will be circulated to interested individuals and institutions.

The World Bank's mandate is to assist in the reduction of poverty in developing countries around the world. Recent Bank work suggests that rapid economic growth,

equitably distributed, is one of the quickest ways to reduce poverty. For this reason, the World Bank supports government policies, private and public investment, and other activities that stimulate inclusive economic growth in its client countries.

We have recently also learned that measures taken to stimulate equitable economic growth can produce a more rapid reduction of poverty if they are accompanied by certain additional measures. First, giving poor people a voice in their own development can contribute greatly to the efficiency of development interventions and can stimulate their commitment to sustaining development once donors leave. It is important that we help expand the opportunities for the poor to participate economically and politically, and our development assistance will therefore seek the participation of the poor and of other beneficiaries. Second, we have learned that measures that enhance the security of the poor against extreme hunger, illness, natural and man-made disasters, and violence can be important contributors to poverty reduction. We will therefore sup-

port those measures that enhance the security of the poor, including efforts to reduce air and water pollution, improve waste treatment, protect biodiversity, and improve forest management. All of these objectives have environmental as well as poverty reduction benefits.

Another objective of the World Bank is to promote environmentally sustainable economic growth, both regionally and globally. We will accordingly integrate environmental and social concerns into our sectoral strategies and will assist countries in removing environmental impediments to growth. (It should be noted that it is a policy of the Bank to support the protection of the global and regional environment even if there is no immediate impact on health or on poverty alleviation.) The World Bank additionally supports the building of local capacity for good governance and reduced corruption, both to safeguard the interests of the poor and as a freestanding development objective.

### **The World Bank's Broad Objectives in the Region**

Consistent with the global objectives of the World Bank, the primary objectives of our strategy to support rural, environmental, and social development in Eastern Europe and Central Asia are to contribute to poverty reduction; to promote improved environmental management; and to build local capacity to govern and to manage development, free of corruption.

The Bank will support these objectives initially by using its traditional lending instruments to finance investment projects that specifically address the objectives. It will also support policy change through analysis, budget support, and investment support targeted at policy and institutional reform in rural areas, at improvement in the environment, and at building capacity to govern and to manage local institutions and NGOs. Increasingly, we will accomplish this in partnership with community groups, local government, other donors, and with the private and academic sectors. For this reason, there are two types of strategy presented in this volume. The first addresses the broad policies, investments, and institution building that all actors (governments, donors, private sector, and NGOs) need to support in order to achieve the objectives set out for rural, environment, and social development. The second involves the specific role of the World Bank within this broad framework.

Rural, environmental, and social development strategies are conventionally separate, but in Eastern Europe and Central Asia we believe the issues are so tightly connected that we must exploit their synergies and connections rather than address each area separately. The work within the

Bank on these three sectors and themes has therefore been organized into a single department to encourage collaborative thinking, but a large role nonetheless remains for other Bank departments to assist in improving the Regional environmental, social, and rural situations. Infrastructure and macroeconomic reform, improvements in education and health, and financial sector reform all overlap departmental boundaries and the confines of the rural, social, and environmental sectors.

One of the main connections between the three sectors and themes is in the social development sphere. The increased social problems of the last decade and the growing phenomenon of widespread poverty in the Region have strong rural roots. Many of the new poor live in rural areas (on a Regional average, about half the poor live in rural areas), and are dependent on farming, forestry, agro-industry, or agricultural marketing. Important reasons for the impoverishment of rural people include social factors, such as the breakdown of the institutions on which they depended (collective farms and public administration), and constraints to the development of new institutions such as private farms, markets, agro-industry, and market-oriented public administration. Social conflict and a lack of participatory mechanisms have also held back agricultural development. The building of participatory and transparent institutions accountable to citizens is the cornerstone of our social development strategy, and should be a major contributor to rural development and environmental protection.

Another connection between the sectors is the negative impact of environmental issues such as water pollution, forest loss, and soil degradation on agriculture, and the consequent poor health and impoverishment of rural peoples in some countries. Better management of water, land, and forests are key environmental objectives, the attainment of which should also contribute to rural development and poverty reduction.

The Bank is increasingly endeavoring to analyze development issues within their broader context, and we have thus recently begun to support the preparation of comprehensive development frameworks for our clients. These frameworks seek to integrate all development strategies for the different economic sectors, within both the urban and the rural "space." The linkages established, including those discussed in this report, are integral to the ECA Comprehensive Development Framework.

A large number of strategic social, rural, and environmental development issues remain under debate—even within the Bank—with most discussion centering on the tradeoffs involved. The refocusing of Bank strategy in

favor of activities that directly aid the most severely disadvantaged people, for example, might potentially require a reduction in activities that contribute most to economic growth and long-term poverty reduction. The Bank will therefore look first for “win-win” activities that both stimulate growth and contribute to poverty reduction. Not all actions fall within this category. For example, we advocate the reduction of price and tax distortions applied to agricultural products in order to introduce market-based signals to farmers and agro-businesses. These distortions may however have been introduced by governments specifically to protect the purchasing power of the urban poor or to subsidize a farm input such as water or fertilizer for poor farmers. Removal of the subsidy would have an immediately harmful effect on some poor people, but it should also have a positive effect on economic efficiency and ultimately on economic growth. Depending on how one values these two objectives, support can be justified for both maintenance of or removal of the subsidy.

### Rural Development

There are approximately 400 million people in the 26 transition countries of Eastern Europe and Central Asia. About 35 percent of these people live in rural areas. The countries with the largest rural populations (in both absolute numbers and percentage of rural population) are Russia, Ukraine, Poland, Uzbekistan, Romania, and Kazakhstan. Turkey also has a large rural population. With the exception of Turkey, only 16 percent of the population of these countries works directly in agriculture—i.e., more than half of the rural population works outside agriculture. This 16 percent of agricultural workers generates only 9 percent of GDP, however, indicating both that productivity is low and that agricultural incomes are lower, on average, than those of other sectors. Given this situation, it is not surprising that so much of the Region’s poverty is concentrated in rural areas.

Agricultural GDP during the transition period 1990–96 fell at an average rate of 7.8 percent per year for the 26 countries. It continues to fall for most countries of the former Soviet Union, although it has begun to increase in most of Central Europe and in the Baltic countries. The decline in the former Soviet Union is the primary cause of increased impoverishment of the rural population in these countries. Many rural families now have little or no cash, and farm inputs and crop and livestock yields have declined sharply. There is little investment in farm machinery or in infrastructure maintenance.

Juxtaposed against the Regional decline in production is the growing global demand for food and agriculture

products, increasingly constrained elsewhere in the world by the scarcity of farmland and water. The ECA Region contains the largest reserve of under-used farmland in the world, and development of this agricultural potential is increasingly important to global food security.

Most of the countries of Central Europe and the Baltic region have introduced public policies that are relatively encouraging for the emerging farm product and input markets. Policy reform addressing prices, trade, tax, land ownership, and the legal system was undertaken quickly at the start of transition and is now assisting development of rural areas, including agricultural development. Agricultural labor productivity in these countries has increased. Although Turkey has followed a different development path, it too is in the midst of a significant economic policy reform program after a long, stop-and-go period of reforms.

A second group of countries, including Armenia, Azerbaijan, Georgia, and Bulgaria, came later to the reform process and are still engaged in the privatization of farm land, in agricultural enterprises, and in market deregulation. Rural incomes and agricultural GDP are only now beginning to show growth.

A third group of countries, including most prominently Russia and Ukraine, began a market-based reform process that quickly stalled in the early 1990s. The result is an agricultural policy and institutional environment that is neither market-based nor anchored in government strategy or plan, that is subject to national and local politics, and that is highly unsuccessful. For most rural areas and for agriculture in general in these countries, the consequences of this failed reform process have been negative. Finally, there are a few countries, mostly in Central Asia but also including Belarus, whose policies are holdovers from the communist era. Collective farming continues, commercial enterprises remain in the government sphere, and there is strong direction from government planners for output targets, prices, trade, and inputs. For these countries, the decline in agricultural production and rural income has been less than that suffered in their initial years of reform by the other groups; the slow decline has been steady, however, and there is no indication of a turnaround.

The conclusion is that it is only the rapid, radical market-based reforms that have worked, and it is this conclusion that has informed Bank strategy. This finding is nonetheless tempered by the fact that institutions and attitudes in Central Europe had both a shorter history of central planning and a more recent, pre-socialist legacy of a system conducive to market-based development than most countries of the former Soviet Union. This difference may

explain in part why it has been so difficult to achieve political consensus for radical market-based reforms in most of the former Soviet Union.

Bank strategy is to continue, through investment and encouraging policy change, to support rural and agricultural development by developing markets for crops, for farm inputs, for credit, and for labor, land, and capital. Privatization of collective farms (and of the recent mutations of collective farms, such as joint stock companies) and the creation of financially viable farms with transparent private ownership, such as family farms, is of high priority and will be supported. Our objective is to support the provision of titles for at least 10 million new private landowners. This will be assisted by the creation of land registration, titling, and cadastral systems, and of more efficient land leasing mechanisms. Privatization of agro-industry and marketing, including the development of legal systems that protect the investments of local and foreign investors, is also important if markets are to be created. Private investment in farming, agro-business, and marketing will be more important than donor financing. We will support government policy that encourages private investment and ownership. Generally, we are seeking the deregulation of markets and the development of trade policies that reduce barriers to trade and investment.

We support the development of self-sustainable financial services for farmers and agro-business, including micro-credits. Institutional reform of the public administration of rural and agricultural services such as education, extension, and research will be important. Public institutions will continue to be needed, but they must support, not hinder, market-based development. Rehabilitation of the institutions that develop new agricultural technology will be important. We will support investment in physical and social infrastructure in rural areas, including investment in health, education, roads, waste treatment, irrigation, and water supply. Irrigation and drainage are particularly important for Central Asia. Rural infrastructure everywhere in the Region has been deteriorating for the past 10 years, and is in need of vital rehabilitation. We will support the improved management of forests, water, and land by the private and public sectors. Urban development is also important for rural areas: greater attention must be given to the rural–urban linkages that support the development of urban areas as a market for rural products, as a source of inputs of all kinds, and as a destination for the rural unemployed.

The broad thrust of this strategy, which since 1991 has been the introduction of market-based reforms and private investment, is not new. What is new is that we are able to

apply our experience of these reforms, investments, and institutional changes to design policy recommendations and investment projects that follow best practices and that avoid those methods that in the past did not work. The quality of our interventions has improved dramatically. In sequencing future reforms, we will emphasize the institutional and legal development necessary to support private markets, rather than just “stroke of the pen” policy changes. In some cases, this may mean a longer process of reform, despite the positive experiences of the fast-reforming countries.

Additionally, we will concentrate on institution and capacity building, using the work of the Bank’s social development team. Social assessments will be used to identify any potentially negative social impacts of development projects and policies, and to help design components that strengthen rural institutions. We will seek to introduce as much community management of investments and project activities as possible. This community-based approach will contribute to the development of new NGOs that will in turn assist in the evolution of the rural sector away from its dependency on central and local government organizations. Our experience with community-driven development efforts has been excellent. Water users associations in irrigation command areas, village microcredit associations, local farmers groups managing forest land, and community groups planning, building, and maintaining rural infrastructure have all turned out to be good stewards of development interventions. These community-driven approaches will be multiplied and expanded.

We will seek private sector partnerships for the development of agro-industry, farm input supply, forest management, and farm extension services, specifically by seeking partners able to manage the commercial components of Bank-financed projects. Experience with our private sector partners has so far been mixed: while our support of Uzbekistan’s cotton gins and Russian seed plants has been successful, our support of Ukraine’s seed plants failed. We have also had a mixed record working with government to establish policies and regulatory mechanisms conducive to private sector investment. In particular, we need to exploit our association with the IFC and the Multilateral Investment Guarantee Agency (MIGA) to work more effectively on private development in rural areas.

Our strategy has a greater focus on poverty reduction than previously. In the past, we assumed that maximizing economic growth through faster agriculture growth would contain, if not reduce, rural poverty. It is now evident that while rapid agriculture growth is critically important, achieving this growth risks leaving many rural people

behind. Our strategy must have an explicit focus on poverty reduction distinct from any reduction that might be afforded by a general growth in rural incomes. More of our support will therefore be targeted to the poor and to lower income groups. We propose to undertake integrated rural development projects in poor regions; to increase our focus on the poorest countries of Central Asia, the Caucasus, and the Balkans; to assist the provision of microcredit for poor groups; and to increase our targeting of public services for poor rural populations. Greater cooperation with other development sectors, such as urban development, will be vital to our success in these endeavors.

### **Environmental Management and Improvement**

The broad World Bank strategy for handling environmental matters worldwide has shifted dramatically, from one of neglect in the 1970s and early 1980s to one in which in the late 1980s and early 1990s we assessed the potentially negative environmental impacts of our interventions in order to mitigate those impacts. Since then, we have increasingly applied a more proactive approach, to identify and mitigate potentially negative impacts but also to support those policies, institutions, and investments that improve the environment. The 1993 Environmental Action Program (EAP) for Central and Eastern Europe focused on addressing the health impacts of environmental degradation, and this has remained a strategic focus for the Bank. But whereas in the 1990s the Bank focused on developing a stand-alone environment portfolio and an assistance program to support environmental agencies, we now increasingly seek to integrate environmental considerations into macroeconomic policy dialogue and into our sectoral strategies and projects. We aim to identify the potential environmental outcomes associated with our broader development work, such as poverty reduction, and, with our partners, to link environmental issues to the objectives of that work. We have also recently added poverty reduction and sustainable economic growth as explicit objectives of our environmental work. These shifts are the basis of the environment strategy presented here.

The countries of Eastern Europe and Central Asia were afflicted by poor environmental conditions well before the transition from planned economies to market economies began in the early 1990s. There were widespread problems of air pollution in the industrial areas of Central Europe and the former Soviet Union; there was large-scale land degradation (reduced soil fertility and salinization of soil) in Central Asia, the result of poorly conceived irrigation and inadequate drainage; and there were widespread problems of drinking water pollution in rural

areas throughout the Region and in some urban areas in Central Asia, due to agricultural run-off, industrial pollution, and poor sanitation. Advanced pollution had already taken place by the 1980s of the Aral Sea, the Caspian Sea, the Black Sea, the Baltic Sea, and the Arctic Ocean, due to a combination of fertilizer and pesticide run-off from farmland, industrial pollution, and military waste. Groundwater resources were also often polluted from the same sources. Disposal of nuclear waste and oil spills were major problems in the Soviet Union, with the Chernobyl nuclear power plant disaster directly affecting millions of people and contaminating vast areas of farm and forest land. And while Chernobyl has become a historical symbol for the Soviet Union's disregard for the environmental consequences of its energy policy, the potential remains for a repeat of the disaster elsewhere in the Region.

In addition to these high-profile failures, however, the Eastern Europe and Central Asia Region also recorded some environmental successes in the period prior to transition. Projects to protect biodiversity mean that there are, for example, more bears and wolves in Romania than in the rest of Western and Central Europe combined. Russia also has vast areas of protected land, and within the Soviet Union had developed institutions and regulations that were relatively effective at preserving them. Air pollution from automobiles was limited because ownership was limited, and water and sanitation systems in the cities were relatively good. Many countries in the Region also have a long tradition of forest management and institutions able to incorporate watershed protection and, to some extent, ecological values into that management. During the Soviet era, local citizens were also generally freer to express their concerns on environmental issues than on many other topics. Post-1990, this freedom of expression manifested itself in the emergence of vocal groups of new environmental NGOs.

The transition period of the 1990s brought some environmental relief, but it also created new problems. On the relief side of the environmental ledger, the pollution of groundwater and the large water bodies lessened with the decline in agriculture and a significant reduction in the use of fertilizer and pesticides. Industrial pollution of water declined with the closing of many uneconomical factories and plants—in some cases, the resulting water improvements have been significant. Air pollution also dropped throughout the Region, albeit mostly due to the decline in industry rather than to the application of environmental protection measures.

On the other side of the environmental ledger, air pollution by automobiles is an emerging problem in many

urban areas. In faster reforming countries, this problem is linked with the growing number of vehicles; in the slower reforming countries, with limited transportation options, a lack of proper monitoring and maintenance of vehicles, and old and deteriorating vehicles. Despite the emerging problem of vehicle pollution, uncontrolled industrial pollution and household coal burning nevertheless typically remain the most pressing forms of air pollution.

Water pollution is also a growing problem. Waterborne disease has increased in many cities and in some rural areas due to the breakdown of water and sanitation systems. Natural disasters have affected more people, in part because the regulatory mechanisms have not been maintained that would mitigate the impact of such disasters. Earthquakes in Turkey have affected many people, as have floods in Poland and Hungary. Environmental accidents are an additional threat: for example, a recent cyanide spill in Romania polluted a tributary of the Danube, affecting people downriver in Hungary, Yugoslavia, and other countries. Romania's environmental agencies are simply not strong enough to prevent accidents of this nature. And while thus far spared a second Chernobyl, the Region continues to be threatened by the possibility of another nuclear accident. In agriculture, the salinization of irrigated croplands in Central Asia has worsened as drainage facilities have deteriorated. Forest management and harvesting have deteriorated as spending on forest services and equipment has dried up—and as timber harvesting has declined, increasing energy prices and growing poverty have forced some local populations to cut forests for fuelwood. Escalating law and order problems and a drop in funding for protected area management in some countries have also permitted a rise in illegal timber harvesting and the poaching of rare animals and plants.

As a general rule, the negative effects of environmental problems are borne disproportionately by the poor, who are unable, for example, to buy filtered or bottled water, to move away from degraded farmland, or to move out of residential areas afflicted by poor air quality. This rule applies in the ECA Region, but to a lesser extent than elsewhere, in part because urban residential districts are seldom differentiated into rich and poor. The poor are nonetheless clearly more vulnerable to and less able to cope with the effects of environmental problems—some of which, including environmental degradation of soils, water, forests, and air, can in fact increase poverty by impacting incomes and health. Resolving these problems can be not only of benefit to the environment, but can also have a positive influence in reducing poverty.

The key strategic thrusts of our environment strategy include, as a first objective, implementing interventions that build on poverty-environment synergies. These include activities designed to result in improved health, particularly of the poor; improved livelihood of the poor; and increased protection for the poor against external factors to which they are vulnerable, such as environmental risks and natural disasters.

Our second objective is to launch interventions that will promote sustainable economic growth. These will include providing advice on policy changes, institution building, regulatory reform, and investment. Through these interventions, we expect to encourage a shift away from dependence on coal as an energy source; a reduction in energy subsidies, to encourage greater efficiency in energy use; the elimination of lead in gasoline; and improvements in water supply and sanitation. Our third objective is to assist our clients in complying with their global and regional commitments.

We will support the improved management of land, water, and forest resources for its environmental benefits, for its rural development benefits, and for its contribution to reducing poverty. We will support water conservation projects; irrigation projects, including those with the objective of water conservation; and forest management projects, both those aimed toward conservation and those aimed toward achieving sustainable use, including sustainable logging. The Bank has for many years supported a successful natural resource management project in Eastern Anatolia in Turkey. This project uses a participatory approach aimed at improving rural livelihoods and at the same time assisting in rangeland improvements, forest restoration, soil productivity enhancement, and soil and water conservation. Community-based forest and range management has also worked well in Albania, even where there have been broader problems of governance and social stability.

We will base our analysis on multi-country regional initiatives, because most environmental problems are not confined themselves within administrative boundaries. The cyanide spill on the Tisza River in Romania, for example, directly affected Hungary, Yugoslavia, and Ukraine and ultimately affected all of the countries sharing the Black Sea. We will therefore maintain an active program of support for environmental improvement of the regional seas, including the Aral Sea, Black Sea, Baltic, Caspian, Mediterranean, and the Arctic Ocean, and transnational rivers, such as the Danube. This program will include support for analysis of environmental impacts and hot spots;

support for regulatory and policy changes that address the causes behind the deterioration of these seas and rivers; and support for specific investments in environmental improvement, such as better sanitation and better waste treatment. We will support projects to reduce agricultural run-off, to protect and restore valuable wetlands along rivers and coastlines, and to protect fisheries, and we will support the reform of regulatory systems to better address agricultural and industrial pollution and oil spills.

We will support clean-up projects for environmental hot spots, such as the ongoing Azerbaijan Urgent Environmental Investment Project, which is cleaning up mercury waste. More ambitiously, where governments are committed to reform we can support their work to change their environmental policies, regulatory mechanisms, and administrative apparatus. We are already engaged in such work in Bulgaria, where we are helping the government to implement environmental remediation measures for newly privatized industries. Environmental education and outreach to raise the awareness of the general public will be part of these programs.

We will help countries in the Region to meet their obligations under international conventions to protect the ozone layer, to reduce impacts on the global climate, to protect biodiversity, and to protect regional seas. We will help countries engaged in this work to mobilize grant funds from the Global Environment Fund, the Prototype Carbon Fund, and from bilateral donors. We will also seek to create local gain to add to the global benefits of these projects: a recently approved Biodiversity Project for Romania, for example, closely involves the local population in poor rural areas in work designed to improve ecosystems management and protection.

We have developed the capacity to assist countries and communities in recovering from natural disasters such as earthquakes and floods, and from war, as we are doing in Bosnia and Kosovo. Environmental catastrophes have struck the poor very hard in some countries of the Region, particularly Turkey. In addition to supporting recovery and reconstruction, we will assist vulnerable countries to prepare for the next natural disaster; for example, by establishing construction codes to ensure that new buildings are able to withstand a minimum level of shock in an earthquake, and by supporting flood control works. We will also assist the establishment of early flood warning systems, such as the one that is being developed for Lake Sarez in Tajikistan.

We will continue to ensure that Bank operations in the Region adequately address environmental safeguard poli-

cies. In many cases, this will require that we address environmental issues at an early stage in project preparation, and that we incorporate into project design elements that will have a positive environmental impact. We must also scrutinize every operation financed by the Bank to ensure that they cause no environmental harm; where there is potential for harm, that harm must be mitigated.

There are multiple linkages between the environment and rural development strategies. The proper management of water for irrigation, land for agriculture, and forests for forest products, and the conservation of biodiversity conservation can have positive results both for the environment and for rural development. The introduction of agricultural technologies that both boost crop yields and conserve the land, for example, will be an increasing part of our message to farmers; it is also critical that irrigation rehabilitation measures take into account their impact on the environment.

### **Social Development Strategy**

As is the case with rural and environmental development, there are important differences in the social development of the countries in the Region. In some countries, for example—mostly in the former Soviet Union—formal institutions dating from the Soviet period have lost some or all of their legitimacy. This is true of collective farms, planning ministries, local and central public administrations, legal systems, and public enterprises. Incomplete or “captured” privatization, in which most assets have fallen under control of a small elite, and stalled liberalization in most countries of the former Soviet Union have resulted in a situation in which market-based private enterprises have not developed to replace discredited public institutions such as state enterprises and agencies. In some cases, those public institutions still exist, albeit possibly in camouflaged form. The collective farm provides a good example of this. Although now classified as private enterprises, such as joint stock or limited liability companies, most collective farms continue to exist with the same managers and employees, boundaries, and assets. Many agro-industries and farm input organizations are likewise just forms of the state enterprises that existed in the Soviet period.

There have been varying degrees of democratization of the political systems of the countries of the former Soviet Union, including free elections in some countries, a relatively free press, some NGO development, and greater freedom to demonstrate. In contrast, the legal and administrative systems have not yet evolved that would support market economies, and they remain much as they were prior to transition. The result is inadequate and chaotic

legal, administrative, and commercial systems juxtaposed with increased democratization of political life. In such an environment, corruption flourishes, conflicts go unmediated, the climate for private investment in rural industry and farming is poor, and social cohesion diminishes. Without the institutions or value systems able to mediate ethnic or social tensions exacerbated by economic hardship, conflict can escalate to violence, as has been seen in Chechnya, Bosnia, and Kosovo. In less extreme cases, criminality and other forms of social abuse are flourishing, including discrimination against minorities and the trafficking of women. The dramatic rise in the numbers of street children and expanding rates of alcoholism and drug use are further indicators of this problem.

There is a positive side to the social development story. In most of Central Europe, there has been increased participation by civil society in politics, with most countries introducing participatory democracy. Nongovernmental groups of concerned citizens are emerging, and at all levels the concept of governmental accountability is beginning to take root. National consensus to join the European Union is accelerating this process, as a precondition of EU membership is democracy firmly rooted in the principles of market economy. There are still significant pockets of poverty, some of which are associated with excluded ethnic groups such as the Roma. There is also inequality, as there is in other market economies. But fundamentally, the evolution is toward market-based institutions; a private sector, including private farms; accountable and transparent government; and widespread participation by the population in political and economic decision making. This social and institutional transformation in Central Europe and Turkey has motivated our social development strategy for the other countries of the Region.

Our strategy is to focus much more than in the past on institutional strengthening and capacity building at all levels of government, and on assisting NGOs that represent civil society. All of our investment projects require strong institutions, and we aim therefore to do more to provide institutional support and to assure widespread participation in the design or reform of these institutions. Such institutions should be more inclusive of civil society and less authoritarian. As in our rural development and environment strategies, we will actively support community management of investment. In some countries, this will be facilitated by the vacuum created through the decline of public institutions. In others, the absence of such institutions during the Soviet period means they must be created from nothing. Examples of the types of initiative that we will support include community development funds man-

aged by local communities, irrigation projects managed by water user associations, education projects with heavy parent-teacher involvement, urban housing projects with the participation of housing associations, forest management with the participation of forest communities, and land management by farmers. In some cases this work will additionally involve support for community management of cultural assets.

The Bank is increasingly involved with post-disaster and post-conflict reconstruction. In addition to our traditional support for physical reconstruction, we will assist in the social rehabilitation of countries or communities following natural disasters or serious conflict. The rebuilding of social cohesion in such societies is more difficult than physical reconstruction, as we have learned in Bosnia, Croatia, Kosovo, Chechnya, Armenia, Azerbaijan, Moldova, and Georgia.

The World Bank has introduced social safeguard policies designed to ensure that the investments and policies that we support do not have significantly adverse social consequences. Our safeguard policies require that potentially negative social impacts are either avoided, or if they cannot be avoided, that they are adequately mitigated. In particular, investments resulting in the resettlement of people are closely evaluated and either stopped or mitigated. As in our recent analysis of the situation in southeastern Europe, we will continue to support social assessments of all investments or policies that could conceivably have negative social impacts. We will, in particular, look for ways to engage the poor in economic and social development.

It is clear to us that the social, rural, and environmental agendas must be mutually supporting. Our challenge is to better capture the synergies between the development efforts in each sphere, since the constraints to the development of each of them are interrelated. The key connections will be in our support of community-led development, of the participatory design and execution of projects, and of institution building. More broadly, social and environmental policies and investments have links with all other areas of Bank involvement, making the agenda all the more complex. Bank practice is to take into account this complexity for each country that borrows from the Bank, and to manage it through a Country Assistance Strategy (CAS). Each CAS weighs the various constraints facing the country, the country's objectives, and Bank objectives to construct a program covering the most relevant sectors and activities for our involvement. The degree to which the mix of desirable rural, environmental, and social development interventions by the Bank are incorporated into the CAS depends on the weight given to those activities by the

government and by the Bank relative to the country's other needs.

The objectives set out in this document are extremely ambitious, and are far beyond the capacity of the World Bank and its closest partners to achieve on their own. We can help form the necessary partnerships, advocate policy changes, and finance key investments, but our lending and policy work alone are not sufficient for the attainment of the goals outlined in the following pages. Only a significant partnership involving, first and foremost, governments and local communities with international donors and the private sector will be able to do so. The degree to which the

objectives highlighted in this volume are pursued by the Bank in each country will also depend on the CAS agreed upon with each government.

### **Notes**

1. Albania, Armenia, Azerbaijan, Belarus, Bosnia, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, FYR Macedonia, Moldova, Poland, Russia, Romania, the Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.