

INTERNATIONAL COOPERATION FOR SUSTAINABLE DEVELOPMENT OF THE RUSSIAN FOREST SECTOR

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Background

Russia's vast forests are a natural resource of global importance, both economically and ecologically. They already serve Russia and the world as a source of wood, a symbol of wilderness, and as a critical stabilizer of the global climate.

Everyone has a stake in the intelligent and sustainable development of the Russian forest sector. However, political regimes, inefficient management, and the lack of a sound economy have led to an unsatisfactory development of Russia's forest sector.

Healthy forests and forest industries could help revitalize Russia's economy and society, open a new source of timber for global markets, and improve the ecological well-being of the entire world.

At the International Institute for Applied Systems Analysis (IIASA) we have been working with the Russian forest sector since the mid-1980s with the overall objective to identify sustainable development options for the Russian forest sector. For a summary of these activities I make reference to Nilsson and Shvidenko (1998).

The aim of this paper is to use our various IIASA studies, and also additional studies, to review the conditions and possibilities for international support to contribute to a sustainable development of the Russian forest sector.

Conclusions from the IIASA Studies

We have studied the environmental, economic, and social significance of the Russian forest sector. Based on the conclusions from these studies we have identified a framework of policy actions urgently needed to move the Russian forest sector toward sustainable development. It would take a considerable amount of time to go into depth on the policy framework in this paper, therefore, I will attempt to make a rough summary. For a more detailed discussion, see Nilsson and Shvidenko (1998).

Overall Aspects

- Forest sector policies must be developed that are consistent with the overall environmental, economic, and social objectives of the governments.
- The political status of the forest sector must be increased.
- Sufficient recovery and development of the forest sector require substantial capital investments.

Monitoring of the Forest Sector

- To achieve sustainable development there is an urgent need to establish efficient monitoring of Russia's forest sector. This monitoring system must be organized around the problems to be solved and objectives to be achieved in the forest sector and society—it should not merely replicate the current system of primarily collecting data.

Protection of Resources

- An efficient protection system has to be established.

Transportation Sector

- To start developing the forest sector, Russia must introduce strong and efficient strategic programs to improve the transportation infrastructure and introduce complete market price setting in the transportation sector.

Markets and Trade

- To be competitive in the markets Russia must educate managers on quantity production, market services, and legal trading aspects. Russia must provide technology that make it possible to meet the quality demands of the markets, and establish trade promotion offices within the most important export markets.

Sustainable Forest Management

- Sustainable forest management regimes taking into account biodiversity, climate change, non-wood products and functions, and sustainable economic wood supply should be implemented urgently.

Forest Industry

- Policies that aim at stimulating the forest industry should be directed toward the development of financial infrastructures of the forest industry, stimulating infrastructure development, developing regional vertical and horizontal links within the economy, and preserve human and material capital in the regions.

Welfare

- The Russian government should urgently establish forest sector policies that would contribute to sustainable regional development and increase regional living standards.

Aboriginal People

- The Russian government should secure the social welfare needs of the aboriginal people, mitigate negative impacts of ongoing transition, and formalize the aboriginal people's land rights.

Research and Development

- The Russian government must reorganize and restructure forest sector research to be more problem- and goal-oriented.

Hence, the captions above are merely a snapshot of a policy framework to be implemented in order to move toward sustainable development of the forest sector. Based on a huge number of quantitative analyses of the Russian forest sector and a great deal of dialogue with policymakers on the implementation of new policies we can easily identify that this is easier said than done. The bottleneck for any implementation of new policies and a direction toward sustainable development (in a broad sense) of the forest sector is the existing “Institutional Framework” (Nilsson and Shvidenko, 1998).

Institutional Framework

The economic and political transition in Russia is extremely difficult due to what scholars call *Patrimonialism* and an unsatisfactory development of the *Institutional Framework*. Jensen (1997) defines patrimonialism as “that political authority often depends on a leader’s business contacts and leads to the dominance of clan politics, whereby politicians and businessmen, media entrepreneurs, and security forces use the political process to vie for control over the economy. The patrimonialism also drives white-collar crime, such as bribery, embezzlement, and corruption.” Our conclusion is that the patrimonialism is a major reason for the unsatisfactory development of the institutional framework of the Russian forest sector. The *Institutional Framework* encompasses the formal structure of the organization of the sector, but also the sets of rules by which the sector is managed (Ostrom *et al.*, 1994). These conditions heavily influence the management, control and efficiency of the forest sector. In our quantitative work and policy dialogues (for further detail see Nilsson and Shvidenko, 1998) we have found a number of negative aspects of the institutional framework of the Russian forest sector. In the following I will attempt to illustrate a few examples. The different forest sector organizations operate with conflicting objectives. There is still the tradition of users and rules, which regard regional overuse of forest resources as legitimate. The forest legislation contains substantial inconsistencies and conflicts with other dimensions of Russia’s legal framework. There is a lack of compliance with, and implementation and enforcement of environmental standards. The allocation of rights for forest utilization is not transparent. Stumpage fees are irrelevant and not reallocated efficiently back to the forest sector. The existing taxation system does not encourage normal business operations or new investments, and tax recovery is poor. Property rights are unclear and the privatization has strong features of “robber baron” capitalism resulting in tremendous capital flights. Corruption is a serious obstacle for businesses in the sector. The financial information available is not transparent.

Our conclusion is that the future of *the Russian forest sector will depend on how successfully Russia tackles the above and other connected issues*. (Nilsson and Shvidenko, 1998). Keywords in this necessary change are *transparency* and *predictability*.

Case Studies

Based on the above conclusion that the Institutional Framework seems to be a major bottleneck for development of the Russian forest sector, we decided to carry out a number of detailed case studies on this topic (Carlsson and Olsson, 1998). Hence, we have carried out detailed analysis of the institutional framework of the forest sectors of Tomsk oblast (Carlsson and Olsson, 1998; 1999), Arkhangelsk oblast (Carlsson *et al.*, 1999), Murmansk oblast (Ivanova and Nygaard, 1999), Republic of Karelia (Piipponen forthcoming, 1999), Moscow oblast (Kleinhof *et al.*, 1999), Krasnoyarsk kray (Sokolova forthcoming, 1999), Irkutsk kray (Blam *et al.*, 1999), Khabarovsk kray (Efremov *et al.*, 1999; Mabel forthcoming, 1999). In addition, we have also looked further into the issues of “trust” (Fell forthcoming, 1999) and the “Legislative Framework” (Pappila forthcoming, 1999). All of these reports are or will soon become available on our web page (www.iiasa.ac.at). I will not be able to go through all of the results from these analyses, but just the principle findings. These overall conclusions may be used as a platform to identify how international cooperation can help the Russian forest sector toward sustainable development.

The institutional shortcomings of the forest sector have a nested character, in which different features reinforce one another. Many firms and organizations are trapped in vicious circles creating a kind of institutional deadlock in the sector.

The forest sector is characterized by a notable “personnel union” - something that raises questions about the possibilities for a successful restructuring of the sector. Actors that are assumed to lead the restructuring may, in fact, constitute hurdles for its realization.

Due to a general lack of transparency in the forest sector, political risks are significant. This creates the hesitant behavior among investors.

Transition disorder in the overall economic policies is the main restriction for any kind of efficient operation in the sector.

The basic tension regarding the progress of restructuring is between formal and informal rules and practices. The fragile institutional framework opens up informal ways of interaction inherited from the centralized system.

There is a struggle for rights and powers of redistribution at different levels of the forest sector, which has led to a number of centralizing initiatives.

The transition of the forest sector is not just the creation of markets, but also improvement in the living standards and the establishment of a foundation for sustainable and democratic developments.

Carlsson and Olsson (1998) have assumed that a specific institutional configuration is conducive to a sustainable Russian forest sector and also useful for the overall economy and society. In the following, I will briefly compare this figuration with the results of the case studies, which are very similar for each case study.

Constitutional rules are acknowledged and transparent.

The constitution is a source of uncertainty and confusion and subsequent rules add even more confusion to the picture. Different actors emphasize different qualities of the constitution.

The structure of property rights is settled and well defined, i.e., private actors can acquire property or gain the right to utilize property for their own benefit.

The property rights issue is not settled. It should be pointed out that property rights are not the same as ownership, but rather a matter of establishing clear and transparent relations amongst actors in the forest sector.

Rules and regulations from official authorities are regarded as legitimate and apply equally to similar actors.

Rules and regulations do not apply equally to similar actors and official rules are not regarded as legitimate.

The market determines prices for property and goods.

The price of forest products neither reflects costs of production nor actual demand and barter trade is widespread.

Decision-making regarding collective choice and operational rules is decentralized.

In many respects the forest sector is still heavily centralized and there is no popular participation in decision-making affecting the development of the sector. Old patterns of centralization have been re-institutionalized.

Private investors can realize their returns on their investments.

Political authorities have not yet succeeded in eliminating political risk as a means of achieving economic growth. The investment level in the sector is extremely low, bank contacts are poor and capital flight high.

Rules are enacted aimed at preventing the devastation of natural resources.

The legacy of overuse still governs many activities in the Russian forest sector.

Legitimate authorities take measures against violations of rules.

There is a general lack of third-party solutions in the forest sector. Virtually nothing happens if the rules are not followed.

Based on the results of this bottom-up approach it can be concluded that the institutional configuration is not in place for the sustainable development of the forest sector. In addition, it can be concluded that the transition disorder in the overall macro-economic policies and general politics cause a serious constraint to the development of the institutional framework and the development possibilities of the forest sector. It can also be concluded that without a social and democratic development, there will be serious difficulties in developing the Russian forest sector.

The Overall Transition Process

As concluded above, the possibilities for development of the forest sector is strongly limited by the current reform process. Therefore, it is important to review the status of the reform process because this will set the framework for efficient cooperation with the Russian forest sector.

Stiglitz (1999) has recently published a critical review of the overall Russian transition process. Stiglitz (1999) states “the hardest questions concerning the reform process take us beyond economics, beyond politics, to issues concerning evolution and change in and of society, issues which were neglected earlier [in the reform process]. Economic development and transition is more a matter of institutional transformation than of day-to-day economic management.” Stiglitz (1999) also concludes that the reform process has so far:

- misjudged the political situation. There is little support for the reforms - at least in the form in which they took place in recent years, and
- misjudged the economics by underplaying the importance of social, organizational and informational capital.

He also points out that in stable and developed economies, long multi-stage chains of agency relationships have developed. But merely setting up a market without those extended agencies relationships may result in the collapse of the overall structure of the society.

Hence, Stiglitz (1999) comes to the exact same conclusion, based on his review of the overall transition, as IIASA did through the bottom-up approach of the forest sector.

Stiglitz (1999) strongly argues that a new prescription is required for the overall transition and this new prescription:

- should start with the existing social institutions and try to induce their incremental transformation, and
- central policies should have the objective of creating environments in which evolutionary processes can evolve.

Stiglitz (1999) also points out that in the implementation of this new prescription the Russian people need to take “an active and constructive role in this self-transformation; to a large extent, they need to be in the driver’s seat.” In the IIASA study we have reached the same conclusion (e.g., Carlsson, *et al.*, 1999) and found a lack of this active role in the transformation.

So What and International Cooperation on What?

So far, I have attempted to give a problem identification of the Russian forest sector, which could serve as a platform for discussions on possible strategies for international cooperation with the Russian forest sector. A cooperation, which would have, as the overall objective, to make a contribution to the sustainable development of the forest sector in a broad sense.¹ It can be concluded that the most difficult and demanding task is connected with the overall reform and the general political development and this task rests upon the Russian society. Closely linked to this task is the restructuring of the complete institutional framework, which again rests with the Russian society. There is not much international cooperation that can contribute to these issues and it can also be argued that without a substantial development of these tasks or issues there is no solid basis for any other international cooperation with the Russian forest sector.

So, are there any steps the international community can take in the current situation?

1. I would strongly support international actors who could support committed, honest and open-minded regions to work on the restructuring of the existing institutional framework to create potential development options for the sector. It must be pointed out though that the dominating part of this work must be done by the Russian society.
2. International cooperation could make a major contribution helping building new monitoring systems (all aspects) for the forest sector. In the long term, this will not only gain Russia, but also the international collaborators for later actions.
3. International cooperation can make a major contribution in supporting the development of efficient protection systems for the natural resources.
4. International cooperation can make a major contribution in supporting educational programs in the forest sector. This can, in turn, contribute to the development and restructuring of the institutional framework.

¹ As clearly pointed out by Stiglitz (1999) these strategies must follow a quite different prescription compared to what we have seen so far. This new prescription cannot follow any certain blueprint presently known to the West.

5. International cooperation can make a major contribution in restructuring the existing research and development activities toward more relevant and problem-related activities.
6. Finally, but I hesitate to bring this issue up, international cooperation may help by increasing trade and establishing new enterprises with and in the Russian forest sector. My hesitation is based on the lack of a stable overall transition and efficient institutional framework. Hence, there is a very high risk of failure.

It may sound as if I am blaming the Russian society for the current difficulties in the Russian forest sector. That is not at all the case. First, I think western policies have made a decisive contribution to the current situation. Second, I want to show with my presentation that the restructuring of the Russian forest sector is extremely complex and difficult and deeply linked to the basic conditions within the Russian society. Yasin (1999) correctly points out that we must remember that the only kind of equity a large part of the Russian society knew roughly 10 years ago was poverty. Thus, we need new doctors and new prescriptions in order to turn the Russian forest sector around.

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