

# Systemic Interventions to Promote Institutional Change in the Russian Forest Sector

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## Abstract

*Institutions govern the behavior of all actors in a society. The Russian transition to a market economy is mainly a matter of reshaping society's institutions to make them more conducive to a market efficient behavior. But how can suitable institutional changes be achieved? This article discusses the experiences gained through a series of policy exercises with stakeholders in the Russian regional forest sector. The purpose of the exercises was to initiate a participatory policy process leading to the elaboration of implementable proposals for a new regional forest policy. The prospects of such policy exercises to make an impact are best if the systemic interventionist manages to affiliate with active regional stakeholder groups and if support from the regional authorities and external financial sources can be secured. Such support will establish an effective incentive structure that will contribute to the legitimacy of the policy process. In the current Russian situation there is a lack of organized stakeholder groups with whom to conduct a dialogue.*

**W**ith the disintegration of the Soviet Union in 1991 a fundamental social change was initiated in Russia. This was a very complex process that came to be known as *transition*, a concept that denotes a set of interrelated changes in a large number—if not all—of the existing institutions in society.

Understanding why and how institutions change is a challenge for the social sciences. Based on previous research of the prerequisites for institutional change in the Russian regional forest sector this article examines the potential for achieving or stimulating institutional change in the forest sector through a systemic intervention by an outside observer/analyst, in which *policy exercises* were used as a “tool” for engaging regional forest stakeholders in a participatory policy formulation process.

## Background and Purpose

In a study called “Institutions and the Emergence of Markets—Transition in the Russian Forest Sector” an attempt was made to understand the institutional framework governing the Russian forest sector and the changes in this framework that have taken place since the disintegration of the Soviet Union in 1991. To this end a series of case studies were conducted in eight Russian regions, among them the regions of Murmansk, Karelia, and Arkhangelsk (cf. Figure 1).<sup>2</sup>

While the focus in the initial case studies mainly was on contextual factors determining the rules (*institutions*) governing actors' behavior in the regional forest sector and on the character of those rules, the policy exercises were undertaken with the purpose of assessing the possibilities of initiating participatory policy formulation processes among stakeholders in the Russian regional forest sector.<sup>3</sup>

In this article the experiences gained in the three policy exercises conducted by the International Institute for Applied Systems Analysis (IIASA) in the regions of

## The Russian Federation



**Figure 1.** The Eight Russian Regions Studied in the IIASA Project

Murmansk, Karelia, and Arkhangelsk in the autumn of 2000 and the early spring of 2001 will be reviewed. The feasibility and efficacy of using policy exercises as a tool in a participatory approach to the formulation of Russian regional forest policies will be assessed.

The policy exercises that are discussed here were conducted in three Russian regions characterized by their vast territories, huge natural resource endowments, and sparse populations. Some basic socio-geographical data about the three regions are summarized in Table 1 (data for the two northernmost counties of Sweden have been included for comparison).

Together with the Komi Republic and the Vologda County (*Oblast*) the counties of Murmansk and Arkhangelsk and the Republic of Karelia form the Northern Economic Region of Russia. The total area of the Murmansk and Arkhangelsk Counties and the Republic of Karelia is 728 thousand sq. km, which is about 4.3% of the total Russian territory. The total population of the three regions amounts to more than 3.2 million people, corresponding to a mere 2.2% of Russia's total population. The area has a population density of only 4.4 inhabitants per sq. km. This means that we are looking at a huge and very sparsely populated territory. Just to indicate the order of magnitude we can note that the total area of our three regions is only slightly smaller than that of Belgium, The Netherlands, Germany, and Poland taken together. (In contrast, the total population inhabiting those four countries amounts to slightly more than 146 million, which is roughly the same as the total Russian population size.)

### Assessment Criteria

The primary purpose of this article is to assess the value of policy exercises as a tool in establishing and stimulating or supporting participatory processes among Russian forest stakeholders with the purpose of formulating regional forest poli-

**Table 1.** Population, Territory, Forest lands, and Growing Stock in Murmansk, Karelia, Arkhangelsk, and Northern Sweden, 1998

Indicator	Totals	Percent				
		Total	Murmansk*	Karelia*	Arkhangelsk*	Northern Sweden**
Population (1,000 inh.)	3,813.5	100	27	20	40	13
Total area (mln. ha)	106.9	100	14	16	55	15
Forest fund (mln. ha)	60.8	100	16	24	49	11
Forest land (mln. ha)	43.4	100	12	21	52	15
Growing stock (mln. m <sup>3</sup> )	4,187.3	100	5	22	58	15

\*Source: Data for 1998 from Komistat, 2000.

\*\*Source: Data for northern Sweden (the counties of Norrbotten and Västerbotten) in the year 2000 were obtained from Statistics Sweden (<http://www.regionfakta.com> [retrieved on April 24, 2003]).

cies. The secondary purpose of the article is to assess in what respect the experiences gained by IIASA through the policy exercise workshops conducted in Murmansk, Karelia, and Arkhangelsk could contribute to our understanding of certain important issues related to participatory policy processes.

A number of criteria were deduced for assessing the two main issues focused in our study:

**Issue A:** *What are the specific prerequisites for the successful establishment of a policy process in the Russian regional forest sector? To what extent are such prerequisites in place in Russia today?*

The following assessment criteria might be deduced under Issue A:

- [A:a] the existence of a problem must be recognized and acknowledged by a group of individuals;
- [A:b] the problem must be of such a kind that group members believe that some action on their part is desired or required to solve the problem;
- [A:c] the society in which these individuals live must at least allow, but preferably also stimulate and support, their action.

**Issue B:** *To what extent can the necessary prerequisites for a policy process in the Russian regional forest sector be created, imposed or “fostered” from “the outside”?*

The following assessment criteria might be deduced under Issue B:

- [B:a] the analysis of the situation made by the “outside observer” must be found relevant and accurate by the Russian regional forest stakeholders;
- [B:b] the “outside observer” must seek affiliation with a regional actor (public authority, business association, interest group, political party, nongovernmental organization [NGO], etc.) with an interest in establishing the proposed policy process;
- [B:c] the initiative group formed by the “outside observer” and the selected regional actor must establish its legitimacy as a new actor—a *systemic interventionist*—among forest stakeholders, public authorities and citizens of the region;
- [B:d] the policy process suggested by the systemic interventionist must be regarded as legitimate by forest stakeholders, public authorities and citizens of the region; and
- [B:e] the systemic interventionist must make it plausible that the suggested outcome of the policy process will make a difference; that realistic possibilities exist or can be created for implementing the policy suggestions that are elaborated.

On the basis of the assessment of the policy exercises in the three regions some conclusions might be ventured concerning the general prerequisites for participatory policy processes and for generating such processes.

IIASA's most immediate and straightforward objective with organizing policy exercise workshops in Murmansk, Karelia, and Arkhangelsk is simple enough to assess. The question is: Did IIASA's policy exercises generate long-term, self-sustaining, participatory policy formulation processes in any one of the three regions? If so, how come? If not, why? The design and performance of the policy exercise workshops that IIASA conducted in Murmansk, Karelia, and Arkhangelsk will be discussed in subsequent sections of this article. But before coming to this assessment a short review will be made of recent theoretical advances concerning the Russian transition, institutional change, and participatory policy processes.

### **Some Theoretical Concepts and Empirical Facts**

While one can easily find reasons to doubt the intention of the Russian political leadership to really work for Russia's transformation to a Western-type democracy, there is more to show for the view that Russia has actually abandoned its former economic system (the command economy) and is currently changing and adapting to the rules and laws governing a market economy. The window of opportunity opened by Gorbachev's *perestroika* policy was soon taken advantage of by Yeltsin and his economic advisors. With a very active support from Western (mostly United States) financial aid and consultants the group of reformers surrounding Yeltsin managed to topple the Soviet Union and establish the Russian Federation as a liberal market oriented democracy (cf., for instance, Wedel, 1998). The "shock therapy," as the reformers' program was soon to be labeled by its critics, entailed rapid privatization of state enterprises, price liberalization, and the introduction of so-called hard budget constraints for all enterprises. In certain respects the results of the reform measures taken were devastating. Output volumes in the Russian industry fell dramatically; the financial system was entirely disrupted, producing problems with serious repercussions for enterprises' investments and the cash-flow routines of all economic actors (leading to the unlawful wage and payment arrear crises of the first half of the 1990s).

Apart from the social distress that privatization and the shock therapy measures caused among broad layers of the population—turning many citizens against everything related to markets and politics, which people perceived as corruption (see, e.g., Pomer, 2001)—it also produced a whole new informal economic system in which many rules governing normal market behavior were set aside. The theoretical underpinning of this system, which has become known as the *virtual economy*, was made by Clifford Gaddy and Barry W. Ickes, two American scholars who picked up and elaborated on a definition of the post-Soviet Russian economy suggested by an economic committee of the Federal Duma (Gaddy & Ickes, 1998a).<sup>4</sup>

The virtual economy allows enterprises to insulate themselves from market competition by resorting to barter trade with other companies operating according to the same rules. Commodities are exchanged between enterprises operating in the virtual economy at artificially high nominal prices (negotiated between the trading partners themselves), a procedure that inflates trade volumes and ultimately leads to a pretence that the Russian economy is much larger than it actually is. The cash such an economy nevertheless needs (for paying workers' salaries, etc.) is acquired through sales to Russia's hard currency earning natural resource industries. In

effect, companies operating in the virtual economy managed to avoid the consequences of the early reformers' most cherished shock therapy measures, price liberalization and the introduction of hard budget constraints. And those consequences would most likely have been disastrous, immediately displaying the market insufficiency of many existing enterprises in the new Russia. In this situation the behavior of the new enterprise owners and their managers must be seen as entirely rational in that they managed (at least temporarily) to avoid bankruptcy by moving into the virtual economy.

The basic problem with the virtual economy is that its operation distorts resource allocation; it prevents resources from finding their most efficient use. Consumption patterns that result from artificial prices are not capable of correctly informing producers about efficient production adjustments. Therefore, investments in the virtual economy are likely to be suboptimal from a market economic point of view. In this sense the virtual economy is inefficient and contributes to a continued waste of resources in Russia. Some observers also fear that the virtual economy, which has actually allowed many features of the old Soviet system to survive, is becoming that deeply entrenched in the new Russian economy that it will severely hamper, or even entirely prevent, the further development of the Russian economy toward a full-fledged market system.

It should, however, be clearly acknowledged that the shock therapy reforms did in fact produce some intended and good effects, and arguably reformers did not have all that much scope for alternative actions (Tompson, 2002). Privatization eventually did create *some* good owners with a genuine interest in improving corporate governance (Sutlea, 1998).<sup>5</sup> It certainly triggered the establishment of a large number of new (mostly small) enterprises that were forced to operate and survive in the new emerging market segment of the Russian economy. This process engaged an increasing number of Russian citizens, who were thereby pulled into the new market system and forced to learn to live by the new rules. The reforms contributed to the introduction of an entirely new incentive structure affecting all actors in the emerging market segment of the economy. The possibility of earning profits became the basic driving force governing the behavior of the new business owners and enterprise managers.

The policy measures introduced through the reforms in the early Russian transition phase should be regarded as efforts to change earlier prevailing rules-in-use. Thus, transition entails institutional change. Previous study has produced insights about existing institutional problems hampering the development of a modern Russian forest sector (cf., for instance, Carlsson, Lundgren, & Olsson, 2001). It was found that the rules-in-use constituting the virtual economy could be regarded as the *dominant institutional set-up* in the present-day Russian economy.<sup>6</sup> Institutional change in Russia either means spontaneous alterations of existing rules governing the behavior of economic actors or the design and installation of new rules. The task for Russian policymakers is to stimulate the establishment of rules that will foster an efficient business behavior on the part of actors in the emerging Russian market economy.

The existing property rights regulation is a fundamental institution in every conceivable economic system, including the virtual economy. In Russia the forest property rights regulation stipulates that all forests in the country are owned by the

**Table 2.** Assessing the Institutions in the Russian Regional Forest Sector

Evaluation Criteria	Criteria vs. Reality
<ul style="list-style-type: none"> <li>• Constitutional rules are acknowledged and transparent.</li> <li>• The structure of property rights is settled and well defined, (i.e., private actors can acquire property or get the right to utilize property for their own benefit).</li> <li>• Rules and regulations from official authorities are regarded as legitimate and apply equally to similar actors.</li> <li>• The market decides prices of property and goods, and costs should reflect the real costs.</li> <li>• Decision-making regarding collective choice and operational rules is decentralized.</li> <li>• Private investors can realize the returns on their investments.</li> <li>• Rules are enacted to prevent the devastation of natural resources.</li> <li>• Legitimate authorities take measures against violations of rules.</li> </ul>	<p><i>Some examples to illustrate malfunctions in the Russian forest sector:</i></p> <ul style="list-style-type: none"> <li>• Many companies are only privatized in name and ownership has often remained unclear.</li> <li>• Effective bankruptcy and arbitrage procedures are lacking.</li> <li>• Worthless company shares are traded for tax deficits and other public dues.</li> <li>• A significant increase of non-market transactions, such as bartering.</li> <li>• Even though rules are enacted to prevent devastation of forest lands, authorities lack the means to monitor and implement them.</li> <li>• Pricing of timber is a farce.</li> <li>• Property rights are ill defined, rules collide.</li> <li>• Investment is insignificant.</li> </ul>

Source: Adapted from Carlsson, Lundgren, & Olsson (2001).

state.<sup>7</sup> But ownership is only one type of property right, albeit the most advanced in that it alone allows “alienation”—the transfer of ownership to a new owner. Other property rights rules stipulating rights of access of varying scope for different agents might in fact be even more important and interesting to consider (Ostrom & Schlager, 1996). In the Russian forest sector, such rules seem a lot more fuzzy and insecure than the basic right of ownership.

To assess the institutional problems hampering developments in the Russian regional forest sector some kind of “baseline criteria” are needed. In our previous studies such criteria were derived from textbook requirements for a liberal market economy (cf. Carlsson et al., 2001). Through surveys performed with 221 forest enterprise managers in eight Russian regions a number of deviations from the behavior implied in the baseline criteria were identified. Examples of such deviations are given in Table 2.

Actors in the Russian forest sector realize that changes in currently existing rules-in-use leading to an inefficient business behavior are necessary. The problem is how to reach decisions about suitable and feasible measures for improving on this problem situation.

The low level of social trust is a major obstacle for institutional change in today’s Russia. This in combination with the existing weak state power<sup>8</sup> raises serious obstacles for achieving much-needed institutional changes in various sectors of the Russian society. Engaging citizens in the elaboration of policy proposals (including proposals for institutional change) would surely improve possibilities of modifying the institutional framework and making it more conducive to an efficiently functioning market economy. Such citizen participation in the elaboration of new policies might be channeled through civic organizations, a mode of operation that would also entail improvements in the functioning of democracy. But Russia is at a disadvantage in this respect as well. *Civil society* is underdeveloped and comparatively few citizens are enrolled in any civic organizations (Howard, 2002). An

important question in this context concerns the possibilities to invigorate civil society and enhance social trust, the two interacting features that can be seen as fundamentally defining a society's *social capital*. As is suggested by Raiser (1997, p. 11): "governments can attempt to influence positively the interaction between formal and informal institutions by engaging civil society in a policy dialogue. However, this will depend on the given level of trust in government and its formal institutions. When social capital is low, the government's best chance is to enhance its credibility through signaling reform commitment and hoping that real economic improvements will in time feed back into a higher level of social trust."

Thus, a crucial task for the state in a transition country would be to try to gain social trust by modifying incentive structures so that actors move toward changing the rules governing their behavior in a direction that will improve economic efficiency. Raiser, Haerpfer, Nowotny, and Wallace (2001) have presented some empirical evidence indicating that changes in the social capital of transition countries are indeed taking place. Some evidence was found that trust in public institutions is positively correlated with "civic participation." They argue that public policies aimed at reducing the high income inequalities that have emerged during the transition could be important for increasing trust in public institutions and they suggest that governments might seek to build trust in such institutions "by offering a dialogue to members of the public and consulting over important policy changes." They conclude: "Low trust in public institutions is one of the predicaments politics in transition countries are faced with. But it is a predicament politics can deal with at least in many important respects" (p. 27).

The management of natural resources has always been a high-priority area for government control. The operative management activities have often been entrusted special government agencies—in the case of forests this agency was typically the state forest service (variously named in different countries). Governments have kept a decisive say in the management of important natural resources even if they have not always been the lawful owner of the resource. The degree of popular influence over the management and use of such resources would then be determined by the degree to which people are able to influence political processes, that is, it would be decided by the workings of democracy. During the last decade or so governments have been meeting increasing difficulties in their natural resource management, at least this seems to be the case for forest resources. A fundamental reason for these difficulties is of course that a number of independent actors (state authorities, government agencies, and enterprises—both state-owned and private, civic organizations, private citizens) are engaged in various ways in the actual management and use of a nation's forests. These actors have (at least partly) different objectives and different cultures of natural resource utilization causing conflicts and (often) an inefficient and unsustainable resource use.<sup>9</sup>

These developments have made people engaged in forest sector issues—forest managers, users, and researchers—start thinking about how to improve forest management performance and avoid conflicts that are detrimental for the efficiency and sustainability of forest use. Suggestions for improvements have often included calls for an increased pluralism in forest management<sup>10</sup> and collaborative or participatory approaches for engaging stakeholders in the development of efficient forest policies have frequently been suggested (see, e.g., Buchy & Hoverman, 2000;

Burley, Seppälä, El-Lakany, Sayer, & Krott, 2001; Carter, 1999; Kennedy, Thomas, & Glueck, 2001; Warburton, 1997).

Since transition did not often bring about a change of (or in) the people in charge of important social functions, such as, in our case, Russian forest managers and forest users, reform measures proposed by such circles are sure to be viewed with suspicion not only by the general public, but also by the new emerging group of business managers with a modern outlook and (often Western) economic training. Efforts to reform the Russian forest policy through participatory processes engaging broad stakeholder groups (business managers, politicians, citizen initiative groups, etc.) should therefore be both welcome for its democratic content and efficient in the sense that it would stimulate profound institutional changes.

Methodologically the event reported in the present article—an externally initiated activity aiming at influencing the performance of an economic sector in a region of a foreign country—might be characterized as a *systemic intervention* with the purpose of improving on an existing problem situation. The approach is compatible with (and inspired by) modern systems thinking, especially recent developments in critical systems thinking (CST) as elaborated, for instance, in Flood and Jackson (1991) and Midgley (2000).<sup>11</sup> However, while being inspired by, and in fact using, various aspects of these methodological approaches, the purpose here is *not* to assess the value of various methods of systemic intervention. It is rather to assess the efficacy of the chosen approach—the use of policy exercises—to see if this approach really can contribute to intended and much-needed changes in the institutional framework.

In its previous research, IIASA studied the rules-in-use—or institutions—governing the behavior of actors in the Russian regional forest sector. More specifically, the focus was on actors' behavior on the *regional timber procurement arena*, extending from the management of forest lands at one end of the spectrum, via timber harvesting to wood utilization at the other end.<sup>12</sup> The study was inspired by an approach elaborated over many years by Professor Elinor Ostrom of Indiana University, Bloomington, and her associates around the world. Their Institutional Analysis and Development (IAD) framework constitutes a general research design for the study of natural resource management.<sup>13</sup> The framework attributes great importance to factors relating to (a) the resource itself, (b) the society, and (c) the institutions governing resource use. In IIASA's study of the Russian regional forest sector the structural configuration defined through these three factor groups is assumed to condition actors' behavior on the regional timber procurement arena. Information about the situation in the eight Russian regions that were part of IIASA's study was obtained through official statistical sources, various existing scholarly analyses, and the project's own surveys among regional forest enterprise managers in the respective regions. The information thus obtained was analyzed and the results reported in a series of case studies published by IIASA.<sup>14</sup>

The natural conditions affecting the forest resources differ significantly between the three regions that are discussed here. While Karelia and Arkhangelsk are forest rich regions with long traditions of large-scale forestry and forest utilization, Murmansk has hardly any forests at all and the forest sector means very little to the regional economy.<sup>15</sup>



The virtual economy dictates a specific behavior on the part of the actors of the system, a behavior that in many respects drastically deviates from what is typical in a well-functioning market system. In comparison with the situation in a market system, managers of companies operating in the virtual economy will take very strange (but, in the virtual economy context, rational) decisions concerning, for instance,

- company personnel: not laying off labor despite decreased demand for the company's products;
- investments: favoring investments in so-called "relational capital" at the expense of investments in modern production technology and management competence;
- product development: not seeking to develop new products despite decreasing demand for existing products and/or signs of growing demand for products that the company would be able to produce;
- marketing and sales: not exploring the potential benefits of marketing nor striving to find new (cash paying) customers;
- business contracts with suppliers and customers: trusting only personal relations, always expecting, and trying to safeguard against, breach of agreements;
- relations with public authorities: seeking to negotiate favors and alternative ways of fulfilling company obligations toward the state, like paying taxes in kind rather than in cash, thereby making public affairs less transparent.

Examples of this type of behavior were clearly to be seen in the material gathered through the survey among regional forest sector decision makers performed within the previous IIASA study.

### **The Policy Exercise Workshops in Murmansk, Karelia, and Arkhangelsk**

The conceptualization of the policy exercises performed in Murmansk, Karelia, and Arkhangelsk is a result of IIASA's previous experiences in the field and reflections upon recent accounts of participatory policy formulation approaches that have been attempted elsewhere.

A policy exercise can be seen as a tool for disseminating the results of analyses of problem situations to problem stakeholders, that is, to people and organizations who are affected by the results of the research and for whom it should be of most concern. Such exercises might also be used to open and invigorate a *discussion* and a *continuous dialogue* with the problem stakeholders about the results of the research and its policy implications. Thus, the policy exercise can be seen as a tool that might be used in a participatory policy formulation process.

The objectives of the policy exercise, as communicated to the problem stakeholders, were (1) to foster exchange of knowledge and information and mutual learning through effective face-to-face communication (confrontation), (2) to syn-

thesize policy-relevant and useful information through the integration of disparate sets of formal and informal knowledge, and (3) to identify policies for alternative and plausible futures. A policy exercise might be a relatively long event, lasting for months, even years. The policy analyst's engagement in such a process should be limited to occasional well-defined interventions in the form of policy exercise *workshops*.

Between June 2000 and March 2001 the IIASA group of analysts conducted four policy exercise workshops with regional forest stakeholders in Tomsk (a pilot study), Murmansk, Karelia, and Arkhangelsk.<sup>16</sup> In each case local organizers, mainly the same persons who had served as project collaborators in the previous case studies, handled the practical arrangements. The local organizers acted on general instructions provided by the IIASA group. The instructions envisaged an ideal workshop format with 25 to 50 participants, a program starting with introductory plenary presentations followed by group discussions chaired by local group facilitators. Selecting a representative group of forest stakeholders to participate and identifying suitable candidates to serve as working group facilitators were seen as the most pressing problems for the local organizers to deal with. Seeking sanction and support for the policy exercise workshops from the regional administrations and forest sector authorities was also seen as an important task for the local organizer.<sup>17</sup>

The workshops attracted 19 regional participants in Murmansk, 64 in Karelia, and 55 in Arkhangelsk. However, the number of participants taking an active part in the group sessions was significantly lower, 15, 40, and 25, respectively. The composition of the participant groups was also biased to some extent.

IIASA's analysis of the institutional problems hampering the regional forest sector in the respective regions was presented during the introductory plenary session in each one of the three workshops. Russian researchers, forest officials, and NGO representatives also gave short presentations during these plenary sessions. Discussions in the working groups (there were four such groups in the Karelian workshop, two in Murmansk and Arkhangelsk) were lively and covered a large number of issues. In all three regions the workshop deliberations resulted in some kind of final document, the contents of which was subsequently brought to the attention of the respective regional administrations. The local/regional mass media also paid some attention to the workshop deliberations. The coverage was best of the Karelian workshop (including several newspaper articles and a regional TV broadcast), while in Arkhangelsk the workshop was only briefly noted in a university newsletter and a short TV news broadcast.

The presentations made by IIASA in the workshop plenary sessions were intended as food for discussion in the subsequent group sessions. Each one of the reports from the previous IIASA case studies of the forest sector institutions in eight Russian regions were rounded off with a number of conclusions about the current situation and recommendations on how to achieve changes that would make the forest sector function in a more market efficient way. Not unexpectedly, it was found that a large number of functional deficiencies among the forest enterprises were dependent on problems at various levels in society (cf. Carlsson et al., 2001). Some problems typically belong to the *constitutional level* (e.g., ambiguities concerning property rights, contradictions between the constitution and the forest

**Table 3.** Overview of Measures Recommended in IIASA's Previous Case Studies of the Institutional Problems Hampering the Russian Regional Forest Sector

At the Constitutional Level
<ul style="list-style-type: none"> <li>◦ All ambiguities concerning property rights should be sorted out.</li> <li>◦ Collisions between the constitution and subsequent laws must be eliminated.</li> <li>◦ Different types of ownership should be allowed.</li> <li>◦ A number of political problems e.g., the role of the parliament versus the president, as well as many macro-economic questions, must be solved in order to establish a solid foundation for a vital forest sector.</li> </ul>
At the Collective Choice Level
<ul style="list-style-type: none"> <li>◦ Federal and regional policy programs that are in line with market economic principles should be worked out. No political, administrative coordination of business activities.</li> <li>◦ A thorough taxation reform should be enacted. The whole system of taxes and fees, not only the number of taxation rules, should be simplified.</li> <li>◦ Politicians and bureaucrats should withdraw from direct involvement in individual enterprises.</li> <li>◦ Banks and other credit institutes should encourage entrepreneurship, exports, and the establishment of joint ventures with foreign companies.</li> <li>◦ Forest enterprises should create their own independent branch organizations.</li> <li>◦ The infusion of cash to the forest sector from "prosperous" state monopolies should be stopped.</li> <li>◦ The bankruptcy system and the arbitration courts must be made more efficient.</li> <li>◦ Education and training for people to learn new tasks and technologies must be developed; democratic citizenship should be encouraged.</li> <li>◦ All democratic means should be utilized to create law and order.</li> </ul>
At the Operational/Enterprise Level
<ul style="list-style-type: none"> <li>◦ Learn from others; there are a number of good examples.</li> <li>◦ Increased efforts at product development.</li> <li>◦ Focus more on the economics and less on the engineering.</li> <li>◦ Educate and develop the workforce, e.g., in English, modern business accounting, quality management, etc.</li> <li>◦ Reward good behavior, work ethics should be held in high esteem, business leaders should act as moral vanguards.</li> <li>◦ For larger industries, vertical integration <i>might</i> prove profitable.</li> <li>◦ The coordination and integration process must be the result of the companies' <i>own</i> decisions. It cannot be implemented if the old political structure intervenes in the forest sector.</li> </ul>

code), some problems must be handled on the *collective choice level* (e.g., taxation reforms, improved bankruptcy legislation, policy programs should be elaborated, entrepreneurship should be encouraged, education and training of personnel should be organized), while others could be attacked and solved by the actors in the forest sector themselves (these are problems at the *operational choice level*, such as improved product development, enterprise management should focus on economics rather than engineering, the education of the workforce should be improved, good market behavior rewarded).

A number of recommendations could be seen as generally valid for all eight regions taking part in the case study project. Table 3 gives an overview of these general recommendations. In addition to these general recommendations more specific measures were also suggested in the reports on individual regions taking part in IIASA's previous study. (See Olsson, 2004a, for a more detailed account of these recommendations.)

### Assessing Performance and Outcome

Which were, in retrospect, the most central parameters determining the outcome of IIASA's policy exercises in Murmansk, Karelia, and Arkhangelsk? A number of

factors that pertinently influenced the performance and outcome of the exercises can be discerned. Already during the policy exercise workshops it was soon evident that the format chosen for these meetings actually worked more or less as intended. It even seems that the kind of informal discussions, for which the policy exercise offered a venue, was in fact similar to what many participants had previously experienced in their ordinary work. Therefore, it can be concluded that the factors of greatest importance for the performance and outcome of the policy exercises primarily pertained to the preparatory phase and the general prerequisites for the arrangements as well as the follow-up activities (the support that the initiated activities received in the region), rather than to the format and facilitation of the actual workshops.

The discussion in this section is divided into four parts, each one focusing on an issue of importance for the outcome of the policy exercises. (By inserting references to the earlier stated criteria—[A:a–c], and [B:a–e]—attention is drawn to a number of features of relevance for the assessment.)

### ***Pertinent Topics in All Workshop Discussions***

The discussions in the three policy exercise workshops dealt with several inter-linked issues and the way these issues were approached revealed participants' awareness of the existence of an institutional deadlock problem. While discussions no doubt were stimulated by the results of IIASA's analyses presented in the initial plenary sessions [B:a], the impression nevertheless was that many workshop participants were aware of the difficulties caused by the strong interdependences characterizing the institutional framework governing actors' behavior in the forest sector [A:a].

Several topics discussed in the working groups were common to all three regions [A:a]. This fact alone indicates that the forest sector in Russia is indeed facing specific problems that need to be addressed in order to make the sector more adapted to the new socio-economic situation. The following basic problem was seen as underlying most other problems that the forest sector is currently facing.

*The Regional Forest Sector Is Not Competitive so the Main Task Must Be to Improve Its Economic Efficiency*—The last 10 years or so, when the Russian forest sector has been increasingly exposed to market competition, have cruelly but clearly revealed the serious inefficiency that characterizes the operations in many (perhaps most) forest sector enterprises. Only when market forces started to exert a decisive influence by showing which products were in demand and which were not, enterprise managers were forced to consider alternative ways of allocating resources (investments, inputs) and to strive for maximum productivity. As it turned out the foreign demand for much of the output of Russian forest enterprises was very low (except for raw timber). The new situation has taught actors in the sector that significant gains could be made by improving efficiency and product quality in the forest sector. This would make the sector contribute much more than it does today to the country's welfare. The problem is how to achieve such improvements.

While the efficiency problem seems to have been duly recognized by actors in the forest sector of all three regions—and the significance of this insight should not

be underestimated [A:a]—there was more disagreement about which measures might help improve the efficiency situation. A number of suggestions were made during the workshop deliberations.

*Existing Capital in the Regional Forest Sector Is Largely Obsolete. There is a Huge Need for Investments, Both in Equipment and in Education—*Obsolete capital and the consequent need for investments is actually nothing that characterizes only the transition period. Already during the late Soviet era capital maintenance and investments were entirely inadequate. Thus, this is a problem that Russian enterprise managers are already quite familiar with [A:a, A:b]. In the 1990s, meeting competition from foreign well-equipped and efficient producers has only aggravated the problem. Since Russian enterprise managers, like their colleagues in the Soviet Union, rather tend to be engineers than economists the problem of improving technology and the organization of production is something that they know a great deal about (which, incidentally, probably is why the issue of investments was considered so important in the workshop discussions). The difficulty with increasing investments is also readily understood: lack of financial resources [A:a]. Thus, this problem is intimately connected to the problem of an insufficient supply of risk capital. However, discussions among the forest stakeholders concerning the investment problem did not so much focus on the problematic relations with the banking sector. It rather dealt with the need for a regional investment policy, that is, a political initiative to elaborate a policy that might attract foreign investors [A:b, A:c].

The need for improvements of forest related education was also mentioned as a problem that seriously hampered a further development of the forest sector [A:a]. (For example, the efficiency of timber harvesting is negatively affected by a lack of competent drivers of modern harvesters.) There seemed to be a growing awareness among the forest enterprise managers in our three regions that they might have to get engaged themselves in the solution of the education/training problem [A:b]. Traditionally they would have looked upon educational activities as belonging entirely to the public sphere.

*Forest Legislation is Inconsistent and to Some Extent Inadequate. Consistent Regional Rules (e.g., Rules Regulating Forest Harvesting) Should Therefore be Elaborated—*Regional forest stakeholders in Murmansk, Karelia, and Arkhangelsk were also highly conscious of the fact that the current forest legislation was deficient in several respects [A:a]. Not only do regional regulations often contradict the Federal Forest Code, but there are also many inconsistencies in the rules regulating harvesting and forest utilization. The fact that local characteristics will necessarily affect forest management and forest utilization makes it essential to elaborate special local/regional rules taking local/regional specifics into account. The rules prohibiting the use of modern harvesting methods (e.g., more selective cutting and less clear cutting) were considered an especially annoying anomaly in the current forest legislation.

*Soviet Forest Management and Forest Utilization Produced a Heavy Legacy in the Form of Environmental Degradation. The Task for a Future Market Efficient Forest Sector Operation Is to Minimize Negative Environmental Consequences of Forest Utilization—*The extensive clear cutting of large areas along transport routes that was practiced during Soviet

times (and to a significant extent still today) has created tremendous environmental disturbances in the forests of all our three regions. The work of environmental NGOs has brought the serious forest degradation problems to the attention of the general public both in Russia and abroad. The fact that environmental degradation today is of much concern to many people (who are also voters and consumers) has forced forest enterprises to prove to their customers that the products they sell have been produced in an environmentally sound way [A:a]. This has made forest certification an increasingly important issue for forest enterprises in many parts of the world. Today certification is a hotly debated issue also in Russia. The discussions during the workshops indicated a growing awareness and acceptance on the part of all regional forest stakeholders of the need for forest certification [A:b]. There was a noticeable tension between participants representing the forest industry and representatives of environmental NGOs. But it could be clearly seen that the former group was being increasingly forced to listen to the views of the environmentalists. (The discussion about the harvesting moratorium in Karelian old-growth forests demonstrated this fact.)

*The Fact That a Substantial Share of the Russian Forest Enterprises Operates Within the So-Called Virtual Economy Is a Problem for the Further Development Toward an Efficient Market System. The Task Is to Push the Regional Forest Sector on to the Road Toward the Establishment of a Market Efficient Institutional Set-Up*—The institutional set-up defining the so-called virtual economy conditions the behavior of many actors in the Russian timber procurement arena (as in other sectors of the Russian society). As has already been indicated, this institutional set-up dictates a behavior that is highly inefficient from a market economic point of view. As might be expected, the realities behind the notion of the virtual economy are all too familiar to Russian citizens and they have a more or less well-developed knowledge of the workings of the system [A:a, B:a]. Since it is a system perpetuating many of the nonmarket traits of the old Soviet economy it is not altogether obvious to everyone which features of the system are good and which are bad for the possibility to enhance enterprises' market efficiency. The most difficult issue concerns the sequencing of policy measures that need to be taken. No immediate conclusions were reached during the discussions. However, the issue of how to escape the grip of the virtual economy should be seen as related to another common topic that was discussed in all three regions, namely, the lack of coordination between various actors in the regional forest sector.

*The Regional Forest Sector Lacks Coordination. There Is a Need for Some Kind of a Branch Organization. A Regional Forest Policy Should Be Elaborated*—Different workshop participants had varying reasons for bringing up the issue of lacking coordination in the forest sector [A:a]. Some saw the lack of coordination simply as a lamentable result of the breakdown of the Soviet command economy and advocated the establishment of a new form of (central) coordination, with or without state interference, but with the authority to direct activities among the regional forest enterprises. This would mainly provide an answer to the difficulties caused by lack of information (and/or lack of management competence) in individual enterprises. Other participants rather saw the need for better coordination between actors in

the regional forest sector as a prerequisite for the possibility to elaborate a number of interdependent policy measures that would have to be taken simultaneously in order to achieve desired improvements in the workings of the sector [B:a]. These stakeholders also meant that coordination has to be developed from below in a bottom-up approach, where various forest stakeholders voluntarily agree to form certain structures (from informal working groups to formal branch organizations) to help identify and further develop their interests [A:b, B:a]. Workshop participants in all three of our regions advocated the formation of some kind of branch organization. It was also suggested that one way of approaching the issue of coordination was to try to establish a process for the elaboration of a regional forest policy, in which the goals for the future development of the sector should be set down and means to achieve these goals should be identified [A:a].

*Actors in the Russian Forest Sector Lack Adequate Information About Domestic and International Forest Markets*—Several of the topics discussed in the three workshops were related in the sense that they ultimately have to do with the lack (or inaccessibility) of information about the forest sector (both in Russia and abroad) [A:a]. This is a legacy from Soviet times when information necessary for running the forest sector was available and of use only to certain actors, primarily those working with economic planning. The problem has both a technical side (how to compile or find existing relevant information and make it accessible to users) and a competence side (how to make actors for whom such information is of use—typically enterprise managers—realize their needs and develop the skills to use it).

Suggestions for various ways to come to grips with the information problem were discussed in the three regions [A:b]. In Karelia, for instance, stakeholders called for a comprehensive forest inventory (a *cadastre*) through which not only timber volumes would be estimated but also the minimum price (stumpage fee) that the owner (the state) should ask for standing timber. (Such a price calculation is actually what the market is good at doing.) In Murmansk the same kind of information problem made workshop participants suggest the establishment of a regional information center for the forest sector [A:b]. These suggestions testify to the fact that the Russian regional timber markets still are severely malfunctioning or that actors' do not have the competence to access and interpret existing market information.

### **Contextual and Organizational Factors**

Some characteristics of the regional economy of which the forest sector is a part as well as certain qualities of the organization of the policy exercises are likely to influence the performance and outcome of the activity. Five features of relevance in this context will be discussed here.

*1. The Significance of the Forest Sector for the Regional Economy*—As might be expected, conducting a policy exercise in a region where the forest sector means much for the regional economy, where the forest sector is large and contributes a substantial share to the regional production, is different from doing it in a region where the forest sector means little for the regional economy [A:c]. The (institutional) prob-

lems facing the sector may well be similar, but the importance of finding solutions to these problems varies.

2. *Availability of External Funding and Support for the Policy Exercise*—IIASA's initiative to organize policy exercises was at first met with skepticism by Russian regional administration representatives and forest officials. But it was eventually found that there could be no harm in allowing this kind of experiment [A:c].

While this was reason enough for motivating a one-time event, a policy exercise workshop, it was not, as it turned out, enough to motivate a full-fledged policy exercise, which might be a fairly long-term affair, sometimes extending over several years. To get acceptance from regional administrations and forest authorities for a longer-term policy exercise process it is likely that substantial (external) funding (to be released when the recipient met certain criteria) would have been necessary [A:c, B:d, B:e].

3. *Accuracy of IIASA's Previous Analysis (Presented in the Case Study Reports)*—Russian versions of the previous IIASA case study reports were made available in advance to all participants in the policy exercise workshops. If participants had not found the analyses and conclusions in those reports reasonably interesting and at least partly valid, it would undoubtedly have discouraged many stakeholders from participating and possibly prevented IIASA from ever engaging in the policy exercise project. It was often stated by the Russian participants that the kind of "view from the outside" that the IIASA case study reports offered might be of great value for developing the regional forest sector in the new market context [B:a].

4. *Sanction from the Regional Administration*—In the existing political context it seemed necessary for IIASA to strive for official sanction for the policy exercises from the regional administrations, at least for exercises in those regions where the forest sector occupies an important position in the regional economy [B:b]. In the transition the forest management system previously in operation was largely preserved in its original shape. Many of the people working in the forest utilization sphere—those in public authorities as well as in enterprises—also remained in their previous positions (at least initially). Organizations may have been restructured, sometimes moved into a different ministerial structure, and so on, but by and large they have tended to keep their duties as well as their personnel. This means that a significant degree of path dependence characterizes the administration of forest utilization today. In regions where the forest sector is particularly important for the regional economy (in our case Karelia and Arkhangelsk) the regional administration wants to guard its position and make sure that it is well informed about developments. As executive power the administrations are also able to determine much of the sector's functioning (through granting certain financial support, coordination with other sectors in the economy, legislative initiative, state orders, etc.). In short, organizing a successful policy exercise without at least a passive support from the regional administration might not even be possible [B:c].

5. *Sanction and Support from Forest Authorities*—The forest management authority in Russia is an old and well-established organization. The situation is similar, even



if not so pronounced, for the public authorities in charge of forest industrial activities. In these organizations you find the people in Russia who have the best knowledge about the current situation in the country's forests and who are very engaged in their future well-being. Even if it can be expected that organizational changes sooner or later will affect the structure of the forest management and forest industrial authorities, it would be strange, even foolish, not to strive for the support from the individuals working in these organizations when making an external systemic intervention with the aim of improving regional forest policies [B:b, B:c, B:d].

### ***Issues of Legitimacy and Trust***

Key issues in securing the legitimacy of the external interventionist's initiative to conduct policy exercises with Russian forest stakeholders have to do with the (1) selection of participants, (2) their competence, and (3) their conduct.

*1. Selection of Participants: Methods and Outcomes*—The *selection of participants* should ideally be affected by many considerations, such as participants' membership in relevant interest groups, their experience and knowledge of forest sector problems, their innovative ideas about how the current problems might be solved, and so on.

In practice, however, the selection of participants to IIASA's policy exercise workshops was to a certain extent arbitrary, and dependent upon the endorsement that the workshop was given by the regional authorities and the "forest establishment" [B:b]. Arbitrary in the sense that it was largely dependent upon the local organizer's relation to the forest sector officials in the regional administrations (including the regional forest management), to people working in the forest industry as well as to people doing forest-related research. Official endorsement of the workshops was most pronounced in regions where the forest sector occupies an important role in the regional economy, which is the case in Arkhangelsk and, first of all, in Karelia. Official endorsement created an interest in the event that was clearly reflected in the number of participants representing the regional administration and forest management [B:b, B:c]. Karelia is the prime example of this profile. Here official endorsement of IIASA's initiative was significant. In Arkhangelsk, the initiative was also officially endorsed, but for some (unknown) reason this endorsement was not so clearly reflected in the number of participants representing public authorities. Here, as was reflected in the composition of the workshop participant group, the sanction for IIASA's initiative was instead stronger from people working with forest-related research. In Murmansk, a majority of the participants represented operative units in the forest sector (*leskhozy* and forest enterprises) and not administration or research.

Not unexpectedly, it seems that in regions with a large forest sector the reformation of the sector is an important concern for politicians and top bureaucrats—the personal power and welfare of these individuals depend on how they are able to cope with the forest sector problems, while in regions with a small (insignificant) forest sector the people working in the sector are left to sort out their own problems.

Apart from the people working in regional administrations (including the regional forest management) and people working with forest related research, there are two other forest stakeholder groups in Russia that were expected to take an active part in IIASA's policy exercises, namely, top- and middle-level executives of forest enterprises (including *leskhozy*, the operative units of the regional forest management) and representatives of various environmental NGOs. To a Western observer/analyst it would seem most appropriate and efficient if forest enterprise representatives were to engage deeply in an endeavor to make Russian regional forest policies more efficient.

As it turned out, however, the workshops in Karelia and Arkhangelsk managed to engage comparatively few business enterprise representatives (24 and 22% of all participants, respectively) and an even smaller share of NGO representatives (11 and 2%, respectively, incl. media representatives). This might be seen as a somewhat peculiar turnout in the eyes of a Western observer, while it would hardly surprise a Russian analyst. On the contrary, a large and active participation on the part of business actors and laymen would probably (still) be considered even a bit suspicious in the sense that, in and of itself, it questions the ability of the "appropriate authorities" (regional bureaucracies in collaboration with researchers) to come up with suitable solutions to the forest-related problems.

The fairly low participation rate of business actors and NGO representatives could be a reflection of the fact that the Russian civil society is still underdeveloped. Even today there is a "Soviet touch" of omnipotence to the bureaucracies of the state executive (in our case the regional administrations). Organized civic activity (channeled through civic associations as well as private enterprises) has not yet acquired a position in the Russian society corresponding to what it has in advanced market economies. In contrast to the situation in advanced market economies the initiative for policy changes in Russia is thereby mostly left with individuals and organizations that are not appointed by the electorate, and, since opinions are not efficiently channeled through civil society organizations, there is nothing guiding or constraining the policy decisions of the bureaucracy. A pertinent problem with this situation is that it allows the adoption of policies that are guided by shortsighted political (or even personal) concerns rather than a consideration for economic efficiency [B:c, B:d].

*2. Participants' Competence: Stakeholders' Understanding of the Institutional Deadlock Problem*—Ideally, stakeholders' competence should also be taken into account in the selection of participants to a policy exercise [B:c]. This immediately raises two problems. The first and obvious one concerns the very limited information and knowledge that an outside interventionist could obtain about the competence of individual stakeholders in the Russian regional forest sector. Here one is of necessity forced to trust the judgment of the local organizer and the people who take an active interest in the arrangement.

The second and more fundamental problem concerns the issue of what *kind* of competence one should be looking for and what kind one could possibly hope to find in this particular situation. Clearly, Russian forest stakeholders know much about the workings of the regional forest sector. But, with the objective of using the policy exercise as a tool for developing policies for improving the functioning

of the sector in its new market environment, one would ideally also like to find participants who in addition to their knowledge about the current Russian forest sector problems had a solid experience of the workings of a market economy. Obviously, such a broad and varied competence is extremely rare in today's Russian society, where the transition from a command economy to a market-oriented system has only just begun.

In this situation one could not automatically expect that Russian forest stakeholders would easily understand and appreciate the analysis of the institutional problems besetting the regional forest sector that had been made by IIASA and that was used as a background material to set the stage for the discussions during the policy exercise workshops. However, once the participants' bewilderment concerning the very concept of institutions had been settled—Russians would rather use concepts like “the economic mechanism” to refer to what is often called “the institutional framework” in IIASA's reporting—it became clear that the issues discussed in the previous IIASA case studies were familiar and the content of the reports was found to be relevant for the problem situation as experienced by many workshop participants [B:a].

It is especially notable that the institutional deadlock, which is seen in IIASA's analysis as a fundamental problem for a further development of the Russian market economy, seemed to be intuitively understood by many workshop participants [B:a]. It was clear to many workshop participants that a profound institutional change (a change affecting the whole institutional framework) is required to improve the functioning of the Russian forest sector. However, realizing the deep complexity of the institutional change issue might also hamper stakeholders' search for an understanding of the situation that would suggest possible ways out of the institutional deadlock.

3. *Participants' Conduct: Quality of Discussions, Outcomes*—Discussions among participants in small working groups constituted an important feature of the IIASA-led policy exercise workshops in all three regions. The idea was to have three to four such working groups in each one of the workshops. As it turned out, the number of people prepared to take part in the group sessions varied, only allowing four working groups in Karelia and two groups in Murmansk and Arkhangelsk, respectively. Furthermore, the quality of the discussions in the working groups was also affected by a certain bias in the composition of participants. The most striking feature was the comparatively low share of business representatives among the workshop participants in Karelia and Arkhangelsk [B:c, B:d].

While discussions in the various working groups were lively and often touched upon highly relevant topics, they also tended to be a bit unstructured and without a clear focus. Participants seemed familiar with the *format* of the meeting (highly informal discussions in small groups), but at the same time not able to make discussions converge in time to allow the formulation of clear and consistent conclusions. True, the deliberations in the working groups and in the subsequent plenary sessions of the workshops did provide the basis for formulating a document in which the main outcomes of the discussions were laid out. But while these documents indeed do provide a record of the workshop deliberations that would be valuable for a working group charged with the task to continue developing spe-

cific proposals to be part of a regional forest policy, workshop participants instead seemed to look upon the documents as some kind of input to a future process potentially to be driven by *someone else*, most likely the regional administrations, without further stakeholder interference [B:d, B:e].

The democratic deficit that is a legacy from Soviet times might explain this passivity on the part of the regional forest stakeholders participating in the workshops. While traditionally discussions were encouraged in the elaboration of solutions to problems, no one expected operative decisions to be taken by any others than members of the political elite (in practice, by top echelons of the regional communist party structure). Thus, again, this reminds us of the still fragile Russian civil society, in which organizations have only limited possibilities to channel people's opinions and thereby offering a platform for civic activity.

### ***Long-Term Effects***

Developing well-founded suggestions for a modern regional forest policy is a demanding task and something that cannot be done through a one-time workshop, irrespective of the good quality of the people participating in the event. Ideally, the workshops arranged by IIASA in Murmansk, Karelia, and Arkhangelsk were to become the first initiating event in a longer-term continuous participatory policy process eventually resulting in well-founded suggestions for a regional forest policy. As already noted this outcome of IIASA's initiative did not materialize in any of the three regions. The question is, why?

Let us first note, however, that even if the desirable outcome (in the form of a long-term participatory policy formulation process) did not materialize in any of the three regions, the policy exercise workshops nevertheless did make a certain impact on ongoing regional policy processes. It was reported from all three regions that the final documents from the workshops were brought to the attention of the relevant forest authorities and the regional administrations. In the case of Murmansk we have no indication of whether or not the workshop affected the regional forest policy. In the case of Karelia and Arkhangelsk, several participants in the workshops were actually already engaged in ongoing policy processes relating to the regional forest sector. In Karelia the regional government had established a working group that had just started its work to revise the regional forest policy. In Arkhangelsk the suggestions made in the final document of the IIASA workshop were fed into a forest legislative process of the regional parliament. In Murmansk, and especially in Karelia, the IIASA workshop was given ample media coverage.

Several possible reasons might be presented for the failure of IIASA's policy exercise workshops to trigger the intended long-term effect in the form of full-fledged policy exercises. One way or another these reasons all have to do with *legitimacy* and *trust* and the problem of *finding the right stakeholders* to work with [B:b, B:c, B:d]. These factors are furthermore intimately linked so that competent and interested stakeholders are easy to recruit for the process if they see the process as legitimate. But the legitimacy of such a process might also emerge from the fact that trustworthy stakeholders take part in it.

Organized forest stakeholder activity in the Russian regions is still to a large extent directed by the public authorities (the forest management and forest indus-

try departments in the regional administrations). It seems that IIASA correctly appreciated the existing situation realizing that endorsement for the policy exercise initiative had to be sought from the regional administrations [B:b]. Such endorsement was also obtained. The regional authorities agreed to see the initial policy exercise workshop through, without actually making any further commitment to support a longer-term policy formulation process. Had IIASA been able to channel external financial support for implementing the policy suggestions elaborated in a proper long-term policy exercise, a more profound interest for the whole project might have been obtained from the regional authorities [B:e]. That might also have stimulated workshop participants to engage in the continuous policy formulation processes that were to succeed the initial policy exercise workshops.

One should, however, note that, in the presence of a strong civil society with powerful civic organizations, endorsement from the regional administrations would probably not be decisive for the implementation of a full policy exercise.

### **Conclusion: Lessons Learned**

As previous research has shown (Carlsson et al., 2001; Olsson, 2004a) the development of the Russian regional forest sector is seriously hampered by deficiencies in the institutional framework governing actors' behavior. The behavior dictated by the institutional set-up characterizing the so-called virtual economy was found to be especially detrimental in this context. At the same time it was found, however, that being aware of existing problems does not allow any easy solutions that would immediately improve the situation. The reason is that forest sector institutions (like all institutions governing certain behaviors) are interdependent so that changes in one set of deficient rules presuppose simultaneous changes in others. Thus, it was found that the situation is characterized by an institutional deadlock.

In such a deadlock situation finding and implementing efficient policy measures that will improve the institutional framework is a non-trivial task. What should characterize such efficient solutions and how could these solutions be found? By studying existing interdependencies it might be possible to identify a feasible and efficient *sequencing of reforms* that might help dissolve the deadlock and modify the existing institutional set-up making it more conducive to increased market efficiency (cf., for instance, Dewatripoint & Roland, 1996). It is also necessary to create an adequate *incentive structure* in society making actors *want* to make market-efficient decisions about their actions. In order to be implementable, solutions to these problems should be elaborated in a dialogue with relevant stakeholders. For practical purposes stakeholders' views must be channeled and aggregated through various interest groups. Such organized opinion formation would greatly facilitate the establishment of efficient policy dialogues. Thus, an active civil society will improve the efficacy of a participatory policy formulation process.

As previously noted, Russian civil society is underdeveloped. This fact seriously complicates a solution to the problem of inefficient institutions. However, while a well-developed civil society would facilitate participatory policy processes in Russia, such processes—if they could be established—might also stimulate the development of civil society. Thus, there is an obvious interdependency between the dynamics

of civil society and participatory policy formulation processes. The systemic interventions that IIASA initiated in several Russian regions through its series of policy exercises can be seen as a measure intended to improve regional forest policies as well as to stimulate a further development of Russian civil society.

The assessment of these initiatives that has been made in this article presents a somewhat mixed picture. With reference to the issues raised at the beginning of the article it can be concluded that some prerequisites actually exist for the successful establishment of a participatory policy formulation procedure in the Russian forest sector. So, for example, there are Russian regional forest sector stakeholders who perceive the serious institutional problems that have to be solved for the sector to become more competitive and who also have ideas about what the possible solutions to these problems might be. Moreover, it can also be concluded that the *form* of the policy formulation procedure suggested by IIASA (using the policy exercise “tool”) might work as intended in the Russian context. In principle, stakeholders are prepared and able to make use of the policy exercise format. Given the right (moral and financial) support from both domestic authorities and—in the case of an externally initiated systemic intervention—the initiator of the process, participatory policy formulation processes might indeed work and produce intended results in the form of implementable policy proposals.

However, as has been recounted in this article, the outcome of IIASA’s policy exercises did not fully meet prior hopes or expectations. While discussions during the initial policy exercise workshops functioned as intended and generated a number of relevant and interesting policy suggestions, the initiative did not trigger any longer term activity in the form of a continued ordered discussion among the regional forest stakeholders with the purpose of elaborating an implementable proposal for a regional forest policy. A number of structural features of the situation restricted actors’ behavior and effectively prevented the execution of a full-fledged policy exercise. Two such features seem especially important in this respect.

The first concerns the systemic interventionist’s affiliation with actors in the arena, the rules of which the policy exercise is supposed to influence. Did IIASA really seek the sanction and support of the most suitable actor(s) in the regional timber procurement arena? The regional administrations and the existing regional forest authorities might well be ambivalent in their support of participatory policy formulation processes. Such initiatives might be seen as a criticism of existing practices for which these authorities are responsible. Furthermore, officials might see the initiative as a threat to their established positions in the regional power hierarchy and the material benefits they can obtain through their positions. The result might be a formal support of the procedure suggested by IIASA, while in practice this support is not intended to produce many concrete results.

This actually touches upon a second, and even more fundamental, feature of relevance for the failure of IIASA’s initiative to generate a full-fledged (long-term) policy exercise, namely, the fact that a practical prerequisite for establishing policy dialogues is the existence of partners with whom to conduct the dialogue, for instance, in our case various forest sector stakeholder organizations. Some such organizations exist, but not very many. Thus, again, the lack of stakeholder organizations illustrates deficiencies in the Russian civil society. In the current Russian situation an external systemic interventionist (like IIASA, a research institute)

might benefit from the help of forest sector organizations in other countries when identifying suitable Russian stakeholder organizations with which to affiliate in an endeavor to initiate a participatory policy formulation process in the Russian regional forest sector.

## Notes

- 1 The research on which this article is largely based was conducted between April 1997 and December 2001, when the author was a member of a small team of researchers in the Forestry Project at the International Institute for Applied Systems Analysis (IIASA) in Laxenburg, Austria. The IIASA core team of researchers that worked with the institutional framework study consisted of four people including the present author. In addition, some 15 PhD students very actively contributed to the study during their participation in the institute's Young Scientists Summer Program in the summers of 1997 through 2000. Five Russian researchers also made important contributions to the study both in their capacity as local coordinators of the survey that was made among Russian forest enterprise leaders and as coauthors of several IIASA reports. Information about IIASA can be obtained from the institute's website at <http://www.iiasa.ac.at>.
- 2 The five other regions included in the study were Moscow, Tomsk, Krasnoyarsk, Irkutsk, and Khabarovsk. A summary and digestion of the results of the eight case studies was published in the September 2001 issue of *Europe-Asia Studies* (cf. Carlsson, Lundgren, & Olsson, 2001). A complete listing of about 50 publications produced by the "institutional framework study" can be found in Olsson (2004a, Appendix A) and at <http://www.didaktekon.se/mats/ii-publ.htm>.
- 3 A first (pilot) policy exercise was conducted in Tomsk Oblast in June 2000. The experiences gained through that event were reported in Olsson (2001). The present article is largely based on an extensive report issued by IIASA in the summer of 2004 (Olsson, 2004a).
- 4 The theory of the *virtual economy* has subsequently been elaborated by a number of scholars. The presentation here is based on several publications by Gaddy and Ickes (1998a, 1998b; 1999a, 1999b; 2002a) and other authors discussing their theory (see, e.g., Åslund, 1999; Carlsson et al., 2001; Chang, 1999; Ericson, 1999; Gaddy, Ickes, Mazharov, & Volgin, 2000; Phillips, 1999; Slay, 1999; Woodruff, 1999). Gaddy and Ickes have recently (2002b) compiled a book based on the material that they issued earlier as journal articles, chapter contributions to edited volumes, working papers, and manuscripts available via the Internet.
- 5 A broad scan of the available literature on privatization and corporate governance in Russia testifies to this fact (cf., for instance, Sutela, 1998, 2003). As a result of subsequent business legislative reforms it seems that the changes initiated through the privatization program have actually produced a slight improvement in corporate governance (cf. Vasilyev, 2000).
- 6 See Ramazzotti (1998) for an elaboration of the concept of *dominant institutional set-up*.
- 7 Recent articles in the press indicate that changes in forest land property rights are contemplated by the government. Since the spring of 2004 a draft of a new Forest Code is being elaborated in the Ministry of Economic Development and Trade. Here for the first time private ownership of forest lands is suggested under certain conditions. (The draft code and various comments on the proposal can be found at <http://forest.ru/rus/legislation/>.)
- 8 This was true for the Russian transition period at least until Putin's presidency. It seems that Putin after 3 years in office has managed to stabilize state power to the point where Western observers become cautious. Thus, for instance, M. Steven Fish (2001) warns: "Putin's path may lead directly to hard authoritarianism. Yet it is also possible that some aspects of it will—even if inadvertently—spur a resumption of democratization. In whichever direction it leads, Russians are to a large extent getting what they want." The importance of the role and function of the state during transition has been increasingly noted in the literature. See, for example, Alexander (1998) and Solnick (1998).
- 9 There are also other factors that have gained an increasing importance during the past decade and today these factors are causing a profound rethinking of forest management policies and practices all over the world. As Anderson and Crowder (1998) have pointed out, property rights patterns have shifted in some regions of the world (notably in Central and Eastern Europe). Political power has become more decentralized (giving regional and municipal authorities increasing influence). Democratization and multi-party politics have emerged with the decline of centrally planned, one-party states. Demographic transitions have shifted the population structure toward higher urban-

- ization (with changing perceptions, interests, and objectives in forest management). Governments are being downsized due to financial restrictions making them only hold on to basic functions (such as policymaking, planning, legislation). Functions earlier belonging to a single natural resource management institution have become increasingly contradictory (cf. conservation and production) and sometimes various functions have eventually been separated through institutional reform and the break-up of organizations.
- 10 For instance, the FAO journal *Unasylva*, No. 194 (1998) contains a number of articles presented at a FAO hosted workshop in December 1997 on "Pluralism and Sustainable Forestry and Rural Development".
  - 11 For an overview of systems thinking see, for example, Olsson (2004b). In the last 10 to 20 years a large literature has emerged on "participatory processes," or "participatory development," "action research," and so on. Recent examples and theoretical elaborations of such approaches can be found, for instance, in Nelson and Wright (1995), Stringer (1999), and Clarke (2000).
  - 12 This approach covers the rules-in-use governing almost all activities in the forest sector, the notable exception being rules governing the behavior of final wood product users and the rule system affecting final wood demand.
  - 13 The IAD framework has been used in numerous studies of resource management around the world. Good overviews of the approach are given, for instance, in Ostrom, Gardner and Walker (1994) and Ostrom (1995, 2005).
  - 14 The surveys consisted of interviews conducted with about 25 to 35 forest enterprise managers in each one of the eight regions that were part of our case study set. Questions in the survey mainly related to the behavior of the respondents in their capacity of managers working in a new and unfamiliar market context. The surveys were conducted with the help of local Russian study coordinators. The answers were reported in writing (in both Russian and English) and delivered to IIASA where the information was coded into a database and further analyzed. The Murmansk case study was authored by Ivanova and Nygaard (1999) and Jacobsen (1999). The Karelian and Arkhangelsk case studies were authored by, respectively, Piipponen (1999) and Carlsson, Lundgren, Olsson, Yu, & Varakin (1999).
  - 15 A detailed description and analysis of the forest sector in the three regions is given in Olsson (2004a).
  - 16 See Olsson (2001, 2004a) for detailed accounts of these exercise workshops, including programs, lists of participants, and final documents.
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