Compensatory institutional arrangements and visions for the development of Russian forest-resource regions

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Abstract. The article is devoted to the study of the problems of the formation of sustainable development institutions for depressive lumber cutting territories (in the case of the Republic of Karelia). One of these institutions is forest certification, which obliges forest companies to formulate economic strategies in accordance with social responsibility criteria. The obtained results indicate that today forest companies do not set the implementation of social policies regarding the local population as a key goal. The economic interests of business and their management decisions regarding forest management are not related to the problems of the local population. However, this is not an obstacle to obtaining a forest certificate. The Forest Certification Institute has not yet performed a compensatory function, which actualizes the development of new forest policy instruments.

1. Introduction
While being rich in natural resources, the forest-resource regions of Russia are facing socio-economic and institutional issues. Forest companies have actively joined the forest certification process, which implies that their economic strategies should be aligned with the social responsibility ideology.

In reality, business interests and forest management decisions are disconnected from the problems of local communities. The forest has not turned into a factor for improving the quality of life for the locals. There are hardly any possibilities for actualising the labour potential, and many issues related to basic necessities remain unresolved. The population is ageing, and mass migration adds to this context [1]. Some forest-resource regions (including the Republic of Karelia and other North-Western regions) are now described as depressive. The government has not yet come up with effective compensatory tools to handle the pressing social issues of depressive forest-resource regions. This situation raises the demand for research on the quality of the available institutional arrangements designed to facilitate a sustainable development of forest-resource regions.

2. Methods and Materials
The theoretical background for this study is the sustainable development concept, which stipulates a balance between three elements: economic, social, and environmental.

The sustainable development concept has occupied its rightful place in the sustainable forest management model, which has been designed and developed with active contribution from a galaxy of Russian forest economists [2-7].

The model is based on the consolidated interests of local communities, forest companies and forest management actors as they participate in the use of forest resources which is supposed to cause no
damage to either the environment or the society. The methodology of our study goes beyond the boundaries of the sustainable development concept and the sustainable forest management model. The main focus is on the social dimension, including elements such as quality of the human capital and quality of the social capital. The latter are measured through the possibility for, ability and willingness of local communities to be involved in dealing with forest management issues.

The precondition for sustainable territorial development in the long run is agreement on socio-economic priorities and targets for extended human capital reproduction [8, 9]. The solution for the managerial problem of maximising human capital is to be sought in its interdependence with social capital. The growth of social capital augments the opportunities for the growth of human capital and vice versa [10].

From the point of view of economic theory, sustainability ideas share the source with the “Pareto improvement” and “Pareto optimization” principles, substantiated by the Italian scholar V. Pareto early in the 20th century [11]. This economic model has been further elaborated in the Kaldor-Hicks concept (mandatory compensation principle), which requires that all the social groups affected by a change in the economic structure of the society are to be adequately compensated [12]. We find that the compensatory ideology is latently embedded in forest certification arrangements, which serve as the principal institution for sustainable forest management.

The research toolkit included institutional analysis and quantitative sociological methods. The empirical dataset for the study was gathered through an economic-sociological survey of the population of forest-resource areas of the Republic of Karelia carried out in 2018 (N=200).

3. Results and Discussion
A key criterion in forest certification is the business’s social responsibility. This encompasses a broad range of social obligations, not only towards employees, but also towards other residents of the company’s operating area. In the context of the sustainable development concept and the Kaldor-Hicks compensatory ideology, the forest business utilises forest resources and returns to local people part of the appropriated forest rent through social compensation within the social policy framework. One of the principal tasks for the social policy is to improve the well-being of local people. Social compensation envisages that local people are provided with:

- the right to participate in decision-making on the use of forest resources;
- jobs;
- training and re-training opportunities;
- access to social infrastructure [13, 14].

A socially responsible business is supposed to offer the conditions for local people to be involved in the public initiatives aiming to revise the forest management processes so that the potential damage from infringement upon sustainable development principles is avoided. Public involvement in the matters of forestry development is commonly practiced in Western countries. The practices of public involvement underlie the social capital of local communities, enabling control over the activities of a business in its territory. This environment favours networking and partnership. The community turns into a real stakeholder in the forest management process. Thus, by practicing a social policy based upon sustainable development principles the forest business creates an environment that supports and augments the social capital of local communities.

The economic-sociological survey of the population of forest-resource areas of the Republic of Karelia addressed the following research tasks:

1) Analysis of the institutional conditions for the involvement of the people living in RK’s forest-resource areas in the forest management process.

2) Assessment of how well the social policy implemented by forest companies in RK meets the sustainable development principles.

The results of the survey provide an insight into people’s reflections regarding the quality of the arrangements regulating socio-economic relationships in the forest resources system. Such arrangements include the Russian forest legislation and forest certification. Responding to the question
“Are there conditions in Russia for local people to be involved in forest management?” almost 40% said there were none. A quarter (25%) of responses expressed the opinion that people were not ready to participate in the forest management process due to lack of awareness and inactivity. The possibility of involvement in forest management given relevant literacy is admitted in 7% of responses. This possibility is acknowledged also in another almost 10% of responses, but now subject to having money and relationships. The hope that new legislation would open up the opportunities for local people was expressed in 5% of responses. Almost a third of the respondents found it difficult to answer this question.

The current Forest Code envisages the right for “citizens and citizens’ associations to participate in preparing the decisions whose implementation can affect forests in the process of their use, protection, conservation, reproduction, in conformance with the procedures and formats prescribed by Russian legislation” [15]. Unfortunately, this right is now merely a declaration.

The most common public opinion of the inefficient legislation that does not let people exercise their rights is corroborated by answers to the question “Do you think people play an adequate role in forest resource management?”. An overwhelming majority (94% of respondents) evaluated their involvement as insufficient.

That said, residents of forest-resource areas believe local people should have a bigger role in forest management. Answers to the question “What issues in forest management do you think should be controlled by local people?” fall into two groups – utilitarian and social (56% & 42%, respectively). Respondents were of the opinion that the most crucial and pressing issues to be controlled by local people have to do with illegal logging and the damage to forest from the violation of nature conservation regulations.

In this context, it is important that there is a background for the formation of the social narratives and assumptions in regard to the strengthening of public influence on the forest management process. Evidence can be found in the answers to the question “What do you think could help people gain influence in forest affairs?”. The significance of the human and social capital is emerging as a factor in the narratives of local people. Almost 70% of respondents agree that a precondition for empowerment is enhancement of the level of educational and legal literacy. Besides, nearly 40% of the answers highlight the importance of promoting social activism. A passive stance (an ordinary man doesn’t need this) appears in only 5.7% of responses.

Most of the respondents who have evaluated their role in the forest management process as insufficient readily get engaged in the discussion about how public influence on forest affairs can be strengthened. Judging by the results of our study, a positive vector can be seen in the narratives of local people.

Our survey revealed a very low awareness of local people about forest certification and the key functions of this institution. It has been set up and operating in Russia for over 20 years. Meanwhile, almost 80% of respondents were unable to answer what a forest certificate was. Such low awareness indicates a lack of communication between people, businesses and local authorities. Note that the survey was carried out in an area where companies do have a forest certificate.

Nonetheless, the forest certification institution is an essential legal foundation for creating favourable conditions for the development of local communities and involvement of local people in decision-making on forest affairs [16]. Although forest certification is quite widespread across the Republic of Karelia (as of 1.09.2019, 38.6% of the forest fund area has been certified in the region), our sociological surveys failed to detect any tangible social effects from its implementation.

As mentioned above, sustainability principles require that the forest business channels part of the forest resource rent to local people through social compensation. One of the elements of social compensation is "supplying local people with jobs". This criterion is a key component of the business’s social responsibility. According to this criterion, a socially responsible company supports local employment and widens the opportunities for employees to promote their qualifications. Forest companies thus invest in the human capital.
One of the most widespread international forest certification standards, FSC, suggests the following indicators for the fulfilment of this criterion:

- The company implements an active policy to hire staff from among local communities.
- The company implements a policy of vocational training for new employees from among local communities [17].

A conclusion from our survey is that the employment policy of forest companies in the Republic of Karelia does not meet sustainability principles. Almost 60% of respondents answered that locals did not have priority in getting a job in a forest company. The employer’s requirements significantly narrow the range of opportunities for many local people. The practice of hiring locals is rather limited. There is hardly any vocational training for new local staff.

The assessment of the social policy of forest businesses towards their employees for compliance to sustainability principles has shown that the companies were passive in their behaviour. Among all the diverse social policy options, “annual occupational health check” vastly prevails, as demonstrated by 50% of responses. The services of highest value for the employees (reimbursement of medical and vacation costs for employees and their families, improvement of working conditions, improvement of living conditions, etc.) were mentioned in some 10% of responses. These results indicate that businesses now do not view social policy towards employees as one of their key goals. Social responsibility criteria are not fulfilled in earnest.

Social support to the territory where the company operates is another indicator of social responsibility. The survey showed that forest companies mainly employed the traditional, less costly forms of social support – firewood deliveries, cleaning of roads or holiday greetings for WWII veterans. Other social support projects (financial aid to schools, hospitals, community centres, welfare for multi-child families and employees in predicaments) are virtually missing. No developments are seen in corporate investment initiatives contributing to local social capacity-building programmes.

On the other hand, businesses need the loyalty of local authorities and communities to operate successfully. Such loyalty can be won by contributing to the resolution of pressing social issues in the area, but so far businesses are not being active enough in that. In this context, people have negatively evaluated the fulfillment of social responsibility criteria by forest companies’ policies in Karelia – only 13% of respondents think that the companies operating in the area are socially responsible.

Thus, research results show that fairly often forest companies in the Republic of Karelia joining the forest certification process do not really qualify for the forest certificate. They do not demonstrate willingness to invest in the human and social capital of local communities, and do not prioritise effective social compensation for the use of forest resources. The main bottlenecks are the key aspects of social responsibility – employment policy and support to the local social infrastructure.

The low opinion of local people regarding the social policy of forest companies and, furthermore, the community’s unawareness of the forest certificate as a tool meant to protect their rights may indicate either that its institutional role has gone down, or that the very institutional mechanism of forest certification has been distorted.

4. Conclusions

Overall, both theoretical and practical grounds now exist for the compensatory institutional arrangements for the development of forest-resource regions to be set up. Their function is to promote new models of social dialogue and compromise between authorities, businesses, and local communities.

The weak regulatory framework of forest certification cannot restrain the propagation of opportunistic practices, both on the part of the forest business and on the part of the audit firms that decide whether or not the business fulfils the sustainability principles. In this institutional context, which does not meet the social goals of sustainable development, forest companies defy the principle of effective social compensation for the use of forest resources, i.e. do not behave in a socially responsible manner. This means local communities do not get an adequate social benefit, but the companies do get the forest certificate anyway.
Thus, the forest certification institution so far fails to fulfil the compensatory function, which requires new forest policy instruments to be developed in order to:

- strengthen control over the audit firms that decide on whether to issue the forest certificate;
- work out additional sanctioning options for the forest businesses violating sustainable forest management principles;
- improve the forest legislation so as to support local community initiatives on forestry issues.

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