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Grants for advisory services in the private Danish forestry sector – A principal–agent approach

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Abstract

The Danish government gives a grant to consultant companies offering advisory services to private forest owners. The Danish Forest and Nature Agency and the consultant companies constitute a principal–agent system. The forest owner is not directly part of this relationship, but he has a main impact on it. The consultant companies have private information regarding their costs and assuming that these vary between companies, the government can benefit from introducing differentiated contracts. The informational rent will be determined by the forest owners. One company dominates the market and introducing differentiated contracts may exclude other companies. Increased short run costs may be allowed for in order to attract new consultant companies and increase the competition.

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Introduction

In recent years there has been an increased focus on sustainable forest management among governments. However, it is often difficult for governments to influence the management practice of private forest owners. Concepts like close-to-nature forestry and multifunctional forestry need to be translated into applicable guidelines and practical advice for the forest owner. This problem is especially related to owners of small forests, because few of them have an education in forestry. The lack of knowledge can lead to inconsistent management in relation to national strategies or to no management at all, which in turn creates a need for advisory services in the forestry sector.

In Denmark most of the forest owners consider themselves first and foremost as farmers (62.1%) or 'leisure time' forest owners (26.1%). In other words, forestry is a leisure time activity and the economic significance in terms of household income of the small forests is limited and not the main objective for the ownership (Boon, 2003). This may limit the incentive of the owners to hire consultants since the consultancy does not provide any significant short-term economic gain.

However, forest owners still have an interest in increasing their knowledge concerning forestry. Approximately 80% of Danish forest owners state that a diverse flora and fauna is important or very important to the ownership, 73% consider aesthetic and landscape values as important or very important. Approximately 50% of owners of forests smaller than 250 ha find it of importance to tend and manage their forest as a hobby activity and approximately 50% use their forests for hunting (Boon, 2003). Hence these forest owners do have an interest in increasing their knowledge considering all the mentioned issues, but they do not necessarily use professional consultants.

The problem of many forest owners without an education in forestry exists in several countries. In Austria one of the means to improve forestry advisory services has been to develop a computer-based support tool for the consultants (Lexer et al., 2005). The German Federal government has found it necessary to subsidise different management initiatives as well as advisory services (BMVEL, 2004), and several of the German lands provide counselling free of charge for forest owners. The Swedish government has made an effort to educate the private forest owners through different campaigns (Skogsstyrelsen, 2004). The government of Denmark has tried to cope with the problem by offering a grant for advisory services aimed at owners of private forests smaller than 250 ha. The grant has existed in its present form since 1999 and is administered by the Danish Forest and Nature Agency (BEK, 1999). The grant is given to approved private consultant companies who can document having performed advisory services. The design and its consequences is the question in the present paper.

In Denmark privately owned¹ forests smaller than 250 ha cover 44% of the total forested area (Larsen and Johannsen, 2002). At present two consultant companies are approved to receive the grant for advisory service—DDH Forest and Landscape

¹Private owners are individuals, partnerships, companies and foundations.

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