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# Grants for advisory services in the private Danish forestry sector – a principal-agent approach

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## **Abstract**

National strategies concerning sustainable forest management are not implemented in private forest management if owners without an education in forestry are not given advice and applicable guidelines. Therefore the Danish government gives a grant to consultant companies offering advisory services to private forest owners. The Danish Forest and Nature Agency, who administers the grant, the consultant companies and the forest owners constitute a multi-layer principal-agent system. The government can benefit from using differentiated contracts because the consultant companies have private information on their costs, which may lead to adverse selection. In a market situation where the consultant companies can be divided into two agent groups with high or low costs, it will be Pareto-efficient for the government to use the group with low costs, and this type of agent will receive an informational rent through the grant. The difference in the agent-specific utility that the forest owner gains determines the maximum informational rent, which can be obtained by the consultant company group with low costs.

**Key words:** Principal-agent theory, adverse selection, advisory services, private forest owners.

