ABSTRACT


The Revolving Fund Loans for Community Forest Plantation development (RFL CFP) provides an overview of institutional performance that govern the relationship between principal (lender or Ministry of Forestry cq Public Service Agency-Center of Forest Funding Development (PSA CFFD)) and the agent (borrower or farmers around the forest). The relationship is often characterized by asymmetric information leading to the emergence of the risk of adverse selection and moral hazard. The purpose of this study was to formulate the effective and efficient institutions of RFL CFP in accordance with the varying field conditions. Theoretical basis used in this study was agency theory. The study was conducted in three provinces, namely: Riau, South Kalimantan, and West Java. The results showed that the performance of RFL CFP generally was not good. The goals of RFL CFP has not been achieved, especially in cases of “the right location”, “the right actors”, “the right activity”, and “proper disbursement and repayment of loans”. Innacuracy in selecting the location and the actors because of the two cooperatives that have received a RLF CFP are not free from conflict with the farmers who occupy in the forest. Improper activities and distribution of RLF CFP because the funds was used by the recipient of RLF CFP for other purposes than cultivation. The lack of good performance of RLF CFP (adverse selection, moral hazard and transaction cost are high), due to: (1) characteristics (loan, borrower, and CFP area) are not adopted in the regulations, (2) the appropriate policies is not existe and the procedure in accessing credit are not simple, (3) PSA CFFD is only in Jakarta, (4) In general, the farmers are not fully understand about RLF CFP. Optimal funding scheme based on enabling incentives is a “revolving loan (farmers level)”, and optimal financing scheme based on the incentive variables are depend on “the needs of the community”. Funding scheme are selected depending on the capacity of the farmers who will receive the loan.

Keywords: institution, agency relationship, revolving fund loan, community Forest Plantation.