



PRACTICE ABSTRACT No 3

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Transaction cost analysis,
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Transaction costs in Agri-environment Climate Measures (AECM)

In general terms transaction costs (TC) can be defined as the costs arising, not from the production of goods, but from their transfer from one agent to another. This way, policy tools such as the Agri-environment-climate Measures (AECM) imply the existence of TC because they can be seen as a contractual mechanism for the transaction of environmental goods and services between the farmer, as seller, and society, represented by the public authorities, as buyer. Both agents bear different TC; the costs borne by farmers are called private TC, and those borne by the government are called public TC. It is important for scheme proponents, designers and participants to identify which are likely to be the most important TC, who bears them, and how they vary among different types of schemes. In general terms the TC related to AECM can be divided into three main categories: Search costs (information), Negotiation costs (application) and Monitoring and enforcement costs (implementation).

In Contracts 2.0 a qualitative-oriented methodology will be carried out to analyze the role of TC in AECM. It will rely on semi-structured interviews with key informants and farmers belonging to the different CILs and PILs involved in the project. The expected outcome of this analysis is to identify the most significant TC perceived by private and public agents, evaluating the activities linked to each TC category to uncover which are perceived as the most limiting, time consuming and expensive ones. Additionally, the analysis will also aim to uncover the determinants of these perceptions.

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ADDITIONAL INFORMATION

AECM are schemes designed to support private land managers in delivering positive environmental outcomes through the adoption of environmentally friendly farming practices and conservation measures implemented in the agricultural landscape. The consideration of TC is essential in order to determine whether policies like these are efficient, or at least cost-effective, as well as a way to encourage farmers to get involved. Therefore, a TC analysis would be highly beneficial as a valuable tool in the decision-making process of the agents involved.

The main benefit of applying this methodology among the members of the different CILs and PILs is that participants will find that many activities that are usually overlooked or taken for granted, and which performance might represent a big effort, can actually have an important economic value, and therefore they should be accounted for in their AECM contracts as part of their decision-making process.



Top: CIL members Unione Comuni Garfagnana

Bottom: Fosciandora, Garfagnana, Italy

ABOUT CONTRACTS2.0

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Contracts2.0 aims to develop innovative contract-based solutions, which increase the motivation for farmers and land managers to produce more environmental public goods and allow them to reconcile the profitability of their farms with sustainability objectives. To do so, 28 research and practice partners closely cooperate to co-design and evaluate the novel contracts. Lessons learned from successfully tested contracts will also provide support for policy makers on local, national and EU-Level.

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Research partners



Action partners



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All Practice Abstracts prepared by the contracts2.0 project in the common format can be found here:

www.project-contracts20.eu/publications and here <https://ec.europa.eu/eip/agriculture/en/search/site/contracts2.0>