



contracts2.0

Co-Design of innovative contract models for agri-environment and climate measures and the valorisation of environmental public goods

## Delphi study on innovative contracts for agri-environmental payments

Interim report on the 2<sup>nd</sup> round of the Delphi study

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## KEY FINDINGS

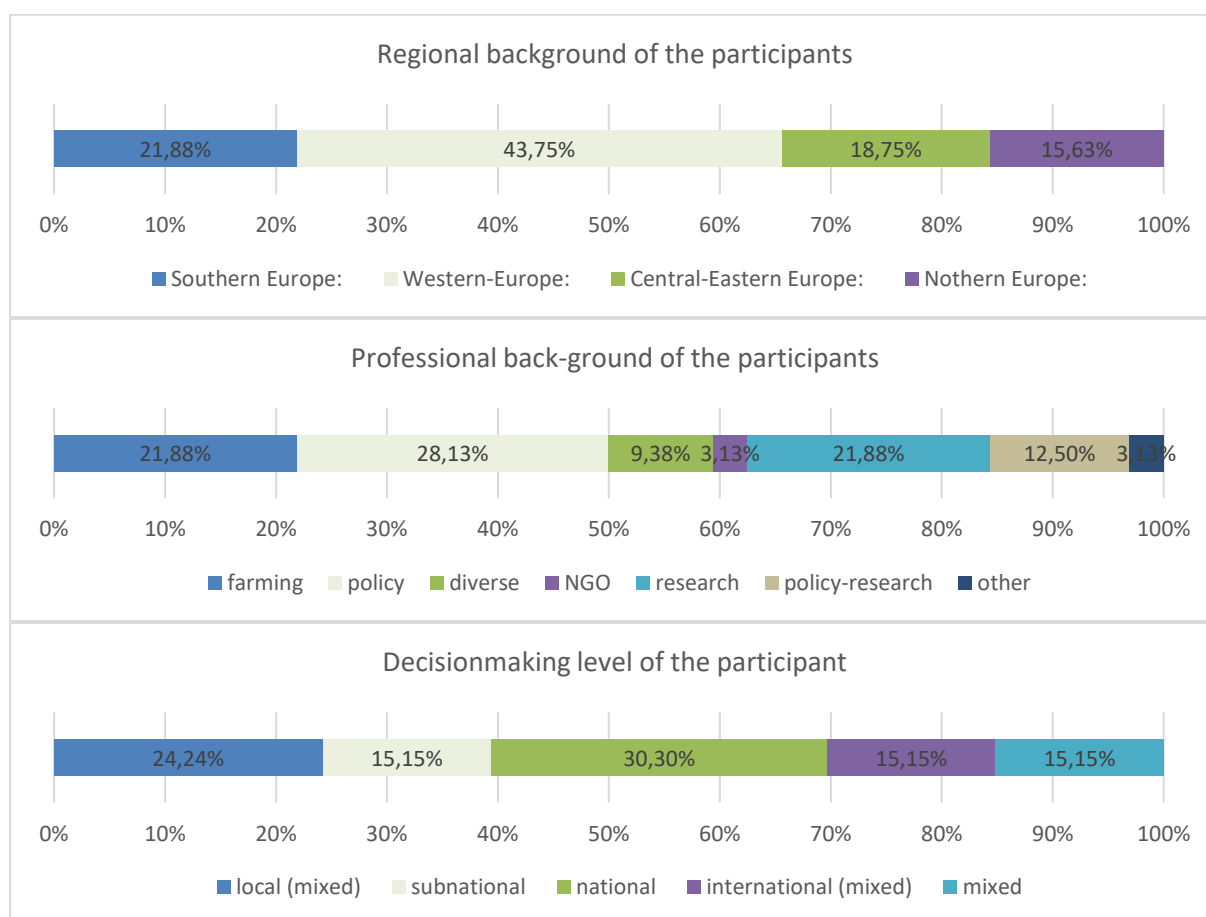
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1. There is almost a consensus around seeing innovative contract elements in combination with mainstream contracts as top-ups. At the same time, it is clear that respondents are afraid of an increasing bureaucracy, thus they could imagine a re-design of the current AECM administration.
2. The most popular ideal contract type would be a medium-term, bi-laterally signed mixed contract combining action-based and result-based elements, while a collective result-based contract, with flexible duration seems to be the less popular.
3. Flexibility is a key -point in the adaptability at the EU level; more than half of the respondents think that the ideal model can be implemented at EU level if there is a possibility for regional adaptation; only a minority assumes that the ideal model cannot be implemented.
4. Respondents see ideal contract types highly beneficial: there is a consensus that those will have a positive impact on biodiversity and ecosystem services, on European farmers' knowledge and attitudes towards the natural environment.
5. The impact on livelihood security and the competitiveness of farmers are seen more positively, similarly respondents suppose that ideal contracts have a positive impact on the consumption patterns and European consumers' awareness of environmental issues.
6. Respondents attribute a huge responsibility to the EU agricultural policy in the sustainability transition of the agri-food system. Its role appeared in many different policy arenas, beyond the CAP, like customs, use of pesticides, and trade agreements. The possibility of regional or national level differentiation was also frequently mentioned.
7. According to the participating decision-makers, NGO representatives, and farmers, there are three possible solutions to ensure the room for the innovative contractual elements: the pliable, the practical, and the revolutionary solutions.
8. Focusing on the challenges associated with innovative contracts (budgetary constrains, emerging transaction costs, emerging risks, knowledge and lack of expertise), our respondents expect the solution from EU/state level policy interventions.

## 1. BACKGROUND

The present study reports about the second round of the Delphi study conducted as part of the Contracts 2.0 research project. The aim of the Delphi study is to explore the ideas and to facilitate discussion about innovative agri-environmental contracts among policy-makers, experts, NGO representatives, farmers and researchers.

Respondents of the first round of the Delphi were contacted (except the ones who definitely asked us not to do so); i.e., 115 European stakeholders. Between 15<sup>th</sup> June and 15<sup>th</sup> July 2021, 33 of them opened the questionnaire and, finally, 31 answered most of the questions. The participants represent the European regions, as we had respondents from the following countries: Belgium, Germany, Hungary, Italy,, Spain, Denmark, The Netherlands, the United Kingdom, Austria, Czechia, Estonia, France, Portugal, Sweden, and Switzerland. Figure 1 presents the basic distribution of the regional and professional background<sup>1</sup> and the decision-making level of the participants.



**Figure 1.** The background of the participants of the Delphi study. Source: own compilation based on the 2<sup>nd</sup> round of the Delphi survey.

<sup>1</sup> diverse: if the respondent marked more than one profession.

## 2. METHODS

The second round of the Delphi survey was administered online via the Mesydel platform between June 15<sup>th</sup> and July 15<sup>th</sup>, 2021. The questionnaire, similarly to the first round, included 3 profile questions (country of work, professional background and decision-making level where the respondent is mostly involved), followed by 21 research questions which were based on the major outcomes (the key consensual ideas about the ideal contract and the challenges of implementation) of the first round and organized in four blocks. The first block aimed to reveal the overall assessment about the role of different innovative contracts in the CAP. The second block focused on the most appropriate contract type, and the possible impacts of an ideal contract. The first two blocks were using closed questions. The third block aimed at understanding the role of the CAP, the EU agricultural policy in implementing innovative contracts; this block, in contrast to the previous two, was included two open-ended questions. The fourth block was also built on the results on the previous Delphi round and aimed at understanding of how to deal with the challenges of transition to a more sustainable agriculture considering transaction costs, knowledge gaps, risks of transition and novel contracts, or budgetary constrains.

Similarly to the first round of the Delphi, numeric questions were analysed in excel; in this report, we present descriptive statistics (means, variance) and crosstabs to present the general opinion of the respondents on how innovative contracts can be integrated into the European agricultural policy.

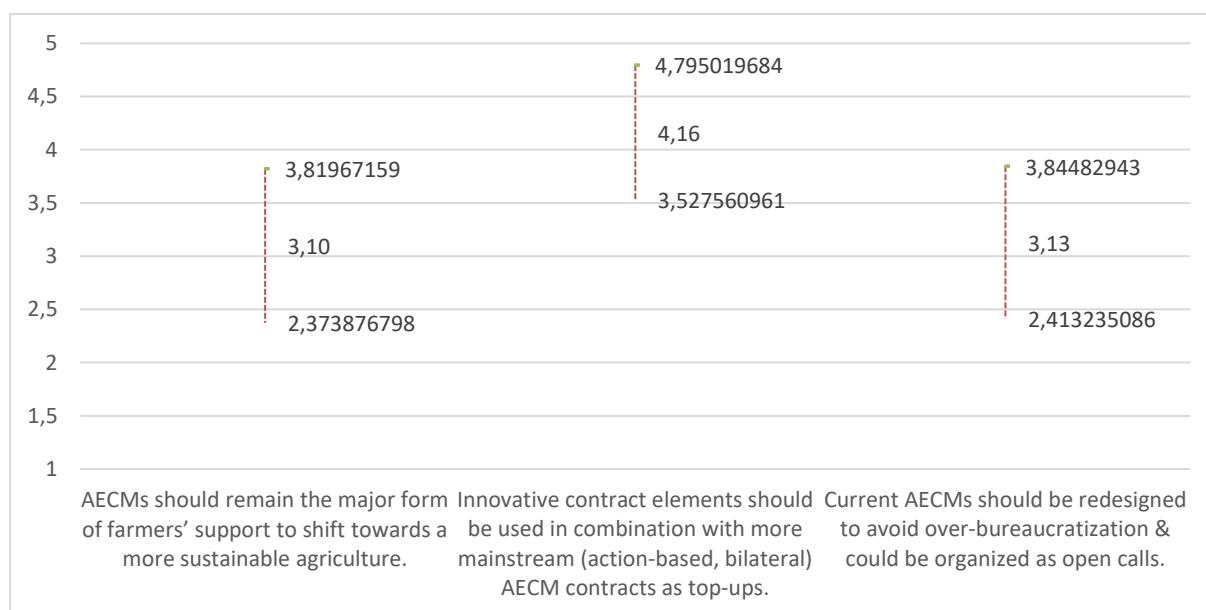
Open-ended questions were analysed with qualitative content analysis using the tools (creating tags and facets) offered by the Mesydel platform. The coding is based on the previous round of the Delphi research, but new codes were added in several cases. Textual responses were coded (tagged) using in-vivo codes by two researchers independently(?). Codes that explain related concepts were grouped into parent categories (facets). During the categorization, individual codes were further refined and when necessary merged or split into two to ensure that each code covers one main and coherent topic. Inter-coder reliability was achieved by continuously comparing and discussing codes (tags) and categories (facets). Explanations for each code and category were created after reaching a common agreement of the major meaning of each code and category. Altogether 106 codes (tags) and 12 categories (facets) were created to analyse the textual answers. Figure 2 shows the 12 categories and the different codes they include.



**Figure 2.** The codes and categories used in the report (own compilation based on the Mesydel platform)

### 3. OVERALL EVALUATION OF THE IDEAL CONTRACT TYPE

The first round of the Delphi survey highlighted different directions to implement novel contract types that encourage farmers for more sustainable production. We formulated three statements to summarize some of these key areas of future implementation and asked the experts and practitioners to rate the statements according to how much they agree with them. The higher the score is, the higher the level of agreement is.



**Figure 3.** Source: own compilation based on the 2nd round of the Delphi survey.

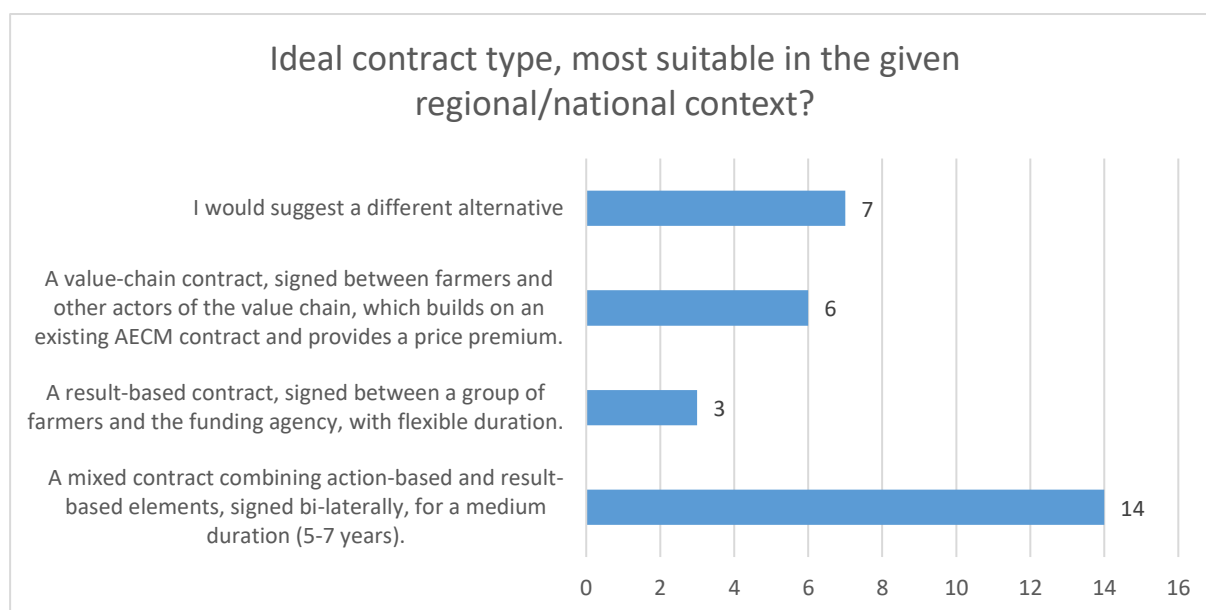
Figure 3 shows that there is almost a consensus around seeing innovative contract elements in combination with mainstream contracts as top-ups; similarly to the few examples one may find in some of the European countries. At the same time, it is clear that respondents are afraid of an increasing bureaucracy, thus they could imagine a re-design of the current AECM administration. However, the experts expressed that AECM should remain the major form of farmers' support to shift towards a more sustainable agriculture. Respondents having their background in research or the non-governmental sector seemed to agree more with the statements; their scores are higher than the scores of policy-makers; while the score of the farmers seems to be the lowest.

In the first round of the Delphi, the respondents had the possibility to create the ideal contract type. It turned out that the AECM is far the most popular contract type and, as we showed in the previous report, farmers and representatives of NGOs chose neither the value-chain nor the land tenure contract type. Regarding the contract characteristics, like length of the contract, collective or bilateral character of the contract, the choice of the respondents from the previous round is more heterogenous. Although action-based contracts were a bit less popular, result-based and mixed contracts were equally mentioned as a characteristic feature of the ideal contract. Considering that

the ideal contract is medium long, and according to the previous round half of the respondents would prefer a bilateral and half of them a collective contract, we developed three ideal contract types, and asked the experts and practitioners to choose the prototype most suitable in their regional/national context. The three options were the following:

1. A mixed contract combining action-based and result-based elements, signed bi-laterally between farmers and funding agencies for a medium duration (5-7 years).
2. A result-based contract, signed between a group of farmers (collective) and the funding agency, with flexible duration (from short to medium or long term).
3. A value-chain contract, signed between farmers and other actors of the value chain (e.g. food processors, retailers, certifiers), which builds on an existing AECM contract and provides a price premium for more sustainable products.

They also had the possibility to suggest a different alternative and explain their choice.



**Figure 4.** Source: own compilation based on the 2nd round of the Delphi survey.

In line with the statements of Figure 3, also on Figure 4, we can see that a medium-term, bi-laterally signed mixed contract type combining action-based and result-based elements seems to be the most popular ideal contract (14 experts choose it), while a collective result-based contract, with flexible duration seems to be the least popular (chosen by 3 experts).

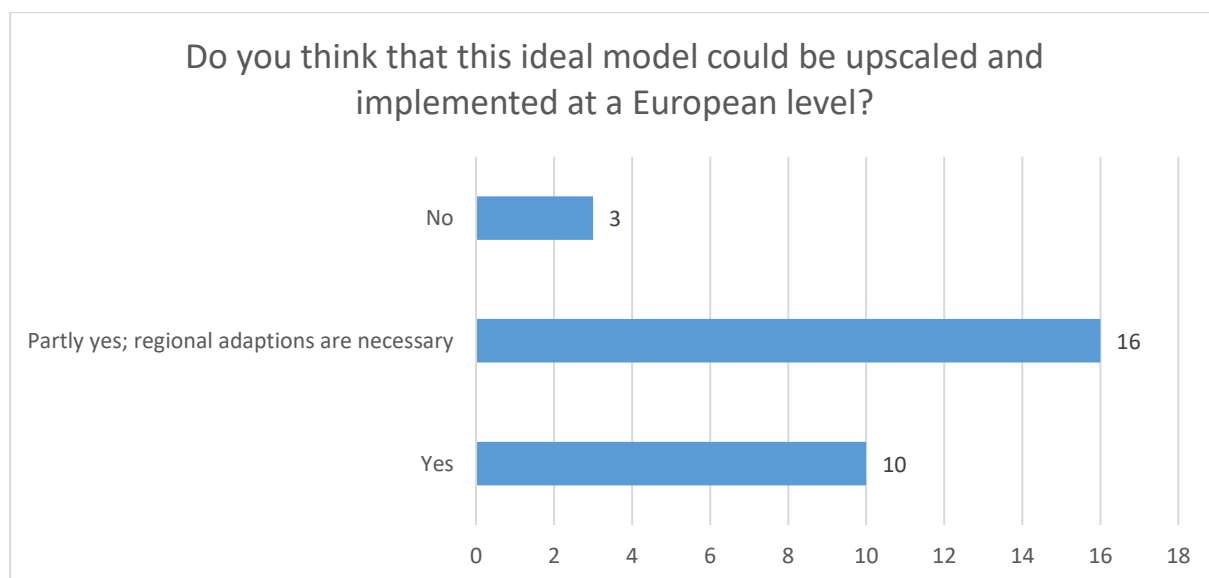
It is worth noting that seven respondents would prefer something different. Analysing their responses we found that they would prefer a mixed contract either with an option to be signed by a collective of farmers, or definitely signed by a collective of farmers:

*“A mixed contract combining action-based and result-based elements, between a group of farmers (collective) and the funding agency, with medium duration.”*

Other respondents suggested to open-up more space for flexibility:

*“Option A (mixed approach) with an additional incentive effect for those farmers whose commitment is part of a larger one at collective and/or value-chain levels. Flexible duration.”*

We also asked the respondents about the possibility of implementing the ideal model at European level.



**Figure 5.** Implementation of the ideal contract type at EU level. Source: own compilation based on the 2<sup>nd</sup> round of the Delphi survey.

Flexibility is a key point also in the adaptability at the EU level, as figure 5 shows. More than half of the respondents think that the ideal model can be implemented at EU level if there is a possibility for regional adaptation; only three of them think that the ideal model cannot be implemented, and eight assume that it can be implemented even without further flexibility.



In the next section, we asked the respondents to rate how the ideal contract type effect different areas. We asked them about the impacts on biodiversity, livelihood security, farmers' knowledge, and consumption patterns of European consumers. The respondents could use a scale from 1 to 5, where 5 means significantly positive, 3 means no impact, and 1 means significantly negative.



**Figure 6.** Expected impact of innovative contract elements. Source: own compilation based on the 2nd round of the Delphi survey.

According to Figure 6, respondents see ideal contract types highly beneficial: there is a consensus that those will have a positive impact on the different areas analysed. 28 respondents valued positively the impact of the ideal contract type on biodiversity and ecosystem services, similarly, 29 valued positively its impact on European farmers' knowledge and attitudes related to the natural environment.

The impact on livelihood security and competitiveness of farmers is seen more positively, but the overall number of respondents is lower: only 23 respondents answered the question. Moreover, the impact on consumption patterns and European consumers' awareness of environmental issues is positively evaluated (the majority gave significantly positive evaluation), but around one third of the respondents did not answer this question.

There are minor differences among the answers according to the professional background of the respondents: farmers and policy-makers seems to be less confident about the positive impacts of the ideal contract type than researchers, but the differences are minimal. Regional differences or decision-making levels also do not seem to be connected to the expected impacts of the innovative contract elements.

## 4. POLICY FRAMEWORK FOR THE NEW CONTRACTUAL MODELS

In the second part of questionnaire, we aimed to reveal the different views of the participants on the role of EU in agriculture policy. The agricultural policy of the European Union historically plays an important role in coordinating, controlling and financially supporting farmers across Europe. We asked the participants about the ideal role of EU agricultural policy in the sustainability transition of the agri-food system, namely, whether the CAP / Farm to Fork Strategy should continue to provide a general strategy and policy framework? Whether EU-level decisions should be more strictly followed at the country level? Or rather, should countries and regions be given more flexibility and freedom to develop their own solutions and nurture bottom-up initiatives of farmers and other land users?

Figure 7 show codes in a word cloud and the frequency of the codes from the analysis of the responses to the open-ended question about the ideal role of the EU in the sustainability transition of the agri-food system.



Figure 7. The role of the EU in agricultural policy. Source: own compilation using the Mesydel platform.

Not surprisingly, the respondents see a huge responsibility of the EU in the analysed question. Its role appeared in many different policy arenas, beside of the CAP, like customs, use of pesticides, and trade agreements. There was a reference to the EU or it was mentioned in almost all of the responses; thus we decided not to use it as a code in the analysis. The possibility of regional or

national level differentiation was also frequently mentioned, as the above figure shows: 15 and 10 times:

*“The CAP should provide a general framework and should give more flexibility and freedom for developing the most suitable solutions in the member states, but must also ensure a level playing field for MS's; its role of region, nation.”*

Respondents frequently emphasize the importance of flexibility also related to this question:

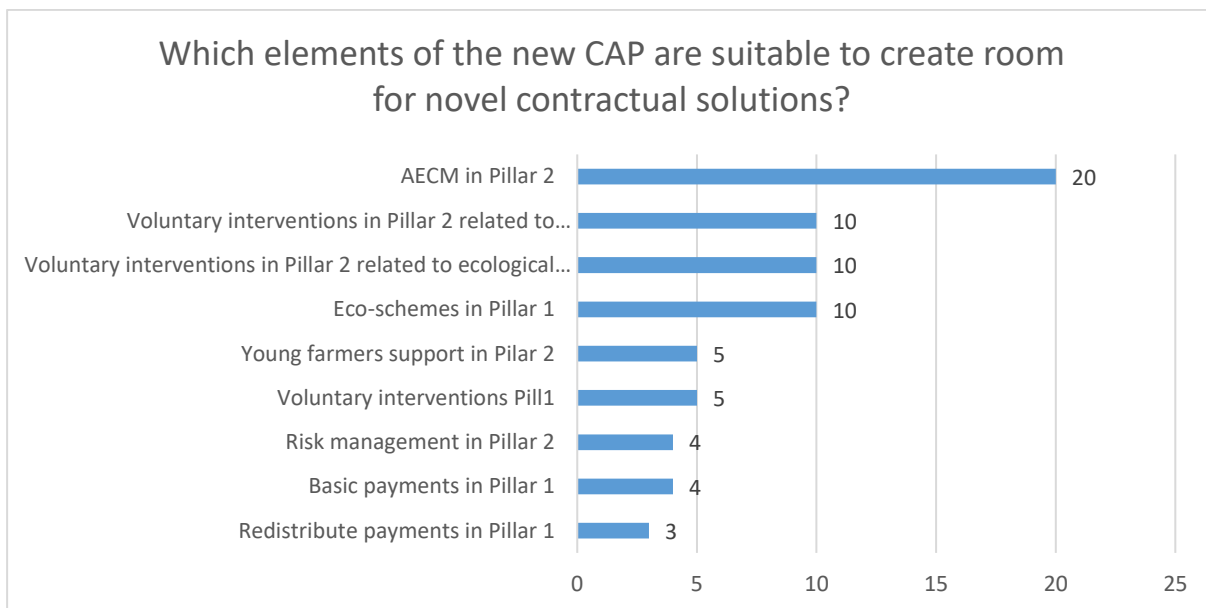
*“At the same time, member states should account with enough flexibility to design intervention to achieved this common objectives considering the own national context, strengths and barriers.”*

Strategy is appearing as a task for the EU-level (centralized) decision-making, which has to ensure similar rules and basic standard for all member countries:

### **Room for novel contractual elements in the CAP**

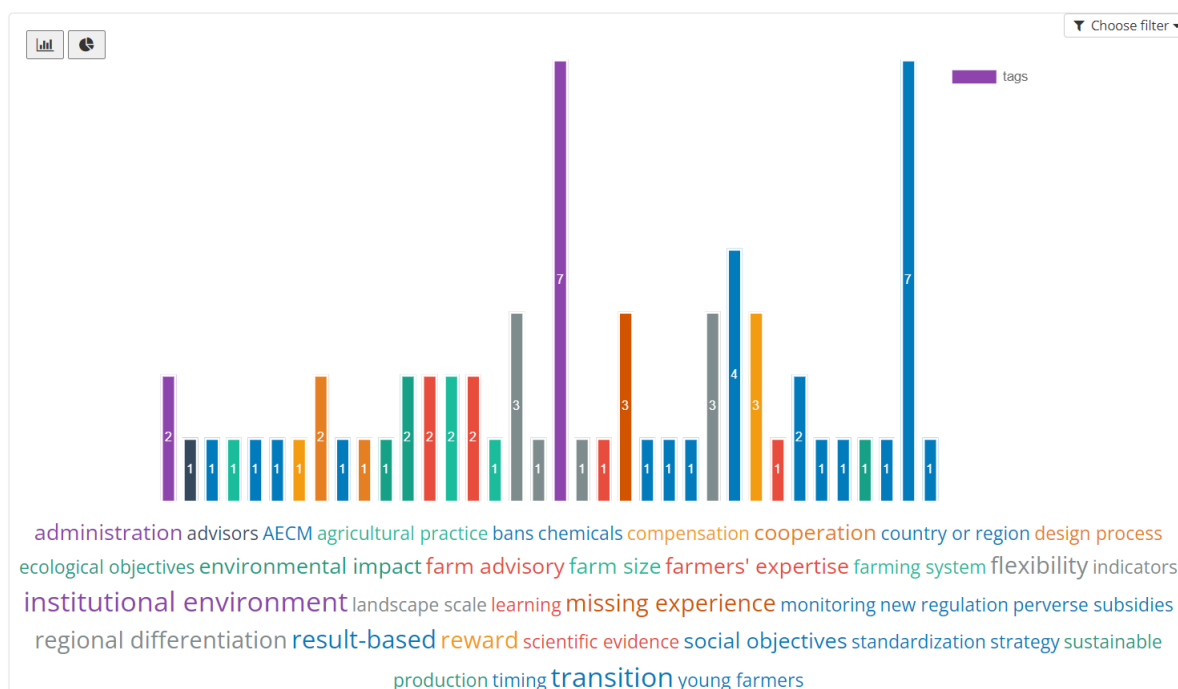
The second round of the Delphi also tried to explore the opinion of the experts and practitioners about the proper place of the novel contractual elements within the CAP. Respondents could choose one or more of the following schemes as a proper room for the innovative contracts:

- Basic payments in Pillar 1
- Redistribute payments in Pillar 1
- Eco-schemes in Pillar 1
- Voluntary interventions in Pillar 1 (i.e. young farmer support, coupled support, sectoral interventions)
- Agri-environment and climate measures in Pillar 2
- Young farmers support in Pillar 2
- Risk management in Pillar 2
- Voluntary interventions in Pillar 2 related to ecological constraints
- Voluntary interventions in Pillar 2 related to investments, knowledge exchange and cooperation



**Figure 8.** CAP elements creating room for new contractual solutions. Source: own compilation based on the 2nd round of the Delphi survey.

The place of new contract elements is highly disputed as Figure 8 shows. Different measures in Pillar 2 were mentioned most frequently; 49 times altogether. Measures in Pillar 1 were less frequently mentioned (22 times).



**Figure 9.** Explanation of the room for innovative contract elements in the CAP. Codes for the open-ended question Source: own compilation based on the 2nd round of the Delphi survey.

Analysing the open-ended answers of the explanation we found that institutional questions are mentioned most frequently, followed by contract characteristics.

According to our analysis, there are three main solutions to ensure the room for the innovative contractual elements: the pliable, the practical, and the revolutionary solutions.

The *pliable solution* aims at finding the room in the easiest and most convenient way:

*„Novel contracts need the space where they fit in. (...) For this reason new fields like young farmers and knowledge are the right place.“*

The most *practical solution*, which is the most frequent at the same time, suggests defining the place of typical practice-based contract models in Pillar 1. Also the compensations and/or rewards for other innovations (e.g. links to value chain) could be in Pillar 1 voluntary interventions, while allocate resources for result-based top-ups in Pillar 2:

*“The suitable room to create novel contractual solutions are the Agri-environment and climate measures in Pillar 2, given their voluntary and contractual nature for 5-7 years, but other voluntary interventions in Pillar 1 (coupled support, sectoral interventions) and Pillar 2 (ecological constraints; investments, Knowledge exchange and cooperation) can or should even be associated to help and contribute to better environmental results of new contracts.“*

The *revolutionary solution* argues for a complete re-design of the CAP:

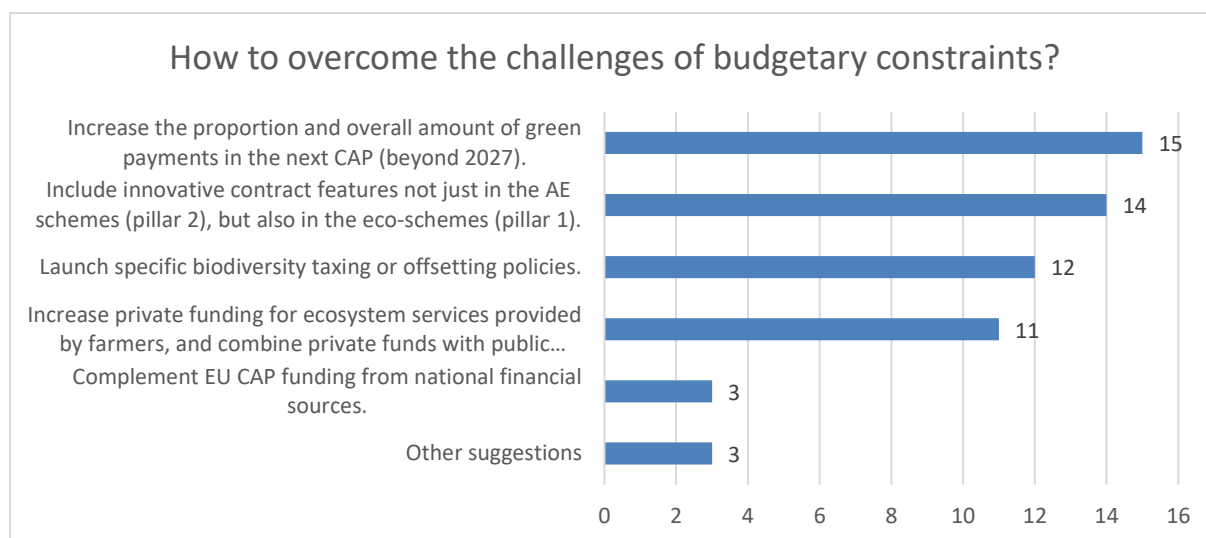
*„It doesn't make sense to get reinforced conditionality (...), good ecoschemes and agri-environment measures without a proper redesign of basic payments and the removal of perverse subsidies for people, climate and nature (prohibition of pesticides, levies ...).“*

or:

*“The new elements of the CAP (especially the Eco-schemes but the agri-environment and climate measures also) are not suitable for the new, result-based contracts. New regulation is needed.“*

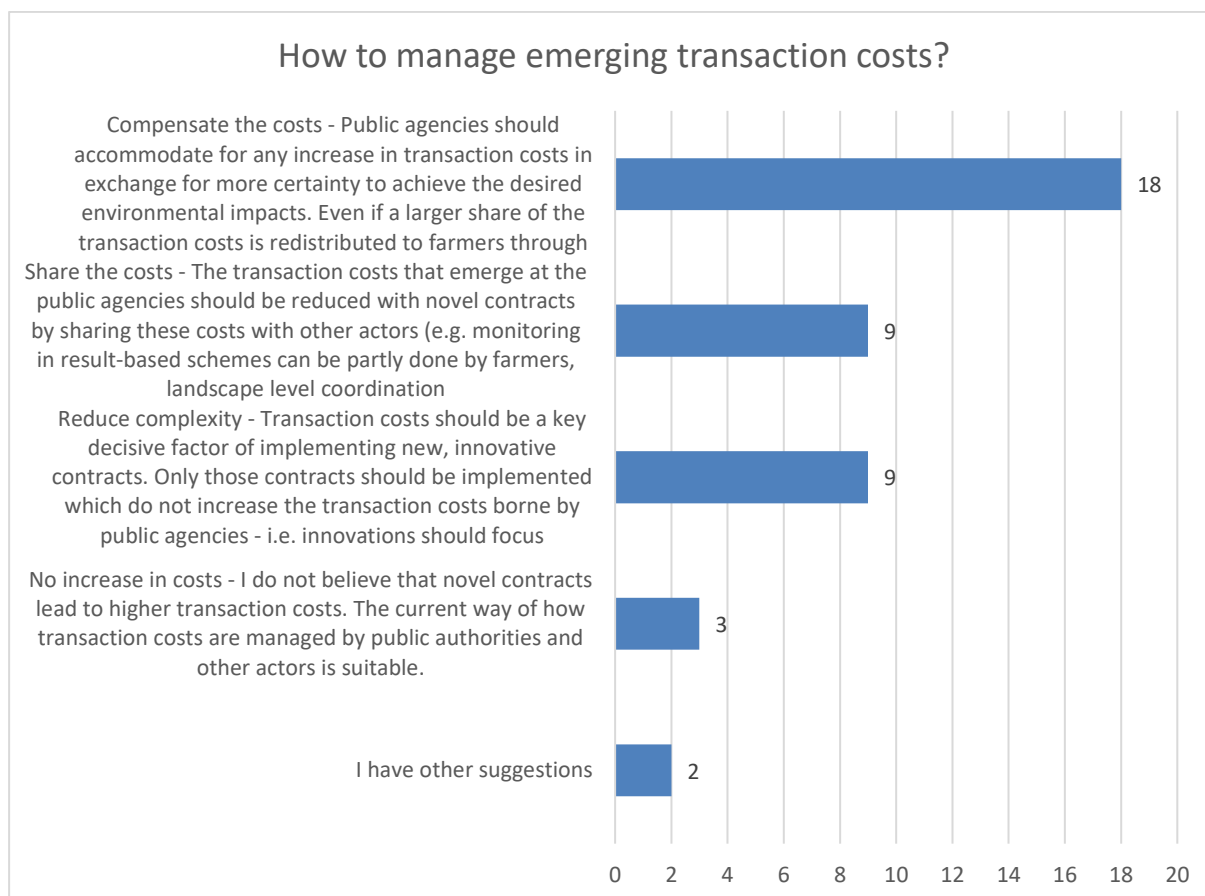
## 5. KEY CHALLENGES

In the last part of the Delphi, we aimed at revealing the ideas of the decision-makers, farmers, NGO representatives about the possible challenges, and how they see the possible solutions of these challenges. We asked them about budgetary constrains, emerging transaction costs, emerging risks and, finally, knowledge and lack of expertise.



**Figure 10.** How to overcome budgetary constrains. Source: own compilation based on the 2nd round of the Delphi survey.

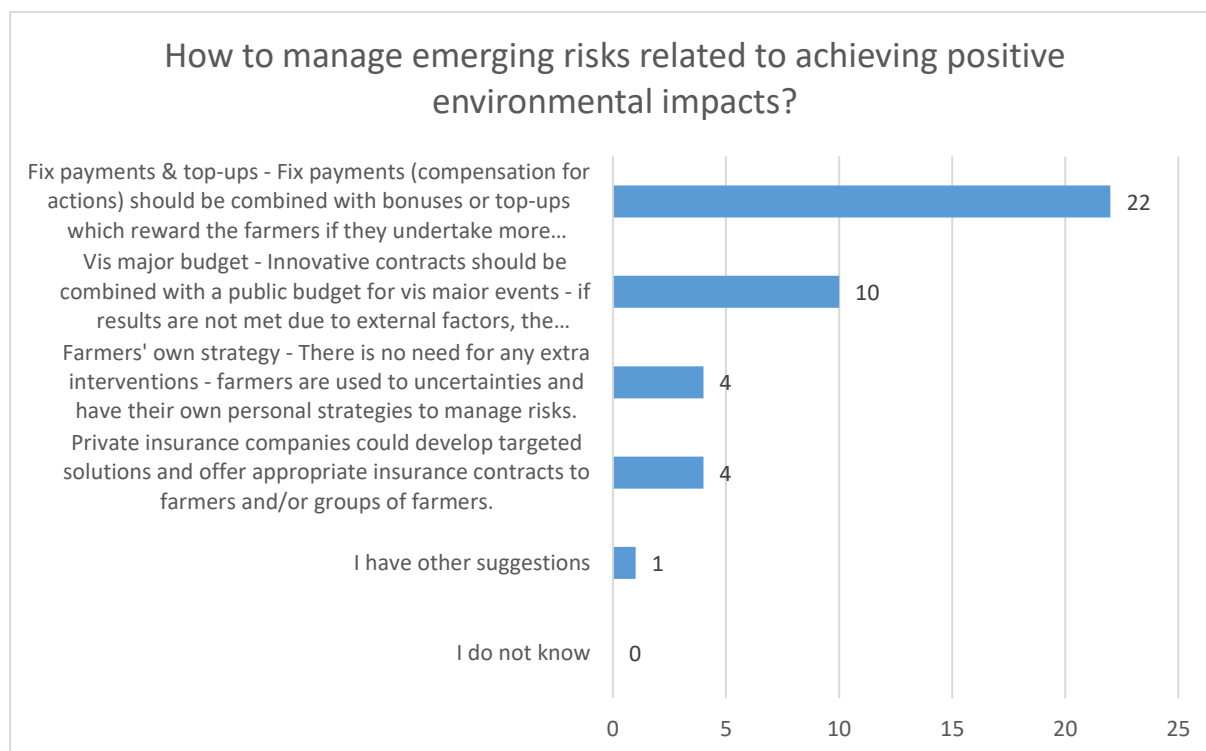
As Figure 10 shows, the solution of the challenges is expected from EU/state level policy interventions. According to the respondents, budgetary constrains could be handled by increasing the overall amount of green payments in the next CAP and by including innovative contracts in Pilar 1 and 2; it was mentioned 29 times. Despite of the popularity of this solution, private funds were only named 11 times. Introducing biodiversity taxing or offsetting policies seems to be slightly more popular, with 12 mentioning. Complementing EU funds from national budget was mentioned only by 3 respondents.



**Figure 11.** How to manage emerging transaction costs. Source: own compilation based on the 2nd round of the Delphi survey.

Our research shows that no one really hopes that transaction costs will not emerge (only 3 respondents). Furthermore, in the case of emerging transaction costs, respondents see that public institutions have an eminent role in reducing them, and farmers have to be compensated (18 choices). It was mentioned 9-9 times that transaction costs should be shared among the actor, and complexity should be reduced to keep transaction costs lower.

Further suggestion mentioned that there could be a differentiation according farm size and also according to the life cycle of the contract: there are more transaction costs in the first years than in the following ones.



**Figure 12.** How to manage risks related to achieving positive environmental impacts. Source: own compilation using the Mesydel platform.

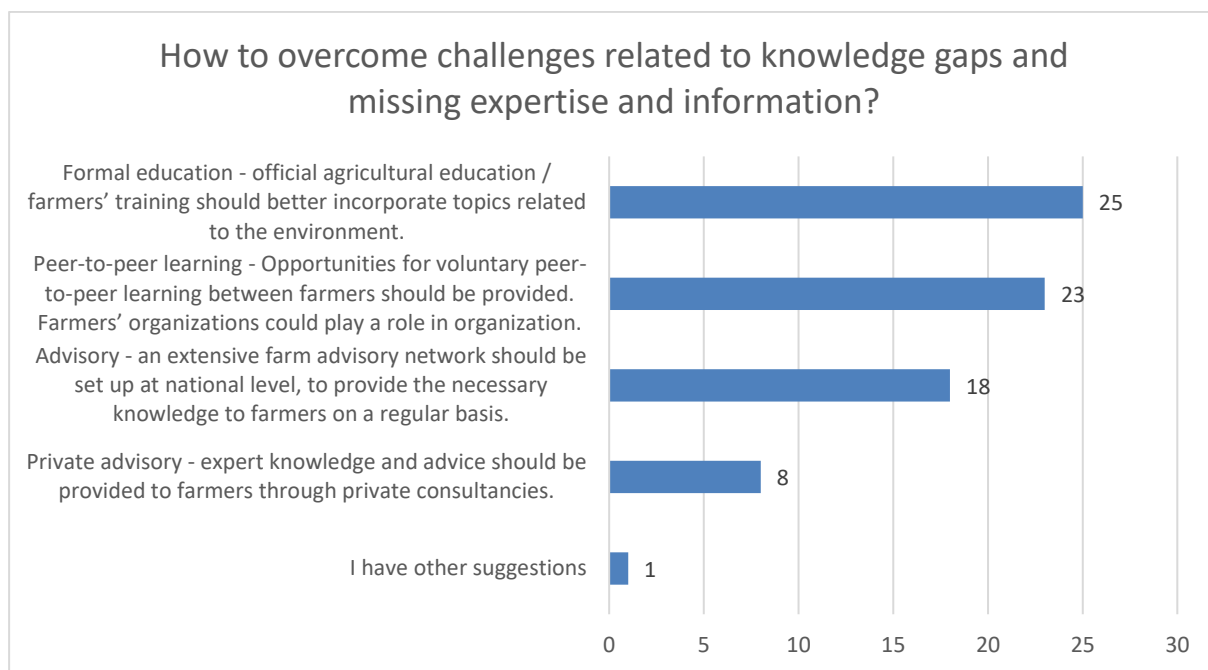
Emerging risks should be handled by fix payments (22) and vis major budget (10), instead of private insurance or farmers own strategy (4-4 mentions).

One of the respondents suggested the following:

*“Indicators which create payments to farmers need to be chosen in a way that external factors do not influence them. E.g. instead of paying farmers for having specific bird species on their land it might be better to pay them for providing specific habitat features that are needed by this bird species. In cases of vis maior farmers should still get their payments.”*

In other words, the careful selection of indicators and clear rules in cases of unexpected events could also help reducing uncertainties.





**Figure 13.** How to overcome knowledge gaps and missing experience. Source: own compilation using the Mesydel platform.

According to the respondents, formal education (25), peer-to-peer learning (23) and public advisory (18) could fill in knowledge gaps and missing expertise.

Based on the second round of the Delphi research we have a clearer view about the possible place(s) of the innovative contracts in the new CAP architecture; about the dissensus and consensus around its possible impacts and challenges. In the third and final round of the Delphi we aim at better understanding the policy coherence, which is one of the key issues according to the previous two rounds. In this next round we collect more detailed information about the impacts of different agri-environmental policy instruments, such as the eco-schemes, agri-environmental and climate measures. Finally, we ask the respondents to reveal the potential synergies and controversies between these policy instruments and an innovative contract prototype, built from the results of the previous rounds.