Transaction costs and the delivery challenge of Rural Development: reflections from Malta's experience

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Contributed Paper prepared for presentation at the 88th Annual Conference of the Agricultural Economics Society, AgroParisTech, Paris, France

9 - 11 April 2014

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Abstract

Transaction Cost (TC) economics is highly relevant to public policy issues, enabling exploration of the influence of institutional and organisational arrangements upon policy performance. As policies evolve, often becoming more multifaceted as they grow, so the associated transactions costs increase and this affects policy outcomes in multiple ways. We consider this phenomenon in the case of rural development (RD) programming under Pillar 2 of the CAP. Expectations of what RD funding should deliver are both broad and significant. However, performance frequently falls short of goals. From detailed analysis of the experience of RDP review and planning in Malta, we aim to analyse how transaction costs, in both private and public spheres, may distort and undermine RDP performance in ways which are largely unrecognized at EU level. At the same time, we identify potential 'transaction benefits', when exchange processes are designed in ways that generate positive returns going beyond those of the immediate transaction. We suggest that more attention to these aspects of policy design is warranted.

Keywords rural development programmes, transaction costs and benefits, policy performance

JEL code Q180 Agricultural policy; B520 Institutional economics; H540 government expenditures, infrastructures and other public investment

1. Introduction

Neoclassical market economics is based around the analysis of exchange as a basic and fundamental characteristic of human and societal development. But while standard market analyses tend to concentrate upon the outcomes of exchange – the interplay of supply and demand, and the establishing of equilibrium conditions – less attention classically was devoted to considering the process of exchange, and the effects that this process might have upon outcomes. The gradual emergence of institutional economics as a significant strand in the discipline has stimulated more consideration of processes and governance in markets, and of the costs associated with transactions, which may influence outcomes by acting as a 'barrier' to the effective attainment of equilibria between supply and demand, in a variety of situations. A variety of authors has documented and analysed how transaction costs (TCs) can affect market outcomes, largely focusing upon the impacts experienced by firms operating within commercial contexts.

More recently, a literature has developed which has turned its attention to the occurrence of TCs in a policy context, where policy makers seek to influence commercial operators through a variety of market-related mechanisms including financial and fiscal incentives (grants, taxes and subsidies) as well as information and advice. These authors highlight the ways in which policy performance may be (usually) negatively affected by TCs experienced by both public and private actors, which can lead to sub-optimal outcomes, from a welfare point of view.

In this paper, we explore how such phenomena arise in the context of the programming and disbursement of significant sums of money under the Common Agricultural Policy's second pillar: the Rural Development Programmes (RDPs). These seven-year, multiannual funding programmes are intended to contribute to European goals for the sustainable development of agriculture and rural areas across the EU-28. They have very broad purposes and are composed of a suite of different funding 'measures' including investment aids, annual compensation payments and funding for management, planning, training and advice (Dwyer et al, 2008). Member States are obliged to design and implement programmes tailored to their own specific needs and opportunities, but seeking common outcomes in respect of pre-agreed, EU-level goals (European Commission, 2006). In practice, there is accumulating evidence that this process is under-performing in a number of key respects (Kantor, 2012; Schuh et al, 2013; ECA, 2013).

Detailed empirical work to support RDP planning and implementation in Malta has given the authors of this paper valuable insights into the significance of TCs within this process, and the ways in which they can both (often) hinder and (occasionally) help policy performance. It is our aim in this developing paper and in discussion at the conference to use this experience to analyse TCs' impacts on RDPs, to categorise them and to discuss how they can be either minimized or transformed into what we call 'transaction benefits', to the ultimate benefit of RDP performance.

The paper is thus structured in the following way. Section 2 discusses the concept and theoretical treatment of TCs, and then summarises their relatively limited application in respect of work on public policies for agriculture and/or rural development. Some contributions from the established literature on this topic are analysed to identify what they cover and what they add to knowledge, as well as seeking to identify scope for extending or developing theory in respect of the net benefits, as well as the costs, of *transactional processes* (as opposed to those of the goods and services exchanged). Section 3 sets the policy context for our analysis by briefly introducing RDPs and their programming, noting their significance under the Common Agricultural Policy and outlining early indications concerning their performance, from the available policy and evaluation literature. In Section 4, we will discuss our empirical experience of TCs in Malta's RDP and analyse their origins and their impacts; noting the role of both EU-level and national institutional factors in shaping how TCs affect RDP performance; clarifying the variety of types and magnitudes of TC observed, as well as considering our notion of 'transaction benefits' where net positive value arises from certain approaches to the process of exchange. We conclude in section 5 with an attempt to suggest the wider relevance of these observations for improved policy-making, for rural development in Europe.

2. Transaction costs and their application to public policy for agriculture and rural areas

2.1 The concept of 'transaction costs'

The concept of transactions costs (TCs) developed in the 1930s during the era of the great depression when Hicks and Coase were exploring factors that influenced the notion of 'efficient' economic production (Williamson, 1981). From the start there was disagreement on the nature and origin of transaction costs, which has continued to the present day, leading to a multitude of definitions (Musole, 2009; Williamson, 1981). Early on, Commons (1931) conceptualised transactions between participants as the 'smallest unit of economic activity', requiring the negotiation and acquisition of property rights before any exchange could take place, which later led on to the property rights notion of transactions costs. Commons identified three main types of transaction which give rise to costs: bargaining transactions, managerial transactions, and rationing transactions. The differences between these categories derived from different governance arrangements; whether the transaction was between two parties with ability to negotiate, or taking place within a strictly hierarchical relationship where one party instructs another.

Hicks (1935), on the other hand, viewed transaction costs as 'friction' arising from 'the cost of transferring assets from one form to another'. This is interesting, as it suggests TCs arise where any asset, public or private, is transferred – irrespective of the notion of bi-directional 'exchange' between two parties. Initial interest was focused on the 'friction' inherent in the private sector where institutional arrangements affected the resources necessary to ensure successful exchange, both between and within firms. Following the development of the welfare state, and more recently environmental quality concerns, governments have sought to extend their influence on markets to ensure the delivery of societal goals, or 'public goods and services', through funding programmes. Where commercial markets do not provide the level or quality of goods or services deemed desirable from a social welfare point of view, governments act to create markets, stimulate actions and establish or amend property rights in order to address this shortfall. Inevitably this involves transaction costs, both in terms of state 'creation and organisation' of markets and funding instruments, but also in terms of costs to those who enter into contracts with the state to provide the desired outcomes. One example of such action is the EU funding programmes created under the European Agricultural Fund for Rural Development (EAFRD), which are based on transferring assets (funding) from the EU level to the Member State or region. In turn the member state/region distributes the assets among a range of public good 'providers' (also termed beneficiaries), where the beneficiaries agree to deliver something in return for that funding. At each stage of the transfer process, 'friction' will occur, implying the need for effort, resources, and political will, to overcome it. Musole (2009), whilst noting that, 'public policies...generate change in the prevailing systems of property rights through their effect on incentives and transactions costs', identified a wide range of transaction cost (TC) 'types' in this context, including market, managerial, and political TCs, and further distinguished between 'fixed' and 'variable' TCs (where fixed costs refer to specific investments in establishing the institutional arrangements for exchange, and variable costs relate to the number or volume of transactions occurring). So, in a rural development policy context, we can identify a division between 'fixed' TCs which establish the framework for operation of the funding mechanisms, and 'variable' TCs as those costs incurred every time a programme, project, scheme or contract is agreed for funding.

In much of the early economics literature, TCs are usually discussed in a negative sense – with an underlying assumption that a world without TCs would be more economically efficient, and thus by implication preferable, to the real-world situation where they always exist. North (1990), however, discusses how TCs can stimulate institutional learning and 'adaptive efficiency', with both positive and negative impacts on economic performance that relates in part to the phenomenon of path-dependency in development. In his discussion of policy and TCs, North distinguishes those arising from asymmetric information within a negotiation process, and TCs for the monitoring and enforcement of agreements once made. Schmid (2004) notes that TCs may not always be a negative influence: 'in the world of human organisation, one person's cost is another person's opportunity'; noting four main ingredients contributing to TCs: 'information or measurement costs, contractual costs, the commitment problem in the context of asset-specificity costs, and the costs of fundamental uncertainty' (Schmid, 2004: 113). Further, he discusses how each of these may apply to transactions between individuals or organisations and how all can apply in the sphere of policy making.

Schmid takes issue with Hicks' notion of TCs as a friction; arguing instead that in many circumstances, if carefully addressed, they are entirely rational processes used by organisations to enable transactions to achieve more efficient outcomes. This point is highly resonant with the RDP experience that forms the empirical basis for our paper. We suggest that Hick's notion of 'friction' could carry positive connotations, as well as negative ones. The activity surrounding transactions can be viewed as a desirable 'slowing down' of activity, of 'applying the brakes', to provide the time to gather information and build trust between partners in an exchange, time to check whether the other person's intentions are honest, to reduce uncertainty and provide re-assurance of a positive outcome. The costly activities surrounding transactions (information gathering, meetings, drawing up contracts, monitoring, ensuring compliance), can also produce lasting benefits beyond the immediate transaction, in the form of increased trust between partners, which may result in quicker, cheaper and/or increased exchanges in the future. Transaction benefits may also include indirect effects from engaging in exchange that are incidental to the main objective of the activity. These could include access to information, such as better knowledge of competitors, a more extensive network of contacts in relevant fields, greater skills and understanding concerning the implications of exchange, and thus enhanced capacity for engaging efficiently in future exchanges with other parties. Seen in this light, transactions can be viewed as a balance of costs and benefits, such that constructive engagement in the management of effective transactions implies a weighing-up of that balance and an attempt to achieve an overall positive outcome, inclusive of that process.

In Williamson's discussion of transaction costs arising from 'asset specificity', as participants become 'locked into' a transaction to a certain degree (i.e. the supplier is locked in as the value of the capital investment would be lower if applied to other activity, and the buyer cannot purchase elsewhere as there may not be alternative sources of supply), he notes that "where asset specificity is high, buyer and seller will try to design an exchange that has good continuity properties." Thus the two parties can enter into a 'bilateral exchange relationship' for a period of time. This phenomenon is particularly the case in the public sector where policies create programmes that might run over a number of years (e.g. the CAP and RDR operate over a six-year cycle), thus attracting a range of interests with a 'stake' in ensuring that the programme continues to produce specific benefit streams. This can lead to path-dependency in programmes, whereby their ability to design and implement strategies addressing current needs and opportunities is constrained by a culture and approach established in previous funding periods, because of actual or perceived barriers to the process of re-design (institutional inertia or conservatism, as noted by Dwyer et al, 2007a).

2.2 Transaction costs in a rural policy context

There is a small literature on the role of transaction costs in the agricultural and rural policy arenas (Table 1 below provides a partial summary) mostly exploring TCs from the perspective of the individual business entering into a contract with the state. Van Huylenbroeck, et al. (2005) differentiated between public and private transaction costs but then focused their attention on the private costs arising from contract negotiations between the state and the individual farmer. Transactions costs in this context were defined as information, negotiation, monitoring, and enforcement costs experienced by farmers entering schemes. In a similar vein, an examination of transactions costs from a farm-level perspective in relation to agri-environment schemes in a number of EU member states defined 'Private sector transaction costs' as: 'those costs borne by scheme participants as a consequence of their participation' in an agri-environment scheme (Falconer and Whitby, 1999; Falconer, 2000).

More recently, Franks (2011) has noted the influence of transaction costs as a factor favouring collective agri-environment approaches (i.e. contracts between the state and some form of grouping of farmers). For Franks, transaction costs are incurred by government in administering agri-environmental contracts, and by farmers in deciding whether or not to enter a scheme and which options to select. He notes that Slangen et al (2008) reported work which concluded that collective contracts reduce TCs for private actors, suggesting reductions in TCs relating to 'information acquisition' and 'monitoring and enforcement', through the formation of groups in which members trust one another and seek to act together. Franks analysed experience of collective agri-environment schemes in the Netherlands and suggested that similar effects may be contributory factors explaining why these initiatives appear to increase policy performance.

Mettepenningen et al. (2011) attempted to catalogue TCs in relation to agri-environment schemes in nine EU member states. The focus of this work was on 'public transaction costs' – but specifically those relating to the design and delivery of agri-environment schemes - in order to examine the potential for 'more efficient national governance structures'. TCs were described to participants in the study as including any activities associated with: the design of AESs, contracting, making payments, monitoring, control, evaluation, and providing advice and support to assist with these processes. The research explored the views of those involved in AES design and delivery (excluding farmers), and estimated costs in terms of the time input of a range of actors carrying out these tasks, over the period 2000-2006. The results suggested that measures designed and delivered in close exchange with farmers' associations, and those focused upon reducing the negative externalities of farming (rather than enhancing positive aspects) had relatively lower transaction costs.

A broader analytical approach considering the policy arena of rural service delivery in England (Curry, 2012) concluded that changes in government policy had led to increased costs of rural service delivery, most significant of which were a rise in contracts for the provision of services, an increase in the number of organisations involved in service delivery, and the associated increase in planning, strategic partnership development, and monitoring that this entailed. Curry makes the specific point that the proliferation of organisations involved in service delivery has increased transaction costs. Empirical research in one county of the UK identified 133 separate rural funding streams emanating from a large number of public bodies. In a similar vein, Moseley *et al*. (2004), the Carnegie UK Trust (2006), and the National Council for Voluntary Organisations (2004) noted that for rural areas the development of the contract culture (government contracting-out of services formerly delivered by the state), has led to growth in monitoring and evaluation of rural decision-making bodies in respect of their public expenditure, and that this ‘…has been the single biggest cause of escalating costs for grassroots rural action over the past 20 years in England.’

Another area of rural policy activity in which transaction costs have been considered in the literature is environmental policy. Coggan et al. (2010) explored transaction costs related to environmental policy making. They developed a typology of seven categories of TC associated with the ‘creation and use of environmental policy’, exploring how each is experienced by public and private stakeholders. The process of identifying and examining the role of transaction costs in policy delivery is not straightforward and the authors note that TCs do not exist independently of the institutional and governance structure, which in turn is established through the ‘friction’ generated in the bargaining process over property rights. Jaraite et al. (2009) examined transaction costs in the EU CO_2 Emissions Trading Scheme at the level of the individual firm. Empirical study revealed the significance of the set-up and monitoring costs within the public administration, and noted a heavier cost burden on smaller firms once the market was operational.

In table 1 we make a summary of the coverage of different types of TC by these studies, using the seven categories as applied in Coggan et al (2010). What is interesting to note is the concentration upon TCs occurring during the two phases of negotiation of a contract, and checking compliance. The wider studies (rural services, environment) gave some attention to the TCs associated with establishing the framework for exchange, but relatively few examined how perceptions and understanding influence TCs. We will be examining all of these phenomena, in our empirical case study of Malta.

In this rural policy-related TCs literature, a notion of ‘transactions benefits’ is absent, except insofar as some authors consider the benefits to policy or to private actors from taking steps to reduce transaction costs. But some such notion has been identified in the corporate governance literature: Blomquist et al. (2002), exploring volatile markets where businesses are dealing with high asset specificity, identify a range of benefits accruing to the firm through ‘dynamic activities’ as a result of engaging in partnership activities. These are: economies of scope through learning; cumulative learning; enhanced capacity for dealing with uncertainty; enhanced capacity for dealing with innovation; and managerial and production benefits (e.g. economies of scale, reduced investment costs; reduction in opportunistic behaviour).

Table 1. TCs as covered in studies on rural development approaches and measures (after Coggan et al, 2010)

	Category of transaction cost identified							
Source	Knowledge & information	Perception & understanding	Application	Negotiating contracts	Management requirements	Monitoring & evaluation	Compliance	Other
Agri-environment schemes Falconer (2000)	X	X	X	X			X	Consultants; mapping; quality assurance
Agri-environment schemes Mettepenningen et al. (2011)		X		X	X		X	Level of experience; decentralization; targeting of schemes; cooperation
Agri-environment schemes Franks (2011)	X			X		X	X	Collective action
Rural delivery funding decisions (Curry 2012)			X	X	X	X		Accessibility to schemes; mission drift; increased reliance on volunteers
Environmental policy (Coggan, 2010)	X			X	X	X	X	Support and administration; programme design

These categories of benefit arising from 'good policy design' have been cited in wider rural and environmental policy literature, but not in a context specifically focused upon the processes of transaction. Dwyer et al's study (2007b) of policy approaches to encourage positive environmental behaviour among farmers and land managers emphasised the potential for policies designed as 'learning processes' which engender trust and confidence between policy agents and beneficiaries, to produce changes in behaviour which are more lasting than those resulting from simple 'hands off' payments-for-prescribed actions. In the case studies examined by Dwyer et al, successful environmental management was closely linked to processes in which farmers felt engagement and ownership of the environmental agenda, as a result of the way in which 'transactions' (i.e. the negotiation and agreement of positive environmental management actions) had been conducted. In these instances, the process of transaction has a capacity to produce net benefits – i.e. not simply reducing the costs associated with that particular exchange around which they are focused; but also generating knock-on benefits by stimulating further exchanges. The process is similar to North's (1990) notion of adaptive efficiency, sharing many points in common with his and Schmid's (2010) discussions of organizational tactics in uncertain markets, but with particular relevance to governance and policy.

3. Rural Development Programmes and Transaction Costs

3.1 The role and significance of Rural Development programmes

Rural development programmes under the second pillar of the CAP have increased significantly in scale and scope since their constitution in 2000. Perhaps the biggest stimulus for this increase was EU enlargement in 2004 and 2007, whereby rural development was prioritised for funding by the Council, over and above the potentially much more costly extension of the system of direct payments under Pillar 1 of the policy. The stimulus of enlargement greatly expanded the total EU and national budgets devoted to RD programmes under the CAP, as well as adding a suite of new measures to the RDP 'menu' available to Member States and regions. Today, the rural development share of the total CAP budget is around one-third, and the range of goals and targets embraced within the scope of actions and measures is very broad, encompassing economic, social and environmental development outcomes (Dwyer et al, 2012).

Evaluation of the performance of RDPs under the CAP has become an increasing challenge for Member States and for the EU, in recent years. With only one full programme period (2000-2006) evaluated *ex-post* since 2000; the fact that the programmes have been in place for more than a decade has raised political expectations that by now, it should be possible to draw some meaningful conclusions about what they are achieving (Comagri, 2013). Accordingly, the formal evaluation process as required under legislation has been shadowed and pre-empted by a number of more interpretive and qualitative studies undertaken for the European Commission, by the European Court of Auditors, and for NGOs and other rural policy actors, notably including the European Network for Rural Development (ENRD). From these studies and from the official meta-evaluations of the Programmes (ex-post in 2008 for the 2000-2006 programmes, and mid-term in 2011 for the 2007-2013 programmes), it is apparent that programmes exhibit a number of weaknesses in performance which result in a failure to make a significant impact upon many of their key priorities.

The list of issues that have been identified in these EU–level studies shows many similarities with the problems that have been identified with TCs in the business and organizational literature. Low rates of absorption (Schuh et al, 2012), inefficiencies in delivery (ENRD, 2010), low levels of uptake particularly in some countries and in relation to more complex actions and measures (RuDI, 2010), high levels of deadweight for some of the largest-spending elements in programmes (Erjavec, 2012), and insufficient targeting of local needs – for instance, in areas dominated by very small and semi-subsistence farms (Davidova et al, 2013), have all been noted. Together, these issues point to the central role of policy delivery in influencing performance, which contrasts strongly with the relatively low profile accorded to this element in the legislative framework and guidance for RDPs (because this aspect of programme design is not seen as an area of EU competence).

3.2 TCs applied to RDPs

Considering the transactions that inevitably occur between public policy agents and private actors (farmers, foresters, rural businesses and communities) in this context, it is apparent that there is a relationship between programme performance and the nature and influence of the conditions for transaction.

'Friction' is usually viewed in theory as something which reduces the efficient operation of the market. But 'friction', when properly applied, can also create benefits. In real-world markets, the phenomena of imperfect information and contingent preferences mean that parties taking time to negotiate an exchange can be a rational and efficient strategy, particularly when the transaction relates to a long-term commitment to funding or management obligations. Just as in a car where the friction from the brakes is as important as the ability to accelerate, providing drivers benefits by avoiding costly collisions, so transaction costs may apply friction to slow down responses to market forces, providing some time to gather information, analyse and make better-informed decisions, thus reducing risk. This rationale can apply equally to both parties in the transaction – in this case, the public agency offering the funds, and the private beneficiary committing to deliver action, in return.

However, local level evaluations suggest that within the process of transacting, there is also scope to view TCs as a kind of 'investment' capable of improving the longer-term cost-effectiveness of funding, as well as costs in their own right. Transaction activities to overcome 'friction' can include actions that bring benefits (as well as costs), for example, that improve individual welfare, or social welfare through improving programme quality, implementation, or increased learning about the best way to deal with a particular set of problems. Exploring these benefits and how they might be balanced against the immediate 'costs' of transactions arising from friction in relation to RDPs, is the focus of this paper.

The development and implementation of RDPs creates a series of TCs associated with:

- Establishment of complex, multi-measure and multi-objective programmes to distribute public funds in pursuit of sustainable rural development
- Negotiation between government departments, and between a wide range of stakeholder organisations, to agree a set of objectives and priorities for programme expenditure
- Provision of support and advice
- Agreement on the sequence of actions, processes, and interactions between organisations charged with different elements of RDP delivery and oversight (eg Managing Authorities and Paying Agencies, planners, and others who must be consulted on proposals)
- The actual scrutiny, selection, approval and agreement of project funding with beneficiaries
- Requirements to monitor and enforce compliance with scheme conditions, once the funding is agreed and/or works are undertaken and grants are claimed.

On the part of policy, there is constant audit pressure to drive down the 'TCs' that accompany RDP implementation. This applies equally to the factors creating TCs and to those which might actually represent transaction benefits, as we have defined them – i.e. increasing the value of the outcomes of the programme. This in turn means the conditions for creating the benefits do not always materialize; where the lowest TCs might not be the best option for programme delivery.

Information TCs are a significant challenge in respect of rural development programmes and measures. Some arise in the transactions between the European Commission / EU funding and the Member State administrations, where MS goals do not match EU prior expectations, and MS' find that their needs are not fully included or reflected in EU objectives. There may be lack of understanding of EU goals among programme personnel, and/or direct disagreement with EU goals. In respect of the transactions between Managing Authorities and beneficiaries, information TCs are also significant. Beneficiaries may not understand the desired outcomes of RDP funding, and policymakers are unlikely to know the constraints and cost-bases of target beneficiary groups. Beneficiaries may lack the skills and training to be able to address some of the basic conditions for making applications (e.g. business planning), and thus may perceive these as requiring professional assistance. The costs of acquiring such assistance may outweigh the benefits of the funding on offer, discouraging applications and reducing uptake of funding.

Managerial TCs are also significant: the Commission applies relatively complex (and resource intensive) requirements upon Managing Authorities (MA) in Member States and regions in respect of auditing, accounting, monitoring and evaluation; as well as complex requirements for programme specification and reporting. Where MAs have a lack of expertise (human capital) to deliver these things effectively, they may simplify and rationalise the scale and scope of programmes in order to render them feasible to operate, rather than designing first and foremost to meet local needs. Alternatively, MAs may design complex schemes with robust criteria and then find that they simply cannot disburse the funding through these mechanisms as a result of a lack of engagement on the part of beneficiaries, who find the processes difficult to access and understand. In these conditions, programmes and their expenditure may be 'captured' by the strongest institutions on the basis of their greater ability to cope with the managerial TCs, rather than on any evidence of greater need or opportunity to deliver appropriate RDP outcomes.

4. Transaction benefits and costs in Malta's RDP planning and implementation

The authors of this paper have been involved in a 2-year process of RDP review and planning in Malta, a very small, island Member State which acceded to the EU in 2004. Our role has been to learn lessons from the pre-existing RDP experience, and to use this to stimulate and animate a process of priority-setting and stakeholder engagement for the design of the new programme for 2014-2020. Alongside the analysis of pre-existing data and information concerning the state of the rural environment and economy, as well as the characteristics and key trends in the farm sector and food supply chains, our role has been to build collective understanding and commitment to the new programme among all the key stakeholders in rural Malta, including private and public sectors, large and small businesses and community and voluntary organisations. In this process, we have built a systemic understanding of farming and rural development processes and needs in Malta as well as assessing the underlying causes of key weaknesses, and potential for improvement, in RDP design and delivery. More than 40 individual interviews have been held with stakeholder bodies, as well as several large meetings with stakeholders and National Rural Network members, to discuss and identify RDP priorities. Five facilitated working groups of farmers and other relevant groups were convened and met monthly over a period of 8 months, dedicated to addressing the five key priority themes emerging from the earlier interviews and meetings. These discussions and groups have shaped the components of the new RDP. Equally importantly, they have provided ideas and evidence to support a re-design of the approach to delivery, for the RDP, which is designed to improve the TC impacts and, through this, the ultimate achievements of the programme.

Table 2 illustrates a range of anticipated net transactional benefits from altering the institutional arrangements associated with RDP delivery in Malta. The table summarises transaction costs over the 2007-13 programme period, indicates the changes in transaction costs currently being developed for 2014-20, the direction of change in terms of investment requirements at government level, and the anticipated benefits arising. Although the new programme is not yet EC-approved or operational, some evidence is already appearing of beneficial effects resulting from the participatory process implemented over the past two years. Benefits (actual and potential) reflect a considerable investment in resources to reduce the adverse consequences and costs from a poorly constructed RDP delivery structure, as was perceived for the 2007-2013 programme. Investment in participatory approaches, and extensive stakeholder consultation (time, personnel, consultant fees) have all increased in comparison to the levels of such investment at the same stage of developing the 2007-13 programme. Positive outcomes (the 'transaction benefits') so far identified include:

- positive stakeholder engagement in consultation and in support for the proposed programme;
- potential for higher levels of stakeholder engagement as schemes will deliver mutually agreed objectives;
- increased knowledge and understanding, and positive attitudes of stakeholders;
- proposed streamlined delivery process;
- evidence of changing mindsets on the part of one of the livestock cooperatives that has started to consider whole chain approaches to reduce input costs and enhance market share;
- evidence of changed mindset on the part of the planning control agency who express support for area management plans.

Other areas of transaction costs may not alter. In particular there is little evidence of likely change in relation to monitoring, evaluation and compliance categories of TC. Table 2 suggests investment in these areas will not increase and the costs to RDP outcomes, in terms of limited compliance, may continue at the current level. There is also limited evidence of training and skills development among the personnel required for programme delivery. There is discussion within the relevant Ministry concerning the need for expenditure on training, but currently staff resources are declining and there are no plans for significant training of teams before the new programme start date in January 2015. As a result, we may anticipate continued high transaction costs in respect of delayed scheme development, a lack of transparency, and slow-decision making.

Finally, it is worth noting that external factors may seriously limit the capacity of the proposed rural development programme to operate efficiently, meeting its goals and seeking to build net transaction benefits through the process of implementation. The wider institutional context limits the capacity for change; for example due to a lack of trust between stakeholders borne partly of small-area political allegiances and the strong emphasis upon regulation (as opposed to empowerment) that accompanied the EU accession process. As with areas of small farms in many other Member States (Davidova et al, 2013) Napoleonic inheritance and restrictive landholding and land transfer laws perpetuate the division of holdings into tiny parcels dispersed across the landscape, which significantly increases the costs and reduces the financial benefits to farmers of participation in EU-funded schemes. The first issue will require sustained processes of ongoing stakeholder participation and engagement to overcome, whilst the second issue requires legislative change which raises a whole range of other institutional and organizational TCs. Both factors will continue to limit the benefits that can be generated through changes in the RDP TCs climate, itself.

Table 2. Malta: Transaction Costs and benefits arising from changes to the RDP 2007-13 and 2014-20

Category of costs	Transaction Costs 2007-13	Change in Transaction Costs (potential) 2014-20	Direction of change in cost (time, personnel, financial investments)	Evidence of Transaction Benefits (2014 – 20)
Programme /scheme design	• Low stakeholder engagement – programme did not meet stakeholder needs • Large number of schemes; over and under-subscription issues • Inexperienced, untrained personnel • Poor understanding of EU mechanisms and requirements	• Stakeholder consultation • Training for delivery personnel • Links to programme and government strategic objectives	↑	• Integrated scheme • Enhanced focus on cooperation and partnership • Stakeholder support • Focus on partnership and supply chain working will create synergies • Planning agency open to area management plans
Knowledge & information	• Limited information provided • Low level of stakeholder knowledge	• Stakeholder consultation • Publicity • Use of NRN	↑	• Consultation well supported • Programme proposals widely publicised in non-technical terms
Perception & understanding	• Limited communications potential beneficiaries • Limited advice and support	• Continual communications • Rural hub • Rural animators • Separation of MA from PA • Scope for links between innovations and practice	↑	• Wider understanding of programme objectives • Limited understanding of proposed mechanisms – 'wait and see' (e.g. Fruit and vegetable cooperative)
Application	• Lack of knowledge • Application process perceived as complex and difficult • Fixed deadlines, long time periods between rounds • Negative experiences reduced numbers applying • Lack of support	• Simplified application • Advice and support (one-stop-shop) • Continual application and approval process • Potential to re-apply	↑	• Higher level of scheme engagement • Rapid decision making • Higher quality applications

Negotiating contracts	• Slow process • Low levels knowledge/experience • Lack of transparency • Limited stakeholder engagement	• Limited change • Building on current programme – higher level of experience • Enhanced flexibility	⇨ ?	• Area partnerships offer scope for cooperation
Management	• Isolated • Limited skills • Low levels of experience • Slow development and delivery of schemes • Poor decision making • Lack of transparency • Late payments • Targets not achieved	• Simplified decision making • Establishment of clear criteria • Higher level of oversight • Stronger internal communications required	⇧	• Dairy cooperative exploring whole supply chain actions and diversification • Potential for faster decision making • Area management focus will enable economies of scale and more effective use of resources
Monitoring & evaluation	• Limited monitoring • Lack of information	• Tighter controls on monitoring	⇨	• Limited change anticipated • Potential for reduced monitoring costs in areas covered by partnership agreements
Compliance	• Poor enforcement • Limited compliance checks	• Enforcement capacity weak	⇨ ?	• Unknown • Limited – compliance may still be poor • Improved compliance expected in area s covered by partnership agreements
External factors	• Permitting system delayed application process and scheme delivery • Land fragmentation and leasing arrangements • Low level of knowledge/skills among potential beneficiaries • Low level of trust among stakeholders	• Potential support from planning and permitting body on area management agreements • Potential for fast track permitting • Planning body undergoing re-structuring	⇨ ?	• Linking government objectives in area agreements • Land fragmentation will limit

5. Relevance and lessons for future policy and research

The Malta RDP experience suggests that relatively minor changes in expenditure and attitudes towards scheme design and delivery have the potential significantly to reduce the costs and enhance the benefits of the transactions involved in these public funding programmes.

Of course, Malta might be considered in some senses as a 'special case', being a recent EU entrant, still adjusting to its regulatory requirements, with a low levels of skills and education among rural stakeholders (particularly farmers), as well as limited relevant skills and experience within government agencies. In circumstances such as these, small changes can have significant impacts. However, we note that a range of parallel issues are alluded to in other analyses of RDPs in both new and old Member States (e.g. Gorton et al, 2009, Erjavec, 2012; Micha, 2014), suggesting that Malta's experience is not unique. Similar points have been identified within the much broader work of the ENRD on delivery of RDPs, concluded in 2011.

The research does support the evidence found in other studies on rural development and associated agri-environment programmes (Curry, 2012, Franks, 2011, Mettepenningen, et al 2011, and Falconer, 2000) suggesting we should pay closer attention to the institutional structures of such policy processes and funding programmes, within which transactions take place. Poor institutional structures create too much negative 'friction' resulting in expenditure of public funds for limited return. The potential exists for reducing transaction costs and enhancing transaction benefits if the correct institutional structures are put into place, including sufficient resources for delivery focused training and skills development in what, for many, are new experiences and activities. Improving our understanding of the relative costs and benefits of transactions should be a fruitful area for research.

TO BE CONTINUED

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