CLIMATE FARM DEMO

Subsidies

Subsidies are a form of financial support provided by governments to individuals, companies, or organizations with the aim of promoting specific economic, environmental, or social objectives by reducing the cost of purchases or production (Lago M., 2024). For example, subsidies may be used to encourage farmers to adopt climate-friendly agricultural practices that reduce or avoid greenhouse gas emissions, sequester carbon, and support adaptation to climate change. These can include:

1. **Tax reductions**
2. **European Agricultural Guarantee Fund (EAGF)**
3. **Action-based subsidies**
4. **Result-based subsidies**

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1. Tax reductions

Tier 1	Monetary
Tier 2	**Subsidies**
Tier 3	**Tax reduction**
Description	**Tax reductions** are incentives that reduce some or all tax obligations for specific groups, entities, products, investments, or activities engaged in agricultural practices that implement climate-friendly agricultural actions usually linked to the achievement of certain environmental targets. These reductions aim to stimulate the supply of specific goods and/or encourage the adoption of particular behaviours or economic activities
References	- Lago, M., Mysiak, J., Gómez, C. M., Delacámara, G., & Maziotis, A. (2015). *Use of economic instruments in water policy: Insights from international experience*. Ecologic Institute. Retrieved from https://www.ecologic.eu/14932 - Eurostat. (2015). *Environmental subsidies and similar transfers* (Statistical report). Publications Office of the European Union. Retrieved from https://ec.europa.eu/eurostat/documents/3859598/6923655/KS-GQ-15-005-EN-N.pdf/e3be619b-bb19-4486-ab23-132a83f6ff24 - European Commission. (2023). *Phasing out environmentally harmful subsidies* (Webpage). Retrieved from https://environment.ec.europa.eu/economy-and-finance/phasing-out-environmentally-harmful-subsidies_en

Advantages	Disadvantages
Encourage the adoption of climate-friendly agricultural practices by reducing tax obligations (Eurostat, 2015).	Accessing tax reductions may involve significant administrative burden, with complex eligibility requirements and bureaucratic processes that can discourage participation (Eurostat, 2015; Lago M., 2024).
Farmers' acknowledgment for the implementation of climate-friendly agricultural practices through the granting of tax reductions, thereby improving their net income (AgriPolicyKit, 2024).	Limited availability of this incentive at EU level.

Example Tax reductions: Tax reduction for organic farming in France

Tier 1	Monetary	Supportive	Regulatory
Tier 2	**Subsidies**		
Tier 3	**Tax reductions**		
Example	Tax reduction for organic farming in France		
Summary	The organic farming tax credit is a form of public support for agricultural businesses that adopt certified organic production methods. To qualify, a farm must generate at least 40% of its revenue from organic-certified activities. This credit applies to income tax, regardless of the overall farming system, and can reduce a farmer's tax liability by up to €3,500 per year.		
Type of climate action	**Carbon removal**	**Emission reduction**	Climate adaptation
Appropriate for: Who can benefit from this type of rewarding mechanism (in agricultural sector?)	- Farmers		
Source of rewarding mechanism: Who provides the rewarding mechanism?	**Public**	Private	Public-Private
Rewarding method: What is the reward based on?	e.g. action-based, result-based, mixed		
Type of on-farm action: What is the recipient obliged to deliver in return?	Any certified or 'in conversion' organic farming system.		
Recipient requirements: What requirements must the recipient meet to receive finance?	To qualify, farmers must derive at least 40% of their revenue from activities that have been certified as organic or under conversion. Cumulation rules apply if the farm is already receiving organic farming support.		
Timing of rewarding: When is the reward received?	Ex-post after each annual tax declaration		

Rewarding timeline: How often is the reward received?	Multi-year if the organic farming continues.
Governance: Who manages the programme, provides the reward, and where does the money come from?	These are deductions from the state annual budget. Annual budget discussions between the government and the parliament are key to maintaining the measure.
References:	-French Government. (2024). *Tout savoir sur le crédit d'impôt en faveur de l'agriculture biologique*. Retrieved from https://www.economie.gouv.fr/entreprises/credit-impot-agriculture-biologique -Rogissart, L., Lecq, S., & Tayeb Cherif, O. (2024). *Public spending in the French food system: Which contributions to the ecological transition?* Institute for Climate Economics (I4CE). Retrieved from https://www.i4ce.org/en/publication/public-spending-french-food-system-contributions-ecological-transition-climate/

2. European Agricultural Guarantee Fund (EAGF) (Broad scale climate subsidy)

Tier 1	Monetary
Tier 2	**Subsidies**
Tier 3	**EAGF (Broad scale climate subsidy)**
Description	**The European Agricultural Guarantee Fund (EAGF)** provides income support for EU farmers through direct payments and market measures under the Common Agricultural Policy (CAP). It mainly provides direct income support for farmers, coupled income support and eco-schemes promoting environmental practices. Farmers receiving the direct payments have to fulfil certain minimum requirements (GAECs). Additionally, it finances market measures, such as intervention buying to stabilize prices, private storage aid, sector-specific support or exceptional market disturbance measures (European Commission, 2024a).
References	- European Commission. (n.d.). *European Agricultural Guarantee Fund (EAGF).* Retrieved from https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-guarantee-fund-eagf_en - fi-compass. (n.d.). *EAFRD – European Agricultural Fund for Rural Development*. Retrieved from https://www.fi-compass.eu/funds/eafrd

Advantages	**Disadvantages**
Direct financial support, providing consistent income support for farmers, avoiding land abandonment especially in marginal regions, which are essential for biodiversity conservation and the maintenance of cultural landscapes (Szerletics, Á., 2020; Žickiene et al., 2022; Brady et al., 201)	This incentive may prioritize short-term income support that might not be sufficient to achieve and reward long term sustainability goals (COWI et al., 2021).
Risk reductions due to the income support, reducing the farmer´s exposure to the market volatility (European Commission, 2024a).	Low effectiveness of these payments and negative impact on farm efficiency (Brady et al., 2017, Žičkienė et al., 2022). The more payments farmers receive, the less incentivized they are to adopt the most effective and efficient strategies for adapting to market and environmental changes. This, in turn, results in lower income and a greater reliance on subsidies making the rewarding less efficient (Žičkienė et al., 2022).

Example European Agricultural Guarantee Fund (EAGF) (Broad scale climate subsidy) (Pillar 1)

Tier 1	Monetary	Supportive	Regulatory
Tier 2	**Subsidies**		
Tier 3	**EAGF (Broad scale climate subsidy)**		
Example	European Agricultural Guarantee Fund (EAGF) CAP (pillar 1)		
Summary	Provides financial support to farmers through direct payments and market measures, helping to ensure stable incomes and balanced agricultural markets. With a budget of approximately €198 billion, the EAGF primarily supports farmers through direct income support (~50%), coupled payments (~12%), and eco-schemes promoting environmentally friendly practices (~24%). Jointly managed by the European Commission and Member States, the fund focuses on immediate support for markets and farmers, contributing to the economic and social sustainability of the EU agricultural sector. A substantial share of the EAGF budget is allocated to area-based and coupled income support—flat-rate annual payments per eligible hectare or livestock unit. Fully funded by the EU budget, these payments are often prioritized by Member States over more targeted instruments. However, this has raised concerns, as such payments are frequently seen as inefficient—or even counterproductive—in meeting environmental objectives, and have faced criticism in the past.[1].		
Type of climate action	**Carbon removal**	**Emission reduction**	**Climate adaptation**
Appropriate for: Who can benefit from this type of rewarding mechanism (in the agricultural sector?)	- Farmers - Land users		
Source of rewarding mechanism: Who provides the rewarding mechanism?	**Public**	Private	Public-Private
Rewarding method: What is the reward based on?	Action-based		

1 Special report 16/2021: Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing https://www.eca.europa.eu/en/publications?did=58913

Type of on-farm action: What is the recipient obliged to deliver in return?	Implementation of Good Agricultural and Environmental Conditions (GAECs) as minimum requirements[2]: - Maintenance of permanent grassland (GAEC 1) - Protection of wetlands and peatlands (GAEC 2) - Preservation of soil organic matter (GAEC 3) - Protection of water pollution (GAEC 4) - Prevention of soil erosion (GAEC 5) - Minimum soil cover (GAEC 6) - Crop rotation (GAEC 7) - Preservation of landscape features (GAEC 8) - Protection of grasslands in Natura 2000 sites (GAEC 9) At least 25% of the EAGF budget is dedicated to eco-schemes, which are voluntary for farmers and offer payments for practices that benefit the environment and/or climate. These schemes can support a range of sustainable approaches, including organic farming, agroecology, precision farming, agroforestry, carbon farming, and improvements in animal welfare.

Recipient requirements:
What requirements must the recipient meet to receive finance?
	- Good Agricultural and Environmental Condition (GAECs) standards
	- Meet the Statutory Management Requirements (SMRs) which ensure that the agricultural industry complies with high EU standards for public, plant, and animal health and welfare.
	- Minimum requirements to receive support:
	  - Farmers must submit an annual aid application declaring all their agricultural areas.
	  - Income support is not granted for amounts lower than €100 to €500 (depending on the EU country) and/or where the eligible area is less than 0.3 to 5 hectares.
	  - Perform an agricultural activity or maintain land in good agricultural condition.
	  - Meet the definition of an 'active farmer' as specified by each EU country.

Timing of rewarding: When is the reward received?	Ex-post
Rewarding timeline: How often is the reward received?	Ongoing For the respective funding period (7 years) Payments are typically made annually or in instalments, depending on the national schedules.[3] Payments for Eco-schemes are on a yearly basis

2 https://op.europa.eu/en/publication-detail/-/publication/80d12120-89bc-11ee-99ba-01aa75ed71a1/language-en
3 Understanding EU farm payments. https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/739337/EPRS_ATA(2023)739337_EN.pdf

Governance: Who manages the programme, provides the reward, and where does the money come from?	- The European Commission's Directorate-General for Agriculture and Rural Development (DG AGRI) manages EU policies on agriculture and rural development. - The Multiannual Financial framework (MMF) establishes the maximum spending ceiling for the CAP. - The fund is administered by the European Commission in collaboration with member states, providing some flexibility to tailor policies to local farming conditions. - For the period 2023-27, the planned EU budget for the EAGF is around € 291.1 billion[4].
References:	- European Commission. (n.d.). *European Agricultural Guarantee Fund (EAGF)*. Agriculture and Rural Development. Retrieved from https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-guarantee-fund-eagf_en - European Commission. (n.d.). *CAP paying agencies*. Agriculture and Rural Development. Retrieved from https://agriculture.ec.europa.eu/common-agricultural-policy/financing-cap/cap-paying-agencies_en - European Commission. (n.d.). *The common agricultural policy at a glance*. Agriculture and Rural Development. Retrieved from https://agriculture.ec.europa.eu/common-agricultural-policy/cap-overview/cap-glance_en

4 The common agricultural policy: 2023-27. https://agriculture.ec.europa.eu/common-agricultural-policy/cap-overview/cap-2023-27_en

3. Action-based subsidies

Tier 1	Monetary
Tier 2	**Subsidies**
Tier 3	**Action-based subsidies**
Description	**Action-based subsidies** refer to financial support provided to farmers and agricultural businesses that implement specific agricultural actions or practices, rather than on the results they produce, although they are generally expected to deliver positive environmental outcomes (AgriPolicyKit, 2024). These subsidies reduce the uncertainty farmers face when adopting climate friendly actions and have low transaction costs. Moreover, they can be customized to consider individual characteristics of the different measures, and local conditions. Most environmental schemes that have been implemented in the EU over the last years have been action-based especially through the Common Agricultural Policy (CAP).
References	- European Commission. (2023). *Eligibility for direct payments of the Common Agricultural Policy 2023–2027.* Retrieved from https://agriculture.ec.europa.eu/document/download/66f112fe-8281-4366-a377-9e86d6e9bb71_en?filename=direct-payments-eligibility-conditions_en.pdf - European Commission. (n.d.). *European Agricultural Fund for Rural Development (EAFRD).* EU Funding Programmes. Retrieved from https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-fund-rural-development-eafrd_en - European Commission. (n.d.). *Common Agricultural Policy funds.* Agriculture and Rural Development. Retrieved from https://agriculture.ec.europa.eu/common-agricultural-policy/financing-cap/cap-funds_en

Advantages	**Disadvantages**
Promote specific climate-friendly management practices and can be customized to consider individual characteristics of the different measures, and local conditions. They can be targeted to support nature-based solutions that deliver multiple benefits (IPBES, 2019).	Potentially low environmental effectiveness due to high uncertainty to what extent the action will deliver the envisaged environmental outcomes. Few or no guarantees that environmental outcomes will be maintained after the payment has been disbursed (COWI, 2021).
Rewarding can be tied to implementation requirements (AgriPolicyKit, 2024).	Can be very prescriptive in what specific measures are eligible for funding, giving farmers less flexibility and thereby less support for transformational change of management practices (European Commission, 2023b).
Relatively low implementation requirements and transaction cost (compared to result-based rewarding) (Siemons et al. 2025).	Provide less flexibility to farmers to try out different approaches and thus provide fewer incentives for farmers to innovate (European Commission, 2023b).
In principle suitable for private and public funding (Siemons et al. 2025).	

Example Action-based subsidies: European Agricultural Fund for Rural Development EAFRD (Pillar 2)

Tier 1	Monetary	Supportive	Regulatory
Tier 2	**Subsidies**		
Tier 3	**Action-based subsidies**		
Example	European Agricultural Fund for Rural Development EAFRD (Pillar 2)		
Summary	The European Agricultural Fund for Rural Development (EAFRD) is a key financial instrument under the Common Agricultural Policy (CAP), with a budget of approximately €95.5 billion. It provides action-based payments to promote the sustainable development of rural areas, focusing on three long-term objectives: 1. Enhancing the competitiveness of agriculture and forestry 2. Ensuring the sustainable management of natural resources and climate action 3. Supporting balanced territorial development of rural economies and communities These goals are pursued through interventions co-financed by the EAFRD and national budgets, with at least 35% of the funding dedicated to environmental and climate-related measures. In addition, the EAFRD supports access to financial instruments such as loans, microcredit, guarantees, and equity for agricultural, forestry, and rural stakeholders engaged in financially viable projects that align with the fund's priorities.		
Type of climate action	**Carbon removal**	**Emission reduction**	**Climate adaptation**
Appropriate for: Who can benefit from this type of rewarding mechanism (in the agricultural sector?)	- Farmers - Landowners		
Source of rewarding mechanism: Who provides the rewarding mechanism?	**Public**	Private	Public-Private
Rewarding method: What is the reward based on?	Mainly action- based		

Type of on-farm action: What is the recipient obliged to deliver in return?	- Reduction of GHG emissions (livestock, mineral soils, organic soils) - Increasing carbon sequestration and storage - Climate adaptation - Switching to efficient irrigation systems - Participation in trainings, farm exchanges, and demonstrations - Modernisation of technologies, machines, tools and equipment - Participating in quality schemes, local markets and short supply circuits, and producer groups/organisations[5]
Recipient requirements: What requirements must the recipient meet to receive finance?	- Good Agricultural and Environmental Condition (GAECs) standards - Statutory Management Requirements (SMRs) - The EAFRD is implemented by individual Member States through nationally tailored Rural Development Programmes (RDPs), resulting in country-specific eligibility criteria.
Timing of rewarding: When is the reward received?	Ex-ante
Rewarding timeline: How often is the reward received?	Ongoing. The timing and frequency can vary depending on the funding period set by each Member State
Governance: Who manages the programme, provides the reward, and where does the money come from?	- The European Commission's Directorate-General for Agriculture and Rural Development (DG AGRI) manages EU policies on agriculture and rural development. - The EAFRD operates through multi-annual Rural Development Programmes (RDPs), which are designed and implemented by each EU member state or region. - Each RDPs must address at least four of the six priorities of the EAFRD, which are further divided into 18 specific focus areas. Countries set targets and strategies for their chosen priorities, selecting from 20 broad policy measures tailored to national or regional needs[6]. - The EAFRD does not give funds directly to farmers or rural businesses. Instead, it provides money to EU member states, which add their own funding to support projects - For the period 2023-27, the planned EU budget for the EAGF is around € 95.5 billion[7].

5 https://ec.europa.eu/enrd/policy-in-action/rural-development-policy-figures/priority-focus-area-summaries_en.html

6 European Commission, Rural development. https://agriculture.ec.europa.eu/common-agricultural-policy/rural-development_en

7 The common agricultural policy: 2023-27. https://agriculture.ec.europa.eu/common-agricultural-policy/cap-overview/cap-2023-27_en

References:	- European Commission. (2023). *Eligibility for direct payments of the Common Agricultural Policy 2023–2027*. Retrieved from https://agriculture.ec.europa.eu/document/download/66f112fe-8281-4366-a377-9e86d6e9bb71_en?filename=direct-payments-eligibility-conditions_en.pdf - European Commission. (n.d.). *European Agricultural Fund for Rural Development (EAFRD)*. EU Funding Programmes. Retrieved from https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-fund-rural-development-eafrd_en - European Commission. (n.d.). *Common Agricultural Policy funds*. Agriculture and Rural Development. Retrieved from https://agriculture.ec.europa.eu/common-agricultural-policy/financing-cap/cap-funds_en

4. Result-based subsidies

Tier 1	Monetary
Tier 2	**Subsidies**
Tier 3	**Result-based subsidies**
Description	**Results-based subsidies** are financial incentives provided to farmers and agricultural businesses linked to the achievement of a pre-defined environmental outcome (e.g. emission reductions or carbon sequestration). Although most of these payments do not rely on the direct quantification of environmental outcomes, they can be based on estimations with varying degrees of accuracy (Bonvillain T. et al, 2020). Result-oriented payments can involve high transaction costs for (MRV) of the environmental outcome.
References	- Siemons, A., Gocht, A., Bräuer, I., Droste, N., & Wurbs, A. (2023). *Funding climate-friendly soil management: Risks and key issues.* German Environment Agency, Dessau-Roßlau. Retrieved from https://www.ecologic.eu/19407

Advantages	**Disadvantages**
Rewards farmers to enrol land that will deliver higher environmental results, since outcomes are required to be monitored and quantified (Böttcher, H. et al., 2022).	High transaction costs associated with quantification and monitoring, reporting and verification (MRV) of results that limit their efficiency (Siemons A. et al., 2023).
Cost-effective in meeting set targets (COWI, 2021).	Less attractive to farmers if they do not know beforehand if results are sufficient compared to the effort (Siemons et al. 2025).
Cost-efficient by providing incentives for innovations that improve the measurable result while reducing the costs to achieve the intended outcomes over time (Bartkowski et al. 2021).	The focus on one result (e.g. additional mitigation) can come at the expense of other objectives (e.g. biodiversity) (Siemons A. et al., 2023).
Lower informational requirements for the regulator i.e. the regulator does not need to have all the information about the farm, if he can measure and pay for the result only (Bonvillain T. et al, 2020).	Potential environmental risks if the results do not actually deliver the expected results (Bonvillain T. et al, 2020).
Generally, suitable for private and public funding.	

Example Result-based subsidies: French CAP strategic plan Agri-Environment-Climate Measures (AECMs) "Transition of practices". Reduction of carbon footprint (70.27)

Tier 1	Monetary	Supportive	Regulatory
Tier 2	**Subsidies**		
Tier 3	**Result-based subsidies**		
Example	French CAP strategic plan Agri-Environment-Climate Measures (AECMs) "Transition of practices" specifically the reduction of carbon footprint (70.27)		
Summary	**Agri-Environment-Climate Measure 70.27** is a key element of France's Common Agricultural Policy (CAP) Strategic Plan for 2023–2027. It offers flat-rate payments to farmers and land managers who voluntarily adopt practices aimed at reducing their farms' carbon footprint. The measure supports the implementation of locally relevant environmental practices that go beyond standard direct payment requirements. Participants are required to complete an initial assessment to establish a baseline, commit to monitoring their climate actions over a 5–7 year period, and receive payments based on the results achieved compared to the baseline. While the CAP Strategic Plan does not prescribe specific methods for achieving emissions reductions—allowing flexibility in how participants meet objectives—its overall effectiveness may be constrained by limited geographic coverage and restricted budget allocations.		
Type of climate action	**Carbon removal**	**Emission reduction**	Climate adaptation
Appropriate for: Who can benefit from this type of rewarding mechanism (in the agricultural sector?)	- Farmers		
Source of rewarding mechanism: Who provides the rewarding mechanism?	**Public**	Private	Public-Private
Rewarding method: What is the reward based on?	Result-based		

Type of on-farm action: What is the recipient obliged to deliver in return?	- Farmers should demonstrate that they have improved or achieved better climate results by summiting two GHG emissions assessments: at the beginning and end of the commitment period. Additionally, they must develop an action plan and record their farming practices. - The farms are required to achieve a minimum improvement of 15% in the carbon footprint of the farm within a contractual period of 5 to 7 years[8]. - Farmers who apply for environmental and climate commitments must complete a specific training, conduct an agro-ecological assessment of their farm, and participate in exchange meetings with other farmers.
Recipient requirements: What requirements must the recipient meet to receive finance?	- Good Agricultural and Environmental Condition (GAECs) standards - Statutory Management Requirements (SMRs)
Timing of rewarding: When is the reward received?	Ongoing: payments are granted annually for a period of 5 to 7 years Farmers are eligible to receive a flat-rate payment of up to €18,000 per farm over a 5-year period if they achieve the minimum improvement by 15% by the end of the contract. The payment is calculated based on the average characteristics of French farms, particularly the average Utilized Agricultural Area (UAA). Regardless of farm size, the maximum payment is capped at €18,000 per farm, which makes this measure particularly beneficial for smaller farms. -€3,600 per year. This can potentially be adjusted according to the size of the holding through flat rate aid.
Rewarding timeline: How often is the reward received?	Ongoing (Contract period of 5-7 years)
Governance: Who manages the programme, provides the reward, and where does the money come from?	- The scheme is part of the Agri-Environment-Climate Measures which runs under European Agricultural Fund for Rural Development (EAFRD), which is co-funded by the Member States. - This measure was designed and implemented as part of the French CAP Strategic Plan and the corresponding national regulations. - This measure is managed by the Ministère de l'Agriculture et de la Souveraineté alimentaire (Ministry of Agriculture and Food Sovereignty in France)

8 Trinomics (2022). Pricing agricultural emissions and rewarding climate action in the agri-food value chain. https://climate.ec.europa.eu/document/download/996c24d8-9004-4c4e-b637-60b384ae4814_en?filename=Pricing+agricultural+emissions+and+rewarding+climate+action+in+the+agri-food+value+chain.pdf

References:	- Ministry of Agriculture, Agrifood, and Forestry of France. (2022). *French CAP Strategic Plan*. - Ministère de l'Agriculture, de l'Agroalimentaire et de la Forêt. (2024). *PAC 2023–2027 – Le Plan Stratégique National*. Retrieved from https://agriculture.gouv.fr/pac-2023-2027-le-plan-strategique-national - European Commission. (2023). *France – CAP Strategic Plan*. Retrieved from https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/france_en - Midler, E., & Pagnon, J. (2022). *Environment and climate assessment of France's CAP Strategic Plan* (Policy report). Institute for European Environmental Policy (IEEP). Retrieved from https://ieep.eu/publications/environment-and-climate-assessment-of-frances-cap-strategic-plan/