

STUDY OF THE POSSIBILITIES OF FINANCING THE AGRICULTURAL SECTOR IN BULGARIA

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Abstract

The need for government assistance in the external economy is necessitated by other economic uncertainties, the impact of agricultural activity on the environment, and especially low and irregular cash flows in the agricultural sector. The received state and European aid in the form of various economic losses are necessary for agricultural producers. Based on the financial resources provided, the company's financial condition is stabilized and improved. This embodies a management policy in the agricultural sector in Bulgaria. The aim of the study is to look for possible options for financing agricultural producers in Bulgaria. For the purposes of the study, the analyzed period is divided into several main groups according to Bulgaria's membership in the EU and implementation of the Common Agricultural Policy: Pre-accession, First program period (2007-2013), Second program period (2014) - 2020) and the Third Program Period (2021-2027). Financing in the Agricultural sector is divided into internal and external. Internal financing refers to lending by banks and support through national surcharges, through the granting of state aid. External financing is the financial means provided to farmers by the European CAP programs (ISPA, SAPARD, RDP). Based on the analysis, it is found that the liabilities of the agricultural firms are growing faster than the assets, as farmers use more loans than savings to cover their financial needs, the small producers of the sector (under 20 ha) face the most many difficulties in obtaining financing. Subsidies are mainly received from large and major firms, while small and medium-sized ones that really need these funds remain disadvantaged. The granting of subsidies is associated with economic losses and very complicated programs, the implementation of which is tied to high public costs.

Key words: financing, subsidy, efficiency, agricultural sector, CAP, state intervention

INTRODUCTION

Bulgaria started implementing the Rural Development Program (RDP) as an instrument of the 2nd pillar of the Common Agricultural Policy (CAP) since the beginning of its membership in the European Union (EU). According to the definition of rural areas (municipalities in which the population density is up to 150 residents per 1 sq. km., with no settlement having a population of more than 30,000 people), more than 80% of Bulgaria's territory is classified as rural, where nearly 40% of the population. The development trends of these areas are in the direction of deepening the differences in terms of demographic processes, economic development and access to basic services with urban areas. Businesses and rural residents face problems related to low productivity, poor product quality and difficulty competing with imported products. These processes

predetermine low incomes, high unemployment and poverty. The population in rural areas is decreasing, and its age structure is constantly deteriorating. The preservation and development of rural areas depends on the preservation and attraction of human capital, development of local entrepreneurship, etc. According to Aizenman (2006) [2], there are multiple factors that influence the economic cycle of any national economy. He believes that economic development is a non-linear process and there is no single criterion for evaluating its effectiveness. In developing countries, market defects are greater and the state's ability to deal with them is smaller, Stiglitz (2014) [15] concludes. It defines five key roles of the state: promoting education; promoting technologies supporting the financial sector; infrastructure investments; preventing environmental degradation and creating and maintaining a social safety net. Many economists are opposed to policy

intervention, in industry for example, as they believe it disrupts the functioning of the market, leading to a general loss of the country's wealth due to government failures. The application of the EU's CAP with its social function is an example of non-compliance with liberal economic theory, it is in complete opposition to it (Andonov, 2012) [3]. Reasons for state intervention, except through strategic production, are the dependence on environmental and climatic conditions, the threat of the spread of diseases and enemies on crops and animals, a large time difference between investing capital and obtaining production, the dependence of production on limited resources, for example, agricultural land, population growth and changing food habits (Blazheva, 2013) [4]. According to data from the National Plan for the Development of Agriculture and Rural Areas under the Special EU Accession Program in the Field of Agriculture and Rural Areas (SAPARD) [16] from 2007, when Bulgaria joined the EU, the financing options also changed to farmers. After the acceptance of the country into the European community, a significant influence on the development of agriculture was exerted by both internal and external factors, not only (Mishev et al., 2009). [10]. That opinion is also shared by Nikolova (2007) [11], according to her only since 2007 Bulgaria has the actual opportunity to receive financial resources from the funds and to be fully included in the European family. The question of how useful it really is to society and to what extent its role should be implemented. In fact, it helps producers in the agricultural sector as much as it harms them. For example, accepting EU subsidies burdens farmers with many administrative duties, and they also have to make commitments on environmental protection, animal welfare, rural development and risk management. Commitments that overwhelm them and sometimes are overwhelming and lead to the opposite process - refusal of this help.

MATERIALS AND METHODS

Financing in the Agricultural sector can be internal and external. Internal financing refers

to lending by banks and support through national surcharges, through the granting of state aid. Over the years, several Ordinances have been promulgated that regulate the conditions for national supplements (Ordinance No.3 of 25.02.2009; Ordinance No.2 of 21.02.2011; Ordinance No. 1 of July 12, 2022) [13,14, 15].

A disadvantage of these forms of support is the limited nature of their application and the insufficient amount of financial resources. Compared to national supplements, according to Boshkilov (2017) [5], the levels of financial support through state aid is about 3 times lower, and compared to the levels of external financial support through the financial instrument Single area payment scheme (SAPS), it is about 8 times less. External financing is carried out through the SAPARD and RDP programs. After some time, a distortion of the effect of implementing the program, for the conditions of Bulgaria, began to be reported. Small businesses and farms could not get involved in the absorption of the funds, notes Boshkilov (2017) [5] in his studies. However, the implementation of the program helped to gain experience in working with European funds. To a great extent, the financial means indicated by the EU through the CAP have a strong influence on the development of agriculture in Bulgaria. The CAP provides financial support without being directly tied to production. Direct payments are organized as decoupled payments per unit of area intended to support farmers' incomes and represent a major share of the entire CAP budget (Ivanov, 2020) [9]. The main form of support to farmers with direct payments is through the SEPP and through this scheme the most important financial resource in agriculture is distributed, targeting the main share of beneficiaries.

RESULTS AND DISCUSSIONS

Pre-accession period

Each member state of the European Union (EU) goes through a certain period of time, which is conventionally called pre-accession. This is the time during which it must prepare for its real membership in the union, build its

policies, arrange its administration according to the conditions and requirements set by the EU and the EC. According to Gorcheva (2016) [7], every country goes through a so-called pre-accession period, during which the economy, and in particular the agricultural sector, must build structures to implement the rules of the EU CAP.

The pre-accession period for Bulgaria is from 2000 to 2006, when it joined the EU membership queue together with nine other countries (Hungary, Poland, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia and Romania).

In July 1997, the European Commission presented a plan with a proposal for the reform of the CAP. In 1999, after

negotiations, this "Plan 2000" was adopted. It also adopts a new enlargement strategy, which provides financial financing with the introduction of two new instruments - ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD.

The beginning of the pre-accession period is not at all easy, both for Bulgaria and for the agricultural sector in particular. In 2000, the country had not yet stabilized from the consequences of the economic crisis of 1996-1997. Nevertheless, the macroeconomic indicators of the country show growth and a growth trend is observed, characterized by the preservation of a level of economic stability (Table 1).

Table 1. GDP and GVA of Bulgaria for the period 2000-2006

Year	2000	2001	2002	2003	2004	2005	2006
GDP in million euros	12,987	15,158	16,492	17,556	19,392	21,402	25,046
GVA in million euros	11,496	13,369	14,538	15,352	16,807	18,379	20,394

Source: own database development from Agrarian reports [1].

During the pre-accession period, the decreased economic indicators of the country and the growth of employment, respectively the reduction of the amount of unemployment, are noted. While the share of the agricultural sector in the GDP is also gradually decreasing. At the end it reached 50% lower values than the beginning of the pre-accession period (Figure 1). We follow this trend in the affairs of the Agricultural sector in the BDS of the country (Table 2). The development of the sector is in complete contrast to the state support during this period, where there is a gradual increase in the funds that the State Fund "Agriculture" provides to help farmers. (Ganev, 2009) [6].

A major drawback in the provision of funds by the state is their incorrect distribution among beneficiaries. A large part of the subsidies is provided to a minimal part of farmers - the larger ones, and the remaining funds, about 20% of all support, are distributed to small and medium-sized

producers, which are 93% of those who applied for support. This shows that subsidies are not the correct and correct measure to support the Agricultural sector, due to the incorrect direction and distribution of funds.

Other factors that adversely affect the sector and its economic development during this period are fragmented ownership of agricultural land, difficult access to credit for farmers, low investment activity, and others.

According to data from the indicative distribution of SAPARD, Bulgaria is in third place in terms of the amount received after Romania and Poland. The designated support for our country is in the amount of EUR 52.124 million per year for the entire period.

A basic principle of the structural funds is co-financing. EU support does not replace national aid, it is a supplement to the countries' efforts to support a specific sector or region - 75% is aid from the EU and 25% is national co-financing from the state budget.

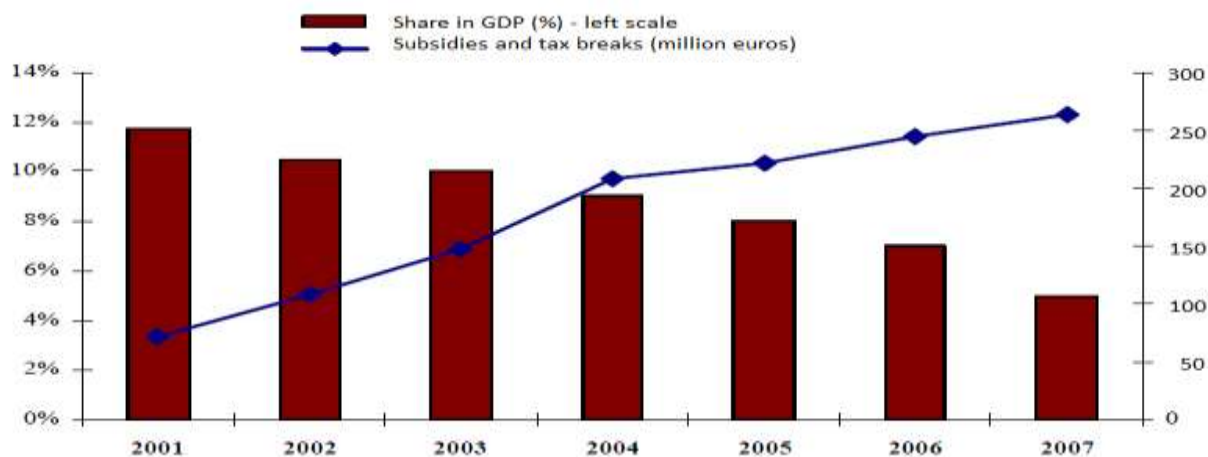


Fig. 1. Share of the agricultural sector in the country's GDP, 2001-2007

Source: Agrarian reports of the Ministry of Agriculture, Reports on the implementation of the budget of the MoF [1].

Table 2. Relative share of BDS created in the Agricultural sector for the period 2001-2006, %

Year	2001	2002	2003	2004	2005	2006	2007
GVA	13,4	12,1	11,4	10,9	9,3	8,6	6,2

Source: own development with data from Agrarian reports [1].

During the pre-accession period, farmers received strong support from Europe, which manifested itself through subsidies under various schemes and measures.

At the end of 2009, payments to Bulgaria, including advance payments, amounted to EUR 327.6 million (88.2% of the final amount allocated under the program). The implementation rate is 73.6% compared to the initially determined 444.7 million Euros. At the end of SAPARD, 3,509 projects were agreed with a subsidy in the amount of 703,219,676.98 euros. All projects are 2,600, they were correctly implemented and were paid with a subsidy in the amount of 448,133,669.54 euros.

In the implementation of SAPARD, Bulgaria is faced with several main challenges, such as: established abuses of European funds; conflicts of interest between drafters, examiners and approvers; the frequent change of management and team of the SAPARD Agency, and non-transparency in their work. Projects under measure 1.2 have been discontinued. Improvements in the processing and marketing of agricultural and fishery products in March 2008 and sanctions imposed until investigations into aid fraud cases are completed. After some time (3

months), the financing under measure 1.1 was also terminated. Investments in agricultural holdings and 2.1. Development and diversification of economic activities and creation of opportunities for multifaceted activities and alternative incomes.

With SAPARD, agriculture was given the opportunity to develop and receive financial support in the form of the implementation of investment projects aimed at the needs of the specific agricultural holding.

First program period of the CAP in the EU 2007-2013

The CAP is one of the oldest policies of the European Union. Over the years, it has undergone several reforms, the most important of which was the one in 1992, relatively retaining its effect to this day. It is characterized by qualitative changes in regulation mechanisms and market orientation. It mainly concerns the increase of competitiveness and diversification of agricultural production, the achievement of stabilization of the European markets of agricultural production, the protection of the environment and the limitation of excess budget expenditures by limiting export subsidies.

Until 1992, subsidies were granted for the amount of agricultural production produced, and after the reform - direct subsidies or payments to farmers, without them being tied to production, i.e. the degree of financial support to member states is reduced.

The total budget of the RDP for the period 2007-2013 is in the amount of BGN 6,341 million (EUR 3,242 million), of which BGN 5,089 million (EUR 2,602 million) is from the EU, and 1,236 BGN million (EUR 632 million) - from the state budget.

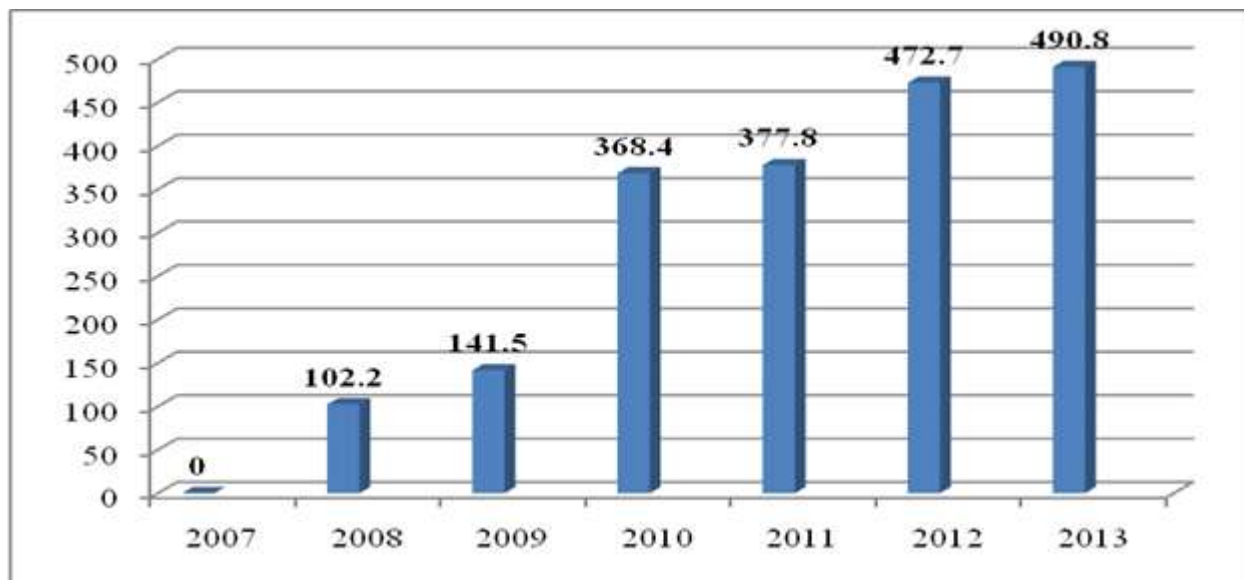


Fig. 2. RDP payments for the period 2007-2013, Euro Million

Source: own database development from RDP payments.

Figure 2 shows the positive trend of payments made. The initially approved budget of the RDP for the period 2007-2013, according to the EU, is 2,642,248,596 billion euros, or 94% absorption of the program. The RDP budget, 2007-2013, after the 16th amendment on the EU line is 2,500,837,171 billion euros or 99% absorption of the program.

The program for the development of rural areas for the period 2007 - 2013 has much more financial resources compared to SAPARD. During this period, an increase in the area with cereal crops was observed, the competitiveness of the sector improved. This is due to the applied mechanisms of the agrarian market, based on the intervention of the State fund "Agriculture" regarding cereals. Payments under the Single Area Payment Scheme (SAPS) help farms cover their working capital needs for input inputs (Harizanova-Bartos, 2018) [8].

During the period, a number of problems were identified related to the unfavorable direction of utilization of the funds, its effectiveness in relation to the farmers (beneficiaries), as well

as in relation to its general impact on agriculture in the country: Uneven absorption of subsidies according to the various measures; The impossibility of farmers to realize their projects; Delay in processing submitted applications; Project delays or non-implementation; There is a lack of feedback to the candidates on the various measures.

Second programming period of the CAP in the EU, 2014-2020

The implementation of the RDP in the second program period is according to Regulation No. 1305/2013. Three months after the adoption of the RDP with a decision by the EC approving the program, a Monitoring Committee for the RDP 2014-2020 was established. According to the RDP, the goal is to monitor the effective and qualitative implementation of the program through the given financial and performance indicators.

The total budget of the RDP for the period 2014-2020 is EUR 2,896.15 million, including the contribution from the European Agricultural Fund for Rural Development in the amount of EUR 2,366.72 million and

national co-financing – EUR 529.43 million. euro (Figure 3).



Fig. 3. RDP payments for the period 2014-2020, EUR million

Source: own database development from RDP payments.

Compared to the previous programming period, the 2014-2020 RDP shows progress in several directions. The control during the verification of project proposals has been strengthened, which limits the misuse of European money. At the same time, the sequence of opening the measures is logical, as the receptions for the "big" measures - 4.1 for agricultural holdings and 4.2 for the processing industry are opened first, in order to leave enough time for their implementation until the end of the period. However, these advantages remain in the background in the presence of the aforementioned complications, which can be arranged as follows:

- The delay and the difficulty of the process of creating regulations, created by the lack of coordination between the State fund "Agriculture", the Ministry of Agriculture and the non-governmental organizations;
- The difficult preparation of projects by the beneficiaries, imposed by the unclear interpretation and imposed changes at the last moment of the eligibility criteria;
- Prioritization of grain producers over producers in sensitive sectors, which contradicts the objectives of the program;
- The great delay of sub-measure 6.4 "Investments in non-agricultural activities" and the uncertainty surrounding the possibility of financing the so-called "Guest House".

Third program period of the CAP in the EU 2021-2027

Compared to 2020, there is a growth (32.9%) of labour productivity in the "Agriculture" sector. Eurostat data for 2021 show that Bulgaria leads on this indicator within the EU-27, with the average productivity growth in the sector for the EU being 1.5%. The analysis of the distribution of support among the beneficiaries in Bulgaria for the period 2007-2017 shows the accumulation of significant funds from large economic structures and a smaller amount of support for small farms.

The concentration coefficient of the unevenly distributed amount, which takes into account only the subsidies that are not evenly distributed among the beneficiaries, shows that for the period 2008-2013, 75-76% of the subsidies were unevenly distributed. For the period 2014-2020, there is a positive change of decrease in the level of the coefficient (to 0.64 for 2017), which is due to the measures within the framework of CAP implementation for more balanced support by farm types.

Aggregated data of the State Fund "Agriculture" indicate that 51% is the total utilization rate for all measures of the 2014-2020 RDP against the total budget of the Program (3,069,678,00 euros, European Agricultural Fund for Rural Development).

Table 3. RDP payments for the period 2021-2027 (million euros)

Funding Period	2021	2022	2023	2024	2025	2026	2027	21-27
Payments, EUR million	344,602	282,199	282,200	282,200	282,200	282,199	282,200	2,037,602

Source: own database development from RDP payments.

In the third program period, new measures and sub-measures have been introduced, which are in response to crisis situations that have arisen for the Agricultural sector. Such is measure 21.

Extraordinary temporary support for farmers and SMEs, which are particularly affected by the crisis caused by COVID-19.

It is a financial instrument with which to respond adequately to those particularly affected by the crisis caused by COVID-19".

With Ordinance No. 2 of August 5, 2020 for the implementation of measure 21 of the program for the development of rural areas for the period 2014 - 2020, this measure was regulated for its implementation. The initiator of the introduction of this measure is Bulgaria.

In Ukraine, the financial aid under the emergency measure due to the war, which the "Crop farming" sector receives, is BGN 222 million.

These changes were imposed regarding the implementation of emergency temporary aid from the European Agricultural Fund for the Development of Rural Areas based on the consequences of the war.

The focus of the Strategic Plan for the Development of Agriculture and Rural Areas in Bulgaria (2021-2027) is on the sustainable development of agriculture and aims to improve incomes in the sector. Attention to innovation and the dissemination of scientific and innovative solutions, including digital ones, in agriculture and rural areas has been increased.

Funding is needed in the Agriculture sector. The majority of farmers' financial needs are met from own funds (deposits or own savings or CAP payments) rather than loans. The demand for finance is mainly due to the need for working capital, investment in modernization and purchase of land.

CONCLUSIONS

With the accession to the EU, after 2007, Bulgaria's agricultural sector began to receive financial support from the European Union for the first time in the form of free subsidies under various schemes and measures.

During the first program period (2007-2014), uneven absorption of European subsidies was found. An imbalance in favor of large enterprises was reported, with small ones being disadvantaged. An increase of nearly 380% in European aid for the Agricultural sector was found. The RDP budget in the second program period is EUR 2,500,837,171 billion, with a 99% implementation rate.

In the second programming period (2014-2020), a slight decrease in European funds (0.86%) was registered, but an increased interest on the part of agricultural producers was found. Agrostatistics data of the State Fund "Agriculture" indicate that only 51% is the total absorption rate for all measures of the RDP 2014-2020 compared to the total budget of the Program (3,069,678,00 euros).

The analyzes showed some weaknesses reported during the periods:

Bulgarian farm liabilities are growing faster than assets as farmers use more loans than savings to cover their financial needs.

Small farms (under 20 ha) face the most difficulties in obtaining financing. They are more likely to be rejected or discouraged from applying for funding.

The unsatisfied demand for agricultural finance is mainly due to the following issues:

- Banks perceive the sector as high-risk and are reluctant to lend to farmers;

- Farmers are demotivated to apply for financing due to the lack of transparency in the banks' credit policy (banks can unilaterally change the conditions);

- The high collateral requirements imposed by the banks, the lack of suitable assets of the

agricultural producers, which are required as collateral;

- Lack of credit and accounting history of agricultural producers; lack of financial literacy on the part of farmers and their absolute inexperience in presenting business plans, etc.

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