

## **PROBLEMS AND PERSPECTIVES IN UTILIZATION OF THE EUROPEAN UNION FINANCIAL AID FOR THE AGRICULTURAL SECTOR IN THE REPUBLIC OF BULGARIA**

**PhD Georgi Jeliakov , PhD Roumen Otouzbirov, PhD Todorka Atanassova,  
PhD Nadka Kostadinova, <sup>1</sup> Georgi Georgiev<sup>2</sup>**

### **Abstract**

*The basic priority asserted in the Bulgarian position for negotiations is the successful utilization of grants from EU funds, including the Fund of Europe for Orientation and Guarantee in Agriculture (FEOGA) from the date of the EU accession. To that end the country is already under the way by establishing the administrative capacity for applying the special pre-accession program SAPARD since it reproduces to a large extent the principles of payment, monitoring and financial control in developing and implementing measures for structural impact for the member states. The SAPARD program is the first pre-accession program under which funds management is entirely decentralized, that is project selection and signing of contracts is without the preliminary approval by the European Commission. The Republic of Bulgaria is the first country among the candidate countries for full membership in the EU which has been entrusted management of funds under the SAPARD Program. The objective of the study is to analyze the problems and perspectives in applying the Special program of accession in the sphere of agriculture and rural areas as one of the basic mechanisms for utilizing the EU financial aid.*

### **Introduction**

In June Bulgaria closed down the last and most difficult chapter in the negotiations for EU membership - Chapter 7 “Agriculture”. This is bulkiest chapter in the negotiation process since legislation in that sphere comprises about 50% of the entire EU legislation. The main part of that legislation regulates the Overall agricultural policy /OAP/ of the EU by settling the mechanisms for regulating the market organization for various agricultural products, the schemes for assisting the incomes of agricultural producers, development of rural areas and their financing. That is why the main tendency in preparing for the accession will be the ability of Bulgaria and candidate country to apply Community legislation by institutional setting up and strengthening the administrative capacity капацитет.

A main priority, asserted in the Bulgarian negotiation position is the successful utilization of funds from the structural EU funds, including the Fund of Europe for Orientation and Guarantees in Agriculture (FEOGA), from the date of EU accession. To that end our country is

---

<sup>1</sup> Thrakia University, Department Management, Stara Zagora., Bulgaria.

<sup>2</sup> Administration Region Stara Zagora.

getting ready in advance by setting up the administrative capacity for implementing the special pre-accession program SAPARD since it reproduces to the largest extent the principles of payment, monitoring and financial control in developing and implementing the measures for structural impact of the Member countries.

In compliance with the requirements of Regulation of the Committee of the European Commission 1268 dated 21 June 1999 for expanding the EU aid in the candidate countries from Central and Eastern Europe for EU membership, Bulgaria has prepared National Agriculture and Rural Development Plan. The Plan is for the period 2000 – 2006 under the Special program of the European Union for accession in the sphere of agriculture and rural areas (SAPARD). The National Agriculture and Rural Development Plan has been adopted by the European Commission and notified by the member countries on 20 October 2000.

*The main targets in the Plan are :*

- Improvement of the efficiency of agricultural production and encouraging a competitive food processing sector through better market and technological infrastructure and strategic investment policy, aiming mainly at achieving European standards;
- Steady development of rural areas in conformity with the best ecological practices by creating alternative employment, diversification of economic activities and creating the necessary infrastructure. That will result in improving living conditions and the standard of life in rural municipalities, increase of incomes and creating new employment opportunities.

The two chief goals of the National Agriculture and Rural Development Plan for the period 2000 – 2006 will be achieved on the basis of assisting the investments under 11 Measures in the following priority spheres:

1. *Improvement of the conditions for production, processing and marketing agricultural and forest products, as well as processing and marketing fish products in compliance with the achievements in EU legislation; encouraging ecological processing and environmental protection.*
2. *Integrated development of rural areas aiming at preserving and consolidating their economy and community.*
3. *Investments in human resources – vocational training for agricultural producers and other people engaged in the sphere of agriculture and participating in agricultural production, forestry and diversification of activities in rural areas.*

#### *4. Technical assistance.*

The National Agriculture and Rural Development Plan is developed on the basis of detailed social and economic sector and program analysis. The strategy and priorities of agriculture for the period 2000-2006 set in the plan are in conformity with two basic government documents: Partnership of accession and National program for adopting the EU legislation.

**The objective of the paper is to analyze the problems and perspectives in implementing the Special program for accession in the sphere of agriculture and rural areas as one of the basic mechanisms for utilization of the European Union financial aid.**

#### **Methodology of the study**

Object of study – SAPARD Program is the first pre-accession program under which the management of resources is carried out on a totally decentralized basis, i.e. projects are selected and contracts executed without the preliminary approval of the European Commission. The Republic of Bulgaria is the first country among the candidates for full membership in the EU which has been entrusted management of funds under the SAPARD Program.

The structural scheme for institutional management and control under the SAPARD Program is presented on **fig. 1**. The two basic functions – implementation and payment are executed by the SAPARD Agency. The Agriculture State Fund in Bulgaria has been accredited as SAPARD Agency on 18 December 2000. SAPARD Agency is managed by the Executive director of the Agriculture State Fund.

The analysis of the information embraces the Annual financial agreements of the National Agriculture and Rural Development Plan and the accomplishment of the Program under the three accredited measures for which contracts have been executed. To make the analysis for financial management and control in implementing the SAPARD Program data from the 2003 annual reports of the Ministry of Agriculture and Forestry, the SAPARD Agency and from the Program external audit report – Audit office of the Republic of Bulgaria have been used. Results from intermediary appraisal of the Program by an independent external appraiser have also been used, as well as current information from the Committee for monitoring the SAPARD Program. The annual reports on the fulfillment and the appraisal of the SAPARD Program are based on the Long-term financial agreement between the Republic of Bulgaria and the European Commission.

The actual performance of the appraisal by the nominated contractor - Agriconsulting Europe SA – Belgium was done in the period June – December 2003. The appraisal methodology used is based on “Directions of the European Commission for appraisal of programs for development of rural areas assisted by the SAPARD Agency”. The adequateness, efficiency, effectiveness and stability of the grant have been assessed on the basis of *general* and *Program-specific* issues, criteria and assessment indicators. For the assessment a combination of primary and secondary information sources have been used.

### **Analysis of the conditions and problems in utilizing financial resources under the SAPARD Program**

The analysis of competitiveness in agriculture reveals that the main problems in the sector are related to low productivity, parceled out land, low rate of use of agricultural machinery, lacking managerial skills and knowledge, difficult access to external financing, insufficiently developed hydromeliorations and network of agriculture advise offices, scientific research units, as well as services in the sphere of selection and breeding. It should be noted that the situation in agriculture at the moment is similar to that at the time of making the SWOT Analysis in the Preliminary Program evaluation. Some of these unfavourable factors and tendencies are gradually overcome as a result of applying the SAPARD Program in the country.

The total budget in the National Agriculture and Rural Development Plan for the period 2000-2006 is 849,04 million EUR, of which 511,80 million EUR are public funds (including 385,27 million EUR Community participation), and the average annual budget of the National Agriculture and Rural Development Plan is about 141 million EUR. (table 1). The greater part of the public funds have been set aside for the first priority sphere, directed to solving priority problems in the adaptation of agriculture and forestry. 72% of the public funds have been allotted to that priority sphere. There are 6 measures to be used for achieving the goals of the first priority sphere and the applicants under these are mainly private agricultural producers and forest owners and their associations (organizations of producers) and processing factories. Three measures have been directed to achieving the second goal – integrated and steady development of rural areas: diversification of the economic activities of agricultural farms; renovation of villages and protection of their heritage and development of public infrastructure. 21% of the public funds have been allotted to that priority sphere. The goal for development of human resources is covered by one measure in the Plan – improvement of vocational training and 4,61% of the

public funds have been allotted to it. For the fourth priority sphere – technical assistance - with main goal to assist the implementation and monitoring of the SAPARD Program 1,64% of the public funds have been allotted to. The National Agriculture and Rural Development Plan defines clearly the eligible beneficiaries by all measures – physical and legal entities (agricultural producers or companies in agriculture and the processing industry) for the private measures and municipalities and the Ministry of Agriculture and Forestry for the public measures.

**Table 1 Financial plan 2000 – 2006**

| Measure  | Total expenses     | Public funds       | Community participation |
|--|--------------------|--------------------|-------------------------|
| <b>Priority sphere I</b>   | <b>667 157 918</b> | <b>369 482 684</b> | <b>277 112 013</b>      |
| M 1.1.Investments in agricultural farms  | 318 472 554        | 159 236 277        | 119 427 208             |
| M 1.2.Improvement of processing and marketing agricultural and fish products   | 242 931 760        | 121 465 880        | 91 099 410              |
| M 1.3.Development of agricultural activities aimed at environmental protection   | 12 695 987         | 12 695 987         | 9 521 990               |
| M 1.4.Forestry, forestation of agricultural lands, investments in forestry companies, processing and marketing forest products             | 59 405 768         | 42 432 691         | 31 824 518              |
| M 1.5.Producer organizations   | 5 040 868          | 5 040 868          | 3 780 651               |
| M 1.6.Management of water resources  | 28 610 981         | 28 610 981         | 21 458 236              |
| <b>Priority sphere II</b>  | <b>149 906 190</b> | <b>110 336 559</b> | <b>82 752 419</b>       |
| M 2.1.Development and diversification of economic activities, presenting opportunities for multifaceted activities and alternative incomes | 79 139 262         | 39 569 631         | 29 677 223              |
| M 2.2.Renovation and development of villages, protection and preservation of rural heritage and cultural traditions                        | 41 007 761         | 41 007 761         | 30 755 821              |
| M 2.3.Development and improvement of rural infrastructure  | 29 759 167         | 29 759 167         | 22 319 375              |
| <b>Priority sphere 3</b>   | <b>23 585 823</b>  | <b>23 585 823</b>  | <b>17 689 367</b>       |
| M 3.1.Improvement of vocational training   | 23 585 823         | 23 585 823         | 17 689 367              |
| <b>Priority sphere 4</b>   | <b>3 382 268</b>   | <b>3 382 268</b>   | <b>2 705 814</b>        |
| M 4.1.Technical assistance /Program/   | 3 382 268          | 3 382 268          | 2 705 814               |
| Total  | 844 032 198        | 506 787 333        | 380 259 613             |
| M 4.2.Technical assistance /European Commission/   | 5 011 925          | 5 011 925          | 5 011 925               |
| <b>TOTAL</b>   | <b>849 044 123</b> | <b>611 799 258</b> | <b>385 271 538</b>      |

The Plan has been approved as Program for development of agriculture and rural areas by decision adopted in compliance with Art. 4(5) of Regulation 1268/1999 of the European Commission on 20 October 2000. In May 2001 the right of financial management was conceded to three of the measures in the National Agriculture and Rural Development Plan: - Measure 1.1 Investments in agricultural farms; - Measure 1.2 Improvement in the processing and marketing of agricultural and fish products and - 2.1 Development and diversification of economic activities, presenting opportunities for multifaceted activities and alternative incomes. The official launch of the SAPARD program in Bulgaria is 1 June 2001 after publishing the three instructions for applying the three measures of the SAPARD program in the State Gazette. The right of financial management of other 6 measures and one sub-measure was conceded in August 2003.

Four annual financial agreements have been signed and come into effect. The Annual financial agreement for 2000 was signed in 2001 and (after reaching an agreement with the European Commission for extending the period of its effect for all 10 candidate countries) it will expire at the end of 2004. The annual financial agreement for 2001 expires in 2005. The annual financial agreements for 2002 and 2003 were signed in 2003 and expire in 2006. By the end of September 2003 a total of 132 million EUR of public funds for the three accredited measures have been contracted (of these the European Commission share is 99,27 million EUR). A total of 781 projects have been approved for 716 agricultural farms and processing companies. That is about 45% of the overall EC contribution for the four-year period within the four Annual financial agreements signed (2000-2003). However, one should take into account that the annual financial agreements for 2002 and 2003 were signed in 2003 and expire in 2006. The total amount of the Community participation within these Annual financial agreements is 218,52 million EUR.

The total amount of public funds allocated for the three measures the implementation of which started in 2001 is 320,27 million EUR, which is approximately 63% of the total number of public expenses for the seven-year period of the Program (**table 2**). In 2002 and 2003 47% of the total public funds had been allocated for them. The annual financial agreements for 2002 and 2003 came into effect in the second half of 2003. The implementation and reporting of the newly accredited measures started at the beginning of 2004 and as to this moment there are no data available. Due to that reason only the progress in the implementation of the first three measures is assessed. As is evident in table 2, the biggest share of funds for implementing Measure 1.2 was

allocated for the first 2 years – 65,5% of all public funds allocated for that measure for the entire 7–year period.

**Table 2. Estimated costs by measures and years**

| Measure   | Year | Total investment costs /EUR/ | % from the total for the measure | Public funds /EUR/ | Community participation /EUR/ |
|---|------|------------------------------|----------------------------------|--------------------|-------------------------------|
| M 1.1<br>Investments in agricultural farms  | 2000 | 38 784 000                   | 12,2                             | 19 392 000         | 14 544 000                    |
|   | 2001 | 52 296 795                   | 16,4                             | 26 148 397         | 19 611 298                    |
|   | 2002 | 23 432 675                   | 7,4                              | 11 716 337         | 19 611 298                    |
|   | 2003 | 50 626 802                   | 15,9                             | 25 313 401         | 18 985 051                    |
|   | 2004 | 48 438 929                   | 15,2                             | 24 219 464         | 18 164 598                    |
|   | 2005 | 51 749 805                   | 16,2                             | 25 874 903         | 19 406 177                    |
|   | 2006 | 53 143 549                   | 16,7                             | 26 571 775         | 19 928 831                    |
| <b>Total Measure 1.1.</b>   |      | <b>318 472 554</b>           | <b>100</b>                       | <b>159 236 277</b> | <b>119 427 208</b>            |
| M 1.2.<br>Improvement of processing and marketing of agricultural and fish products | 2000 | 91 306 093                   | 37,6                             | 45 653 047         | 34 239 785                    |
|   | 2001 | 67 747 779                   | 27,9                             | 33 873 889         | 25 405 417                    |
|   | 2002 | 26 752 032                   | 11,0                             | 13 376 016         | 10 032 012                    |
|   | 2003 | 16 134 326                   | 6,6                              | 8 067 163          | 6 050 372                     |
|   | 2004 | 14 474 423                   | 6,0                              | 7 237 212          | 5 427 909                     |
|   | 2005 | 16 984 216                   | 7,0                              | 8 492 131          | 6 369 098                     |
|   | 2006 | 9 532 845                    | 3,9                              | 4 766 423          | 3 574 817                     |
| <b>Total Measure 1.2</b>  |      | <b>242 931 760</b>           | <b>100</b>                       | <b>121 465 880</b> | <b>91 099 410</b>             |
| M 2.1.<br>Development and diversification of economic activities                    | 2000 | 10 462 104                   | 13,2                             | 5 231 052          | 3 923 289                     |
|   | 2001 | 23 372 507                   | 29,5                             | 11 686 253         | 8 764 690                     |
|   | 2002 | 4 948 829                    | 6,3                              | 2 474 415          | 1 855 811                     |
|   | 2003 | 9 964 535                    | 12,6                             | 4 982 267          | 3 736 701                     |
|   | 2004 | 9 886 218                    | 12,5                             | 4 943 109          | 3 707 332                     |
|   | 2005 | 9 455 533                    | 11,9                             | 4 727 767          | 3 545 825                     |
|   | 2006 | 11 049 536                   | 14,0                             | 5 524 768          | 4 143 576                     |
| <b>Total Measure 2.1.</b>   |      | <b>79 139 262</b>            | <b>100</b>                       | <b>39 569 631</b>  | <b>29 677 223</b>             |

*Source* : National Agriculture and Rural Development Plan

For that measure 65% of all public expenses for 2000 and half of the public funds for 2001 had been utilized. That means that the utilization of public funds at the beginning of the program implementation depends largely on the ability to draw private investments in food industry in the country.

Since the budget for the various measures is not evenly distributed by years, better understanding about the financial efficiency of the Program is obtained when comparing the contracted public

finds till 1 October 2003 to the total budget amount for the three measures for 2000–2006 (table 3). When considering that proportion the most impressive is the amount of contracted funds under Measure 1.2. For a period of a little more than 2 years 57% of all funds allocated for that measure for the seven-year Program period have been contracted. As far as Measure 1.1 goes, 33% of all funds for the seven-year Program period have been contracted. In spite of the relatively low pace of contracting funds within the first two Annual Financial Agreements for Measure 2.1, almost 24% of all public funds budgeted for the seven-year period have already been contracted. The analysis of utilizing the funds reveals that by the end of September 2003 public funds of 34,6 million EUR had been paid for 263 projects under the three measures. That is equal only to half of the budget (49%) for 2000. In spite of that we have to point out that the difference between the high speed of contracting and the relatively low speed of utilizing is related to the fact that a great share of the public funds had been contracted during the third quarter of 2003. All public funds allocated for Measure 1.1 in 2000 had been utilized. These are 208 completed projects for a total amount of public funds 19,86 million EUR. The progress of utilization for the other two measures is different. Under Measure 1.2 there are 42 completed projects, for which a total subsidy of 14,08 million EUR has been paid. That amounts to 31% of the public funds within 2000 Annual Financial Agreement. With Measure 2.1 only 13 projects have been completed and public subsidy at the amount of 0,6 million EUR has been paid. That is about 13% of the budget allocated for the measure within 2000 Annual Financial Agreement. Having in mind that the average period needed for completion of the projects under measure 1.2 is 281 days and for Measure 2.1 – 241 days, the remaining 13 months (till the validity of within 2000 Annual Financial Agreement expires) pose some risks concerning the utilization of funds under those measures.



**Table 3. Approved and completed projects**

| SAPARD Program measure   | Approved projects till 30 May 2003 |                   |              | Approved projects till 30 Sep 2003 |                   |              | Completed projects till 30 Sep 2003 |                   |              |
|--|------------------------------------|-------------------|--------------|------------------------------------|-------------------|--------------|-------------------------------------|-------------------|--------------|
|  | projects                           | Total investments | Public funds | projects                           | Total investments | Public funds | projects                            | Total investments | Public funds |
|  | number                             | Million EUR       | Million EUR  | number                             | Million EUR       | Million EUR  | number                              | Million EUR       | Million EUR  |
| Measure 1.1.<br>Investments in agricultural farms                                      | 309                                | 65,737            | 32,36        | 506                                | 110,576           | 53,488       | 208                                 | 39,717            | 19,859       |
| Measure 1.2.<br>Improvement of processing and marketing agricultural and fish products | 96                                 | 88,221            | 43,705       | 153                                | 141,071           | 69,606       | 42                                  | 28,159            | 14,08        |
| Measure 2.1.<br>Development and diversification of economic activities                 | 45                                 | 5,648             | 2,731        | 122                                | 19,636            | 9,264        | 13                                  | 1,323             | 0,662        |
| <b>TOTAL</b>   | 450                                | 159,606           | 78,796       | 781                                | 271,283           | 132,358      | 263                                 | 69,199            | 34,601       |

Source: SAPARD Agency reports

In the monthly report from end September 2003 the SAPARD Agency reports 206 declined applications. The analysis of unapproved projects is presented in table 4. Of these there are 206 declined projects, 123 (60%) have been submitted again and later approved. Only 83 projects from 74 companies (agricultural farms and processing companies) have not been submitted again till now. The data from the monthly reports of the SAPARD Agency reveal that the relative share of declined projects decreases. While in 2001 more than half of the submitted applications were declined, in 2003 they are only 8%. That is accounted for by the improved knowledge of applicants about the Program and changes in the procedures of implementing the Program. A 10-

day period for submitting incomplete documents is allowed in evaluating the application for eligibility and completeness on a central level in the SAPARD Agency.

**Table 4. Declined applications by cause of rejection**

| <b>Cause for rejecting the projects</b>                     | <b>Number of projects</b> | <b>% of declined projects</b> |
|---|---------------------------|-------------------------------|
| Illegitimate documents                                      | 100                       | 48,5                          |
| Incomplete documents  | 98                        | 47,6                          |
| Incompliance with the financing criteria                    | 64                        | 31,1                          |
| Incompliance with the requirements for investment viability | 14                        | 6,8                           |
| Other   | 2                         | 1,0                           |
| Lacking information about the cause for rejection           | 30                        | 14,6                          |
| <b>Total number of rejected projects</b>                    | <b>206</b>                |                               |

*Note:* The total number exceeds 100% since for some projects more than one reason for rejection has been specified.

*Source:* List of rejected projects.

### **Conclusion**

- After the undeniable success of Bulgaria as the first country the SAPARD Agency of which has been accredited and received access to the EU funds, gradual reorganization in the system of the Payment and intervention agency is forthcoming so that it will be an institution to determine the grant, check applications for grants and make the payments to agricultural producers.

- In 2003 considerable increase in the number of approved grant aids has been recorded – 78% of all funds under the Program had been contracted during the first three quarters of 2003. In addition, for the same 9-month period considerable increase in the average amount per applying project has been noticed. That can contribute to the quicker utilization of funds under the SAPARD program, but the planned impact and scale in implementing the Plan could be discredited concerning the number of staked projects and distribution of investments according to the identified target groups for grants.

- The difficult access to external financing as well as the complex documentation needed for applying and the procedures in implementing “benefit” the larger companies which still prevail among the beneficiaries under the Program. The aid offered to larger companies at the beginning of implementing the SAPARD has created an unfavourable image of the Program as

“program for the big ones” which in itself is a factor that reduces the search of assistance on behalf of smaller agricultural farms and companies.

- With the implementation of the Program the attention has been focused more on the financial and procedure control than on the full accomplishment of the goals laid out in the SAPARD Program. The philosophy to avoid fraudulent options dominates the overall management of the Program resulting in imbalance of resources allocated for financial control as opposed to resources needed for assessment of the results from the Program implementation.

- With the Program implementation information is collected in due time about the financial performance, physical results from investments, procedures for implementation. At certain intervals data are summarized and information about the progress of implementing the Program is regularly submitted to third parties by using various mechanisms, incl. publication in the Internet for use by the general public. In general, the monitoring procedures have contributed to the implementation of important changes in the mode of implementing and managing the SAPARD Program by the administering structures and the social and economic partners have to be informed about the implementation of the Program and can participate in the process of its modification and improvement.

- For all Measures comparatively high percentage of the public funds are directed to assisting newly-established companies. This shows that the Program affects the influx of private capital to the assisted sectors. The Program can serve for modernizing the sectors but by driving out old companies that do not comply with the new legislation. That means that a considerable share of the existing companies the production of which does not comply with European regulations, will have to undergo a painful process of adaptation, restructuring or terminating the activity under EU accession of the country.

## REFERENCES

1. Agriconsulting Europe SA, Interim assessment of the SAPARD Program in the Republic of Bulgaria for the period 2000-2003.
2. Republic of Bulgaria, *National Agriculture and Rural Development Plan over the 2000-2006 Period under the EU Special Accession Programme for Agriculture and Rural Development (SAPARD)*, 2000.

3. Republic of Bulgaria, *National Economic Development Plan over the 2000-2006 Period, 1999*, amended 2003.
4. Monitoring committee at the SAPARD Agency, Monthly reports
5. The Audit Office of the Republic of Bulgaria, Audit report for execution of the SAPARD Program for the period 2000-2003.
6. Open Society Foundation, Project „Improvement of the capacity of the government administration for optimization of pre-accession financial instruments“
7. [www.mzgar.government.bg](http://www.mzgar.government.bg) – Ministry of Agriculture and Forests

**FIG. 1. INSTITUTIONAL SCHEME FOR MANAGEMENT OF THE SAPARD PROGRAM**

