



INSTITUTIONAL PROBLEMS SMALL FARMERS FACE WHEN APPLYING FOR ASSISTANCE UNDER THE RURAL DEVELOPMENT PROGRAM (2007 – 2013)

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ABSTRACT

Small farms represent about 95% of all farms in the country. They employ almost 90% of the workforce in agriculture and therefore are a key factor for sustainable rural development. There are a number of measures aimed at small farms in European and national schemes for agricultural support. The practice shows that small farmers' participation in the existing aid programs is not sufficient, and EU funds rarely reach the potential beneficiaries. The purpose of this article is, following the analysis of opportunities and results achieved by applying various support measures for farmers, to propose alternatives for future development. This aim is achieved by: first, the opportunity for small farmers to apply for support to the Rural Development Program 2007 - 2013 r. are assessed; second, restrictions impeding their participation in support schemes are defined; third, reactions of the small farmers to these restrictions are analyzed; and finally, alternatives for changing the measures' design considering the specifics of small farmers are proposed.

Keywords: EU funds, sustainability, rural development, small farms

INTRODUCTION

The issue of helping small farmers has become important in recent years. About 95% of the farms in the country are small. They specialize in cultivation of intensive crops (fruits, vegetables, vineyards) and animals. Over 70% of the animals rose in the country and almost 90% of the workforce in agriculture are concentrated in small farms (1). Experience shows that small farmers' participation in the existing aid programs is not sufficient and EU funds rarely reach the intended beneficiaries. The purpose of this article is, following the analysis of opportunities and results achieved by applying various support measures for farmers, to propose alternatives for future development. To achieve the objective:

- The state of the problem is discussed;
- Eighty families from the Plovdiv region, engaged in agriculture are observed;
- Their opportunities to apply for the

measures of the RDP (2007 – 2013) are assessed;

- Restrictions impeding their participation in support schemes are defined;
- Reactions of the small farmers to these restrictions are discussed;
- Alternatives for changing the measures' design considering the specifics of small farmers are proposed.

STATE OF THE PROBLEM

Before the accession of Bulgaria to the EU, farmers received support from the SAPARD program. Under this program 3500 projects were implemented totaling 600 million Euros (2). Despite the huge budget, only a small part of the funds have reached the small farmers. The situation regarding single area payment scheme is similar. In this scheme a fraction of farms (less than 1%) received more than 80% of the funds (3).

In 2007, SAPARD program was replaced by the Rural development program (2007-2013). This program includes 30 measures, grouped into 4 axes: Axis 1 - Improving the competitiveness of the agricultural and forestry sector; Axis 2 - Improving the environment

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and nature; Axis 3 - Quality of life in rural areas and diversification of rural economy; Axis 4 - LEADER. Two of the Axis 1 measures are relatively accessible to small farmers. These measures are "Setting up of farms by young farmers" and "Support for

semi-subsistence farms undergoing restructuring". By 2011, the financial resources allocated to the first one have been exhausted, while for the second one - semi-subsistence farms, there is almost no interest.

Table 1. *Crops in young farmers' projects*

Crops	First production	Second production	Third production
Field crops: cereals, industrial crops and others.	73	1	0
Oil-bearing crops	3	5	0
Horticulture	76	24	0
Greenhouses	8	4	4
Perennials - orchards and berry plantations	47	17	5
other (in most cases, hives)	21	0	0
Total number of responses	257	65	18

According to the monitoring report for implementation of the RDP (2007-2009), there is a strong regional imbalance, and imbalance between the agricultural sub-sectors in the use of program funds. Much of the approved projects are for grain production, while the projects for fruit and vegetable sector are relatively few. A significant number of young farmers' projects have cereals as first production (**Table 1**) (4). Grains in most cases are grown by larger farmers. These data lead to the conclusion that the results of the RDP will probably be similar to the SAPARD.

APPROACH OF THE STUDY

Results in the study were derived based on three years' work with 80 farms in the Plovdiv region engaged in agriculture. These families are included in the "Land Source of Income" program implemented by the foundation with the same name. Only 20 of these 80 families qualify for support under the RDP. For the rest of families, although seriously engaged in farming, most of the measures were not accessible. Of the 20 families, 12 have been studied in depth and only 6 business plans for the measures "young farmers" and "semi-subsistence farms" were submitted. Financing and implementing the first business plan started in 2008. Three were financed in 2009 and two – in 2011. Five of the farmers were assisted during the application and implementation of the business plan. One was assisted only during the implementation process.

All farmers have been consulted on the opportunities to apply for funding under RDP. Information about the RDP requirements to be met by farmers was provided. Business plans were prepared for the farmers. The application forms were filled out and the farmers were assisted in obtaining the necessary documentation. They were also supported when submitting the documents. Consequently, continuous monitoring was carried out on the implementation of approved project activities.

PROBLEMS SMALL FARMERS FACE PARTICIPATING IN RDP

Based on the work done in our study, we can define several significant problems that impede the small farmers' participation in the support schemes. Most of these problems are related to the design of support measures. Others concern the institutional environment in which farmers operate.

The first serious problem is the insufficient information that the small farmers have regarding the measures and procedures of the RDP. Information is available, but mainly in the form of laws, regulations, ordinances and guidelines, which are published on websites. In our opinion these documents are well written, but in this form they are inaccessible for the farmers. In addition, competent technical assistance is lacking. The National Advisory Services provides consultations to the small farmers, but still this support is not sufficient. The specialists from this institution prepare business plans for free for two of the measures

– young and semi-subsistent farmers. The above problems are further aggravated by the failure of the RDP to provide on time access to training and information services to farmers. Until the spring of 2011 none of the measures related to provision of information and trainings have started.

The second serious problem is the numerous rules and procedures which the farmers have to follow. Some of them are related to the regulatory requirements associated with their status as agricultural producers. These include continuous registrations and updates, insurance, tax declarations, each with their fees, deadlines and penalties. Others refer to the documentation needed to apply for support measures: certificates, reports, various declarations, lease and rent contracts, etc. The procedures are difficult to handle by the farmers, because of too many documents, which take too much time and effort to prepare and submit. Due to the commitment of each family member in the farming process, time is particularly valuable for small producers. Any loss of time is also a waste of money for the family.

Third, the social security contributions that farmers need to pay and the tax burdens are a barrier that many small farmers cannot overcome. Formally speaking farmers must contribute to the social security funds to ensure that they will get retirement benefits. The problem here is the high transaction cost related to paying them. Every month a farmer needs to travel to the city to make bank transfers. Considering the transport services in the country this could take a whole day. During the growing season a day can decide the fate of the crop and the income of the farmer for the year. Often this forces the farmers to stay in the informal sector and as a result they are excluded from the list of potential candidates to support.

Fourth, the long process of application approval and payment, combined with the uncertainty of the projects evaluation process is another obstacle for farmers. The fact that this could often last more than a year discourages small producers to apply. Feedback delays often impede farmers to correct minor errors in their applications, which create a risk of rejection of projects.

Fifth, the existing rules for project implementation of the business plans further

discourage the small farmers to participate in the RDP. Similar to the requirements for applying, these rules for project implementation are very high considering the amount of financial support small farmers can access. The contracts that the farmers need to sign, if the business plan is approved, often consists of vague definitions and rules, which could be interpreted in different ways. There are also problems with the monitoring procedures. Farmers are penalized equally for intentional and unintentional mistakes. At the end of inspections farmers often are not informed what the results are, and what they are supposed to do if problems are found. Later, they receive letters, with incomprehensible content, which further confuse the farmers. The result is a low trust in the state authorities.

POSSIBLE CONSEQUENCES OF THE LIMITED ACCESS TO SUPPORT

The RDP consists of measures. A measure is an instrument of the agricultural policy. However, in order this instrument to have impact on the agricultural sector, farmers need to apply, receive funding and implement projects. Given the lack of tradition and experience in supporting agricultural production, the small farmers are likely to be discouraged to apply for support from the RDP.

This first can lead to deformation in the structure of agricultural sector (the balance of small, medium and large farms). If mostly large farmers receive support they are made artificially more efficient compared to the small farmers. As a result the small farmers either will close the operation and become unemployed or move to the informal sector. There would be loss in production, which mostly the smaller farmers provide (fruits, vegetables, berries etc.). The product markets would be also distorted and this will have impact on food prices.

The result of the distortion of both the farm structure and the product prices is that the market will no longer provide signals for efficient resource allocation. In addition, increased inequality and depopulation can be expected in rural areas. This contradicts the goals of the Common Agricultural Policy and in particular the Strategic Plan for Bulgaria's rural development (5).

POSSIBILITIES FOR IMPROVEMENT

The main goals of the CAP are associated with balanced development of the rural regions and stabilizing the farm income, without distorting the markets. In this respect, there are two main directions for overcoming the problems outlined above. The first one concerns the institutional environment in which farmers operate. The second one is related to the design of the measures for the small farmers.

The institutional environment could change in the direction of reducing the number of documents and simplifying the registration and legal procedures not only for farmers, but also for all economic agents. The administrative burden can be reduced by introducing electronic registers. In this way part of the documents can be processed faster. Establishing a system that is a one-stop shop, where the farmers can get most of the documentation they need just with submitting one request could further improve the situation. Allowing farmers, to pay the contributions to the social fund, not every month, but every three or six months (in advance) will lower they cost for participating in the social security system. Modifying the taxation methods for the small farmers and abandoning the requirement to have a cash register when they sell their produce on the local market will create incentives to them to stay in the official sector. The cash register may seem a small matter, but it is not (6). A cash register cost at least 350 levs. Then this cash register needs to be reported in the tax office, which cost about 50 levs. In addition, a farmer needs to have a contract with a firm to maintain the cash register, which cost at least 50 levs per year. According to the Bulgarian legislation, if one has a cash register he must print daily and monthly reports. These reports must be incorporated in official accounting books. Having official accounting books means that the farmers need pay for an accountant. The accountancy fees are at least 50 levs per month. After 2011 all cash registers must have on line connection with the tax office. Maintaining an on-line connection will cost at least 10 levs per month. Adding also the social security contributions, the total amount of the money for a farmer to be legal can easily get above 2500 levs (taxes non included). This amount is too high for most of the small farmers. For comparison, currently the minimum wage in Bulgaria is 2880 levs per year.

The design and the monitoring of the measures for the smaller farmers should also be changed to meet the characteristics and the needs of small farmers. On one hand a considerable simplification of requirements and application procedures is needed. On the other hand the focus should be on increasing the capacity of the administration and the farmers for their successful adaptation to the new rules. First of all, the amount of documentation required for application and the requirement that need to be follow during the implementation of the business plans must correspond to the amount of financial support farmers can receive. For example, under measure 141 "Support for semi-subsistence farms undergoing restructuring" the total amount of the grant is about 3000 levs per year. As we discussed in the previous section, only the costs for a farmer to stay legal can get above 2500 levs per year. This money does not include the additional cost which farmers need to make in order to follow the specific requirements of this measure (reporting the crop structure to the state authorities each year; paying to a specialists to fill out three special books: 1 – Plant protection book; 2 – Plants diseases book; 3 – Monitoring book, etc.). Shortening of the time between the application submission, approval and receiving of findings is also important to motivate the farmers to participate in the support programs. One way of achieving this is the decentralization of work regarding the small projects, currently carried out at the National office of State Fund "Agriculture". Transferring part of the activities in the regional offices is a prerequisite to facilitate communication and a good partnership between the State authorities and the farmers.

Capacity of the administration and the farmers to manage and use the European funds can be improved in various ways. First of all the monitoring authorities have to made difference between intentional and unintentional mistakes during the business plans implementation. The lack of advisory and educational services related to the RDP is among the main factors for the unintentional mistakes. Speeding the implementation of measure 111 "Professional education, information, and knowledge", opening of the measure 114 "Consultancy services for farmers and forest users" is a steps towards overcoming the above problem. In addition improvement of the coordination with

the Operational Program "Human Resources" could be also an option. In order to participate successfully in the RDP the small farmers, need consultancy support not only for preparation of business plans but during the entire implementation period.

CONCLUSION

The small farmers play an important role for the development of rural regions in Bulgaria. They produce intensive crops (such as fruits and vegetables) and livestock. Although the RDP includes measures that focus on the small farmers, our study shows that their opportunities to receive support are limited. Most of the funding goes to the large farmers which produce mainly field crops. Some of our conclusions match those made in the monitoring report on the implementation of the RDP for the period 2007 – 2009. This report concludes that the RDP has created a regional and sectoral imbalance which leads to deformation of the structure of the agricultural industry (4).

There are two groups of factors that constrain the farmers' participation in the RDP. The first group consists of factors related to the overall institutional environment in which farmers operate and the second group includes factors related to the design of the measures. The study examines several alternatives for improvement of the small farmers' access to the RDP. First, the application procedures and the overall administrative requirements need to be simplified. Second, the measure requirements must be compatible with the funds farmers can access. Third, the capacity of the farmers, as well as the administration, to work with the EU funds needs to be improved. Fourth, decentralizing part of the activities will speed up the documents flow and shorten the time between the submission of application and the implementation of projects.

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