



MEASURE 141 "SUPPORTING SEMI-SUBSISTENCE FARMS UNDERGOING RESTRUCTURING" RDP (2007-2013) – PROBLEMS AND POSSIBLE SOLUTIONS

K. Hristov*

Department of Economics, Agricultural University – Plovdiv, Bulgaria

ABSTRACT

Measure 141 "Supporting Semi-Subsistence Farms Undergoing Restructuring" is one of the few measures of the RDP for 2007 – 2013 targeting small agricultural producers. Their participation in the measure, however, is very low, so most of the funds remain unused. The purpose of this article is to identify the problems that are hindering the participation of farmers in this measure and to offer opportunities for overcoming these problems in the next programming period (2014 – 2020). This aim is achieved by detailed analysis of the procedure for applying, implementing, and reporting of activities under the measure. A survey among farmers in the Plovdiv region applying for support under the measure was performed. Crucial moments in the attempts of farmers to receive support under the measure are examined and recommendations for more successful implementation in the next planning period are proposed.

Keywords: rural development, small farms, Common Agricultural Policy (CAP)

INTRODUCTION

Agricultural Census conducted in 2003 in Bulgaria shows that there are 666 thousand farms in the country. More than 97% of them are non-market oriented or semi-subsistent. The 2010 Census shows that the number of farms in the country has fallen by more than 40%. This is mainly due to the strong reduction in the number of small producers until the big farms increase in number and size. Small farms however represent more than 95% of the total number of farms in the country. They specialize in cultivation of intensive crops (fruits, vegetables, vineyards) and raising animals (1). Over 70% of the animals rose in the country and almost 90% of the workforce in agriculture are concentrated in small farms (2).

*Correspondence to: *Krum Hristov, Department of Economics, Agricultural University – Plovdiv, Bulgaria, 12 Mendeleev str., 4000 Plovdiv, Bulgaria, Tel. +359 32 654 441, Mob. +359 878 63 97 06 e-mail: hristov@au-plovdiv.bg*

Despite the high proportion in Bulgarian agriculture, small farmers do not participate in existing measures and support schemes for agriculture. Therefore, EU funds rarely reach the intended beneficiaries.

The aim of this study is to reveal the problems small producers face, when trying to apply for assistance under the rural development program and to propose alternatives for successful support. To achieve the objective:

- State of problem is discussed;
- Survey among small agricultural holdings is performed
- Their opportunities to apply for the measure "Supporting Semi-Subsistence Farms Undergoing Restructuring" of the RDP (2007 – 2013) are assessed;
- Restrictions impeding their participation in support schemes are defined, and possible reactions of farmers to these restrictions are discussed;

- Alternatives for changes in the institutional environment and in the support measures are proposed, with respect to the specifics of small farmers.

STATE OF THE PROBLEM

Different classifications of small farmers exist. Depending on what share of the production is marketed, they are divided into non-market oriented (subsistent), semi-subsistent and market-oriented farms. This classification in Bulgaria is based on the economic size of the farm. Farms with an economic size of less than 1 ESU (European Size Unit) are defined as non-market. These, sized 1 – 4 ESU are considered semi-subsistent. Producers with economic size above 4 ESU are accepted as market-oriented. Considering this classification, more than 75% of farms in Bulgaria turn to be subsistent (ESU<1).

Before the accession of Bulgaria to the EU, farmers received support from the SAPARD program. Measures included this program were directed preliminary at big farmers. Only 3500 projects were implemented, totaling 600 million Euros (3). Despite the big budget, none of the money reached the small farms. 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 (4).

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 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 producers. These measures are "Setting up of farms by young farmers" and "Supporting semi-subsistence farms undergoing restructuring". By 2012, the financial resources allocated to the first one have been exhausted, while for the second one - semi-subsistence farms, despite the large number of small farmers in the country, there is almost no applicants. Aforementioned leads to the conclusion that the results of the RDP will probably be similar to those in the SAPARD program.

APPROACH OF THE STUDY

Results in the study were derived based on five 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 80 families, 20 have been studied in depth and 10 business plans for the measures "young farmers" and "semi-subsistence farms" were submitted. Farmers were assisted during the whole process of application and implementation of their business plans. Initially, all farmers have been informed and 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 producers. 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. During the execution of the business plans farmers were assisted with preparation of the necessary documentation, obtaining the necessary registrations, preparing financial and technical reports, monitoring of deadlines for implementation and other important activities.

PROBLEMS AFFECTING PARTICIPATION IN THE MEASURE "SEMI-SUBSISTENCE FARMS"

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

One of the main problems as regards the design of the measures is complete absence of measures targeting the so called non-market farms. As already mentioned above, 75% of farms in Bulgaria are smaller than 1 ESU, which defines them as subsistent. The lower threshold for applying for support under the RDP 2007 - 2013 is set to 1 ESU, and that's precisely in the

measure “semi-subsistent farms”. Thus it appears that the RDP automatically excludes all those 500 thousand farms below 1 ESU. These farms also are excluded from the Single Area Payment Schemes and national payments due to the insufficient amount of cultivated land and raised animals. This still does not explain why farmers neglect the measure "Supporting semi-subsistence farms undergoing restructuring", given also the fact that the other measure that small farms could receive funding - "Young Farmer" has strong popularity. There are still 140 thousand small farms that meet the criteria of economic size, and refuse to participate in the measure.

Serious problem proved to be the insufficient information that small farmers have regarding the measures and procedures of the RDP. Information, of course, 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 Service provides consultations to the small farmers, but still this support is not sufficient. Although the specialists from this institution prepare free of charge business plans for the measure –“Semi-subsistent farms”, number of experts working in that office is extremely insufficient. 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.

Another obstacle for farmers is the long process of application approval and payment, combined with the uncertainty of the projects evaluation process. The fact that this process 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.

Existing rules for project implementation of the business plans further discourage the small farmers to participate in the RDP. Similar to the procedures for applying, the requirements for

project implementation are too high considering the amount of financial support small farmers can access. Contracts that farmers need to sign, if the business plan is approved, often consist of vague definitions and rules, which could be interpreted in different ways. This automatically leads to severe problems related with monitoring procedures. Farmers are penalized equally for intentional misuse 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. Finally, all this results in a low trust in the state authorities.

Another problem that small farmers face, when trying to apply for support under the measure is the enormous amount of documentation that has to be provided: certificates, reports, various declarations, lease and rent contracts, etc. The process of assuring all this documentation takes much of farmer’s time. 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.

Institutional environment in which farmers operate also is impeding small farmer’s participation in the measure “Semi-subsistent farms”. One of the main problems as regards the institutional environment is related to the regulatory requirements associated with the legal requirements for carrying out activity as farmers. These include continuous registrations and updates, insurances, tax declarations, each with their fees, deadlines and penalties. 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 high transaction costs related to paying them. Example can be given with one of the procedures concerning taxation of farmers. If they want to sell their production on the local market, farmers have to use a cash register. The cash register itself costs at least 100 Euros. Then this cash register needs to be reported in the tax office, which cost about 30 Euros. In addition, a farmer needs to have a

contract with a firm to maintain the cash register, which cost nearly 50 Euros per year. According to 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 to use accounting services. The accountancy fees are another 25 Euros per month. After 2011 all cash registers must have on line connection with the tax office. Maintaining an on-line connection will cost another 5 Euros per month. Adding also the social security contributions, the total amount of the money for a farmer to be legal can easily get above 1200 Euros (taxes non included). This amount is too high for most of the small farmers. For comparison, currently the minimum wage in Bulgaria is 1860 Euros per year. In addition, 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. The system of paying social contributions in Bulgaria requires submission of various documents in different institutions, thus making the procedure impossible without involving accounting services. This forces small farmers to stay in the informal sector of the economy and as a result they are excluded from the list of potential candidates to support.

Measure “Semi-subsistent farms” is one of the RDP (2007-2013) measures. In order this instrument to have impact on the agricultural sector, farmers need to apply, receive funding and implement projects. The aforementioned problems are discouraging small farmers and restricting their access to support. 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, milk, etc.). The product markets would be also distorted and which will surely influence the food prices. As a result of such 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, depopulation and unsustainable development can be expected in rural areas of the country (5). This contradicts the goals of the Common Agricultural Policy and in particular the Strategic Plan for Bulgaria's rural development (6).

POSSIBILITIES FOR IMPROVEMENT

Common agricultural policy of the EU aims at 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. First one is related to the design of the measures for the small farmers. Second one concerns the institutional environment in which farmers operate.

As regards the design of the RDP 2007-2013 measures, more than 500 thousand farms are excluded from the support schemes. Even the so called “social measure” of RDP – “Semi-subsistent farms” is not reachable for the group of non-market farms. Although classified in the group of non-market holdings, many of these farms are main or only source of employment and therefor of income for the producers. Leaving those farms unsupported can force farmers to stop their agricultural activity and therefore lead to significant increase of unemployment in rural areas.

For overcoming those problems in the new programing period, the lower threshold for applying for support under the RDP measures should be consistent with the image of agriculture in the country.

More measures for supporting farmers with lower ESU should be implemented. Lower threshold itself must be moved so as to provide access to more small producers to support schemes. Measures need to be simplified so that to be understandable to small farmers. Artificial evaluation criteria like: different Standard gross margins for any type of crops and animals; Standard outputs; European size units, etc., should be excluded or used very carefully. Simple criteria need to be used, with minimum required documentation. Farmers understand measures like dekars of vegetable crops

(permanent crops, cereals) cultivated, number of animals raised, size of greenhouses, etc. Simplified criteria in support measures will help farmers to understand easily what the appropriate measure they can participate in. Thus they will be able to calculate themselves what crops to grow, how many decars, what type and number of animals to raise, etc.

Evaluation and monitoring procedures for small projects need to be revised. First of all, the amount of documentation required for application and the requirements that need to be followed during the implementation of the business plans must correspond to the amount of financial support farmers can receive. In the 2007-2013 planning period procedures and papers requested for projects worth 7 thousand Euros were similar to these for projects totaling more than 700 thousand Euros. The total amount of the grant under measure 141 "Supporting semi-subsistence farms undergoing restructuring" is about 1500 Euros per year. As it was already mentioned, costs for a farmer to stay legal can get above 1200 Euros per year, and 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 for achieving this is the decentralization of work regarding the small projects, currently carried out at the National office of State Fund "Agriculture". In the last few years, there is some movements towards this, but in order to work smooth focus should be placed on increasing the capacity of the administration and the farmers to work together for achieving the common goal.

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 in many ways. Using existing electronic registers, instead of hanging out producers from one institution to another will save time and therefore money to farmers and will make the whole process easier (7). Allowing farmers, to pay the contributions to the social fund, not every month, but every three or six months will lower the 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.

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 turn to be the main factors for the unintentional mistakes. This particular problem can easily be solved by improving extension services in agriculture and its proximity to the producers. 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 small farmers need consultancy support not only for preparation of business plans but during the entire implementation period.

CONCLUSION

Small farmers play an important role for the development of rural regions in Bulgaria. They produce intensive crops (such as fruits and vegetables) and rise livestock. Although the RDP includes measures that focus on the small farmers, such as "Supporting semi-subsistence farms undergoing restructuring", our study shows that their opportunities to receive support are extremely limited. Most of the funding under the Rural development program 2007 - 2013 goes to the large farmers which produce mainly field crops. The reasons for this are find in two directions: the first one includes factors related to the design of program measures, and the second one - factors related to the overall institutional environment in which farmers operate. 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. And fifth – strong consultancy support has to be provided to the small farmers for the successful participations in the European and national supporting schemes for support.

Acknowledgements: The research is conducted with the support from the “Land Source of Income Foundation” – Plovdiv.

REFERENCES

1. Di Falco, S., Penov, I., Aleksiev, A., and van Rensburg, T.M., Agrobiodiversity, farm profits and land fragmentation: evidence from Bulgaria. *Land Use Policy*, v.27, pp.763-771., July 2010.
2. Министерство на земеделието и храните. Агростатистика (2005) Резултати от преброяването на земеделските стопанства в България през 2003 година.
3. Министерство на земеделието и храните (2009) Програма за развитие на селските райони (2007 – 2013).
4. Ганев, П., Манолова, З., Костадинова, С., Субсидии и данъчни облекчения ощетяват родното земеделие. (Преглед на държавното подпомагане за земеделските производители в България за периода 2001 – 2007). Институт по пазарна икономика, 2007
5. Atanasov, D., B. Popova, “Approaches to selection and integration of indicators for sustainable development of agriculture” *Trakia Journal of Science*, Volume 8, Supplement 1, ISSN 1313-7069 (p.133)., 2010
6. Министерство на земеделието и храните (2006) Национален стратегически план за развитие на селските райони (2007-2013)
7. Georgiev M., “Institutional Factors Determining of the Transaction costs in Land Contract”, *Trakia Journal of Science* ISSN:1313-7069, 09/2011; 9(9):64-69.