

V. RURAL DEVELOPMENT FRAMEWORK AND THE SPECIAL ACCESSION PROGRAMME FOR AGRICULTURE AND RURAL DEVELOPMENT

RURAL DEVELOPMENT FRAMEWORK FOR BULGARIA

Rural Areas and Regional Differences

Bulgaria has significant regional disparities in economic development, employment, incomes, and social indicators. Many of these regional differences are highly correlated with the share of rural versus urban population. For example, the rate of unemployment in rural areas is considerably higher than in urban areas. The data from NSI for March 1999 presented in **Table 30** clearly shows drastic unemployment rates for the rural areas. The differences in economic activity of rural and urban region is also reflected in value added or production value.

Consequently, people, especially younger ones, migrate from rural to urban regions. Rural population is decreasing at a considerably greater rate (-1.4% in 1997) than urban population (-0.4%)¹; and the average rural population in Bulgaria is considerably older (43.8 years) than the urban one (37.3 years, Statistical Yearbook 1999, p.6). The considerable depopulation of rural areas is a main concern and an important reason for political support in these areas.

Socio-economic differences exist not only between urban and rural areas, but are also relatively large within rural regions. This is partly caused by variances in agricultural productivity. Yields as well as production shares of various agricultural products in total agricultural output vary considerable among regions.

While production of and employment in the agricultural sector is shrinking, opportunities in other sectors are still relatively rare in rural areas. Nature, climate and resources offer opportunities for diverse rural area businesses in industry, tourism, forestry and transport. However, the transition to a highly diversified economy in rural areas still needs time and policy support. For example, rural areas are relatively badly endowed with roads, other transport infrastructure or other public goods and services. To mitigate the disparities between urban and rural areas in Bulgaria is a main task of the Government and on its way to EU integration.

Rural Development Strategy

National Development Strategy

Based on the Regional Development Act, the National Development Plan (NDP) for the 2000 to 2006 period was prepared as part of Bulgaria's EU pre-accession strategy.

¹ About one third (32%, 1997) of total population is classified as rural, two thirds (68%) as urban. The average population density in Bulgaria is 75 persons per square kilometer.

It defines “sectoral and regional programmes based upon an analysis of overall national development and a common development strategy.” (Republic of Bulgaria, 1999b)

According to NDP (Republic of Bulgaria 1999a), considerable deficiencies exist in terms of regional policy, such as ‘no unified concept-based and long term policy, poor national level sectoral coordination on regional problems, insufficient local and regional initiatives and activity,’ and ‘a dearth of timely and reliable regionally differentiated data.’ These problems are now being tackled starting with the NDP itself. It defines the long-term regional policy objective as ‘to reform inland processes and utilize local growth factors by using market mechanisms and state coordination, with a view to integrate Bulgaria into Europe.’² This aim is based on the regional policy objectives defined in the Regional Development Act for the 2000 to 2006 period:

- * creating conditions for stable, sustainable and balanced development of the individual regions;
- * reducing regional disparities in employment and income;
- * opening up Bulgaria and solving regional and local development challenges through cross-border cooperation.

One priority of regional development policy efforts is to attain balanced and sustainable development in **rural regions**.³ This priority will be achieved through a national rural development policy which emphasizes an integrated development approach, fosters positive rural values such as family traditions or rural regions’ cultural and historical peculiarities, emphasizes rational and sustainable use of natural resources, and uses targeting funding to rural regions which are able to absorb resources.

With regard to **agriculture**, the NDP sees as key sectoral strategic objectives: an efficient farm production and an competitive food processing sector, rural development by diversified employment opportunities, environmental sustainability, technical manufacturing and market infrastructures in agriculture for sectoral market orientation, and continued agricultural state support policy.

² ‘This calls for:

- guaranteeing balanced regional development and laying down inter regional regulating mechanisms
- stimulating accelerated development in Growth Regions by adhering to concentrated decentralization principles
- creating conditions for staged reinstatement and stabilization of industrial decline regions
- applying preferential policies towards peripheral, border, highland and underdeveloped rural regions aimed at overcoming long term underdevelopment and creating growth conditions.’ (Republic of Bulgaria 1999)

³ Rural regions are defined as areas with largest towns with not more than 30,000 inhabitants, a population density of under 56 persons per square kilometer, a farm and forest land share more than 20 per cent greater than the national average, and farming and forestry employment share more than 20 per cent greater than the national average. 34 rural regions with low per capita earning and high unemployment are identified for integrated development support.

National Agricultural and Rural Development Plan

Based on NDP, Bulgaria recently has prepared a National Agricultural and Rural Development Plan (NARDP). It was initiated by the requirement for eligibility of the Special Accession Programme for Agriculture and Rural Development (SAPARD) of the EU which specifically called for identification of priorities and designing of measures for rural development. The plan was coordinated by MAFAR, which established a SAPARD task in late 1998.

The preliminary NARDP draft has been widely discussed. In accordance with the principle of partnership, the discussion was attended by representatives of the European Commission, MAFAR, regional MAFAR offices, the Central Co-ordination Unit, representatives of the State Fund Agriculture, associations of agricultural producers, regional development agencies, etc. The priorities and measures set out in this plan, are in full compliance with the National Program of the Adoption of the Acquis (NPAA) (European Commission 1999g).

The overall objective of the plan comprises an economic and a legal aspects of developing agriculture in Bulgaria: The economic aspect aims at the development of an 'effective and competitive agrarian sector complying with the economic EU membership criteria'. The legal-administrative aspect comprises the 'harmonization of Bulgarian legislation in the field of agriculture, veterinary and phyto-sanitary control with the *acquis communautaire* and preparation for systematic introduction and implementation of the mechanisms of the Common Agricultural Policy (CAP)' and 'aligning the administrative structures and procedures with the EU membership requirements'. With respect to financial support for the period 2000-2006, NPARD defines the following priorities:

1. To develop efficient agricultural production and a competitive food processing sector through improved market and technological infrastructure and strategic investment policy, ultimately aiming at reaching EU standards.
2. Sustainable development of the rural areas, consistent with best environmental practices, by facilitating alternative employment, diversification of economic activities and establishment of the necessary infrastructure. This will lead to improved living conditions, increased income generating capacity and employment opportunities for those living in the rural communities.

The concrete areas for support defined in the NPARD are based on its objectives, as well as on an analysis of the general situation and the strengths and weaknesses of the agriculture and rural sector in Bulgaria, and an overview of the ongoing Government or donor supported programs in this area. The most important area of support is the improvement of the production, processing and marketing of agricultural, forestry and fishery products in compliance with European standards. More than 50% of the amount is allocated to this so-called 'priority area 1'. In addition, four more priority areas are identified: an integrated development approach of rural areas (priority area 2), environmental aspects of agriculture (priority area 3), investment in human resources (priority area 4), and technical assistance (priority area 5).

The National Agricultural and Rural Development Plan restricts the geographical scope for these five priority areas based on the National Regional Development Plan and defines the measures to be financed under SAPARD. The most important ones for the development of agriculture are the four main measures are designed under priority area 1: investment in agricultural holdings, improving the processing and marketing of agricultural and fishery products (food processing plants and marketing of fruit and vegetables), setting up of producer groups, and water resource management.⁴

In summary, with NARDP Bulgaria developed a comprehensive agricultural and rural development strategy which can serve as a base for concrete policy measures to be financed by SAPARD and other funds.

EU PRE-ACCESSION SUPPORT: SAPARD

Description of SAPARD

SAPARD is part of the EU's pre-accession aid for the accession countries for the 2000 to 2006 period. The program will help candidate countries to deal with the implementation of the *acquis communautaire* as it relates to the CAP, as well as with the structural adjustments of their agricultural sectors and in their rural areas. Its main objectives are 'to establish a Community framework for supporting sustainable agricultural and rural development in the central and eastern European applicant countries (CEECs),' 'to solve problems affecting the long-term adjustment of the agricultural sector and rural areas,' and 'to help implement the Community *acquis* in matters of the common agricultural policy and related policies.'

To qualify for SAPARD, the Commission requires an Agriculture and Rural Development Plan according to a scheme presented in the European Commission Aide Memoire regarding the preparation of SAPARD. This requirement has been met by NARDP. In addition, the recipient country needs to establish a functioning 'paying agency' through which the program including Government co-financing funds are administered. As discussed below, Bulgaria is in the process of converting SFA into such an paying agency.

Based on certain criteria, 34 priority regions for SAPARD were identified in Bulgaria.⁵ NARDP defines the measures to be financed under SAPARD; they are a subset of the list of eligible measures under this program. SAPARD is budgeted for the

⁴ Under priority area 2, two measures are defined: development and diversification of economic activities, providing for multiple activities and alternative income; and renovation and development of villages and the protection and conservation of the rural heritage and cultural traditions and development and improvement of rural infrastructure. Under priority area 3, forestry protection and afforestation as well as agricultural production methods designed to protect the environment and maintain the countryside are envisaged. Investment in human resources (priority area 4) will be achieved by improving vocational training.

⁵ Support for integrated rural development will select projects from the 34 less developed rural areas as defined in the Ordinance For Identification Of The Areas For Specific Impact And Their Boundaries (No. 105/2.06.99) of the Ministry For Regional Development And Public Works. (source: NRDP)

period 2000 to 2006.⁶ The total funds for all ten CEEC accession countries amount to EURO 520 Million (at 1997 prices) per year (European Commission 1999a).⁷ How much each candidate country will be allocated under SAPARD will depend on objective criteria such as farming population, agricultural area, gross domestic product (GDP) in purchasing power, specific territorial situation. A first indicative calculation of the European Commission allocated 10% of the total funds or Euro 52 million per year to Bulgaria (see **Table 35**).

SAPARD is financed under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) and budgeted on a yearly bases, i.e. funds are not transferable to the next year if they are not fully utilized. However, the program will start later in 2000 than planned. This is due to a slow preparation process of SAPARD, mainly caused by the EU itself. For example, due to long administrative procedure, NARDP will not be approved by the Commission before April 2000. Moreover, the regulations of how to set-up implementing agencies for SAPARD were not determined by the European Commission until the end of 1999. Since the financial year under EAGFL is closed on October 15, the first fiscal year under SAPARD would effectively last less than half a year. As a consequent, it is planned that for financial purposes, the first two SAPARD years are merged.

Under SAPARD, the EU generally contributes up to 75% of the total eligible public expenditure of particular intervention measures. In the case of revenue-generating investments, total public aid is reduced to 50% of total eligible costs of the action.⁸ The potential sources for these co-financing funds need to carefully assessed. The generally 25% co-financing for public expenditures needs to be allocated in the national, regional and/or local budgets. Moreover, it is important to facilitate capital access for private investors. In the current situation, a 50% share of an investment might still be hard to contribute by private entrepreneurs.

⁶ However, candidate countries may only benefit through SAPARD between the year 2000 and the time they join the EU, i.e. when a candidate country joins the EU and it becomes eligible for assistance under Community policies, and notably the Structural Funds, its share of SAPARD funds would go to the remaining candidate countries still in the pre-accession stage.

⁷ With the adoption of the financial Perspective for 2000 to 2006 the European Council in Berlin decided to allocate a maximum annual amount of Euro 520 million (constant 1999 prices) for the seven-year period.

⁸ The Community will not normally contribute more than 75% of the total eligible public expenditure. In certain specific cases, it may, however, cover 100% of the total eligible. For revenue-generating investments, public aid may cover up to 50% of the total eligible cost, with the Commission contributing a maximum of 75%. The Community contribution will not exceed the ceilings on rates of aid and cumulation laid down for State aid.

Technical assistance, and similar activities undertaken at the initiative of the Commission, can be financed up to 100 per cent of total costs. However, this is limited to 2 per cent of the total annual budget allocation.

Table 35: Indicative Allocation of SAPARD Funds from EU, Maximum Amount in 1000 Euro, 1999 Prices, per Year

	Amount	Share of Total
Bulgaria	52,124	10.0
Czech Republic	22,063	4.2
Estonia	12,137	2.3
Hungary	38,054	7.3
Lithuania	29,829	5.7
Latvia	21,848	4.2
Poland	168,683	32.4
Romania	150,636	29.0
Slovenia	6,337	1.2
Slovak Republic	18,289	3.5
Total	520,000	100.0

Source: European Commission (1999f)

SAPARD Administration and Implementation

In Bulgaria, as in most of the CEEC, it was decided that the Ministry of Agriculture will be the responsible institution for the development, establishment and co-ordination of the SAPARD. To fulfil this task, a **SAPARD task force** of 15 officials was established at MAFAR, following a Decision of the Council of Ministers on October 19, 1998. Five officials are employed on a full time basis.

This unit co-ordinates the activities within the SAPARD. It is further responsible for the supervision of the Regional Offices of MAFAR, whereas these offices will be responsible for the detailed implementation and administration of the Programme. The principle tasks for the SAPARD unit are to

- determine the areas to be covered by SAPARD
- prepare the National Plan for the development of agriculture and rural regions
- ensure the establishment of an appropriate legal basis for implementing the program
- ensure adequate co-financing by the MAFAR, other ministries, agencies of municipal authorities
- identify or set-up a Paying Agency
- guidance on establishing appropriate project selection criteria and appraisal procedures
- ensure adequate publicity about the Programme⁹
- establish a network of 'facilitators', ie trained staff operating at regional level to assist potential applicants prepare project plans and applications for grant
- arrange for the monitoring and evaluation procedures

⁹ Until now, two national seminars have been conducted under SAPARD, jointly organized by MAFAR and the European Commission: an Introductory seminar for government and non-government organizations on the main objectives, principles and mechanisms of the EU structural policy and the SAPARD Draft Regulation; and a seminar for discussing the priorities and measures of the Rural Development Plan for the period 2000–2006.

- provide a secretariat to the Programme Monitoring Committee
- prepare annual reports on progress for the European Commission
- regular liaison with European Commission officials.

As mentioned above, a second condition for SAPARD eligibility, besides an acceptable agriculture and rural development plan, is the establishment of a so-called ‘**paying agency,**’ which function as channel for EU funds and as a co-financing institution of SAPARD and ensures the implementation of SAPARD project. Bulgaria decided to use the SFA as such institution. Therefore, a program for considerable restructuring of SFA is necessary to be implemented. The restructuring of SFA has two objectives:

First, to allow the State Fund Agriculture to provide national co-financing for the measures defined under the National Agriculture and Rural Development Plan, and, second, to develop the conditions for establishing SFA as a Paying Agency for the management and control of SAPARD funds. The Rural Development Plan outlines a very detailed proposal for the structure of the future Paying Agency. However, the EU Regulation regarding the detailed mechanisms for the implementation of the institutions necessary for and the management of the SAPARD funds have not yet been adopted.

Other Pre-Accession Aid

While between 1992 and 1999, Phare played the main role of EU pre-accession aid to the CEEC accession countries, aid will be considerably increased in amount and scope for the period 2000 to 2006. Phare continues to be the main channel for the EU's financial and technical support. The aims of Phare have been re-worked to take account of the candidate countries' specific priorities as they prepare for accession. Phare activities now concentrate on two priorities: The first priority is to help the administrations of the partner countries acquire the capacity to implement the *acquis communautaire*.¹⁰ The second priority is to help the candidate countries bring their industries and major infrastructure up to Community standards by mobilizing the investment required.

In addition to Phare, two new instruments will be introduced between the year 2000 and 2006 or each country's date of accession. One is the assistance to agriculture and rural development (SAPARD) described above, the other is a new instrument for regional policy called *Instrument for Structural Policies for Pre-Accession* (ISPA).

Under ISPA Bulgaria can expect to get 8% to 12% (corresponding to Euro 83 million to euro 125 million) of total the total allocation (see **Table 36**). The allocation is based on criteria like population, GDP per capita and surface area. instrument, ISPA will be similar to the Cohesion Fund as it operates today and will be targeted at two areas: the environment, to help candidate countries meet the investment requirements needed to conform with Community legislation; and transport, to improve connections between the

¹⁰In addition, a Special Preparatory Programme (SPP) has been designed to help the legal and administrative preparations needed prior to the introduction of structural programs. The so-called twinning program gives technical assistance from institutions in the EU member countries to equivalent institutions in the accession countries.

CEECs and the trans-European networks, and their extension eastwards. ISPA's financial contribution can account for up to 85% of public expenditure. Part of funding under ISPA will be used for the rural areas (European Commission 1999b) and therefore is also of great importance for rural development in Bulgaria.

Table 36: Indicative Budget Allocations for All Three Pre-Accession, in Million Euro per Year (1997 prices)

	Total	Of which Bulgaria
SAPARD	500	52
ISPA	1,000	83-125
Phare	1,500	101
Total	3,000	236-278

Source: European Commission (1999).

Defining the Rural Development Program and SAPARD Implementation

The MAFAR has constructed an impressive rural development program that will serve as the framework for use of SAPARD funds. It is vitally important that these funds be used in the most cost-effective way possible to maximize their benefit in restructuring the sector. SAPARD is a program, which is quite flexible. While this flexibility is on balance a positive characteristic of the SAPARD, it also creates the potential that SAPARD could be used for measures that are not optimal or not even conducive to market development. It will be important to design and implement the program in ways that allow market forces to decide the directions in which the rural economy evolves, rather than having the government “pick winners” through excessive focus of support on narrowly defined sectors or economic actors that are selected *ex ante*. While the current draft rural development strategy and SAPARD investment plans were clearly drafted with this consideration in mind, and will allow considerable latitude for market forces to work, some consideration should be given to implementing the plans in ways that will set very broad eligibility criteria and allow self-selection of efficient producers and institutions as recipients of grants. For example, rather than setting the self-contribution at the minimum level of 50% (for income-generating activities), or setting different rates for different activities, consideration should be given to setting a uniform self-contribution rate within broad categories of recipients or activities. This level could be set at a level which would ration the available funds and ensure that they go to recipients who are more willing to put their own funds at risk, or could persuade a third party to put funds at risk. This would not eliminate the need to have a review process for grant applications, but would reduce frivolous applications. It would also allow more grants to be made. This rate could later be adjusted if it were found that demand for the funds were too low.

In summary, it can be concluded, that through SAPARD and other EU pre-accession instruments, Bulgaria is strengthening the capacity of its agricultural and rural sector to integrate into the EU. The preparation of NPARD done in view of SAPARD already initiated necessary discussions on the development of agriculture and rural areas,

identified and more narrowly defined a strategy for development and EU integration, and set priorities for public support.

The measures financially supported by the EU, in particular under the SAPARD funds, will help Bulgaria in meeting EU requirements in the area of agriculture and in alleviating negative impacts of the transition to a market economy in the rural areas. Investments to be supported under EU pre-accession aid are targeted towards Bulgaria's main problems on its way to complete EU integration. The challenge for the agricultural sector is, above all, to considerably increase its ability to cope with the market forces in the EU. Measures supported under SAPARD, like investments into agricultural holdings or food processing units to meet quality and other EU standards, as well as training and organization of producers and processors, are clearly of dominant importance to achieve this objective. The financing of public goods like infrastructure in rural areas under ISPA can complement these efforts.

Nevertheless, SAPARD or any other Government supported support scheme can only support, but by no means replace or even partially substitute for private activities. Hence, a favorable policy framework for the private sector is of utmost importance for successful enterprises to develop. This clearly calls for a continuation of a stable and liberal macroeconomic framework in Bulgaria. Moreover, experiences in other CEEC show that additional efforts to attract foreign investments can accelerate the transformation As well as EU integration Process.

