
Direct Payments in Bulgaria – Trends and Perspectives

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Abstract

Direct payments are key component of the Common Agricultural Policy (CAP) in Bulgaria. During 2007–2013 they led to serious changes in specialization and concentration in Bulgarian agriculture. In the period 2014–2020, around € 7.4 billion is expected to be invested in farming sector and rural areas through the CAP, of which direct payments are € 5.1 billion. The main purpose of the study is to analyse the trends in direct payments allocation and to outline the opportunities and perspectives for Bulgarian agriculture. Methodological approach includes analysis, synthesis, deduction and induction. Applied are comparative, monographic, logical, tabular and graphical method and statistical methods of analysis. In order to research the disparities in paper is used Gini coefficient as a widely applied measure of inequality. The results show that First Pillar benefits mainly larger-scale farms causing disbalances in Bulgarian agricultural sector. Small and medium sized farms receive negligible share of the financial support. The implementation of new opportunities presented by direct payments could help to decrease sectorial and structural imbalances in agriculture and to decrease the polarization of Bulgarian farms.

Key words: financial support allocation; structural changes; Common Agricultural policy; agricultural holdings

Introduction

The common agricultural policy (CAP) aims to ensure food security, the sustainable use of natural resources and balanced development of the rural areas. Direct payments benefit nearly 7 million farms throughout the European Union and often represent an important share of their agricultural income. According to European Commission (2016) the CAP budget for 2014–2020 is € 408.31 billion, with € 308.73 billion is for direct payments and market measures and € 99.58 billion – for rural development.

In 2014–2020, around € 7.4 billion is expected to be invested in Bulgaria's farming sector and rural areas through the CAP and the direct payment allocation amounts around € 5.1 billion. The main problems and challenges are associa-

ted with direct payment distribution and the effect of financial support on farm income, agricultural structure and investments in the sector.

The aim of the study is to analyse the trends in direct payments allocation and outline the opportunities and perspectives for Bulgarian agriculture. For this purpose, the survey includes a brief overview of previous studies related to important aspects of direct payments distribution. The new moments of the First Pillar are discussed. The methodology used follows the main trend in direct support allocation. On this basis, analysis and comparisons have been made. The last part is concentrated on the perspectives and opportunities for Bulgarian agriculture.

Many authors analyzed different aspects of direct payments. After Agenda 2000 the topic of di-

rect payments distribution is discussed by different studies in Europe (El Benni and Finger, 2013; Schmid et al., 2006; Severini and Tantari, 2013a; Severini and Tantari, 2013b; Keeney, 2000; Sinabell et al., 2013).

Some surveys pointed that in general big holdings have received financial support disproportionately compared to small farms, generating situations of disequilibrium that have impacted on levels of productivity and economic efficiency of farms (Mishra et al., 2009; Galluzzo, 2013; Galluzzo, 2015). Sinabell et al. (2013) observed distribution of direct support among farms in all Member states in 2000–2010. The paper provided a comparison between countries by using Gini Coefficient and Lorenz Curve. This is the first survey after 2003 reform that analyzed not only the distribution of direct payments, but also the evolution of that direct support over the years. The latter is probably the most wider and detailed analysis of direct payments allocation.

In 2013, the new CAP reform influences national agricultural policies and changes public support in agriculture. For the period 2014–2020 some important changes have been introduced. First, new CAP has improved focus on priority group of farmers and sector. There are new measures like Active farmer and Young Farmer. Except the Basic Payment, are presented direct payment and possible additional support that will contribute to specific environmental and territorial objectives. The new system ensures that 30% of direct payments will be conditional upon respect of agricultural practices beneficial for the climate and the environment.

The other important aim is to ensure more equitable distribution among Member-States and among farmers. There are new measures like a redistributive payment scheme that can be attributed to the first hectares of the farms. This scheme will provide more funds to small and medium-sized farms. A specific and simplified support scheme for small farmers will facilitate their access to direct payments and reduce the administrative burden.

Although there are many studies that present the effects of policy intervention, the aim of

this survey is to analyze only the direct payments and their distribution in Bulgaria. The other main goal is to present the new measures in First Pillar and the opportunities that they provide to overcome the structural imbalances in Bulgarian agriculture. For that purpose is applied Gini coefficient as a one of the most accurate methods.

Materials and methods

The paper applies a modification of the Gini coefficient consistent with the features of agricultural structures (Merce et al., 2010).

The Gini concentration coefficient is calculated by dividing the effective area of concentration and the maximum area of concentration, as follows:

$$C(x) = \frac{\frac{1}{2} \cdot \sum_{j=1}^n (F_{j-1} + F_j) \cdot f_j}{\frac{1}{2}} \quad 0 \leq C(x) \leq 1$$

where $C(x)$ is Gini index for attribute x .

The generic form of a distribution is considered in order to illustrate this relationship, by creating groups of exploitations:

$$x: \begin{pmatrix} x_j \\ n_j \end{pmatrix}$$

where n_j is number of units of j group;

x_j is the average interval of the attribute in j group.

Starting from this distribution, the derived distributions are constructed:

$$x: \begin{pmatrix} x_j \\ f_j \end{pmatrix} \quad \text{and} \quad x: \begin{pmatrix} x_j \\ f_j \end{pmatrix}$$

where

$$f_j = \frac{n_j}{n} \quad \text{and} \quad f_j' = \frac{x_j \cdot n_j}{\sum x_j \cdot n_j}$$

f_j is frequency related to the number of units in the aggregation;

f_j' is frequency is related to attributes of the study;

F_j and F_j' represent cumulative frequencies (added step by step) of f_j and f_j' .

The index takes values between zero and one. The closer it is to one is the coefficient, the higher is the level of concentration. In order for more accurate analysis in the calculation of the Gini coefficient is used valuable indicator. Gini coefficient assigns a numeric expression of dis-

proportionate taking into account the inequality. The data is collected from EUROSTAT. The financial reports provide twelve classes of farms (x) and direct payments received (y), of which cumulative proportions are calculated.

Distribution of direct payments in Bulgaria

From December 2013 there are new rules for direct payments for calendar years 2014–2020. This reform is aiming to ensure that direct support is distributed in a fairer way between Member States and between farmers, with a shift away from historical references. The direct payments distributions in this study do not present the result by new reform, because of the transitional rules, this data will be visible for financial year 2016. According to European Commission in financial year 2015 (calendar year 2014), direct payments represent 74% of the whole CAP expenditure and 93% of them are decoupled.

Figure 1 illustrates the distribution of direct payments in Bulgaria, EU–28 and EU–15 for financial year 2015 based on Gini coefficient.

The data shows that the value of Gini coefficient for Bulgaria exceeds the average EU–28 and EU–15 levels. The indicator is 6.4% bigger than in EU–28 and almost 32% higher compared to EU–15. Based on the fact that the value of the coefficient is close to the EU average, it can be concluded that our country has almost the same

structure of direct payments distribution. Significant differences are observed with in regard to medium-sized farms. The holdings that accumulated 5000–50 000 EUR receive around 50% of all support in EU–28 and are 19% of all beneficiaries. In Bulgaria the results are quite different and these farms concentrate 30% of the payments and are only around 10% of all beneficiaries.

However, the distribution of financial support is unequal in EU–28 and cause serious debates. The concentration of direct support in large farms is regularly discussed, not least in terms of social cohesion. In this regard, the Commission has proposed mechanisms to decrease or to limit the amount of direct payments to the largest beneficiaries in order to make the distribution of direct support more equitable.

The parallel between Bulgaria and the EU–15 is more of a concern. It is important to emphasize that the distribution of direct payments in Member states such as Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, and others, is more even than in our country. In EU–15 around 69% of beneficiaries receive 5000 or less EUR. By comparison, this share in Bulgaria is 86%. The second distinction is associated to the farms which receive 5000 to 50 000 EUR. In EU–15 these holdings form around 28% of all beneficiaries and 57% of financial support. The data for Bulgaria is significantly different. These farms constitute only 10% of all beneficiaries and accumulate only 30% of financial aid. The last

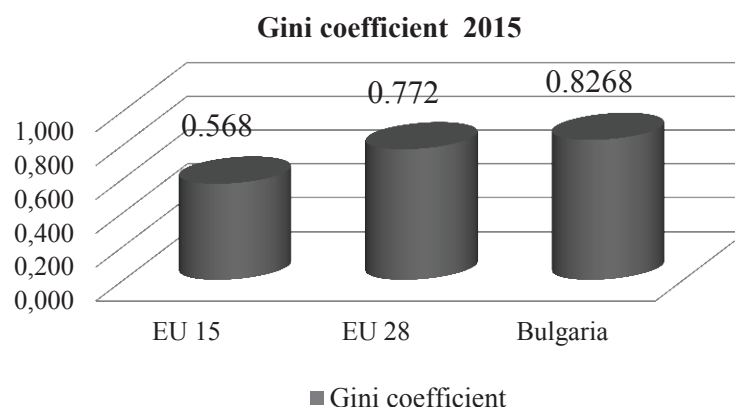


Fig. 1. Direct payments distribution in Bulgaria, EU–28 and EU–15 for financial year 2015
 Source: Own calculation based on Eurostat.

difference is related to the concentration of direct payments in large structures. In EU-15 and Bulgaria the share of these beneficiaries is similar around 3–4%, but in EU-15 they receive only 17% of all payments. This share is significantly lower compared to Bulgaria, where they accumulate around 40%.

Figure 2 completes the analysis of direct payment allocation by presenting the biggest beneficiaries in Bulgaria, EU-28, EU-15 and the extreme cases – the highest concentration in Slovakia and the most equal distribution in Luxemburg.

The financial report of European Commission in 2015 indicates that in the EU average, the distribution of direct payments and of land is almost the same: 20% of the biggest beneficiaries receive about 80% of direct payments and hold about 80% of the area.

It should be considered that the distribution of direct payments vary a lot among Member States. Direct payments are more concentrated than the EU average in Slovakia, Czech Republic, Portugal, Greece, Hungary, Bulgaria and Romania. They are less concentrated in Luxemburg, Nederland, France, Finland, Ireland, Belgium and Austria. However, Bulgaria is close to EU average by the share of received direct payments, but the level of direct support concentration is almost 20% higher compared to EU-15.

The other indicator reveals a more significant difference between Bulgaria and the average for Europe. In Bulgaria the share of land held by 20 biggest farms is 6% higher than in EU-28. Utilized agricultural area is more concentrated than direct payments also in Germany, Spain and United Kingdom. It means that in those Member States, a national flat rate would lead to more concentration than in the current situation.

The results reveal the structure of agricultural holdings in Bulgaria, which is characterized by over concentration of support in large farms and insignificant share in small holdings. After the accession to the EU the decrease of small farms is caused more by the suspension of their activity, rather than increasing in their size. The large structures are growing, but their increase does not correspond with changes in small and medium sized farms.

Despite some positive changes after CAP implementation, the results of the study present that Bulgaria is characterized with unbalanced direct payments distribution, dominance of large structures and the insignificant role of medium-sized farms.

In the country is developed irrational and dualistic structure of agriculture. The distribution of direct payments in the last period 2007–2013 is leading to uneven financial support. The funds

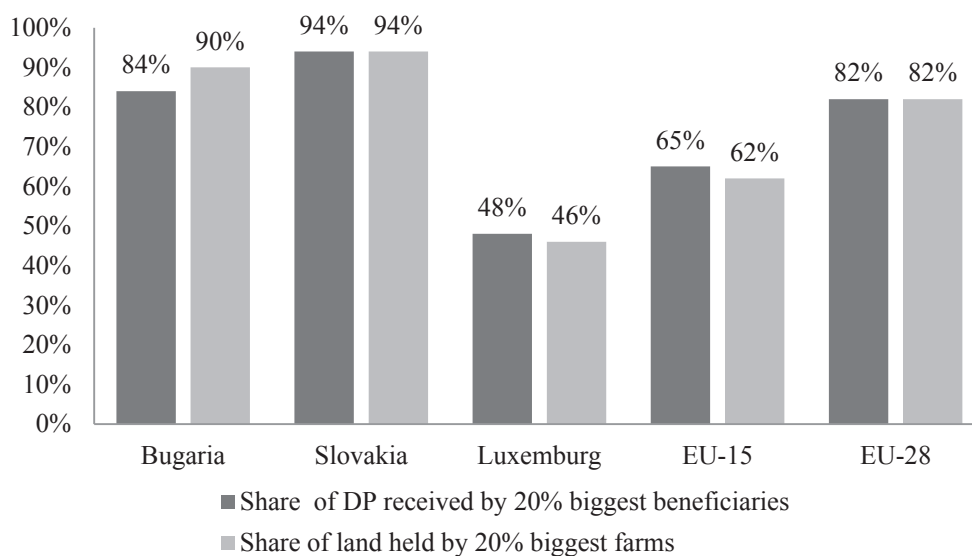


Fig. 2. Share of direct payment received by the biggest beneficiaries, 2015
Source: European Commission.

are targeting large holdings and are unable to reach out to small farms.

On the other hand, the 80/20 ratio raises discussions about the direct payments distribution and the biggest issue is associated with the question if the current rules allow achieving better the CAP aims and objectives.

The new schemes in cap – result and opportunities

The new architecture of direct payments after 2013 provides new opportunities and chances for Bulgarian agriculture in order to overcome the imbalances and polarization. There are few schemes that could help Bulgaria to developed more balanced structure of agricultural sector.

The Young Farmers Scheme is one of the compulsory new measures. In 2013, according to Eurostat (2015) more than half of all farm managers are over 55, while only 6.9% of farmers are under 35. This is the main reason why the young farmer payment is obligatory in every member state. It is granted for a maximum of five years from the moment a young farmer takes over as the head of a farm holding. The scheme could be up to 2% of total direct payment national allo-

cations. Seven Member States notified the maximum 2% of their national ceiling for the payment for 2016 – Croatia, Spain, Ireland, Greece, Netherlands, Austria and Portugal. On the other hand, nine Member States notified less than 1% (Czech Republic, Denmark, Cyprus, Hungary, Estonia, Mata, Romania, Slovakia and Bulgaria). The total payments for young farmers amount approximately to 317 million EUR (0.79% of direct payments envelope), well below the initial estimates (around 1.3% of direct payments envelope).

About 4.1% of basic payment applicants benefit from the young farmer payment in the EU. (Figure 3) This share is the highest in Czech Republic – 12%, and the lowest in Spain – less than 1%. In Bulgaria is around 4.3% – similar share compere to the EU–28. The average young farmer payment per ha varies between 20 EUR/ha and more than 80 EUR/ha.

There are different methods for calculating the payment and the maximum limit on payment entitlements activated or number of hectares. After 2013 CAP reform, 14 Member States and 3 regions opted for 25% of the average direct payments per ha and 11 Member States and 3 regions chose to calculate it as 25% level based on basic payment, including Bulgaria.

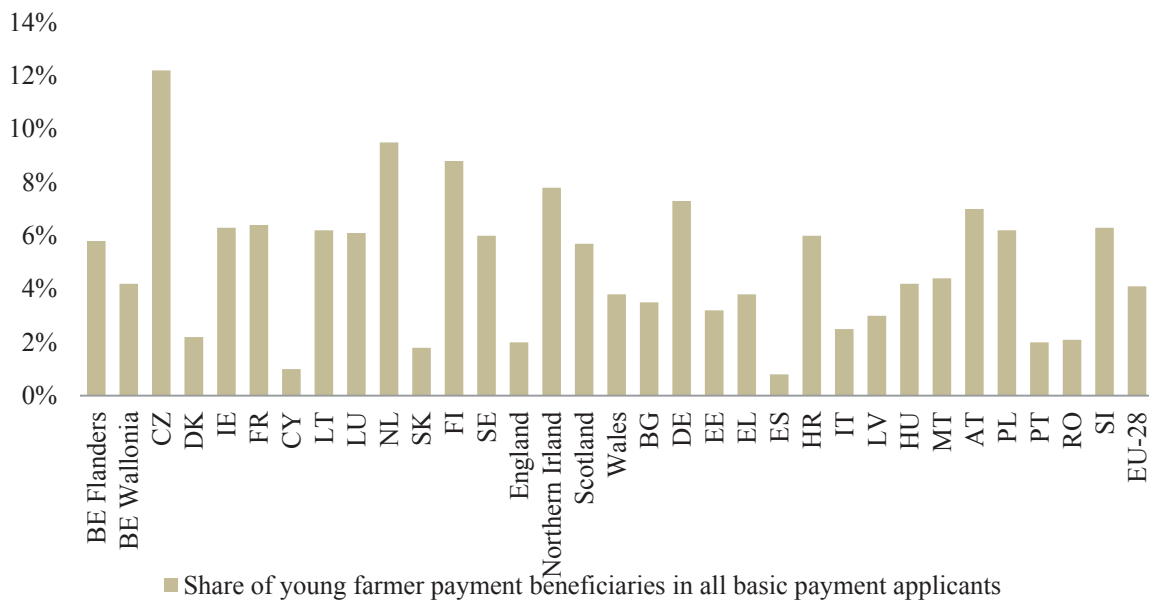


Fig. 3. Share of young farmers payment beneficiaries in all Basic payments applicants (%)
Source: European Commission.

On the other hand, 15 Member States and 5 regions place the limit of payment entitlements or number of hectares at the maximum possible of 90 PE/ha while 2 Member States and 1 region chose to place it at the minimum allowed of 25 PE/ha (Estonia, Croatia and UK–Wales); the rest placed the limit between 25 and 90. In Bulgaria the limit is 30 PE/ha.

Young farmers scheme could benefit Bulgarian start up holdings, but the share of support in direct payments envelope is the lowest compare to other Member states. Some economics pointed certain issues related to the efficiency of the support for young farmers in EU. Assistance to young will continue to be available as a Pillar 2 measure. There is no good evidence that providing additional income support for a limited period of time in Pillar 1 is an effective use of funds either to promote generational renewal or to improve farm productivity. Indeed, the motivation is to improve the legitimacy of direct payments by linking them to an objective with which most people would agree (Matthews, 2013).

In Bulgaria the scheme could be associated with some other problems like application of young people who are not real young farmers, rather than part of the family of a farmer. It can be assumed that this would to some extent hinder the achievement of the objectives set.

The 2015 was the first year of implementation of the Young Farmer Payment. First data on the instrument will be available in the next financial report. The results after next report will allow further analysis of the effect of the different national implementation choices in terms of number of young farmers applied, area declared by these young farmers, as well as unit value of the young farmers payments.

More than 75% of agricultural holding in the EU are small – below 10 hectares and in Bulgaria majority is even smaller – less than 5 hectares. In order to address the specific need and to support those farms and their income, the new CAP reform includes the Small Farmer Scheme. The Small Farmer Scheme is a simplified scheme which replaces all other direct payments that a farmer could be entitled to. The scheme is optional and applied in fifteen Member States, includ-

ing Bulgaria. Member States can chose between different methods of calculation of small farmer scheme support. The level of payment is limited to a maximum of EUR 1 250 (a lower maximum can be fixed by the Member States).

Bulgaria applies to the method the “payment due each year”. Depending on the method the Member State opted for, the expenditure for the payments may be limited to a maximum of 10% of the direct payments envelope in the Member State.

In 2015, on average, the Small farmer scheme represented more than 5% of the expenditure for direct payments in these countries, but with quite significant differences between them. It is more than 30% in Malta to less than 1% in Bulgaria, Germany and Slovenia.

Figure 4 present the share of small farmer scheme applicants in all beneficiaries and the share of area covered by those farms.

Small farmers are rather numerous – 2.9 million applicants, representing around 42% of the total direct payments applicants for EU average. The share of small farms in all beneficiaries varies a lot in different Member –States. It is between 3% in Slovenia to 80.7% in Romania and 90% in Malta. In Bulgaria the share is rather small 15.7%, especially compare to Romania and Malta.

On the other hand the area covered by these holdings is rather small – around 2.2 ha on average. In Malta and Romania the size of the utilized agricultural area is significant compare to other countries respectively – 71.2% and 20.8%. In other Member States that applied the scheme the area covered is negligible – only 0.5% in Germany and 0.9% in Slovenia. In Bulgaria this share is 1.4%. The area covered by small farmers in Bulgaria is low and represents the main problems in the country – overconcentration of land and financial aid in large structures and insufficient support for small farms.

In order to provide support to smaller farmers, Member States could allocate to 30% of their national ceiling to a redistributive payment for the first eligible hectares. This addresses the needs of smaller holdings and could help them to achieve higher income and efficiency. Ten member states,

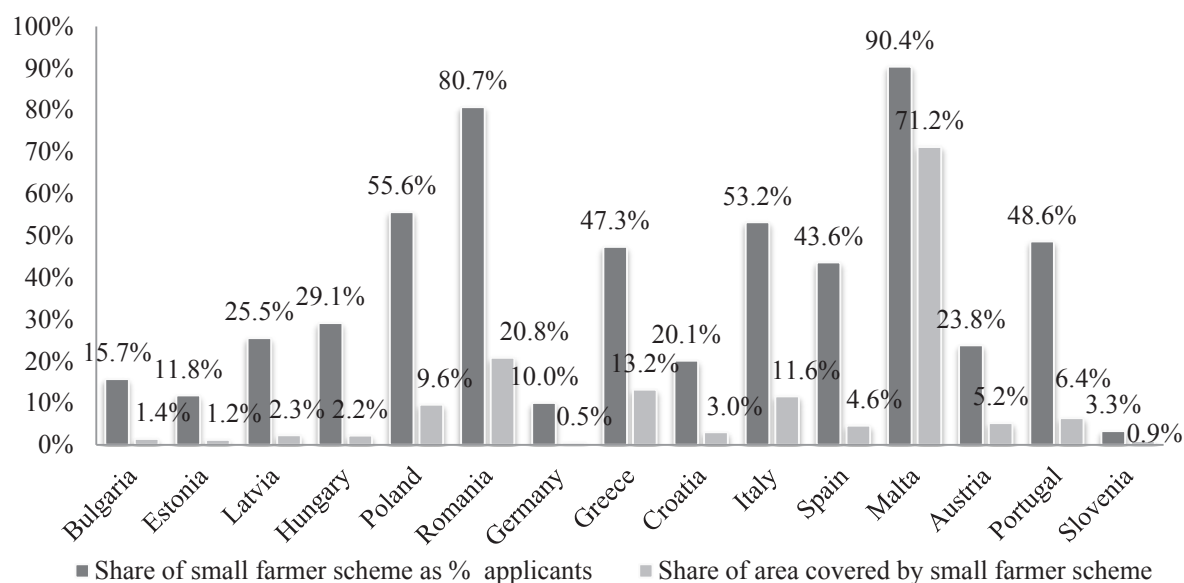


Fig. 4. Share of small farmer scheme applicants in all beneficiaries and the share of area covered by small farmer scheme

Source: European Commission.

including Bulgaria, have decided to apply for the redistributive payment.

According to reports of European Commission (2016), the number of hectares is limited and it is set by national authorities (30 hectares or the average farm size in member states if the latter is more than 30 hectares). The amount per hectare is the same for all farmers in the country where it is applied, and could not be more than 65% of the average payment per hectare. However, this maximum amount is not used. The shares go from 0% for the first tranche in PL to 35% in BE–Wallonia. Bulgaria is close to maximum with 33%. In 2015, the amount of the payment per hectare varies from € 25 in France to € 127 in Wallonia, Belgium.

The financial allocation has different share of national ceiling for direct payments in each Member-State that applied the scheme – from 0.5% in United Kingdom to 15% in Lithuania. In Bulgaria the share of national budget varies between 7% and 7.1%, which is close to the average in EU.

In most of the Member States the redistributive payment is paid for approximately 50% of the basic payment area/ single payment area, Bulgaria is the on the last place with only 20% of the area. This data indicates the insufficient role of small and me-

dium sized farms in basic payments received in agriculture and marks again the main issues in Bulgaria – overconcentration and polarization.

The other instrument that could help the development of balanced agricultural structure is the Voluntary coupled support. The aim of this type of support is to maintain the level of production in regions or in sectors undergoing difficulties and that are particularly important for economic, social or environmental reasons.

All member states (except Germany) apply the scheme, although the amount of funding and the range of sectors covered vary greatly from one country to another. The share of direct payments that member states can dedicate to voluntary coupled support is generally limited to 8%, although certain exceptions are allowed. In Bulgaria the support could be up to 13%.

The other opportunity to restrict the overconcentration of direct payments in certain holdings is the reduction of payments. The reduction of payments applies only to the basic payment and is set at a very low level – 5% reduction from EUR 150.000 of BPS/SAPS. Steeper reductions and capping can be implemented but are not compulsory. Bulgaria applies the minimum level and

Table 1. Implementation of the redistributive payment

Member States	Hectare threshold(s) supported under the redistributive payment		2015 Unit rate of the redistributive payment
Belgium – Wallonia	The first	30	EUR 127
Bulgaria	The first	30	EUR 77
Germany	The tranche of the first	30	EUR 50
	The following tranche of	30,01–46	EUR 30
France	The first	52	EUR 25
Croatia	The first	20	EUR 33
Lithuania	The first	30	EUR 49
Poland	The tranche of the first	3	EUR 0
	The following tranche of	3,01–30	EUR 40
Portugal	The first	5	EUR 50
Romania	The tranche of the first	5	EUR 5
	The following tranche of	5,1–30	EUR 51
United Kingdom – Wales	The first	54	EUR 26

Source: European Commission.

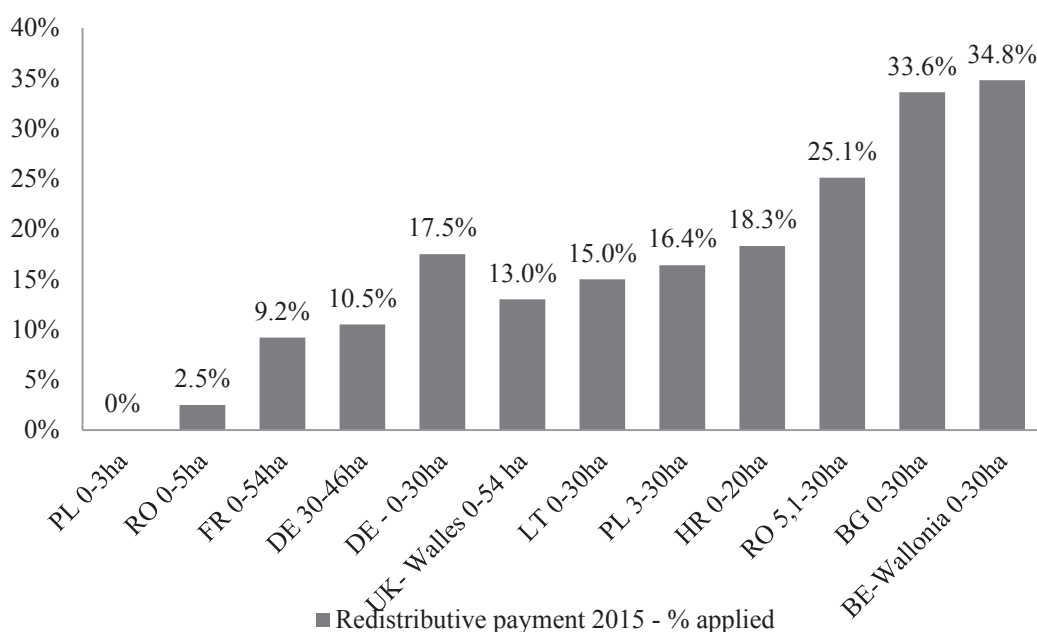


Fig. 5. Share of Redistributive payment applicants

Source: European Commission.

do not apply the capping, which could not help to overcome the overconcentration of the support in large structures.

For 2015 the product of the reduction (including capping) has amounted to 98 Million EUR,

which represents only 0.44% of the basic payment expenditures. Even in Member States implementing the capping, this product has remained generally low with the exception of Hungary, where the product of reduction and capping

represents nearly 7% of the envelope. In Bulgaria is less than 2% and represent the negligible share of the basic payments.

Bulgaria applies in all optional schemes and the national agricultural policy has efforts to reduce disparities through a mixed system of financial supports and aids. Despite the possibilities in all the schemes, the share of Bulgarian budget is far below the maximum limits that the new CAP represents. Some of the schemes started in 2015 and 2016 and the impact of these instruments will not be visible until the Commission publishes its next report.

Conclusions

The distribution of direct payments in Bulgaria is close to EU–28 average, but compare to EU–15 there is big difference in the allocation of direct support. The main problem in Bulgarian farm structure is the insignificant role of the medium sized holdings, which are essential for agriculture in other countries. The reforms in CAP schemes in 2014–2020 could resolve some of the problems in agriculture by more even distribution of direct payments. This priority is intended to be achieved through certain policy instruments such as redistributive payments, reduction of payments for amounts in excess € 150 000, support for small holdings and young farmers.

Bulgaria could benefit from new regulations and overcome structural imbalances. The concentration of direct payments caused polarization in Bulgarian agriculture but the 2014–2020 CAP reform has mechanisms to eliminate some of the problems in the sector. Some authors (Buckwell et al.) noted that there is no real CAP reform and the results in the end of 2020 will be similar to last programming period 2007–2020. Bulgarian agricultural policy implements all the schemes that benefit small and medium sized farms. But it is necessary the agrarian policy to point more financial support to priority sector with high value added in order to reduce regional and structural differences.

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