

## INVESTMENT ACTIVITY OF BULGARIAN FARMS UNDER THE CONDITIONS OF CAP 2014-2020

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### **Abstract**

Successful adaptation of Bulgarian farmers to modern, dynamic market environment requires investment in production factors to strengthen the productive potential of the sector as a whole. Conduct the common agricultural policy aims to support farms in the process. CAP instruments play an important role in determining the propensity to invest and renovation industry.

The aim of the study is eand establish the impact of the CAP on the investment activity of Bulgarian farms. Farmers demonstrate increased investment activity, which is realized thanks to the ongoing Common Agricultural Policy. The majority of investment expenses of farms are funded investment program measure for rural development. Measure 121 "Modernization of agricultural holdings" may be determined by the measure with the greatest impact on the sector, because it forms the main part of the investment and updated production in technical and technological terms.

**Keywords:** measures, investments, agricultural farms, competitiveness

### **Abstrakt**

Die erfolgreiche Anpassung der bulgarischen Landwirte an ein modernes, dynamisches Marktumfeld erfordert Investitionen in Produktionsfaktoren, um das Produktionspotenzial des Sektors insgesamt zu stärken. Die Durchführung der Gemeinsamen Agrarpolitik zielt darauf ab, die landwirtschaftlichen Betriebe in diesem Prozess zu unterstützen. Die Instrumente der GAP spielen eine wichtige Rolle bei der Bestimmung der Investitions- und Renovierungsbereitschaft der Industrie.

Ziel der Studie ist es, die Auswirkungen der GAP auf die Investitionstätigkeit der bulgarischen Landwirtschaftsbetriebe zu ermitteln. Die Landwirte zeigen eine verstärkte Investitionstätigkeit, die dank der laufenden Gemeinsamen Agrarpolitik realisiert wird. Der Großteil der Investitionsausgaben der landwirtschaftlichen Betriebe wird im Rahmen eines Investitionsprogramms für die ländliche Entwicklung finanziert. Die Maßnahme 121 "Modernisierung landwirtschaftlicher Betriebe" kann durch die Maßnahme mit der größten Auswirkung auf den Sektor bestimmt werden, da sie den Hauptteil der Investitionen und der technisch und technologisch aktualisierten Produktion darstellt.

**Schlüsselwörter:** Maßnahmen, Investitionen, landwirtschaftliche Betriebe, Wettbewerbsfähigkeit

### **Résumé**

L'adaptation réussie des agriculteurs bulgares à un environnement de marché moderne et dynamique nécessite des investissements dans les facteurs de production afin de renforcer le potentiel productif du secteur dans son ensemble. La conduite de la politique agricole commune vise à soutenir les

exploitations agricoles dans ce processus. Les instruments de la PAC jouent un rôle important dans la détermination de la propension à investir et de la rénovation de l'industrie.

L'objectif de l'étude est d'établir l'impact de la PAC sur l'activité d'investissement des exploitations agricoles bulgares. Les agriculteurs font preuve d'une activité d'investissement accrue, qui est réalisée grâce à la politique agricole commune en cours. La majorité des dépenses d'investissement des exploitations agricoles sont financées par les programmes d'investissement pour le développement rural. La mesure 121 "Modernisation des exploitations agricoles" peut être déterminée par la mesure ayant le plus grand impact sur le secteur, car elle constitue la partie principale de l'investissement et de la production actualisée en termes techniques et technologiques.

**Mots clés:** mesures, investissements, exploitations agricoles, compétitivité

## **I**ntroduction

Successful restructuring of the agricultural sector following the accession of Bulgaria to the EU and putting his modern scientific and technological level requires adequate financial provision, which means that the importance of investment activity increases. According to Nedelcheva (2011) investment in production factors are a means of making the Bulgarian agriculture in competitive by expanding and modernizing production, reducing production costs and improving the quality of agro-technical measures and harvesting produce.

Investments determine the production potential and changing it qualitatively affect income and employment in the sector, (Gongalova, 2008). They create conditions for efficient use of resources to maintain and expand physical assets. By investing business is playing, expands and updates. If the investment process does not occur positive changes, investments Progressive subside, therefore reducing the rate of their return, (Kaneva, 2009).

The need for investment activity to activate requires joint efforts of all - the state through agrarian policy support; and farmers to achieve qualitative and quantitative changes in the socio-economic development of the sector, (Anastasova, Nikolov and Radev, 2010). The need for more investment process in Bulgarian agriculture as Hadzhieva (2008) provoked by the following key characteristics of the industry:

- Although the share of agriculture in national economy declining, it is still structurally important sector;
- The resource potential for investment in agriculture is severely limited for several reasons: greater risks in agriculture and lower profits compared to other sectors; a longer period of return on investment (especially in permanent crops and livestock industries); limited inflow of foreign investments;
- Modern market environment is dynamic and the adaptation of farms to it is a permanent process that is based on increasing investments;
- The role of the state and the communities in regulation and support at this branch. The problems that exist in the market of agricultural products and its importance for each country have turned it into the most important subject of the impact of the regulatory authorities.

Despite the fact that agricultural policy should play an important role in determining the propensity to invest, the tools of the CAP, particularly direct payments aimed at ensuring a minimum level

of income from agriculture. Changes in economic conditions increase the role of the CAP, but more obvious is the importance of CAP funding to cover the investment costs associated with the replacement of old assets, (Borisov, 2013). This renewal of the sector needs to increase its competitiveness in the long term by introducing new technologies and industries.

One of the main objective in National Strategic Plan for Rural Development is focused on increasing the competitiveness of agriculture. It should be achieved through activities that support the modernization of production structures and circuit realization of agricultural products. These activities are subject to support from Axis 1 of the CAP. Measures under Axis 1 aim to increase the competitiveness of agriculture and focused on the basic needs of the sector:

- Modernization of physical assets and production factors;
- Adaptation of the farm structure;
- Improving human potential.

The program for rural development is determined that investing in the modernization of physical assets is key to reducing costs, the production of products with high added value and to comply with Community standards on environmental protection. Providing farmers with technical and economic knowledge and use of advisory services from them also identified as a precondition for improving competitiveness.

To achieve these results were 12 measures to support Bulgarian farmers in efforts to preserve and poddobyat its production and market capacity. Four of these measures are designed to provide direct support in making investments and may be defined as investment measure.

*Measure "Establishment of Young Farmers' code 112*

Support under this measure supports the establishment of young farmers who have been the manager for the first time. The measure aims to facilitate the creation of farms by young farmers and help modernize their compliance with safety, environmental protection, hygiene and animal welfare.

*Measure "Modernization of agricultural holdings", code 121*

As of 2007 the agricultural sector in Bulgaria is characterized by very low productivity, outdated buildings and equipment. The measure aims to improve the overall performance and competitiveness of agricultural holdings by modernizing production conditions and the introduction of new processes and technologies.

*Measure "Adding value to agricultural and forestry products", code 123*

In a highly saturated market of grocery business competitiveness largely depends on the improvement of marketing. The measure aims to increase market opportunities for primary product by adding value to agricultural products.

*Measure "Support for semi-subsistence farms undergoing restructuring", code 141*

The measure is aimed at semi-subsistence farms, which sell a small portion of its production to supplement household income and use the rest for domestic consumption, but also have economic potential for future development. This is a temporary income support to such farms, which will help to overcome difficulties in meeting the costs associated with the restructuring of their agricultural activity.

The aim of the survey is to track trends in investment activity in Bulgarian agriculture in the context of the Common Agricultural Policy. They use quantitative indicators which allows comparisons to

be made in the projection of rising and falling trends. The selected indicators are used to assess the impact of European and national funding on Bulgarian agriculture.

In the present study covered 7 indicators. They have been selected in order to analyze the interest of farmers to measure investment program for rural areas and determine the contribution of these measures of investment in the sector.

The "Cost of acquisition of fixed assets in the sector of agriculture and forestry" represents an absolute value incurred by farmers costs for each year of the study period. The index provides an opportunity to determine the trend of the investment processes in the sector.

Indicators "Total number of incoming stuck on investment measure" and "Percentage of projects approved under the investment measure" is used to analyze the interest on agricultural proizvoditeli to participate in financing schemes investtsii and to assess the quality of projects.

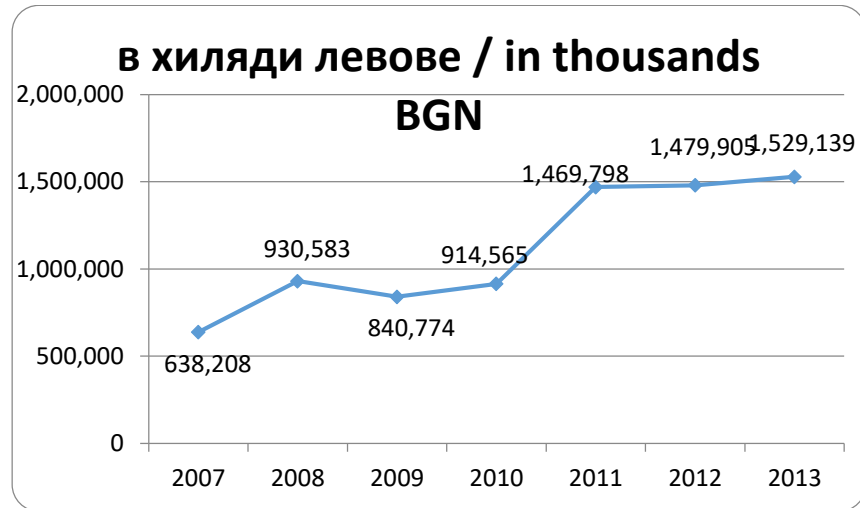
Taking into account the "cost of the project each investment measure" is defined nominal value of the invested funds for each measure and determine their combined influence by calculating the share of these costs within the RDP 2007-2013.

Two of the investment measure 121 and 123 are juxtaposed in two 'Maximum value of a project "and" Average cost of a project, "thus assessing the potential of the measure to have a significant impact on the activities of the beneficiaries.

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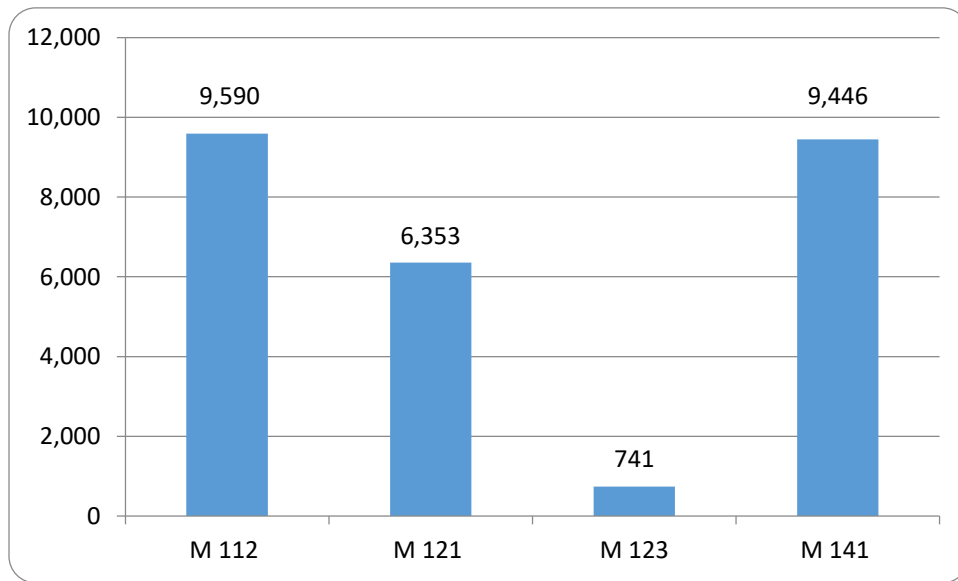
## Results

Investment activity of farms is demonstrated by the cost of acquisition of fixed assets (FTA). The farms in the agricultural sector are significantly increase their spending on acquisition within the study period. In 2013, fines amounted to 1.529139 billion lev, which is nearly 2.5 times more than in the baseline 2007. (See Fig. 1). During establish lasting upward trend in the annual cost of acquisition of fixed assets, the only exception being 2009 crisis. Determined data give reason to conclude that in terms of implementation of the CAP investment activity of Bulgarian farms expand. This in turn is a sign that the agricultural sector of our country is developing at a rapid pace, searching through technical and technological renewal of production to improve its competitiveness. Stimulating role in the ongoing sectoral policy is obvious given, that other economic sectors reported a decline in the cost of acquisition of fixed assets for izsledvainya period. Given that the global economic crisis impacted strongly on investment processes, it can be concluded that thanks to purposeful policy, the agricultural sector in Bulgaria remains outside these global processes crisis and even managed to strengthen their capacity.



**Figure 1.** Expenditures of assets in agriculture and forestry. Source: MAF – Sofia.

Access to grant resource motivate farmers to apply for the investment measure to implement their investment intentions. The greatest interest is shown to measure 112 and M141, which is a result of their nature. The measure aimed to stimulate business creation and supporting semi-subsistence farms or they target a wide range of potential beneficiaries. In each of the two measure are filed nearly 10 000 applications (see Fig. 2), which gives grounds to determine that both measure indeed have broad support farms to strengthen their market potential. Great interest has to measure 121 which received over 6000 applications. Here we take into account the fact that investments under this measure are large in size, which defines a significant contribution to this measure of investment activity of farmers. At least number of applications submitted under measure 123, but considering that the beneficiaries of her apply primarily to the realization of large investment intentions can be concluded that this measure is recognized as a reliable tool for improving the competitiveness of the sector as a whole .



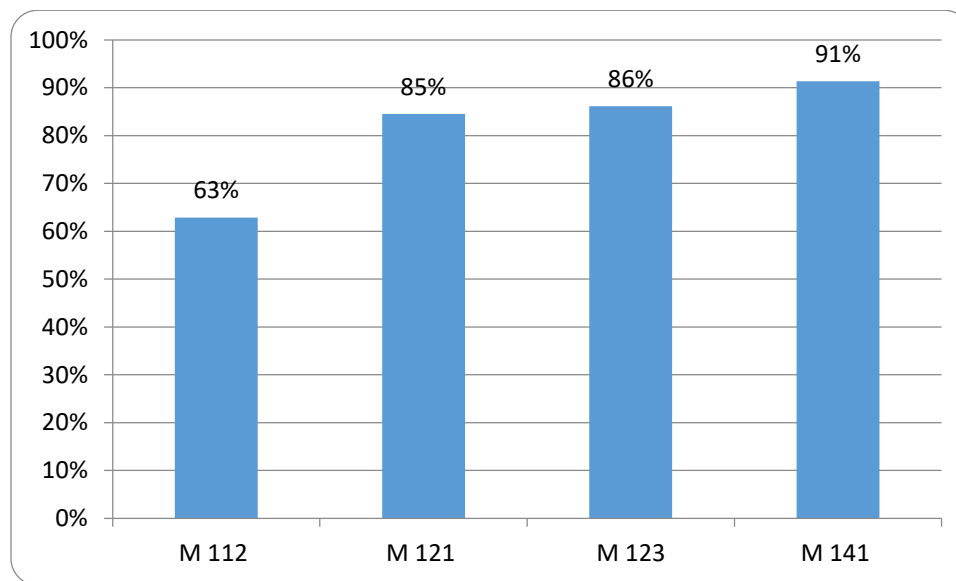
**Figure 2.** Number of applications in investment measures. Source: MAF - Sofia

Qualitative analysis of projects under the measure under which payments were made, showing that the majority of young farmers is principally engaged in gardening - 35%, orchards - 26% and field crops - 14%. Crop traditional for Bulgaria cultures is preferred by 77% of young farmers, and 9% of projects in the field of animal husbandry. Mixed farms are 8%. Holdings in other category - beekeeping and alternative livestock (California red worms and snails) have a share of 7%.

Measure 121 is applied very successfully in terms of investment in the plant - they occupy a share of 67% of the eligible public expenditure. Projects of the livestock sector with a share of 27% of the eligible public expenditure.

Under Measure 123 largest beneficiaries show interest in investing in food processing (77% of all contracts with a value of public expenditure 524 162 thousand. Lev). In contracts prevail micro (share of 76%), followed by small, with 22%.

Among the beneficiaries of M141 is dominated by small farms with an area of 5 ha (91% of applications). Farms area between 5 and 10 hectares occupy 6% of the approved applications and farms used area of 10 ha with a share of 3%.



**Figure 3.** Percentage of adoption in investment measures. Source: MAF - Sofia

One of the most popular measure among farmers is 112 "young farmers", whose main objective is the improvement of human potential in the agriculture sector. It should be noted that this is one of the measures under which quickly run out of funds planned to support, Which explains the low rate of approval of the applications for assisted RDP (see Fig. 3). However, the majority of respondents stated that the measure has had a moderate impactdance on their farms and for achieving boltedtargets women have an indirect influence. According to the respondents measure has the highest contribution to improving the human potential in the agriculturalJanuary sector. Beneficial effect of the application of the measure is implemented in the field of enhancing the competitiveness of the sector. Greattamount of advance payments and simplified form of project application for financial assistance under this measure are two main factors for the high levels of utilization of funds provided. It can be concluded that Measure

112 has played the role of an effective financial tool for achieving multiplier effects in the agricultural sector. As indicated results of the survey, farmers were of the opinion that the most important priorities in improving the competitive advantages of the sector have been achieved mainly through the implementation of Measure 112, namely enhancing the human potential and increase Konkaniurentosposobnostta sector. The measure has a low contribution to the diversification of production of farm restructuring of its business and sustainable development.

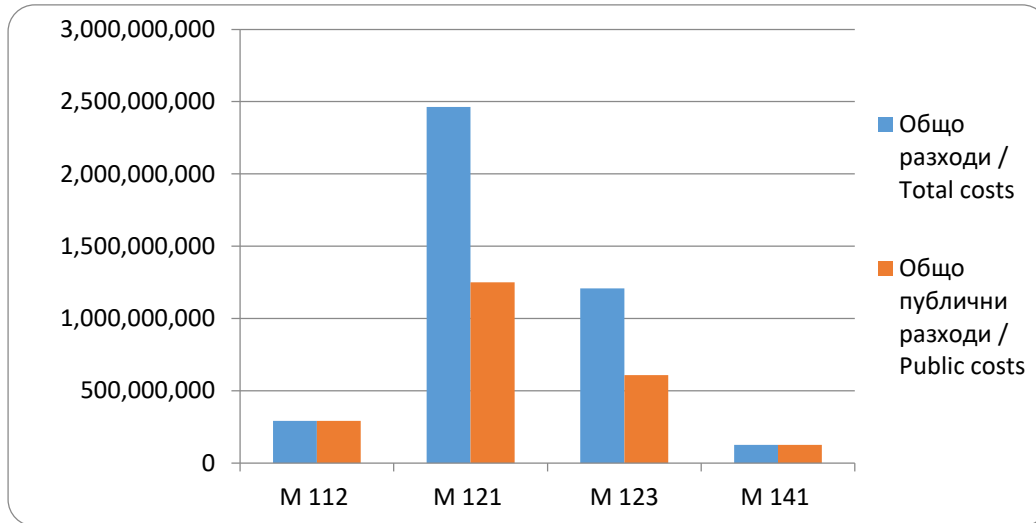
Another Investment measure of importance for development and achieving competitive advantages in the agricultural sector Measure 121 "Modernizationa farm. " The contribution of mbrightth is rated significant technological upgrade of the sector and to increase competitiveness the agricultural and forestry sector. The measure has contributed to raisingis the vitality of farmsIntroduction of new technologies and innovations in production and efficient use of production factors in production. The measure is low contribution expansion access to markets and sales. It should be noted that the problem of product realization is basic and common limiting factor in the operation of farms specializing in industries other than grain. Respondents farmers are generally of the opinion that need another mechanism to assist in the realization of their product different from the association and onmozhnostta direct sales.

Measure 123 "Adding value to agricultural and forestry products "is assessed as a measure a weak contribution Investment in Agra sector. Farmers are pessimistic opinion on the achieved beneficial effects of the application of the measureso, therefore, that the main beneficiaries of it are processors. They have realized projects integrating production back posashtestvo which narrows the market of agricultural products.Considerable interest in the measure have beneficiaries who have sought to implement standards in enhancing the competitiveness of the economy and the technological renovation of production.

Measure 141 "Support for semi-subsistence farms" is very popular among farmers, but its contribution is assessed as very important for the development and consolidation of farms. According to the farmers, the measure plays an important social role in the sustainable development of their farms. Despite the relatively small funds that are intended for use under the measure, it guarantees a minimum standard of living in the farmer. Farmers say they M141 helps them in performing their payments to the state budget and even allows them to hire at least one person on a permanent contract to work on the farm. The measure is an important contribution to improving the competitiveness of farms and increase the market orientation of production.

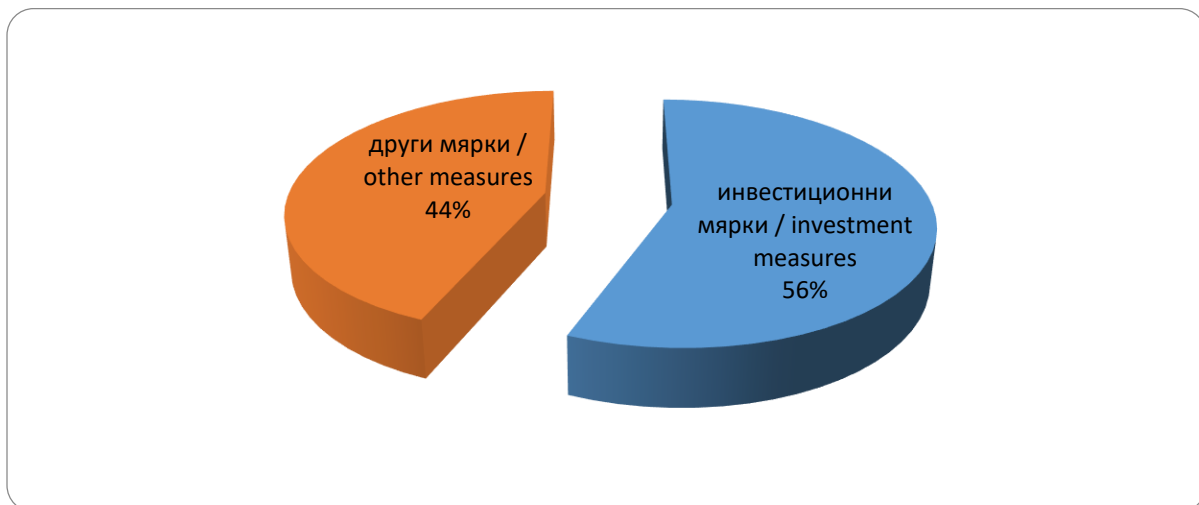
The total cost of projects approved under the investment measure for the period 2007-2013 are presented in Figure 4. Measure 121 is provikirala largest investment intentions, as total investment in it amounted to 2,462,527,735 lev About 50% of this amount represent public expenditure to be allocated RDP. Beneficiaries applying for measure 123 have made the investments in the amount of 1 208 033 958lv., And the percentage of public expenditure also amounts to nearly 50%. As already mentioned, both of measures are key contributors to the formation of investment in the sector, their share is nearly 90% of the total cost of the four measure. The total cost of the investment measure are 4,089,774,374 lev, which represents about 60% of the costs incurred for the acquisition of fixed assets in agriculture and forestry. On this basis can not be determined, that investment activity of farms in Bulgaria in the period 2007-2013. It is very strongly influenced by the ongoing Common Agricultural Policy (CAP). CAP has

stimulated farmers to prepare and implement investment projects in purely commercial terms would have failed. Obviously sector policy has played a positive role in the development of the sector and improve its technological and technical basis.



**Figure 4.** Total costs by investment measures. Source: MAF – Sofia

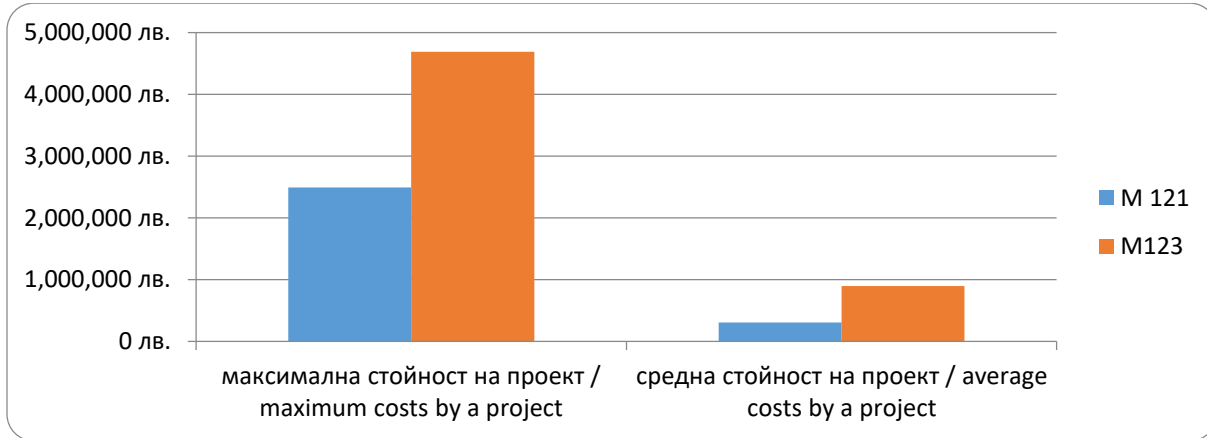
Noting that investment measure a major contribution to the renovation of the agricultural sector in Bulgaria It should be noted that the distribution of funds to support the sector have been properly distributed. The total budget of the four investment measure represents 56% of the budget of the RDP. Prioritization of investments in the sector is the right approach for preserving and developing its potential. These investments have long-term horizon and enable farms to improve their competitiveness and realize beneficial secondary effects in rural areas. It can definitely say that rural areas improve their attractiveness as a place to live and work thanks to the investment activity of farms.



**Figure 5.** Distribution of costs by type of measures of RDP 2007-2013. Source: MAF - Sofia

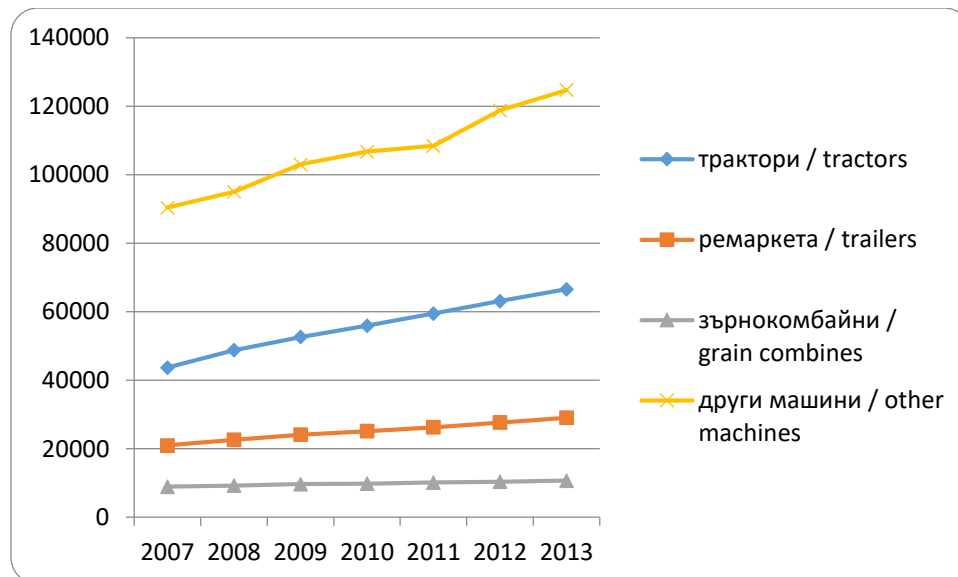


The two major investment of measures are compared in terms of maximum and average value of a project (Fig. 6). The ratio on both counts is approximately 2: 1 in favor of Measure 123, which determines the high importance of these projects in terms of investment intentions.



**Figure 6.** Comparison of projects funded by measures 121 and 123. Source: MAF - Sofia

The projects implemented under Measure 121 most frequently are subject purchase of new equipment. The ability to use financial resources to update technology in the agricultural sector in Bulgaria has led to improved technical equipment of production. During the period 2007-2013. increasing number of groundsvnite agricultural machinery (Fig. 7). Buying a new technique improves the age structure of the machines, but also a prerequisite for increasing productivity in the sector.



**Figure 7.** Number of new machines by types for period 2007-2013. Source: MAF – Sofia

### Conclusions

Bulgarian farmers through the Common Agricultural Policy have access to significant financial resources in order to support its activities. Some of the measures under Axis 1 are specifically designed to support investment intentions and allow farmers to plan the renovation of its material and technical base. Support under Measure 112, 121, 123, 141 provide an opportunity for different groups of beneficiaries to make investments aimed at improving their competitiveness. This determines the balanced nature of the planned support investment in the sector.

Within the first for Bulgaria programming period 2007-2013., This support has stimulated investment activity on farms. Significant changes occurred in the functioning of the sector, it can be concluded that his condition has greatly improved. Interest in agricultural activity has been revived and renovation of farms is underway. However, it should be borne in mind that due to very weak starting positions (especially with regard to the utilized agricultural equipment), good results are not achieved widespread but the trend of development is encouraging.

Farmers demonstrate increased investment activity, which is realized thanks to the ongoing Common Agricultural Policy. The majority of investment expenses of farms are funded investment program measure for rural development. Outstanding interest proyavyava to measure 112 "young farmer" and 141 "Support for semi-subsistence farms" to which there are at many requests for assistance. Measure 121 "Modernization of agricultural holdings" may be determined by the measure with the greatest impact on the sector, because it forms the main part of the investment and updated production in technical and technological terms. The high rate of approval of investment projects developed a criterion for their high quality,

Investment measure had an impact on the overall performance of the agricultural sector in Bulgaria, which determines their considerable potential to influence the macro level. The effects of completed projects in these measures of farm beneficiaries are highly visible and positive to improve their business. Micro benefits of the implemented investment projects can be grouped in several key areas - production, finance, personnel and marketing.

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