



# **Application of the Single Area Payments Scheme in Bulgaria: Analysis of the Effects**

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## Abbreviations

GVA	Gross Value Added
DP	Direct Payments
CAP	Common Agricultural Policy
SPS	Single Payment Scheme
SAPS	Single Area Payment Scheme
NDP	National Direct Payments
UAA	Utilized Agricultural Area
MAF	Ministry of Agriculture and Food

## Abstract

Gross value added (GVA) generated by the agricultural sector of the economy declined by nearly 19% in the period 2000 – 2012, measured in 2005 constant prices. At the same time the share of agriculture in the economy shrank by almost half – from 9.6% to 5.1%. It is important that the decline continued during the period 2008 – 2011, despite the entry of Bulgaria into the EU and the increasing financial support for the sector under the Single Area Payment Scheme (SAPS).

With the completion of the first seven years of the implementation of the SAPS in Bulgaria in 2013 and the emerging characteristics of the new Multiannual Financial Framework for 2014 – 2020 it is imperative to make a comprehensive review of the effects of direct payments (DP) on Bulgarian agriculture. One of the most obvious and undeniable effects is the increase of utilized agricultural area (UAA) at the expense of uncultivated land. Increased demand for land, combined with high fragmentation of ownership has led to an increase in the land under lease and to a sharp rise in the rent payment. The rising cost of rent, in turn, attracted great interest in the land market, and between 2006 and 2012 the average annual growth rate of the price per decar is 15.6%, while the cumulative growth for the period is 175%.

The concentration of land use that occurred after the completion of land reform has accelerated further after 2007. Largest farms (> 100 ha) were thriving and by 2010 already operated over 82% of the agricultural land reaching an average size of 671.7 ha compared to 538.5 ha in 2005. In EU-27 for example the average farm size for farms > 100 ha was 264 ha.

Despite the increase in UAA and holdings consolidation, the GVA per hectare declines. From the data available it can be said that the nature of the support (payment per hectare) has stimulated the restructuring of the sector towards further simplification of production – campaign use of large areas for grain production and withdrawal from intensive sectors such as livestock and horticulture.

Agricultural factor income is growing rapidly in the last three years and is 15% higher on average during the post-accession period compared to the pre-accession period. Most of this difference, however, goes to landowners in the form of rent payments.

The data available (2007 – 2011) shows that the relationship between the amount of direct payments and gross fixed capital formation is negative. While investment in machinery and equipment generally grow after 2007, investment in animal husbandry reduced and even reached negative values in 2008 – 2009.

If the proposals for the new CAP 2014 – 2020 remain as they are known as of May, 2013, the main problems related to the implementation of direct payments will remain. A conclusion can be drawn that there is an urgent need to redesign the state agricultural policy, especially in its part on Bulgarian position on the Common Agricultural Policy. SAPS is not favorable to the development of the agricultural sector in Bulgaria and should be replaced with a more neutral mechanism as the single payment scheme, which is applied in the old Member States. Payments should be linked to a greater extent to the specific costs and added value of the sub-sectors. Bulgaria should work towards harmonization of direct payments between Member States, whether on higher or lower than the current level applied in Bulgaria. In the long term (after 2020) Bulgaria should work for the elimination of direct payments as this can be the only guarantee for the market development of the sector and the free competition between farmers in different Member States. Support should be

focused on the so-called “Pillar II” (Programme for Rural Development) for investment and innovation in all branches of the agricultural sector. Thus manufacturers will have more opportunities to meet market requirements, utilizing their specific advantages in the best possible way.

## Introduction

Bulgarian agriculture goes through a process of profound changes over the past 13 years. Gross value added (GVA) generated by the sector fell by nearly 19% in the period 2000 – 2012, measured in constant 2005 prices. Accordingly, the share of agriculture in the economy shrank by almost half - from 9.6% to 5.1%, according to NSI. More important, the decline continued during the period 2008 – 2011, despite the entry of Bulgaria into the EU and the ever increasing financial support for the sector, mainly through the SAPS. Slight increase was observed only in 2012 entirely due to a temporary effect of favorable international markets and better profits from grain production.

In the period 2000 – 2006 the Bulgarian agriculture received a small but steadily growing public support. Aside from government loans, the majority of support (between 36% and 70%) was linked to tobacco. Animal breeders also received coupled support, but to a much lesser extent. Grain producers received grants for the purchase of certified seed. Pre-accession program SAPARD started in 2001 (Table 1).

*Table 1 – Public support for agriculture (BGN mln), 2000-2006*

BGN mln	2000	2001	2002	2003	2004	2005	2006
Tobacco seeds	0,4	0,3	0,4	0,4	0,5	0,6	0,7
Premium for manufactured tobacco	20,7	34,7	91,9	93,3	84,5	111,0	110,2
Premium for sold tobacco	5,2	24,1	24,6	27,3	28,1	33,9	43,4
Grants	10,2	31,1	24,6	43,3	61,7	58,7	57,2
Capital subsidies	0,4	н.д.	н.д.	0,7	2,2	11,6	15,2
SAPARD	0,0	2,0	27,0	70,0	135,0	173,0	117,0
Short-term loans	29,7	26,0	24,5	12,5	12,0	24,8	3,0
Long-term loans	27,5	36,0	13,5	94,3	125,7	100,6	109,1
Total (without loans)	36,8	92,2	168,5	235	312	388,8	343,7

*Source: Agricultural reports of the Ministry of agriculture and food, 2001-2007 г.*

Agricultural subsidies rose sharply after 2007. Bulgaria introduced the so-called "single area payment scheme" (SAPS) as transitional and easier to administer option before any future introduction of the "single payment scheme" (SPS), used by the old Member States and based on a historical approach. The main difference between SAPS and SPS is that the first system determines the amount of the subsidies solely on the basis of the size of the agricultural land of a farm, while the second support is determined on the basis of the quantity of agricultural commodities produced in a past period of time. Initially it was assumed that the SAPS will be applied only until 2009, but later European Commission provided the option to extend the of application of SAPS to 2013.

With the introduction of SAPS direct payments and national payments per hectare amounted to BGN 434 mln in 2007, reaching BGN 923.6 mln in 2012 (Table 2). Along with other types of support to the sector provided by the national budget, total support of the sector exceeded BGN 1 bln in 2010

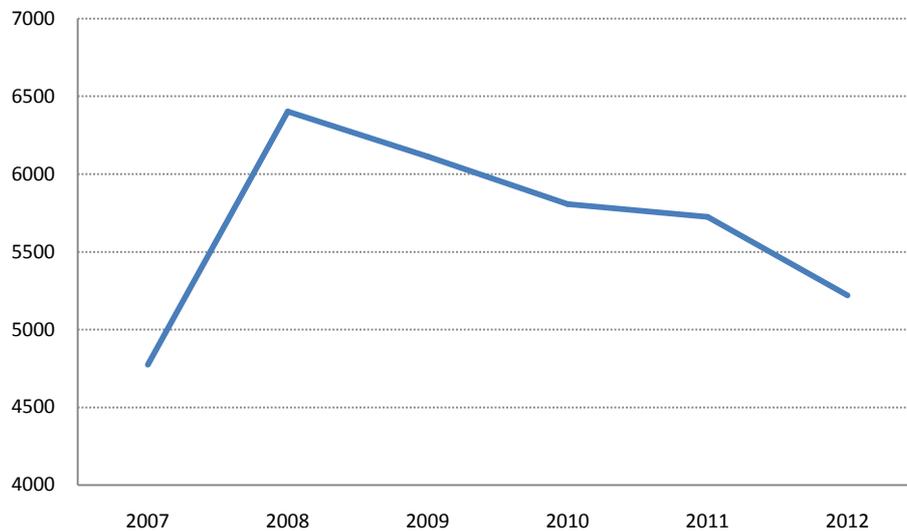
*Table 2 – SAPS and NDP (BGN mln), 2007-2012 г.*

BGN mln	2007	2008	2009	2010	2011	2012
SAPS	324,17	407,7	518,09	573,06	723,17	923,6
NDP	109,8	275,8	221,3	288,71	89,63	0

*Source: agricultural reports 2007-2012 г.*

From this perspective, an important question arises – Why, despite the sharp increase in the financial support, agricultural production measured in constant prices gradually declines after 2008 (see Figure 1).

*Figure 1 – Value of production of agricultural goods in 2005 basic prices*



*Source: Eurostat*

With the completion of the first seven years of the implementation of the SAPS in Bulgaria in 2013 and the emerging characteristics of the new Multiannual Financial Framework for 2014 – 2020 it is imperative to make a comprehensive review of the effects of DP on Bulgarian agriculture. Such an effort is especially needed with regards to insufficient analytical basis on the issue and the lack of a thorough justification for the formation of the Bulgarian position on the new CAP by the administration of the Ministry of Agriculture and Food.

## Literature Review

There are a number of studies evaluating the effects of the introduction of SAPS under the Common Agricultural Policy (CAP) in the new Member States. A comprehensive attempt to summarize the available literature for the 12 new member states and eight candidate and potential candidate countries made the project "AgriPolicy"<sup>1</sup>, funded by the European Commission under the Seventh Framework Programme of the EU. One of the main conclusions of the document is that the DP has a positive contribution on the income of farmers in the new Member States, although sometimes there is inequality among producers who are excluded from the subsidies (e.g. in Bulgaria these are animal breeders who do not cultivate land), and that DP are sometimes rather a factor for stabilization rather than for growth (e.g. Poland). Also, in some countries, DP contributed to the restructuring of the agricultural sector, with an increase in areas with extensive crops at the expense of intensive sectors. A development in crop production is observed and a decrease in livestock. Not least, it is noted that because of DP land prices rose significantly in some countries and its growth outpaced

<sup>1</sup> See Review of Available Literature on Direct Payments in NMS CC and PCC Synthesis; March 2010; AgriPolicy Enlargement Network for Agripolicy Analysis

that of revenue from production, leading to over-investment and slow down of the process of restructuring.

The main conclusions of a recent study<sup>2</sup> of the impact of DP in Hungary is that both subsidies and income from agriculture increased significantly in nominal terms, as well as that there is a high correlation between the growth of the DP and the growth of land-lease rents. The relationship between the amount of support and net capital formation is negative. Also the investment in the sector after the country's entry into the EU (2004) are more a result of target assistance (project funding under the Rural Development Programme). Overall there is a clear stagnation and decline of the sector in Hungary since 2004.

Juřica Bečvářová (2008, 2009) consistently proved that, contrary to the theory, DP are not completely neutral with respect to the market and have significant social, sectoral and regional effects. In the new Member States generally a decline in the production of important agricultural products (meat, milk, etc..) is observed, while in the EU-15 production volume of these products is maintained or increased.

In Bulgaria, attempts to assess the impact of the DP are rather sparse. Rumen Popov and Bozidar Ivanov of the Institute of Agricultural Economics<sup>3</sup> made several key points from the first years of CAP implementation in Bulgaria:

- The direct support stabilizes and increases the incomes from agriculture, improves the conditions for investment and contributes to improving the living conditions in rural areas;
- DP can not be perceived as an "income safety net" with respect to their uneven distribution between beneficiaries (big and small farmers);
- DP are one of the factors for the increase in the share of grain and industrial crops in total agricultural production and the decrease of the share of fruits, vegetables and livestock.

## Results and Analysis

This study will attempt to examine the relationships between SAPS (including national payments per hectare) and changes in land use, in farm structure, the structure of the agricultural sector, the development of agricultural incomes and their distribution and the investment activity in the sector.

### Effects on land use, rents and land price

One of the most obvious and undeniable effects of the introduction of SAPS is the increase of utilized agricultural area at the expense of uncultivated land. The direct payments stimulated this process, as the only requirement to obtain subsidies is keeping the land in good agri-environmental condition. Arable land increased by 7.7% in 2007-2012, and the downward trend in UAA observed between 2000-2006 seems to be permanently broken. The correlation coefficient between the level of subsidies and the amount of arable land is 0.82.

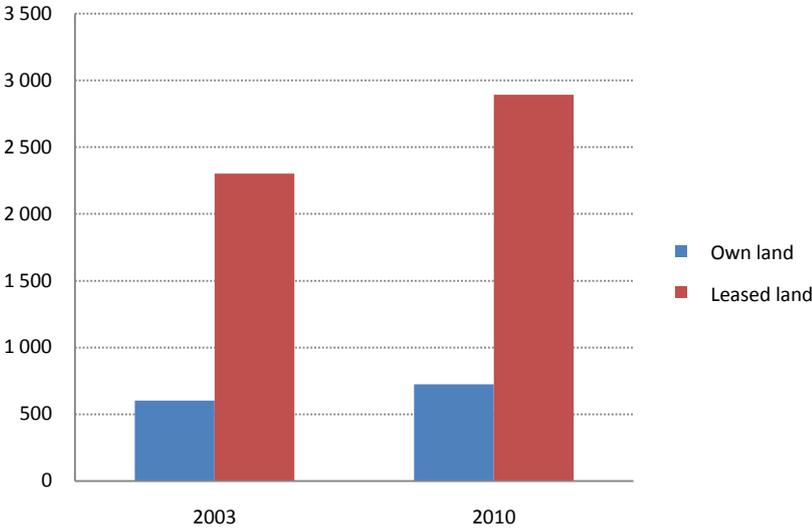
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<sup>2</sup> See "Hungarian Consequences of the CAP Direct Payment Systems" by Miklos Vasary, Endre Olah and Zsolt Baranyai

<sup>3</sup> See „Bulgarian agriculture and expected results from the proposed changes in CAP”, Sofia 2012, Ph. D Roumen popov, Ph.D Bozidar Ivanov

Increased demand for land together with the highly fragmented ownership led to an increase in the areas under lease. The amount of the leased land grew by 25.6% compared and the utilized own land by some 20.3% for the period 2003 – 2010, according to MAF.

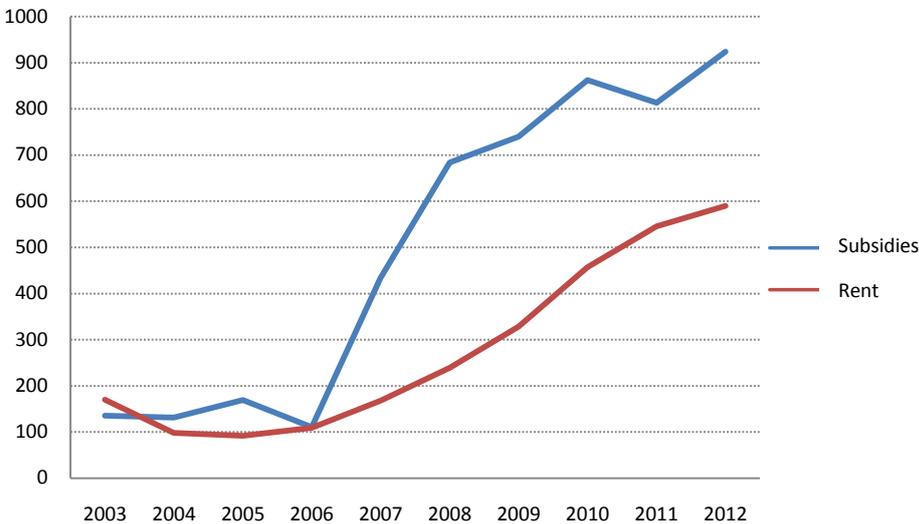
**Figure 2 – Own vs leased land dynamics (ths. ha), 2003/2010**



Source: MAF

By 2010, 80% of the arable land is leased. Total rent payments follow closely the growth rate of direct payments (Figure 3) and in 2012 reached 55% of the amount of subsidies received. As of 2012, the average rent/daa (0.1ha) reached and exceeded BGN 35, while the subsidy/daa is BGN 25.63. In some places in northeastern Bulgaria (the region of Dobrogea, where land has one of the highest quality indicators in the country) amount of rent exceeds three to four times the amount of the subsidy/daa; i.e. with highly fragmented land ownership and large share of the leased land, increasing the amount of subsidies exacerbate competition for rents and increases its share in factor income (from 4% in 2006 to 15% in 2012). The conclusion that can be drawn is that SAPS significantly improve the financial welfare of land owners.

**Figure 3 – Dynamics in the amount of subsidies and total rent payments (BGN mln.), 2003 – 2012**



Source: NSI, 2012 data is preliminary

The rising cost of rent stimulated the purchase of agricultural land both by farmers (to reduce rent payments in the long run) and by investors (seeking increasing returns). This in turn led to a significant appreciation of the land – between 2006 and 2012 the compound annual growth rate of the price/daa is 15.6% and the cumulative growth for the period – 175%. The number of land deals and the volume of traded land in the years after EU entry has doubled compared to the period before. The correlation coefficient between the level of subsidies and price of agricultural land is 0.80.

### Effects on farm structure

The process of concentration of land use that started after the completion of land reform has accelerated further after 2007. The census of agricultural holdings from 2010 shows a sharp decline in the number of farms cultivating land in the period 2005 – 2010, from 520,5 thousand to 357 thousand, or more than 31% decrease. This is mainly due to the falling numbers of smaller holdings (<5ha). The land cultivated by them declined from 8.8% to 3.2% of all cultivated land. However, largest farms (> 100 ha) grow rapidly and by 2010 already cultivate over 82% of all the agricultural land (Table 3). Their average size reached 671.7 ha at 538.5 ha in For comparison, in 2005 the average farm size > 100 ha in the EU-27 264 hectares and is not changed in the last five years. The only EU countries with larger average size of the largest farms Slovakia (781 ha) and Czech Republic (698 ha), and in both he shrank in the last five years.

Table 3 – Structure of agricultural holdings by UAA in 2003, 2005, 2007 and 2010

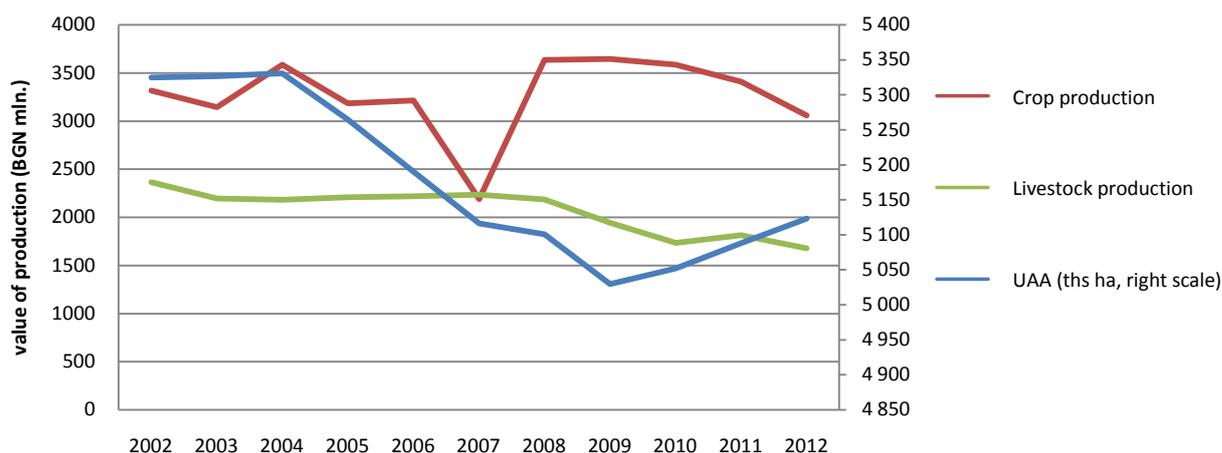
holdings	total (ths.)	0 -<2 ha	2 -< 5 ha	5 -< 10 ha	10 -< 20 ha	20 -< 30 ha	30 -< 50 ha	50 -< 100 ha	>=100 ha
2003	654,810	591,710	41,860	9,720	3,980	1,260	1,190	1,220	3,880
	%	90,4%	6,4%	1,5%	0,6%	0,2%	0,2%	0,2%	0,6%
2005	520,540	456,620	40,490	10,440	4,760	1,570	1,330	1,510	3,820
	%	87,7%	7,8%	2,0%	0,9%	0,3%	0,3%	0,3%	0,7%
2007	481,930	417,390	39,240	10,060	5,480	1,940	1,630	1,970	4,220
	%	86,6%	8,1%	2,1%	1,1%	0,4%	0,3%	0,4%	0,9%
2010	370,490	308,110	30,390	10,730	6,820	2,950	3,060	2,930	5,490
	%	83,2%	8,2%	2,9%	1,8%	0,8%	0,8%	0,8%	1,5%
UAA	total (ths.)	0 -<2 ha	2 -< 5 ha	5 -< 10 ha	10 -< 20 ha	20 -< 30 ha	30 -< 50 ha	50 -< 100 ha	>=100 ha
2003	2904,480	312,790	121,710	64,210	52,720	29,800	44,350	83,100	2195,800
	%	10,8%	4,2%	2,2%	1,8%	1,0%	1,5%	2,9%	75,6%
2005	2729,390	241,350	116,930	66,900	60,480	36,090	49,400	101,110	2057,120
	%	8,8%	4,3%	2,5%	2,2%	1,3%	1,8%	3,7%	75,4%
2007	3050,740	191,100	115,460	66,550	73,030	45,520	61,370	139,480	2358,230
	%	6,3%	3,8%	2,2%	2,4%	1,5%	2,0%	4,6%	77,3%
2010	4475,530	144,180	90,450	72,700	92,450	70,040	116,180	201,670	3687,860
	%	3,2%	2,0%	1,6%	2,1%	1,6%	2,6%	4,5%	82,4%

Source: MAF

## Effects on the structure of agricultural sector

Value of agricultural production gradually decreased since 2008, measured at 2005 basic prices. While the dynamics in crop production can be explained by seasonal factors, the decline in livestock production is steady and clear after 2007. It is noteworthy that these processes develop along with a steady increase in UAA since 2009.

Figure 4 – Value of production in 2005 basic prices and UAA, 2002-2012 e.



Source: Eurostat, Agrostatics

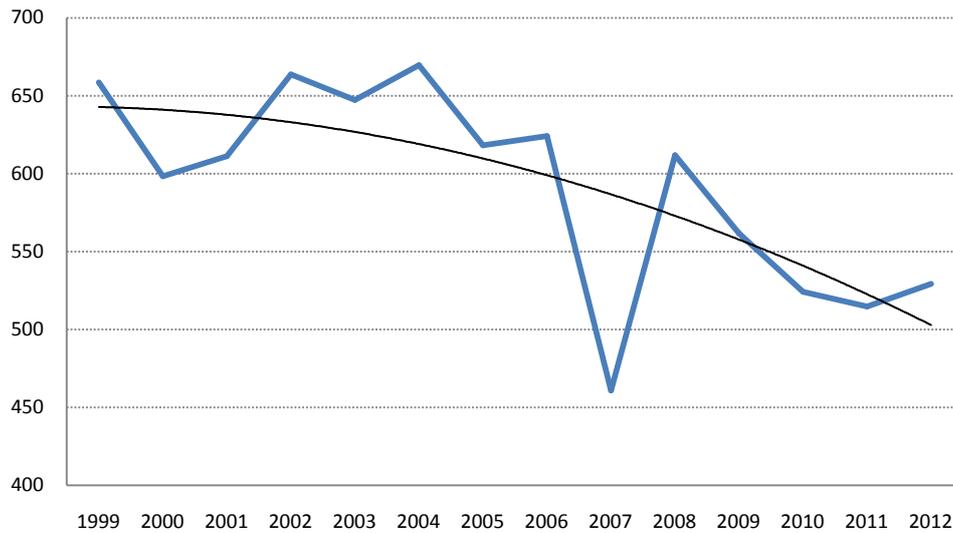
It seems that the entry into the EU stimulated a restructuring process in the agricultural sector. The share of cereals in total production increased by more than 15 percentage points, to around 30% for the period 2007 – 2012. The share of oilseeds more than doubled to over 18%. At the same time, the share of vegetable production declined from 13% to 2.5% and livestock production decreased by 10 percentage points to 27.6%. A survey<sup>4</sup> conducted by IME indicates that 20.6% of the surveyed farmers have switched to grain from other agricultural activities over the past ten years. From this number 77% were engaged in animal husbandry, 9% in vegetable growing, and 14% did not indicate their previous occupation.

Based on these data we believe that the nature of the support (payment per hectare) **has stimulated the restructuring of the sector towards further simplification of production** - sporadic use of large areas of grain production and withdrawal of intensive sectors such as animal breeding and horticulture.

This can be seen from *Figure 5* which shows a steady decrease (the polynomial curve, which smooths seasonal fluctuations) of the gross value added at constant BGN per 1 hectare of UAA.

<sup>4</sup> The survey is conducted among 155 farmers, cultivating 1,6% of the total UAA during the period 28.02.2013-06.03.2013 r. on the territory of Vratsa, Plevna, Razgrad, Silistra, Dobrich, Varna, Burgas, Yambol and Stara Zagora regions.

**Figure 5 – GVA in constant prices (BGN) per 1 hectare UAA**

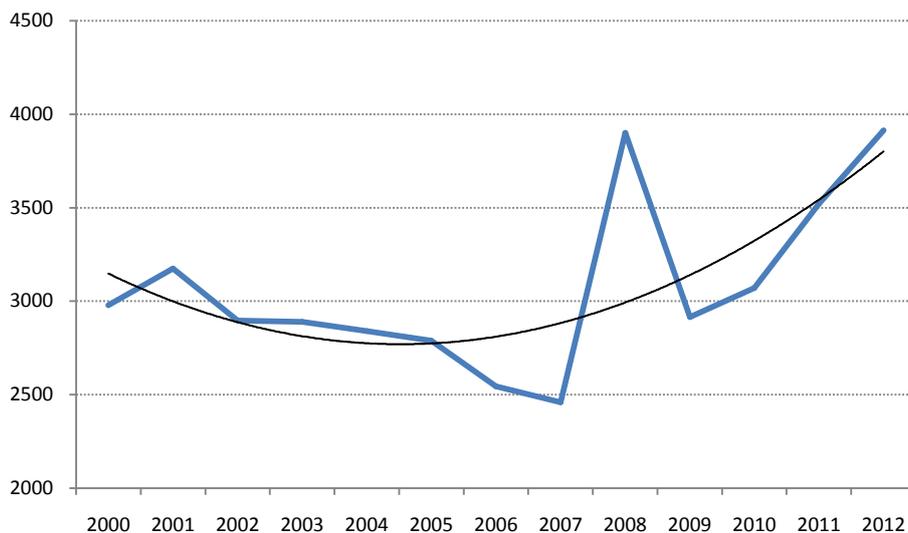


Source: own calculations

### Effects on agricultural income

Income from agriculture has been increasing since EU accession. Indicator A (real factor income per annual work unit), which Eurostat measure, increased by 47.3% in 2012 compared to 2005 and increased in each of the last three years. It is interesting to see the income development by factors of production (labor, capital, land) and the dynamics of net market income<sup>5</sup>.

**Figure 6 – Real factor income dynamics**

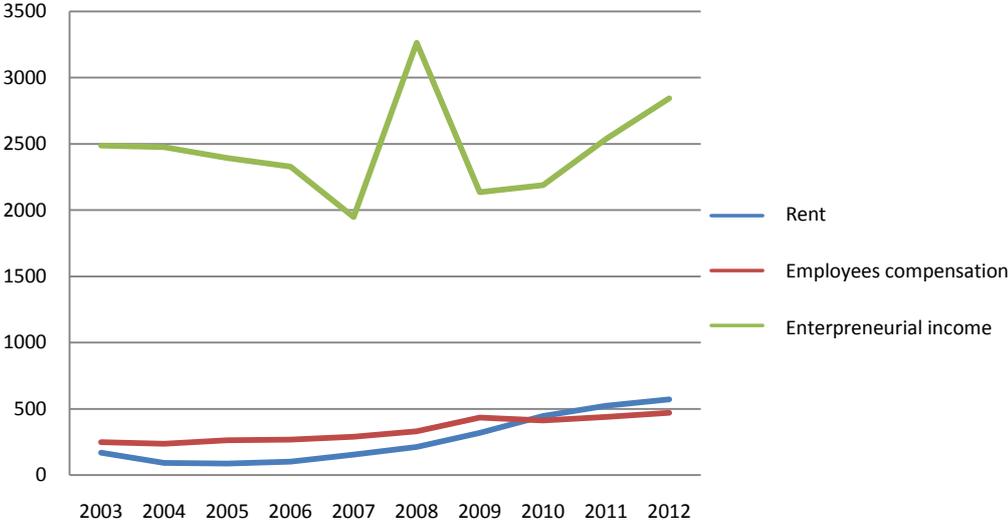


Source: own calculations

<sup>5</sup> „Net market income” is factor income less subsidies.

Entrepreneurial income fluctuates most which is not surprising (Figure 7). Its share in factor income, however, decreases by 10 percentage points in 2007 – 2012 compared to 2003 – 2006. At the same time rent increases steadily – by 247% in ten years, and its relative share in factor income increases from 4% on average for the four years before EU accession to an average of over 11% in the following years. Labour income also increases but at a slower pace – its average share in factor income reaches 12.3% compared to 9.1% before the introduction of the DP. The main conclusion which can be drawn is that direct support leads to increasing factor income with the fastest increase in income from land, followed by income from labour and the slowest growth is observed in income from capital which share actually declines.

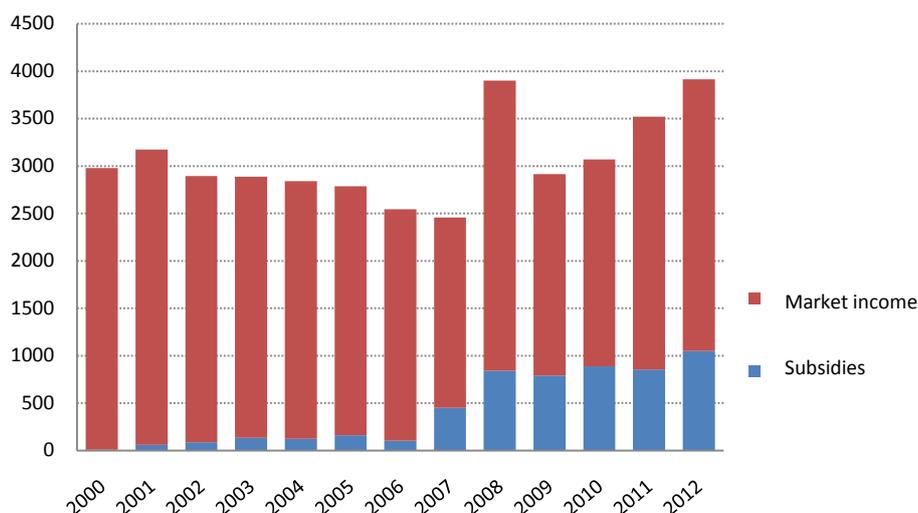
**Figure 7 – Real factor income by factors of production (BGN mln.), 2003 – 2012**



Source: own calculations based on NSI data

Market income declines in parallel with the diminishing role of sectors like animal husbandry, horticulture and arboriculture. Higher market income from last two years is entirely due to external conditions (temporary price effect) rather than increased production. I.e. if we disregard it, we can say that subsidies replace income that farmers had previously earned thanks to more diversified production. In a sense, this is supported by the observed negative relationship between the amount of subsidies and market income as the correlation coefficient is -0.26 for the period.

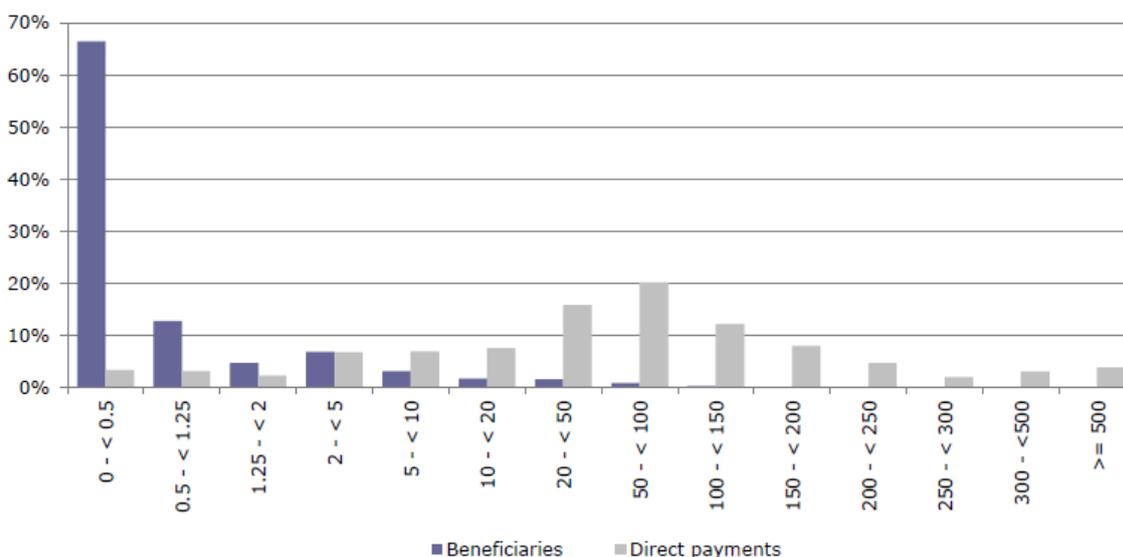
**Figure 8 – Real factor income in agriculture and share of subsidies (BGN mln.), 2000 – 2012 г.**



Source: own calculations based on NSI data

With respect to one of the main aims of the CAP – income safety net to farmers, it is apparent (Figure 9) that the vast majority of subsidies are concentrated in a minimal number of large farms while nearly 89% of beneficiaries receive 17-18% of funds in 2011. In other words the bulk of financial support goes to farms large enough to benefit from economies of scale, risk management, etc.

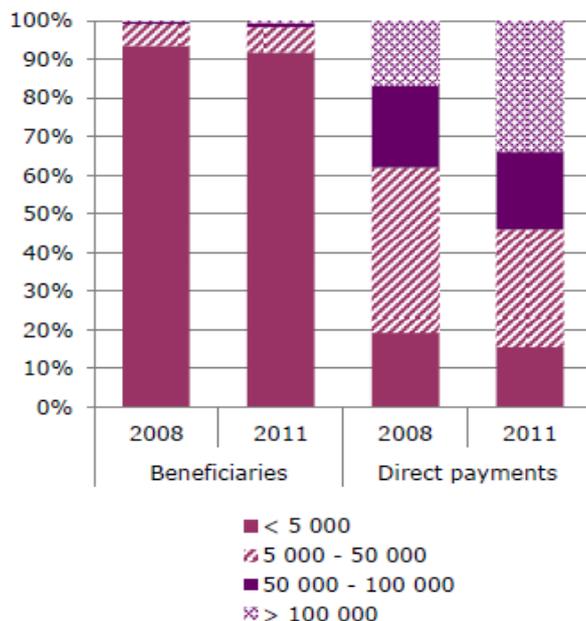
**Figure 9 – Distribution of direct payments (EUR ths.) between beneficiaries in 2011 г.**



Source: European Commission

This is not a surprise having in mind the nature of the support (per hectare) which stimulates the concentration of land use.

Figure 10 – Distribution of direct payments between beneficiaries according to the amount of funds received (EUR), 2008/2011



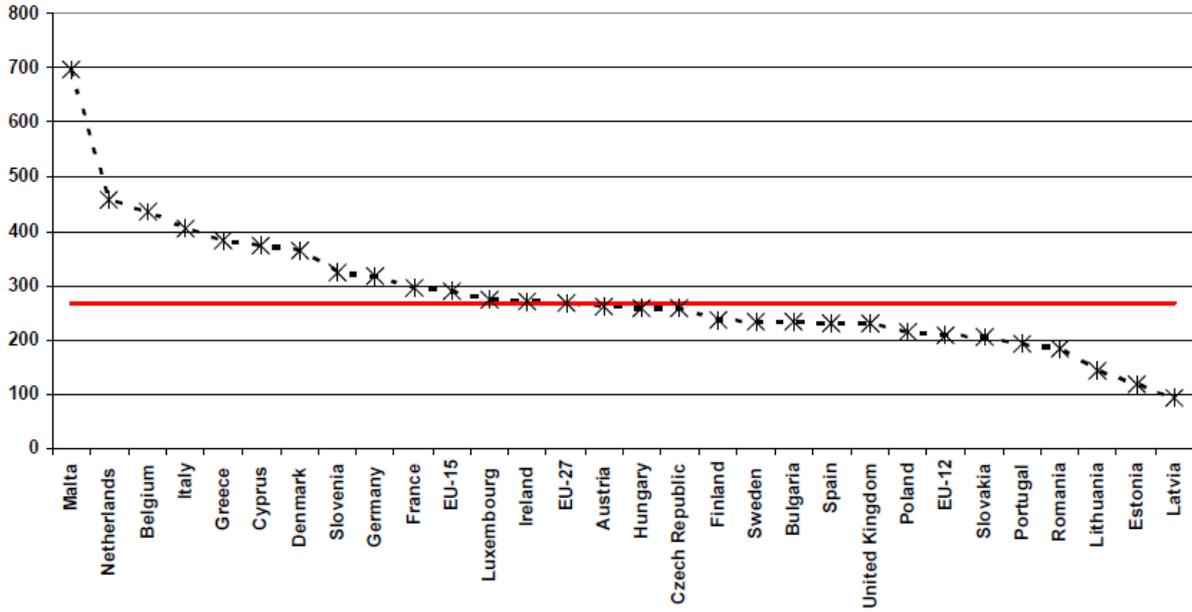
Source: European Commission

According to the State Fund "Agriculture" 2.4% of beneficiaries receive 84% of funds in 2012. To summarize direct payments are not just concentrated in a limited number of farms that are strong market players, likely to be well enough and without DP (especially if we take into account the effect on the price of land and rent), but are almost entirely in the production of cereals and oilseeds. According to estimates of Prof. Tryphon Dardzhonov<sup>6</sup> other sectors of agriculture received only 23% of direct payments at 77% for grain production. From this perspective, SAPS hardly fulfills its main role of income safety net for the majority of Bulgarian farmers.

Moreover, even the largest beneficiaries of SAPS do not feel competitive enough compared to their colleagues from the old member states because of the difference in the level of support (Figure 9). IME's study among 155 farmers showed that the biggest problem the business faces is the higher subsidies in other countries of the EU (45.7% of responses).

<sup>6</sup> "Equalization of subsidies based on production value – a guarantee for the harmonious development of agriculture," newspaper "Milk Plus".

Figure 11 – Direct payments per ha in EU

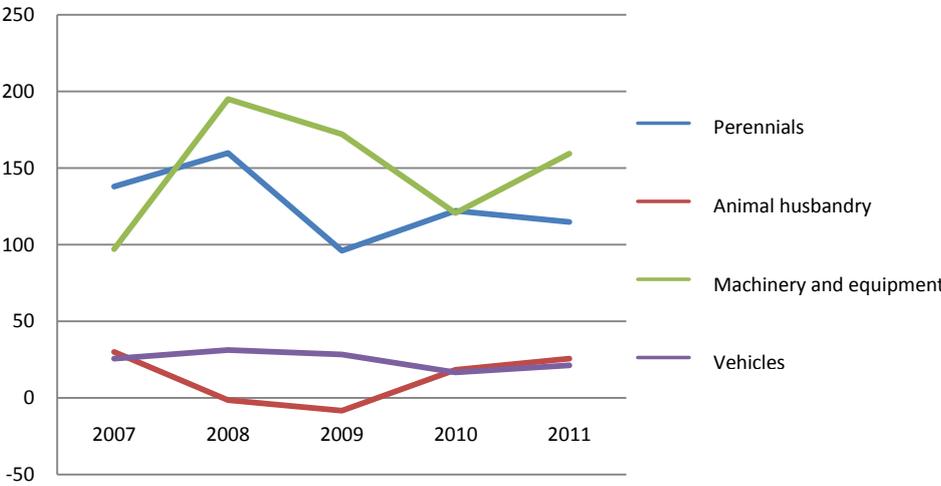


Source: DG Agri

**Effects on investment**

Does growing financial support per hectare favor investment? The available observations for 2007-2011 period show a negative relationship between the size of the SAPS and gross fixed capital formation, coefficient being -11.7. The correlation coefficient between the amount of subsidies and investments in young perennials is -0.42, and that between subsidies and investments in livestock production is -0.25. Net gross capital formation (gross fixed capital formation less consumption of capital) is negative in the last three years, and the relationship between it and subsidies is -70.4.

Figure 12 – Gross fixed capital formation in selected categories (BGN mln)



Source: NSI

## CAP 2014 - 2020

The main parameters of the new CAP as of May, 2013, concerning the implementation of direct payments in Bulgaria are:

- Bulgaria will continue to apply the current single area payment scheme by 2020, instead of introducing the so-called "entitlements";
- Up to 12% of the national envelope for Pillar I will be allocated to support linked to production (meat, milk, fruits, vegetables, possibly even tobacco, etc.)
- Bulgarian government will be able to transfer up to 25% of the sums under Pillar II (rural development) to the Pillar I (direct payments and market support).

If the proposals remain as such, the main problems related to the implementation of direct payments will deepen. The continuation of the SAPS, respectively dropping the 2011 reference year means that the main obstacle to circumvent the ceiling of direct payments is removed and the concentration of subsidies in the largest grain producers will continue. If, in addition, 25% of Pillar II funds are being redirected to the SAPS, land prices and rents will keep their growth. This could set a land market barrier for small producers and farmers in sectors other than grain and even to medium-sized grain producers. In other words, it poses serious risk for the creation of an oligopoly in the land market. It is possible that the rent reaches such levels that leasing of land will become unprofitable. This danger becomes very real if the growth in rents combines with a couple of poor agricultural years in Bulgaria and good production worldwide. Such a scenario will lead to an inability to meet existing commitments made to landowners and divestments of the land market, possibly of agriculture as a whole. We should also not underestimate the political uncertainty and possible lack of administrative capacity to implement the new CAP in time.

Animal husbandry, vegetable and fruit growing and other sectors will not receive more support in 2020 than in 2013. Even in 2020 the 12% allocation for coupled support won't exceed the current level of support for these sectors.

There is an alternative scenario in which large grain producers will stop expanding and will start to diversify their production by perennials and animals to allocate market risk. Thus, direct payments under the CAP will play a peculiar role of a mechanism for the redistribution of resources - with an initial expansion of grain producers at the expense of other sectors of agriculture and the subsequent organization of ultra-large mixed farm by them.

## Conclusion

With the end of the first seven years of CAP in Bulgaria (2007-2013) we can confidently say that the introduction of the SAPS and the NDP process of restructuring and concentration in agriculture further accelerated. It stimulated the development of monoculture agriculture and in particular of grain and oilseed at the expense of sectors with higher added value, such as animal breeding and horticulture.

The concentration of land in the hands of a few large grain producers and the appreciation of land and rent makes it more difficult for other agricultural producers to develop and almost impossible for

new market entries. Rising agricultural incomes benefit mainly landowners and to a lesser degree - employees and entrepreneurs. Subsidies go to a relatively small number of very large farms, which ruins their role as an income safety net for producers.

Although there has been considerable investment in agricultural machinery in recent years, gross fixed capital formation as a whole is not related to direct payments. Investment in permanent crops decreased and livestock seems completely undercapitalized. The new programming period 2014-2020 will further aggravate the disparities in agriculture.

A conclusion can be drawn that there is an urgent need of redesigning the state policy in the field of agriculture, especially in Bulgaria position on the Common Agricultural Policy. SAPS is not conducive to the development of the agrarian sector in Bulgaria and should be replaced with a more neutral mechanism as the single payment scheme, which is applied in the old Member States. Payments should be linked to a greater extent with the specific costs and with the added value created by the sub-sectors.

Bulgaria should work towards harmonization of direct payments between Member States, whether on higher or lower level than that currently received by Bulgarian farmers. In the long term (after 2020) the government should work for the elimination of direct payments as this is the only guarantee for the market development of the sector. Support should be focused in Pillar II (Programme for Rural Development) by which to finance investment and innovation in all sub-sectors of agriculture. Only this approach would help to partially overcome the negative effects of DP and to significantly more balanced development of the agricultural sector as a whole. It would give more opportunities for producers to meet market requirements, utilizing their specific advantages in the best possible way.

## Notes

The processes developing in Bulgarian agriculture during recent years are a result of various internal and external factors that affect to varying degrees the sector and which weight can hardly be measured. This is the main weakness in determining the effect of direct payments. In addition, the time period is not long enough to make a definitive conclusions from econometric analysis. However, observations in most cases show a high degree of correlation between direct payments and various aspects of the agricultural business.

## Literature

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