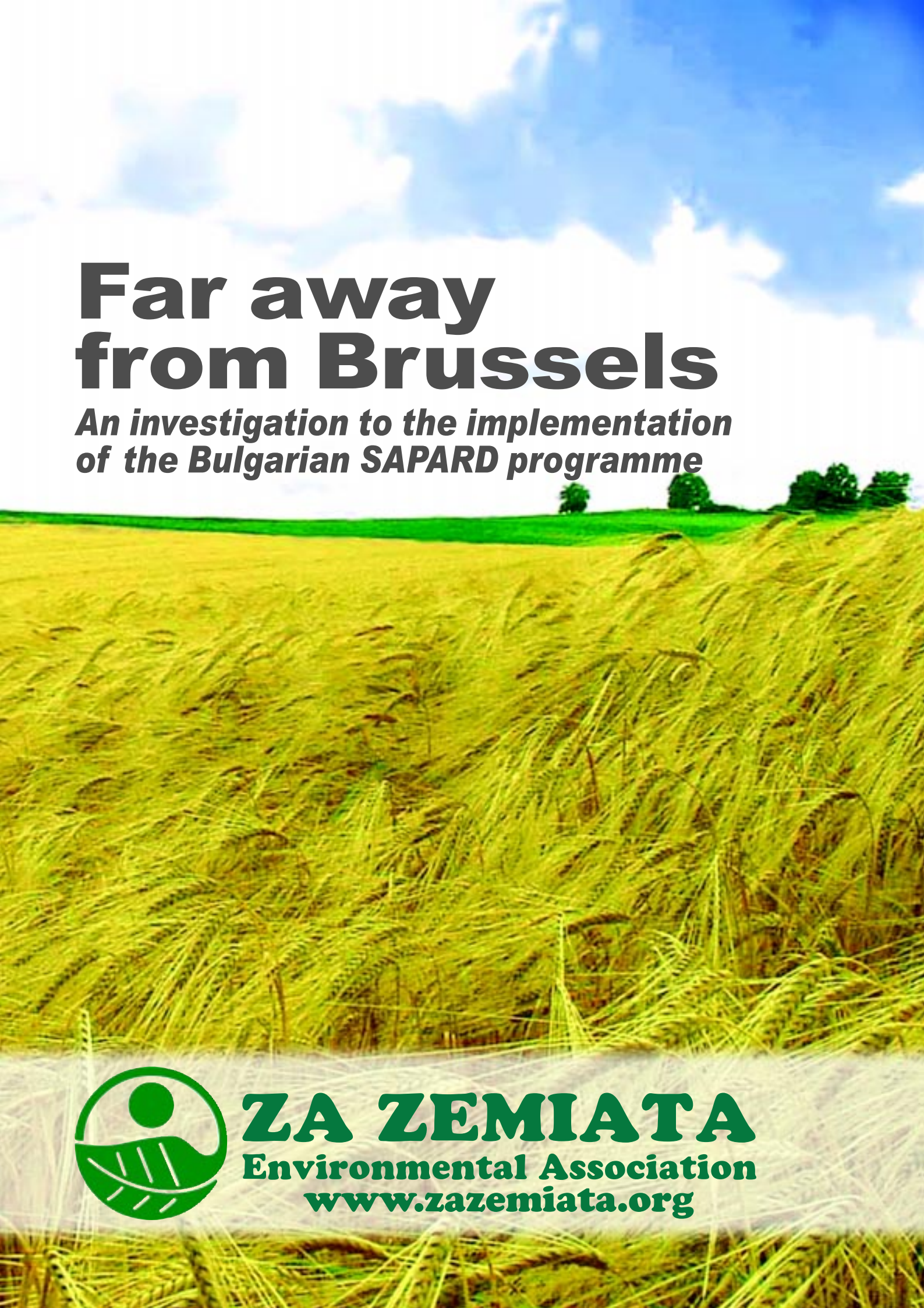
Far away from Brussels

An investigation to the implementation of the Bulgarian SAPARD programme



ZA ZEMIATA
Environmental Association
www.zazemiata.org

Far away from Brussels

An investigation into the implementation of the Bulgarian SAPARD programme

ZA ZEMIATA
Sofia, Bulgaria
2005

Table of contents

Summary	5
Chapter 1. Introduction	8
Chapter 2. Assessing quality along the ranking system	13
Chapter 3. Implementation of measures	18
Chapter 4. Access to credit	22
Chapter 5. Unaccountable preselection	27
Chapter 6. Unknown business plan criteria	30
Chapter 7. The on-the-spot-check procedure	34
Chapter 8. Incapability of the Agency	41
Chapter 9. Summarising the observations	46
Chapter 10. The Monitoring Committee	50
Chapter 11. Access to information	52
Chapter 12. Corruption	55
Chapter 13. Conclusions and recommendations	59
References	62

List of abbreviations

APIA	Access to Public Information Act
CAP	Common Agricultural Policy of the European Union
EAGGF	European Agriculture Guidance and Guarantee Fund
EC	Efficiency Coefficient
ECA	European Court of Auditors
EU	European Union
IRR	Internal Rate of Return
MAF	Ministry of Agriculture and Forestry
MAFA	Multi-Annual Financing Agreement
NARDP	National Agriculture and Rural Development Plan
NGO	Non Governmental Organisation
NPV	Net Present Value
PHARE	Poland Hungary Assistance for Restructuring the Economy
PI	Profitability Index
SAPARD	Special Accession Programme for Agriculture And Rural Development
SAPI	System for Agricultural Market Information
WTO	World Trade Organisation

Summary



SAPARD, the EU's pre-accession fund for agriculture and rural development, has been designed for assisting the preparation of the Bulgarian rural economy for EU membership. As it is organised in a decentralised way, the implementation of the Programme is outsourced by the European Commission to participating governments. In Bulgaria this outsourcement is arranged in two documents, MAFA and the NARDP. MAFA (Multi-Annual Financing Agreement), which is an agreement between the Commission and the Bulgarian National Government, stipulates the financial relation between the two parties, i.e. the Funding provided by the Commission and how it should be spent. MAFA mentions several times the National Agricultural and Rural Development Plan (NARDP). This is the plan according to which the spendings of SAPARD are to be distributed to contribute to Rural Development in Bulgaria. In their external communication, both the Commission and the national government of Bulgaria stress the achievements of institution building as laid down in MAFA, but remain more or less silent about the achievements towards the objectives of the NARDP.

This study aims to assess to what extent the selection of projects in the Bulgarian SAPARD contributes to the solving of problems of the rural sector defined in the priorities of the NARDP and come up with some recommendations for improvement.

A quality assessment of SAPARD is made by attempting to assess the quantification of projects quality as used by the SAPARD Agency in Bulgaria, which is a system of ranking points divided according to priority criteria. The quality-related information the European Council prescribes to be provided to the SAPARD Monitoring Committee is absent. In addition, every request for access to the information required for this investigation is ignored by the Agency, which is in direct violation of the constitution of Bulgaria, the Regional Development Law and the Access to Public Information Act. For this reason, information is acquired from business consultants who have experience in the preparation of SAPARD applications, individual applicants and the little information the Agency publishes itself.

This entire system of quality maximisation unfortunately turns out not to have been applied during the first four years of the Bulgarian SAPARD. In addition, the ranking system is designed in such a way that it can only be applied in one of the four application rounds per annum of the Agency. It is observed that the lack of implementation of the ranking system is due to an overestimated budget of SAPARD or a shortage on applications.

The study continues towards its aim by assessing multiple factors that contribute to the non-implementation of the ranking system. A budget surplus is observed, which is a result of the failure to implement enough measures to guarantee more than minimal quality of SAPARD implementation. This delay in measure implementation is especially destructive for the most important measure of SAPARD: the Agri-environmental measure.

The following obstructions in the inflow of projects are observed:

- A lack of access to credit, which is most harmful to projects of smaller scale.

- The possibility of a local office of the Agency to reject applications without motivation
- Some business plan assessment criteria remain hidden from the applicant. In addition, it is possible that the Agency rejects applications based on maximisation of the Net Present Value without further motivation.
- In the on-the-spot check before payment, the amount of sanction is completely unclear to the applicant and extremely flexible to the Agency. The appeal procedure to such a check is a myth kept in place by the Agency. In practice the applicant is to sign a half filled-out document without receiving a copy. Later this document is used to calculate the sanction on, already bearing the signature of the applicant.
- It is observed that the Agency keeps about 180 pending projects waiting for more than one and a half years already, which is in violation of the SAPARD rules of procedure. This violation of its own rules, the unwillingness of the Agency to address its mistakes and learn from them inflicts losses on the applicants it is supposed to help.

It is concluded that in practice the application procedure works counterproductive to some of the priorities of SAPARD as laid down in the ranking system. There is no indication that Bulgaria will be able to handle the funding through the CAP after accession in a way that can be called effective and transparent.

The following general shortcomings of the program are observed:

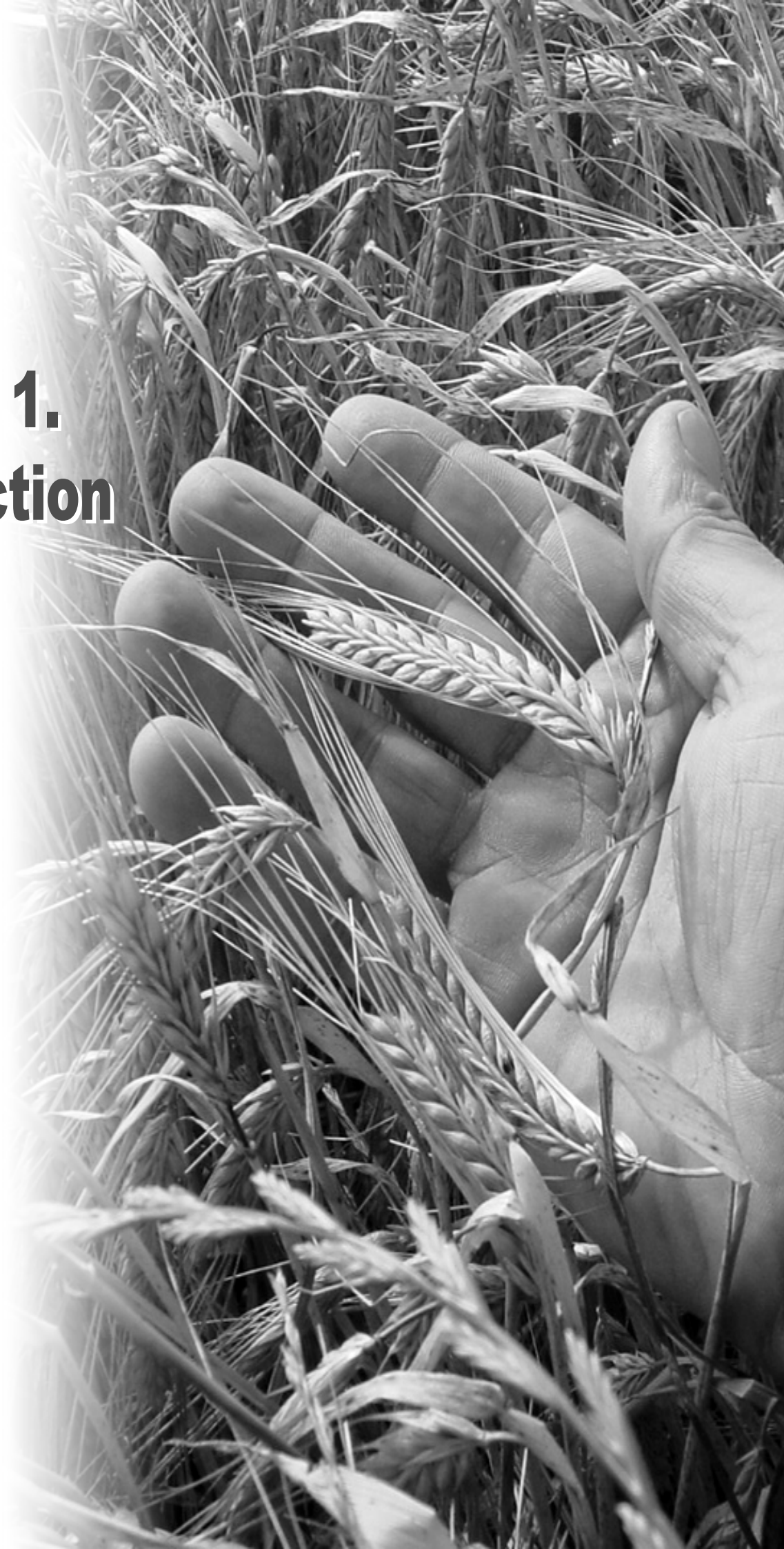
- The obligatory SAPARD Monitoring Committee, which has to certify that the Agency achieves the objectives of the NARDP is unfit for its task. Up till their seventh meeting in the end of 2004, this Committee was not aware the ranking system was not applied. In order to make this Monitoring Committee more than an institution for ex post legitimisation, all members should receive the same training and are made aware of their exact mandate in advance. In addition, the information provided to the Monitoring Committee should cover all Monitoring indicators in the NARDP and not only the amount of rejections, but also the stage and reason for rejection.

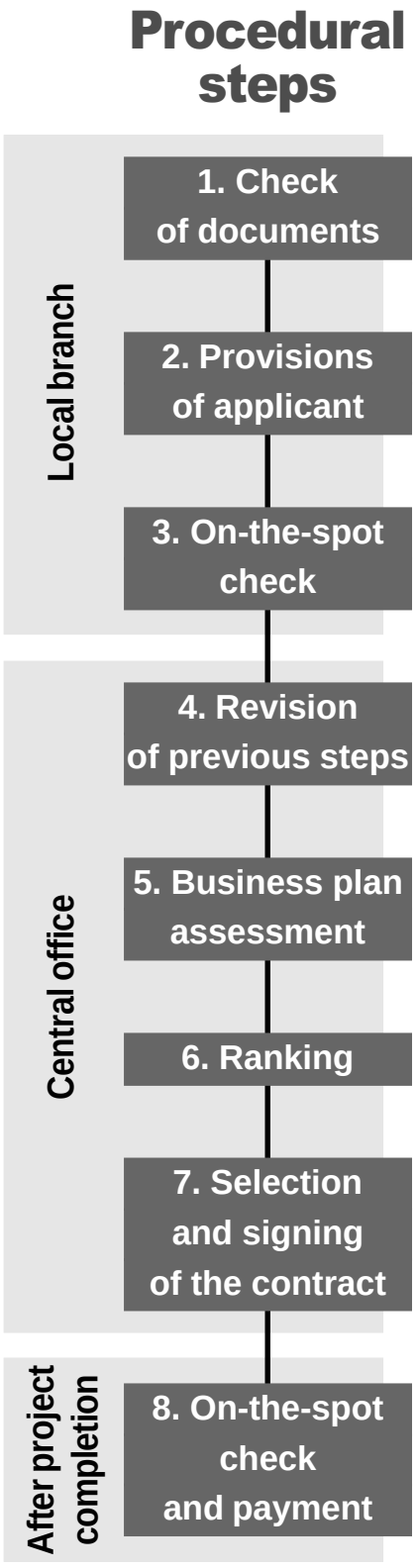
- Access to information is absent. The Agency structurally ignores every request for access to information, which is in violation of the law. The Agency should make their entire rules of procedure public and it should implement all legislation on transparency. In addition an independent dispute settlement institution should be installed to provide proper appeal-possibilities to applicants. The Commission should make sure that for the future rural development policy these changes are implemented.

- Corruption: A model of the effects of large scale, decentralised corruption is presented. All signs of large-scale decentralised corruption predicted by this model are present in the Bulgarian SAPARD.

A detailed investigation should thus be performed into the practical implementation of SAPARD. The European Commission should take an active role in this investigation. This investigation should come up with detailed requirements for the SFA as an institutional body implementing the Bulgarian rural development policy and managing EU public funds.

Chapter 1. Introduction





The Bulgarian SAPARD programme is to prepare the country for the implementation of the Common Agricultural Policy (CAP) when it joins the EU. The goal of SAPARD is two-fold and corresponds with two documents. The first objective of SAPARD is to build an institution capable of absorbing European funds for rural development and distribute them to third party applicants. This goal is stipulated in the Multi-Annual Financing Agreement (MAFA). The second goal is to let these funds make a substantial contribution to rural development in accordance with the specific countries needs. This strategy is laid down in the National Agricultural and Rural Development Plan (NARDP). While MAFA is an agreement between the European Commission and the National Government, the NARDP is a decentralised national policy. This leaves the Commission to focus mainly on the first goal of SAPARD. The Bulgarian National Government seems to do the same. This study however tries to quantify the extent to which the projects funded by SAPARD contribute to the rural development goals as stipulated in the NARDP.

To prepare Bulgaria for its accession to the EU, the European Commission provided this country with pre-accession funding. In preparation of implementing the Common Agricultural Policy (CAP), Bulgaria received funding through the Special Accession Program for Agriculture and Rural Development, or short SAPARD. SAPARD is a pre-accession fund designed according to the rural development scheme of the CAP. Just as the rural development policies in specific member states, SAPARD works as a fund that grants subsidies to third parties that apply for it.

The kinds of projects that are eligible for funding as well as the amounts of funding granted to these projects are stipulated in a National Plan. The National Plan consists of a selection of sub-funds or measures that are drawn out by the Commission. There is for instance a measure for investments in agricultural holdings, a Measure for forestry projects and an obligatory measure for agri-environmental pilot projects. The selection of measures that make up the National Plan is made by the national government and approved by the Commission. The body that distributes the funding is a national SAPARD Agency (SAPARD Annual report, 2000).

According to the European Council SAPARD regulation (EC) no 1268/1999 the objective of SAPARD is two-fold:

1. To contribute to the implementation of the *Acquis Communautaire* concerning the Common Agricultural Policy and related policies

2. To solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries.

One could paraphrase these goals to "institution building" and "making an actual contribution to rural development" respectively. As SAPARD is implemented in a decentralised way, the goal of institution building is stipulated in a Multi-Annual Financing Agreement (MAFA), which lays down exactly the rights and obligations of the Commission and National government in the supply of SAPARD subsidies from "Brussels" to Bulgaria. It states for instance the requirements of a national Agency and the rights of European institutions to monitor the project. MAFA requires the funding under SAPARD to be distributed along the National Plan, which in Bulgaria is the National Agriculture and Rural Development Plan (NARDP). This plan stipulates in detail how qualitative projects are to be selected.

SAPARD in Bulgaria

Bulgaria was the first country that managed to build an institution capable of absorbing SAPARD funding according to the requirements of the Commission, though other countries followed soon. The Bulgarian MAFA was signed in December 2000. MAFA requires the Bulgarian government to set up a SAPARD Agency that is able to absorb and distribute the SAPARD funds it receives from the Commission. The SAPARD Agency in Bulgaria is set up in a division of the State Fund "Agriculture" (SFA), a department of the Ministry of Agriculture and Forestry (MAF) of Bulgaria. Bulgaria's allocation from SAPARD for 2000 was € 53 million, € 54.1 million for 2001 and € 55.6 million for 2002. The allocation for 2003 was € 56.5 million and the indicative allocation for 2004 was € 68.0 million. MAFA stipulates that the contribution to the national SAPARD Budget by the Commission is only 75% and the remaining 25% is to be provided by the national government.

The objectives of the NARDP are defined in expectations of results and indicators which are to be used to measure if it has been a successful policy or not when the programme reaches its end. The NARDP specifies different indicators for each measure. According to the European Court of Auditors (ECA, 2004) the Commission "views SAPARD mainly as an institution building device to ensure the easy take-up of community practices after accession" and "The Commission has not established or communicated the extent to which the objectives set out for the programme have been achieved." The Commission seems to have taken the stance that institution building in itself is already quite an achievement and already a success in itself. In doing so, it draws its hands from the second goal of SAPARD, i.e. a contribution to rural development as laid down in the NARDP.

The definition of SAPARD's success can thus be interpreted in multiple ways. The minimal criterion for regarding SAPARD as successful would be to call the project a success when an institution has been set up which is capable of receiving the agricultural subsidies coming from "Brussels" and distribute them through the country. This is the first goal of institution building as stipulated in MAFA. One

can interpret the goal of SAPARD a bit broader though by taking into account the actual expectations of Council regulation (EC) no 1268/1999. This regulation requires the programme not only to exist, but also to make a contribution to rural development. This contribution is to be evaluated along the indicators stipulated in the NARDP, which is not an agreement between the Commission and the government of Bulgaria, but a decentralised national policy.

The Bulgarian MAF speaks about "the Bulgarian success" when referring to the fact that Bulgaria was the first applicant country to get accreditation for SAPARD (Miroslava Giorgieva, director of the Rural Development and Investments Directorate at a conference on SAPARD organised by the European Institute on 22-4-2005 in Sofia, Bulgaria). Apparently the MAF also considers SAPARD already successful when it has the capacity to receive and distribute money. Still the role of the national government does not stop at receiving money and getting rid of it again, MAFA also requires this money to be distributed as described in the NARDP in order to make a contribution to the objectives of this plan, which can be measured in the official indicators.

Thus the situation leaves unanswered the following question: What is the qualitative effect of the subsidies granted by the Bulgarian SAPARD towards the NARDP objectives?

One can find an answer to this question in two different ways. The first way is to see which fundamental problems are addressed by SAPARD and then to quantify to what extent these are solved. The second way is to solely assess the investments' quality in contributing towards (a selection of) the priorities of the programme.

The first method would deliver the most thorough and detailed assessment of the extent in which specific problems in the rural economy are solved, though it has a problem of causality. The problems solved *during* the period in which SAPARD was active do not necessarily have to be solved *by* SAPARD. Such an investigation should suit the Commission or the National Government, and it would immediately point out a direction for a new policy.

The second method assesses the quality of investments according to a definition of quality used in the NARDP. It says nothing about the quality of this definition itself. It offers a tangible yet limited result in a short time period. For an NGO survey this method is considered best. As SAPARD's qualitative contribution to rural development is determined by the kind of projects that are selected, it is good to have a look at the selection procedure in order to define a good quality indicator.

The selection procedure

The Bulgarian SAPARD Agency in the SFA has 28 local branches (one for each region) and one central branch. Both play a role in the distribution of SAPARD funding. The application procedure works as follows:

An applicant fills in the application form and prepares all the required documents, including a business plan. Usually this is quite an amount of work, since the SFA requires a lot of documents. It is very common to hire a consultant to help preparing the documents, not only because of the amount of work, but also because the requirements for documents are very strict. Some consultancy companies are specialised in preparing SAPARD applications, and manage to increase the chances of approval considerably. It is not unusual that consultancy companies have a success-rate of 100%. Consultancy costs are eligible for SAPARD and it is not uncommon for consultants to work on a no-cure-no-pay basis.

The entire application is brought to the local branch of the Agency, which performs three checks. The first check regards the eligibility assessment of the documents, i.e. checking if the application meets all eligibility criteria and if all documents are complete. Initially an incomplete application would not

be accepted and a project had to wait for the next session of the Agency to reapply (which takes 3 months), but at the end of 2003 a 10-day correction period was established. If an application passes this check it is provided with an ID number and registered in its own file.

The second check the local branch of the Agency performs regards the financial provisions and eligibility of the applicant. These can be found in the NARDP.

The third check the local branch performs is a so called on-the-spot check, in which is checked if the situation described in the application is actually in accordance with reality, e.g. is it true that an applicant owns 20 cows? Is it true that this stable has not yet been built?

If the application passes all checks at local level, it is sent to the central branch of the Agency where the local checks are performed again. The first three steps in the application are actually performed twice. After these checks the business plan is assessed for economic viability. If the plan is approved, the project is ranked according to the priority criteria in the NARDP. If a project meets certain priority criteria, it receives a specific amount of ranking points. According to the total amount of points awarded, projects are ranked in an order of priority. The highest ranking projects are then approved for funding under SAPARD. In this way, projects are selected which supposedly have the highest contribution to the goals stipulated in the indicators of the NARDP.

If a project is accepted, the Agency will refund 50% of the project cost after completion if it concerns a commercial project and 100% if it concerns a non-profit project. This mechanism is called “co-financing” and is supposed to stimulate investments that benefit the rural economy. The name co-financing is thus a bit misleading as under the co-financing regime it is possible that 100% of the project is funded.

The quality of SAPARD

The quality indicators used in this study are the ranking criteria and the distribution of ranking points over them. The official indicators and expectations are only to be assessed after projects are finished and are therefore considered less suitable. The division of ranking points is the mechanism through which the Agency aims to achieve its objectives and controls the quality of the subsidised projects. The question answered in the investigation should therefore be:

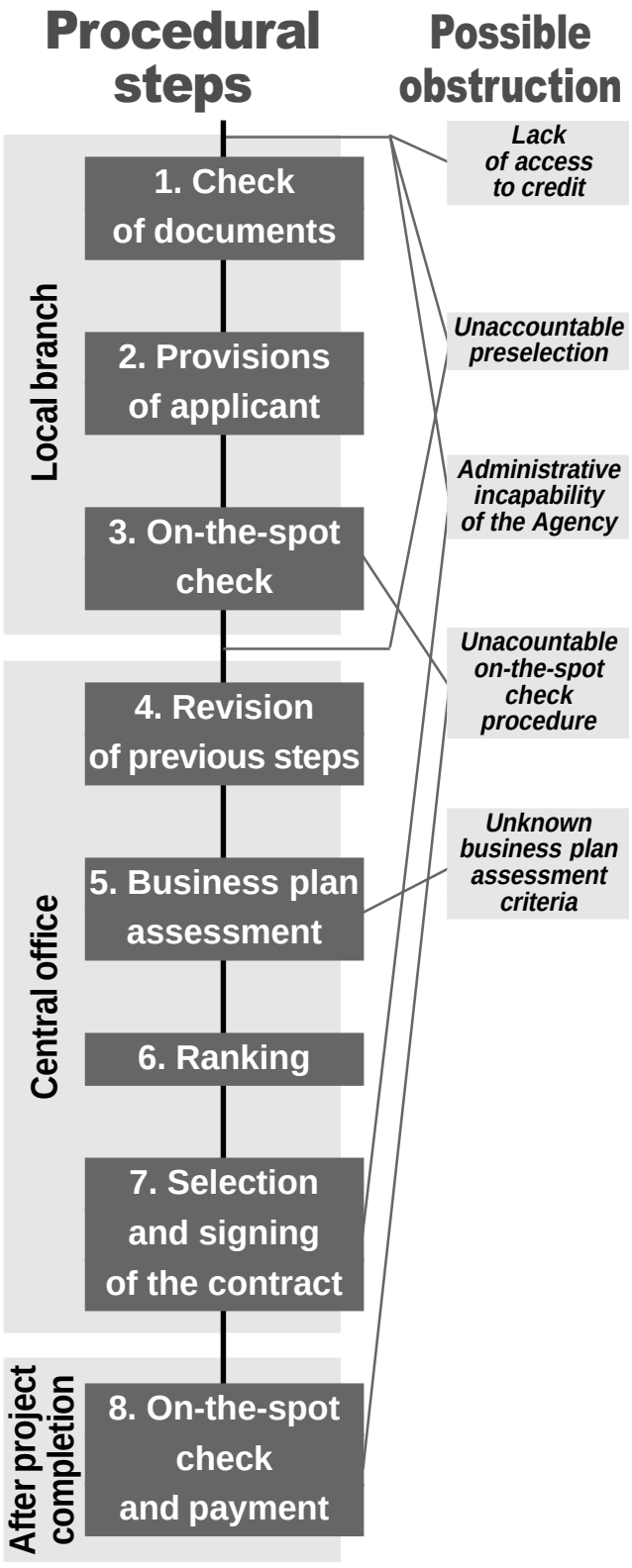
To what extent does the selection of projects in the Bulgarian SAPARD contribute to the solving of problems of the rural sector defined in the ranking priorities of the NARDP?

This study aims to answer this question by analysing the ranking data of all projects approved for SAPARD funding and draws out recommendations for the improvement of SAPARD and similar rural development programmes in the future.

The first finding in the second chapter of this report is that the Agency hides quality related information on the projects it has approved from the public. The second finding is that in the period 2000-2004, the Agency has not applied the ranking procedure at all. As a result, the contribution of the selection procedure towards the ranking priorities is solely based on coincidence. The study continues towards it aims after these observations by assessing different reasons why the Agency has not been able to make a qualitative selection of applicants. These reasons will be discussed in the chapters 3 to 8. Chapter 9 will summarise the findings of the previous chapters. Chapter 10 to 12 discuss certain general shortcomings in the programme that might contribute to the lack of quality in the implementation of SAPARD in Bulgaria. Chapter 13, the final chapter, describes the key problems that obstruct the qualitative implementation of SAPARD and provides recommendations to solve these problems.

Chapter 2. Assessing quality along the ranking system





SAPARD is primarily a fund, granting subsidies to third parties. These can be private companies or governmental institutions such as municipalities. It is a general characteristic of funds that it selects projects to subsidise along criteria in order to make sure the projects financed are contributing to its goals. Selection criteria can be of a normative nature (eligibility criteria), meaning that in order to receive a SAPARD grant a project has to live up to them. Criteria can also be of a non restrictive nature (selection criteria), meaning that living up to these criteria increases the chance of receiving a grant, but it is not obligatory. Eligibility criteria express the minimal demands for a project to be approved, while selection criteria express the priorities of the programme and are used to assess the quality of the applying projects.

Back to SAPARD. According to the NARDP, applications that have been assessed as eligible for SAPARD are selected according to a system of ranking points. Every selection criterion is worth a certain amount of ranking points, and an application gets awarded these ranking points if it meets the corresponding criterion. For example SAPARD measure 1.1 “investments in agricultural holdings” gives points to young farmers, smaller sized farms, projects in less developed and/or mountainous areas, the milk and dairy sector (which needs drastic reform to conform to European standards) and organic production (See table 1.).

The total amount of ranking points awarded to a project is representative for the projects contribution to the goals of SAPARD and the applications with the highest amount of ranking points are supposedly the most

	Criteria	Indicator	Score	Max. core
1.	Support to young farmers	The age of the owner of the agricultural holding is between 18 and 40 years	(if "yes" score 15 if "no" – 0)	15
2.	Support to small-sized agricultural holdings	The agricultural holding has less than 10 full-time employees	(if "yes" score 15, if "no" – 0)	15
3.	Support to less-developed areas and mountainous areas	Investment is in a municipality classified as less developed or in a mountainous area of a rural municipality	(if "yes" score 10, if "no" – 0)	10
4.	Priority sectors	The investment is in the milk and dairy sector	(if "yes" score 50 if "no" – 0)	50
5.	Organic production	The holding has a certificate for organic production or has . a contract with a control organ	(if "yes" score 10, if "no" – 0)	10
	Total			**100**

Table 1. Ranking criteria for SAPARD measure 1.1 "investments in agricultural holdings". Source: NARDP.

likely to be selected. The procedure through which the total sum of ranking points is translated into a grant is however not defined in the NARDP. This brings up the question through what procedure the sum of awarded ranking points to applications is used in the selection of projects for SAPARD funding.

The normal way to get an answer to such a question would be to ask the Agency. According to article 41 of the Bulgarian constitution and the Access to Public Information Act, the Agency is obliged to answer all requests to information within 14 days unless the information is of a confidential nature. According to article 38 of the Bulgarian Regional development law the rules of procedure of any Bulgarian governmental development programme are not allowed to be confidential.

In any EU member state procedural information would be accessible to the public. The SAPARD Agency however structurally refuses to answer any written access to information request and answers negative on every oral request (more about this in chapter 11). After multiple attempts to access this information in the normal way failed, an alternative option was tried. Business-consultants of the companies Agropromproekt, Balkanica, Cibola, Financial House Elana and Finsys with experience in SAPARD applications were addressed for interviews in order to clarify the application procedure and specific bottlenecks in it. In addition, SAPARD Monitoring Committee members Svetla Nikolova and Petur Petrov were interviewed, as well as individual applicants whose cases are described in this report. Of the addressed business consultants, only one refused to share information. Because most respondents believe they are dependent on the goodwill of the SAPARD Agency for their livelihood, they only wished to cooperate if their names were kept confidential. For this reason, sometimes sources of information cannot be fully specified.

The ranking system is not applied

According to all interviewed consultants **no selection of projects based on the ranking criteria was made at all** for the period 2000-2004. The reason for this has been a budget surplus: there was more money to be

distributed than was applied for. As a result, it was impossible to apply the ranking system. For the last session of 2004, the SAPARD Agency has implemented a minimum amount of ranking points for projects to be selected because the budget ran tighter with time proceeding. Since then there have been no new sessions.

As this research was started in January 2005 and data for the period 2005 onward are extremely scarce, it will focus mainly on the period 2000-2004. For the new regime, in which the ranking system is implemented, it can already be said that for the available budget, these **projects are selected that have the highest amount of points for that particular session**.

If for instance 20 projects apply for a total budget of 500.000 leva and the budget of the agency is 100.000, the 100.000 leva will be distributed among the highest-ranking projects. If the top layer of projects all have the same amount of ranking points and together request more than the 100.000, the percentage of co-financing (before January 2005 this was 50%) is reduced until every project can receive the grant.

The budget of a particular year is determined by the Annual Financing agreement between the Commission and the Ministry, whereas the distribution of that budget among the different sessions of application depends on the budget that is left from the previous sessions. It is theoretically possible that an entire annual budget can be spent in the first session. If the ranking procedure would be applied at all, it would only be in the last session in which money is still available. **The ranking procedure is designed in such a way that it can only be applied in one of the four sessions per annum of the Agency.**

If the Agencies assumption that an annual budget is sufficient for a year is correct, it would only be the last session out of four in which the ranking system would be applied. For the period 2000-2004, there have been no situations in which the SAPARD budget has been tight enough to make a priority assessment of applications. That means that **the budget of SAPARD for the period 2000-2004 has either been overestimated or there has been a lack of applicants.**

This does not mean that the accredited projects are of low quality by definition. It would be interesting though to assess the overall quality of the project according to the selection criteria assessment of all projects. Such a study however is currently only possible if this assessment is already made by the Agency, since the actual SAPARD files are confidential, and thus impossible to be assessed by non-governmental actors. Given the Kafkaesque attitude of the Agency, such a study is currently impossible for non-governmental organisations. There is however also the obligatory Monitoring Committee in which non-governmental stakeholders take seat to monitor the progress of SAPARD towards the official NARDP goals along the official NARDP Indicators. **In practice however this Monitoring Committee can only access minimal information and the indicators provided only cover budget-related information while quality-related information is absent.** This is not in accordance with Council Regulation EC No 1260/1999 art. 36 lid 1, which states that the Monitoring Committee not only has full access to the indicators, but also decides what these indicators are. In the Bulgarian national legislation this regulation is translated to the Rules of Procedure of the SAPARD Monitoring Committee, drawn out by the MAF. The right of the Monitoring Committee to access all information provided by the NARDP policy indicators as well as specific project information is stipulated in articles 2, 3, 4 and 10 of this regulation. In practice, these rules are ignored.

In the following chapters possible reasons for a low inflow of projects will be discussed. In addition, chapter 3 discusses one reason

for the overestimation of the budget: the delay of measure implementation. Possible bottlenecks in the inflow of applications investigated are:

1. A lack of access to the credit required to actually start a project (chapter 4)
2. A rejection of applications for unofficial reasons (unaccountable preselection, chapter 5),
3. Unknown business plan assessment criteria (chapter 6),
4. An unaccountable on the spot check procedure (chapter 7)
5. Incapability of the Agency to handle applications (chapter 8)

This study will not discuss bottlenecks which are in the official selection criteria. The official selection criteria are meant to keep applicants out in an accountable way. These criteria are public and they describe the minimum quality for a SAPARD project. In general, Environmental Association “For the Earth” (Za Zemiata) welcomes the efforts of SAPARD to improve the development of the Bulgarian countryside, and believes the goals of the NARDP are addressing the problems in an adequate and realistic way.

Chapter 3. Implementation of measures



In chapter 2 it was stated that the budget of SAPARD in Bulgaria has been under-utilised during the period 2000-2004. The overestimation of the budget has not led to an earlier implementation of measures, though an earlier implementation of measures would have tightened the budget and thus have improved the quality of the programme. The ECA (2004) states not only that in the 8 SAPARD-implementing countries of the AC-10 "budgets were systematically under-utilised", but also that "...the tight time frame led to difficulties with decentralisation." From that perspective it would have been good to implement more measures at an earlier stage. The question is why this has not happened. To answer this question one has to take a look at the process through which the moment of measure implementation is decided.

The decision when to implement a measure is made by the SAPARD Monitoring Committee. The SAPARD Monitoring Committee in Bulgaria decides by consensus. Institutionally, Ministry officials, NGO representatives and Commission delegates have an equal share in the process of decision-making. Practically, in the initial stage of decision making non-governmental participants have not received the same training as delegates from the Commission and Ministries. This leads to a situation in which the earliest monitoring sessions are dominated by governmental representatives. For the non-governmental participants the Monitoring of SAPARD is a process of learning-by-doing. It is in the initial session that the time of measure implementation is determined.

According to the minutes of the first meeting of the SAPARD Monitoring Committee, Measure implementation was decided in the following way:

"Mrs. Miroslava Georgieva, Director of Rural Development Directorate, MAF, briefly introduced the strategy for agriculture and rural development in Bulgaria for the period-2000–2006 under the SAPARD Programme."

after which

"The SAPARD Programme Monitoring Committee noted with approval the information about the strategy for agriculture and rural development in Bulgaria for the period 2000– 2006 under the SAPARD Programme."
(SAPARD Monitoring Committee, 2001)

The correct procedure would not be a "notion with approval", but a design of this strategy. Unfortunately most Monitoring Committee members were unaware of their mandate at the time.

According to this strategy, the first three measures would be implemented on June 1st 2001:

- Measure 1.1: Investments in agricultural holdings
- Measure 1.2: Improvement of marketing and processing of agricultural and fishery products
- Measure 2.1: Development and diversification of economic activities, provision of multiple activities and alternative income.

In the very beginning of SAPARD, the Monitoring Committee was strongly dominated by governmental stakeholders, who had a large advantage in knowledge of procedure and mandate of the Monitoring Committee. As time proceeded, the nine non-governmental participants in the Monitoring Committee ac-

quired more skill and confidence to participate. As the Monitoring Committee decides by consensus, this resulted in longer discussions and a decrease in manoeuvrability of the Monitoring Committee. Modifications of the plan grew harder to achieve along time, as non-governmental Committee members became more demanding and every single participant has the right to block the decision-making (Janssen, 2005).

Still it managed to decide on the implementation of the remaining measures. From August 14th 2003, the following other measures were implemented.

- Sub-Measure 1.2.1: Wholesale markets
- Measure 1.4: Forestry, afforestation of agricultural areas, investment in forest holdings, processing and marketing of forestry products
- Measure 1.5: Setting up producer groups
- Measure 2.2: Renovation and development of villages, protection and conservation of the rural heritage and cultural traditions
- Measure 2.3: Development and improvement of rural infrastructure
- Measure 3.1: Improvement of vocational training
- Measure 4.1: Technical assistance

As this report is written (June 2005), there is one measure left yet to be implemented: the agri-environmental measure. As this is the most complex and difficult measure, involving a large amount of different stakeholders from different backgrounds and with different interests, it took the Monitoring Committee a lot of time to implement this measure, with a disastrous outcome.

The agri-environmental measure

Over 40% of the EAGGF spendings on rural development are entitled to the agri-environmental measure. It is a very complex measure, granting money to farmers for the contribution of their labour to the environment and biodiversity in for example the creation and protection of semi-natural habitats. The design of such a measure is quite complex, since one has to take into account both agricultural practice, business-economics, ecological changes during the season and one has to merge them all in a quantification of the economic value of ecologic actors.

Protection of the environment and biodiversity is a strong argument in favour of agricultural subsidies within the EU, which are highly criticised by the international community and the World Trade Organisation (WTO). As this measure is so important to the EU, it is set as the only obligatory measure for all SAPARD countries. It is considered of vital importance that candidate countries learn to implement this measure. For the agri-environmental measure the commission was very cautiously setting the criteria for success, restricting this measure to a 'pilot nature', making it available only in specific regions (SAPARD annual report 2000).

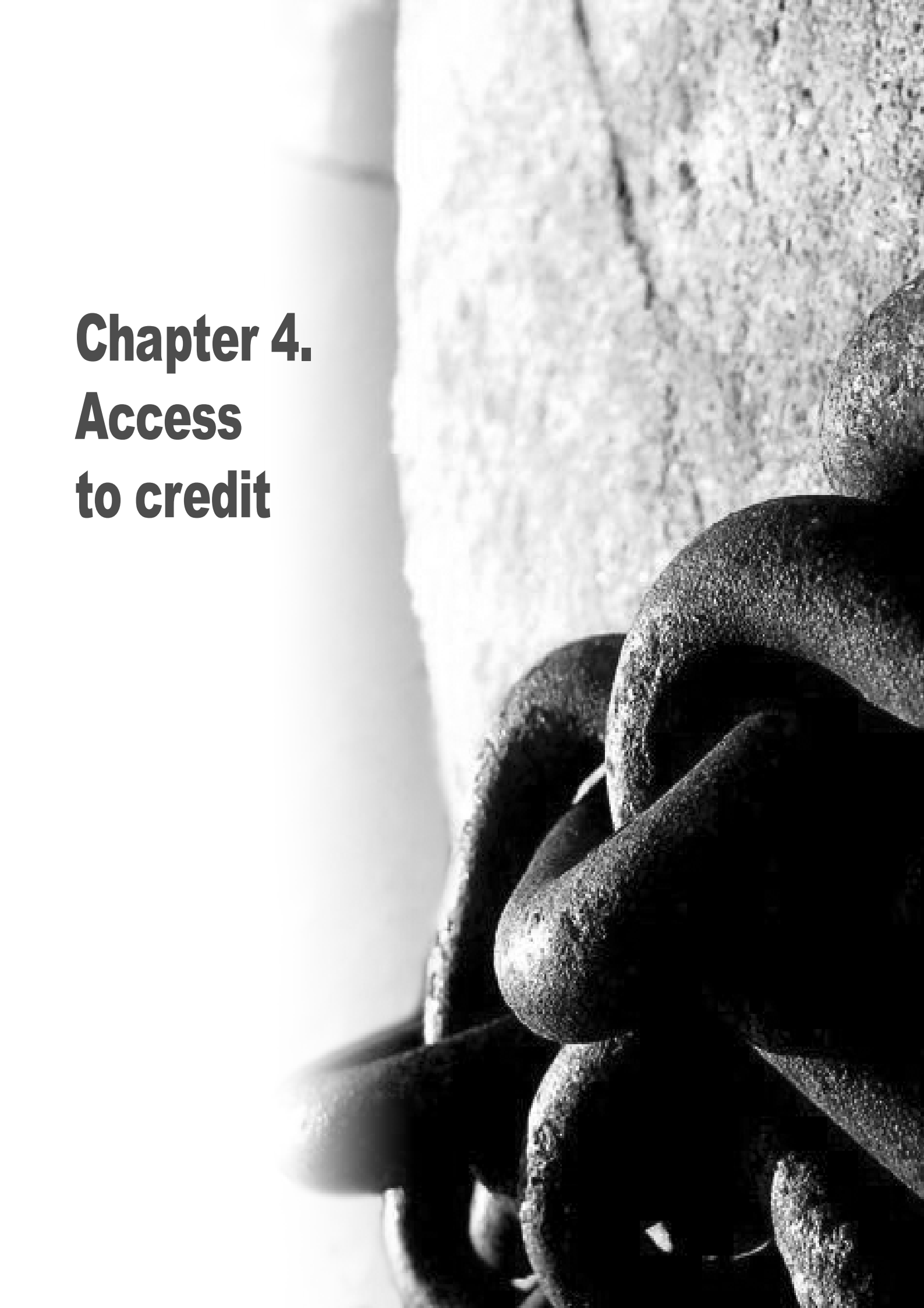
Learning by doing

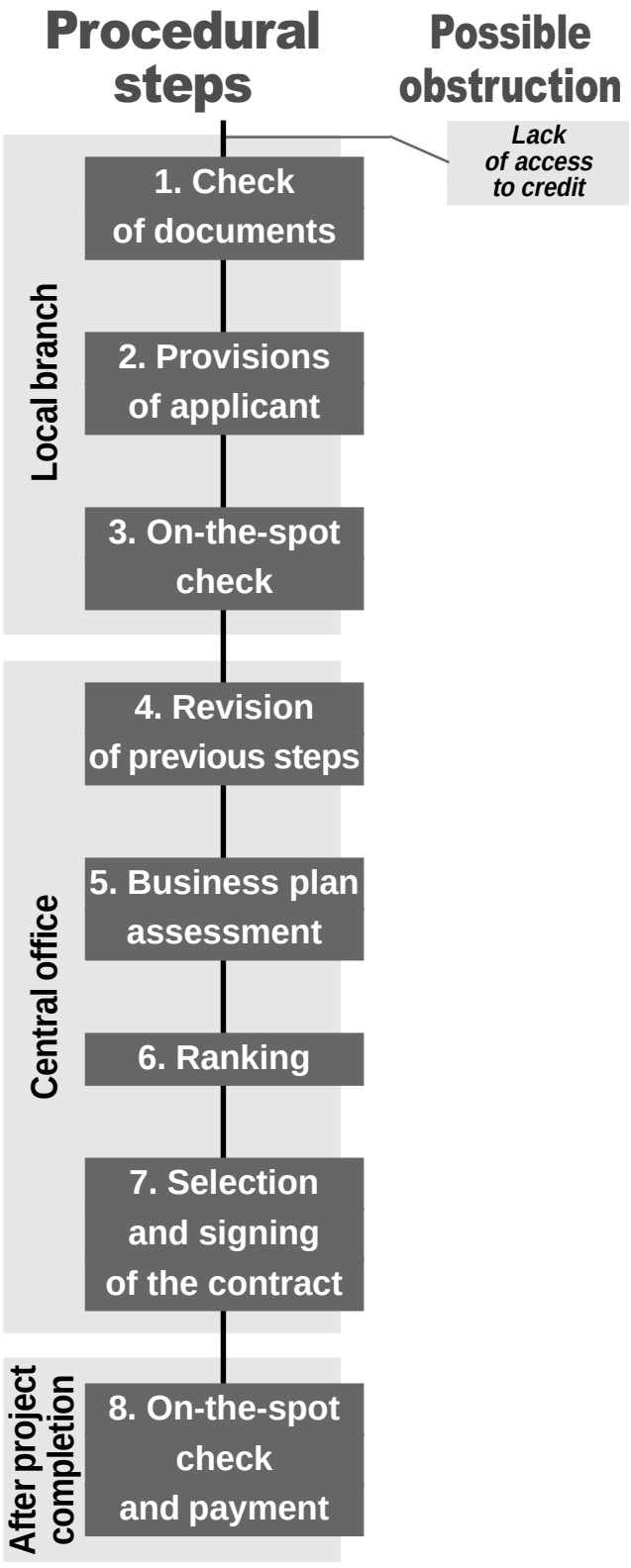
In an attempt to relieve SAPARD in general of its initial and specific country objectives, the Commission took the stance that it is primarily a programme that trains its participating countries in European rural development schemes through a process of "learning by doing". In a process of learning, it is normal to make mistakes. In the implementation of a serious development policy that aims to solve key problems in a sector, mistakes should be avoided. Rural development is a difficult matter, and adopting European policy in a new member state is very tough as well, it is normal that mistakes are made in this. As long as mistakes are addressed, acknowledged and solved in the shortest possible time period, the programme could still be considered successful.

As far as the agri-environmental measure in Bulgaria is concerned, the stage of “doing” has not yet been reached in 2005. According to ordinance 1/2002 of the

Ministry of Finance, the measure had to be implemented in 2005, and the accreditation package should be sent to the National Fund in January 2005. The Agency however has missed this deadline by three months and it looks like the measure will be implemented in the autumn of 2005 the earliest. Unfortunately, the growing season is not in autumn, and the year 2005 will probably be missed again. The stage of “learning” has already started though, as the rural development schemes for the period 2007-2013 are already under construction since 2004. This leads to a situation in which **the agri-environmental measure is implemented only 1 year out of a possible 6 years in which no conclusions for the improvement of that same measure in period 2007-2013 can be drawn**.

Chapter 4. Access to credit





As SAPARD only grants its subsidy when a project is finished, an applicant has to find another source of capital to start his/her project. The most probable source would be a loan from a bank. A lack of access to credit would be a strong limitation to the inflow of applications in SAPARD. Unfortunately, access to credit remains a large bottleneck in the participation in SAPARD.

Access to credit has been a problem in Bulgaria ever since the transition to a market economy. Despite pressure from both civil society and the Monitoring Committee to set up a proper credit system, nothing tangible has been undertaken. Currently (June 2005) the national interest rate is about 16%, making it very hard to repay a debt. In addition, banks like to see a mortgage. In Bulgaria it is impossible to mortgage land, so farmers can only mortgage their machinery and real estate. For smaller farmers, which SAPARD supposedly targets, such a mortgage will not yield enough credit to start a SAPARD project. **Projects that have access to foreign credit, i.e. projects by western transnational companies have a relative advantage over smaller scaled, local projects in the initial stage of project design. Again, this works against the official priorities.**

A good example of the relative advantage of transnational companies in the Bulgarian SAPARD is Agro Foka in Berkovitsa (in a less developed area in the northwest of Bulgaria). This German owned Bulgarian company was started with a loan by a German bank. The company bought an old refrigeration center for fruits and vegetables and used SAPARD to renovate it. Currently Agro Foka is one of the leading companies in frozen fruits and

vegetables on the Balkans. The active capital of the owner, Hans Vollert, before Agro Foka was registered and the loan was taken amounted to 2500 euro, which is the minimum active capital to register a limited company in Bulgaria. Unfortunately Bulgarians do not have access to German bank loans.

In the SAPARD Monitoring Committee, the problem of access to credit was raised a number of times. Possible solutions opted were an interest subsidy, the establishment of a guarantee fund or an overall lowering of the interest rate. Of these proposals, only the guarantee fund has been considered a reasonable option for the Monitoring Committee (Petar Petrov, chairman of the National Union of Farm Cooperatives and member of the SAPARD Monitoring Committee, pers. comm.). The Agency has proposed to set up such a scheme to the Commission, though the latter did not approve, fearing that the total amount of state-aid to projects might exceed the eligible.

The following case study shows how farmers have problems in getting access to credit in less developed areas. It decribes the situation of Dimiter Minkov, a dairy farmer in the town of Boliartsi in the region of Plovdiv. In addition it describes the way in which another milk farmer in Boliartsi, Mima Dimova, has managed to get SAPARD funding under the only measure that is targeted solely at small enterprises, the setting-up producer groups measure. This measure does not require a large starting capital, and helps a group of farmers to collectively market their produce. It provides a financial aid to a producer group, which supposedly allows it to collectively develop its viability.

A trip to Boliartsi

A well-known dairy farmer in the town of Boliartsi is Dimiter Minkov. He is widely respected in the region for his high quality cows, and his cows are his pride. “All my life I have been raising cows. In the days of communism I was personally taking care of 70 cows. After the fall of communism, our cooperative was “redistributed” by a liquidation committee. Since the liquidation committee did not own the cattle themselves and were obliged to sell it, they did not sell the cattle to the highest bidder, but to the person that offered them the highest bribe. The cows were mostly butchered and sold as meat. The money that was raised officially by selling the cows was given to the farmers. It was an insulting sum of money for the 70 cows I used to care for. I could get myself 8 cows for that. Currently I own 6.

As me and my wife know very well how to raise cattle, our cows give about 28 to 30 liters of milk a day each. Our milk is of a very high quality, 9 percent dry matter. The retailers though do not care for this, they decide a universal liter price among themselves and I just have to comply. Their current price is 32 stotinki per liter. For me that raises about 50 leva per day, but I also have expenses. I have to buy food and maintain my stables. Food prices are rising and milk prices remain the same, and I am making losses. That is why I have to sell my cows. That hurts, because they are good cows and I love them like they were my own children.

A year ago I heard about SAPARD, and I developed the idea of building a modern stable so I could produce high quality organic milk and sell it on the organic market, which is not dominated by the cartel of Madjarov, Bor Cvor and Philipopolis (milk retailers, ZZ.). If I wanted to do this application I would need about 90 documents and a loan. For every document I have to go to Asenovgrad or Plovdiv, which means I have to leave my cows for a day. If I want to get a loan, I could mortgage my

cows. A mortgage for a cow is about 1000 leva, for 8 cows it would wield me about 8000 leva. With 8000 leva I could go to the city, buy toilet paper and wipe my ass, but it is not enough to build a stable. If the project then does not yield as much money as I expected and I do not manage to pay back my loan, I will spend the rest of my life in jail. Most farmers in Boliartsi have less then 10 cows, which is not profitable. Boliartsi is in a situation now where farmers like me are forced to sell off our cows and look for a better future elsewhere. If I would have access to funding or fair market prices, I could invest in my farm and be able to maintain myself. I am a good dairy farmer, maybe even the best in the region, but in the current situation there is no future for me."

When he is reminded of the existence of Measure 1.5 "setting up producer groups", which is aimed to improve the position of smaller farmers towards retailers specifically, he begins to laugh: "Bulgarians cannot organise themselves. It is easy for the European Commission to say that I have to form a producer group, but in Bulgaria one cannot trust one's neighbours. My neighbours will water down their inferior milk to get more money, and collectively our group will suffer from it. In the end we will only be selling water."

The Boliartsi milk producer group

What Dimiter Minkov does not know, is that there is actually a working dairy producer group receiving SAPARD funding in his town. Za Zemiata spoke to Mima Dimova, a member of this group, who shows us around in the local milking station of the Bor Cvor dairy company.



Dimiter Minkov and his cows

"It is fairly easy to get SAPARD funding. One just has to give some information about one's farm, and one gets 5% SAPARD for every litre of milk one produces. It is really simple: just tell them how many cows you have, put some signatures on some papers and they will fix everything for you.

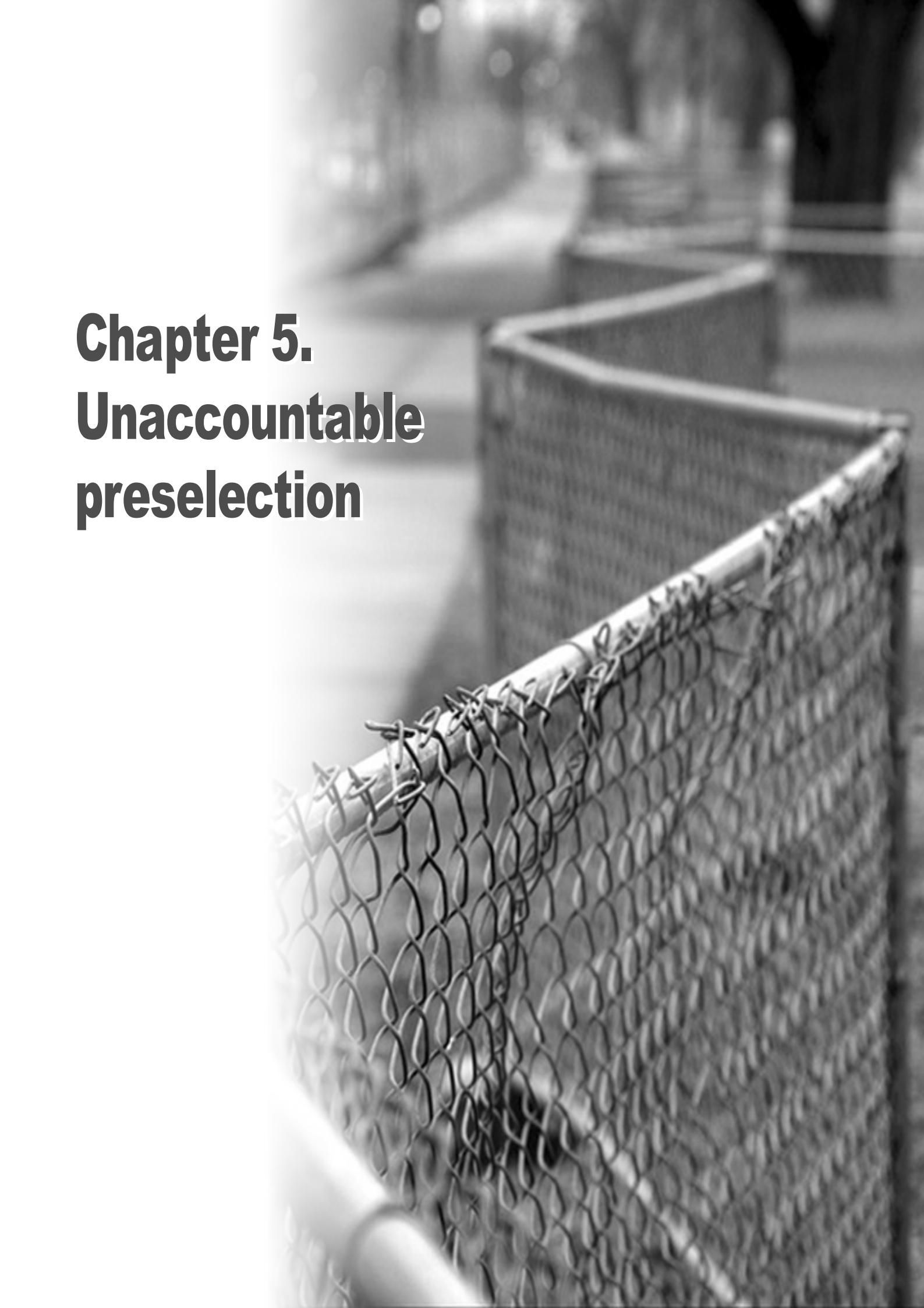
I am very grateful to Bor Cvor for getting me this subsidy. Sure, they keep prices low and they determine them together with Madiarov and Philipopolis, but that is a normal thing to do. I cannot blame Bor Cvor for wanting to make profit. Besides, they got me this 5% subsidy from SAPARD on top of the 32 stotinki I get for a litre of milk, so Bor Cvor is not all too bad. I have my own land on which I grow my own cattle feed and I get this subsidy, So I manage to survive. I have 18 cows, each giving about 20 litres of milk a day, and I intend to buy more. If one has this 5% subsidy, over 10 cows and produces ones own feed, dairy farming becomes profitable, even with the current low prices.

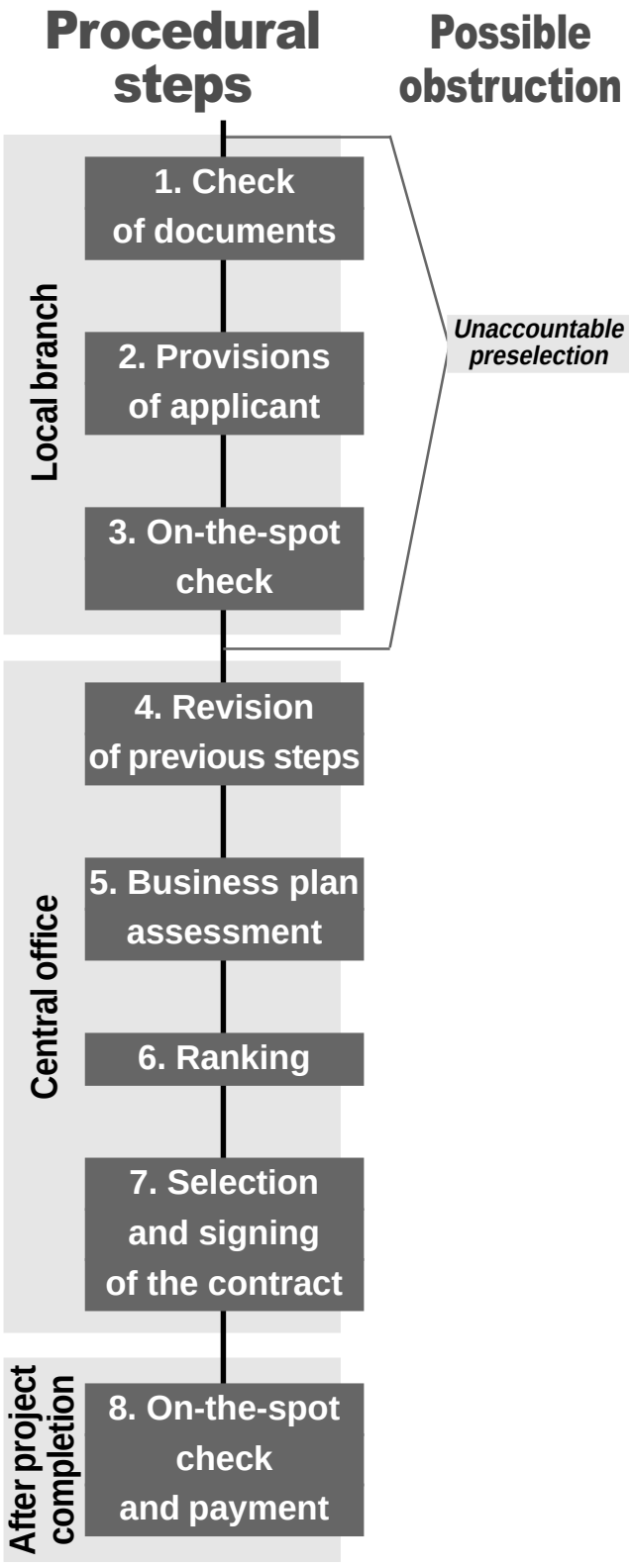
I do not know under which measure I applied, probably the animal measure or something like that. As I said, I just gave my personal information to this SAPARD person and he fixed it all. A legal status of our producer group? As far as I know every one of us gave their information to the SAPARD man individually and then we got the money. What else do I need to know? I am happy with SAPARD, though unfortunately SAPARD has only paid 4 out of 12 months, because they say the budget is finished, that is a bit problematic though. Put that in your report please."

EA Za Zemiata did not manage to get the situation on the Dairy Producer group any clearer, because the members of the group did not know they were taking part in it. When addressing the Agrostatistics directorate of MAF, which is officially represented in the permanent working group of the Monitoring Committee for this measure on July 7th 2007, Za Zemiata is told that "Nobody will ever give you information about producer groups whatsoever" and that information on SAPARD beneficiaries is "confidential". MAF publishes a list of SAPARD beneficiaries on their website (http://www.mzgar.government.bg) which includes the applicants' name, ID-number, measure under which the project is approved and a short description of all approved projects. The confidentiality of the name and legal status of this group is a lie. Still the producer group measure is excluded from all monitoring data and the previously mentioned list of beneficiaries.

It remains unclear for the public how this group was set up or by whom. What is clear is that this project has not succeeded to improve the position of dairy farmers towards their retailers. The opposite is actually true: Bor Cvor is using the extra subsidy to maintain the low milk price. According to the NARDP *"The promotion of producer groups is important for the development of producers' market power and fair pricing…"* and…*"It will help the establishment of stable business contacts between producers and processors, allowing for price predictability and quality improvement."* The situation in Boliartsi does not look like any of this is actually happening. It seems like the "Setting up producer groups"-measure is not able to address the problems of small farm enterprises in less developed areas. **As a whole, Za Zemiata doubts if the SAPARD programme in its current form is able to address the problems of these farms and stop the abandonment of the Bulgarian countryside.**

Chapter 5. Unaccountable preselection





After access to financial means to start a SAPARD project, there are possible bottlenecks in the application procedure. This chapter assesses the possibility of one of these bottlenecks: unaccountable preselection, i.e. the possibility to keep applicants out of the procedure without giving a motivation or based on a unofficial motivation. The question answered in this chapter is: Does it happen that project-applications for SAPARD in Bulgaria are kept out of the selection procedure without a formal motivation, i.e. is there a any unaccountable preselection taking place? This question should be answered in two steps: the first being an evaluation of the possibilities for such preselection, the latter an assessment of how often these possibilities are used.

Possibilities for preselection

In the midterm evaluation report of SAPARD in Bulgaria it is stated that *"At regional level applications are checked for completeness and legitimacy of documentation and provided with an ID number. The applications that have some omissions in documentation are returned without being given an ID number. These applications are registered only in the statistical register of the regional office. The data from this statistical register is apparently not aggregated."*

As statistical information of applications in the statistical register of the regional office does not contain the applicants name or ID number of the application, there is no guarantee that the statistical register of the regional office is representative for the actual

situation. The statistical register of the regional office is not a sufficient basis for an appeal to preselection. **The possibility to reject applications without registration should therefore be regarded present in the regional offices of the SFA.**

Since preselection is not registered, every possible reason is sufficient motivation to withhold projects from entering the application; this includes unwillingness of the applicant to bribe an Agency official. It should be noted that the eligibility is only being assessed by one single person at regional level. The case in chapter 8 describes an applicant who had to pay a bribe of 5% of the total requested subsidy to receive an ID number.

Quantification of preselection

It is extremely hard, if not impossible, to effectively quantify a phenomenon which is happening without being registered. The amount of applications rejected without registration will probably never be quantified. It is possible though to quantify another form of corruption in the same stage: The unjustfully approved applications.

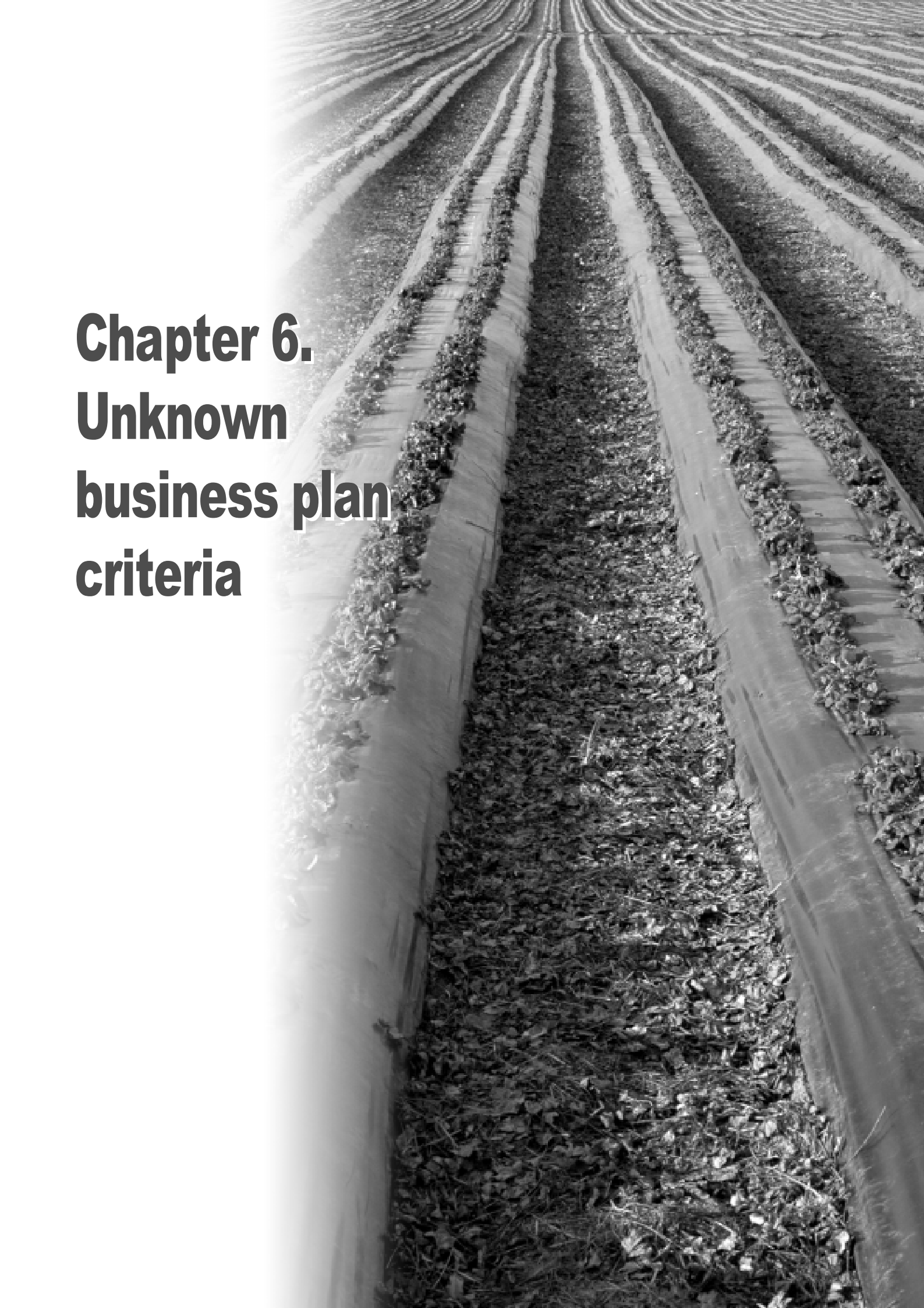
At central level, the steps in the application procedure performed at the local office are repeated. If an applicant bribes his/her way through the local office without meeting the eligibility criteria, it will be stopped at the same check in the central office. This makes it possible to calculate the frequency of unjustfully approved applications at local level. This frequency is used as a measure of corruption in the local office.

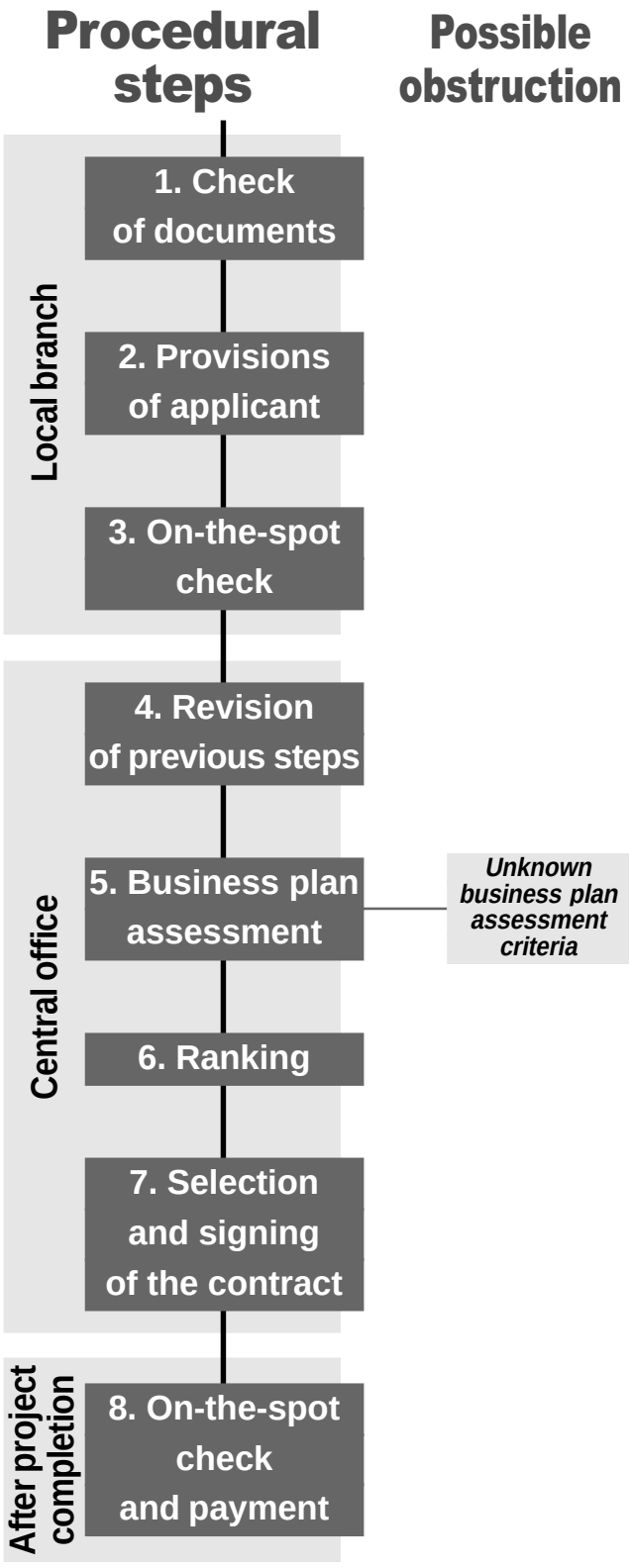
According to an anonymous representative of the SAPARD Agency: *"The central office rejects applications in all steps of the application procedure except ranking in even frequency and no step in the application procedure is the specific bottleneck at central level."* The person did not want to give specific numbers, but explicitly confirmed that the first three steps each are evenly frequent reason for rejection as the business plan assessment (which is the only other step applied in the procedure). According to the SAPARD mid term evaluation, the frequency of rejections based on business plan assessment is 6,8% (Agriconsulting, 2003, page 44).

An estimation of the frequency by which applicants passed the selection procedure at local level for unjust reasons can be obtained by multiplying this number by 3 (for each step at local level repeated at central level) : 6,8% x 3 = 20,4 %. This means that an estimated 20,4% of approved applicants at local level has passed the local stage of the selection procedure based on unjust reasons. If this estimate is appropriate and the Agency representative cited is not lying, **corruption should be seen as a significant factor at local offices of the State Fund Agriculture**.

It would be a great improvement to the transparency of the application procedure if the official data for the monitoring of SAPARD included not only the amount of rejections, but also the stage (central or regional) and reason for rejection.

Chapter 6. Unknown business plan criteria





After an application passes the local office of the Agency, it is sent to the central office in Sofia. Here the first three steps of the application are repeated and the business plan is assessed. This chapter investigates to what extent the business plan criteria are publicly known. It is in the public interest that this procedure is as transparent as possible, since an application is a lot of work and should be effective. Non-eligible projects should not try to apply. On the other hand the design of a business plan should be designed in such a way that eligible projects should easily pass this step, so that the inflow of projects is maximised. This contributes to the impact of the ranking procedure and therefore the quality of the investments.

On the website of MAF the business plan assessment criteria are made public. For the period 2000-2004, the criteria for business plan assessment are based on the Net Present Value (NPV) of a project, Internal Rate of Return (IRR), Profitability Index (PI) and period of debt repayment (see table 2.). After that period the Efficiency Coefficient (EC) was added to the list of criteria. The website of MAF even provides detailed instructions on how to fill in the business plan. (MAF, 2001)

Still all interviewed consultants have stated that the design of a business plan is the hardest step in the application procedure. In November 2000, Prof. Dr. Emil Karailiev (the PHARE project leader responsible for setting up the SAPARD Agency in the State Fund Agriculture) gave a lecture on the economic analysis by the SAPARD Agency. It was targeted at consultants who were to help applicants in applying to SAPARD funding. In this lecture, Karailiev stated that in case *"projects exclude each other, (projects oper-*

Financial indexes	Required norm	Financial indexes calculated by the applicant	Financial indexes calculated by the operational department	Result: is there correspondence with the indexes?
Net Present Value	NPV>0			Yes No
Internal rate of return	IRR=/> 6% (measure 1 and 3)			Yes No
	IRR=/> 9% (measure 2)			Yes No
Profitability index	PI>1			Yes No
Period of return	Maximum 5-10 years			Yes No

Table 2. Business plan assessment criteria for SAPARD for the period 2000-2004. (Karailiev)

ating in the same activity,) the project with the greatest net present value is selected". Nowhere is described when projects are considered to be *"operating in the same activity"*, but there is a clause in the business plan assessment procedure which allows the Agency to reject a business plan when there is a similar project with a higher NPV. When a project is rejected on these grounds, the applicant is of course not allowed to know which other project is selected and what its NPV has been. **Thus, projects can be rejected based on NPV-maximisation in the business plan without a motivation**. It is unclear how often this happens, though Karailiev estimated the frequency of rejection based on this clause high enough to advise the attendants of his lecture to maximise the NPV. According to Karailiev *"investments should be made for projects having shorter economic life"* to maximise the NPV (Karailiev, 2000).

It would have been a bad choice to grant subsidies to projects that are not cost-effective. The selection procedure based on NPV should therefore be regarded as a good choice. To bypass the official priorities on behalf of profit maximisation is a wrong choice to be made. According to EA Za Zemiata and the NARDP, a selection of projects has to be based on the official priorities, not on profit maximisation.

Currently the maximisation of the NPV leads not only to a preference for short living projects and a bottleneck in the inflow of projects, it also works *against* some of the official priorities. For instance the preference for "less developed and mountainous areas" in measure 1.1: A farm in a less developed area, or a mountainous region has an economic handicap that SAPARD is to compensate for. A similar programme in a higher developed region will probably have much more economic potential and probably a higher NPV. In the procedure as described by Karailiev, the project in the highest developed area will be selected. In the procedure described in the NARDP, it would be the other. The same accounts for the preference for smaller scaled projects or for projects adopting veterinary and sanitary standards on a moment when these standards are not (yet) obligatory and costly to implement, including organic agriculture (which officially is to be prioritised).

One can doubt if maximum profit projects as funded under SAPARD in the previously mentioned period would not have been performed without the help of SAPARD. SAPARD is definitely not boosting the segments of the

market with the lowest attractiveness to private investors. There is a strong indication that quite a part of subsidies granted through SAPARD are deadweight investments, which do not make any difference for the restructuring of the rural economy.

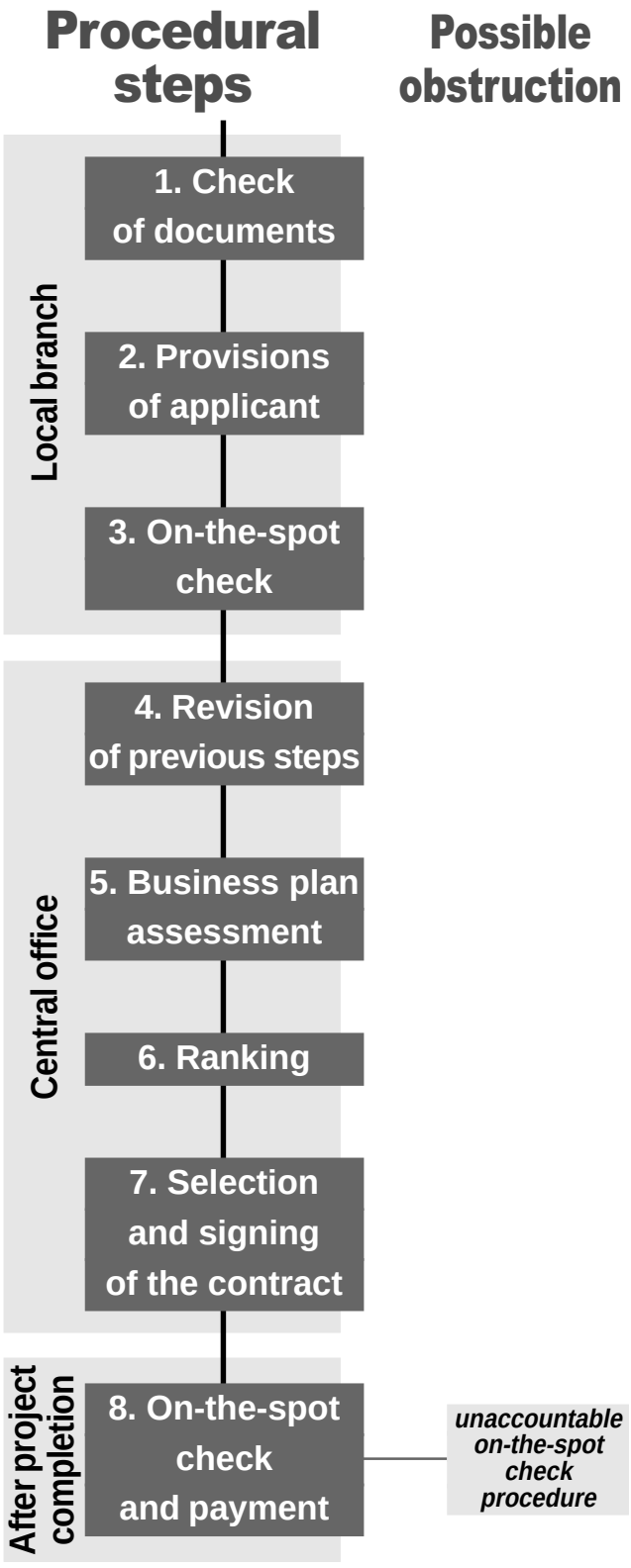
This preference for highly profitable projects together with the lack of access to credit contribute to the expectations of deadweight investment and thus a lack of efficiency in SAPARD.

Changing of the data

And then there is also the possibility that the SAPARD Agency changes the data in the business plan. Some income for instance is considered non-eligible. If a farmer rents out his machinery, the income this generates is not considered eligible and is thus not calculated in the business plan by the Agency. The prices of products can be changed by the Agency as well, leading to a different assessment of the business plan. The standard prices the agency uses in business plan assessment are provided by the System for Agricultural Market Information (SAPI). The database can be found on the internet, though it has never been made public that business plans of SAPARD projects should be based on it. Only a few consultants know, some of which have had to pay for this knowledge. As can be seen in the assessment-table of the business plan, it is not only required to have one's business plan according to the norms set by the Agency, it is also required to calculate them in such a way that they do not defer from the calculation by the Agency. **If an applicant is not aware that an eligible business plan should be based on eligible income (of which the criteria are not made public) and the standard prices of SAPI, his/her application will almost certainly be rejected.** The business plan assessment procedure should be public according to the law (see chapter 2), but in practice some important criteria remain hidden.

Chapter 7. The on-the-spot-check procedure





It is very discouraging for possible applicants to hear that SAPARD might not out their requested grant. Stories of situations like this are present all over Bulgaria. If an applicant has serious ambitions to start a SAPARD project, he/she should be aware of the amount of truth that lies in these stories. When addressing business consultants who help applicants applying for SAPARD, they usually give an indication of the risk of not being paid by SAPARD. The reason for partial or absent subsidies by SAPARD lies in the sanction the Agency lays on a project for not living up to the contract. This sanction is determined on the basis of an on-the-spot check. This chapter evaluates the possibility to manoeuvre in the size of sanctions and proceeds with an estimation of how often severe sanctions occur.

Possibility to sanction

To ensure that approved projects are actually doing what they got accredited for, the SAPARD Agency performs on-the-spot checks. Such a check involves a delegation from the Agency visiting the project on the spot and checking certain criteria. On-the-spot checks are performed three times at minimum per project.

The first check is performed by the local branch of the Agency after the presence of all required documents in the application are checked, as well as the financial provisions of the applicant. During this check the Agency verifies the information of the applicant on the spot. If a farmer for instance writes in his application that he owns 20 cows, this is checked on the spot. It is also being checked that the project for which funding is requested has not yet started, which is a requirement for SAPARD.

After the first check, the application is sent to the central branch of the Agency. At central level, again all documents and financial provision of the applicant are checked, followed by an on-the-spot check which verifies exactly the same criteria as the first check. After this check, the business plan and ranking criteria are assessed respectively and the project is either approved or rejected.

If a project is approved, a contract is signed between the Agency and the Applicant, which forms the basis of the last on-the-spot check. The contract describes the project in detail and includes all investments and on which they are spent. These provisions are checked before the actual payment is made. The Agency comes to check if all investments are made according to contract. If, for instance, a stable is built, it checks if it is built according to the initial building plan, if the right materials are used and if the price of these materials is correct.

In addition to the checks mentioned above, ad interim checks can be performed if there is a reason to believe a project is not executed according to plan. These checks however only occur very sporadically.

In preparation to an on-the-spot check, the Agency designs a checklist. The criteria in this list are not known to the applicant beforehand. For the last check before payment, the criteria are based on the contract between applicant and Agency. After the Agency has visited the project on the spot and checked all criteria on the list, the checklist has to be signed by the applicant, to make sure that he/she agrees with the observations. Based on these observations the check is then assessed at the central branch of the Agency. The Agency only provides a grant for those criteria which are in compliance with the plan and thus approved in the on-the-spot check. Each criterion is given a percentage of the total sum, based on the budget the applicant filed in the application.

As the Applicant has no right to actually have a copy of the document he/she signed, the assessed on-the-spot check report looks like the applicant has signed it with his/her approval. In fact he/she does not know the outcome until the final payment is made. An applicant has no right to know what the reason for a sanction is. The Agency might tell him/her what he/she has done wrong, but it also might not. **It is also unknown to the applicant how severe a checked criterion weighs.** When the applicant has failed, for example, to install a socket in a wall, he might be sanctioned for the price of one socket, but also for the price of the entire electricity network of the building.

Eligibility criteria verified by third institutions, such as certification for organic agriculture or environmental and hygiene standards are checked by the Agency only in the availability of documentation by certifying bodies. **On-the-spot checks have no additional value in giving a guarantee that environmental or hygiene standards are implemented, the national certification system either suffices or it does not**.

The current implementation of on-the-spot checks manages to establish a fair bit of fear within the beneficiary, but there is no way suggested by which the applicant can make sure he/she does his/her work correctly. The correcting impact of on the spot checks should therefore be regarded as minimal.

On-the-spot checks do not take into account the possibility of objective changes in the period between the beginning and completion of a project that requires the applicant to deviate from the initial plan. A certain building material might no longer be in stock, or prices might change. Certain models of furniture might no longer be available and the applicant might be forced to buy another type. In these cases an applicant gets sanctioned without being to blame for not living up to the contract. This **particularly harms projects that involve construction work**, as SAPARD sanctions the applicant for price changes the building company uses. Construction work is especially necessary in the meat and dairy

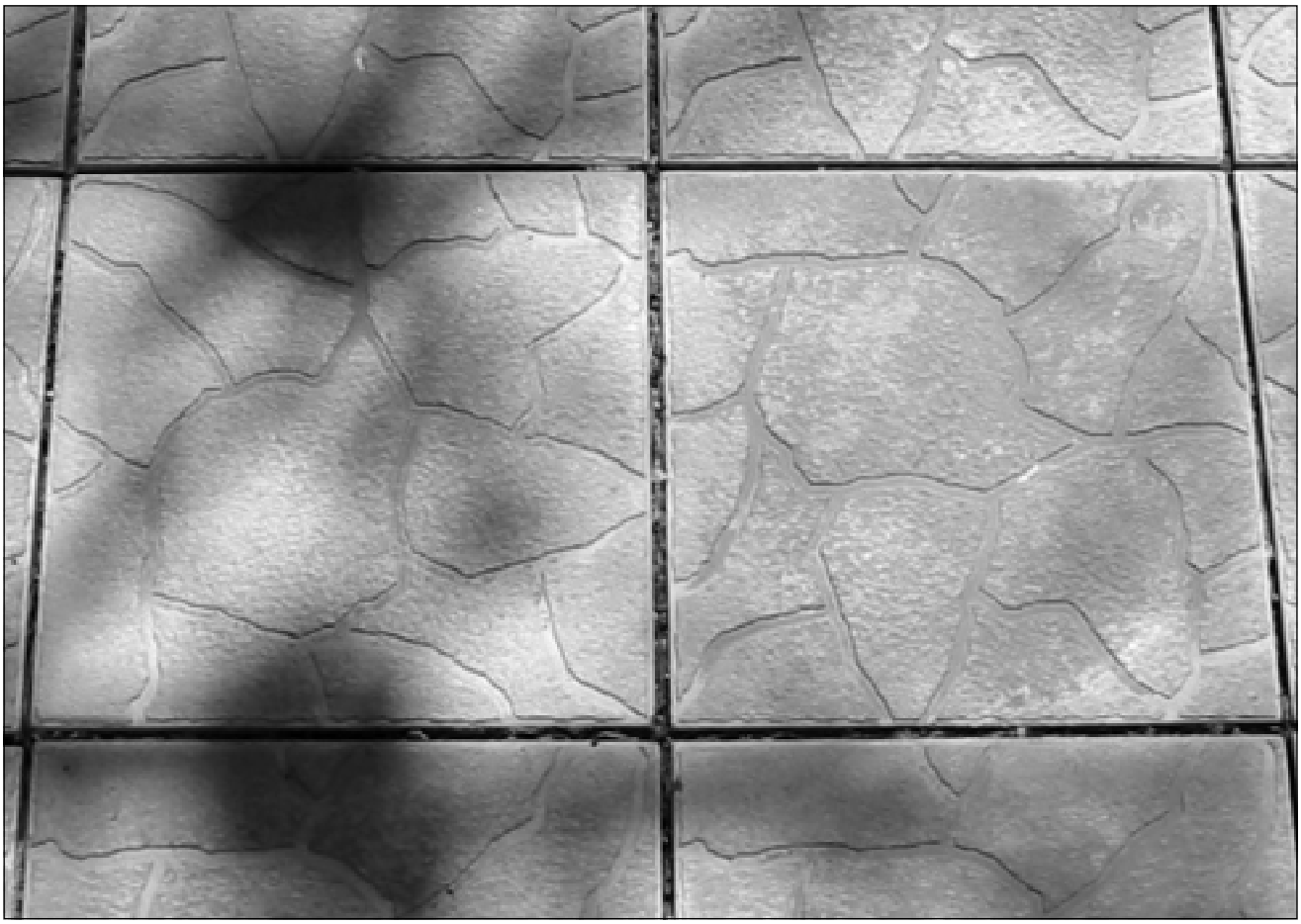
sector, where stables and other buildings need restructuring to EU standards.

It is understandable that on-the-spot checks inflict a lot of fear in applicants and are cause of much frustration. **Some daring applicants who feel mistreated by a check have tried to appeal to the Agency, but always without result**. The Agency claims that there is an appeal procedure. This procedure requires a complaint letter to the deputy director of the Agency who is to arrange a second check, but it also happens that applicants are directed to court to appeal. A case study about such a procedure is presented below.

The case of the orange tiles

The Applicant in this case wishes to remain anonymous, though could be addressed through mediation of EA Za Zemiata. The reason for the applicant's wish for anonymity lies in the fact that by contract, all correspondence between him and the Agency is of a confidential nature. The applicant believes the Agency could use the conversation with EA Za Zemiata in court, though still wishes to address the case to the public, since the applicant believes the Agency has been unfair.

"My project considers a hotel in a rural area. It is in a region with quite high tourist potential. I am very happy with this project, since it is quite profitable. What I am not so happy about is the way I was treated by SAPARD. They do not work as I would have expected from a development programme. Actually their way of working mostly reminds me of the Komsomol (-the youth organisation of the Bulgarian communist party, Z.Z.-).



Although these tiles may seem innocently grey on this picture, we can assure you that in real life they are not.

The first thing that is extremely wrong to begin with is that because I have to motivate every expenditure above 10.000 euro by contract, I cannot sanction my construction company. Every building contract has sanctions in it in case the construction company doesn't live up to its contractual obligations. For SAPARD this is not allowed. When (not "if") the construction company doesn't do what it is supposed to based on the contract, it is me who gets the blame. In my case the construction company kept on raising prices of building materials, some of which I could buy at the shop around the corner for half their price, and there was nothing I could do about it. The construction company delayed the building process several times, and I had to pay them extra to speed up the process to keep to my contractual time frame with SAPARD.

This brings me a second flaw in SAPARD: the time frame. Because of fluctuations prices and availability of materials, changes in building plans are unavoidable. Whenever I want to make a change in my building plan I should report it to SAPARD though. That is something I consider as normal and fair, since I am under contract with them and they do not give me money for nothing. To get such a change approved however takes more than a month, in which I have to stop all building activities. I cannot afford such a delay, since SAPARD wants me to keep to the time frame.

Have a look at these tiles for instance (see picture), in the original contract with SAPARD they are supposed to be grey. As you can see, they turned out to be orange. What you cannot see, but what I can tell you, is that they are 45x45cm and not 35x35. When the construction company tried to rip me off once again by doubling the price for the grey tiles, I told them I wanted to deviate from the contract and have the orange ones. Because they did not expect me to deviate from the contract, the orange tiles the company offered were cheaper, and they look nicer than grey. Still the orange tiles were more expensive than the grey tiles in the original building contract. The SAPARD Agency did not want to pay for the more expensive orange tiles, so I told them that they could pay for the original grey ones, and I would take the difference in price of these tiles for my own account. They did not consider this offer acceptable, and they chose to pay nothing at all for the entire terrace.

The check

For the final on-the-spot check I was visited by two people, a boy and a girl. The boy did all the talking, the girl was just there to hold the other end of the measuring tape. They measured everything, the length of the curtains, the size of the reception desk, the surface of all rooms, the height of ceilings, the distance of power sockets to the doors, everything. In the end I had to sign a document that actually said nothing. I asked these people what it meant and how much I would be sanctioned for, but they said they did not know. They claimed that other people would assess the check in Sofia, and then my sanction would be decided. Later I found out it was exactly the same people who decided my sanction on a document I already signed. I regret I ever signed the document and it was naive of me to trust them.

I got sanctioned for my terrace, but also for the size of my curtains. In the original contract I planned two curtains of 75 centimetres, but it turned out to be one of 1,50 meters. I did not think they would mind, as it is the same surface, but they did. And so they found a lot of

excuses, actually enough to sanction me for 40% of my entire budget. A 40% sanction means that I did not do what I promised in the initial contract, and I believe I did.

The normal thing to do in such a case is that one tries to appeal to the check, which I did. I requested a new check at the deputy director of SAPARD. That is the official procedure by which a check is appealed to, by requesting a new check. The deputy director however did not believe it was necessary to stick to the official procedure and told me “we are right, and you are wrong.” So no new check for me. After all, my signature was already on the check-report.

If I was to do this project over, I would hire my brother as a construction company, and let him outsource the building activities according to normal building contracts which are allowed to include sanctions. Such a legal construction is however so ridiculous that I did not imagine it necessary when I designed my project application. Actually I would not deal with SAPARD again, I gained nothing from it. The big beneficiary of SAPARD is the construction company, what is left for me is a big pile of paperwork and a hangover.

Though this case describes a fairly severe case of misuse of an on-the-spot check, it is no isolated case if one takes a closer look at the data presented to the SAPARD Monitoring Committee and uses them to estimate the average sanction of a SAPARD project:

The average sanction

The Monitoring data mention the total amount of subsidy requested by the approved projects up till that moment as well as the number of approved projects. The amount of completed projects and the total amount of co-financing paid to these projects are also mentioned.

This makes it possible to calculate an average requested budget per project by dividing the total requested subsidy per measure by the amount of approved projects in that measure:

$$\mu_{requested} = 1/N_{applications} \sum(\text{requested subsidies})$$

$\mu_{requested}$ = the average requested subsidy
$N_{applications}$ = the amount of approved applications

Both $N_{applications}$ and $\sum$(requested subsidies) are mentioned in the official Monitoring data.

The average awarded subsidy can be calculated by dividing the sum of awarded subsidies by the amount of completed projects:

$$\mu_{awarded} = 1/N_{completed} \sum(\text{awarded subsidies})$$

$\mu_{awarded}$ = the average awarded subsidy
$N_{completed}$ = the amount of completed projects

Now the average requested and awarded subsidies can be used to estimate of the average sanction. This is done by subtracting the average awarded subsidy from the average requested and dividing that again by the total amount of requested subsidies:

$$\mu_{sanction} = \frac{(\mu_{requested} - \mu_{awarded})}{\mu_{requested}} \times 100\%$$

$\mu_{awarded}$ = the average awarded subsidy
$\mu_{requested}$ = the average requested subsidy
$\mu_{sanction}$ = the average sanction

Note this is an estimate since the amount of approved projects is not the same as the amount of completed projects. The assumption that this estimate is representative for the actual average sanction is based on the as-

sumption that the completed and approved projects in the observed period are not significantly different. The latter assumption gets more probable as the period over which the sample is taken increases and relatively more approved projects get completed. It is for that reason that the calculated average sanctions below are based on the most recent data available at the time this report was written, i.e. the monitoring data for the 9th Monitoring Committee meeting which was held on June 21st and 22nd, 2005.

For measure 1: Investment in agricultural holdings $\mu_{sanction}$= 26.49%

For measure 2: Improving processing and marketing of agricultural and fishery products $\mu_{sanction}$= 18.48%

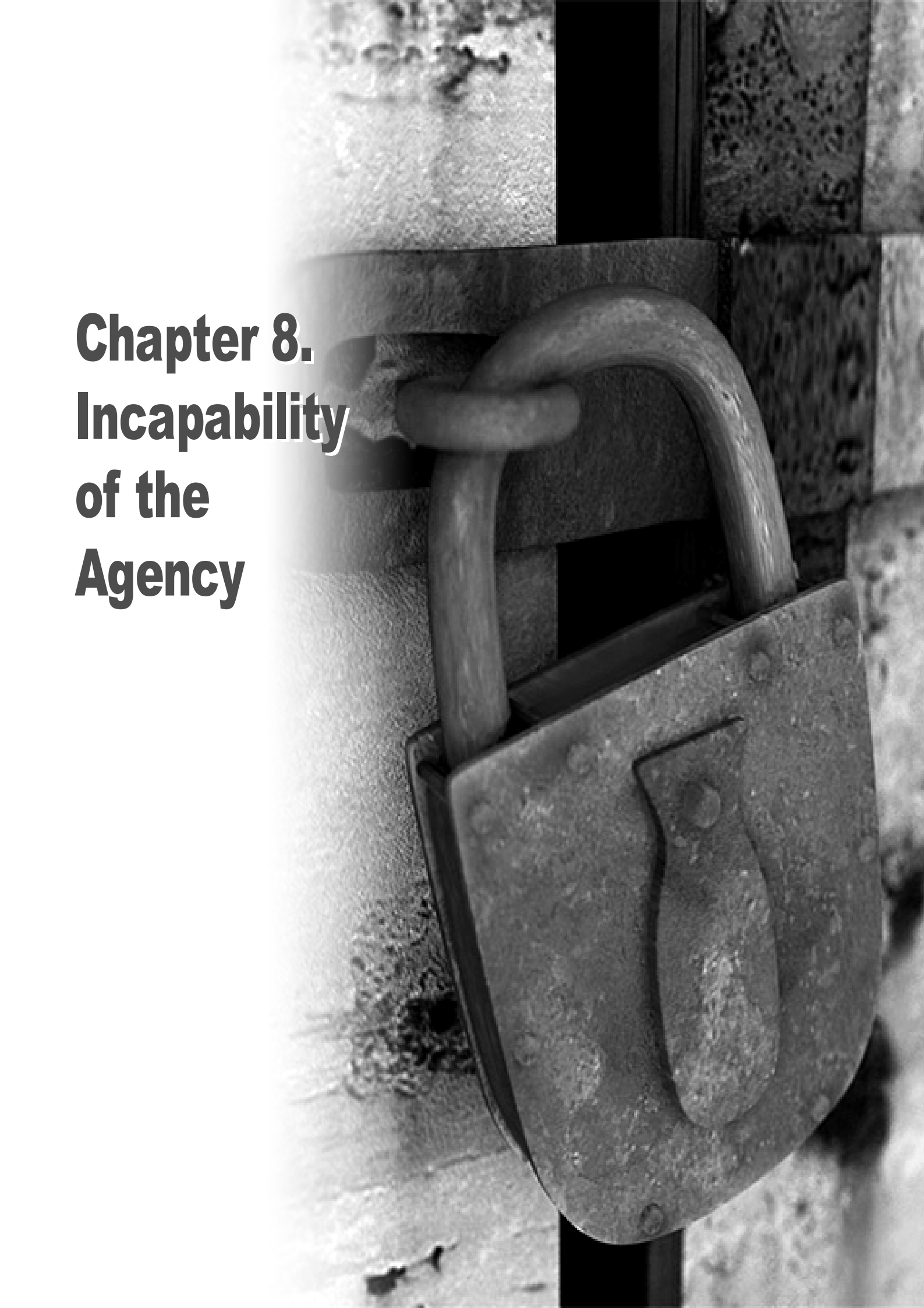
For measure 3: Development and diversification of economic activities, providing for multiple activities and alternative income $\mu_{sanction}$= 19.19%

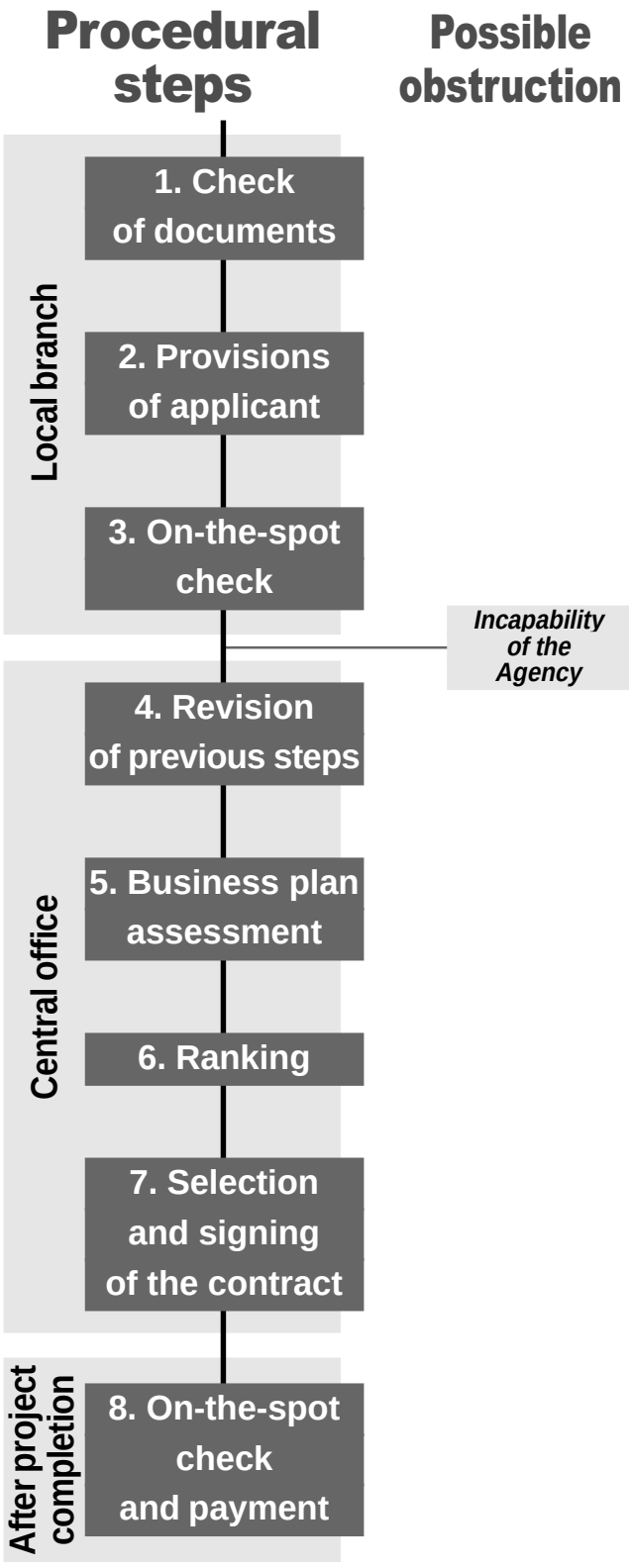
For the other measures the amount of data was considered insufficient, though for all SAPARD projects in all measures together $\mu_{sanction}$= 23.29%.

Please take into account that projects which would be sanctioned for more than 50% are not subsidised at all, and thus are not included in the list of completed projects. **The actual average sanction is therefore likely to be higher than the estimation**.

This means that the average SAPARD project gets sanctioned for 23.29% of its requested subsidy, i.e. that the SAPARD Agency believes that an average project does not live up to 23.29% of its contract. This either says something about the whole of the applicants respect to their contracts with the Agency or the way these contracts are enforced by that Agency. Za Zemiata believes the latter. **It is very likely that SAPARD applicants are being extorted en masse by the Agency.**

Chapter 8. Incapability of the Agency





Another possible bottleneck in the inflow of projects is an administrative incapability of the SAPARD Agency to process applications. In such a case, the procedure just halts somewhere between the filing and approval/rejection of the application. The purpose of this chapter is to investigate if there are cases of such administrative incapability. It turns out that about 180 projects in an entire measure are stuck in their application procedure.

On March 16th 2004, Measure 2.1 "Development and Diversification of Economic Activities, Provision for Multiple Activities and Alternative Income" was halted. The direct lead to this halt was the conclusion of the Mid-Term Evaluation of SAPARD that this measure "cannot be considered a strategy for addressing the employment problems of small farmers in rural areas." The report states that within the "Rural tourism" submeasure, only 8% of the beneficiaries are agricultural producers, the rest being already specialised in tourism. For the sub-measure "Timber sawing, carpentry and bio-fuels", 90% of the beneficiaries were wood processing companies. Though according to the eligibility criteria beneficiaries should be farmers diversifying their income, though in practice this criterion can be easily evaded by registering as a farmer in MAF. The extremely broad eligibility criteria have also lead to the building of hotels on the Black Sea coast (which is everything but rural) or in the Ski resorts of Bansko and Borovetz, which were already highly developed tourist destinations. The indication of deadweight was so high that the measure was frozen by the Commission until it would be redesigned. (Agriconsulting, 2003. pg. 36)

Unfortunately, by that time about 180 applications were waiting for approval. As one owner of a SAPARD funded hotel in Ravda on the Black Sea coast put it, "what kind of person would I be to reject such an opportunity?" According to the rules of procedure, the Agency is obliged to reply with an "approved" or a "rejected" within a period of three months, the period between two application-sessions. Unfortunately, above-mentioned applicants are still waiting at the moment this eport is written (June 2005) and the Agency does what it does best: remain silent. The pending applicants cannot start their projects, since SAPARD cannot approve of a project that has already started, and while they are waiting, they are making losses. **In measure 2.1, SAPARD does not stimulate the development of the rural economy, but discourages it and inflicts losses on the applicants it is targeted at.** It is unclear if these projects will be assessed under the measure that they applied for (i.e. the old, broad and ineffective measure) or the new one (of which they might meet the eligibility criteria by coincidence).

Now why doesn't SAPARD apply the ranking criteria here to select the best out of the pending 200 projects for this session and the small remaining budget? After all, that was what this ranking procedure was meant for: situations of money shortage and quality maximisation. The question answers itself when one takes a look at the ranking criteria for this measure (see table 3).

First of all, there is only 4 ranking criteria, each of which delivers 25 ranking points. The first and the third ranking criterion, "local traditions, heritage and environment" and "local people" respectively, are so easy to achieve that probably every applicant meets them. The certification for organic production on the other hand is a criterion that probably hardly any applicant meets, if one considers that of all approved applicants, only 8% are agricultural

	Criteria	Indicator	Score	Max. core
1.	Preservation of local traditions, heritage, and environment	The project aims to: 1.Restore of local architectural heritage,or 2. Revival of traditional handcrafts and folklore activities, or 3. Recovering production of local products, or 4. Improvement of environment, or 5. Preserving and studying wild flora and fauna	If "yes" score 25 if "no" score 0	**25**
2.	Location of the project in less developed rural areas or in mountainous areas of rural municipalities	Is the proposed investment located in the less developed rural areas or in mountainous areas of rural municipalities	If "yes" score 25 if "no" score 0	**25**
3.	Project proposed by local people	Is the project proposed by a physical person, resident in the municipality for at least 3 years or a company registered in the municipality and active for the last 3 years	If "yes" score 25 if "no" score 0	**25**
4.	Organic production	The applicant possesses a certificate for organic production, issued by a Certifying body that is recognised in the EU	If "yes" score 25 if "no" score 0	**25**
	Total			**100**

Table 3. Ranking criteria for SAPARD Measure 2.1 "Development and Diversification of Economic Activities, Provision for Multiple Activities and Alternative Income". Source: NARDP

producers. That leaves only the project location as a serious ranking criterion. One of the interviewed consultants expected that if the Agency would solely use the ranking procedure for selecting the top layer of all pending projects, the eventual co-financing would probably account for 5% of the total project budget. **The ranking procedure in Measure 2.1 is not suitable for selecting the highest quality projects.** This raises serious doubts if the ranking system is suited to select the highest quality projects at all.

To illustrate what this institutional malpractice actually means for the kind of projects the measure is designed for, a case study is included below.

The Chorbadjia Hotel

In order not to endanger the project application, which is officially still waiting for approval, the author has chosen not to reveal the identity of the applicant. The applicant can be contacted though through mediation of Za Zemiata.

The project described here aims to restore an old mansion of a „chorbadjía", a rich Bulgarian „patron" in the Ottoman Empire, which unfortunately was destroyed in a fire. The site is located in a village that as a whole has been given the status of historical and architectural monument. The applicant is planning to use the mansion as a Hotel. The project fits 3 out of 4 ranking criteria and is very important for the development of the region. Tourism is the main source of income for the village, and the restoration of the mansion increases this potential.

Applicant:"I filed my application on March 16th 2004 at the local department of the State Fund Agriculture. We received our ID-number, passed the first on-the-spot check and our application was sent to the central department in Sofia. Since then we haven't heard anything. After the maximum waiting period of 3 months passed, my wife called to the local department of the Agency. She was told that our application was in the central department, and that we should call them. When we called the central Agency, we were treated very rude: We were told that it was not appropriate for the central department to give information to applicants and that if there wás any information, it would reach us through the local department. Since the local department did not know anything, we waited another month, after which my wife called the central Agency again. This time she was told she was not allowed to even know the phone-number of the Agency and that another breach of this confidentiality would have sanctions. We haven't called again since, as we do not want to risk our project. I did not expect this kind of attitude from a European Institution. I wonder what our continent is going to: Is Bulgaria adopting the working attitude of the EU, or is the EU adopting the attitude of Bulgaria?

We have been following the news, and also we have heard that the measure has been halted because of the misspendings on the Black Sea coast and the ski-resorts. As we speak now (5th of June, 2005- Z.Z.), the new regime for rural tourism has been ratified by the national parliament already three times and the annual financing agreement has been signed, but we still have no news.

I am sure that of the 180 projects waiting now, at maximum 10 will actually do what the measure is designed for. I am one of these 10, but I cannot do anything with my project now. If we would have started without SAPARD, our project could have been halfway finished now, but we need SAPARD to complete the budget. Up till now I have invested about 40.000 leva in

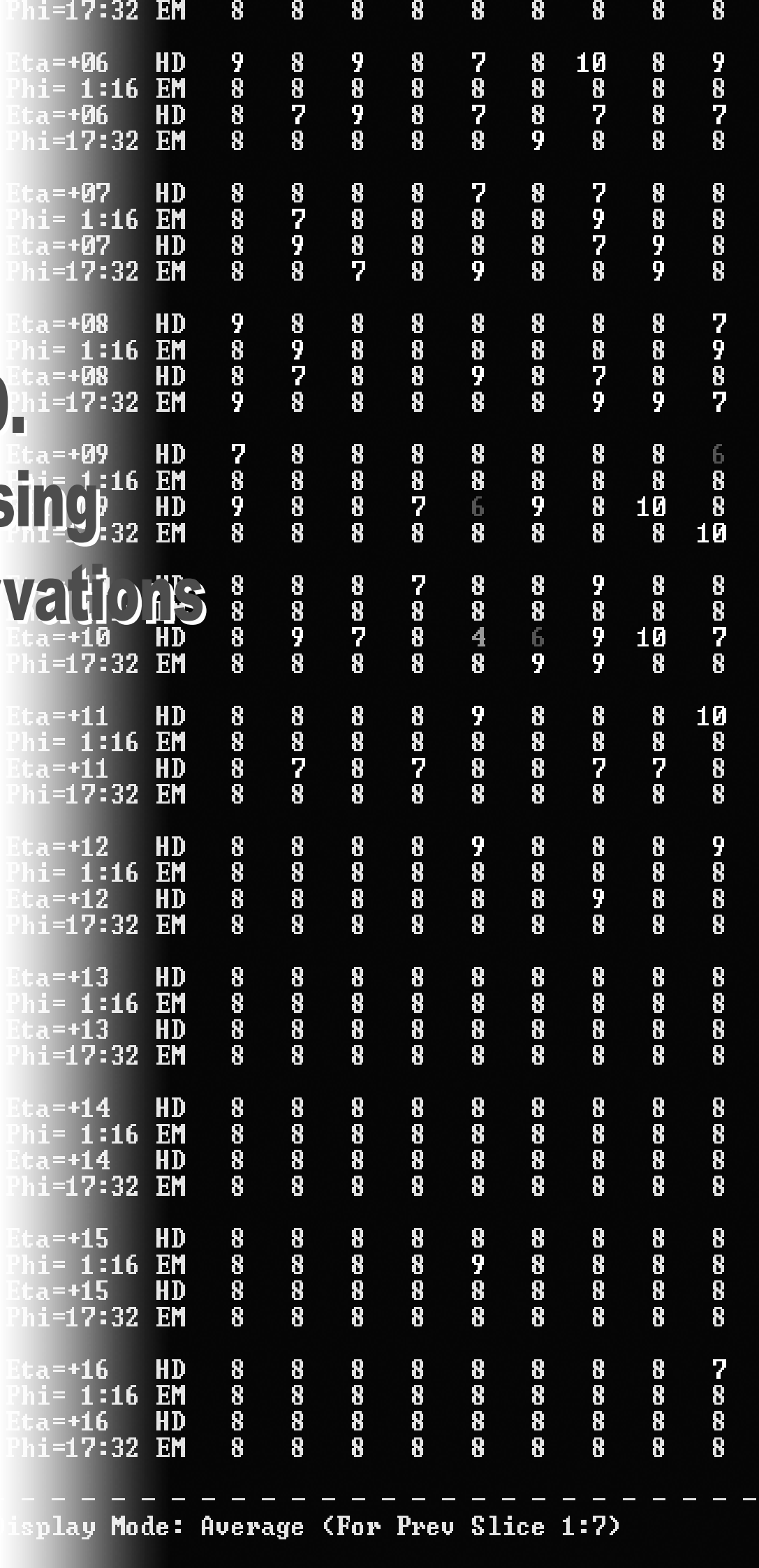
this project, of which 24.000 is the 5% consultancy fee, and we haven't even started yet.

The amount of co-financing I would get is decreasing, as prices of building materials have risen dramatically in the past one-and-a-half year, some even have doubled. An actualisation of my construction budget will again cost me a lot of money. I would consider it fair if the Agency would pay for these costs, but as this is Bulgaria, I expect I will turn up for the costs again.

In the entire procedure of application, the problem is a lack of access to information. The official procedure is not applied at all. There's the 3 months waiting period that is not respected and there is corruption in every step in the procedure. I had to pay a 5% commission to get my application sent to the central department of the Agency that I did not anticipate in the beginning. My application still has not passed so I expect even more unforeseen costs. I wonder how much money will be left for me in the end.

I think this practice is a shame. It is also a waste of the tourist potential of the region, which really deserves its monumental status. I believe it is an important location for the whole of Europe. This village has played a very important role in the war against the Ottoman Empire; people have fought here for their European identity. My village is an important monument of European culture.

Chapter 9. Summarising the observations



In chapter 2 the central question of this research was already answered by concluding that the application procedure does not favour projects that contribute to the priorities in the NARDP. Any contribution of selected projects applying in the period 2000-2004 to the priorities of SAPARD is based on coincidence. The reason for not applying this procedure, which is to maximise a projects contribution to the official priorities, is a lack of inflow of applications or a budget surplus.

The following bottlenecks were observed in the application procedure, leading to a lower inflow of applications:

1. Lack of access to credit: This problem has been acknowledged ever since the programme started in 2001, though up till now without yielding any solution.

2. Unaccountable preselection: This was found in the local branches of the Agency. It has happened that applicants had to pay a “commission” for an ID-number, to pass the local Agency and send their application to the central branch in Sofia. Corruption should be seen as a significant factor at local offices of the State Fund Agriculture.

3. Unknown business plan criteria: The details of business plan assessment are not clearly defined, and there is a clause which allows the Agency to reject a business plan if another application is found more profitable. If an applicant is not aware that an eligible business plan should be based on eligible income (of which the criteria are not made public) and the standard prices of SAPI, his/her application will almost certainly be rejected.

4. Unaccountable and untransparent on-the-spot check procedure: It is very likely that SAPARD applicants are being extorted en masse by civil servants performing on-the-spot checks. As the Applicant has no right to actually have a copy of the document he/she signed, the assessed on-the-spot check report looks like the applicant has signed it with his/her approval. In fact he/she does not know the outcome until the final payment is made. It is also unknown to the applicant how severe a checked criterion weighs. Especially in building projects, this results in a situation in which blackmail by construction companies is more rule than exception. The fact that applicants have to sign a half filled in document that will later become the check report without receiving a copy fails every standard of good administrative practice. This is not directly a bottleneck in the inflow of projects, but it works discouraging for potential applicants who are investigating their possibilities to receive aid through SAPARD.

5. Incapability of the Agency: this is observed in the rural tourism measure. Currently there are about 180 projects waiting for approval for more than 1 year. As nobody accepts responsibility for this malpractice, nothing happens, the situation worsens and development is obstructed. The Agency addresses this problem in a way that is at least unprofessional.

For the budget surplus only one cause is observed: the refusal to implement a maximum amount of measures at the same time. For Za Zemiata it is quite bitter that the business-focused measures (1.1, 1.2 and 2.1) are implemented instantly, while the agri-environmental measure is delayed by 5 years (out of 7) and the other measures are delayed by 4 years. The budget surplus could not change anything about this. This underlines the incompetence of the Monitoring Committee in properly managing the implementation of SAPARD.

This study is to assess the quality of SAPARD in Bulgaria. From the data gathered for answering the central question can be concluded that some bottlenecks in the application procedure actually make a selection against projects that meet the official priorities. These are:

1. Profit maximisation in business plan assessment: favouring projects in higher developed regions, larger scaled projects, Projects applying the lowest allowed environmental and hygiene standards, which are not the organic producers SAPARD is to prioritise.

2. The on-the-spot check procedure penalises construction projects. Especially in the meat and dairy sector a lot of the necessary reforms involve construction work. Initially in measure 1.1 these sectors were considered of such importance that 50 out of a maximum 100 ranking points would be awarded to these projects. The low inflow of applications for the meat and dairy sector in the period 2000-2004 has been so problematic that measure 1.1 has been reformed in such a way that only these sectors are eligible.

3. General lack of access to credit for native and small companies, which leads to a preference for western transnational companies and larger companies.

In the current distribution of the annual budget over the different sessions of SAPARD, the ranking system can only be applied in one of the four annual sessions of the Agency. For measure 2.1 “Development and Diversification of Economic Activities, Provision for Multiple Activities and Alternative Income” the ranking system is unsuited at all to select projects along the priorities of the NARDP. **In its current form, the ranking system cannot be taken seriously as a mechanism to select high quality projects.**

The Commission now seems to take the stance that SAPARD has managed to set up a capable institutional body able to process the subsidies from “Brussels”. In assuming this stance, it makes a division between the institutional capacity of the SAPARD Agency and the quality of the investments it has made. In addition it ignores the fact that in order for MAFA to be signed the NARDP needed to be approved by the Commission. This fact makes the design and implementation of the NARDP an important basis for MAFA.

The division between the capability of a distributing body and the quality of the investments made by this Agency should thus be regarded as artificial. An institution that cannot do what it is meant for cannot base its legitimacy solely on the fact that it exists. If the current SAPARD Agency is not able to distribute its funds according to its own plans, **there is no indication that Bulgaria will be able to handle the funding through the CAP after accession in a way that can be called effective**.

The rural tourism affair, the mismanagement of on-the-spot checks and the general lack of transparency and accountability within the SAPARD Agency are sad examples of the complete inability of SAPARD to meet its own minimal objectives and legal standards. **The NARDP should be implemented fully and modifications of the plan should be implemented by the**

SAPARD Agency. The Commission should monitor the implementation of the NARDP and verify this is done properly. If the Commission believes MAFA does not provide sufficient means to supervise the implementation of the NARDP, future financing agreements between candidate member states and the Commission should make a clearer reference to the National Plan.

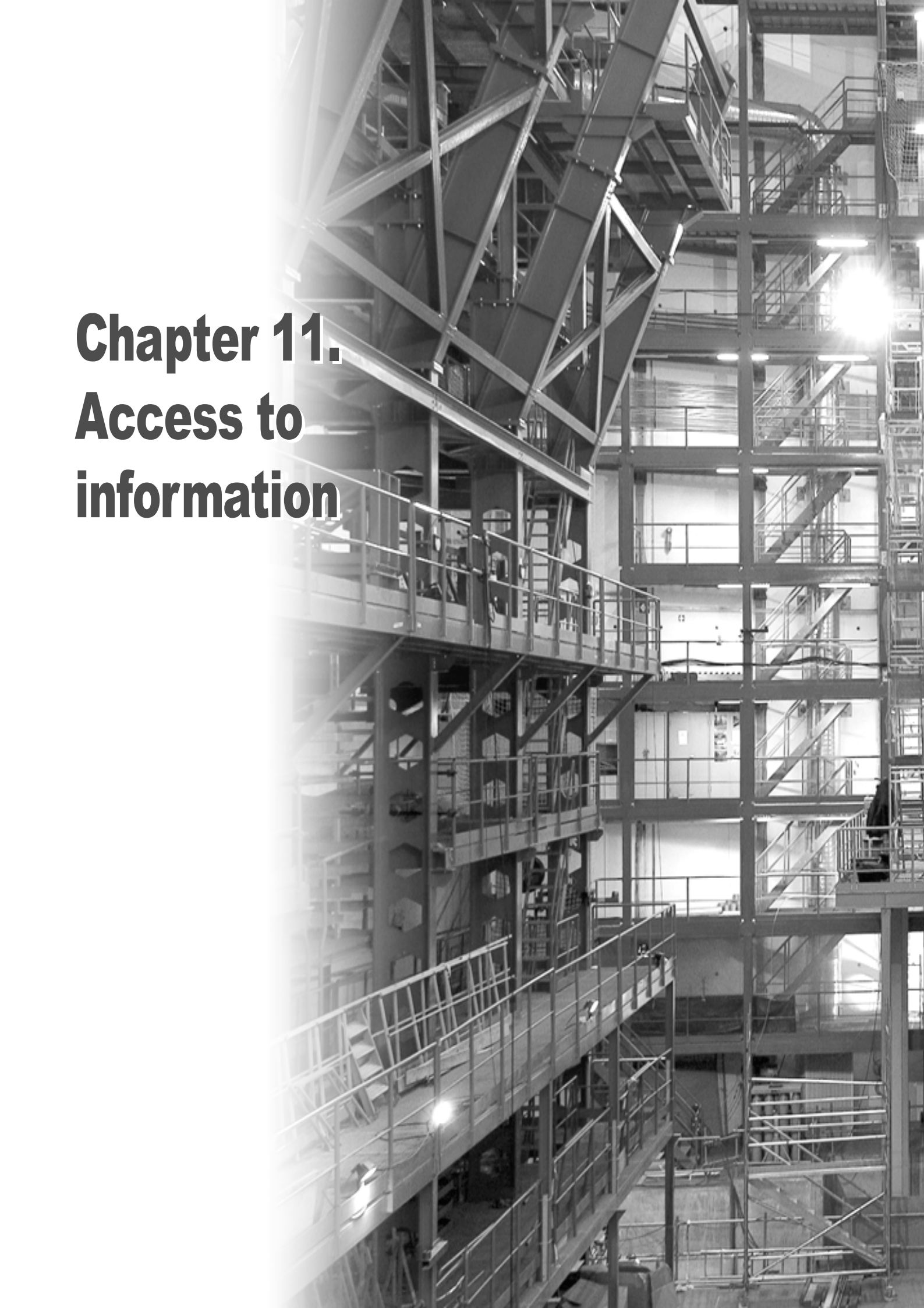
Chapter 10. The Monitoring Committee



The institutional body which certifies the Agency achieves the objectives of the NARDP is the SAPARD Monitoring Committee. In practice it cannot properly perform this task. Up till the seventh meeting of the Monitoring Committee in June 2005, Monitoring Committee members have been opting for shifts in ranking weight of different criteria. This indicates **that the Monitoring Committee was unaware of the fact that the Agency does not apply this system at all**. (SAPARD Monitoring Committee, minutes of the seventh meeting, 2004). Especially in the beginning of the programme most non-governmental participants in this Committee were not fully trained and their task was unclear. This has lead to errors in the implementation of different measures and a lack of manoeuvrability of the Monitoring Committee in later stages. If the Commission decides to use the structures of SAPARD in other candidate countries in the future, it is advisable that **all members of that Monitoring Committee should receive the same training and are made aware of the exact mandate of the Monitoring Committee in advance.**

Another problem of the Monitoring Committee is the lack of information it is provided with. Indicators of a qualitative nature are absent in the monitoring data, although they are to be provided by the Agency. (Council Regulation (EC) no 1260/1999 art 36). **The information provided to the Monitoring Committee should cover all Monitoring indicators in the NARDP.** It would also be a great improvement to the general transparency of the application procedure if **the information provided to the Monitoring Committee of SAPARD should include not only the amount of rejections, but also the stage (central or regional) and reason for rejection.**

Chapter 11. Access to information



It is not only the Monitoring Committee that is denied information. It is observed that the SAPARD Agency structurally ignores its obligations in the field of transparency. Requests for access to information that are based on the Access to Public Information Act are structurally ignored. According to the law and practical necessity **the entire rules of procedure of the SAPARD Agency should be made public**. **Legislation on transparency should be implemented.** In the current state, these laws are structurally violated by the Agency.

Access to public information in Bulgaria is granted by the 1991 Constitution and the Access to Public Information Act (APIA) (Access to Public Information Act). Article 41 of the Constitution states that:

"Everyone has the right to seek, receive and disseminate information. The implementation of this right cannot be against the rights and good name of other citizens, against national security, public order, public health and moral."

The APIA regulates the procedure according to which access to information is requested and provided. According to the APIA access to information can be requested in a written as well as an oral form. In practice, written requests are easier to appeal to. The APIA obliges state authorities to respond to such a request within 14 days. The only legitimate reason for state authorities to deny a request for access to information is the confidentiality of the information. When the requested information is partially confidential, the state authority is still obliged to provide access to that part of the requested information that is not confidential.

In addition, the Bulgarian Regional Development Law states on development projects specifically that:

"The strategies, plans and programmes, as well as the documents, related to the actions of the respective bodies for their creation, approval, adoption, implementation, control and assessment, are official public information." (art. 38 lid 1)

and:

"The bodies implementing actions within the competence, provided to them under this law and the regulations for its implementation, are obligated to inform the public in an appropriate and timely way on the character and the essence of these actions, on the necessity and the potential benefits from their implementation, on the consequences from them, and on the achieved results."

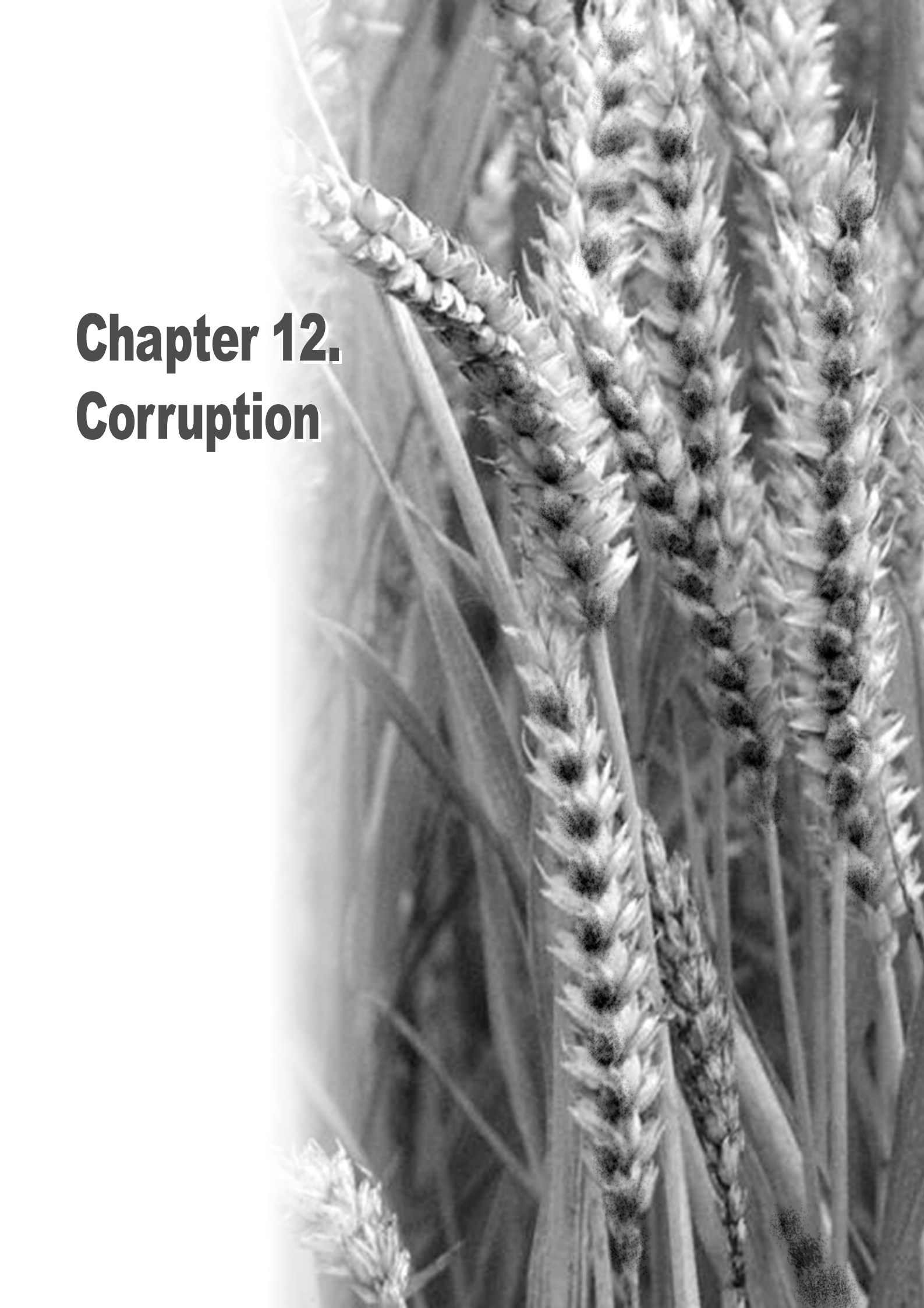
As already mentioned in chapter 2, the SAPARD Agency structurally ignores in practice every request for access based on the APIA. In 2002 received the "Golden Padlock Award" for not having answered any single request for access to information

Based on the APIA since the implementation. The Bulgarian "Access to Information Programme", which organises the annual award-ceremony on International Right to Know-day (28 September) has considered granting the same award to the State Fund Agriculture for each year since, but decided not to because they thought the State Fund Agriculture wouldn't listen any-

way. In 2004, EA Za Zemiata filed two access to information requests. The first one, access to information request 21/2005 on March 10th, requested a description of "the exact procedure through which the ranking points awarded to an applying project are used in project selection for SAPARD funding". The second, access to information request 23/2005 on May 31st, asked to receive the protocol for the design of on-the-spot-checks and a copy of the blank form on which check indicators are assessed on the spot by the Agency. None of these requests were answered or rejected with any motivation at all. Currently EA Za Zemiata is in a court case against the Agency. It is likely though that this case will not be resolved within a year and it is possible that when the verdict is issued, SAPARD will no longer exist.

The lack of access to information is considered a nuisance by NGO's like Za Zemiata, who attempt to monitor the government from the position of curious members of civil society. To applicants however, the lack of transparency is much worse, as they depend on SAPARD funding for their livelihoods. Lack of transparency in for instance the on-the-spot check regime is seriously damaging their projects and thus the development of the Bulgarian countryside. In order to prevent the Agency from damaging the progress of SAPARD **an independent institution should be installed to settle disputes between applicants and Agency**. This mediating body should base its verdicts on the official and publicly announced rules of procedures of the SAPARD Agency. It should have the mandate to change decisions of the Agency within a time frame that does not delay the progress of a project. Such an institution is a realistic option, a mediating body like this is already successfully installed in Romania.

Chapter 12. Corruption



It has been observed that applicants are requested to pay a bribe in order to obtain an ID number and that a few business consultants managed to recover information that is in practice not publicly accessible, mostly related to business plan design. Though it was not the purpose of the investigation, these observed bottlenecks have managed to indicate "the use of public office for private gains" in the SAPARD Agency, in other words "corruption". As noted in chapter 5, it is very hard to quantify corruption. It is possible though to define the consequences of corruption on the basis of theory and compare them to the actual situation. A model of the effects of corruption on the development of transition countries by Schleifer and Vishny is presented and compared to the findings of this investigation in the Bulgarian SAPARD programme.

It is widely known that in the time of communism in Bulgaria, bribery was used in nearly all procedures to speed up the extremely slow bureaucracy. Such a practice might be seen as immoral, but it did increase the efficiency of an inefficient bureaucratic system. Schleifer and Vishny (1993) describe a shift in efficiency of corruption in countries of the former state communist block as it continues to exist after and during the transition to a market economy. They assess the impact of corruption on the efficiency of a procedure by quantifying the total amount of bribe in a centralised and a decentralised system and comparing them to one-another.

Under a communist regime power is centralised in the communist party and all party members are aware of the bribes needed. In some, if not all, communist regimes the secret services were aware of the presence of most corruption and helped the communist party to keep bribes under a certain threshold, i.e. the value under which the state-issued policy was still effective. In that sense the communist regime should be regarded as a joint monopolist Agency, which quantifies its bribe according to the effect on the entire procedure. In this case, the bribe will be less than the overall gain for the briber, as gain for the briber is the factor that sets a procedure in motion. When the communist party issues a policy, it will not allow that policy to be corrupted by its own members to such an extent that the policy becomes inefficient.

When the economy adopts a market-orientation, different government agencies tend to get more independent since they are no longer controlled by one and the same party. In this case, the different public institutions behave as independent monopolists. Independent monopolists tend to regard the other agencies sales as granted, so the whole sum of bribes asked for by all independent monopolists might exceed the gain for the briber, thereby possibly obstructing the procedure.

In the market-oriented situation the efficiency of the procedure is damaged severely, while in the communist situation the efficiency is damaged less or there is even no damage to the outcome at all. Note that in both situations the briber is penalised by a necessity to bribe, but that is of no necessary effect on the outcome of the procedure.

Artificial complementarity

According to the model of Schleifer and Vishny, the problem gets much worse when

complementarity can be artificially created. This situation occurs when the briber thinks to have paid all the bribes, but it turns out that there are more independent monopolists in the game. An example is given when somebody bribes two agents to get two required permits at a bribe-sum that is still less than the gain of the project when a third independent monopolist shows up with another necessary permit that has to be bought at a bribe-rate that makes the total sum of bribes higher than the gain.

Avoiding detection

Schleifer and Vishny describe that in a situation of decentralised corruption, corrupted officials tend to avoid detection. This tendency leads to a shift in preference from the institutional goal. Corrupted bureaucrats usually prefer to spend money on projects where detection of improper valuation or over-invoicing is more difficult. Schleifer and Vishny give the example of bureaucrats preferring to allocate government funds in a few large defence projects rather than spending the same money in numerous small rural health clinics. In such a situation, a corrupted official may also try to "raise entry barriers" to "discourage the flow of new ideas and innovations, so they do not have to motivate their choice, which seems illogical on the basis of the official motivation."

Summarising, the model of Schleifer and Vishny predicts that large scale, decentralised corruption in the Bulgarian SAPARD programme would be indicated by:

1. A total sum of bribes that is higher than the overall gain for the applicant.
2. A shift in preference from the official policy towards less appropriate, but more complex and larger scaled projects (in which detection of improper valuation and over-invoicing is more difficult)
3. Entry barriers to applications, preferably on legal grounds.
4. Artificial complementarity of independent monopolists. The central and regional office of the Agency can be regarded as independent monopolists. Especially in later stages of the application procedure (the central office of the Agency) additional necessary permits would be presented.
5. Avoidance of detection of institutional malpractice by third parties.

Respectively the following indicators of decentralised corruption were found in this investigation:

1. Applicants claiming that SAPARD has not lead to any gain (chapter 7)
2. A neglect of the official ranking procedure in the selection of projects and an informal preference for larger, more profitable, trans-national companies. In addition the mid-term evaluation has observed that the average size of a SAPARD project in Bulgaria was higher than estimated (Agriconsulting, 2004).
3. A large inflow barrier in the form of a lack of access to credit and the necessity of large amounts of documentation.
4. Unknown business plan criteria and the possibility to reject applications on the basis of a hidden clause, an unfairly strict on-the-spot-check regime before payment and the possibility to be asked for a bribe to receive an ID-number. The applicant is aware of none of these steps when starting to design an application.
5. A general lack of transparency and the absense of an operative appeal procedure. In addition, the Agency has refused the independent researchers performing the mid-term evaluation access to the project dossiers, the "Programme Procedures Manual" and any other internal regulations and guidelines (Agriconsulting, 2004, page 28.)

In the observed shift in preference from the official policy towards less appropriate, but more complex and larger scaled projects, an exception for construction projects can be observed, which are less popular than expected. The reason for this should be found in artificial complementarity of independent

monopolists. The Agency representative can relieve a sanction on a project for a bribe. When initiating the application procedure, the applicant is supposedly unaware of this. In practice it might happen that a consultant warns the applicant for this obstruction, and thereby discourages applicants to participate in SAPARD for construction projects. For the theory of Schleifer and Vishny this means that the consequences of artificial complementarity and detection avoidance might cancel each other out.

Artificial centralisation

It should be noted that some applicants still apply for SAPARD and manage to gain from it. It would be interesting to investigate in which cases an artificial complementarity exists and in which different types of disturbance do exist. It is very well imaginable that in some cases an “artificial centralisation” takes place: An applicant might pay an influential official to keep the bribes requested from lower officials under a level that makes the application still interesting for the applicant. In SAPARD, such servants would probably be internal auditors (who have the power to uncover certain frauds), the deputy director or high-ranking members of the political party that controls SAPARD. If such an artificial centralisation exists, it is most likely to favour larger projects, which can offer higher bribes to officials.

A detailed investigation should be performed into corruption in SAPARD. Such an investigation should cover at least the presence of artificial complementarity and artificial centralisation. It should thus be **targeted at both central and local offices of the Agency**. Independent experts should monitor this investigation. The Commission should take an active role in such an investigation. The progress of the investigation should be made public in the earliest possible stage.

Chapter 13. Conclusions and recommendations



The application procedure

It has been observed that a large part of the selection of applications occurs outside the official procedure. Sometimes extraprocedural rejections occur on the basis of criteria that are counterproductive to the objectives of the NARDP. As a consequence, the quality of the SAPARD programme in Bulgaria suffers from this.

Causes for extraprocedural selection can be found in corruption and a lack of transparency. These two causes are to a large extent interwoven and complementary: On one hand corrupted officials tend to avoid detection, on the other corruption can only flourish in an environment where monitoring by civil society is hardly possible.

Although the details of this corruption are not yet known, it is already possible to state that the rules of procedure of the SAPARD Agency are to be made public. This information should already be public on the basis of the law, but as the SAPARD Agency structurally violates the Access to Public Information Act, practice is different. The Commission should take active steps to make sure the Agency manages the EU public funds in a transparent and accountable manner. In addition, an independent dispute settlement institution should be set up to mediate in conflicts between Agency and applicants on the basis of these public rules of procedure.

Responsibility

The goal of SAPARD is clearly stipulated in Council regulation (EC) no 1268/1999 as two-fold: institution building and making a qualitative contribution to rural development. It was already stated that these goals should not be seen as separate: A good SAPARD Agency makes a significant positive contribution to rural development and vice versa. In the legal interpretation however, the two goals of SAPARD are divided over two separate documents: The Multi-Annual Financing Agreement (MAFA) for institution building and the National Agricultural and Rural Development Plan (NARDP) for qualitative implementation. The connection between the two goals of SAPARD is only maintained by references to the NARDP in MAFA. In the practical implementation of SAPARD, the Commission goes even further by only expressing interest in institution building and leaving the qualitative implementation of SAPARD a matter that is solely the responsibility of the national government.

The national government of Bulgaria focuses primarily on its obligations to the Commission in institution building. It does not seem to care at all what the qualitative impact of SAPARD is on the Bulgarian rural economy. That leaves practically no stress at all on what is actually happening with the annual 55 million euros the Commission spends on SAPARD in Bulgaria. The result of this neglect can be seen in the worthless way SAPARD applicants are treated by the Agency.

There are sufficient legal means in MAFA for the Commission to make sure the NARDP is fully implemented and the rules of procedure of the SAPARD Agency are applied and made public. The Commission should take its responsibility and make

sure that the Bulgarian SAPARD improves its way of working. This involves a detailed investigation into the practical implementation of SAPARD. This investigation should cover:

- The institutional capacity of the Agency
- The quality of correction mechanisms like the Monitoring Committee and the internal audit
- Transparency and accountability
- The amount of corruption
- The percentage of deadweight in the investments made by SAPARD
- "The solving of priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas" in Bulgaria by SAPARD

This investigation should come up with detailed requirements for the SFA as an institutional body implementing the Bulgarian rural development policy and managing EU public funds.

EA "Za Zemiata" would like to stress that the implementation of SAPARD fund should be transparent and accountable and in line with its main objectives:

- To contribute to the implementation of the *Acquis Communautaire* concerning the Common Agricultural Policy and related policies
- To solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries.

A well operational SAPARD Agency effectively contributing to rural development is crucial for Bulgaria in preparation of its accession to the EU. Addressing and solving the current problems in SAPARD can improve the management of larger funds for rural development after the accession.

References

Access to Public Information Act, 2000

Agriconsulting Europe S.A., "Mid-term evaluation of the special accession programme for agriculture and rural development in Bulgaria for the period 2000-2003" report issued by the Ministry of Agriculture and Forestry, 2003

Constitution of the Republic of Bulgaria, 1991

Council Regulation (EC) No 1268/1999 on community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period, 1999

Council Regulation (EC) No 1260/1999 "laying down general provisions on the Structural Funds", 1999

European Court of Auditors (ECA), "Special Report No 2/2004 concerning pre-accession aid 'Has SAPARD been well managed?'", 2004

European Commission, DG agriculture, "SAPARD Annual report 2000", 2001

European Commission, DG agriculture, "SAPARD Annual report 2001", 2002

European Commission, DG agriculture, "SAPARD Annual report 2002", 2003

Giorgieva, "Report on the effectiveness and relevancy of investment activities under Sapard in Bulgaria in its role as a pre-accession financial assistance instrument", Comparative study on the SAPARD programme – seven points of view, publication by the European Institute Foundation, 2005.

Janssen, "A foot in the door: environmental NGO representatives in SAPARD Monitoring Committees in Slovakia, Bulgaria and Romania", unpublished thesis, Vrije Universiteit Amsterdam, 2005.

Karailiev, "Investment analysis of projects of SAPARD programme", training reader, 2000

Multiannual Financing agreement between the Commission of the European Communities on behalf of the European Community and the republic of Bulgaria (MAFA), 2000

Ministry of Finance of the Republic of Bulgaria, Ordinance no.1/2002, 2002

Ministry of Agriculture and Forestry of the Republic of Bulgaria, "Guidelines for Filling in the Business Plan", 2001.

National Agriculture and Rural Development Plan over the 2000 – 2006 period under the EU Special Accession Programme for Agriculture and Rural Development (SAPARD)" (NARDP)

Regional Development Law, 2003

Rules of Procedure of the SAPARD Monitoring Committee, 2000

SAPARD Monitoring Committee, "Minutes From the first meeting of the SAPARD Programme Monitoring Committee", 2001.

SAPARD Monitoring Committee, "Minutes of the Seventh Meeting of the SAPARD Programme Monitoring Committee", 2004.

Schleifer and Vishny, "Corruption", Quarterly Journal of Economics 108, p. 599-617, 1993.



Text and research by Dirk Janssen
Supervision by Ivaylo Hlebarov and Egbert Tellegen
Graphical design by Ivailo Grozdev
Mental coaching and moral support by Hinrich Wildfang
Pictures by Koen De Rijck and Velina Todorova

Contact: Dirk Janssen - dirk2000ultraplus@gmail.com
Request for copies: Ivaylo Hlebarov - hlebarov@bankwatch.org
October 2005 -
http://www.creativecommons.org
Za Zemiata - http://www.zazemiata.org