

# THE COST CONTROL SYSTEM IN BULGARIAN AGRICULTURE DURING THE PERIOD 1990 – 2025

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## **Abstract**

The agricultural sector in Bulgaria represents a leading economic branch and a structure-defining element of the national economy. Its strategic importance has been consistently maintained throughout the transition to a market economy, the pre-accession period, and under the conditions of European Union membership. The objective of this report is to provide a comprehensive review, analysis, and evaluation of the system of public expenditure control in agriculture during the period 1990–2025, with particular attention to identifying essential trends and strategic directions. Over this timeframe, the agricultural sector has undergone profound transformations, within which several distinct phases can be delineated – ranging from centralized subsidization to the adoption of European mechanisms for management and control closely aligned with the Common Agricultural Policy of the European Union. The establishment of the contemporary framework for fiscal oversight and resource allocation in agriculture reflects not only the dynamics of national policy but also the broader processes of reform, convergence, and adaptation inherent in the evolving Common Agricultural Policy of the EU.

**Keywords:** cost control, agricultural sector, control system

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## **1. Conceptual Approaches and Views Related to Public Expenditure in the Agricultural Sector**

Cost control in the agricultural sector can be examined in the context of several key theoretical concepts, which, in my view, illustrate the gradual development of the control system. On the one hand, at the foundation lies the theory of public management; on the other, the perspectives of numerous authors connected with institutional economics; and last but not least, the concept of multi-level governance within the European Union.

For the purposes of this research, a comprehensive methodological approach was employed, integrating historical and comparative perspectives. At the initial stage, documentary and legislative analyses were undertaken to trace the evolution of expenditure control mechanisms in the agricultural sector over the period 1990–2025. Furthermore, a comparative institutional analysis was conducted to assess the alignment between national practices and the requirements of the European Union's

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Common Agricultural Policy, thereby evaluating the degree of coherence and adaptability. The combination of these methods provides a solid analytical framework for identifying the stages of transformation, diagnosing key challenges, and formulating conclusions regarding the overall effectiveness of the control system.

According to authors such as Hood (Hood, 1991), modern public management systems are based on the principles of accountability, transparency, performance control, and measurability of results. These principles form the basis of the reforms introduced through EU policies and implemented via the concept of public financial management, applied in the context of state institutions, including the agricultural sector. Institutional economics, as presented by other authors (North, 1990), emphasizes the role of institutions and rules in determining the efficiency of economic activities. In this context, the establishment of control and accountability mechanisms in Bulgaria after 1998 – through the creation of the State Fund “Agriculture” as a paying agency – may be regarded as a measure aimed at institutional adaptation to EU rules and standards for control.

The model of *shared management*, applied within the CAP, implies joint responsibility between the European Commission and national paying agencies. This responsibility is legally regulated in both European and national legislation. Many authors support this view, expanding its scope and adding that “Not only legislative acts, but also the accompanying strategic documents, are a prerequisite for the effective functioning of economic operators” (Stanev G, 2024). According to Pollitt and Bouckaert (Pollitt & Bouckaert, 2011), this requires the development of multi-level control and certification systems that balance between central and decentralized levels of governance. Numerous analyses and reports by audit institutions and European Commission missions in recent years have shifted towards management based on actually achieved results. In this regard, the concept of *results-based management* has become central in evaluating the effectiveness of agricultural policy. The European Commission has introduced a system of performance and impact indicators, which must be measured by the Member States as part of their strategic plans (European Commission, 2023).

In this report, the period under review covers different stages of the development of the agricultural sector, each reflecting specific features and characteristics related to the methods and procedures of cost control in agriculture. Broadly, this timeframe begins after a long-standing planned and centralized economy. The country’s path toward transition and eventual EU membership can be divided into several essential stages, each marked by corresponding reforms and changes.

## **2. Cost Control in the Agricultural Sector (1990–2006)**

### **2.1. Period of Centralized Economy and Early Reforms (1990–1997)**

The first years after 1990 were extremely difficult for Bulgarian agriculture, as they resulted from a fundamental change in the functioning of state governance and a deep institutional and economic crisis. The functioning of the agricultural sector during this time relied primarily on substantial state support in the form of subsidies and preferential loans. At the primary level, the main model of expenditure control was carried out by cooperative agricultural farms and Agro-Industrial Complexes (AICs). In the agricultural cooperatives and AICs, which existed until the mid-1990s, costs were monitored through internal control mechanisms, while external oversight was exercised by the state when financing was provided. During this period, the processes of privatization and de-statization of AICs and agricultural cooperatives also began. Control over internal expenditures gradually passed into the hands of newly established agricultural cooperatives, private farms, and commercial companies engaged in agricultural activities.

At the central level, agricultural policy was implemented by the Ministry of Agriculture and the Food Industry. This was the main institution that directed, coordinated, and monitored agricultural policies and expenditures for the period under review. The Ministry's main control mechanisms in the agricultural sector were related to administering the agricultural budget, overseeing and managing the processes of restitution of farmland and agricultural holdings, as well as monitoring the use of state aid and agricultural loans. On the other hand, at the central level, expenditure control in the agricultural sector was also carried out by the General Directorate of "State Financial Control." Its main functions involved conducting audits and inspections of state enterprises and cooperatives in the agricultural sector. The Directorate supervised the expediency, legality, and accountability of expenditures, issued audit reports and prescriptions, and cooperated with the Prosecutor's Office in cases of financial violations.

Of particular significance in relation to the decentralization processes in the agricultural sector were the temporary commissions established with the adoption of the Law on Ownership and Use of Agricultural Land (LOUAL) in 1991, commonly referred to as Land Commissions. These commissions operated at the municipal level, with their primary role being the restitution of agricultural land ownership, the resolution of disputes related to land redistribution, and the issuance of decisions that served as the legal basis for notarial deeds.

The transition period was characterized by low levels of control in the agricultural sector and the absence of a clear and effective system for monitoring and coordination. The shift from one type of agricultural structures to another, combined with the

complex process of restoring ownership of agricultural land, marked the period and left a lasting impact on the inefficiency of control in the sector.

## **2.2. Establishment of the State Fund “Agriculture” (1998) as Part of the Control System in the Agricultural Sector**

Until 1995, the allocation of funds for the agricultural sector was fragmented among various institutions – the Ministry of Agriculture, the Ministry of Finance, banks, and local authorities. During the transition period, there was no unified and centralized structure for agricultural financing. Such a structure was needed to carry out the planning, administration, allocation, and control of financial resources intended for the agricultural sector. At the same time, in the early 1990s, profound changes took place: the dissolution of collective farms (TKZS) and Agro-Industrial Complexes (AICs), restitution of agricultural land, and the establishment of cooperatives and private farms. The sector required more targeted support and investment, including loans, subsidies, and grants. The old mechanisms of financing through central planning and ministerial subsidies proved ineffective and inapplicable. The need for effective expenditure control – especially under the conditions of economic crisis and high inflation – called for a transparent mechanism to oversee the distribution of state aid for agriculture.

With Decree No. 223 of the Council of Ministers dated 1 November 1995, the State Fund “Agriculture” (SFA) was established to exercise control, accountability, and monitoring over the use of public funds. The Fund was part of the government’s anti-crisis program (at the end of 1995), which aimed to stabilize priority sectors, including agriculture. The SFA was created as a legal entity under the Ministry of Agriculture and the Food Industry with the objectives of:

- managing financial resources for agricultural support;
- providing loans and subsidies to agricultural producers;
- financing priority programs in the agricultural sector.

Through the SFA, a more flexible financing mechanism was introduced, as the Fund was endowed with its own revenues, budget, and governing board.

Between 1995 and 1998, the Fund focused its activities on several priority areas: granting loans to agricultural producers under flexible conditions, providing targeted subsidies for the purchase of seeds, fertilizers, and fuel, as well as financial support for cooperatives undergoing restructuring. Some of the measures were reform-oriented and aimed at developing private agriculture as a means of stimulating private farmers and small holdings. Grants and low-interest loans were provided for modernization, as well as direct support for the introduction of new agricultural technologies.

The negotiation process regarding the country’s EU accession posed serious challenges under the “Agriculture” chapter, which required the establishment of the necessary institutional structures. This corresponded with the introduction of a number of legislative measures directly linked to the country’s future membership. During the pre-accession period, the agricultural sector required rapid and adaptive solutions to support the creation of an institutional framework that would play a decisive role in preparing agriculture for participation in the Common Agricultural Policy.

The pre-accession program that prepared Bulgaria for absorbing funds from the Structural Funds in the field of agriculture was the SAPARD Program.

### **2.3. Preparation for Future Participation in European Programs**

Even before the launch of the EU's pre-accession programs (such as SAPARD), Bulgaria began building an institutional framework capable of absorbing and managing European funds in the future.

The State Fund “Agriculture” (SFA) assumed the role of the future Paying Agency, which institutionally had to be responsible for the contracting and authorization of payments for projects linked to the funds of the Common Agricultural Policy. The Multi-Annual Financing Agreement (MAFA) was the key legal document between the European Commission and the candidate country regulating the implementation of the SAPARD Programme. It had a strategic and binding character, aiming to provide detailed regulation of all processes related to the management of SAPARD. Its significance required bilateral approval, signed by both the European Commission and the Government of the Republic of Bulgaria. Since Bulgaria was not yet an EU Member State, directives and regulations of the EU could not legally oblige the country to comply fully with certain European principles and rules. Therefore, MAFA regulated this process and defined the framework for all SAPARD financing until accession. It provided the legal basis for implementation, monitoring, control, and payments.

#### **Main elements of MAFA included:**

- **Financial parameters**
  - The amount of funds the EU would allocate to Bulgaria.
  - The mechanism for annual budget distribution.
  - Requirements for national co-financing.
- **Institutional framework**
  - Definition of the national authorities responsible for managing and controlling the funds.
  - Confirmation of the role of the Paying Agency (in Bulgaria – SFA).
- **Management and control system**
  - Rules for audit and internal control.
  - Procedures for preventing fraud and irregularities.
  - Provisions allowing the European Commission and OLAF to carry out inspections.
- **Conditions for payments**
  - EU funds were reimbursed only after proven and eligible expenses.
  - Financing could be reduced or suspended if the control system failed to function properly.
- **Audit and accountability**
  - Requirement for independent external audit.
  - Obligation for annual reporting to the European Commission.

In addition to MAFA, an Annual Financing Agreement (AFA) was signed each year, specifying the budget for the respective year, priority measures, and detailed rules for application and approval procedures.

Since Bulgaria was not yet an EU Member State, the approach to managing and controlling pre-accession funds required strict financial discipline and mechanisms ensuring effective use of resources. For this reason, the management of the SAPARD Program was carried out on a centralized basis, with reporting lines both to European institutions and to the national control system.

- **European Commission**

At the European level, the European Commission approved amendments to the MAFA and the AFAs. It directly supervised financial frameworks and eligibility rules for expenditure. It also carried out on-site audits with the authority to impose financial corrections in case of irregularities.

- **European Court of Auditors**

The European Court of Auditors, as an independent external body, conducted financial and performance audits of the program. Its aim was to verify legality and sound financial management in line with the applicable EU framework.

- **OLAF (European Anti-Fraud Office)**

OLAF had primarily investigative functions concerning EU Structural Funds. Its role was to investigate signals of fraud, corruption, or misuse of EU funds.

#### **National control system**

Within the Ministry of Agriculture and Forestry, the Secretariat of the Monitoring Committee for SAPARD was established. The “SAPARD Program” Department in the Directorate “Rural Development and Investment” (MoAF) was responsible for programming, monitoring program measures, and co-financing of individual projects. An important part of its work was the alignment of program priorities.

The State Fund “Agriculture” assumed the functions of the SAPARD Agency, acting as the Paying Agency. Its responsibilities included project intake, eligibility assessment, contract signing, verification of documents and invoices, on-site inspections, and execution of payments.

The Bulgarian National Audit Office, as an independent body, conducted external audits. Its functions focused on verifying the proper use of EU funds and national co-financing. As emphasized by Stanev (2024), “The independent audit institution must ensure control both over the actual use and disbursement of funds and over the legality and efficiency of their expenditure. The types of audits that the National Audit Office may carry out in this area include compliance audits and performance audits.”

**The Agency for State Financial Inspection (ASFI)** mainly carried out financial checks and investigations in cases of suspected irregularities.

Given the responsibility of managing EU funds at the national level, strict anti-fraud measures were required. Within the Ministry of the Interior, an OLAF-Bulgaria unit was established to collect fraud reports and coordinate investigations as the national partner of OLAF.

**The internal control system** was carried out by internal audit units within the SFA, which conducted ongoing and subsequent checks of procedures and reported directly to the management and to the European Commission. These activities, implemented through the Internal Audit Unit of the SFA, established a multi-level system of approval and control.

## 2.4.The Main Operating Control Mechanisms under the SAPARD Programme

- **Administrative control** – verification of documents, eligibility of applicants, and budget calculations. No payment can be executed by a single person or department. There is a clear separation of functions: application → evaluation → approval → payment → reporting.
- **Financial control** – verification of invoices, contracts, and payment documents.
- **Technical control** – on-site inspections to verify whether projects have been physically implemented.
- **Audit control** – subsequent checks of the management and control system.
- **Sanctions and recovery of funds** – in cases of irregularities, beneficiaries are required to return the support received, and in severe cases legal proceedings are initiated.

## 3. Control System after EU Accession (2007–2025)

Following Bulgaria's accession to the EU in 2007, the country began to apply the mechanisms of the Common Agricultural Policy (CAP), including the Single Area Payment Scheme (SAPS). Control was carried out through the Integrated Administration and Control System (IACS), which combines geographic information, support applications, and on-the-spot checks. The State Fund “Agriculture” (SFA) was granted the status of a Paying Agency. Financial control was implemented through a four-tier mechanism: internal control, certification, audits by the European Commission, and audits by the European Court of Auditors (European Court of Auditors, 2020).

### 3.1 Transitional Periods and New Strategic Plans (2014–2025)

After 2014, expenditure control was adapted to the new CAP rules, which include two pillars: direct payments and rural development. In 2023, Bulgaria launched the implementation of its CAP Strategic Plan 2023–2027, which introduced specific indicators for monitoring and evaluation. For the period under review, the Paying Agency – the State Fund “Agriculture” – has remained the sole accredited institution in Bulgaria administering CAP measures/interventions, conducting inspections, making payments to beneficiaries, and reporting expenditures to the European Commission.

The **certifying body** plays an essential role in the execution of payments under CAP-funded programs. Its evolution can be divided into two stages:

- **2007–2015:** The Ministry of Agriculture outsourced certification to independent external auditors in order to guarantee operational independence from the Paying Agency. After public procurement procedures, firms such as Grant Thornton (until 2008) and later Deloitte Bulgaria carried out this function.
- **Since 2016:** The specialized *Executive Agency for the Certification Audit of European Agricultural Funds* (EA CAEAF) was created under the Minister of Agriculture, becoming the permanent certifying body for both agricultural funds – the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

The Paying Agency closes the financial year (by October 15) and submits annual accounts, a management declaration, and documentation to the European Commission. The certifying body performs a certification audit and issues an audit opinion on the accuracy/completeness of the annual accounts, the functioning of controls, and the legality and regularity of expenditures. The European Commission then carries out financial clearance of accounts and/or conformity corrections in cases of systemic weaknesses.

For the period 2023–2027, a new model of expenditure control has been introduced and is undergoing changes. The certifying body is now also responsible for verifying the accuracy of the annual performance report (output/result indicators), which falls within the scope of its opinion. For the first time, an annual *performance clearance* mechanism has been applied: if reported outputs (indicators) do not correspond to expenditures, the European Commission may reduce funding for the respective year (European Commission, 2023).

In the last two years (2024–2025), legislative amendments have been underway concerning the details of the performance clearance mechanism. As of 2025, corrections and relaxations of the regime are under discussion between the European Commission and other institutions.

## Conclusion

Expenditure control in Bulgaria's agricultural sector has evolved from a weakly regulated system at the beginning of the transition to an institutionalized, multi-layered mechanism aligned with EU legislation. The development of administrative capacity, the introduction of the Integrated Administration and Control System (IACS), and accession to the Common Agricultural Policy have been key milestones in ensuring effectiveness, transparency, and accountability.

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