

Development of Agrarian Structures in Bulgaria: From Productive Cooperatives to Sole Traders and Partnerships

Julia Doitchinova, Ivan Kanchev and Albena Miteva

Department “Agribusiness” in University of National and World Economy, Sofia, BG



**Paper prepared for presentation at the 94th EAAE Seminar
‘From households to firms with independent legal status: the spectrum of
institutional units in the development of European agriculture’,
Ashford (UK), 9-10 April 2005**

Copyright 2004 by [Julia Doitchinova, Ivan Kanchev and Albena Miteva]. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

Development of agrarian structures in Bulgaria: from productive cooperatives to sole traders and partnerships

Julia Doitchinova, Ivan Kanchev and. Albena Miteva,¹

The aim of the paper is to analyze the reasons for the still continuing organizational restructuring and for the transition of Bulgarian agriculture from collective cooperative forms to prevailing sole proprietors and small size collective partnerships based on stake principle.

The conclusions and assessments in the paper are based on the data from 2003 Census of agricultural holdings and on results from two research regional projects: “The Land-leasing model of agriculture in Dobrich region” and “Integrated development of rural regions in Haskovo area”.

Keywords: agricultural productive cooperatives, partnerships, sole proprietors.

Regardless the fact that the agrarian reform was officially completed in 1999 in Bulgarian agriculture still continue the organizational structural changes. Particularly significant /ranging from 12 % till 20 % per year/ they are among the collective and sole proprietors forms registered as per Trade Law and Law for cooperatives.

The aim of the paper is to analyze the reasons for the still continuing organizational restructuring and for the transition of Bulgarian agriculture from collective cooperative forms to prevailing sole proprietors and small size collective partnerships based on stake principle.

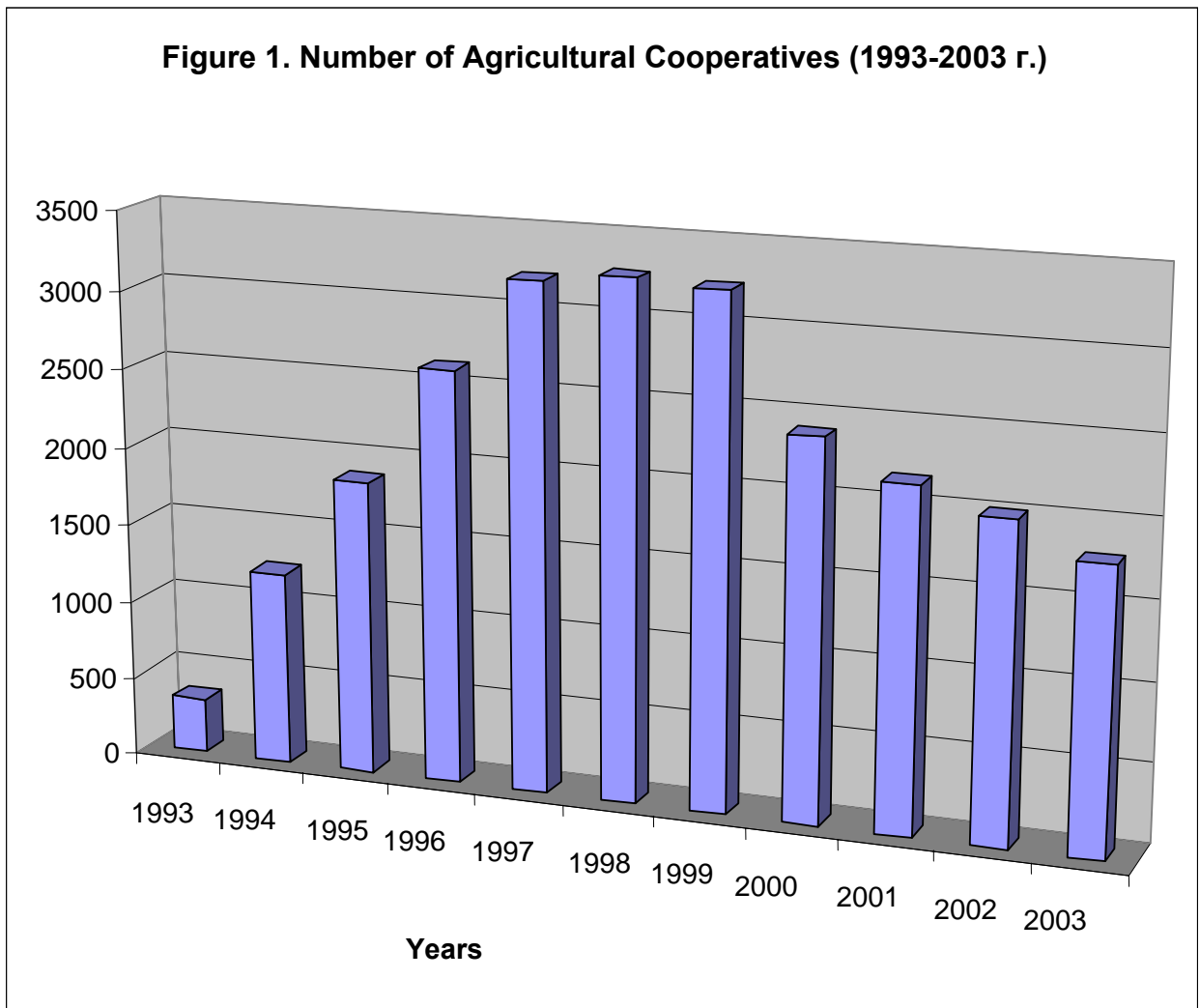
1. Bulgarian productive agriculture cooperative

The contemporary stage in the development of organizational structures has a logical beginning linked with the adoption of the Law for Ownership and Use of Agricultural Land and the Law for Cooperatives in 1991. After the liquidation of the existing in the beginning of nineties collective productive structures (1992 – 1994) most of the agricultural landowners chose to unite their land and other resources in agricultural productive cooperatives. Annually were registered between 600 and 800 agricultural cooperatives and in 1998 their number totaled 3268 with an average size of 742.5 ha and 234 members-founders. As a result the relative share of the cultivated in cooperatives land reached 41.7%.

The main reasons for preferring the cooperative as an organizational productive form were linked with the migration in towns of the prevailing part of the land owners, with the low average size of the land property and the limited possibilities to organize a production over this property, with the economic crisis and etc. Moreover the Law for Cooperatives created an easy procedure for becoming a member and quitting the cooperative, thus converting this form into an attractive, though temporary solution for the biggest part of the land owners. The membership in cooperative allowed to most of them to wait until the land market develops and only on a later stage to take a final decision what to do with their property.

Figure 1 depicts the changes in the number of agricultural cooperatives during the last 11 years. Data show three main stages in the process of establishment and functioning of these organizational structures:

- of accelerated growth of establishment and significance of cooperatives;
- of relative stability in their number and significance;
- of decrease of their number and spreading (after 1999).



During the period 1997-1999 the number of agricultural productive cooperatives was relatively stable. Considerable part of them were with worsening economic and financial status mainly due to the chosen productive specialization, the non-favorable climatic conditions, the low prices, weaknesses in marketing activity, the non-consistent state policy in grain sector and etc. Negative influence caused the consumption trend in income division in many cooperatives, the minimal allocations for renewing the equipment, the consequences of the made liquidation of the old structures and others. Because the cooperative were unable to restore the owed sums from the taken credits from State Fund "Agriculture" and commercial banks, considerable part of them had difficulties in carrying out the production process. Part of the cooperatives offered the land of their members to other producers against cultivation using rent contracts and often allowing them to use the cooperative equipment. Another part of the cooperatives did not pay rent to their members or the rent was with symbolic size.

Mainly because of these reasons at the end of 1999 were made corrections and additions to the Law for Cooperatives. They should be taken in consideration when changing the Statutory documents envisaging -registration of the cooperatives. Despite the fact that most of the changes

defended the rights of the owners, their practical realization was difficult for majority of the cooperatives which in the following years ceased their activity.

Data showed that after 1999 annually between 150 and 600 agricultural cooperatives stopped their activity. As a result in 2003 compared to 1998 were noticed considerable differences in their significance and distribution. (Table 1) The relative share of the used by them lands for the whole country decrease twice, and for several regions – more than 4-5 times. The least decrease in the cultivated land was noticed in North Central and Northeastern regions of planning and the biggest were in South Western and Northwestern regions. In practice in areas like Kardjali, Kiustendil and Vidin the significance of the cooperatives is minimal and they cultivate between 5 and 14% of the land which they used to cultivate five years ago.

Regardless the fact, that as a whole the productive cooperatives cultivate 38.51% of the used agricultural land, they are of prime importance as agricultural producers only in one region of planning and 11 areas.

Table 1.Changes in number, used agricultural land and average size of agricultural cooperatives in 2003 compared to 1998 by regions of planning

Regions of planning	Used agricultural land in 2003 compared to 1998, %	Number of cooperatives in 2003 compared to 1998, %	Average size of used agric. land in 2003 compared to 1998, %	Relative share of cooperatives in used agric. land in 2003, %
North Western Region	29,18	42,90	68,02	37,46
North Central Region	64,52	65,69	98,21	52,34
North Eastern Region	52,51	50,42	104,15	40,39
South Eastern Region	37,16	55,58	66,86	31,36
South Central Region	35,00	55,66	80,30	35,00
South Western Region	15,68	59,38	75,88	15,68
Bulgaria	49,10	54,94	89,37	38,51

Data from table 1 show that in 2003 were functioning only around 55% of the existing in 1998 cooperatives, and in some regions more than 50% of them ceased their activity. Should be underlined that the decrease in number of the cooperatives was accompanied by increase of the average size of the used land only in one of the regions.

The changes in all those indicators show that the agricultural productive cooperative has a constantly decreasing significance for Bulgarian agriculture. Moreover have stopped their activity productive structures in all regions of the country and the liquidation are not linked with their size.

Together with the external conditions linked with the transition, the reasons for the current status of the agricultural productive cooperative are due to their specificity as and

organizational form as well. Among them substantial significance have the members' structure, the division mechanisms, the quality of the personnel and others.

The overlarge number of members who did not participated with their labor in the cooperative activity and in most of the cases did not live on the same territory make difficult the process of managing the cooperative. Their interests differ substantially from those of the rest of the members (who participate with their labor and/or live on the same territory where their lands are). Due to the small size of the land plots and to the fact that they constantly live in the towns, for these landowners participating in a cooperative is only a temporary decision with all consequences derived by this fact – low degree of motivation for participating in the collective managerial boards, lack of interest for the future development of the cooperative and others. Moreover the cooperative statutes do not guarantee stability of the organizational form because they do not envisage minimal period of membership, quitting procedures and others. The last combined with the fact that prevail rent contracts for agricultural land (most often for 1-2 period of time) are the reason for the short-term horizon of most managerial decisions.

The prevailing part of the cooperatives applies division mechanisms which do not stimulate the increase of labor productivity, the high end productive and economic results, the long-term investments and others. At the same time empirical researches showed that part of the cooperatives' chairmen do not have the needed qualification and labor experience to organize agricultural production and to trade the produced goods. Moreover the prevailing part of the cooperatives does not have other specialists in the areas of technology and economy (apart from an accountant).

Assessing the status and problems of the productive cooperatives should not be underestimated the unfavorable external economic, legislative and political environment. Put together with the problems derived from the economic crisis in the nineties and hyperinflation, the legislative decisions put the cooperatives in a non-equal conditions compared to the others organizational structures active in the sector (sole traders, agricultural producers, etc.) in terms of financial securing, tax burden, accounting procedures and others.

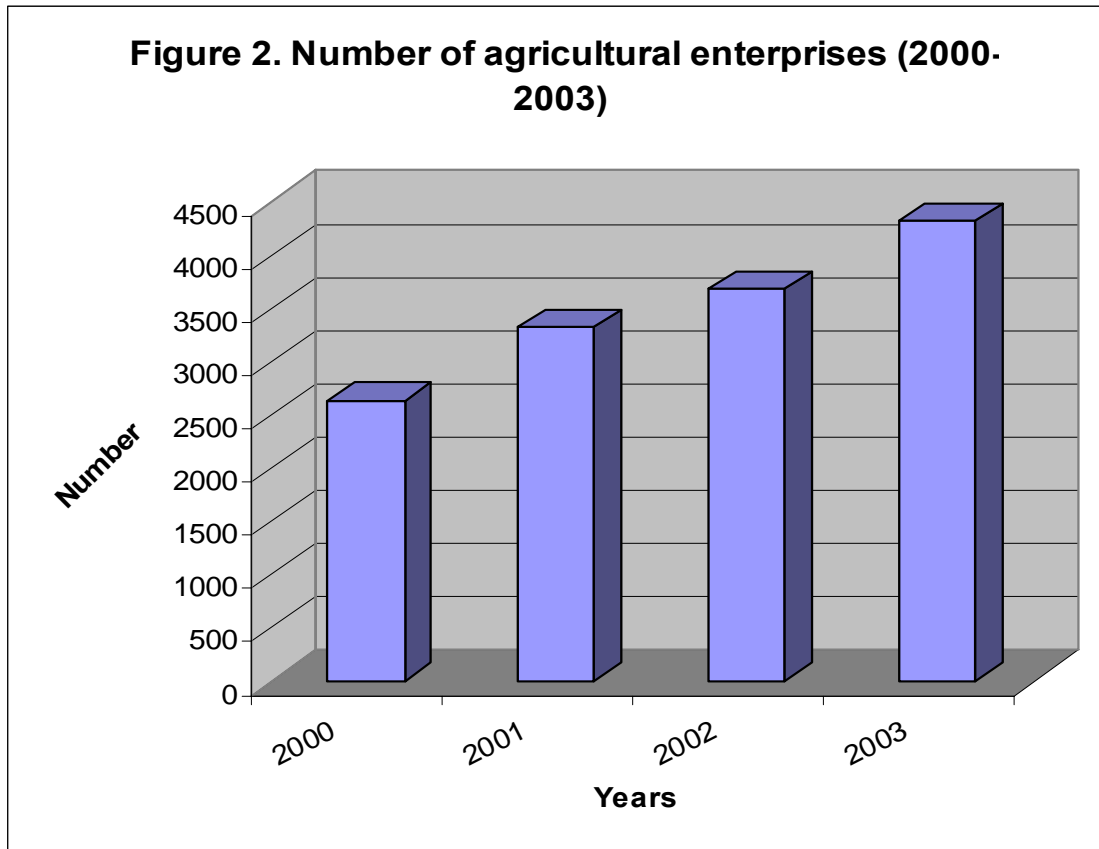
Current the Bulgarian agricultural productive cooperative is by far a voluntarily organized private business which is controlled by its owners, but its services and products are used by a limited number of owners who live in the territory where the cooperative is. In practice only they are interested in the future successful development of this organizational form. The rest of the owners, who are a prevailing number and do not live in the same territory prefer to guarantee their income despite the business results. As a results the negative effect from combining the equal right for participation in the management with the large number of members increases and makes more complicated the division mechanisms and the their problems.

2. Productive structures, registered per Trade Law

The decrease of the significance of the productive cooperatives is accompanied by a process of increase of the number and spreading of structures which chose to be registered as per Trade Law. Tada from figure 2 show that only for four years their number increases from 10 to 25%.

The sole traders and the collective productive structures registered per Trade Law are by far the fast developed organizational form. Firstly they were established on rented land from the Land Commissions and Liquidation Councils, gradually and consistently they directed their efforts towards building land-lease relations with the landowners.

The owners of agricultural holdings – legal entities are among the most active on the financial market and together with the credits from commercial banks during the last couple of years the use the large stake of SAPARD and State Fund “Agriculture” funds.



In some regions of Northeastern part of Bulgaria they are the main organizational structure which successfully competes on the markets for agricultural products and productive factors. The main problems linked with their functioning derived primarily from the low length of the land-lease contracts which impede the stabilization of this organizational form, from the relatively narrow specialization of these holdings and others. At the same time there are lot of successful cases of integration of agricultural production with processing and trade activities forming small and medium enterprises, separate holding structures and others. Mainly in these structures is concentrated the biggest part of the animal raw and processed products.

Data from table 2 depict that in the Northeastern and Northwestern’s regions of planning the organizational structures registered per Trade law are of prime importance during the last couple of years. The difference in their average size reflects the variability in the productive specialization.

The preliminary data from the Census of agricultural holdings held in 2003 showed that 63.75% from the registered per Trade Law in Bulgaria preferred the statute of the Sole Trader. The average size of the used by them agricultural land was 114.4 ha. The Limited liabilities Companies were 1339 with and average size of agricultural land – 350 ha. The least quantity of land (130.3 ha) as an average cultivate 353 partnerships.

Table 2. Number and significance of agricultural holdings registered per Trade law

Regions of Planning	Number of agric holdings	Aver size of used agric land in ha	Relative share of used agric land in %
NorthWestern region	422	240,3	41,8
North Central region	594	312,1	27,9
NorthEastern region	1045	373,8	42,0
SouthEastern region	785	143	21,7
South Central region	1179	98,6	22,6
Southwestern region	297	69,4	9,0
Bulgaria	4322	214,4	29,9

The preference for the statute of the Sole Trader is due to the created alleviations for its functioning linked with tax alleviations, the applied accounting system and etc. Regardless the fact, that they were established in order to stimulate the development of the small business, in practice currently the largest agricultural producers use this statute.

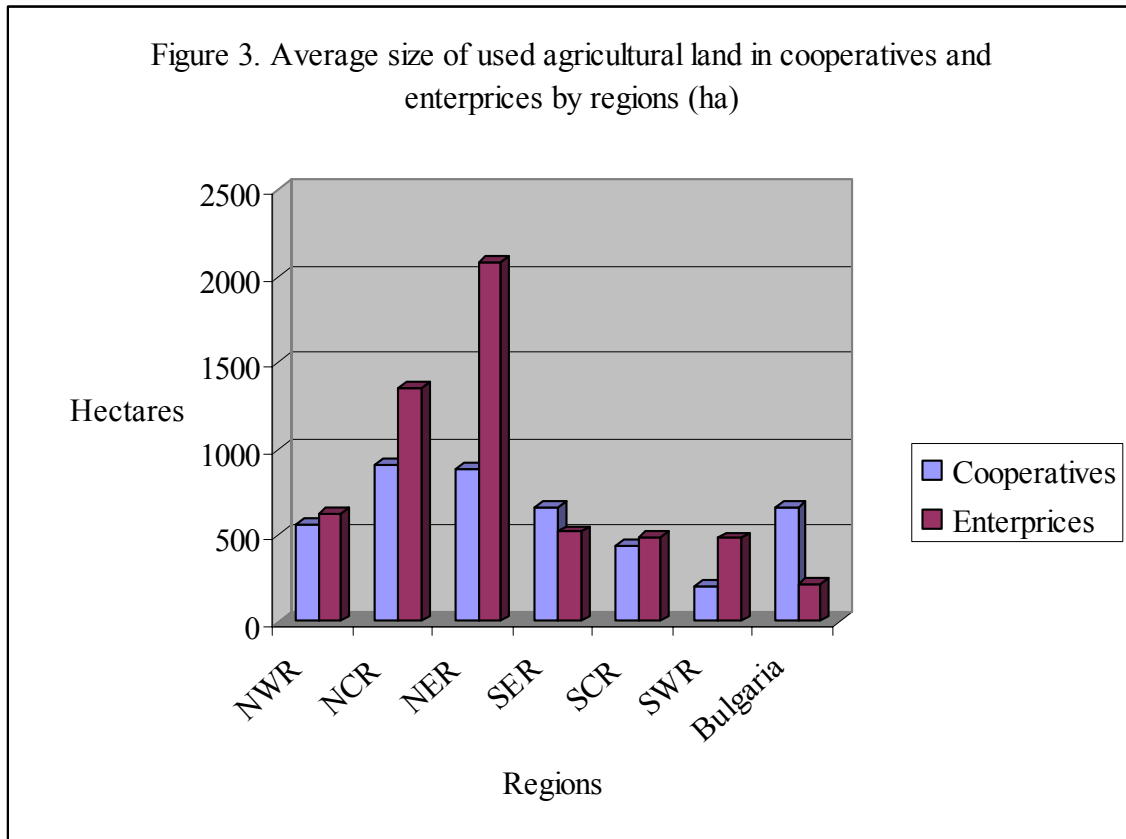
For Bulgaria as a whole the average size of agricultural cooperatives is around 3 times higher compared to the number of companies registered by Trade Law. (Figure 3) At the same time in the typical grain production areas of the country the largest producers are limited liabilities companies and sole traders and they cultivate more than 3000 – 4000 ha of land.

The main problem of all these structures is securing the land resource. In Bulgaria currently around 77% of the land leased or rented. Data from empirical researches show that the prevailing part of the cooperatives and land-leased holdings leased the land for a period of 2 years and land-leased contracts are applied by agricultural producers who use the funds from State Funds “Agriculture” and SAPARD. The above mentioned hampers the agricultural producers and directs them to invest in equipment and other resources with short period of restoration.

3. Opportunities for development

The increase of the spreading and significance of the sole traders and partnerships is a logical result from the continuing process of organizational restructuring of agricultural sector. Their strength and direction will be kept during the pre-accession period to EU. The establishment of bigger number of competitive market holdings with qualified managers is one of the main preconditions for adjusting Bulgarian agriculture to the high EU requirements.

The stabilization of the characteristics of agricultural holdings could be reached through establishment of conditions for long-term lease (or buying) of united land plots. This way will be increased the motivation for investment not only in agricultural equipment (which is the prevailing practice now) but in enhancing the soil fertility, building irrigations systems, creation of perennials.



It is necessary to continue the processes of integration of the chain “production-processing-realization” in the frames of one organizational structure or on the territory of the rural region on a contract basis. The first variant requires the increase of the production units and diversification of the productive activity. The second variant of territorial integration can stimulate the economic activity even to the smallest producers who on a contract basis with the managerial teams of the productive cooperatives and partnerships will secure the realization of their agricultural production or will be included on a certain stage of the production process.

The successful development of the agricultural cooperatives in Bulgaria is directly linked with the expansion of their object of activity and overcoming the existing difference in interests of their members, mainly with solving the income division problem. In the theory and practice are known two main approaches: members of the cooperative can become only individuals with similar interests or through choice of an organizational statute which takes into consideration the differences between the members.

One of the potential solutions is the establishment of agricultural productive cooperatives with an obligatory labor participation of their members. This variant requires the currently existing cooperative to pay to the members without labor participation the value of their share capital and to change the statutory norms regarding membership. The relations with land owners will be based on land-lease or rental basis as is the experience in most of the countries in Central and Eastern Europe.

Other possibilities include limiting the relative share of the non-working in the cooperative members or differentiation of their rights regarding participation in cooperative management. Similar decisions are successfully carried out in France and other EC countries.

The land owners can unite between themselves with the aim to form primary productive cooperatives with kept private family farms and united part of the land on which be realized the joint cooperative production or the land will be kept in the initial boundaries and will be joined the other productive factors.

Most of the contradictions between the different groups of cooperative members can be solved by transforming the cooperative in a limited liability company. For this is needed the split the statutory capital of the partnership on stakes and to allocate them of the respective partners depending on their stake participation. There are variants for transformation of the cooperatives in cooperative-joint stock type of company, where the share of the cooperative is 51%, and the rest of the capital is divided in shares. Thus an external capital can be attracted.

Reference

1. Agrarian report, 2004, Ministry of Agriculture and Forestry.
2. Bachvarova Sv. (2004), Agricultural cooperative in EU, mag."Agribusiness" Vol 6
3. Doitchinova J.(2005), Organizational restructuring of agribusiness in the pre-accession period to EU, Stopanstvo.
4. Doitchinova J.(2000), Farm Structures Development in Bulgaria, 70 th Seminar EAAE "Problems and Prospects of Balkan Agriculture", June 2000, Thessaloniki, Greece
5. Kanchev I., J.Doitchinova (2001), Comparative analysis of functioning and management of private organizational structures in agrarian sector, Research project № 21.03-9/1999, University of National and World Economy, Sofia, Bulgaria.
6. Kanchev et al. (2002), Development of land-lease model of agriculture in Dobrich region, Stopanstvo
7. Kanchev Iv. (1998), Development of agrarian organizational structures, Agrobusinessinform.

¹ Julia Doitchinova is an Associate Professor, Ivan Kanchev is a Professor and Albena Miteva is a Senior Assistant Professor in Department "Agribusiness" in University of National and World Economy, Sofia, BG. Paper presented at the EAAE Seminar on Institutional Units in Agriculture, held in Wye, UK, April 9-10, 2005