

## Farm Production Co-Operatives in Bulgaria – Current Developments Problems and Possibilities of Restructuring

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**Abstract:** The object of this report is to examine the necessity of associating of farmers, the possibilities of their associating in farm production co-operatives and also the opportunities of this co-operative to suit our country's economic conditions. In the report the present status of the farm productions co-operatives is considered. The main problems referring to their organisation and management, investment process, etc. are generalised. The possibilities of these problems to be overcome are analysed. Conclusions considering the lines of development of the farm production co-operatives are made.

**Key Words:** Co-operation, Farm Production Co-operatives, Organization Problems, Investment Problems, Law of Co-operatives, Transformation, Reduction

### Introduction

**Current Developments of Farm Production Co-Operatives in Bulgaria:** Re-establishment of the private land ownership is the main change in Bulgarian agriculture during the period of transition from centrally planned to a market economy.

After re-establishing the land ownership, most agricultural producers possess small-scale, subsistence family farms. Their problems proceed from the fact that notwithstanding the existing regional differences they have no easy access to capital markets and often have no real market power. They are brought in a situation of "price-takers", which sets prerequisites for unfair re-directing of income from producers of agricultural produce to suppliers, middleman and tradesman. The only alternative of this situation is looking for possibilities of their joining together.

In conformity with the various objects pursued, different forms of integrating of agricultural producers have been developed. Among them the co-operative is most popular. There exist different co-operations, such as servicing, trade, supply, credit and production ones. The object of this article is on the basis of the present situation analysis to differentiate the problems of the Farm Production Co-operatives (FPC) in Bulgaria and also to lay down the lines for their improvement. The assessments and inferences in this working out are based on data of the National Institute of Statistics (NIS), Ministry of Agriculture and Forestry (MAF), etc. At present the FPC are predominating co-operative structures in Bulgaria. There are many and different reasons for this, but most important of them is that the new FPC are an inheritance form of the former socialist type collective farms.

After starting the reform in agriculture in 1990, the FPC in Bulgaria gradually develop as voluntary organizations of private owners who are reinstated in their lands and whose property is given back from the former collective farms. During this period the number of FPC steadily and continuously increases, while after 1992 it grows up 2.5 times. At this stage they are more than 3100 and manage near 40 % of all the arable land in the country (Table 1). It is peculiar to this period that after 1998 the processes of developing new co-operatives start gradually slowing down. This is

a direct result of the concluding process of re-establishing the private land ownership. According to data of NIS, by 27.12. 2000, the property rights on 5679.6 th. ha or 99.79 % of all the land, are being restored.

According to the MAF data at our disposal, most FPC's now are specialized in plant-growing (Table 2). They produce a limited number of commodities. The share of plant-growing products predominates in their production structure. The grain crops rank first in this structure followed by the industrial crops, vegetables, etc. During the last years (1999-2000) these co-operatives put 69 % of areas under grains. The average area under crops in these farms figures out at about 438 ha (Table 3).

Even in a lower degree, these co-operatives participate also in the production of some industrial and perennial crops (Table 4).

Data show that there is a continuous decrease in the share of animals bred in the co-operatives. This may lead in the future to serious problems connected mainly with the adaptability and surviving of these forms.

It is positive the fact that 97 % of co-operatives have their own machinery notwithstanding it is old and worn out. The comparatively good providing of co-operatives with technical means allows them to perform mechanized services. This activity is mostly practiced in the co-operatives specialized in plant-growing (Table 5).

On the basis of analysis of data referring to the production specialization it may conclude that FPC prefer growing of traditional crops grown with a high level of mechanization and which are less labour consuming.

Under the new market conditions different forms of farm production co-operatives are being applied in Bulgaria. Some authors (kanchev, 1999) differentiate them in the following three large groups:

- Co-operatives orientated to their members' economic activity. Their production structure is formed depending on the requests of members, taking into consideration also the local demand for agricultural products and services. They sell on the market only an inconsiderable part of their produce;

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Table 1: Dynamic of Changes in Number of FPC

Years	Number of co-operatives	Average Size of Arable Land-dka	% of Arable Land	Average No. Founder
1992	347	1930	1.44	
1993	1230	6149	16.29	218
1994	1873	7166	28.9	250
1995	2815	7669	45.9	258
1996	3213	7622	42.4	229
1997	3229	7539	41.7	231
1998	3269	7425	40.3	234
1999	3237	6762	37.5	

Table 2: Type of Technical - Economic Direction of FPC

Direction	Co-Operatives		All Farms	
	Number	Land (th. ha)	Number	Land (th. ha)
Plant growing	2600	1853.0	9900	2641.0
Mixed plant growing	460	345.0	6700	395.0
Animal breeding	15	0.5	10550	21.0
Mixed animal breeding	-	-	6500	9.4
Mixed animal plant	50	20.0	7950	53.0
Total	3125	2218.5	41600	3119.4

Table 3: Share of Crops in FPC

Crops	Wheat	Barley	Oats	Corn	Other	Total
Co-operatives %	13	22	17	9	17	14
Land %	70	78	73	58	70	69

Table 4: Share of Perennial and Some Industrial Crops in FPC

Crops	Orchards	Vine-yards	Potatoes	Tobacco
Co-operatives %	13	6	1	5
Land %	83	91	50	69

Table 5: Share of FPC Perform Mechanized Services

Direction	Plant growing	Mixed Plant Growing	Animal Breeding	Mixed Animal Plant	Total
Co-operatives %	63	63	29	98	63

- commodity production co-operatives, that produce agricultural products intended for the market. These are mainly products, which may be produced with applying of high level of mechanization. Here are co-operatives specialized in growing of wheat, industrial and forage crops;
- vertically integrated production co-operatives that are specialized not only in growing of agricultural products but also in processing and marketing activity. Some of these co-operatives make a success both in the home and international market. They develop their own marketing channels and also establish own trade-marks on the market.

It is insignificant the share of the rest co-operative forms, i.e. trade, credit, servicing and supply co-operations. According to data of the NIS (2001) they are less than 1% of all newly established co-operatives. Apparently, it is only a formal transferring of the old organization forms, partially adapted to the new market conditions, which causes a number of problems in their functioning.

### The Main Problems of Farm Production Co-Operatives in Bulgaria:

The great variety of

problems may be generalized in three groups: problems resulting from the FPC organization and management; problems provided in the Law of co-operatives and not in the last place by significance - problems connected with the investment in co-operatives.

The main problems referring to the FPC organization and management result from the fact that they develop mechanically - without giving any reasons and considering the natural and economic preconditions for this. As a result of this, a great number of co-operatives appear and each of them is notable for numerous members. The wide difference between total number of co-operative members and those participating with their labour in the co-operative causes the main problems of its functioning. The widely applied in management principle "One member - one vote" brings forth objective opportunities for solving the issues in favor of the most numerous group of co-operators. Often this is in opposition to the interests of co-operative as an economic enterprise. The high share of co-operative members not participating with their labour becomes a precondition

for impeding the co-operative development and innovation of its necessary equipment, technologies and production structure. These co-operators receive the main part of their income out of the co-operative. Their low dependency and hence interest to the future of co-operative reflects in the fact, that they rather prefer allocating the most part of the revenue for rent and dividends. Therefore, they are not inclined to deprive of this privilege at the advantage of forming reserve funds of the co-operation. Along with this, in conformity with the co-operative social principles, in the FPC it is supported an excessively higher number of full time members. This directly reflects the indicators of labour and production efficiency.

Another significant problem that concerns the FPC organization and management is the production specialization of farms. Predominant part of FPC are specialized in plant-growing production. Basing on the market conditions and looking for reliable and easy of access markets for their produce, they abandon the production of traditional for their regions crops and switch mainly to growing of grain and industrial crops. Ignoring the comparative advantages of their regions, the FPC switch to productions, without having available the due optimum natural conditions for their development. However, this results in lowering the average yields with production costs higher than the average for the country. Thus, they additionally worsen their anyway poor financial and economic state.

Other serious problems of the FPC are also provided in some treatments of the Law of co-operatives. In the opinion of some research workers (Kaneva, 2001) this law is still having significant shortcomings in spite of its numerous amendments and supplements. In most countries, the right of co-operative to buy land is being considered a way of guaranteeing its stability. The adopted in our country resolution about the co-operative to use the land of its members only by renting it may be explained with the desire of lawmaker to protect landowners. However, this brings FPC to an extremely unequal position compared to the rest legal entities, such as limited liability, joint-stock and other companies, which are justified in buying farm land. Moreover, this treatment of the law prevents FPC from forming funds in conformity with the object of their activity. The specialists (Kaneva, 2001) consider formatting of similar funds (which for FPC should be co-operative land funds) not only a way of Kaneva, 2001 their stabilization but also a natural way of land consolidation. It is much more likely to expect the co-operative to buy land with available funds rather than the individual members to buy and then rent it to the co-operative. In the specialists' opinion it is more logically the private farmers who buy land to switch to own production in order to receive all the earnings from the farm. Furthermore, under the present normative restrictions towards the co-operative, the members regulate their relations with it as outside leaseholders and hence are not interested in its development. Also, the fixed term of contracts (although being normatively restricted to minimum of four years) does not allow its administrative body to carry out a more large scale investment activity.

Sometimes this even impedes supporting of normal crop-rotations.

The organization and normative restraints give rise to serious difficulties for co-operatives in carrying out their investment activity and especially when they face with necessity of crediting. Banks withhold giving credits to co-operatives because of their impossibility to guarantee them. The lack of credits along with the objective difficulties caused by the limited market of agricultural products lead to the co-operatives' low or fully absent investment activity. For its part, this contributes to rising of serious problems referring to providing and maintaining of buildings and machinery, and also to the very necessary restructuring of production.

**Inferences and Lines of Development:** It is indisputable the fact that the FPC in its present form is a transition organization structure - a product of the agricultural sector restructuring. As such it could not go on running without enduring some serious changes. The possibilities of its transformation can be outlined in three directions:

- Transformation into service co-operatives, which might serve several independent co-operative associations and thus jointly to use the heavy-duty machines against payment;
- Reorganizing into capital associations, the statute of which allows a more particular distinguishing between the co-operative members. The general opinion is that the typical joint-stock forms are more unfit only to farming due to the high production risk, while being appropriate in combining production and processing. The limited liability companies are considered more suitable to the non-mixed forms of production;
- Preserving of FPC as an organization form but only after undertaking some considerable changes regarding its structure (both organization and product). A very important change to be done in order these co-operatives to survive, is reducing the members' staff. This necessitates a change in their statute, which to stipulate a binding participation with labour or restricting the share of those who do not work in the co-operative. Also it should differentiate the non-working members' rights to participate in the management of co-operative. The aim of such a change is to increase the co-operative members' interest and responsibility regarding the further development of co-operative. This would be possible only in the case of including individuals with similar interests in the co-operative. Another important point referring to the possibilities of the FPC survival is reorganizing of their product structure. It is of great importance for them to expand their activity, looking for possibilities of closing the production cycle, which may become both through participation in different trade associations and establishment of related Interco operative enterprises. There are also opportunities for these co-operatives to start developing cattle-breeding.

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Notwithstanding the shrunk market at present, the further increasing of the living standard and expanding of foreign markets will change the relation plant-growing - cattle-breeding to the advantage of cattle-breeding. If the co-operatives do not change their present production structure they will be found not ready for this moment, which will deprive them of the opportunity to benefit from the large-scale production in stock-breeding. However, they have the necessary material and technical foundation and also possibilities of changing their production structure. For analogous reasons, the co-operatives should start looking for opportunities of reorienting their activity from grain-production to vegetables and perennial crops, where of course there are appropriate natural conditions. It is also very important to notice that in order to develop successfully the co-operatives should get used to plan not only their current but also future activity.

The choice of one or another line of development besides on the market conditions will also depend on the implemented by Government agrarian policy. However, each form of restructuring is connected with considerable funds. This calls for considering the possibilities of establishing some other non-bank institutions like the state fund "Agriculture", which to finance the restructuring of production in the sector. With an appropriate government agrarian policy, it will be easier to overcome the problems existing both in

the FPC and the agricultural sector. It is necessary through imposing some adequate economic constraints and incentives, Government to enforce the production structures in the sector, including FPC to use more effectively their production factors, since low efficiency in agriculture leads to losses for the economy as a whole.

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