

**PROBLEMS AND MANAGEMENT
DECISIONS OF NEW BULGARIAN
FARMERS**

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ABSTRACT

The paper presents the organisational changes in agriculture and makes evaluation of management decisions and basic problems of Bulgarian family farms, cooperatives and partnerships.

The paper is based on the field research work of the authors on the project “Comparative analysis of functioning and management of private production structures in agrarian sector” in Bulgaria (1999-2000), granted by the research program of the University for National and World Economy - Sofia.

In first part of the paper farm structure is treated in two aspects: management organisation (legal form) and farm size. Independently of relatively small territory in Bulgaria existing and

functioning together the both European farm models. In Northeast Bulgaria predominates the large size farm with typical characterizations for “Northern model”. The “Southern model” predominates not only in the mountain and semi mountain areas. Very small and small holdings are functioning in everyone villages.

The analysis in second part is on data of survey in several regions in country. There are 50 family farms and 55 agricultural production cooperatives with typical production specialization and farm size.

The survey includes three groups of questions about production resources, management decisions, organizational problems, production results and others. The last part of paper shows tendencies and alternatives for improvement of the management adaptivity and competitiveness of the newly formed organisations.

INTRODUCTION

Bulgaria is a country with a broad experience and tradition in agriculture. Agriculture in Bulgaria is relatively more important branch in national economy than in the other applicant countries of Central and Eastern Europe. The share of agriculture in gross domestic product last ten years is between 10,6 % (1993) and 26,6 %(1997).

Employment in Bulgarian agriculture constantly increases (exclude 1998). If in 1990 in agriculture worked 17,9 % of the total active labour force, in 2000 this index is 26 %. The agriculture has played a buffer role in a generally deteriorating economic situation.

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ORGANISATIONAL STATUS

According to data from the National Institute of Statistics in Bulgaria are functioning more than 1.77 million private economic units (Table 1) with average measurement of farmland 1.5 ha (1996), 10 th. registered agricultural private organisation with different type, 3,2 th. co-operatives and 264 state organisations.

The main reason of this enormous number of farms is that Bulgarian official statistics does not make difference between household plot and private farm. The first atemp to overcome this situation is made in 1999. In agricultural Ministry was accepted Register of the agricultural produser. According to this document, the agricultural produser is everyone farm with agricultural land more large than 0.5 ha crops, 0.1 ha vegetables and

others. Number of animal in the livestock farms must be much more than 1 cow, 10 sheeps, 3 pigs, 99 hens. Due to various reason the prosses of registration is not finish.

Table 1.Number and size of family farms

| Groups of farms by size | Number of farms (th.) | Average size (ha) | Share in agric. land (%) |
|-------------------------|-----------------------|-------------------|--------------------------|
| Till 1 ha | 1535,2 | 0,24 | 6,2 |
| 1 – 5 ha | 225 | 1,86 | 6,8 |
| 5-10 ha | 13,4 | 6,7 | 1,5 |
| More 10 ha | 3,5 | 493 | 28,0 |
| All farms | 1777,1 | 1,47 | 42,5 |

Source. National statistic Institute in Bulgaria.1996

The size of a family farm or an agricultural enterprise is not decisive for its market orientation. As mentioned above there exists a small percentage of family farms which are definetly market orientated and specialize in the cultivation of products they do not

consume themselves. But the majority of family farms are engaged in subsistence farming.

Results from the course of the agrarian reform give sufficient grounds for the conclusion that the production cooperative will be among the basic forms of organization in the transition. Such cooperatives are functioning almost nationwide, regardless of the specific nature, soil, climatic, economic and other conditions and most often even without preliminary feasibility study and future projects. Ten years after the start of the reform in Bulgaria 3229 (2000) cooperatives are functioning and they use about 40 % of the farmland (Table 2). Practically the agricultural cooperatives are the second biggest producer in terms of economic importance to the branch. They concentrate interbranches of grain production, fodder production, some technical crops, etc. The share of the other cooperative forms - trade, supply, credit, service, etc. are almost negligible. According to data from the National

Statistics Institute, they are under 1% of the newly established cooperatives and their names practically show their versatile nature - agricultural and credit, agricultural and consumer, agricultural, production and trade, production and consumer agriculture etc. The data shows that the average measurement of the newly established production cooperatives is 766.2 ha farmland and 240 associates

Table 2. Agricultural production cooperative in Bulgaria

| Years | Number | Average size in hectare |
|-------|--------|-------------------------|
| 1992 | 347 | 193 |
| 1993 | 1230 | 668,9 |
| 1994 | 1873 | 762,3 |
| 1995 | 2344 | 766,9 |
| 1996 | 3213 | 681,0 |
| 1997 | 3475 | 621,0 |
| 1998 | 3269 | 742,5 |
| 1999 | 3237 | 740,3 |

Source. National statistic Institute in Bulgaria,2000

Depending on the agroecological and other conditions of the country in Bulgaria are applied several types of productive cooperatives:

- Cooperatives oriented towards the productive activity of their members;
- Market productive cooperatives, which produce competitive agricultural products with high extent of use of mechanized services;
- Vertical integrated productive cooperatives which apart from the production of agricultural products are specialized in processing and marketing activities.

The basic specificity of Bulgarian structures result from the farmland reform, historical background, and our local traditions in agriculture and the social and economic environment in the transition. The method provided in the Ownership and Use of Farmland Act for liquidation of the old structures and for establishing new ones after reinstate of the ownership is one of the main reasons for the big drop in production in the agrarian sector in Bulgaria.

MANAGEMENT DECISIONS AND EVALUATION OF MAIN PROBLEMS OF NEW FARMERS

In current research it has proposed a multidisciplinary approach combining qualitative and quantitative methods, a combination of

- a survey of family farms, cooperatives and others and
- study of selected farms

The diagnostic study of the villages was conducted in summer 2000 in different regions in Bulgaria.

The purpose of the farm surveys is to identify management decisions and main problems of functioning and management in farms. There are three groups of questions: family resources and farm size; organizational and management problems; and results and development.

Most of family farms and cooperatives are in Plovdiv (19 %) and Dobrich (16,2 %) regions. There are the best conditions for agriculture – in Dobrich for

“Northern” European model and in Plovdiv - for “Southern” model.

There are four main types of specialization for family farms and three for cooperatives (table 3). Most cooperatives (67,3 %) and part of family farms (38 %) are specialised in plant production – wheat, maize, sunflower and others.

Table 3. Distribution of family farms and production cooperatives by type of production specialization

| Type of specialisation of farms | Family farms and registered physical persons | | Production cooperatives | |
|---|--|-----|-------------------------|------|
| | Number | % | Number | % |
| Plant production | 19 | 38 | 37 | 67,3 |
| Mixed plant production and stock breeding | 8 | 16 | 8 | 14,5 |
| Mixed stock breeding and plant production | 10 | 20 | - | - |
| Stockbreeding farms | 13 | 26 | | |
| Mixed plant and fruits production | | | 10 | 18,2 |
| All farms in survey | 50 | 100 | 55 | 100 |

* Own calculations.

All farms are commercial and sold more than 80 % of production

Big part of family farms (34 %) operate only with their own resources (land, labour, capital) and use external services only for some mechanized works related to crop growing. The production is for internal consumption of the household and different part, depends on production specialization is sold. The basic objectives of those farms - securing of part time job of the members of the family, additional income for the household - determine their vitality at the conditions of market economy.

One of the main problems for the farmers in Bulgaria is lack of well-developed system of credit, marketing and servicing co-operatives. The new farmers used the services of new emerged production cooperatives. But the relations are not put on equal basis and are not stable. The reasons for this situation are first, pointed cooperatives are local monopolists and second, private farmers can use the services of the co-operatives if there is

free capacity of the machinery and equipment.

In 1995 was created the Private Rural Mutual Credit Associations (PRMCAs) within the framework of the Agricultural Capital Fund Scheme financed by EUPhare Program. The aim of building is a long term financing mechanism for farmers, especially small-scale farmers. In 1999 the PRMCAs is comprised of one federation and 33 local cooperatives with a total of some ten thousand members.

Share of farms with hired labour till 5 workers is 26 % of all farms and more than 20 workers hired 6 % of farms

Part of family farms and partnerships (66 %) are organized on leased farmland. Owners and managers of these private unregistered farms and private registered organizations are agricultural experts and production is realized on hired labor basis (52 %). In some regions (Dobritch region) those forms of organization and structure are monopolists on the rental estate market and achieve high level of concentration in production.

Practically the lack of governmental policy for stimulating of the reallocation of farmland and the stoppage of the later fragmentation of the farmland is turning into obstacle for development large-scale farms. The practice up to now for renting farmland on yearly basis does not provide conditions for application of the sufficient sowing turnover and is a prerequisite for irrational use of the farmland.

The data from survey show that the leasing prices in 1999 are low – between 50 lv. (Pazardgik) and 200 lv. (Dobritch) per hectare and between 100 kg (Pazardgik) and 500 kg (Plovdiv) crops per hectare

The similar is the information for country. According to survey of SAPI leasing prices per hectare in 1999 is between 25 lv. and 1500 lv. or between 100 kg and 1000 kg per hectare crops. The lowest are the rents in Vidin and Gabrovo regions and the highest is in regions of Plovdiv and Stara Zagora.

Land prices and leasing prices are no subject of government control. Despite

of the law requirements the most of leasing contracts are not registered. This is the reason for considerable differences in estimations for the share of leased land between the data from National Statistic Institute (2.7 % -1998) and the calculations of some authors (70-80 %). Our surveys and calculation evaluate this index between 40-45 % in 1999. The leased land is using a part of private unregistered farms, private registered organizations of local physical person and local juridical person. Before present years only a few co-operatives used leased land. After October 2000 the new Law of cooperatives has requirement for use only leased land. This is prerequisite for increase the share of leased land in future.

Results from the survey give sufficient grounds for the conclusion that the part of cooperatives (36,3 %) is member oriented cooperative. They intent to meet consumption and production needs of their members. Production structure is determined according to requests of members in the beginning of each season

as well as it depends on rural community demand for products and services. Members finance their activity and they have no income for investments and for distribution as rent and dividends. Part of family farms is purchased seeds and fertilizers by local regional consumer cooperatives (RPK). These cooperatives sell their agricultural production.

In the second main group of production cooperatives the land and the rest of the production factors of the prevailing part of the population of the respective territory are united. These cooperatives (61,8 %) produce mainly competitive production and are specialized in those products, which required high degree of mechanization. Currently this group of cooperatives are mainly producer of wheat, fodder crops and some technical cultures.

In the third group vertical integrated with agroindustry enterprises and commercial firms is only 1 cooperative. This cooperative are with strong market oriented strategy in grapes productions.

Main prerequisites for the low income of the employed in the cooperatives and for the difficulties during the economic realization of the farmland ownership. Many cooperatives pay symbolic rental fees for the farmland, the average for 1999 data is between 13 lv. and 160 lv. per hectare. Most of cooperatives pay rent in products– wheat, maize, flour and others. With a few exceptions, dividends for the capital deposited in the cooperative is not paid.

Under these conditions the choice of a large number of landowners can only be explained with shortage of developed estate and potential renters. For many of them that is a temporary solution, postponing the final selection for realization of the property and is a prerequisite for lack of interest in the strategic development of the cooperatives.

There is a relations between the productive specialization and the type and quantity of arable land. Biggest is the variety of the number of the founders of the cooperatives and it depends on the

number of the created in one-village cooperatives, the structure of the land ownership, etc. The data from that the average number of members of one cooperative is around 320 (between 14 and 3200 members) and between 500 and 6000 hectares.

Three types of cooperative have a few main interests among three groups of participants, and each of these interests is in conflict with other two. First, the managers and workers whose main interest is remuneration and benefits; second, the landowners whose interest is rent; and third, the owners of assets whose interest is profit. Only a unified management can reconcile these three. And a unified management can not exist under a cooperative structure.

CONCLUSIONS

The analysis of the spreading and the trends in development of the basic organizational structural units in the Bulgarian agriculture in the transition give sufficient ground for the following main conclusions and estimations:

1. At present, in the agriculture a record-breaking number of farms are functioning in which the average yearly employment is 26 %. Together with the season workers, about 2.2 million of Bulgarians are dealing either constantly or partially with agriculture.

2. Two basic types of private farms are formed - personal household plots below 1hectare and commercial family farms with their traditional and typical features.

3. In the structure of the production farms the relative share of those securing partial employment and additional income for their owners is prevailing.

4. The agrarian production cooperative is most widely spread among the collective forms of organization. It is established nationwide without preliminary preparations on size and combination of productive factors.

5. The insufficient development of credit, service, trade, supply and other cooperatives makes functioning of private farms difficult and especially to those of measurement up to 5 hectare.

6. The functioning of the agrarian production cooperative is also made difficult by the internal legal regulations on the membership, distribution relations and management which is still not adequate to the market conditions.

The acceleration of the organizational structural reform requires improvement of the legal basis for effective governmental intrusion and creating preferential conditions for branch's functioning. There are several alternatives for achieving the objective. The first alternative includes measures for improving the external macroeconomic environment of the functioning of the economic units and assisting of the process for building and strengthening of the organizational forms. The present tax policy, which releases for a five-year period the agrarian producers, is an attempt to compensate the unfavorable influence of the other economic and financial regulators. In future it has to be changed and the basis for imposing of tax is to be on the production resources, not on

results achieved, thus motivating for the more efficient use.

The improvement and the later development require receiving and to practice tied low-interest state crediting of separate agrarian campaigns realized by the commercial banks. In this direction it is necessary to create the prerequisites for increase of the capital resource within the national fund "Agriculture" and to develop new schemes and methods for assisting the producers. In the pre-Accession phase program SAPARD will play an important preparatory role.

Wide application should find as indirect regulators the various regional financial and credit concessions and subsidies for specific technical aid and for separate regions largely influenced by the crisis. For the quick strengthening of the newly established private farms the governmental intrusion is imperative as well as the governmental aid for the building of a full system of service cooperative forms - supply, commercial, credit, machine, etc. It is expedient for

establish regional consultative offices for securing market, scientific and technical information and to render legal, agrotechnical, veterinary, zootechnical and other consultations and services.

The weak features of the agriculture production cooperatives shown in the present analysis and also a lot others place the sharp problem of improvement of the mechanism for their functioning. The long term practice of the developed agrarian countries show that mainly two mechanisms are used for the improvement of the cooperative legislature and for the changes in the establishment act of the.

In the field of the cooperative legislature, in the transition period desired changes in the size and contents of the agrarian cooperatives can arrange for the limit of the relative share of the members not participating with their labor. Another alternative is they are given limited rights for participation in the management by infringement of the principle "one member - one vote" as such an experience exists in a number of

countries. Parallel with that, it is expedient that for these category members the payment of the fixed minimum percentage of dividends and rental fees is applied. This way indirectly the renting of farmland and the estate market will be stimulated and background for optimizing of the ratio between the production factors in the newly established cooperatives will be created.

For creating of a relative constancy in the membership of the production cooperative, it is expedient that the cooperative law require an obligatory inclusion in the Establishment Acts of the cooperatives a procedure for termination of membership and a minimum period of membership. On this basis every cooperative is to develop their own procedure, respective to their specific activity. In some cases at fruit, vine and other specializations this period can be 3-4 and more years.

Another alternative is the establishment of stimulus for attracting external assets by transforming the cooperative into

joint stock and cooperative company. In such company the cooperative and the joint stock principles are combined and the cooperative owns the control packages of shares. The fact Bulgaria has had such an experience, although poor, in the 40's in the production and trade with gold, should not be neglected. A winning strategy proved many times by Bulgarian and the world experience is the diversification of the activity of the production cooperatives. By limiting of the production activity for the account of the increase in the relative share of the service (credit, trade and others) activity and by the turning of the members from workers into customers, many of the analyzed defects of the production cooperatives can be overcome.

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