AGRICULTURAL PRODUCTION COOPERATIVES IN BULGARIA – EVOLUTION, PRESENT STATUS, PROBLEMS AND POSSIBILITIES FOR DEVELOPMENT

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Abstract

In the transition period of Central and Eastern European countries to market economy the cooperative enterprise appears a mean, which tries to fill the institution's vacuum in the rural sectors of these countries. In addition to the problems that the agricultural production cooperatives had faced in the socialist period, the new economic conditions created new ones that the cooperatives in the former socialist countries will have to overcome.
The object of this paper is to examine the evolution of Agricultural Production Cooperatives during the transition from centrally planned to market economy, the problems standing in the way of their development, their advantages and shortcomings, restricted production structure imposed by the macroeconomic environment, as well as their opportunities to suit the country's economic conditions.
The paper considers the current status of the Agricultural Production Cooperatives and generalizes the main problems referring to their organization and management, investment process, etc. The possibilities for overcoming these problems are also analyzed and conclusions are derived about the lines of their development.

Keywords: farm production cooperatives; transition; organization; management; investment problems; Cooperative Law; transformation.

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Economic environment of the 1990s

The agricultural sectors of the former centrally planned economies, including Bulgaria were in a state of economic crises in the period after socialist governments fell. The former system disappeared almost overnight while new market structures had not yet emerged. The outcome of this transition shocks was a sharp decline in both agricultural output and the sector's GDP (value added) in the early 1990s. Some countries of the Central and Eastern Europe (CEE) recovered from this initial decline much faster than the former Soviet republics. The principle reason for the difference appears to be the more resolute adherence of CEE governments to reform policies throughout their economies (Gardner and Lerman, 2006). In Bulgaria the share of agriculture in GDP varied between 10-20% over the 1990s. Contrary to the situation in other CEE countries following 1993, the share of agriculture increased, reaching 18.7% of GDP in 1998 and decreased to 10.9% in 2004. The decline in the sector's share is due to the poor and unstable development of agriculture, which has resulted from its slow restructuring process. Since 2001, the GVA in the sector has stabilized and over the past years has remained at almost one and the same level. Overall, the level of agricultural production in Bulgaria fell to some 60% of its pre-reform level. As a result of the changes over the transition period, agricultural production dropped both in terms of output and in terms of yields.

Transition and modernization of the farming sector in Bulgaria was a much slower and more painful process than in other CEE countries. The particular mode and pace of introduction of market economy and Community acquis have brought about a quite specific farming structure during the transition and accession to EU. Bulgarian agriculture is characterized by *a specific mode for privatization of agricultural land*. Following the 1991 Land Law, the entire (forcefully) "cooperated" or otherwise nationalized farmland was restituted to the previous owners in real boundaries and original (historical or comparable) locations[1]. An unprecedented and complex land transformation was implemented, which took almost 10 years to complete affecting more than 85% of the agricultural land and turning three-quarters of Bulgarian household into landlords[2]. The privatization of farmland led to emerging of a great number of private farms established on provisional or completely restituted land.

Farm structure transformation in post socialist Bulgaria

Farming structure in the socialist period

The main farm structures in the Bulgarian socialist agriculture are Labor Agricultural Cooperative Farms (TKZS) and State Agricultural Farms (SAF). The

[1] State land comprised around 10% of agricultural land, and it has been used for compensation of private owners, land settlement of landless, experimental farming, or leasing out to private entrepreneurs. Currently state land accounts for 4.7% of the farmland in the country.

[2] More than 1.7 million claims for restoration were made with an average size of land per claimant of 2.7 ha for property usually situated in a number of different locations (MAF). 86% of the claims were made by the heirs (of the original owners) who had to get equal shares in the restituted farmland. Thus acquired "new" private rights on lands were in dozen of millions plots in many instances smaller than 0.1 ha.

state-controlled period was characterized by government interference in cooperative affairs at all levels. Most of the time, member registration was compulsory, and the directors and staff were not appointed by the members, but directly appointed by State. In many countries, cooperatives were not particularly concerned about profitability since they were subsidized by the government and received preferential treatment. In the same way, they were subject to rigid State planning, which did not provide them with the possibility to develop their own entrepreneurial strategies. Their business affairs were often restricted to a small range of products and services, and State control extended to instructions and directives concerning, for example, the number of employees and their wages.

The large Labor Agricultural Cooperative Farms (TKZS) that had these characteristics were administered under the label of cooperatives in Bulgaria and other former socialist countries, even when they had not been evolving as voluntary associations. In this way, the concept of cooperation in agricultural production appears to have lost among many of the rural population. As noted by the Plunkett Foundation (1995), the use of the word “co-operative” in CEE will not only create the wrong impression, it will also create barriers to progress. The “old style” of cooperative or TKZS (Labor Agricultural Cooperative Farm) has no relevance in the new free-market approach.

The predominance of “old style” production cooperatives in the socialist agriculture of Bulgaria and other countries is shown in table 1.

Table 1.
Share of Labor Production Cooperatives in socialist agriculture (%, 1970)

Country Indicators	USSR	Bulgaria	Czecho-slovakia	Hungary	Poland	Romania	East Germany
Agricultural land	37.5	68.0	55.7	67.6	1.2	53.9	72.0
Number of employed	64.2	58.7	60.5	75.5	0.9	82.0	72.2
Productive assets	42.4	56.7	47.9	n.a.	1.4	23.6	n.a.
Gross product	40.0	62.6	53.2	45.8	1.1	42.3	n.a.
State purchases:							
Grain	51.9	81.1	64.5	79.8	1.3	71.0	79.3
Meat	33.3	44.7	50.0	n.a.	1.3	20.6	n.a.
Milk	36.5	59.7	53.4	43.3	0.6	28.7	n.a.

Source: Great Soviet Encyclopedia 1973, vol. 13:102.

The data illustrate the very large share of Soviet model collective farms in the agricultural sector of most countries in the region, including Bulgaria. The state farms, not the quasi-private household sector, make up the difference to 100%. A notable exception was Poland where collectivization had not been forced and agriculture remained largely based on individual peasant farms. After 1989 the end of State support created severe economic problems for agriculture in the transition economies but at the same time the end of State supervision created opportunities. Providing institutional inheritance of large collective farming operations and the preserved infrastructure for large-scale enterprise, the idea was that autonomous cooperatives would be in position to solve some problems; especially those connected with the input provision and output marketing. The main idea for development of individually owned and operated farm enterprises by Western model was impeded because of lack of ownership on land, lack of competitive market sources of inputs and lack of access to credit.

The key elements of land reform in Bulgaria have been the restitution of land and the liquidation of old type cooperatives, which were main regulator of the economic and social life in the villages (Figure 1). Then, it was the privatization of cooperative assets and distribution of these assets to the landowners. The new farms, which emerged after the reform, comprised of large agro-firm enterprises, new cooperatives and individual small farmers (Lulcheva, Todorova, 2005).

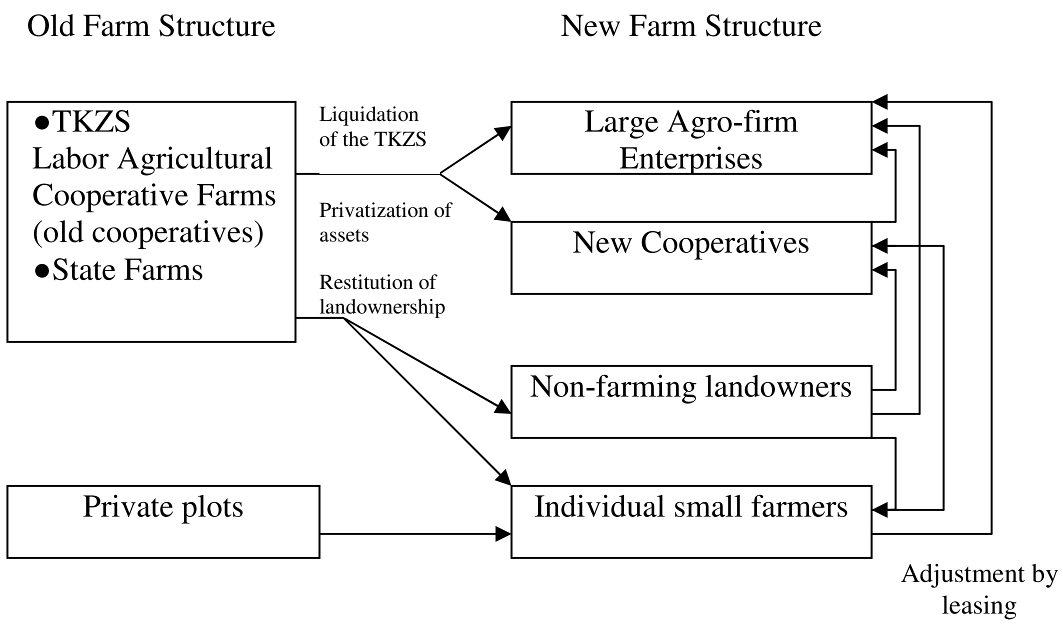

Figure 1. Farm structure transformation in post-socialist Bulgaria

Current farming structure

Three types of farms – unregistered farms belonging to individual farmers, agricultural cooperatives and agro-firms, dominate Bulgarian agriculture. These types operate in rather different ways – part of the output of small-size holdings belonging to individuals, goes to subsistence, whereas the legal entities' produce is directed to the market. The different farm types are of dissimilar size, agricultural recourses, production specialization, and output and efficiency level.

Evolution of farms

Post-communist privatization of farmland and other agrarian resources has contributed to a rapid development of private farming in the country. There emerged more than 1,7 million private farms of different type after 1990 (Table 2).

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Table 2.

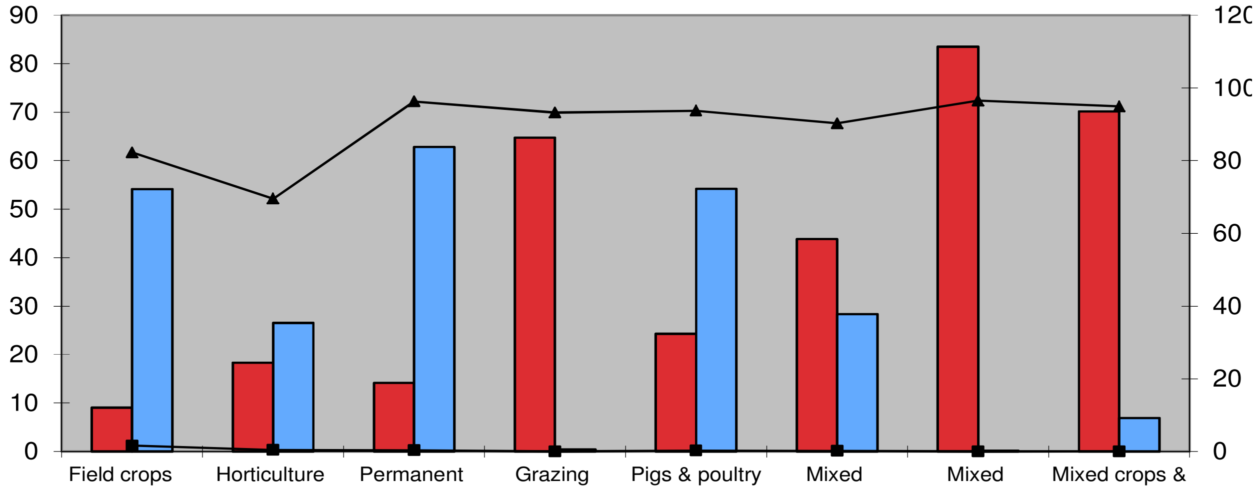
Evolution and importance of different type farms in Bulgaria

	Public farms	Unregistered	Cooperatives	Agro-firms	Total
Number of farms					
1995	1002	1772000	2623	2200	1777000
2000	232	755300	3125	2275	760700
2005		515300	1525	3704	520529
2010		350900	900	6100	357900
Share in number (%)					
1995		99.7	0.1	0.1	100
2000		99.3	0.4	0.3	100
2005		99.0	0.3	0.7	100
2010		98,0	0,25	1,7	100
Share in farmland (%)					
1995	7.2	43.1	37.8	11.9	100
2000	1.7	19.4	60.6	18.4	100
2005		33.5	32.6	33.8	100
2010		33,5	23,9	42,5	100
Average size (ha)					
1995	338.3	1.3	800	300	2.8
2000	357.7	0.9	709.9	296.7	4.7
2005		1.8	584.1	249.4	5.2
2010		2,9	807	211,6	8,5

Source: National Statistical Institute and Ministry of Agriculture and Food

Majority of newly evolved farms are ***unregistered farms*** (Physical persons). They concentrate the main portion of agricultural employment and key productions like livestock, vegetables, fruits, grape etc. (Table 2).Unregistered farms are predominately *subsistence, semi-market* and *small-scale commercial* holdings. According to the official data the farms smaller than 2 European Size Unit (ESU)[3] comprise the major share of all farms in main agricultural subsectors (Figure 2). What is more, in livestock activities they account for the bulk of the Standard Gross Margin (SGM) in related subsectors.

[3] 1 ECU=1200 Euro. According to the EU classification farms with a size of 2-4 ESU are considered as "semi-market farms". The actual number of subsistence and semi-subsistence farms is unknown since many of them are not covered by the Agricultural Census.



Source: Ministry of Agriculture and Food

Figure 2. Share of farms with SGM smaller than 2 ESU and bigger than 100 ESU in total SGM and farms with different specialization (percent)

Table 3.

Share of different type farms in all holdings, agrarian resources and productions in Bulgaria

Indicators	**Physical persons**	**Cooperatives**	**Sole traders**	**Companies**	**Associations**
Number of holdings with Utilized Agricultural Area (UAA) (%)	99.0	0.3	0.4	0.2	0.05
Utilized agricultural area (%)	30.3	40.3	11.7	16.1	1.6
Average size (ha)	1.4	592.6	118.8	352.5	126.2
Number of breeders without UAA (%)	96.1	0.2	1.9	1.7	0.1
Workforce (%)	95.5	1.2	0.8	1.4	0.3
Labor input (%)	91.1	4.1	1.4	2.8	0.6
Cereals (%)	26.6	41.8	13.0	17.3	1.3
Industrial crops (%)	20.5	45.1	14.2	18.6	1.6
Fresh vegetables (%)	86.4	4.4	4.2	4.6	0.4
Orchards and vineyards (%)	52.3	29.5	2.9	10.7	4.6
Cattle (%)	90.2	5.1	1.5	2.5	0.7
Sheep (%)	96.0	1.4	0.8	1.0	0.8
Pigs (%)	60.3	1.4	7.0	30.5	0.8
Poultry (%)	56.5	0.2	13.3	29.3	0.7

Source: MAF, Agricultural Holdings Census in Bulgaria'2003

Agrarian reform has turned most households into owners of farmland, livestock, equipment etc. An *internal organization* of available household resources in an own farm has been an effective way to overcome a great institutional and economic uncertainty, protect private rights and benefit from owed resources, and minimize costs of transacting. During transition, market or contract trade of much of household

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capital (land, labor, money) was either impossible or very expensive due to: unspecified or completely privatized rights, “over-supply” of resources (farmland, unemployed labor), “missing” markets, high uncertainty and risk, asymmetry of information, enormous opportunism in time of hardship, little job opportunities and security etc. Running up an own farm has been the most effective (or only feasible) mode for productive use of available resources (free labor, land, technological know-how), providing full and part-time employment or favorable occupation for family members, and securing income and effective (cheap, safe, sustainable) food supply for individual households. Specialization or diversification into small-scale farming has taken place, and even now the agriculture is an “additional source of income” for one out of 7 Bulgarians [MAF].

Table 4.

Number, legal status and UAA of farms in Bulgaria

Holding type	Agricultural holdings		Agricultural area		Average UAA (ha)
	number	share	ha	share	
1. Holding with UAA total of which belonging to:	668000	98.24	2901800	100.00	4.34
Individual farmers	661340	97.26	877000	30.23	1.32
Sole traders	2976	0.44	340500	11.73	114.42
Agricultural cooperatives	1992	0.29	1168400	40.26	586.55
Farming companies	1339	0.20	469900	16.19	350.94
Partnerships	353	0.05	46000	1.59	30.31
2. Holdings without UAA	12000	1.76	0	0.00	0.00
Total (1 plus 2)	680000	100.00	2901800	100.00	4.27

Source: MAF, Agricultural Holdings Census in Bulgaria, 2003

The majority of agricultural holdings are unregistered enterprises belonging to individual farmers. Only 2.4 % of them have more than 5 ha UAA, which constitutes about half (52%) the UAA used by the individual farmers. They are bigger operators with an average size of 27.8 ha. The rest of farms (97.6 %) are under 0.65 ha sized. The individual farmers (unregistered farms) cultivate just only 30% of the total UAA but grow the better part of crops like vegetables (87%), tobacco (73), flowers (62%) and vineyards (50%) in the country. In the recent years, the number of unregistered farms has decreased, while their average size and share in the total UAA increased.

The agricultural cooperatives, farming companies and sole traders constitute nearly 1% of the number of units and they manage 40%, 16% and 12% respectively of the total UAA (Table 4). They are legal entities registered under the Trade Law or the Law for Cooperatives. Production cooperatives are among the main large entities. In 2003, the cooperatives have been about 2000 and their number is decreasing. Compared to 1998, the number of cooperatives has shrunk by nearly 50 %.

The agro-firms are large enterprises, which manage nearly 16 % of the total UAA (Table 4). They are specialized mainly in grain production but there are also good examples in the production of fruit, grapes and essential crops, as well as in the greenhouse and mixed (crop-livestock) production, processing and marketing activities. These farms involve new types of organization, including joint ventures with non-agricultural and foreign capital. The preliminary data of the 2003 census of agricultural holdings showed that the most part of agro-firms prefer the sole trader status (their number is 2976) or 0.44 % of all holdings. Since 2000, the number of agro-firms has doubled and their share in UAA augmented.

Large specialized enterprises (agro-firms) are amongst the immanent features of Bulgarian farming. Most of them are registered as *Sole traders, Farming companies* or *Partnerships* (Table 5). The number of agro-firms has increased 20 folds since 1990 and their share in the overall resources augmented. They account for a tiny portion of all farms but concentrate a significant part of the Utilized Agricultural Area (UAA), material assets, and certain productions (cereals, industrial crops, orchards, poultry and swine).

Table 5.
Share of the different farms in major resources and productions in Bulgaria

Indicators	Individual farmers	Cooperatives	Sole traders	Companies	Partner-ships
Workforce (%)	95.5	1.2	0.8	1.4	0.3
Labor input (%)	91.1	4.1	1.4	2.8	0.6
Cereals (%)	26.6	41.8	13.0	17.3	1.3
Industrial crops (%)	20.5	45.1	14.2	18.6	1.6
Fresh vegetables (%)	86.4	4.4	4.2	4.6	0.4
Orchards and vineyards (%)	52.3	29.5	2.9	10.7	4.6
Cattle (%)	90.2	5.1	1.5	2.5	0.7
Sheep (%)	96.0	1.4	0.8	1.0	0.8
Pigs (%)	60.3	1.4	7.0	30.5	0.8
Poultry (%)	56.5	0.2	13.3	29.3	0.7

Source: MAF, Agricultural Holdings Census 2003

The large business farms are strongly *profit-oriented* organizations. Farmers have great incentives to invest in farm specific (human, material, intangible) capital because they are sole owners. Owners are family members or close partners and the internal transaction costs for coordination, decision-making and motivation are not high.

Greater size and reputation of farms make them a preferable partner for land, labor and inputs suppliers, and downstream industries. Moreover, big farms can secure best deals since they offer better trade conditions (price, wages, rents, and terms of contracts) than competing small-scale and cooperative farms. Recurrence of transactions with “the same partners” is high, which restricts information asymmetry and opportunistic behavior, and develops mutual trust and other mechanisms for facilitating relationships.

The large business farms have significant comparative advantages in terms of their adaptability to market and institutional changes. They will remain highly sustainable in the future when they will have a greater access to EU markets and further opportunities to benefit from the public support programs and direct payments.

Transformation of Farm Structures in Bulgaria

The lack of full private ownership had important consequences for the development of land markets and the type of farming organization. Sells and long-term lease markets for agricultural land did not emerge until 2000. Leasing on an annual base was a major way for extension of the farm size until recently. A huge part-time and subsistence farming and little sustainability of bigger agro-firms and cooperatives (based on provisional lease-in contracts), all they come as a result. There are *two types of farms* – ***individual*** *(unregistered farms) and* ***organized*** *farms – agricultural cooperatives, sole traders, farming companies and partnerships* in Bulgarian agriculture. These types operate in rather different ways – a part of the output of small-size holdings belonging to individuals, goes to subsistence, whereas the legal entities' (cooperatives, sole traders, farming companies) produce is meant for the market. The different farms are of dissimilar size, agricultural resources, production specialization, and output and efficiency level. The majority of agricultural holdings (99%) are unregistered enterprises (Table 4). 2.4 % of them only (16400 farms) have more than 5 ha UAA. The rest of farms (97.6 %) are under 0.65 ha sized. The unregistered farms cultivate just 30.3% of the total Utilized Agricultural Area (UAA) but grow the best parts of crops, such as vegetables (87%), tobacco (73), flowers (62%) and 50 % of the vineyards in the country. The number of unregistered farms has decreased, while their average size and share in the total UAA increased in the recent years.

Table 6

Share of different farms in total number of holdings

Indicators	Individuals	Cooperatives	Sole traders	Companies	Partner-ships
Number of holdings with UAA (%)	99.0	0.3	0.4	0.2	0.05
Utilized agricultural area (%)	30.3	40.3	11.7	16.1	1.6
Average size (ha)	1.4	592.6	118.8	352.5	126.2
Number of breeders without UAA (%)	96.1	0.2	1.9	1.7	0.1

Source: MAF, Agricultural Holdings Census 2003

The agricultural cooperatives, farming companies and sole traders constitute nearly 1% of the number of units and they manage 40%, 16% and 12% respectively of the total UAA (Table 4). They are legal entities registered under the Law for Cooperatives or the Trade Law. Production cooperatives are among the main large entities. They cultivate 40.3% of the UAA and their average size is 592.6 hectares.

A significant part of the agrarian assets of the cooperatives (e. g. irrigation facilities, vineyards, orchards etc.) have been abandoned or destroyed in the period of transition, and one-third of the productive farmland has been left unused for most of the time. The "ideal" character of the land ownership restitution let rapid concentration of farmland management in a small number of huge farms (cooperatives and agro-firms). However, practicing a short lease on fragmented land in the large business enterprises has been associated with high transaction costs, reluctance of longer-term investment in land, strong preference to one-season crops, and rising of environmental problems[4].

Potential for Agricultural Production Cooperatives

Agricultural Production Cooperatives in the socialist period

The ideals of cooperative enterprise in agriculture have had a long history of acceptance and even enthusiastic advocacy in CEE countries. This legacy was tarnished by experience of State control of cooperatives. The International Labor Office recently summarized the situation as follows (Couture et al., 2002):

The state-controlled period was characterized by government interference in cooperative affair at all levels. Most of the time, member registration was compulsory, and the directors and staff were not appointed by the members, but directly appointed by State. In many countries, cooperatives were not particularly concerned about profitability since they were subsidized by the government and received preferential treatment. In the same way, they were subject to rigid State planning, which did not provide them with the possibility to develop their own entrepreneurial strategies. Their business affairs were often restricted to a small range of products and services, and State control extended to instructions and directives concerning, for example, the number of employees and their wages.

The large cooperative farms that had these characteristics were administered under label of cooperatives in Bulgaria and other former socialist countries, even when they had not evolved out of voluntary associations. In this way the concept of cooperation in agricultural production appears to have lost among many of the rural population. As noted by the Plunkett Foundation (1995), the use of the word "co-operative" in CEE will not only create the wrong impression, it will also create barriers to progress. The "old style" of cooperative or collective has no relevance in the new free-market approach.

The predominance of "old style" production cooperatives in the socialist agriculture of Bulgaria and other countries is shown in table 7.

Table 7
Share of production cooperatives in socialist agriculture (%, 1970)

Country Indicators	USSR	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	East Germany
Agricultural land	37.5	68.0	55.7	67.6	1.2	53.9	72.0
Number of employed	64.2	58.7	60.5	75.5	0.9	82.0	72.2
Productive assets	42.4	56.7	47.9	n.a.	1.4	23.6	n.a.
Gross product	40.0	62.6	53.2	45.8	1.1	42.3	n.a.

[4] Insufficient fertiliser compensation of extracted nitrogen, phosphates and potassium; and non-observing the crop-rotation requirements; and non-complying with anti-erosion and biodiversity norms; and excessive soil and water pollution in some regions etc.

State purchases:							
grain	51.9	81.1	64.5	79.8	1.3	71.0	79.3
meat	33.3	44.7	50.0	n.a.	1.3	20.6	n.a.
milk	36.5	59.7	53.4	43.3	0.6	28.7	n.a.

Source: GSE 1973, vol13:102.

The data illustrate the very large share of Soviet-model collective farms in the agricultural sector of most countries in the region, including Bulgaria. The state farms, not the quasi-private household sector, make up the difference to 100%. A notable exception was Poland where collectivization had not been forced and agriculture remained largely based on individual peasant farms. After 1989 the end of State support created severe economic problems for agriculture in the transition economies but at the same time the end of State supervision created opportunities. Providing institutional inheritance of large collective farming operations and the preserved infrastructure for large-scale enterprise, the idea was that autonomous cooperatives would be in position to solve some problems; especially those connected with the input provision and output marketing. The main idea for development of individually owned and operated farm enterprises by Western model was impeded because of lack of ownership on land, lack of competitive market sources of inputs and lack of access to credit.

Evolution of Agricultural Production Cooperatives in transition period

Following the Land Law, all of the old cooperatives (these from the socialist era, collective farms) and other organizations established on their basis were liquidated and their assets distributed into individual shares[5]. The liquidation of ancient structures took more than 4 years, and it was associated with large direct costs, enormous mismanagement and distortion of agrarian assets, and unfair allocation of the individual shares (Bachev, 2000). More than 2 million Bulgarians got small stakes in the assets of ancient cooperatives. Some agents found their individual shares in agrarian assets in a high interdependency. Besides their small size, a great part of the individual stakes was in indivisible assets, such as large machinery, buildings, processing and irrigation facilities etc. For the new owners, there was no any alternative but liquidate (through sales, consumption) or keep them up as a joint (cooperative) ownership. In many cases, the landowners got restituted their plots with fruit trees, vineyards etc., and they could practically execute much of the activities (mechanization, plant protection, irrigation etc.) in a cooperation. Most land and shareholders happened to live away from rural areas, or have other business, or be old of age, or have no skills or capital to start own farms. In the absence of high demand for farmland and confidence in the emerging new private modes, the only option was to join the cooperative. In this way, more than 40% of the new owners have pooled their land and assets in the new production cooperatives.

[5] Most divisible assets (livestock, fruit trees, vineyards) were physically distributed among the eligible shareholders. A great part of the machinery and buildings were sold out on internal auctions. The remaining portion of individual shares was transferred to the newly emerging cooperatives.

Table 8.

Number and size of the production cooperatives in Bulgarian agriculture

Year	Number	Utilized farm land		Members	Average size	
		(100 ha)	Share (%)		(ha)	Members
1992	347	670	1.2	n.a.	193.08	n.a.
1993	1230	7560	13.2	268000	614.88	218
1994	1873	13420	23.4	468000	716.6	250
1995	2623	20980	36.6	678000	800.04	258
1996	3213	21880	38.2	736000	681.05	229
1997	3229	24343	42.5	751000	753.89	232
1998	3269	24270	42.4	765000	742.53	234
1999	3238	22967	40.1	772000	709.29	239
2000	3125	22185	44.4	n.a.	709.9	n.a.
2001	2900	17386	50.6	n.a.	599.5	n.a.
2002	2010	13600	42.9	n.a.	676.6	n.a.
2003	1992	11693	40.2	n.a	592.6	n.a.
2003/98 (%)	60.94	48.18	-	-	79.81	-
2007	1156	7263	0.24	n.a.	628.3	n.a.
2010	900	6407	0.18	n.a.	640.7	n.a
2007/98(%)	35.36	29.92	-	-	0.85	-
2010/98(%)	27.53	26.40	-	-	0.86	-

Source: National Statistical Institute and own calculations

More than 3000 *new production cooperatives* emerged during and after liquidation of the “old cooperative” structures in 1992-95 (Table 8).They are legal entities registered under the Law for Cooperatives. During the 1992-98 period, the number of Agricultural Production Cooperatives (APC) is steadily and continuously increasing, while after 1992 it grows up 2.5 times. In 2000 they are more than 3100 and manage nearly 40 % of all the arable land in the country (MAF, 2001). It is peculiar to this period that after 1998 the process of development of new co-operatives starts gradually slow down. This is a direct result of the concluding re-establishment of the private land ownership. According to data of the National Institute of Statistics, by 27.12. 2000, the property rights on 5679.6th ha or 99.79% of all farmland, have been restored. In 2003, the number of cooperatives is some 2000 and it keeps on decreasing. Compared to 1998, this number has shrunk with more 38%.

As can be seen from the data, after 1999 between 150 and 600 coops annually have ceased their activity. As a result, in 2003 considerable differences were found in their significance. The relative share of lands they use decreases twice for the whole country, and more than 4-5 times for several regions.

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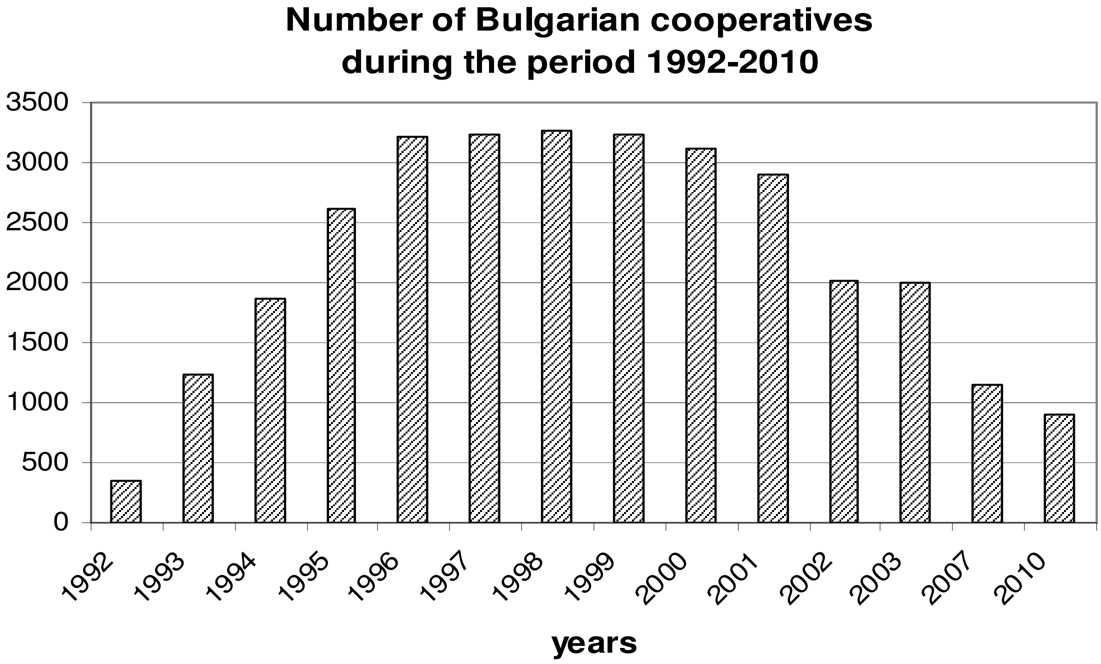

Figure 2. Number of Bulgarian cooperatives during 1992-2010

The cooperative was the only effective form for farming organization in the absence of settled rights on main agrarian resources and inherited high interdependence of available assets. Some cooperatives developed along with the small-scale and subsistent farming. Namely, the "non-for-profit" character and strong member orientation attracted the membership of many households. In the transitional conditions of undeveloped markets, high inflation, and high unemployment, the production coop was perceived as an effective (cheap, stable) form for supply of specific to the individual farms inputs and services (production of feed for animals; mechanization of major operations; storage, processing, and marketing of farm output) or food for households consumption.

The cooperative rather than other formal collective (e.g. firm) form has been mostly preferred. Coops were initiated by older generation entrepreneurs and a long-term cooperative tradition from the communist period had a role to play. Besides, this mode allows individuals an easy and low cost entree and exit from the coalition, and keeping a full control on a major resource (such as farmland), and "democratic" participation in and control on management ("one member-one vote" principle). In addition, cooperative form gives some important tax advantages such as tax exemption on sale transactions with individual members and on received rent in kind. Also there are legal possibilities for organization of transactions not legitimate for other modes such as credit supply, marketing, and lobbying at nation-wide scale[6].

Relatively larger operational size gives the cooperatives a great opportunity for efficient use of labor (teamwork, division and specialization of work), farmland (cultivation in big consolidated plots, effective crop rotation, environment protection), and material assets (exploration of economy of scale and scope on large machinery). In addition, they have superior potential to minimize market uncertainty

[6] Forbidden for business firms by the Double-taxation and Antimonopoly Laws.

and increase marketing efficiency ("risk pooling", advertisement, storage, integration in processing and marketing); and organize some critical transactions (strong bargaining position; positions in input supply and marketing; facilitate land consolidation through lease-in and lease-out deals; introduce technological innovations); invest in intangible capital, etc. In situation of "missing markets" in rural areas, the cooperative mode is also the only form for organization of certain transactions - undertaking bakery, retail trade, recreation, etc.

The cooperative activity is not difficult to manage since internal (members') demand for output and services is known and "marketing" secured beforehand. The coops concentrate on few highly standardized products (such as wheat, sunflower etc.) with a stable market and high profitability. All that assists financing as advance funding of the commissioned by members activities, while production of universal commodities (wheat, barley) is easier financed by public programs or commercial credit.

The coop applies low-cost long-term lease for land supply from its members. Often this is coupled with simultaneous lease-out deals as a specific mode for cashing coops output or facilitating relations between landowners and private farms. Output-based payment of labor is common, which restricts opportunism and minimizes internal transaction costs. Besides, cooperatives provide employment for members who otherwise would have no other job opportunities - housewives, pre- and retired persons. They are preferable employer since they offer higher job security, social and pension payments, paid day-offs and annual holidays. Giving the considerable transacting benefits most of the coop members accept lower (than market) return on their resources - lower wages, lower rent for land and dividends for shares.

There have been some adjustments in coops size, memberships, and production structure. A number of them have moved toward corporative type governance applying profit-making goals, close-membership policy, joint ventures with other organizations, etc.

At the same time, cooperatives have shown certain *disadvantages* as a form for farm organization. A high membership of the coalition makes individual and collective control on management very difficult. That gives a great possibility for mismanagement or let using coops in the best interests of managers or private groups around them (on-job consumption, unprofitable for members' deals, corruption). Generally the new cooperative organization did not overcome the incentive problems associated with the team working in the old style cooperatives[7]. Many coops fall short in adapting to diversified (service) needs of members, and exacting market demand, and growing competition. For all these reasons, the economic performance and productivity of production cooperatives have not been good[8]. Accordingly, efficiency of cooperatives has diminished considerably in relation to other modes of organization (market, contracts, partnerships, etc.). Since property rights on farmland were definitely restored in 2000 many landlords have pooled their land from the

[7] Over employment, equalized remuneration, authoritarian management, adverse feeling towards private farming, system of personal plots etc. have been broadly practicing in many new coops.
[8] Some estimates show that the rate of profitability of cooperatives is 5 times lower than in private farms - namely 4.7% against 26.5% in non cooperative farms (Koteva and Kaneva, 2006).

cooperatives. Consequently, almost 40% of coops have bankrupted or ceased to exist in the last 5 years.

Production structure of cooperatives

The cooperatives have been the biggest farms in terms of land management, and concentrated a major part of cereals, oil and forage crops, orchards and vineyards. Besides, they are a key service provider for their members and rural population.

Table 9.
Share of different farms in major resources and productions

Indicators	Individuals	Cooperatives	Sole traders	Companies	Partnerships
Workforce (%)	95.5	1.2	0.8	1.4	0.3
Labor input (%)	91.1	4.1	1.4	2.8	0.6
Cereals (%)	26.6	41.8	13.0	17.3	1.3
Oilseed crops (%)	20.5	45.1	14.2	18.6	1.6
Fresh vegetables (%)	86.4	4.4	4.2	4.6	0.4
Orchards and vineyards (%)	52.3	29.5	2.9	10.7	4.6
Cattle (%)	90.2	5.1	1.5	2.5	0.7
Sheep (%)	96.0	1.4	0.8	1.0	0.8
Pigs (%)	60.3	1.4	7.0	30.5	0.8
Poultry (%)	56.5	0.2	13.3	29.3	0.7

Source: MAF, Agricultural Holdings Census 2003

In 2004, the crop production contributed to 57.8% of the agricultural output. Most of the arable land area in 2004 was used for the production of cereals (around 1.9 million ha or 58%), oilseed crops (0.6 million ha or 19%) and vegetables (4%). According to the MAF data at our disposal, most APC now, are specialized in plant-growing (Table 9). They produce a limited number of commodities. The share of plant-growing products predominates in their production structure. The oilseed crops (45.1%) rank first in this structure followed by the cereals. The major cereals are wheat, barley and grain maize. The cooperatives grow only 4.4% of the vegetables. About 87% of the fresh vegetables are grown in the small holdings of the individuals. In terms of area the most important permanent crops are orchards and vineyards – 29.5% of these crops are grown in the cooperatives.

Livestock production contributed to 37.5% of the Bulgarian agricultural output. In 2004 the cattle herd amounted to 672 thousand, sheep – 1692, pigs – 931 thousand. There is a continuous decrease in the share of animals bred in the cooperatives. They breed only 5.1% of the cattle, and 1.4% of the sheep and pigs in the country (Table 3). About 90% of the cattle are bred in holdings belonging to individuals. In future this may lead to serious problems connected mainly with the adaptability and surviving of these forms. From other side, the harmonization of national legislation with the European acquits and alignments to the Community standards in the area of hygiene, environment protection and animal welfare – particularly in the milk and meat production sectors require significant investment, which is beyond the powers of individual farmers. In this respect the coops could play an important role.

On the basis of data analysis referring to the production structure, it may be concluded that farm production coops prefer growing traditional crops grown with a high level of mechanization and which are less labor consuming. It is positive the fact that 97 % of the co-ops have own (though being worn out and outdated) machinery, which allows them to provide mechanized services (Todorova, Ivanova, 2002). However, despite the significant support under SAPARD (Special Accession Program for Agricultural and Rural Development program) for modernization of agricultural machinery further investments are needed for the crop production sector. This will increase the labor productivity in the plant-growing cooperatives.

Under the new market conditions different forms of agricultural production cooperatives are spread in Bulgaria. We can 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;
- *commodity production cooperatives, producing agricultural products intended for the market.* These are mainly products, which can be produced with applying of high level of mechanization. Here are cooperatives specialized in growing of wheat, industrial and forage crops;
- *vertically integrated production cooperatives*, specialized not only in growing of agricultural products but also in processing and marketing activity. Some of these cooperatives make a success both in the home and international market. They develop their own marketing channels and establish own trademarks.

The main problems of agricultural production cooperatives in Bulgaria

The great variety of problems may be generalized in three groups: *problems resulting from the APC organization and management; problems stipulated in the Law for cooperatives and not in the last place by significance - problems connected with the investment in cooperatives*.

The major problems referring to the APC organization and management result from their developing mechanically - without giving any reasons and considering the natural and economic preconditions for this. As a result, a great number of cooperatives appear and each of them has numerous members. The wide difference between total number of cooperative members and those participating with their labor in the cooperative causes the main problems in its functioning. The widely applied principle “One member - one vote” brings forth objective opportunities for solving the issues in favor of the most numerous group of members. Often this is in opposition to the interests of cooperative as an economic enterprise. The high share of cooperative members not participating with their labor becomes a precondition for impeding the cooperative development and innovation of its necessary equipment, technologies and production structure. These members receive the main part of their income out of the cooperative. Their low dependency and hence interest to the future of cooperative 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 cooperative (Miteva at al.). Along with this, in conformity with the cooperative social principles, in the beginning of transition APC supported an excessively higher number of full-time workers who are their members. This directly reflects the indicators of labor and production efficiency.

Another significant problem referring to the APC organization and management is the production specialization of farms. Predominant part of APC is specialized in plant growing. Basing on the market conditions and looking for reliable and easy of access markets for their products, 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, APC switch to productions, without having the due optimal natural conditions for their development. However, this results in diminishing average yields with production costs higher than the average for the country. Thereby, they additionally worsen their anyway poor financial and economic state.

Other serious problems of APC are also provided in some treatments of the Law for cooperatives. In the opinion of some research workers (Todorova, Ivanova, 2002) this law is still having significant shortcomings in spite of its numerous amendments and supplements. In most countries, the right of cooperative to buy land is considered a way of guaranteeing its stability. The adopted in our country resolution about the cooperative to use the land of its members only by renting it may be explained with the desire of law-maker to protect landowners. However, this brings APC 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.

Under the present normative restrictions for APC, 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 restrictions give rise to serious difficulties for the cooperatives in their investment activity, especially when they face the necessity of crediting. Banks withhold giving credits to cooperatives for their impossibility to guarantee them. Both the lack of credits and the objective difficulties caused by the limited market of agricultural products lead to the cooperatives' low or fully absent investment activity. Furthermore, there are differences in the investment preferences of the diverse members (old-younger; working-non-working; large-small shareholders). While the working and younger members are interested in long-run investments and growth of salaries, older and non-working cooperative members favor higher current gains (land rent and dividend). Given the fact that most members are small shareholders, and older in age, and non-permanent employees, the incentives for long-term investment for land improvement and for renovation of outdated machinery, orchards, vineyards, have been very low.

Results and Discussion
Inferences and lines of development

The presently existing form of APC is undoubtedly transition organizational structure - a product of the agricultural sector restructuring. However, it could not continue functioning as such without enduring some serious changes. The possibilities for its transformation can be outlined in three directions:

- *Transformation into service providing cooperatives*, which can render services to several independent cooperative associations and thus allowing them jointly to use the heavy-duty machines against payment;
- *Reorganizing into capital associations*, the statute of which allows a more particular distinguishing between the cooperative members. The general opinion is that the typical joint-stock forms are more unfit 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 APC as an organization form* but only after undertaking some considerable changes regarding its structure (both organization and production). A very important change to be done for these cooperatives to survive is reducing the members' staff. This necessitates a change in their statute, which to stipulate a binding participation with labor or restricting the share of those who do not work in the cooperative. Also it is necessary to differentiate the non-working members' rights to participate in the management of cooperative. The aim of such change is to increase the cooperative members' interest and responsibility regarding the further development of the cooperative. Another important point referring to the possibilities of the APC survival is reorganizing of their production 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 inter-cooperative enterprises. There are also opportunities for these co-operatives to start developing animal-breeding. Notwithstanding the existing shrunk market at this stage, the further increasing of living standard and the expanding of foreign markets will change the relation plant-growing - cattle-breeding to the advantage of cattle-breeding. If the cooperatives 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. For analogous reasons, the cooperatives 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.

The choice of one or another line of development besides on the market conditions will also depends 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 APC and the agricultural sector.

However, most cooperatives will sustain in years to come since they will keep their advantages to a large number of small landowners, rural labor, small and subsistent farms. Recent public interventions though subsidies and credits for farm and rural investments, and incoming EU direct payments, all they give an opportunity to overcome coops funding problem. Besides, some market protection, environmental, infrastructural, and rural development projects, which require large collective actions, could be effectively initiated, coordinated, and carried out by the existing cooperatives.

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СЕЛЬСКОХОЗЯЙСТВЕННЫЕ ПРОИЗВОДСТВЕННЫЕ КООПЕРАТИВЫ БОЛГАРИИ - ЭВОЛЮЦИЯ, ТЕКУЩЕЕ СОСТОЯНИЕ, ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ

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Аннотация. В период перехода к рыночной экономике в странах Центральной и Восточной Европы образуются совместные предприятия, появление которых означает попытку заполнить производственный вакуум в сельскохозяйственном секторе этих стран. В дополнение к проблемам, с которыми столкнулись сельскохозяйственные производственные кооперативы в социалистический период, в новых экономических условиях были добавлены новые, которые кооперативам из бывших социалистических стран предстоит преодолеть.

Объектом настоящего исследования является изучение эволюции сельскохозяйственных производственных кооперативов в процессе перехода от централизованно планируемой к рыночной экономике; проблем, стоящих на пути их развития; их преимущества и недостатки, ограничения производственных структур, налагаемые макроэкономической средой, а также их способности удовлетворять экономические условия страны.

В статье рассмотрено современное состояние Сельскохозяйственных Производственных Кооперативов, освещаются основные вопросы, связанные с их организацией и управлением, организацией инвестиционного процесса и др. Анализируются возможности преодоления этих проблем, а также составляется заключение о направлениях их развития.

Ключевые слова: сельскохозяйственные производственные кооперативы; переход; организация; управление; инвестиционные проблемы; законодательство о кооперативах; трансформация.