

Economics of agriculture

SI – 2

UDK: 334.73 (497.2)

## AGRO POLICY AND STRATEGIES IN BULGARIA'S COOPERATIVE MOVEMENT

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### Abstract

*This paper is firstly aimed to propose a conceptual framework exploring institutional and economic development of cooperative movement in Bulgaria. Secondly it aims to assess the impact of reforms under way in the national economy.*

*The main research questions assign to:*

- *Which features of institutional framework hinder or give priority to sustainability of cooperative development?*
- *What are responsibilities and interests of public and private sector in shaping the vision of cooperatives?*
- *What is the importance of property rights protection to common utilization of agricultural components?*

*The methodology section is based on: a background description of national survey data; an observation of changes in dynamics between formal and informal institutions; in-depth analysis of decision-making process adopted by cooperatives.*

**Key words:** *Bulgarian cooperatives' models, enforcement regime, property right protection*

### Introduction

Sustainability of the cooperative movement is determined by the established mechanisms of coordination and control of the formal institutions (laws, policies and regulations, political and economic rules) over the stakeholders in the agro industry chain. These relations are important prerequisite for an adequate policy implementation and comprehensive strategies formulated as a result of the interaction between the government policy and representatives of the agricultural sector.

### The Cooperatives' development and relations

Agriculture as a part of Bulgarian economy provides a whole range of economical, social and environmental services and has a rich cooperative history and tradition. The first cooperative was established back in 1890 in the village Mirkovo and since then cooperatives have become an important incentive for the development of the

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sector. From this starting point the institutional concept of the cooperative movement is marked by the influence of the following components:

- governance policy and co-ordination mechanisms,
- property rights,
- stakeholders' interests,
- organization of the transaction.

From the historical perspective three basic models of the development of the agricultural sector are broadly introduced: early capitalism, socialism and the transitional model. Bulgaria's accession to the European Union has specified the fourth one – the model that is inspired by the Common Agrarian Policy and followed its ideas and principles.

Bulgarian agriculture during the period before World War II can be described by the following features – small owners, low productivity and primitive technical level. The economic crisis in 1930 had deepened the problems in the sector and its backwardness.

In the philosophy of the second model of the socialism as a background is the idea for the social equality. Collectivization put it into practice by liquidation of the land ownership and distribution of the land equally to the landless or very small owners. The process was not an easy task as 80 percent of the population earned their incomes from farming. Reforms during the socialist period were performed on *three stages*:

- The agrarian reform started in 1946 with the expropriation of the land from families who owned more than 20 ha. In four years the result was that 98 percent of land was utilized by collectives or the so called Labor Collective Agricultural Farms. The main features of these collectives is that membership in them has transformed the farmers simply to laborers and has changed their motivation and interest in the production performance.

- Agrarian Industrial Complexes were established on the second stage of the reforms. These organizations were state property and particularly they are the result from merging the collectives into state owned agricultural units. Again the producers' incentives were underestimated which have led to moral hazard problems, adverse selection and opportunism.

- The third stage was the final result of the reform: the crisis affecting agriculture in the 1980s led to the collapse of Agrarian Industrial Complexes and re-organization of the agricultural production again in the collective units.

During the pre-accession period the agricultural sector has experienced major changes including market specification, environmental and food safety requirements and service access issues. One of the main characteristics of the transition from a centrally planned to a market economic is the transformation of cooperative structures into new organizational forms in order to achieve more rational distribution of the production resources and effective realization of the agricultural production. Back in 1996 the Bulgarian agricultural policy was characterized by short-term measures on price policy and direct support to producers based on subsidized short-term seasonal credits. In 1995

Agricultural producers' protection act<sup>2</sup> was passed, which regulated the government role in creating and maintaining favourable economic conditions for the sustainable development of a competitive agricultural sector. Three years later the Law was entirely processed and the new Law on assistance to agricultural producers was approved. Following the recommendations of the international institutions the Government proposed a package on agricultural policy based on the legal framework adopted by previous governments but incorporated into the new stage of macro-economic stability.

*The common problem was the missing link between the representatives of the agricultural sector and the government that results in low motivation for participation in the decision-making process.*

As a consequence the main characteristics of the transforming agricultural sector are:

- limited opportunity for producers to participate, control or modify their relations with processors, suppliers and retailers and also to take part and have control over the process of pricing;
- individualism is one of the main characteristics of agricultural relations, which results in mistrust in different types of organization;
- the weak initiative of entrepreneurs, which limits the opportunities for market success.

One of the measures in the National agricultural and rural development 2000-2006 is measure 1.5.: “*Setting up producers' groups*”. The overall objective of the measure is to promote the setting-up of producer groups by providing financial support and in particular raising their margin, to secure market transparency and product-specific standards. By the end of July, 2004 in Bulgaria was recognized organization of tobacco producers – “The first association of tobacco- producers in Bulgaria EVRO-2004” – LtD on the criterion “volume of produced goods” – they declared 1 873 030 kg of tobacco. In 2004 the cooperative of fruit producers “Evrofruit-2004” based in Plovdiv was also registered as well as the “Association of Tobacco producers 2003” LtD based in the village of Listets, district of Silistra.

After 2007 the policy initiative became more focused on the development of the cooperative organizations and the vision of the legislative base grew more purposeful. In 2009 the National strategy for the sustainable operational programs of the producer groups (fruit and vegetables) in the Republic Bulgaria (2009 – 2013) was accepted. The functioning of these organizations is based on the European legislation - in particular the Regulation 1234/07<sup>3</sup> for the establishment of the Common organization of agricultural markets and Regulation 1580/07<sup>4</sup> of the Committee for applying the

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2 Agricultural producers' protection act, Promulgated State Gazette No. 57/23.06.1995

3 Council Regulation (EC) 1234/2007 of 22 October 2007 establishing a common organization of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation)

4 Commission Regulation (EC) 1580/2007 of 21 of December laying down implementing rules of Council Regulations (EC) 2200/96, (EC) 2201/96 and (EC) 1182/2007 of the fruit and vegetables sector

Regulation 2200/96<sup>5</sup> and 1182/07<sup>6</sup>.

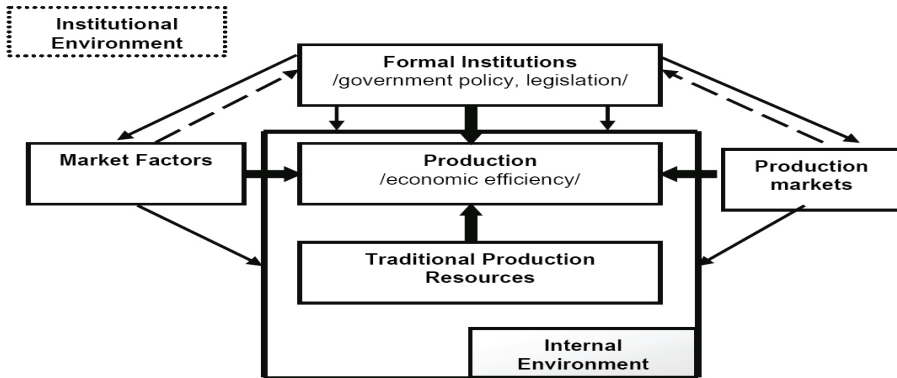
### Institutionalization of the agrarian sector

The results from the policy endeavors to stabilize the agricultural sector shed light to a conceptual problem connected with the multiplicity of the meaning of the key term “institution” and how the various aspects of the political systems are related to one another. The economic literature suggests differentiating between institutional environment and institutional arrangements<sup>7</sup>. The institutional environment includes formal constraints and rules (government policy, legislation), while the institutional arrangements are the mechanisms coordinating the economic transactions.

In practice a great part of coordination and product specification is realized through contract arrangements. These contacts imply new risks for producers, which require an appropriate organizational form to negotiate and administer these contracts. Against this backdrop the government policy plays a central role in the efficient organization of economic exchanges in the agricultural market by laying the foundations for improvement of the contractual performance and reduction of the transaction costs.

Efficient relationship between the formal institutions and the strategic choices of the economic players results in transactional trust between contracting parties, property rights protection and transparency (figure 1).

Figure 1 - Institutionalization of the economic transactions



Resource: Modified Curtiss/2002: 20/

5 Council Regulation (EC) 2200/96 of 28 October 1996 on the common organization of the market in fruit and vegetables

6 Council Regulation (EC) 1182/2007 of 26 of September laying down specific rules as regards the fruit and vegetable sector, amending Directives 2001/112/EC and 2001/113/EC and Regulations (EEC) 827/68, (EC) 2200/96, (EC) 2201/96, (EC) 2826/2000, (EC) 1782/2003 and (EC) 318/2006 and repealing Regulation (EC) 2202/96

7 Davis and North (1971), Institutional Change and American Economic Growth. Cambridge University Press

Opinions about the responsibilities of the public and private sector in shaping the vision of the cooperatives are often controversial. Collaboration between them can result in optimal exploiting of the market opportunities and potential (table 1).

*Table 1 - Collaboration between public and private sector responsibilities*

| ISSUES             | PUBLIC SECTOR INITIATIVES                           |   | PRIVATE SECTOR INITIATIVE                 |
|--------------------|---|---|---|
|                    | INVESTMENT ACTIVITY                                 | LEGISLATION                             |   |
| Market access      | Infrastructure Investments and Information Campaign | Improving enforcement regime            | Collaboration, Initiative among producers |
| Quality            | Sustainable management of natural resources         | Environmental, food-safety requirements | Enhancing management capacity             |
| Technical capacity | Extension services                                  | New financing mechanisms                | Diversification                           |

Clear concept of government policy is a prerequisite for an elaborated legislation. During the transition period in the Bulgaria's agricultural sector a high variation of the efficiency results was observed due to the changes in land ownership and in the organization of the property rights. Well established and enforced property rights secure control of assets as a critical component of sustainable economic organizations<sup>8</sup>. According to the conventional right property rights are divided in the following three categories: right to use, transform or destroy asset; to make profit from the use of assets; right to transfer ownership rights of the asset to another party.

Property rights result from the necessities of the contracting parties to organize their economic activity more efficiently. Bulgaria's government has initiated and passed regulations for establishing and improving the relationships across the agro industrial chain. An example of that kind of legislative act is the Regulation 104/2008 for organization and coordination of the management of the financial resources from the European Union funds. In accordance to it as a responsible administrative structure is pointed out the Agency "Rural regions' development". Another initiative is foundation of the Agro business council that includes representatives of the local branch organizations. This council together with the scientific council that was established in May, 2008 and is represented by members of the scientific agrarian community and experts from the Ministry of the Agriculture and Food are involved in solving and preventing potential problems of the companies from the agrarian sector. These are just examples of the measures taken at the government level in terms of law-making.

## Conclusion

The common understanding for government policy, institutions and cooperative structures gives closer look to their influence and importance for the agricultural sector.

<sup>8</sup> Hanna, S. et al. (eds.) 1996. Rights to Nature. Island Press, Washington

Along with their initial functions cooperatives are often an alternative to improve the cost-efficiency and to secure sustainable development. They become also a chance for the producers to participate in the negotiation of institutionalized agreements, implementation of regional development plans and agricultural policy. Thus the role of the cooperative movement cannot be limited to “managing” situations created by agricultural policy or simple adjustment of reforms already under way. Producers become involved in shaping the future of agriculture, its place in the local and national economy, and the functions that it should perform.

Participation in these organizations can also bring significant economic benefits especially when the organization operates in agrifood chain with high transaction costs. Well-developed cooperative structures can create some regional specialization by bringing together producers belonging to the same region in the competition with other regions on the basis of their comparative advantages and the development of specific assets.

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