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DEVELOPMENT AND PROBLEMS OF PRODUCTION COOPERATIVES IN THE BULGARIAN AGRICULTURE

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Abstract

In the paper are outlined the lessons and the problems of functioning and restructuring of cooperative structures in the agricultural sector in Bulgaria during the pre-accession period (1995-2006). The unsolved institutional and legislative problems of these structures are shown in details.

The purpose of the paper is to analyze and assess the status of the cooperative structures active in agriculture and to offer concrete suggestions for their further adaptation to the EU legislation implemented in this field.

Keywords

Agricultural cooperatives, EU accession, CAP implementation

1 Introduction

During the last 17 years the agricultural production cooperatives are the most discussed form of organization of production in Bulgaria. The reasons are linked to:

- The vast spreading of the cooperatives and their significance for the production of several main agricultural crops;
- The ceaseless changes in their number and significance in terms of territory in the rural regions of Bulgaria;
- The specific characteristics of the agricultural cooperative as a form for organization of production and the peculiarities of the Bulgarian variant of agricultural production cooperatives.

In the paper are outlined the lessons and the problems of functioning and restructuring of cooperative structures in the agricultural sector in Bulgaria during the pre-accession period (1995-2006). The unsolved institutional and legislative problems of these structures are shown in details.

The evaluation of the changes in distribution and characteristics of the productive structures is based on the Census of agricultural holdings carried out in Bulgaria in 2003 and on the results of two scientific projects done by the authors.

2 Methodological problems of investigating cooperatives

In the cooperative theory there exist numerous of tested and proven research hypotheses for the preconditions for agricultural owners to participate in cooperatives and their relation to efficiency, compatibility and stability of the cooperative organizational form.

The discussion of reasons of the individual choice of the collective activity is more than 100 years old. Whereas in the 19th and in the first half of the 20th century dominated the idea and practice of compelling farmers to cooperative membership with the fact that income or profit could not be realized outside obligatory cooperatives, during the last decades the socio-economic reality in Bulgaria was "testing" the opposite hypothesis. According to a second group of authors who dealt with voluntary organizations or cooperative leadership future

strategic aims for obtaining individual goals and those of common interest seem to approve even means of “different character”.

A similar research done by different authors about testing of the final alternatives in the context of a “threat-scenario” does not lead to comparable empirical results. The final research hypotheses in this case do not back up a third opinion. According to the third opinion the individuals become members of different voluntary structures for different reasons and not only due to “threat” or “attractiveness” of the chosen stimuli. Moreover, the individual motivation can be based on personal stimuli and on collective aims as well (HAGEDORN, 1999).

While looking for the essential characteristics of the cooperative, DOUMA and SCHREUDER (1998) assign it to types of non-market horizontal coordination in which the leading regulatory mechanism is connected with the mutual regulation or standardization of values and norms. On this are based confidence and commitment as preconditions for the combination of formal and informal organizational norms. This will help to decrease the expenditures for surveillance, control and compulsion. Often informal structures and relations arose spontaneously during the period of establishment of a cooperative and regulated their activity, while the status of formalized procedures appeared much later.

Although not being absolute these two alternatives find their specific, individual and unique manifestation in every cooperative, because voluntary and free participation cannot be combined with an impeccable organizational structure which seems to have no need for altruistic behavior particularly in crises of the cooperative.

In conformity with the main economic rules, some authors (e.g. COBIA, 1989) with good reason look for the relations between the cooperative’s organization and the economic principles. Moreover the success of the cooperative, its productivity and efficiency are directly related to the consciousness of achieved members concerning existing (limited) resources and their rational use.

A strongly debatable problem in the cooperative theory is the correlation between democracy within the cooperative and the factual form of business organization and its efficiency. This problem reflects the fact that it is not sufficient to establish only opportunities for increasing of the members’ benefits through the cooperative. To survive in the field of competition with other organizational structures, the cooperative as a whole should be efficient. To satisfy this requirement “rules of the game” must be elaborated with a frame of activity set to each member in order to motivate him/her to participate. Doubtlessly there are constant losers too and it is logical to expect that they will quit the cooperative. Thus, the so-called “principle of relative justice” requires adequate solutions in all areas of the common activities. For that reason the ability of the cooperative to survive depends on finding fair solutions of the main problems. According to some authors (OLSTROM, 1998; VON PISCHKE, 1996) the solution lies in a fair distribution of means and participation which belong to the main preconditions for the survival of cooperatives. Only a good balance among interests and a constant equilibrium between the incomes and expenses will support voluntary cooperation and coordination in the long run.

So the described theoretical positions and hypotheses reveal only small part of the immanent specific characteristics of cooperatives which for many land owners are still on the bottom of possible choices.

3 Distribution and significance of agricultural production cooperatives

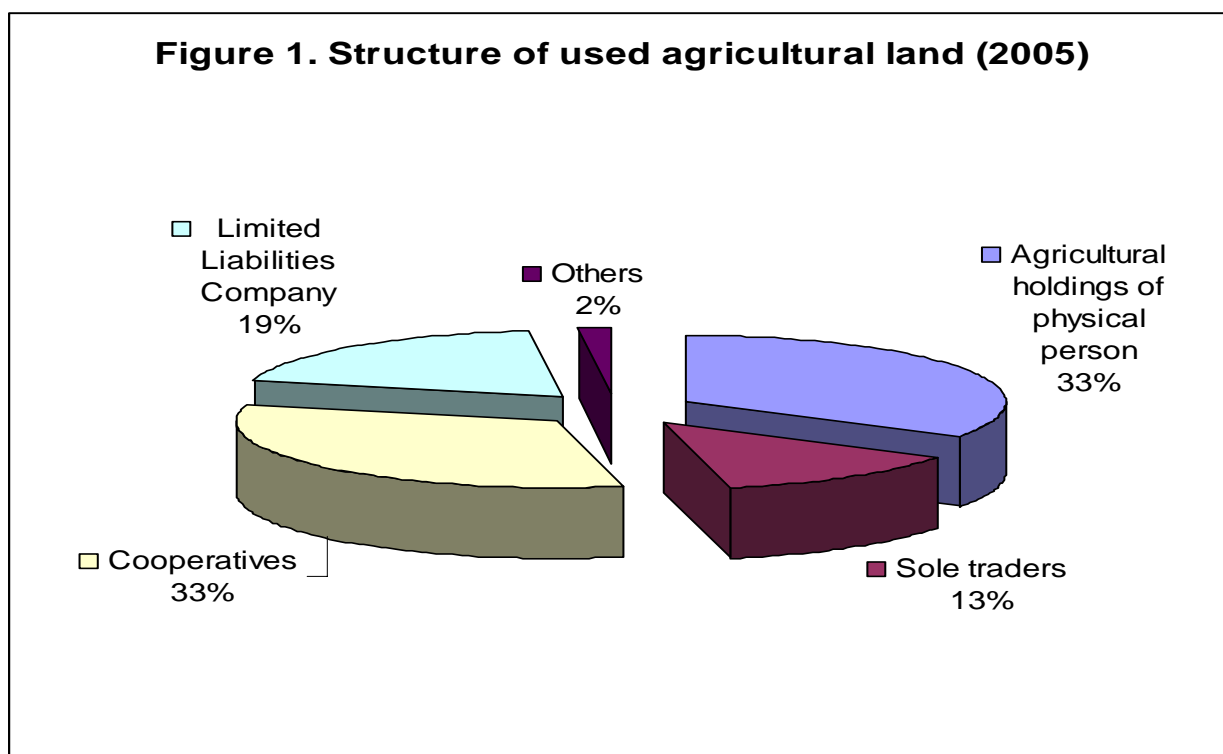
The agricultural production cooperative is one of the main organizational forms in the Bulgarian agriculture. During the years of radical changes in land ownership, economic parameters and the agricultural business environment, the production cooperative turned out

to be appropriate for the combination of small land ownership with the targets of large size holdings.

The main reasons for the preference of cooperatives were migration into towns (the prevailing part of land owners), the low average size of land properties and the limited possibilities to organize a production on them not touched by eventual economic crises, etc. Moreover the Cooperative Law created easy procedures for membership and also for quitting the cooperatives. This converted cooperatives into an attractive, though temporary economic solution for the biggest part of the Bulgarian land owners. The membership in cooperatives to most of them allowed to wait until the land market developed and to postpone final decisions on their property.

After a long period of changes in the organizational structures of the agrarian sector, due to the 2003 Census of agricultural holdings 1991 agricultural cooperatives were functioning throughout the country; they cultivated more than 40% of the used agricultural area (UAA). Two years later, in 2005, this percentage decreased to 33% (see figure 1).

Figure 1. Structure of used agricultural land



Source: Own illustration

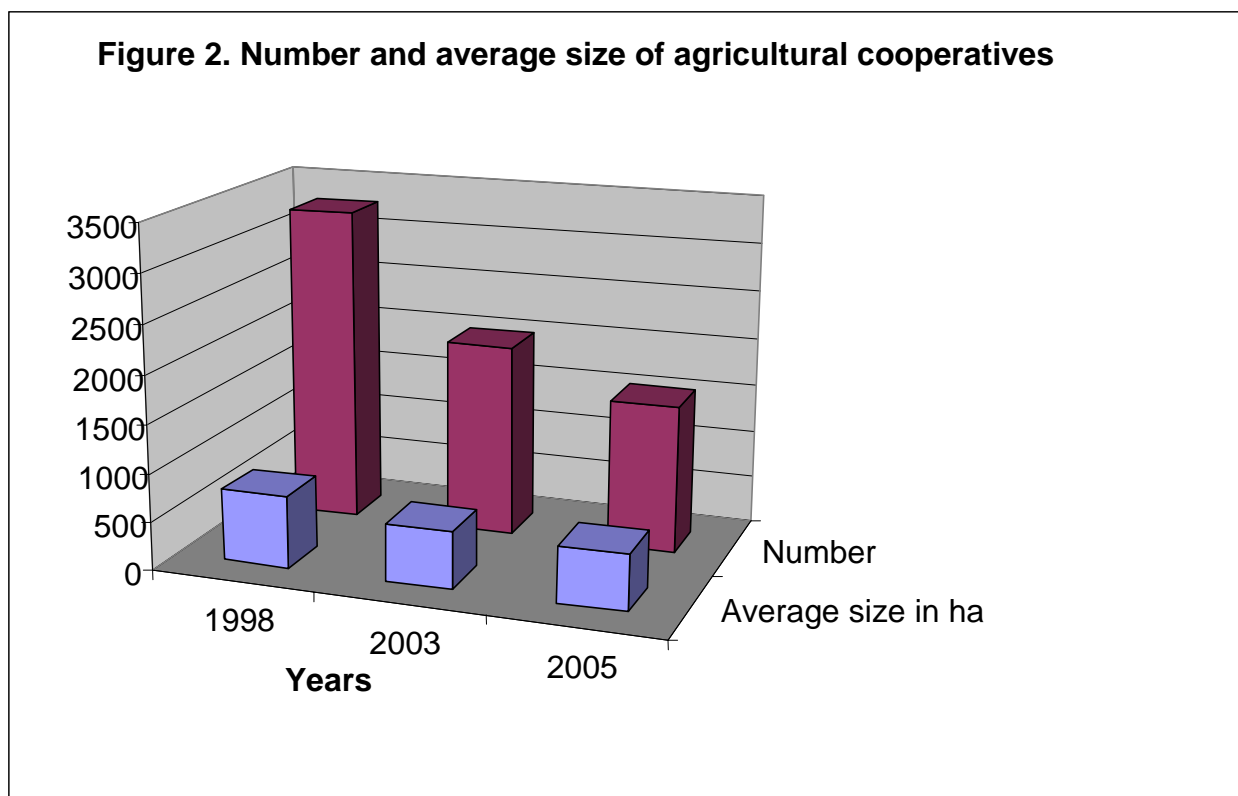
Since 1998/1999, between 150 and 600 agricultural cooperatives have stopped their activity. As a result in 2003 and 2005 their significance and distribution considerably differed from the former situation. The share of the land used by cooperatives was halved on national level, and fell down to 20-25% in several regions, with lower decrease in North Central and North Eastern planning regions and highest in South Western and North Western Bulgaria. In practice in some areas the significance of the cooperatives now is minimal and they cultivate between 5 and 14% of the land they used to five years ago.

Figure 2 shows that in 2005 only 57% of the cooperatives existing in 1998 were still functioning, that were 1534 units; and in several regions more than half of them ceased their activity. It should be underlined that only in one region the decrease in number of cooperatives was accompanied by an increase of the average size of the used land. The changes in all those indicators show that the agricultural cooperatives had a constantly

decreasing significance for Bulgaria's agriculture. Most have stopped their activities and the liquidations were not linked with their size.

The prevailing part of the cooperatives (around 80%) uses only agricultural land. Their average size (UAA) is 593 ha, while the average over all cooperatives is 59 ha. In the larger co-ops are grown 45% of Bulgaria's coarse wheat production, 52% of durum wheat, 47% of barley, 48% of sunflower, and they comprise almost 30% of all vineyards and others. The production cooperatives are of main importance in the production of cereals and of several technical cultures and they participate considerably in fruit and grape production. Most of the cooperatives (1717) are growing wheat, followed by 1473 cooperatives growing sunflower. The number of cooperatives with perennial crops is 457 (23% of all co-ops). Only 101 cooperatives are producing vegetables, of which 11 in greenhouses.

Figure 2. Number and average size of agricultural cooperatives



Source: Own illustration

19% of the agricultural cooperatives are keeping animals but produce different crops as well. The largest part of cooperatives (260 or 13%) are breeding cattle, followed by sheep-breeding (5%). The percentage of breeding cows (4.5), buffaloes (5.1), of, sheep (1.5) and pigs (1,4) are rather little.

In general the size of breeding herds is small for collective organizational structures. The calculated average amount of animals in animal keeping cooperatives is 134 buffaloes, 70 milking cows, 240 sheep, and 248 pigs. These figures are comparable to the numbers of animals held in family holdings of several EU countries. Only 1% of Bulgaria's agricultural cooperatives are strongly specialized in animal breeding and do not even produce their own fodder.

During the last couple of years in agricultural cooperatives with relatively stable economic and financial situation measures for equipment renovation were undertaken. At the same time there are still many cooperatives which continue to use obsolete technical equipment. In 2003, 19% of all tractors, 38% of combine-harvesters and 48% of fodder-combines were running in

cooperatives. Significant may be the higher share of high-powered tractors which in cooperatives is about 43% of the country's tractor stock.

In the cooperatives 26,634 persons are engaged; the average number of occupied persons per cooperative is 13.5. Expressed in Annual Working Units they are working 32,656 AWU, i.e. 4,1% only of the total of labor performed in agriculture. Thus, agricultural cooperatives do not have considerable significance for securing working places in the sector as well as in regions where cooperatives are active. The main reasons for this are their productive specialization (which presupposes seasonal work) and the relatively low size, particularly in some under-developed rural regions.

Due to agro-ecological and other conditions in Bulgaria several types of productive cooperatives can be found:

- cooperatives oriented towards the productive activity of their members;
- market-oriented cooperatives, which produce competitive agricultural products and to a high extent make use of mechanized services;
- vertically integrated production cooperatives which are specialized in processing and marketing activities apart from the production of agricultural goods.

The activity of a great part of the cooperatives in the first group intends to meet consumption and production needs of their members. The production structure is determined by requests of the members at the beginning of each season but also depends on the demands of the rural community for products and services. In most cases they rely on "inherited" (mostly out of date) machinery and infrastructure. Their activity is usually financed by members and they have no means for investment or revenues for distribution as rents and dividends.

In the second group agricultural land and the remainder of production factors of the greater part of the population in the respective territory are united. These cooperatives produce mainly competitive products and they are able to use equipment with a high degree of mechanization. Currently these cooperatives mainly are producing wheat, fodder and industrial crops. The majority of them reach optimal sizes by leasing land as well, and they also are able to buy land and other real estate which former cooperatives refunded to heirs of their (former) members.

The third group of production cooperatives primarily is market-oriented. In most cases their main activity is production, processing and distribution of agricultural produce. Some of these cooperatives work successfully on regional, national and even on international markets using their own brand names and distribution channels for end-products.

The main differences in the statutes of cooperatives are due to the different degree of "collectivizing" land, machinery, the cooperative buildings and the labour of the members.

Unlike the previous period when most of the cooperatives have been created on land given for temporary use, after 1995 changes in crop rotation took place. The reason why is because of (adopted and enforced) plans for land division in (many?) villages led to a rearrangement of the productive structure,. This brought about a correction of the cooperative's size and in some cases also mergers of cooperatives.

The Bulgarian agricultural production cooperative actually is by large a voluntarily organized private business, which is controlled by its owners, but its products and services are used only by a limited number of owners who live on the territory of the cooperative. In practice only these members are interested in a successful future development of their organizations. The rest of the cooperative members, say the majority prefers guaranteed income regardless of the obtained common revenues. As a result the negative effect from the coincidence of equal rights for participation in management with the large number of members increases and this makes distributory mechanisms very complex; so often problems will arise.

The decrease of of agricultural cooperatives in several regions of Bulgaria led to some negative consequences linked with the increase of the share of non-used agricultural land, worsening of social infrastructure and others. Particularly strongly affected by this are small villages where cooperatives were the only active business structure which also supports several social activities. Simultaneously, with the liquidation of cooperatives also important productive relations between agrarian structures, mechanized services offered by individual farmers, or with fodder production for these farmers and others stopped.

Thus the results of the numerical decrease of production cooperatives are economical, organizational and social. The agricultural production cooperatives do not use sufficiently the opportunities which are given by the existence of their “union”; it is a framework which should and can protect their interests on national and regional level. In some regions the members of the National Union of Agricultural Cooperatives in Bulgaria are only consisting of a few cooperatives, although it is noticed and their number of member cooperatives is increasing.

4 Lessons from the organizational changes of Bulgarian agricultural cooperatives

From the analysis of the development of agricultural cooperatives during the last years of transition and in the EU pre-accession period the following main conclusions and lessons could be drawn:

First: Enterprises should not be established without a prior design of the cooperative’s relations and also the inner structure so that the productive factors can be used in highly efficient activities with high economic results. Several cooperatives do not have enough equipment at their disposal, which very often is predominantly old whereas others cannot use their equipment effectively. Furthermore, there are annual changes in the size of cultivated land and in membership which may be prohibiting the provision of agro-technical requirements or make it rather difficult (KANCHEV and DOITCHINOVA, 2004).

Second: Cooperatives with large membership of persons who do not participate with their own labor and/or who live mainly in other communes or settlements (towns) should not become established (DOITCHINOVA, 2001). In Bulgaria in the majority of cooperatives on average have three-digit or four-digit membership figures (several near-to-town cooperatives or such in large rural territories). Their interests differ substantially from the rest of the members who participate with their labour and/or live in the same territory. Due to the small size of their land plots and their residence in towns, they perceive their participation in the cooperatives only as a temporary decision with all consequences well known in such cases – little motivation for participation in the collective managerial bodies, lack of interest for the future development of the cooperatives, and others.

Third: Within the cooperatives should not be applied distributing mechanisms which do not comply with the intention of the cooperative organization and do not stimulate the increase of labour productivity, higher productivity, long-term investments a.s.o. Regardless of the fact that after 2000 the land owners signed land-lease or rent contracts with cooperatives, they continued to be full members of the cooperatives as well and can participate in the collective managerial bodies.

Fourth: Cooperatives whose statutory norms do not guarantee stability of their organizational form also should not be founded. A minimum time of membership before participating in management procedures and organizational decisions (or for leaving the cooperative too) seems to be indispensable (DOITCHINOVA, 2001).

Fifth: The cooperatives must be placed in a situation of equality (status, rights) in comparison to other organizational structures in the sector (sole traders, agricultural producers and others), in terms of taxation, accounting procedures, access to credits and others which was inherent in Bulgaria to a large extent since transformation started 17 years ago.

Sixth: Each cooperative should have specialists for the management. The empirical results of investigations to this topic in Bulgaria show that some of the chairmen of the cooperatives do not have the necessary qualification and experience to organize agricultural production and to market the products. Moreover, in most of the cooperatives even in the fields of technology and farm economy (excluding accountants) specialists can hardly be found.

5 Suggestions for successful adaptation of Bulgarian agricultural producers to EU requirements

The successful development of agricultural cooperatives in Bulgaria is linked with the enlargement of their activity and with overcoming the existing discrepancy of interests among their members.

The experience of successfully functioning cooperatives shows that the productive specialization should be enlarged towards implementation of more intensive cultures as well as to integration of agricultural production with processing and trade. At the same time the agricultural productive cooperatives should direct their efforts to develop traditional and new animal products which will alleviate their financial management and lower the seasonality of incomes received.

In theory and practice for solving the problems in management of organizations and profit distribution two main approaches are known: it can be possible through cooperatives with individual members with similar interests only or through organizational statutes reflecting the differences between different members (in size and economic orientation). The first approach presupposes an organizational statute, but includes strong requirements for membership; the second is in search for sound cooperative partnership rules.

One possible solution is to establish agricultural productive cooperatives with obligatory collaboration of the members. This variant requires the existing cooperative to pay non-working members the value of their shares and to change statutory membership norms. Relations with land-owners will be solved on rent or lease basis putting aside a certain amount of cooperative funds for this purpose in order to meet needs on the land market.

Other possibilities are to limit the (relative) share of the non-working members of the cooperative or to differentiate their management rights. Similar decisions have been successfully implemented in France and other EU countries where such differences between working and, e.g., retired members already exist.

The third possibility is to establish a cooperative (or another collective structure) with members of land owners only. They should use hired labour besides their own and a hired manager. The statutes of such organisations envisage norms which regulate the relationships between the collective managerial body and ordinary members on the one side and owners of land and hired managers and workers on the other.

The implementation of a single payment per ha will speed up the decision of land owners to form primary production cooperatives with private family holdings which will use their land collectively for joint production – or the land will remain in its initial boundaries while other productive factors may be combined.

The current Law for Cooperatives does not create obstacles for the mentioned solutions. Moreover some of them have been successfully tested in practice during different periods.

Many of the market oriented cooperatives will adopt a strategy of transformation towards limited liability companies. For this purpose it is necessary to distribute the statutory capital of the cooperative to the partners on the basis their shares. A question might be whether the transformation of the cooperatives into joint-stock cooperatives is possible when the share of the cooperative itself is 51% while the rest is kept by small share holders? This can support

the attraction of external capital which will help the renovation of the equipment more quickly.

After our access to the European Union an additional possibility for agricultural production cooperatives was the development of service activities. So still more input resources of the family farms and also of other inhabitants of the villages can be preserved and via selling their production *and* services, the agricultural cooperatives will contribute considerably to the increase of incomes of rural households. Besides this cooperatives are able to provide consulting services and market information for their members and to execute the function as authorized distributors of EU subsidies.

The defense of the cooperative ideas, values and interests requires further harmonization of our cooperative legislation in line with the EU but strengthening the specific characteristics of the Bulgarian cooperative practice and their current interests. Parallel with this process it is also important to strengthen the integration with other national European cooperative structures and to participate in international cooperative unions and organizations. This will push forward the inclusion of our country in international projects like the building of regional distribution centers and the establishment of major trade channels.

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