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# Support for Farmers' Cooperatives

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## *Country Report* Bulgaria

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Ivan Boevsky

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# Support for farmers' cooperatives; ***Country Report Bulgaria***

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## Preface and acknowledgements

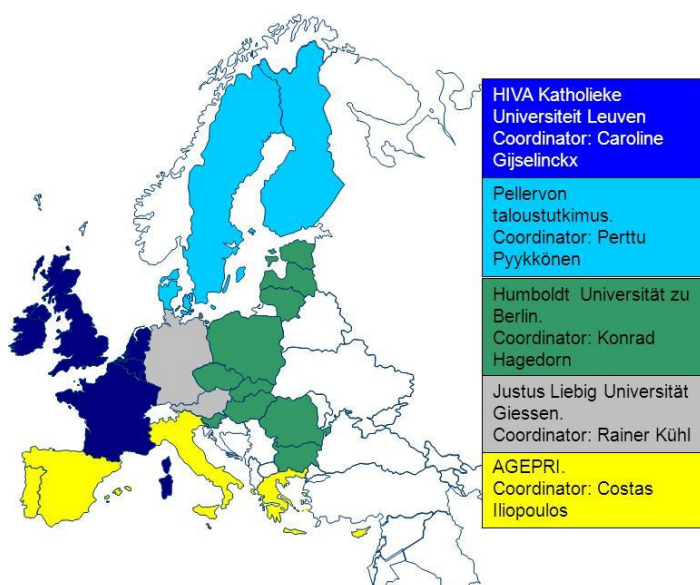
In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, “Support for Farmers’ Cooperatives (SFC)”, that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in Bulgaria has been written.

Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The Country Report Bulgaria is one of the country reports that have been coordinated by Konrad Hagedorn and Renate Judis, Humboldt Universität zu Berlin. The following figure shows the five regional coordinators of the “Support for Farmers’ Cooperatives” project.



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# **1 Introduction**

## **1.1. Objective of the study**

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Bulgaria.

In this context, the specific objectives of the project, and this country report, are the following:

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Bulgaria. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organizations in the agricultural sector in Bulgaria.

## **1.2. Analytical framework**

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study

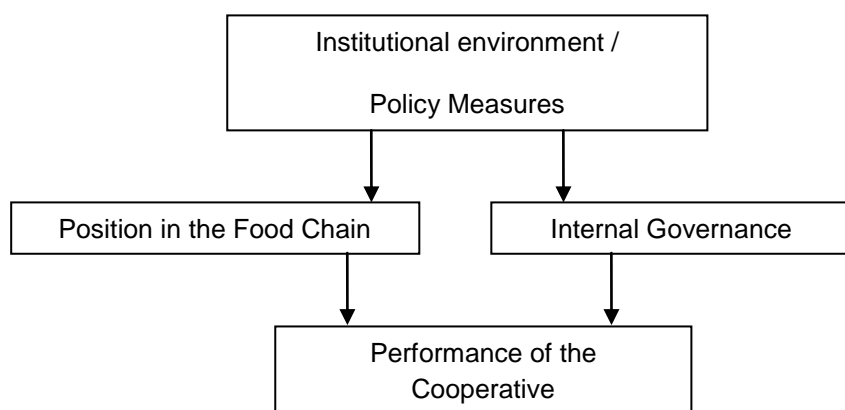


Figure 1. The core concepts of the study and their interrelatedness

### 1.3. Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organizations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organization; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organization;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organization (often called federated or secondary cooperatives). Membership in all Bulgarian cooperatives is voluntary.

### 1.4. Method of data collection

Multiple sources of information have been used, such as databases, interviews, my own observations obtained during my scientific work in the last 20 years, academic journal articles. The databases used are Eurostat, Bulgarian National Statistical Institute, Directorates “Agrostatistics” and “Irrigation” of Bulgarian Ministry of Agriculture and Food (MAF), Executive Agency of Vine and Wine of MAF. Databases from FADN, Amadeus, DG Agri and Copa-Cogeca are not available for Bulgarian cooperatives in agriculture (Cooperative Structures in Agriculture (see Chart 1 and Chart 2) do not report to such data bases. . The largest part of the information was sourced by:

- National Association of Bulgarian Agricultural Cooperatives and their regional associations; (mainly qualitative information, interviews were conducted with the director of the association)
- DGRV-Office Sofia;
- National Cooperative Association “Evrostart”



- In addition, information on individual cooperatives has been collected by mobile phone interviews with managers, accountants and board members of individual cooperatives. Academic experts on cooperatives in Bulgaria are rare. Professional experts on cooperatives are only by the cooperative association, but not by governmental bodies or NGOs.

## **1.5. Period under study**

This report covers the period from 2000 to 2010 and presents the most up-to-date information. This refers to both the factual data that has been collected and the literature that has been reviewed. It is important to point out that the significant part of the literature on cooperatives is not in Bulgarian language and has been written either by foreign scientists or by mixed scientific teams (foreigners and Bulgarian).

## 2 Facts and figures on agriculture

### 2.1. Agriculture

#### 2.1.1. Share of agriculture in the economy

The Bulgarian agricultural sector shows a declining tendency in terms of the share of GVA of the sector within the national GDP (Figure 2) in the last 15 years. It decreases from about 26% in 1996 to 4.5% in 2010. However, in the absolute values, the contribution of agriculture varies within the level 1.6-1.9 billion EUR and the relatively decreasing share in GDP is mainly caused by a strong growth of the secondary and tertiary sectors. Particular growth of the Bulgarian economy happened in the period 2003-2008, when the real GDP growth was significantly higher than in most countries from the EU – 6.3% annually. A second reason for the decline was the liquidation of large unproductive farms due to rising input prices (energy, seedlings, fertilizers, etc). It has also to be mentioned that restitution of land and the discharge of labor in other sectors led to a high land fragmentation and the existence of many small farms which are often run as part time subsistence farms or by pensioners. A large part of the produce does not appear on the market but is sold on local markets or consumed within rural households.

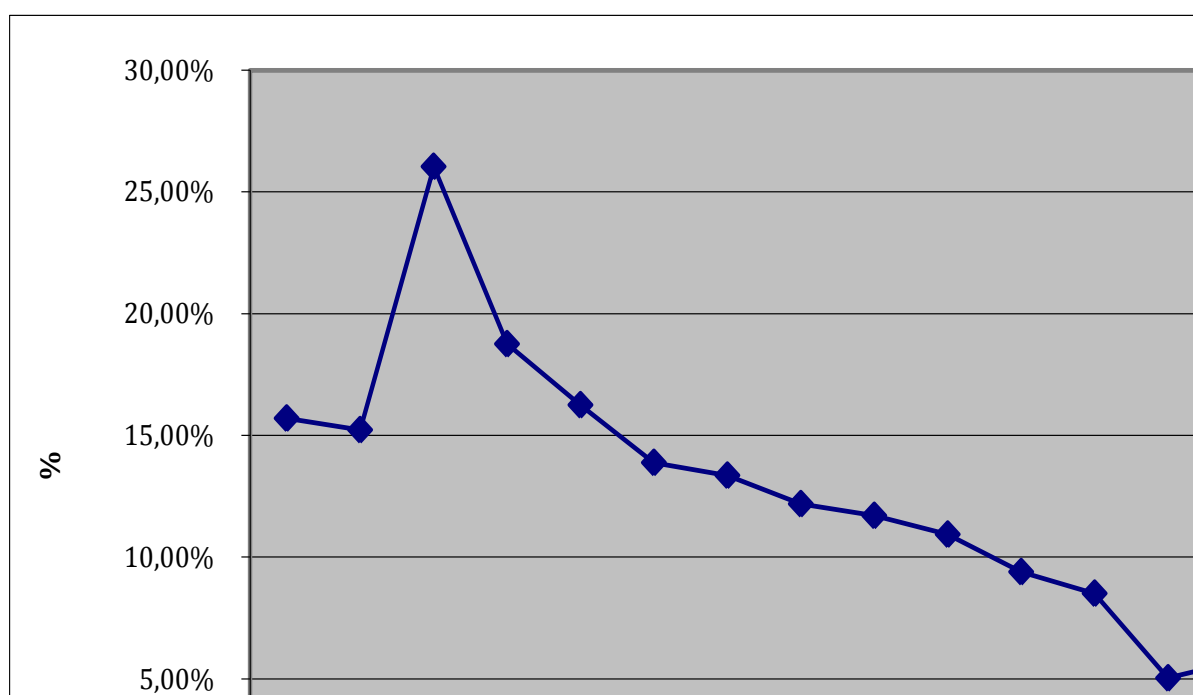


Figure 2: Share of agriculture in GDP.

Source: Eurostat Nat. Accounts (1996-2006), National Statistical Institute (2007-2010)

The Bulgarian membership in the EU also induces some effects on the performance of Bulgarian agriculture. At the very beginning in 2007, the trade balance of agriculture for the first time for long time turned negative, which can be attributed up to some extent to the EU accession and the prevailing low productivity and low competitiveness in the sectors of meat, vegetable and fruit production. According to Ivanov and Popov (2008), “in the short run, the effect from the accession on the agri-food sector is expected to be burdening due to significant structural problems, afterwards, the country is assumed to fulfill its comparative advantages (climate, soil resources, free land resources)”. This becomes evident by the trade performance in the sector after 2008, when exports increase to 1.4 billion EUR, exceeding the agricultural imports by 8%. It can be underlined that after the EU membership, agriculture becomes more export oriented

than before and despite a decreasing share in national GDP, it will keep increasing the gross output.

According to Slavova et al (2011), high value added sectors (vegetable, livestock) might shrink and be replaced by low value added ones (cereals). The main reason for this development is the fixed payments per area which gives advantages to large producers of cereals and oil seeds. A higher share of subsidies in total return on investment lowers their exposure to market risks in highly volatile agricultural markets. Growth perspectives for farmers from the sectors of fruit, vegetables and livestock production have limited opportunities for development (Ivanov & Popov, 2008).

### 2.1.2. Agricultural output per sector

Figure 3 shows the relative share of the main sectors in agricultural output. Regarding the highest share among the main 8 sectors, the cereals after 2008 take the leading position. Over the period 2000 – 2010, the gross share of the whole crop production has increased from about 31% to over 50% and outperformed meat production, which dropped from 42% to 31%.

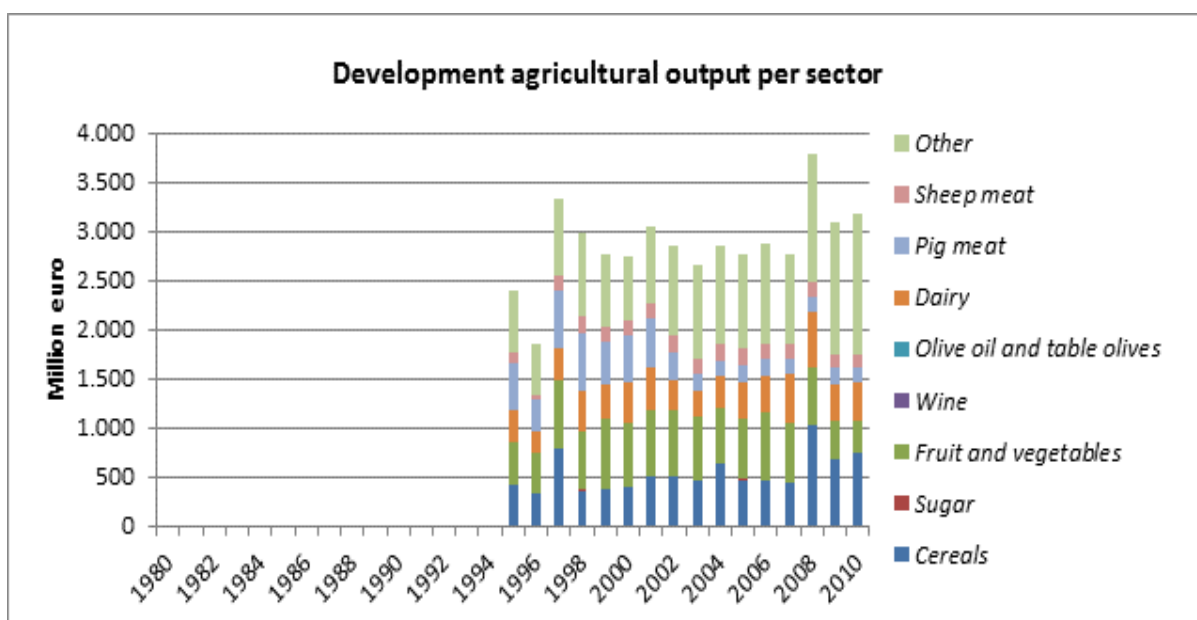


Figure 3: Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro.

Source: Agriculture Economic Accounts, Eurostat.

A decline in fruits and vegetables production is evident and a considerable growth in the production of cash crops and oil seeds occurred. The latter increased only in the years 2007-2010 by 131%. According to an IAE report (2010) the production of pig meat sharply declined (over threefold lowering in last decade). The main reasons are low productivity combined with increasing costs of production and additional costs due to the adaption to EU requirements for production.

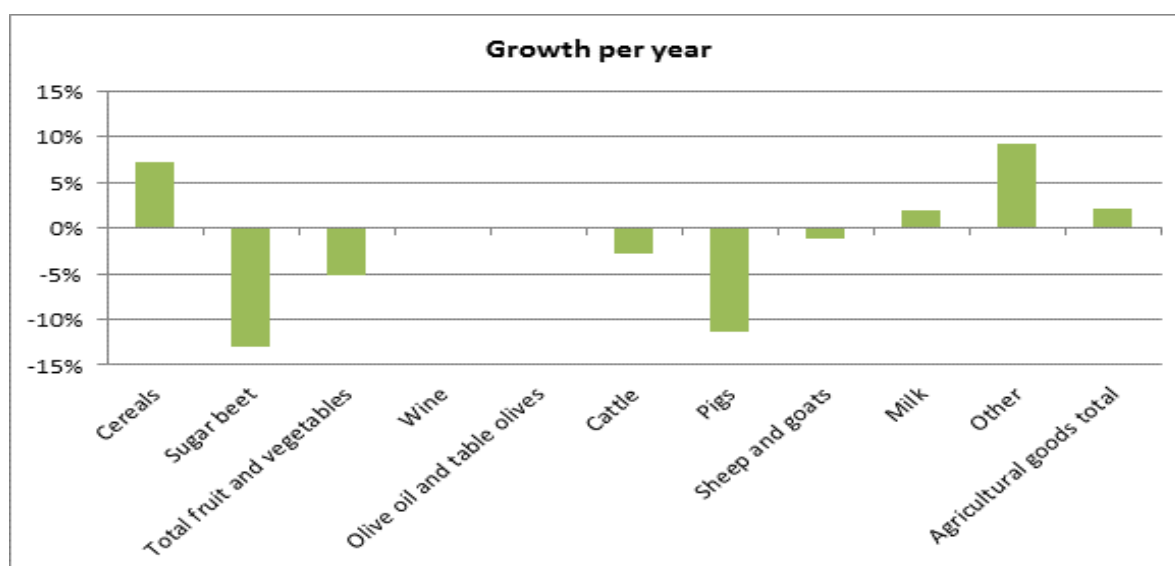


Figure 4: Trend in output per sector "2001" - "2009", average growth rates.  
Source: Economic Accounts of Agriculture, Eurostat.

Regarding the Figure 4 indicating the output trend of the main sectors calculated at the basic prices. The increase in milk production occurring parallel to a decrease in livestock can be explained with a productivity growth in dairy farming. This improvement can to a large extent be explained with the subsidies received by dairy farmers after joining the EU, which for example in 2010 reached a total of 66 million EUR. According to Ivanov and Popov (2009), the producers growing intensive crops, as orchards and vegetables together with the meat producing sectors are affected by the ongoing policy due to their limited possibility for subsidy support, reflecting in negative growth.

### 2.1.3. Development in the number of farms

The continuous declining trend in the number of agricultural holdings in Bulgaria from 1993 to 2010 can be clearly seen on Figure 5. This process is accompanied by an increasing average farm size from 1.5 ha in 1993 to 10.1 ha in 2010 and points to a strong ongoing structural change.

### 2.1.4. Size of farms

A specific and different from the EU and new member states existing size and farm structure is one of the keys of understanding the quite different development of agricultural cooperatives and "Bulgarian way" of implementation of EU Common Agricultural Policy (CAP). Mishev (2003) pointed out that the dual structure modified substantially the results of agricultural policy in Bulgaria during the transition period, when most measures of agricultural price and trade policies did not achieve the expected results.

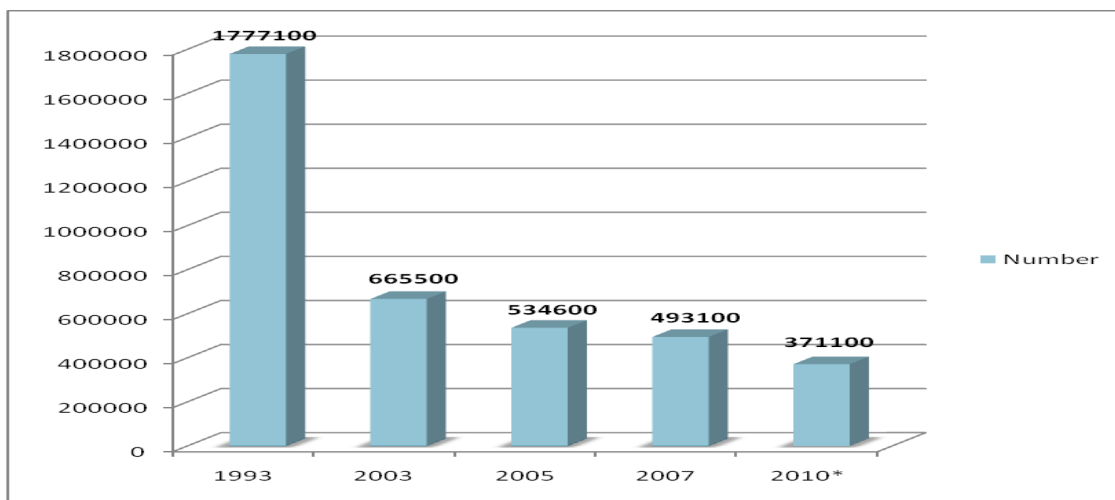


Figure 5: Development in the Number of Farms.

Source: National Statistical Institute, MAF, Department Agrostatics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, Agricultural Census 2010 Preliminary Data.

Since the beginning of the transition two sizes of farms dominate in Bulgarian agriculture: (1) small scale farms and (2) large scale farms. The first evidence for this phenomenon comes from a survey carried out in 1993. Farms with less than 1 ha were about 86% of the total number of farms in the country, but they accounted for less than 15% of the total utilized land. By contrast, only 0.2% of all farms had more than 10 ha but they managed more than two thirds of the total arable land. The next evidence on farm structure in Bulgaria comes from the 2003 Agricultural Census (AC), which shows that the total number of agricultural holdings was 654 808. A change in methodology between the two censuses makes it difficult to compare these data with the figures from 1993. According to the new methodology, the AC covers agricultural holdings only if they are an independent economic unit with independent management that meets at least one of the criteria given by Eurostat. With the 2003 AC methodology, the farms with up to 0.2 ha, were totally excluded. Therefore, if the 2003 methodology were applied to the 1993 data, the number of farms at that time would be much smaller than shown.

Pictures 1-2: Dual structure of Bulgarian agriculture



Source: Pictures by Boevsky

Table 1: Distribution of farms according to their legal status and UAA 2003/2010

	Number farms with UAA				UAA (ha)			
	2003	2005	2007	2010*	2003	2005	2007	2010*
<b>Physical persons</b>	648 274	515 300	476 956	350 900	879 677	914 739	1 033 468	1 222 900
<b>Sole traders</b>	2 870	2 158	1 828	2 200	340 861	354 596	408 786	538 300
<b>Cooperatives</b>	1 973	1 525	1 156	900	1 169 309	890 870	726 305	640 700
<b>Companies</b>	1 331	1 312	1 763	3 600	469 197	522 559	781 884	1 145 600
<b>Others</b>	360	234	217	300	45 433	46 624	100 300	73 400
<b>Total</b>	654 808	520 529	481 920	357 900	2 904 479	2 729 390	3 050 744	3 620 900

Source: National Statistical Institute, MAF, Department Agrostistics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, ★ Agricultural Census 2010 Preliminary Data.

#### 2.1.4.1 Small scale farms

The existence of small-scale farms in Bulgaria is to a certain extent a heritage of the communist era when agricultural workers employed by the state and communist agricultural cooperatives were allowed to manage small plots for their family consumption. After 1990 the number of these farms increased, due to the collapse of the nonfarm sector in rural areas.

Using the economic size definition<sup>1</sup>, the small scale farms can be distinguished in three groups: subsistence farms (below 1 ESU), semi-subsistence farms (between 1 and 4 ESU) and small scale commercial farms (between 4 and 8 ESU).

##### 2.1.4.1.1. The subsistence and semi-subsistence farms

The subsistence and semi-subsistence farms are a strong characteristic of Bulgarian agriculture (predominant within the farm structure) and a multi-faceted phenomenon: Several studies focusing on their nature (Sarris et al. 1999, Kopeva 2001, Mishev 2003, Aleksiev 2003, Eastwood et al. 2004, Bachev 2008, Koteva 2010, Nikolov et al. 2011) have revealed that they are mostly not registered entities (“physical persons”), labor-intensive, under-capitalized, lacking modern technology, prevalent in all fields of production (exception arable crops), restricted access to finance and credit resources (exception members of credit cooperatives), consuming more than half of farm’s total output, having low seasonal cash-flow and limited earning potential.

<sup>1</sup> Davidova (2010) stress that there is no “universally agreed definition” of subsistent and semi-subsistent farms and identifies physical measures, economic size and market participation as criteria to measure these firms. The generally accepted meaning of “semi-subsistence farming” in Bulgarian literature is that Semi-Subsistence Farm Households comprise those farms where the household consumes a higher percentage of the total agricultural production than that sold in the market. “Subsistence farming” is that comprise those farms where the household consumes the total agricultural production (Mishev, 2003). A different concept was adopted by the Agrostistics directorate of MAF. It classified all farms between 1 and 4 ESU that sell agricultural products as Semi-Subsistence Farm Households. Farms below 1 ESU were considered to be entirely subsistence farms and farms over 4 ESU were classified as commercial. In this report I use this concept, because it provides a clear threshold to distinguish the farms. For more insides, I complete the explanation with using data with the physical measure.

On the other hand, Kostov and Lingard (2002), Abele and Frohberg (2003), Bachev (2008), Koteva (2010), Davidova (2010) pointed out the significant role of subsistence and semi-subsistence farms in Bulgarian agriculture, rural development and society. Subsistence and semi-subsistence farms act both as a buffer and safety-net for Bulgarian households struggling with low income, and limited off-farm employment. They were and are for many people an effective way to overcome an institutional, market, and economic uncertainty and insecurity and minimize costs of transacting. For lots of consumers this organizational form is an effective source of affordable, safe, organic and high quality food.

Burrell (2010) identifies four types of semi-subsistent farms: (1) *rural diversifiers* characterized by highest share of non-farm income and relatively high education, (2) *rural pensioners* are old, manage small entities and have a high share of household members beyond working age, (3) *farmers* are operating the largest farms and they seem mainly commercial, and (4) *rural newcomers* are young but with limited education and very low income. This typology and the above mentioned show that subsistent and semi-subsistent farms are not by definition poor and unwilling to develop. As soon as subsistence and semi-subsistence farms start to grow and their farm output increases, the question arises how they can acquire farm inputs and market their surplus. They especially may profit from collective action (**producer organizations** and **cooperatives**). Boevsky (2011) shows that although the problems they face, membership in formal organizations in general and supply and market organizations in particular is rather rare. There are nevertheless some household members who join informal collective action in form of mutual neighbor help. Boevsky (2011) points out that the predominantly part of subsistence and semi-subsistence farmers do not know the potential benefits of collective action.

Figure 6 shows that the total number of small farmers as natural persons decreases continuously from 2003 to 2010. After Bulgaria's EU-accession, their total number decreases with 126 056 in 2010. This shows a decrease with 26% compared to 2007. At the same time, the total UAA of the natural persons increases with 189 438 ha or 18% compared to 2007. The average UAA per natural person increases from 2.17 ha in 2007 to 3.49 ha in 2010.

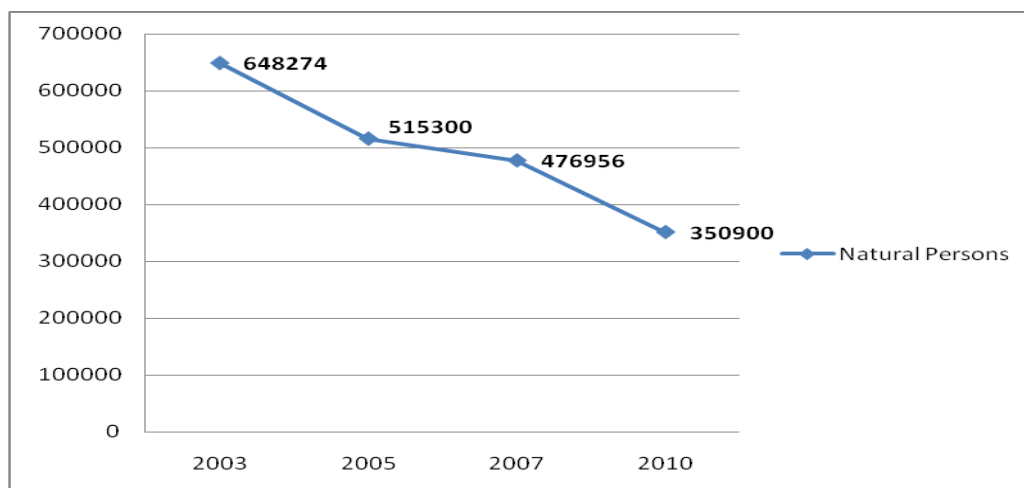


Figure 6: Development in the Number of Natural Persons.

Sources: National Statistical Institute, MAF, Department Agrostatics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, ★ Agricultural Census 2010 Preliminary Data.

This development shows that small farmers who cannot adapt their farms to the new institutional restrictions (regulations; quality, veterinary, environmental, animal welfare etc. standards), and establishing "relations" with agrarian bureaucracy (registrations, certifications, paper works etc.) exit from agriculture. The majority of subsistence and semi-subsistence farmers which managed to survive the first years of the EU-accession adapted their activities to



a large extend to the new circumstances and this will be their base to stay in the business in the future. Although there have been many reasons pushing structural change, e.g, pressure from globalization, etc., EU accession had the greatest impact as it implied higher standards and stricter supervision of small farmers' produce. For example, hygienic standards did not allow for local markets anymore. Larger farms with higher investment capacities or new green-field investments adapted faster to the new market standards and were able to sell their produce to wholesalers.

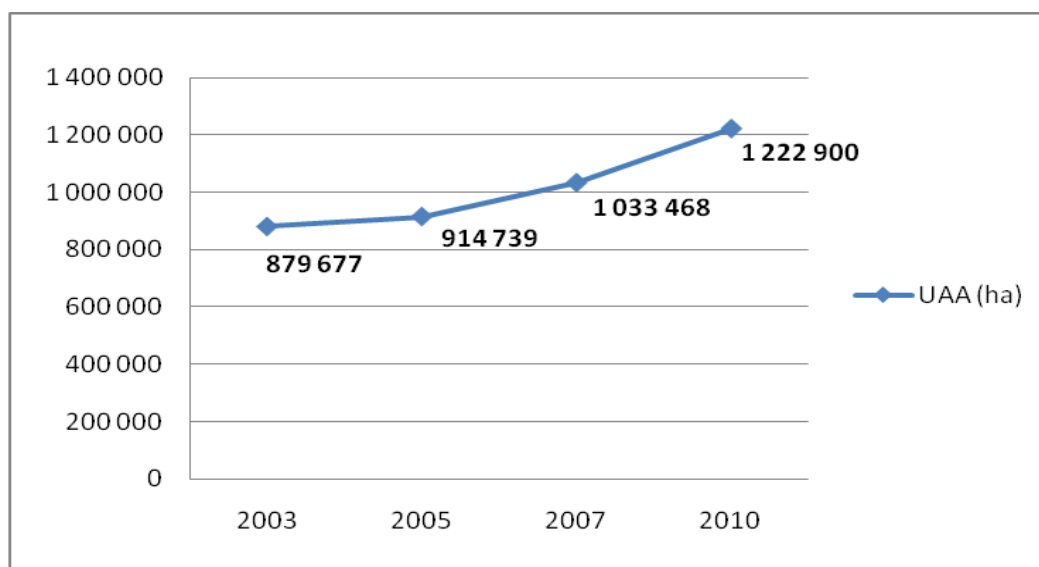


Figure 7: Development in the UAA of Natural Persons

Sources: National Statistical Institute, MAF, Department Agrostistics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, ★ Agricultural Census 2010 Preliminary Data.

#### 2.1.4.1.2 Small scale commercial farms

Most of the *small scale commercial farms* are unregistered entities which are predominately individual or family holdings. The other (very small as number but important as operations) group is registered as sole trader. This group is not homogeneous. Some of these holdings belong to the middle or big scale farms as this shows the average UAA per sole trader. For the unregistered farms there are no data available and I will comment only the development of the sole traders.

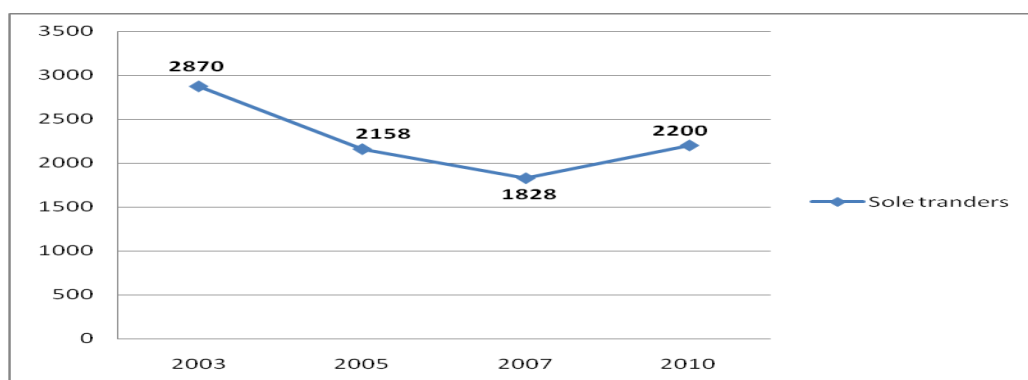


Figure 8: Development in the Number of Sole Traders.

Sources: National Statistical Institute, MAF, Department Agrostistics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, Agricultural Census 2010 Preliminary Data.



Figure 8 shows that between 2003 and 2007 the total number of sole traders decreased continuously. After the EU-accession the trend changes to the opposite. The number of sole traders increases from 1 828 in 2007 to 2 200 in 2010. At the same time, the total UAA of these farms (Figure 8) increases constantly. The highest increase is recorded after the EU-accession in 2010 (with 129 514 ha or with 24% compared to 2007). The average UAA per sole trader increased from 223.6 ha in 2007 to 244.7 ha in 2010.

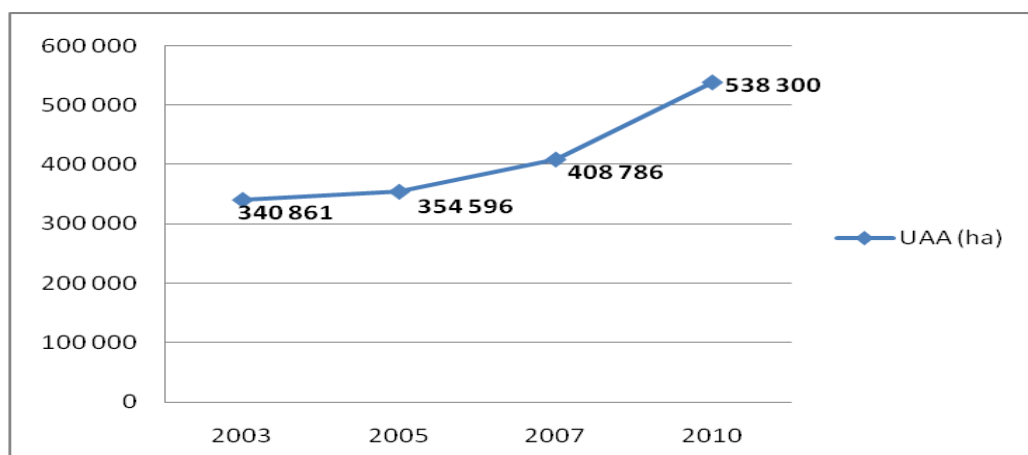


Figure 9: Development in the UAA of Sole Traders

Sources: National Statistical Institute, MAF, Department Agrostatics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, Agricultural Census 2010 Preliminary Data.

The small scale commercial farms are mainly in labor-intensive productions (vegetables, tobacco, vineyards, berries, melons, flowers, mushrooms, medicinal and aromatic crops, livestock, sericulture, bee keeping). In general, primitive technologies and poor environmental and animal welfare standards prevail. At the same time they have strong incentives to adapt to market demand and increase productivity (intensifying work, investing in human and physical capital). But extension of farm size, external financing (excluding the members of agricultural credit cooperatives), marketing via big national or/and international supermarket chains, investing in human and intangible resources, introducing innovation, acquiring new knowledge and know how, bear the risk and safeguard against natural hazard are limited to different factors. This reduces their ability to face severe market competition. To overcome these constraints, some farmers are using informal collective action in very small coherent groups (close friends, relatives, neighbors) (Boevsky, 2011). These characteristics are relevant for the subsistence and semi-subsistence farms too.

Having this in mind and the important role of the subsistence and semi-subsistence farms it can be assumed that small scale farmers could be a target group for measures regarding explaining, initiating and creating (institutions building) of collective action<sup>2</sup>.

#### 2.4.1.2 Large scale farms

Large scale farms are predominantly (1) production cooperatives and (2) companies (agro-firms, investor owned firms). These holdings are registered entities. Registration<sup>3</sup> in Bulgarian agriculture is a specific feature due to the still very vague registration process (Burrell, 2010) and to the farmers' unwillingness to register, which was found out during several thousand interviews conducted by Boevsky in the last 20 years. Although the total number of farms

<sup>2</sup> Krol et al. 2010 concludes the same for the milk supply chain.

<sup>3</sup> In Bulgaria there is not a formal requirement to register a farm. Official statistics report as 'Natural Persons' unregistered farms meeting certain criteria (minimum size of farmland, number of animals etc.).

decreased and the number of companies increased, Table 1 shows that only around 1% of the agricultural holdings are legal entities registered under the Trade Law or the Law for Cooperatives as Sole Traders, Limited Companies, Partnerships, and Agricultural Cooperatives.

#### 2.4.1.2.1 Production cooperatives

Most of the *companies* started as family and partnership businesses (some of these entities credited by the agricultural credit cooperatives) in the beginning of transition by young generation entrepreneurs - former managers of public farms, individuals with high business spirit and know-how etc. In addition, some state companies were taken over by the former managers and registered as shareholdings. Joint ventures with non-agrarian and foreign capital started to appear as well. The specific management skills and “social” status, and combination and complementarities of partner’s assets (technological knowledge, business and other ties, available resources) led to a rapid extension of farms through enormous concentration of management and ownership of land and other resources, and exploitation of economies of scale, and modernization of enterprises. The specific mode of privatization of farmland and other agrarian assets as well as the EU pre- and after-accession programs facilitated a fast consolidation of fragmented land ownership and agrarian assets in these farms. Companies are strongly profit oriented and invest in farm specific assets and innovations. Furthermore, they are able to invest considerable relation-specific capital (information, expertise, reputation, lobbying, bribing) for dealing with funding institutions, agrarian bureaucracy, and market agents at national or even at international scale. Further, they have enormous political power to lobby for Government support in their best interests (Bashev, 2008). This makes up the significant contrast to the small scale farms or production cooperatives.

Companies are commonly specialized enterprises. They are mainly in cereals (wheat, oil seeds) production but there are also good examples in fruit, grape, greenhouse, essential oil plants, mix (crop-livestock), and vertically integrated (farming-processing-marketing) activities. These farms increasingly incorporate new kind of activities and involve novel type of organizations (including ventures with non agrarian and foreign capital).

Figure 10 shows that the number of companies increases since 2005 continuously. The rapid increase is recorded after the EU-accession as this development was predicted in the Bulgarian scientific literature. Figure 10 shows that their share in UAA augmented rapidly too, and in 2010, 3 600 holdings operated 32% of UAA.

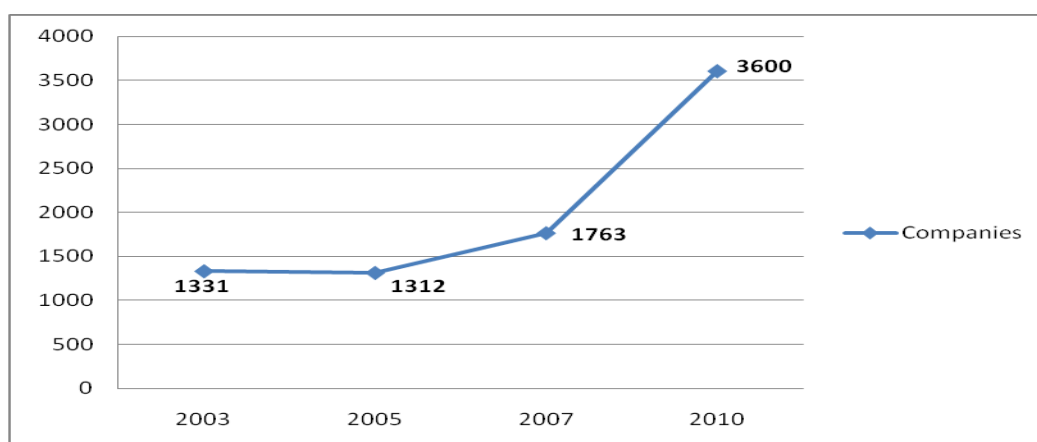


Figure 10: Development in the Number of Companies.

Sources: National Statistical Institute, MAF, Department Agrostatics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, Agricultural Census 2010 Preliminary Data.

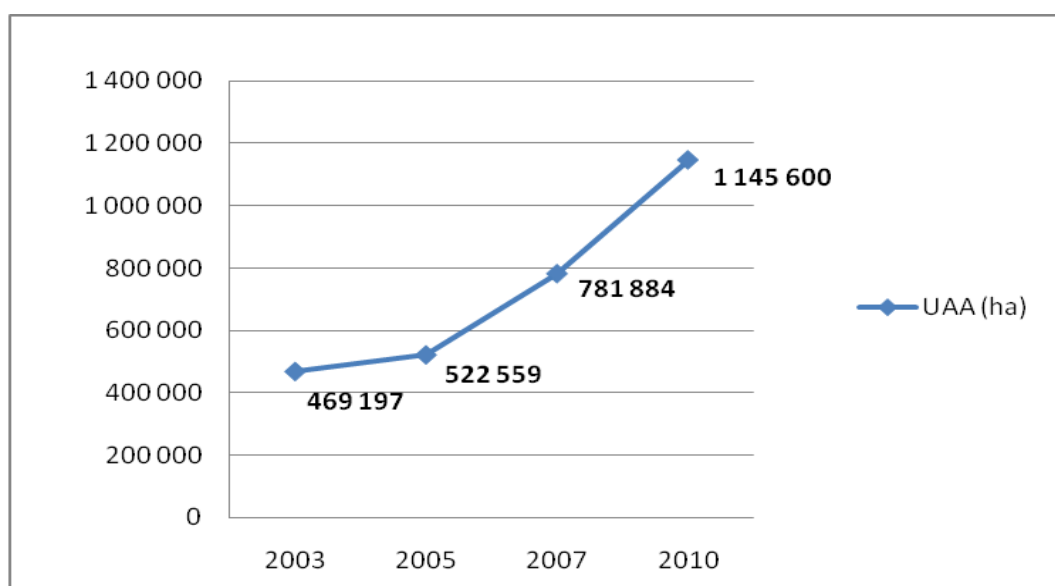


Figure 11: Development in the UAA of Companies.

Sources: National Statistical Institute, MAF, Department Agrostatics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, Agriculture Census 2010 Preliminary Data.

After the EU-accession there are significant changes in the farm structure. The preliminary data for number of farms per size class, measured in ESU, per type of farming is forthcoming.

### 2.1.5. Age of farmers: distribution of farms to age classes

The dominant opinion in Bulgarian research and decision-makers' rounds is that the age structure of farmers is unfavorable and is an obstacle for the sector development. The problem with the aging of the working force has increased since the economic and political reforms in the 90s of the last century. As a result of the economic collapse and abolition of the former state owned productive cooperatives, a dozen of the retired and unemployed people shifted to private agriculture. Through the years of the transition, agriculture did not provide a stable and sufficient income and thus it did not attract prospective, young and ambitious people. Rather, it has served as a social buffer, providing a living for retired people, who work in agriculture to produce predominantly for them and their families. The figures in Figure 12 illustrate that the percentage of the farmers at the age over 65 is the biggest (29.2%). A slight decrease is also seen in the lowest farmers' age class (less than 35 years) over the period between both Censuses 11.6% (2003) to 9.8% (2010). This confirms the worsening age structure of farmers and outflow of young entrepreneurs. However, a certain optimism was noticed for the period after EU accession, when the rate of agricultural employees rose from 8.1% (2007) to 9.8% (2010). This can be explained by the increased earning opportunities in the sector, mainly due to the direct (area) payments and the support of young farmers under the Programme for Rural Development.

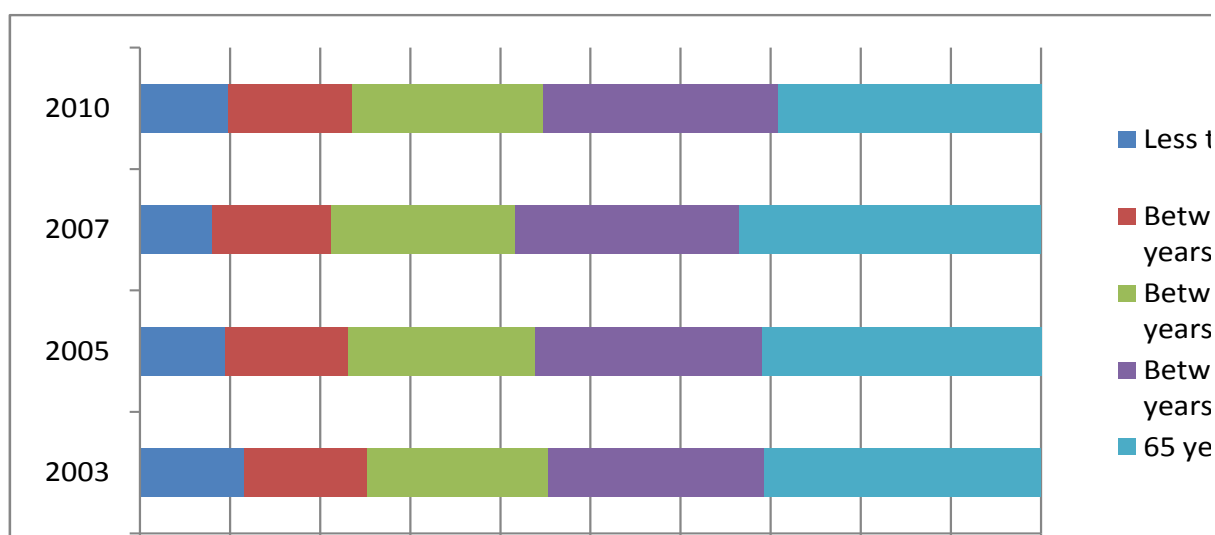


Figure 12: Percentage of farmers per age class.

Source: MAF, Farm Structure Survey 2007 and Agricultural Census 2003

According to Bachev (2005), the age pattern of farmers plays an important role for the sustainability of agriculture. Many of farms operated currently by old people have no descendants willing to continue the business and, thus, the sustainability of the farms is undermined. This is the underlying reason for the reduction in the number of agricultural farms observed over the last decade. The worsened age pattern of labor force in agriculture has spread through all sub-sectors. Slavova et al. (2011), posit that because of the age structure of the population engaged in the tobacco production, this part of the population will unlikely seek for other or further qualification to be able to engage in other economic activities (Slavova et al., 2011).

## 2.1.6. Specialization of farm production

Regarding figures in Figure 13 A&B, in 2007, 80% of cereals and 54% of vineyards were tilled in the specialized holdings, whereas 54% of cows and 51% of pigs were kept in specialized livestock farms. These figures demonstrate progress compared to 2003 data, as over this period, the specialized livestock farms managed to expand their share by 38%, on average.

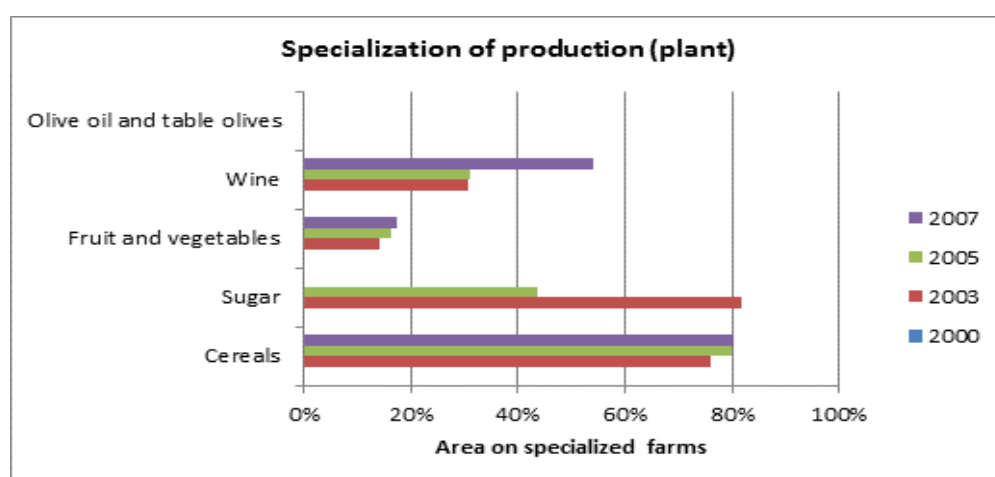


Figure 13A: The share of plant specialized farm types in total production.

Source: Economic Accounts of Agriculture, Eurostat

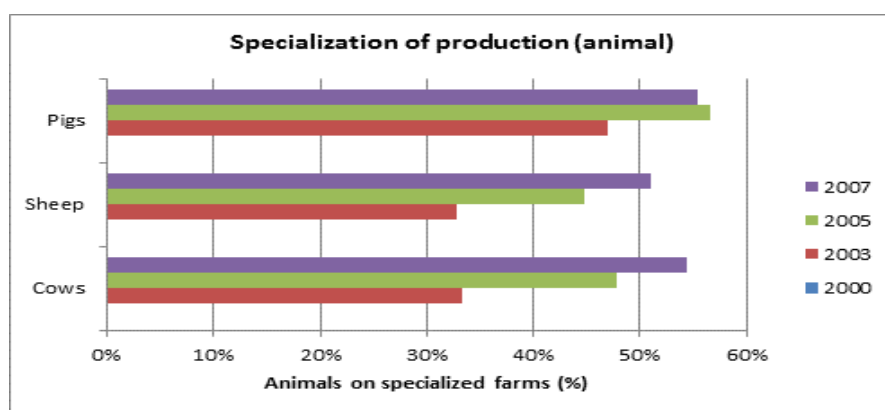


Figure 13B: The share of livestock specialized farm types in total production.

Source: Economic Accounts of Agriculture, Eurostat

According to Koteva (2011) the farms specialized in cereals have the highest economic potential and the biggest share of utilized agricultural land. Thus, they are characterized with the most favorable conditions for accumulation of direct payments. In addition, the specialized farms of the individual persons achieve a higher economic outcome compared with the corporative farms (Koteva et al., 2010). It is found that the multi-structural farms (broader specialization) possess the highest share of land therefore enjoy the biggest support under I pillar of CAP. Nevertheless, it is unambiguous that the role of specialized farms will rise up through the years at the cost of small, semi-subsistent households, especially in the sectors with high intensity production.

## 2.1.7. Economic indicators of farms

The data in Table 2 shows the economic performance of different types of specialized farms over the period 2005-2007. The figures are representative for 70-75% of each specialized type. Regarding the data, the highest equity is estimated in the wine sector, which is due to the significant investments for trellis, cultivation machines and grape storage and processing. The lowest assets are reported in the vegetable and sheep type farms. The biggest incomes per AWU are received in the cereal farms with about 6 657 EUR per one AWU. In the same fashion, the sheep farms indicate the highest earning rate: 0.58, while the pig farms have the lowest 0.20. This earning rate reveals the level of intermediate production costs, which are very high in the livestock sectors, excluding sheep because of low costs for feeding.

Table 2: Average Economic indicators for farms 2005-2007

	Cereals	Fruit and vegetables	Dairy	Wine	Pig meat	Sheep meat*
<b>Economic size-ESU</b>	44531	36312	18354	15.30	26146	35125
<b>Total labor input-AWU</b>	40941	41031	41153	23774	2	2
<b>Total UAA ha</b>	59.20	10959	33147	15.00	32905	18537
<b>Total output €</b>	25358	15707	11224	26251	36781	7366
<b>Farm Net Value Added €</b>	12420	7056	4725	11569	7303	4297
<b>Family Farm Income €</b>	14646	8397	5404	18366	10462	4757
<b>Total assets €</b>	51897	26442	25520	134792	40192	23469
<b>Net worth €</b>	5808	5216	3437	4294	3179	2609
<b>Gross Investment €</b>	2226	1342	678	6797	3159	409
<b>Net Investment €</b>	1881	1085	589	6124	2728	102
<b>Total subsidies-excl. investm. €</b>	3056	99	723	904	721	716
<b>Farms represented</b>	45480	7503	46894	5024	12963	26577

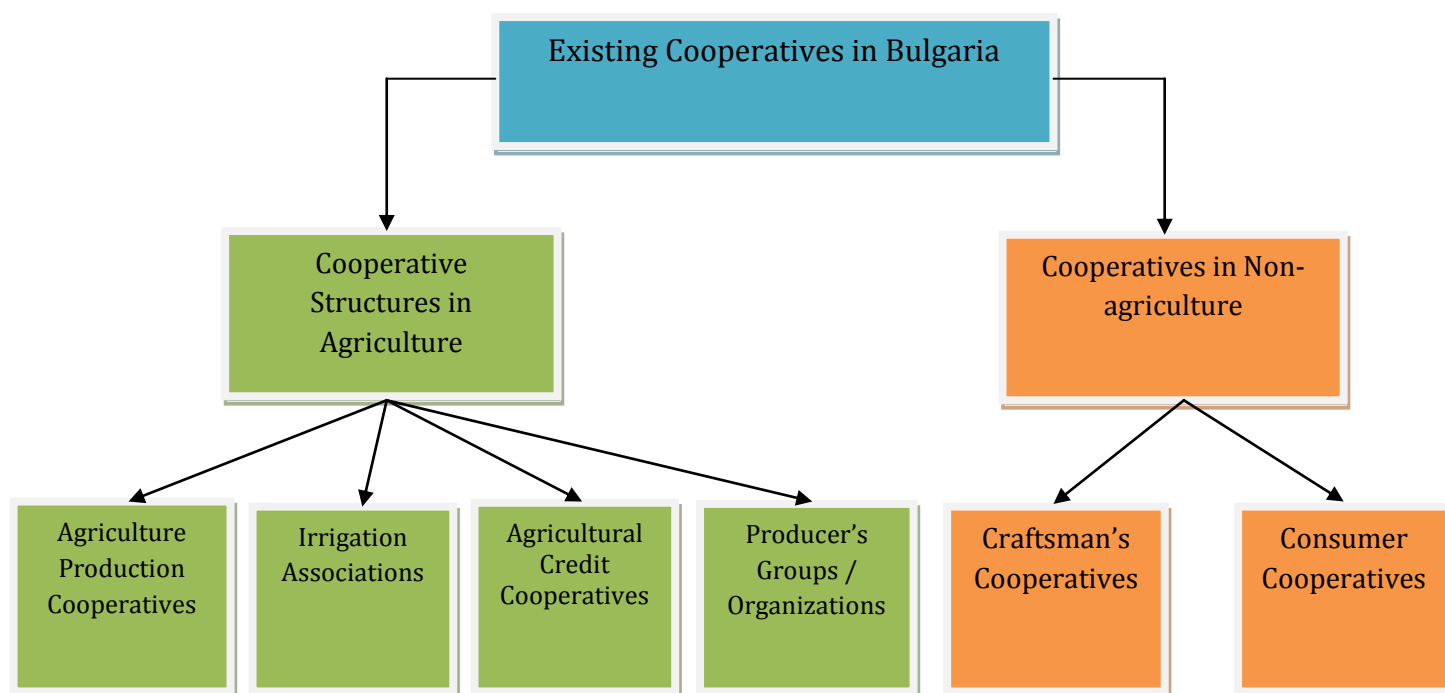
Source: MAF, Directorate Agrostistics, \* Data from field survey 2006/2007, own calculations.

It is observed for a long period that the family type farms demonstrate better economic results compared to other types. According to Slavova et al. (2011), in fruit, vegetable, pig and sheep sectors, the family farms have the highest productivity, efficiency and profitability. It turns out that family farms manage to work with lower production costs, optimize their input procurement and maximize their net value. However, the figures in table 2 relate to a period, where only one year with direct payments is taken into account. Direct payment per area prove to change significantly the situation with the financial indicators, as according to Slavova et al. (2011), the most beneficial turned out to be large farms in the cereal because their incomes jump up by 20-25%. On the opposite edge intensive productions are ranged, as fruit and vegetables, dairy and pig, which have an increase in the incomes attributed to the subsidies by 5-10%. It might be supposed that driven by direct payment incentives, the extensive productions (cereal) may attract producers from other sectors to change into cereal production, which may slant the agricultural throughput. Piling of direct payment into cereal farm type will bring about their enlargement, improve their financial situation and will make them more competitive (Slavova et al., 2011). However, the genuine purpose of direct payments to support small scale producers to modernize and deploy their farming does not happen, which imposes to look for other options (Koteva et al., 2010).

### 3 Evolution, position and performance of cooperatives

Chart 1 highlights the existing cooperatives in Bulgaria. It shows that the cooperatives in agriculture are predominantly in the sector of agricultural production. Only producer groups/organizations are in the sectors logistics and marketing. Irrigation associations and agricultural credit cooperatives (credit cooperatives) promote mainly small scale farmers and members of agricultural production cooperatives.

Chart 1: Cooperative structures in agriculture and non-agriculture in Bulgaria 2011



Source: Own Chart

Agricultural production cooperatives (production cooperatives) have been the dominating form of enterprise in agriculture since 1990. They coexisted during the 90s with subsistence and semi-subsistence farms. Figure 14 shows that this cooperative type had a rapid increase in the 90s. They emerged during and after the liquidation of the former communist agricultural productive cooperatives (TKZS). In contrast to other CEE countries the Bulgarian production cooperatives are not successors of former TKZS. They are new formations which will be explained below.

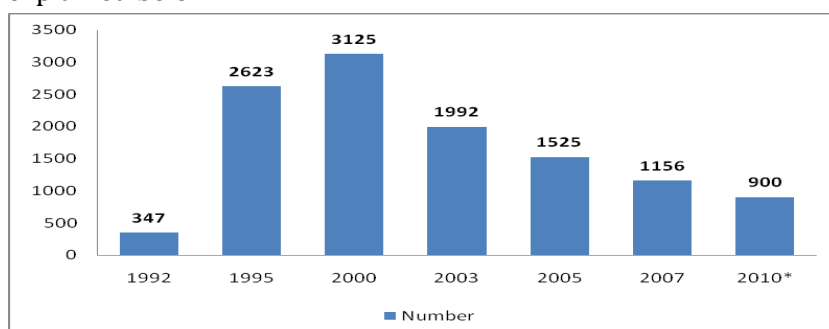


Figure 14: Development of production cooperatives.

Source: National Statistical Institute, MAF, Department Agrostistics; Agricultural Census 2003, Agriculture Farm Structure Survey 2005, Agriculture Farm Structure Survey 2007, ★ Agricultural Census 2010 Preliminary Data.

### 3.1. Types of cooperatives

#### 3.1.1. Production Cooperatives

Table 3 shows that the main function of the production cooperatives is organizing the agricultural production. This production is focused on sectors which are predominantly not labor intensive, because they operate with low number of full time employees and hire part time and seasonal workers. The additional functions on table 3 show a clear trend in the direction towards multifunctionality by most of the production cooperatives and follow the pre-communist tradition of multi- and all-functionality of agricultural cooperatives. (About tradition see section 3.3)

Table 3: Production Cooperatives

<i>Sector</i>	Cereals, dairy, fruits, vineyard, beekeeping, poultry
<i>Main and additional functions</i>	Main function: organizing production; Additional functions: providing farm machinery service, supply farm inputs, warehousing, milling, oil pressing, providing food for members' households, extension service, lease-in small plots from members consolidate this plots in big plots and lease-out (release) the consolidated agricultural area to other firms
<i>Diversity of function and products</i>	(1) Economic (Organizing production, providing farm machinery service, supply farm inputs, warehousing, milling, oil pressing, providing food for members' households, extension service)
	(2) Rural development (cooperation with the municipality or village administration in deferent projects)
	Social services (social and health security), Cultural services (organizing cultural events in the village)
<i>Position and function in the food chain</i>	Production and logistics
<i>Type of members</i>	Primary members
<i>Geographical scope</i>	Local (village, municipality)
<i>Financial/ownership structure</i>	Participation share cooperative
<i>Legal form</i>	Cooperative

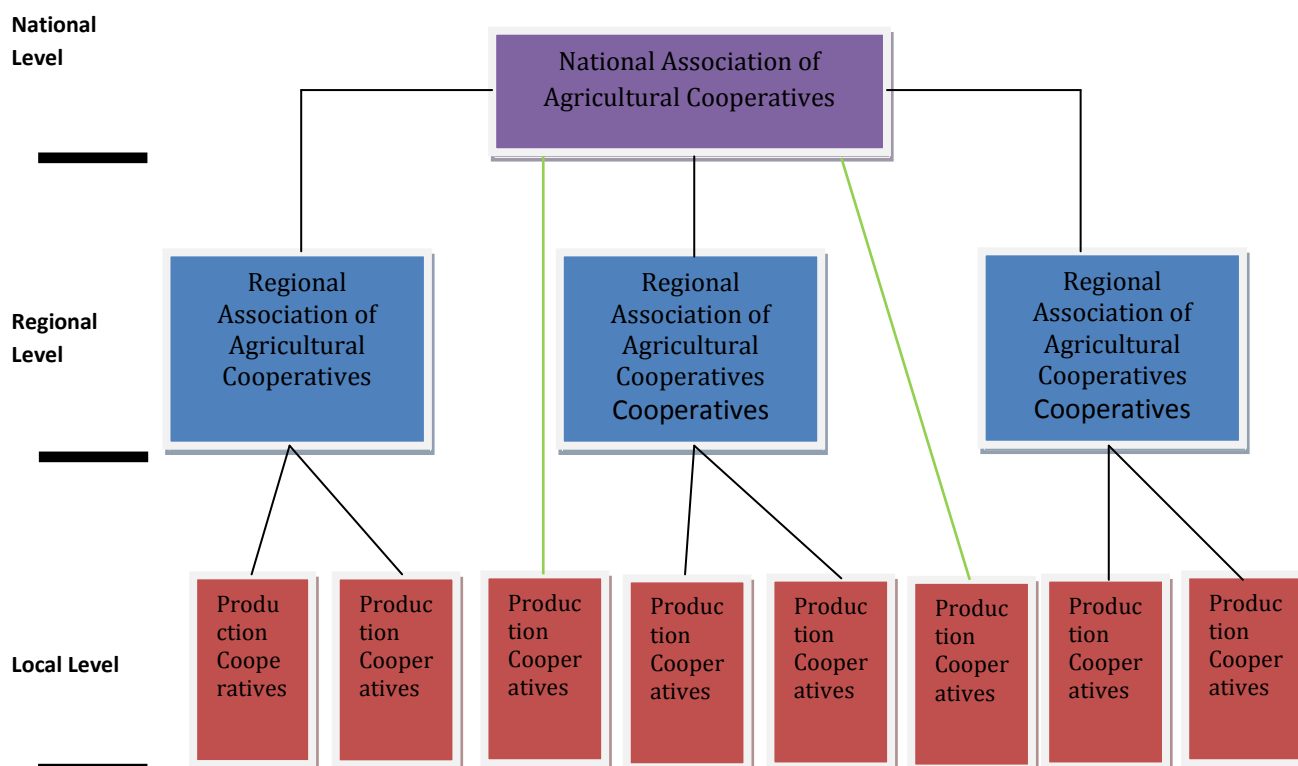
Source: Own table

Chart 2 shows that the Production Cooperatives have established a three-tire structure of cooperative organizations on territorial principle:



➤ *Primary cooperatives* on local level (Production Cooperatives). Their characteristics are given on table 3. At the end of June 2011, 687 production cooperatives<sup>4</sup> are members of the National Association of Agricultural Cooperatives. Not all of the existing 900 production cooperatives are members of regional and national associations as the Bulgarian Cooperative Act they are not obliged to participate in secondary and tertiary cooperative associations. This means that participation in these structures is voluntary in contrast to Germany for example. Furthermore some members of the National Association of Agricultural Cooperatives change their membership to the Central Cooperative Union, which is the national association of consumer cooperatives and vice versa.

Chart 2: Structure of Production Cooperatives' Associations 2011



Source: Own chart

➤ *Secondary cooperatives* on regional level (Regional Associations of Agricultural Cooperatives) which provide their members (Production Cooperatives) non-economic services as: auditing, consulting, information, extension service and representation of members' interests on regional level. One exception existed years ago. The Regional Association of Agricultural Cooperatives in Varna operated a cooperative enterprise for supplying their members with agricultural inputs but went bankrupt after few years. Most of the primary Production Cooperatives are members in secondary cooperatives. A small number of primary cooperatives are direct members of the tertiary cooperative due to the absence of secondary cooperative in their district/region. At the end of June 2011 the number of Regional Associations of Agricultural Cooperatives was 19<sup>5</sup>;

➤ *Tertiary cooperative* on national level (National association of Production Cooperatives in Bulgaria) provides their members (secondary and primary cooperatives) non-economic services

<sup>4</sup> Petar Nikolov, President of the National Association of Agricultural Cooperatives, Interview in his office.

<sup>5</sup> Petar Nikolov, President of the National Association of Agricultural Cooperatives, multiple interviews in his office in Sofia.

as: auditing, consulting, information, extension service, representation of members' interests on national level (lobbying).

### 3.1.2. Agricultural Credit Cooperatives

The Agricultural Credit Cooperatives were founded within a EU-Phare project in 1996 but remarkably followed a regional bottom up approach in their synthesis. Of 33 formerly founded cooperatives today 15 operate successfully and are united in the National Cooperative Association Evrostart (NCA). Each cooperative carries out solely lending to approx. 150-250 small private farmers in combination with non-financial services such as consulting in production and marketing. Especially in remote rural areas the financial cooperatives are institutions based on tight local social networks and enable small farmers and rural enterprises to achieve benefits of collective action. Over more than a decade the cooperatives provided loans to mainly agricultural producers and achieved a slight growth in equity. Their main impediment for further development is the restriction of their services to lending. Instead of increasing their membership for depositors, the cooperatives make use of external refinance to increase their loanable funds. They incur additional exposure to market risks and face high capital costs, which endangers their equity in the long term.

Table 4: Agricultural Credit Cooperatives

<i>Sector</i>	Finance
<i>Main functions</i>	Crediting small scale farmers
<i>Diversity of function and products</i>	Diverse loans, non-financial services
<i>Position and function in the food chain</i>	Development of a label for the produce of small farmers, support for local selling
<i>Type of members</i>	Small private farmers (registered as farmers)
<i>Geographical scope</i>	Local, often in remote rural areas or focused on a very specific clientele
<i>Financial/ownership structure</i>	share capital of members and equity from grant (see below)
<i>Legal form</i>	Cooperative, non-financial institution

Source: Own table.

### 3.1.3. Irrigation Associations

Distribution of natural water resources over time and space is uneven in Bulgaria, making irrigation necessary to reduce production risk in agriculture. The irrigation sector has been drastically affected by the political and economic changes that followed the collapse of communist system. The irrigation infrastructure was built to serve large production units during communism and no longer meets the needs of the new farming structures, discussed above. The infrastructure deteriorated and irrigation water use, and correspondingly, areas under irrigation sharply declined. To change this situation irrigation associations were established. Their characteristics are given on table 5.

Table 5: Irrigation Associations

<i>Sector</i>	Irrigation and drainage
<i>Main functions</i>	Irrigation and drainage
<i>Diversity of function and products</i>	Irrigation, drainage, fisheries and water fowl only, Art. 3 and Art. 4, Low on Irrigation Associations
<i>Position and function in the food chain</i>	No
<i>Type of members</i>	Primary members
<i>Geographical scope</i>	Local, regional (only few cases)
<i>Financial/ownership structure</i>	Cooperative with subsidiaries
<i>Legal form</i>	Association

Source: Own table.

Figure 15 highlights the development of the irrigation associations. The continuous increase in the number of registered irrigation associations can be clearly seen. A significant increase in their number in 2011 and 2012 is expected, because the number of irrigation associations which have submitted applications for registration in the middle of 2010 was 233 (MAF, Directorate Irrigation). However, there is no real positive development in irrigation. The rising number of irrigation associations reflects only the improvement in public administration and the increased number of registered irrigation associations.

The irrigation associations have established a two-tier structure of cooperative organizations on territorial principle. More than a half of the irrigation associations on local level participate in a National Association of Water Users which operates on national level.

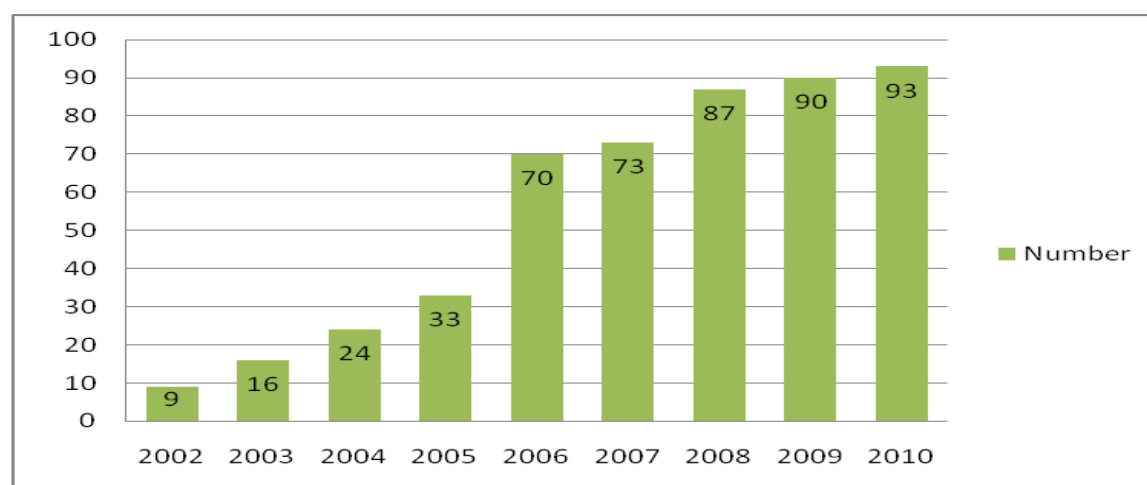
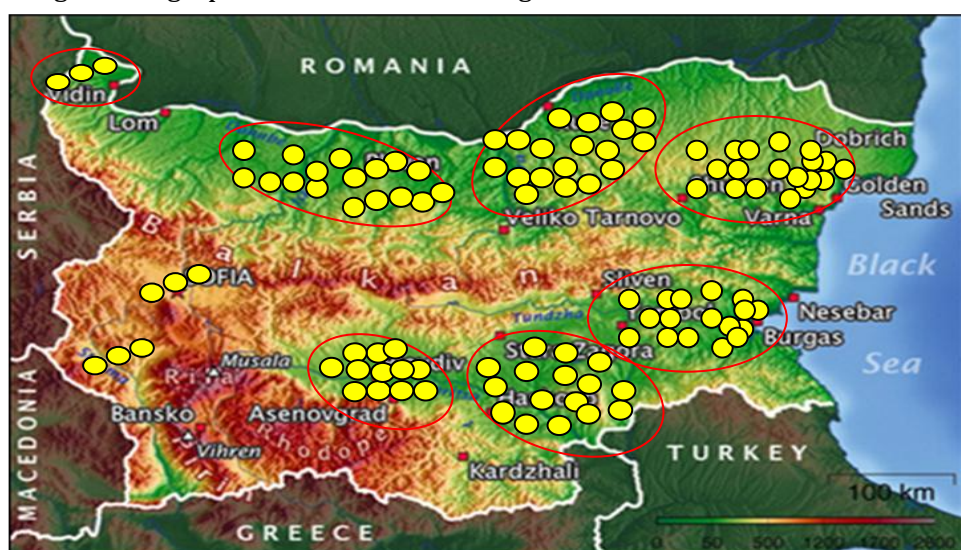


Figure 15: Development of the irrigation associations Source: MAF, Directorate Irrigation.

Image 1: Geographical distribution of irrigation associations in 2010



Source: own Image

### 3.1.4. Producer groups/organizations

At the beginning, when the support measures were announced, there were great enthusiasm and hopes among the small and medium-scale farmers. According to expert appraisals, between 450 and 500 initiative groups were established, which aimed at establishing producer groups as a transitional mode on the way to register as producer organizations. Table 6 gives their characteristics.

Table 6: Producer groups/organizations

<i>Sector</i>	Fruits, Dairy,
<i>Main functions</i>	Marketing the members' products
<i>Diversity of function and products</i>	Logistic, processing, marketing
<i>Position and function in the food chain</i>	Sorting, packaging, storage, transport, processing, marketing
<i>Type of members</i>	Primary members
<i>Geographical scope</i>	Local, regional
<i>Financial/ownership structure</i>	Private
<i>Legal form</i>	Any legal form

Source: Own table.

Four producer organizations exist at the moment in the Fruit and Vegetables sector. According to experts' opinion from Ministry of Agriculture and Food, they cannot meet the needs of their members (do not achieve their aims) and are functioning only formally.

In dairy sector the producer organization "Dobrudjansko eko mlyaco" (Добруджанско еко мляко) operates successfully and 3 other organizations not so either. There is no more information available.

Several producer groups received support from SAPARD or RDP and started successful business, but the data are not public.

### 3.2. Market share of farmers' cooperatives in the food chain

Data is not available.

### 3.3. List of top 50 largest farmers' cooperatives

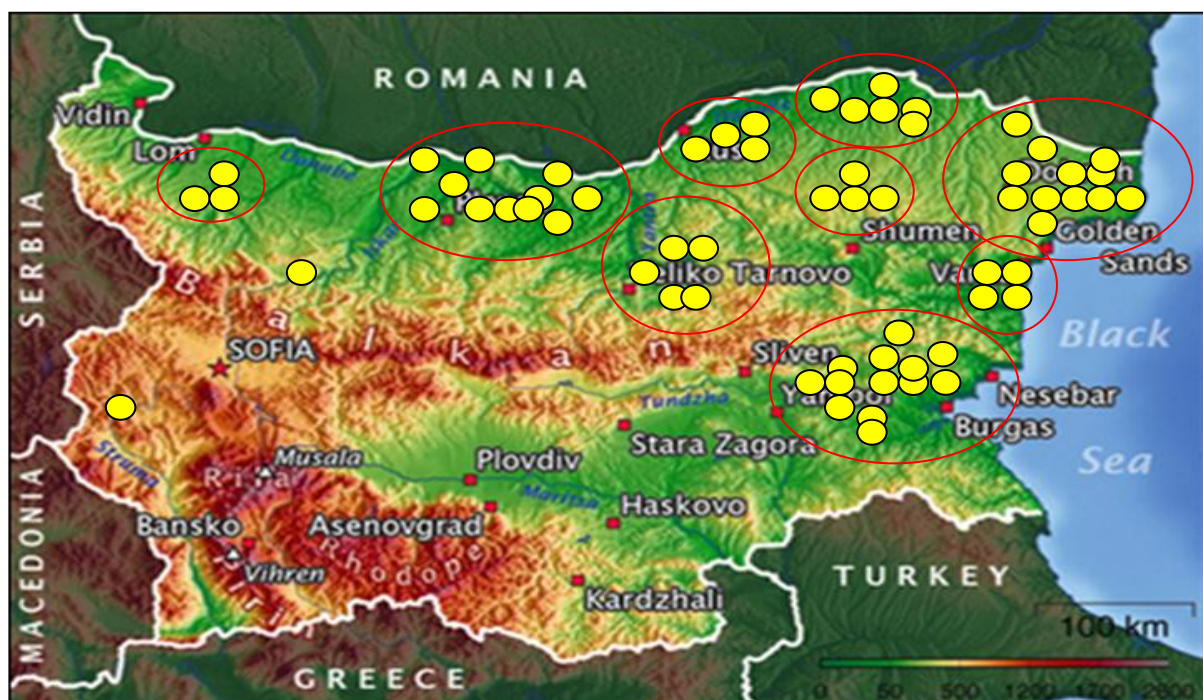
Table 7: The 20 largest production cooperatives in Bulgaria

	<b>Name of the Cooperative</b>	<b>Sector involved in:</b>
1	Zora(Зора)	Cereals, providing machinery service, supply farm products, warehousing
2	Edinstvo(Единство), Komustica village, Montana	Cereals, dairy, providing machinery service, supply farm products, warehousing, extension service, retail, land consolidation and land exchange
3	Jiten kraj(Житен край)	Cereals, supply farm products, warehousing, extension service
4	Bavlovo (Бавлово)	Cereals, providing machinery service, supply farm products
5	Gurkovo(Гурково)	Cereals, animal breeding, supply farm products, warehousing, retail
6	Iztok(Изток)	Cereals, providing machinery service, supply farm products, warehousing, extension service
7	Izgreв92(Изгрев92)	Cereals, providing machinery service, supply farm products, extension service, land consolidation and land exchange warehousing
8	Edinstvo(Единство), Aitos town	Cereals, providing machinery service, fruits, supply farm products, warehousing, extension service, retail
9	Bezmer(Безмер)	Cereals, providing machinery service, supply farm products, warehousing, retail, extension service, land consolidation and land exchange
10	Izgreв(Изгрев)	Cereals, providing machinery service, supply farm products, warehousing, retail
11	Obedinenie(Обединение)	Cereals, providing machinery service, supply farm products, warehousing, extension service
12	Slance(Сланце)	Cereals, supply farm products, warehousing, extension service
13	Motor(Мотор)	Cereals, providing machinery service, supply farm products
14	Zemia-92(Земя-92)	Cereals, providing machinery service, warehousing
15	Obedinenie(Обединение)	Cereals, providing machinery service, land consolidation and land exchange
16	Khan Asparuh(Хан Аспарух)	Cereals, providing machinery service, supply farm products, warehousing, extension service, extension service, land consolidation and land exchange
17	Filip Totio( Филип Тотю)	Cereals, supply farm products, warehousing, extension service
18	Brazdi(Бразди)	Cereals, providing machinery service, supply farm products, warehousing
19	Kilovci(Кировци)	Cereals, providing machinery service, supply farm products, warehousing, extension service,
20	Kubrat(Кубрат)	Cereals, supply farm products, warehousing

Source: Experts and Chairman of National Association of Agricultural Cooperatives in Bulgaria.



Image 2: Geographical distribution of the top 50 agricultural cooperatives in 2010



Source: own Image

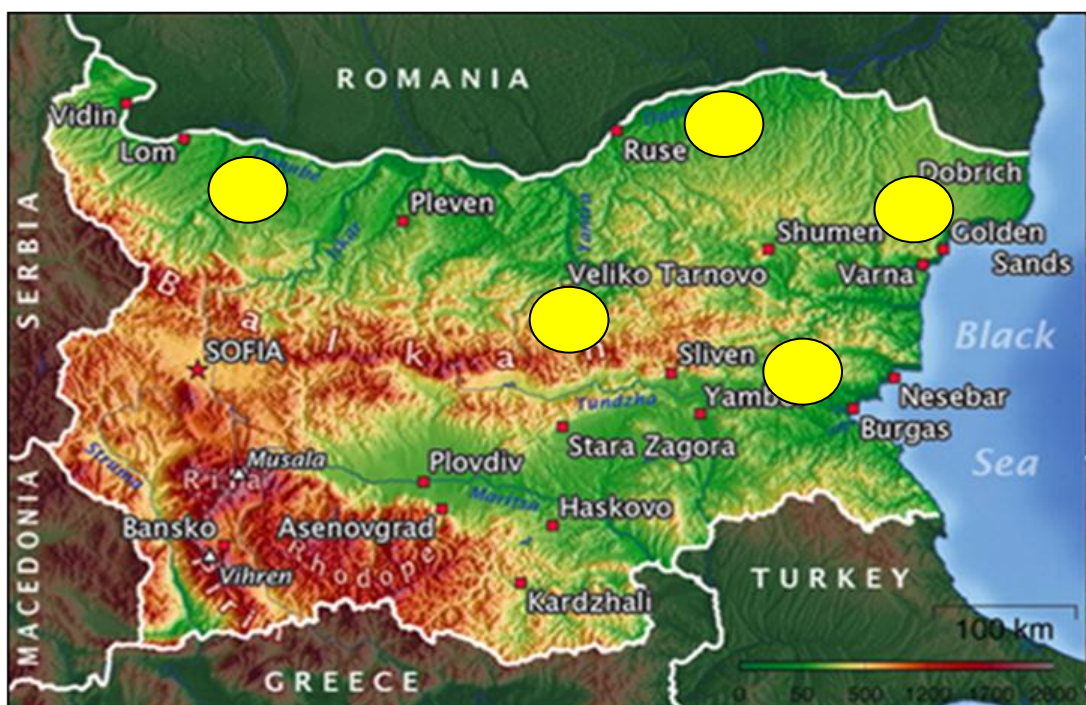
### 3.3.1. List of top 5 largest production cooperatives per sector

Table 8: Most important production cooperatives in the sectors studied in this project

Sector		Name of Cooperative
Cereals	1	Edinstvo(Единство)
	2	Jiten krai( Житен край)
	3	Bavlovo( Бавлово)
	4	Gurkovo(Гурково)
	5	Iztok(Изток)
Sugar		Cooperatives do not exist in this sector
Fruit and vegetables (only cooperatives in sector Fruits exist)	1	Niva-93(Нива-93)
	2	Edinstvo(Единство)
	3	Hristo Botev-92(Христо Ботев-92)
	4	Shatrovo-94(Шатрово-94)
	5	Plodorodie-93(Плодородие-93)
Olive oil and table olives		This sectors do not exist in Bulgaria
Wine	1	Nov jivot(Нов живот)
	2	Grozd(Грозд)
	3	Hristo Botev(Христо Ботев)

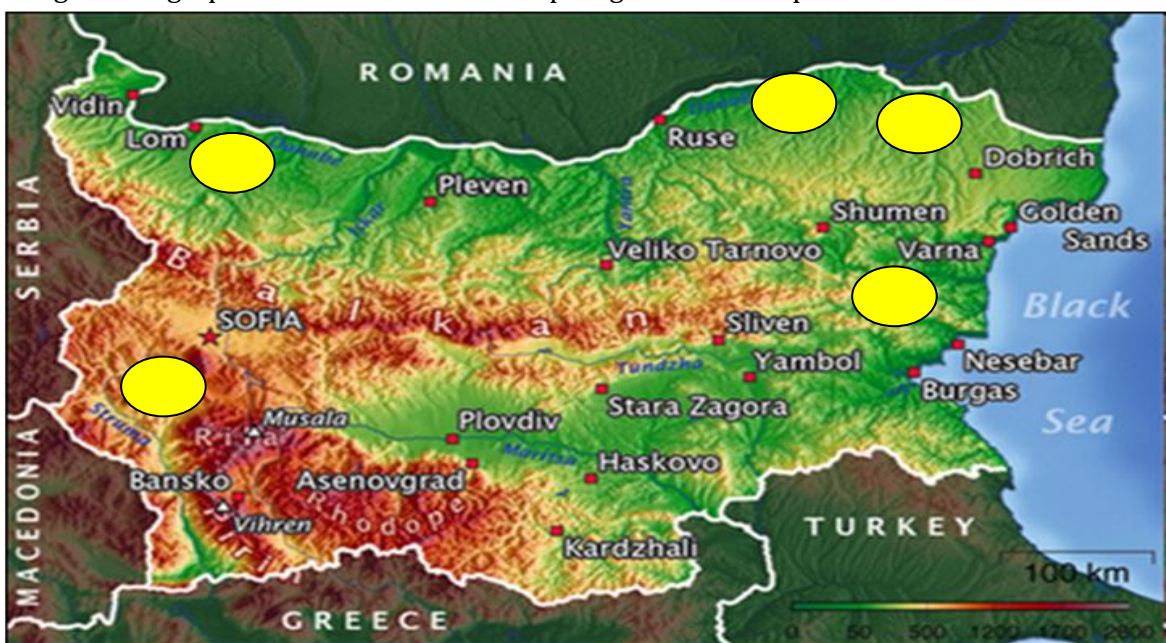
Source: Experts and Chairman of National Association of Agricultural Cooperatives in Bulgaria

Image 3: Geographical distribution of the top 5 agricultural cooperatives in sector Cereals in 2010



Source: Own Image.

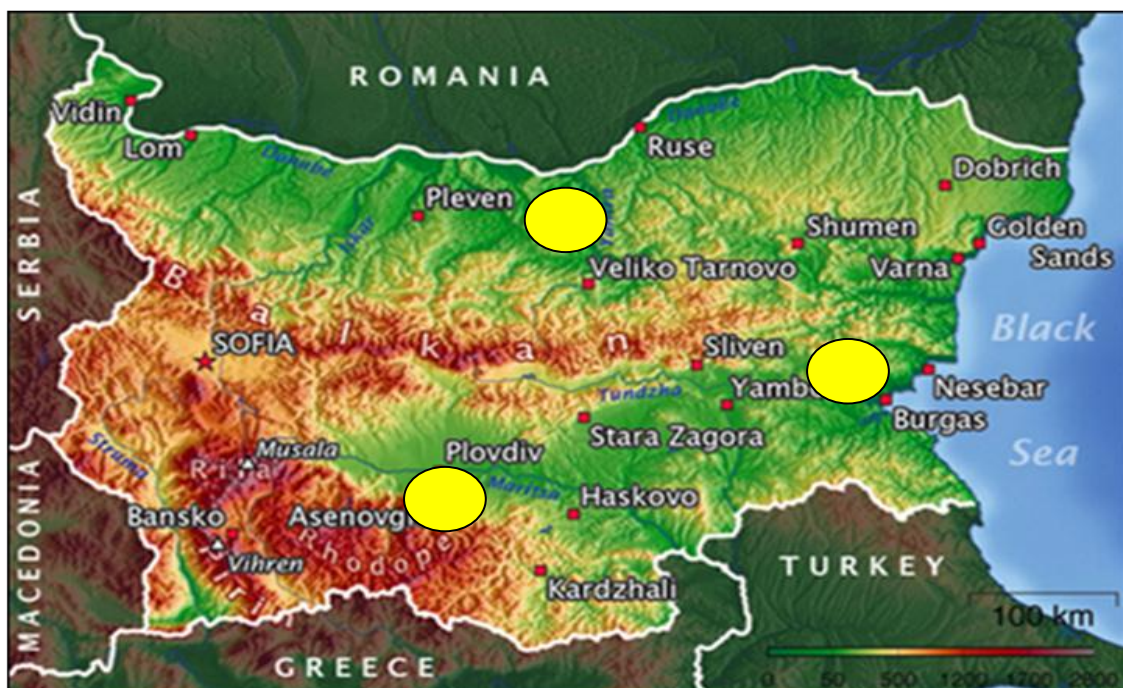
Image 4: Geographical distribution of the top 5 agricultural cooperatives in sector fruits in 2010



Source: Own Image.

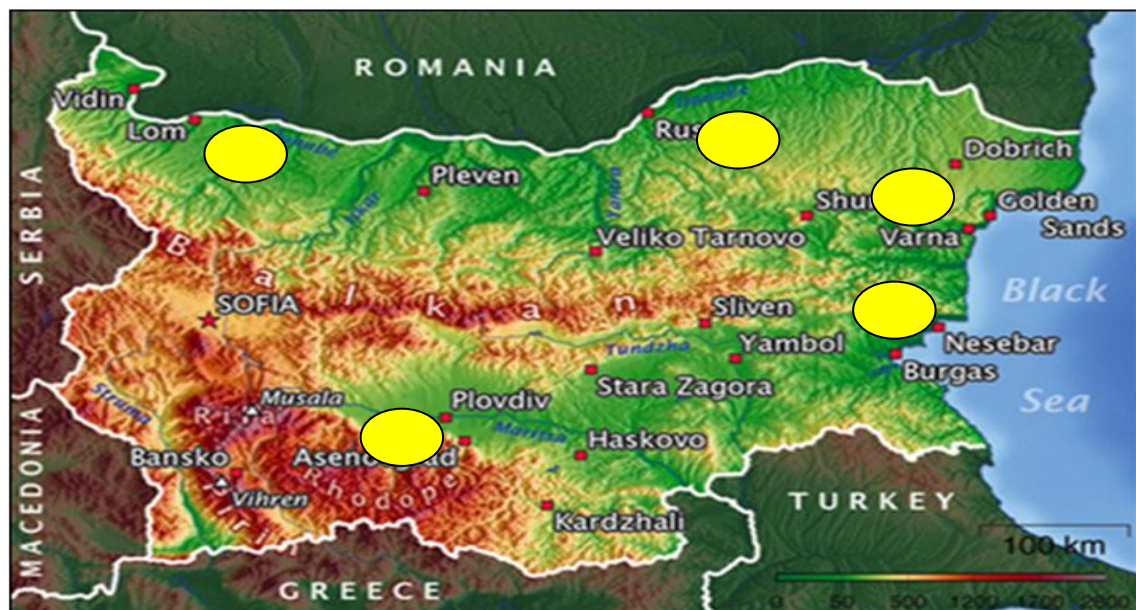


Image 5: Geographical distribution of the top 5 agricultural cooperatives in sector wine in 2010



Source: Own Image.

Image 6: Geographical distribution of the top 5 agricultural cooperatives in sector dairy in 2010



Source: Own Image.

### 3.4. Transnational cooperatives

In Bulgaria have not been established transnational cooperatives.



## **4. Description of the evolution and position of individual cooperatives.**

### **4.1. Data gathering per cooperative**

Data for some consumer cooperatives and some craftsman' production cooperatives are in the Amadeus dataset (Bureau van Dijk Electronic Publishing). In Amadeus, data for the production cooperatives are not available, because they are not involved in international projects in contrast to the other two types of cooperatives. The data was gathered through phone interviews with the chairman<sup>6</sup> of each production cooperative and multiple meetings with experts and chairman of National Federation of Agricultural Cooperatives in Bulgaria. This federation does not collect data of their members'-cooperatives. Data collecting for this cooperative type in Bulgaria is extremely time-consuming and expensive. I am thankful to the Chairman of the National Federation of Agricultural Cooperatives in Bulgaria. Data for agricultural credit cooperatives is available at the National Association "Evrostart" for a half of the credit cooperatives and at the DGRV office Sofia. I am thankful the manager of DGRV office Sofia Ivan Popov.

### **4.2. Position in the food chain**

The production cooperatives are predominantly operating in the production in last decade. They face the challenges outlined in section 3.3.1.3 but their strategies (see section 3.3.1.3) do not target to participate in food chains.

### **4.3. Institutional environment**

I think that some historical achievements and facts from the history of the agricultural cooperatives are important for understanding the recent development on one hand and at the same time raise some challenging research questions about their future development and future support policies on the other hand:

- Will the negative image of the cooperatives from the communist time and the early 90s continue to hinder the emergence of collective action in rural area?
- Will the production cooperatives be able to adapt to the new circumstances with their strategies?
- Is it possible to tie into the tradition of cooperatives before the communist period in order to establish successfully collective action in rural area?
- Can cooperatives be valuable partners in further collective action support measures?

#### **4.3.1. Production Cooperatives**

##### **4.3.1.1. Some important historical facts – up and down of cooperatives' image as result of states' interventions**

Staikoff (1941), Palazov (1946), Sapundjiev (1947), Boevsky (1991), Todev/Brazda (1994), Boevsky/Kramer (1997) and Boevsky/Rönnebeck (1998) underline the important role, significant position and excellent image of the rural cooperatives in the Bulgarian pre-socialist economy and society as well as the successful state support measures. Until the end of Second World War the agricultural cooperatives in Bulgaria were all-purpose cooperatives. They provided their members economic, financial, social, educational and cultural services and thus

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<sup>6</sup> To find their actual mobile phone number was extremely hard, because they were changed many times in the last months. The fixed network numbers of these cooperatives was changed too in the last months. Neither the chairman of the national association nor chairmen of regional associations knew the numbers. It is good now, that I have all contact information.

penetrated all aspects of the village people in the rural areas. The members called these cooperatives "Raiffeisencoops" („Райфайзенки" „Raiffeisenki"). The number of these cooperatives in 1944 was 2160 (Palazov, 1946). Practically every Bulgarian village household enjoyed membership in this cooperative type (Palazov, 1946). It is important to point out that in 1944 81% of the Bulgarian population inhabited the villages (Sapundjiev, 1947). Members felt the agricultural cooperatives as part of their families, because the cooperative met all their needs and helped them to survive in hard times.<sup>7</sup>

Besides, 17 other specialized types of agricultural promotional cooperatives were active and successful:

- fruit and vegetable cooperatives with 72 % share of total fruit and vegetable export;
- cooperatives for roses and rose oil with 91 % share of processing and 94 of export;
- vineyard and wine cooperatives with 62 % share of processing and export;
- fruit and vegetable canning cooperatives 56 % share of processing;
- sugar cooperatives and cooperative sugar processing factory with 91% market share;
- dairy cooperatives, poultry cooperatives, beekeeping cooperatives etc. (Bulgarian National Archive 1943).

The specialized agricultural cooperatives were fully involved in the marketing chain. Most of them developed own brands and operated on international markets (predominantly export to Germany) (Staikoff, 1941). The Bulgarian state acknowledged the importance of this cooperatives (most of these cooperatives operated in sectors important nowadays for our study) for the economy and supported them with duty-free exports and imports, lower fees and taxes (Staikoff, 1941).<sup>8</sup>

Cooperatives were established in this period in other sectors of the economy:

- people's bank (called by members Schulze Delitzsch Bank) together with the agricultural all-purpose cooperatives had 41% market share in finance and credit in 1940 (Sapundjiev, 1947);
- 39 different types of craftsmen's cooperatives;
- sugar cooperatives and cooperative sugar processing factory with 91% market share;
- water syndicates for irrigation and drainage;
- insurance cooperatives;
- housing and construction cooperatives;
- cooperatives of student, cooperatives of academics, cooperatives of doctors, cooperatives of pharmacist, cooperatives in social care, cooperative sanatoria, cooperatives of circus artists.

In this period, the image of the cooperatives and the cooperative system as a whole was excellent.

Communism (1944 – 1989), with its policy of nationalization, compulsory membership, permanently restructuring and transformation, wiped out the variety of cooperatives. As result, only consumer cooperatives were left with their respective associational structures and these were instrumentalized by the interest of the state (state policy), which ultimately stripped them of their cooperative principles and values (Boevsky, 2000). This led to extremely bad image of cooperatives (Steding/Kramer, 1996).

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<sup>7</sup> Boevsky identified this during the interviews with members of pre-socialist-agricultural cooperatives in the 90s and early 2000s.

<sup>8</sup> More about these types of cooperatives and their internal governance and functional structure see in Boevsky/Kramer (1997), Boevsky/Roennebeck (1998).

#### **4.3.1.2. Production cooperatives as result of few institutional alternatives and political struggle (1991 - 2001)**

Production cooperatives were established on the base of pooling members' asset shares as well as labor input share from the liquidated communist agricultural cooperatives (TKZS) and members' restituted land. They are characterized by voluntary membership, one member – one vote, open membership and cooperative enterprise is owned, controlled by the members and they benefit from it (Boevsky/Kramer, 1998). Regarding to the few choices for assets and labor input shareholders production cooperatives dominated along the small scale farms the agricultural transactions for most of this period (Hanisch, 2003). Law on Cooperatives and Law on Ownership and Use of Agricultural Land regulated the organization and operations of production cooperatives. These two Laws were object of political conflict and were amended around 20 times each that has generated insecurity and disincentives for talented people to become chairmen (managers) of the production cooperatives on the one hand. Depending on the ruling party these cooperatives were predominantly supported or excluded from governmental supporting measures (State Fund Agriculture) and thus the management gap was overcome on the other hand. Cooperatives offer machine services to members and non-members and sometimes distribute farm inputs such as fertilizer or seeds. In most cases, a portion of the member's land is cultivated with cash crops such as wheat, sunflowers, or barley in order to earn profits for machine maintenance, chemicals, fuel, and labor (Hanisch, 2003). This development improved a little bit the image of the production cooperatives compared to the communist time, but distrust still prevails.

#### **4.3.1.3. The new image of production cooperative – from ideological and political motives to competitive actor on the changing markets and members satisfaction (2001 – 2011)**

The production cooperatives in Bulgaria face several challenges in last decade in the political, institutional and economic environment that force them to transform into more consumer oriented chain partners. The major external changes are:

- Politicians have lost their interest regarding agricultural production cooperatives (for example reducing specific cooperative oriented support measures);
- Large supermarket firms (Carrefour, Lidl, Metro, Penny, Billa etc.) are operating on the Bulgarian market and are requiring specific food quantity, quality and safety on specific time and place in long term contracts;
- Legislative requirements to food quality and safety;
- Highly differentiated consumer demand.

The production cooperatives had developed strategies which are not focused on participation in food supply chains. Production cooperatives remain to be only market oriented (the cooperatives do not even have websites) and target their strategies as follows:

- Reducing the production costs and introducing technologies;
- Stabilizing the not individualized part of equity capital (buying farm land);
- Increasing the equity capital through
- Increasing the number of farmer-members;
- Policies targeting creation of incentives for increasing the members' share capital;
- Policies targeting creation of incentives for increasing the additional capital contribution of members;
- Tying to the pre-socialist cooperatives tradition and diversifying the services to the members.

I identified this strategy by all top 5 interviewed production cooperatives of the studied sectors. The wine cooperative "Nove Jivot" in the village Brestovitz, near Plovdiv is the only exception of

this strategic trend. The members are farmer-owners of vineyards. The cooperative processes, bottles, storages and sells the branded wine and has different contractual agreements with the actors of the wine chain.

In my recent interviews as well as in my interviews and observations from the last decade I have identified a clear increasing trend towards more entrepreneurial type of cooperative enterprise by the existing production cooperatives.

#### **4.3.1.4. Membership structure and main types of members**

The membership structure of Bulgarian production cooperatives is unique and is dominated by two types of members: farmers and non-farmers.

The *group of farmer members* consists of cooperative members who are owners of agricultural land and operate own farms.

- Regarding to the quantity of own agricultural land I categorize as follows:
- small member-owners (under 1ha);
- middle member-owners (between 1ha and 3ha);
- large member-owners (over 3ha).
  
- Regarding to the cultivated agricultural land at the own farm I observed:
- subsistence and hobby farmers, who lease the major part of their land (over 90%) to the production cooperative;
- semi-subsistence farmers (operate between 10% and 50% of the own land and the rest leased to the cooperative);
- market-oriented small farmers (operate between 50% and 100% of own land and lease the rest to the cooperative).

Furthermore, the members of the group of farmers are characterized by different age, education, culture, and farming background. These differences reduce widely the sub-group's cohesion and could significantly hamper the cooperative's decision making process.

The *group of non-farmer members* consists of cooperative members who are owners of agricultural land and do not operate their own farm. They also have different areas of own land as well as are characterized by different age, education, culture, background and live in different cities, countries and continents. These differences reduce widely the sub-group's cohesion and could significantly hamper the cooperative's decision making process as well as their participation on the general meeting.

The significant heterogeneity of the members' group is identified by all interviewed production cooperatives. According to representatives of these cooperatives, the members' heterogeneity does often prevent strategic decision.

The problem with the significant low number of members who participate at the General Meeting (by some cooperatives around 20% of the total number of members) appears as a result of the group heterogeneity.

Another problem arising from the heterogeneity of the members' group is to find enough members with sufficient experience to be elected to the governing bodies of the cooperative. Often this situation leads to an inappropriate selection of members for the governing bodies and their inefficient functioning. During interviews conducted by Boevsky, the chairmen and members of governing bodies expressed their concern regarding future management, control and development of the production cooperatives if this problem continues to manifest.

### 4.3.2. Agricultural Credit Cooperatives

The majority of the Agricultural Credit Cooperatives (ACC) is located in remote rural areas but also in semi-urban provincial towns. Nevertheless, their clientele mainly consists of small private farmers. As the cooperatives, compared to microfinance institutions in other parts of the world, serve only a small number of members, all operations, i.e. screening, monitoring and enforcement of repayment are based on personal relationships within the social networks of rural communities. Although the lending strategy does not support the well-known group lending approaches<sup>9</sup>, similar processes can be observed. For instance, the functioning of the credit cooperative relies heavily on informal information flows within the social network of the cooperative members and on social pressure (in case of delayed loan repayment).

One of the biggest growth impediments for the ACCs is the limited funding base as they are not allowed to collect savings and can hardly refinance them in the Bulgarian financial system. Since 2002 however, Oikocredit International<sup>10</sup>, a socially responsible investor started to refinance some of the ACCs. However, such socially oriented investors, which themselves depend on attracting funds from donors or private investors, are motivated to document the positive and so called “social” impact of their investments. They strongly engage in the application of Social Performance Measurement (SPM) by educating their clients, i.e. operating microfinance institutions as the ACCs, and requiring them to conduct SPM as a self assessment or external audit. To implement a SPM, Social Performance Indicators (SPI) ought to be included in the management. The managers of the cooperatives and the director of the National Cooperative Association (NCA) support the implementation of SPM and made it possible to document social effects which were achieved by delivering financial services to small private farmers.

#### 4.3.2.1. Some important historical facts of Agricultural Credit Cooperatives

The above mentioned informal networks, which are geographically bound to small rural communities, are a fundamental component in the foundation of the ACCs.

In 1996, the EU-PHARE project “Agricultural Capital Funds Scheme” started to support cooperatively organized agricultural finance in Bulgarian rural regions. The incentive was a conditional subsidy for the share capital of each credit cooperative. The subsidy was made up by a certain multiple of the share capital collected from natural persons, i.e. the members of the respective credit cooperative. The potentially available credit fund of each cooperative was then built up by one lev (BGN after the financial crisis in 1996/97) of collected share capital which was subsidized with 5 leva from the EU-PHARE project and 2 leva from funds of the Bulgarian Government. Those funds were allocated in the cooperative as loanable funds, either defined as “grant capital” or as equity. Since the focus of the EU-PHARE project was on agricultural finance, at least 50% of the cooperative members had to be active private farmers. Local key persons as majors or other influential functionaries, gathered groups of potential members in their region and applied for the EU-PHARE project. Under the supervision of the Ministry of Agriculture, the agricultural credit cooperatives (ACCs) were registered according to the Cooperative Act, according to the Memorandum of Understanding between the Government of the Republic of Bulgaria and the Delegation of EU Commission to Bulgaria in 1996.

The major obstacles for the development of the ACCs were already laid at that time: First, financial services were restricted to lending only. Deposit taking was explicitly prohibited. Second, as often observed with regard to early formation phases of rural credit cooperatives,

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<sup>9</sup> Group lending approaches refer to shared liability within a group of borrowers, individual lending concerns only one person as liable borrower.

<sup>10</sup> Oikocredit (<http://www.oikocredit.org/en/home>).

their regulation and supervision were assigned to the Ministry of Agriculture. However, it became quickly evident that the Ministry was not well suited for this task. Third, technical support, e.g. by the German Cooperative and Raiffeisen Foundation (DGRV), was limited to training of key persons of the cooperatives, i.e. managers and staff members. The DGRV could have assisted in establishing a supportive legal framework for cooperative financial intermediation but did not receive appropriate support by the Ministry of Agriculture or other authorities. These shortcomings led to the failure of a number of ACCs. They deviated from their initial mission or/and accumulated bad loans. Nevertheless, 15 ACCs joined forces in setting up the National Cooperative Union 'Evrostart' (NCU) which operates until today. The NCU organizes external financial audits, trainings and is active in lobbying, but is not assigned a supervisory function. Since 2011 all cooperatives of NCU are registered as "financial institutions" within the registry of the Bulgarian National Bank<sup>11</sup>. The operation of the ACCs is regulated by Ordinance No. 26 (Bulgarian National Bank, 2009b) and the Law on Credit Institutions (Bulgarian National Bank, 2009a).

#### **4.3.2.2. Membership structure and main types of members of Agricultural Credit Cooperatives**

The cooperative approach enables lending to small farmers and rural enterprises with low or absent physical collateral, thus, facilitating productive investments. Additionally the cooperatives provide a large range of free non-financial services to their members. One example is the foundation of a regional brand for beans in Smilian. Beans were traditionally produced at an above-average quality in the region but sold to only slightly higher market prices than beans of standard quality. The registration of a label as a "protected regional brand" was initiated by the manager of the cooperative and enabled the micro and small farmers from the remote mountainous region of Smilian to sell their produce with higher margins (Amersdorffer, 2010). Additionally – and this is the case in all cooperatives – the staff members consist of financial experts and agricultural experts as well. This facilitates mutual understanding with the members and an appropriate risk assessment of their investment plans. Knowhow is either provided from staff members or among the members within the social network of the cooperative. During a data survey on social performance, each ACC and a sample of clients was assessed. The results show clearly that the ACCs play an important role in supporting small private farmers as the lower end of the food chain and generate income sources in remote rural areas. The number of members is highly correlated to the available loanable funds and varies among the cooperatives between 80 and 430.

#### **4.3.2.3. Irrigation Associations**

The irrigation associations have undergone various changes in their long history too.

#### **4.3.2.4. Some important historical facts of Irrigation Cooperatives**

The Bulgarian parliament passed in 1920 the Law on Water Syndicates, which was based on the Prussian Water Law from 1913. One of the objectives was to regulate water use according to cooperative principles because the state lacked the financial means to manage it on its own. The law supported the establishment of Water Syndicates (WS) under cooperative principles, but the degree of self-administration of the syndicates was limited. Priority was given to the public interest and state policies (Milenkov, 1943). For example, the law required ministerial for the founding of a WS because the WS' measures had to serve public interest or contribute to public economic utility (Law of Water Syndicates 1920; Michaelov, 1935). The right of free choice of

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<sup>11</sup> Bulgarian National Bank: [www.bnb.bg](http://www.bnb.bg)

membership was violated. Some of the established syndicates practiced compulsory membership (Michov, 1986). This was justified as they claimed to benefit all landowners even though compulsory membership was sometimes applied to those landowners who did not benefit from the activities of the WS. Three categories of water syndicates were established namely; syndicates for irrigation, syndicates for regulation of rivers and drainage, and syndicates for electricity (Theesfeld, 2005).

During the communist era the WS had been liquidated.

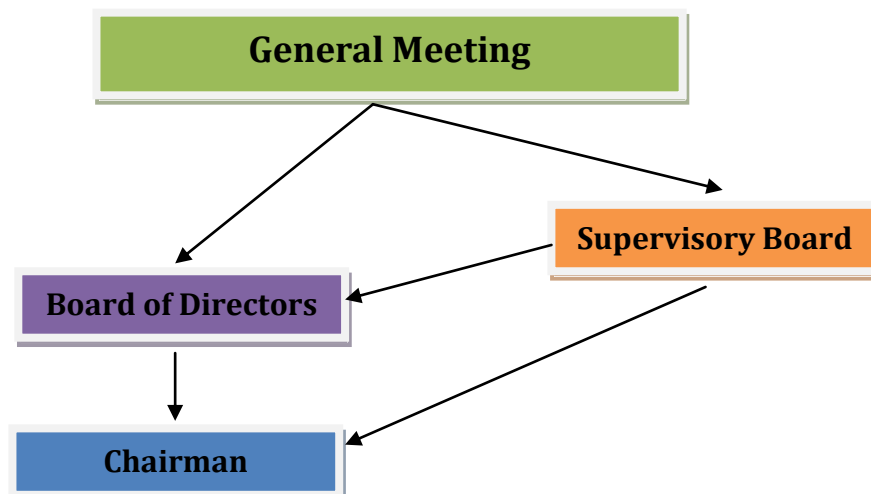
After 1990, the Bulgarian governments made an effort based on the WS's tradition to introduce the creation of irrigation entities, called in the 1990s water user associations, operating in the legal form of a cooperative. The aim was to reform and decentralize the former centrally planned water sector and to increase the involvement of local actors. Likewise, World Bank projects, such as the 'Irrigation Rehabilitation Project', attempted to set up water user associations since 1991 (World Bank, 1999). The legal framework for these associations was the Law on Water (2000) and the Water User Associations Act (2001). The water user association did not achieve their aims according to governmental officials and were transformed into irrigation associations (Law on Irrigation Associations, 2008).

## **4.4. Internal Governance**

### **4.4.1. General (Standard) Internal Governance Structure**

Chart 3 shows the governance structure of the production cooperative with the different governing bodies. This internal governance structure is required by the Cooperative Act. I analyzed and commented it in the excel sheet "Legal". The Cooperative Act does not allow external (non-member) Chairman/Manager. The external manager can become a member and thus this requirement is implemented in practice and is not an obstacle of hiring a professional manager. I identified only one agricultural cooperative that considers it important for the cooperative business to hire a professional manager.

Chart 3: Governance structure of the production cooperative



Source: Own chart

#### 4.4.2. Internal Governance Structure by Large Cooperatives – The Meeting of Plenipotentiaries

If the number of cooperative members exceeds 200, the general meeting can be held through plenipotentiaries (proxies) elected by a secret ballot according to representation norms and criteria set out in the statutes and by virtue of decision of the management board of the cooperative, but not less than 70 people (Cooperative Act, art. 15, para 1). A Meeting of Plenipotentiaries shall enjoy all rights vested in a General Meeting (CA, art. 15, para 2). The large production cooperatives make use of the Meeting of Plenipotentiaries. There is a lack of scientific analysis and literature on this phenomenon. It is interesting to know how this mode works in practice, having in mind the significant heterogeneity of the member groups in the production cooperatives discussed in section 4.3.1.4.

#### 4.5. Performance of the cooperatives

My observations and experience from the last 20 years regarding production cooperatives show that the members' satisfaction in the last decade is notable higher compared to the members' satisfaction in the 1990s, however it is still insufficient. The positive trend is due to the new strategies and development within the production cooperatives.

Production cooperatives have a significant role as countervailing power on the land market. Dikov (2011) highlights facts for north-east part of Bulgaria where the rent paid for leased land is higher in areas where production cooperatives operate compared to areas where production cooperatives do not exist.

The 15 Agricultural Credit Cooperatives affiliated to the NAC Evrostart have a constant small growth over time in equity and total loans. (illustrated by Figure 14) In 2009, the cooperatives of the Association Evrostart took part in a project to measure their social performance following the methodology of CERISE Social Performance Indicators.<sup>12</sup> The Appraisal revealed that the agricultural credit cooperatives offer financial services and accompanying non-financial services

<sup>12</sup> please see [www.cerise-microfinance.org](http://www.cerise-microfinance.org) for further information



which are well adapted to the need of small private farmers. They achieve income growth in remote rural regions or among clients who otherwise would be excluded from financial services and access to knowledge about agriculture, state support programs and other specific issues.

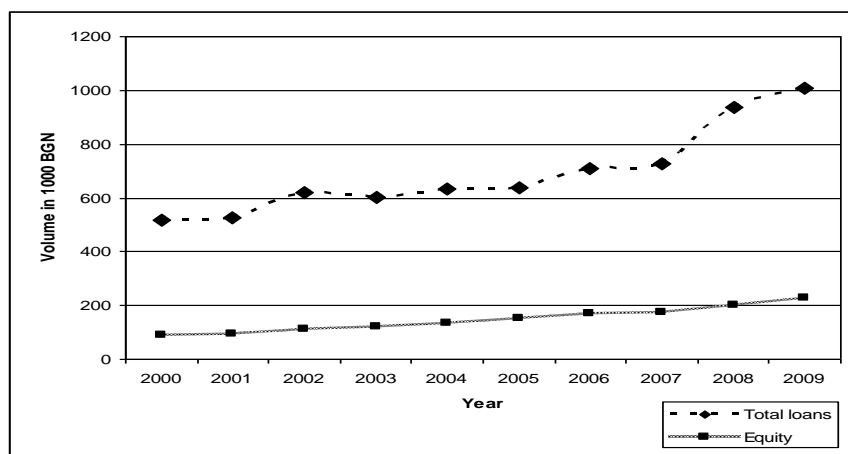


Figure 14: Performance of Agricultural Credit Cooperatives.

Source: DGRV, NCU, Cooperatives

## 5. Sector analysis

As given in Chapter 2, agricultural production cooperatives in Bulgaria show a low level of vertical integration and hence low engagement in food chains. They are horizontally diversified to several branches of agricultural production (multi-purpose cooperatives). Cooperatives in winery, which highly engage in producing their own wine, are an exception to this rule.

### 5.1. Cereals

A decreasing production is observed in the cereals sector, differing for the particular crops. The decrease of cereals (Table 9) is less than in intensive sub-branches, such as vegetable production and fruit growing (vegetable producer groups). Cereals sold on the market are mainly produced by large farms which apply modern technologies (fertilization, plant protection) but suffer from increasing input prices. In this sector the mechanization level has strongly improved as a result of the State Fund "Agriculture" support, SAPARD Program and a part of RDP measures. The generalized results from these programs application show that they are in favor of the large and partly of middle-sized producers.

Table 9: Cereals production in Bulgaria by periods

Products	Average production by periods, tones	
	1989-1993	1994-1998
<b>Cereals, total</b>	<b>7 860 344</b>	<b>5 613 632</b>
Wheat	4 455 016	3 153 973
Barley	1 317 665	859 894
Maize	1 797 471	1 441 090

Source: MAF, Directorate „Agrostatistics”; National Statistical Institute.

*The main problems of cereal production are related to:*

- Low yields of all crops in comparison to the same in EU countries and other exporting countries;
- Low average yields due to suboptimum input use (fertilizers, certified seeds) and inadequate soil cultivation;

The complex assessment of the manifested trends in the cereals production in total and by varieties, taking in consideration the situation in the country and the exportation opportunities, allows the following conclusions:

- The changes that occurred over the last twenty years are moderately negative. After the EU accession of Bulgaria, the average production level remained the same as in 2004-2006.
- The average production level is sufficient for the national supply, but it supports only a very low level of national dairy and meat production.
- The cereal production, especially the wheat production, is the backbone of Bulgarian agriculture and supplies the main export good - wheat.
- Cereals are of decisive importance for the production security of the country, including for the increase in livestock production.
- The manifested trends for cereals and particularly for wheat define these crops as products having relatively good competitiveness in relation to other products and in terms of export prices.

A significant part of the top 50 production cooperatives operate in this sector. The accumulation of land and accumulation to large plots enables the cooperatives to produce more efficiently than small farms. A second strength is their logistic structure, often still making use of socialist warehouse buildings (renovated).

## 5.2. Sugar

Information about this sector is hardly available. Cooperatives are not active in this sector. I want to point out that this sector was predominantly organized in cooperatives before the end of the Second World War but no cooperative was re-established during privatization.

## 5.3. Fruit and vegetables

The dynamics of areas with vegetables after 2000 show a strong collapse of all main crops, from 44 600 to 28 700 ha in 2009. Tomatoes, cucumbers and onions are barely 10% from the basic year. The trend even progressed after 2007 since vegetables were less supported by CAP, and national support by the State Fund "Agriculture" was extremely insufficient, so the farmers withdraw progressively from this production (Table 10).

Table 10: Dynamics of the vegetable crops area, in thousand ha

Crops		
	2000	2005
Vegetables	44.6	41.5
Including:		
Tomatoes	41149	40973
Paprika	41079	40913
Cucumbers	41038	0.7
Onion	40952	41030
Cabbage	41161	40971
Potatoes	52.8	24

Source: MAF, „Agrostatistics“

Volatile local and national markets in combination with relatively cheap and increasing imports worsen the situation.

Bulgaria as an export nation within the former Soviet Union has transformed in a net importer because of its impossibility to satisfy the demand of fresh vegetables and raw materials for processing enterprises and wholesalers. After 2006, excluding the cucumbers, the main vegetables trade balance is negative and worsens more and more. In 2008 it has reached 154 thousands tones of vegetables.

Additionally, the national food processing industry suffers from unproductiveness and low technological standards. In 2007, 14 canning factories were closed.

The EU has proposed large-scaled reforms for harmonization of the vegetables and fruits common market. This reform idea is to simplify the rules, to achieve more complete harmonization and integration of the vegetable production. The reform will also encourage more agricultural producers to organize in producer groups.

The fruit production passes through a hard period. Cultivated areas in 2009 accounted to 24.3 thousands ha, which is only 33.34 % of the acreage in 2000 (Table 11).

Among fruits, pears and quinces come on the market only in symbolic quantities. In 2009, a small increase in acreage was observed for the most fruits (excluding apricots, plums and raspberries) in comparison to 2008. This goes in line with the highest relative share of young plantations of up to 4 years.

At the same time, the share of apricot plantations over 20 years is high (over 35%), plums – over 50% and nuts – over 80%.

Table 11: Harvested areas with main fruit crops, ha

Fruit varieties	2000	2005	2006	2007	2008
Apples	12 957	3 127	2 979	3 524	3 427
Apricots	5 606	3 038	2 719	2 553	1 983
Peaches	7 295	2 646	2 755	2 903	2 820
Plums and wild plums	12 288	5 926	5 899	6 731	4 604
Cherries	6 973	4 723	4 791	5 007	4 411
Nuts	6 731	3 194	2 980	4 164	1 628
Raspberries	1 330	1 182	1 364	1 129	1 034
Total	74 965	26 343	25 978	28 361	21 927

Source: MAF, Directorate Agrostatistics

The production is fluctuating by years, although in 2009 it was 17% more, compared to 2008. In 2009 were produced 106 thousands of tones, which is 2.6 times less than in 2000.

In the fruit production the biggest decrease is observed for apples. From 400 thousands tones for the period 1985-1989, it dropped to 35 thousands tones in 2009. The production does not satisfy national demand.

The reasons for the above-mentioned adverse trends are complex. Some factors may be mentioned: the over-aging of existent plantations, lack of investments for creation of new ones; low average yields, no appropriate warehousing and diminishing local processing opportunities; increased price of labor.

Production cooperatives are operating in this sector but do not keep pace with newly established private farms in terms of modernization and investment capacity. Often short-term oriented profit maximization leads to a low productivity in the long term and exploitation of cooperative assets.

#### 5.4. Olive oil and table olives

This sector does not exist in Bulgaria.

#### 5.5. Wine

Decreases in the total area of vineyards (harvested area), average yields, and production can be explained as follows:

- Over-aging of plant material and varieties structure of the vineyards. Most plants are 21-30 years old, followed by age groups of 31 years+ and 11-20 years. The smallest share of the vineyards is less than 10 years old.
- The land fragmentation and a large number of small scale proprietors, which leads to inefficient cultivation/harvest structures and uncoordinated phyto-sanitary protection.
- Varieties are not market oriented.
- Lack of knowledge in appropriate plant protection measures.
- Lack of cooperation between vine-growers and wine-producers, particularly for the grape production purchase and the wine grape purchase prices formation.
- Low financial opportunities for the vine-growers for purchase of technique and building of drip irrigation installations from the beginning of the transition period until the early 2000th. The grape-producers obtain financial support under measure “Restructuring and conversion of wine grapes” at the National Program for the viniculture and wine-production sector, for the period 2009-2014, for drip irrigation installations.

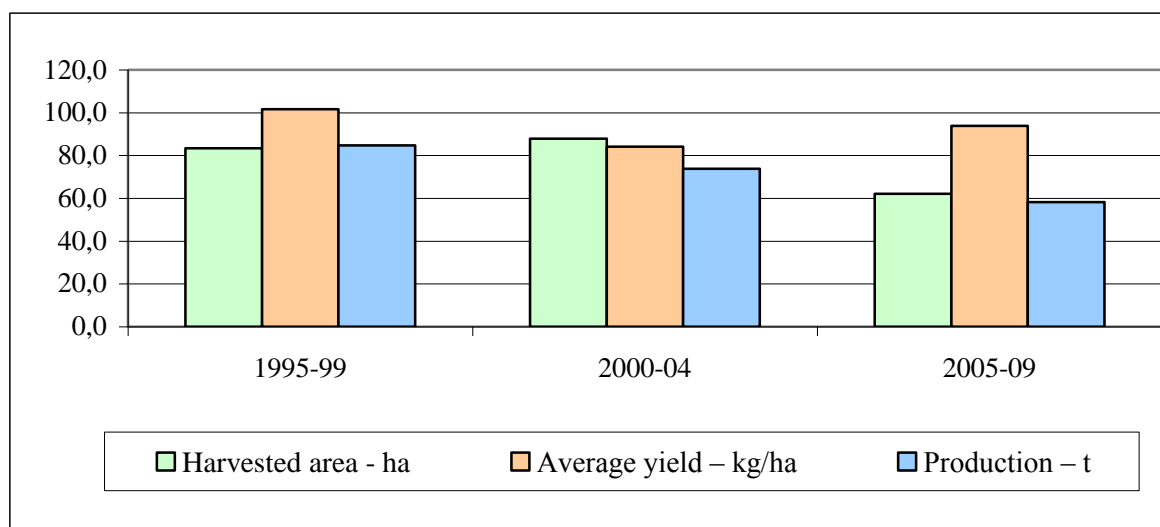


Figure 15: Areas, yields and production of wine grape by periods.

Source: MAF, Directorate Agro -statistics

In the vine-growing farms, the vineyards are predominantly growing varieties that yield low purchase prices. The variety structure of vineyards defines to a great extent the farms' effectiveness and competitiveness. The vine-growing farms which grow varieties that have high market prices, such as Mavrud, Muscat Otonel, Cabernet Sauvignon etc., show high investment effectiveness.

This year (2011) small vine producers had an economic advantage due to the high demand for bright grapes from traders from Italy.

The local and export market is dominated by 10 large vine producers who grow their own grapes and only acquire grapes from the market in case their own production did not reach the optimal size for the further steps of processing. Only very few wine producers buy grapes from the market to produce

their own brands of wine. One example is Santa Sarah that surveys several vine producers throughout the year to buy highest quality grapes after the harvest. This enables Santa Sarah Company to produce constantly high quality wines.

Over the recent 10 years, the largest wine producers realized that, to ensure a certain grape quality and up to date sorts, they have to invest in their own vine production. Such investments were to a large extent co-financed by SAPARD measures.

Three cooperatives were identified in this sector. Two cooperatives run vineyards. One of them is in a liquidation process, the second one is specialized production of wine and the third one is

multipurpose, but wine is not its main sector. A successful example for collective action in the food chain is the Brestovica wine cooperative which was founded in 1908. Until today about 480 small farmers deliver their produce to the cooperative which processes the grapes to several brands of wine and conducts a common successful marketing strategy. (I recommend a in dept study of the determinants of success of cooperative action in this case. Problems could be studied in the cooperative which is currently in the process of liquidation.)

The dual structure of the Bulgarian agriculture is highly presented in this sector. Experts of the Executive Agency of Vine and Wine and of the Wine Chamber share the opinion that the small and medium scale vine growers have faced different market problems that threaten their sustainability. The government and non-government representatives regard promotion and creation of collective action among the vine farmers an appropriate tool for overcoming the market problems.

## 5.6. Dairy

Actually the problem of the milk sector policy is the way of this sector restructuring, aiming to meet the new requirements and to be competitive in local and EU-regulated markets.

Figure 16 shows that cow and cattle numbers have permanently decreased after 2003, which inevitably leads ta declining milk production. The sharp collapse in livestock numbers is mainly due to the mentioned confusion concerning the future of small family farms, breeding up to 5 animals. The small farm size is a major obstacle to adhere to quality standards and to deliver milk that can go beyond “next door” markets.

In this sector, I have identified operating production cooperatives too. However, dairy farming is more a side activity than a main specialization.

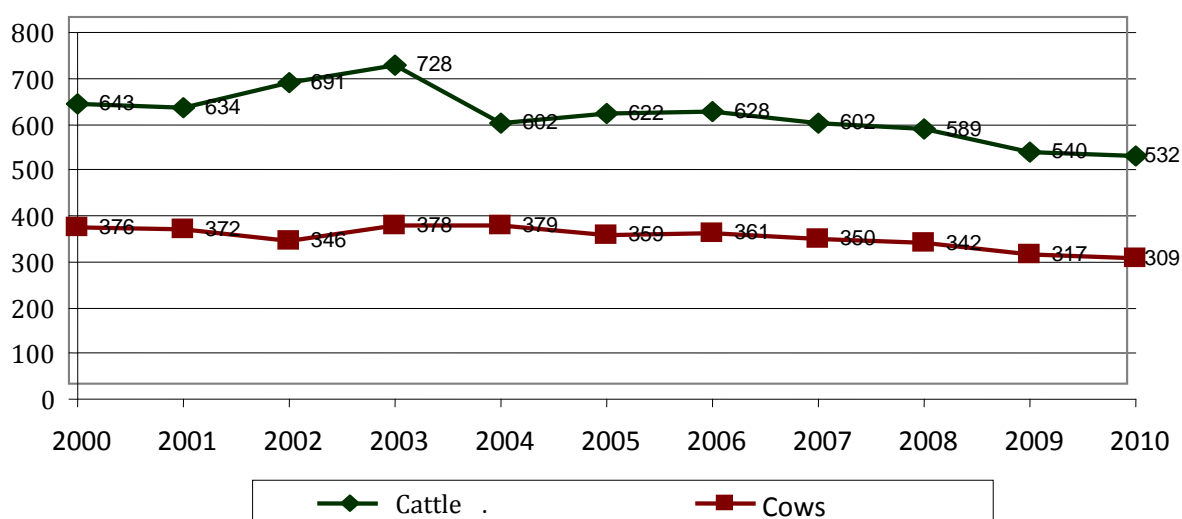


Figure 16: The number of animals in the cattle-husbandry, in thousand heads.

Source: MAF, Directorate Agrostatics

As specificity, Bulgaria has also a considerable share in production of sheep and goat milk. Nevertheless, in the period after the EU accession the production has still been in a process of adaption and the number of animals decreases. Positive signs come mainly from the increase of the average sheep number in farms with more than 50 animals and indicate an increasing average size of farms.

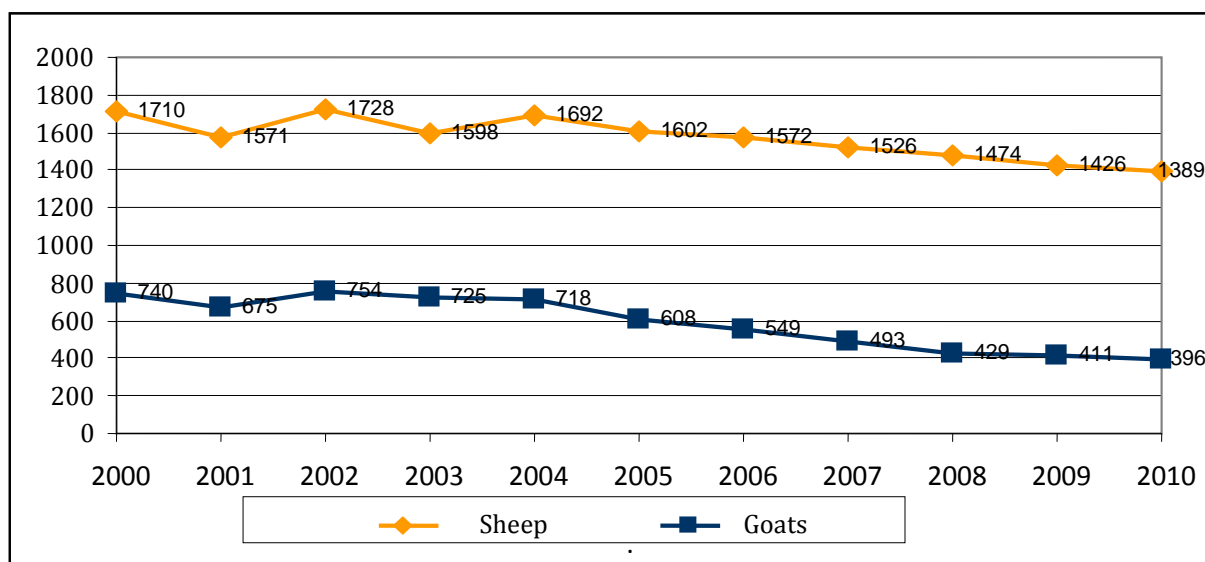


Figure 17: Sheep and goat numbers in thousand heads.

Source: MAF, Directorate Agro-statistics and own sources

In sheep and goat production, milk processing is really difficult because of the fragmented production in mainly remote rural areas. Often, simple facilities as cooling on the spot or during transportation are not available. For goat breeding the perspective is even worse, because of the specificities of this production, concentrated predominantly in small self-sufficient farms.

A cooperatively organized processing structure can overcome such problems as given in the example of the Rhodope Mountains. Productive cooperatives could not be observed in the sector – and if, they run their dairy production only as a side activity for own consumption or local markets.

## 5.7. Sheep meat

Regarding the sheep meat, it is one of the most promising sectors within livestock, also in terms of export opportunities. However, it followed the main trend and showed a strong decrease in the last decade from about 9 million heads down to 1.5 million sheep in 2006. The lamb meat the most important of the three products derived from sheep husbandry (meat, wool, and milk). Moreover, according to Ivanov (2004) this product accounts for 59% of gross revenue in sheep enterprises. The demand of lamb meat is comparatively high and it represents a seasonal but secure income for the sheep farmers. The amount of lambs processed by the slaughterhouses reported an increase from 6 969 tons in 2002 up to 9 148 tons during 2009, which testifies for the availability of market and demand. The sheep meat export is the most important livestock export, accounting for about 53% of total meat export. Thus this sub-sector plays a role in mitigating the trade balance in meat production. It should be highlighted that between 35-40% of the produced sheep meat is designated to export. According to Slavova et al. (2011), the export of live and slaughtered lambs and sheep has good possibilities for export growth.



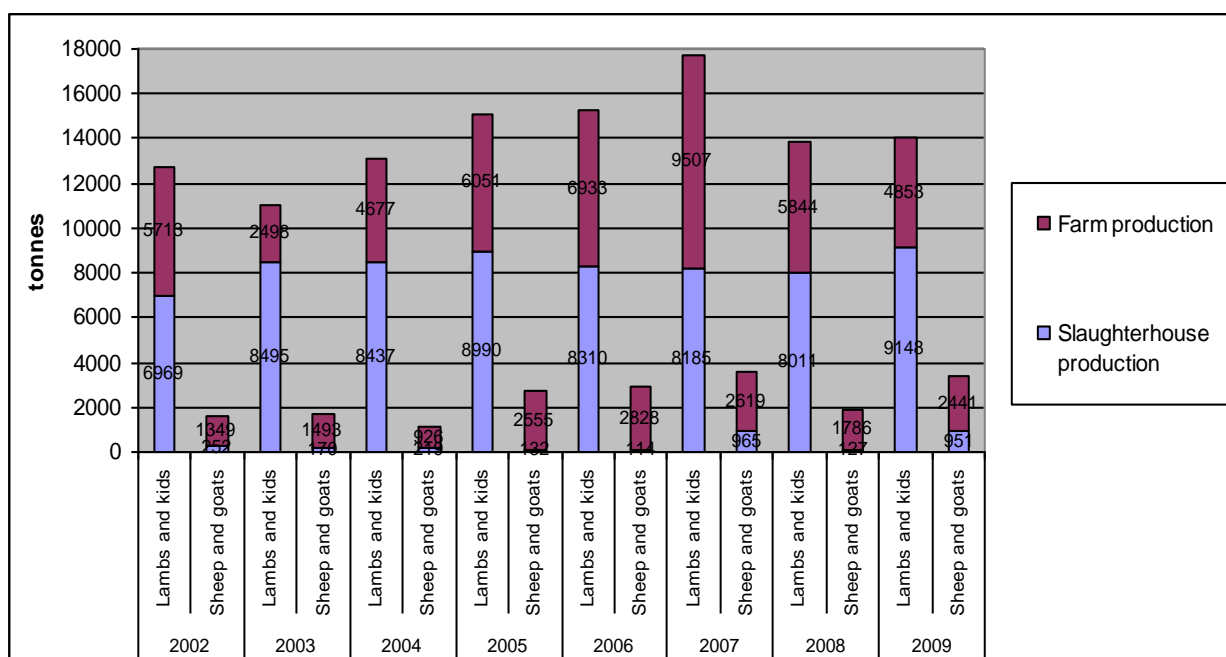


Figure 18: Production of ruminants in carcass, tons.

Source: MAF Directorate Agrostatistics

The percentage of the direct marketing regarding sheep meat has also been high over the years. The figures in Figure 18 show that between 35-45% of the lamb and other meat is produced in farms and used for local domestic supply. Consumers prefer such market channels because of lower prices and trust to personally known farmers. Regarding goat meat, local consumption and direct marketing are the sole channels to the consumer.

Cooperatives were not identified in this sector.

## 5.8. Pig meat

In socialist times, pork production was one of the most concentrated sectors in agriculture. The large state-owned farms were privatized and collapsed after 1990, which was reflected by a sharp decrease in pig meat production during the 90s.

Until today the large-scale production did not recover but has potential in the future.

Again the dualistic structure of Bulgarian agriculture led to the situation that small farms took over pig production but lost the connection to national or even international markets. The produce is mainly sold locally or collected by mobile traders.

The least number of pigs has been produced at the end of 2001; afterwards there is a slow increase of the animals' number. (Figure: 19).

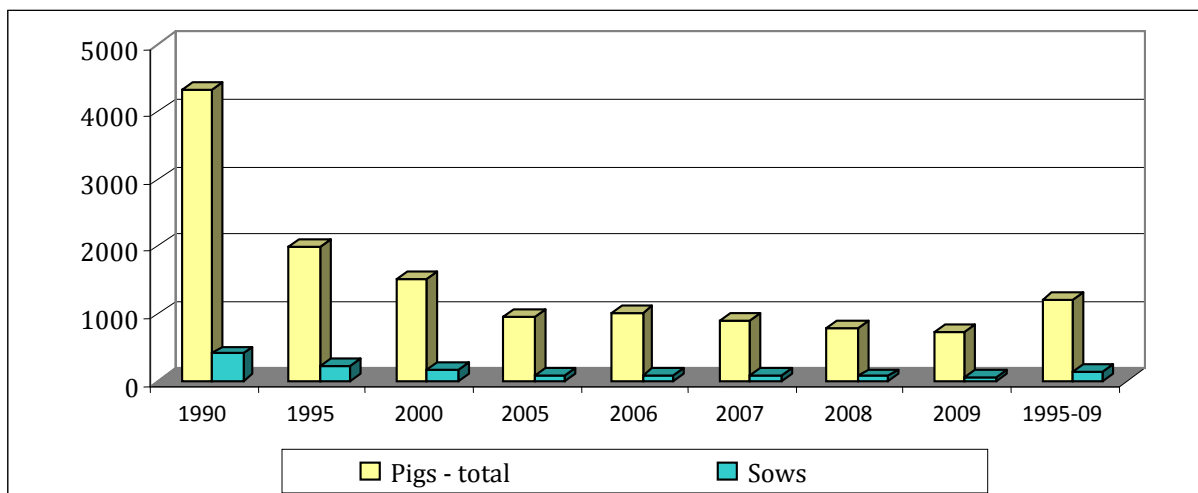


Figure 19: Dynamics of pig number's change, in 000 heads.

Source: MAF, Directorate Agrostistics.

*The main sector problems are due to:*

- low productivity and competitiveness, combined with cheap imports by wholesalers;
- high investment costs to meet hygienic requirements of the EU;
- high prices for feeding caused by high cereal prices;
- missing link of local production and further vertical food chain;
- replacement of nationally produced quality meat by cheap imported substitutes e.g. raw materials for sausages and other products (regulation and enforcement are underdeveloped).

Cooperatives of a considerable production were not identified in this sector.

## 6. Overview of policy measures

### 6.1. Regulatory framework

The performance of Bulgarian cooperatives is influenced by Cooperative Law. This law is national and has direct impact of cooperative development. However, there are also other laws and regulations that play essential role for successful development of the cooperatives. For instance such laws, regulations and measures, are water law, law for water users, forest law, law for regional development, etc.

Another regulation that has important role for cooperative development is the Rural Development Program, especially in Axis 1 - measures 112 and measure 142. In Bulgaria, we do not have special regional regulation that may influence cooperative organizations.

For evaluation of policy measures please see also the 2010 mid-term report (available at: [http://ec.europa.eu/agriculture/rurdev/countries/bg/mte-rep-bg\\_en.pdf](http://ec.europa.eu/agriculture/rurdev/countries/bg/mte-rep-bg_en.pdf)).

I could not find a documented impact of the measures on cooperatives, especially concerning producer groups (M142).

### 6.2. Policy measures

The table below identifies the policy measures that influence the competitive position of the cooperative in Bulgaria. Also, it will describe shortly each mandate and policy measure at the national and EU levels in the country and present its policy target and impact on the cooperative development.

In the Table below, for policy target it needs to emerge more clearly that several of these instruments are not targeting co-ops per se, but are wider measures which also affect co-ops.

Table 12. Policy Measure Description in Bulgaria

Policy Measure Name	Policy Measure Type	Regulatory Objective	Policy target	Expert comment on effects on development of the cooperative
Cooperative Act	Law	Organizational Law (details in excel sheet legal)	All Types of Cooperatives	Good base for establishment and development
Law on the Livestock Production	Law	The law aims to create conditions and prerequisites for:	Agricultural cooperatives	The role of on the Law on the Livestock Production is to support activities of the individual producers as a group when they
		1. Sustainable development of livestock production and management of genetic resources and their use for efficient production of animal products;		

		2. Creation, preservation and improvement of agricultural populations of animals adapted to different agro-ecological regions of the country;		cannot manage their production, distribution and market alone.
		3. The harmonious development of livestock in order to protect the environment and health of humans and animals;		
		4. Effective management of quality in the production of animal products.		
Law for the Support of Agricultural Producers	Law	The law aims to:	Agricultural cooperatives and other farm organizations	The role of the law to support cooperatives and all farm organizations for their farming. This law has strong impact of farm organization at national level.
		1. Develop efficient agricultural and forestry operations and competitive food industry;		
		2. Develop production of agricultural products in areas with worse socio-economic characteristics;		
		3. Protect and improve soil fertility and gene pool;		
		4. Develop ecological agriculture;		
		5. Development of a stable domestic market and expand export markets for Bulgarian agricultural goods;		
		6. Improve the productive structure of rural areas;		

## 7. Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the developments of cooperatives in Bulgaria. In chapter 2 the basic statistics on agriculture and existing cooperatives in agriculture were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance and the institutional environment in which they operate.

This lead to some first impressions in section 3.5 on the performance of the cooperatives in Bulgarian agriculture in relation to their internal governance and institutional environment. Also it becomes clear that cooperatives in agriculture do not operate in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 looked into much more detail on the how the regulatory framework influences the competitive position of the cooperatives.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment and internal governance). Section 6.1 focuses on the explanation of the performance of existing cooperatives in Bulgarian agriculture in terms of their internal governance and the institutional environment (including the regulatory framework). In section 6.2 an assessment is given on which policy measures in Bulgaria seem to benefit cooperatives and which ones have a constraining influence.

### 7.1. Explaining the development (performance) of cooperatives

I have identified four types of cooperatives existing in Bulgarian agriculture: Production cooperatives, agricultural credit cooperatives, irrigation associations and producer groups/organizations. I will explain the performance of each type in terms of the building blocks in the following tables below

#### 7.1.1. Explaining the development of the production cooperatives

Table 13 highlights the development (performance) of the production cooperatives

Table 13: Development (performance) of the production cooperatives

<b>Building blocks</b>	<b>Aspects for data collection</b>
<i>Institutional Environment</i>	<i>Economic (dis)incentives</i>
	Organizing production, providing farm machinery service, supply farm inputs, warehousing, milling, oil pressing, providing food for members' households, extension service;
	Bargaining rental prices on the land market
	Countervailing power on the land market;
	<i>Legal/fiscal/competition aspects</i>
	The most important laws for the production cooperatives are the Law on Cooperatives and the Law on Ownership and Use of Agricultural Land. The Law on Cooperatives regulated the organization and operations of production cooperatives. The Law on Ownership and Use of Agricultural Land regulate the property rights on agricultural land. These two Laws were object of political conflict in the 90 <sup>th</sup> and therefore were amended (often significant) around 20 times each. That has generated insecurity in the operations and performance of the cooperatives. The situation has changed in the last decade. Amendments in these two laws have significantly decreased. Changes that are made are not important. Presently this leads to sustainable development

	<p>The principle of the tax treatment of cooperatives is that they are subjects equal to the other companies. The Bulgarian lawmaker had very bad experience with provisions regarding exemption from all taxes and fees for some types of cooperatives. The Bulgarian lawmaker had a very bad experience with provisions. Regarding exemption of some types of cooperatives for all taxes and fees thus making social policy. In the first post-communist Cooperatives Act from 1991 (art. 37, para 5) cooperatives established by disabled people and school-pupil cooperatives are free of all taxes and other fees. After coming into force of the CA all excise imports (alcohol, tobacco, petroleum products) were done by this two types of cooperatives. Mavragiannis (1992) pointed out that thus, in less than an year, Bulgaria lost billions of dollars.</p>
	<p>The Law on Competition regulates the production cooperatives on the same footing as all other market actors.</p>
	<p><i>Historic/cultural, sociological backgrounds</i></p>
	<p>The Bulgarian cooperatives have a 120-year-old history. The first cooperative founded was the agriculture multipurpose cooperative (type Raiffeisen) in village Mirkovo, near Sofia. The first Bulgarian Cooperative Act (other translation Law on Cooperatives) was based on the German cooperative law. The Bulgarian cooperative network (system) was significant influenced by the German cooperative network and got a similar structure (predominantly cooperatives from types Raiffeisen and Schulze Delitzsch. The good image that dominated the pre-socialist period was totally destroyed during the communist time and the cooperatives which had appeared after 1990 had to struggle with this circumstance. The significant shift in the last decade from ideological and political motives to competitive actor on the changing markets and member's satisfaction influence the image's improvement of production cooperatives.</p>
	<p>The membership structure characterized by significant heterogeneity of the members' group makes strategic decision making extremely difficult as well as often impossible.</p>
	<p>Another obstacle by the producer cooperatives is the significant low number of members who participate at the General Meeting which combined with the low number of active members leads to an inappropriate selection of members for the governing bodies and their inefficient functioning. This influence the future management, control and development of the production cooperatives as competitive market actor.</p>
	<p><i>Public support measures (National, regional EU)</i></p>
	<p>Over the last decade producer cooperatives are not subject of specialized (focused on them) national, regional or EU support. Around 240 producer cooperatives[1] benefited from measures 121 and have bought agricultural machinery as well as from the SABS.</p>
<b>Conclusion</b>	<p><b>On one hand, the institutional environment does not markedly stimulate the development of production cooperatives to become part of the food chain and does not support their development/ performance, but, on the other hand, the institutional environment has stabilized over the last decade and this fact has mainly reduced the obstacles to the production cooperatives' development and their governance structures.</b></p>
	<p><b>The production cooperatives are not in the focus of the Bulgarian agricultural policy. The government has no special policies to support them and at the same time do not take actions which can impede their activities.</b></p>
<i>Position in the Food Chain</i>	<p><i>Relationships between actors in the food chain</i></p>

### **7.1.2. Explaining the development of the agricultural credit cooperatives**

In Bulgaria cooperatives have a long history in rural finance. Before the communist period, rural savings and credit cooperatives provided financial services to agricultural and other rural enterprises. Their basic function was to generate loanable funds by collecting deposits and to invest them in loans to productive entities in a certain region. Historical documents prove a well functioning village-based mutual lending system. Its basic organizational principles followed the German model of Raiffeisen and dated back to 1907. Later, during communism, private farming was replaced by collective farming in large, state owned farms called "Agro Industry Complexes". Not surprisingly, the regional rural financial system was integrated in the mono-bank system under central planning (Hanisch, 2007; Rochlin, 1962; Eisen/Hagedorn, 1998). The political and socio-economic transition process started in 1990 in Bulgaria. However, financial system reforms were delayed and determined by discontinuous political strategies which ended in the financial crisis in 1997. Since then, the Bulgarian Lev is coupled to the Deutsche Mark (now Euro) by a currency board and a more stable development of the financial system began (Andronova-Vincelete, 2001). However, until today the rural financial sector is still underserved and especially micro and small enterprises do hardly have access to financial services, especially commercial banking services (Batchev, 2004, p. 1).

Credit rationing provoked the natural solution of local stand-alone mutual aid associations, or as they are sometimes called, not-for profit organizations<sup>13</sup>. They re-emerged mainly in rural areas where tight social networks within regional rural communities provided the base of cooperation. Within such social networks and based on personal ties and mutual trust, "relatives and friends" often served (and still do) as (informal) suppliers of loans (Batchev, 2004, p.9).

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<sup>13</sup> Two types of theories have been proposed to explain why nonprofit organizations exist. One type is traditionally designated as market failure theories and accordingly regards nonprofit organization as a particular solution to market failures. The other type, traditionally labeled as supply-side theory, views nonprofit organization as an outlet for altruism, ideological entrepreneurship, and practicing of social values (Jegers, 2008; Steinberg, 2006; Buchenrieder, G.; Dufhues, Dung, & Hanh, 2001).



Table 14: Development (performance) of the agricultural credit cooperatives

<b><i>Building blocks</i></b>	Data is taken over from prior surveys and scientific work
<i>Institutional Environment</i>	<i>Economic (dis)incentives</i>
	The agricultural credit cooperatives play an important role in their region but have a rather small share in the national financial sector (0,02% in terms of total assets).
	Nevertheless they serve a specific clientele (small private farmers and rural micro and small enterprises) which otherwise would be excluded from the financial system. Furthermore the cooperatives provide a wide range of free complementary non-financial service as consulting in agricultural production and marketing.
	<i>Legal/fiscal/competition aspects</i>
	The agricultural credit cooperatives adhere to the Cooperative Act and Ordinance No.26 (provided in the references). They are registered as non-financial institutions within the Bulgarian National Bank.
	<i>Historic/cultural, sociological backgrounds</i>
	Foundation in 1996, top down initiative, members from rural communities with a tight social network
	<i>Public support measures (National, regional EU)</i>
	EU Phare project, no further support, neither legal nor financially
<i>Position in the Food Chain</i>	<i>Relationships between actors in the food chain</i>
	<i>no relation</i>
	<i>Sector (or product) specificities</i>
	<i>Strategy of the Cooperative(s)</i>
	provision of financial services and accompanying services to small private farmers
<i>Internal Governance</i>	<i>Capital structure</i>
	grant capital as loanable funds, share capital from members as equity, external refinance provided by socially responsible investors
	<i>Relationship between coop and members</i>
	only members can be clients of the cooperative
	<i>Ownership structure</i>
	owned by members
	<i>Decision making structure</i>
	democratic, manager for operative decisions

### **7.1.3. Explaining the development of the irrigation associations**

The foundation of water user associations was seen as an appropriate tool for reform the irrigation sector. For encouraging collective action in this sector the Bulgarian focused on legislation and tying on the pre-socialist tradition. A number of Bulgarian laws contain important provisions connected with the changes of irrigation systems: Law on Cooperatives, Law on Water, Law on Water User Associations and By-Laws.

Theesfeld (2005) points out that the Law on Water User Associations from 2001 refers to similar organizational traditions by quoting the Law on Water Syndicates, which was in effect between 1920 and 1954. With its Irrigation Rehabilitation Project likewise the World Bank refers to Bulgaria's irrigation tradition, including thirty years of Water Syndicates' activities (World Bank, 1999). The project was initiated in 1991 and has attempted to set up water user associations in the legal form of cooperatives.

In 2002, in order to become eligible as applicants for the SAPARD Program, water user associations needed to re-register. According to experts' assessment from MAF and from National Association of Water User in 2002 and 2003 around 10 water user associations re-registered into irrigation associations.

According to the assessment of Vice Agricultural Minister Dimitrov (press release of MAF, 2011), the irrigation sector has significant problems. The reforms from the late 1990s and early 2000s with the irrigations associations do not achieved their aims. Therefore the MAF started working group for elaborating a proposal for a new strategy and the Ministry has been looking for collaboration with the World Bank and other experts.

Due to frequent restructuring of the irrigations associations their internal governance has changed often, too.

## **7.2. Effects of policy measures on the competitive position of cooperatives**

### **7.2.1. Effects of policy measures on the competitive position of the production cooperatives**

Concrete policy measures of the EU or the national support targeting especially, designed only for the productions cooperatives do not exist (see below). One shall take into consideration Regulation 1234/2007 and its dispositions on fruit and vegetables sector referring to "aid to producer groups" and Regulation 1698/2005 which foresees aids for producers' groups in the framework of the rural development. The support for foundation of producer groups was rarely implemented (production cooperatives did not participate), not did the newly registered cooperatives exist for a long time. Reasons can be found in institutional problems, e.g. no security of contract or contract enforcement. Further distrust and the mental mode among members led to opportunistic behavior and the failure of producer groups.) Recent national intervention through subsidies and credits for farm and rural development (State Fond Agriculture – Държавен фонд „Земеделие“) and incoming EU direct payments give the opportunity to the production cooperatives to overcome their funding shortages. Around 25% of existing production cooperatives benefited from the measure 121. With the new machinery and technology they successes to decrease the production costs and to increase the productivity.

### **7.2.2. Effects of policy measures on the competitive position of the agriculture credit cooperatives**

The regulation of non-financial institutions does not permit deposit services for the Agricultural Credit cooperatives. The same applies to prior regulations (before 2011) as the Memorandum between the Bulgarian government and the EU. Other regulation as external financial audits etc. does not influence the competitiveness of the cooperatives.

The prohibition of deposit services forces the cooperatives to extend their loanable funds by external refinance (mainly through loans from Oikocredit). A negative effect is the outflow of the return on investment from local rural financial cycles.

None of the cooperative managers reported severe competition, e.g. by banks, as there is a high demand for loans from small farmers. As a risky clientele, the farmers do not receive comparable loan conditions from banks which engage in agro-lending, or are totally excluded from financial services (except consumer loans with high physical collateral – if available).

### **7.2.3. Effects of policy measures on the competitive position of irrigation associations**

The SAPARD Program had no significant implication for the irrigation sector. Irrigation associations did not benefit from this program.

Measure 125 of RDP will start approximately at the end of 2011 (see previous comments in Table in Section 5.2).

### **7.2.4. Effects of policy measures on the competitive position of producer groups/organizations**

Producer organizations in the fruit sector cannot develop respectively make use from policy measures. Beyond the reasons given above, the founded producer groups mostly failed and are not able to absorb financial support. Lack of institutional security leads to opportunistic behavior as soon as incentives are given or even amplified by funding support). Further analysis on reasons and possible policy measures should be done.

In the dairy sector, the producer organization “Dobrudjansko mlyako” was established with support from the SAPARD Program.

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