TRANSITION OF BULGARIAN AGRICULTURE: PRESENT SITUATION, PROBLEMS AND PERSPECTIVES FOR DEVELOPMENT

ПРЕХОДЪТ НА БЪЛГАРСКОТО ЗЕМЕДЕЛИЕ: СЪСТОЯНИЕ, ПРОБЛЕМИ И ПЕРСПЕКТИВИ

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ABSTRACT

The characteristics of the agrarian reform, the problems and results of the restructuring of Bulgarian agriculture during the transition period, also the impact of the European Common Agricultural Policy (CAP) on overall policies in the period of preparation for accession to the EU have been reviewed in this article. The analysis demonstrates that the problems of restructuring of agriculture in Bulgaria are more specific compared to those of the other Central and West European countries. They can be solved through a sound comprehensive analysis of the economic, financial, organizational, demographic, psychological and political factors in the context of CAP.

KEY WORDS: Bulgarian agriculture, transition period, agrarian reform, EU

РЕЗЮМЕ

В статията се изследвани основните черти, особеностите на аграрната реформа, проблемите и резултатите от организационно-стопанското преструктуриране на българското земеделие в прехода към пазарен тип отношения и въздействието на европейската аграрна политика върху неговото развитие при подготовката на страната за присъединяване към Европейския съюз /ЕС/. Анализът на резултатите доказва, че проблемите на преструктуриране на аграрния сектор в България са по-специфични в сравнение с другите страни от Централна и Източна Европа. Те се решават при задълбочен анализ на икономическите, финансовите организационно-управленските, демографските, психологическите и политически фактори в контекста на общата европейската аграрна политика.

КЛЮЧОВИ ДУМИ: българското земеделие, преходен период, аграрна реформа, ЕС
1. INTRODUCTION

In the beginning of the 90s, a long process of transition from a centrally planned to a market economy has been started in the country. As a result of the implemented considerable political and social and economic reforms, the national economy underwent some radical changes, including agriculture. Unlike the other Central and West European countries, its transformation has proved to be a complex and too long lasting process [2]. After 1990, the agriculture fell into a deep economic and structural crisis, because of the economic reforms in the sector, developing at very slow rates due to a complex combination of internal and external factors. The country’s political and economic uncertainty, especially during the initial years of transition, impeded the progress in restructuring and the adaptation of agricultural producers to the changed conditions.

The object of this article is to present and assess the results of the reform in agriculture during the transition period and also to outline the effects of CAP on the development of Bulgarian agriculture in the process of accession the country with the EU.

The study focuses on the following important points:

- Development of the agricultural sector during the transition to market economy;
- Characteristics of the implemented agrarian reform and its impact on the sector's development;
- Restructuring of agriculture and competitiveness of the newly set up economic units;
- Impact of the European agrarian policy on the agricultural development in Bulgaria.

2. Development of agriculture sector in the transition period

2.1. THE ROLE AND POSITION OF AGRICULTURE IN THE NATIONAL ECONOMY
Agriculture has always been one of the leading sectors in the Bulgarian economy. The country has favorable natural resources for development of agriculture. The used land is 6.2 million ha and 77% of it is cultivable. The cultivable land has the following structure: arable land 89.15%, orchards and vineyards 4.45%, common land and pastures 29%. In 2003 the share of cereals represented 31% of all the land under cultivation, followed by industrial crops (14%), vegetables (2.97%) and perennial crops (3.66%). Milk production, dairy products, cattle-breeding, pig-breeding and poultry-farming are the most widely practiced. During the years of transition the share of agriculture in the country’s gross domestic product (GDP) has changed considerably, from 11% in the initial stage of transition. It reached its highest level of 21% in the period 1996-1998 and went down again to 17.3% in 1999. In 2003 the GDP has increased by 4.3% compared with 2002. In the beginning of transition the employment in the sector has been about 18% and in 1999 it grew up to 26%. The sharp increase in the number of employed in the sector because of the processes of restructuring, which lead to a decreasing of employment in the other sectors of the economy and directing of an unceasing stream of unemployment to agriculture. There is also a trend of annual decreasing in the share of agriculture in gross added value of the country’s economy for the period 1997-2003. This share was 26.6% in 1997 and 11.4% in 2003. This unfavourable trend is due to the negative affect of some economic conditions, such as the fragmented land ownership, absence of markets and the insufficient investments in the sector. Agriculture is among the sectors with lowest investment activity. In 1999 the share of investments reduces by 7.3 percent compared to 1990. The delayed structural reforms, economic instability, especially were typical during the period 1995-1997, as well as the inefficient production structures have proved to be a serious obstacle to the domestic and foreign investments. The above mentioned changes show that agriculture became more and more labour-consuming and less capital intensive.

2.2. AGRICULTURAL REFORM IN BULGARIA DURING THE PERIOD OF TRANSITION

The implemented agrarian reform is an important part of the economic transition to market type agrarian structure. A main object of the reform is to reinstate the owners in their lands and rest production factors. Achievement of this purpose was attended with carrying out the following tasks: liquidation of the collective socialist type farms; liberalization of prices and trade; privatization along the whole supply chain; policy of supporting agriculture, directed towards solving the problems of transition; establishment of well functioning financial and credit system, as well as a market infrastructure for development of agriculture.

The characteristics of the present agrarian reform in Bulgaria

The agrarian reform by its nature and performance is unique in the world practice due to the some reasons [3]. Agrarian reform in the country has started without any preliminary preparation and any vision of future development of agriculture. The absence of consistent and clear program of structural reforms, as well as a previously developed plan of privatization and defending the interests of certain circles had a negative impact on the development of agriculture. Reduced production of some vegetable and animal products reached critical levels. A main reason for the decline in the animal husbandry production is the sharp decrease in the number of animals. The low productivity can be determined as the main reason of decreased production of some traditional country products. For example, the production of pork reduced by 37 per cent, milk by 32%, eggs and wool by 40% and 73% respectively. The low productivity and declined production were influenced by some main factors, such as: transition of animals in the private sector, where there was a lack of experience and knowledge necessary for their breeding, especially in the initial years of the reform; shrinking the consumption in the home market; loss of traditional export positions in the international markets of Bulgarian pork, poultry, eggs and dairy products; a strength competition at the home and international market on the part of products from the EU and Central and West European countries.

In 1999, production of some main agricultural branches has drastically fallen off compared to 1990: grain-production by 37%; fruit-growing by 60%; tobacco-growing compared to 1989 by 60%; sugar-beet by 94%; and wine-production by 50%. Notwithstanding the complex nature of reasons for this serious drop in production, some of them are of considerable importance. The destruction of material and necessary equipment and the production base has led to some serious disturbances of basic links in the production technology. Such as non-compliance with the technological and agro technical requirements, violating the crop-rotations, unbalanced and inadequate application of fertilizers and chemicals, etc.

- The land reform is a main part of the reform in agriculture

It is a fact that the main object of the reform
in agriculture is being realized through the land reform, i.e. restoration of the land ownership and receiving a part of the property created in the former collective farms. However, in practice the mechanisms of this property restoration have proved to be extremely inoperative. The previously declared intentions of the reform to create prerequisites for development of economically viable private farms with possibilities of applying modern technologies and enterprising skills did not realize. The reasons for this have their historical roots. By 1945 the small-scale private farming has been predominating in Bulgaria. The slowly running industrialization of country supports a high level of employment in agriculture, which additionally fragmentize the land ownership. The procedures of reinstating the owners in their lands have proved to be too slow, bureaucratic, costly and very often practically unfeasible, which led to a great number of law changes at different stages of the transition. The difficulties attending the land reform gave rise to different organization, management, financial, institutional and psychological problems. By virtue of the law, the land was restored and millions of people became owners of small-size plots. With the idea of just restitution, the possibility of carrying out a consolidation of land was neglected.

The reform in agriculture was started with an all-round liquidation of the existing economic structures, such as co-operative farms, state farms, agro-industrial complexes, machine and tractor bases, etc., considering only the restoration of the land ownership without any ideas of establishment of new economic units that correspond to the new type market agrarian relations [4]. Making a political cult of the idea of full and immediate liquidation of the old economic system in agriculture, and also neglecting the experience of the Central and East European countries under transition, have led to liquidating the real opportunity for reorganizing the old production structures into another type associations.

3. Organizational restructuring of agriculture

The liquidation of the formerly existing production structures has initiated the process of organizational restructuring in agriculture. The establishment of more adaptive to the market conditions forms based on enduring ownership relations is connected with the definite completion of land restitution, privatization of most assets of all state agricultural enterprises, as well as with improving the legal and institutional environment for the land market development. The slowly running processes of land restitution and privatization were brought to their end at the close of the year 2000. In this way, the share of the privatized assets in agriculture was found to exceed 80%.

While before the organization structure was almost homogeneous, now there are too different by size and form of property structures (Table 1). The old type collective farms are replaced by private co-operations, private individual farms, and firms. The private farms were predominating. They can be subdivided into the following groups, depending on the size of cultivated land [7].

- Private farms, sized up to 1 ha. In 1997 they are more than 90 per cent of their total number, but cultivate just 10 % of all the area. The main object of these farms is self-sufficiency but a part of their surplus production is being offered for sale at the local markets. These farms produce mainly meat, eggs, vegetables and fruit. With the development of large-scaled, commodity and market

<table>
<thead>
<tr>
<th>Category of farms</th>
<th>Number</th>
<th>Average size of land</th>
<th>Arable land and permanent crops, 1000 ha</th>
<th>Share in the total arable land, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>12 317</td>
<td>390</td>
<td>4805</td>
<td>100</td>
</tr>
<tr>
<td>Public</td>
<td>332</td>
<td>518</td>
<td>172</td>
<td>3,6</td>
</tr>
<tr>
<td>Of which: State</td>
<td>311</td>
<td>241</td>
<td>75</td>
<td>1,6</td>
</tr>
<tr>
<td>Municipal</td>
<td>21</td>
<td>4619</td>
<td>97</td>
<td>2,0</td>
</tr>
<tr>
<td>Private</td>
<td>11 985</td>
<td>386</td>
<td>4 633</td>
<td>96,4</td>
</tr>
<tr>
<td>Agrarian co-operatives</td>
<td>3 666</td>
<td>482</td>
<td>1 769</td>
<td>36,8</td>
</tr>
</tbody>
</table>

Source: Bulgarian National Statistical Yearbook, Sofia, 2000
The farms sized 1-10 ha represent 34 per cent of the total number and they cultivate about 24 per cent of all the land. By their nature these private farms can be considered as subsistence.

The private farms sized more than 10 ha cultivate about 66 per cent of the land but they are only 0.2 per cent of the private farmers’ total number. These are large farms, sized at an average of 500 ha. Most of them advance and make profits through renting a land and labour on a large scale, only typical of the conditions in Bulgaria. They are mostly market oriented and they concentrated on grain production.

The results from the conducted in 2001 structured inquiry demonstrate that 50 % of the cultivated land is used under rent, 45 % - under lease and only just 5 % of it is owned by the farms. The most part of the agricultural land (74%) is managed by large private farms (leaseholders) and producers’ cooperatives. To overcome the problem with land fragmentation they rent the land or take it under tenancy contracts. The abolishment of the legal restrictions on the maximum land size and term of the tenancy contracts stimulates this practice. This sets the necessary preconditions for making the land market active and drawing of foreign investments in agriculture. The necessity of combining the small-scale and fragmented land ownership, and the large-sized farms in order to increase their economic viability and adaptation to the market changes led to the private owners’ cooperating. In 2001, 2900 producers’ cooperatives with an average size of 599 ha operate in the country. They cultivate nearly 51 % of the utilized agricultural land.

During the transition period the farm co-operations have passed over several stages of development. Initially, most farms have been established for political reasons and had the specific features of the former production co-operations. The development of these co-operations without previously worked out projects and strategies, as well as the low level of using the factors of production (land, labour, capital,) impeded their normal functioning. After 1996, the structural changes in a considerable part of the co-operations led to changing the rate and way of the land use; it was introduced a new crop-rotation system and the size of parcels increased. Notwithstanding their short stabilization after completing the land restitution and passing the new Law for cooperatives (after 1998), most of them are not in position to set up an adequate and perspective market-oriented commodity structure. For that reason, they grow mainly grain, industrial and some forage crops. In 2000/2001, the cooperatives manage about 56 % of the country’s areas under wheat, barley, oats, corn, etc. These cooperatives constitute just 3 % of the total number of farms specialized in growing of grain crops. They still remain faced with the challenge of adapting to the dynamic market environment and developing a sustainable production structure [1].

4. IMPACT OF THE EUROPEAN AGRICULTURAL POLICY ON THE AGRICULTURAL SECTOR DEVELOPMENT IN BULGARIA

The development of Bulgarian farming is connected with the processes of the EU enlargement and the results from the negotiations within the framework of the World Trade Organization (WTO) as part of its joining the globalization process. The processes of joining the EU and observing the rules of the common European agricultural policy will inevitably concern appreciably all agribusiness participants. Unlike the other sectors of the economy, agriculture should pass through a long transitional period which would probably continue even after the EU accession. The main difficulty comes from the fact that the rules of the common European agricultural policy should be applied to a farming system that is still in a process of transformation. An unprepared extension in the field of agriculture should by no means be allowed, as it could lead to large-scale collapse and destruction of small, not yet firmly established and non-competitive economic structures.

The effects of the common European agricultural policy and the Bulgarian farming adaptation to its requirements should be looked for in several main lines.

• The current agricultural production structures do not function on market principles. They are too primitive regarding their organization, management and marketing. Their old and out-of-date equipment and low financial and economic capacities make them develop only those activities that could be provided for the necessary resources and which guarantee their survival as economic subjects. This prevents them from making long-term management decisions, directed to farm restructuring or definite market orientation. They find it difficult to take market and export risks for being able to secure permanent, uniform lots of high-quality products, which is a major requirement of the particular European market. In this respect, benefits could be generated through a more rational resource distribution and economizing by large-scale production. An important prerequisite for farm enlargement is the solution of problems related to land cadastre and consolidation. The other group of related problems refers to land leasing and the creation of a functioning land market. Though
the process of land restoration finished, the expectations for an active land market are not great. Due to economic, social and cultural reasons, the new landowners prefer to rent and not to sell their land. The land market is strongly dependent on funding from banks and other credit institutions, which restrain from crediting for the low profitability of the sector. This leads to the formation of a vicious circle, where there is a pressing need for technological renovation and equipment expansion in the sector, on the one hand, and no credit resources, on the other. It is evident that a long-term strategy for modernization-and-realizing new investments should be developed. In addition to the other investment resources, the more complete utilization of the EU pre-accession funds, and the SAPARD program, in particular, should be emphasized.

- The restructuring of the agricultural sector should go on strengthening its relations with resource suppliers and the food processing industry. Presently, these relations are still chaotic, not coordinated or at an initial stage of development. The adoption of the European agricultural policy will pose the problem of farm specialization, coordination and/or integration. Within the framework of globalization, a tendency to agricultural equalization on a world scale has been outlined, which is also reflected in the new European agricultural policy. To be better protected in the newly created conditions, the EU farmers associate to resist the different political and economic forces. The Bulgarian farmers are still at the beginning of this process of association. The adoption of the common European policy would probably accelerate this process. The different forms of partnerships can guarantee the security and stability of Bulgarian producers through profitable crop cultivation and animal rearing, as well as by creating additional jobs, especially for the rural areas, inhabited by 31.9% of the population in 1999, and showing the highest unemployment rate (29.1%). The creation of modern material-and- equipment base, such as grain-stores, fruit-stores, warehouses, etc. need large investments, affordable only by organized integration.

- For Bulgaria, the EU accession reveals a number of opportunities. A big market will open with great sale potentials. There is a prospect for overcoming one of the most serious problems of the transition - the loss of market positions and traditional markets. The state should help the efforts of the agricultural sector to enlarge and open new markets for Bulgarian farm products. In addition to the trade agreements with the European Free Trade Association (EFTA), The Central European Free Trade Association (CEFTA) and other bilateral agreements, the European agreement for our country association to EU are of utmost importance. For 2001, the EU took up 35% of the export of agricultural products and foods, and provided 49% of the Bulgarian import.

- Together with the reveal of market opportunities, the European market posed the problem of the Bulgarian farm products’ competitiveness. The elimination of duties, fees, and other restrictions required the adoption of common competition rules. The great Bulgarian opportunities are in the use of regional priorities for permanent occupation of market niches. The favourable soil-climatic conditions of Bulgaria allow the production of specific crops and products that give relative priority to the country, such as vegetables, fruits, essential-oil and medicinal plants. Bulgaria, for some southern crops like peanuts and sesame, and nuts - walnuts, almonds and hazelnuts, for which the country is a northern boundary, has some absolute advantage. A serious barrier to the competitive market development is the high EU requirements for standardization, certification, phytosanitary and veterinary characteristics of the agricultural products. The quota system management involves the creation of services for effective inspection and control. Under the current conditions of strongly reduced agricultural production, the Bulgarian farming is unable to compete for main farm products, within the period of adopted Agenda 2000. To fulfill unconditionally its obligations to consumers for food safety and relatively stable foodstuffs, the Bulgarian farming needs a solid support for adapting to the EU regulations. All these necessitate further improvement and harmonization of our legislation and standards with the European ones, as a prerequisite for the accession of our country to the EU [6].

- In terms of the Bulgarian EU accession, of special interests are the problems related to the: direct payments and export subsidies. The lack of price support for a great part of agricultural products necessitates direct payments. A suitable form for Bulgaria is the long-term investments. For this reason, special significance is attributed to the use of the EU funds in the form of long-term investment programs. Within these programs, farmers will be subsidized to buy technologies and highly productive animals, as well as to establish permanent crops (orchards and vineyards), etc. During the pre-accession period, these funds will be provided through long-term effective credits from EU, and after the accession, they are expected to be secured also through direct financial support by the Union. Bulgaria has an advantageous position for the export subsidies. Most products do not need any export subsidies for the lower world prices. This is favourable for our export and complies with the GATT resolution to restrain the use of
export subsidies by creating conditions for increasing the world competition. It means that the decrease in the high export subsidies within the European Union, which is the main partner of the Bulgarian agricultural export, will enhance the import from other countries and improve the access of Bulgarian farm products to the European markets. At the present stage, the country has no financial capacities to subsidize farming and thus to make equal to the European standards. The lack of funds for direct support and reaching the European norms could extend the transition period [5].

- The adoption of the common agricultural policy elements should be realized also through developing joint research projects and programs between Bulgarian research centers and EU partners, the funding of which should be provided by budgetary and external sources.

5. CONCLUSION

The objectives of the EU common agricultural policy for creating and maintaining a competitive agricultural sector correspond exactly to the interests of Bulgaria. When negotiating, the country should defend its positions for reaching the following priorities:

Restructuring and a new investment policy, supported by EU, to guarantee food security and an improved access of Bulgarian products to the European markets during the pre-accession period;

Increasing the competitiveness of the agricultural and food processing sector, creating conditions for improving input efficiency, increasing the farm profitability and the social-and-economic development of rural regions;

Development and conducting of an agricultural policy, synchronized with the common European agricultural policy that guarantees equal positions to the Bulgarian farming.

REFERENCES


