

# **Agrarian Reform, Regional Development and Business Opportunities in Regions with Ethnically Mixed Populations**

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## **Introduction**

A decade after the transition to a market economy started Bulgaria, there are still severe obstacles to the development of the country's regions. Significant regional disparities exist, and economic and human factors are highly stagnant. People still tend to rely on the state as the primary source of both economic security and opportunities.

This generally applicable statement is especially valid for regions with ethnically mixed populations. These regions used to rely solely on the state as the main provider of employment opportunities. After the state sector collapsed, economic development there showed extraordinary decline. Poverty and unemployment, combined with ethnic divisions, could become a source of ethnically based conflicts.

Due to the issues of the ethnic conflict potential in those regions, its probability and the feasible business strategies there are important from both a research and a practical point of view. They were approached in a study of the interdependence of the business environment, the progress of agrarian reform and possible ethnicity-based conflicts, conducted by the Institute for Market Economics under a project funded by the Friedrich Naumann Foundation of Germany. The project seeks to deliver a framework for economic and political relations in regions with ethnically mixed populations and use it for identifying possible centers of ethnic conflict, as well as opportunities for defusing them.

The study is based on the assumption that ethnic conflicts are manifestations of other conflicts which for one reason or another have acquired an ethnic character. Among these, economic relations and especially conflicts as to property rights play a leading role. Therefore, solving existing or potential ethnic conflicts should start by attacking the real cause: economic tensions. After the general theoretical framework of ethnic conflicts and minority nationalisms in the Balkans, the pace of agrarian reform in the ethnically-mixed regions was analyzed. Against this background, representative sociological research in three municipalities with ethnically mixed populations (Kurdzhali, Omurtag and Targovishte) was carried out by the Agency for Social and Economic Analyses. In the previous issue, the theoretical framework of minority nationalisms in the Balkans was presented (Andrey Ivanov, "Minority Nationalisms in The Balkans - The Bulgarian Case). Here we continue presenting the main findings of the economic and sociological segments of the study. The whole report can be accessed on IME's World Wide Web site (<http://www.ime-bg.org>).

## **Agrarian reform and its influence on regional development**

The transition to a market economy is a complex process. Agrarian reform in Bulgaria is based on the restitution of property rights over land, liquidation of the former collectives (TKZS), privatization of non-land assets (buildings, machinery, equipment, animals), liquidation of the monopolistic structures downstream and upstream of agriculture, and the establishment and development of a private sector in agriculture, adapted to the market economy. Therefore, agrarian reform in Bulgaria includes two major processes carried out in parallel: land reform and structural reform.

As a result of the land reform program in Bulgaria, the socialist bi-modal agricultural structure — large state cooperatives (TKZS) and small household plots — has been destroyed. It has been replaced by a new structure, in which new farms evolve. However, the new agricultural structures will be influenced by the old, and thus the pre-reform structure should not be ignored.

The key objective of this paper is to identify the main factors that have had an influence on the transformation period, and to analyze the outcome of land reform and farm restructuring on a regional level in three municipalities inhabited by different ethnic groups: Kurdzhali, Sliven and Omurtag.

Land reform causes a radical change of the ownership structure. Society has been stratified along ownership criteria. Two major groups emerged: the landowners and the landless. According to the latest census (1992), the prevailing part of the landless have ethnic minority identity. This fact is critical in making possible policy decisions concerning eventual ethnic conflicts on the basis of the lack of ownership of land and non-land assets. This was one of the factors that determined the choice of these three municipalities.

### *Pace of Land Reform*

Some 1.7 million applications were made, almost all from individuals resident in Bulgaria, with only about 0.4 percent from so-called legal entities, such as churches, monasteries, agricultural schools, municipalities, and the government. Of nearly 5.7 million hectares available for restitution, 91 percent was claimed by individuals, 1.4 percent by the government, 5.1 percent by municipalities that held communal land before collectivization, and 2.4 percent by other legal entities. The land area subject to restitution in real boundaries [Article 18g(1)] accounted for only 18 percent of the total area of all land subject to restitution. In total, 863,819 final decisions for restitution of land ownership within real boundaries were issued, accounting for some 1.133 million hectares. In contrast, nearly 1.7 million decisions were handed down for restitution under land reallocation, accounting for 69 percent of all land subject to restitution. These include nearly 540,000 decisions under Article 18i, for temporary use, which covers almost 1.45 million hectares. In addition, some 1,222,902 decisions were issued under Article 27, whereby plans for land reallocation are completed and their provisions implemented, covering 3.16 million hectares. An estimated 67.2 percent of all claimed land had been returned to recognized owners or their heirs by the beginning of November, 1998. Of the total, it is known that at least half was being farmed. It must be remembered, however, that restitution is formally complete only when the final legal title to land is issued. By the beginning of November, 1998, a mere 383,669 notary deeds had been issued, for a total of only 982,557 hectares or 15.3 % of all land subject to restitution. (National Statistical Institute's reference on the pace of land reform, March 26, 1996). Without deeds, there is no legal foundation for trade in land.

Land restitution in the surveyed municipalities is close to the picture for the whole country. The level of land restituted varies from 47% in Sliven to 50% in Omurtag and 62% in Kurdzhali. The biggest share of issued notary deeds and arable land covered by them is in Sliven. Landowners have issued notary deeds for 17.6% of the restituted land within the TBS. The picture is different in Omurtag and Kurdzhali, with 6.15 percent and 3.1 percent, respectively.

The new structure of ownership over land has influenced the structure of operating units in agriculture. The newly emerged structures are individual private farms and farming companies. By the end of October, 1998, newly established cooperatives in Sliven covered 46.8% of agricultural land subject to restitution. This percentage is much lower in the other two municipalities: 20.3% in Kurdzhali and 6.7% in Omurtag. All of the newly emerged cooperatives in Sliven and Omurtag are registered under the current Cooperative Act. Just the

opposite is the case in Kurdzhali, where only 20.3% of newly emerged cooperatives are registered.

### *Possible Conflicts*

Different options for proving ownership rights were based on the widespread public concern of giving people who live outside Bulgaria and don't have Bulgarian citizenship the opportunity to apply for land. This issue was much more politically sensitive in regions with ethnic minorities, especially in Kurdzhali. In fact, this "public awareness" has been disproved by the latest statistical data. For example, in Kurdzhali 427 people of Turkish citizenship have applied for the reinstatement of property rights over land, and the percentage of land they are applying for is 0.5% of the land in the TBS.

## **Existing attitudes toward business-related issues in regions with ethnically mixed populations**

### Business environment

The study found that 14.5% of respondents in the three municipalities have tried to start their own business, and most of them (8.9%) have failed. Business activity is tangibly higher among ethnic Bulgarians (19.0%), compared to 6.1% among ethnic Turks. Of all of the opportunities for private business, *trade* has the largest share (6.6%).

The high prices of suppliers/inputs is identified most often as the chief impediment to private business (71.9%), coming ahead of monopolist and unfair competition (64%) and the high VAT rate (60.3%). The fewest complain about lack of support from the government (42.9%) and the municipality (46.7%).

The opinions of local elites confirm the attitudes of the general public. Only one out of all of the respondents (in the structured polls) said that there are no obstacles to private enterprise. The hostile macroeconomic environment, poorly operating market mechanisms and restricted access to loans also seem to be major obstacles to developing a private business in the regions in question. Next come high taxes and red tape. Also, sluggish and clandestine privatization puts off foreign investors while favoring circles close to the local authorities according to the respondents.

### Business intentions

A total of 9.8% of respondents in the three municipalities plan to launch their own business. The bulk of people (45.5%) believe that trade offers the best prospects. This matches the existing distribution of sectors in private business, both in the regions covered by the study and in the country in general. Only 0.2% of town dwellers in the three municipalities plan to start a production-oriented business. The general preference for *trade* is hardly a matter of values and attitudes — it can be put down to available means. The low level of credit resources leads to intentions to start a small trading enterprise with a minimum of investment.

The motivation for launching a *private business*, however, is negative and more connected with efforts to avoid unemployment rather than with a desire to increase one's income. This *negative* motivation seems to be predetermined rather by the overall macroeconomic situation in the country than by local municipal factors. This is why the attitude toward the local (municipal) conditions for starting and developing a private business is very similar across the different municipalities and ethnic groups. Still, conditions in the Kurdzhali municipality are found to be relatively less favorable. The explanation for this unfavorable comparison is to be

found in market factors: *there are more consumers/ rich people in the other two municipalities.*

The predominant intention for launching a micro-business with a minimum of investment is upheld by the fact that only 27.6% of those planning to start a business are ready to use their own housing to secure loans. The majority of future entrepreneurs are more willing to pledge cars and land. Curiously enough, the *psychological value* of land is lower than that of buildings. On the other hand, plans to pledge a vehicle in order to get a loan demonstrate poor awareness of the terms offered by lending institutions.

The amount of the planned potential credit is 5 to 6 million on the average, with an annual interest rate of 10%. Where the business experience is the poorest and the business intentions the lowest (Kurdzhali, ethnic Turks), the admissible annual interest is the highest: 10%. The business plans of those hoping to get a loan of over 5 million levs are connected with construction (57.1%) and transport (50%). These two sectors seem to be the most lucrative and reliable in the minds of the respondents. Figures for agriculture show that where there are intentions for seeking loans, they go along with hopes for a much lower interest rate compared with those for other sectors.

However, the business intentions connected with agriculture are negligibly low (1.2-3.0%). Where they exist, they have to do with trade in farm produce (1.2%). The unattractiveness of farming is particularly striking in the villages. There are still people among the town dwellers (4.1%) who believe that with unemployment remaining the only alternative, agriculture can still bring a profit. We get a different picture in villages (1.2%), where people are fully aware of the state of domestic agriculture.

The results of the research confirm the assumption of a predominant intention for starting *micro-businesses* with minimum of high-risk investment. Trade seems to account for most of these intentions and agriculture for the least. The few planning a more serious undertaking have their interests in transport and construction, but there the fear of monopoly and unfair competition is the biggest.

### Agricultural production

A total of 56.9% of all households produce agricultural products. The percentage is highest in Omurtag (77.9%) and lowest in the Sliven municipality (49.6%). The problems in the agricultural reform, low purchase prices, land restitution and market chaos are frequently identified as problems by the local elite. The lack of soft-term loans and turnover capital are other impediments to agriculture, as well as the highly fragmented farmland in this semi-mountainous region and the small size and self-sustaining character of most farms. Despite the regional specificities, almost everywhere people complain of a vicious circle: delayed agricultural reform —> lack of investment and turnover loans —> chaos on the market for farm produce.

The bulk of agricultural output (75.7%) goes for the consumption of the producers themselves. Agricultural production involves a minimum of expenses: 91.5% of respondents have no expenses for buildings, 87% for labor and 71.2% for land. In the majority of cases it is production within the household with its land and labor, where all expenses go for preparations, animal feed and seeds.

Very few households produce for the market, because of which it is difficult to obtain a valid picture of the sale structure by type and efficiency. And yet some observations are not impossible: the households that do the most farming sell animal products (milk, cheese, eggs, etc.). This observation matches the intentions of households for future agricultural production, where livestock breeding dominates over land cultivation.

Understandably enough, the sale of tobacco dominates in Kurdzhali, where 82.7% of people selling any agricultural produce are selling tobacco. It is interesting that tobacco growers are relatively younger and have a lower level of education: 64.4% of them are aged 36 or younger and 54.3% have only a secondary education or lower.

The figures show *greater fluctuations of expenses* in the production of grain and vegetables compared to those for other crops. Over 87% of grain producers have expenses for water, electricity, fuel and preparations. Together with meat producers, they have the highest expenses for *hired labor and land*. Fluctuations are less pronounced in the expenses reported by producers of animal products (milk, cheese, wool, eggs, etc.), most of whose spending goes for *animal feed* (92.5%), *preparations/medicines* (73.1%) and *water* (73.1%). The picture is similar with tobacco growers, most of whose spending goes for *machines* (77.6%) and *preparations* (69.9%).

These figures lead to an assumption of greater efficiency in the production of animal products and tobacco in the regions under analysis. Indeed, 87.9% of tobacco producers and 67.2% of producers of animal products say that *they make more than they spend*. But the general rule is that profit, where it exists, is the result of minimized expenses.

The amount of profit can be deduced from the fact that most agricultural producers can live for about 3-4 months on what they earn from the sale of a year's output. Thus 87.8% of respondents are unable to save. This figure is particularly high in Kurdzhali (91.3%).

Producers say the biggest problems come from *traders (middlemen)* of farm produce. The administration (both municipal and central) is not seen to have any direct link with the problems in farming. Curiously, ethnic Turks are the least critical of traders, institutions, suppliers and end-buyers.

#### Property rights and possession of land

*Land restitution* is often identified by local elites as a precondition for solving the problems in agriculture. A total of 40.1% of the respondent households possess farmland other than their private gardens. The percentage is highest in Sliven (41.5%) and lowest in Kurdzhali (34.5%). Nearly identical shares of ethnic Turks and Bulgarians (42.9% and 46.7%, respectively), but only 7% of Roma people, say they have arable land. A total of 35.1% say they have not had ownership restored. The percentage of unrestored ownership is highest in Sliven (54.3%) and lowest in Omurtag (8.5%).

Only 23.7% of land owners have incomes from the sale of farm produce and only 23.4% from leased land. The structure of incomes of landowners is close to that for the whole sample. Here most incomes come from pensions, farm produce and land leasing. On the other hand, landowners more rarely have incomes from wages from private companies and welfare benefits.

The figures for land ownership restored to ethnic Turks and Bulgarians vary over a wide range: 80.2 percent for the former against only 36.7% for the latter. This is probably attributable to the concentration of ethnic Turks in the municipalities with a high share of restored land ownership: 49.7% of ethnic Turks covered in the study live in the Kurdzhali municipality and 45.8% in Omurtag. Whatever the reason, ethnic Turks in the regions under analysis possess farmland almost as frequently as Bulgarians, and do not have problems with the legal status of ownership.

Only 17.8% of respondent households cultivate all their land by themselves. The percentage is highest in the region of Kurdzhali (29.2%) and among ethnic Turks (28.3%), and lowest in Omurtag (7.5%). Not a single Roma household cultivates the whole of its land by itself. Tobacco growers are those who most often use only their own labor. Next come producers of animal products (24.5%) and meat, against only 9.5% of grain producers

The study shows a lack of motivation to cultivate farmland. A few (43.3%) would drop land cultivation if they had other sources of income. Those willing to try their hand at land cultivation are mostly town dwellers with no experience in farming. The majority of landowners (47.4%) would lease their land, given the chance, rather than cultivate it.

#### Structure of household incomes

State-owned companies account for 28% (relative share) of the income sources in the municipalities under review. Together with pensions (25.4%), welfare benefits (5.44%) and grants (2.44%), they add up to 60.93% (relative share) of the households in the municipalities that have the government as an income source. Second come incomes from personal activities (19%), including private business, sale of farm produce, land leasing and rents. Income from wages in the private sector make up 15% (relative share).

The structure of income sources by municipalities and ethnic groups matches the general picture. The following groups are identified: *Villages* with high incomes from pensions (43.2%) and farm produce (27.1%); *Kurdzhali* (15.9%) and *Omurtag* (18.1%) with a relatively higher share of incomes from the sale of farm produce; *Sliven* with a high share of incomes from pensions (42.4%); *ethnic Turks* with the highest share of income from the sale of farm produce (25.8%); and *Roma people* with the highest share of income from unemployment benefits (30.6%).

#### Ethnic identity

The structure of ethnic self-identification is as follows:

Percentage	TOTAL	Sliven	Kurdzhali	Omurtag	Bulgarians	ethnic Turks	Roma	Villages	Towns
Bulgarian-Christian	59.6	84.5	51.6	20.6	97.8	0	0	22.5	80
Bulgarian -Muslim	1.3	0.9	2.5	0	2.2	0	0	1.2	1.4
Turkish	31.7	3.3	43.6	71.4	0	100	0	67.4	12
Roma-Christian	5.1	10.1	1.1	1.5	0	0	69.4	6.9	4.1
Roma - Muslim	2.2	1.2	1.1	6.5	0	0	30.6	2	2.4
Other	0	0	0	0	0	0	0	0	0

A total of 29.2% of the households covered by the survey have family members living in Turkey. This indicator of migration is understandably the highest among ethnic Turks. The distribution by municipalities is proportional to the share of ethnic Turks in the total population.

Compared to the aspirations for Turkish cultural and language identity programs (supported by 88% of the ethnic Turks interviewed) the likelihood of emigration is negligible. Only 24.5% of ethnic Turks are likely to take a final decision to move to Turkey. The figures show an awareness of the economic rather than ethnic motivation for migration to Turkey. Despite the motivation, a majority of 37.1% would not leave the country *even for a short time and even if there was a chance*.

Figures show that 3.9% of people with Turkish ethnic identity have Bulgarian names, while 1.8% of all people with Bulgarian names have Turkish ethnic identity. *In reverse proportion,*

0.2% of Bulgarians have Turkish names and 0.3% of all people with Turkish names have Bulgarian ethnic identity.

We can assume that 3.9% of the people with Turkish ethnic identity kept their Bulgarian names after the changes or have adopted such names anew.

A total of 45.2% of ethnic Turks and 4.7% of respondents with Bulgarian identity can speak Turkish. These 4.7% are most probably people who have kept their Turkish names. Command of the Russian language is almost as strong an ethnic identifier as the Bulgarian language, with 29.7% of Bulgarians and 9% of ethnic Turks saying they speak Russian. Elderly Turks have a better command of the Turkish language.

A total of 36.6% of all respondents are supportive of having Turkish-language programs broadcast by Bulgarian National TV. By municipality, the share rises with the increase in the percentage of ethnic Turks in the population. The idea fetches the support of 88.4% of Turks, against 9.9% among Bulgarians. Taken at face value, the figures are indicative of potential ethnic tension. Study of the Koran in optional classes is supported by fewer ethnic Turks (71.3%).

The weaker support for study of the Koran among ethnic Turks is indicative of the prevalence of language and cultural over religious identity. It is further upheld by the fact that a sizable share of ethnic Turks (18.5%) observe Bulgaria's March 3 holiday marking liberation from Ottoman rule. Similarly, 10-12% celebrate Christmas and other Christian holidays. Those who observe the rules prescribed by the Koran are much fewer than those supporting Turkish-language programs on the National TV and Turkish classes in the schools. The religious nucleus of the Turkish ethnic identity, if it ever exists, is in the range of 21 to 35%.

#### Inter-ethnic relations

The question "*Would you mind if your child had a .... for a close friend*" (Question 33) seems to represent most clearly the potential for ethnic isolation. While 25.6% of Bulgarians would oppose their child's friendship with a Turk, only 1.9% of ethnic Turks would oppose their child's friendship with a Bulgarian. There is an even higher tendency among Bulgarians for preferring isolation from Roma people. While *not a single Roma minds his or her child having a Bulgarian as a friend*, almost half of Bulgarians (42.1%) *would be unhappy with their child having a Roma friend*. It is interesting to note, though not as prevalent as with Bulgarians, a preference for isolation from the Roma people exists even among ethnic Turks: 36.1% of them *do not want to see their children having a Roma friend* while only 1.4% of the Roma people *share an identical attitude to them*.

The figures lead to the general conclusion that Bulgarians are more inclined toward isolation from the other ethnic communities, in comparison to the others' attitude toward Bulgarians. This is why if any action is to be taken for reducing potential intolerance and ethnic isolation, the target group should be Bulgarians rather than ethnic Turks, and even less Roma people.

Only 2.9% of ethnic Turks identify ethnic tension. Nearly twice as many Bulgarians (5.5%) and many more Roma people (16.7%) say there is ethnic tension in the region where they live. These figures give rise to a hypothesis about ethnic inferiority, feelings of tension and minority inferiority complexes dominating among Bulgarians and Roma people rather than among ethnic Turks. But to put it bluntly, while nobody wants to be integrated with Roma people (*to play with them*) and Roma people do not want to be isolated, everybody wants to be integrated with Bulgarians, while they place themselves in isolation.

These are all more or less potential trends rather than actually existing ethnic tensions. Over 70% of all ethnic groups believe that ethnic tension is not present in the region where they live; that is, neither artificially created nor actually existing. This attitude can be interpreted as a display of pragmatic philosophy, with both Bulgarians and ethnic Turks becoming aware that potential ethnic tension can be overcome primarily through economic development.

## Conclusions

The starting point of the analysis was the assumption that access to factors of production (land, buildings, capital) is a core issue in terms of regional stability and potential for ethnic conflict. The results of the study confirmed the initial hypothesis, that the potential for ethnic conflicts as such is weak and the ethnic dimensions of the existing contradictions are of secondary significance. The level of inter-ethnic tolerance is still significantly high. However representatives of different ethnic affiliations reveal different levels of tolerance, with Bulgarians being the most intolerant.

In terms of business attitudes, the results cannot be assessed as optimistic; business is perceived as an element of the survival strategies. Avoiding unemployment is one of the main motives for starting a private business. The level of business activity, however, is not lower than in other regions of the country. Still, business intentions connected with agriculture are negligibly low. The results of the research confirm the assumption of a predominant intention to start *micro-businesses* with a minimum of high-risk investment; mainly small-scale trade.

One of the obstacles in this respect is the advance of agrarian reform. The study proves the fact that assets ownership coincides to a certain extent with ethnic affiliation, which can bring an ethnic scent to the economically-based conflict (in this case, over the possession of land). Two ethnic minorities have been identified as having no (or only very limited) ownership of land: Roma people, or gypsies, and Pomaks (Muslims who are ethnically Bulgarian). One of the possible ways to avoid their "marginalization" is by access to factors of production. For that purpose, special regional programs and strategies should be developed.

It would be a truism to say that economic growth is necessary in order to avoid ethnic "blurring" of the existing economic conflicts in regions with mixed populations. The problem is: what can the indigenous sources of such growth be, and what can the competitive advantages of those regions be. In the short term government subsidies cannot be avoided, but they should be growth-oriented, directed to investments in the regional infrastructure in order to provide the necessary conditions for growth. Such a local focus will probably turn out to be a winning strategy for the local elections in the autumn of 1999.