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SETTING UP NEW FARMERS AND THE SITUATION OF PRIVATE FARMING IN CEE COUNTRIES: THE CASE OF BULGARIA

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INTRODUCTION

In recent years it has become the conventional wisdom of many observers that the former socialist economies of Central and Eastern Europe will evolve agricultural sectors dominated by family farms after the fashion of Western Europe. Whether such expectations are realistic or whether other systems of tenure will predominate remains to be seen, but there are important reasons for attempting to assess the possible outcomes now. Such has been the extent of disruption to agricultural production in Bulgaria since economic transformation began that it is vital that misguided or misinformed farm policies are not allowed to worsen an already serious situation. However, the chances of avoiding mistakes can be increased by careful consideration of the key variables that can be expected to influence the directions of agricultural adjustment. These include historical precedent, cultural and legal constraints, as well as conventional economic factors.

The paper has the following structure. Section two summarises the historical background. Section three comprises structural changes in Bulgarian agriculture within the transition, their legal basis, general structures and relative importance. Section four discusses the development of private farms to 1995. Section fifth provides a summary and conclusions.

BACKGROUND

Private farms have become the main business structures during the first half of XX century. The predominant pattern was of land owned and farmed in small-scale units, a characteristic maintained well into the twentieth century.

Data from the NSI show that before the 1946 agrarian reform there were 1,039 million farms in average of 3.8 ha arable land. In the period to 1946, the number of farms increased by 30% while the land area available for cultivation increased by only 12 per cent. Farmed land per farm decreased by 12 ha and the share of big farms (over 10 ha) by 8.5%. During the same period the tendency for increased fragmentation of individual holdings can be observed from examining the declining average size of separate parcels of land within all farm size groups. One explanation for farm fragmentation observed very widely throughout Europe was the existence of inheritance laws that resulted in the subdivision of property between all heirs. Allied to this was the fact that rapid population growth at a time of slow industrialisation ensured that agriculture alone bore the burden of providing employment for increasing number of people and several partial land reforms..

Agricultural policy with respect to private farms during the centrally planned economy is inconsistent and not adequate to existed conditions. During the period of the centrally planned economy (1946-1990) there were large changes in farming structures. Collectivisation was carried out and the so-called labour-production co-operatives (TKZS) were established. Initially they were small-scale and limited to a single village. In the second stage they were consolidated. Two or three small TKZS were merged to form one bigger co-operative. These large TKZS operated until the beginning of 1970s. At the same time, specialised state-owned machine and tractor stations (MTS), state farms (SAF), and state-seed stations operated in parallel. In the 1970s these structures were the basis for creating Agro-Industrial Complexes (AICs). The average area was 25-30 thousand Ha. They included as sub-structures, with separate balance sheets, among 4 and 8 of the former TKZS, SAF, and MTS. The AICs did not operate efficiently. In 1989, even before the large political reforms, they were transformed into several independent structures (Decree No

922/ 1989). Development of private farms was systematically restricted till 1989, nevertheless existence of traditional for Bulgarian village dwellers - household plots.. A household has owned average 0.426 ha and therefore households have cultivated 12,797.4 ha arable land, which are 0.2% of total arable land[1]. Consequently we can conclude that for the period 1967-1990 0.2% of arable land has been cultivated by private farmers and the rest of the land has been cultivated by institutions totally dominated by the state. Thus the role of private farms during centrally-planned economy is not significant.

STRUCTURAL ADJUSTMENT OF BULGARIAN AGRICULTURE: 1992 - 1995

Since the beginning of the reform the main hypothesis is that the pre-reform bi-modal structural pattern, comprising a few large state farms or labour agricultural co-operatives (TKZS) and many small household plots, have come to an end. It is being replaced by a pattern of multiple structures. This change has been based on a much more fundamental move from publicly owned resources and publicly runs farming structures to private resources and structures.

A key part of transition in agriculture is that the farms and agri-businesses must switch from being state managed enterprises in which effectively all property rights have been appropriated to the state, to privately managed businesses in which all land and other assets are privately owned. This switch has both political and economic elements. This process of farm structural change in Bulgaria has already been going on for three years (1992-1995) and will doubtless take many more. To assess the progress in structural transition, a critical step is to accurately characterise and describe the structures that exist at a point in time[2].

Considering the arguments of Buckwell (1994), the principle defining characteristics chosen for describing the farming structures were: the legal basis of the business, land ownership, economies of scale, labour supply and management structure. Applying these characteristics the result was to define five broad groups: (I) state farms; (ii) organisations under liquidation; (iii) new co-operatives; (iv) partnerships and farming companies; and (v) individual farms and household plots. A brief description of the main characteristics of these groups of farms is summarised in Table 1.

TABLE 1. THE CHARACTERISTICS OF DIFFERENT FARM FORMS

Farm Organisations	*Juridical basis for existence*	*Land Ownership*	*Average Land Area (ha)*	*Manager*	*Labour*
State farms	Decree 56; Commercial Law	Publicly Owned	270 ha	State Employee	Hired
Organisations under liquidation[3]	LOLUAL (1991,1992,1995)	Unrestituted Land	1,700 ha	Chairman of Liquidation Council	Hired
Producer co-operatives	Co-operative Law	Privately Owned/ Leased	700 ha	Member elected as Chairman	Members and Hired
Partnership and farming companies	Commercial Law	Privately Owned / Leased	500 ha	Employed manager or nominated partner	Self employed and Hired
Individual farms & Private |Plots	There is no need to be registered	Privately Owned / Leased	0.6 ha	Family Head	Self employed family

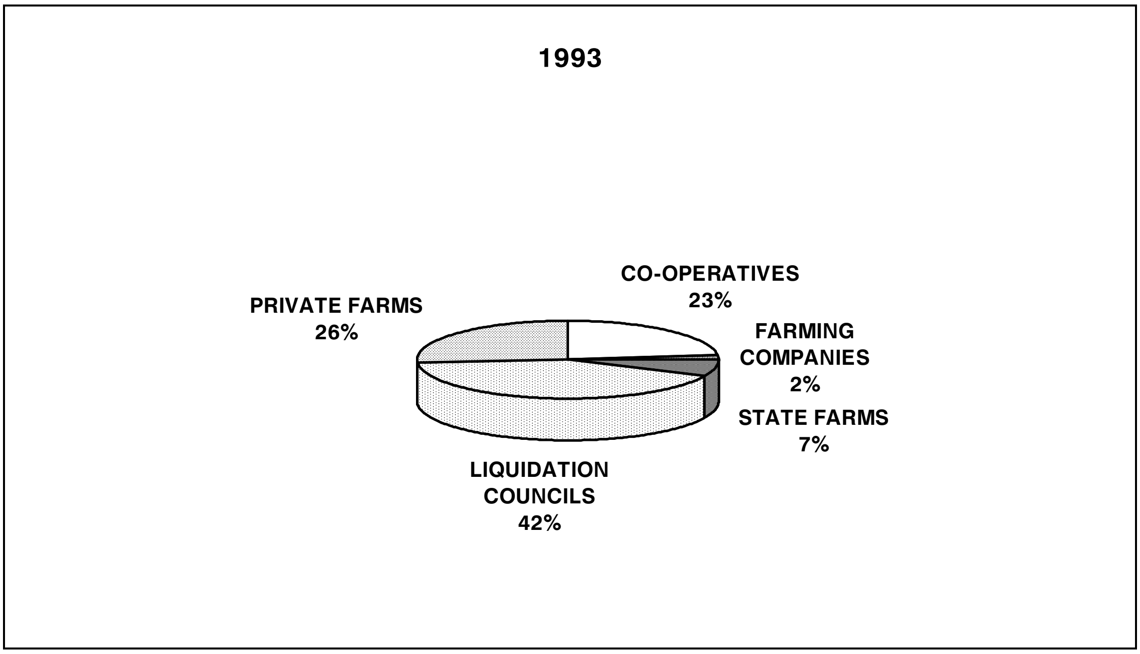
[1] Total arable land in Bulgaria is 4,650 thousand hectares (Annex 1).

[2] Most of the information detailed below refers to 1993, although some information refers to spring 1995. The process of defining farm structures was not based on a careful examination of data on the nature of each individual farm, such data do not exist. The analysis was informal and was based on available published, mostly national aggregate data. It is suspected that there is a degree of approximation in the data (particularly as far as numbers are concerned). Under the conditions of rapid change and lack of resources for comprehensive farm surveys it is hardly possible that the published national data is completely accurate.

[3] Since May 1995 Liquidation Councils were abolish as an organisation structure.

Different is the share of separate structures with regard on land use (Figure 1). Four years from the effective start of the reform process in July 1995, this structure had become more complex. State farms exhibiting public ownership and operation accounted only 7% of total land (0.32 mln ha). The biggest single category, nearly 24 mln dca that is 51% of total arable land, was the land operated by the private farms. This is all subject to restitution. Thus part of this land is still recorded as unrestored ownership. Also shown as unrestored property is part of the land occupied by the new co-operatives. This amounts to 1.797 mln ha (39% of the total). The most significant observation is that land has indeed moved away from the publicly owned and managed to private. However the process has not gone very far (Figure 2).

Figure 1



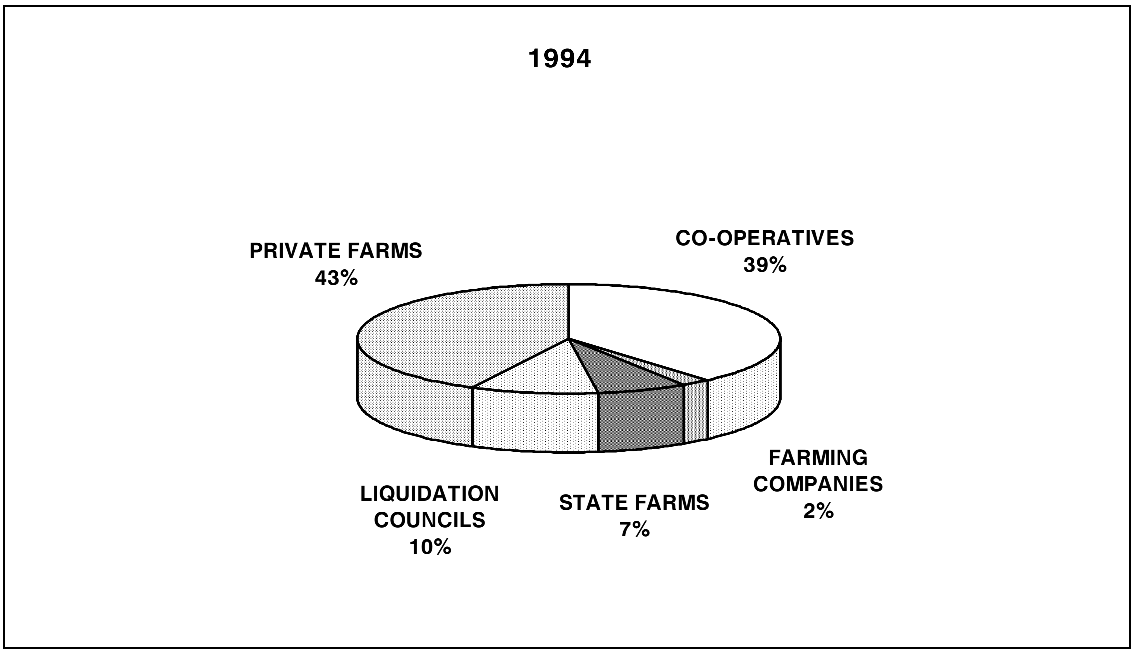
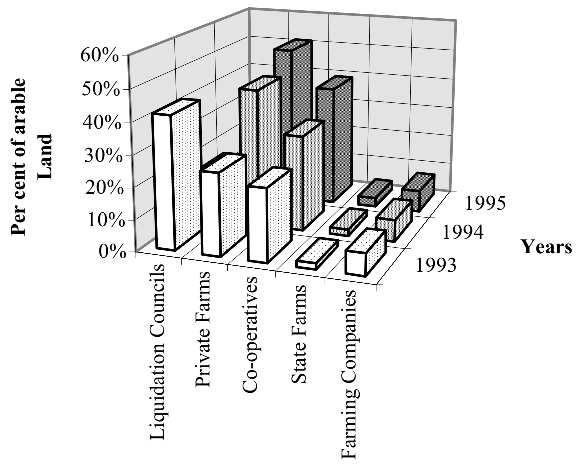


FIGURE 2. BULGARIA: STRUCTURAL CHANGES IN AGRICULTURE, 1993-1995



DEVELOPMENT OF PRIVATE FARMS

Private organisations are gradually becoming dominant in Bulgarian agriculture. According to data from the National Institute of Statistics there are more than 1.775 mln private farms that cultivated 42.6 per cent of arable land in 1995 (Table 2). Some of them used land given for personal use or leased from co-operatives that are not liquidated yet. Average size of private farm is 1.1 ha and it is observed increasing over 2 times (Figure 3). During the four year's periods (1992-1995) the number of private farms decreases by 9%, and the amount of privately farmed land increases over two folds. Dynamics in development of private farms and farmed land in different farm groups since the beginning of the reform is shown in Figure 4 and 5. Positive trend is decreasing of small and medium farms in spite of seven folds increasing the number of private farms over 10 ha.

Diversity in size, product-mix, market position raises different questions to be solved by management of private farms. This creates prerequisites private farms to be classified into four groups according to their market orientation (to produce for self-sufficiency, for market or both); the share of agricultural income into the total household income; relative share of used own factors of production and inputs.

I group. Most significant is the large share of farms less than 0.5 ha (72%), including household plots in average of 0.228 ha. Because of the old age of many of their owners and the weak deurbanisation process, their significance and number can be expected to gradually fall. The expectations are that there will not be significant changes in the number and average size of the farms in this group.

II group. Twenty-seven per cent of private farms (from 0.5 to 5 ha) farmed 46% of private land. The expectations are that after finishing the land reform these farms will be widespread.

FIGURE 3. BULGARIA: AVERAGE SIZE OF PRIVATE FARMS, 1992-1995

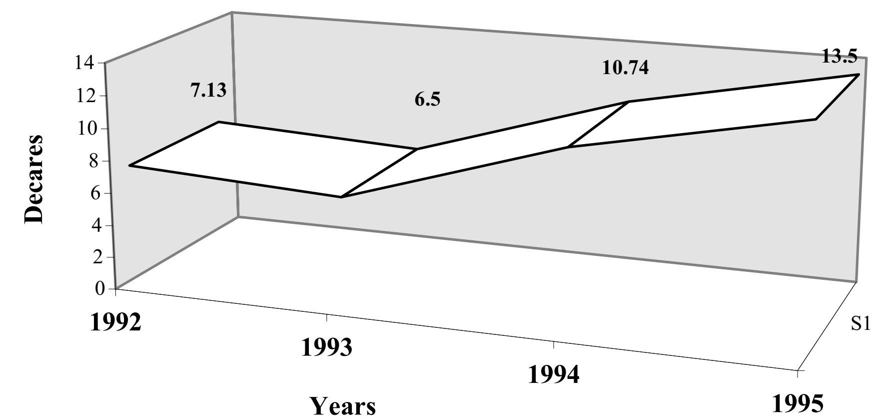


FIGURE 4. BULGARIA: DYNAMICS IN DEVELOPMENT OF PRIVATE FARMS, 1992-1995

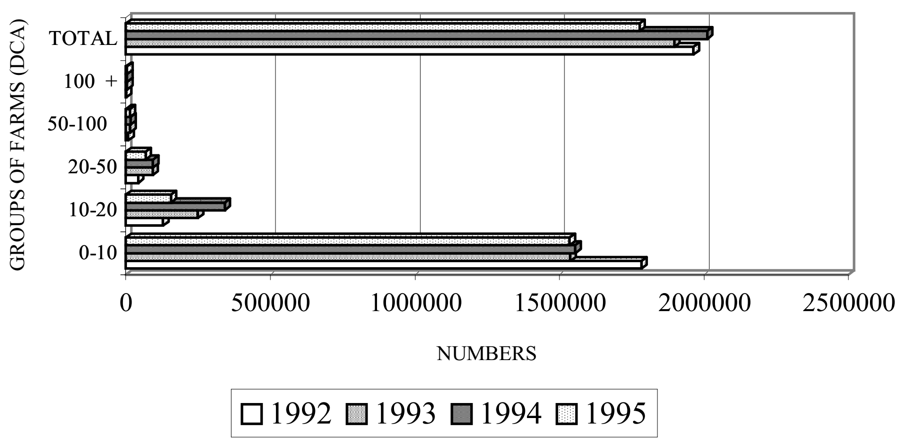
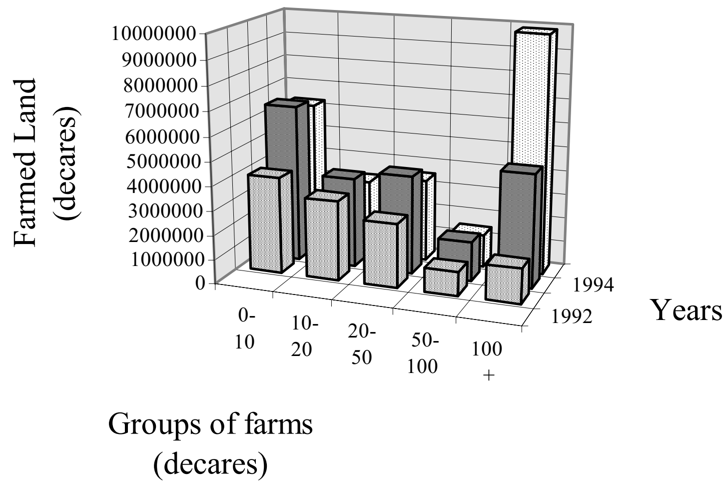


FIGURE 5. BULGARIA: FARMED LAND IN DIFFERENT FARM GROUPS, 1992-1995



Arguments in support of this thesis are that these type farms guarantee part-time employment and additional incomes for the land owners.

Adaptation to market conditions will gradually increase specialisation and production for the market. In general, their activities concentrate on the production of labour intensive crops and animals. These type farms are main producers of livestock production, but the production is low effectively, non competitive and labour consuming. Illustration of above thesis is figures for average number of livestock per private farm. The data shows that 221.1 thousand farms breed cows. Only one cow has been bred in 80.9% of farms; two cows have bred in 14.8 % of farms. The same is situation in pig breeding and sheep breeding. Sixty-four per cent of farms breed only one swine; 22.3% - two; 9% - from 3 to 5 pigs. Three to five sheep have 40% of sheep breeding farms, and 6-10 sheep are bred in 27% of farms.

One of the main problems for the farmers is lack of marketing, servicing and credit co-operatives. The new farmers used the services of new emerged production co-operatives, part of agricultural production is purchased by existing regional consumer co-operatives (RPK). But in both cases the relations are not put on equal basis and are not stable. The reasons for this situation are: first, pointed co-operatives are local monopolists and second, private farmers can used the services of the co-operatives if the there is free capacity of the machinery and equipment.

As they tend to accept their land area and family labour as natural restrictions on their activities, these farmers will be the main members of emerging co-operatives that are active in input purchasing, including credit, machinery use and output marketing.

III group. Only 1% of the newly established farms are in the group of 5 - 10 ha, but they occupy 12% of the privately farmed land.

IV group. Twenty-seven per cent of private land is farmed by 0.2% farms over 10 hectares. They predominantly function on leased land or land that is allocated for temporary use and to be consolidated. They specialise in grain or industrial crops' production.

In spite of the desire and capacities of farmers to organise viable and competitive farms, the economical crisis, the undeveloped land market, the high interest rates, the monopoly of some processing and purchasing organisations, impede the fulfilment of such plans. Land restitution leads to non-utilisation of some parcels (especially in mountainous and semi-mountainous regions), and also to economical fragmentation. Even with areas of arable land that allow full use of the machinery, it is often necessary to move it several times daily from one working spot to another.

Finally, studies indicate that only 13% of land owners intend to lease their land out, and those inclined to sell it is scarcely 1-2%. The lack of government policies for putting an end to land fragmentation is practically stifling the development of the relatively larger farms. The current practice of leasing different land every year discourages the right rotation of crops and causes wrong land use. On the other hand, the lack of proper legislation for the relation between lessors and tenants is one of the reasons for the problems in lease payments.

The results of the sociological studies done so far, and information from the National Institute of Statistics[4] revealed some of the problems, and also discussed the future role and development of the farming co-operatives as the second most significant organisational form in the agricultural sector.

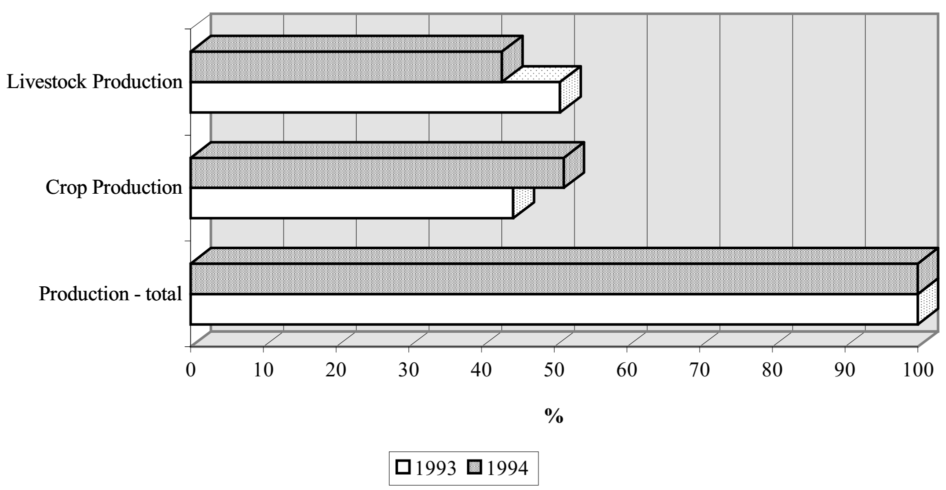
Share Of Private Farms In Agricultural GDP

In 1994 agriculture and forestry contributed 11.2 per cent to the GDP. The share of agriculture to the GDP is 11 per cent (1994). Share of private sector in agriculture increases. In 1994 it contributes 81 per cent to the GDP generated in agriculture, when in 1993 this share was 75 per cent (Annex 2).

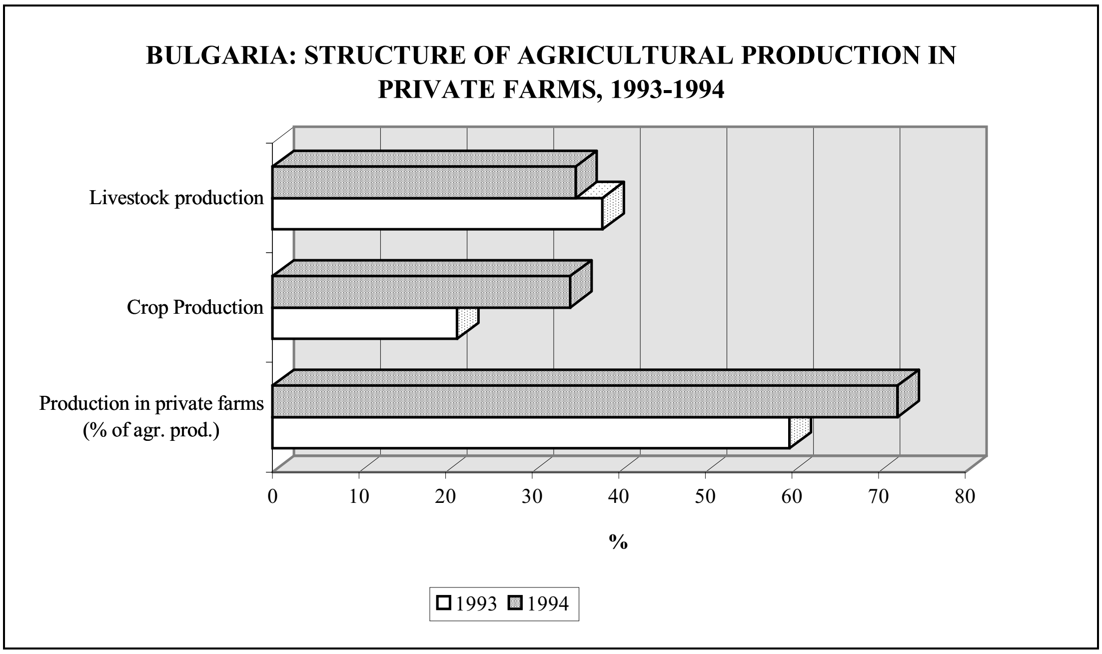
During the transition are observed two opposite tendencies: first, rapid increase of crop production and second, decrease of livestock production. In 1994 Structure of agricultural production changes (Figure 6). While livestock production was dominant to 1993 (50.8 %) after that crop production took more than fifty per cent (51.3 %). The roots of this shift are in huge drop of number of animals effected by the liquidation of the former collective farms (TKZS) (Annex 3) Share of private farms in total agricultural production increases (Figure 7). More rapid is growth of crop production (by 10 %) for the period 1993-1994 and diminishing the livestock production by 3%.

In 1994, 100% of the onions and strawberries; 92.6% of the oriental tobacco; 92% of the potatoes; 88.6% of the tomatoes and other crops have been grown on privately cultivated land. (Annexes 4 - 7). With the decline in total of agricultural output, an increase in production has only been observed in private farms, specially in the production of grain, sunflower, potatoes, tomatoes, etc. Bulgarian private farmers produce the major share of fruit, vegetables, pulse, some forages and

FIGUER 6. BULGARIA:STRUCTURE OF AGRICULTURAL PRODUCTION, 1993-1994



4 Sociological studies by the Center for Studying Democracy - March 1992; the NIS, January 1992; the Institute for Agricultural Economy and the World Bank (January-June 1993); the Agrostatistics and Computer Communications Department at the Ministry of Agriculture (December 1993).



animal products. However the size and environment of these private production units are typically unfavourable for full-scale use of their resources.

Labour Supply In Private Farms

Twenty two per cent (684200) of total labour supply in overall economy is in agriculture. Nearly eighty per cent (540 000) of total labour in agriculture are employee in private sector. The number of seasonal hired workers in agriculture counts 2-2.2 million (Annex 8).

Legislation Framework

The juridical basis for establishment and development of post-communist structures in agriculture is provided by four laws. First, the 1991 Law for Ownership and Land Use of Agricultural Land (LOLUAL), which was substantially amended in 1992 and in 1995. The other three relevant laws are the Law for Co-operatives (1991); the Commercial Law (1991) and the Obligations and Contracts Act (1990).

The most important for farm restructuring is the LOUAL. A detailed description of its main provisions and the Code for implementation is available in Kopeva, Howe, Mishev (1994). Here, only two provisions of this Law, which are crucial for the path of the farm restructuring in Bulgaria, are mentioned. Bulgaria opted for full restitution of agricultural land to the pre-reform structures through privatisation of the state-owned farms and liquidation of the former collective farms (TKZS). Thus the legislative basis represented an attempt to predetermine the emergence of new farming structures. The political intention was to ensure that they would have nothing in common with previously existing farms. The evolutionary process of transformation of existing structures through a formal re-registration, which was the adopted in several other CEECs, was originally rejected as an option in Bulgaria.

Credit Policy

Soft credits and investment capital were virtually non-existent. The only preferences for farmers were regulated by the Law for Financing the Autumn and Spring Planting

1993/1994 under which farmers had to pay 1/3 of the basic interest rate in the country. The rest 2/3 between the subsidised and the market interest rate had to be covered by the State Budget. Generally, commercial banks were reluctant to grant any loans to agriculture because of the very high risk and the lack of insurance to agricultural credits. In March 1994 a special amendment to the existing Law was approved. According to it, all agricultural producers and not those with clear titles as it had been originally would have the right to apply for soft credits. The amendments supposed to help the overall agriculture. However, this fall it turned out that applicant for soft credits is more than projected and money allocated for that purpose will not be enough to support the producers.

There are no schemes for investment loans. High interest rates and low prices of agricultural products exert unfavourable influence on agricultural activities of farmers. These are the main reasons long-term investments not to be attractive for private farmers. This conclusion is proved by the fact that over 80% of used credits in agriculture are for working capital.

Agricultural policy during the transition period is not consecutive. The extreme liberalism from 1990-1991 gradually is replaced by separate measures of protection. Most of them do not reach expected result; first, because they are accepted too late, and second, they are not juridical, financial, technical and administratively proof. Main questions are connected with lack of well-developed objectives and strategies for development of agriculture, restricted state budget, new established market structures.

Price policy

Price policy was in a formatting stage. There were no income support schemes. The state had recommendations for the minimum prices of grains and tobacco but all other prices were allowed to fluctuate freely depending on the supply and demand situation. In June 1995 the Law for Protecting of Agricultural Producers was adopted. The law set up guarantee farm gate prices for wheat, maize, sugar beet, potatoes, meat (veal, pork, lamb), milk (cow and sheep) and projected prices for other main crops according to the Programme of the Ministry of Agriculture and Food Industry. The law aimed to establish favourable economic environment for development of competitive structures in agriculture.

Farm gate prices are relatively low. They are not stimulate farmers because their level does not consider the rapid increase in input prices and the growth of inflation. Farmers are squeezed between the high input prices, most of them imported and so under the effect of constantly increasing exchange rate, and farm gate prices given by still strong monopolistic enterprises in the food processing industry.

Tax policy

Tax policy related to the private farmers aimed to compensate the negative effects of restricted price and fiscal policy. According to the Law for Ownership and Use of Agricultural Land (LOUAL) incomes of private farmers five years after reinstatement their property rights over land are not taxed. Data concerning the profit and costs of private farms indicate that this alleviation can not compensate the negative impact of more rapid growth of input prices. Agricultural activities continued to be exempt from taxes. Legal; entities did not pay profit tax on agricultural activities, while individual farmers were exempt from tax on farm income.

Extension Services

Private farmers can rely on the technical help and consultancy by the regional agricultural offices. Set of local extension services that can provide information and consultancy is not develop. Information about the prices of agricultural products is provide by the System of Agro-Marketing Information. They publish their information in bulletin, announce it by TV and newspapers. Scientific and research institutes also provide consultancy to the private farmers.

Farmers' Organisations

Different branch and trade unions' organisations of private farmers exist. Members of these organisations are private farmers, co-operatives, entrepreneurs. Their aims are to protect rights and interests of farmers, to provide technical assistance, to increase the level of used technologies . All these units organised themselves in Confederation of Agricultural Producers in 1992, that develops to Chamber of Agricultural Producers (1995).

OUTLOOK

PERSPECTIVE OF THE DEVELOPMENT OF PRIVATE FARMS

Private farm will play main role in near future. It is very difficult to make any prognosis for the future picture of Bulgarian agriculture under such uncertainty and when the processes of land restitution and structural changes are still going on. Our expectations are that after finishing the land reform the most significant will be the share of farms to 1 hectares. This group includes household plots and traditionally existed. The number of farms in this group is relatively constant. The farmers produce for self-sufficiency and supply part-time labour. This group will not play important role for the market. Second group includes farms from 1 to 5 hectares. They are 'marginal' farms. Part of them will move to first group decreasing their size and the rest will switch to next group increasing their size by buying and/or leasing land. These farms can not guarantee full time employment for the members of the household and during the first years of their existence they will use the services of local production co-operatives. Gradually they will be able to establish associations. More important for market conditions will be farms from third group - from 10 to 25 hectares. Their number will reach 10,000 - 12,000. They are going to produce mainly intensive crops (vegetables, forages) and will breed livestock. The fourth group include farms from 50 to 100 hectares. Expert estimates are that their number may vary from 5 to 10 thousand. They will cultivate family owned land and/or enter into informal associations of farmers (3 to 5 maximum) for farming land. In near future they will become main founder members of marketing, servicing or credit co-operatives also. The fifth group comprises farms from 100 to 1,000 hectares. In this group are include co-operatives organised and developed on private land ownership and big tenant farmers. Generally these farms with the farms of fourth group will be the main commercial farming structures.

KEY AREAS OF INTERNATIONAL EXCHANGE OF EXPERIENCE AND ASSISTANCE

Possibilities for exchanging experience and assistance are many and different. One of the most widespread ways is exchange of information about structure and mechanism of working of different associations of private farmers. It will be useful for members of Bulgarian Branch Unions to contact and share opinions with members of similar organisations in other countries on the basis of seminars, training workshops. Second are extension services. It will be useful for the Ministry of Agriculture and Food Industry and for private farmers to exchange experience and assistance concerning activities of these centres: how they are established; how they work; mechanism of collecting information and payment for its usage; distribution of information.

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