



ASSESSMENT OF NECESSITY OF A FAVORABLE PUBLIC POLICY TOWARD MODERN BULGARIAN AGRICULTURAL COOPERATIVES

B. Popova*, D. Atanasov

Department of Economics, Agricultural University, Plovdiv, Bulgaria

ABSTRACT

Agricultural cooperatives are traditional for Bulgaria organizational form. At the present stage of development of Bulgarian agriculture, they manage a significant part of the utilized agricultural area (UAA) in the country and maintain a high share in the production of agricultural products.

Some allegations of specialists from practice and cooperative theoreticians that the cooperative organizational form can not be developed without state protection have provoked authors' interest in the topic.

To form an opinion on the necessity of favorable public policy to modern Bulgarian agricultural cooperatives, in the article are discussed the theoretical concepts of the role and importance of cooperatives and the state attitude towards them, contemporary Bulgarian agricultural cooperatives are characterized and the place and role of agricultural cooperatives in modern Bulgarian agricultural sector are assessed.

Key words: Cooperative Schools, Cooperative Role, Direct Benefits, Indirect Benefits.

INTRODUCTION

The necessity of a favorable public policy to the cooperative organizational form is widely discussed both in theory and in practice. A number of cooperative activists argue that the cooperative organizational form can not exist and develop if there is no state protection. Some studies show that in 21.43% of the former socialist countries, 41.38% of the developing and 33.33% of developed countries favorable public policy is applied in respect of cooperatives. This means that on average one in every three countries has preferences for the cooperatives and protectionism is slightly more pronounced in developing countries. Practices are diverse in terms of existing tax incentives - from full tax exemption to a different degree of reduction of tax rates. A guiding principle is, however, implementation of such schemes and approaches that do not cause imbalance of the various entities in the economy.

From this perspective, the article attempts to determine the place and role of cooperatives in the Bulgarian agricultural sector, and on this basis to assess the need for favorable public policy to the organizational form. The realization of the so formulated aim shall be implemented by first clarifying the theoretical concepts concerning the role and importance of cooperatives and the attitude of state towards them; second, definition of the main characteristics of contemporary Bulgarian agricultural cooperatives, and finally assessment of the place and role of agricultural cooperatives in modern Bulgarian agricultural sector, as an opinion is formed on the need for favorable public policy to this form.

MATERIAL AND METHODS

The objects of this study are modern Bulgarian agricultural cooperatives. Subject of the study are the characteristics of cooperatives concerning their place in the sector, the specifics of membership and benefits generated by them. The main methods used in the study are those of analysis and synthesis, induction and deduction and more. Information support of this study is realized by the accumulation and processing of two main

*Correspondence to: *Boryana Popova, Department of Economics, Agricultural University, "Mendeleev" 12 str., 4000 Plovdiv, Bulgaria, Tel. 032-654-452, Mob. 0896-62-73-53, Fax. 032-633-157, E-mail: borianavanova@abv.bg*

types of data. To assess the place of agricultural cooperatives in the sector have used official data on national level provided by the Ministry of Agriculture and Food (MAF) and National Statistical Institute (NSI). Analysis of the specificity of membership and benefits generated by cooperatives was made based on data from empirical research conducted by authors, covering 15 agricultural

cooperatives and their members.

THEORETICAL INTERPRETATION OF COOPERATIVE ORGANIZATIONAL FORM

In the theory, there exist different conceptions about the nature and role of cooperative organization form (fig. 1).

CONCEPTS FOR COOPERATIVE NATURE AND ROLE

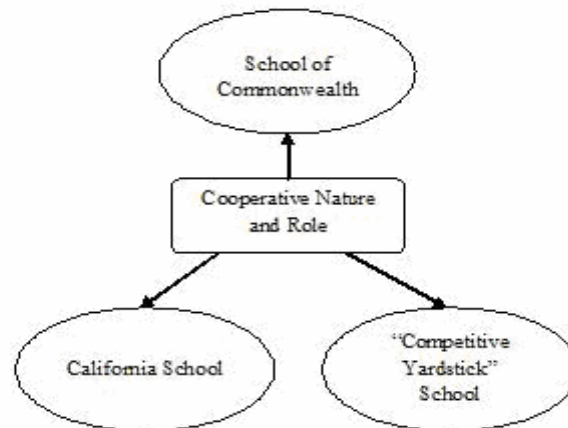


Fig. 1 Concepts for cooperative nature and role

The Cooperative school of Commonwealth, supported mainly by the European cooperative theoreticians (1), sees the cooperative as a dominant structure in the agricultural and consumption sectors. Its role is found in the establishment of economic and social order through foundation of federations and other similar organizations among the cooperatives, farmers' associations, labor unions, etc. This school regards the cooperative members as differentiated class in the society and assumes that the cooperatives should have considerable influence on the processes in the wider political space.

The California school of Aaron Sapiro sees the cooperative's role in improving the marketing coordination and overcoming the lack of balance in the relations with producers. Sapiro regards the cooperatives as democratically controlled and dominating on the market trade associations (1). In conformity with the followers of this school, the cooperative organization form makes it possible the agricultural producers to influence the trade conditions, changing them in their advantage.

E.G. Nourse, who is considered a founder of the school, regarding the cooperatives as "competitive yardstick", has a different attitude toward these structures. In keeping with the representatives of this school, the main role of cooperative is to make the markets more competitive. Unlike Sapiro, Nourse does not think that the cooperative should be dominating on the market organization form. In his opinion, it may have a limited market share and nevertheless to serve as an yardstick, with the help of which the members assess the operation of rest firms participating in the marketing chain. As Schomisch (2) notes, "Nourse advocated people joining hands in a business enterprise (cooperative – n.a.) to promote maximum efficiency, stability and prosperity for the economic business as a whole".

Although the considered schools do not exhaust the whole variety of approaches applied in studying the nature and role of the cooperative structure, it is indicative the fact, that neither of them confines the cooperative goals to maximizing the economic profit of its activity. Accentuating on other goals

(economic and social) makes actual the question - whether the conventional policy, applied to the maximizing profit organizations, is also appropriate for the cooperatives.

The specificity of cooperative structure and goals and dualism in the behavior of members, who are owners and consumers together underlie the conclusions of many authors (3) that for assessing the cooperative functioning it should not use standard approaches. The authors think that it is necessary to balance the return the members receive as owners with the benefits the members and non-members derive as consumers in result of the cooperative's existence on the market. Cotterill calls the differentiated second component of return "security value" (4) of the cooperative and includes in it the positive effect of the more profitable prices offered not only by the cooperative but also by investor-oriented firms that have to compete with it. The author notes that ignoring of the so-called "security value" deforms the assessment of the cooperative importance and may lead to making wrong management decisions on macro level.

Cotterill analyzes the cooperatives, functioning as "competitive yardstick" but his logics may also be applied in the case of cooperatives that do not exercise such functions. The adequate assessment of cooperative role in this instance requires studying and analyzing the effects of the cooperative's existence on the socio-economic environment.

These particular and society-significant functions of the cooperatives underlie motives for the specific cooperative treatment.

KEY FEATURES OF MODERN BULGARIAN AGRICULTURAL COOPERATIVES

Modern Bulgarian agricultural cooperatives are one of the big organizational forms in the sector, although their number is not large. According to MAF's data (5) in 2007 the number of agricultural cooperatives in Bulgaria amounted to 1156, which means that they occupy about 0.24% share of total holdings in the country. At the same time, however, agricultural cooperatives operate about 24% of UAA in Bulgaria. This makes them a key organizational form in terms of maintaining Bulgarian agricultural land in good form and in terms of ensuring the production of significant quantities of

agricultural produce, which concerns the country's macroeconomic indicators and the level of welfare of society. The analysis of data for manufactured products in the sector by organizational forms shows that cooperatives provide an average 26% of the production of agricultural products. Their role is relatively limited in terms of labor factor, because in cooperatives are employed about 1.53% of the labor force in the agricultural sector.

Typical for the Bulgarian agricultural cooperative movement is that cooperative organizational forms are essentially production by type. These are organizations of persons who have joined their assets in joint production of agricultural products. In most cases, workers in the cooperatives are also their members, which correspond to the theoretical understanding of a production cooperative, but the inherent characteristics of the organizational form of the Bulgarian practice clearly show that there are substantial differences between the theoretical model of production cooperative and the Bulgarian reality.

The fact that existing buildings are mainly primary is also specific for the Bulgarian agricultural cooperative sector. The Bulgarian cooperatives are organizations that bring together foremost individuals. Although a National Union of Agricultural Cooperatives exist, the facts show that the country lacks effective cooperation at a higher level, while membership in the upper cooperative structures is quite formalized.

Traditionally, members are basic unit and the main driving force in the activities of the cooperative organizational forms. Their homogeneity in terms of interests and composition has become a major motivator for the development of the organization.

In Bulgarian agricultural cooperatives, however, membership has some specific characteristics which define the specifics of the organizational form functioning. One of the main features is that members of the Bulgarian cooperatives are mainly individuals who have no respect not only to the cooperative in which they are members, but to the agricultural sector in general. Significant proportion of them live outside the area of cooperative operation, and the reasons for membership shall be limited to the lack of better alternatives for the realization

of agricultural production assets owned by them. This possession is not the result of conscious choice or purposeful investment policy but is result of the held in the country agrarian reform since 1991. A logical consequence of the situation is the fact that members' interests are diverse and are directed mainly to activities outside agriculture. This fact predetermines the consumer behavior of the members to the cooperative and lack of incentives to control and develop its activity. In practice, members of the modern Bulgarian

agricultural cooperatives are passive owners of agricultural production assets which do not exhibit entrepreneurial activity in the sector.

As a result of its operation, agricultural cooperatives generate benefits that can be conditionally divided into direct and indirect. As a direct can be seen the positive effects of the cooperative existence for their members, and indirect may be referred to the benefits that cooperatives create for the society (**Fig. 2**).

BENEFITS, GENERATED BY COOPERATIVES

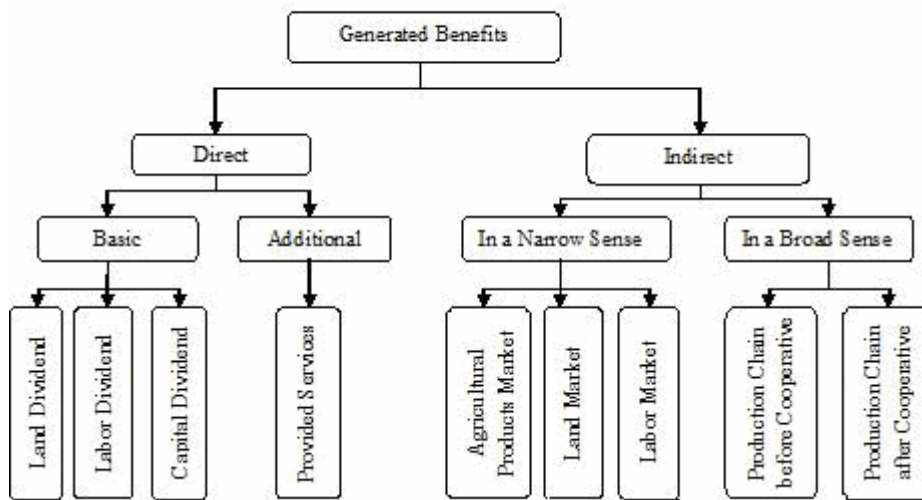


Fig. 2 Benefits generated by cooperatives

Modern Bulgarian agricultural cooperatives create four types of benefits directly to its members - the dividends on the main inputs used in production (land, labor and capital) and the provision of services. With a view to the size, frequency and importance for the members, these benefits can be divided into basic, including rent and dividends and additional related services provided by cooperatives.

Indirect benefits of cooperative operation can be sought in several directions. Seen in the narrow sense, the existence of agricultural cooperatives affects the market for agricultural products, the land market and the labor market. Exported above data give grounds to argue that cooperatives have a significant impact on the functioning of the markets for agricultural products. As already mentioned, they provide more than 1/4 of products in these markets and the effects are in two directions - on the one hand the functioning of cooperatives contributes to maintaining stability in the

provision of population and some sectors of light industry with basic foodstuffs and raw materials, on the other - to strengthen competition in the market by the supply side, which lead to improvement of the quality of manufactured products and offering them to more favorable price levels.

In this aspect it could be argued that modern Bulgarian agricultural cooperatives have pro-competitive effect on the functioning of markets for agricultural products. Because of the specificity of the Bulgarian agricultural cooperative movement, however, the effect mainly favors the subsequent levels in the production chain and / or end users and not the result of purposeful cooperative policy to protect the interests of farmers. In essence, this effect is similar to the effect that causes the entry of a new investor-owned firm on the market and therefore can not talk about specific manifestation of pro-competitive role of the cooperative organizational form, which it attributed in theoretical constructions.

The existence of the modern Bulgarian agricultural cooperatives has a significant impact on the land market. The impact of cooperatives in this respect is also two-way - first the purchases of agricultural land are reduced, and secondly the functioning of market for land leasing is stimulated. The claim that the existed agricultural cooperatives restrict the market for sale of agricultural land is motivated by the fact that the cooperative organizational form appears to be an alternative form of land management. In the situation of lack of co-operatives, a significant part of the land owners will find themselves unable to utilize their land. Moreover, these owners will be deprived of any economic realization of the existing asset that will motivate them to transform it into a more liquid form. Many of them will enter the market in position of sellers of agricultural land. Potential increase in demand, in accordance with economic logic, will affect the price depressing. So, one effect of the existence of agricultural cooperatives is to maintain higher levels of the price of agricultural land in Bulgaria. Regarding the impact of agricultural cooperatives in the market for land leasing may be noted that they exert pressure on the market by increasing demand. In practice, agricultural cooperatives represented a competitor to lease farms, which should lead to increased prices for temporary use of land. Studies show that in this sense the cooperatives have a role of "competitive yardstick", as tenants in an effort to attract owners of agricultural land are constrained to offer higher levels of rent payments, compared with those offered by cooperatives. There is reason to believe that the lack of cooperative structures would exempts tenants of this need and the end result would be reduction the amount of rent payments. Here, however, it should be noted that the participation of cooperatives in the market is not dictated by reasons of protection of land owners or farmers, and is based on free market principles and thus its consequences are analogous to the inclusion of any organizational form from the demand side of agricultural land.

With regard to the labor factor, the functioning of agricultural cooperatives generates both direct and indirect benefits.

Direct benefits are associated with dividends that invested labor in the cooperative members

obtain by productive economic use of factors. According to theoretical structures, members, put in labor in the cooperative should have a privileged status compared to others engaged in the sector. This privileged status is expressed in higher levels of payment compared to similar work, nested in another form. Economic grounds for doing so are based on the expectation that members will work with greater intensity and higher quality compared to non-members, because they own the cooperative and actually work for their own prosperity.

The analysis of empirical information, however, does not warrant this claim to be accepted. The data collected indicate that the working day, the intensity of employment and wages follow the average sector values. There is no sense in members that work in their business and for their own prosperity, but in most cases there is no connection between the results of its work and payment, too, which further reduces the motivation.

With regard to the labor factor can be derived also some indirect benefits from the existence of agricultural cooperatives. They reflect the impact of agricultural cooperatives existence on the labor market. The share of workers in the agricultural cooperatives of the total workforce in the sector is low (about 1.5%), meaning 14,530 people in 2007 (5). Low share gives reason to expect that cooperatives do not significantly affect the functioning of the labor market. Theoretically, this effect should occur in the direction of increasing labor demand in sectors that means raising the level of payment. As in the foregoing analysis, however, this effect is the result of market forces and changes in market balance caused by increased demand rather than resulting from the specific of the organizational form.

Considered in the broad sense, cooperatives generate overall benefits through their impact on the product chain before and after the very cooperative. The nature of existing cooperatives in practice, however, determines the absence of specific influence, the behavior of the latter is analogous to the behavior of investor-owned firms, respectively, does not warrant special treatment. In summary it can be noted that modern Bulgarian agricultural cooperatives are mainly production by type, primary by degree of cooperation, bringing together passive owners

of assets, not entrepreneurs in the sector, with little impact on the functioning of related markets.

Regarding the noted type it should be taken into account the specifics of the organizational form of the Bulgarian practice and its difference with the theoretical concepts of production cooperative, but because their basic business is the production of agricultural produce, in the Bulgarian vocabulary has been approved that they are called production.

CONCLUSIONS

It can be concluded that modern Bulgarian agricultural cooperatives have arisen on the basis of tradition, experience and specificity of the institutional environment in transition to market economy. They react as a typical investor-owned firm and contradict to the traditional conception of the cooperative organizational form.

On this basis it could be argued that there are no grounds for determining a favorable public policy in respect of existing cooperatives. To use the potential of the form, as it is known from the practice of many other countries, consistent policy is needed to promote other types of cooperatives in agriculture and the economy as a whole.

REFERENCES

1. Torgerson, R. E., Reynolds, B. J., Gray, T. W., Evolution of Cooperative Thought, Theory and Purpose. In *Proceedings of the Conference on "Cooperatives: Their Importance in the Future of the Food and Agricultural System"*, Food and Agricultural Marketing Consortium, Las Vegas, NV, January 16-17, pp. 23, 1997.
2. Schomisch, T. P., Edwin G. Nourse and the Competitive Yardstick School of Thought. *UCC Occasional Paper No 2*, July, pp.7, 1979.
3. Staatz, J. M., Farmer Cooperative Theory: Recent Developments. United States Department of Agriculture, Agriculture Cooperative Service, *ACS Service Report No 84*, Washington DC, June, pp. 30, 1989.
4. Cotterill, R. W., Agricultural Cooperatives: A Unified Theory of Pricing, Finance, and Investment. In *Cooperative Theory: New Approaches*, United States Department of Agriculture, Agriculture Cooperative Service, *ACS Service Report No 18* edited by Jeffrey S. Royer, Washington DC, July, pp. 171-258, 1987.
5. Ministry of Agriculture and Food, Structure of Agricultural Holdings in Bulgaria (Crop Year 2006/2007) - Final Results, Agrostistics, *Bulletin No 134*, Sofia, pp. 63, 2008.