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Original Contribution

SOCIO-ECONOMIC ASPECTS IN THE DEVELOPMENT OF COMPANIES FOR PRODUCING AND PROCESSING AGRARIAN PRODUCTS

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ABSTRACT

The development of companies for producing and processing agrarian products depends on the knowledge of their socio-economic character, production structure and on the economic, social, political and other conditions in a country and abroad. If we assess regularly the status of the company and it shows relatively constant parameters in the course of time, these characteristics should be a guarantee for its steady development. A company shall be considered steadfast if comparatively small changes in the values of parameters and the initial conditions at the entry of the system do not result in significant divergences in the parameters at its exit. The objective of the study was to analyse the socio-economic parameters of steady development of companies for producing and processing agrarian products on the basis of specific empirical investigation, to outline the problems and to lay down paths for overcoming them.

Key words: Agricultural companies, Socio-economic parameters, Development, Analysis

INTRODUCTION

The development of companies for production and processing of agrarian products is dependent on the knowledge of their socio-economic character, production structure and the economic, social, political and other conditions in a country and abroad. A significant role for the steady development of agrarian companies for the period 2001-2005 is being played by several of the basic priorities included in the agrarian policy of the Bulgarian government and they comprise the following (1)$_*$:

- Efficient management of land and forest resources and modernisation of market structures.
- Improving the competitiveness of agriculture, forestry, the food industry and creating conditions for their export.
- Preparing the introduction on the home market EC requirements and elements of the Overall Agricultural Policy (OAP). This priority complies with the National programme for adopting the EC legal achievements and includes improvement of the system for veterinary and phyto-sanitary control, providing food safety and health protection for the consumers.
- Steadfast development of rural areas – a priority directed at improvement of living and working conditions of agriculture and forestry employees and rural areas in Bulgaria; environmentally friendly and sound management of natural resources and protected nature territories.

In 2002 Special strategy for granting government subsidy for the development of agriculture and rural areas was developed on the basis of the following principles:

- Conformity in the development of agriculture with the financial grant by means of the OAP mechanisms;
- Mutual supplementation of national schemes by the EC financial aid.

Bulgaria has officially submitted its negotiation platform on the Chapter, “Agriculture”, in June 2001 and the official registration was done during the Conference on Accession on July 06, 2001. Negotiations started on March 21, 2002 and closed at the end of June 2004. According to the provisions of the Law on subsidising agricultural

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producers, the Agriculture State Fund is the basic institution that is accountable for granting financial aid for the development of agriculture in the country. For the period 2000-2003 new long-term financial programmes were adopted as: Special Programme of Alternative Agriculture in the Rhodopes and Programme for the Development of Agriculture in North-West Bulgaria. Along with these the European SAPARD programme is also important for the development of companies in the sphere of agriculture and processing their products.

The objective of this paper was to analyse the socio-economic aspects in the development of companies for the production and processing of agrarian products on the basis of a specific empirical study, to outline the problems and to lay down paths for overcoming them.

METHODOLOGY OF THE STUDY

The study comprised a period in which three of the measures in the SAPARD Programme had been applied, for which the National SAPARD Agency received accreditation on 14 May 2001 and the utilisation of funds started on 01 June 2001 with the following measures:

- Measure 1.1. ”Investments in Agricultural Farms”,
- Measure 1.2. “Improvement in Processing and Marketing Agricultural and Fish Products”,
- Measure 2.1. “Development and Diversification of Economic Activities, providing opportunities for multi-faceted activities and alternative incomes”.

The methodology of the study was influenced by the fact that the financing of companies under the programme was in the very beginning of the application. Considerable parts of the projects were approved in 2003 and comparatively few had been completed. That meant that at that stage one would expect only immediate results to have been recorded while the higher-level results would have to come in due course. The Programme was still effective with regard to the beneficiaries but was yet to be realised in the target sectors as a whole or rural areas in particular. The efficiency of financing companies under the Programme was assessed by employing the following groups of assessment questions:

- Questions specific to the investigated measures;
- Assessment questions related to the objectives of the SAPARD Programme and the overall efficiency from applying the Programme in the country;
- Other questions.

The assessment was based on the combination of primary and secondary data. Collecting primary data was achieved by sample study based on personal interviews carried out by Agriconsulting Europe S.A. – Bulgaria (2).

The assessment of the situation of companies that had applied for and had been granted financing under SAPARD necessitated the development of specific questionnaires that would be used in the study of the general legislative framework, administrative structure and the problems in granting financial assistance. To that end personal interviews were conducted on the basis of incidental representation for the Programme beneficiaries, including 150 companies, for producing and processing agrarian products. The structure and performance of the representation are given on **Table 1**.

Table 1: Total aggregation, size and structure of the representation of approved projects (3)

SAPARD measures	**Approved projects as of 01 June 2003**		**Planned representation**	**Fulfilled representation**	
	Number	*% of projects*	*Number*	Number	*% of projects in the measure*
Measure 1.1. Investments in agricultural farms	309	68,6	50	56	18
Measure 1.2. Improvement of processing and marketing agricultural and fish products	96	21,3	50	48	50
Measure 2.1. Development and diversification of economic activities	45	10	50	31	69
Total	450	100	150	135	

All questionnaires had been tested in advance in pilot groups in order to check out their exhaustiveness and the validity of the closed questions. After the pilot stage questionnaires were revised and in September 2003 personal interviews were organised. Their number was 135, comprising 90% of the planned representation. Along with interviews conducted, analysis of a certain group of documents had also been carried out and they comprised the following: SAPARD Programme, programme documentation, minutes of meetings of the SAPARD Agency, Annual report on the fulfilment of the SAPARD Programme submitted to the European Commission, etc.

ANALYSIS OF THE RESULTS OBTAINED FROM THE STUDY

A representative study of beneficiaries of the financial assistance under the SAPARD Programme showed that vegetable, flower and cereal producers constituted the highest proportion of 27%, followed by meat producers and processors with 17%, while the third with 10% comprised companies that invested in the development of agrarian tourism. Benefiting much less were dairy and milk producers whose shares were 4% and 2%, respectively. Perennial plant growers had 7%, etc. The development of alternative activities and financing them became more and more important as carpentry, 7%, fishery and aquacultures, 4% and local crafts, 1%, also featured.

Under Measure 1.1., the big beneficiaries were investments in vegetable, flower and cereal production that accounted for 65% of the total number of applicants. Under the greatest significance under measure 1.2., 47% of the total number of approved projects benefited the ones for meat production and processing compared to the rest for vegetable production – 17%; wine production – 15%, and milk production only 13%. Under measure 2.1., the most significant was the number of approved projects compared to the total number for rural tourism - 42%, followed by wood processing – 32% and 10% of these for the development of bee-keeping. Development of mushroom cultivation and fishery gained relatively very small or near insignificant amounts among these beneficiaries.

With regard to measure 1.1., investments in agricultural farms were made by 86% of the producers that were essentially plant growers and only 4% of these investments was made by the same group under measure 1.2. Considerably smaller was the relative share of animal breeders – measure 1.1. - 13%, measure 1.2. - 2%, respectively and slightly more under measure 2.1. – 19%. The reason for this shortfall was the comparatively inefficient animal breeding techniques in recent years. With most of present-day animal-breeding (family) farm production has been based on all-year round work of the owners who, at the price of many sacrifices and no free time, only manage to cover the expenses made. That forces some of them to look for opportunities of alternative employment – rural tourism, resurrection of old crafts, etc., through which to compensate at least partially their losses. Another peculiarity of animal production in the country is that almost 90% of animal breeders are concentrated in medium-sized and small newly-established agricultural companies. At the latest census of family enterprises by the National Institute of Statistics in 2001 it was established that 70,7% of them owned just one cow, 61% - one pig, 45,5% - one sheep and 36% - one goat (4).

Among the 15% of the companies financed under measure 1.2. and 3% under measure 2.1., the main business was wine production. Only 2% of these wine producers received financial aid under measure 1.1. Vine-growing and fruit-tree growing are two of the main sub-branches in the country; though these had been incapacitated under the new land reform. In order to restore or expand them considerable funds would be needed and companies do not have these funds. This explains, to a certain extent, the low relative share of those who had managed to meet the requirements for financing under the programme.

Only 29% of the companies under wood processing and hotel-keeping received financial grants under measure 2.1. For success in hotel and restaurant management good accommodation, cuisine and sufficient attractions were needed. These could be achieved by developing equine and fishing sports, resurrecting crafts that had been native to these regions and these could include: pottery-making, carpet-weaving, wood-carving, and others. There is no doubting the fact that whatever financial resources put into these ventures would provide means of livelihood for the people in the area. A similar solution could be applied in the development of mountainous and semi-mountainous regions of the country. The Rila, the Pirin, and the Rhodopes are not only a source of constant incomes for the people but also a factor for their steady development, environmentally-friendly and steadfast management of the natural resources of the country.

The companies included in the representative study have been divided into six interval groups according to the size of their annual turnover in Euro for the Year, 2002. This study has helped to establish that 35% of the investments under measure 1.1. were companies with annual turnover up to 25 thousand euro, 23% with 50 - 250 thousand and 16% from 251 – 500 thousand. Measure 1.2. produced an insignificant amount of financed small companies. On the other hand, the greatest among them, 21%, was ascribed to companies with annual turnover of 501 - 2500 thousand euro; 10% of them had turnover of over 5000 thousand euro. Under the third measure 2.1, companies with annual turnover from 50 to 250 thousand euro had the greatest relative share of 29 %. As a whole the scope of the implemented business in most companies for producing and processing agricultural products in the country was not big due to privatisation and restructuring in the 1990s.

The average age of production equipment played a considerable role in the scope of the implemented activity, especially in agriculture where the age of tractors and harvesters was important. The results obtained from the present study revealed that 54% of tractors in the companies were aged under 5 yrs., 51% from 5-10 yrs.; 76% from 10-15 yrs. and 62% over 15 yrs. With harvesters the results were similar as shown: less than 5 yrs fell under the 67% group and from 5-10 yrs. – 53%. 99% of those interviewed stated that their harvesters were in the age range of 10-15 yrs. 67% of the responders stated that their harvesters were aged over 15 years. Generally, farming tools in Bulgarian agriculture were characterised by limited functions while some of the farmers lacked any tools. For example at the latest NIS census in 2001 it was discovered that 100 family companies in the country owned on the average, 2,4 tractors, 1,6 motor-cultivators, 0,2 harvesters and a little more than 7 fodder shredders and 2,1 milking installations (4). Therefore modernisation of Bulgarian agriculture would be contingent on the SAPARD grants to purchase modern farm implements that should make these farmers at par with other European farmers. And this was not surprising since the main aim of applicants under the SAPARD programme was for the improvement of the quality of their products. Under this programme, 63% of the ones under measure 1.2. emerged as the highest. Coming second was 61% (under measure 1.1.) and 31% (measure 2.1.) and the aim here was to reduce "*production costs*" and to increase its size by 30% and 35% of the companies respectively. Those whose aim was to export their produce had a small relative share that amounted to 2%, while those for environmental protection had 11% and 13%, respectively, in the stated measures. Companies that realised the need for *"implementing modern technologies of production"* had sizeable shares of 36%, 40% and 26% in the stated order of measures, respectively.

It is important how companies assessed the role of the SAPARD programme for their adaptation to European standards and improvement of their competitiveness. For 61% of the financial aid under measure 1.1., 63% under measure 1.2. and 45% under measure 2.1. made the evaluation of "very important" as the role of the programme in the improvement of the competitiveness of their company. 36%, 75% and 35% thought that the SAPARD programme was of importance also for adaptation of their economic activity to European standards.

Reduction of costs and its modification under the SAPARD programme support was significant. 42% of those who had received grants under measure 1.1., 38% under measure 1.2. and 25% of the ones under measure 2.1. experienced costs reductions in the range of 1 - 5%. 25% of the companies financed under measure 2.1. stated that the reduction was from 21% to 30%. Only 3% of the companies that had realised projects under measure 1.1. showed greater reduction of production costs from 41% to 50%. Only 6% of all economic units that had received aids under SAPARD - measure 1.2. had stated over 50% reduction of costs. Among companies financed by this scheme, there was some measure of increase in production with over 50% of the volume realised. 18% of the companies financed under measure 2.1. and 16% under measure 1.2. experienced similar trends, while only 3% of those under measure 1.1. achieved the same feat. Small expansions in business of up to 5% were reported as 9%, 11%, respectively, in the order of the aforementioned schemes, while 32% of the companies under measure 1.1. reported similar trends.

These results could be explained by a combination of the trends in these companies and the overall economic development of the country as it affects the agrarian sector. In the period 1997 – 2002 agriculture continuously faced a reduction in its relative share. There was a sustained fall from 26,2% in the beginning of recession in 1997 to 13.3% in the period 1999 – 2001, a drop of 12.9 percentage points. In 2002 it came lower to 12,5 % of the realised added value for the economy, and the decrease, compared to 2001, was by 0,8 points. In spite of this, it was still high and continued to be different, compared to the structural positions of that sector in the EU countries. On the other hand, in 2002 Bulgarian agricultural production continued to depend on the amount of agrarian products produced in the households, e.g. meat and milk, fruit and vegetables, table and wine grapes, as well as canned products from them. Basically these products were used by the households themselves and only a small part was offered on the market. In the agrarian sector the share of added value obtained as a result of production and processing in households, compared to the previous year, was by 2,3 points – from 18,4% in 2001 to 20,7% in 2002 (5).

The level of the introduction of the European quality mark was important for the steady development of the agrarian sector and the processing of its products. It turned out that the relative share of companies that had introduced that mark was small. Only 7% of the companies with approved projects under measure 1.1., 8% of the ones under measure 1.2 and only 4% of those under measure 2.1 introduced it. Going further, companies that had introduced quality mark for biological products constituted only 2% of those financed under measure 1.2 and 6% under measure 2.1. A projection of this trend into the future showed that 34%, 25% and 16%, in the order of the aforementioned schemes, expressed the desire to introduce this European quality mark.

These results could be largely explained by the type and significance of obstacles occurring in the course of implementation of projects financed under the SAPARD programme. The greatest relative share – 29% of companies – had started projects under measure 2.1. and they have had difficulties in procuring external financing, including those from the commercial banks. Similarly, companies under measure 1.1., about 18%, and those under measure 1.2., about 21% of the lot, faced the same difficulties. The reason for this setback rested on the attitude of the commercial banks. Most of them either shied away, felt reluctant or were very slow in granting big loans for economic enterprises. They applied high interest rates and placed requirements for available mortgage in the form of real estate; interest ranged from 150% - 200%.

Another significant obstacle was "the late procurement of licenses", as stated by 31% of the companies financed under measure 1.2., 19% of those under measure 2.1. and 18% under measure 1.1. The difficulties in obtaining sufficient information from the relevant institutions in the country posed another major obstacle. These usually made it difficult to beat the required deadlines set by the SAPARD National Agency. To overcome these frequent hardships regional offices of SAPARD were established two years ago (2002) with the joint aim of monitoring the judicial use of released funds and assisting the companies apply for their programmes.

Other hardships were "the increase of prices of the productive factors", as well as the numerous "supplier problems". In most cases this was a result of destroyed integrative connections and improper contracting between the parties. It is still to be noted that a dearth of honesty and respect among companies still exists. In addition, the time-frame for the supply of goods and services is not respected. Finally, some of the goods and services rendered could turn out to be low in quality and payment for these goods could be unduly delayed.

Results of the analyses of this study suggest that the relative share of fully completed projects, measure 1.1., had the greatest relative share of 70%, followed by measure 1.2. – 42% and only 35% of those that had received funds under measure 2.1. of the SAPARD programme. At the same time 25% of the companies under measure 1.2. and 16% under measures 1.1. and 2.1. stated that "the investment project had been dully completed by the payment with the SAPARD agency hasn't been settled". Only 2% of the projects financed under measure 1.2. and 3% under measure 2.1. stated that "most probably we won't be able to complete the project". The difficulties in implementing the programme specified above also accounted for that.

CONCLUSION

One of the main conclusions from financing companies under the SAPARD Program is its contribution to improvement of the production and technological conditions for a significant of them. That is related mostly to the renovation and modernization agricultural machines, the improvements carried out for storage of products.

The beneficiaries supported under Measure 1.1. are basically big companies specialized in plant growing. Significant percentage of the investments has been spent for purchase of agricultural machinery which is a factor which contributes to reduction of production costs, increase of incomes and improvement of competitiveness in general. Very small support has been offered to the sub-sector animal breeding.

The small agricultural companies are not VAT registered and as a result of that they have additional problems related to the fact that the Program does not recognize VAT as an expense and therefore they cannot claim it. For them this is actual loss that reduces the benefit from the financial support.

The difficult access to external financing as well as the complicated documentation for applying, the implementation procedures "favors" larger companies that are the predominating part among the Program beneficiaries up to this moment.

Great share of the financial support during the investigated period of Program implementation has been reserved for Measure and as of 01.10. 2003 57% of all funds for the entire seven-year period have already been contracted.

The assessment of investments under measure 1.2. has revealed that the sector *Milk and dairy products* has succeeded in attracting a very small part of the funds available for investments. Efforts should be made to attract medium-sized farms in that sector, in which the problems with adaptation to European standards are the most severe.

With the three measures relatively high share of the granted aid has been directed to support of newly established companies. That means that a significant share of the available companies the production of which is not in conformity with European regulations have to undergo a painful process of adaptation, restructuring or closing down of their business with the EU accession of the country.

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