



THE PROCESS OF TRANSFORMING BULGARIAN AGRICULTURE IN ACCORDANCE WITH EU REQUIREMENTS – REALITY AND CHALLENGES

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ABSTRACT

The purpose of this publication is to review the status of Bulgarian agriculture as a major economic sector in the country. Both the empirical approach and comparative economic analysis have been applied in the research. It identifies some major problems to be solved by the government, as well as measures that should be implemented in order to adapt the branch to the functional requirements set by the EU and turn it into a prerequisite for economic growth.

Key words: agriculture, farming, Euro-funds, administrative capacity, rural areas, agrarian policy,

Some characteristics of Bulgarian agriculture

The agrarian reform, which has taken too long and has produced rather controversial results so far, has profoundly affected Bulgarian agriculture.

Land was restituted, yet, in stead of encouraging development in the sector, this proved to lead to the fast ruin of former agricultural cooperatives, and consequently, the destruction of the entire infrastructure, equipment and technical base that had been established within half a century. The loss of markets, increased prices of energy resources, the physical and moral depreciation of available equipment, the demolition of irrigation systems, the observance of embargos imposed by the UNO on countries that used to be our partners, as well as many other reasons led to a lower relative share of the value added produced in the agricultural sector, from 14.4% in 1990 to 6.0% in 2009. This dramatic decrease was also the result of the slow process of restructuring in the sector, as well as the fast

pace of development in the other sectors of the national economy, especially the service sector.

Labour productivity in the sector, measured in the gross value added per single employee has decreased (despite the inflation accumulated during the period) from € 2 222.15 in 1998 to € 1 967.04 in 2009, i.e. by 11.5 %, and is currently one of the lowest in the country and the EU.

Such relative share of agriculture in the gross value added for the country is typical for countries in the Balkan region (Romania and Turkey, to be precise), but continues to be a little higher than that in EU member states. For older member states of the EU, the relative share of agriculture in gross value added is between 3 and 4 per cent, while for Poland, Hungary and the Czech Republic it does not exceed 5 per cent (1).

The comparatively low relative share of agriculture in the gross value added would be a reliable indicator for the economy of the country as a whole, if the absolute volume of agricultural production remained the same or increased. Unfortunately, this is not the case as during the period from 1995 to 2009 its real value expression dropped by 24.71 %, i.e. nearly a quarter (2). The major reason behind this marked decrease, as we have already

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pointed out, is low labour productivity in the sector. It is lower than productivity in the industrial sector by 79.1 per cent and lower than productivity in the trade sector by 75.8 per cent. This, in turn, explains the lowest income of people employed in the sector, as compared to the other sectors of the economy of the country (3).

Private agriculture accounted for 70 up to 80 per cent of value added in the sector during the period from 1993 to 1996. Over the last years, it has accounted for more than 99 per cent of value added in the sector and 90 per cent of arable land was restituted to its owners through notary deeds (4). As a result, 87.6 per cent of people employed in agriculture are now in the private agricultural sector and it is them who largely produce the output in it. The income of these people, however, is among the lowest in the country, which prevents them from meeting their daily necessities, allocating money for investments, or obtaining large credits to improve the production process.

Reduced output and labour productivity in agriculture are mainly due to the dramatic decrease of investment in the sector. Its relative share in the total volume of investment in the country dropped significantly from 9.8% in 1990 to 1.8% in 2001, followed by a slight increase to 4 per cent between 2002 and 2008, and then falling to 2.2 % in 2008. We believe that the major reason for that is low labour productivity in the sector, which leads to slow and comparatively poor return on investment. All these, added to the high risk entailed by agriculture, due to the seasonal character of production, discourage growth of investment in this essential for the Bulgarian economy sector.

The existing distribution of investment costs, which is in detriment to agriculture, has led to a number of negative results, such as reduced output and shortage of comestibles, the dramatic effect of which was felt in the country especially during the crisis in 1996 and 1997. These processes are also underlain by the lack of economic stimuli for the development of the agricultural sector (for example, protective tariffs for domestic products or low-interest credits), the low level of development of commodity exchanges, the illegal import of agricultural products, which is still high, the underdeveloped land market, the lagging

development of the food-processing industry according to EU requirements, etc.

Main problems faced by agriculture in Bulgaria

Bulgarian agriculture faces a number of problems of various nature. Among the most poignant ones that will be hard to solve even in future is **that of ageing population**. Low income and lack of prospects for development have forced young people to gradually leave the villages and they are becoming more and more depopulated. There is a current trend for agrarian producers, for whom agriculture is the main source of sustenance, to decrease in number and to become a minority in foreseeable future, while agriculture will mainly exist as a spare-time activity for people willing to practice 'the agrarian multiple-exercise sport'.

A major predicament to the development of Bulgarian agriculture is the problem of **volatile prices of agricultural products**. There is an ongoing trend toward smaller private farms as a result of urbanization and disproportionate increase of trade in agricultural products. These lead to smaller output and supply of agricultural products, while at the same time demand is increasing, which will continuously keep the prices of those products high. Therefore, economic policies of the EU and its member-states should be oriented toward adopting immediate and steadfast measures **to encourage, credit and protect** this crucial sector.

Another thing to take into consideration is that increase in prices of agricultural products is strongly influenced by the fact that more and more of them are used in the production of biofuels, which will encourage not only the increase of prices of biofuels, but that of comestibles as well.

It is extremely important that we take into account **prices of raw materials and oil, the Euro-Dollar exchange rate and new varieties of stock exchange and commodity exchange speculative deals**, which will continue to influence dramatically the increase of prices of agricultural products, and hence, their production.

Climate changes also play a crucial part in the development of agriculture on both global and national scale. While these changes strongly affect agricultural output, they are not subject

to control and could have a devastating effect on the development of the sector, the subsistence of the population, and its standard of living in future.

Damages caused by changing weather conditions are growing in scale, and a particularly topical problem is that of diminishing water resources. In addition, dramatic changes in global climate have a series of indirect consequences, such as the end of the age of ores and minerals and the introduction of biomass as a key raw material, which calls for increased production of vegetable fats and oils.

All these trends lead us to the conclusion that a radical change is necessary in the economic policy regarding the agricultural sector. The public has to be aware of agricultural producers, their needs and achievements, and the urging necessity of adequate pay for their labour.

Europe needs a strong agricultural sector that supplies comestibles. In order to ensure the subsistence of the population, the production capacity has to be kept, and the lag of incomes from agriculture compared to average incomes has to be taken into account. Thus, the average salary of people employed in agriculture has been significantly lagging behind the average salary for the country over the last decade. The former is nearly 30 per cent lower than the latter (5), the lowest average salary being that of people employed in catering and hotel business. This suggests that one of the priorities of the EU should be to encourage agricultural production and its efficiency through specific means of the economic policy conducted.

In our opinion, major problems faced by Bulgarian agriculture can be identified in its low productivity and fractional character, the poor qualification of people engaged in it and the poor technical equipment available. In addition, the administrative capacity of national and regional institutions engaged with the problems of the agrarian sector is small, especially that of employees in the Ministry of Agriculture and Food and the Agriculture Fund, which is above all due to the political changes that have taken place in the country over the last years.

One consequence of that negative trend is the low level of adoption of funds from related

Euro-funds. Existing corruption practices should not be ignored either, especially those in the adoption of Euro-funds and grants for various projects for the development of agriculture and rural regions. This is another factor that leads to lower investment, less arable land and smaller number of people employed in the sector.

We should also take into account the fact that new member-states of the EU, including Bulgaria, receive only 50 per cent of the subsidies for development and support of the agrarian sector, while older member-states receive 100 per cent of these subsidies. This disproportion causes an anti-EU attitude among a significant part of the population and certainly prevents the unification of EU countries regarding the common European market.

A major problem of the agrarian sector in Bulgaria is the lack of associations and unions of agricultural producers. This renders them in a weak position in respect to clients buying their produce to resell it later, hinders them from charging higher prices for their products, impedes the development of commodity exchanges for agricultural products and a normal pricing policy in the country, and above all, does not allow agricultural producers to obtain more funds from European programmes for the development of the agrarian sector.

Thus, from a country that used to be the cradle of agrarian co-operatives in Europe at the end of the 19th century, Bulgaria is now gradually turning into a country with virtually no co-operatives and unions to protect the interests of agricultural producers.

Insufficient insurance of agricultural produce is another problem faced by the agrarian sector in our country and it results in major losses for agricultural producers in case of natural disasters. The main reasons behind the low level of insurance are low incomes in the sector, poor insurance culture of the majority of people in Bulgaria, as well as the habit to rely primarily on the state for financial support. We should also bear in mind that arable land in Bulgaria is not subject to taxation. Taxes on arable land will have to be introduced in the future, in compliance with EU requirements. This is a usual practice in the EU, and its implementation in Bulgaria will encourage the development of the land market, on the one

hand, and raise the prices of agricultural products, on the other hand.

Opportunities and prospects for the development of agriculture in Bulgaria

Strategies for the development of the agricultural sector are oriented toward increasing the role of agricultural production chains and agricultural undertaking.

Bulgaria's Rural Development Programme 2007 – 2013 puts an emphasis on the development of a competitive agricultural sector through production practices and innovations that raise the quality and the value of agricultural produce. Improving life standards in rural areas and the renovation of their infrastructure is another goal of the plan (6).

In addition to increased quality and productivity in the sector, an important factor for raising the incomes of people engaged in it, is the normal functioning of the market of agricultural products. In this respect, we cannot ignore the paradox that while the instability of the market is increasing, the number of measures used to counteract this instability through subsidies, quotas, or other non-market means of influence is decreasing. Therefore, we have to retain and simplify existing measures for regulating the market, reconsider our policy regarding the quality of agricultural products, improve the production chains, alter current legislation on competition, develop minimum standards for negotiating supplies, establish unions and associations of producers in the sector and through them boost the negotiating capacity of agricultural producers, as suggested by the European Commission as well.

In order to adapt faster to the basic ideas of the European Commission about the development of rural areas, we have to implement a number of measures, namely:

- To bring the agricultural policy of the state in harmony with agricultural policies conducted by other member-states of the EU;
- To simplify the procedure for applying for funds from various programs and

European funds for development of the agricultural sector;

- To raise the administrative capacity of the personnel of the Ministry of Agriculture and Food and the Agriculture Fund, by employing people not according to their political belonging, but the qualifications they have;
- To modernize the infrastructure in the sector, by improving the road network, restoring the irrigation system, commassation of agricultural land, etc.;
- To undertake a series of activities aimed to develop risk management in agriculture and make it an element of the development in the sector and the rural areas;
- To simplify the market and the quality policies;
- To make sure that member-states apply objective criteria in the allocation, expending and control of funds for development of agriculture and rural areas, and observe these criteria as much as possible.
- Agriculture was once the cradle of traditions and social identity. At the same time, it is the driving force of economy and should be regarded as a factor that is crucial for preserving the territorial and demographic balance in the country. Hence, the necessity to enhance the responsibility of Bulgarian government and the European Commission for encouraging the development of this crucial economic sector.

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