

PRODUCER ORGANISATIONS OPPORTUNITIES AND PERSPECTIVES IN BULGARIA

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ВЪЗМОЖНОСТИ И ПЕРСПЕКТИВИ НА ОРГАНИЗАЦИИТЕ НА ПРОИЗВОДИТЕЛИ В БЪЛГАРИЯ

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Abstract

As a result of the economic crisis situation in the country, the need arises for the farmers to look for alternative methods to deal with challenges that they are face in the business environment. In Europe one of the main approach for overcoming crisis situations and increasing the efficiency and development of small and medium-sized farmers is unification in producer organisations. This report aims to reveal important characteristics of producer organisations and to justify their application as an opportunity to improve the agribusiness development in Bulgaria.

Key words: organisations, producers, development, agribusiness

JEL: Q10, Q13

In the 21st century, the development of the agricultural sector is under the influence of various negative factors, which are manifested as a result of rapidly changing business environment, increased competition and the new market order laid down by international agreements. The current unstable economic situation has a negative impact on producers in agricultural sector worldwide. It manifests itself especially strongly in 2020 due to the impact of COVID-19 pandemic and difficulties encountered in agricultural sector. The effects are expressed mainly in production disruption and processing of agricultural products, due to difficulties in the supply of means of production; reduction in the consumption of basic food products (fruits, vegetables, meat, milk, dairy products, etc.) as a result of closure of hotel and restaurant business; lack of manpower, which is necessary to carry out the activities in agricultural sector, etc. Measures to contain the COVID-19 pandemic are bringing global economy to brink of recession. A number of businesses, including the agrarian one, are experiencing difficulties of various kinds as a result of the measures and restrictions imposed by governments in order to stop the spread of the virus. This suppresses economic growth to a high degree and leads to new challenges for agrarian business, such as rising resources prices. In addition, as a result

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of the war in Ukraine, prices of energy and raw materials, including wheat and other cereals, have risen significantly. This, in turn, causes further aggravating inflationary pressures from the recovery from the COVID-19 pandemic. All these circumstances have an adverse effect on farmers economic results and may lead to large losses threat and for producers further performance of activity. In order to deal with situation farmers should monitor international prices and their impact on domestic inflation to take appropriate and timely action to change their business management strategies. The effect of all this gives rise to the necessity they look for alternative methods to deal with the challenges that have arisen, which will contribute to reducing losses risk and increasing opportunities for their development in business environment. The purpose of this report is to reveal important characteristics of producer organisations and to justify their application as an opportunity to improve the agribusiness development in Bulgaria.

In European Union it has historically been observed that to deal with crisis situations, producers in agricultural sector unite in networks (unions, associations) through cooperation, thus receiving advantages that help to deal with a number of issues they face. The concept of networks in modern conditions is increasingly used in various fields, but in this report attention is directed to networks in agribusiness. In the studies of authors (Doitchinova et al., 2017) in this field it was concluded that there is no single definition of networks concept. The interpretation depends on different aspects in which they are considered. There are many definitions of term "networks" in the specialized literature, but for purposes of this report, the definition used is that a network is accepted as an intermediate form of organisational management in which a number of business units are interconnected through specific inter-firm interactions (Ford et al., 2011). In the context of this definition, cooperative relationships arise between individual producers in the process of seeking compensation for weak market positions in order to develop and secure a competitive advantage in agribusiness. The main priority of this network type of interconnected business units is to combine interests of the participants to achieve higher production efficiency and competitiveness. There is ample evidence for the existence of strategically important effects of well-built networks on the stability and development of producers in agricultural sector.

For example, the participation of cooperatives in EU countries has led to an improvement in well-being of a part of the producers in agricultural sector. By uniting and cooperating a group of producers in an association, the aim is to ensure stable prices for agricultural goods, expanded agricultural production and development of each participating producer. Uniting producers in agricultural sector is one of the ways to achieve such goals, which are otherwise difficult to achieve. These can be overcoming a crisis period in the market, providing materials necessary for production process, greater participation not only in the Bulgarian, but also in the interna-

tional markets, since the international trade chains are looking for quantities, qualities, in some cases and uniqueness that one or two farmers cannot provide. The formation of cooperatives in many countries, such as Italy, France, Greece, etc. is based on specific legislation. In one form or another, a policy of state support and assistance to the cooperative system is carried out in all countries. Main directions in this regard are, in addition to granting subsidies, loans with low interest rates, also building joint strategies for product sales, support strategies through use of common services needed in production process, etc. For example, in Italy, cooperatives are completely tax-exempt for the first ten years of their establishment. In many countries, networks in the form of cooperative unions represent the interests of agricultural producers before state, municipal and international authorities.

A characteristic form of networks in agribusiness applicable in Bulgaria is producer organisations recognized by the Minister of Agriculture, Food and Forestry. They can be producer groups and producer organisations (GPs and POs). According to Ordinance No. 12 of May 5, 2015 on the terms and conditions for the recognition of producer organisations of agricultural products, associations of producer organisations and inter-branch organisations and producer groups, the general conditions to which producer groups and producer organisations must comply in order to be recognized are following:

- are incorporated as a general partnership, limited liability company, cooperative;
- when making decisions, each member can hold no more than 40 percent of the voting rights and the members democratically control their organisation;
- have personnel, infrastructure and equipment necessary to provide professional, material and technical support to their members;
- a producer of two or more agricultural products can be a member of different GPs and POs for each agricultural product;
- GPs and POs of agricultural products are recognized by the Minister of Agriculture, Food and Forestry in certain sectors.

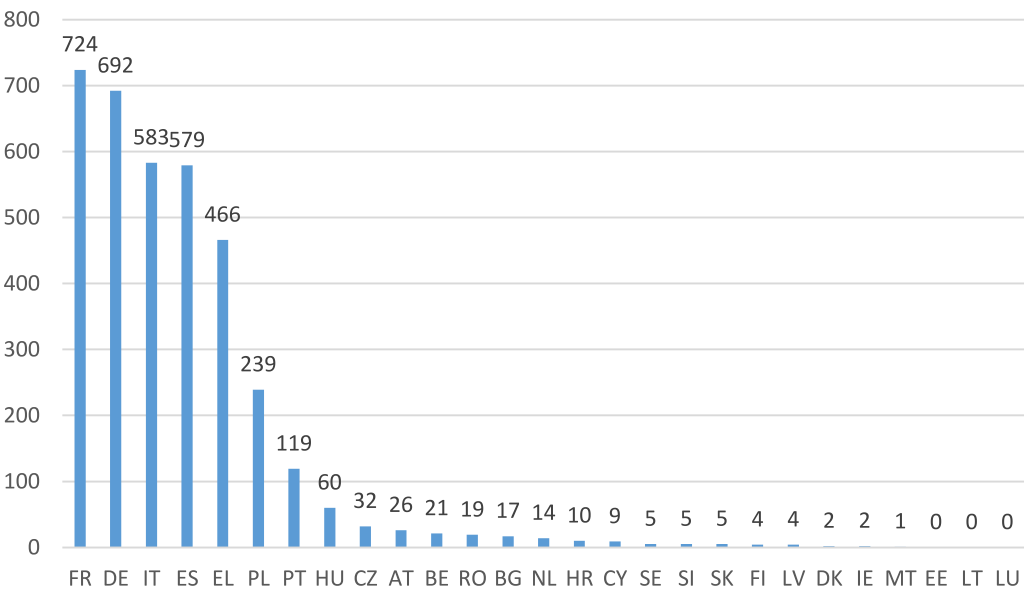
The difference in conditions for recognition by the Minister of Agriculture, Food and Forestry of producer groups and producer organisations consists in the fact that:

- producer organisations must consist of at least 6 producers of agricultural products for which recognition is requested, while producer groups must have at least 4 members;
- producer organisations that apply for recognition each year must offer on the market production worth not less than 50,000 BGN, while producer groups should offer on the market production worth not less than 25,000 BGN.

Producer organisations (GPs and POs) help farmers to cooperate in the processing and marketing of production. Producer organisations can provide farmers with easier market access and greater market power together with other actors in

the food supply chain. They can also contribute to mitigating economic risks by, for example, ensuring payment reliability and investment sharing. The cooperating in GPs and POs also helps to reduce transaction costs. The construction of such business structures is associated with opportunities for producers development in a given agribusiness sector. The popularization of cooperatives in Bulgaria following this method is an attempt to prove that the unification leads to development of producers in agriculture. EU recognizes the special role of producer organisations.

There are many farmers in EU who work on small family farms. This makes it somewhat difficult for smallholder farmers to protect their interests when negotiating with other actors in the supply chain. Accordingly, to strengthen the collective bargaining power of farmers, EU supports them by uniting in producer organisations. Producer organisations, in turn, strengthen producer bargaining mainly by improving marketing, information exchange, assistance in quality management, concentration of supply, etc. There are around 3,400 recognised producer organisations in the EU (as of 2017). They carry out their activities mainly in the sectors "fruits and vegetables", "milk and dairy products", "cereal crops", "oil-bearing crops", "honey and bee products", etc. Only three EU countries do not have any recognised producer organisation: Estonia, Lithuania and Luxembourg (Figure 1).

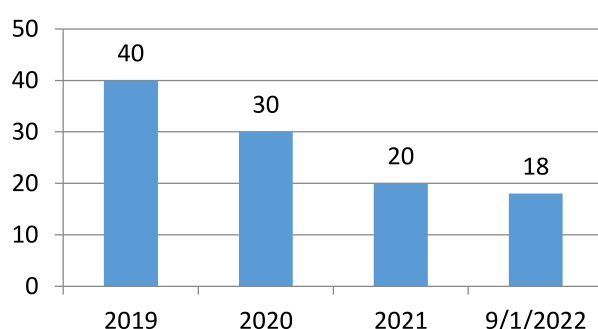


Source: ISAMM, 23 July 2018.

Figure 1. Number of recognized producer organisations by EU country

The chart shows that as of July 2018 France, Germany, Italy, Spain and Greece have the highest numbers of recognized producer organisations. In these countries, the unionization of farmers has a beneficial effect on producers in agricultural sector and its benefits are realized. France has the highest number of recognized producer organisations (724), followed by Germany (692), Italy (583), Spain (579), Greece (466) and Poland (239). In other countries such as Portugal (119), Hungary (60), Czech Republic (32), Austria (26), Belgium (21), Romania (19), Bulgaria (17), Netherlands (14), Croatia (10), Cyprus (9), Sweden (5), Slovenia (5), Slovakia (5), Finland (4), Latvia (4), Denmark (2), Ireland (2) and Malta (1), their application is in more low prevalence.

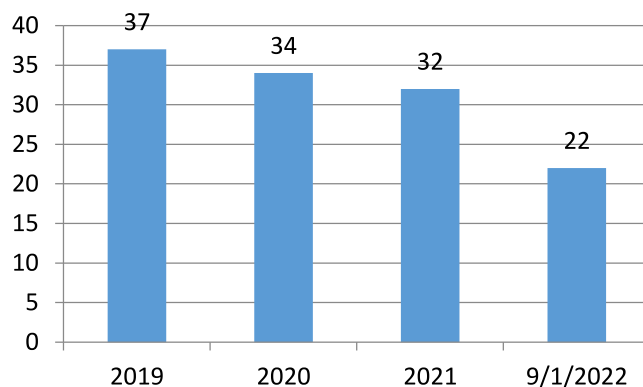
In order to follow the development of producer organisations in recent years in Bulgaria, it is necessary to study their number. The charts below show dynamics in number of both types of producer organisations recognized by the Minister of Agriculture, Food and Forestry in Bulgaria: producer groups and producer organisations (GPs and POs). The period for which changes were observed is for the last four years: 2019, 2020, 2021 and as of 1 September 2022. It is determined based on the latest data for EU countries as of 2018. Based on them, the trend in development of the number of recognized GPs and POs in Bulgaria has been established.



Source: Ministry of Agriculture, Food and Forestry.

Figure 2. Dynamic in the number of recognized producer groups in Bulgaria

Figure 2 shows that the trend for a four-year period in development of number of recognized producer groups in Bulgaria is decreasing. This demonstrates a lack of agricultural producers interest in the country to unite in such kind of producer organisations.



Source: Ministry of Agriculture, Food and Forestry.

Figure 3. Dynamic in the number of recognized producer organisations in Bulgaria

Figure 3 shows that the trend in development of number of recognized producer organisations in Bulgaria over a four-year period is downward, as is also observed in the case of recognized producer groups.

The reasons for a lack of interest in producer organisations in Bulgaria could be different. First of all, one of the reasons could be unstable economic situation in the country due to consequences of COVID-19 pandemic, since the study period covers the beginning of pandemic until now. Decreasing trend could also be driven by other factors such as farmers ignorance about direct benefits of their participation in such type of networks, as well as a lack of trust between farmers, processors and traders. In addition, lack of interest on the part of farmers could be the result of a lack of the necessary legal framework to stimulate association, a lack of up-to-date data on the dynamics of number of recognized producer organisations in the EU, a lack of funding opportunities, a lack of traditions, etc.

In Bulgaria, the State Fund "Agriculture" supports producer organisations by providing financial assistance under the "Operational Programmes" scheme. The support provided is aimed at increasing competitiveness and market orientation, reducing fluctuations in producers' incomes due to crises and increasing the use of environmental technology for cultivation and production. The scheme aims to unite together producers so that they can strengthen their positions in the market. Producer organisations that apply for recognition can apply for support under measure 9 "Establishment of producer groups and organisations" from the Rural Development Programme 2014 – 2020. The last procedure for receiving project proposals under this measure was in 2018.

Conclusion

The research identifies that in Bulgaria there is a lack of interest in the unification of farmers in producer organisations. This may refer the farmers' concerns about their uncertainty in expected results, financing possibilities, mistrust in current system in the country, etc. The importance of commented type of cooperation for the farmers development in other member states of the European Union raises the question of the need for additional research both on factors stimulating farmers unification in producer organisations and on prerequisites for increasing the sustainability of these structures in Bulgaria. It is important, for example, to what extent the provision of support opportunities by the State Fund "Agriculture" would increase interest of producers in agricultural sector in the country in this type of unification. In addition, a new acceptance of project proposals under measure 9 "Establishment of producer groups and organisations" from the Rural Development Programme 2014 – 2020 is suitable for considering impact of already implemented support under the measure on the dynamics in development of the newly created structures.

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