

## AGRARIAN ENTREPRENEURSHIP AND THE INSTITUTIONAL CHANGES IN BULGARIA

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The establishment of Bulgarian agricultural entrepreneurship in the framework of the European market, as well as the compliance with the strict requirements for both agricultural producers and manufacturers, necessitates certain changes in agricultural policy and the support of entrepreneurship on the branch, regional and national level. Entrepreneurship decision-making in agriculture is influenced by outside changes. Entrepreneurs do not generate these changes, but rather react to them. The aim of this paper is to analyze the impact of institutional changes facilitating the realization of the Common Agricultural Policy on the development of agricultural entrepreneurship in Bulgaria. The following tasks are to be carried out for achieving the above objective such as analyzing the state of agricultural entrepreneurship in Bulgaria; determining the impact of the institutions on agricultural entrepreneurship as a result of the application of the Common Agricultural Policy. The aim and tasks are to be completed by means of the following methods: induction and deduction, analysis and synthesis, systematic and historical approach, statistic analysis. As a result of the research, the study identifies the entrepreneurship's element in agriculture and outlines salient tendencies for its development.

**Key words:** institutions; impact; Common Agricultural Policy; tendencies; market

### АГРАРНОТО ПРЕТПРИЕМНИШТВО И ИНСТИТУЦИОНАЛНИТЕ ПРОМЕНИ ВО БУГАРИЈА

Естаблишментот на бугарското претприемништво во рамките на европскиот пазар, како и во согласност со стриктните барања на земјоделските производители и преработувачи, бара извесни промени во аграрната политика и поддршка на претприемништвото на гранката на регионално и национално ниво. Сето тоа е условено од надворешните промени. Претприемачите не ги генерираат овие промени, но реагираат на нив. Целта на овој труд е да се анализира влијанието на институционалните промени, олеснувајќи ја реализацијата на државната аграрна политика во развојот на аграрното претприемништво во Бугарија. Задачите кои следат се со цел постигнување на следните цели: анализа на државата и нејзиното аграрно претприемништво во Бугарија, одредување на влијанието на институциите врз аграрното претприемништво како резултат на апликација на заедничката земјоделска политика. Целта и задачите се комплетирани со користење на следните методи: индукција и дедукција, анализа и синтеза, систематски и историски пристап, статистички анализи. Како резултат на истражувањето е идентификуван елементот на претприемништвото во земјоделството и се предочени главните тенденции за неговиот развој.

**Клучни зборови:** институции; влијание; заедничка земјоделска политика; тенденции; пазар

#### INTRODUCTION

The desire for one's own business is characteristic of a big part of the population in each state. According to the tradition in Bulgaria this desire is directed towards the agrarian sector. The agricultural reforms after 1990 have had an unfavorable influence on the development of agrarian produc-

tion and led to its collapse. The small farms having low productivity, profitableness and competitiveness prevail in our country.

The confirmation of Bulgarian agrarian entrepreneurship within the frame of the European market and the accomplishment of the strict requirements to the production and the processing of

agricultural production impose changes in the agrarian policy and support on a branch, regional and national scale. Making an entrepreneurial decision in the agriculture is influenced by the changes in the exterior ambience. Entrepreneurs do not generate these changes but react to them.

The aim of this study is to examine the influence of the institutional changes helping the implementation of the Common agricultural policy for the development of the agrarian entrepreneurship in Bulgaria.

## MATERIAL AND METHODS

For achieving the aim the following tasks are solved such as analyzing the agrarian entrepreneurship condition in Bulgaria, establishing the institution influence on the agrarian entrepreneurship as a result of the Common agricultural policy implemented.

The methods, used for achieving the aim and solving the tasks, are induction and deduction, analysis and synthesis, systemic and historical approach, statistical computations.

## RESULTS AND DISCUSSION

The economy globalization and the accession of Bulgaria to the EU make the problem about the economic growth and competitiveness of the small and medium enterprises in the agrarian branch particularly topical. The narrowed domestic and the pretentious external market, the poor mechanization, fragmented property of the land, the low investment activity as a result of the chronic capital deficiency are only a part of the factors shaping the model of the contemporary agrarian entrepreneurship.

Its development is both a cause and a consequence of the agrarian branch condition. A summarizing index of the agrarian branch condition is the gross domestic production (GDP), created by it. In Table 1 the economic indices about the branch for the 2004–2007 period by years are presented as of 01.01 for each year.

The gross domestic production (GDP) for the 2004–2007 period by years varies slightly, which is typical of the branch as greatly dependent on the natural-climatic conditions, and tends to be stable rather than increasing. The labor productivity of a person employed in the branch in the period stud-

ied slightly changes and the average is about 4300 BGN which is almost 3 times less than that in the rest of the EU member states. A similar trend is marked by the land use index, measured by GDP per 1 ha – the maximum was at the beginning of 2005 – 672 BGN/ha, which was equal to about 336 Euros/ha, while for Romania it was 762 Euros/ha, in Hungary – 952 Euros/ha, Slovenia – 1859 Euros/ha, and for the first 15 EU member states – 2 203 Euros/ha. This is a serious proof that the use of agricultural land in Bulgaria is reduced to an extensive level – i.e. on the basis of natural fertility, and the crops grown give low profit. The capital use index – (GDP per unit of long-term tangible assets – LTTA, BGN) marks a trend of considerable decrease – it was lower by about 30% in 2007 compared to that in 2004. This proves that the assets and their value are increasing and the GDP is remaining the same and, consequently, the capital intensity in the branch is increasing, i.e. the assets are not loaded and are not used to their full capacity. The capital intensity influences the fund insurance which has increased by 40% for the period studied but has not contributed to the increase in the production manufactured and the labor productivity.

Table 1

### *Economic indices for the branch of agriculture*

Indices	Years			
	2004	2005	2006	2007
1. GDP, made by the branch, million BGN	3498	3581	3341	3415
2. Labor productivity – GDP per 1 employed person, BGN.	4341	4438	4171	4290
3. Land use – GDP per unit of surface area, BGN/ha	657	672	635	658
4. Capital use – GDP per unit of LTTA, BGN	14.7	10.4	12.3	10.1
5. Fund insurance – LTTA per 1 ha, BGN	44.6	64.3	51.8	63.0

Source: Statistical Handbook, issue 2005–2008, and computations

Only in the value of animal husbandry production as one of the components, forming the value of the agricultural production, an increase is observed. In Table 2 data about the structure of the agricultural production and an excerpt from the branch economic-accounts for the 2004–2007 period are shown.

Table 2

*Economic accounts about agriculture and structure of the branch production, million BGN*

Indices	Years			
	2004	2005	2006	2007
1. Production in the branch of agriculture	6765.7	6563.5	6789.0	6420.1
Including from the plant growing	3443.1	3183.0	3437.8	2986.9
From the animal husbandry	2125.0	2209.0	2169.8	2400.0
2. Gross value added by basic prices	3103.3	3020.2	3027.1	2459.3
3. Net value added by basic prices	2885.5	2764.3	2787.7	2227.1
4. Entrepreneurial income	2626.5	2513.8	2556.2	2120.6

Source: Statistical Handbook, 2008.

The main factor for the decrease in the plant growing are the unfavorable natural-climatic conditions which led to considerable losses in 2007. As a consequence of this a smaller volume of agricultural services connected with the crop harvesting was realized as well as a smaller volume of non-agricultural activities in the processing of the plant growing products. In 2007 the share of the different sectors in the value structure of the gross production from the branch agriculture was the following: plant growing – 47.2%; animal husbandry production – 38%; agricultural services – 6.6%; non-agricultural activities – 8.1%. The increase in the production value according to the current prices of the animal husbandry production is under the influence of the price factors – increase in the purchase prices. The total decrease in the agricultural production in 2007 influenced the decrease in the gross and the net value as well as the fall in the entrepreneurial income – compared with that in 2006 it decreased by about 17%, independently from the opening of the EU market to Bulgarian agrarian products.

The EU Common agricultural policy (CAP) is subordinated to the aim to preserve and increase the agricultural farms incomes. The change of the land ownership and the production means during the agrarian reform in Bulgaria has caused the dualistic structure of the agricultural farms. It is characterized by a big number of small non-commodity and semi commodity farms. According to the census of the agricultural farms in 2005, done by the Agro statistics department of the Ministry of agriculture and food, there are 534 613 farms covering an average surface area of 5, 24 ha. 515 300 (94.6%) out of them belong to physical

persons. Nearly 80% of the farms cultivate land up to 1 ha which represents less than 7% out of the total surface area. About 1.4% of the farms has more than 100 ha each and cultivates 70% of the land. In our country there are almost 2000 agricultural cooperatives and the average surface area, cultivated by them, is about 600 ha. The production of the farms belonging to legal persons is intended for the market. A considerable part of the production of small and medium farms belonging to physical persons is for their own consumption. They work in risky conditions because of the branch specific characteristics – the influence of the natural-climatic conditions, the land use, the animals and plants as main production factors – and in this respect they correspond to the definition of entrepreneur, formulated by the English economist R. Cantillon in his work “*Essay on the nature of trade in general*” (1775).

Y. Schumpeter (1982) noticed that the main factor engendering the economic development is the entrepreneur-innovator. Their role in the economic system is to cause inequilibrium and dynamism. The institutions lower the inequilibrium and the indefiniteness. They influence the economic results by decreasing the transaction and production costs.

The institutional changes in Bulgarian agriculture are the result on the one hand – from the underdeveloped market of farm land, and on the other – from the implementation of the CAP as a EU member state. These changes comprise the building of institutions, necessary for the functioning of the common market. According to the expert assessment the institutional changes in the sectors Grains and Milk and Dairy Products influence considerably the agrarian entrepreneurship.

The main instrument through which the grain market operates is the intervention agency. Its purpose is to prevent the drastic fluctuations in the grain price. The changes of its production volume depend not only on the climatic changes, but also on the innovations introduced such as new, drought proof sorts, construction of hydromeliorative facilities. The agrarian entrepreneurs have to put into practice the innovations, but the low market prices, resulting from the innovations, decrease the entrepreneurial income. In such cases the equilibrium between the demand and the offer on the grain market is restored by the interference of the intervention agency.

The institutional changes in the Milk and Dairy Products Sector as a result of the implemen-

tation of CAP and the quota system imposed are made through the creation of the National Milk Board and its regional branches. The quotas are distributed according to a historical principle – each husbandman keeps a diary of the milk produced during the year. The board grants an individual quota for the agrarian entrepreneur for each economic year on the basis of the quantities produced. The quota principle directly influences the development of the agrarian entrepreneurship. When there is a free quota deficiency there is no opportunity for new firms entering into this sector. This circumstance influences the competitiveness and creates conditions for monopolization of a determined number of firms which, independently from their production efficiency, possess quotas. On the other hand – the quota application challenges the entrepreneurs to introduce innovations which lead to decrease in the milk price, to productivity increase and competitiveness increase in the sector.

A research of European marketing companies has shown that in the first 15 EU member states consumers are buying Bio labeled products more and more often. Products bought most often are yoghurt without artificial flavors, sausages without preservatives, “free-hen” eggs and non-processed fruit. In 2007 the European citizens’ expenses for bioproducts have increased by 21%. They are not worried about the higher bioproducts’ price which is justified by the complex production. Bulgaria has all the conditions for the development of such production by the renovation of original Bulgarian breeds, technologies and products which reflect the specific natural conditions in different regions in our country and can rise the production efficiency and the animal welfare (Kostadinova, 2003).

### CONCLUSION

As a result of the research done the following conclusions and recommendations about the development of the agrarian entrepreneurship and the institutional changes in Bulgaria can be made:

– A considerable part of the agrarian entrepreneurs are not acquainted well enough with the CAP mechanisms about the support of the agricultural farms. The development of the information network, the training of the entrepreneurs and the advice for them will enhance their access to the social support.

– The majority of the agrarian entrepreneurs do not have at their disposal the necessary assets

which guarantee high productivity and compliance with the market requirements for production, quality and safety. Because of the deficiency of financial means they cannot apply in the framework of the measures for the development of the agriculture and the rural areas.

– A big part of the entrepreneurs–managers are near the pension age, or are pensioners. They do not have the opportunity for training and the necessary flexibility to respond to the dynamic changes of the institutional and market ambience. In order to adapt and expand their activities they must integrate and cooperate, change the production structure and participate in projects for agrarian and rural development.

– The CAP implementation aims at the price equilibrium on the market of agrarian products, at the consolidation of the farms – this leads to a better assimilation of the European funds which is prerequisite for the competitiveness enhancement.

The entrepreneurial experience and skills are a factor considerably influencing the development of the agrarian production. The institutional changes as a result of the CAP implementation are of primordial importance for the social support enhancement to the agrarian entrepreneurs. Through progressive technological changes and innovations they can create conditions for efficient reproduction and adaptation to the requirements of the market and institutional ambience.

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