

Co-operatives in Bulgaria

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The Co-operative System in the Transformation Process

Similar to what is or has been happening in other former socialist states of Central and Eastern Europe, Bulgaria is also faced with the challenge of performing a comprehensive transformation in its social, political, economic, and legal systems, and this within a relatively short time-span. During this process of transformation, many of the existing institutions inevitably fell under suspicion because of their association with socialism. Because the Bulgarian co-operative system was neither able to adjust nor even permitted to ignore the process, it is being forced to restructure itself, correspondingly. The first step in this paper is to present the requirements and challenges that existed before the transformation process began, to depict how it has proceeded until now, to determine which factors are exerting an influence upon it, and finally to search for solutions to currently existing problems.

In order to be able to better evaluate the Bulgarian co-operative system, its present situation, as well as potential future difficulties and opportunities, it is first necessary to describe the political, economic and social frameworks for the development of the co-operative system in the transformation of Bulgaria.

1. Bulgaria's Status quo from Political, Economic, and Social Perspectives

Following the latest elections of 18 December 1994, only four out of the previous 150 parties are represented in Bulgaria's Parliament - as coalitions:

1. the coalition of the democratic left, supported by the Bulgarian Business Block (BBB) and dominated by the Bulgarian Socialist Party (BSP) - which represents the followers of the Communist Party;
2. the Alliance of Democratic Powers (SDS), to which 15 groupings belong;
3. the People's Union consisting of two historical parties (the Democratic Party and the Bulgarian Agricultural People's Union [BSNS]);

4. and the Movement for Rights and Liberties (DPS) representing the interests of the Turkish minority.

Presently, the Socialist Party controls the absolute majority in Parliament, and therefore is able to rule without having to regard the opposition's interests - and that is what is actually happening. Political debates in Bulgaria are filled with great passion and emotion. These emotionally led discussions, sharp attacks and heated confrontations as well as increasingly frequent exchanges of political opinions from both fronts characterise the working day of the members of Bulgaria's parliament. Here especially, political matters being disputed get blown up into vital questions continually heating up the discussions which, in turn, makes it ever more difficult to reach compromises. An agreement upon fundamental questions such as domestic and foreign policy, a future transformation strategy, membership in the EC and NATO, or how to deal with the countries of the former Soviet Union is not only barely recognisable from the outsider perspective, but from within the government structure as well, whereby each consecutive change of office requires a clear definition of political intentions.

In the beginning of 1995, the new socialist government took office. Comparatively speaking, this transition occurred under rather reasonable economic and political conditions with the new government being able to count upon a broad consensus among the population. The growth in industrial production in 1994 was 8.6% of GDP, having risen by 1.4% on last year's figures. For the first time since the beginning of transformation, a positive balance of foreign trade was achieved by the end of 1994 ("Standard" 1996: 20). Foreign policy was characterised by good contacts with the European Community and the US, while the relationship to the GUS states suffered. Right at the beginning of the period of socialist rule, the government surprised everyone with two rather special official actions:

1. The first was the publication of the so-called "White Book", concerning the state of Bulgaria in which all blame for the economic crisis experienced from the very beginning of the transformation process was placed upon the SDS government.¹

1 Doubtless, the SDS government took the opportunity during its rule to make grounded critique. In the White Book, it is not kept silent how the communists and then the socialists since the collapse on 11 Oct. 1989 with the exclusion of the year-long ruling of the SDS were in power during the times of economic crisis and/or enacted influence upon the ruling powers. In the Fall of 1990 following the election win in June, the socialists had introduced the "gradualism" as the new course of reform. Thereafter, the SDS government replaced this on advise from the Americans with the strategy known as the "shock therapy". This measure was enacted in a political environment in which the Democrats were barely able to win against the strongly organised Socialist Party, that had great connections with the economy.

2. The second was the withdrawal from the radical course of reform chosen by the SDS to make way for the introduction of a controlled transition towards the market economy.

This controlled transition was obviously understood as the return to centralised state control and the totalitarian system of leadership, but also included the creation of an acquisitive potential for certain economic groupings.

The next step taken in just about every sector was the replacement of management in middle and higher positions. At the beginning of 1996, many factors pointed towards a renewed entanglement between the Socialist Party and all important branches of the economy and management. Little if any stimulus towards the establishment or further development of market-oriented companies was offered by the surrounding economic and political parties: the debtor's interest rate is presently at 108%; the national currency continues to experience ever increasing deflation;² and taxation policy is seen as free enterprise's biggest enemy.³

At local elections back in October of 1995, the opposition took another bad defeat. Made up of parties and coalitions of various orientation, at the beginning of the transformation process they were still bound to one another by the idea of combating the Socialist Party together. The many faceted political entanglements during their period of rule (1992-1993), however, drove the different political groupings further and further apart making it ever more difficult to gather a consensus (regarding political direction) in order to continue the fight. Correspondingly, aside from having taken a bad defeat at the local elections mentioned above, though the coalition was able to create doubt about the competence of the ruling party, it failed to convince others to cast their votes of no-confidence. Today, however, it appears that the opposition has come to learn from the mistakes caused by internal conflicts - which led to the defeat at the last local elections - in that they are showing a willingness to forget about their personal rivalries and overcome these by pooling their resources. Recently, the opposition has shown a growing unity in its appearances. This might be attributed to the model of the Socialist Party, which despite its own internal conflict of opinions, has always appeared united, and continues to do so.

2 For example, the national currency experienced a great deflation. The exchange rate of the Leva in comparison to the German Mark fell 250% in the first seven months of 1996.

3 On account of the law concerning taxation of profits (*Sakon sa danak varchu petshalbata*), company profit up to 2 million Leva is to be taxed with 32.5%, and profits exceeding 2 million Leva with 42.5%. In addition to this, re-invested profit is not recognised as costs, which means that it has to be taxed, similar to the case with the cost of sanitation measures.

Although the political turn-around had initiated a wave of enthusiasm and hope even for the rapid achievement of the Western European standard of living, six years down the road, Bulgaria's population finds itself confronted with an incomplete, barely systematic legal framework as well as seriously poor, economic developments. The economic situation is characterised by an industry that has been plundered, a ruined agriculture, banks with a number of so-called bad credits⁵, and a trade sector plagued by product piracy and other forms of criminal manipulation. Added to this is the high rate of inflation⁶, and although this is being denied by the Institute for National Statistics⁷, it is very much being felt by the people. Furthermore, an overvaluation of the Bulgarian currency and the resulting anticipation of hyper-inflation led to a panic situation, causing capital flight from Bulgaria - this capital was invested in Western European and American currencies. Slow working state institutions, a rapidly growing crime rate, corruption, numerous environmental problems, the unending poverty of the population, a strongly politicised church and an overall decline in working morale intensify the worsening situation in Bulgaria today; and this rather visibly. Altogether, through these factors and countless others, both the Bulgarian peoples' readiness to accept further changes in hope of better future living conditions - without actually being able to see the consequences - and their faith in state institutions have completely disappeared. With this as a background, it is neither surprising to see the changes in mentality needed for the planned societal transformation occurring rather slowly, nor surprising to see the conditions, which once existed under the socialist era, paradoxically being regarded in a rosy light. Consequently, movement towards the creation of an antagonistically bi-polar model society can be clearly seen and felt.

In this especially problematic political, economic and social environment, co-operatives are fighting to survive and create for themselves a new identity and a new self-understanding.

5 In April/May of 1996, these led to a liquidation crisis, and in turn to the closing-down of many banks. The Population lost their faith in the banking system, and what resulted was the withdrawal of 500 million US-\$ and several million Leva (compare here Dimitrov 1996: 42).

6 In the first eight months, this was already in the three digit range.

7 In comparison, the union's statistics gave a number equal to twice that reported by the institute for national statistics.

2. Historical Overview and Starting Position

In Bulgaria, the tradition of the modern co-operative system stretches back over a hundred years. Until the end of WWII, this was characterised by a wide variety, a carefully constructed and functioning organisational structure, a universal occupations, and close contact with the co-operative systems in German-speaking countries.

From the very beginning, the spectrum of co-operatives in Bulgaria was marked in particular by co-operative credit institutions. Then came the agricultural co-operatives and the industrial/trade co-operatives, which were both already well-established. Surprisingly enough, little importance had been attached to the consumers' co-operatives. Despite many attempts to establish producers' co-operatives, these appeared only in the shadows of the others - in regard both to production and an economic perspective. Co-operatives penetrated all aspects of life in that society: the economic, the social, and the psychological aspects. At the end of 1944, there existed 4,114 co-operatives with an overall membership of 1,625,515; not forgetting 72 regional and 19 Federations (Statisticheski Godischnik 1947/48: 207). Practically every household enjoyed membership in one or more of the co-operatives (Palasov 1946: 325).

Socialism, with its policy of nationalisation, reconstruction and transition, practically wiped out the variety of co-operatives. In the end, only the consumers' co-operatives were left with their respective associational structures¹⁰, and these were consistently instrumentalised by the interests of the state, which ultimately stripped them of their co-operative foundations. Beyond that, there were also some handicraft producers' co-operatives that were organized as a single producers' co-operative. All of these co-operatives functioned as "pseudo-state operations."

3. Legal Framework for the Development of the Bulgarian Co-operative System

A detailed representation of the legal framework for co-operatives' functions cannot fundamentally be restricted exclusively to those laws directly relevant only to co-operatives: the co-operative law; the law on property rights and usage rights of agricultural land (property law); and the law regarding banks and the overall credit system (banking law). Yet, it appears to be necessary to proceed in this fashion, because if one were to put forward other relevant laws - the general law

10 In 1987, 395 consumers' co-operatives still existed.

concerning economic and social legislation - this would damage the general framework of this contribution.

The first Bulgarian Co-operative Law was passed on 18 February 1907. Apart from a few amendments made to it back in 1911, the law remained in force for 37 years until 1948 when a new co-operative law was passed to reflect the new socialist political and economic course. After several amendments closely following one another, the law was annulled and replaced by a completely new one.

This law is very brief and in essence refers to all important questions which should be answered by order of the Council of Ministers. In this way, interference from the state and Communist Party would be made legitimate. The law about the co-operative organisations from 1 January 1984, however, rendered these regulations obsolete.

Before the end of perestroika (from mid-1987 on), there were approximately 20 different drafts for a new co-operative law, but none were passed. This condition repeated itself many times immediately following the political collapse until a single new co-operative law was finally put into force on 29 July 1991. The new co-operative law is really more of an organisational law, that in addition establishes the goals of a co-operative and upholds the understanding of co-operatives as self-help institutions. It includes the following:

- the definition of a co-operative as a purely promotional organisation for its members (§ 1 (1));
- the essential co-operative principles;
- the admission of all types of co-operatives and permission for these to carry out any function that is not exclusively forbidden in co-operative legislation;
- the guarantee of protection from any and all state interference, but specifically against the government party involvement in a co-operative's inner organisations and functions;
- stress on the importance of the personal character of co-operatives in many single regulations;
- the understanding of the co-operative associations as assisting institutions;
- the recognition of the principle legality of the claims - from existing co-operatives as well as re-established ones - upon all assets expropriated after 1944.

Hereby, the formal, legal foundations for a new co-operative understanding are based on the western model. However, the fact that this obviously combines diverging ideas of several different Western European co-operative laws proves

to be problematic.¹¹ Additionally, the law texts reflect quite clearly the differing opinions concerning the special interests of individual political parties. Because of this, a practical transition will inevitably run into these major difficulties:

- obligatory membership of the co-operative associations is missing, and this together with § 37 (5)¹² in turn led to the establishment of 2,000 fictitious co-operatives¹³ making it possible for influential persons to manipulate (Todev/Brazda 1994: 44ff. and Mavragiannis 1992: 12) them for rapid personal financial gain. To avoid further abuse or fraudulent use of co-operatives, the legislator decided to add precision to this regulation with the amendment of June 1992 (Darzaven vestnik 1992).
- in § 1 (1) of the complementary regulations, the legislator recognises the principle legality of the claims of the existing co-operatives as well as re-established ones upon assets that had been confiscated and nationalised on 10 September 1944. Nevertheless, they failed to establish a clear definition of the so-called "re-established" co-operatives and their co-operative associations. This led to many such co-operatives and co-operative associations registering themselves under the same names and addresses in order to be able to lay claim to the confiscated assets.
- the credit co-operatives have yet to impose a regulated function, resulting in big problems.
- The law prohibits the associations from carrying out any economic function, thereby leading to the present problematic situation in which old and new associations are treated unequally. While the new institutions are unable to perform any real function, the older associations are actively participating in the economy without any opposition. Problems thereby arise out of two perspectives: the first is that because they are still permitted to carry out their functions, the older co-operative associations are financially better resourced; and secondly, diverging interests in this way develop between the old and new associations, and this is damaging to the overall co-operative movement. Benefitting from the economic security which associations represent, it would seem fundamentally logical and sensible to permit these

11 The co-operative law was established with the help of many domestic as well as foreign institutions without exactly copying the original one, the German Co-operative Law.

12 "Co-operatives formed by handicapped persons and school-pupil co-operatives are free from all taxes and other fees."

13 Decision of the committee of the Central Co-operative Association concerning the activity report of the elected directors of the Central Co-operative Association and protocol of its controlling performance in the period between the 10th and 11th Congresses of the Federation of Co-operatives (ZKS 1995a: 4).

to perform their corresponding functions and to participate in business, as long as their activities relate to historical tradition.

- there is a restriction put on membership of co-operatives. Only natural persons may become members of a co-operative. These regulations stem from the argument that the co-operative has come to exist for the joining together of natural persons. In this case, however, the special development of the Bulgarian co-operative system and the Bulgarian legislation is not taken into account: since the existence of co-operatives in Bulgaria, legal entities have also become members. The first Bulgarian Co-operative Law of 1907 recognised (in §3) legal entities as members of co-operatives.
- the potential membership for the semi-co-operative enterprises is also restrictive. Only co-operatives may realise the membership function. The Co-operative Law of 1984 accepted not only co-operatives and their associations as potential members, but also co-operative enterprises.

Many amendment drafts already exist and even a complete new version of the co-operative law. However, it remains unforeseeable whether or not a reform will actually take place. If so, there is great concern as to how it would turn out, as the interests of most parties would be affected.

A good political battle can always be expected concerning the property law. As a rule, each majority fraction in Parliament makes an amendment to this law as its first action following a change of office. Inside of only five years, this law has already been amended thirteen times; of which four times fundamentally.

Great importance is attached to this law from the perspective of co-operatives, as it also regulates the landed property of agricultural co-operatives. According to the opinions of the Socialist Party, co-operative property remains a form of communal property. Therefore, agricultural producers' co-operatives are the most suitable type of organisation for the transformation of the agricultural sector. The interests of the Socialist Party are connected with this, i.e. to maintain their positions in rural districts. For these reasons, they vote to retain the concentration of crop acreage and the preservation or new establishment of agricultural producers' co-operatives. The last two proposals to amend this law (April 1995 and June 1996) made by the socialist majority in parliament even represent a step towards the recollectivisation of parts of Bulgarian agriculture. Though the Bulgarian President returned the amendment proposal from 1995 to Parliament, it was passed by the Bulgarian Parliament a second time. Following that, the Constitutional Court rejected many of these amendment texts as unconstitutional, resulting in a new struggle to draft another amendment or new version. A solution to this problem cannot yet be seen. Furthermore, in the meantime, the violent

battle and related legal insecurity¹⁶ are providing for further decline in the agricultural sector, thus causing a blockage in agricultural reform. To mention a further set-back, the amendment from July 1996 suffered a similar fate: namely, it was returned to Parliament by the president for the following reasoning:

- ambiguity in several of the text passages;
- the hesitation, even cancellation of the restoration of landed property and facilitation in the creation of agricultural producers' co-operatives;
- restriction of the landed property law;
- the delay in initiating the reform.

Even for the credit co-operatives, the temporary activities were becoming rather problematic, as their existence in banking law is not regulated. Since mid-1995, there have been two essential drafts for an amendment to the law, each differing fundamentally from each other. The first relates to the establishment of a new credit co-operative, requiring a nominal capital of 13 million Leva (6.5 million until the end of 1995), and a minimum of at least 100 members. The second goes beyond it by regulating the setting-up of each single credit co-operative as well as its activities. As long as the majority in Parliament gives its support, the first draft should eventually get through the slow working Bulgarian Parliament - in other words, it is most likely to be passed. Because the second proposal has to be integrated into the co-operative law (meaning that an amendment to the co-operative law will have to be made) it will be a long time in Parliament. As a matter of fact, this problem has awaited a legal solution for over a year, and since the decision has been delayed again, the problem still requires clarification as of September 1996.

4. Co-operatives in the Commercial Sectors

The traditional trades with their independent labourers were completely done away with during socialism. As this sector is presently still quite underdeveloped, the chances of establishing co-operatives are good, especially in sales and purchasing.

Recently, in order to reduce the permanently rising rate of unemployment, state operations either on the verge of bankruptcy or awaiting dissolution were trans-

16 A discussion broke out under the respective responsible jurists as to which regulation was valid at the moment. While the one side considered the regulation from the previous year as valid, the other side was of the opinion that a "blemish", or mistake had arisen in the old regulation, and that therefore the immediate passing of a new regulation would be absolutely necessary.

formed into producers' (workers') co-operatives. Although many of these new co-operatives are in a position to function efficiently under market conditions, a prognosis for the future of this type of co-operative cannot yet be made.

4.1 Commercial Producers' Co-operatives

Since the political collapse, a process has been initiated to re-instate the nationalised commercial producers' co-operatives with their associative structures, and to decommission existing co-operatives. In this way the group of commercial producers' co-operatives came into existence with three levels structured from top to bottom in accordance with the principle of co-operative support. Their foundation includes 293 commercial producers' co-operatives - 29 of which are controlled and operated by the physically handicapped. Upto now, the second level has consisted of 16 revitalised regional alliances. At the third level of the national apex organisation sits the Federation of Commercial Producers' Co-operatives (Zentralen Sajus na Trudovo Proisvoditelnite Kooperazii). Beyond that, others belonging to the group of commercial producers' co-operatives include the foreign trade centre "COOPIMPEX", which is being liquidated, and an investment fund for participation in voucher privatisation.

Though the number of these co-operatives and along with it the number of member co-operatives of the Federation of Commercial Producers' Co-operatives has shown a rising tendency (see table 1), they have encountered - and most likely will continue to encounter throughout their fight for revitalisation - many legal and technical problems that are hindering this process. Among these problems is the lack of a definition for the technical expression "re-established co-operative" or "re-established association". This did not pose any great obstacle in the beginning of the process; meanwhile, however, it is causing great difficulty in the registering of re-established co-operatives thus leading to long delays or more bureaucratic opposition (Federation 1995; Doklad 1995: 4f.).

Table 1: Number of Co-operatives with Membership in the Federation of Commercial Trade Producers' Co-operatives

Year	1988	1990	1991	1992	1993	1994	1995
members	139	148	197	298	308	312	322

Source: "Organisation" Department of the Federation of Trade Producers' Co-operatives.

The existing and re-established commercial producers' co-operatives initiated the reform by concerning themselves with the restitution of their (expropriated) assets. While the former are practically finished with this process, the latter are

fighting against some technical organisational problems. Additionally, several of these co-operatives - those that still find themselves in the middle of the process of restitution - do not perform an economic function, because they are only recorded in the general register of enterprises and possess no capital. Other problems connected with the existing co-operatives are as follows:

- *Revitalisation of the identification principle* (between member and co-operative): In reference to this, there exists another process, that of the so-called personification of co-operative capital and wealth (assets) which is moving forward with differing intensity. This process distributes the investment capital according to the amount of subscribed business shares (deposited) and the length of membership, whereby more importance is placed upon membership. Until June 1995, this process had been completed in 43 co-operatives; in which the share of business for each member now lies between 20,000 and 310,000 Leva (Doklad 1995: 19-20). In order to avoid a continual flow of capital away from co-operatives through the growing cancellation of memberships, the distribution of co-operative shares depends largely upon the conclusion of the General Assembly, the maintenance of 51% of the individual owner's capital as co-operative property and the creation of reserve funds equal to at least 20%. From the socialist economic theory, co-operative property was considered merely as a type of communal property. During this period, business assets were only symbolic, with dividends playing no role whatsoever. Still today, there are countless advocates of this opinion who favour such a development ("Kooperazija" 1993: 5) of commercial producers' co-operatives, because in this way they can influence the decisions of many other co-operatives as well.
- *Size of operations and number of members*: Some of the operative units are simply too large while others are too specialised. Since the political turning point, there has been a noticeable tendency towards a decline in membership and employment (1988: 427; 1989: 378; 1990: 323; 1991: 232). However, the number of members is still too high for the organisation of a producers' co-operative - besides, the improvements in productivity coupled with the adaptation of a production programme to meet the demands of a shrinking market has required considerable further reductions in the workforce of these companies. This is made clear by the development of workers' wages, which for the co-operative members is 2-4 times lower than the average industrial wage during the past 3 years, even undercutting the minimum wage²⁰ (Federation 1995: 4-6). This, in turn, leads to additional instability.

20 Only for producers' co-operatives of the Federation of Co-operatives.

- *Qualifications:* An analysis conducted by the Federation of Commercial Producers' Co-operatives investigating the causes of countless insolvencies in this sector has proven that many of these insolvency cases are directly related to the qualification and personality structures of the co-operatives' managers and members alike. A mere 16% of middle and higher management personnel possess an academic education while less than half (only 43%) of the workers completed a primary school education (Federation 1995: 24). For this reason, the federation has taken over the responsibility of seeing to the basic training and higher education of the current personnel in a co-operative effort with domestic as well as foreign universities. Surprisingly, however, participation in such higher education courses is very low, indicating a simple lack of interest (Federation 1995: 25f.).

Over 60% of all commercial producers' co-operatives are actively involved in the differing branches of the labour industry; mostly in clothing, textiles, wood production and processing.

4.2 *Associational Systems*

Seated in Sofia, the Federation of Commercial Producers' Co-operatives is the apex organisation representing the commercial producers' co-operatives. It was revitalised in 1988 as the successor to the General Association of Producers' Co-operatives and Handicraft Co-operatives, which was established in 1950, and stems from the Federation of Producers' Co-operatives established in 1919.²³ The federation is responsible for representing the economic political, economic, legal and taxation interests of its members before Parliament, the government, various ministries, and other public officials. It provides its members with consultation services for questions regarding taxation, legal matters, business administration and general questions concerning the economy, supports a central information service and is involved in the distribution of the journal "Kooperativen Pregled" (Co-operative Revue).

Presently, the federation is focusing on helping to revive or re-establish the original regional federal structure and that of the co-operatives within the framework of the restitution of nationalised co-operative property. Further goals include achieving judicial recognition of corresponding regional federations as the actual successors as well as carrying out the responsibilities granted to them by law. The majority of the regional federations and over 200 co-operatives with

21 §1(2) of the Constitution of the Federation of Commercial Trade Producers' Co-operatives from 1993.

overall assets of more than 1 billion Leva were recognised and granted restitution with its help. In some cases, the federation even conducts the company audit, though not compulsory for its members.

At the regional levels, commercial producers' co-operatives are members of the revitalised regional federations. They are responsible for taking part in the consultation and management of a co-operative, but as they too are still in the process of establishing themselves, their role is quite modest.

5. Peoples' Banks (credit institutions in the legal form of co-operatives)

The re-establishment or new establishment of national banks began just a short while ago. At present, there are 45 new ones with many others still waiting to receive licenses. Fundamentally, these are meant to function as universal banks, but many are experiencing difficulty in generating the base capital required by banking law. Because of this, they are not recognised by the court and central bank as real banks, and therefore are not permitted to carry the title of banks, which is why most of them operate under the title of the 'people's bank'. Many of these "pseudo banks" have to fight against the problem of their re-establishment not having followed written procedure, and so countless await court decisions which threaten to shut them down or suspend their operations.

Aside from the reconstruction of primary levels, the federal structure will also be re-established. In connection with this, three centres have been created, and these are eager to take over the role of national associations. The association registered in the city of Veliko Tarnovo is very active in the north-eastern region of Bulgaria. An additional association seated in Plovdiv is active in Southern Bulgaria. Beyond this, one association founded in the summer of 1995 and seated in Sofia hopes to operate throughout Bulgaria, and is, therefore, putting great effort into bringing all the national banks and people's banks under one roof - even though the two older associations had already made a better start in this respect. Following a phantom existence and many problems, this association has in the meantime become functional again.

A recent occurrence which has given the population a rather negative opinion of peoples' banks and the co-operative system as a whole was the row over financial scandals which have surfaced within the past months, in which a large part of the Bulgarian people were cheated out of a billion Leva. The roles that individual peoples' banks played in these scandals characterised as "finance pyramids" is being investigated presently - in turn feeding the population's mistrust in these types of institutions.

6. Co-operatives in the Agricultural Sector

6.1 *Agricultural Supply Co-operatives*

The new legal framework for the creation of agricultural structures in the market economy shows great weaknesses and also provides for further instability by requiring continual amendments. Their practical conversion or transition is running into difficulties, and because of this, many newly established operations (mostly family farms) are suffering greatly. Only about 50% of land and property had been re-appropriated by May of 1996. In addition to this, great distances have evolved between land owners (or the inheritors) and their land because of the flight of the rural population occurring over the last few decades - resulting ultimately in the lack of a market for land. As a result of the delayed new establishment of smaller and middle-sized family farms and individual farms, only a very few number of agricultural supply co-operatives have been established.

6.2 *The Group of the Agricultural Producers' Co-operatives*

In the course of adapting agriculture, the group of agricultural producers' co-operatives, formed by itself, consists of three levels. On the first level, these groups operate individually. The second level is made up of regional federations, and the third level is the apex organisation known as the Federation of Agricultural Co-operatives in Bulgaria (*Sajus na Semedelskite Kooperazii v Balgarija*). Other institutions belonging to this group are the "Semedelska i promischlena banka" (Agricultural and Industry Bank AE), the trade centre "Semja 96" ("Earth 96" AE) and four investment funds for participation in the voucher privatisation.

6.2.1 *Agricultural Producers' Co-operatives*

During the course of the adaptation process in agriculture, three types of producers' co-operatives came into existence. These are:

- *(real) producers' co-operatives*, in which members have already received their property titles for bounded land. These types represent a continuation of the co-operative tradition established in the middle of the 1930s – that of the mutual or shared cultivation of land.
- *(fake or imitation) producers' co-operatives*, in which the members are given their rights to land and property only in ideal shares of the co-operative fields. These were mostly initiated by the Socialist Party and still exhibit characteristics of the old agricultural producers' co-operatives; what is new is the criteria for the distribution of profits, which is measured not

just by the work accomplished but the quality and quantity of the land brought into the co-operative as well as invested capital.

- *(mixed) producers' co-operatives*, whose member groups and members themselves include the actual as well as ideal shares.

The number of the (real) producers' co-operatives has remained very low until now while many of the imitation and mixed kinds of co-operatives have set up. There are examples, however, that show that the former can compete on the market with relative success. Of these different types, there is clearly a surplus of (imitation) and (mixed) producers' co-operatives - also presently known as *Orsov* co-operatives.²⁴ Nevertheless, their future is uncertain due to the fact that, in many cases the co-operative managers attempt to get rich at the expense of the co-operative members. Besides that, many of these co-operatives produce no profit indicating either unfavourable conditions on the market, or the withholding of profit. In both cases, it is doubtful whether or not the member community will stay faithful to their co-operatives under such conditions. Furthermore, following the successful return of remaining land and property in real boundaries and the creation of a real land market as well as the passing of a characteristically western property law, the necessary conditions for the establishment of other organisational forms have been laid down. In reality, however, specific difficulties arise because the (real) and (imitation) co-operatives seldom appear as prototypes. Instead, there are mixed forms under these that prevail, and their inhomogeneities cause many conflicts of interest among the different member groups, which may strongly affect their chances of survival.

Company property of producers' co-operatives does not merely consist of the common cultivation of land, the raising of livestock and/or the production of agricultural products, but also storage, modernisation, processing and sales as well as the management of subsidiaries. Therefore, a trend towards the multi-purpose co-operative seems to be appearing.

6.2.2 Federal and Associational System

Parallel to primary level start-ups, there have been similar occurrences on the secondary and tertiary levels. Until now, however, these have functioned as organs of interest in representation and consultation without having exercised any economic function. As most of them find themselves in precarious financial situations (only 15% of the member co-operatives have paid their associate contributions for 1994 to the federation), there have already been many attempts

24 The expression stems from its intellectual founder and supporter, a jurist and member of Parliament of the Socialist Party named Zlatomir Orsov.

made by these associations to start up their own operations. A lack of specialists and know-how not to mention the proper equipment, however, still seems to present the majority of these associations with problems; therefore, they continue to occupy or lead an informal existence. By May 1996 1,456 out of approximately 3,000 agricultural co-operatives with an overall total of 946,000 co-operatives²⁵ had become members of the federation.

On 19 Oct. 1994, the *Semedelska i promischlena banka AD* with its seat in Sofia was established as a universal bank for the financial support of these agricultural co-operatives and for Bulgarian agriculture in general, i.e. its related industrial branches and companies. Because the bank was established through figure heads and because its name is connected with several scandals - some of which reflect the private interests of the government boss' so-called "circle of friends"²⁶ - all investment funds established under their supervision were liquidated upon a court decision in April 1996.

"*Semja 96 AD*", a trading centre based in Sofia, was established on 14 June 1996. This centre is responsible for the purchasing, distribution and sales of agricultural means and products.²⁷ It was established by 50 agricultural co-operatives and regional federations along with the union of agricultural co-operatives in Bulgaria. Legal entities not having a direct connection to co-operatives may also be members, as long as they have some relationship to the agricultural sector.²⁸ At least 70% of the registered shares remain the property of the agricultural co-operative groups.²⁹

7. The Consumer Co-operative Group

The consumer co-operative group was the only group to have survived under socialism, but was decommissioned during the political reform. Its foundation is made up of consumer co-operatives with their part-local, part-regional field of activity, and several producers' co-operatives as well. The second level of the consumer co-operative federation network is represented by regional unions that have transferred a part of their economic responsibility to regional centres whose capital is shared in part by primary consumer co-operatives and the regional

25 According to information given by the Federation of Agricultural Co-operatives in Bulgaria.

26 40 natural persons from this circle controlled 35% of the bank's overall shares. These persons make up but 3% of all stock-holders.

27 Constitution of the trade centre, "*Semja 96*" §1(1).

28 *Ibid.*, §1(2).

29 *Ibid.*, §9(1).

federations. At the third level, which also represents the top level, sits the apex organisation - the Federation of Co-operatives (Zentralen Kooperativen Sajus - ZKS), located in Sofia. Parts of its economic functions have also been delegated to central institutions. Other members of this consumer co-operative group are several middle-sized and larger organisations carrying out specific economic functions and offering specific services. Usually, these associative companies are subsidiaries of the ZKS, the regional associations and their central institutions. Beyond this, the branch union "BENA" along with its 28 producers' co-operatives, producers of alcohol-free beverages, also belong to the consumer co-operative group. And furthermore, the Central Co-operative Bank (Zentralna Kooperativna Banka AD), also based in Sofia, with its branch network and KOOPMIK-intermediary company for insurance business, is another member of the consumer co-operative group. In contrast to the situation under communism, the general development of this consumer co-operative group is occurring from bottom to top based on the *subsidiarity* principle, i.e. help for self-help, self management and self-determination; assistance from the state only sought and granted when absolutely essential to the continued existence of the co-operative.

7.1 Consumer Co-operatives

The consumer co-operatives are having to deal with the following problems:

- *Company size and number of members*: The period following the social, political and cultural change was very much characterised by a strong deconcentration of the consumer co-operatives that had developed under communist state control (compare Table 2). This deconcentration had principally been initiated by the members. There were, however, initiatives taken by the co-operative leaderships who thereby sought to improve their own personal career chances, maintain their positions or strove to attain certain positions in the successor companies. This process was accompanied by a decline in membership (compare Table 2), and can be attributed to the actualisation of membership lists, i.e. when the lists were brought up to date (in most co-operatives, such lists were discontinued from the mid-1960s on); as well as cancellations (predominantly caused by dissatisfaction with the increase in co-operative shares demanded for membership). In general, the revitalised co-operatives are small and active in village communities or small towns. Their business policy does not merely consist of taking care of the economic needs of the members; rather, it clearly places other cultural interests in the foreground. In several cases, these activities even dominate the lives of individual villages: the delivery of food and non-food products; support or maintenance of different processing companies - both for plant

products and other; the setting up of kindergartens or the support of existing ones; the financing and organisation of cultural and sporting events; and the sponsoring of respective football teams, etc.

Table 2: *No. of Consumer Co-operatives, Members, and Regional Federations*

Domain	1989	1990	1991	1992	1993	1994	1995	1996*
Consumer co-ops	580	722	775	927	981	1,009	1,068	1,079
Members (mil.)	2,042	1,721	1,573	1,007	999	510	417	
Regional Federations	29	31	33	33	35	37	37	37

*until the end of April

Source: "Organisation and Constitutional Function" Department of the Federation of Consumer Co-operatives.

- *Qualification* - In the process of attempting to overcome the new hurdles set by the market economy, co-operatives have met with considerable difficulties. Decisions were made by leadership personnel not possessing sufficient market economy expertise. Most of these incorrect decisions and subsequent losses can be attributed to those decisions, which furthermore also threatened the existence of co-operatives in the first years of reform. From this arose the necessity to develop a training system for the management personnel. This was organised by the Federation of Consumer Co-operatives. In co-operation with the University of National and World Economy in Sofia, the Department for Co-operative Studies (with branches outside of Sofia) was established with the support of the federation assuming financial responsibility for it. Monthly courses for personnel are offered there continuously. In addition, an attempt is being made to separate the training into two parts: in the first, co-operative understanding is taught; the second teaches administrative knowledge in company management. The emphasis is on the latter.
- *Age Structure* - In comparison to the overall population, consumer co-operatives seem to show an overwhelming representation of older members, as over 70% of all members are senior citizens (ZKS 1995b: 18).

As successors of the multi-purpose co-operatives, consumer co-operatives are striving to broaden their economic activity. During the 1980s, consumer co-operatives developed into trade and industrial organisations with a broad product range that was constantly being revised and complemented. A shift towards the

non-food and the services sectors, i.e. sales, processing (both horticultural and other), and distribution or supplying of farm supplies and products is noticeable. This, in turn, is stimulating the competition between the consumer co-operatives and agricultural co-operatives and, in some cases, has already led to some mergers.

7.2 Federal and Associational Systems

The establishment of the Federation of Co-operatives on 20 Dec. 1946 came about with the decision to merge 15 central co-operative associations and was the result of a reform (centralisation) of the entire co-operative system. For a long time, it acted also as an apex organisation for all co-operative parties. With the decentralisation of the co-operative system in mid-1988, it again became the apex organisation of the consumer co-operative group.

Its functions include associational responsibilities (of a co-operative association) and economic functions (of a co-operative centre). The Federation of Co-operatives offers its members further promotional services through the broad range of its economic activity, including the traditional areas of the economy such as retail and wholesale, the restaurant business, industry, foreign trade and tourism. Relatively new areas of responsibility are in the purchasing, production, processing and marketing of agricultural products, the development of savings and loan institutions and the further development of the banking and insurance industries.

On regional levels, consumer co-operatives are members of the regional associations of consumer co-operatives. Their spectrum of responsibility is very similar to that of the Central Co-operative Association; the only difference being geographic and economic volumes. In 1992, the Central Co-operative Bank AE, based in Sofia, was established in the legal form of a joint-stock company as the central financial institution for the consumer co-operative sector. All natural persons and legal entities are permitted to become members of the bank; only state participation is explicitly excluded. Non-co-operatives can acquire shares of this universal bank but will not be granted a vote. This organisational form, nevertheless, proved itself unsuitable, and in May 1996 was transformed into a real joint-stock company. In this case, the consumer co-operative group would remain the largest shareholder with at least 51% of the base capital. In order to support the promotion, organisation, execution and control of its insurance activities, the Federation of Consumer Co-operatives and "MIK"-AG Insurance Company established the KOOPMIK Intermediary Company for Insurance Business, which is also permitted to represent non-member businesses.

KOOPMIK offers all types of insurance services and already boasts over 50 branches.

8. Future Perspectives

Perspectives for the development of the co-operative system in Bulgaria depend upon the interaction of different political, economic, legal and socio-psychological factors. Care has to be taken here to insure that only some of these elements or factors (co-operative internal) can be directly influenced by presently existing co-operatives. The most important framework conditions (co-operative external) should have no direct influence. One of their first and most important responsibilities is to combat the negative co-operative image and to prove themselves as real vehicles of self-help, self-determination and self-organisation, but at the same time not to lose sight of the main objectives of achieving economic efficiency for the benefit of the members.

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