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GOVERNMENT POLICY TOOLS FOR ACHIEVING HIGHER INVESTMENT ACTIVITY IN BULGARIAN AGRICULTURE

After the restructuring of agricultural production, among entrepreneurs there arises the need to invest. However, for that purpose there must exist the appropriate investment environment. In that connection, in the present paper there are put forward specific tools which could be used in investment activity. Those concern the consistent development of the environment for demand and supply of investment funds.

JEL: Q18; E22

The restructuring of agriculture in Bulgaria, carried out in accordance with the terms of The Law on Repossession and Use of Agricultural Land (1991) and The Law on Conversion and Privatization of State Enterprises (1992) is over. The land is owned, managed and used by private physical and legal persons. The equipment, facilities and the infrastructure, insofar as it has been preserved, is in private hands. As a result of the "legal" division of the property of cooperative farms and the "legal" privatization of state farms, service centres and machine stations, agricultural production is decapitalized. In those conditions there are formed new production structures - one-man, family and company-based (partnerships, cooperative and corporate).

Agriculture is entering another, subsequent stage - the stage of the rise of the private enterprise, that is, the organization and use of private resources for the production of commodities and services.

The entrepreneurial activity in conditions of a market environment can not emerge and develop without the necessary resources on a scale and proportion, corresponding to the goals that have been set. On the borderline between the two states of agriculture (at the end of the transition period) most of all it is impossible for the available resources and especially the long-term ones to be adequate to the goals in the new conditions. That is why at such periods the need for long-term resources is usually greater.

The increase in investment activity of entrepreneurs and the reaching of the necessary amount of investments, corresponding to the needs in agriculture at the next stage of its development, can be achieved by way of adequate changes in the environment for their demand and supply. That requires purposeful management in many areas, concerning issues of the entire economic and social policy of the state. The development of agriculture involves investments, however, that requires changes in the economic, integrational and social policy of the state.

Investing is one of the most responsible management decisions due to the fact that it is most frequently investing capital at deferred return, more typical of agriculture due to its specific features. And since this particular case is about the

environment of demand and supply of investments, the state should have a decisive, paramount role in its formation.

The effectiveness of investment in agriculture is predetermined by the correctness of long-term decisions at the national level, and then by those at microlevel. The long-term decisions at the national level are as a matter of principle formulated in a government administrative document. In this case such a document that is actually existing is the National Plan for Economic Development of Republic of Bulgaria for the Period 2000-2006, approved by the Council of Ministers on 5 June 2003. In it there is formulated the following vision: "... Bulgarian economy is to reach such levels of competitiveness and development that would allow the successful integration of the country in the EU at the beginning of 2007, by which it will contribute to the socio-economic stability in Europe".¹ The goals of the plan are defined as medium-term. The development of agriculture and rural areas is the fifth key national priority.² In the national strategy for the development of agriculture, which is part of the general plan, there are pointed out only two principal objectives: "improving the efficiency of agricultural production and encouraging a competitive food processing sector by way of a better market and technological infrastructure and strategic investment policy, aimed mainly at reaching the European standards" and "a sustained development of rural areas by way of creating alternative employment, diversification of economic activities and building the necessary infrastructure in conformity with the best ecological practices".³

The state of Bulgarian agriculture today, set back by decades by economic indicators, owing to the radical changes after 1989, carried out without any well-founded and approved in advance at the state level strategic decisions necessitates the *development, adoption and implementation of a long-term development strategy*, which will be a serious factor for the effectiveness of investments as well. The national plan for the development of agriculture and the rural areas for the period 2000-2006 could not play such a role due to the following reasons: *first*, it is of medium-term range, whereas agriculture needs a longer term strategy on account of its specific features; *second*, it is subject mainly and solely to the successful accession of Bulgaria to the EU. However, the regulations and requirements on the functioning of agricultural production of the Union in technological, economic and social aspect are strictly specific to it alone. In the world there are other economic communities and states featuring other rules and requirements in that respect.

In the globalizing world economic area there take place very fast changes. Will Bulgaria, too, be able to quickly and successfully become part of the former if it

¹ See Национален план за икономическо развитие на Република България за периода 2000-2006 г., p. 144.

² Ibid., p. 146.

³ Ibid., p. 190.

subjects the development of its agriculture solely to the principles, requirements and rules of an economic community which, at least for the time being, due to sufficient saturation intends to open a market for a small part of the produced agricultural products and for still less than the possible increase of that production, for which there is some existence of potential? Isn't it true that only because of such settings of the agricultural economy, the country will not have the opportunity to participate with effective export to other countries and communities as well as import from them, which will also predetermine the effectiveness of investments for a long time? This could not happen, if at government level we apply the following approach at once: first, development and adoption by the National Assembly of a *Law of Agricultural Code*, which would regulate the ways to solve two major problems – the restructuring of agricultural farms and their production and the strengthening of their economic power. The ways to solve those two problems should take into account not only the requirements for membership of the European Union, but also of the fast global changes in climate, the world economy and in particular the world agriculture. *Second*, on the basis of The Law of Agricultural Code the government should develop and adopt a *Strategy for the Development of Agriculture*, which would cover a period of 10-15 years and provide the opportunity to forecast its parameters closer to the future reality. The investment part of the strategy should comprise the following three principal components:⁴ first, establishing the long-term objectives, priorities and guidelines for the development of agriculture, covering the various issues of organizational structures, the specialization, technologies, infrastructure, economy and the social development and information; second, determining the sources for accumulation of the necessary resources for achieving those objectives - internal and external; third, creating the necessary conditions for investing and efficient utilization of investment capital.

The development and execution of the investment section of such a strategy requires the solution of a number of specific problems of the environment for investment demand and supply, aimed at the improvement of the latter. Without the intervention and involvement of the state government it is impossible to solve a great part of the problems.

The elimination of one of the main reasons for the lack of appropriate environment for the demand for investments in agriculture can be done through taking measures for the *consolidation of the pieces of arable land of agricultural farms* and bringing them up to the measurements, adequate to the requirements for use of modern equipment and technology and obtaining income ensuring competitiveness. With the present situation in this country, that is a difficult to solve issue, requiring a change in the current legislation, new legislative regulations and administrative measures.

⁴ See Балабанов, И. Инвестиционният вакуум – причини и изход. АИ “Марин Дринов”, Sofia, 2002, p. 41.

The most urgent measure should be the discontinuation of any further hereditary splitting of arable land, for which we need changes and new provisions in The Inheritance Law. Right of ownership over arable land should be given to only one of the children in the family provided the following conditions are met: *first*, s/he must be a resident of the territory where the agricultural farm and the land is; *second*, s/he must cultivate the inheritance land; third, s/he must compensate the other heirs, and in case s/he is unable to, s/he must be provided with adequate support by the state - credit concessions, tax exemption, reduced fees on land disposition; fourth, at equal other conditions an inheritance advantage with regard to arable land is to be provided to the heir who has studied agriculture as well as to the younger of the heirs in working capacity.

The next step that should be taken is the adoption and application of the *Law of Consolidation of Arable Land*. In this way, after the suspension of fragmentation there will start a process of enlargement of plots. It is necessary that in the law, besides the technical rules concerning land consolidation, there be provided for stimulation and compensation mechanisms, which would accelerate the process. For instance, there should be set a minimum size of an arable plot, differentiated in culture types, under which there should not be any direct payments from the funds of the European Union and the Bulgarian state, nor any support through other channels. There should be envisaged adequate compensation mechanisms accompanying plot exchanges. Land consolidation is a really costly process. However, Bulgaria has already spent a huge amount of capital in order to achieve the reverse process - division of land after 1991 under the terms of The Law on Repossession and Use of Agricultural Land. And since the Bulgarian experience of the 1920s, 1930s and 1940s, as well as the modern expertise of other countries shows that the results of long-term land consolidation are pretty small,⁵ the consolidation of plots should be achieved above all through economic means - sale trade and the farming out of land. Through those there can also be achieved the restructuring of farms in terms of their expansion. However, it is also necessary to provide legislative restrictions over the division of land by means of sale trade.

The unfolding of the agricultural land market depends on the balance between demand and supply. However, the latter, in their turn, depend on other secondary factors. It is due to the influence of such factors that today there is excessive supply of land (a great number of owners, who do not cultivate their land directly on account of old age or live in the towns; low or no leasehold income altogether from the land submitted to a co-operative or a private leasehold farm). At the same time the demand is suppressed mainly on account of the low profitability of agricultural production. That is why improving the conditions for agribusiness is a major tool for reviving the arable

⁵ During the period 1908-1944 in Bulgaria there was consolidated only 26% of agricultural land. See Състояние и тенденции в развитието на пазара на земята в България. САПИ, МЗГ, Sofia, 2001, p. 58.

land market. The entrepreneurs will start looking to purchase land more frequently when the investment prospects are better, that is, when their efficiency is higher. Besides, the state could assist the unfolding of the market for land also using other regulatory measures: *first*, encouraging the purchase of land through a specific credit policy - the granting of low-interest, long-term credit with a longer grace period; *second*, debt amortization by way of agricultural produce; *third*, covering a portion of the price of the purchased land by the state at certain conditions; *fourth*, providing state guarantee on credits at certain conditions; *fifth*, creating a special fund to assist the purchase of land to be cultivated using funds from leasehold payments for land use from The National Land Use Fund, state property rent funds, from privatization and sale of state and municipal land, subsidies from the national budget, etc.

Land consolidation and the functioning of the market for land are complex processes, which need skilful management and control. They concern the interests of millions of people and cover property estimated at billions of leva. That is why it is necessary to create a specialized organization, which would carry out those two activities and function on the basis of the laws and regulations. Such an organization can be created by the government, by delegating its management to professional agricultural organizations (syndicates, cooperative unions, chambers, credit institutions, etc.), and keeping to itself only the controlling functions. Owing to the specific character of the organization's activity in this way of creation and functioning it will be run on the basis of shared responsibility, infringements will be effectively restricted and there will be achieved fairness in the processes of land ownership shifts, which in the case of Bulgaria is particularly necessary. The controlling functions of the state can be reduced to the following: issuance of permits, connected with the movement of arable land; approval of appointments of management personnel; approval of sales and land consolidations executed by the organization.

The main functions of the organization can be reduced to: land consolidation; regulation of the agricultural land market and controlling aimed at eliminating speculation (mediation in sales, purchase of the available land for sale when there are no purchasers); storage (temporary leasehold) of purchased land and sale as soon as a purchaser is found; disallowing land deals which are not in line with the government policy; offering alternative prices for the land in order to regulate the market. These functions need to be carried out by means of sufficient information on all aspects of land consolidation and the land market (data bank), as well as the availability of the necessary financial means. For that purpose with the organization there must be established a specialized fund to assist the purchase of land, and in it there should be input funds from professional organizations, which are its members, percentages from land sales, as well as advance payments from future buyers.

The organization for regulation of land consolidation and the agricultural land market may be a not-for-profit company, but with a specific status. It should have its own territorial branches in the main administrative units of the country, united into a *national federation*. All final decisions on operations connected with land consolidation and sale trade of lands are to be taken by the organization along with

the participants-owners as well as future ones, under the supervision of the representatives of the state in its management organs. The experience of France and some other countries demonstrates that a similar system has shown and is still showing good results.

Another well-tried way of consolidating arable land and agricultural farms is *letting out on lease*. The enforcement of The Law of Leasehold shows that it needs some improvements, which would set stricter requirements on acquiring the right to take land on lease, a greater and longer security and stability of the relations between the lessor and the lessee, as well as intensify the regulatory role of the state with a view to the observance of the principles and the successful implementation of its policy concerning land-related relationships.

The improvement of the requirements concerning the acquisition of the right to take land on lease could be achieved by means of regulation in several areas. *First*, introducing the requirement that the lessee must be living on the territory of the leased land. In this way it would be possible to provide conditions for effective management of processes by the entrepreneur-lessee himself rather than doing that remotely, which has proved ineffective. *Second*, limiting the maximum age of the entrepreneur at which he would be allowed to take land on lease. The maximum age should, for instance, be equal to retirement age. *Third*, it is necessary that in the future there be also introduced a requirement for specialized education and work experience, which would be a guarantee for the successful management of production.

A better stability and security of relations between lessors and lessees can be achieved through a number of new regulations. *First*, providing the possibility of automatic prolongation of a contract following the expiry of the contractual term, as long as it has not been contested by any of the parties. In this way there will be created better conditions for lasting investment on the part of the lessee. *Second*, an extension of the minimum period of the leasehold, which would be greater than the current period of 4 years. It would be appropriate for it to be 9-10 years or more, the way it is in many countries. *Third*, when selling the leased property or when concluding a new contract, the lessee, if he is willing to purchase the land or take it out on lease, should have a preferential status. In this way there are created better prospects for the investment. *Fourth*, if the lessee is near pension age, at least 5 years before that he should be able to, if he so wishes, automatically renew the contract until his retirement. *Fifth*, when the owner sells the land the asked price should be one and the same for the lessee and the other candidates. Otherwise the sales purchase contract should be annulled. Thus the interest of the lessee will be protected, and the possibility of other candidates to acquire ownership of the land and discontinue the leasehold by offering higher prices is avoided. *Sixth*, introducing the requirement that the property be insured by the owner, whereas the crops - by the lessee. *Seventh*, the major ameliorations of the property should be made by the owner or jointly by the owner and the lessee. *Eighth*, the lessee should have the right to be a member of a co-operative(s).

Farming out is part of the land market. For that reason it is necessary that its entire management is turned over to the organization for land consolidation and the market for agricultural land. In this way the regulation and management of land interrelations will be carried out by a unified agency, which will also be more effective. The name of that organization could be *Association for Consolidation and Regulation of the Market for Agricultural Land*.

The consolidation of agricultural farms is a significant factor for technological renovation by way of investment and using the advantages of scale. However, having in mind the current state of agriculture, the former will, *in a natural way (the competition)*, take a long time. Therefore there should be applied other methods as well. One of them is *cooperation*. The state should encourage the latter above all using legislative measures and economic means - by way of concessions in taxation, financing, building infrastructure, etc. Currently we need cooperatives for partial production, which, by means of pooling, would close the production cycle with the processing or carry out certain activities that farmers are unable to perform on their own. Another type of a cooperative which can be used is the one for full production. Nowadays it exists in the form of a cooperative for the collective cultivation of land. Its membership consists of a large number of owners most of whom do not work there. In essence these are leasehold cooperatives. In the present conditions in Bulgaria there could also be used another type of cooperation - an association for joint management between several agricultural farms (families), which unite their efforts for the combined utilization of land, livestock, the means of production, labour and capital. Such associations show great vitality in France, Italy, etc., due to the fact that they are associations of medium-sized family farms and the members of the families participate personally with their labour in their activity.

In conditions of a functioning market economy a considerable stimulus to investment on the part of agricultural entrepreneurs can be the rise in consumption of goods of agricultural origin on the domestic market. In this way the market niche, in which they could find a place, is growing. That can be achieved in several principal ways:

First, by increasing the incomes of the population and their purchasing power. Of course, this should be provided by the state and the private companies in accordance with the requirement on eliminating conditions for inflation and deterioration of the financial macroeconomic framework. The results of the economic development of Bulgaria during the past few years indicate measures on raising the incomes of the population in three principal areas - pensions, other social benefits and salaries. In this way the consumer market and the demand for goods will be vitalized. That will not only help motivate agricultural entrepreneurs in this country to start investing, but also attract foreign investors.

Second, enlarging the infrastructure and improving the conditions for tourism in all areas. Thus not only the number of foreign people who would like to visit Bulgaria will increase, but also the use of the service by citizens of this country will

be on the rise. And that means greater demand for agricultural goods and services as well.

Third, reducing the number of Bulgarian citizens who have temporarily or permanently left the country, which, too, limits the demand on the market of agricultural goods.

Fourth, increasing the population of the country - raising the birth rate and reducing the death rate by improving the living conditions. For a start, in order to restrict the demographic collapse, the most urgent measures are those aimed at stimulating natality and overcoming the deterioration of the public health services system.

The opening up of Bulgarian economy into the global economic area provides possibilities to look for means and ways to improve the environment for investment also by means of *raising the opportunities for exporting Bulgarian agricultural goods*. It is a serious means of motivation aimed at activating the investment activity of emerging entrepreneurship in this country. That increase can be achieved using various ways and approaches.

First, widening of foreign economic relations of the country and of foreign markets by entering into beneficial agreements at national and regional level for trade with countries and communities which have not been achieved to date. There is great potential for that in the Near East, North Africa, the CIS, the Far East.

Second, conducting and successfully completing the next round of negotiations within the framework of the WTO and achieving favourable agreements for trade in agricultural products.

Third, activation of trade relations and trade with the countries from the CEFTA, EFTA, the OECD and neighbouring Balkan states.

Fourth, in the ensuing negotiations with the European Union there should be achieved greater export quotas for agricultural products, which can be actually produced in the country and have the required quality for that market.

Fifth, stimulating the development of the food, wine and tobacco industries by means of financial and economic preferences in the areas of lending, taxation, etc.

Sixth, stimulating the export of agricultural products through supporting the producers of such products - preferences for investments in their production with the help of the fiscal and credit system and, if necessary, subsidies to the export itself.

Investment in the production of agricultural goods for the various foreign markets with the specific requirements of consumers is a costly activity. It requires more capital, which is aimed at the realization of production and a successful placement in the years to follow. Entrepreneurship in that area is only emerging now and is yet to develop. Therefore its promotion and support on the part of the state is of great importance particularly at the present period.

The certainty of the expected results from investment in agriculture can be raised considerably through *intervention on the market on the part of the state* at

times of sharp deviations in purchasing prices or in wholesale and retail prices, which causes producers to lose money. The intervention should be done by a specialized agency, which will have at its disposal the necessary stock and financial resources. That interference on the market is particularly necessary at present, when prices are frequently set by non-market factors or by the import of products at subsidized prices even lower than the production costs of Bulgarian farmers. The timid, ill-timed and insufficient interference by the state should be done away with before this country becomes member of the European Union, since in member states this is common practice.

The experience of countries, striving to develop a stable agricultural sector, shows that during such a period of development the state can stimulate the investment in it also by means of *indexation of the purchasing prices of agricultural products in accordance with the changes in the prices of industrial means of production*. The enormous price scissors in the prices of those groups of goods in Bulgaria necessitates such an approach as well, because for the small and the medium-sized agricultural producer modern machinery and equipment are inaccessible.

A better investment environment for agricultural entrepreneurs can be created by way of *protection against unfair competition* during the import of products from other countries in which agricultural producers are supported considerably by the state. Analysis shows that Bulgaria is not using to the full even the already attained favourable terms with the WTO concerning protective tariffs and the amount of the subsidies. During the period of creating and consolidating commodity agricultural farms, the support by the state is really needed and desirable. Protective tariffs and the subsidies are some of the means for that. That is why in the future, until the definitive formation of farms, when most of them will be competitive, when importing there should be used more fully and specifically the protective tariffs and subsidizing of products traditionally made in this country. If that does not happen, Bulgarian producers, just as before, will be in unfair competition and only the largest farms will survive. There will be no prospects for the middle-sized and the smaller ones - those will become bankrupt. The conditions in Bulgaria will objectively form mainly that type of farms, which will necessitate their support.

Another possibility for protection can be achieved through a better use of the adopted principle of "double benefit" in trade relations with countries from the European Union. For that purpose, however, Bulgarian representatives need to be more entrepreneurial and flexible when conducting negotiations with the respective countries.

The negative influence of the large number of middlemen with trade in agricultural products and the forced purchase by certain groups at very low prices can be limited and overcome mainly by means of improving legislation, strengthening of penal measures and the effective use of the latter. The cooperation of farmers on the principle "land - finished product" can substantially contribute to the elimination of income loss at the buying up of production.

The assistance to agricultural entrepreneurs in the beginning of their activity should be accomplished also through many other approaches, ways and methods.

It is well known that due to a number of reasons for many years agricultural production has shrunk its borders and scales in many areas of the country, where there are natural conditions for it in various fields. Such are the North-Western, South-Eastern and Western Bulgaria, as well as other foothill and mountain areas. After 2002 the government adopted programs for the development of agriculture in the Rhodopes, North-Western Bulgaria and the mountain areas. The government support for entrepreneurs in those areas is provided mainly through the programmes of SF "Agriculture", SAPARD and "The National Fund for the Protection of the Environment".

The accelerated development of agriculture in those areas, as well as in the whole country, requires *a considerable improvement of opportunities* for investment in them. They can be sought in a number of other areas as well:

First, direct government subsidizing of investments for the creation of farms by young entrepreneurs not more than 30 years old, of up to 30% of the cost of the project;

Second, a direct government subsidizing of investment projects in underdeveloped regions - up to 25% of the cost of the project;

Third, a substantial differentiated reduction of the VAT rate for legal persons in agriculture;

Fourth, subsidizing of investments for the application of innovations in the technologies, the organization and management of farms;

Fifth, introduction of differentiated setting of the interest rate on long-term loans during the period of repayment of the debt, for instance for the first three years - 0%; from the fourth to the sixth year - 2, 3, 5% respectively; from the seventh to the tenth year - 8.5, 9, 9.5% and after the tenth year - market interest rate. The above approach to setting the interest rate is more adequate to the peculiarities of the return on investments, ensuing from those of agricultural production;

Sixth, setting a credit repayment term adequate to the operating term of the fixed asset, created with the investment;

Seventh, the application of a differentiated approach in lending money according to the characteristics and the status of the applicant for credit (marital status, working members of the family, income, education and training, length of service, experience and abilities, knowledge of the market, liabilities to financial organizations, value of property, insurance of property);

Eighth, introduction of aid with overdue payments on account of objective reasons (natural disasters) by way of covering the interest rate for the respective period;

Ninth, tax exemption when arable land is purchased by entrepreneurs not older than 30 years, by lessees purchasing land cultivated by themselves, when land is purchased from The State Land Fund.

The facilitation of obtaining investment credit by the entrepreneurs can be achieved in several ways, by way of: widening the state participation in it; stimulating the activity of private banks in that area; creating conditions for the use of land as credit collateral. For that reason it is necessary to stimulate the development of the market of arable land in the already mentioned ways, and the price of land will at the same time be adjusted to a level that is normal for the country.

The investment activity of entrepreneurs in the future can be significantly assisted not only with the provision and repayment of investment credits, but also through the indirect *creation of better conditions and stimulation of Bulgarian agricultural machine-building*. The deals for the purchase of equipment at the various exhibitions in the country show that our medium and small class tractors, as well as the manufactured tractor-driven machines and equipment are cheaper⁶ and therefore more accessible to agricultural entrepreneurs from small and medium-sized farms. The potential for manufacturing such agricultural machinery in this country is good⁷. The assistance to Bulgarian machine-building companies can be provided in several areas through:

- assisting the activity of entrepreneurs in agriculture, who will at the same time will have more opportunities for purchasing the cheaper Bulgarian equipment;
- reinstating the state companies and stimulating the private companies for machine services in the hilly and mountainous regions of the country. Thus they, too, will purchase machines made in Bulgarian plants;
- introduction of temporary preferences for machine-building companies, by which their expansion and stabilization in the initial stage of their creation and development will be facilitated. The preferences may cover taxation, customs duties and taxes at the import of prime and raw materials, subsidies for the export of equipment, for the training of personnel, etc.

The investment environment can be improved and the investment motivation of entrepreneurs raised through the creation of better opportunities for them to form their own resources *by improving the mechanism for accelerated depreciation of fixed assets*. It should help avoid the raised depreciation costs per unit of finished product with the reduction of the gross output of farms due to circumstances beyond the entrepreneur's control (differences in the amount of output produced using the same capital equipment). Conversely, with the increase in production output there is no reduction in the depreciation costs per unit of production and no instability of our own financial resources for investment. Perfecting the mechanism of accelerated depreciation can be achieved by differentiating the amortization rates according to the specific character of operation of fixed assets (start of operation, length of operation, type of production activity and the dependence of

⁶ See Петров, Г. и др. Аграрната политика и механизацията на земеделието. – In: Аграрната политика на България днес и утре. ГорексПрес, Sofia, 2000, p. 75-76.

⁷ Ibid., p. 76-77.

the result on objective factors, type of the used market, size of the farm, the length of its functioning - newly created, functioning up to five years, over five years).

The investment in new technology and the production of environmentally friendly products, based on innovations, can be stimulated also by means of *the tax concessions system*. It is also necessary to introduce a normative regulation under the terms of which the registration of legal persons in agriculture under the VAT law should be done regardless of their size (turnover rate). In this way small agribusinesses will be provided with the opportunity to get tax credit. At present they are in a less advantageous position in comparison with agribusinesses which had turnover of over 50,000 BGN during the past twelve months.

A large number of the suggested approaches, ways and means for improving the investment environment in agriculture, particularly that connected with its financing are impossible to achieve, if we rely solely on the State Fund "Agriculture", whose resources are limited anyway, and on commercial banks who follow their own policy which guarantees stability to them, without taking into consideration the specific character of agricultural production, due to which they rarely lend money to it. It is necessary to create an *Agricultural Cooperative Bank*, initially with the participation of the state. That will guarantee better control and greater opportunities for preferences. The basis for the creation of such a bank is present - the Federation of Mutual Agricultural Credit Associations of Private Proprietors, created with state participation as well as with funds from the PHARE programme. However, for that purpose it is necessary to develop and substantiate in practice all three principles - reciprocity, cooperation, lending.

The creation of a better environment for the demand and supply of investment requires that the *Bulgarian government introduces and applies more and more fully the fundamental principles of the agricultural policy of the European Union*, even before we are granted full membership. Actually it finished the negotiations, closed the chapter of "Agriculture" and is on the eve of signing the treaty of accession. However, in reality the government agricultural policy, in terms of content and realization, is for the greater part neoliberal, imposed by the agreements with the International Monetary Fund and the World Bank. The faster that controversy is resolved, the faster there will be a recovery and economic growth in the agricultural sector as well, before Bulgaria becomes a full member of the European Union.

14.XII.2004