

Cooperative Movement and Rural Development in Bulgaria: Policy Support and Practical Implementation

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Policy direction of the Common Agricultural policy – 2020 and the notion of multifunctionality of rural areas emphasizes on a more endogenous approach, which involves multiple decision-making levels, dimensions and actors; and calls for active society inclusion and efficient organizational forms to operationalize community participation. Cooperative enterprises have proved as a successful way whereby bottom-up initiatives contribute to furthering social well-being and supporting rural areas by utilizing democratic principles and implementing social responsibility in their activity. The present study aims at utilizing the economic, market and social effect of the cooperative business model in Bulgaria. The analysis draws on the potential and entrepreneurial commitment of particular cooperative initiatives to foster rural development through promoting collective action. What challenges the most this process is the complexity of factors – economic, legal, and social - that tend to influence and shape cooperative movement and its development.

Keywords: Bulgaria, cooperatives, development policy, rural areas, rural development, cooperative movement

Introduction

Development of the Common Agricultural Policy is based on a twofold platform, which accounts both for characteristics and interests of the old and the new European Member-states¹. This is not an easy task to achieve mainly because their development directions differ in priorities and approaches applied. The main differences in these two positions conclude to the goals of the old Member-States which focus on introduction of environmental undertaking, preserving biodiversity, while priority of the new members is given to restructuring of their agricultural sectors and arriving at the same level of productivity as the more advanced economies. This requires certain approach towards development and management of commodity markets in all economic sectors, as well as establishment of mechanisms for coherent and sustainable framework in rural areas. Nowadays this problem emerges with expanding dimensions following the evolution of traditional cooperative model in Western European countries and it's comprehension as a successful social responsible business. At the same time countries in the Eastern Europe need to solve problems related not only to the misconception of cooperatives, but also to the lack of purposeful strategy and mechanisms for

their future development as competitive organizations along the lines of the more advanced European Member-States. Considering the higher fragmentation of agricultural value chain and the disproportional distribution of market power, recently proposed policy actions are to improve and balance competitiveness of the agricultural sector and to enhance its value share in the food chain. Increased concentration in the agricultural market in the last few decades is not only perceived as a favorable condition for intensive farm practices, market-oriented supply and balance. It also accounts for as a source for deepening regional inequalities on the bases of their competitive level and development capacity - systems of vertical integration have reduced profits returned to farmers. One of the main future priorities of the Common Agricultural Policy - 2020 is to change the basis of the support provided to producers. Withdrawal of support is expected to bring about greater concentration of agricultural production in some areas with particular favourable conditions (intensive farming practices), while the less competitive areas would face significant problems. These problems are represented by the process of marginalization and land abandonment which result in increased environmental pressures and deterioration of valuable habitats with serious economic and social consequences including an irreversible deterioration of the European agricultural production capacity (COM, 2010, p. 672).

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Policy Support and Legislation at European Level

Review of the European competition rules and provision of risk management tools are part of the proposed tasks and initiatives for the future agricultural policy. In light of necessity to improve market mechanism and re-balance the bargaining power along the agri-food chain, general policy direction follows promotion of alternative retail channels mainly focused on enhancing local resources, capacity and rural potential. In 1999 the Commission Regulation (EC) 2790/1999 is adopted to define, restrict and qualify the vertical integrated relations that are in compliance with the Article 81 (3) of the Treaty. Contract agreements found to be in correspondence to the initiatives which aim at improving production and distribution of goods and thereby promoting technical and economic progress are generalized in: “(...) *vertical agreements for the purchase or sale of goods or services where these organizations are concluded between non-competing undertakings, between certain competitors or by certain associations of retailers of goods*”².

These vertical agreements furthermore are found as an advantageous mechanism for improving the economic efficiency indicators as well as for the balanced distribution and better accumulation of market power along the value-chain. Theoretical interpretation of the vertical integration has received practical implementation and acknowledgment for its resources to decrease transaction costs and to optimize distribution costs in a way that accounts for the interests of the participating parties. Furthermore a special attention is given to the enhancement of investment initiative and proportional increase of sales. This regulation expired in 2010 and has been replaced by the new Commission Regulation (EU) 330/2010 on the application of article 101 (3) of the Treaty on the functioning of the European Union to categories of vertical agreements and concerted parties. In article 1 (a) has been specified that: “(...) *an agreement or concerted practice entered into between two or more undertakings each of which operates, for the purposes of the agreement or the concerted practice, at a different level of the production or distribution chain, and relating to the conditions under which the parties may purchase, sell or resell certain goods or services*”³.

Despite the policy support that integration process receives throughout the adopted legal framework, additionally were implemented restrictions towards adverse market concentration and possible negative effect on competition practices. This control mechanism has been formulated in Council Regulation (EC) 139/2004. The main concerns of the legal authorities that have initiated such legal act are

related to the enlargement of the European Union, sector diversity of the new Member-States and the reduction of trade and investment barriers. These factors call for more comprehensive glance not only on the new approaches that follow and regulate relationships with different dimensions and characteristics, but that provide the balance among the Member-States considering their economic development level. Therefore the legal matter is expected to be in line with the newly emerging considerations towards balanced market concentration and power distribution, as well as to provide for effective control mechanism and tools. For that reason the Council Regulation (EC) 139/2004 includes in its text the Article 308 of the Treaty which gives the opportunity: “*If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community, and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures*”⁴.

In this course the Community may acquire additional power in the cases when it is necessary to achieve certain aims and results “*and also powers of action with regard to concentration on the markets for agricultural products listed in Annex I to the Treaty*”⁵.

All these legal aspects follow the course of action of the Common Agricultural Policy – 2020. Increased concentration tendency has not only been perceived as favorable condition for intensive farm practices, market-oriented supply and market balance, but also as a source for deepening the inequalities among the different member-states on the bases of their competitive level and development capacity. These inequalities are described as: “(...) *marginalization and land abandonment. Such developments would result in increased environmental pressures and the deterioration of valuable habitats with serious economic and social consequences including an irreversible deterioration of the European agricultural production capacity*”⁶. Considering the higher fragmentation of agricultural value chain and the disproportional distribution of market power the proposed actions in the *Objective 1: Viable food production* of the future Common Agricultural Policy are “*to improve competitiveness of the agricultural sector and to enhance its value share in the food chain*”.

One of the main future priorities of the CAP-2020 is to change the basis of the support provided to producers from using historical reference periods and establish fixed and uniform area-based payments (basic payments). The European Economic and Social Committee proposed for: “*an adequate*

transitional period that is consistent with the duration of the new programming period set to end in 2020, in order to give farmers – especially those who have already made investments under particular conditions – time to adapt to the discontinuation of the historical reference period as the means for quantifying the value of single payments”⁷.

Special conditions are provided for the new Member-States for which the adjustment period for moving away from Single Area Payment Scheme is concluded by the end of 2013. Proposed tasks and initiatives for the future agricultural policy implementation refer to:

- review of the European competition rules in light of necessity to improve market mechanism and re-balance the bargaining power along the agri-food chain;
- providing for risk management tools and favorable institutional framework under CAP for their implementation;
- promotion of alternative retail channels mainly focused on enhancing local resources and capacity and reviving rural potential.

Development of the Common Agricultural Policy is based on the twofold platform accounting both for characteristics and interests of the old and the new member-states⁸. Nevertheless this is not an easy task to achieve mainly because the development directions of the two types Member-States differ in their priorities and approaches. The main differences in these two positions conclude to the goals of the old Member-States which focus on introduction of environmental undertaking, preserving biodiversity, while priority of the new members is given to restructuring of their agricultural sectors and arriving at the same level of productivity as the more advanced economies. The main mechanism in this direction is provided by Article 68 which provides for “specific support” within Pillar 1 of the CAP. In 2009

Council Regulation (EC) 73/2009 repealed Regulation (EC) 1782/2003 and provided in its new Article 68 (1) that “Member States may grant specific support to farmers (...) for specific types of farming which are important for the protection or enhancement of the environment, improving the quality of agricultural products, improving the marketing of agricultural products, practicing enhanced animal welfare standards, specific agricultural activities entailing additional agri-environment benefits”⁹.

All member-states are allowed to retain up to 10 per cent of their national ceiling for direct payments to provide support to specific sectors. Other introduced purposes are: overcoming specific disadvantages affecting farmers in certain production sectors in economically vulnerable and environmentally sensitive areas, prevent land abandoning, create mutual funds for animal and plant diseases.

Rural Areas in Bulgaria

Bulgaria is divided in 28 administrative regions (NUTS 3) and 263 municipalities (LAU 1), of which 231 municipalities are classified as rural areas. Rural areas represent 81 per cent of Bulgarian territory and 42 per cent of the population. According to their socio-economic development the municipalities could be divided in three groups. In the first group fall 32 municipalities with development level above the country’s average and inhabitants who represent 30 per cent of the population. There are 131 municipalities in the second group with medium socio-economic level that shelter 48 per cent of the population. The last group consists of 99 underdeveloped municipalities, which are inhabited by 22 per cent of the population.

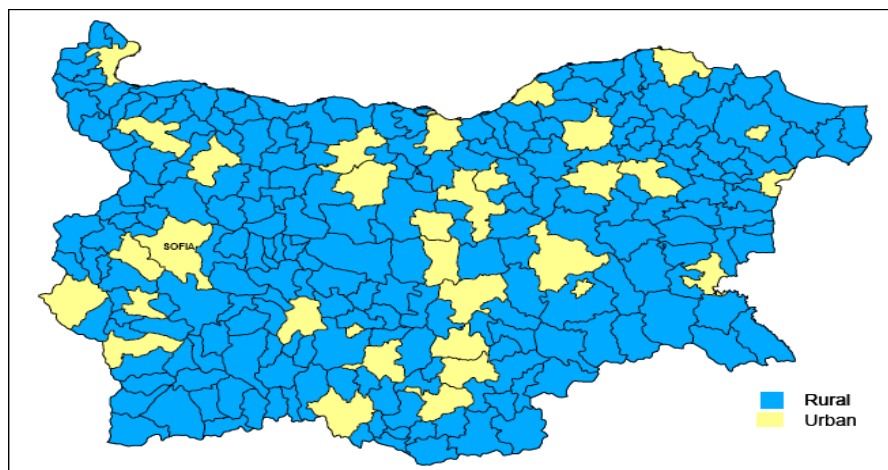


Figure 1. Rural areas in Bulgaria. Source: National Statistical Institute of Bulgaria (2010).

For the last two decades, rural areas in Bulgaria have faced process of accelerating depopulation and aging population. Preliminary results from the most recent census of Bulgarian population in 2010 have shown that entire villages have been depopulated. Additional problems, such as: lack or limited opportunities for employment, poor living conditions and insufficient extension services (bad infrastructure, inadequate medical care, educational and cultural services) call for urgent solution. The municipalities in rural areas face significant problems to provide and maintain supply of the abovementioned services, as well as to keep appropriate quality levels. The higher share of rural population lives in small settlements, of which 3650 are with population below 2000 residents and

about 15 per cent of the rural population lives in settlements below 500 residents. Several reasons could be related to these general statements. The first one is that the category of poor or people with special needs does not have a distinct social profile. This fact became more evident with the recent intensification of the negative effects from the economic crisis. This group is highly diversified and encompasses people with different education, gender, age, religion or ethnicity. Educational status of rural population is also significantly lower – illiteracy rate in rural municipalities is two times higher than in urban areas (1,7 per cent of the population between 25 and 64 years). Almost half of the population has no secondary education.

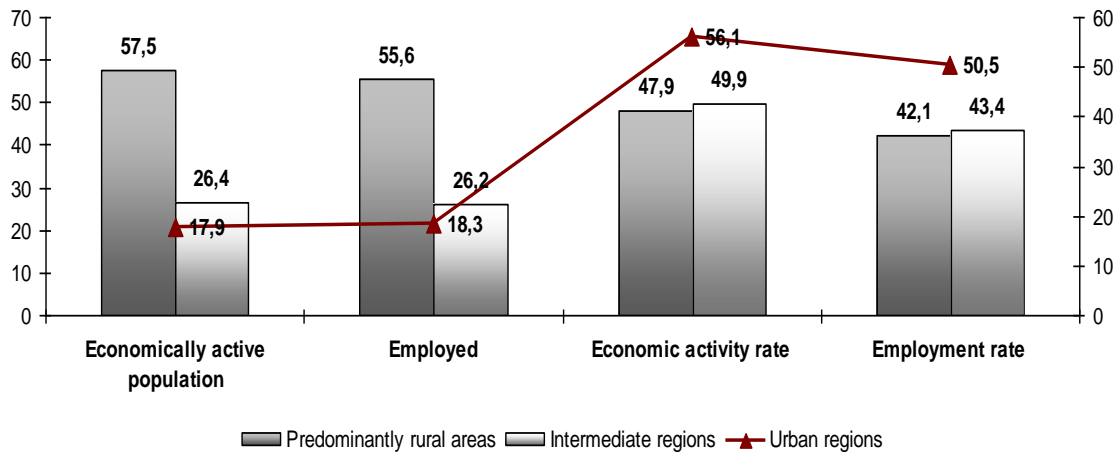


Figure 2. Descriptive statistics on population in Bulgaria by type of regions, 2008 (per cent). Source: National Statistical Institute of Bulgaria (2010).

The higher level of long-term unemployment explained by the limited job opportunities and deteriorating quality of labor force, also reveals as significant problem in rural areas. The shares of poor

and very poor communities are significantly higher than their corresponding share of population (Figure 3).

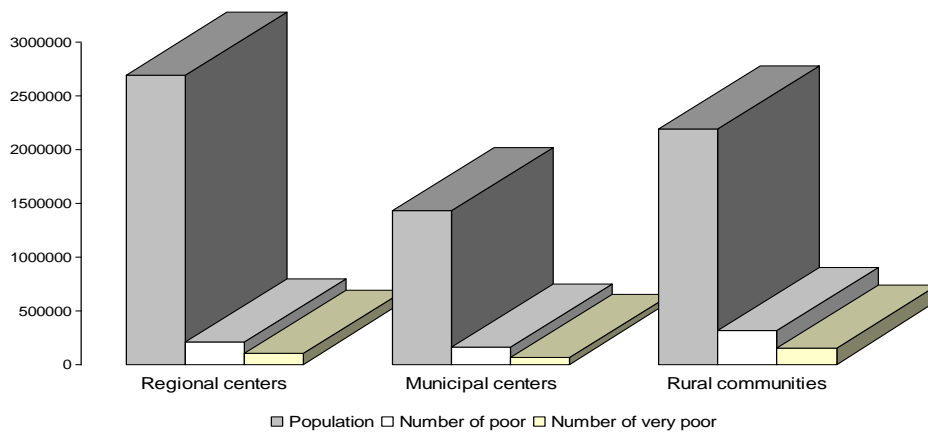


Figure 3. Consumption poverty (headcount) in Bulgaria, 2007; Source: The World Bank (2009).

Another fact that should not be neglected is the low labor remuneration. Comparison statistics point out that the poverty risk among unemployed is high with tendency to increase – for 2001 this risk was 33,3 per cent, while in 2007 it has been estimated to 37,9 per cent. The most stunning observation is the so called “*culture of poverty*” (Minev, Tomev, Draganov 2010, p. 7). General trend of high poverty indices confirms the ability of poverty to reproduce as a social phenomenon for the next generations and imposes on serious potential risk of introducing the “*second generation poverty*”. The problem could be even more serious if it is examined in terms of inefficient use of public services and low adequacy level of social transfers. There is a significant difference between the capacity of individual social systems and the institutional instruments to influence poverty in terms of its reduction or restriction. The level of social transfers, such as social compensation, assistance, and family allowances is very low and inefficient considering their redistribution among the target social groups. As part of the social policy, pensions remain social transfer payment with a key role. They have a relatively high share in the total income of households – 22,1 per cent, against the 47,7 per cent relative share of the labor incomes (NSI, 2008). The rest social transfers have insignificant role and impact in terms of poverty reduction. The effect of pensions paid is lowering the poverty from 40,5 per cent to 17,2 per cent, while the additional effect from remaining social transfers is to lower the poverty level only by 3,1 per cent (NSI, 2008). In the recent years these social expenditures have contributed for the decrease of the percentage of poor persons by nearly 23,5 percentage points. The transfers have significant importance for decreasing risk of poverty among children up to 15 years and elderly people at 65 years and above. The rest of the social transfers accounts for only 3 points.

An important issue, which often remains aside, is that the financial and institutional capacity of the state is not the only factor that contributes to answer to these special necessities (Zheliakov et al., 2011). A mechanism for more intensive dialogue with people and communities at risk is provided by the provisions of the National plan for fighting poverty and social exclusion (2000 – 2005) and by the Joint Memorandum on Social Inclusion of Republic Bulgaria. For the next years the action plan for social inclusion for the period 2008-2010 applies the European “Open Method of Coordination” in the area of social protection and social inclusion, which basic methods include: fixed guidelines and timetables, quantitative and qualitative indicators and benchmarks, translation of the European guidelines to the national and regional policies, and periodic

monitoring and mutual learning. The government has set particular measures aimed at strengthening: attractiveness of employment for people in working age, dependent on the system for social assistance through motivation measures, professional pre-orientation, training for key competences; sustainability of employment of the vulnerable groups on the labour market; and provision of public services for reconciliation of professional and personal life and removing the barriers for participation on the labour market.

Nevertheless social welfare in rural areas is constrained by several factors that go beyond formally conducted policy, more likely explained by the accumulated negative effects from low levels of income, high level of unemployment and low levels of productivity. Hence, the combination between policy support and society participation could be fairly perceived as an integrated approach that presupposes three main characteristics:

- Assessment of the capacity of the responsible institutions to contribute and provide required support;
- Formulation of the role of the stakeholders - social partners, civic organizations, individual citizens, as well as the opportunity for them to participate actively in the decision-making process;
- Simultaneous performance of these processes, since the emerging problems are equally important.

Cooperative organization in Bulgarian rural areas

Bulgaria's accession to the European Union has gained importance as a catalyst for defining the need for stronger social commitments both by the business and the society itself and the various social groups. Throughout the years of centrally planned economy and state control it was conditionally expected that cooperative organization would remain the prevailing one during and after transition period. These expectations tend to be wrong and misleading, since neither cultural nor learning aspect have managed to influence preserving cooperative organization and collective action in some particular economic sectors, and especially in the agricultural one.

Serious problems were imposed by land reform and slow process of determining and returning the land to its previous owners. The process of establishment of solid and profound legal framework is basically addressed as “*piecing together of Bulgarian cooperative legislation by taking parts from different Western European Countries*” (Fazio, 2000), which when put in practice could be a source of considerable difficulties.

In Bulgaria one of the strategic objectives of the national social-economic policy during the pre-

accession period was reaching for economic, social and administrative standards of the EU in that manner that the country would be eligible for membership in the union. Three short-term goals were formulated until then: sustainable and balanced economic growth, lessening differences between poorest and richest strata of society and harmonizing Bulgaria's legislation in conformity with European's requirements. The Law for Regional Development has been passed in 1999 to ensure and regulate regional policy and development and to create framework to plan and execute this policy. Six planning regions were established in accordance to government decree 145/27.02.2000 and European's criteria for regional structure NUTS-2.

The European pre-accession aid to Bulgaria was mainly provided by three instruments: the PHARE program, ISPA and SAPARD. The aim of SAPARD (Special Accession Programme for Agriculture & Rural Development) was to deal with problems related to structural adjustment of agricultural sector and rural areas, as well as support in implementation of *acquis communautaire* concerning CAP and related legislation. In Bulgaria SAPARD was established by Council Regulation 1268/1999 in June 1999 and the programme financed agricultural and rural development measures from National plan for agricultural and rural development 2000-2006. Priorities areas of the SAPARD program were related to the following areas – improvement of production, integrated rural development, investment in human resources and technical assistance. Since 2000 the already discussed agricultural policy and promoted measures for rural development has brought to positive change in the organizational rate in the sector. Of course this effect could not be estimated equivalently for the different types of production considering that the highest percentage of established producer organizations is in tobacco sector. In 2004 the number of these organizations was 15, mainly registered as cooperatives. The first steps in the other sectors were insecure and rather sporadic - in dairy sector are settled down five producer organizations

and only one is involved in production of meat and meat products. During the period from 2000 to 2006 agriculture created 13 per cent of value added in national economy and had an important role in achieving balanced and sustainable development of Bulgaria's pre-accession endeavours. Support to producers has declined to 6 per cent, market price support accounted for 65 per cent of the PSE. It became obvious that land restitution did not exert positive effect on competitiveness of the agricultural production and stimulation of the export activity.

During the period 2004-2006 EU raised the amount of financial assistance to Bulgaria by an average of 30 per cent. Bulgaria received about € 400 million per year reaching 2 per cent of its GDP. Under its mid-2004 agreement with EU, Bulgaria received 240 million euro on top of the previously announced funding of 4.4 billion euro from the EU's 2007-2009 budget. The South-Central region, South-East region are characterized by highly intensive agriculture, specialized in production of fruits and vegetables; the cultivated area per farm is relatively small but the yields are high. For the producers from these two regions there is a clear tendency for transformation from subsistence to market-oriented farms. The number of agricultural holdings owned by individuals dropped by 7 per cent, but the agricultural area utilized thereby has increased by 13 per cent (Table 1). There was an increase of 34 per cent in the number of agricultural holdings owned by companies and the agricultural area utilized thereby increased by 50 per cent. The number of co-operatives decreased by 24 per cent, resulting in a cut of utilized agricultural area (UAA) by 18 per cent. But they continue to manage the largest part of utilized agricultural area (UAA) – around 24 per cent. Sole traders utilize 14 per cent of the utilized agricultural area (UAA), which is a 15 per cent increase compared to 2005. In the structure of the utilized agricultural area (UAA) in the 2006/2007 marketing year, cereals hold the highest share – 56 per cent, followed by industrial crops – 24, and oilseed production crops – 23 per cent.

Table 1. Structure of agricultural holdings and size of land.

Legal status	Number of holdings		Agricultural land, ha	
	2005	2007	2005	2007
Individual	515,300	476	914,739.5	1,033
Sole holders	2,158	956	354,597.0	468.2
Cooperatives	1,525	1,828	890,870.0	408,786.2
Companies	1,312	1,156	522,559.2	726,305.5
Associations	234	1,763	46,624.5	781,884.5
		217		100,300.7

Source: National Statistical Institute (2009).

Producer decision to become a member in a cooperative or in any other type of collective organization is influenced by different incentives. Economic motive is the most important one, considering expected financial benefits, improvement in production process and management, risk diversification, long-term vision and development strategies. It is reasonable to point out some factors

such as: belonging to a group, received social benefits or overall development of rural areas that could provide for additional incentive to enter in such contract arrangements. Which one of these different aspects prevail depends on the organizational rate, economic development and type of production performed in particular geographic region (Table 2).

Table 2. Specific characteristics of cooperative legal form.

Characteristics	
Capital formation	A cooperative is a voluntary organization with variable capital.
Shareholders' equity	Each member of cooperative should pay a subscription fee and his share of the called-up capital, which forms the capital of the cooperative.
Material liability of organization	A cooperative is held responsible to the extent of its assets.
Material liability of shareholders	A member of a cooperative is held liable to the extent to his share.
Distribution of income, profit and losses	The rules for distribution of income are established by the general meeting. A cooperative is supposed to pay its members dividends calculated on the basis of cooperative's profit.
Covering losses	A cooperative maintains a contingency reserve and other cash funds established by a resolution of the general meeting. Each year a portion of the income (no less than 20 per cent) is deducted towards contingency reserve and is used in cases of loss during a calendar year.

One of the strongest and most influential cooperative organizations in Bulgaria is the Central Cooperative Union (CCU). The Union represents 34 cooperative unions, which bring together 854 cooperatives with 162 000 members; and near 12 000 employees. The registered annual net income increase is 20 per cent. Trade is the fastest growing business activity within the CCU and secures more than 60 per cent of the revenue of the cooperative system. For 2008 the Central Cooperative Union owns 170 warehouses, 3500 shops and its own retail chain, which aims to provide high quality, convenience and lower prices. For 2009 the COOP Retail chain includes 500 stores, spreads on 30000 m² trade areas and supplies 86 commodities under the brand of COOP.

In the last few years the Central Cooperative Union has developed its trade concept and policy; more specifically prices, marketing, logistics and promotions. For 2011 "COOP" retail chain includes 706 renovated stores; registering for the previous year a turnover close to 180 million euros. "COOP" has national commercial contracts with 160 suppliers, while the number of the type of products sold on the market is 120. 60 products are imported under the brand "COOP Premium", which production is organized within the European Community of Consumers Cooperatives - "Euro COOP".

There are several benefits that could be pointed out from organizing trade within cooperative retail

chain. Inclusion of appropriate stores enables timely and efficient management decisions; planning of products' volumes sold on the market, cost optimization and profit increase. It is also important that all of the stores follow and comply with the general price and advertising policy, including: company's requirements and accepted characteristics of the buildings and equipment; implementation of common information system; and products' variety with reasonable pricing. The fact that each of the 706 stores within the retail chain is included in the national suppliers' contracts secures bigger discounts and lower prices.

Besides the positive effect, collective trade organization and management of COOP retail chain is accompanied by serious problems. One of them is that some cooperative managers sell or rent stores instead of developing their own trade activity. This fact limits cooperative retail network and deprive cooperatives to further their development capacity and conditions. The problem reveals as more significant when the leaseholder is another retail company. This way the cooperatives are dislocated from key geographical areas such as small villages and thus they lose important market positions.

Another problem is the decision of some cooperatives to confine within the product range with centralized supply. This limits the assortment list and does not provide for the opportunity to attract more

customers and basically to increase sells. It is also true that some of the Union's members do not consider the common retail policy and apply different marketing decisions and retail strategies for different regions.

One of the main characteristics of the "COOP" retail chain is also a source of adverse effect. This is the fact that the chain is structured mainly in small inhabited regions with prevailing elderly population; with higher share of unemployment and higher relative share of the population with lower incomes. These customers consume limited range of goods and release small turnover. At the same time this is a unique market position which guarantees future for the "COOP", considering the fact that small inhabited places are not included as a priority in the marketing strategies of the bigger "cash & carry" companies. Thus "COOP" retail chain allows for a stable market position in terms of prices and accessibility of the services provided.

Conclusion

The present study is focused on bridging the gap between the economic and social reality and the institutional framework concerning support and development of cooperative movement in Bulgaria. Apparently harmonization of Bulgarian legislation towards European requirements supports, but does not automatically assumes improvement of the sectoral development. Many of cooperative initiatives have emerged from self-incentives of rural groups, and many have been organized, coordinated, and backed up by non-profit development organizations and community. This way cooperative movement has proved through the years as a sustainable way whereby social commitment meets business criteria and market dynamics.

Notes

1. www.farmsubsidy.org
2. Commission Regulation (EC) No 2790/1999
3. Commission Regulation (EU) No. 330/2010
4. Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, Official Journal C 83 of 30.3.2010

5. Council Regulation (EC) No. 139/2004
6. Communication on the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future, COM(2010) 672/5
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8. www.farmsubsidy.org
9. Council Regulation (EC) No 73/2009

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