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**"INCLUSION OF SMALL-SCALE DAIRY FARMS
IN SUPPLY CHAIN IN BULGARIA
(A CASE FROM PLOVDIV REGION) "**

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Outline of presentation

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1. Introduction



The case study is on effective market inclusion of numerous small-scale dairy farms from Plovdiv region (South-central Bulgaria) developed by a private entrepreneur.

“Dimitar Madzarov” LTD was set up in first years of the transition, and successfully expended and modernized up to the highest industry standards.

This enterprise has managed to adapt to dynamic market and institutional environment governing effectively relations with supplying farmers and downstream partners.

2. The major features of the new business model



? Starting up and developing a competitive dairy processing enterprise for locally produced milk.

More than 1000 livestock farms located up to 30 km supply the dairy, most of them being semi-market and small-scale holdings (49% are with less than 5 cows and 39% with 5-10 cows).

Processed milk has risen 20 folds since the beginning and reaches 50 tons a day.

Production comprises cow (60%), sheep (30%), goat (8%) and buffalo (2%) milk processed in a big range of traditional and original products - brined cheeses, yellow cheeses, soft cheeses, processed cheeses, curds, butter, katuk etc.

2. The major features of the new business model



? Installing collecting, cooling, and controlling facilities for all kind of raw milk in the neighborhood to small-scale farms as well as within groups of farms and bigger farms.

The company has built 80 terminals in different locations in proximity of the dairy farms. Raw milk is collected by the dairy trucks daily or every other day.

All of them are equipped with 2-3 tanks for milk, and staff and devices for analyzing major indicators of delivered milk. In addition, 150 tanks have been installed within individual or groups of dairy farms. They have been rented for free to farmers and entirely maintained by the company.

2. The major features of the new business model



? Modernizing milk supply and processing quality according to the top industry standards and the superior EU requirements.

The dairy is among the few Bulgarian enterprises which introduced the high international quality standards (such as HACCP, Good Production Practices, and ISO 9000), and got a license for EU export. Currently, a third of the processed milk fully corresponds to the EU requirements.

2. The major features of the new business model



? Establishing an effective system for governing relations with individual farmers.

- building a good reputation and trust, using written delivery contracts, effective payment mode;
- providing regular group discussions and training of farmers, providing assistance in construction and preparation of public support projects, interlinking an interest-free crediting (advance payment) against marketing of milk;
- verification (quality tests) and registration of delivered milk by each farm, punishment for offenders, differential prices stimulating the enlargement of farms and milk supply.

2. The major features of the new business model



- *Setting up a company mark and an own label, and building a reputation for high quality and authentic origin products.*
- *Introducing a great variety of specific, original and locally produced dairy products in a big selection of packages into regional, national, and international markets.*
- *Marketing of the great part of dairy output is governed through long-term delivery contracts with leading food stores (60%) and exporters (30%).*

3. The inclusion of small-scale producers



- The inclusion of small-scale producers has been proved by a specially organized farm survey. It confirmed that a great part 94% of the suppliers are holdings with few heads of animals.
- More than a half of the holdings intend to extend the current farm activity, and 30% aim at keeping activity unchanged. Besides, majority of them are planning to modernize their farm. Furthermore, a 20% extension of capacity of the dairy is being carried out. Both owners of the dairy and farmers envisage a closer integration in the future.
- The adaptation to the new dairy and formal requirements is being associated with additional costs and investment, and raising amount and intensity of labor.

3. The inclusion of small-scale producers



Major factors for the new business model:

For the dairy manager:

- Improving experience and skills, building a good reputation;
- Introduce high technological discipline and effective control;
- Introduction of innovation, as well as development of markets and formal regulations.

For the farmers:

- Improvement own experience and skills, farm development,
- Closer integration with the milk processing plant, and respecting laws and private contracts.

3. The inclusion of small-scale producers



All surveyed farms declare having a high capacity for adaptation to new EU requirements and expect positive impact of CAP on their income, product quality, volume of production, improvement of animal care, and social status of farm household. All these suggest a great sustainability of the business enterprises, participating farms, and their integration.

Crucial for the success of farmers integration would be:

- *investment in relation specific capital* such as good reputation, near or on-farm milk collecting facilities, training of farmers;
- *building effective communication, stimulation, control, payment and sanction mechanisms;*
- *interlinking marketing of milk supply* (by farmers) *with a credit and service supply* by the dairy.

All these would develop mutual trust, overcome uncertainty and risk, stimulate dairy specific investment by farms and minimize costs of transactions, facilitate and intensify bilateral trade.

4. Conclusions



Effective public and/or international assistance policies could considerably accelerate the successful replication.

- *First of all*, such policies should be directed to support private initiatives and entrepreneurship;
- *Secondly*, no restrictions have to be put on business entrepreneurs to invent and apply effective private governing modes with suppliers and buyers which most suit to the particular conditions of their mutual trade;
- *Third*, identification of big transaction difficulties (“failures”) in market and private transactions between farmers and processors, and assistance through market and price information, setting up and enforcing prospective quality and safety standards, independent control and arbitration, price stabilization schemes etc;

4. Conclusions



- *Forth*, considerable efforts is to be put on small-scale farmers information on market and business opportunities, training in farm (business) management and contracting, providing technical and financial assistance for adaptation to new consumers, processors, food chains, export, and institutional requirements;
- *Fifth*, when certain “public goods” are to be supplied by farmers (e.g. preservation of environment and biodiversity, keeping traditional productions and varieties etc.) they have to be effectively funded by the state budget.

4. Conclusions



- *Finally*, public support is to be provided to grouping, cooperation, and association of small-scale farmers through assisting initiation, registration, and organizational development; providing (public) independent control and tax breaks; and funding common projects and collective actions etc.
- *Furthermore*, public support is to embrace larger joint initiatives and collective actions of farmers *and* rural actors – projects for environmental and biodiversity preservation, integration of farming with agro-tourism and retailing, other agrarian and rural development plans.



Thank you for your attention!