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CREDIT COOPERATIVES IN BULGARIA AND ROMANIA: HISTORICAL DEVELOPMENT AND CONTEMPORARY CHALLENGES

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ABSTRACT

The paper aims at exploring the emergence and evolution of cooperative credit institutions (particularly agricultural credit cooperatives and rural popular banks) in two Balkan countries (Bulgaria and Romania) during different periods of their socioeconomic development (Ottoman, capitalist, socialist and post-socialist/capitalist) from the second half of 19th century till nowadays. Rural credit cooperatives and popular banks became the most widespread and important lending institutions to the peasants from the beginning of 20th century to WWII. The paper discusses the dominant role of the state in the proliferation of credit cooperatives in Bulgaria and Romania which predetermined similarities and divergences in their institutional paths of development. Furthermore, I am interested in the major causes for their disappearance in the post-socialist period as well as the main challenges to credit cooperatives today.

Keywords: Rural Credit Cooperatives, Popular Banks, Balkan Countries, Agriculture, Socioeconomic Development

JEL Classification: N53, N54, P13, O13, R51

Introduction

The Covid-19 pandemic has had very strong negative impact on the economies and societies in Europe and in the world. The epic challenges to the production, employment, incomes, wellbeing have provoked a massive state financial aid to the enterprises and households which has led to the rapid deterioration and further worsening of fiscal positions (high budget deficits and huge amounts of sovereign debts) in the developed and developing countries. Similarly, to the global financial crisis (2008) the Covid-19 crisis has shown that the state and/or the market cannot solve the major socioeconomic issues.

In these challenging times, the organizations of social and solidarity economy (SSE) can play an important role. It is noteworthy that in Europe the sector has enjoyed a great dynamic since the beginning of 21st century, and particularly since the outbreak of the global financial crisis. The self-organization, inclusive nature, mutual aid, solidarity, democratic management, primacy of people over capital which are peculiar to the SSE organizations make them more effective in meeting people's unsatisfied and growing needs of social services, care and jobs. In this regard they contribute to reducing unemployment, poverty and inequalities and promote social inclusion of vulnerable groups in the society.

In the Balkan countries the SSE is still an emerging and fragile sector. Cooperatives have played a crucial role, especially in the development and modernization of the agriculture from the beginning of 20th century until WWII. Bulgaria, Serbia and Romania were agrarian countries (peasants counted 80% of the population) which struggled to cope with their economic and social backwardness. The proliferation of the cooperative movement was triggered by the transfer of European ideas and institutions as well as by the political, economic and cultural specificities of the Balkan nations.

The paper aims at exploring the genesis and evolution of cooperative financial institutions (agricultural credit cooperatives and rural popular banks) in two Balkan countries (Bulgaria and Romania) during various periods of their socioeconomic development (Ottoman, capitalist, socialist and post-socialist/capitalist) from the second half of 19th century till nowadays. Rural credit cooperatives and popular banks became the most widespread and important lending institutions for the peasants from the beginning of 20th century to WWII. The study discusses the dominant role of the state in the proliferation of credit cooperatives in Bulgaria and Romania which predetermined similarities and divergences in their institutional paths of development. Furthermore, I am

interested in the major causes for their disappearance in the post-socialist period as well as the main challenges to the sector. The paper is motivated by the fact that such studies are still rare in the two Balkan countries, against the background of the dynamics in Europe, as well as the centuries-old national traditions in this field in Bulgaria and Romania. It aims to fill the gap in the existing academic literature and to attract the interest and increase the knowledge among scholars, policy makers and citizens in Europe.

The first part of the paper deals with the genesis of credit cooperatives in Bulgaria and Romania during the Ottoman rule (XIV-XIX). The second part is dedicated to the role of the state in the development of the cooperative credit sector during the capitalist period (1878-1944) as well as the socialist period (1945-1989). In the third part contemporary issues and challenges (after 1989) to the cooperative financial institutions are discussed.

Analytical framework

The birth and evolution of ideas and institutions results from changes in culture, economic realities and politics, geopolitical orientation and economic processes, as well as from the mutual influence and interaction among countries over time. In Europe, we have observed a constant influence and transfer of ideas and institutions from the developed European countries (central, core countries) to the Balkans (European periphery) throughout history.

The institutional approach deals with social rules and institutions in economic analysis. It explores the interaction between theory and history, which leads to the development of concepts and analyzes historically based. The institutional approach makes it possible to study the various groups of factors, incentives and constraints on the emergence and development of the cooperative financial institutions in the Balkan countries. In this paper institutions are regarded as organizations and their rules, or collective action, limiting or increasing individual action

¹. I distinguish between informal and formal institutions. Informal institutions are considered to be unwritten norms, spoken mutual codes of behavior and mutual and cultural relations imposed over the time. Unlike them formal institutions are written norms, laws, regulations, etc. They determine legitimacy and illegitimacy in the society and the economy (North, 1990).

¹ See Chavance (2012) on John Commons' institutional theory.

I study the credit cooperatives as inclusive institutions because of the principles and values on which they have functioned: voluntary participation, autonomy, self-management, democratic governance, mutual aid, solidarity. Inclusive economic institutions allow the participation of a large number of people in economic activities, they are non-discriminatory, autonomous and democratic. They work in people's interest and satisfy their needs. Unlike them extractive economic institutions are imposed and controlled by the state. Moreover, the authorities use them to achieve their political goals and those of a certain group of people. The extractive economic institutions derive income and wealth from one part of society and benefit another one (Acemoglu, Robinson, 2012).

I study the development of an initially informal and inclusive institution such as zadruga in the Balkans during the Ottoman Empire, in a formal and inclusive one (agricultural credit cooperatives and popular banks) which functioned on its own rules and was completely independent from the state. Over time, however, the public authorities succeeded in regulating, controlling and capturing its resources for political purposes, transforming it into an extractive economic institution (labour cooperative agricultural farms), imposed and fully governed by the state.

The paper is also based on the historical method. It discusses the evolution of the cooperative financial institutions and their trajectories during different periods of the political and economic development of the Balkan states: pre-capitalist/Ottoman (XIV-XIX), capitalist (1878-1944), socialist (1945-1989) and post-socialist (after 1989). It studies similarities and differences between the two countries and tries to find out if the current state of the art and trends in the sector can be explained by path dependence.

Genesis of credit cooperatives in Bulgaria and Romania

The cooperative spirit and mutual aid are deeply rooted in the past of the Balkan states. The traditions and economic advantages they brought to the population during the Middle Ages and later during the Ottoman rule² were the main prerequisites for their widespread and importance, especially in the villages where

² The Bulgarian territories remained part of the Ottoman Empire from 1396 to 1878. The unification of the autonomous principality and Eastern Rumelia took place in 1885. In 1908 Bulgaria declared itself fully independent. Unlike Bulgaria, the Romanian territories came under Ottoman suzerainty in the 15th and 16th centuries, but they retained relative autonomy. In 1861, the Romanian United Principalities were established by the union of Moldavia and Wallachia. They were renamed Romania in 1862. Bulgaria and Romania became independent after the Russo-Turkish War, 1877-78.

the dominant part of the population lived in extreme poverty, cultivated land with primitive means. Peasants suffered under the heavy tax burden imposed by the state and depended strongly on usurers.

The oldest forms of economic associations in the Balkan countries were: *zadruga*, *clăca*, *ezătoare* (Romania), associations of fishermen, sheep breeders, etc. They emerged freely and spontaneously in the conditions of a closed, natural and non-market economy. These were collective forms of economic life, informal institutions of mutual assistance based on trust, common property, common production and common consumption, profit sharing according to the contribution of each member, etc. The appearance of the collective economic forms resulted primarily from the need to overcome the economic and financial restrictions faced by the population in the empire.

The *zadruga* was a typical Slavic community for collective work in agriculture. It evolved on the basis of the so called “extended family” in which families lived together and “they ate from one casserole” (Iorga, 1929). Each member worked according to his ability and received according to his needs (Popov, 1900). According to Lavaley (1888) and Novakovitch (1905) this ancient cooperative form was most often scattered in the Bulgarian, Serbian, Albanian territories and less disseminated in the Romanian lands³. Although *zadruga* developed rapidly during the Ottoman period, many authors argue that its origin should be traced back to the Illyrians who inhabited the western Balkan peninsula in ancient times. Iorga (1929) claimed that even though *zadruga* still existed in the Balkan region in the 19th century, it was very rarely found in the Romanian lands due to the peculiarities of its socioeconomic organization. Mitrany (1930) insisted that cooperation developed on the basis of the old village organization (feudal-agrarian foundations) “*almost everywhere the social duty of helping one's neighbour still finds expression in the clăca, when the villagers work together for each other in turn; and in the ezătoare held of a winter night, when under singing and joking of the young men the women and girls of the village diligently carried out together some piece of handiwork*”.

In the second half of 19th century, in the Bulgarian territories the primitive cooperative forms began to transform and adapt to the needs of the emerging market and monetary relations in the Ottoman Empire, under the influence of the central Turkish authorities. The Tanzimat reforms⁴ gave the right to the Christian

³ In Romania it was called *falcare*.

⁴ The Tanzimat period of the Ottoman Empire lasted from 1839 a 1876. The reforms were aimed at the adoption of the new legislation based on the principle of securing the existence, honor and property of all subjects. The tax laws and the legislation on conscription were

population to participate in local reform councils and to rent land, which in turn exacerbated the need for capital and led to an increase in credit demand. Most often the interest rate of the lenders was between 25% and 50%, and under the *zelenicharstvo*⁵, the peasants had to pay back two to three times or even more the amount of the loan (Konstantinov, 1910). According to Hristoforov (1946), the interest rate determined by the lenders was 100% to 150%, and according to Zahari Stoyanov, it was as high as 800%.

In the Bulgarian territories, in the 1860s the poor conditions and the heavy financial burden of the peasants were among the major reasons for the Turkish authorities to establish the first formal credit institutions (*public utility credit funds*) in the villages to provide the population with cheap and accessible loans⁶. They adopted some of the principles of the Raiffeisen saving and credit associations which emerged in the 1850s in Germany and spread in Europe. They were introduced in the Ottoman Empire by the Turkish statesman and reformer Midhat Pasha (1822-1884), one of the founders of the Tanzimat reforms and Governor of the Danube *Vilayet* where the first credit institutions were founded⁷.

Public utility credit funds were engaged in lending operations. They were not banking institutions. The funds extended two types of loans - personal and real. The interest rate was determined by a sultan's firman⁸. People's participation in the capital was not voluntary and farmers could not withdraw their membership. The raising of capital was mandatory. The money brought in by the peasants remained their property. These funds were created on a small geographic area of activity, member participation in capital and solidarity but they were state dependent.

After the Liberation (1878), the *zadruga* disappeared to pave the way for the modern cooperatives already existing in Western Europe (France, Germany, Italy). The newly established state had no sources of revenue, no tax system and financial institutions. The banking system was non-existent and capital was insufficient to promote economic development⁹. It was a question of developing the monetary and credit sector, in order to mobilize capital for the investments that were

revised. The agricultural tax system was abolished and each citizen was taxed in proportion to his means (Inalcik, 2008; Kılınçoğlu, 2015).

⁵ *Zelenicharstvo* - a form of loan in which peasants who needed credit sold their future production to a lender, who sold it at a higher price.

⁶ See Daskalov 1912, Palazov 2005[1935]

⁷ See Bakurdjieva, 2009

⁸ A firman was a royal warrant or decree issued by the sultan in the Ottoman Empire.

⁹ It was not until the beginning of 20th century that foreign capital flowed into the country (the first large foreign-owned private bank was established in 1905) (Kurkliński, 1941)

indispensable for the industrial development and the modernization of the Balkan region. The first credit cooperatives emerged from the grassroots and were inclusive institutions as the membership was voluntary, each member had the right to participate in the decisions (one member-one vote) and to receive loans on common requirements, etc. Financial cooperatives developed the following principles: self-organization, solidarity, autonomous and democratic management. These were the major preconditions for their rapid growth and dissemination in the villages.

In Bulgaria, the agricultural credit cooperatives became the only institution providing cheap and accessible loans to peasants to combat usury and develop small farms and agricultural production. The first agricultural credit cooperative "Oralo" emerged in 1890, in the village of Mirkovo, not far from Sofia. It was launched by two intellectuals (Todor Yonchev and Todor Vlaykov) who during their visits in Western European countries got acquainted with the principles and practices of the Raiffeisen saving and credit associations and transferred them to Bulgaria. This was a lending institution and it was not before the beginning of 20th century, that rural cooperatives developed into multi-service cooperatives that supplied consumer goods and machinery to farmers. They also performed cultural, educational and complementary activities for the rural population.

In Romania, usury, heavy tax burden and exploitation were also among the major causes for the emergence of the modern cooperatives. The cooperative idea penetrated into the Rumanian provinces by the Saxon colonists in Transylvania who were acquainted with the Raiffeisen saving and credit associations as well as with the Schulze-Delitzsch popular banks in Germany. The first popular bank was established by the Transylvanian leader Visarion Roman in Rășinari in 1868 but it differed in many ways from the German cooperatives. According to the famous Romanian scholar and economist Mitrany (1930) the Aurora popular bank of Nasliud, created in 1873, played the biggest role for the development of the Romanian cooperative movement because it served as *"a model for the establishment of the rural cooperative banks in the Old Kingdom from which the whole cooperative system, as it now exists, has sprung"*. The experience with the Transylvanian cooperatives was used in the foundation of the popular bank 'Dumitra' of Dara in October 1891 which was the first popular bank that supplied credit to the farmers. Popular banks were established in the mountain districts where the peasants were relatively better off and enjoyed a less dependent social standing than their fellows lower down in the cornlands. Similarly, to Bulgaria, the first cooperatives had limited number of members and capital and faced many difficulties such as the poverty or the distrust of the peasants. A rapid growth in the numbers of these institutions and their members was recorded between 1900

and 1902, thanks to the activities of two Ministers of Education, C. Istrati and Spiru Haret.

Unlike Bulgaria, in Romania the first private banks that extended loans to farmers appeared earlier. In 1873, big landowners, burdened by a huge debt, created the *Crédit Funciar Rural* thanks to state support. Its main purpose was to provide loans to its members at interest rates significantly lower than those charged by lenders or the new commercial banks. *Crédit Funciar Rural* was effective in relieving the debts of landowners. The bank extended short term loans as well as long-term loans of 10 to 60 years. The loans were guaranteed by the owners with a mortgage on their property and had to be repaid in annual installments until the debt was extinguished. The borrower was granted a loan in the form of a land certificate issued by the institution at a market-based interest rate.

The role of the state in the development of cooperative credit institutions during 20th century

From the beginning of the 20th century, the Balkan countries began their industrialization and modernization within the framework of peripheral and dependent capitalism in which the state played a crucial role in the economy. The cooperative movement enjoyed the trust and support of a large part of the population. The rapid development of cooperative credit institutions played an important role in the establishment of the financial system and national economies, as well as in reducing their backwardness to the European countries. Since A. Gerschenkron (1962) and even earlier, it is known that the state has played a major role in the backward countries on the road to economic development and capitalism. The two Balkan countries were not exempt, although each country had its own specificities. However, capitalist relations developed in close relation to the gradual acceleration of the state control and capture of the resources of the cooperative institutions. State interference increased especially during crisis and wars that the Balkan countries faced from the beginning of 20th century to WWII. The profound agrarian reforms implemented in Bulgaria and Romania after WWI led to immense changes in the rural cooperative movement and to the proliferation of credit cooperatives. During the Interwar period the state gradually limited their autonomy and regulated them and managed to transform them into extractive and nondemocratic organizations.

From the Liberation to the WWI (1878-1914)

Bulgaria developed a small-scale agriculture after the Liberation. One of the first political priorities became the development of the agricultural credit. The

centralization of the cooperative sector by the state began immediately after the Liberation when the existing public utility funds were transformed into agricultural funds. One of the first legal acts was related to the establishment of the agricultural funds (Agricultural Funds Act of 12 July 1878). Later on, the law of 1894 entrusted the management of the agricultural funds to the Minister of Commerce and Agriculture. They were funded by the Bulgarian National Bank (BNB). Agricultural funds were exclusively lending institutions for personal credit. Interest rates on loans, were set administratively and could not exceed 9% per year. The agricultural funds granted only short-term loans (from three months to one year) to the peasants.

At the beginning of 20th century, there were 799,115 farms, of which 697,629 were small. The number of farms credited by the agricultural funds reached 265,028 (37% of all farms). Vasil Tantilov argued that the role of agricultural funds in the economy remained limited (Journal of the Bulgarian Economic Society, 1906). Nevertheless, Angel Daskalov (1912) claimed that the state became the only source of financing for peasants and credit cooperatives. Loans were granted for productive purposes, for the provision of land as well as for important improvements and modernizations of farms.

The first major institutional change in the cooperative financial sector occurred with the transformation of the agricultural funds into a banking institution¹⁰. In 1903 the Bulgarian Agricultural Bank (BAB) was created. It was a state owned bank which aimed to implement market principles in its credit policy. The BAB provided loans to rural credit cooperatives, attracted their savings and increased its capital (initially from the Agricultural funds and the Bulgarian National Bank) and redistributive role in the agriculture and the economy. Moreover, the state authorities established a second state bank - the Bulgarian Central Cooperative Bank in 1910 (headed by the Minister of Finance), to strengthen the surveillance on and the regulation of the cooperative sector thus succeeding to enhance their role in directing cooperative financial resources for political purposes (financing of the state budget and municipal projects). The BAB extended loans on the security of livestock, crops, agricultural tools and machinery, raw and processed agricultural products. The governor and directors were appointed by the Minister of Commerce and Agriculture and could not be dismissed without the approval of the National Assembly. Despite the capital increase and the total amount of credit, only 30% of the farmers benefited from cheap loans during the first decade of BAB's activities. Interest rates on BAB deposits and loans were 1% to 2% higher than those set by the Bulgarian National bank (BNB) while the interest rates on

¹⁰ See Nenovsky and Marinova, 2017

loans were much lower (8% to 9%) than those of the private banks (16%) in the country.

During 1899-1907, the number of agricultural credit cooperatives increased from 4 to 238 and their members from 236 to almost 20 000 in 1907. By 1909, the total number of cooperatives augmented to 604. Credit cooperatives accounted for 559 of the total number of cooperatives. During 1904-1910 period, the number of cooperatives that borrowed money from the BAB increased fivefold, and the total amount of loans increased more than tenfold. (Palazov, 2005[1935]). Despite the upward trend towards modernization of the agrarian sector, Bulgarian agriculture continued to be extensive and at a low technical level. In 1910, only 18% of the farms had ploughs, unevenly distributed among the regions and villages (Berov, 1989).

Cooperative credit became an essential part of the BAB's credit policy, while the cooperative movement rapidly developed after the adoption of the Cooperative law in 1907. That was the first legal recognition of the cooperatives. The law adopted some of the best European legal practices at that time (it was based on the German and Hungarian cooperative laws). Furthermore, the General Union of Bulgarian Agricultural Cooperatives was established to promote cooperative credit in the country.

The Cooperative law gave a strong impetus to the emergence of popular banks in the rural and urban areas. They were created on the popular banks set up by Luigi Luzzatti in France and Italy. The popular banks appeared later (the first one in 1903) than in Western Europe, for two reasons: on the one hand, crafts were underdeveloped during the Ottoman period and, on the other hand, the break-up of the Ottoman Empire and the competitive pressure of European manufactured goods had led to the destruction of the markets. These banks, which were mainly composed of craftsmen and small traders, were established on the principles of mutual aid, democracy and self-management. They gradually became a powerful tool in the fight against usury and capital shortage for the artisans and small tradesmen. Similarly, to the rural credit institutions, the purpose of urban cooperative banks was not to make a profit. The dividend of individual members was legally limited to 8%. Popular banks were also engaged in commercial operations, assisting in the opening of stores, collective sales and distribution of products, etc¹¹.

¹¹ See Palazov 2005[1935], Marinova, Nenovsky, 2017a

In Romania, after the Liberation, credit demand increased and usury proliferated in the rural areas (the interest rate reaching 50% between 1878 and 1880). These were among the main reasons for the establishment of the Romanian National Bank (RNB) in 1880 which became the leading credit institution before WWI¹².

The first attempt by the state to regulate cooperatives was made in 1887 by the adoption of the Commercial Code. Later on, the first legal act on popular banks was elaborated in 1903. The cooperative agricultural credit was provided by the popular banks and the Central Office of the Popular Banks and Village Cooperatives. The main purpose of the law was to coordinate the cooperative movement but in the course of time the state placed the whole sector under its control (by 1918). The Central Office of the Popular Banks and Village Cooperatives was a State institution destined to control, to guide, and to provide capital to the rural popular banks. Although the law determined three types of popular banks (not all of them being Raiffeisen type), it promoted only the banks whose capital did not consist of shares, the members being jointly and fully responsible for all the activities of the bank. The Minister of Finance had the right of veto to its decisions. The Central Office was entitled to advance to them the necessary capital (Mitrany, 1930). These popular banks had to fulfill criteria such as: at least 50% of the net annual profits should be used to create a reserve fund, and funds should not, in case of liquidation, be distributed among the members, but for purposes of communal utility; the administration of the bank, with the exception of book-keeping, should be voluntary. The banks were obliged to communicate their statutes and their balance sheets to the state. In turn they received capital and tax exemptions. The amendment of the law introduced in 1908 stipulated that all popular banks which did not charge a higher interest rate than 10% were to be exempted from certain tax payments.

In 1898, there were only 154 popular banks, 128 in the cities and 26 in the villages. In 1904 the total number of popular banks in the country grew to 1625 reaching 2903 in 1913. The number of their members amounted to 121 786 in 1904 and increased to 583 632 in 1913 (Mitrany, 1930). Many of the popular banks from a district were grouped in federals in order to get easily financial support from the Central Office. In 1908 there were eight federals consisting of twenty popular banks. In 1914, the number of federals rose to fourteen grouping 431 popular banks.

Interwar period (1919-1939)

¹² The RNB extended credit to private banks (Creditul Agricol Bank, Banca Agricolă) which lend money to large landowners. They provided loans for agricultural works and land cultivation sold by the state at the end of 19th century (See Dăianu, Stoenescu (Eds), 2018).

In the interwar period, credit cooperatives in the two Balkan countries experienced a boom due to the strongly encouraging state policy as the state set as its main priority the implementation of a deep agrarian reform after the end of the WWI.

The agrarian policy in the Balkan countries was a result of the strong influence of the agrarian ideology, especially in Central and Eastern Europe. Agrarian movements and parties put at the center of their ideas cooperatives. The Bulgarian and Romanian agrarian leaders were influenced by the ideas of the French theorists of cooperatives (Charles Gide, Ernest Poisson, etc.), as well as from the Russian *narodnichestvo* (Nikolay Chernyshevsky, Mikhail Bakunin). They adopted the idea of establishing a "cooperative order", "a cooperative state", "a cooperative democracy" or a "cooperative republic" based on the development of all types of cooperatives, was widespread in the Balkans. The Balkan agrarianism distinguished itself by a certain degree of autonomy from the Western and Eastern European ideas. For example, it considered cooperativism to be the "third path" between liberalism and socialism. The cooperative doctrine was primarily based on rural (credit and merchant) cooperatives of small-scale producers, which predominated in rural conditions and had a definite social dimension (Daskalov, Mishkova, 2014). Lyuben Berov (1989) claimed that the third way was typical for countries with the following features: less developed economy (high share of the population employed in agriculture and GDP, mainly small farms and the existence of *zadruga*).

The Balkan agrarianism was based on small and medium property, and the most radical in his views was the leader of the Bulgarian Peasants Party (Alexander Stambolyiski), who believed that peasants should govern the country. During his regime Stambolyiski tried to establish a peasant state. In the beginning of 20th century with a view to implementing its objectives the peasants' party set up the so called *drouzhi* (*local party units*) in every village which were obliged to establish cooperatives (Deyanova, 1935).

In Romania, the agrarian reform after WWI led to the abolition of landlordship and the real emancipation of the peasants. The small rural landowners were granted political rights. It was not until 1918 that the right of the peasant to cultivate its own land was formally recognized, by the Law for compulsory labour (Mitrany, 1930). Although state support for cooperatives led to a loss of their autonomy, their proliferation would not have been possible without the state. The state funding and support became extremely vital shortly before and during the Great Depression.

In Bulgaria, during 1919-1923, the state was governed by the Peasants' Party (*Bulgarski zemedelski naroden sau*). The cooperatives were an integral part of the *theory of estates* developed by the Prime Minister Alexander Stamboliyski who declared himself strongly in favour of the estatist struggle (*suslovna borba*) and aimed at bringing peasants into full power in the country¹³. He insisted that the existing political parties should be replaced by estatist organizations that could best protect the economic interests of the people. Stamboliyski distinguished six estates in the Bulgarian society: agrarian, artisan, wage-laborer, entrepreneurial, commercial and bureaucratic. Each estate encompassed people from the same occupation having common economic interests. He defined the agrarian estate as "*the most important, the most productive, the most useful and necessary, the biggest and the most cheerful and life-giving element in human society.*" The cornerstone of the agrarian policy was the concept of "property based on one's own labour" (*trudova sobstvenost*)¹⁴. This was the property that was directly used by its owners to meet their family needs. The Law on property based on one's own labour provided land to those who cultivated it (to the landless people and small farmers).

According to Stamboliyski cooperatives were the solution to all problems of the peasantry. He considered them as a means for economic advance¹⁵. His government aimed at uniting all the farmers in a national cooperative network. During that period the three state banks (BNB, BAB, BCCB) relaxed the rules and requirements for extending loans to rural cooperatives and peasants were able to borrow much more easily and at lower interest rates. In 1919, the state established a national cooperative for grain sale - Consortium for crops export. The crops purchase from producers became the exclusive right of rural cooperatives. The consortium was an autonomous state-run enterprise financed by the BNB and BAB. In 1920 it became a state-run cooperative monopoly¹⁶.

The Great Depression subsequently substantially increased the indebtedness of farmers and cooperatives, and it became clear that only the state could save them. While there were many bank failures during the Great Depression, most popular banks were able to withstand the crisis (Nenovsky *et al.*, 2008). As the cooperative sector had become more centralized, part of their financial resources were

¹³ The agrarian theory and practice of Alexander Stamboliyski was discussed by Bell, 1977

¹⁴ Developed by Rayko Daskalov, a close friend of Stamboliyski and a Minister of Agriculture in his government.

¹⁵ See Stamboliyski, 1945 [1909]

¹⁶ See Deyanova, 1935.

mobilized to pay off the country's external debt and to stabilize and maintain the exchange rate of the national currency.

The key stage in the "denaturation" of the cooperatives occurred in the early 1930s, when the state united the BAB and BCCB and created the Bulgarian Agricultural Central Bank (BACB) in 1934. It adopted new regulations which severely restricted the autonomy of cooperatives and placed them under its direct control. This process of gradual subordination of the cooperative sector to the state was part of the development of the *dirigisme* as well as the personal regime of the Bulgarian tsar established in the beginning of 1930s. In 1938 the National Assembly passed the Law on the State Supervision of Companies and Associations which gave exclusive rights to the BACB in the establishment, management, control and liquidation of cooperative banks in the country.

Despite the political dynamic and numerous challenges to the cooperative sector, the agriculture recorded a continuous upward trend during the Interwar period (from 14.7 billion levs in 1919 to 31.0 billion levs in 1939). Cheap and accessible rural credit should be considered one of the main reasons for the doubling of agricultural production and the significant increase in per capita GDP in the country. The state cooperative banks played a major role in providing agricultural credit. The table below shows that nearly one out of two farms borrowed from these banks. Nevertheless, the average credit per farm did not rise significantly in the Interwar period.

Table 1: Loans granted by the BAB and the BCCB¹⁷

Period	Total number of farms	Number of farms credited	Percentage of credited farms	Average loan amount per farm in levs
1922-1929	734.000	308.280	42	7.815
1930-1934	905.44	397.913	44	10.615
1935-1938	941.882	309.788	32.9	13.123

In *Romania*, the deterioration of the public finance and the development of the credit system became major issues after the WWI. Similarly, to Bulgaria, the state accumulated huge amount of public debt and had to deal with a considerable devaluation of the national currency on the domestic and foreign markets. The inflation and the lack of capital increased interest rates on the agricultural loans.

¹⁷ Source: Kurklisiiski, 1941, p. 96.

Interest rates on loans ranged between 35%-40%, and in some cases reached 50%-60% before the Great Depression. Small farmers piled up record amounts of debt due to the falling agricultural commodity prices and low property prices that aggravated credit demand and caused default to many peasants.

Similarly, to Bulgaria the state actively encouraged the existing credit cooperatives and the creation of new ones through the adoption of a favourable legislative framework. Nevertheless, Popescu (2007) argued that there was a continuous struggle between the government and the cooperatives as the state tried to establish supremacy, through more interference and tutelage, while the cooperatives desired their autonomy and democratic management. It is noteworthy that controlled cooperation in the Old Kingdom of Romania existed against the background of the autonomous cooperative movement in the new provinces of Bessarabia, Bucovina and Transylvania¹⁸.

The land reform gave a strong impetus to the agricultural cooperatives which had professional, commercial and cultural objectives. They were evolved on the basis of the existing cooperative landholding societies and societies for cooperative land purchase which emerged at the very beginning of 20th century¹⁹. Mitrany (1930) claimed that *“in contrast, however, to this real emancipation of the peasants, through the abolition of landlordship, a more elaborate State control has been imposed upon their associations than they ever suffered before. No other question is so arduously debated within the movement as that of its relations with the State”*. In that conditions even officials from the Central of Agricultural Cooperatives claimed that official tutelage acted as a disguise for political interference.

In 1919 the Romanian government established the Central Office of Peasant Cooperation and Resettlement. The new institution consisted of five departments. Three of them had to execute cooperative policy and to control the cooperative movement: the Central Office of Popular Banks; the Central Office of Village Cooperatives of Production and Consumption; and the Central Office of Village Associations and of Agricultural Exploitations. The following departments were in charge of the agrarian reform: the Directorate for Land Questions and Mortgage Credit, and the Directorate of the Survey.

The Central Office for Popular Banks played the role of a Central Credit Bank for the popular banks as well as for other types of cooperatives. The state interfered

¹⁸ Cooperatives in the three provinces had functioned according to other laws (Russian and Hungarian) before WWI.

¹⁹ The first agricultural cooperative was created in 1921. In 1927 there were 825 in the country.

strongly in the cooperative movement. The bank was administered by a board of fourteen members, seven of whom were elected by the congress of popular banks and their federals, the others being nominated by the RNB.

In November 1928 the National Peasant Party came into power. One of its first political measures was the adoption of a new Cooperative Code²⁰. The code gave more freedom to cooperatives to approve their statutes, to perform various activities, equal votes of their members in the general meetings, to create reserves, to distribute profit, etc. In place of the Central of the Popular Banks the new legal act set up a Central Cooperative Bank. Although the state had its delegates in its management board their voting power was limited to one third of all votes cast at the board meetings. The Bank extended various types of loans to the cooperatives and carried out on their behalf banking operations. The Cooperative code was adopted by the organizations in the new provinces and supported the unification of the cooperative system in post-war Romania.

A Cooperative Central for Import and Export was founded with the financial aid of the Central Cooperative Bank. Unlike in Bulgaria, it was a limited company consisting of those cooperative societies which carried out joint purchases and arranged joint sale of their produce. The Central undertook any commercial operation needed by its members. It sold the harvest, and supplied peasants with agricultural machines and seeds.

Credit unions became the most developed form of rural cooperatives in Romania after WWI till the Great Depression. In 1921 there were 3211, and in 1928 they reached 4810. Their members increased from 705,150 in 1921 to 973,641 in 1928. During 1921-1928 the popular banks increased their capital more than five times, reaching 1,510,790,577 lei in 1928, and the sum of the loans increased more than eight times, reaching 4,142,686,897 lei in 1928. Most of the borrowers, 70% of their total number, took out loans of less than 1000 lei and only 5% of the borrowers received loans of 6000 lei (Mitrany, 1930).

Socialist period (1945-1989)

The Second World War and the subsequent establishment of the communist regime in the Balkan countries marked the beginning of the transplantation of the Soviet cooperative model. It was based on Lenin's cooperative plan²¹ and on the

²⁰ It was elaborated under the supervision of the Minister of Labour and Cooperation Ion Riducanu, a former leader of the cooperative movement.

²¹ See Lenin's Selected Works 1950 [1923])

Bolshevik ideas. This was what one of the most prominent Bulgarian cooperative activists under socialism, Stoyan Syulemezov (1910-1980)²² acknowledged:

"Lenin's ideas about cooperatives were related deeply and permanently to the cooperative movement in Bulgaria and exerted immense influence on its development along the path to socialism" (Suylemezov, 1975)

The existing cooperatives were considered as a transitional economic institution from capitalism to socialism. That was how the communist leader Georgi Dimitrov (1882-1949)²³ defined the co-operative:

"The cooperative is a powerful tool for political and economic education of the people and for the transition to higher forms of cooperation. It is an organization of the broad people's masses. It should play an important role in the building of the national economy. The cooperative must participate in all important spheres of the economic, every day and social life: production, supply, housing, crediting, improving the living conditions of the population" (quoted in Syulemezov, 1975).

The land collectivization, the nationalization of the means of production and the banking sector, and the implementation of the state planning in the economy became the main features of the communist regime in the Balkan countries. The existing cooperative model was incompatible with Soviet ideology, institutions and political and economic practices. A radical institutional change was imposed by the transplantation of the Soviet cooperative model. Cooperative financial institutions were transformed according to socialist laws and principles and became part of the public sector of the economy. The creation of labour cooperative agricultural farms based on the *kolkhozes* was a clear manifestation of the decomposition of the cooperative model and its destruction²⁴. Unlike the cooperatives the labour cooperative agricultural farms functioned according to the following major principles: mandatory membership, statute adopted by the state,

²² Stoyan Syulemezov was deputy minister of agriculture and vice chairman of the State Committee of Planning. In 1967 he was elected chairman of the Central Cooperative Union. He was member of the Central Committee of the International Cooperative Alliance.

²³ Georgi Dimitrov was a politician, leader of the Bulgarian Communist Party (BCP) and Chairman of the Comintern (1935 – 1943). He was the 32nd Prime Minister of Bulgaria during 1946 – 1949.

²⁴ See Marinova, Nenovsky, 2019

no private property on land, cattle and means of production, state funding, collective cultivation of land, state administered prices on the agriculture produce, etc. As a result, cooperatives lost their autonomy and democratic character and became *forms without substance*²⁵. In the beginning of the 1980s Bulgaria became the only socialist country in Central and Eastern Europe where private and cooperative property on land did not exist (Popov, 1990).

In Romania, the building of the socialist, planned economy after WWII had many similarities with Bulgaria, but also some peculiarities. Similarly, to Bulgaria the beginning of the socialist transformation of agriculture began with the establishment of labour cooperative agricultural farms. Collectivization was initially slow, but in 1957 the process accelerated. Until 1962, when around 93% of Romanian agricultural land was integrated into collective structures. Meanwhile, the Romanian government tried to emancipate itself from the Soviet Union and this was noticeable in the mid - 1950s. Unlike in Bulgaria private ownership of the land was not completely abolished. The public sector in the economy and in particular in agriculture developed together with cooperative and the private sector.

Challenges to credit cooperatives in the post-socialist period (after 1989)

After the fall of communism in 1989, the Balkan states embarked on a rapid implementation of market economy principles and private property through price liberalization and privatization. The labour cooperative agricultural farms were officially dissolved and private ownership was established.

In the 1990s, the first SSE organizations and projects funded by foreign NGOs, the European funds and USAID emerged. On the one hand, the SSE has developed due to the geopolitical orientation and European integration of Bulgaria and Romania, on the other hand, the sector has revealed specificities stemming from the political and economic history and the culture. Solidarity, mutual aid and collective spirit from the past have been superseded by individual pursuit of profit and welfare. Despite the rejection and opposition to state intervention in the economy, the majority of people still believe that the state should solve economic and social problems. Furthermore, cooperatives have been linked to the socialist period and modern cooperative ideas and practices have not been of interest and have been even rejected by the big part of the population. In this regard we

²⁵ On the transfer of Western models on the Balkans in the beginning of 20th century see Daskalov, Mishkova, 2014

consider the path dependence which has predetermined current trends and attitudes.

It is noteworthy however, that the first laws related to the SSE have been on cooperatives. In Romania, the law on consumer and credit cooperatives was enacted in 1990. In Bulgaria, the cooperative law was adopted in 1999 and has been amended several times to reflect modern European practices²⁶. The country suffered a deep economic and financial crisis in the mid-1990s that led to the implementation of the Currency board (in 1997) and the execution of an orthodox monetary policy and a conservative fiscal policy. The fiscal and monetary restrictions have limited the state capacity to implement and conduct active and effective social policy in the framework of growing poverty, inequality and exclusion from the labour market of large groups of people. However, cooperatives have been underdeveloped except for the cooperatives of people with disabilities. Moreover, cooperative financial institutions which were destroyed during the socialist period, have not revived. This can be explained by the unfavorable legal environment that subjects them to the same regulation as private financial institutions, the lack of political will and the poor administrative capacity to execute an effective and adequate policy in this field as the individualistic spirit among the people.

Similarly, to Bulgaria in *Romania*, cooperatives and popular banks still face an "identity crisis" marked by the transition from the state and cooperative ownership to the private ownership and market economy. Nevertheless, studies show²⁷ they could play an important role in the country's economic development, especially in rural areas, as they offer small local producers or consumers the opportunity to act together in conditions of market failure and to gain better access to markets. They are considered as important drivers of local development by supporting entrepreneurship and job creation.

It is also noteworthy, however that new types of social financial institutions have emerged in the country. They are constituted as non-profit associations divided into two categories: mutual aid houses of employees (by the Law No. 122/1996) and mutual organizations of pensioners (by the Law n ° 540/2002). They are registered as non-bank financial institutions by the NBR. The mutual societies provide financial services (small loans) to their members, social services, health care and perform cultural and recreational activities, etc. They are not allowed to distribute profits to their members (Lambriu, Petrescu, 2019). The number of

²⁶ Cooperative law accessible at : <https://www.lex.bg/laws/ldoc/2134696966>

²⁷ See Barna, Vameşu, 2013

mutual aid societies has been growing rapidly in Romania. For example, during 2000-2017, the number of mutual associations increased from 1306 to 2450.

Concluding remarks

At the end of 19th century and during the first half of 20th century the financial cooperatives in the Balkans have emerged as social and inclusive institutions based on self-organization, solidarity, autonomous and democratic governance. Over time, the state has imposed many regulations and managed to control them in order to seize and redistribute their capital and resources primarily for political purposes. During the capitalist period, the main instrument of strengthening and enforcing the state interference in the sector has been the establishment of state-owned banks, which funded cooperatives and attracted a big part of their savings. During the socialist period the existing cooperatives and their resources were captured and nationalized. The paper illustrates the decisive role of the state in the process of reshaping and transforming an inclusive and formal institution (agricultural credit cooperatives and popular banks) into an extractive institution (labour cooperative agricultural farms) during 20th century. It shows that the institutional trajectories of credit cooperatives in Bulgaria and Romania have been determined by the governments and their public policies. Moreover, it also argues that the transfer and implementation of foreign cooperative models from the Western Europe and Russia have had a strong impact on the cooperative movement in the European periphery. In this regard the paper evokes questions about the preservation of the values and principles and the sustainability of inclusive institutions in time as well as about their interaction and relations with the state especially in poor and developing economies. What role should the state play in the development of cooperatives and other SSE organizations?

Despite the ongoing process of building a favourable ecosystem of SSE organizations in the two Balkan countries, cooperatives are still not regarded as an alternative economic institution and a competitive business model to the traditional (capitalist) enterprises. Nevertheless, prospects could be traced in several directions. First, the current economic and social challenges to the European countries reveal that civil society organizations could support and complement government actions and policies to combat unemployment, poverty and social exclusion. Undoubtedly, the EU policies will continue to play an important role in the institutionalization and funding of SSE in the Balkans which should be used to promote cooperatives in the Balkans. The pandemic provides further opportunities to the SSE to reveal its potential and strengthen its contribution to economic recovery and post Covid-19 development. Second, public authorities should support and promote cooperatives more actively through

legislative measures, information campaigns, education and training especially among young people. Stronger coordination and interaction among the public, the private and the third sector to meet people's needs for jobs and decent living. Third, it is indispensable to study the role of cooperatives and good practices in the developed European countries and to promote cooperation and various types of cooperatives in the Balkans.

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