Agricultural Cooperative Credit in Bulgaria and Serbia from the Ottoman Period to WWI: Institutional and Comparative History*

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ABSTRACT

This article offers a historical overview of the development of agricultural cooperative credit in the Bulgarian and Serbian lands from the Ottoman era to World War I. Essentially, we present an institutional and comparative analysis of the genesis, transformation and forms of agricultural cooperative credit over the long term, its driving forces and mechanisms.

Introduction

Social finance and credit are expressions of the self-organization of civil society and are usually seen as an alternative to the market and to state coordination in the economy. Like the Great Depression, the current crisis (since 2008) has led to a considerable expansion of the social and solidarity sector of the economy, especially in the sphere of finance and credit (Rifkin, 2014). In contrast to this trend, we have seen the feeble development if not the outright rejection of social credit in the former communist countries, including the Balkans. The most common explanation is the neg-

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ative experience during the period of socialism, when cooperative economic organizations deviated from their natural essence and were subordinated to the state. Actually, in most of the former communist countries, and particularly in the Slavic areas, social financial institutions had enjoyed a century-long tradition.

This article presents a historical overview of agricultural cooperative credit in the Bulgarian and Serbian lands from the era of the Ottoman Empire to World War I (or more precisely, up until the Balkan wars). The intention is to provide an institutional and comparative analysis of the genesis, transformation and forms of development of agricultural cooperative credit in the long run, its driving forces and mechanisms.

The article is organized as follows: First we describe the genesis and changes in agricultural cooperative credit in the Bulgarian and Serbian territories of the Ottoman Empire. In the second part, we focus on the institutional transformation of agricultural cooperative credit from the Liberation up to World War I.

1. The rise of agricultural credit in the Bulgarian and Serbian territories during the Ottoman period

Pre-existing informal people's institutions (traditions, customs, values) of solidarity and mutual aid were essential to the emergence and dissemination of social finance in the Bulgarian and Serbian territories within the Ottoman Empire. At the same time, this development was also prompted by the political and economic conditions within the Empire. Throughout the accelerating decay of Turkish feudalism in the 18th and 19th century, various forms of mutual labour came into being, providing for the existence, life and reproduction of the Christian population within a closed natural economy. The oldest known forms of mutual labour in agriculture were harvesters' bands, gardeners' bands, shepherd bands, and *zadruga*, whose principles were above all democratic and solidarity-based.[1]

[1] On *zadruga* in the Balkans, see Bucher 1901, Iorga 1929, Lavaleye 1888, Novakovitch

All these institutional forms were socially embedded and sprang up from the grassroots. They existed until the Liberation (1878).[2]

Zadruga was a unique institution in the Balkans, particularly for the Southern Slavs, based on common property and consumption (Iorga, 1929). *Zadruga* was also a community encompassing social groups based on distinctions of gender and age, living in families. Each member worked according to his capacity and received according to his needs (Popov, 1900). This form of communal life existed above all in the mountainous regions of Bosnia, Herzegovina, northern and central Macedonia and central Albania. Another similar region was the northwestern Balkan Range, as well as the mountainous territories between Yugoslavia and Bulgaria and the Rhodope mountains. The ethnically based regions in Montenegro and northern Albania could be taken as a separate district. *Zadruga* was also a feature of such other territories as Croatia, Slavonia, and Voivodina (Todorova, 2010).

Zadruga was a form of cooperative within a natural, in-kind barter economy based on family customs and values. Equality in income (i.e. redistribution) and in consumption were typical in *zadruga*, whereas in cooperatives income was apportioned according to the work of each co-operator or the amount of capital contributed in the form of money or goods. The voluntary membership that characterized cooperatives was not found in *zadruga*.

1905, Central Cooperative Union 1986, Todorova 2010. Similar generic forms (*mir*, *obshina*) and institutional development into cooperatives and later state institutions were also observed in Russia (see the contribution of M. Tugan Baranovsky, set forth in part in Nenovsky, 2009). On the development of the agricultural economy of the Balkan countries during interwar period, see Mitrany (1945), Zagoroff et al. (1955)

[2] The Bulgarian and Serbian states were established in the Balkan Peninsula as far back as the seventh century. The Bulgarian territories remained part of the Ottoman Empire from 1396 to 1878, when in the wake of the Russo-Turkish war Bulgaria regained the status of national state. In 1885, the autonomous principality of Bulgaria incorporated Eastern Rumelia, which had been separated from it by the Treaty of Berlin. In 1908 Bulgaria declared itself a fully independent state (Pasvolsky 1930, Iaranoff 1919). The Serbian territories were part of the Ottoman Empire from 1349 to 1878; following the Second Serbian Uprising in 1815, Serbia was made an autonomous province of the Empire. The Principality of Serbia was proclaimed a fully independent state at the Congress of Berlin in 1878 (Ljušić, 2001).

Apart from the sociological and cultural prerequisites for the emergence of collective economic formations, what mattered was overcoming the economic and above all the financial constraints limiting the activities of the population, the state and entrepreneurs. In other words, it was urgent to develop the monetary and credit sector as the basis for capital formation and the mobilization of investment for the development of industry and the overall modernization of the backward Balkan region. Collective and cooperative economic forms also provided better opportunities for fiscal optimization and revenue control.

For example, in Ottoman Serbia, *zadruga* had its own specific economic logic. That is, personal tax paid in kind, otherwise very high, which served for the maintenance of the Vizier and the imperial army in the *pashaluk*, was charged per family head, regardless of the number of cooperative members. Thus, by forming cooperatives people could more easily bear the tax burden (Petrović, 1901). At the beginning of the 19th century, when the market economy had already begun to develop in the Principality of Serbia, there were even efforts to prohibit the fragmentation of *zadruga* by law and forcibly preserve that patriarchal form of family life (Kulauzov, 2015).

During the 1860s the forms of solidarity and mutual aid among Bulgarians within the Ottoman Empire were among the main factors in the establishment of the first credit funds of public utility (*obshtopolezni kasi*) in their territories. Another essential factor was the influence of Western ideas and practices of mutual aid, such as Raiffeisen saving and credit associations. Those practices penetrated into the Empire through the great Turkish public official and reformer Midhat Pasha, one of the fathers of the Tanzimat reforms (governor of the Danube *vilayet*). The establishment of the credit funds of public utility can be considered an aspect of the Tanzimat reforms (Inalcik, 2008, Kilincoglu, 2015). The reforms gave the Christian population the right to participate in local reform councils and to rent land and cultivate it, which in turn heightened the need for capital and credit and led to an expansion of lending. Most often, moneylenders charged interest of between 25% and 50%, and under the so-called *zelenicharstvo*,[3] peasants had to pay back two or three times the amount of the loan, or even more (JBES, 1910, Konstantinov, 1910). According to Hristoforov (1946, 39), the moneylenders set rates of 100% to 150%, and according to Zahari Stoyanov (a well-known Bulgarian writer and revolutionary), it even reached 800%.

The same practice of transferring title to future crops in exchange for expensive credit, the so-called *zelenastvo*, was also widespread in the Serbian lands during the second half of the 19th century (Gnjatović, 2014). The interest rate charged to farmers by moneylenders was 80% to 200% (Bajkić, 1927). These high rates depended in part on the peculiar behaviour of the farmers themselves. First of all, they would readily incur debts that they were unprepared to repay. Second, although when farmers left *zadruga* they broke with the collective mode of production, they did not break with the costly custom of preparing traditional festivities that far exceeded their financial capacity (Jovanović, 1932).

According to some researchers, the first credit funds of public utility (*obshtopolezni kasi*) set up in the Ottoman Empire date to November 1863 in the town of Pirot. According to others, the first fund was set up in Leskovats on 25 June 1864, followed by one in Niš. In 1865, Midhat Pasha founded such institutions in Rousse, Pirot, and Targovishte (Bakurdjieva, 2009). In 1865-1866 there were thirty-four credit funds of public utility in northern Bulgaria, in the Sofia region and in part of southwest Bulgaria. By 1871, thirteen such institutions had been established in southern Bulgaria (Angelov and Berov, 1981). Meanwhile, Midhat Pasha's efforts to create similar institutions in the non-Christian districts of Anadolu, Asia Minor, did not succeed (Bulgarian Agricultural Bank, 1932). This is evidence of the existence of specific conditions in the Bulgarian lands that made for the rise of the earliest forms of social finance within the Ottoman Empire.

[3] *Zelenicharstvo* – form of money-lending in which farmers who needed credit sold their future production to the moneylender and the latter resold it at higher prices (Konstantinov, 1910).

Despite their social mission, credit funds of public utility represented credit institutions of an "extractive" nature, because they were imposed by the Bulgarian authorities. People's participation in the capital was not voluntary and farmers could not waive membership. The rules laid down that such institutions should be established in every district centre (Palazov, 2005 [1935]), but the funds lacked autonomy of governance. At first two Christians and two Muslims were chosen for governors (*vekili*); in 1871-1872, a managing directorate was founded.

Contribution of capital for the credit funds was compulsory. After 1864 peasants were obliged to give 5% of the collected grain, and from 1873 they had to deliver one kilogram of wheat (in "*tsarigrad*" measure) per year. The money obtained from the sale of these goods formed the capital. Later on, part of the grain collected was kept in a common granary; part was sold, and the money deposited as the institution's own capital. Money brought in by peasants was their property and their own capital. Farmers were not co-operators, because the rules did not allow for giving up membership and taking back their capital share.

The establishment of these credit funds of public utility was the result of a specific form of path dependence, and although they did share some of the characteristics of credit cooperatives (such as limited geographic area of activity, participation of members in capital, solidarity), they were not true cooperatives because membership was not voluntary and they lacked autonomous governance.

The funds engaged mainly in lending. They were not banking institutions. They offered two types of credit: personal and "real". Personal credit was granted against guarantees and the key condition was the solvency and the reputation of the warrantors. "Real" credit was provided against the mortgage of property or pledge of possessions. In any case, the borrower's net annual income had to be at least twice the amount of interest due, which limited the amount of credit most farmers could apply for. The principle of own property pledges was enforced under the condition that the debt be paid out of their income (JBES, 1910). The loan terms showed the at least partially inclusive nature of the funds. The interest rate, set administratively by Sultan's *firman*, was initially 12% but was then gradually lowered to 9% in 1873. The peasants could thus borrow, breaking their dependency on moneylenders and making the credit funds more inclusive and effective.

There were also other, minor forms of social finance – the so-called "orphans' funds" for orphans and widows in the Ottoman Empire. Property and capital inherited from parents and spouses were deposited there (Russev (Ed.), 2017).

Turning to the Serbian experience, the Principality of Serbia made three attempts to solve the problem of agricultural credit through social funds (Gnjatović, 2014). The first attempt was in 1836, when Prince Miloš Obrenović prescribed the granting of advantageous loans at 6% to private persons from the church fund and the orphan's fund, and in 1837 ordered that the interest rate should not exceed 12%.[4] Wealthy town traders quickly took out these loans and immediately lent out the funds at much higher rates.

The second attempt was the establishment of the fund management institution *Uprava fondova* at the Ministry of Finance in 1862 (Glomazić, 1933). All public funds were centralized and used as a source for long-term loans at 6%, against a mortgage on real estate, with a ceiling of half the estimated value of the property. Houses, fields, pastures, orchards, vineyards and forests could be mortgaged. Actually, only relatively wealthy traders, clerks and peasants could get these loans; and again, they were mostly passed on to poor farmers at much higher rates.

The third attempt was the founding of district savings banks under an 1871 law. The centralization of public funds in *Uprava fondova* had widened the gap between urban and rural areas, the opposite of the intended effect, so it was decided to concentrate public funds in local communities. The district savings bank loans were intended for farmers in the bank's home district. Due to lack of public

[5] Obrenović (1780-1860) was a Prince of Vasal Serbia from 1815 to 1839 and from 1859 to 1860 (Ljušić, 2001).

capital, the district savings banks were established in only five of the seventeen districts of Serbia, namely Kragujevac, Užice, Kruševac, Smederevo and Čačak. Their capital was lent at 7% and again quickly taken up by the wealthier residents of those districts, "even before the peasants found out about them" (Bajkić, 1927). Crippled by bad loans, the district savings banks were liquidated in 1898, and their assets and liabilities were taken over by *Uprava fondova*.

2. The institutional transformation of agricultural cooperative credit from the Liberation to World War I

Bulgaria

Social credit became one of the top political priorities in Bulgaria immediately after the Liberation. Under the Bulgarian law adopted on the 12th of July 1878, the credit funds of public utility (*obshtopolezni kasi*) were renamed *agricultural funds*, but their structure and functions remained substantially unchanged. The institutional succession aimed at making them more visible and trusted by the people. The agricultural funds aimed at providing cheap and accessible credit for farmers in order to fight poverty and usury. In 1897, farmers' debt to usurers reached 45 million levs, or two-thirds of all their debt. By 1905 it had doubled to 90 million levs (Central Cooperative Union, 1986).

The administration of the agricultural funds was assigned to a treasurer and an inspector. The funds were brought under the control of district management councils. Up until 1879 treasurers were approved by the district governor; from 1880 on, by the state governor at the proposal of the minister of finance. Honesty and competence were the main requirements for the candidates. The rural population had the right to propose treasurers to be approved for one year. By comparison with the credit funds of public utility, the agricultural funds had a double voting system and functioned broadly as democratic institutions.

Over the years the authorities altered the democratic nature of the social credit institutions. Under a law of 1894, the agricultural funds were placed under the management of the Ministry of Trade and Agriculture, and starting in 1897 the treasurers were approved and discharged by the minister at the proposal of the managing board at the central administration. The administration of the agricultural funds was centralized in a separate department – the *Central administration of agricultural funds*.

The funds' capital was heavily dependent on crops. It consisted first of payment in kind, wheat that peasants brought in for resale; second, of money and debt instruments belonging to the credit funds of public utility. From 1889, the agricultural funds also collected tax from peasants in the form of money or food. They began taking deposits as a new source of capital, and the fixed capital of the agricultural funds expanded during the period, more than doubling from 15.3 million levs in 1887 to 40 million in 1903. The newly created Bulgarian National Bank (BNB) made a significant contribution to the increase in available capital. In 1887, the BNB provided financial resources of 4 million levs, which diminished in subsequent years as deposits increased. After the transfer of the orphans' deposits to the funds in 1888, their income grew steadily, from 2.4 million levs in 1887 to 4.7 million levs in 1894. Orphans' funds provided loans to back the first land reform in Bulgaria after the Liberation, serving to repurchase the land of farms and beys' land and provide land to poor farmers.

Between 1887 and 1903 the funds' deposits increased fourfold, from 9.3 million to 40.7 million levs. The main contributors were non-farmers attracted by the high interest rates offered by the funds. Long-term deposits made up 75 to 80 percent of total deposits in the country.

The agricultural funds were the only state-administered credit institutions that extended farming loans. They were entitled to extend state-guaranteed loans with the approval of the minister of trade and agriculture. They could also discount their portfolio at the BNB or other banking institutions. They gained recognition as key deposit and social credit institutions at the local level, though decentralization remained limited. As social institutions they enjoyed public trust and approval among the rural population. Meanwhile, the state authorities strengthened their role in the allocation of the funds and created the conditions for externalities such as offering preferential treatment to certain farmers close to the authorities.

In 1896, the government signed the first agricultural foreign loan in order to increase the funds' capital and stimulate their lending. This loan, known as Bulgaria's five-percent agricultural loan, was granted by the Banque de Paris et des Pays Bas, Banque Internationale de Paris, and Banque Impériale Royale privilégiée des Pays-Autrichiens. It amounted to 30 million levs for a term of 50 years. The interest rate was fixed at 5% (Ivanov et al., 2009). The agricultural funds were mainly institutions of personal credit. The moral virtues and reputation of the borrower played an important role in the provision of personal loans. The interest rates on the loans were set administratively and could be neither less nor more than 9%.

From the time of their transformation into a banking institution, the agricultural funds pursued an expansionary credit policy, thus contributing to the development of capitalist relations in the national economy. During the period 1887-1894, personal loans and mortgages to farmers rose from 19.2 million to 33.6 million levs. The greatest increase in personal loans came after 1894, reaching 63.7 million levs in 1901. The funds granted only short-term loans, with maturities of three months to one year. According to Vasil Tantilov there were 799,115 farms, of which 697,629 were small. The number of farms granted credit was 265,028 (37% of the total); that is, the majority of farms were not financed by the agricultural funds. Tantilov argued that the role of the funds was limited (JBES, 1906). However, Angel Daskalov (1854-1936), who was among the most prominent Bulgarian theoreticians and practitioners of agricultural credit up to World War I,[5] maintained that the loans extended by the agricultural funds were used for productive purposes, for the provision of land

[5] Daskalov was among the founders of the Bulgarian Agricultural Bank (1903) and took part in its governance.

and important improvements and modernization of the farms (Daskalov, 1912)

The institutional change that transformed the agricultural funds into a bank was made by virtue of the law establishing the Bulgarian Agricultural Bank (BAB) in 1903. The Bulgarian authorities founded the BAB in order to bring social credit into line with market principles. In time, the BAB became an important creditor of the state. It was modelled after the Turkish Agricultural Bank, which supported agricultural development through low interest rates on local loans and became the most important rural bank in the Empire throughout the 19th century. The Turkish Agricultural Bank was the successor to Midhat Pasha's credit funds of public utility (Pamuk, 2000).

The BAB was assigned new functions and tasks compared with the agricultural funds. In compliance with the law, it lent against collateral consisting in cattle, crops, farm tools and machines, and raw and processed agricultural goods. The bank could advance funds to farmers for the purchase of cattle, seed, and agricultural products. Once so purchased, these goods were considered as bonded by the bank. One of the main functional differences with respect to the agricultural funds was that the BAB could endorse state loans and loans approved by the National Assembly by issuing state-guaranteed bonds. It could also lend to municipalities and districts and to the central government, keep the deposits held by state authorities, and pay on behalf of the state depending on the amount of deposits. In the end, no trace was left of the agricultural funds as entirely decentralized institutions of personal credit (JBES, 1906).

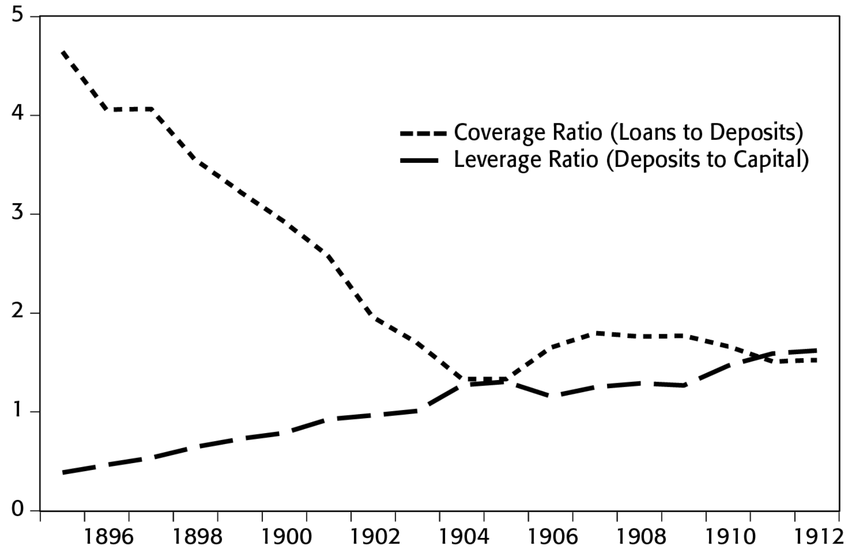
The BAB established 85 branches. The governor and the administrators were appointed by the minister of trade and agriculture and could not be dismissed without the approval of the National Assembly. The minister alone could make appointments to the branch administrations.

The BAB increased its capital, albeit at a slower pace. Before the outbreak of World War I it reached 47 million levs, and total disposable resources also expanded. Whereas in 1903 deposits had stood at about 40 million levs, by 1911 they had almost doubled to 70 million. The greatest rise was in government deposits.

Chart 1 plots the leverage ratio (deposits to capital) and the coverage ratio (loans to deposits) for the institutions from 1896 to 1912. The leverage ratio rose as a manifestation of the general trend to monetization. Deposits were based on genuine savings, which were increasing most of the time because of the growing public trust and favourable interest rates. The coverage ratio shows that at first most lending was covered by deposits (the amount of loans was limited) but that later on loans rose faster than deposits.

From 1904 to 1912 personal credit remained the most important form of lending for the bank, but its total amount decreased as the BAB promoted cooperative credit (see Chart 2). Loans against the pledge of securities were insignificant, amounting to just 1.4 million levs in 1904 and 3.8 million in 1914. The fastest growth was in mortgages, from about 13 million levs in 1905 to over 56 million in 1912.

Chart 1
Balance Sheet Ratios (Agricultural Funds and BAB)



Source: Kurklisiyski (1941, 38-39; 44-45); Authors' calculations.

Loans against the pledge of cattle, machines, tools and agricultural goods expanded more than fivefold, from slightly over 3 million levs in 1905 to 17 million in 1912. These were introduced by the BAB in 1903 to support farmers in introducing farm machinery and tools and so to improve and modernize Bulgarian agriculture, which at the time was extremely extensive and lagging far behind other European countries. According to Nikola Kurklisiyski the share of these loans reached 11.4% of the total in 1904-1912. Nevertheless, he observed, the greater part (about 86%) of this credit was granted against pledges of cattle. The portion extended against pledges of machines and tools was insignificant (Kurklisiyski, 1941).

The table below shows a significant increase in the number of agricultural machines in the period 1893-1910. Despite this modernizing trend, however, Bulgarian farms were at a low technical level. In 1910 only 18% had ploughs, which were distributed unevenly over regions and villages (Berov, 1989) This data suggests that cooperative credit did contribute to the mechanization and modernization of Bulgarian agriculture at the turn of the 20th century.

The cooperatives and the agrarian movement were vivid manifestations of the high level of interpersonal trust present in Bulgarian villages. It was this propensity to "spontaneous sociability" that powered many of the positive developments in Bulgarian society and the economy between the turn of the century and World War I, at least as regards the agricultural transformation, accelerated growth in soil productivity, and economic and demographic flexibility (Kopsidis and Ivanov, 2015).

TABLE 1
Agricultural machines (number)

	1893	1900	1910
Ploughs	18,170	48,958	114,245
Threshing machines	17	155	1,091
Harvesters	128	1,202	6,816
Winnowing machines	9,393	11,928	66,580
Sowing machines	35	257	916

Source: Berov, 1989, 330.

The dynamics of agricultural incomes from 1891 to 1911 is also suggestive. According to Lyuben Berov (1925-2006), the upward trend in farm income depended on the nationwide decline in interest rates and the growing opportunities for farmers to borrow more economically, primarily from the agricultural funds and later from the credit cooperatives financed by the BAB (Berov, 1989)

TABLE 2
Income dynamics in agriculture

Period	Weighted index of income	Absolute increase in income (%)
1881-1882*	35.0	
1886-1890	44.2	76.5%
1891-1895	60.7	
1896-1900	61.8	
1901-1905	68.6	44%
1906-1911	89.0	

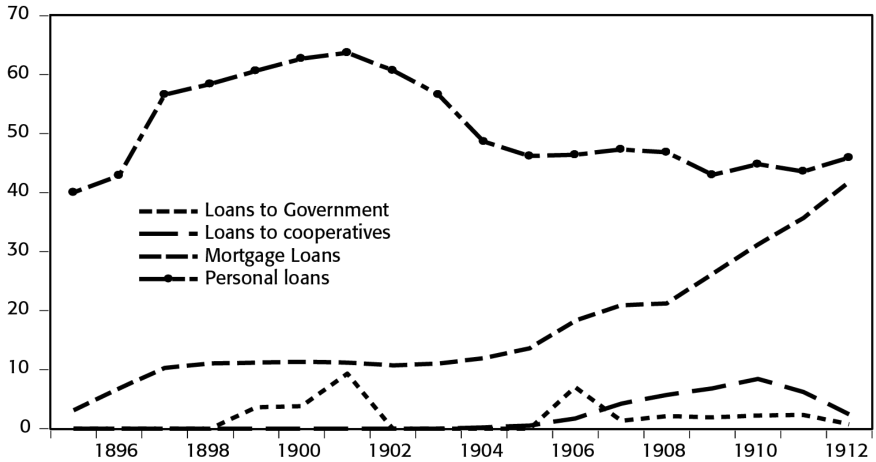
* Data for 1883-85 is missing.
Source: Berov, 1989, 327.

The purpose of the BAB was to support farmers, although after 1905 it also lent to non-farmers. The term of personal loans ranged from one to nine months, and they required three signatures: an issuer and two warrantors. Mortgages could not exceed 50% of the estimated value of the mortgaged property, with terms of two to thirty years. For non-farmers, mortgages were for 50% of the average annual income the property would bring, and the income was capitalized at 10%.

Cooperative loans became a key element in the bank's credit policy, as the Bulgarian cooperative movement surged, especially following the Cooperative Law of 1907 (see Chart 2).

Despite the increase in capital and in available funds and total lending, only 30% of Bulgarian farms took advantage of the credit expansion during the BAB's first decade. The total number of farms was 799,115 (697,629 of which were small), and only 246,848 received loans. Despite its accelerated development in the post-Liberation pe-

Chart 2
Dynamics of loans by type (in million levs) (Agricultural funds and BAB)



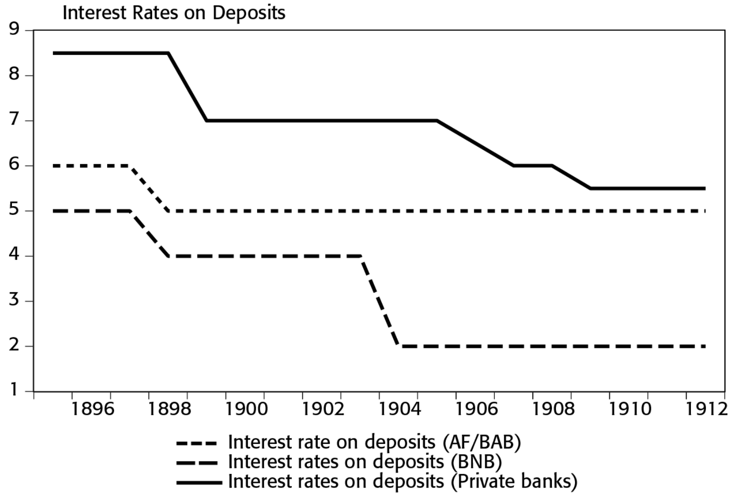
Source: Kurklisiyski (1941, 39; 45). Authors' calculations.

riod, social credit was not sufficient to meet public needs and remained inaccessible to the bulk of the population.

The transformation of the agricultural funds and the BAB-related innovations drove transaction costs down. Market-based interest rate policy constituted one of the main differences between the bank and the agricultural funds. The bank became the only state institution for agricultural credit. Interest rates on deposits and loans of the BAB were 1-2 percentage points higher than those fixed by the Bulgarian National Bank. The BAB attracted savings at rates of 5-6% during the period, lower than the rates offered by private banks (7-8%). BAB rates on loans (8-9%) were scarcely half the 16.5% charged by private banks (see Charts 3 and 4).

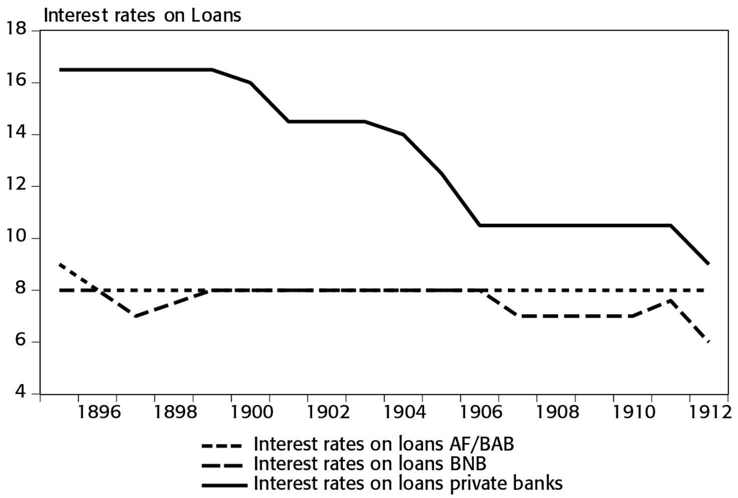
Table 3 sets out comparative data showing that agricultural funds and BAB became important saving and credit institutions in Bulgaria in the period between the Liberation and World War I. Social finance developed intensively especially after the establishment of the BAB.

CHART 3
Interest Rates on Deposits (in %)
(Agricultural Funds/BAB, BNB, Private Banks)



Source: Chakalov (1962, 125). Authors' calculations.

CHART 4
Interest Rates on Loans (in %)
(Agricultural Funds/BAB, BNB, Private Banks)



Source: Chakalov (1962, 125). Authors' calculations.

Table 3
Average amount of capital, deposits and loans of Agricultural funds and BAB (in million levs)

Period	Capital	Deposits	Loans*
1895-1903	32.4	24.3	67.5
1904-1912	40.6	55.2	87.9
Growth	+8.2	+30.9	+20.4

*Only agricultural loans.
Source: Kurklisiyski (1941, 47).

The bank opened accounts for farmers' and artisans' savings and cooperatives with limited and unlimited joint liability. By virtue of the 1905 law, the bank's Executive Board could approve loans of up to 100,000 levs, with the subsequent endorsement of the minister of agriculture. The conditions for the eligibility of cooperatives included: at least twenty members and lending of the borrowed funds at no more than 2 percentage points above the interest rate paid to the bank.

Between 1899 and 1907 the number of agricultural credit cooperatives rose from 4 to 238 and their membership from 236 to almost 20,000. In 1909 the total number of cooperatives was 604, of which 559 credit cooperatives. The number of cooperatives borrowing from the BAB increased fivefold between 1904 and 1910, and the volume of lending more than tenfold. In 1910 the number of cooperatives receiving loans from the BAB came to 585 and their membership to 39,561. Cooperative credit became state policy and a priority until the outbreak of the Balkan war in 1912. By September 1911 all the cooperatives that borrowed from the BAB had been placed under the control of the Bulgarian Central Cooperative Bank (BCCB), established in 1910. The aim of the BCCB was the foundation, development and control of cooperatives to serve their credit and other needs, as well as to develop insurance. The BCCB was set up as the cooperative of all cooperatives. As a state-owned bank, it was governed by the finance minister, who was in charge of state cooperative policy.

The credit cooperatives were quintessentially inclusive institutions, to which the effective restrictions for the funds did not apply.

Cooperatives established themselves as the only economic and public institution that provided comprehensive aid and support to farmers in fighting usury and developing small farms and their output. Given the virtual non-existence of the banking system and the lack of the domestic capital needed to promote economic development, the credit cooperatives emerged as the only credit and saving institutions in the villages. Immediately after the Liberation, the Bulgarian National Bank was established (1879), acting exclusively as a (short-term) lending bank. This single-function characteristic was retained until 1885, when the BNB was empowered to issue money and provide long-term credit. The first private banking institutions in Bulgaria were established years after the Liberation and were few in number and limited in capital resources. According to Kurklisiyski, in 1888 there were only three banking institutions, and just eight in 1894. They were very small and were active mainly in the grain trade. Foreign capital did not begin to flow into the country until the 20th century: the first large private bank with foreign capital was established in 1905 (Kurklisiyski, 1941).

Unlike other European countries, where cooperatives first emerged in cities and only later in villages, Bulgaria showed a different pattern. The heralds of the new ideas and initiatives of the cooperative movement were intellectuals as well as the first ideologists and governors of the BAB. The first rural agricultural cooperative was established on the 11th of June 1890 in the village of Mirkovo, Pirdop district. This was the first cooperative to be founded not only in Bulgaria but anywhere in the Balkans and was based on the principles of the Raiffeisen saving and credit associations. All residents of Mirkovo could apply for membership. Each member had to buy one share in the cooperative, pay dues of 2 levs and then deposit 1 lev (or the equivalent in kind) every year. All members had equal rights. They could revoke their membership in the cooperative at any time. In that case, they were paid back their share with interest. The cooperative offered loans at 10% and paid 8% on shares and deposits. The smallest amount that one member could borrow was 20 levs, the largest 200 levs. Loans were for a term of a minimum of 15 days and a maximum of one year. The capital was owned by the members (Palazov, 2005 [1935]).

The adoption of the 1907 Cooperative Law and the establishment of the General Union of Bulgarian Agricultural Cooperatives triggered a boom for the cooperative movement. Cooperative activity began in all economic sectors. Agricultural cooperatives engaged in significant trading and economic activity. To counter the arbitrary actions of private tradesmen as regards lending, several cooperatives introduced the practice of trading goods. Regional exchange rates for agricultural goods were set in terms of the demand for industrial and other goods. The cooperatives carried out a wide range of explanatory, cultural and educational activities, but until the wars their principal activity remained lending.

Serbia

After the Liberation, the Serbian authorities provided assistance for the development of agricultural credit cooperatives based on the Raiffeisen formula of solidarity among farmers.[6] Until World War I these cooperatives would remain the only institutions in Serbia specializing in agricultural credit, and they played a very significant role in social and economic development generally (Gnjatović, 2010).

Around the turn of the century, peasants in Serbia worked in relatively poor economic conditions. According to Avramović (1907, 402), in 1897 half of those who owned land had no draft animals for their fields. And the half who did have draft animals used primitive farming tools such as old-fashioned cast-iron ploughs. Seeders were almost non-existent. A report prepared for the Ministry of Agriculture of the Kingdom of Serbia in 1907, based on data from 1900 to 1904, found that due to poor equipment and insufficient livestock for work in the fields, Serbia and Bulgaria lagged far behind the other European countries in average grain yields (see Haluza-Paris, 1966, 29).

The credit cooperative movement began with the founding of

[6] After becoming an independent state in 1878, Serbia took some time to decide on the date for proclaiming the Kingdom (March 6th, 1882).

TABLE 4
Average grain yield in Serbia and selected European countries 1900-1904 (in mc/ha)

Country	Wheat	Rye	Barley	Oats	Corn	Grain Total
Belgium	23.00	21.40	27.40	23.10	-	22.94
Netherlands	21.00	15.80	26.90	21.40	-	19.01
Germany	19.00	16.40	19.50	16.80	-	17.24
Denmark	28.00	15.70	18.55	14.35	-	16.35
France	13.00	10.00	12.70	9.95	12.40	12.07
Hungary	11.00	10.75	11.15	9.00	10.96	10.73
Serbia	8.35	6.65	7.30	5.25	7.65	7.68
Romania	11.00	9.40	9.85	9.10	8.90	9.83
Bulgaria	9.50	10.35	10.00	8.25	10.35	9.75

Source: Haluza-Paris (1966, 29).

the first cooperative in the village of Vranovo, in the County of Smederevo. Its founder was Mihailo Avramović (1864-1945), who brought the ideas of private initiative and solidarity from his business trips to Germany. In 1895 he established the Main Credit Cooperative to raise funds to finance local cooperatives. The same year he initiated the foundation of the Association of Serbian Credit Cooperatives (Isić, 1997).

Agricultural credit cooperatives were institutionalized in Serbia only after the cooperative movement had begun to develop and spread. With the adoption of the Law on Agricultural and Craft Cooperatives (1898), the cooperative movement gained legal security. The Law was one of the most liberal in Europe (*Zadružni leksikon*, 1957). The state also assisted the agricultural cooperative movement with public capital. In accordance with the Law on Assistance to Agricultural Cooperatives (1900), the Main Credit Cooperative was supported with a percentage of the annual revenue of the Class Lottery and 50,000 dinars from the government budget.[7] On the heels

[7] The currency of the Kingdom of Serbia was the dinar. The monetary system of the Kingdom of Serbia was constructed in line with the standards of the Latin Monetary Union (Gnjatović, 2014).

of the institution of this legal and support framework, new credit cooperatives emerged throughout rural Serbia. Until World War I, 50 to 60 were founded every year. In 1913 there were 782 agricultural credit cooperatives with more than 100,000 members, embracing 18% of rural households (*A Hundred Years of Agricultural Cooperatives in Serbia*, 1994). The history, evolution and role of credit cooperatives in Serbia have been recently studied by Richard Simmons and Marija Nikolic (in Karafolas, ed., 2016).

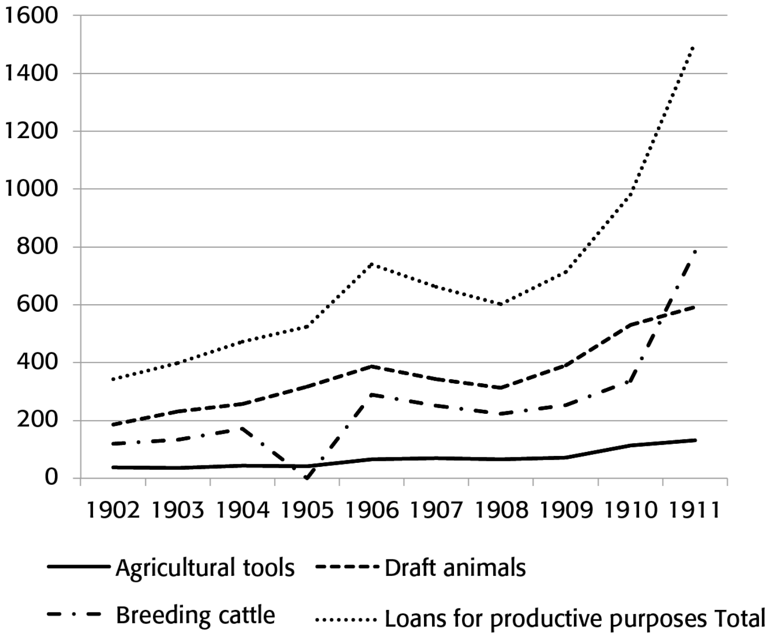
The development of agricultural credit cooperatives was also encouraged by relatively cheap loans for their members. Local cooperatives accumulated capital by borrowing from the Main Credit Cooperative and taking savings deposits from their members at an interest rate of 5% to 6%, while lending to members at 7% to 8%. According to Avramović (1924), from 1894 to 1913 the local agricultural credit cooperatives provided over 25 million dinars in credit to members.

While the main purpose of agricultural credit cooperatives in Serbia was to foster agricultural development, they had to adjust their policy to the difficult economic situation of the peasantry. Consequently, they offered loans not only for productive purposes but also for non-productive uses. Productive credit served for the purchase of draft animals, breeding cattle and agricultural tools, while non-productive loans went chiefly to purchase food and repay debt to private banks. From 1894 to 1913, loans for unproductive purposes accounted for 60% of the cooperatives' total lending, productive credit for 40% (Avramović, 1924).

Relatively cheap credit from the cooperatives was the only possible means of investing in agricultural production. Agricultural credit cooperatives were decisive not only in granting loans but also in informing peasants on ways of selecting livestock for various tasks and on the use of better-quality tools in the fields (Njegovan, 2011).

With the growth of the number and the membership of agricultural credit cooperatives, the amounts of credit provided for productive purposes also expanded rapidly. In 1902 lending by agricultural credit cooperatives for the purchase of livestock and tools amounted to 342,100 dinars, but by 1911 it came to 1.5 million dinars. The overall growth reflected across-the-board increases in all types of productive loans (Chart 5).

CHART 5
Dynamics of loans for productive purposes (in thousand dinars) provided by Agricultural credit cooperatives



Source: Garić Petrović (2016, 119; 120), Authors' calculations.

The predominant purpose of the productive lending of local credit cooperatives was the purchase of draft animals and breeding cattle. In the period from 1902 to 1911, credit cooperatives approved 32,106 loans totalling 3,544,900 dinars for the purchase of draft animals and 24,955 loans (2,720,800 dinars) for breeding cattle. Over the same period, the cooperatives granted 8,833 loans, totalling 676,800 dinars, for the purchase of agricultural tools.

TABLE 5
Loans granted to peasants for productive purposes by agricultural credit cooperatives, 1902-1911

	Purchase of draft animals	Purchase of breeding livestock	Purchase of agricultural tools	Loans for productive purposes Total
Number of loans	32,106	24,955	8,833	65,894
Loan amount	3,554,900	2,720,800	676,800	6,952,500

Source: Garić Petrović (2016, 119; 120); Authors' calculations.

One of the credit cooperatives' essential tasks was purchasing agricultural equipment for joint utilization. The first modern farming tools were imported from Germany in 1902, through the Main Credit Cooperative. In this respect, the Main Credit Cooperative was a monopsony, the single buyer in the market. That is, according to Avramović (1914), the market price of durable German ploughs of forged steel was 75 dinars, but the Main Credit Cooperative managed to get few hundred for 51 dinars each. Afterwards, local credit cooperatives bought over a thousand of these economical, high-quality tools annually. In addition, the Main Credit Cooperative became a supplier of seeders. These farming utensils were bought for 300 dinars, against a market price of 400-500. Gradually, the Main Credit Cooperative took on the role of regulator of the market prices of agricultural tools in Serbia, as local market prices depended heavily on their availability in Cooperative's stocks.

Private creditors watched the development of the agricultural cooperative movement with indignation, even though loan demand far outstripped the lending capacity of the credit cooperatives. Most private creditors tried to meet the competition from credit cooperatives by merging their capital and establishing small shareholding banks in suburbs and rural villages. Such banks appeared in large numbers following the establishment of the National Bank of the Kingdom of Serbia in 1884.[8] Private creditors were motivated by the

[8]Although the legal basis for the establishment of private shareholding banks in Serbia

credit policy of the National Bank, which mandated a relatively low and stable discount rate. Bankers discounted bills of exchange at 5.5% at the National Bank while lending to farmers at rates that could be three to five times higher (Šojić, 2014).

Some of the small private shareholding banks were unwilling to lower their interest rates and sought in various ways to be persuasive enough to take funds from the cooperatives and convert them into equity capital (Gnjatović, 2010). But these banks did not manage to jeopardize the operations of the cooperatives. They vanished from Serbian economic life as quickly as they had appeared. Their speculative behaviour was in sharp contrast with the solid work of the agricultural credit cooperatives.

Concluding remarks

We have reconstructed the institutional history of agricultural cooperative credit in Bulgaria and Serbia from the Ottoman Empire until World War I. Inquiry into this topic reveals some of the principal mechanisms of economic and social coordination characteristic of the Balkan countries. Moreover, their century-old traditions and experience in social finance could be reviewed from the standpoint of these countries' place within the EU and the development of social and economic solidarity today. Recent studies on cooperative credit institutions in Europe, such as Karafolas (2016), show the importance of reconsidering their role and contribution to national socioeconomic development, and while the issues certainly warrant further in-depth study, a number of conclusions can already be drawn.

First, collective labour in agriculture and agricultural cooperative credit have centuries-old traditions in the economic activity and

had been set by the Trade Law of 1860, there were only seven private shareholding banks prior to the foundation of the Privileged National Bank of the Kingdom of Serbia. By the outbreak of World War I there were more than 200 private shareholding banks (Šojić, 2014).

everyday life of the Southern Slavs (Bulgarians and Serbs). The oldest forms of collective labour emerged in the premarket economy of the Bulgarian and Serbian territories of the Ottoman Empire. Their prevailing agrarian character, widespread usury and the poverty of the peasantry were crucial in the establishment of agricultural credit institutions by the Turkish authorities (in Bulgaria) and by the local rulers (in Serbia). The state came to play an increasingly active role in directing and controlling rural credit, prompted mainly by fiscal considerations. Due to the special status and relative autonomy of Serbia within the Empire and the resulting local state authority, state intervention and centralization in credit distribution occurred before the Liberation (1878). Evidence to this effect is the establishment in 1862 of a centralized authority (*Uprava fondova*). In Serbia, the problem of the optimal level of centralization/decentralization of agricultural credit institutions arose earlier.

Second, after the Liberation, the situation changed. The traditions of collective forms of labour in agriculture, the backwardness of farming and the huge burden of the peasants' debt to tradesmen and the wealthy in general triggered the rapid development of agricultural credit cooperatives patterned after the Raiffeisen associations in the developed European countries. The state recognized the role of these cooperatives and reinforced its intervention by offering them cheaper and more accessible loans (especially in Bulgaria). The state cooperative credit institutions in Bulgaria were increasingly reformed towards market and banking operation in the context of accelerated centralization of the state (clearly discernible in the 1894 law on the agricultural funds and the establishment of the Bulgarian Agricultural Bank in 1903). The state became the sole source of funding for the credit cooperatives, given the country's lack of private financial institutions.

In Serbia, the model of agrarian cooperative legislation was more liberal. The state did not intervene directly but instead supported the development of forms of cooperative credit. Private creditors, which were the cooperatives' main competitor, failed to dominate and in most cases only played a minor role. Up to World

War I the state granted primarily legal, and to some extent material, support to the credit cooperatives. The main effort to regulate cooperative credit came after the war, eventually establishing the Privileged Agrarian Bank in 1929 with the purpose of developing cooperative agricultural credit and agriculture by granting loans to agricultural cooperatives and their unions. Essentially, the subjugation of social credit to the state was faster and came considerably earlier in Bulgaria than in Serbia.

Third, the period from the Liberation to World War I was marked by two noteworthy trends: namely complementarity but also competition among the three main mechanisms of economic coordination, i.e. market, state and social (cooperative) mechanisms. Eventually, in the 1930s, they ended with state dominance and control of the agricultural credit sector in both countries.

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