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DEFICIENCIES AND WEAKNESSES OF ORGANIZED AGRICULTURAL CREDIT IN BULGARIA

Prof. Pencho D. Penchev, DSc.,
Dr. Yanko Hristozov, Assoc. Prof.
University of National and World Economy

Abstract. The article analyzes the weaknesses of organized agricultural credit in Bulgaria through the history of the Bulgarian Agricultural Bank. It traces its transformation from the Ottoman public benefit funds into a state institution entrusted with the mission to modernize agriculture and limit usury. Despite the good intentions, the bank proved to be dependent on political influence, heavily bureaucratized, and with limited access for smallholders, which led to abuses, non-performing loans, and a slowdown in modernization. The aim of the study is to highlight these shortcomings and draw lessons from the past regarding the risks of excessive specialization, lack of regulation, and politicization of state credit institutions.

Keywords: Bulgarian Agricultural Bank; public benefit funds; crediting; agriculture
JEL: N23, G21, Q14

Starting at the end of 19th c., different models for financing agriculture appeared across Europe, most often organized through agricultural credit. Various types of agricultural banks, specialized funds, and cooperative credit institutions emerged – for example, the Raiffeisen and Schulze-Delitzsch Genossenschaften (Germany), Crédit Agricole (France), Banca Nazionale dell'Agricoltura (Italy), the Landes-Hypothekenbanken (Austria), Danske Andelskasser (Denmark), and Fellesbanken (Norway), among others. Their similarity to today's banks lies in the shared aim of financing business with designated capital and stimulating economic growth. The differences are that the credit back then was highly specialized, banks did not operate under the strict supervision they face today, and above all, there was a lack of additional funds such as those now available to support business development. Their main shortcomings were political interference, limited scope, the risk of over-indebtedness, and sectoral vulnerability.

Roughly until the mid-20th century, regardless of political changes and the broader evolution of Bulgarian society, Bulgaria's economy remained agrarian.

Agriculture itself was predominantly smallholder, fragmented, often primitive and semi-subsistence in nature, isolated from international markets, and burdened with excessive surplus labor. Since the restoration of the Bulgarian state in 1879, government policy for modernizing agriculture had included systematic efforts to organize agricultural credit. Bulgaria's agrarian sector, like the entire economy, suffered from a lack of sufficient domestic savings that could be channeled toward or stimulate the creation of market-oriented, high-return farms. For this reason, the state assumed the role of procuring, concentrating, and transferring credit resources to agriculture. One of the instruments acting in this direction were the "Public Benefit" Funds inherited from the Ottoman Empire, which were transformed by law in the early 20th century into the Bulgarian Agricultural Bank. It was expected to contribute simultaneously to fundamental issues such as stabilizing and modernizing agriculture and, at the same time, to address pressing social problems such as curbing unorganized usury.

With this article, the authors seek to identify major weaknesses in the activity of the Bulgarian Agricultural Bank at the end of the 19th and the first three decades of the 20th century. State economic initiative in post-liberation Bulgaria was to some extent a result of inevitable necessity, and it certainly bore the inherent deficiencies well known in the specialized literature. On the other hand, these deficiencies had national specificities that become clear through the prism of history. The research focus on the "far side of the moon" is a deliberate limitation. It is driven by the idea that the past is not merely a source of inspiration or of a "laughing sob" for the good old days. The most important lessons from it actually come from correctly identifying mistakes, weaknesses, and shortcomings.

The Roots of the Bulgarian Agricultural Bank

Among the large and influential state initiatives in Bulgaria's economic history from the time of the so-called First Capitalism is the Bulgarian Agricultural Bank (BAB). The bank was not entirely new; it was a transformation of the "Public Benefit" Funds created at the initiative of the Ottoman authorities as early as the 1860s to curb usury and provide cheap credit to the rural population. The funds were created by state initiative and thanks to the capacity of state authority, but they were not state structures. They functioned relatively well. By the start of the 1877 – 1878 war, "Public Benefit" Funds had been established in the Danube and Adrianople vilayets, and their capital exceeded 66 million gurush (Daskalov 1912, pp. 132 – 135). Their activity shows no discrimination on religious or national grounds; the loans granted to peasants carried a relatively low interest rate for the time and, in a sense, gradually limited the role of local moneylenders (Atanasov 2017).

From today's perspective, a positive aspect of the "Public Benefit" Funds, besides providing access to credit for needy and helping them escape the usurers' grip, was that they encouraged people to acquire financial habits and to get used to using financial instruments instead of natural or personal lending relationships. They also had some institutional regulation. These were important steps toward financial literacy.

The shortcomings of the "Public Benefit" Funds are similar to modern ones, but with additional burdens – although interest rates were lower than those charged by moneylenders, they still hovered around and above 10%. Even though this was low compared to the 50 – 70 – 100% typical of usurious loans, administrative fees and charges were often added, increasing the total cost. Penalties were imposed for overdue payments. Often, the loans proved unmanageable, and borrowers faced the risk of losing the guarantees and mortgages pledged for those loans. There are numerous cases of ruined farmers; in this sense, these loans were better suited to the better-off part of the population. Frequent abuses were also observed, and the population lost trust in this form of financing; at one point, the funds were perceived as a form of state and economic oppression. The "Public Benefit" Funds were an early form of credit institution, but their drawbacks outweighed their advantages because, instead of supporting Bulgarian business and agriculture, they often ruined it (Mutafchieva 1999).

The Russo-Turkish War of 1877 – 1878 caused a crisis in the funds' condition. Loan documentation at the local level was scattered and had to be painstakingly reconstructed by the new authorities. A more substantial problem turned out to be the lack of money in the funds. In some places, the money simply disappeared without any way to establish who had taken it. The Finance Ministry of the Principality of Bulgaria made efforts to determine the exact state of the "Public Benefit" Funds. Aggregate data show that their total capital amounted to 9,918,350 gold francs; of this 3,703,360 gold francs had been plundered, and the total amount of irrecoverable funds was estimated at 4,475,295 francs (Daskalov 1912, p. 163). The restoration of the funds was further hampered by the fact that, in many places, people had been ruined by the April Uprising and the subsequent war. As one contemporary well acquainted with the credit structure noted, the population would be unable to service its old debts and would turn to the funds "to request new assistance to repair their ruined condition" (Ikonomov 1973, p. 182).

After Liberation, several important changes were made to the legal framework and to the funds' operations. As early as 1879 they were designated Agricultural Funds; according to their statute they granted credit to the rural population for "improving their household or cultivating the land". The funds' capital was raised through in-kind contributions of wheat and the proceeds from its sale. Loans were granted for terms from three months to one year, at an interest rate of 9% (immediately before Liberation the rate was 12%). Gradually, the funds began to resemble a bank. They attracted personal savings which, by 1902, came from about 40,000 depositors and amounted to approximately 37 million leva (Hristoforov 2010, p. 350).

What is Public Becomes State and "the State" Means People in Power

At the end of 1903, by special law, the agricultural funds were transformed into the Bulgarian Agricultural Bank.[1] In the first Bulgarian university textbook in Political Economy, the new structure was described as "a public institution under state supervision" (Danailov 1906, p. 826).

This textbook definition reflects the bank's dual nature. Its core capital was 35 million gold leva. Formally, BAB was not state-owned but public. Its public character is evident from Article 4 of the law establishing it, which states that "the core and reserve capital of the Agricultural Bank shall constitute the property of those villages and towns which participated in forming the capital of the existing agricultural funds, proportionate to the amount".[2] Yet a close reading of the bank's legal framework shows that it was, in effect, a state institution. Several details confirm this. For example, 50% of the bank's net profit was at the disposal of the Ministry of Agriculture and State Property. Moreover, the state could dispose of the bank's capital. Bank officers and employees had the status of "civil servants", with accompanying pension rights.

By its mode of governance – who appointed its management and who set and controlled its strategic direction – the bank was effectively state-run. At the helm stood a governor and four administrators forming a Management Board; they were appointed by royal decree on the proposal of the Minister of Agriculture and State Property and could not be dismissed without a prior decision of the National Assembly (Girginov 2021 [1921], pp. 462 – 468). By law, its chief purpose was to lend primarily to farmers, though short-term lending to non-farmers was also possible. Tradition and legal norms thus presented BAB as a state modernization instrument for a primitive agricultural sector.

It turned out that this very legal framework and subsequent practice did not fully align with the proclaimed public-interest goals. Even its autonomy was illusory: through special laws[3] the bank was assigned obligations to extend specific loans. First, the founding law explicitly included among the bank's functions lending to the state, participating in state loans, and lending to municipalities and county councils. Clearly, the authorities created for themselves an important source of credit (Avramov 2007, pp. 363 – 376).

From this stemmed several identifiable deficiencies. Holders of political power gained control over a financial resource that, in various forms, could be used to "purchase" electoral outcomes. Marko Ryaskov, head of the bank's Pleven branch, recalls that it was "common practice for the authorities to agitate in favor of candidates of the ruling party". He received confidential instructions to that effect but, according to his account, refused to comply (Ryaskov 2006, pp. 38–39). The case appears isolated, but the memoirist insists the practice was widespread. Even if we accept his claim that he refused to obey, it is highly likely that, in other branches, such instructions were followed.

BAB as a factor in interest-rate reduction

Special attention is due to the “fight” of the agricultural funds and later on of BAB against usury. As everywhere, usurers in Bulgaria existed because banks or similar structures could not meet demand for credit. Village and town usurers were economic actors that arose spontaneously and operated according to local conditions. With them, the bureaucratic and similar administrative obstacles to obtaining credit were much smaller. Precisely for this reason, the economist Georgi Danailov observed in 1920: “The usurer, who has a known district, several villages, who knows people individually – their creditworthiness will act much more appropriately than our bank [BAB-ed. note]”.[4] These sensible arguments led Danailov to recommend that BAB operate according to the principles used by usurers. The state bank, however, never achieved such local knowledge. It was heavily bureaucratized, centered in towns, and unable to evaluate clients’ needs realistically. Danailov gives an example that cuts to the heart of BAB’s problems: the bank bought silk cocoons at high prices but failed to sell them. He asks a question that goes far beyond BAB’s attitude toward usury: “Who then assumes responsibility for the millions in losses – losses that will halt the bank’s activity?”.[5]

Among the persistent deficiencies of BAB’s lending was, as one deputy said in 1927, that “thousands of cases can be cited” in which requests for credit received a reply after four or five months, by which time the farm household no longer needed it.[6] Here lie the reasons for the limited success against usury, which in certain cases did indeed ruin productive farms. Similar findings appear in 1914 bank documents for the Stara Zagora region (Zlatinska 2017, pp. 164 – 165).

In society, usurers were perceived as an almost universal social evil. They were thought solely responsible for the destruction of hundreds of villages whose inhabitants were burdened with unbearable loans. Such collective judgments conveniently ignore the fact that usurers actually demanded elementary financial discipline from their debtors. Among usurers themselves – as in any professional or social group, there were both good and bad people, honest traders and swindlers. In his memoirs on post-liberation Stara Zagora, Atanas Iliev writes about the local usurer Vasil Zlatev, “a good, thrifty, hardworking citizen”. Thanks to his loans, many artisans, traders, and peasants in the war-ravaged Stara Zagora area recovered. Zlatev himself enjoyed the trust of the wealthy Tarnovo merchant H. Slavcho Paskalev, from whom he borrowed, and he never took his debtors to court (Iliev 1926, p. 233). A similar usurer in the Ruse region was the master craftsman Gani Karsnaliyata. In a 1910 article against usury, N. Konstantinov recounts his case, adding: “Such cases can be studied by our elders everywhere in the country”. He also notes that when usurers faced prosecution, they were often hidden by the peasants they had credited (Konstantinov 1910, pp. 161 – 182). In other words, these are not rare exceptions. Such usurers were among BAB’s main competitors – the ones it was expected to eliminate.

Cheap credit to farm households, which BAB was supposed to provide, was perceived by contemporaries as a silver bullet for overcoming economic backwardness and modernizing every sector. It is well known in theory that cheap credit and artificially suppressed interest rates carry a vast potential to create crisis conditions by encouraging projects for which there is no real need. Because the defining characteristic of Bulgarian agriculture in these years was the lack of capitalism, the crisis potential of cheap credit was limited. Still, low-interest loans from the state bank meant that scarce public funds were used in ways that did not adhere to economic rationality. In this sense, they could not generate noticeable economic growth.

The Bulgarian Agricultural Bank pro-Cooperatives activities

In 1921, the ruling majority introduced significant changes to the BAB law. Among the most important was the provision transferring the financing of all types of agricultural cooperative associations to the bank (Art. 6). Some of the larger cooperative unions (syndicates) received long-term loans guaranteed by the state.[7] Over the next several years, BAB indeed directed its placements toward agricultural cooperatives – most of them credit cooperatives. Under this new direction, unexpected outcomes again emerged, some of them negative. These were identified in 1925 by a special parliamentary commission of inquiry into BAB's affairs.[8]

BAB's commitment to financing cooperatives meant fewer funds remained in the bank for personal loans to individual farmers, who were often neglected. A revealing case comes from the Provadia district: the local bank administration prohibited personal lending to peasants and extended credit only to cooperatives. The results proved "disastrous" for the district's rural population, most of whom were outside cooperatives. Unable to obtain loans from BAB, farmers were forced to turn to private banks and usurers. In effect, BAB's actions provided customers to the usurers it was supposed to fight. Placed in a slightly longer perspective, the Provadia experiment foreshadowed the policy of forced cooperative enrollment implemented by the communists more than two decades later.

Cooperative credit from BAB was directed to cooperatives politically close to the authorities. Loans were extended that proved uncollectible, as cooperatives tempted by easy money – embarked on speculative activities. Such loans went to syndicates exploiting water resources and to certain tobacco cooperatives. Investigators characterized them as "insecure placements and, at the very least, ones for which collection will take a great deal of time". BAB did not, in fact, help modernize agriculture; instead, it "patronized to a great extent the speculative element". Channeling funds to various government-favoured cooperatives left the bank short of liquid resources at precisely those times of the year when households most needed credit (May, June, July). One important conclusion of the inquiry was that instead of ensuring higher procurement prices for producers, "the bank largely patronized the speculative element", hardly a trait expected of cooperatives.

The inquiry notes the elementary truth that a cooperative that does not inspire trust should not be financed – yet BAB failed to observe this basic rule. Strikingly, it concluded that the spread of cooperatives in Bulgaria was not due to any particular love of the cooperative idea, but to "the mentality created that, through cooperatives, members could gain easier access to the bank's resources". Thus, cooperatives financed by BAB became a means of personal enrichment for some members. Many easy-money loans to various cooperative unions went into non-viable projects – as economic theory would predict.

The policy of favouring cooperatives was not tied to a single Political party or administration. In 1934, BAB merged with the Bulgarian Central Cooperative Bank. According to an August 1941 report, the new bank held a significant portfolio of overdue loans resulting from unsuccessful ventures, use of loans for purposes other than those declared in advance, unsold production, and so forth.[9]

A Brief Conclusion

The good intentions behind the creation of the state-run BAB were not realized in the manner expected. First, the bank did not remain immune to politicization and use – sometimes direct, sometimes more veiled – by successive governments. The massive state offensive through the bank and through tax laws did reduce usury in rural Bulgaria, but it did not eliminate it, and where it disappeared, there was often no meaningful substitute. In the years after its creation, BAB shifted toward financing cooperatives. Cooperatives grew rapidly and dynamically, yet behind their social façade, they often became a conduit for siphoning public resources into private benefit. Thus, the outcomes of the creation and activity of the Bulgarian Agricultural Bank ran counter to the great expectations placed upon it. Agriculture was effectively deprived of economically grounded credit, slowing trends toward modernization and prosperity. A segment of the population learned that, with the help of social slogans and professed concern for the poor, personal well-being could be achieved.

From today's perspective, the bank's main deficiencies were tied to limited resources for smallholders because of an emphasis on secured loans-through guarantors, pledges, or mortgages-which made access difficult for less liquid farmers unable to provide such guarantees. Regardless of the contested question of how "state" the bank truly was, it was vulnerable to political influence, which could distort credit allocation and favor some clients over others. In 1912 – 1919, the bank operated under wartime conditions, with strained liquidity and collection pressure, increasing credit risk; more importantly, it lacked diversification among borrowers and was highly dependent on the agricultural sector. Compared with today's banks, the main difference was the absence of a broad range of banking and payments services, risk-management tools, and digital services that are standard today; it provided essentially only credit and deposit services. In the 1920s, credit expansion and rising indebtedness posed serious challenges, and in 1934, it merged with the Bulgarian Central Cooperative Bank to form the Bulgarian Agricultural and Cooperative Bank.

An Agri-bank is many times more vulnerable than a diversified universal bank. State ownership does not always guarantee stability; goal-setting outside market realities leads to distortions in the provision of financial services. The absence of a strong independent regulatory framework, such as today's EU supervisory regime, illustrates how transparent incentives can affect systemic risk. Today's Bulgarian banks operate under EU/Basel III rules with high capitalization and liquidity. The agricultural sector is now competitive, market-oriented, capitalised, and digitised, supported by various European instruments, and has become a driver and priority in many European and global economies.

The lessons history teaches on this topic are that specialization in a single sector brings benefits but also risks, while it channels resources purposefully to agriculture, the system becomes far more vulnerable to sectoral shocks. Access to credit is crucial; experience shows that when it does not reach the poorer population with fewer means, social tensions remain high and may lead to conflict. To achieve stability, regulation is a key factor-supervision and capital buffers are mechanisms of guarantee without which a banking system cannot function.

NOTES

1. Diary (Stenographic) of the 13th Ordinary National Assembly, First Regular Session, 40th Sitting, 22 December, 1903.
2. State Gazette, 31 December 1903, No. 288.
3. Stenographic Diaries of the 21st Ordinary National Assembly, Second Regular Session, 96th Sitting of 10 July 1925.
4. Stenographic Diaries of the 19th Ordinary National Assembly, First Regular Session, 28th Sitting of 21 December 1920.
5. Ibid.
6. Stenographic Diaries of the 21st Ordinary National Assembly, Fourth Regular Session, 77th Sitting of 6 April 1927.
7. State Gazette, 12 January 1921, No. 228.
8. All citations are from the document preserved in the Central State Archives, Fond 173k, Inventory 4, Archival Unit 506.
9. Central State Archives, Fond 288k, Inventory 4, Archival Unit 6871.

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✉ **Prof. Pencho D. Penchev, DSc.**
ORCID iD: 0000-0001-7542-1625
WoS ResearcherID Q-4377-2016

✉ **Dr. Yanko Hristozov, Assoc. Prof.**
ORCID iD: 0000-0002-3509-3871
University of National and World Economy
1700 Sofia, Bulgaria
E-mail: p.penchev@unwe.bg
E-mail: yankohristozov @unwe.bg