Bulgarian Cooperative Banking

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Abstract The chapter describes the peculiar characteristics of the Bulgarian economic system, with reference to the trend of the major macroeconomic variables. In this context, the analysis point out the features of the Bulgarian cooperative credit system, determining its profile based on the type of network taken into consideration and the two different entities: the Central Cooperative Bank Plc (CCB) and the Agriculture Credit Cooperatives (ACCs). The study highlights a substantial fragility of the Bulgarian cooperative system and outlines the hope of a better regulation to support it in the recent contest of EU Cooperative regulation changes.

1 Introduction

Because of their business model, which is based on proximity to local communities, stable relationships with clients and members, expertise, long-term perspective and a joint liability system, co-operative banks are a key element of systemic stability. During the crisis, the co-operative banking model has performed reasonably well. This performance was emphasized by the notably positive results obtained by co-operative banks in the comprehensive assessment exercise (stress test and asset Quality Review) that was conducted. This exercise showed that the general capitalisation conditions of the EU banking system were aligned with co-operative banks' tradition of soundness and high capitalisation (EACB 2015).

In the EU panorama, the Bulgarian Credit Cooperative system could be further developed with more adequate legislation. The cooperative credit system has played an important role in the Bulgarian economy, both before World War Two and during the Soviet period, when the financial intermediation function was

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monopolized by the State. However, at present, particularly due to an inadequate regulatory structure, the system has lost its leading role. The cooperative credit system in Bulgaria is built around a number of different realities. A number of these systems are the outcome of private initiatives (Central Cooperative Bank Plc), a portion are financed by government organizations (Agriculture Credit Cooperatives), and others are financed by non-governmental organizations (Nachala Cooperative) as micro-credit schemes in support of several sectors of the Bulgarian economy.

This chapter is organized as follows. The initial part describes the peculiar characteristic of the Bulgarian economic system, with reference to the trend of the major macroeconomic variables. The subsequent paragraph analyzes the characteristics of the Bulgarian cooperative credit system, determining its characteristics based on the type of network taken into consideration and the two different entities: the Central Cooperative Bank Plc (CCB) and the Agriculture Credit Cooperatives (ACCs). The last paragraph outlines the hope of a better regulation to support the Bulgarian Credit Cooperatives in the recent contest of EU Cooperative regulation changes.

2 The Bulgarian Economic System

Until November 1989, the Bulgarian economy was based on the Soviet system, with State control over all economic sectors (including financial intermediation). The fall of Communism and the transition process has resulted in a remarkable economic recovery that nonetheless was not strengthened by the requisite structural and legislative reforms. After the financial crisis of 1996–1997, the progress made in recent years by the Bulgarian economy is clearly outstanding such that it meets most of the parameters established by the Maastricht Treaty for accession to the EU.

The real GDP of Bulgaria, after the sharp downturn of 2009 (Table 1), recorded average growth rates higher than that of the Euro Area. The entry of Bulgaria into the European Union and the need to adhere to strict public balance sheet parameters imposed by the European convergence has produced an extremely positive effect on inflation rates. During the period of 1997–2006, the average annual inflation was 36.2 % compared with an average of 2 % in the Euro area. As shown in Table 1, since 2009, inflation rates in Bulgaria have been progressively reduced, reaching the levels of deflation recorded in 2014 and expected for 2015.

To reduce the risks of the devaluation of the local currency (the Lev), on 27 November 2008, the government decided to maintain a fixed exchange rate between the Lev/Euro at 1.95583 Lev (Lev/Euro). The country's fiscal system is extremely favourable for investment; since 2008, the government has introduced a flat tax of 10 % for earned income and income from economic activity.

Despite the considerable efforts of the Bulgarian government, the gap between the income level of Bulgaria and the countries of the European Union remains marked. In fact, Bulgaria is the poorest country in the European Union with a high

Table 1 Real GDP and consumer prices (annual percent change)

	Average 1997–2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 f
Real GDP (annual percent change)										
Bulgaria	3.8	6.9	5.8	−5.0	0.7	2.0	0.5	1.1	1.7	1.2
Euro area	2.3	3.0	0.5	−4.5	2.0	1.6	−0.8	−0.5	0.9	1.5
Consumer prices (annual percent change)										
Bulgaria	36.2	7.6	12.0	2.5	3.0	3.4	2.4	0.4	−1.6	−1.0
Euro area	2.0	2.2	3.3	0.3	1.6	2.7	2.5	1.3	0.4	0.1

Source: our processing based on IMF (2015a, b)

level of structural unemployment and significant disparities in terms of age, gender, and region.

Macroeconomic imbalances in Bulgaria are concentrated on a devaluation of the real exchange rate (deflated by the CPI), a negative Net International investment position and more than the 75 % established by the Treaty of Maastricht. According to the Convergence Report of 2014, containing inflation, is the result of the sharp slowdown in economic growth. The absence of structural reforms of the country's economic recovery would lead to a major turnaround and reach the CPI target rate of change.

Bulgarian public finance conditions are relatively strong, although the country suffered a sharp deterioration during 2014. The deficit-to-GDP ratio was maintained during 2014 at −3.7 % (−1.5 % for the previous year; −2.4 % was the average for the Euro Area) and the Government debt-to-GDP ratio in 2014 was equal to 27.6 % (18.1 % in 2013), well below the 60 % established by the Treaty of Maastricht and the level registered by the major EU countries (91.9 % was the average for the Euro Area).

3 The Financial and Banking System

3.1 From the Soviet Period to the 1996–1997 Crisis

Similar to how the Bulgarian economy and the development of the financial and banking system has been affected by a Communist regime (1944–1989), the country was moulded on the characteristic traits of the monopolistic model present in other countries (Poland, USSR, Czechoslovakia, Romania and East Germany). During that period, the banking system was composed of a single bank, the *Bulgarska Narodna Banka,* BNB (Bulgarian National Bank), that through a territorial network of branches, operated in the dual capacity as central bank and commercial bank. In contrast to other Soviet-type regimes, the Bulgarian banking system featured the variant of a second institution that lacked a bank statute and that was responsible for gathering Bulgarian household savings: the State Savings Bank (currently, DSK). In 1964, the Bulgarian government recognized the need to externalize the BNB regulation of international trade, leading to the establishment of the Bulgarian Foreign Trade Bank (BFTB—currently, Bulbank), which addressed international banking operations (Koford and Tschoegl 2002).

The function of intermediation between savers and investors was internalized in the State-owned banking system because the assets gathered through the State Savings Bank were employed by the BNB in State-owned industrial enterprises to finance investments in capital assets and to circulate capital. The risk management function was utterly non-existent in such a system because the capital allocation was centralized and pertained to the State. In addition, such a banking system failed to allow the formation of those competences that in addition to evaluating and managing risks, are indispensable to selecting deserving entrepreneurial initiatives and to determining prices based on riskiness. Conversely, that banking system had led to exchange risk management competences, although rudimentary (Bonin 2001).

The first signs of an opening of the banking system appeared in 1981, the year Mineralbank was established; Mineralbank specialized in providing credit to small and medium-sized enterprises in the mining sector. Actually, the major change in the organization of the banking system occurred with the end of the Soviet period in 1989 when the BNB lost its monopolist commercial bank role and confined its competences to monetary and currency policies.

Therefore, the banking system still needed to be built from scratch because there were no institutions, no adequate legislative system, and no banking culture. Furthermore, even the competences that are typical of those who must allocate capital to create shareholder value were missing. The initial steps taken during the transition were the establishment of seven new sectoral banks in 1989, which replaced a few BNB branches.[1] The year 1990 is acknowledged as the year of maximum expansion of the Bulgarian banking system; by that year's end, the latter was composed of 70 banks, of which seven were sectoral banks, two were specialized banks (Bulgarian Foreign Trade Bank and State Savings Bank) and 59 were commercial banks.

In spite of its major progress, the Bulgarian banking system remained fragile. There was no suitable regulatory structure for both the banking sector and bankruptcy regulations, most banks were owned by the State, and the level of overdue bills inherited from the Soviet era in bank portfolios was huge, given the limited capitalization of many banks. In 1992, to eliminate this deficiency, the State established the Banking Consolidation Company (BCC), which was entrusted with the task of reducing the undercapitalization of State-owned banks (71 % in

[1] The Agricultural and Cooperative Bank, the Biochemical Bank, the Construction Bank, the Economic Bank, the Electronics Bank, the Transportation Bank, and the Transport, Agricultural, and Building Equipment Bank, which was also known as Balkan Bank. Refer to Koford and Tschoegl (2002).

1991) through the direct subscription of equity stakes in the banks and the merger of many banks (Vincelette 2001).

The first results were timely. In 1992, 22 state-owned banks were consolidated into the United Bulgarian Bank. In 1993, 12 additional state-owned banks were consolidated into a single bank, the Express Bank. The system was gradually consolidating, and it reached the brink of the economic and financial crisis (1996–1997) with 35 banks. Throughout the transition years, the most urgent reform had been delayed; in total asset terms, the State maintained an extremely high equity stake in the banking system (84.8 % in October 1996). Additionally, there was a notably close connection between banks and enterprises.

Many economic sectors remained monopolistic and under state control. In particular, the mechanics, chemistry, transport and telecommunications, and energy sectors continued to benefit from bank loans despite lacking creditworthiness (Gomel 2002). Furthermore, under the law, the BNB was required to rectify the losses generated by the system's banks, discouraging risk management and credit selection activity. Thus, the economic crisis rapidly became a financial and monetary crisis. For two consecutive years, the GDP had been utterly negative (−10.1 % in 1996 and −7.0 % in 1997). At the same time, the devaluation of the Bulgarian Lev (BGN) had caused prices to increase in an exponential manner; the CPI was equal to +310.4 % in 1996 and to +578.6 % in 1997. In addition, the BGN had been considerably devaluated with respect to the dollar.[2]

The government performed innumerable measures to rise out of this deep crisis; most importantly, the government passed renewed prudential and supervisory legislation to regulate the banking system. In particular, the introduction of the Law on Banks on June 25, 1997 considerably reformed prior regulations in force since 1992. This law introduced: the minimum capital adequacy requirement of 12 % of total risk-weighted assets; limits to the concentration of assets; as well as rules for evaluating guarantees, classifying assets and calculating appropriated surplus. In addition, the accounting standards were modified and new rules regarding currency reserves were introduced. In contrast, the International Monetary Fund established the Currency Board, which was entrusted with the task of supervising public spending to consolidate the State's national debt.

3.2 The Current Situation

Currently, the Bulgarian financial system has been completely renewed and benefits the banking channel, rather than direct channels, as the means of resource intermediation. Non-banking financial intermediaries represent a small percentage of banking intermediaries.

[2] By the end of 1995, 65 BGN were needed for a US Dollar. By the end of 1996, 178 BGN were needed for a USD and by the end of 1997, 1674 BGN were required for a USD. Cf., BNB Statistics.

Table 2 Structure of the Bulgarian banking system

Bulgarian banking system	2009	2010	2011	2012	2013	2014
Commercial banks licensed in Bulgaria	23	22	23	22	22	21
Commercial foreign banks' branches	6	6	7	7	7	6
Cooperative bank under law on bank[a]	1	1	1	1	1	1
Agriculture credit cooperatives	33	n.d.	n.d.	n.d.	15	15

Source: our processing based on the BNB, Decree n. 343/1998, Amersdorffer et al. (2015)
[a]It is the Cooperative Central Bank, the only Bulgarian bank operating according to the Law on Banks

Table 3 Market share of domestic and foreign banks

Market share of domestic and foreign banks	2010	2011	2012	2013	09.2014
Non EU bank branches	0.7	0.8	0.7	0.8	0.1
Non EU-banks	2.2	2.3	1.5	1.3	1.4
EU bank branches	4.1	3.7	6.1	5.5	6.6
Domestic banks	19.3	23.5	26.4	30.2	23.2
EU bank subsidiaries	73.7	69.7	65.3	62.2	68.7

Source: our processing based on the BNB Data

In particular, the total quantity of assets in Bulgaria's financial system reached BGN 109.05 billion by the end of September 2014. Of this, 74.9 % are derived from the banking sector, and 25 % is attributable to other areas of the financial system (insurance companies and funds managed by pension insurance companies, leasing companies, and financial vehicle corporations) (BNB 2004). The deleveraging of the stock-exchange market has resulted in a significant reduction of market capitalization in the GDP. In 2007, the market capitalization to GDP ratio was equal to 49.9 %, whereas in 2013 the ratio was equal to 12.6 % (The World Bank indicator).

Furthermore, since the crisis of 1996–1997, the number of banks in the Bulgarian system has generally stabilized, rarely exceeding a total of 35 (including foreign bank branches) (Table 2). The 2008–2009 global financial crisis has had major repercussions in Bulgaria, although stronger tensions registered during 2014. In particular, in June 2014, the Corporate Commercial Bank (CCB), the fourth largest bank in the country, failed to write off huge losses on loans (approximately 2/3 of the total assets). After a bank run concern, which also involved the First Investment Bank AD, the banking system has stabilized because of the intervention of the BNB and the help of EU funds, which were used to increase liquidity in the banking system.

The ownership of most Bulgarian banks is foreign, as shown in Table 3. In particular, the market share of the subsidiaries of EU banks in 2014 is equal to 68.7 %, representing a significant increase following the failure of the Corporate Commercial Bank. The market share of the subsidiaries, in fact, had been steadily reduced since 2010; however, the events recorded in June of 2014 have reduced the market share of domestic banks, to the benefit of branches of EU banks or subsidiaries of EU banks licensed in Bulgaria.

Table 4 Loans to nonfinancial corporations, households and NPISHs by economic activity

	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	I—2015 (%)
Agriculture, forestry and fishing	2.1	2.4	2.6	2.7	3.1	2.8
Manufacturing	12.4	12.6	13.0	13.3	14.0	14.5
Trade	20.1	20.1	20.4	20.7	18.8	18.4
Construction and real estate activity	13.9	13.5	12.8	13.5	12.7	12.7
Other service activities	16.1	17.7	19.1	17.7	17.4	17.3
Total non-financial corporations	62.5	63.9	65.2	65.3	62.9	63.0
Total households and NPISHs	37.5	36.1	34.8	34.7	37.1	37.0
Perc. variation of loans to non financial corporations	2.48	5.45	4.96	0.13	−11.48	−0.43
Perc. variation of loans to households	−8.34	−4.12	2.90	1.97	1.26	−0.18

Source: our processing based on BNB (2015)

Table 5 Risk, profitability and capital adequacy of Bulgarian banking system

	2010	2011	2012	2013	09.2014
Non-performing loans/net loans	11.9	9.7	10.6	10.3	10.5
Return on assets	0.86	0.78	0.71	0.70	1.03
Return on equity	6.7	6.1	5.71	5.64	8.26
Total capital adequacy	17.48	17.53	16.7	16.9	19.47

Source: our processing based on BNB (2015)

The banking system concentration level increased sharply during 2014 after several years of a steady decrease. In fact, the first five Bulgarian banks hold a market share, in total asset terms, of 54.05 %. The same banks, at the end of 2013, held market share equal to 49.5 % (our processing based on BNB data).

Regarding the distribution and the change in the quantity of credit extended to non-financial corporations and households, we emphasize the following main trends (Table 4). The share of funding allocated to non-financial corporations represents 63 % in the I-quarter of 2015. This result is fairly steady over time. Over time, the manufacturing sector has observed a major allocation of credit at the expense of trade and real estate. Regarding the rates of change, in 2014, primarily because of the failure of the Corporate Commercial Bank, the amount of credit granted to non-financial corporation decreased by approximately 11.5 %. However, in other years, there was no lack of support of the economy by the banking system with regard to non-financial corporations. However, the loans to households situation appears more difficult, if the change in the credit stock is related to the change in nominal GDP.

In profitability terms, the Bulgarian banking system as a whole denotes an improvement in profit performance and the capital adequacy ratio (Table 5). The non-performing loans ratio (net-impairment) in the last three years remained steady at approximately 10.5 %. Note that the BNB classification of non-performing loans also included past due exposure of more than 90 days, emphasizing a rigorous identification of non-performing exposure.

4 The Cooperative Credit System in Bulgaria

The origins of the cooperative credit system in Bulgaria date to the beginning of the twentieth century through the intervention of farmers and small and medium-sized agricultural firms. The saving and credit cooperatives based on the Raffaisen approach represented an important link of the Bulgarian banking system until the end of World War Two. The cooperative credit system continued working in rural areas during the Soviet era, particularly to compensate for the desires of a highly centralized banking system based on a single central and commercial bank. Most important, the BNB branches were solely present in major towns, leaving a considerable supply vacuum in those rural areas that were not served by financial intermediaries. The lack of competences, the perception of high riskiness in the agricultural business, and the unclear definition of the legal framework with respect to the examination of guarantees caused the utter failure of any initiative to re-launch the agricultural system that used commercial banks (Popov 2003; Cotugno 2010).

The first Bulgarian cooperative credit bank dates to 1910 when the *Bulgarska Zemedelska Banka* presided over a spin-off of the cooperative-type banking activities to form the *Bulgarska Centralna Kooperativna Banka* (Bulgarian Central Cooperative Bank). In fact, the origins of the Bulgarian Central Cooperative Bank were based on the rural world and date to 1862 when a large number of autonomous rural credit associations established the bank to serve as a treasury for the local administrations and as a deposit and lending bank for local agricultural farms (Koford and Tschoegl 2002). The cooperative movement acquired greater local characteristics during the communist period, although it did so without referring to national associations or federations, given that the entire banking system remained under State control. Currently, the cooperative movement is built around two different entities:

– The Central Cooperative Bank Plc (CCB);
– The Agriculture Credit Cooperatives (ACCs);

As previously noted, the main obstacle to adequate growth of the cooperative credit system in Bulgaria has been the desire for an appropriate regulatory framework. Given the structured and modern banking rules and regulations enacted in response to the 1996–1997 crisis, the Bulgarian governments that followed, as with the BNB, failed to promote non-commercial development of the banking system. In fact, the BNB's need to ensure the full governance of the monetary and credit policies has required, through the revision of the Cooperative Act, the prohibition by Cooperatives of the acceptance of deposits from their customers.

Therefore, the bank regulations currently in force provide for a two-tiered banking system.

1. Banks can be established in compliance with the Law on Banks, subject to the prior authorization of the BNB and the district court having jurisdiction. For all purposes, these are commercial banks; however, these banks can work according to the rationale that is typical of the cooperative credit system, should this be required. In such a case, these banks shall be subject to BNB supervision and shall not benefit from any facility because it uses the cooperative form. Because the Law on Banks has been crafted for commercial banks, its intermediary subjects that desire to work under a cooperative scheme are required to recreate in their statutes the typical provisions of the cooperative model.
2. Although the banks established in compliance with the Cooperative Act have a legal framework that previously includes provisions for the cooperative model, in contracts, they are subject to considerable limitations because they are not allowed to accept deposits from their customers. Indeed, this limits their growth to the amount of their equity. In fact, Article 38 of the Cooperative Act passed in 1991 had specified that "a cooperative shall be free to engage in savings and loan activities by virtue of a resolution of its General Meeting". The crisis in 1996–1997 has led to a reformulation of this provision whereby "The cooperative may engage in depositary and crediting operations by resolution of the General Meeting and with the authorization of the Bulgarian National Bank and as provided for in a separate law". In fact, the text is connected with article 2 of the Law on Banks that states that "the provisions of this Law shall not apply to mutual aid funds of cooperatives extending loans only to their members on the account of contributions made by them and cooperative funds".

The more recent Decree No. 343 of 30 December 2008 of the Council of Ministers confirms this role related to Credit Cooperatives.

In other words, a cooperative bank cannot conduct a deposit-taking activity unless it is authorized to do so by the BNB; in addition, a cooperative bank is subject to the Law on Banks, thereby falling within the case referred to in paragraph 1 above. "Mutual aid credit cooperatives of private farmers, established as per the agricultural capital fund scheme in compliance with the agreements for utilization of the financial grant, concluded between the government of the Republic of Bulgaria and the Commission of the European Union", are not required to apply for the authorization because article 17 of the final and transitional provisions of the Law on Banks explicitly provides for their exemption.

Despite the pressures placed by the Cooperatives registered under the Cooperative Act on the Bulgarian Parliament and the BNB, the latter have not yet approved ad hoc regulation for deposit and credit cooperatives, leaving the credit intermediation sector mainly in the hands of commercial banks and confining cooperative credit to a narrow market niche.

The current regulatory and supervision is assigned to the Ministry of Agriculture, which, as discussed below, does not grasp the real needs of business development of ACCs in Bulgaria.

4.1 The Central Cooperative Bank Plc

The Central Cooperative Bank Plc is a commercial bank registered in the Republic of Bulgaria with a head office and administration address in Sofia. The Central Cooperative Bank Plc was established in 1991 through the Central Cooperative Union (the national federation of Bulgarian Cooperatives), which is composed of a few regional cooperative unions and nearly 1100 cooperative-type enterprises. Their objective was to succeed in unifying the financial resources of the Bulgarian cooperative system to enable its proper development (Central Cooperative Bank, Annual Report). The Central Cooperative Bank Plc is the sole Bulgarian cooperative bank registered under the Law on Banks and, therefore, is subject to BNB supervision. The bank's organizational structure is as follows: there are no local or regional banks that participate in a federation or a central bank; however, there are 266 branches that cover the national territory as well as abroad (Central Cooperative Bank, Presentation 2014).

Since March 1999, the CCB Plc has been listed on the Bulgarian Stock Exchange and is currently controlled by CCB Group Assets Management EAD, a company that, in turn, is 100 % owned by Chimimport JSC, a financial holding that has equity interests in the financial sector as well as in such sectors as legal consulting services, chemical product trade, rubber by-products and fertilizers and transport. The acquisition by Chimimport occurred at the beginning of 2002, when the Bank Consolidation Company AD divested 32.77 % of its CCB capital (Central Cooperative Bank Plc 2013) ownership. Today the capital of CCB Plc is 68.5 % owned by CCB Group Assets Management EAD and 5.1 % directly owned by Chimimport (Central Cooperative Bank Plc 2014).

The CCB Plc has a two-tier governance system, at the top of which is the General Meeting of Shareholders. The Supervisory Board consists of a few members that are elected directly by the General Meeting and is responsible for appointing the Management Board and the Procurator. The Management Board elects the Executive Directors with the approval of the Supervisory Board (with respect to the National Code of Corporate Governance).

The CCB Plc is a full member of European Association of Cooperative Banks and of the International Cooperative Banking Association.

The CCB Plc is growing rapidly and has a focus on retail segments, including individual clients and small and medium sized enterprises. The CCB Plc has strong market positions in the card business, payment systems and lending to agricultural producers. From a marketing perspective, the CCB Plc provides easy access to its product/services through a branch network; the Bank is developing its fee-based services and other non-interest income activities. Based on article 1 and 3 of General Terms and Conditions of Central Cooperative Bank, *"The Bank provides to its Clients the following services: (1) services, related to depositing cash to a payment account, as well as the associated operations for servicing the payment account; (2) services, related to withdrawing cash from a payment account, as well as the associated operations for servicing the payment account; (3) the* *performance of payment operations, including transferring funds to a payment account of the Client with the bank or with another provider of payment services: a) the performance of direct debits, including one off direct debits; b) the performance of payment operations via payment cards or other similar instruments; c) the performance of credit transfers, including orders for periodic transfers; (4) the performance of payment operations, when the funds are part of a loan granted to the Client: a) the performance of direct debits, including oneoff direct debits; b) the performance of payment operations* via *payment cards or other similar instruments; c) the performance of credit transfers, including orders for periodic transfers; (5) issurance of payment instruments and/or accepting payments with payment instruments; (6) performance of available money transfers; (7) the performance of payment operations, upon which the consent of the Client, as a payer, for the performance of the payment operation is given* via *telecommunication, digital or information means and the payment is made to the operator of the telecommunication or information system or network, acting only as an intermediary between the Client and the provider of the goods or services. (. . .) Art.3. With regard to the payment operations performed on the account, the Client of the bank may be in the quality of a payer and/or a beneficiary. (. . .)".*

The CCB Plc has a strong relationship with a number of correspondent banks, which allow it to improve its business contacts. In fact, the Bank has 360 correspondents and 22 Nostro accounts, as well as a number of lines for documentary operations for various amounts and trade finance for the imports of investment product produced in EU (refer to the CCB Plc Profile reported in its website).

In recent years, the evolution of the CCB market share has been extremely favourable. In 2004, CCB had market share of 2.4 % in total asset terms; however, 2013 data shows market share of 4.6 %.

The CCB Plc has a diversified portfolio of products and a partiality for the agricultural sector.

In total asset terms, CCB Plc in 8th place in the BNB classification for the banking system as of 31.12.2013. In December 2013, The Bulgarian Credit Rating Agency confirmed the rating awarded to CCB Plc; the long-term rating is BBB-, and the short-term rating is A-3 (Central Cooperative Bank Plc 2013).

In performance terms, the CCB registered a growth rate of 11.82 % in balance sheet assets in 2013 (Table 6). The growth rate in the past two years is better than ever before because of more conservative policies for granting credit. In fact, the results of this policy have produced a net reduction of non-performing loans from 9.7 to 4.6 %.

Growth in equity has not had the same magnitude as growth in the total financial statement assets. In fact, overall, the financial leverage has increased, and the level of equity to total assets over time has decreased.

The company's profitability level over time has decreased, from a ROE of 8.17 % in 2010 to 2.85 % in 2013.

Table 6 Central Cooperative Bank Plc, performance

	2010	2011	2012	2013
CCB total asset (rate of change %)	24.22	31.43	11.53	11.82
CCB total equity (rate of change %)	8.98	21.46	4.34	2.62
ROE (%)	8.17	3.79	2.90	2.85
ROA (%)	0.98	0.42	0.30	0.27
Equity/total assets (%)	11.99	11.08	10.37	9.51
NPL/loans (%)	9.74	7.16	5.59	4.58

Source: our processing based on CCB Plc (2013)

4.2 The Agriculture Credit Cooperatives

In early 1996, a few groups of agricultural enterprises established Agriculture Credit Cooperatives (ACCs), working within the legal context of the Cooperative Act, to grant credit to their members according to rationale typical of the cooperative models. In the same year, the Ministry of Agriculture and the European Union[3] had launched the Agricultural Capital Fund Scheme (ACAS), a program to sustain the Bulgarian agriculture, by appropriating a fund of 14 million euro for initiatives in support of the agricultural world. In May 1996, 33 Agriculture Credit Cooperatives benefited from the funds placed at their disposal by the Ministry and European Union. After a brief period required for recruiting and training staff, towards the end of 1996 the Cooperatives began to disburse the first loans to their members (Dimitre 2006).

In recent years, the Ordinance No. 26 of 23 April 2009 on Financial Institutions, at par. 6, provides as follow: *"The cooperatives under par. 12 of the Law on Credit Institution incumbent upon the entry into force of this Ordinance shall be registered on the grounds of a certificate for compliance with the requirements of Decree No. 343 of 30 December 2008 of the Council of Ministers issued by the Minister of Agriculture or a person authorised by him, and continue their activity under the procedure established by the Council of Ministers"*.

The Decree No. 343 of 30 December 2008 of the Council of Ministers determines the manner in which the Mutual-Aid Credit Cooperatives for Private Farmers-Producers (Agriculture Credit Cooperatives or ACCs) shall continue their activity as financial institutions within the meaning of the Credit Institutions Act.

The ACC shall be a legal entity registered under the Cooperatives Act. At least half of the Credit Cooperative members shall be agricultural producers. An ACC member may be any legally capable natural person who is familiar with its Articles of Association and the ensuing rights and obligations, who agrees to observe these and who is willing to collaborate on the further development of the Cooperative's

[3] The European Funds refer to the Poland/Hungary Assistance for Restructuring Economy (PHARE) Program.

activity. One person may be a member of only one ACC. The typical organization of each Cooperative consists of a variable number of members and generally includes between 200 and 600 members. The ACC shall conduct activities for: granting loans to their members, marketing and providing services in the economic and financial sectors, providing social and health insurance and other services related to agriculture, fisheries and aquacultures, and developing rural regions solely in favour of their members. The ACC may grant loans of no more than BGN 5000 for activities other than those previously listed. In addition, a CC loan cannot be granted to a member, for example, who has outstanding obligations related to his membership and has not deposited the minimum share capital in accordance with the ACC Law.

The ACC's governance system is composed of a General Meeting that manages the ACC, which shall directly elect a Chairperson and a Supervisory Board; the Supervisory Board shall elect a Management Board and an Audit Committee.

The General Meeting includes all the members of the Cooperative and meets at least once a year to outline the strategic policies and adopt the yearly balance sheet and income statements. As specified in article 21 of the Cooperative Act, "each member shall be entitled to one vote which shall be cast personally, regardless of his share of the nominal capital". However, there is no mandatory provision to appropriate the accumulated year-end profits. In fact, it is mandatory to appropriate 20 % of the profits generated, whereas the general meeting must determine the allocation of the remainder and, possibly, its distribution in the form of dividends (Cooperative Act, article 35, 1996). ACC's governance is based on the Supervisory board, which is intended to provide a monitoring role for ACC management.

The organizational structure of each individual ACC also provides for the presence of a Chairman of the Agriculture Credit Cooperative, who is the person responsible for the bank and who acts as a liaison with the outside, the chairman of the management board and the coordinator of human resources. Generally, in each ACC, there is at least one loan inspector who is responsible for credit operations, as well as an accountant and a lawyer who are responsible for maintaining the branch accounting and for debt collection, respectively. In addition to coordinating the personnel working in each branch, the Chairman participates in the national federation of the cooperative credit banks' meetings. In fact, each local cooperative joins a national federation (Federal Agriculture Credit Cooperative, FACC), which represents the interests of the ACC with respect to national and local authorities. Currently, this is a closed system that does not accept new members. The Federation is registered under the Act for Legal Persons with Non-Profit Activities, according to the agreements entered into by the Bulgarian government and the EU (Popov 2003).

The highest body of the federation is its General Meeting, composed of the chairmen of the 16 ACCs.[4]

[4] At the moment, they are: "Agroimpuls"—Sliven; "Maritsa invest"—Plovdiv; "Doverie"—Dobrich; "Saglasie 96"—Russalya, Veliko Turnovo; "Perelik"—Smolyan; "Solidarnost"—

Each chairman is entitled to one vote to elect the Federation managing bodies, with special reference being provided to the Management Board (composed of five members) and the Chairman of the Federation, as well as an executive director of the Federation who is entrusted with day-to-day management tasks and the coordination of the unitary management of the 33 ACCs. Each ACC contributes an amount toward the Federation's costs relative to that ACC's assets.

The prohibition to not accept deposits from their customers represents a significant limitation and considerably deters the ACCs' development in Bulgaria. In fact, the major obstacles for the development of the ACCs were previously specified at that time. First, financial services were solely restricted to lending. Deposits were explicitly prohibited. Second, as often observed with regard to early formation phases of rural credit cooperatives, the regulation and supervision were assigned to the Ministry of Agriculture. However, it quickly became evident that the Ministry was not well-suited for this task. Third, technical support, e.g., by the German Cooperative and Raiffeisen Foundation (DGRV), was limited to the training of key persons of the cooperatives, i.e., managers and staff members. The DGRV could have assisted in establishing a supportive legal framework for cooperative financial intermediation but did not receive appropriate support by the Ministry of Agriculture or other authorities.

These shortcomings led to the failure of a number of ACCs. The ACCs deviated from their initial mission or/and accumulated poorly performing loans. Nevertheless, 15 ACCs joined forces in establishing the National Cooperative Union 'Evrostart' (NCU), which continues to operate. The NCU organizes external audits, trainings and is active in lobbying, but is not assigned a supervisory function. Since 2011, all NCU cooperatives are registered as "financial institutions" within the registry of the Bulgarian National Bank4. The ACCs' operation is regulated by Ordinance No. 26 (Bulgarian National Bank) and the Law on Credit Institutions (Bulgarian National Bank). Most ACCs are located in remote rural areas but also in semi-urban provincial towns. Nevertheless, their clientele mainly consists of small private farmers.

Because the cooperatives, compared with microfinance institutions in other parts of the world, serve a small number of members, all operations, i.e., screening, monitoring and enforcing repayment, are based on personal relationships within the social networks of rural communities, which were noted previously. Although the lending strategy does not support well-known group lending approaches, similar processes can be observed. For instance, the functioning of the credit cooperative relies heavily on informal information flows in the social network of the cooperative members and on social pressure (in case of delayed loan repayment). One of the largest growth impediments for the ACCs is the limited funding base because they

Plovdiv; "Aetos"—Aytos, Burgas; "Mizia"—Pleven; "Pomoriiski stopanin"—Pomorie, Burgas; "Stopanin 1"—Haskovo; "Samokov 96"—Samokov, Sofia; "General Toshevo"—General Toshevo, Dobrich; "Momina voda"—Momchilovtsi, Smolyan; "Kaynardzha"—Kaynardzha, Silistra; "Nadezhda"—Pliska, Shumen; "Smilyan"—Smilyan, Smolyan.

are not allowed to collect savings and can barely refinance in the Bulgarian financial system. However, since 2002, Oikocredit International, a socially responsible investor, began to refinance certain ACCs. However, such socially oriented investors, which depend on attracting funds from donors or private investors, are motivated to document the positive and so-called "social" impact of their investments. These investors strongly engage in the application of Social Performance Measurement (SPM) by educating their clients, i.e., operating microfinance institutions such as the ACCs, and requiring them to conduct SPM as a self-assessment or as an external audit. To implement an SPM, Social Performance Indicators (SPI) should be included in the ACCs' management.

5 Conclusions

Until 1989, the banking system had been inspired by the typical rationale of the planned economy with centralization of the resources' trading services and the presence of a single State-owned bank. The opening of the economic system to market logics has occurred swiftly, but because there was no adequate legislative context, from 1996 to 1997, problems inherent in the system led to a bank panic that, in turn, led to an impressive financial crisis that caused considerable depreciation of the national currency, strong inflationary tensions and total reorganization of the financial system.

Considerable relevance has been attached to the cooperative credit system in the years prior to the Soviet-era and, to a lesser extent, to the Soviet era. The system's current role has decreased in importance, particularly because of a largely unfavourable legal context. The main Bulgarian cooperative bank is the Central Cooperative Bank Plc, which is a single entity that manages branches throughout the territory. In sum, the bank is not a federation of local banks because it is a single national bank, as commercial banks are. In addition to the Central Cooperative Bank Plc, another cooperative credit system has become operational; this refers to a national federation and is composed of many Agriculture Credit Cooperatives. The federation's registration under the Cooperative Act and, recently, the requirements of Decree No. 343 of 30 December 2008 of the Council of Ministers issued by the Minister of Agriculture imply that it is not allowed to accept deposits from the public, and this considerably limits the movement's expansion.

A reformulation of the regulatory framework is a critical issue for the life of cooperative credit in Bulgaria, although to date, this has been avoided because of the desire to centralize the banking system on an exclusively commercial-type model.

Thus, EACB remains an active player in the European Social Dialogue on Banking (ESDB), which is the dialogue between employer associations (EACB and ESDB) and employees (UNI Finance) in the banking sector. The EACB's recent projects strived to enhance social dialogue in 'enlargement countries' such as Bulgaria (and Romania and Croatia) by sharing the best practices of other 'new' member states, such as Malta and Cyprus, and those of older Member States, through the dissemination of one of the best results of the European Social Dialogue (EACB 2015).

Therefore, it is hoped that the attention of the international cooperative institutions and the recent changes in EU Credit Cooperative Regulation may enable greater support of the Bulgarian Credit Cooperatives. It is also hoped that the attention will enhance reflection on growth within the European banking sector, in which financial cooperatives play an important role.

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