

## THE GROWTH AND FINANCING OF CO-OPERATIVES IN IRELAND

by

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### I Introduction

The Co-operative sector in the Republic of Ireland represents a broad spectrum of activities which extends from direct production in the case of agricultural Co-operatives to credit unions which provide local based credit facilities. As one would expect in a predominantly agricultural economy, at least until comparatively recently (Kennedy & Burton 1975), the Co-operative sector is dominated by agricultural and related types of Co-operatives. This historical development of the agricultural Co-operative movement in Ireland is well documented in Bolger (1975). In terms of their current levels of activity, agricultural and related Co-operatives presently have an annual turnover of almost £2,000 m. This turnover doubled during the 1950s, increased four-fold in the case of the sixties, and between 1970-1977 expanded by almost a six-fold increase (IAOS, 1978). Viewed in terms of this criterion agricultural and related Co-operative organizations have experienced considerable expansion in the last thirty years.

In this article we will briefly review the overall Co-operative sector in Ireland (Section II).

Next we will look at the growth of what we will call the larger agricultural Co-operatives (section III), and in the following section (section IV) we will briefly examine the development and financial problems of the more recently established smaller rural Co-operatives. The final section provides a summary and conclusion.

## II The Co-operative Sector - An Overview

Since Co-operatives in Ireland are treated, for legal purposes, as Industrial and Provident Societies they come under the legislation covering these Societies. This legislation extends in varied form from 1893 down to 1978 when additional amendments were made to existing legislation which relate to the publication of their accounts. In 1977 the Registrar of Friendly Societies, the legal body to whom annual returns must be made reclassified Industrial and Provident Societies under the following sectoral headings and sub-headings. This is a useful classification since it is based on the principal economic and social activities of these Societies. It also provides a good overview of the range of their activities, and it facilitates the compilation and comparison of useful statistical information. For this reason we describe below the classification in modified form as used for the purpose of this article.

### 1. Productive Societies

#### (a) Agricultural Productive Societies:-

- (i) Dairying Societies
- (ii) Meat Processing Societies
- (iii) Livestock Breeding Societies
- (iv) Horticultural Societies

## (b) Other Productive Societies:-

- (i) Flour milling, etc.

2. Distributive Societies

## (a) Agricultural Distributive Societies:-

- (i) Agricultural Supply Societies engaged in the supply of implements, seeds, manures and general agricultural requisites.

- (ii) Egg and Poultry Societies, i.e. depots for the collection and marketing of eggs

- (iii) Livestock Marts (including Marketing)

## (b) Other Distributive Societies

- (i) This group consists of general stores (wholesale and retail).

3. Fishery Societies

These Societies are engaged in all aspects of fishing developments, production and distribution.

4. Public Utility Societies

- (i) Housing Societies, i.e., those Societies are primarily engaged in

the acquisition of building plots and houses for their members and the provision of related services.

- (ii) Group Water Schemes, these are primarily for the purpose of establishing local water supplies in rural areas. These schemes must be registered to qualify for grants from the European Agricultural Guidance and Guarantee Fund (F.E.O.G.A.).

#### 5. Promotional and Development Societies

This group, which is a new grouping, includes central organising and promotional bodies, regional and local development associations.

#### 6. Credit Unions

These provide their members, who are united by a common bond, with sources of credit by the accumulation of their savings.

#### 7. Miscellaneous Societies

This group includes clubs, educational associations, Co-operative development Societies and Societies registered in order to qualify for grants from the European Agricultural Guidance and Guarantee Fund.

While this spectrum of economic and social activities in which Co-operatives are involved in Ireland is extremely wide and diverse, in practice the first three categories of the above classification dominate the Co-operative sector in terms

of their economic activity. These three categories are almost exclusively concerned with production and marketing in the agricultural sector. In 1975 these three sectors accounted for just under 30% of all Co-operative societies in the country, and for 35% of total Co-operative membership, but accounted for almost 95% of the total turnover of the Co-operative sector. This can be seen from the appended Table 1 which provides the number of Co-operatives in each category of the classification described above (Column 1), the membership (Column 2) and the total turnover in terms of either sales or income (Column 3) in 1975.

Consequently when discussing Co-operatives in Ireland the principal focus of attention is the agricultural Co-operatives. The co-ordinating body for these is the Irish Agricultural Organisation Society (IAOS), which was founded in 1894 by Horace Plunkett and his associates, and has recently changed its title to the Irish Co-operative Organisation Society (ICOS). In the next section we will examine the growth and financing problems of what we term the larger agricultural Co-operatives.

### III Growth and Financing of Larger Agricultural Co-operatives

Because of the importance of the agricultural Co-operatives they have become largely identified with the Co-operative sector in Ireland (i.e. categories 1 to 3 above). For purposes of statistical compilation the Irish Co-operative Organisation Society classifies the Co-operatives in categories 1 to 3 into the following twelve groups.

1. Multipurpose Dairies
2. Livestock Marts
3. Meat Processing
4. Wholesale stores
5. Agricultural stores
6. Horticultural
7. Fishing
8. Pig Fattening
9. Home Produce and Crafts
10. Livestock Breeding
11. Gaeltacht
12. Miscellaneous

The Gaeltacht Co-operatives (group no. 11) are located in the Irish speaking regions which are located primarily in the western regions of Ireland. The appended Table 2 indicates the growth of the agricultural Co-operatives over the period 1964 to 1977, divided into two periods, 1964 to 1973, and 1973 to 1977. Turnover is used as a measure of economic activity. The multi-purpose dairies have clearly dominated the growth of the agricultural Co-operative sector, experiencing a 32% average annual growth rate between 1964-1973 and a spectacular growth rate of 84% (annual average) between 1973-1977.

The 'big three' of this sector, i.e. multi-purpose dairies, livestock marts, and meat processing Co-operatives have retained their relative positions within this sector over the period. The remaining groups of Co-operatives account for extremely small percentage shares of the total turnover, but these small shares understate the contribution of these other sectors, particularly in the area of community development in the more peripheral regions of the country. One of the

more interesting features of Table 2 is the minor role played by retailing Co-operatives in the agricultural sector. This is reflected in the small percentage shares of the wholesale and agriculture store groups of 3.1% and 1.7% respectively in 1977.

The implications for the financing of this growth within the Co-operative sector are important. The relative proportion of both share capital and loan capital as sources of finance has increased substantially over the period 1963-1977. In Table 3 (appended) we show the percentage growth in numbers, turnover, share capital and loan capital for each of the periods 1961-1966, 1966-1971 and 1971-1976.

The growth of share capital contributed by members was far greater than the growth in members, but considerably less than the growth in turnover. However, the growth of loan capital, particularly in the 1971-1977 period indicates the extent to which the Co-operative sector is now reliant on external sources of finance to ensure their continued expansion. The demand for loan capital on the part of the Co-operatives is expected to continue to grow, and in a recently published development plan for the agricultural Co-operatives (IAOS, 1979) the loan capital requirements were estimated at £500m up to 1983.

However, while these global figures clearly indicate a trend toward rapid expansion within the agricultural Co-operative sector, they also conceal interesting underlying changes which represent contrasting lines of development, each raising its own set of problems. The principal trend of recent

changes has seen the widespread amalgamation of the longer-established dairying Co-operatives into larger regional groups, and continued movement towards multipurpose dairy co-operatives. These operations have become very successful commercial operations run on commercial criteria of performance. In the pursuit of these commercial objectives, fundamental questions about the maintenance of Co-operative principles have been raised. This is particularly true in the area of continued contact between the ordinary membership and the different levels of management. This question has been examined by Commins (1978, 1979).

#### IV The Financial Problems of Smaller Co-operatives

Parallel with this development of rapid growth and structural change towards centralisation in the dairy Co-operatives there has been in recent years a rapid growth in smaller multi-purpose rural Co-operatives, particularly in geographic regions (i.e. western regions) where Co-operative organization has not been well established. The problems facing these Co-operatives are very substantial. They start with their initial establishment and extend to such areas as their internal structure, their external relationships, their role in local development and their future viability, but the problem of finance represents the most fundamental problem facing these smaller rural Co-operatives.

A number of causes can be identified for the financial problems facing these smaller Co-operatives. Firstly, they are normally within their own locality community development organizations rather than strictly trading organisations. As a result their operations do not generate a high level of

cash-flow in contrast to trading operations. Consequently, cash-flow problems represent a continual constraint on both their short-term viability and their prospects for longer term growth. Secondly, while there are grants available to these smaller Co-operatives particularly in the peripheral regions, the continual raising of local financial resources is not an easy task given the low levels of per capita income in the communities where they are located. Thirdly, the commercial banking sector in Ireland has traditionally been conservative in its lending policy towards Co-operatives - certainly until such time as they have attained a suitable degree of financial stability. In this respect Ireland must be unique in Europe in that the Co-operative Movement never developed its own set of financial institutions. Fourthly, the economic consequences for these Co-operatives of being located in comparatively disadvantaged regions within the economy imposes a high cost of accessibility with respect to both inputs and output markets. These financial problems will continue to represent very substantial constraints on these smaller rural multipurpose Co-operatives.

## V Conclusions

Recent developments in the Co-operative sector - interpreted in this article as agricultural and related Co-operatives - reflect the emergence of different trends in recent years. One was the movement towards greater amalgamation and centralisation of the older established dairy Co-operatives into larger units of operation modelled on the corporate structure of the non-Co-operative type of business operation. This development is dominated by the Multipurpose,

Livestock, and Meat Processing Co-operatives. The future financial requirements of these Co-operatives are very substantial in the short term, and in the period up to 1983 is estimated to be about £500m. They start, however, from the advantaged position of a strong commercial base. They do, however, face very strong competition within their respective sectors from multinational subsidiaries operating within these sectors; and the pressure to maintain their economic and technological positions relative to the foreign subsidiaries is one of the larger tasks facing these co-operatives in the future.

In contrast, the smaller multipurpose rural Co-operative which has emerged in recent years faces a different set of problems. The principal one - among others - as we have seen is the financing dimension of their operation. Given these divergent trends in the development of the Co-operative sector, it is possible however that they may converge rather than continue to diverge. This would be true if the larger Co-operatives, given their resources and their continuing commercial expansion, expanded their activities into the area of local and community development, thereby relieving the smaller rural Co-operatives, with their endemic cash flow problems and precarious existence, of their role as community development organisations. However, if this was to happen the conflict between place - specific needs and the needs of centralised management would continue to be a source of tension and conflict. This convergence is not perhaps foreseeable in the immediate future when we consider the pressures on the larger Co-operatives from large-scale, highly capital intensive multinational industry within the agricultural sector. To meet these competitive

pressures the larger Co-operatives will have continued need for large investment requirements in their established activities, so that the parallel lines of development within the Co-operative sector in Ireland outlined in this article will continue into the short and medium term future.

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TABLE I: NUMBERS OF SOCIETIES, MEMBERSHIP AND TURNOVER IN EACH CO-OPERATIVE SECTOR IN IRELAND, 1975

THE GROWTH AND FINANCING OF CO-OPERATIVES IN IRELAND

SECTOR	1. NUMBER OF SOCIETIES	% of Total	2. MEMBERSHIP	% of Total	3. TURNOVER ( IN £ MILLION)	% of Total
1. PRODUCTIVE SOCIETIES	155	12.5	105,319	18.4	404	48.32
A. Agricultural Productive Societies:	140		98,073		386	
(I) Dairying Societies	93		78,786		311	
(II) Meat Processing Societies	11		12,422		44	
(III) Livestock Breeding	24		3,611		4	
(IV) Horticultural Societies	12		3,254		9	
B. Other Productive Societies	15		7,246		16	
2. DISTRIBUTIVE SOCIETIES	190	15.3	101,407	17.8	397	47.48
A. Agricultural Distributive Societies:	159		92,862		381	
(I) Agricultural Supply Societies	104		36,335		261	
(II) Egg & Poultry Societies	5		650		29	
(III) Livestock Markets (and Marketing	50		55,877		91	
B. Other Distributive Societies	31		8,545		16	
3. FISHING SOCIETIES	17	1.4	936	0.2	2	.24
4. PUBLIC UTILITY SOCIETIES	248	19.9	12,782	2.2	0.09	.01
5. PROMOTIONAL & DEVELOPMENT SOCIETIES*	-	-	-	-	-	-
6. CREDIT UNIONS	364	29.3	239,225	41.9	25	2.99
7. MISCELLANEOUS	269	21.6	111,376	19.5	8	.96
TOTAL	1,243	100.00	570,945	100.00	836.09	100.00

SOURCE: Annual Report in Registrar of Friendly Societies, 1977

\* Data not available for 1975

THE GROWTH AND FINANCING OF CO-OPERATIVES IN IRELAND

TABLE 2: TABLE I. CO-OPERATIVE TRADE TURNOVER IN IRELAND FOR PERIOD 1964-1977 BY TYPE OF ACTIVITY

	<u>1964</u>	<u>1973</u>	<u>1977</u>	Average % Growth rate per annum	
				<u>1964/73</u>	<u>1973/77</u>
Multipurpose Dairies	60.48 (56.7)	235.0 (42.4)	1,020.52 (59.0)	32	84
Livestock Marts	23.06 (21.6)	178.2 (32.2)	384.51 (22.22)	75	29
Meat Processing	11.36 (10.6)	78.04 (14.1)	202.16 (11.7)	68	40
Wholesale	6.77 (6.3)	36.50 (6.6)	53.23 (3.1)	46	12
Agricultural Stores	4.00 (3.8)	13.40 (2.4)	29.34 (1.7)	25	30
Horticultural	0.16 (-)	2.10 (0.4)	5.13 (0.3)	135	36
Pig Fattening	0.16 (-)	4.01 (0.7)	12.46 (0.7)	267	53
Fishing	0.06 (-)	3.65 (0.7)	11.02 (0.6)	665	50
Livestock Breeding	0.47 (0.1)	1.83 (0.3)	2.54 (0.1)	33	10
Other Co-operatives	0.10 (-)	2.47 (0.4)	9.51 (0.5)	237	71
<b>TOTAL</b>	<u>106.62</u>	<u>553.20</u>	<u>1,730.47</u>	<u>47</u>	<u>53</u>

Source: I.A.O.S. Annual Reports, (various issues).

THE GROWTH AND FINANCING OF CO-OPERATIVES IN IRELAND

TABLE 3: % GROWTH IN MEMBERS, TURNOVER, SHARE CAPITAL AND LOAN CAPITAL 1961-1976

	<u>Members</u>	<u>Turnover</u>	<u>Share Capital</u>	<u>Loan Capital</u>
1961 - 1966	17.4	57.6	42.4	112.2
1966 - 1971	27.7	227.5	272.8	78.6
1971 - 1976	28.5	311.1	113.1	830.7

Source: Annual Reports, I.A.O.S., Various issues.