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Guest Editorial

This special Irish edition of the Journal of Co-operative Studies comes at a time when the Irish co-operative movement is both celebrating and going through a process of renewal. The island-wide Irish credit union movement is marking 50 years of service to members, and is reflecting on its achievements over the years. Credit unions have achieved enormous strength in numbers and are seen as a key player within the financial services sector in Ireland, having attained distinctive legislation and regulation. More general co-operative legislation in the Republic of Ireland is currently undergoing a thorough review in order to make it more relevant to the needs of co-operatives today. It seems timely that credit unions and other co-operatives in Ireland might begin to work more closely together in sharing resources and learning from one another.

All of the papers in this edition cover various aspects of Irish co-operatives and credit unions. Contributions to the journal come from both academics and practitioners with an interest in Irish co-operatives. The first paper by Aisling Moroney et al, presents one slice of a large research project into the potential of co-operative structures for farmers’ markets in Ireland, a project which is being funded by the Irish government’s Department of Agriculture, Food and Fisheries. Farmers’ markets have become very popular in Ireland in the past number of years where farmers, growers and producers sell their produce directly to the public. Varying structures and arrangements have been put in place for these markets. The paper examines the lessons that might be learned from the experiences of co-operative farmers’ markets in the US and UK and investigates whether the co-operative form might be appropriate for such markets in an Irish context.

Continuing the food theme, Aisling Murtagh and Michael Ward focus in on a case study of the Dublin Food Co-op which is Ireland’s only consumer co-operative (not counting credit unions). The paper shows how this isolated example in Ireland of consumer control over food supply is helping to address some of the problems associated with more globalised food supply chains and the sense of detachment consumers may have from food producers.

Changing direction, Donal McKillop and Barry Quinn examine the financial performance of credit unions in Ireland. Because of the current economic climate, credit unions are coming under increasing pressure as a result of rising costs, declining margins and increasing bad debts. The authors find that Irish credit unions are under-performing in cost terms by an average of 15 per cent. Interestingly, those that perform better charge lower rates of interest on loans and pay higher returns on savings. Adoption of technology also enhances the performance of credit unions. This analysis should be of considerable benefit to credit unions that are now becoming more conscious of the need to improve their performance.

The next two papers explore the important issue of co-operative legislation in Ireland. As stated earlier, the legislation governing co-operatives in Ireland is currently under review and a public consultation document has recently been issued by the government’s Department of Enterprise, Trade and Employment (DETE). Ted de Barbieri examines co-operative legislation from an enabling perspective, exploring how co-operative law reform can stimulate co-operative growth and development. He draws on co-operative legislation in the US, Norway and the EU to make a series of recommendations for consideration in enacting change. Eamonn Carey, from the DETE, presents a shorter paper referring to the existing co-operative legislation in Ireland and the importance of co-operative identity issue. This raises questions around whether legislative reform should take a ‘low-prescription’ or a ‘high-prescription’ approach. Submissions to the DETE on shaping co-operative legislative reform are welcomed. The final short paper by Olive McCarthy discusses the key role played by the Centre for Co-operative Studies at University College Cork in co-operative research and education and explores some of the impact it has had on the co-operative movement in Ireland. The Centre aims to have both an academic and practical relevance in both its research and educational programmes. It is the only such third level centre in the country focusing on co-operatives.

The book review section contains reviews of two Irish books: one on Irish credit unions, and one on co-operatives more generally.

Finally, as guest editors, we were very happy to have this opportunity to produce an Irish edition of the journal. We thank all contributors, referees, and the editorial team for their dedication and patience in bringing this issue to fruition.

Olive McCarthy, University College Cork
Donal McKillop, Queen’s University, Belfast
April 2009
The Potential of the Co-operative Form for Farmers’ Markets in Ireland - Some Lessons from the USA and UK

Aisling Moroney, Robert Briscoe, Olive McCarthy, Mary O'Shaughnessy, Michael Ward

One of the most important developments in small-scale agriculture and in local food retailing in the last decade has been the emergence of a new generation of farmers’ markets in countries such as Ireland, the USA, the UK, New Zealand and Australia. Farmers’ markets are now a significant alternative source of sales, distribution and marketing for many small scale producers and a valuable source of fresh, local and specialist produce for growing numbers of consumers. This paper presents findings from the initial stages of a large-scale study which seeks to establish how farmers’ markets in Ireland can best be structured and organised to increase the competitiveness and sustainability of small farmers and to strengthen farmer influence and control in the marketplace. The research is particularly concerned with examining the potential of formal co-operative structures, which though relatively common in farmers’ markets in the US and the UK, remain largely unexplored in an Irish context. While ongoing extensive quantitative and qualitative research on all Irish farmers’ markets is the primary focus of the research, field visits to markets and key informants in the US and UK have also been conducted and completed. The findings from the latter research – and more specifically, their potential relevance to Irish farmers’ markets at their current stage of development – are the subject of this paper.

Introduction and Background

One of the most important developments in small-scale agriculture and in local food retailing in the last decade has been the emergence of a new generation of farmers’ markets in countries such as Ireland, the USA, the UK, New Zealand and Australia. Farmers’ markets are now a significant alternative source of sales, distribution and marketing for many small scale producers and a valuable source of fresh, local and specialist produce for growing numbers of consumers. Farmers’ markets allow the stallholder to shorten the food chain, reduce ‘food miles’ and packaging, and sell directly to the consumer, without intermediary or ‘middle-man’ (Tippins et al 2002). Operating outside the realm of intermediaries such as wholesalers or retailers, allows the stallholder to reassert greater control over production and marketing decisions and to move away from the ‘price signal’ as the sole arbiter of what is produced (Feagan et al 2004). In fact, it is the very interface with consumers provided by the farmers’ market which has been found to facilitate farmers and producers in receiving feedback and suggestions from consumers, in meeting demand for specialist or non-standardised products, and in experimenting with new products at relatively low risk (Griffin and Frongillo 2003; Tippins et al 2002). A number of studies (Hinrichs et al 2004; Feenstra et al 2003) have found that most stallholders usually really enjoy participating and draw particular benefit from the chance to interact with other stallholders and with customers (Griffin and Frongillo 2003; Baber and Frongillo 2003). For farmers and small producers, meeting with customers, talking to them about the produce and getting positive feedback from previous sales also engenders (or in some cases, restores) a sense of pride and confidence in their work (Griffin and Frongillo 2003).

In tandem with the renewed interest in direct marketing amongst farmers has been a perceptible shift in consumer demand for the kind of retail experience provided by farmers' markets. Consumer studies have revealed that a small, but growing, number of consumers have serious concerns about the origins and traceability of their food, about the ecological impact of the agri-food industry and about the quality and desirability of many of the products of that system (McGarry Wolf et al 2005). Studies of consumers at farmers’ markets have revealed multiple and complex motives for attending and purchasing (McGarry Wolf et al 2005; La Trobe 2001). These include the desire to purchase high quality, fresh, local or speciality produce, the wish to buy from and support local farmers/producers and to reduce ‘food miles’, and the opportunity to have a more fulfilling, sociable and authentic shopping experience than might typically be found in the supermarket aisles.

Farmers’ markets bring together producers and consumers within a fundamentally different type of relationship than that found in
conventional supply chains, one characterised by high levels of personal interaction, of trust, and of mutual regard (Sage 2007). They are a key element of what Hinrichs et al (2004:31-32) have described as a new ‘civic agriculture’, one in which farmers and consumers both seek and benefit from a renewed connection between food and place, between farmer and consumer. Co-operatives, and particularly consumer food co-operatives, have long played a significant role in this arena and farmers’ markets which operate as producer co-operatives and/or as multi-stakeholder co-operatives have perhaps the greatest potential to build and develop these connections.

There is a growing body of research available on farmers’ markets in general, much of it concerned with exploring the overall experience of participation for farmers and small producers. Little research has been published to date on the important issue of the structure and organisation of farmers’ markets. This paper presents findings from the initial stages of a large-scale study which seeks to establish how farmers’ markets in Ireland can best be structured and organised to increase the competitiveness and sustainability of small farmers and food producers and to strengthen their influence and control in the marketplace (that is, to maximise benefits to farmer/small producer participants). The research is particularly concerned with examining the potential of formal co-operative structures, which though relatively common in farmers’ markets in the US and the UK, remain largely unexplored in an Irish context. While ongoing extensive quantitative and qualitative research on all Irish farmers’ markets is the primary focus of the research, field visits to markets and key informants in the US and UK have also been conducted and completed. It is the findings from the latter research – and more specifically, their potential relevance to Irish farmers’ markets at their current stage of development – that are the subject of this paper.

Farmers’ Markets in Ireland

Although the sector has declined somewhat in recent years, rural Ireland has a long tradition of market or fair days and of country markets where people come to sell fresh farm, garden and home produce and handcraft. In more urban areas, daily market stalls selling fruit, vegetables and flowers bought from wholesalers can still be found. A more recent and very significant development has been the growth of a new generation of what are generally known as farmers’ markets. These are markets where farmers, growers or producers (usually from a defined local area) sell their own produce direct to the public and they have experienced phenomenal growth in the last decade. It is difficult to arrive at a precise number of markets – new markets are continually appearing (and occasionally disappearing), some markets are seasonal and some are associated with festivals or events – but there are at least 120 running at any one time².

Since each farmers’ market is a gathering of individual traders, no two agglomerations will ever be exactly the same and precise definition and categorisation of markets is usually difficult (Lawson et al 2008). In Ireland, the farmers’ market scene is extremely diverse and categorisation is particularly challenging. Although markets can be categorised in many different ways, such as by degree of formality, or geographical location, or scale, or festive vs economic functions, for the purposes of this discussion, we can categorise Irish farmers’ markets according to how they are structured or organised. Though imperfect, the following categorisation is inclusive of the great majority of markets in the country.

- **Farmer/producer-driven markets** are concentrated in, though not exclusive to, the south and west of the country and are typically associated with a strong alternative agri-food network and wider community. These were amongst the first of the new generation markets and are often driven and run by pioneering figures in artisanal foods and are usually run by a stallholder committee. There is typically a strong focus on providing an outlet for smaller or local or artisanal producers.

- **Private markets** are those run by private operators on a for-profit basis and which are typically associated with a strong alternative agri-food network and wider community. These were amongst the first of the new generation markets and are often driven and run by pioneering figures in artisanal foods and are usually run by a stallholder committee. There is typically a strong focus on providing an outlet for smaller or local or artisanal producers.

- **Participatory markets** are perhaps the most recent phenomenon. They are found in all parts of the country and are difficult to
categorise precisely. These markets are typically founded by and/or engage a wide range of stakeholders such as rural and community development organisations, tourism groups, local authorities, local economic actors, colleges, and so on. Like producer-driven markets, they tend to place a strong emphasis on supporting smaller, local and artisanal producers. They will usually engage the participation of stallholders in decision-making, though the extent to which this happens varies widely.

**Farmers’ Markets in Ireland – where are the co-operatives?**

As can be seen from the above categorisation, farmers’ markets in Ireland have neither started out as nor evolved into co-operative organisations in the formal or legal sense. Yet from the formation of the Rochdale Co-operative in England in 1844, there is a rich history of co-operation in the distribution of agricultural and food products. In Ireland, agricultural co-operatives have proved to be a highly effective means through which farmers have collectively retained control over decisions relating to production, price and marketing (Ward 2005) and achieved economies of scale which would be beyond the capacity of any farmer acting individually. The co-operative form has been adopted by groups of Irish farmers across a range of sectors – dairying, livestock marts, meat and food processing, farm supplies – often on a large scale and usually firmly within the industrial or productivist model. To date, there has been limited engagement with the co-operative form in the development of farmers’ markets, or indeed other forms of direct marketing, although there may be significant benefits to be gained from doing so, such as greater control over the operation and orientation of the market and pricing, quality control and participation costs (Griffin and Frongillo 2003).

However, to focus only on organisational type would be to ignore the essentially co-operative nature of most types of farmers’ markets. Most are founded on – and arguably can only achieve long term success through – strong and ongoing co-operation between farmers/producers. At a basic level, markets involve stallholders coming together to offer an assortment of products and services, including the social environment, as demanded by consumers (Lawson et al 2008). It is the very collective nature of the market, the gathering together of a variety of farmers and producers, that appeals to consumers. It is also the collective nature of markets which allows small business operators to pool resources and attempt to overcome resource constraints. Inherent to the farmers’ market model is a high level of interdependence amongst stallholders, where the success of the market overall is at least partly dependent on the input of each stallholder and on the relationships between them. Furthermore, in their study of co-operation in New Zealand farmers’ markets, Lawson et al (2008) found that over 80% of the traders at the markets were involved in some form of co-operative activity above and beyond basic ‘space-sharing’, such as selling one another’s product, sharing equipment or referring customers. Preliminary results from the present research into Irish farmers’ markets support that finding and analysis of the levels and types of informal co-operation amongst stallholders across market types will form a significant component of the final research report.

The approach of this research then is not to differentiate baldly between co-operative and non-co-operative farmers’ markets, but to view individual farmers’ markets as being placed somewhere on a continuum of co-operation. At one end of the spectrum, we have markets with minimal co-operation, where stallholders merely share the same physical space which is usually provided and organised by an outside person or body. At the other, we have markets with a formal co-operative structure and (we can speculate) high degrees of informal co-operation also. In this paper, we will examine the experiences of markets in the US and the UK which are closer to the latter structure – the learning from their experiences, and of those who are involved in the farmers’ market movement at a research, policy or support level can inform the growth and development of farmers’ markets in Ireland at this stage in their development.

**Research on US Farmers’ Markets**

The US has experienced similar phenomenal growth and development in farmers’ markets in recent years. The latest figures from the United States Department of Agriculture from mid-2008 are that there are 4,685 farmers markets operating in the United States, representing a 6.8% increase from 4,385 farmers markets in 2006. Although little research has been done on the structures of farmers’ markets in the US,
it appears that most markets in the US could be described as either farmer/producer-led or participatory according to the classification applied to the Irish situation.

In late 2006, the researcher held a total of 15 meetings with a range of key informants – farmers’ market managers and directors, researchers and development workers in the field and staff/directors from support bodies and federations – in both Upstate New York and the Bay Area of California. While the latter area has an extremely well-developed and highly regulated farmers’ market sector and a large and affluent consumer base, Upstate New York has geographical, climatic and demographic features closer to those of Ireland.

**Producer-Led Markets - The Benefits and Limitations**

Research to date on farmers’ markets has uncovered multiple worthy functions. Farmers’ markets serve as local sources of fresh produce and artisanal foods, as sites of community interaction, as tourist attractions or as contributors to urban regeneration. Yet farmers’ markets are first and foremost a place where local producers make some or all of their living by selling directly to local consumers. The great majority of the key informants in the US considered that the optimum structure for a farmers’ market then is to be primarily initiated and run by these local producers and vendors. As a number of commentators put it, “form must follow function” – if the primary function of the market is to provide a sustainable marketplace for local producers, then they should be designed for that use by the people whose livelihoods are at stake. Even in cases where the original impetus for the farmers’ market came from another source such as a Chamber of Commerce, church group or community development group, most interviewees felt it was still vital to then proceed by engaging the involvement of the stallholders in the running of the market. As one organiser of a market in Upstate New York put it:

> Whether that structure is a formal co-operative or not is not as important as whether or not it is a producer controlled market, that it functions in a way that serves the farmer first and foremost ... the people who make the stuff and sell the stuff.

Most of the participants in this research agreed that it is the perspective of stallholders on aspects such as opening hours, scale, location and balance between different types of stallholders that should be to the forefront. It is the experience of one co-operative extension worker involved with a number of markets in Upstate New York that at the very least, you have to keep vendors involved, to get them to weigh in on issues, to air their grievances, to reach compromise.

The involvement of stallholders in the running of markets has been found to cultivate and build willingness and capacity to work together for the benefit of the market overall. It also tempers the overt competitiveness which might otherwise exist between individual small business people sharing the same space. The manager of a very successful co-operative farmers market in Upstate New York commented:

> The vendors [in this market] are very supportive of one another – they realise they are all in this together ... much of this support comes from being a member based co-operative.

Stallholders at this market are required to participate in the governance and/or day-to-day operation of the market. A work-share scheme means that members must do some work for the market – serve on a committee, run a promotion, get involved in the newsletter or carry out inspections – or pay a relatively substantial and fully enforced fine. Overall, the market manager there feels that most stallholders are “very dedicated, with a strong sense of ownership and pride in the market”. She queried whether a similar sense of collective responsibility and ownership could be fostered in a private sector market.

In the markets studied, there are, of course, stallholders who wish to simply come and sell at the market without any further participation – as the chairperson of a market in Upstate New York which is governed and managed by a committee of stallholders puts it:

> It’s not ideological for most members – their main concern is shifting produce and it’s a lot of extra work to be farmer-led or farmer controlled.

However, for most stallholders, there is a
realisation (if perhaps an occasionally grudging one) that it is the member-based structure of the market which allows producers to control and shape the market to meet their needs and which both builds and reinforces the kind of interdependence and co-operation which is one of the factors key to the success of markets.

Exclusively producer-led markets can also demonstrate anti-competitive and protectionist behaviours, where the term ‘our market’ can have negative as well as positive connotations. As one market manager put it; “people can act badly when their livelihoods are at stake.” Similarly, there can be a tendency for cliques to form and particular agendas to rule, where the quality and sustainability of the market overall can be secondary to the interests of particular stallholders. Most of the markets in this study have put in place the kind of robust organisational and governance systems outlined below to guard against these dangers and others.

All of the participants in this study agreed that while a certain level of informality is part of the character of farmers’ markets (one of the features that makes them attractive both to producers and consumers), each market nonetheless needs to arrive at a clear and rigorous set of rules and regulations for the running of the market. These rules typically cover aspects of operation such as the proportions of different types of stallholders allowed, attendance requirements, whether re-selling is permitted, the radius from the market from which stallholders are allowed to attend and stallholder work obligations. California has a demanding certification system for its farmers’ markets, which in any case regulates many areas of operation, regardless of the proclivities of individual markets. Such a certification system is suited to (and by all accounts works effectively) in a geographical area with abundant year-round produce, an affluent market and relatively high market incomes. The farmers’ markets in Upstate New York, which face greater challenges in terms of seasonality, distance from markets and a less affluent and less receptive consumer base, are typically more flexible with regards to some areas of operation, such as allowing some re-selling off-season. All of the participants agreed that whether under the umbrella of an outside certification system or not, each market needs to arrive at, agree, and perhaps most importantly, enforce its own set of rules and regulations. The manager of one large and very successful market in Upstate New York pointed out that it is also important to:

- debate grey areas … and to record decisions and rules and the reasons for them so that there is a greater sense of why things are the way they are.

The very process of arriving at and enforcing rules and regulations has been found to be essential in ensuring that “everyone knows where they stand”, that there is a sense of fairness and mutual respect between stallholders, and that consumers are reassured of the integrity of the market.

Many of the markets included in this study grapple with governance issues that are common to many member-based organisations, such as recruiting suitable board members, ensuring board turnover, achieving the right balance between management and governance, etc. However, most have put in place the kind of robust governance structures and rules which can help to moderate these issues, such as mandatory turnover for positions on the Board, open elections for Board members, clear delineation of roles and responsibilities, work-share schemes and the opening of Board seats to non-stallholders who may have much to contribute.

**Benefits of a Formal Co-operative Structure**

Are there any benefits to adopting a formal co-operative structure over a more informal producer-led structure which usually has a largely co-operative ethos and approach? Most of the markets visited in this study started off operating at a small scale, with virtually no assets, minimal management and a relatively simple committee-type governance structure. However, as the markets grew in scale and complexity, the need for a more formal legal and operational structure increased. The markets included in this study which have adopted a co-operative structure have found that it ensures that each market has a Board that is elected and accountable to members, which sets and enforce rules, appoints and is responsible for staff and is required to think long-term and strategically. Many of the markets have also found that being a non-profit co-operative has increased both their eligibility and credibility when making grant applications and seeking donations and has allowed them to have charitable status and some tax exemptions.
Legally, co-operative status means the exposure to risk associated with increasing scale and asset accumulation is group based rather than individually based. For a number of the markets in this study, becoming a co-operative allowed them to raise money for capital expansion or other development through membership fees or by selling preferred stock. Although some pay a dividend to members, most share the perspective of a very successful market in California that “amounts to individuals were small compared to what could be achieved with the money put together” and what profits there are usually go back into market development or reserves.

**Associations of Markets – the Regional Approach**

One of the most interesting markets visited in the course of this research was in fact a regional association of markets in the Bay Area of California. This association is governed by a board comprising representatives of over 40 certified farmers’ markets in more than 35 Bay Area communities. The Board is predominately made up of farmers/producers but has dedicated places for other key stakeholders and those with needed skill-sets. It is largely concerned with the overall vision and direction of the association rather than its day-to-day management and has developed 5 and 10 year plans. This Board in turn employs a CEO and a large full time staff to carry out the day-to-day functions of market management, such as market set-up, promotions and liaising with stallholders. The association also runs an extensive marketing and education department that works to educate the community about healthy eating and sustainable agriculture including nutrition, food preparation and storage, food safety, farm production, and food security. Such a model has significant potential for county-wide or regional groupings of markets in Ireland, allowing markets to be producer-led but not overly burdensome and with the obvious benefits of professional management and organisation.

**The Multi-Stakeholder Approach**

Although the producer-led market may be the optimum model, the markets included in this research can and do benefit from the perspective and participation of other stakeholders and interested parties, although the level of participation varied widely. At a very simple level, a number of markets have ‘Friends of the Market’ schemes which allow consumers and local citizens to contribute financially and otherwise to the development of the market, often in return for free email updates, merchandise, raffle tickets, etc. Some markets have consumer boards or panels which advise the overall Board of the consumer perspective. As one director of a market in Upstate New York put it:

> You need to keep vendors and customers happy – anyone who sets a market up needs to keep this in mind ... a solely farmer-led co-operative can sometimes forget that.

Some markets have a dedicated number of seats on the overall Board for relevant and influential stakeholders, such as consumers or community representatives or local business leaders or support agencies. Two of the markets in this study, both of which are in California, appoint people with needed skill-sets to their boards. One association of farmers’ markets in California have had a dietician, a lawyer and an accountant on their board at various times. A director of a market in Upstate New York has found that “a multi-stakeholder committee is by far the best... [it] gives a diversity of opinion and the consumer perspective." She also suggested that “long-term, you need the support of the business community and the community in general”, a view echoed by a number of participants in this research. The manager of one market in California spoke of the need to:

> make people [the local community] feel that it is really their market ... you have to build social capital so that you can draw upon it when you need it.

A number of participants in this study spoke of the need for the boards of larger farmers’ markets in particular to be more entrepreneurial and more strategic in their thinking and more focused on long-term planning rather than the minutiae of the day-to-day running of the market, to move in effect from being purely working boards to governance boards. A market manager from one market in Upstate New York speculated that bringing in an outside perspective might stimulate that process in a board who currently micro-manage her work and who are perhaps overly protective of ‘their’ market. Making the transition from a ‘working
board' to a 'governance board' represents a real change of function and requires a different set of skills and competencies, which may not necessarily be found amongst existing board members. The manager of an association of farmers' markets in California also suggested that the board needs not just a good mix of both farmers/stallholders and other stakeholders, but a good mix of those who have vision and those who are very practical and grounded, of those who will initiate change and those who bring continuity.

Research on UK Farmers' Markets

The UK has also experienced significant growth in the number of farmers' markets in the last decade. There are now approximately 500 farmers' markets and over half of these are certified by FARMA, the National Farmers' Retail & Markets Association which independently assesses and certifies farmers' markets according to a set of recommended criteria. Although little research has been done on the structures of UK farmers' markets, it appears that most could be described as participatory or farmer/producer-led if we employ the categorisation arrived at for Irish farmers' markets. The research carried out by the research team to date in the UK is more limited than that in the US and comprises interviews with a small number of key informants.

With extensive experience of working with farmers and producers and farmers' markets for over 25 years, FARMA have found that a more co-operative structure works particularly well for farmers' markets. It is their experience that being a part of an association of members with similar goals encourages the kind of co-operation for mutual benefit that has been found to be so central to successful markets. They have found that there is, for example, usually greater willingness to share information and experience with other members within a co-operative structure. It is FARMA's experience that operating as a co-operative puts in place both the structure and the relationships which can drive markets forward and which encourage markets to be more strategic in their thinking, more commercially aware and ultimately, more sustainable. Individual markets and groups of markets which have adopted this structure have also been found to develop an energy and a persona beyond the early pioneers and the people involved in it in the here and now.

The Plunkett Foundation, which is working with FARMA on a joint project to support farmers' markets as co-operative enterprises, agree with this assessment that the co-operative or social enterprise is the most promising model for many farmers' markets in the UK at their current stage of development. They contend that many are currently dependent on local authority staff support (which will not necessarily continue in the long term) or on the (voluntary) work of early enthusiasts, or are being quietly taken over by private operators. In order to remain vibrant and sustainable going forward, it is the producers whose livelihoods are at stake who should ultimately be running the markets, though they could also benefit from the involvement of consumers, local stakeholders and indeed staff in the governance of the market.

From the perspective of this research, the most interesting development in UK farmers' markets is the ongoing joint project of FARMA and the Plunkett Foundation alluded to above. With a budget of £600,000 made available from the Making Local Food Work project funded under the Big Lottery Fund, this project offers a package of support, advice and training to farmers' markets who want to work together. It involves producing a model of co-operative enterprise, piloting this model with an initial four farmers' market groups and then supporting a further sixteen markets groups. Both FARMA and the Plunkett Foundation feel that the greatest potential lies in groups of markets forming themselves into co-operatives, whereby the functions necessary to facilitate growth and development (market management, marketing, PR, etc) can be carried out by paid staff answerable to a board made up of representatives of all of the markets in that group. This is very much the model of the Thames Valley Farmers' Market Co-operative, for example and of a number of markets encountered in the US research.

Discussion and Conclusions

Though still at a relatively early stage in their growth and development, farmers' markets in Ireland have an increasing role in providing direct outlets for farmers and small producers to sell their produce, build their income and develop their overall businesses. They have also provided consumers with access to fresh local produce and a forum in which to build relationships with the people who grow or make
their food. Markets have also contributed to urban regeneration, helped build community interaction in suburban areas, contributed to the tourism mix and helped revive local shopping in towns and villages.

To date, farmers’ markets in Ireland have developed very rapidly, in quite an ad-hoc fashion, through a variety of arrangements and with minimal regulation. This seems an appropriate stage at which to examine which structure or model of organisation maximises benefits to farmers and small producers, is most sustainable in the long-term and creates the best markets for consumers and other stakeholders. There are two significant lessons from the US and UK research which can be applied to Irish farmers’ markets at their current stage of development.

Some level of interdependence and collaboration is surely intrinsic to all farmers’ markets and it can be argued that the majority of markets are co-operative in nature and character, if not in formal structure. Most are founded on – and arguably can only achieve long term success through – strong and ongoing co-operation between stallholders seeking to maximise mutual benefit. It is clear from the US and UK research that there are significant benefits in adopting a structure and model of organisation that is essentially farmer/producer-led and that is located towards the ‘formal co-operative’ end of the continuum of co-operation outlined earlier in this paper. Such a structure recognises the essential purpose of markets (to provide a forum for farmers and producers to sell to consumers); strengthens farmer/producer control in the marketplace; and builds and reinforces interdependence, co-operation and a sense of ownership which are all key to the success of markets. However, it is also apparent from our research in the UK and US that producer-led markets can benefit hugely from the meaningful input of other stakeholders such as consumers, local business people, local authorities, and so on. Arriving at and enforcing a set of rules and regulations for the management and governance of the market which are locally relevant, fair and beneficial to the market overall and not just individual stallholders or cliques, are also key to the long-term success of farmer/producer-led markets.

Markets in Ireland tend to be small both in scale and in terms of their return to stallholders. To make an adequate income, most stallholders need to attend multiple markets. At the same time, individual markets may not be making the kind of income where they could justify employing anyone except on a part-time basis. Co-operatives and mutual-benefit associations at local or regional level have enabled farmers and small producers to overcome these constraints in other areas of Irish agriculture such as dairying and meat and food processing. Drawing on this experience, there is significant potential for farmers’ markets at this stage in their development to overcome some of their particular constraints by forming regional or county-wide associations of farmers’ markets. Such associations or co-operatives would allow markets to be essentially producer-led but not overly burdensome to busy stallholders, while offering the benefits of professional management and organisation. At a minimum, there is significant potential for groups of markets to work together informally at local or regional level, sharing the costs of advertising, materials and equipment, collectively building the farmers’ market brand and benefiting from one another’s experience. This collaboration could extend as far as forming local or regional associations or co-operatives with a representative board and a professional staff. Such co-operation may evolve naturally over time but is certainly something which those involved in the development of the farmers’ market sector could further encourage through the kind of hard and soft supports currently provided in the UK by the FARMA/Plunkett Foundation Project.

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References


Notes
1 This study is being conducted by the authors of this article and is funded by the Irish Department of Agriculture and Food under the Research Stimulus Fund. It will also form the basis of a PhD thesis to be submitted by the principal researcher, Aisling Moroney.
4 FARMA defines a farmers’ market as one in which farmers, growers or producers from a defined local area are present in person to sell their own produce, direct to the public. All products sold should have been grown, reared, caught, brewed, pickled, baked, smoked or processed by the stallholder www.farma.org.uk.
5 The Plunkett Foundation is an educational charity, based near Oxford in the UK, which supports the development of rural group enterprise world-wide. It promotes and implements economic self-help solutions to rural problems www.plunkett.co.uk.
The co-operative organisation and its accompanying principles hold the potential to help re-balance power in food supply chains. The co-operative process could play an important role in beginning to address broad problems with conventional, global food supply chains. Problems include: unsustainable long and complex supply chains, limited connections between producers and consumers and concentration of control with a small number of corporations and food retailers (Lang 2004, 1999; Tansey 1994). The Dublin Food Co-op case study discussed in this paper highlights an isolated example of how potential has become reality in beginning to address these broad problems and the importance of introducing democratic and participatory processes into the food supply chain.

**Ireland’s food co-ops**

Historically in Ireland, co-operatives have played a role in responding to similar issues of inequity and powerlessness in food supply chains. In the nineteenth century, motivations for co-operation in Ireland’s dairy industry included a lack of control for farmers over marketing their produce, which was often controlled by large landowners or traders and therefore farmers received a poor return for their produce. Motivations for co-operation were as much about regaining control over farm produce as improving finances (Ward 2005).

Agricultural co-operatives still dominate Ireland’s co-operative sector, however, they bear little resemblance to their origins, having experienced a great degree of adaptation and change (Forfás 2007). While agricultural co-operatives originated in response to an imbalance of power in the supply chain, it can be argued that recent changes have weakened the original aims of agricultural co-operatives. Many dairy co-operatives in Ireland today are part co-operative, part private limited company. Ward (2000) suggests that changes, such as diversification into processing raw materials not directly linked to what indigenous suppliers produce, represents a shift in power away from the local farmer and a greater likelihood that these businesses will be run in the interest of investors. While the origins of co-operation in Ireland helped to rebalance power, changes have yet again tipped the scales away from the producer.

Ireland does not have an equivalent historical tradition of consumer co-operation. Consumer co-operatives are only a speck within Ireland’s co-operative sector, whereas in other countries they are one of its dominant types, such as the UK, Japan and North America (Forfás 2007). The case which is central to this paper, the Dublin Food Co-op (DFC), is distinctive in the Irish scene, as a consumer food co-operative. Ireland has one other food retailing co-operative, the Quay Co-op in Cork, which is organised as a worker co-operative. Producer co-operatives have emerged in the organics sector, such as the Leitrim Organic Farmers’ Co-op.

Outside the co-operative framework, other initiatives also set out to address problems with conventional, global food supply chains. These are broadly termed alternative food initiatives, such as farmers’ markets that aim to shorten the supply chain and reconnect producers and consumers. The term alternative food initiative also includes food co-operatives. Analysis of the DFC highlights that the co-operative approach can go beyond what some alternative initiatives aim to do. While alternative initiatives that do not take the co-operative approach can also help to rebalance power in food supply chains, the co-operative approach has this as its very foundation. The co-operative structure itself should facilitate consumer participation and increase consumer and producer control of how the organisation operates.
The Dublin Food Co-op: background, origins and development

Consumer co-operation has its roots with the Rochdale Equitable Pioneers Society in 1840s England. The Rochdale Pioneers pooled their purchasing power to buy food in bulk in response to inaccurate food measures and adulteration of the time (Briscoe and Ward 2005). The DFC is responding to similar issues to the Rochdale Pioneers, highlighting how through time food co-operatives have been established in the face of unfair and inadequate commercial practices affecting both producers and consumers.

DFC’s origins are with a group of friends involved in environmental activism in the 1980s. The group were part of an anti-nuclear energy lobby who protested against the building of nuclear power generating plants in Co Wexford. The group’s alternative ideals extended beyond environmental concerns to food and farming issues, which fed into the co-operative’s initial sourcing principles to trade organic and vegetarian food. The co-operative’s principles today include trading local, Irish produce when possible, and when not, to only engage in trade with countries where basic human rights are upheld (see Table 1). The co-operative started out as a small food buying group that bought wholefoods in bulk quantities, which made financial sense. It has moved on from this to become a formal consumer food co-operative.

In its early days, the co-operative didn’t have fixed premises, but operated out of founding member’s homes. Progressing from its informal beginnings, the co-operative held a Saturday market on Dublin’s Pearse Street for over 20 years, until its move in the summer of 2007 to premises in the Newmarket area of the city. The new venue is roughly twice the size of the Pearse Street site. The co-operative has increased its trading days and is now open on both Thursday and Saturday. The Newmarket area is within a broader regeneration plan by Dublin City Council for the Liberties, an area of recognised need for social, economic and environmental regeneration. The co-operative is engaged with the planning process and aims to be a key resource for the area.

Since the early days, membership has gone from its original small group to now having over 1,000 members. The society’s rules placed a cap of 1,500 on membership, but this has now been removed. Aims for the future include expansion, with ambitious aims to increase its membership to 5,000 by 2010.

Methods

Exploratory research was carried out and the empirical data presented here was gathered by a number of methods. Documentary material was analysed, such as: the society’s rules; its website and members’ web forum; newsletters; annual reports; and its 2005-10 business plan. A site visit was carried out, with participant observation at the co-operative as it traded. An informal interview was carried out with a staff member’s homes. Progressing from its informal beginnings, the co-operative held a Saturday market on Dublin’s Pearse Street for over 20 years, until its move in the summer of 2007 to premises in the Newmarket area of the city. The new venue is roughly twice the size of the Pearse Street site. The co-operative has increased its trading days and is now open on both Thursday and Saturday. The Newmarket area is within a broader regeneration plan by Dublin City Council for the Liberties, an area of recognised need for social, economic and environmental regeneration. The co-operative is engaged with the planning process and aims to be a key resource for the area.

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<table>
<thead>
<tr>
<th>Objective</th>
<th>To provide wholesome, nutritious food and ecologically acceptable products and services to members in accordance with the following principles:</th>
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<tr>
<td>Principles</td>
<td>Deal in organically grown wholefoods, and Irish-produced wholefoods, if possible.</td>
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<td></td>
<td>Discriminate in favour of ecologically acceptable products and not deal in meat or meat products.</td>
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<td></td>
<td>Promote the rational use of the earth’s resources and in particular to promote the use of ecologically acceptable packaging.</td>
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<td></td>
<td>Discriminate positively in favour of countries which uphold basic human rights, when importing wholefoods.</td>
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<td></td>
<td>Supply wholefoods at the wholesaler/supplier cost plus the minimum margin necessary to cover the co-operative’s operating costs and the need for financial reserves.</td>
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<td></td>
<td>Make shopping an amicable, communal experience.</td>
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<td></td>
<td>Promote consumer wholefood co-operatives as an important means of building a locally integrated food economy.</td>
</tr>
<tr>
<td></td>
<td>Encourage the use of the Irish language in social and economic relationships and to promote Irish culture where possible.</td>
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Table 1: Dublin Food Co-op’s primary objective and guiding principles
member and also general discussions with other co-operative staff on the site visit. The DFC was chosen as a case study because of its distinct character in the Irish context. It acts as a concentrated site of empirical evidence helping to ground recent theorisation in the field of food studies. Stake (1995) makes the argument that the unique case is not an appropriate basis for "wider generalisation or for a theoretical inference of some kind" but rather to "capture cases in their uniqueness" (p3). This makes the unique case more appropriate for showing how academic theorisation can translate into practice on the ground. The broad field of food studies has recently had an injection of complex and diverse theorisation on how food is now, and more ideally should be, delivered from producers to consumers. The newly emerging concept of 'food democracy', with 'food citizens' its foundational and central actors, has particular relevance and cross-over with food co-operatives and the broad co-operative ideology.

The need for consumer participation in food supply

In relation to the alternative food movement, Hassanein (2003) identifies uncertainties regarding its sustainability and capacity to create meaningful change. Some alternative food activists take a stronger approach than others. A weaker example includes farmers' markets. This initiative enables farmers to add value to their produce, which helps the farmer, but does not address other food system issues. The foundation of a stronger approach must involve the active participation of citizens in how their food is produced and supplied. People need to practice what is termed 'food democracy' and:

- actively participate in the food system, rather than remaining passive spectators on the sidelines … food democracy is about citizens having the power to determine agro-food policies and practices locally, regionally, nationally and globally. (p79)

Food democracy’s key difference to other approaches and academic theorisations is its pragmatism. Hassanein (2003) suggests other discussions have highlighted important issues with food supply, but question what definitions of, for example, a sustainable food system means in practice and asks what it means to equitably balance environmental soundness, economic viability, and social justice for all sectors of society? Therefore, Hassanein (2003) contends food democracy must play a central part of the effective transformation of the agro-food system.

Food citizens are active in a food democracy, it is citizen led. The structure of the conventional food system does not facilitate consumer participation and also gives them little, if no, control. Control of food supply has been concentrated with a decreasing number of food manufacturers and retailers. There is also concentration of ownership with agro-chemical companies that supply important inputs for farming. These companies are also diversifying into biotechnology and seed supply. Lang (2004) discusses the role of the consumer in this supply dominated system, arguing it is rhetoric to suggest that the food supply chain is consumer led, rather it is more like a loop: food corporations have large budgets for advertising, which aims to create and manipulate demand, not serve it.

The theory of food democracy aims to re-orientate control back to key stakeholders in the food system: consumers and producers. The food co-operative could be the key tool that helps theory meet practice. Co-operatives, by their very nature, should be participatory and democratic.

A participatory system in practice

The theory of food democracy has been discussed, with the co-operative as its ideal delivery vehicle. The DFC has been practicing a more democratic method of food supply for over 20 years. The DFC case shows how food democracy can be practiced and also some of the limitations that can arise.

A system of representative democracy is employed to govern the co-operative. A co-ordinating body, composed of twelve members, is elected at the annual general meeting. The co-ordinating body is the co-operative’s decision making body and is responsible for running the organisation in its member’s interest. Around ten staff members run the co-operative from day to day, most on a part-time basis and are often recruited from its member base.

Members are encouraged to voice their opinions on how the co-operative should be run, so the co-ordinating body’s activities are in line with member concerns. The co-operative’s newsletter is one vehicle for discussion of issues and regularly calls for members to submit their
views. The co-operative recognises that vocal members’ voices can be heard more clearly than quieter members, but advocates that the co-operative aims to remain in touch with all members’ views, representing the consensus and not the few (Co-op News 2006).

All members are entitled to trade at the co-operative and can also directly participate in running the organisation through volunteering. The DFC operates a ‘help rota’ system where members can volunteer two hours of their time every five to seven weeks. All members receive a discount on the co-operative’s produce, but help rota volunteers receive a greater discount in return for their efforts.

Food citizens are not model citizens when given the opportunity to participate. Maintaining a steady volunteer base on the help rota has become an issue for the co-operative. It recently had to reduce volunteering intervals from seven to five weeks. This change affects members who already give up their time to volunteer, by having to volunteer more often. This potentially results in further deterioration of the spirit of volunteering within the co-operative. Existing volunteers have to give up more of their time, while others volunteer none of theirs. In an attempt to promote the value of volunteering to new co-operative members, one measure the co-operative has adopted is re-introducing ‘Failte’; an orientation meeting for new members explaining their rights and responsibilities.

Mobilising member participation is widely recognised as an issue for the co-operative sector and within food initiatives that attempt to involve consumers. DeLind (1999) highlights issues with mobilising participation in community supported agriculture initiatives and suggests the issue is that “we are dealing with individualised communities and not dealing with communitised individuals”, with those who participate doing so for themselves, which she describes as a “highly individual or personalised resistance – a resistance primarily of consumers – not of citizens” (p8-9).

However, beyond the issues with mobilising participation, it can also be argued that even introducing and promoting the concept of participation has significance. The co-operative promotes member participation on an on-going basis. In the broad context of alternative food initiatives, Allen et al (2003) suggest:

Participation may get people and communities to think about issues they may never have confronted or considered before, and to then become effective agents of agri-food system change. (p73)

Allen et al (2003) also suggest there are other unexpected benefits. These initiatives may be the “seeds of social change” important in consumers developing a “critical consciousness” in which people view food as more than a commodity and fuel for the body (p73). Alternative food practices can provide motivation to others, inspiring a wider movement of such practices (Hendrickson and Heffernan 2002).

**Participation for whom?**

Another limitation with alternative approaches to food supply is that they are often accessed by the better educated and those on higher incomes. Using a case study of a multi-stakeholder co-operative in America, Hendrickson and Heffernan (2002) ask if questioning the “dominant logic of the system can only be done by those in a position to do it” (p365). This point feeds into wider debates on ethical consumerism. Irving et al (2002) suggest it is more affluent social groups who feel more empowered, and although consumers can hold ethical values, they do not always transfer into ethical consumption practices. Kriflik (2006) recognises there are also a number of limitations inhibiting the consumer to translate their values into practice, such as finances affecting food choice and having the time to seek information on such issues.

The board of the DFC is composed of well educated people, which confirms some of the above points. A bigger issue facing the co-operative is not just to reach out to current members who do not participate, but also to look beyond its membership base. Existing members have already taken a considered step by joining an organisation with such alternative principles. When operating in Pearse Street, it was suggested that the co-operative was an insular organisation that did not integrate with the surrounding community (Co-op News 2007a). Rather than battling to achieve ideal levels of member participation, new members could solve this and wider problems, by reaching out to those who are beginning to question the way food is supplied and harness the energy that often accompanies people with fresh ideals. The co-operative is trying to harness this energy, by the reintroduction of orientation for new members, where the value of participation is
promoted. Food democracy in practice must not become something only for those who can afford to participate. While food democracy can give greater control to consumers, it should aim to do so in an equitable manner.

The DFC can potentially move beyond financial limitations affecting food choice and facilitate participation in a more democratic food supply. It has a different pricing structure to conventional businesses, only adding the margin needed to cover the co-operative’s operating expenses. Being part of a better system will still require a greater financial sacrifice from the consumer, than if they buy into conventional systems. However, the co-operative approach should ameliorate the burden to some degree.

Ireland’s organic food market: conventional and alternative channels

Organic food has almost become synonymous with a more sustainable food choice. It is often central to alternative food initiatives, which is true in the case of the DFC. This merits some discussion of the Irish organic food market.

There is support for the growth of organic production in Ireland. In terms of land area, organic farms currently occupy 0.9% of Ireland’s agricultural land and the national strategy aims to increase this to 5% by 2012 (Department of Agriculture and Food 2007). The market itself grew by 30-40% in the last year, however growth is slowing (Bourke 2008).

The DFC is a specialist trader of organic produce. When the co-operative first established, it had an advantage in the market. Organic food was not widely available and it supplied a niche of consumers. The situation has now changed and the DFC itself recognises this issue as a major challenge:

What was groundbreaking more than 20 years ago has become mainstream, and the disparate strands of the Co-op’s ideology can now perhaps be restated as involvement in the global effort to create sustainable living. (DFC 2005)

The organic market is still a niche, but there are a greater number of competitors providing similar produce in the marketplace, such as farmers’ markets and health food stores. However, supermarkets are the major competitor. In 2005, 85% of organic produce was accessed through this channel. The total value of sales of organic food through independent channels was only 15%, breaking down to: 5% independent traders; 4% health food stores; 3% deli specialists; and 2% through box schemes (Bord Bia 2006). Discount retailers operating in the Irish market, such as Aldi and Lidl, now also sell organic produce, further strengthening the supermarkets’ slice of Ireland’s organic food market (Bourke 2008).

But purely economic figures miss consumer motivations for buying organic produce, which bring to light a different picture of where opportunity lies. Consumers are not just buying an organic product, but also satisfying a wider set of values that relate to how food reaches them and the impact this has on people and the environment. In the Irish context, Bourke (2008) describes three types of organic food consumer, each with different motivations for purchasing organic food. For the ‘organic believer’ organic food offers a nurturing effect for the consumer and their family. The ‘health manager’ is the supermarket organic shopper where consuming organic food is central to control of the individual’s health. The ‘aspirational improver’ likes to shop at farmers’ markets seeing organic as part of a more sustainable food choice. What is common in the three types is a middle class and middle income consumer, highlighting that the organic market is more accessible for the better off in society.

The organic food retailer can just sell a product. However, some do more than this by upholding a set of wider principles, which the consumer values. Moore (2006b) finds that consumer motivations for purchase of fresh fruit and vegetables at farmers’ markets included a lack of trust in the conventional food system, which is represented for them by large retailers. Moore (2006b) found that shopping at farmers’ markets allowed consumers to express their socio-environmental beliefs, such as facilitating a personal connection between producer and consumer, creating a better food retailing system and receiving healthy, fresh and environmentally sound produce in the process. DFC’s principles cross over with the socio-economic beliefs Moore (2006b) highlights, showing it plays a similar role to farmers’ markets in meeting a niche of consumer demand.

Harnessing a role for consumer co-operatives in the organic food market

The co-operative approach can fulfil consumer expectations to a greater degree than other retailers of organic food in the market. DFC’s
wider principles, such as its local sourcing, support for human rights and opportunities for consumer participation in food supply feed into a consumer ‘niche within a niche’, which links back with the types of organic consumer, described by Bourke (2008). These consumers are more engaged with food issues and are not just concerned with how a product is produced, but also the processes involved in how it reaches them. This means the co-operative can compete with the supermarket approach, which is based on pure consumerism, and fulfill more complex consumer concerns. However, the DFC does not operate in a vacuum and must still compete in the marketplace. DFC is not just competing with the conventional market, but also internally with other ‘alternatives’, most significantly, farmers’ markets.

Even though consumers who want more than the supermarket offers have been identified by market analysts, for its economic sustainability, the co-operative needs to reach out to greater numbers of consumers. There is also a wider social and environmental value to such expansion, that the co-operative’s principles would be practiced by greater numbers of consumers and the wider positive effects this should have on the food supply system. That said, food co-operatives have a fraught relationship with economic growth. Cotterill (1983) suggests: “as size increases the social ecology of the co-op deteriorates … the proportion of patrons participating is lower in larger co-ops” (p126). However, staying small also has its drawbacks:

If volunteer labour fails to offset diseconomies of small size, the small is beautiful hypothesis fails the market test. Co-operatives that insist on remaining small will then be driven out of business by their larger, more cost efficient competitors. (Cotterill 1983, 126)

**A continual cycle of pioneerism**

The DFC sees growth as central to proving the relevance of their ideology in the modern marketplace (DFC 2005). It can be suggested the co-operative has come full circle. In its early days the organisation itself and the produce it traded was pioneering. But with organics well established in mainstream markets, the co-operative must adapt, rather than be driven out of business for the sake of staying small, as Cotterill (1983) highlights. Another similar example where the effects of pioneering activity in the co-operative sector have wider positive implications is the involvement of the UK Co-operative Group with the Fairtrade movement. It was the first UK supermarket to source its own brand tea according to its own ethical standard (Croft 2006). It now only sells Fairtrade tea, coffee and chocolate and the widest range of Fairtrade goods of any retailer in the UK. Other UK retailers have also since increased their range of Fairtrade goods, with some making significant commitments to it, such as Marks and Spencers who only sell Fairtrade tea and coffee (Food Navigator 2006).

While the DFC was not the only actor in the growth of the organic movement in Ireland, it did play a key role at the retail end. The co-operative itself suggests “in order to change society, you have to become society” (DFC 2008). With the organic market now a well established niche in the mainstream retail industry, organic food has become part of mainstream markets and society. This leaves the DFC with the challenge of re-innovating to address new needs that emerge from conventional supply chains, so the co-operative continues to take the lead in impacting positive change in food supply. Growth is one step towards increasing the organisation’s capacity to do so. Any changes in the past occurred on an ad hoc basis, and the DFC recognises future changes need to be more planned and directed. This highlights how within the co-operative sector there is a process of continual innovation and response to changing problems and needs.

**Overcoming the conflicts of change**

When aims are higher, achieving these poses greater challenges with more difficulties to be overcome. The DFC is now in a phase of change, where it hopes to increase membership and turnover. The co-operative currently trades two days a week, and previously only one. Eventually the co-operative aims to create “a permanent market venue to rival St. George’s market in Belfast and the English market in Cork” (Co-op News 2006-7). The co-operative now has its permanent venue at Newmarket, which is the first step. The DFC does not pay members a dividend and had accumulated reserves that facilitated the co-operative’s move.

The Pearse Street venue was a community resource centre, so the co-operative had to share the building with many other users, which had practical limitations, such as having to clear away all shelving etc after Saturday’s market. The co-operative was also limited by the size of
the resource centre and could not increase the number of traders participating in the co-operative, which has now increased since moving to its new home.

Principles can be compromised in a phase of growth. It is key that the co-operative retains its difference, which is important from two respects. The co-operative’s ethos is its edge in the competitive marketplace. The practical implications of its ethos contribute to broader positive changes in the future of food supply.

Being a co-operative, the DFC consulted with members about its expansion plans. The general consensus was of support; however, some members were concerned that growth may compromise the co-operative’s ethos. One member expressed concern that the co-operative was going ‘all corporate’. Members general concerns related to a fear that the informal, relaxed atmosphere they valued may be destroyed. The co-operative has retained its relaxed atmosphere, with a lively café and social area for shoppers. The social benefits of the co-operative are constituted by its members and not its location. As one staff co-operative member commented: “it’s all about community … the Saturday market is still my community after all these years” (Co-op News 2008).

Traditionally, communities form between networks of people linked by place, but the co-operative can also be described as a new form of community, not linked by place, but by facilitating people with similar values to come together through consumerism that fulfils these values. Co-operative members themselves have described it as a “like minded community” (Co-op News 2007b).

While member concerns must be aired and responded to, there is also the bigger picture to consider, that the food supply chain needs more food retailing outlets with participatory structures to rebalance where power lies. The DFC still upholds the same principles and objectives, while operating a bigger market in the physical sense. The above discussion shows that the co-operative has retained its social capital value. However, the changes were not without some consequences, which brought to light a lack of support and understanding for the co-operative approach from some members. The Pearse Street location was in the centre of Dublin city, while the new location is still central, it is less so. A breakaway organic food market is still held at Pearse Street organised by some previous members of the co-operative, however, it is not a co-operative (Co-op News 2007c). The co-operative has lost some members who felt the new location was less convenient, but has since gained new members in its current surrounding area.

Reconnecting producers and consumers

One criticism of conventional food supply chains is their length. Localising food supply seems the logical solution and is one principle the DFC practices. The local can be, according to Marsden and Smith (2005):

A social space for re-assembling resources of value; a place for evolving new commodity frameworks and networks; a place of defence from the devalorisation of conventional production systems. (p442)

Morris and Buller (2003) describe three types of local, the first being ‘parochial localism’ which has a support for local farmers and a local area at its core. ‘Flexible localism’ is where local is used more loosely, where local could mean locally sourced, but also even within national boundaries. The third type is ‘competitive localism’ where new forms of localism like farmers’ markets or producer groups compete with other more traditional local food outlets, such as established local retailers.

To fit the DFC within the types of local described by Morris and Buller (2003), its policy can be described as ‘flexible localism’. Irish produce is valued just as much as the more geographically local. The local food concept is bound by a ‘local’ geographic area. But DFC members come from all over the Dublin region, which makes a narrow area for local souring illogical as members themselves may not live within this area. Local for the DFC can mean neighbouring counties, such as Meath and Wicklow (see Table 2).

The potential for localising food supply has also been questioned. Sonnino and Marsden (2006) suggest that we should not assume action at any particular spatial scale is ideal (eg local over global). While scale is important in many respects in this context, Born and Purcell (2006) suggest that:

The local trap is the assumption that local is inherently good … Local scale food systems are equally likely to be just or unjust, sustainable or unsustainable, secure or insecure. (p195)
In the Irish case, as the market currently operates, localising food is problematic. Ireland’s agriculture is limited by climate and changing farm structures, where there is a trend towards fewer small farms. Systems of farming are not balanced in terms food production and consumption; the market is export orientated. National farm statistics indicate the majority of farms produce beef which account for 53% of all farm types. Other sectors are smaller with sheep at 12%, dairy 15%, mixed livestock 13%, mixed livestock and crops 3% and tillage 4% (Department of Agriculture and Food 2008). This paints a weak picture for limiting food supply to local or even national sources.

The vegetarian diet is even more problematic in terms of Ireland’s agricultural production, with its reliance on legumes, grains, fruit, vegetables, dairy and eggs, when only 7% of Irish farms produce crops. Research suggests the vegetarian diet draws on a variety of food cultures and is thus highly dependent on the global agro-food system. Morris and Kirwan (2006) argue:

Situating contemporary vegetarianism within the alternative food economy, which is often intent on relocalising the agro-food system agenda, may therefore represent a significant challenge for its proponents. (p204)

Local is not the only value informing the DFC’s sourcing policy (see Table 1). It does not fall into the ‘local trap’ and places a greater emphasis on the value of a broader sustainable food economy. The co-operative must engage in international trade because of its vegetarian principle. Many staples of the vegetarian diet are not produced in Ireland. Jones et al (2004) suggest that within the wider food context, local foods can “surely only form a small part of the nations diet” (p335), which has even more relevance when a vegetarian diet is consumed. The co-operative’s principles also determine it will only support international trade when this is carried out on ethical terms. Imports are only allowed from countries where human rights are upheld. The co-operative also deals in a wide range of Fairtrade goods and until recently its café was run by the international human rights group, Amnesty.

Co-operatives and the alternative food economy

The co-operative has similarity and difference with other alternative food supply initiatives in

<table>
<thead>
<tr>
<th>Food traders</th>
<th>Products</th>
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<tbody>
<tr>
<td>The co-op</td>
<td>Dry goods</td>
<td>Ireland and international</td>
<td>Organic</td>
</tr>
<tr>
<td>Stapleton’s Farm</td>
<td>Fruit, vegetables</td>
<td>Local, Ireland and international</td>
<td>Organic</td>
</tr>
<tr>
<td>Healy’s Farm</td>
<td>Fruit, vegetables</td>
<td>Local, Ireland and international</td>
<td>Organic</td>
</tr>
<tr>
<td>O’Sullivan and Kenny</td>
<td>Fruit, vegetables</td>
<td>Local, Ireland and international</td>
<td>Organic</td>
</tr>
<tr>
<td>Lange’s Farm</td>
<td>Fruit, vegetables, eggs, cheese</td>
<td>Local, Ireland and international</td>
<td>Organic and conventional</td>
</tr>
<tr>
<td>Sonairte Ecology Centre and Farm</td>
<td>Fruit, vegetables, preserves, crafts</td>
<td>Local</td>
<td>Organic</td>
</tr>
<tr>
<td>Blazing Salads Bakery</td>
<td>Bakery, prepared foods</td>
<td>Locally produced – international sourcing</td>
<td>Organic and conventional</td>
</tr>
<tr>
<td>Natasha’s Living Foods</td>
<td>Bakery, prepared foods</td>
<td>Locally produced – international sourcing</td>
<td>Conventional</td>
</tr>
<tr>
<td>George Heise</td>
<td>Bakery</td>
<td>Locally produced – international sourcing</td>
<td>Conventional</td>
</tr>
<tr>
<td>Indian Foods</td>
<td>Prepared foods</td>
<td>Locally produced – international sourcing</td>
<td>Conventional</td>
</tr>
<tr>
<td>Greek Foods</td>
<td>Prepared foods</td>
<td>Locally produced – international sourcing</td>
<td>Conventional</td>
</tr>
<tr>
<td>Vendemia Wines</td>
<td>Wine</td>
<td>International</td>
<td>Organic</td>
</tr>
</tbody>
</table>

Table 2: Profile of food traders
Ireland, most notably farmers’ markets. The DFC is different to a farmers’ market in terms of the range of produce provided. People can potentially do all of their general shopping at the co-operative, provided they are vegetarian, as it sells staples, fresh produce and household products. Farmers’ markets often lack this practical benefit. Holloway and Kneafsey (2000) suggest they are a supplementary food source where consumers don’t often do their principal shop.

The DFC is also different in terms of how the market is organised and controlled:

The difference of course between the Dublin Food Co-op and an ‘organic market’ is that as a members-owned co-operative we are open for any one of our members to become involved and take an active role in the running of the Co-op. After all we are owned by our members and it is up to the members to ensure that the Co-op is running in a way that meets their needs. (Co-op News 2007b)

Members can remain just as co-operative shoppers, but each is also entitled to trade their own produce at the co-operative.

Moore (2006a) suggests there are significant differences within the Ireland’s farmers’ market sector itself and identifies three types of market: pioneering, privately run and participatory. Pioneering refers to Ireland’s first markets, originating in the south-west, with rules on types of producers permitted. Rules centre on excluding at least some industrial processes. Participatory markets are a more recent breed of market that has adapted the pioneering model, often with local authorities or rural development organisations involved. Privately run markets are initiated and controlled by one entrepreneur with rules on types of produce permitted. When organic produce is sold here it must be officially certified, whereas trust in producers can act as a guarantee in pioneering and participatory markets. Other key differences between the three types are the roles and powers of the actors involved. This effects how ‘embedded’ the market is within communities. An increasing control of markets by private entrepreneurs or local authorities makes a market less embedded than if trading producers control the market. Pioneering markets are the most embedded, privately run the least. Greater degrees of embeddedness shows greater producer participation – which is the basic aim of farmers’ markets, as Moore (2006a) succinctly concludes: “they are supposed to be, after all, markets for farmers” (p140).

The DFC displays a strong degree of embeddedness, showing similarity with the pioneering farmers’ market type. It also goes beyond what participatory farmers’ markets do by involving consumers as well as producers in the food supply chain. As discussed earlier, Hassanein (2003) suggests this is a crucial step for more effective change.

Conclusion

The DFC’s origins and development highlight how the co-operative organisation approaches problems, which change through time, hence is a dynamic organisation in continual change in response to consumers and the marketplace in which it operates. While food democracy, exercised through the consumer co-operative vehicle, clearly has the potential to move towards a better, fairer system of food provision, examples of consumer food co-operatives are isolated in Ireland. Conventional supply chains dominate Ireland’s food retailing. As this discussion clearly highlights individual co-operatives, like the DFC, have great value. However, with so few in practice the next issue is how to mobilise more consumers to put food democracy into practice.

Aisling Murtagh is reading for a PhD on Ireland’s alternative food movement in the Department of Food Business and Development, University College Cork. Professor Michael Ward is Head of the Department of Food Business and Development and Director of the Centre for Co-operative Studies, University College Cork. The authors wish to thank the staff and members of the Dublin Food Co-op.

References


Cost Performance of Irish Credit Unions

Donal G McKillop and Barry Quinn

There are 424 credit unions in Ireland with assets under their control of €14.3bn and a membership of 2.5m which equates to about 66% of the economically active population, the highest penetration level of any country. That said, the Irish movement sits at a critical development stage, well behind mature markets such as Canada and the US in terms of product provision, technological sophistication, fragmentation of trade bodies and regulatory environment. This study analyses relative cost efficiency or performance of Irish credit unions using the popular frontier approach which measures an entity’s efficiency relative to a frontier of best practice. Parametric techniques are utilised, with variation in inefficiency being attributed to credit union-specific factors. The stochastic cost frontier parameters and the credit-union specific parameters are simultaneously estimated to produce valid statistical inferences. The study finds that the majority of Irish credit unions are not operating at optimal levels. It further highlights the factors which drive efficiency variation across credit unions and they include technological sophistication, ‘sponsor donated’ resources, interest rate differentials and the levels of bad debt written off.

Introduction

Credit unions are member-owned, voluntary, democratic, co-operative financial institutions that provide financial services to their members. Since it deals exclusively with its members, a credit union can claim to be the purest form of co-operative (Croteau 1963). Credit unions cannot do business with the general public due to a charter limitation which only allows service of a membership which is defined by a common bond. This common bond is enshrined in legislation and is a definitive characteristic of a credit union.

In Ireland, in the late 1950s, a small band of dedicated pioneers lead by the Dublin school teacher Nora Herlihy set about establishing a co-operative community-based system which facilitated mutual self-help financial services provision based on democratic principles. This was the birth of the Irish credit union movement as we know it today. The success of the movement was enshrined in law when President De Valera signed the Credit Union Act, 1966. By 2007, there were 418 credit unions registered in the Republic of Ireland, with assets of approximately €14.3bn and a total membership of 2.5m. The largest credit union had €369m worth of assets under management while the smallest had assets of less than €1m.

The Irish credit union movement has been categorised in recent literature as being in the transitional development stage (Ferguson and McKillop 1997), well behind such mature movements as in the US, Canada and Australia. Classification as a transition movement rests with limited product offerings, trade association fragmentation, a legislative environment which requires further development and a technological environment which has as yet failed to fully capture the benefits which may accrue to members through the sophisticated utilisation of information technology (IT). Where the Irish movement does have a pronounced advantage over the aforementioned mature movements is in the extent to which it embraces the Irish population. At present 66% of the economically active population are credit union members (McKillop et al 2006), which is higher than any other country in the world. Such market penetration creates the potential for credit unions to play a pivotal role in combating the financial distress caused by the banking crisis and economic downturn in Ireland.

In recent times the most disappointing aspect of the credit union movement in Ireland is its failure to implement an integrated technological capability for all credit unions. Worldwide, technological sophistication has increasingly been linked with the advancement and success of financial intermediaries. For example, by enabling customers to access services without having to physically visit premises increases customer flexibility and reduces costs. The recent history of technology in the Irish credit union movement has highlighted the sensitive nature of its adoption. In the late 1990s a work programme was established to take responsibility for ATM projects and to knit the member unions’ 33 different IT systems together into one integrated system to support the spread of ATM services, with the ultimate objective being to enable electronic fund transfer. This project became known as ISIS and was financed by a levy on each credit union payable in two tranches. It was anticipated that the new IT system would be in place by 2000. However, in July 2000, the project’s anticipated cost had increased dramatically and a number of the largest credit unions withdrew from the initiative with the ISIS project ultimately abandoned in 2001.
It is against this backdrop of a movement in transition, recovering from a failed attempt to launch an integrated IT system, that we now examine the efficiency of Irish credit unions using a stochastic frontier based methodology. Employing newly acquired data this paper estimates relative efficiency scores\(^3\) for individual credit unions and investigates the determinants of these efficiency scores\(^4\). Berger et al (1993) argues that:

not only does efficiency have important ramifications for the institution itself – such as profitability, competitiveness and solvency – but also in terms of demands placed on regulatory authorities, and ultimately taxpayers, in the provision of low risk financial intermediation.

While Bauer et al (1998) suggest:

the main advantage of frontier efficiency over other indicators of performance is that it is an objectively determined quantitative measure that removes the effects of market prices and other exogenous factors that influence observed performance. This allows researchers to focus on the quantitative effects on cost, input use etc which changes in regulatory policy are likely to engender.

Initially the production process of an Irish credit union is modelled using a stochastic cost frontier method.\(^5\) Statistical robustness is achieved by simultaneous estimation of the parameters of stochastic frontier and the model of cost inefficiency using relevant environmental factors. These environmental variables provide a picture of the infrastructure of the Irish credit union movement, capturing many of the key characteristics previously described, including the regulatory framework, trade association affiliation, size, technology usage, and operational ratios.

The remainder of the paper is structured as follows. The methodological framework is described, the dataset is detailed, the empirical results are presented and followed by a summary and concluding remarks.

**Methodology**

This study employs a stochastic cost frontier approach to investigate the efficiency of Irish credit unions. The stochastic cost frontier approach allows production technology (the credit union’s operating environment) to vary across credit unions and also allows for failure to optimise production technology. The estimated efficiency measure obtained from the cost function can be decomposed into input-oriented technical efficiency and input allocative efficiency parts. Thus inefficiency can be sourced to either the mix of inputs used or the technology of firms or the industry, or a combination of both; a caveat being that decomposition requires additional information on both factor prices and quantities.

A question which arises in such an investigation is the appropriate form of the cost function. The choice of functional form has important implications for any statistical inferences that are made. The classic Cobb-Douglas cost function although simplistic can be restrictive in its a priori assumptions, which has lead most recent academic research, including this study, to the application of a Translog (transcendental logarithmic) cost function\(^6\). Its generality has several virtues which include allowing both the factor elasticity of substitution and economies of scale to vary across firms (credit unions). However, this increased flexibility may lead to problems with the significance of the estimated parameters. The Translog function is log–quadratic in form and a large number of input prices and output quantities will lead inevitably to multicollinearity among an ever greater number of regressors, leading to an imprecise estimate of many of the parameters in the model, including those characterising the error components containing the efficiency information. In recent literature these problems have been partially solved by using a system of equations in the estimation process, so that additional degrees of freedom are added, resulting in more efficient parameter estimates. A more canonical estimation technique, such as maximum likelihood estimation, to the traditional OLS method also produces more asymptotically efficient estimators\(^7\).

Formally a credit union can be thought as using a set of \(n\) variable inputs \(x_i = (x_1, \ldots, x_n)\) which have exogenous prices \(w_i = (w_1, \ldots, w_n)\) to produce mostly demand driven outputs \(y_i = (y_1, \ldots, y_n)\) operating within an environment described by the variables \(z_i = (z_1, \ldots, z_n)\). The credit union is assumed to produce its output at a minimum cost given the competitive environment within which it operates, optimisation success being contingent on credit union specific factors, the industry’s technological ability and other external random effects. This allows for failure to optimise and various degrees of failure across the industry.
The basic stochastic cost frontier model used in the current study takes the following form

$$TC_i = TL (y_i, w_i; \beta_i) + v_i + u_i$$

Where $TC_i$ denotes the total cost of producer $i$ and the deterministic part of the stochastic cost frontier model is represented by $TL(.)$ which is a Translog function defined in terms of $y_i$ and $w_i$ with $\beta_i$ being a vector of parameters to be estimated. The stochastic part of the model is the composed error term $\epsilon_i = v_i + u_i$ where the effects of random shocks to the $i^{th}$ producer are captured via the two-sided random noise component $v_i$ and the non-negative error component $u_i \geq 0$, which reflects cost inefficiency. The $v_i$s are assumed to be independently and identically distributed as $\sim N (0, \sigma_v^2)$, and independently distributed of the $u_i$.

The mathematical formulation of the complete model and the cost efficiency estimator are presented in detail in Appendix one.

**Data Description**

The database employed in this investigation is collated from a number of sources. Approximately 96% of the credit unions in the sample are affiliated to the trade association the Irish League of Credit Unions (ILCU) and this trade body provided financial data for its member credit unions. For the remaining credit unions, financial information was obtained from their annual reports. A key variable in this investigation is the extent to which individual credit unions use information technology in the provision of services to members. To obtain the required information the authors undertook a web-based survey of all Irish credit unions. The study also requires information on employee numbers. This data was obtained from a questionnaire based survey again undertaken by the authors.

The year under consideration is 2007 and in that year there were 418 credit unions. Due to inconsistencies in the data and incomplete financial records 12 credit unions were removed reducing the sample to 406.

Specification of input output mix, requires the choice of an appropriate financial institution behavioural concept. There are normally two classic approaches considered. The ‘production approach’ conceptualises the credit union as a producer of loans and deposit accounts by utilising the labour and capital available. In contrast, the ‘asset approach’ or ‘intermediation approach’ (Sealey and Lindley 1977) views a credit union not as producer but an intermediation agent of loans and other assets which resulted from the transformation of previously raised deposits. This approach defines outputs as the value of the loans and investments and any other interest bearing assets on the balance sheet, while the inputs are defined as the labour and capital expenses, with the total costs variable now being operating and interest expense. Deposits can be taken either as inputs or outputs (Colwell and Davis 1992). In this study we employ the

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Skewness</th>
<th>Kurtosis</th>
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</thead>
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<tr>
<td><strong>Outputs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans, $y_1$</td>
<td>€16.3m</td>
<td>€22.3m</td>
<td>€168,884</td>
<td>€224m</td>
<td>4.11</td>
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<tr>
<td>Cash on deposit, $y_2$</td>
<td>€608,840</td>
<td>€1.45m</td>
<td>€66</td>
<td>€19.2m</td>
<td>7.81</td>
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</tr>
<tr>
<td>Investments, $y_3$</td>
<td>€16.6m</td>
<td>€24.2m</td>
<td>€100</td>
<td>€200m</td>
<td>3.31</td>
<td>17.66</td>
</tr>
<tr>
<td>Members’ deposits, $y_4$</td>
<td>€29.6m</td>
<td>€39.0m</td>
<td>€469,953</td>
<td>€321m</td>
<td>3.16</td>
<td>17.67</td>
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<td><strong>Input Prices</strong></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Cost of funds, $w_1$</td>
<td>2.02%</td>
<td>0.95%</td>
<td>0.05%</td>
<td>4.64%</td>
<td>-0.39</td>
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<td>Cost of labour, $w_2$</td>
<td>€36,051</td>
<td>€10,222</td>
<td>€3,900</td>
<td>€69,842</td>
<td>0.06</td>
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<td>Cost of capital, $w_3$</td>
<td>1.11%</td>
<td>0.57%</td>
<td>0.18%</td>
<td>4.89%</td>
<td>1.98</td>
<td>10.25</td>
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<td>Total costs, $TC$</td>
<td>€1.32m</td>
<td>€1.77m</td>
<td>€12513</td>
<td>€16.8m</td>
<td>3.97</td>
<td>27.60</td>
</tr>
</tbody>
</table>

Table 1: Summary Statistics (Year end 2006)
A four output and three input model is specified. The outputs are loans $y_1$, cash on deposit $y_2$, investments $y_3$ and members deposits $y_4$. Three input prices are defined as cost of funds $w_1$, cost of labour $w_2$ and price of physical capital $w_3$. Finally total cost is defined as interest expenses plus non-interest expenses (or operating expenses). Deposits have been included as both an input and an output of a financial intermediary. A detailed definition of the variables is set out in Appendix two.

In Table 1 the opportunity is taken to profile the four outputs and three input prices.

From Table 1 we can see that on average the majority of a credit union’s output comes from members’ deposits. A striking example of the under lent nature of Irish credit unions is that average investments are higher than average loans. The minimum value for cash on deposit highlights that some credit unions may face short term liquidity issues.

Factors affecting Cost Inefficiency

Irish credit unions operate under different environments. These variations in environment may be either operational or organisational in nature. This analysis endeavours to ascertain their impact on individual credit union cost performance. To date there have been various studies exploring the manner in which operating environments impact upon a credit union’s performance in the US, Canada and Australia, but there is only one study on Irish credit unions.

Operational characteristics

Each credit union has the ability to pay a dividend on members’ shares. An assumption of member benefit maximisation would imply that credit unions should aim to pay a dividend to their savers. However, it is also the case that many members are also net borrowers, so the optimal strategy for a credit union might be better described as adding value to members by minimising the spread between average deposit/ dividend rates and borrowing rates. The dividend rate and loan rate are calculated using actual paid values, therefore the dividend rate is total dividend paid as a proportion of total members shares while the loan rate is the interest paid on loans as a proportion of the total loans to members. The expectation is that credit unions with higher dividends and lower loan rates are more efficient.

As a primary saving and loans entity, a credit union’s chief earning asset should be its loans to members. Guidance from WOCCU suggests that an appropriate value for the loans to assets should be somewhere between 70 and 80%. With an average of 47.9% Irish credit unions are significantly under lent. This has been an ongoing problem for the Irish movement since the late 1990s and reflects the fact that competition in the retail market has intensified over recent years with many non-traditional organisations now competing to on-lend funds. A further factor is that credit unions offer a restricted range of loan products to members and IFSRA has to date been reluctant to provide significant additional product freedoms. We have included a loan to total assets ratio as an explanatory variable in our study. An increase in the loan to asset ratio is expected to see an improvement in cost performance, although it could also be argued that relative to investing funds the making of loans to members is more cost intensive which may mean that credit unions with low loan to asset ratios have superior cost performance.

McKillop et al (2006) have commented that bad debts to gross loans have increased year on year since 2002. In 2007, the average bad debt written off was €112,561.9, which was 0.69% of average gross loans and although relatively low compared to other retail financial institutions it is still a significant burden for credit unions. In terms of the efficiency analysis it is expected that an increase in the delinquency rate causes deterioration in cost efficiency.

A credit union’s level of capitalisation is also included as a factor which may impact on performance. A well capitalised credit union, for example, might be expected to be more efficient as the banking literature suggests this is an obvious prevention mechanism for moral hazard. However, there is also a requirement to consider the interaction of risk treatment with capital levels. McAllister and McManus (1993) argue that efficiency improvements arise through asset diversification (proxied by loan book size) reducing the amount of capital that an intermediary is obliged to hold to achieve acceptable risk levels. Mester (1993) argues:

in the absence of a quantifiable measure of protection against risk, credit unions with a low level of assets (and a correspondingly high level of capitalisation) will tend to appear inefficient.

From this discussion it can be inferred that any relationship between capital and cost performance will be clouded by the relative impact of regulation and asset portfolio make-up.

A credit union’s liquidity may also prove important. For example, holding cash for liquidity...
purposes would have an opportunity cost in terms of lost income. Excessive cash levels could therefore prove to negatively impact upon cost performance.

Finally, we include a traditional cost-to-income measure in our model. The establishment of a relationship between the relative efficiency scores and a more traditional static accounting efficiency indicator will help validate our findings.

**Structural and regulatory characteristics**

Credit unions draw their membership from a pre-designated common bond. The credit union is then open to all within the accepted common bond that can make use of its services and are willing to accept the corresponding responsibilities. In Ireland there are two main types, residential/community and associational/occupational. In the sample the majority of credit unions are community based (370 or 91%). A credit union attached to an employer is perceived to have additional cost advantages through such facilities as direct salary deductions. Furthermore, as the membership base is exclusively employed or receiving an employee pension, the economic stability of an occupational credit union’s membership may be better. Information gathering costs will also be low in comparison to community based credit unions. A dummy variable is included which takes the value of 1 if the bond is occupational and 0 otherwise. Occupational credit unions are expected to show some improved cost performance relative to community based credit unions.

Size of the organisation is measured using total assets. Berger and Mester (1997) state that “most studies include the size of the institution, but no consistent picture emerges of its relationship with efficiency.” Our expectation is, however, that size, in that it should result in scale economies, should lead to improved cost performance.

There are two main trade bodies which an Irish credit union can voluntarily join, the ILCU and CUDA. In 2007 all bar 10 credit unions were ILCU members11. A dummy variable is included with a 1 for an ILCU member and a 0 otherwise. There is no a priori expectation as to the influence of the differing trade bodies on credit union efficiency.

The location of a credit union is also considered by including a dummy variable which takes the value 1 for an urban credit union and 0 if the credit union is rurally based. A rural community is a tightly knit area, thus the cost of information gathering for the credit union may be less, so the expectation is that rural credit unions may have superior cost efficiency to their urban counterparts.

To date the literature reports mixed evidence on the net benefits of technological adoptions in financial institutions. De Young et al (2007) and Hernando and Nieto (2007) assess the impact of the internet as a delivery channel on the performance of banks, finding that it significantly improves profitability after a certain period of adoption. In contrast, Furst et al (2002), who assess the factors affecting the adoption of internet banking, find that positive effects on profitability only materialise at an optimal size12. Delgado et al (2007) showed in Europe internet banks underperformed new chartered ‘bricks and mortar’ banks due mainly to higher overhead costs. While Fuentes et al (2006) argues that the intensity of competition encourages the adoption of transactional websites, especially where rivals have already adopted.

Dow (2007) was the first to consider technological adoption in credit unions and found that larger credit unions were more likely to adopt new technologies. Goddard et al (2007) reported evidence of a link between the absence of internet banking capability and the chances of a credit union being acquired. While Dandapani et al (2008) in a study of credit union performance concluded that internet banking adoption resulted in higher operating costs but with retention of profitability and some evidence of potentially higher asset growth rates.

In our study a dummy variable is included to account for whether a credit union has a website or not (1 for website 0 otherwise). We do not distinguish between websites which provide information and those sites through which financial transactions can be undertaken. Also included is a variable to represent the length of time the credit union has had a website. There are 167 credit unions in the sample that have a website. Given the differing viewpoints on the effect and importance of technology, an a priori assumption of its impact on cost efficiency is not possible.

Summary statistics for the previously described variables are presented in Table 2.

From Table 2 we note that the mean dividend payout is 1.42%. This may seem low, but can be explained by the fact that there are a proportion of members’ funds held in accounts that do not qualify for a dividend. The loans to assets range widely across the sample, indicative of the varying success with which Irish credit unions on-lend their funds. There are approximately 61 credit unions which have a zero delinquency rate, of which 10 are occupational.
On average credit unions are well capitalised with a mean value above the WOCCU minimum.\textsuperscript{13} Liquidity levels are low on average with a negative minimum value indicative of a credit union being overdrawn. The cost to income ratio varies significantly and this emphasises that there is a large variation in cost performance across credit unions. (Indeed, there is one credit union with a cost to income ratio above 100%). Credit union size also varies significantly and in absolute terms from €524,597 to €369m. Domain name age is approximately two years on average. This taken in conjunction with the fact that less than half the sample have a website illustrates that Irish credit unions are relatively new to technology adoption\textsuperscript{14}.

### Empirical Results

Table 4 presents parameter estimates for the stochastic cost frontier for two Translog models along with their standard errors, while in Table 5 the estimates of overall cost efficiency from each model are detailed. Maximum likelihood methods are used to obtain parameter estimates for each of the cost frontier models. Translog1 is a basic Translog model which does not include environmental variables, while Translog 2 assumes that the environmental variables affect the cost efficiency of the credit union and are included in the non-negative component of the composed error term as a function of its mean\textsuperscript{15} with the coefficients of the environmental variables estimated simultaneously with the cost function parameters. This ensures valid statistical inferences from the technical inefficiency parameter estimates.

To be an adequate representation of the underlying technology the estimated cost function must be concave in input prices and monotonically non-decreasing in input prices and output. The parameter estimates detailed in Table 4 were used to determine whether these regularity conditions were satisfied at the sample mean. In each instance the regularity conditions were satisfied. Table 5 presents gross and net estimates of cost efficiency from each model. Translog1 produces estimates of cost efficiency without accounting for the environmental variables so the reported figure can be viewed as net cost efficiency while for Translog 2 the coefficients of the environmental variables are estimated simultaneously with the cost function parameters and the resultant cost efficiency is a gross figure.

Mean scores in both models indicate that the Irish credit union movement has some scope for efficiency improvements. For example, if we take the mean gross cost efficiency score for the Translog2 model (0.8450) this suggests that on average Irish credit unions could improve cost efficiency by approximately 15.5%. We also note from Table 5 that there is significant variation in cost efficiency across Irish credit unions. For example, for the Translog2 model the minimum gross efficiency value is 0.4615 while the maximum is 0.9895. This suggests that one credit union in the sample could improve its cost

### Table 2: Summary Statistics (Year End 2006)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend rate paid</td>
<td>1.42%</td>
<td>0.93%</td>
<td>0%</td>
<td>4.11%</td>
<td>-0.31</td>
<td>2.35</td>
</tr>
<tr>
<td>Loan interest rate paid</td>
<td>9.42%</td>
<td>1.67%</td>
<td>5.33%</td>
<td>19.77%</td>
<td>0.73</td>
<td>5.74</td>
</tr>
<tr>
<td>Loans to Assets</td>
<td>48.73%</td>
<td>13.51%</td>
<td>12.61%</td>
<td>100%</td>
<td>0.36</td>
<td>3.17</td>
</tr>
<tr>
<td>Delinquency rate</td>
<td>0.57%</td>
<td>0.63%</td>
<td>0%</td>
<td>4.33%</td>
<td>2.00</td>
<td>8.45</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>2.87%</td>
<td>5.19%</td>
<td>-0.26%</td>
<td>43.81%</td>
<td>4.72</td>
<td>29.91</td>
</tr>
<tr>
<td>Capital ratio</td>
<td>13.84%</td>
<td>3.17%</td>
<td>1.37%</td>
<td>31.06%</td>
<td>0.70</td>
<td>6.42</td>
</tr>
<tr>
<td>Domain name Age*</td>
<td>656.20</td>
<td>997.54</td>
<td>-227</td>
<td>3,856</td>
<td>1.21</td>
<td>2.96</td>
</tr>
<tr>
<td>Cost to Income ratio</td>
<td>39.54%</td>
<td>11.86%</td>
<td>12.78%</td>
<td>111%</td>
<td>1.03</td>
<td>6.71</td>
</tr>
<tr>
<td>Asset Size</td>
<td>€34.4m</td>
<td>€45m</td>
<td>€524,597</td>
<td>€369m</td>
<td>3.12</td>
<td>16.29</td>
</tr>
</tbody>
</table>

* This is measured in calendar days from 30 September 2007.
efficiency by 53.85% while at the other end of the spectrum another credit union could improve by only 1.05%. In Appendix three, Figure 1 we have presented the kernel density estimate of the cost efficiency values. This profiles the cost efficiency values across all 406 credit unions. From Figure 1 we note that almost all cost efficiency values exceed 0.6 and in addition that a majority of the cost efficiency estimates are clustered between 0.85 and 0.95.

We also note from Table 5 that there is a difference between the gross and net cost efficiency values. Differences between the gross and net cost efficiency measures for a specific credit union can be viewed as the contribution that the documented environmental variables make to the inefficiency of the credit union in question. We note from Table 5 that the

<table>
<thead>
<tr>
<th>Translog1</th>
<th>Translog2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\beta_0$</td>
<td>$-0.18924$</td>
</tr>
<tr>
<td></td>
<td>[0.01353]***</td>
</tr>
<tr>
<td>Iny1</td>
<td>0.16331</td>
</tr>
<tr>
<td></td>
<td>[0.04755]***</td>
</tr>
<tr>
<td>Iny2</td>
<td>0.01546</td>
</tr>
<tr>
<td></td>
<td>[0.00569]***</td>
</tr>
<tr>
<td>Iny3</td>
<td>0.04692</td>
</tr>
<tr>
<td></td>
<td>[0.04009]</td>
</tr>
<tr>
<td>Iny4</td>
<td>0.79989</td>
</tr>
<tr>
<td></td>
<td>[0.08763]***</td>
</tr>
<tr>
<td>Inw1</td>
<td>0.45002</td>
</tr>
<tr>
<td></td>
<td>[0.06511]***</td>
</tr>
<tr>
<td>Inw2</td>
<td>0.03086</td>
</tr>
<tr>
<td></td>
<td>[0.09214]</td>
</tr>
<tr>
<td>Iny1iny1</td>
<td>0.17256</td>
</tr>
<tr>
<td></td>
<td>[0.18322]</td>
</tr>
<tr>
<td>Iny1iny2</td>
<td>0.04722</td>
</tr>
<tr>
<td></td>
<td>[0.02666]***</td>
</tr>
<tr>
<td>Iny1iny3</td>
<td>0.13819</td>
</tr>
<tr>
<td></td>
<td>[0.09311]</td>
</tr>
<tr>
<td>Iny1iny4</td>
<td>-0.32342</td>
</tr>
<tr>
<td></td>
<td>[0.27853]</td>
</tr>
<tr>
<td>Iny1lnw1</td>
<td>-0.0122</td>
</tr>
<tr>
<td></td>
<td>[0.04985]</td>
</tr>
<tr>
<td>Iny1lnw2</td>
<td>-0.02705</td>
</tr>
<tr>
<td></td>
<td>[0.06416]</td>
</tr>
<tr>
<td>Iny2lny2</td>
<td>0.00613</td>
</tr>
<tr>
<td></td>
<td>[0.00288]***</td>
</tr>
<tr>
<td>Iny2lny3</td>
<td>0.02665</td>
</tr>
<tr>
<td></td>
<td>[0.01744]</td>
</tr>
<tr>
<td>Iny2lny4</td>
<td>-0.06704</td>
</tr>
<tr>
<td></td>
<td>[0.04380]</td>
</tr>
<tr>
<td>Iny2lnw1</td>
<td>-0.00204</td>
</tr>
<tr>
<td></td>
<td>[0.00565]</td>
</tr>
<tr>
<td>Iny2lnw2</td>
<td>-0.01465</td>
</tr>
<tr>
<td></td>
<td>[0.01097]</td>
</tr>
<tr>
<td>Iny3lny3</td>
<td>0.03366</td>
</tr>
<tr>
<td></td>
<td>[0.01417]***</td>
</tr>
<tr>
<td>Iny3lny4</td>
<td>-0.14283</td>
</tr>
<tr>
<td></td>
<td>[0.10781]</td>
</tr>
<tr>
<td>Iny3lnw1</td>
<td>0.04025</td>
</tr>
<tr>
<td></td>
<td>[0.03601]</td>
</tr>
<tr>
<td>Iny3lnw2</td>
<td>-0.04852</td>
</tr>
<tr>
<td></td>
<td>[0.04942]</td>
</tr>
<tr>
<td>Iny4lny4</td>
<td>0.39798</td>
</tr>
<tr>
<td></td>
<td>[0.41548]</td>
</tr>
<tr>
<td>Inw1lnw1</td>
<td>0.16023</td>
</tr>
<tr>
<td></td>
<td>[0.01720]***</td>
</tr>
<tr>
<td>Inw2lnw2</td>
<td>0.10135</td>
</tr>
<tr>
<td></td>
<td>[0.03264]***</td>
</tr>
<tr>
<td>Inw1lnw2</td>
<td>-0.06404</td>
</tr>
<tr>
<td></td>
<td>[0.01760]***</td>
</tr>
</tbody>
</table>

Table 4: Parameter Estimate for Stochastic Cost frontier Models

* significant at 10%; ** significant at 5%; *** significant at 1%
The magnitude of the difference is approximately 4%.

In Table 6 the opportunity is now taken to present some information on the determinant of cost efficiency. Given the nature of the two models this information is presented for the Translog2 model. These efficiency determinants have characterised in generic terms as either operational variables or structural and regulatory variables. We also report in Table 6 behavioural statistics for the two models.

In terms of the behavioural statistics the null hypothesis of no cost inefficiency (or of \( y = 0 \), implying that the one-sided error component makes no contribution to the composed error term) can be tested for the respective models. To do this we follow the Coelli (1995) procedure which suggests that the one-sided generalised likelihood ratio test should be performed when maximum likelihood estimation is involved. Critical values for this test are obtained from Table 1 of Kodde and Palm (1986)\(^{17} \). For each model the null hypothesis of no cost inefficiency is rejected. For the cost efficiency estimates to be meaningful the residuals from the respective models should be positively skewed. Again this condition is satisfied.

From Table 6 it is also noted that the \( y \) variance parameter for both Translog models are close to one. This suggests that the majority of residual variation is due to the cost inefficiency effect \( u \), and that the random noise component \( v \) is relatively small. A likelihood ratio test is performed on both Translog models to test the null hypothesis that Translog2 is no better a fit of the data than Translog1; the resultant statistic is displayed in the last row of Table 6. The null hypothesis is rejected - Translog2 is a better fit for the data. This confirms that for the sample of Irish credit unions, environmental variables cannot be neglected without introducing bias into the estimation of the cost function and thus inefficiency estimates.

### Table 5: Cost Efficiency estimates

<table>
<thead>
<tr>
<th></th>
<th>Net Cost Efficiency(^*)</th>
<th>Gross Cost Efficiency(^*)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Translog1)</td>
<td>(Translog2)</td>
</tr>
<tr>
<td>Mean</td>
<td>0.8876</td>
<td>0.8450</td>
</tr>
<tr>
<td>Median</td>
<td>0.9035</td>
<td>0.8620</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.0646</td>
<td>0.1071</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.5670</td>
<td>0.4615</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.9813</td>
<td>0.9895</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.6995</td>
<td>-0.9018</td>
</tr>
</tbody>
</table>

\(^*\)The stochastic model produces raw inefficiency scores which were converted to efficiency scores.

### Factor of influence on Inefficiency

The model produces scores of cost inefficiency\(^{18} \) so a negative coefficient estimate can be thought of as an improvement in cost performance, whereas a positive coefficient can be viewed as reduction in cost performance. Our results in Table 6 suggest that operational variables have much more influence over cost inefficiency than structural and regulatory factors.

For example, we note that there is a negative coefficient estimate for the dividend rate and a positive coefficient for the loan rate. This implies that credit unions with superior cost performance are those with lower loan rates and those offering higher dividend payouts. It is perhaps to be expected that those credit unions best placed to offer low loan rates and high dividend rates are those that have superior cost efficiency. Capital levels also seem to significantly impact on cost performance. More specifically, credit unions with lower capital levels are more cost efficient. Berger and DeYoung (1997) argue that credit institutions with poor cost control may suffer from poor credit risk assessment leading to a positive relationship between credit risk and cost inefficiency. From Table 6 we note that the delinquency rate coefficient is positive and significant which implies that credit unions with lower levels of write-offs are more cost efficient. The loan to asset coefficient estimate is also positive and this would suggest that credit unions with lower loan ratios are more efficient. This is a surprising result but may be due to the fact that the alternative to making loans is that of making investments which are less costly to both initiate and service than loans. Finally we note that the coefficient estimate on the cost to income\(^{19} \) ratio is positive indicating, as expected, that superior performance on this metric translates to superior model generated cost efficiency.

In terms of the structural and regulatory variables we note from that there exists a negative relationship between a credit union
being occupational in nature and its cost inefficiency. The implication is that 'sponsor donated' resources act to reduce both the credit control costs and the default risk of the membership. The adoption of technology, in the form of a website, also increases the cost efficiency of the credit union. The dummy variable for a website has a negative and significant coefficient, illustrating that adoption of website technology positively impacts cost performance.

This 'customer facing' technological change brings with it additional delivery channels for a credit union’s product offerings. Thus providing an increased flexibility to existing members coupled with lower per member processing costs.

Finally, we included asset size as one of the structural and regulatory variables and although size is not significant in this study, the heterogeneity within the industry in terms of size merits further analysis. A kernel density estimator of both the lower and upper quartile in terms of assets size is presented in Appendix Three – Figure 2 and this reveals some variation in cost efficiency, with large credit unions having greater concentration in the higher efficiency area (in figure 2 we observe that larger credit unions are more concentrated in the range 0.8 to 1 than their smaller counterparts).

**Table 6: Parameter estimate for Inefficiency Model**

<table>
<thead>
<tr>
<th>Operational variables</th>
<th>Translog1</th>
<th>Translog2</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \beta_0 )</td>
<td>(-0.38723)</td>
<td>(-0.38723)</td>
</tr>
<tr>
<td>Dividend rate</td>
<td>(-10.06249)</td>
<td>(-10.06249)</td>
</tr>
<tr>
<td>Loan interest rate paid</td>
<td>0.49147</td>
<td>0.49147</td>
</tr>
<tr>
<td>Capital ratio</td>
<td>0.56001</td>
<td>0.56001</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>0.35239</td>
<td>0.35239</td>
</tr>
<tr>
<td>Delinquency ratio</td>
<td>10.59141</td>
<td>10.59141</td>
</tr>
<tr>
<td>Cost to Income ratio</td>
<td>0.48764</td>
<td>0.48764</td>
</tr>
<tr>
<td>Loans to Assets ratio</td>
<td>0.49147</td>
<td>0.49147</td>
</tr>
</tbody>
</table>

**Structural & Regulatory Variables**

| Size                  | 0.00313 | 0.00313 |
| ILCU                  | -0.03294 | -0.03294 |
| Urban                 | 0.00562 | 0.00562 |
| Occupational          | -0.10807 | -0.10807 |
| Website               | -0.04118 | -0.04118 |
| Domain name Age       | 0.00002 | 0.00002 |
| Gamma                 | 0.812182 | 0.812182 |
| Sigma squared         | 0.065501 | 0.065501 |

**Generalised one-sided likelihood ratio test**

| \( H_0: u_i = 0 \) | 20.72 | 20.72 |
| Log likelihood function | 297.46 | 297.46 |
| LR test (\( H_0 = \text{Translog1 nested in Translog2} \)) | 301.38 | 301.38 |

*** p<0.01, ** p<0.05, * p<0.1

Standard errors in brackets

Concluding Remarks

A credit union can be found in every town and community in Ireland, and their continued existence in an ever more complex market place is a testament to the dedicated pioneers that founded them. The rapid development of the Irish
financial services industry has seen a considerable shift in development of individual credit unions and the movement as a whole. That said they sit at a critical stage in their development, well behind mature industries such as the US and Canada.

To date this paper is one of the first attempts to investigate the cost performance of Irish credit unions. The analysis, although important in its own right, should however be viewed as a starting point for more rigorous investigation. The study shows variation in the cost performance levels of Irish credit unions with an average shortfall in cost performance of approximately 15%.

Analysis of how credit union characteristics influence inefficiency highlighted that operational elements have a greater influence than structural and organisational factors. We noted that credit unions with superior cost performance are those with lower loan rates and those offering higher dividend payouts. Furthermore, credit unions with lower capital levels were also more cost efficient. Delinquency was another important driver of cost efficiency with credit unions with lower levels of write-offs more cost efficient. In terms of the structural and regulatory variables we found that occupational credit unions were more cost efficient than their community based counterparts. A final key finding was that adoption of technology, in the form of a website, increased the cost efficiency of credit unions.

In today’s uncertain climate the need for better financial services provision is important. Credit unions in Ireland, given their countrywide coverage, have a critical role to play in this process. Having said this they will only be in a position to provide the required products and services if they operate in as efficient a manner as possible. Our study reveals that there is significant scope for efficiency improvements and also highlights the factors that can drive this improved cost performance.

**Appendix One**

Heterogeneity in the form of the environmental variables (here, \(z = (z_1, ..., z_m)\)) is a vector of environmental effects) will be assumed to affecting the cost efficiency of the production process, where the efficiency term \(u_i\) is specified as being independently (but not identically) distributed as a non-negative truncation of a general normal distribution of the form;

\[
m_i = \delta_0 + \sum_{j=1}^{m} \delta_j z_j
\]

Where \(\delta_0\) and \(\delta_j\) are unknown parameters to be estimated. Again all the unknown parameters are estimated simultaneously via maximum likelihood methods. The likelihood function and its partial derivatives with respect to the parameters of the model are obtained from Battese and Coelli (1993), remembering that for the cost case here \(\varepsilon_i = v_i + u_i\) (not \(\varepsilon_i = v_i - u_i\) as in the production case). The likelihood function is expressed in terms of the variance parameters \(\sigma_s^2 = \sigma_u^2 + \sigma_v^2\) and \(\gamma = \sigma_s^2 / \sigma_u^2.\)

Cost efficiency of credit union \(i\) is defined as the ratio of the stochastic frontier minimum cost \((u_i = 0)\) to observed cost and is measured by decomposition of the composed error term. Using Glass and McKillop (2006) adaptation of the Battese and Coelli (1993) model for a cost case, a predictor of cost efficiency (the inverse of cost inefficiency) is defined by the conditional expectation of \(\exp (-u_i)\) given \(\varepsilon_i = v_i + u_i\). This expression is given by:

\[
CE_i = E[\exp (-u_i | e)]
\]

\[
= \left[ \exp \left( -\frac{u_i}{1 + \sigma_v^2} \right) \right] \frac{\Phi[(u_i / \sigma_u) - \sigma_i]}{\Phi[u_i / \sigma_u]}
\]

Where \(\Phi\) denotes the distribution function of a standard normal variable,

\[
u_i = (1 - \gamma) [\delta_0 + \sum_{j=1}^{m} \delta_j z_j] - \gamma \varepsilon_i
\]

and

\[
\sigma_s^2 = \gamma (1 - \gamma) \sigma_v^2.
\]

The unknown parameters in the above can be replaced by the maximum likelihood estimates to obtain estimates of cost efficiency (and inversely cost inefficiency) for individual credit unions. Cost efficiency will take values between zero and one (one being credit unions on the frontier). By simultaneous estimation of both the parameters associated with the stochastic cost frontier and the parameters associated with the firm specific environmental factors directly influence the inefficiency term, there is
consistency in the assumptions associated with the non-negative inefficiency error term.

In the empirical analysis, before estimation, Young’s symmetry restriction\(^{26}\) should be imposed (for integrability) as well as homogeneity of degree one in the input prices\(^{27}\) (by normalising all the cost and input price terms by one of the input prices). The other regularity conditions (concavity in input prices, and the right skewness of residuals) are checked after estimation.

**Appendix Two**

\(y_i\) = Loans include all interest earning loans made to members in this financial year.
\(y_2\) = Cash on deposit includes all commercial deposits held in such a way as to be readily available for use.
\(y_3\) = Investments include Irish and EMU state securities, Irish and non-Irish deposit accounts, bonds issued by Irish and non-Irish institutions, Euro denominated securities and collective investment schemes.
\(y_4\) = Members deposits include all members share and SSIA shares and all members deposits and SSIA deposits.
\(w_1\) = Interest Expenses/(Members funds +Borrowings)

**Appendix Three**

\[\ln TC_i = \beta_0 + \sum m \alpha_m \ln y_{mi} + \sum n \beta_n \ln w_{ni} + \frac{1}{2} \sum m \sum j \alpha_{mj} \ln y_{mj} \ln y_{ij} + \frac{1}{2} \sum n \sum k \beta_{nk} \ln w_{ni} \ln w_{ki} + \sum m \sum n \gamma_{mn} \ln w_{ni} \ln y_{mi} + v_i + \mu_i\]

The full form of equation (1) model specification

Or more specifically:

\[\text{Dividends paid} + \text{Interest Paid} + \text{Death Benefit Insurance} + \text{Loan and Share Insurance}\]
\[\text{Deposits} + \text{Shares} + \text{Borrowings}\]

\(w_2\) = Employee expenses/total equivalent full time employees

Where Employee Expenses = Salaries + Pensions + Treasurer’s Honorarium. Cost of labour figures were imputed for those credit unions that didn’t have employee figures, by averaging out the figures for following groups:

- total assets= 0-10m
- 10-50m
- 50-100m and greater than 100m.

The missing values in each group where then replaced with the relevant group average.

\(w_3\) = Office Occupancy +Office Operating Expenses)/total assets

Where Office Occupancy +Office Operating Expenses= other management expenses less (death benefit Insurance + share and loan insurance + bad debt written off + pensions + treasurers honorarium). Worthington (1998) defines the price of physical capital to include the more theoretically accurate net book value of tangible fixed assets as a denominator. Due to the reported inaccuracy of the 2007 data on tangible fixed assets\(^{28}\) total assets was used as a more consistent proxy.
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**Notes**

1 There are two active voluntary trade bodies within the Republic of Ireland each offering different types and levels of service to their members - the Irish League of Credit Union (ILCU) and the Credit Union Development Association (CUDA).

2 In 2006 there were 46,377 credit unions in 97 countries worldwide. They had more than 172 million members and over US$1.2 trillion in total assets (WOCU, 2007).

3 The concept of efficiency measurement is the calculation of a measure of efficiency of firm production based on a pre-defined behavioural assumption (eg cost minimisation) relative to a given technology, which is generally represented by some form of frontier function. The frontier which is used is generally thought of as that consisting of all the fully efficient firms, which is not known in practice. Its estimation is normally obtained from a sample of firms from the industry.


5 A cross-sectional adaptation of the Battese and Coelli (1995) methodology is used.


7 A caveat to this choice of functional form would be that its goodness of fit is critically subordinate to the data’s distance from the mean in terms of output mix or size (Berger and Mester, 1997). A badly fitted functional form has been found to increase the inefficiency estimations. Berger and De Young (1997) found that measured inefficiencies were about twice as large when the Translog was specified in place of the Fourier-flexible form.

8 Other credit union studies utilising the intermediation approach include Worthington (1998), Glass and McKillop (2006) and Drake and Weyman-Jones (1996).

9 For the US Fried et al (1993, 1994) used DEA to obtain credit union efficiency measures, explaining variation using various environmental factors while Goddard et al (2002) assess the impact of environmental characteristics on credit union growth. For Canadian credit unions Pille and Paradi (2002) used DEA to detect weakness in credit union performance with a view to predicting failures. For Australian credit unions Worthington (1998) used a two stage process to determine estimates of an econometric cost function and attribute structural and intuitional characteristics of Australian credit unions to their relative cost efficiency scores. Esho (2001) also using similar techniques. Glass et al (2009) consider Irish credit unions using a two-stage approach - the first stage measures efficiency by a DEA estimator, which explicitly incorporates the production of undesirable outputs such as bad loans in the modelling, and the second stage uses truncated regression to infer how various factors influence the estimated efficiency.
10 This is discretionary, but in 2007, 323 (77%) paid a dividend.
11 In 2007 a number of credit unions had dual membership of both trade bodies.
12 They concluded that due to significant start up cost of internet banking smaller institutions which had
adopted technology were less efficient than their counterparts who had not, although this differential disappears
with banks which have a longer history of internet banking.
13 WOCCU best practice institutional capital/total assets ratio level is \( \geq 10 \% \).
14 A negative minimum reflect the fact that some websites where created after 30/09/2007.
15 Kumbhakar, Ghosh and McGuckin (1991), Reifschneider and Stevenson (1991) and Huang and Liu (1994)
were the first to use a single step estimation procedure for technical inefficiency determinants. Battese and
Coelli (1995) extends this to the Panel data setting.
16 There are 392 credit unions in the sample that exhibit cost efficiency above this level.
17 From Table 1 the critical value for 7 degrees of freedom (4 outputs, 2 inputs prices and an intercept) 13.401.
18 That is the \( u_i \)s in the cost frontier represent the shortfall of the individual credit unions from the optimal cost
performance level.
19 This measure suggests the less of the operating cost covered by income the more inefficiency a firm is
perceived to be.
20 Battese and Coelli (1995) was one of the first studies to model these factors so that they directly influence
the inefficiency term, but unlike early work by Reifschneider and Stevenson (1991), there is no a priori
assumption of identical distribution of the random component of the stochastic model of inefficiency across
firms or that they are required to be non-negative. The conflicting view is that the environmental variables
influence the shape of the production technology, therefore should be included in the cost function as
regressors (eg Good et al 1993).
21 The distribution assumption of \( u \) has taken various forms in the literature including half normal, gamma and
exponential.
22 This generalises the normal-half normal model by allowing the \( u_i \) to have a non-zero mean. It was first
introduced by Stevenson (1980).
23 Aigner, Lovell and Schmidt (1977) used two-variance parameters \( \sigma_u^2 = \sigma_e^2 + \sigma_i^2 \) and \( \lambda = \sigma_u / \sigma_e \). The
\( \gamma \)-parameterisation (first suggested by Battese and Corra (1977)) proves more useful in ML estimation as
the parameter space of \( \gamma \) can be searched for a suitable starting point for the iterative maximisation algorithm
used. This is because it takes only values between zero and one whereas the \( \lambda \)-parameter can take any
non-negative value.
25 Again there is adjustment of the formulas to account for the fact that our data is cross-sectional not panel.
26 That is \( \sigma_{\alpha k} = \sigma_{\alpha n}, \beta_{jm} \) is imposed.
27 This requires the additional imposition of \( \sum \beta_{ik} = 1, \sum \beta_{ik} = 0 \forall k \) and \( \sum \gamma_{im} = 0 \forall m \).
28 Consequently cost of capital figures ranging from 3\% to over 1,000\%. 

Introduction

This paper approaches the issue of how to stimulate the co-operative movement from the perspective of law reform. The research discussed in this paper is particularly relevant to Ireland at the moment since the government, with a lead from the Co-operative Legislation Unit in the Department of Enterprise, Trade, and Employment (DETE), is currently seeking public comment regarding the regulation of co-operatives. In a statement issued 15 April 2009, Minister for Trade and Commerce, Mr John McGuinness highlighted that the Irish co-operative movement is now worth in excess of €12.6 billion and said that it is important now to ensure that “the regulatory system facilitates the continuing growth and development of this highly valuable sector in our economy in the years ahead.”

Given the current review of co-operative legislation, what are a few legislative principles to embody in a regulatory system that can grow the co-operative movement in Ireland? How have other jurisdictions approached the problem of co-operative law reform in order to increase the strength and vitality of co-operatives across industries? This paper attempts to answer these questions by providing a few succinct and clear recommendations for the drafters of the new co-operative law in Ireland to follow.

In developing these recommendations, this paper draws on innovative legislative approaches to regulating co-operatives in other countries, including the United States, Norway and at the level of the European Union. The intent of this paper is to provide a meaningful discussion of the reasons why other jurisdictions chose to implement these recommendations in the way they did, as well as why they might prove useful to the Irish co-operative movement.

One could easily write at great length about all the possible options for regulation of co-operatives in different industries. For example, credit union and mutual insurance co-operatives thrive in many countries where statutes provide specific provisions for their creation and operation. The scope of this paper, however, is limited to a few general principles relevant to all co-operatives. It also mentions specifically worker co-operatives, a particularly underdeveloped area of the co-operative movement in Ireland, since worker co-operatives are a newer form of co-operative enterprise and several recent laws have been enacted elsewhere that can serve as a guide for possible inclusion in the forthcoming reformed Irish co-operative laws. In addition, during the current economic crisis, when jobs become scarce, worker co-operatives provide an exciting and potentially far-reaching solution to the problem of job retention and creation.

This paper presumes that reformed regulation of co-operative societies will lead to an increase in the number, strength and vitality of co-operative societies. To prove this point, one could study a state where revised regulations were implemented and criteria developed to study the co-operative movement indicated that co-operative societies grew in number, strength or vitality. Admittedly this paper does not provide this information. This type of research is lacking and the researcher was not able to locate any particular data about this scenario in developed nations, where new regulation led to an increase or decrease in the strength of co-operative societies.

Coincidentally, the European Commission has just announced a call for tenders to study the impact of the 2003 Statute for the European Co-operative Society on the national legislation and the promotion of co-operatives in EU countries. The results of such a study could impact upon future legislation. We will discuss some of the unique provisions of the European Co-operative Society Statute below as well as
their potential to promote co-operatives in Ireland.

At the same time, comprehensive studies have compared co-operative laws globally. One particular report issued by the United States Agency for International Development (USAID) and the Cooperative Law and Regulation Initiative (CLARITY) in 2006, called “Enabling Cooperative Development: Principles for Legal Reform,” explains several important principles for drafting new co-operative laws in the developing world. Since the CLARITY Report focuses on developing economies, it spends time explaining the importance for separating the co-operative movement from overly interventionist government actors. Government intervention in Ireland, on the other hand, has generally not been overly burdensome as the regulatory environment for co-operatives is rather hands-off, or “benign”, as those in the movement have described it to me.

Nevertheless, this paper is a significant contribution to the literature because it fills a gap regarding principles to consider in the regulation of co-operatives in Ireland. It provides a description of the importance of new regulation, and how law reform can be put into place in the Irish context. While the reader may question the conclusion the author draws - precisely that reformed regulation leads to a stronger co-operative movement - the implications of the recommendations made here are nevertheless important to bear in mind as they impact upon critical aspects of co-operative society success, including member democratic participation, the strength of the co-operative as a brand, and the rise in co-operatives across industries.

The co-operative movement in Ireland

Overall, the role of co-operatives in Ireland is limited by comparison to other countries (Forfás 2007, iv). The bulk of annual turnover of about €10.75 billion for 2005 was earned by about 30 dairy co-operatives (Irish Co-operative Organisation Society 2006, p22). This strong showing indicates the strength of the dairy co-operative sector, but also the singular focus of the Irish co-operative movement.

In recent years, however, dairy co-operatives have responded to new opportunities in providing retail services in rural areas. Retail outlets continue to generate profits and provide valuable services and jobs for rural communities (Briscoe & Ward 2007, p29). Dairy co-operatives have even used revenue generating activities in retail, property, food processing and other areas, to subsidise the milk price paid to farmer members (Forfás 2007, p19). Although, given current market conditions, it is unlikely that this type of model for subsidising milk prices will be sustainable. It is therefore important to consider ways to diversify the co-operative movement across new industries, and to keep this goal in mind while drafting new co-operative laws.

However, the strong organisation of co-operatives in Ireland in dairy and credit industries presents opportunities to expand into meeting social needs, including healthcare, housing and environmental protection (Forfás 2007, iv). Martin Cronin, Chief Executive of Forfás, the National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation in Ireland, recently said:

... co-operatives may have the potential to play a role in addressing social and of quality of life issues ... arising from long working days, commuting, isolation and lack of community facilities, by filling market gaps, providing public and community services, and developing community assets. (Forfás 2007, iv)

In order to meet current social needs, new co-operatives, and new co-operative members, must have the rights and responsibilities afforded by a co-operative law. Certain needs are currently not met. Part of the problem to expanding the co-operative movement to other industries is poor legislation. The Industrial and Provident Societies (IPS) Acts are not actually co-operative laws, and do not even mention the word “co-operative”. The IPS Acts have been amended in a piecemeal approach to respond to the needs of co-operatives in specific industries instead of drafting a new co-operative law to provide for a clear definition of what it means to be a co-operative in Ireland, and how a co-operative operates according to Irish law.

For instance, the use of the word “co-operative” is not protected under Irish law. This means that it can be used indiscriminately. In addition, co-operatives are not authorised explicitly to be owned by employees or worker-members. Nor are co-operatives authorised under law to raise capital through investor members. It is laudable that the Irish government is currently consulting the co-operative movement, academic researchers, and others in the public concerned about the legal status of co-operatives in Ireland. With this review in
mind, this paper now addresses several recommendations for principles to include in a new co-operative law in Ireland.

Recommendations

The recommendations this paper suggests are as follows. First, law reform in Ireland should include a “co-operative society” statute that protects two key aspects of all co-operatives: (a) the restriction to use the words “co-operative society”, or an abbreviation of those words, in its legal name; and (b) the requirement that governance of the society be on an equal one member, one vote, democratic model. An exception to the one member, one vote model, which is discussed further in the third recommendation, should include the authority for a society to define separate classes of membership to allow for the inclusion of investor members with limited or no voting rights.

Second, a revised Irish co-operative law should provide language specifically authorising workers to own the co-operatives who employ them and have the option to operate their worker co-operative society according to a system of internal capital accounts. This recommendation reflects a law passed in the state of Massachusetts, in the United States, in the 1980s based on the Mondragon model for worker co-operatives in Spain. This model has proven to be successful both in times of economic crisis and prosperity, which makes is particularly relevant at the moment.

Third, a new Irish co-operative law should include provisions authorising societies to include investor members with limited voting rights. Allowing for investor members solves the problem faced by many existing co-operative societies because of the current limitation on the amount of capital members may contribute, which severely limits the ability of co-operatives to finance operations through their members. Allowing co-operative societies to include investor members with limited or no voting rights maintains co-operative principles of member control, while acknowledging the necessity for increased capital that co-operatives need if they are to compete with traditional companies.

A related issue is that co-operatives should not be prevented from creating charges on personal property, such as equipment, receivables, or other floating assets, to use debt to finance operations. The Agricultural Co-operative Societies (Debentures) Act 1934 created a register of charges to be kept by the Minister for Agriculture for agricultural co-operatives. To remedy this inability to register charges for non-agricultural co-operatives, a new co-operative law could allow co-operative societies to register charges with the Companies Registration Office, just as companies do. Another option posed by some is to enact a registration system akin to the Uniform Commercial Code Article 3, used in the United States. Arguments for this type of registration system have been considered elsewhere in the Irish business law community (eg Donnelly 2000).

We begin now with a discussion of the first recommendation requiring the use of the words “co-operative society” in the legal name of a co-operative society, and the adoption of basic co-operative principles. To understand the reason for this recommendation we must first answer the question of why Ireland needs a law regulating co-operatives at all.

The co-operative identity & the case for why you need a law about it

In his paper published elsewhere in this edition of the Journal, Eamonn Carey asks the question: why does Ireland need a law governing co-operatives? That is, Ireland, and the Irish co-operative movement, has operated within the structure of the IPS Acts for the past one hundred and fifty or so years, so why do co-operatives now need a law to reflect their unique values and principles?

I argue that Ireland does need a law that protects the co-operative identity and gives the public a clear way to identify a co-operative society from another type of corporate entity. Laws in Ireland and elsewhere already require legal entities with limited liability to include some words or abbreviations in their legal names, such a “plc”, and “Limited” or “Ltd”. The reason for requiring the inclusion of these words is to put the public on notice that an entity has limited liability should they enter into contracts with that entity.

Similarly, if individuals engage in trade or business with a co-operative society, they should know that the co-operative is operating according to basic co-operative principles. A new co-operative society law should require that co-operative societies include the words “co-operative society”, or an abbreviation of those words, such as “co-op” or another derivation, in addition to the word “Limited” or “Ltd” in the legal name of the society to put the
public on notice that the organisation is a co-operative. This provision of the co-operative society law would be enforced by the regulator that registers co-operative societies, either the Registrar of Friendly Societies, as it now exists, or the Companies Registration Office, and enforced by the Office of Attorney General.

As it is now drafted, the IPS Acts do not even mention the word “co-operative”. This is a huge flaw in definition, and one that needs to be cured by law reform. One need only be reminded of the Book of Genesis in the Bible to understand the importance and power in naming. It is the role of government in a capitalist economy to play role of umpire and to exercise its power by restricting the use of some words in the legal names of new entities.

Concurrent with this naming provision in a new law, is to require a few basic restrictions on governance and operations to ensure that co-operatives are operating according to some standard co-operative guidelines. The point is not to set a ceiling for adherence to co-operative principles, but rather a floor, a minimum definition for what it means to operate as a co-operative. Co-operatives should be free to set their own individual guiding principles in their respective by-laws, or other membership guides or rules, provided they meet minimum statutory requirements.

Several jurisdictions have demonstrated how this recommendation can be reflected in legislation. The New York Cooperative Corporations Law, for instance, states in section 1(3)(j) that the words “cooperative” or “cooperation” or similar names may not be used by any other corporation (company whose liability is limited to the amount of capital invested in the company by individual members) not created under the Law. This section of the New York Cooperative Corporations Law goes so far as to grant co-operatives the right to enjoin other entities not created under the Law from impermissibly using the word “cooperative” in their name.

In addition to adhering to these definitions, the Co-operative Societies Act in Norway requires that the legal name of a co-operative society contain the words *samvirkeforetak* (co-operative society) or the abbreviation SA. This is in contrast to the statutory creation in the UK of the “bona fide co-operative”, which instructs societies on how they should operate in order to be considered co-operatives, but does not require the use of the words “co-operative society” in the legal name of the “bona fide co-operative”. Instead, the UK law just requires the word “Limited” in the society’s legal name. This lack of a naming requirement causes potential for confusion among the public and fails to protect the genuine co-operative from operating in a market where consumers or other businesses recognise it as a brand.

Article 10 of the Statute for a European Co-operative Society, or *Societas Cooperativa Europaea* (SCE), restricts the use of the abbreviation “SCE” in the legal name of the society only to entities that form under the SCE Statute, along with the word “limited” in jurisdictions where it is appropriate. In addition, article 1(3) gives guidance on the goals and objectives of the SCE: namely, that an SCE shall have as its principal object the satisfaction of its members’ needs and/or development of their economic
and social activities.” But beyond just defining purposes of SCEs, article 59 of the Statute codifies the principle of one member, one vote.

Interestingly, however, this same provision authorises member states in implementing the SCE Statute to allow for increased voting rights based on participation in the co-operative. This authorisation for increased member voting rights based on patronage might be useful in some instances. However, given that members who already participate regularly in co-operative activity tend to exert greater control through involvement in the enterprise, it does not seem that this authorisation is necessary in a new law.

On the other hand, the authorisation to allow member-owners, or employee-members to become member-owners, is a critical aspect of a new co-operative law.

**The need for a worker co-operative law**

One type of co-operative at risk of being neglected in the current review of Irish co-operative law is the worker co-operative. The IPS Acts, not unsurprisingly, do not mention worker co-operatives. While the Consultation Paper recently published by the DETE does not specifically refer to worker co-operatives, it does ask for additional comments on areas not currently covered by the law. This section provides a brief overview of why worker co-operatives could be important for Ireland and what an Irish worker co-operative law might look like.

Worker co-operatives thrived in various communities throughout the world during the second half of nineteenth century. The question is: why? Some reasons include economic necessity brought on by isolation and the desire to bring about practical solutions to extreme poverty. This was certainly the case in Mondragon when Father José María Arizmendiarrrieta began organising and teaching workers about the benefits of democratically managed, self-help organisations.

The idea of a mutual organisation based on democratic principles and self-reliance is not new. What is perhaps unique is how the worker co-operative movement has developed over recent years, and the potential it has to be a driving economic engine in today’s systemic economic crisis. The worker co-operative movement is a grassroots, bottom-up movement. It has developed and grown despite a lack of cohesive top-down direction and guidance. While formal and informal associations and support organisations exist in many regions and countries, worker co-operatives rely on each other and the ability to teach and learn democratic decision-making and governance structures in order to operate, grow and thrive.

Over the past decade, the worker co-operative movement has continued to grow. Yet, as a business model, worker co-operatives are still underused and unknown among the general public. This is certainly the case in Ireland.

The 2007 Forfás Report mentions workers co-operatives specifically as one type of co-operative that could be developed further within the Irish economy. The Forfás Report even states that the success of the worker co-operative as a business model can be attributed to the strong personal incentive for workers to be productive, yet acknowledges that worker co-operatives are still in their infancy in Ireland.

The most recent effort supported by the Irish government to stimulate the worker co-operative movement was in 1998 when the FAS Co-operative Development Unit assisted 82 worker co-operatives in forming. Included in this figure, however, were entities that were registered as companies but included co-operative principles in their governing documents (Hughes 2000). No more recent numbers of worker co-operatives are available. Hughes suggests that part of the problem for the lack of prevalence of worker co-operatives is that the key individuals who advise business start-ups are ignorant of the worker co-operative as an enterprise vehicle, or even hostile to it, perhaps because of lack of understanding. If the worker co-operative is not understood by accountants, and solicitors, those on the front lines of small business creation, Hughes says, it will continue to be viewed among entrepreneurs as a weak business structure.

How and in what ways can interest in worker co-operatives be expanded and developed in Ireland? What models, including law reforms, have worked in other countries that show evidence of promise for renewing interest in the co-operative movement and in worker co-operatives particularly? One solution to enable entrepreneurs to form worker co-operatives, and to educate business service professionals about these types of co-operatives, is to enact a worker co-operative statute.

In August 1982, Massachusetts became the
first state in the United States to enact a statute designed for worker co-operatives in the Mondragon model (Ellerman & Pitegoff 1983). The drafters of the statute, David Ellerman, a professor and economic advisor to the World Bank, and Peter Pitegoff, current dean of the University of Maine School Law, were on staff at the ICA Group in Boston at the time the statute was created. ICA Group provides technical assistance and consulting services enabling employee ownership opportunities to secure job retention nationally. As the first worker co-operative statute of its kind in the US, the Massachusetts model enabled workers a means to become more involved in the businesses they worked for through ownership.

As Ellerman and Pitegoff point out, there are four primary attributes of the Massachusetts statute. First, it allows for the conversion of a traditional business corporation into a membership organisation controlled in a democratic manner. Second, it authorises the distribution of net earnings and losses by the amount of labour contributed and not capital invested. Third, it provides for a capital structure permitting internal capital accounts, akin to the Mondragon model, which help keep sustainable democratic control of the organisation. Lastly, it provides for favourable federal income tax treatment permitted to co-operatives under Subchapter T of the US Internal Revenue Code.

Prior to enacting the Massachusetts Worker Cooperative Statute, it had been possible for members interested in creating a worker co-operative to do so using the existing business corporation laws and drafting their own internal documents to reflect co-operative principles, but with several restrictions. Ellerman and Pitegoff comment that the previous method for creating a worker co-operative in Massachusetts lacked precision and credibility. In particular, the issuance of membership shares that could not be sold to non workers and a system of internal capital accounts that reflected corporate net worth was confusing to many lawyers familiar with US corporate law. Moreover, a worker co-operative formed as a business corporation was prohibited from using the word “cooperative” in its legal name, and was not able to enjoy the legitimacy of an explicit statute.

Subsequent to its ratification in Massachusetts, similar worker co-operative statutes have been enacted in other US states, including those elsewhere in New England and New York. Unfortunately there is no hard data available indicating whether ratification of a new worker co-operative statute resulted in a rise in the number of worker co-operatives. Part of the difficulty is that worker co-operatives need not register under the worker co-operative law. Today, another entity form called the Limited Liability Company, or LLC, has become popular among entrepreneurs in the US, and affords added flexibility in terms of operations and taxation that make it an appealing entity option even for worker co-operative members. Those worker co-operatives forming LLCs, however, are still prohibited from using the word “cooperative” in their legal names.

In a recent email to Peter Pitegoff, I asked him specifically about whether he noticed any research indicating a rise in worker co-operatives following to introduction of the worker co-operative law in Massachusetts, and in subsequent states, such as New York. While Dean Pitegoff did not observe that the worker co-operative statutes had more than a modest increase in the number of worker co-operative enterprises, he did express a belief that the statutes had a more subjective impact regarding guiding co-operatives in structuring and operating, and in making the worker co-operative a more legitimate business form. Beyond the issue of law reform, he also mentioned that it would be interesting to examine the “impact of tax and other government incentives,” as well as the impact of “advocacy organisations, community development finance institutions, technical assistance providers, and foundations with policies to assist or promote worker-owned businesses” on the number and use of co-operative enterprises.

While the contribution of a worker co-operative statute could provide much in the way of promoting the co-operative movement, especially among employees and workers, as Pitegoff points out, “the more meaningful inquiry would be to look into a wider range of worker-centered enterprises operating on a cooperative basis, regardless of statutory form, rather than simply at a single category of statutory entities.”

Nevertheless, it is important to consider the inclusion of a worker co-operative statute in the reformed Irish co-operative law because of the subjective impact it can have on developing employee ownership of enterprise in Ireland. A worker co-operative law will provide an alternative structure for accountants, solicitors and other business advisors to point to when advising new entrepreneurs. It will also provide
an opportunity for employees at factories facing closure to purchase the businesses themselves. Just this past January, over 200 workers at the Waterford Crystal plant in Killbarry, Waterford, staged a sit-in following news that the factory would be closing, and the over 700 workers would be losing their jobs. Had a worker co-operative statute been in place to allow an alternative to receivership perhaps the management would have had another option in presenting the news to the workers, which could have included employee purchasing of the business. The closure of the Waterford plant exposes the need not just for a new law to allow for worker co-operatives, but also for the type of support organisations that Pitegoff mentions, including advocacy groups, technical assistance providers, charities and foundations, and community development financial institutions (CDFIs).

CDFIs, such as those in the US and UK, in particular, can play a vital role in funding employee acquisition of factories or other businesses facing closure. Of course there are practical concerns in the employee acquisition of an existing business, such as how to finance the purchase, and on what terms. Following the Massachusetts example, lenders in general are more likely to provide the capital for such an acquisition when a worker co-operative statute exists that allows for these sorts of takeovers.

Considering capital requirements of new co-operatives for a moment, it is important to think creatively about ways to include outside investment in co-operative enterprise, while still maintaining democratic member control. While some developing countries have gone the route of dictatorial government ownership of co-operatives, a more sensible, market-based approach is to allow for the inclusion of investor members with limited or no voting rights in the co-operative.

**Authorise inclusion of investor members to raise capital**

The current law governing co-operative societies in Ireland creates several problems related to how co-operatives raise money. The IPS Acts now limit individual member shareholding to a maximum of €150,000, set in 2005 (DETE, 2009). While the limitations on maximum member shareholding has been raised over the years, the reason why the limitation was enacted in the first place is unclear. If it is designed to regulate co-operative societies, it does so by stiffling their viability in a competitive market economy. In addition, industrial and provident societies were not exempted from the Bills of Sale (Ireland) Act (1879) Amendment Act, preventing them from raising funds through issuing debt securitised by floating charges. This problem was solved when a registry of charges was created for agricultural co-operatives in the Department of Agriculture by section 4(3)(a) of the Agricultural Co-operative Societies (Debentures) Act 1934. This ability to issue debt on both floating and fixed charges, however, is not available to non-agricultural co-operative societies. This is a significant limitation for capital intensive co-operative enterprise.

Law reform in Ireland can address the limitation on shareholder capital in several ways. One option is to eliminate the limitation entirely. While this makes sense, it will not solve the problem of how to finance co-operative’s need for capital. Including investor members with limited voting rights both allows co-operative businesses to function more like traditional businesses for the purposes of raising money, and retains co-operative principles by distributing earnings on the basis of patronage, and maintains democratic control by voting on the basis of membership and not on amount of capital invested in the society.

For instance, Massachusetts provides guidance on how investor members may be included in co-operative structures. The Massachusetts Worker Cooperative Statute created a compromise to allow for flexibility in financing, and to ensure support from lawyers, such that worker co-operatives may issue classes of stock to members or non-members if authorised in the organising documents of the co-operative (Ellerman & Pitegoff 1983). The ability to issue different classes of stock to both members and non-members affords the co-operative the ability to raise capital through issuing additional stock. Voting rights, however, only extend to non-membership shares with two exceptions: (1) if members amend the bylaws and organising documents to allow for the issuance of voting stock other than membership shares; and (2) when holders of nonvoting stock have a right to vote as a class on an amendment to the bylaws or organising documents that would affect their rights in an adverse way (Ellerman & Pitegoff 1983).

This creative drafting provides several achievements. Principally, it allows for flexibility in financing, and speaks in a language that
lawyers unfamiliar with co-operatives can understand. The drafters of a new co-operative law in Ireland should take note of this particular provision for these reasons since it achieves some important goals currently lacking in the IPS Acts.

Other laws governing co-operatives also grant the authority for societies to issue different classes of stock with limited voting rights. Article 14 of the SCE Statute allows SCEs to admit investor, non-user members into the SCE subject to an approval process such as a general membership meeting. This provision allows individuals, or corporate entities, who do not trade with, or use the services provided by the SCE, to provide capital should they agree to finance the SCE. Yet, voting rights may extend to investor, non-user members depending on the state in which the co-operative is operating. A maximum limit, however, is set in article 59(3) of the SCE Statute that limits total voting of investor members to a maximum of 25% of the total shares. That means that unlike a traditional company where voting is determined by amount of capital invested, co-operative principles are maintained so that investors as a class can never be a majority over members voting with actual membership shares.

Guadaño (2005) criticises the SCE Statute because of the flexibility it affords investor members by granting them limited voting rights and by not limiting the earnings investors may receive from the SCE. Guadaño worries that not limiting the amount of capital investors may contribute in the SCE creates a risk that the SCE may not adhere to co-operative principles. She notes that the introduction of investor members is a recognition of the power of capital in co-operatives. But this is only a problem for Guadaño and others who do not consider co-operatives dependent on traditional forms of capital, or as competing for capital in a market environment. Including investor members in a traditional co-operative law will provide a viable future for the co-operative movement because of the flexibility in financing it affords, and in the familiar language it provides lawyers unfamiliar with the co-operative form.

Other US states with large co-operative movements, such as Wisconsin, have recently reformed their laws to allow for a new co-operative entity that includes investor shares to facilitate flexible financing. Cognisant of the decline in public interest and professional expertise of lawyers and accountants in the co-operative form, and the increase in registration of co-operatives as Limited Liability Companies (LLCs) (another new form of unincorporated business vehicle with limited member liability), the Wisconsin Federation of Cooperatives drafted and lobbied for the implementation of a new co-operative law for “value-added” co-operatives. This led to the adoption of the Wisconsin Cooperative Law, Chapter 193, which combines elements of the existing co-operative law with LLC concepts, such as flexibility in member contributions and tax-advantaged structuring, to provide co-operatives with greater access to capital for value-added business ventures.

The first value-added co-operative law in the United States was adopted in Wyoming in 2001 when a group of lamb producers wanted to build a new plant. Since the farmers could not raise enough capital to build the plant on their own under the existing co-operative law, they asked the Wyoming Legislature to adopt a value-added co-operative law to allow for outside investment in exchange for limited voting rights. Minnesota, Iowa and Tennessee have since enacted their own versions of the value-added co-operative law while South Dakota, Idaho, Oregon, Washington and Texas are considering similar legislation.

After two years of drafting, the National Conference of Commissioners on Uniform State Laws (NCCUSL) has published a Uniform Limited Cooperative Association (LCA) Act in August 2007. Thus far, the LCA Act has been ratified in Nebraska, Utah, and it has been introduced in Oklahoma. Section 513 of the LCA Act allows for limited voting by investor members so long as it is allowed in the organic rules of the LCA. Investor members have one vote unless stated otherwise in the organic rules. The LCA Act also allows for investor voting by class, different classes, or any combination of classes. These provisions of the LCA Act take into account that LCAs will likely distribute most of their earnings on the basis of investment, instead of patronage, at least initially, which reflects the reality of a competitive market. However, it allows co-operatives to exist and raise capital in industries in which they would otherwise be prevented.

The contribution of these US laws to the current debate of how to reform the IPS Acts in Ireland is significant for several reasons. First, with respect to the Forfás Report, many of the recommendations are already being
implemented. This is particularly true of the diversity of sectors that co-operatives operate in the United States, especially worker co-operatives and value-added co-operatives. Second, finance problems surrounding the problem of raising capital are also being solved through adding classes of investor members with limited voting rights as in the Massachusetts and LCA models. The LCA model also allows for a reduced number of members, down to two. This reduction in member numbers is a recommendation to consider further in a future paper.

In addition, alternate forms of business models such as the LLC in the US are in place as solutions to the problem of creating a successful co-operative ownership and management structure. Unlike the SCE model, which has only had minimal use and testing, those new models in place in the United States are in active use. Irish co-operative members and professionals supporting the co-operative movement can learn from the practice of these co-operatives and the drafting of laws authorising their creation.

Lastly, US law does not adversely affect co-operatives regarding ability to issue debt on floating or fixed charges. A new law permitting co-operative societies to register floating charges with the Companies Registration Office through the Form C1, similar to the way traditional companies do, would remedy this problem. Such authorisation to register charges would allow societies to issue debt in the form of debentures to investors or lenders secured by assets, such as equipment and receivables, that they still maintain control of for use in the co-operative business.

**Conclusion**

This paper has suggested three primary recommendations for consideration in the drafting of a new co-operative society law in Ireland. It reflects key deficiencies in the current Irish law, especially the IPS Acts, namely the need for: (1) protection of the use of the words “co-operative society” in the legal name of entities that adhere to basic principles, such as voting on a one member one basis, and distributing earnings on the basis of patronage; (2) provisions to allow for worker co-operatives, including authorisation to use Mondragon-style internal capital accounts; and (3) provisions providing for the inclusion of investor members with limited voting rights, and a limitation on the amount of capital members may contribute, which limits the amount of capital co-operatives can raise.

These recommendations are offered following close study of co-operative laws in place in other countries and within the EU. Each recommendation reflects a theme developed in one or more of the co-operative laws studied that protects co-operative principles while providing a great deal of flexibility to co-operatives. These recommendations reflect the need for co-operatives to innovate and compete in a market economy, while preserving core values and principles of co-operation.

Edward W. De Barbieri was a Fulbright Scholar in the Centre for Co-operative Studies, University College Cork, during 2007-08, and is currently a Staff Attorney at the Urban Justice Center in New York City. Select portions of this paper first appeared in the author’s LLM thesis. The author owes special thanks to Mary Donnelly for her helpful suggestions and assistance and thanks the Centre for Co-operative Studies in UCC for hosting his research and providing advice, as well as the Irish American Fulbright Commission for their support.

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Industrial and Provident Societies Acts, 1893 to 1978
NY Cooperative Corporation Law
Massachusetts Worker Cooperative Statute


Internet references


Notes

1 Examples of these types of support organisations in the US include the Ohio Center for Employee Ownership at Kent State University, and the National Center for Employee Ownership in Oakland, California. A similar organisation that incubates new co-operative enterprise is lacking in Ireland as the larger membership associations like ICOS, NABCO, and the Irish League of Credit Unions focus on serving their members rather than developing new co-operatives. Such an organisation has not existed since the FAS Co-operative Development Unit operated in 1998. There is a niche for such a development organisation, created as a private business, public charity, or supported by the government, that functions in conjunction with a new co-operative law.
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Co-operative Identity – Do You Need a Law About It?

Eamonn Carey

A long promised overhaul of legislation relating to co-operative societies in Ireland provides an opportunity to reflect on the role of public legislation in the world of co-operatives. Central to this is the question whether the co-operative form of organisation requires or needs express legislative recognition and provision. Should public legislation clearly demarcate co-operatives from other types of entity? Do we need a law to tell us what a co-operative is? Or should this be left to co-operatives themselves, their representative bodies and the international co-operative movement?

Background

In general, co-operatives in Ireland register as industrial and provident societies under the Industrial and Provident Societies Acts (IPS Acts). The principal statute is still the Industrial and Provident Societies Act 1893 enacted in Westminster some 30 years before Irish independence. That statute consolidated and amended earlier legislation going back to the first IPS Act of 1852.

Registration under the IPS Acts confers incorporated status and limited liability on the registered body in the same way that the Companies Acts confer these on registered companies. The industrial and provident society, however, is a quite separate legal entity or person from that of the company. A ‘co-operative’ could register under either legislative system and adopt the legal form provided by that system. Moreover, some larger Irish co-operatives in the agriculture/food sector now use both legal forms in their group structures.

Neither the IPS Acts nor the Companies Acts contain any provision defining the term co-operative. The 1893 Act does not even mention the word. This contrasts with the position in the UK which introduced the statutory concept of ‘bona fide co-operative’ as interpreted and applied by the Registrar of Friendly Societies (now Financial Services Authority).

Co-operatives in Ireland

Co-operative societies and organisations have been part of the economic and social scene in Ireland for over a century. They have been particularly prominent in the agriculture/food sector. Agri-food co-operatives (including associated companies) accounted for most of the €12.6 billion turnover attributable to the co-operative sector in 2007. Other sectors in which organisations using the co-operative model have made important contributions in Ireland include housing, fishing, group water schemes and community development. This is in addition to the major contributions made by building societies and credit unions both of which have their own separate legislative frameworks and are not further considered here.

Review of IPS Acts

The Industrial and Provident Societies statutory framework, in facilitating statutory incorporation and in providing a public register service and other supports, has made a positive contribution to the development of co-operatives and the co-operative model in Ireland. That is notwithstanding the general absence in the legislation of provisions seeking either to define co-operatives or to regulate matters pertaining to co-operative principles.

Work is in progress, in consultation with the Irish co-operative movement, on a review of the IPS Acts and a public consultation paper was published in April 2009 (see contact details at the end of this article). Much of this work is focusing on technical aspects of the current legislation particularly those which may be causing practical difficulties for co-operatives. The review also provides an opportunity to address the more general, and possibly more difficult, question of co-operative identity.

The Co-operative Identity Question

Does the co-operative model of organisation and business operation require or need explicit recognition in any new public legislation? The question touches on a number of aspects including legal form, statutory definition, protection of the term ‘co-operative’ as well as the need for co-operative-specific provisions generally. There is also the general issue of the relationship between co-operative and company legislation. We need to think through the whole rationale for having separate legislative (and
administrative) arrangements for co-operatives relative to those for companies.

Some Considerations

What can we learn from the past century or so of co-operative legislative experience in Ireland? There is much work to be done on that but a few initial conclusions are possible at this stage.

First, the co-operative form of organisation, in and of itself, does not seem to require for its existence or effective operation, the making of public laws defining or prescribing what co-operatives are. Or in other words, having such laws does not seem to be a necessary condition for the existence of successful co-operatives.

Secondly, it would seem that whatever legal definition or prescription of co-operative identity is needed to have successful co-operatives can be provided by co-operatives themselves through the medium of their own rules and practices and with the support of co-operative representative organisations.

Thirdly, certain minimum legislative provisions of course will continue to be needed for co-operatives as business organisations in order to provide for incorporation and limited liability and for basic regulatory needs such as financial accountability and governance.

The rules of a co-operative registered under the IPS Acts are, like the provisions of a memorandum and articles of association of a registered company, a contract made between the members of the society and binding on them and on the society (1893 Act, section 22). As such, they are a kind of law, private law, made by the members themselves. The current IPS Acts say virtually nothing about the content of this ‘law’ other than to enumerate a list of matters which must be provided for in the rules. Thus it may be no exaggeration to say that insofar as there has been any ‘co-operative legislation’ in Ireland during the past century and a half, it has been in the rules and practices which co-operatives voluntarily adopted for themselves.

Whatever view is taken about the co-operative identity question, there will continue to be some need for statutory alignment between company and co-operative legislation, if only for reasons of drafting efficiency. Some limited alignment already exists under current arrangements eg the winding-up provisions of the Companies Acts apply to industrial and provident societies.

What can we learn from co-operative legislative experience outside Ireland? That is a vast field since legislative arrangements vary considerably, from countries which are highly-prescriptive (of co-operative content) to countries which have hardly any such prescription. What is of particular interest to us in Ireland are examples of countries which use our “low-prescription” approach (Denmark may be one) and, by way of contrast, countries which adopt a ‘high-prescription’ approach (a recent example being Norway). Have these different approaches made any marked difference to co-operative outcomes? Here due allowance might have to be made for countries which, unlike Ireland, grant significant preferences to the co-operative form of organisation (hence making it more necessary for those countries to distinguish between different forms of organisation).

Conclusion

The ‘co-operative identity’ question may be pivotal to the shape and design of any significant new legislation for co-operatives in Ireland. It is a big question and we are only in the foothills of addressing it. It is also a very open question; nothing is pre-judged. As well as reflecting on our own experience, we want to learn from best practice elsewhere. What works well for co-operatives? What are the mistakes to be avoided? We look forward to interesting and fruitful conversations!

Eamonn Carey heads the Co-operative Legislation Unit at the Department of Enterprise, Trade and Employment, Dublin. This article was written in a personal capacity.

The Co-operative Legislation Unit’s consultation paper may be found at http://www.entemp.ie//commerce/cooplaw/consultationpaper.htm. Comments on the consultation paper should be submitted by 30 June 2009 to cooplaw@entemp.ie or to the unit at Earlsfort Centre, Lower Hatch St, Dublin 2, Ireland.
The Centre for Co-operative Studies in Co-operative Education and Research

Olive McCarthy

The Centre for Co-operative Studies is a university research centre which promotes education, training, independent research and consultancy in all aspects of co-operative organisation, social enterprise and local development. It is the only third level centre or department in Ireland focusing on co-operatives. Co-operative research and education in the Centre aims to have both an academic and practical relevance. It takes an interdisciplinary, problem-centred approach and is conducted with a multi-disciplinary perspective, focusing on the practical solution of key problems in the real world. This paper examines the role of the Centre in co-operative education and research and explores the impact this has had on the co-operative movement.

Introduction

The Centre for Co-operative Studies is a university research centre which promotes education, training, independent research and consultancy in all aspects of co-operative organisation, social enterprise and local development. It was founded in 1980, by a small group of co-operatively minded academics who wished to explore and promote the co-operative concept through research and teaching. The group came to a common understanding of the meaning of co-operation as a process and that co-operatives, as organisations, enable this process. They then developed structural guidelines to ensure the effective implementation of the co-operative process, which were developed in the very first publication of the Centre entitled The Co-operative Idea. Later, in 1995, it helped to inform the thinking surrounding the restatement of co-operative principles by the International Co-operative Alliance. This small yellow book, published long before I joined the Centre, continues to provide a solid foundation in the philosophy of co-operation and is a guide to those new to co-operatives and a refresher to those who wish to revitalise their understanding of what it means to be part of a co-operative. Thirty years on, it is still a compulsive read and to me, a gem.

Today, the Centre continues its work of fostering research, study and education about co-operatives. Its mission is to promote, through its research, consultancy and educational activities, the continued growth of the co-operative movement, as an effective, locally-owned and democratically-controlled sector of the economy, designed to address the urgent needs and problems of the community.

This mission attempts to operationalise the university’s mission in the important areas of co-operative entrepreneurship and local development, through its research-led teaching, by improving access to the university by means of flexible e-learning and distance learning programmes, by helping to maintain a diverse, socially responsible and able student population and by continuing to support and develop lifelong learning. While being a research centre in its own right, the Centre continues to be closely allied with the Department of Food Business and Development in UCC. Many staff members of the Department choose to conduct their research through the Centre. The Centre goes beyond the usual goals of conventional business departments and centres by stressing (in addition to economic success) the social and cultural issues of building local, democratic participation in indigenous businesses, which have as their first priority the promotion of the well-being of the local community and its citizens.

The aim of this short paper is to examine the role of the Centre in more depth and, in doing so, to explore some of the impact it has had on the co-operative movement both in Ireland and internationally.

Research agenda

Research into co-operatives in the Centre takes an interdisciplinary, problem-centred approach and is conducted with a multi-disciplinary perspective, focusing on the practical solution of key problems in the real world. All of the Centre’s activities are focused on helping people identify their own problems and meet their own needs through co-operative, economic action. The user, not just as consumer, producer or worker, but also as owner and controller, informs the focus. This requires an on-going dialogue with conventional perspectives on, for example, food and development, in the broadest sense, in the context of ownership, democracy, power, control, competitive advantage and so on. Research and publication (and research-based teaching) in this area, examines the strong co-operative dimension to both food and development, encompassing agriculture co-operatives, credit unions, workers co-operatives, social enterprises and more.
The Centre for Co-operative Studies continues to research and teach on the new and evolving ways that communities have found to solve their problems. For example, it is conducting research into alternative food networks, including farmers' markets, and the existing and potential role of co-operatives in shortening the food supply chain, reducing food miles and giving food producers greater control over crucial issues such as price and marketing channels. Two papers on this research are contained in this issue. Its credit union research programme is growing in strength, as issues such as financial inclusion, combating moneylending and increasing financial capability become more important in society.

Thus, the Centre’s research aims to have both an academic and a practical relevance. As such, there is a tradition in this field of study to publish in journals and other channels which communicate with both the academic community and co-operative practitioners. Our research is often funded by individual co-operatives or groups of co-operatives (for example, the Irish League of Credit Unions, The Co-operative Forum), and by government and State agencies (for example, the Department of Agriculture, Fisheries and Food, Údarás na Gaeltactha), who identify particular problems or opportunities facing co-operative sectors and who seek to broaden their knowledge and information through research. Research which arises from teaching is also a key feature, whereby in the best co-operative tradition, practitioners on Centre educational programmes have the opportunity to conduct research as part of their learning which is later compiled and published by the Centre. The Centre publishes under its own name and all such publications are subjected to a blind-peer review process. It also publishes books, chapters of books, journal articles and reports with various publishing houses. An example of one such book is reviewed in the Book Reviews section later. Research is also disseminated at national and international conferences of academics and practitioners.

The Centre has built a young and dynamic team of researchers in the co-operative area over the past number of years and hopes to continue building this team through its research programme and through enhanced opportunities for 4th level research into the application of the co-operative model of business as an effective alternative approach for meeting societal needs across a range of activities. Although relatively little time and effort are spent on self-promotion, the Centre has been contacted by almost every major co-operative sector in Ireland seeking assistance and services of one kind or another. The Centre continues to be the only Irish academic third level centre/department focusing on co-operatives.

**Development of educational programmes**

The Centre has also been heavily involved in researching and developing distance learning programmes to meet the needs of people involved in a broad range of co-operatives, social enterprises and local development initiatives. These programmes help bring the university to the community and to break down any barriers people may experience in accessing appropriate third level education. The suite of programmes includes the Diploma in Credit Union Studies, the Diploma in Social Integration and Enterprise, the BSc in Mutual and Credit Union Business, the Diploma and BSc in Rural Development, and the MBS in Co-operative and Social Enterprise. The research and development of these programmes has been largely funded by the co-operative sector and the course fees and expenses of individual students are often paid by the co-operative or credit union with which the student is involved.

Each module/course on these programmes is delivered using a combination of text-based modules, tutorials, lecture presentations, inter-university seminars and/or web-based delivery. Distance education lectures are held at various centres throughout Ireland, depending on the number and geographical spread of students. The main purpose of the lecture is to facilitate the learning process, assist in the completion of assignments and build up a team spirit within the group. The distance-learning module differs from an ordinary training manual in the way it is structured. It incorporates a number of techniques to assist with self-instruction giving the students flexibility and freedom to plan their learning in a way that best suits them. The MBS in Co-operative and Social Enterprise is unique amongst the programmes, in that it is delivered entirely by e-learning. This means that participants can take the programme from anywhere in the world. The only proviso is that they must have 2 years’ experience as an employee or a volunteer in a co-operative or social enterprise. So far, students have taken the programme from as far away as South Africa and Timor-Leste.

The success of these distance learning programmes is indicated by consistently high enrolments. To date, there have been over one thousand graduates from these programmes, representing co-operatives and social enterprises...
of every kind. Many of these graduates held or progressed on to hold influential positions within their co-operatives or with co-operative representative bodies, such as directorships with the Irish League of Credit Unions. Some graduates progressed to PhD studies.

**Other activities**

The Centre has been a unifying force within the university and has helped to link business with science. Through its various programmes, it has brought all departments in the College of Business and Law together in delivering co-operative education programmes. And although co-operative education and research form the bedrock of what the Centre does, staff are also involved in a wide range of other related co-operative activities. For example, an extensive Resource Room is maintained to provide information, advice and support to existing and potential co-operative groups, to registered students and to the general public. A consultancy service is also offered, any income from which is retained by the Centre, rather than the individual staff members, and used to conduct further research into co-operatives. Its consultancy is very specialised, in that it brings expertise on co-operatives not readily available in the private sector. Staff members serve on committees which advise government on co-operative matters, are regularly invited to speak on co-operative issues in Ireland and internationally, organise conferences on co-operative research (for example, the 1998 and 2005 International Co-operative Alliance, Co-operative Research conferences), and host visiting academics and students who wish to conduct research on co-operatives. More recently, it has hosted academics from the University of Mondragon and Gdansk Business College.

The Centre maintains a website at [www.ucc.ie/ccs](http://www.ucc.ie/ccs) which contains further details on all its activities, including a list of publications.

**Conclusion**

Almost 30 years since the establishment of the Centre for Co-operative Studies, the co-operative model is now facing renewed relevance given the current environment which puts an enhanced value on accountability, public ownership and active citizenship. The increasing interest in the co-operative model in speaking to today’s agenda and problems is particularly exciting for the Centre and presents new opportunities for co-operative education and research.

The relevance to Ireland of new kinds of co-operatives emerging through Europe and North America for the provision and enhancement of services previously managed by the State, voluntary bodies and religious orders, with particular emphasis on the provision of services to rural areas, will be of key relevance, given the continuing growth in cutbacks at national level. New forms of co-operative development in childcare, eldercare, transport, disability and health will also be examined. The renewed importance of locally-owned financial institutions in an increasingly globalised financial sector will also warrant detailed research. These priority areas relate clearly to national and international policy agendas in the areas of agriculture and food, health, finance, environment, and citizenship.

The links between co-operatives and food will deserve particular scrutiny. Research in this area aims at enhancing the management of the co-operative as an interface between highly sophisticated and globalised food industries and ecologically sustainable rural and urban areas. Effective co-operatives, owned and controlled by farmer-users, compete successfully on a global stage as well as building the sustainability of their local rural economies. New varieties of agricultural co-operatives (eg New Generation Co-operatives in the USA, and co-operation between farmers and consumers in Community Supported Agriculture Co-operatives in Japan, the USA and in parts of Europe) are having a major positive impact on rural development and are increasing the viability of small to medium sized farms. The co-operativisation of food across the food supply chain will continue to be a key research priority. Furthermore, a greater focus on the consumer within the food chain will also be important.

Finally, the Centre is anxious to build on existing and new international collaborations in co-operative education and research and very much welcomes interested parties to make contact at any time.

Olive McCarthy is a lecturer and researcher with the Centre for Co-operative Studies and the Department of Food Business and Development at University College Cork, Ireland.

**References**

1. The State authority charged with the promotion and preservation of the Irish language. Community co-operatives are a key feature of Irish-speaking (Gaeltacht) areas.
Although this book is written by academics, it caters for all those interested in credit unions and for those who wish to obtain an understanding of the Irish credit union movement from its inception to its likely future development. It should be essential reading for credit union directors, supervisors and volunteers. It is easy to understand and those interested in the credit union movement should have no difficulty in recognising features of their own credit union within its pages.

The introductory chapter sets out five characteristics that distinguish credit unions from other financial institutions. Credit unions (i) Have a public purpose because an aspect of their underlying rationale is that they provide basic financial services to individuals of modest means, (ii) Are limited in their membership to those sharing a common bond, (iii) Have a governance structure based on “one member one vote”, (iv) Do not operate for profit, and (v) Utilise unpaid volunteers as directors.

The book then outlines a brief history of the Irish credit movement since its formation in the 1950s up to date. A history of credit unions in North America and Europe is also given. This gives the reader a clear picture of how the Irish credit union movement has developed within an international context.

One of the most important matters raised by the authors is, I feel, the question of where the Irish credit union movement now stands in an international context. To try to determine the answer to this question, they have identified three tiers of development. These tiers are the nascent stage, the transient stage and the mature stage. The authors agree that the movement in Ireland falls somewhere within the transient stage of development. The book sets out in a clear and concise way the attributes of each tier of development. No credit union activist will have difficulty in determining where their own credit union fits in the development scale. Credit unions in other jurisdictions are examined and progress between the developmental stages are noted.

The big question now for the Irish credit union movement is whether it wishes to advance to the mature stage. Many credit union activists feel that the ethos of the movement will be diluted if this happens. If the experience of other jurisdictions is replicated in the Irish movement, the progress towards the mature stage is inevitable. There is, however, now a new factor in the equation and that is the credit crunch and the current financial crisis. This is not dealt with in the book as it was published in 2006. The effect of the financial crisis may be to slow development or send it in another direction.

The chapter dealing with monitoring and supervision has, since publication, become highly topical. A brief history of the development of regulatory supervision is given for Northern Ireland and the Republic of Ireland. The importance of ratios as a monitoring tool is stressed. The authors do, however, point out that there can be an element of over-supervision for credit unions that might have the effect of stifling growth. In the context of what has happened in the financial markets since the publication of the book, it may be that the question of supervision will be revisited. Certainly, however, it would appear that credit union regulation in both jurisdictions has been much more proactive than the regulation exercised by their counterparts in the banking sector. This proactive approach by the Credit Union Regulator has, I feel, considerably reduced financial risk to credit unions and their members.

The authors deal with many other topics which I feel the credit union activist will find extremely relevant. These topics include the selection of directors, strategic planning, managerial compensation and gender mix. All these topics are dealt with in a logical and commonsense way. The chapters dealing with
these topics are in the following format: introduction, concepts and related literature, survey, findings and summary and conclusions. This makes an understanding of the topics and their relevance to the Irish credit union movement easy to understand.

The authors have carried out extensive investigations into all the topics they discuss. The many tables given in the publication are pertinent and informative. They back up many of the conclusions the authors reach. As an accountant, I find that the tables were particularly useful in indicating trends and also in establishing where the Irish credit union movement stands in an international context. At the beginning of the book, the abbreviations used are clearly explained. This is to be welcomed as very often there is an assumption made that the readers know the meaning of the various abbreviations.

Unlike many credit union movements elsewhere, there has been little merger activity within the Irish credit union movement and so the chapter dealing with the inevitability of mergers is very interesting. Again the authors have carried out detailed research into merger activities in other jurisdictions. Their research is well tabulated. The authors reached the conclusion that a significant and prolonged period of mergers within the Irish credit union movement is inevitable. There have been some tentative signs of merger activity within the Irish credit Union movement in recent years. Whether the flood-gates leading to mergers on a large scale, as has happened in other movements, is still an open question. The Irish social and economic background may have a strong influence on the likelihood of future merger activity. In any event, the chapter dealing with mergers should be essential reading for any board of directors of an Irish credit union that is considering merging with another credit union.

Inevitably, as time advances, the book will need revision and updating to reflect changing circumstances. As a picture of where the Irish credit unions stand in the early part of the 21st century, it is an intriguing and informative publication. It is essential reading for all credit union activists and students who wish to know the current state of the Irish credit union movement.

**Helping Ourselves: success stories in co-operative business and social enterprise**

Edited by Robert Briscoe and Michael Ward

Published by Oak Tree Press, Cork. 2006. ISBN 9 781860 7628 40 0

Reviewed by Molly Scott Cato, Wales Institute for Research into Co-operatives

A whistle-stop tour of the world of co-operative enterprise, this book would provide an excellent introduction to the uninitiated. As the title suggests it focuses on the positive and takes a fairly uncritical approach to defining the range of co-operative economic activity across the globe. Due to the large number of cases covered, the coverage is necessarily brief, but as a whole the book offers a confident and self-assured introduction to the co-operative business model which the already-converted will find useful to share with friends who, now that capitalism struts its stuff with less confidence than before, might feel inclined to look at economic organisation with fresh eyes.

The book begins with two introductory chapters which set the scene and explain, for those not involved in the world of co-operatives, what they are and how they contrast with more conventional businesses. The authors establish the driving questions for the volume including the potential for ‘idealistic businesses to succeed and survive the cut and thrust of a competitive market place’ and how members of worker co-operatives ‘reconcile the conflicts of interest arising from employing and managing themselves at the same time’ (p3). These, and the other questions raised by the authors, are ambitious and important ones, which are only partially addressed by the content of this one volume. Others are to follow and will be welcomed by readers of this journal.

There follow three chapters that focus on food, a key sector where co-operative solutions are increasingly vital as declining oil supplies give added salience to the issue of food security. The
coverage here is thorough and well informed. Chapter 3 explores the consumer co-operatives, including market leaders such as Eroski in Spain and the Co-operative in the UK. Chapter 4 views the food sector from the producers’ perspective, with detailed and valuable information about the dairy industry, especially in the Irish context. Chapter 5 considers worker co-operatives in the food industry, including the latest co-operative poster child, Suma Wholefoods.

Chapters 6 and 7 look at money and public services. The focus on money brings home the huge range of differing financial institutions that we find in our sector, ranging from the ethically committed but mainstream banks like the UK’s Co-operative Bank, through alternative currency systems including the Mexican LETS scheme known as Tianguis Tlaloc to mutual community development institutions on the Grameen model and time banks. The creative response to the exclusive and inequitable nature of conventional financial institutions is inspiring, especially at this time. Similarly, the community response to failing or absent social services reminds us of the origin of co-operative movement in mutual aid and may provide inspiration as the economic crisis leads to cuts in public sector spending.

Chapter 8 and 9 move into territory I am less comfortable with—community co-operatives as solutions to the failure of the state to provide services to rural and other deprived communities and of the market to provide employment. The content is again wide-ranging and moves from co-operatives as mutual aid in response to the failure of the capitalist labour-market to innovative solutions to the provision of social services and basic utilities including water and electricity. The risk here is that co-operatives can too easily be identified with economic failure, as is betrayed in the title of one section “When all else fails start a co-op”. However, there are also cases of significant business success, such as the energy co-operative Baywind.

Finally, Chapter 10 concludes by raising some management dilemmas from a co-operative perspective, particularly the issues demutualisation and the use of the co-operative advantage in a market setting. The chapter begins with the story of the Argentinian worker co-operatives that sprang up following that country’s economic crisis in 2001. Yet again, parallels with our current situation should be clear, although the authors rightly raise the question, if workers can manage themselves so effectively why do we have any capitalist businesses left! They find their answer in problems relating to under-capitalisation and the inevitable tensions in the governance of a business where the workers are also the managers. There is much subject-matter for future studies by academics in this chapter.

I was aware at times of the absence of a clear intellectual definition of what a co-operative business is, and some temptation to stray into the territory of social enterprise and the community co-operative, which, for my money, distracts attention away from the co-operative as a business model which solves the problem of surplus value extraction. The editors are working with a definition of a co-operative as ‘a self-help business, owned and democratically controlled by the people who use its services and share in its benefits’ (p10), which seems to leave little space for worker co-operatives, which, as the editors point out, are ‘less common in Ireland than the producer co-operative’ (p18). I preferred the definition inherent in the concluding paragraph to the introductory chapter:

Co-operatives help producers, improving income. Consumers use them to improve the quality of the goods and services they use; workers use them to create meaningful jobs; and communities to enhance livelihoods, protect the environment, and improve the quality of life. We also considered how co-ops get started. Often they are children of distress forced into action to address an intolerable situation for which there is no immediate remedy. But also they are often children of vision, inspired by a powerful vision of a better way of running the world. (p27).

This is another area where scope for future research and study is apparent. Overall I found the book less satisfactory from an academic perspective, since most of these key questions are raised but not answered entirely successfully and the approach is supportive rather than critical. However, as an overview and introduction to the diverse and thriving world of co-operative activity I can recommend it without reservation.
Notes for Contributors to the Journal

The Journal of Co-operative Studies is a peer reviewed international academic journal which aims to generate theoretical knowledge as well as promoting research and innovation within the co-operative sector. The Journal is published by the UK Society for Co-operative Studies in Manchester, England, a city strongly associated with the co-operative movement since the days of the Rochdale Pioneers. It is distributed in Canada in partnership with the Canadian Association of Studies in Co-operation.

The editor welcomes contributions on any aspect of co-operation and related subject areas: in particular on co-operative sectors (consumer, housing, worker, agricultural, credit and other forms); co-operatives in different countries; and other sectors within the ‘social economy’, including mutual businesses, credit banks and building societies, community businesses, and member-based non-profits.

Whilst one role of the Journal is the dissemination of the results of research, we are keen to ensure that its contents should also reflect the role of the UK Society for Co-operative Studies in acting as a bridge between academics and practitioners in advancing knowledge and understanding of co-operation.

There are four ways of contributing:

1. Articles of 4,000-8,000 words which, either by reporting the results of empirical research or through developing theoretical perspectives, contribute to knowledge about co-operation and related subject areas. These articles will be subject to anonymous peer review by two specialist referees. They should be preceded by a title page with name(s) of the author(s), and a short abstract of up to 200 words. Authors are invited to submit an outline proposal for discussion. They should be submitted electronically in MS Word format.

2. Shorter articles, generally of around 2,000 words which are assessed on the basis of their general interest and readability. Such articles are not subject to formal peer review although the editor may seek comments and suggestions from members of the Editorial Advisory Board which would be discussed with the author as part of the editing process. They should be submitted electronically in MS Word format and include a short abstract of up to 200 words.

3. As a new feature of the Journal, we invite prospective contributors to submit very short (maximum 1,000 word) articles which may be controversial or somewhat speculative in character. Their purpose should be to stimulate discussion and possible future new directions for co-operative research.

4. Reviews and review articles; the former should be no more than 600 words, the latter 2,000 words. They are usually commissioned by the review editor, Dr Molly Scott-Cato, The Wales Institute for Research into Co-operatives, at the Business School of the University of Wales Institute, Cardiff (Email molly@gaianeconomics.org).

Articles should be submitted as email attachments to p.a.jones@ljmu.ac.uk or s.novkovic@SMU.CA, in Word or RTF. Paragraphs should be marked by a three-space indent, and sub-headings should be used sparingly. Main headings should be lower case in bold, sub-headings lower case in italics (a lower level of sub-sub heading should be avoided). Quotations of less than 20 words should be put in the text with double quotation marks. Quotes of more than 20 words should be indented and delineated by a space at top and bottom, but without quotation marks.

References should use the Harvard system. A short description of the author’s current job title (or one previous title), should be included at the end, in bold print.

Authors of short articles, refereed articles and book reviews can receive two complimentary copies of the Journal and a pdf of their article by sending their postal addresses to the Deputy Editor gillian@co-op.ac.uk.

Articles are also downloadable from the Journal section of Ingenta.

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