Co-operation in Ireland

Article V.---Agricultural Credit---Credit Societies on Raiffeisen System- -Reconstruction Necessary

By L. Smith-Gordon and Cruise O'Brien

Many authorities on agricultural co-operation are strongly of the opinion that the foundation of such a movement should always be laid in the first instance by the establishment of a system of rural credit. It is undoubtedly the case that this has been the method pursued in many of the most successful countries, notably in Germany where Raiffeisen banks have played a predominating part in the development of co-operation. Against this, on the other hand, we may

Dungloe, on the bleak north-west corner of Ireland where co-operation has accomplished marvellous things, enabling the people to market their scant products of all kinds. This picture shows the desolate character of the fields.

set the example of Denmark, where the famous system of agricultural co-operation has been built up without the assistance of any personal credit societies. The difference no doubt must be sought for both in the nature of the people and also in the attitude adopted by the other credit giving agencies in the country. In Ireland credit societies were not organized until the year 1895, when the first was created at Doneraile, with the advice and assistance of H. W. Wolff, the well known authority on the subject. There were already at that time more than forty creameries and auxiliaries in existence and some ten or more agricultural credit societies for common purchase had been formed, so that it will easily be seen that the credit propaganda was in the nature of a second thought. Since then, however, great attention has been paid to it until recent years when it has again rather fallen off for reasons which will be dealt with later. Sir Horace Plunkett has since stated his opinion that if he had to begin the work again he would follow the example of Germany and make the first start with credit societies; but the field for creamery organization was undoubtedly the most tempting at the time and we may reasonably feel that this was the right direction in which to make a beginning.

Based on Raiffeisen System

With one or two isolated exceptions, all the credit societies in Ireland, of which there were 233 in 1914, were organized on the same model, following closely the type originated by Raiffeisen in Germany some thirty years before. They are based on the principle of the unlimited collective liability of their members, so that in the event of a society going into liquidation any member may be proceeded against for all or any portion of the debts of the society. There is no share capital and only a small entrance fee. The secretary is as a rule unpaid and the running expenses are extremely small. The capital required for the making of loans is obtained either by an overdraft from the joint stock bank on the guarantee of the committee, as in the case of other co-operative societies, or by loan from either the Department of Agriculture or the Congested Districts Board, both of which have in the past allocated sums for this purpose, or finally by means of deposits from members and others, which are encouraged as far as possible.

The membership of the 233 societies in 1914 was 20,340, the loan capital £22,533 ($109,660), the deposits £33,737 ($164,188), while 7,352 loans were granted to the total value of £53,000 ($258,934). It is a very encouraging fact that the proportion of deposits to loan capital has increased largely year by year, in spite of the inducements of the government controlled post office savings banks, which the cautious farmer regards as a far safer depository for his money as a rule than the societies controlled by his own neighbors. Further reference will be made to this very important question of deposits later in this article; meanwhile we will return to the earlier history of these banks. There is not any doubt that societies of this kind were even more necessary at that time than at present, owing to the power of the "gombeen men," or money-lending shopkeepers, whose operations were described in our first article. In order to establish some measure of independence for the farmers as against these local potentates it was necessary to provide them with some co-operative means of obtaining the accommodation they required to replenish their stock or to tide over bad periods. It would perhaps surprise the large grain growers of Western Canada to find how small a loan might just make the difference between ruin and prosperity to an Irish smallholder; but somewhat similar conditions prevail even now in the province of Quebec and have been met by the same remedy under the inspiration of that great co-operator, Mr. Desjardins.

Some Concrete Material Benefits

That real good was done in Ireland is amply shown by the incidents recorded in some of the earlier reports of the I.A.O.S., of which we may quote one or two samples. In 1899 one farmer writes: "The loan, £3 ($14.60), which I borrowed from the Kilcommon Bank on the 22nd of August, 1898, I applied as follows: On the 27th of August I purchased three young pigs for £1 15s. ($8.46). I have kept one, a sow for breeding. She is now within three weeks of young ones and is worth £4 ($19.45). The balance of loan, £1 5s. ($6.06), enabled me to hold over for sale a calf which at the time would have fetched £1 10s. ($7.26). This is still in my possession and is well worth £3 ($14.60). The feed fed to the pigs would have been worthless to me without them, the potatoes used being small and black." The secretary of another society, where the local "gombeen man" had been known to charge £8 in interest on a loan of £3 borrowed by a poor farmer for eight years, writes that this society "was instrumental in purchasing twenty spraying machines for sixty farmers (every three joined to procure a machine). These farmers maintain that the spraying improved the produce of their potato crop by one half. The farmers in this parish plant on an average about 1½ acres and from this you may easily calculate what good the bank has done. I may add that the machines were loaned to others, so that in fact a good many more were benefitted thru the means of the bank."

In another case in the Congested District of Galway a weaver borrowed £3, with which he repaired an old

At Dungloe it has become so important that they have built a hall for their own public meeting and for other public purposes. The group in front shows that these people are prosperous in spite of the conditions in the country.

loom he had and bought a new one. With this equipment he and his brother, both of whom would otherwise have been idle, began work as weavers, with the result that they were able to pay back the full amount within three weeks. These and many similar examples, which might be multiplied indefinitely, show the purely material advantages to be derived from these banks.

The Educational and Social Value

But this is not the only nor even the chief claim to recognition which such institutions possess. The officials of the I.A.O.S. have always laid great stress on the educational and social value of such a form of association in backward rural districts. On this point we cannot do better than quote extensively from the report of 1898, which contains the following passage:—

"We attach very great importance to the introduction of the Raiffeisen system into Ireland, and are inclined to put it in the forefront of our propaganda. The need of a purely humane system sufficiently safeguarded, but established for the benefit of borrowers, has been forced upon us by our knowledge of the extent to which usury prevails. At present the small farmer in the congested districts uses whatever credit he can command, mainly to stop a gap or pay off an old debt, and he has not learned to use it for purposes which will enrich him. He has no conception of what a proper rate of interest is. He is unaware that he pays thirty per cent. when so many shillings are deducted from a loan or added on to a bill, and with these vague notions engendered by the 'barter' system, where no money is given or received, it is no wonder that at least one half of his possible income melts in transactions of this kind.

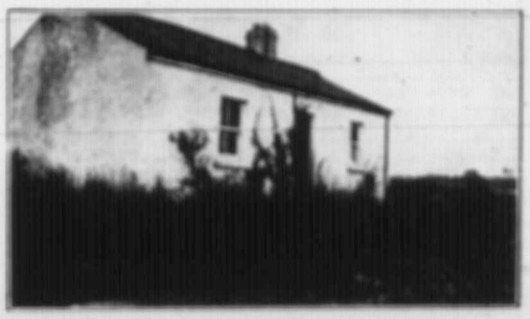
"We lay much stress upon the educational side of the Raiffeisen system because we are sure that it is ignorance of such matters and the lack of borrowing facilities which, in the majority of cases, brings on the pinch which necessitates the demoralizing appeal for public relief. The problem of the congested districts is as much a human as an economic problem, and we have not much hope of the success of any plan for ameliorating the material conditions which does not, at the same time, educate, ennoble and make men of those concerned. The genius of the German philanthropist who devised the scheme of 'capitalizing the honesty' of poor men has devised also the means of securing, if not the honesty of the individual, at least the desire of the group that all their associates should be so, by making unlimited liability an essential part of the organism of his societies. The quickened sense of responsibility has been found to operate wonderfully in forming public opinion and in bringing about a thorough understanding of the affairs of the societies among their members, and also in securing much more efficiently than by the payment of any salary that proper attention will be given by the managing committee to their duties.

"Only those who know the amazing economics of the small Irish farmer in the West can realize to what extent the sharpening of his business wits will benefit him and prepare him for further organization. This sharpening is brought about not only by the unlimited liability, but also by the method of lending. The borrower comes before his committee with his application for a loan. The likelihood of gaining a profit or effecting a saving is threshed out by the members. These members are interested, not only for their own sakes, but with the hope of seeing their fellow members succeed and in preserving the borrower from failure.

"The borrower's sureties are also bound to see that the money is properly applied as well as repaid. The rate or profit the small farmer in the congested districts can show on loans granted in such a way is very striking. Up to a certain limit, conditioned by the extent of his holding, he can do more with one pound than a richer man with twenty, and that one pound given at the proper time may mean rent and home. A man borrows twenty-four shillings ($5.76) and buys two 'bonhams' in the spring; in the winter he sells them for £5 10s. ($24.45), pays back his loan and his rent at the same time. With the poorer 'congest' farmer the rent money raised by the sale of a couple of pigs, or a calf, or a few sheep, is almost the only money he handles. He grows nearly all his own food, and manages to get flour, tea and sugar in addition by bartering eggs or some other part of his little produce. In this barter, half the value of that little slips away from him. If his cow or his pigs die he is almost helpless. There is no institution he can borrow from unless the 'gombeen man' trusts him. There are so many like him who are helpless from want of capital that we are convinced that there is hardly any scheme which is likely to do more than this of agricultural banks."

Essentials of this Credit System

The smooth and prosperous working of a Raiffeisen bank depends very largely upon securing the services of an able, understanding and of course thoroughly honest secretary. Certain rules must be rigidly adhered to. The most important of these are that the purpose for which the loan is required should be definitely stated; this purpose must be such as will increase the productivity of the borrower's farm, or effect a genuine saving, giving a reasonable prospect of repayment. It is the duty of the committee to satisfy themselves that no money is lent for unproductive or uneconomical purposes, and, further, to make certain that the loan is not applied to any other purpose



An Irish laborer's cottage built with the assistance of the government.

than that stated in the application. It is apparent that if these duties are to be carried out, and also the character of the applicant, which is really the foundation of the whole matter, properly estimated, the area covered by the society must be sufficiently small to ensure that at least one or two members of the committee have first-hand knowledge of the circumstances

Continued on Page 24