COOPERATIVE AGRICULTURE IN ISRAEL

85% of Israeli agricultural production, farmland and water for irrigation

Late 1980’s – financial crisis

- 6% of population with debt = 30% of all Israeli bank credit
- Defaulted portion = 80% of all Israeli bank equity

Financial and internal restructuring
THE FIRST COOPERATIVES

Early 1900’s
No capital, little knowledge
Equality, sharing, socialistic ideology
Embryonic economy in country
Number of agricultural branches coexisted to decrease risk

TYPES OF COOPERATIVES

Production level
Two types of rural cooperative villages
1 kibbutz    many kibbutz
1 moshav     many moshav
KIBBUTZ

Total communal society
Members = workers
No salary
Egalitarian distribution of limited resources
Eventually, industrial enterprises as well

MOSHAH

Joint ownership of means of production
Distribution of these means among members
Each family farming separately, keeping income
Joint framework for purchasing, credit purposes and community services
From 1948:
Governmental support for cooperatives

By 1985:
270 kibbutzim
over 480 moshavim
100 – 1,000 members each

Contributions of cooperatives extended beyond economic sphere

NETWORK OF COOPERATIVES

KIBBUTZIM

REGIONAL ENTERPRISES

KIBBUTZ MOVEMENTS

NATIONAL MARKETING OF AGRIC. PRODUCE

MOSHAVIM

REGIONAL ENTERPRISES

MOSHAV MOVEMENT
REGIONAL ENTERPRISES
Production co-ops created regional co-ops.

KIBBUTZIM

REGIONAL ENTERPRISES
Post-harvest
Purchasing

MOSHAVIM

REGIONAL ENTERPRISES
Post-harvest
Purchasing

NATIONAL COOPERATIVES
Production and regional co-ops created national co-ops.

KIBBUTZIM

REGIONAL ENTERPRISES

NATIONAL MARKETING OF AGRICULTURAL PRODUCE

MOSHAVIM

REGIONAL ENTERPRISES
Production co-ops created national movements.

KIBBUTZIM → KIBBUTZ MOVEMENTS
MOSHAVIM → MOSHAV MOVEMENT

ideology politics lobbying

financial mediation

Cooperatives had no equity

Land

- belonged to state, only leased to cooperatives
- therefore could not be used as collateral for loans
MUTUAL GUARANTEES

Each cooperative = guarantor
- for all other cooperatives in its movement
- for its regional enterprises
- for the national movement as a whole

Each moshav family = guarantor
for all other moshav members

DEBT INCREASE MADE EASY

BANKS

NATIONAL MOVEMENTS

REGIONAL ENTERPRISES

KIBBUTZ

MOSHAV

KIBBUTZ

KIBBUTZ
ENABLING LOSS

Banks not apply common credit allocation principles

Soft budget situation

Enabled continued existence of less profitable units

FINANCIAL BUBBLE

By mid-80’s – massive investments

76% of debt - kibbutzim

24% of debt - moshavim

1975 – 1985 - hyperinflation

Loan pay-back capability unclear

Lack of sufficient monitoring
FINANCIAL BUBBLE BURST

1985
- reduced inflation
- high interest rates

Threat to banking system
forced government
to participate in debt restructuring

DEBT RESTRUCTURING - TERMS

Moshav debt – law
Kibbutz debt – agreements

- Mutual guarantees cancelled
- Debt redefined, long-term loan
- Remainder of debt forgiven
Some kibbutz land and shares turned over to banks and government

76,000 cooperatives & individual farms - complex implementation

Government assisted banks

No deficit, but no equity
Competitive economic environment
Some cases – private capital took control
Most cases – structural changes
DECENTRALIZATION

Main agricultural branches - independent cooperatives

Each kibbutz member responsible for making own living

- Equality no longer a leading value
- Safety net for elderly, disabled, needy

DECENTRALIZATION

Joint economic services dismantled

Mainly community services remain
LABOR STRUCTURE

Originally, cooperative members
= owners
= workers

Today, members are primarily owners
- Managers often from outside member pool
- Dependence on foreign workers for manual labor

REGIONAL ENTERPRISES

Diametrically opposed processes

Moshav regional enterprises – not cooperatives
- Some were sold to private investors
- Others simply closed

Kibbutz regional enterprises expanded activity
MARKETING STRUCTURE

Modifications in Israel’s anti-trust law

Reduced national cooperative’s ability to market processed agricultural products

Regional enterprises - vertically integrated, processing & marketing entities

National cooperative ⟷ private enterprise

NATIONAL MOVEMENTS

National moshav & kibbutz movements - no longer financial entities

Loss of political and public power

Today – primarily lobbyists for member interests, especially land rights
FINANCIAL LEVEL

Restructured debt has been repaid

Banks relate
to each cooperative/moshav member
as a distinct entity

Many cooperatives accumulated equity

Some new agricultural cooperatives created
- specific purposes

STATUS OF COOPERATIVES

Cooperatives are

- more strategically focused
- more professional in management and monitoring
- more market-oriented and competitive

Process is dynamic, on-going, multi-faceted
1. Cooperatives can play significant roles in young or transitional economies

2. Increasing financial leverage using mutual guarantees - within reasonable limitations

3. Need to accrue liquid equity as a reserve

4. Life after crisis! Cooperatives can and must adapt, can be potential tool for rehabilitation in agricultural areas under economic stress

5. Significance of size – optimal balance between economy of scale and efficient management control
6. Individual members – a painful process
   minimal income
   uncertain economic future

Could some means have been found
to lessen this effect?

Many more questions can be posed.

Thank you!