

# Model of Secondary and tertiary cooperatives as supportive to the primary cooperative

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## The primary cooperative

The description of a Moshav has led us to discover the various stages and possibilities of cooperative development. Very few countries have reached this level. The developing countries - where the majority of the population lives in the rural areas - have a very important task, i.e. development. Positive development of the rural areas can be achieved through cooperative development. Studying this kind of development and its various aspects can help us to better understand the achievement of cooperative development in rural areas. We shall now examine cooperative development in detail by taking a closer look at some types of cooperatives: credit, surplus, marketing, and consumption.

## Aspects of the Essential Triangle of Production

### A. Credit

Let us start with defining the different modalities of agricultural credit. The farmer always occupies a central position in our analysis. What are the credit sources, which he has at his disposal? In traditional society it is often the brokers and middlemen who take upon themselves to supply credit needed by the farmer. The price of this money, the interest paid by the peasant is generally very high. If farmers organize themselves and form a credit and savings cooperative, their credit will be much cheaper than with the brokers, but will be limited in volume, because the credit cooperative is not large enough or sufficiently developed.

The third source of credit supply is the multi-purpose cooperative. The Moshav and the kibbutz are examples of this kind of cooperative. One of the most important functions of both the Moshav and kibbutz is of course credit and savings. They are naturally much stronger than single-purpose credit cooperative due to their diversified activities. They have in addition the possibility of undertaking all steps concerning the obtaining of credit, the credit volume, the necessary guarantees and so on. Though the individual kibbutzim and Moshavim are very important factors in the area of credit,

they cannot however answer effectively the very important needs of the farmer. The farmers know that the membership is not large enough to provide a turnover large enough to constitute a guarantee accepted by the banks from whom the credit is requested. They have thus grouped themselves in regional purchasing organizations. Each organization is made up of 15 to 20 moshavim or kibbutzim. These Moshavim or kibbutzim organize themselves together to facilitate a great number of the steps to be taken in order to obtain credits. In this way the farmers can obtain the financing of their inputs, mainly feedstuffs for cattle and poultry. The purchase of these products requires very large working capital, and only a powerful body can provide these sums.

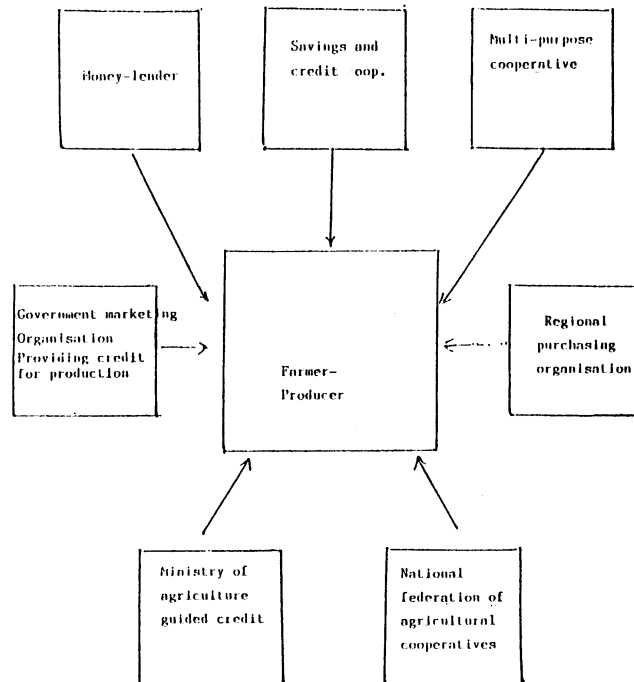
The second task taken upon by the regional purchasing organization is that of a credit regulation agency. We know that agricultural production takes place according to different schedules from one Moshav to the other. There are seasons when the producer invests money and uses all available financial resources. There are seasons when he sells his production and is paid for them. At that time the farmer temporarily is in surplus. This surplus generally occurs with all the Moshav farmers in the same season.

The regional purchasing organization will thus use these surplus monies and distribute them among the various member moshavim, which are in the production stage and thus in need of considerable credits. The regional purchasing organization thus frees the member Moshav from all the bureaucratic administrative procedures connected with obtaining credit. The Moshav only has to bring to the regional purchasing organization the guarantee of its members' mutual responsibility.

The third activity of the regional purchasing organization relates to the field of rural industrial development. We are referring to industry situated in the rural areas next to the member villages, whose activity in most cases relates to processing or packing of agricultural produce. This industry may include a slaughterhouse for turkey and chicken meaty packing plants for flowers, oranges, avocados for export; processing centers for processing cotton fibers, centers for feedstuffs production. The agricultural purchasing organizations are therefore secondary cooperatives, i.e. cooperatives whose members are themselves cooperatives.

Diagram 8

DIFFERENT FORMS OF AGRICULTURAL CREDIT



The farmer has another credit source at the national level – the cooperative federations. Let us take the example of the Moshav Movement: the federation has an economic division, which is in contact with financial institutions to which it can turn for economic backing. The Moshav Movement owns a bank (which is of course a cooperative bank) belonging to all member moshavim and a Moshav fund which groups the financial resources coming from the moshavim, the guarantee of which rests on the member Moshav's mutual responsibility. This fund takes upon itself the supply of credit to the member Moshavim when needed. This fund has the responsibility of supplying guarantees to the different moshavim when they receive credits from various financial institutions. The guarantees for each credit granted to a Moshav are made up as follows:

- 25% of the guarantees is on the account of the Moshav members. The Moshav presents the bank with a document containing the Moshav's general assembly decision approving the loan and another document containing the signature of all the members who give their guarantee to this loan.
- 50% of the guarantees are supplied by the regional

purchasing organization.

- 25% remaining are given by the Moshav Movement Fund. One has to bear in mind the agreement whereby these two bodies hold a permanent mutual guarantee of all the Moshav members who are affiliated to them. In addition the Moshav Movement organizes the other financial and economic institutions into an insurance service for all Moshav members of the movement and a reserve fund for elderly people of the various Moshavim; moreover, it provides credits to the various member moshavim, in case of need.

The Ministry of Agriculture is the body, which plans the distribution of the credit through its department of guided credit. This department has the task of appropriating the credit coming from governmental sources according to the destination of its use in agriculture. This department is also responsible for the good management of these credits by the beneficiaries.

Another source of credit for the farmer, mainly as far as foreign markets are concerned, are the various governmental marketing bodies. These bodies provide special credit, always in the short term but at a relatively low rate of interest. This credit is given to the farmer as soon as he signs, via his Moshav, a contract to export all his production through this body. Indeed, this credit is reimbursed gradually as the farmer starts exporting his production.

## **B. Inputs**

Credit is the starting point in the essential triangle of agriculture. With credit a farmer can obtain a supply of inputs and start his production work. There are different ways of obtaining inputs. The most common method is for the supplier of inputs to receive the counter-value in agricultural produce. This situation is widespread in agriculture, and is almost the only way that a non-organized peasant is able to get the necessary inputs for his work. The farmer who is forced to use these services is, in most cases, very much at a disadvantage. He is left with very little from the sale of his agricultural produce because it has to be converted into money by a middleman.

The solution to this problem is of course the cooperative. The farmer who is organized in a multi-purpose agricultural cooperative, such as the Moshav, can supply himself with inputs, according to his needs, using the facilities of the supply cooperative. Supply can also be facilitated through second-degree cooperatives - cooperatives whose members are themselves primary-degree cooperatives. In Israel, one of the

best-known examples of such a second degree cooperative is the "Hamashbir Hamerkazi". This cooperative whose members are individual kibbutz and Moshav cooperative villages has departments, such as:

- machinery and heavy equipment, comprising agricultural machines, heavy equipment (for storage, lift trucks, trucks and buses, robots and automation), garage tools and tires
- building materials
- raw materials
- electronics and electricity
- fishing gear
- inputs for agriculture (seeds, cereals, insecticides, fertilizers, pesticides)
- food and consumption products (groceries, frozen foods, material, for public and private kitchens)
- stationery
- clothing, shoes
- furniture
- sports equipment
- toys.

Hamashbir also has:

- a chain of 18 supermarkets (department stores) all over the country;
- a farm for production of improved seeds;
- an import company for sugar and rice;
- other enterprises.

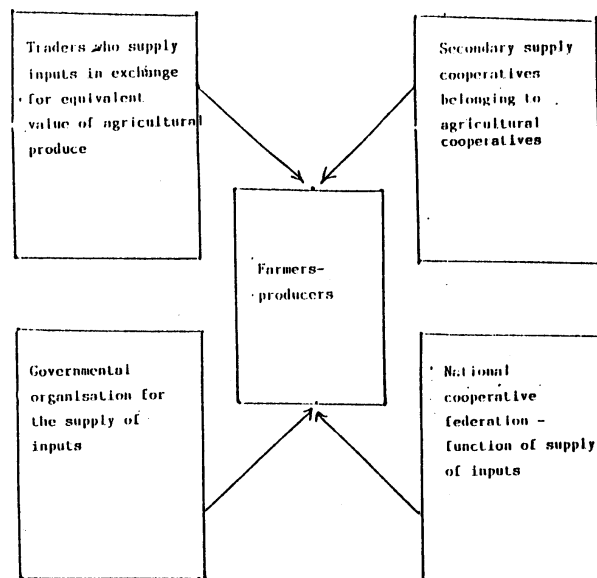
A third institution supplying inputs could be located at the level of the national cooperative federation. In Israel the Moshav Movement fulfills this function, through "Matam" which takes care of signing contracts with almost all the producers and importers in Israel, covering the input market for agriculture and consumer products. The idea is quite simple: Matam represents an increased clientele of several thousand farmers. It is in a position to negotiate and obtain very favorable prices and terms of payment, including payments in installments with very low interest rates. The beneficiaries of these advantages are the Moshav members who need money for buying tractors, fertilizers, a fridge or television set. One should note the intermediary role played by Matam in relation to the farmer-consumer and the various suppliers. After having obtained the required credit from his Moshav's treasurer, the farmer turns to the suppliers using his "Matam" order form to obtain the goods.

The fourth supply source for inputs is the Ministry of Agriculture. This arrangement prevails mainly in developing countries, but not in Israel. In developing countries, there is no supply of inputs by the cooperatives. The only other possibility is supply by private businesses, so the government

undertakes this service itself. There are developing countries where the cooperative department deals with the various aspects of development including the supply of inputs to the peasants who have no other sources of supply.

Diagram 9

DIFFERENT FORMS OF SUPPLY COOPERATIVES



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### C. Marketing

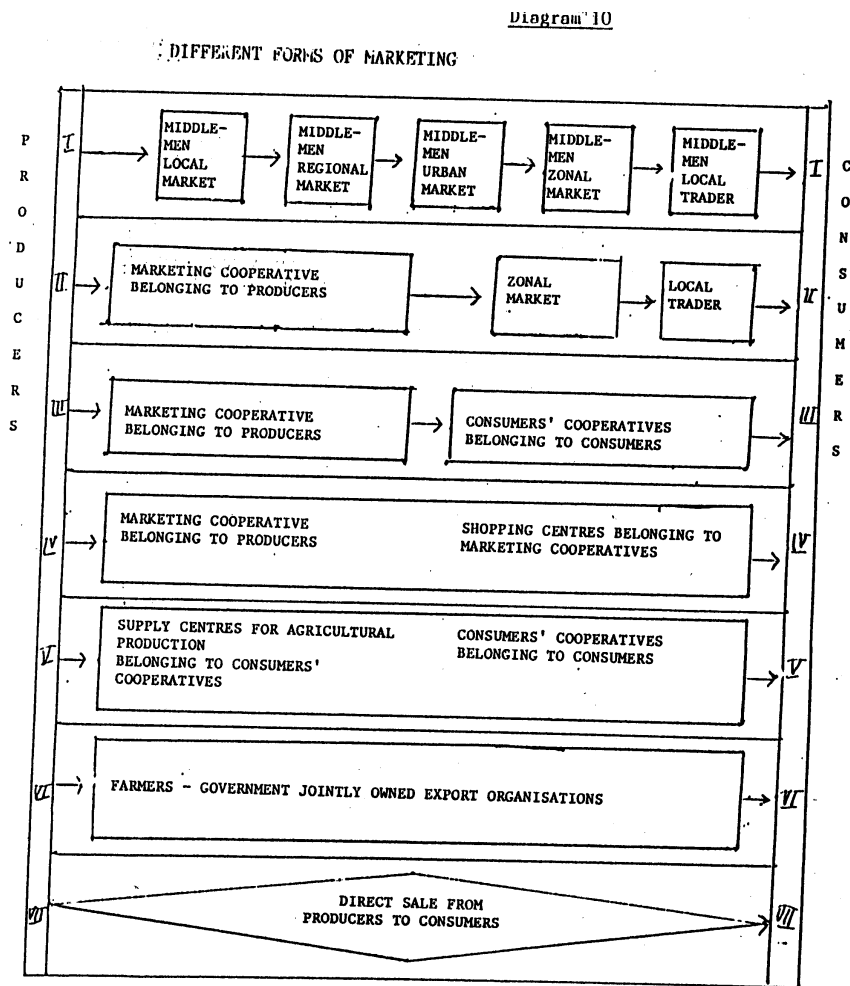
We have now seen how the peasant has obtained credit and used it to supply himself with inputs. He can then begin producing and will pay back his debts when he sells his crops. Marketing is therefore the third side of the agricultural triangle. We shall describe some of the marketing methods, which the farmer uses to sell his production.

Marketing is the process that an agricultural product goes through on its way from the producer to the consumer. Traditional marketing involves several intermediary stages within this process. The result is of course that the consumer pays an exorbitant price and the producer receives a very low price for his production. Naturally, it is in the interest of both producer and consumer that the number of steps in the marketing process be reduced as much as possible.

The result: the producer will earn more and the consumer will pay less.

The first form of marketing is the traditional marketing circle. The peasant sells his production at a local market, which is held in his village every 5, or 6 days - this is the first stage. The intermediary who buys this production transports it, usually on overloaded small open trucks covered with a tarpaulin, to a regional market. Another intermediary will buy these goods and transport them to an urban market. The production will then be sold and distributed at the neighborhood markets where the retailers will come to get their supplies for sale to the consumers. The agricultural production has undergone too many stages from producer to consumer. All intermediaries have benefited from this

Diagram 10



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process but not the producer nor the consumer. The solution to this state of affairs: a marketing cooperative owned by the

producers. This cooperative's aim is to reduce to a minimum the number of marketing stages between producer and consumer.

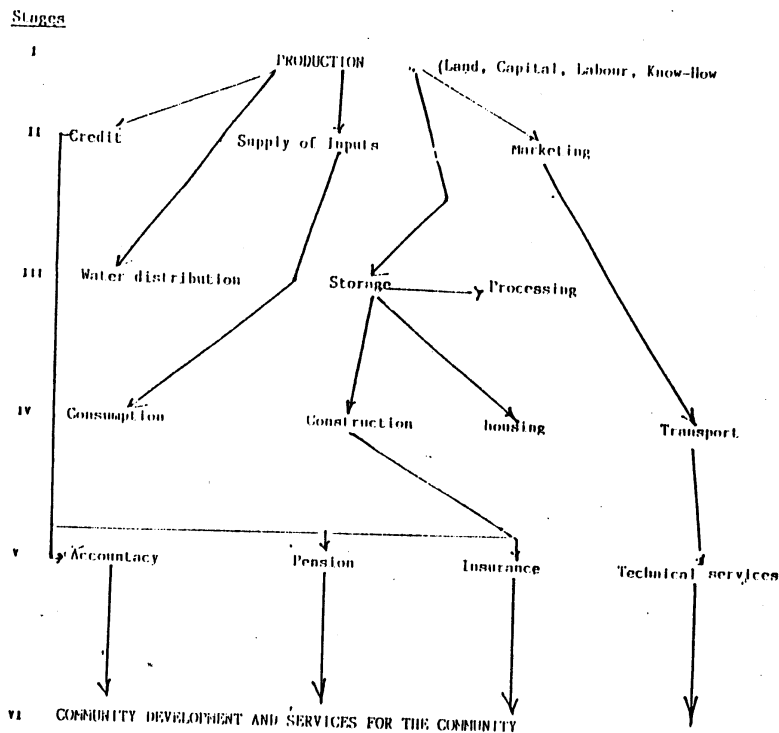
In Israel, the Tnuva cooperative is a marketing cooperative belonging to all moshavim and kibbutzim, and today has the fourth largest turnover among Israeli enterprises. Tnuva has organized a national network, which takes upon itself the collection, transportation, storage, processing and sale of approximately 75% of agricultural production earmarked for the local market in Israel. The setting up of Tnuva has reduced the number of steps in the marketing circle, but not enough however. The agricultural product leaves the farm, passes through "Tnuva" and is then sold in the local market and in various small shops.

Another alternative reduces to a minimum the number of steps. This alternative involves direct contact between the marketing cooperative owned by the farmers and the consumer cooperative owned by the consumers. Thus, the sale of agricultural products takes place from one cooperative to the next, and in principle, the profitability for the producer increases while the purchase price for the consumer decreases. This situation, though far removed from the traditional marketing circle, is not far enough. It is still necessary to try to eliminate superfluous steps in the marketing circle (KONOPNICKI, 1968). Two solutions have been found: The first one consists of consumers' sale centers, belonging to the marketing cooperative, an example of which is Tnuva in Israel. These sale centers directly link producers to consumers. The second solution consists in supply centers for agricultural produce, which are owned by the consumer cooperatives, the latter belonging to the consumers. In this example the consumers have organized themselves in order to acquire their consumer goods directly from the producers.

The last marketing method, which we shall discuss, concerns the bodies which belong to the farmers and the government and which deal with the export of agricultural products.



Diagram-5  
 STAGES IN THE CREATION OF  
 MULTI-PURPOSE COOPERATIVE



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**Summary**

With this description of the various cooperatives according to the three angles of the Essential Triangle of Production (ETP), we have indicated several approaches to the formation of secondary and tertiary cooperatives and have shown the different steps of cooperative development on all its levels.