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The moshav in Israel is a unique form of co-operative. Village households as members of a moshav own and operate their own means of agricultural production and rely on a village level service co-operative — the classic moshav — to provide services for members' joint use. The moshav has the functions which provide the essential credit, supply of inputs and marketing services to members and has many other co-operative functions. While this is, in some respects, similar to secondary co-operatives and the production, marketing and administrative services provided by regional agricultural service co-operatives in the United States, the moshav is an agricultural co-operative that contains departments, upon which its economic activities are based. The departments in the moshav complete their annual budget showing a zero balance in their operational accounts, returning all surpluses (and responsibility for deficits) to individual members. This paper provides an overview of the work of a classic moshav and poses the question as to whether services should be continued to be provided at cost based on member participation.

Introduction

In many countries the laws regarding co-operatives, the co-operative status as well as the understanding of what is a co-operative, support the idea that a successful co-operative creates an annual surplus, that is "the difference between the monetary benefits and the total cost" of the co-operative during a pre-defined period of time (Van Der Ploeg, 2000: 502) The director of a co-operative is considered successful when he is able to create a surplus in his co-operative, the larger the better (Trechter et al,1997; Fulton et al, 1998). The repercussions of such policy — regarding the asset value of members and whether this policy gives them the best possible service, as well as the best quality and at the best possible price, is the focus of this paper. In other words, whether the increased surplus in the co-operative serves the best interests of its members.

The moshav is an example of a co-operative that does not attempt to realise profits or generate economic surplus. It is a multipurpose co-operative functioning in the best possible manner for the benefit of its members, who pay the operating costs of each department, all of which function at cost. The departments of the moshav have operated according to this principle since the creation of the first moshav about 90 years ago. These departments always show a balance of zero at the end the fiscal year. Any surplus is returned to the members in its entirety. If there is a deficit, it means that the department is not functioning at the real price of participation for the member, and members cover the deficit according to their degree of participation. All the departments of the moshav function in this manner. While not entirely unique, as some American agricultural co-operatives distribute the entire annual surplus to their members according to the degree of participation in the affairs of the co-operative (Ling, 2011), the focus on the internal organisation of the classic moshav brings new light on the subject and calls for further research on this issue.

The paper draws on the author's personal experience of senior management in moshavim, together with interviews with the secretary-general of a moshav and email correspondence with scholars and practitioners with an interest in agricultural co-operatives. The first section considers the operating structure of the classic moshav and moves on to the relationship with members and focuses particularly on member share and member participation. The third part provides an overview of the 'cost' of member participation in their co-operative with respect to a problem faced by all co-operatives as to how much and at what cost to serve their members. The paper concludes with consideration of an alternative to current practice.

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The Structure and Organisation of Moshavim

The literature on co-operatives describes co-operatives as a single economic entity. In reality, an examination of co-operatives, agricultural co-operatives in particular, shows that they have various operational departments according to the different needs and different activities of the co-operative. While a number of studies have examined the different functions and departments existing in co-operatives (for example Ling, 2014), only a few current bodies of research describe the internal structure of agricultural co-operatives. Barraud-Didier and Henninger, 2009, for example look at French agricultural co-operatives and Vogelsang, Bailey, Biser, Eversull and Mather (1993) describe an agricultural co-operative called Agway Inc, located in Syracuse, NY. This is a very large and complex co-operative that includes extensive production departments providing agricultural products, in addition to the supply of inputs, marketing and related services. The co-operative comprises of several departments and each department conducts its own bookkeeping within the co-operative. Many of these agricultural co-operatives combine the functions of marketing and distribution of inputs and other services, and have the property and equipment necessary to perform these services (Lund, 2013).

There are a number of relevant examples of departments. A tomato cultivation co-operative, for example, could be a multi-purpose co-operative, simple in its structure and its activities, which deals with the marketing of an agricultural product produced by its members. The co-operative gets tomatoes from the members and then markets them. This type of co-operative most probably comprises a number of simple departments. The transport department is responsible for bringing the tomatoes to the co-operative, where the tomatoes of all the members are collected. From there these products are transported to the market, once again by the co-operative. This co-operative would also have a sorting department for the tomatoes and a department for packaging, as well as a department for the maintenance of all the co-operative's equipment. Finally, the co-operative probably has a department for market research and, of course, an accounting department.

The moshav, a multi-purpose Israeli co-operative, presents a co-operative with many departments. The moshav can be described as a number of groups, each containing different departments. The first group includes the departments that deal with all the monetary issues of the co-operative. This includes the finance department, which is responsible for funding all the activities of the co-operative and financing the needs of the members. The accounting department, which manages the accounts of all the departments of the co-operative as well as those of the individual members, also belongs to this group. Another department dealing with monetary matters manages deposits and various credit from and to members of the co-operative. The credit may be utilised to finance ongoing production work for a member as well as long-term investments required to enhance the property of the member. The final department included in this group manages the fixed assets of the co-operative.

The second category of departments manages the supply of various necessary inputs. It includes a department that administers the supply of inputs to members so that they can engage in agricultural production in their farms. This includes the supply of fertilisers, seeds, pesticides and herbicides, as well as various construction materials required by the member on his farm. Another department supplies the mixed feed and concentrated fodder for livestock on the farm, including cows, calves for meat, hens, chicks, chickens, broilers, and turkeys. A third department is engaged in the supply of consumer goods for the members themselves.

The marketing departments comprise the third group of the Moshav co-operative. This includes the department marketing milk, its cooling, measuring and transportation by cooled tankers from the moshav. Another department markets eggs, while a different one is engaged in the supply of one-day chicks for members' broilers, and the sale of day-old chicks to customers outside of the moshav. Another department is engaged in the marketing of calves to slaughterhouses.

The fourth and final group of departments takes care of the various aspects of village life in the moshav. The transportation department transports different inputs into the village, both those required by the members and by other moshav departments. This department also transports agricultural products to various markets where the products are sold. The water department supplies drinking water for the consumption of members and their families and water for livestock, while also maintaining the infrastructure of the pipelines that provide water for the irrigation of members' agricultural land and their various farming enterprises. Another department in this group supplies technical services to members, including the rental of heavy agricultural machinery — such as tractors — for cultivation of the agricultural parcels of the members, mechanical services for the cars and tractors of the members, and various additional professionals such as blacksmiths and locksmiths.

The Upper Galilee Cargo Transport Cooperative provides another example of a rural co-operative comprised of departments. This co-operative was founded in 1942 by 10 kibbutzim from the northern part of Israel (Cooperative Archive, 2012), and established as a cargo transport co-operative. By definition, the Upper Galilee Cargo Transport Cooperative is a secondary co-operative, as its members are the primary co-operatives, the kibbutzim from that region. It was established to serve the transportation needs of its members, fulfilling their various cargo needs (Galil Elion, 1945). Later on, the co-operative extended its services and activities by opening new departments, including a very large garage for the repair of cars as well as very heavy trucks, a gas station, towing and rescue services, a spare parts warehouse, a container terminal and transportation services. This co-operative is noteworthy because of its structure and the way the various departments function within the co-operative. Each department runs its annual economic activities and is based on a closed financial economy, which means that the department ends its annual economic activities with zero balance. The property of the co-operative belongs entirely to the members, who are themselves a co-operative — a kibbutz, and each kibbutz owns between 1.5% to 5% of the total property, according to their degree of participation over time. When a surplus or deficit event occurs, it is distributed among the members entirely; 70% according to participation and 30% according to ownership (Interview with the director of the Transport Cooperative of Upper Galilee, 2015).

Because of the unique structure of the Moshav as a co-operative, its financing methods and the operating expenses of these departments are of special interest. The other component required in order to understand the functioning of the departments is the price of members' participation in their co-operative (Helmburger, 1967).

Financing and Operating Expenses

One source of information for this paper, regarding the various aspects of the departments of the co-operative, was a secretary general of a moshav. The function of the moshav secretary is particular and unique to the Moshav co-operative. The elected secretary of the moshav is both the secretary general of the co-operative and the head of the village, the moshav itself (Galor and Sofer, 2011). Any discussion of the departments in the co-operative — the moshav — necessarily relates to both the property of the department and the department's operating cost or operating price. The fixed assets of each department belong to all members equally and the total value of the fixed assets of all departments equals the actual total value of the fixed assets of the co-operative.

The departments in the co-operative have economic activities and these activities have a cost. This cost is paid by the members according to their use of the services of the particular department, which is calculated by the accounting department of the co-operative. The cost of participation for each member is the aggregate cost of their participation in the economic activity of the departments. Each member pays an amount relative to the degree of their participation. For example, the price, or the cost, of a member's participation in a consumer co-operative is included in the price the member pays for the products he or she buys. The price of a member's participation in a producer co-operative is included in the price the co-operative pays for the work the member does in his/her co-operative. In a marketing co-operative, the price of a member's participation is the price that the member pays to have the co-operative market his or her products. In a savings and credit co-operative, on the other hand, the price of participation is the price paid by the member as interest on the credit being allocated to him or her by the co-operative. It is important to note here that interest paid by the co-operative as interest on members' fixed deposits cannot be considered as part of the price of members' participation (Galor, 1999).

Another issue linked to the cost of participation in the co-operative, which also influences the co-operative's annual financial results, is the investments in the property of the co-operative. When in need of financing, the creation of supplementary fixed assets, and mainly when members do not have the ability to finance these investments by themselves, the co-operative tries to obtain external funds. When the co-operative relies on external financial sources, most often in order to finance an investment in the moshav, it contracts loans to finance the fixed assets. Both the principal and interest of these loans are repaid by the members themselves when they pay for the services received from the specific department. Consequently, the price of participation for each member is increased each month by the amount the co-operative charges them, but in most cases they are unaware of the extra payments they are charged. The result is that the fixed assets are financed by all members differentially, ie according to their participation in the economic activities of that department. These properties/fixed assets are not registered under the names of members in the books of the moshav co-operative, even though these members have essentially financed the loan repayments. According to the international co-operative practice, fixed assets are owned collectively by the co-operative members. Thus, the mechanism for funding the co-operative departments' property is not different from the usual process for the creation of co-operative property in Israel and worldwide.

Regarding the payment of members for the establishment of the fixed assets of that specific department, secretary Amir Cohen of moshav Beer Tuvia — one of the oldest and biggest moshavs in Israel — explains that when the moshav creates a department or establishes an enterprise for production or for marketing of products, it mobilises the necessary sum. Generally, the moshav seeks funding from banks or other financial institutions. The members guarantee this investment individually and are responsible individually for the repayment of these loans.

Cohen clarifies that the amount repaid to the bank by the moshav is collected from members' participation. The moshav charges the members the aggregate amount, principal and interest, every month. The members pay each month for these investment payments through their economic participation in the activities of the specific departments and each member pays according to his participation. According to Cohen, this procedure of unequal funding by members is justifiable because in the long run it creates social justice among the members in the moshav. The fees paid by members by means of their cost of participation payments are utilised for two main functions. One is to cover the cost of the co-operative's operation, including all expenses, through the aggregate payments of all the members every month. The second one, which also varies according to the degree of each member's participation in the economic activities of the co-operative, is to cover the repayment of the loans, principals and interest, contracted by the co-operative-moshav in order to establish the fixed assets of that department.

Another example of financing the creation of property in the co-operative, a milk collection department in a moshav, sheds light on this process from a different angle. This department was established by the moshav, which raised funds for the founding of the department from external sources, such as banks or other funding institutions. The dairy department includes all the necessary equipment required to collect, filter, weigh and refrigerate the members' milk, including a cooling storage facility and bulk tank trucks for transportation to the marketing co-operative. The loans contracted by the moshav for the establishment of this department are repaid in monthly payments, principal and interest, by the moshav. The moshav collects these amounts from the members, by deducting them from the money each member receives when marketing milk through the moshav. The total monthly deductions from the members are equal to the total monthly amount reimbursed to the bank. The sum collected for this purpose from each member is not equal, but relative, according to the quantities of milk each member has marketed. A member who sells more milk will contribute more to financing the fixed assets of that department, thus theoretically he has larger part in these fixed assets (email correspondence between the author and Amir Cohen).

In his description of the unique financial characteristics of the moshav, the secretary of moshav Beer Tuvia presents another example. The water department of the moshav provides both drinking water to residents-members of the moshav and water for the livestock and for the field crops. This department is responsible for drilling wells, laying pipelines to bring water to the farmyards and the fields, maintaining and monitoring the water supply, and recording the monthly consumption of water by every member in the moshav. According to the current procedure, all relevant expenses, including the cost of water, are paid by the members through the price of the water they consume, each according to their consumption. As per moshav policy, the amount paid by members as the price of participation is exactly the amount needed by that department to run its operation: at cost, with no surplus or deficit.

It is possible that a member might decide to stop cultivating his fields for ten years, so he does not need any irrigation for that period. Thus, for ten years the member does not pay for water and therefore does not pay for the maintenance of that department, though this department continues to exist and serve the other members who cultivate their fields. The department remains available for all members of the moshav, whether they use it and pay for it or not. After ten years, the member may decide to re-cultivate his fields, so he will require irrigation. The irrigation department will be ready to serve him without any problems even though this member did not pay anything to this department during the last ten years. This is the practice in most moshavim.

Another unique characteristic of the moshav concerns the attitude towards property and operating costs. When a member of a moshav sells his farm unit, he does so at real market price, which represents his share in the co-operative, the moshav. This is not the case in other co-operatives, where members get the nominal value of their shares. However, it is important to determine the manner in which the finance of the assets of the co-operative — the moshav and its various departments — is realised by the members. For example, a dairy farmer from the abovementioned moshav has produced and marketed milk through the dairy department for years. For every litre of milk sold, this member has paid his part, not equal to the amount paid by other dairy farmers, for the repayment of loans that were contracted for the construction of the fixed assets of this department. Thus the member has paid an unequal amount for the fixed assets of this department, ie not the same amount as other members, but according to common understanding of co-operatives worldwide, he is an equal owner of this property. It is important to note that the accounting department of the co-operative — the moshav — has no record whatsoever that any member holds any part in that property, despite the amount paid by members. Thus, the property in the moshav is financed by the members themselves, but this property does not belong to them, as in most co-operatives worldwide. In fact, if our abovementioned dairy farmer decides one day to stop being a dairy farmer and sell his livestock, he would receive their real market value. However, though over the years he has paid for part of the property belonging to the dairy department of the moshav, when he stops receiving services from this department he will not be compensated.

In a different example, a new member of the moshav decides to become a dairy farmer. He produces milk in his farm and markets it through the dairy department of the moshav, a department that was created through funding provided by other members. The new dairy farmer/co-operative member does not need to finance the fixed assets of that department. The new member's price of participation in the milk-marketing department is less than that of the other member mentioned above, who helped finance the creation and the establishment of this department via his economic and financial participation.

The ideology in many co-operatives in the world, as already mentioned, is that the bigger the annual surplus, the better it is for the co-operative. Members receive only a partial refund, according to their economic participation in the co-operative throughout the annual fiscal year, while the surplus is used for other purposes (Black and Knutson, 1985; Munkner, 1998; MacPherson, 1998; Davis, 1998; Develtere and Pollett, 2008; Mendonça, 2008; Tsekpo, 2008). The third international co-operative principle recommends devoting a portion of surplus for investment in the co-operative, so that the funds will be used to extend the fixed assets of the co-operative according to needs. This recommendation does not detail how the co-operative should act if there is a fairly large investment programme while at the same time the required annual surplus is low and therefore insufficient to cover the investment needs. In that case the co-operative would probably seek external finance. In both cases, be it money taken out of retained surplus, or money coming from external sources, it is the members who finance the reimbursement of these funds, from which the co-operative has built up its fixed assets. However, the value of these assets, financed by the members, are not included in the value of the members' share capital, which stays at its nominal value. These assets, paid for by members, are the collective property of the co-operative, and do not belong to members individually. One central question which must be addressed examines whether the co-operative returns to its members all annual surplus or only a portion of it, thus using the remaining funds for other purposes, as is recommended by the third international co-operative principle.

The Cost of Participation in the Co-operative

Economic participation of members in a co-operative is outlined in the third international principle:

> Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
>
> Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative and support other activities approved by the members (ICA, 2005-15).

The principle consists of two essential elements. The first paragraph discusses the capital of the co-operative, owned by the members of the co-operative. It distinguishes between a member's collective ownership of the co-operative property and individual ownership of the co-operative property by members. Individual ownership by members, generally, equals the aggregate value of all shares owned by members, noting that this value is relatively very low, as the value of the members' shares is always kept in their nominal value. The collective property of the members is often equal to the real value of the total property of the co-operative (Royer, 1992; Kislev et al, 1993; Lerman and Parliament, 1993; Van Bekkum and Nilsson, 2000).

The second part of the principle discusses the annual surplus. This surplus has different functions, including the development of the co-operative and creating reserve funds that cannot be shared among members. A small part of the surplus is dedicated to patronage refunds to the members, according to their participation in the affairs of the co-operative (Hoffman and Royer, 1977; Cotterill, 1987; Mills, 2002; Ortmann and King, 2007).

In order to discuss co-operative surplus clearly, the difference between surplus and profit must be clarified (Clark, 1952). The profit is the result of the economic activities of a private or a public company. Private companies seek to maximise profit as much as possible, as they distribute annual net profit among all units of shares or units of investment, thus dividing this profit by the number of shares held by each shareholder.

Co-operatives behave differently. The co-operative distributes the surplus to its members based on patronage participation in its economic activity, rather than according to the degree of ownership of their co-operative. The co-operative real nature seeks to reduce the cost of participation for members, thus decreasing annual surplus, since the main objective of the co-operative is to better serve its members. Better service to members means lowering the annual surplus. Hardesty (1992) confirms that the purpose of a co-operative is not to pay dividends on invested capital, but to provide economic benefits to members for their participation in the co-operative.

Another use of surplus funds by co-operatives around the world is the preservation of funds as indivisible reserves belonging to the co-operative collectively. These reserve funds do not belong to individual members and are generated by the same mechanism as the creation of surplus; the members who contribute to the running costs of the co-operative by their economic participation, thus creating the source for reserve funds. It is important to note here that there is a debate as to whether the existence of these indivisible funds is in fact necessary. Some scholars suggest that these funds are the backbone of the financing of the co-operative over the years (Reynolds, 2013). Others such as Royer (1992: 91) have suggested that a:

> challenge to continued, unbridled accumulation of unallocated funds may come from arguments based on the principle of service at cost

as outlined both by the Internal Revenue Services and by-laws produced by the US Department of Agriculture, which state:

> *Section 2: Refunds and Patrons' capital* … To assure that the association will operate on a service-to-cost basis the association the association is obligated to account on a patronage basis to all its patrons for all amounts … in excess of operating costs and expenses properly chargeable against the type of service furnished … All other amounts, such as interest or amounts from nonpatronage sources received by the association from its operations in excess of costs and expenses shall, insofar as permitted by law and to the extent practicable, be allocated to its patrons on a patronage basis … An operating loss shall be apportioned among the patrons during the year of loss so that such loss will, to the extent practicable, be borne by the patrons of the loss year on an equitable basis (p192, italic in the original).

There are co-operatives, like the Israeli moshav and kibbutz, that have survived successfully for generations without the existence of any reserve funds whatsoever (personal correspondence between the author and research respondents). In fact, the law that required the creation of reserve funds in the co-operative was cancelled by the registrar of co-operatives in Israel in 1972; there is no obligation to create reserve funds in co-operatives in Israel (Atzmon, 2014).

The uniqueness of the departments in the moshav is in the manner of financing the cost of operations by the members in all departments. The necessary funds for operating expenses are derived from the members of the co-operative. The uniqueness of the moshav is that all the departments close their annual balance sheet with a sum of zero. When there is a surplus, it is returned to members in its entirety, according to their participation in the economic affairs of that department. When there is a deficit in a department, members pay to balance the deficit according to their participation in the economic activities of that department. Thus a surplus or deficit in the co-operative is created only when the accounting department has made a miscalculation of the cost of participation. This miscalculation is then corrected by the accounting department by either overcharging or undercharging the members, so that at the end of the year each of the departments and the entire co-operative end the year with a zero balance and there is no loss or gain. It is important to consider whether a co-operative may be considered a success when it generates annual surpluses or, rather, is a co-operative's success dependent on an annual surplus that equals zero.

Summary Remarks

The above discussion has focused on the manner in which moshav members pay for the goods and services they require, paying both for their part in the total operational expenses of each department and for covering the expenses accrued by the co-operative for investment in its fixed assets. The importance of this example is the fact that members finance entirely the establishment of their co-operative and the departments inside it. In both cases members do not pay an equal sum. The first unequal payment, to cover the department's operational expenses, is just; each member should pay according to the degree in which he utilises that department. However, the fairness of the second type of payment, which covers the payment on the investment for the fixed assets of each department, is debatable. Current scholars of the co-operatives generally argue to the justice of charging members unequally for financing the creation of the fixed assets of each of the departments (Royer, 1999). Thus a contrast exists between the fact that all the departments of the co-operative belong to all members equally, while members pay for the fixed assets on an unequal basis.

It is, however, possible to charge the members of the moshav co-operative in a more just manner (Galor, 2014): A basic principle in the creation and existence of any co-operative is that the co-operative belongs to members equally and that members pay for its establishment equally (ICA, 2005-15). The members of the moshav establish the co-operative and, by that, its departments. The moshav establishes the departments' fixed assets with the help of the external funds it has contracted, and then begins paying back the loan through monthly payments, principal and interest, collecting the necessary monthly amount by charging all members equally. The amount paid by the members will not be connected in any way to their use of a department's services. This will ensure that all members are equal owners of co-operative properties and as well that of the department in question. When the department needs to renew its infrastructure and investment in equipment, for example, all members share equally in the cost of financing. This applies also to those members who have decided not to cultivate their fields for a period and will not use the irrigation services. These members, therefore, will be still required to pay for the ongoing expenses of the department of water supply, even though they are not utilising its services.

This approach avoids two major issues in the co-operative funding. In the case of the dairy department presented above, we may change the practice of financing by the members of the co-operative, as well as its departments, by having members finance the fixed assets of the co-operative directly. Thus the member would become the true owner of the co-operative's fixed assets, and this ownership would have real value. Regarding the case of the water department, the member continues to be an owner of his/her relative equal part of the department in question, even if he/she does not use the services of that department for a period of time. Therefore, if a member decides to leave the co-operative completely he/she receives the actual real value in the fixed assets paid by him/her. This approach enables the member of the moshav to hold true ownership of the property of the moshav.

As has been stated, this is unique to the moshav. Most co-operatives worldwide charge their members a high cost of participation, thus creating surplus. This paper makes the case that the creation of surplus is actually an increase in the price of participation of members in their co-operative and seeks to highlight a different option and to demonstrate to the co-operative world a successfully managed co-operative model. The significance of this is that the departments in the moshav function at cost and do not realise any surplus or any deficit for members, in this way offering members the cheapest possible cost of operation.

The Author

Zvi Galor is an international consultant in co-operative development with personal experience of as a former member of a moshav, holding leadership positions in a number of moshavim.

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