

**Rural Cooperation in the 21<sup>st</sup> Century: Lessons from the Past, Pathways to the Future**  
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# **Demutualization of Cooperatives: the Case Study of Tnuva**

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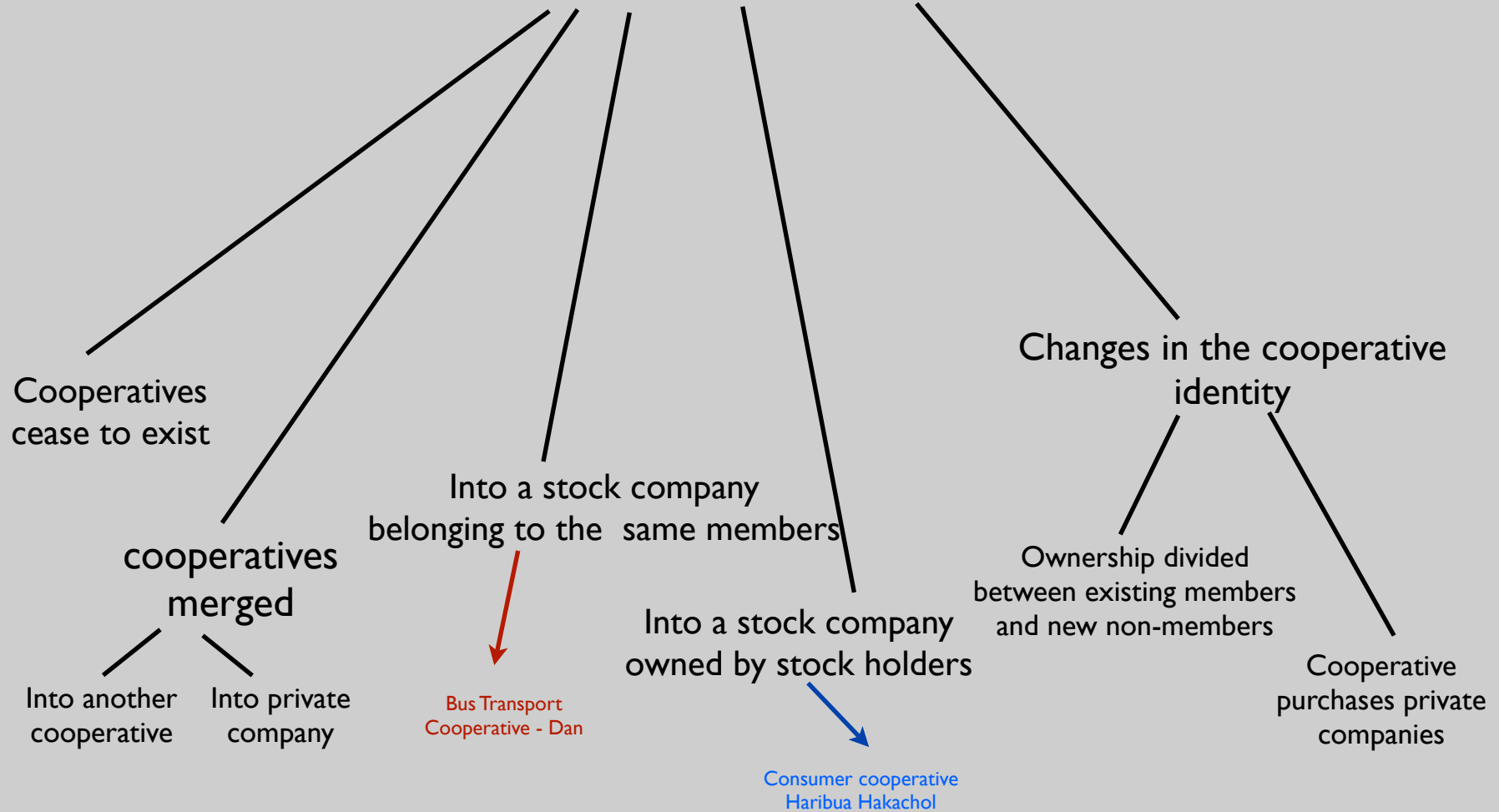
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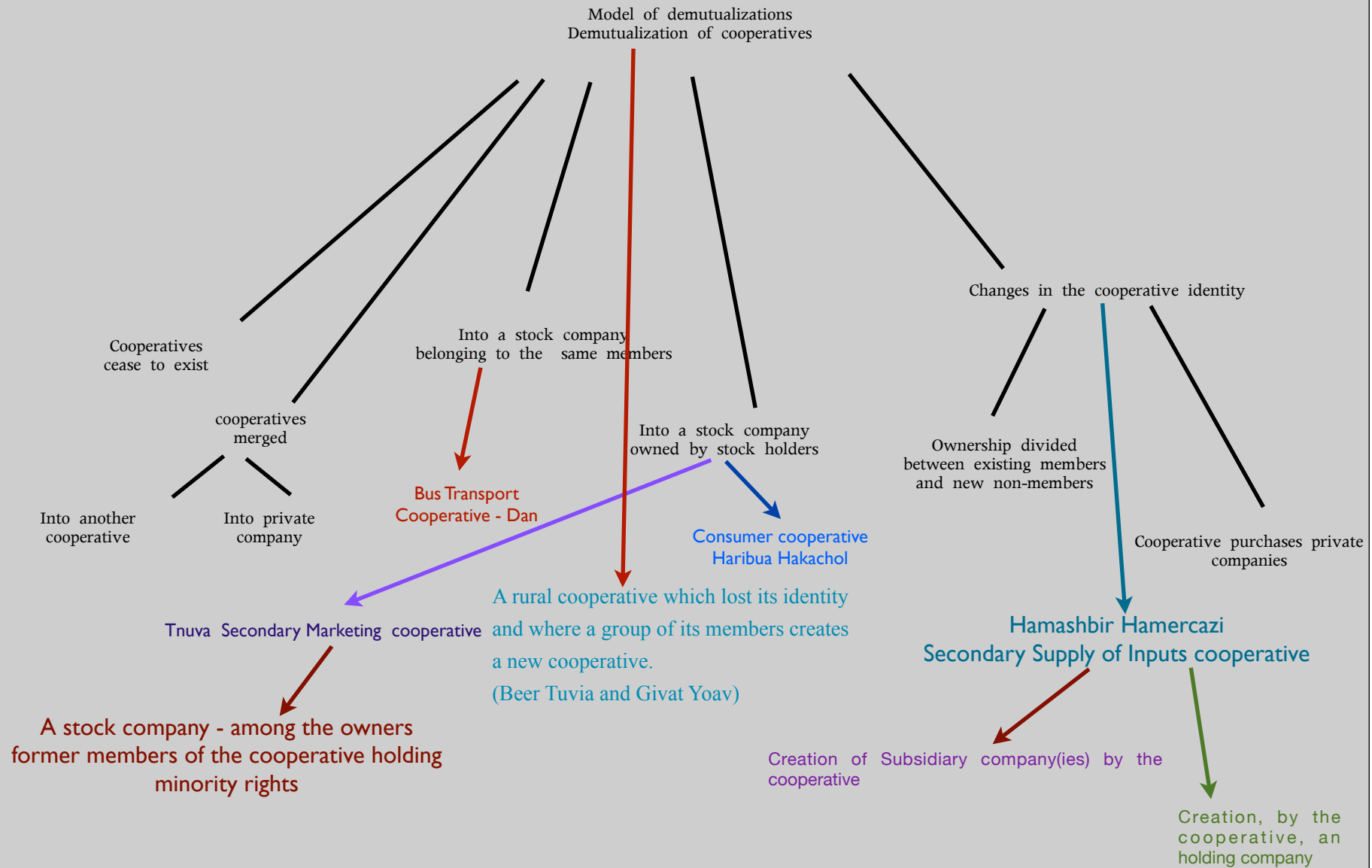
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# Model of demutualizations

## Demutualization of cooperatives





**Tnuva was established in 1926**

**Tnuva is a secondary cooperative**

**The members are the primary cooperatives  
The Moshavim and the Kibbutzim**

The functioning of Tnuva is based on two elements:

Tnuva supposed to belong to members equally

The voting rights were, during most of its existence, based on membership size in each cooperative

The fixed assets were financed by a commission paid by members according to marketed produce

Inequality in supposed ownership

## Another major problem:

This money - Tnuva shares, in the books of Tnuva - is in its nominal value, and during decades

## The outcomes:

Accumulation of equity, during decades, worth  
billiards of shekels

## Cooperative equity and value

very high

Members shares value is almost none

# Tnuva is doing marketing of Agriculture produce

The **marketing** is the process through which an agricultural product undergoes during its delivery from **producer** to **consumer**



# Different Forms of Marketing



Tnuva is marketing the agricultural produce of members on a basis of a commission charged on each sold produce

This commission was served for the following purposes

- to cover the total of the operational costs of the cooperative

- to cover the finance needed to build-up the fixed assets of the cooperative



This practice during all the existence of the cooperative

## Two major consequences to the cooperative

- Fixed assets value going up to **billiards** of shekels value
- Members shares are kept in the books of the cooperative in their nominal value, so during 80 years of existence their value was almost **none**

**Practically, the cooperative doesn't belong to members**

The 1990s were the years where changes started to take place.

The search for the bringing Tnuva back to the members.

Two obstacles to this task:

- Non-equal commissions charged on the divers branches.
- Non-equal commissions charged on members during the years

## Problems Tnuva faced during the 90s

- ✱ Tnuva is a marketing cooperative of primary cooperatives not of individual farmers - members
- ✱ Tnuva is a multi products marketing cooperative.
- ✱ The non-cooperative character of the new members since the 1950s.
- ✱ Tnuva gradually lost its cooperative identity in the members' mind.
- ✱ Tnuva realizes profits, but can't distribute them, since shares are in their nominal value
- ✱ Directors, at the same time members of Tnuva, stayed in office for 20-30 years.
- ✱ Ineptitude of the directors to handle such jobs.

From the nineties - a pressure of members to give real value to Tnuva shares.

The dairy farmers were those who were at the heart of the struggle

The milk and its products - a major part in Tnuva turnover.

Table1: Milk marketing of the total produce marketing

Year	1980	1981	1982	1983	1984	1985	1986
% of milk marketing of the total marketing	30.5	32.4%	33.9%	32.5%	33.5%	34%	35.5%

The proposal in 1999 convention was to render Tnuva to belong to the members individually

## The proposed formula was

- 50% of Tnuva will be divided equally among all the members - the Kibbutzim and the Moshavim.
- 50% of Tnuva will be shared among members unevenly and according the volume of their marketing in Tnuva during the years.

The dairy farmers: very dangerous proposal

They believe that their share should be higher

## The wish of the dairy-farmers, already in 1999, to recreate Tnuva as a new cooperative belonging exclusively to them

The convention of Tnuva in 1999 decided to change the bylaws of the cooperative to enable members to have full ownership of their cooperative.



## The situation in Tnuva until its end:

Majority of members have no more interest economically in Tnuva, but they still are owners of Tnuva.

A minority of members, the dairy-farmers, still has an interest in the activities of Tnuva.

They are looking for the continuation of the existence of Tnuva.

## New discussion starts:

When members would have the real value of their shares

And they would wish to quit the cooperative

How Tnuva will finance the real value of the shares of the departing members

Tnuva starts to look for possible solutions

**First solution:** to look for **external investor** who will buy a minority part of Tnuva

**Second solution:** To list Tnuva (a minority part) in the stock exchange market of Tel Aviv

**Third solution:** Selling, at least 51% of Tnuva, in a public tender

The dairy farmers were against these solutions and organized themselves to fight back

On another front:

Members of moshavim and Tnuva, who lost interest in Tnuva, and who looked for getting money by selling their shares

On the date of 19.11.2006 the envelopes of the tender for the selling of Tnuva were opened

Five economic concerns have competed to purchase Tnuva

Tnuva was estimated at the price of \$US 800 millions

The winning company APAX offered \$US 1030 millions

Apax agreed for some conditions:

Apax should keep, during 8 years, cash and liquidity of 3  
milliards shekels

Apax will be able to withdraw dividends from  
Tnuva during 8 years  
if over the 3 milliards shekels

Apax will respect the agreement  
with dairy farmers concerning the  
target price for the milk for 15  
years.

The sale of Tnuva depends on a confirmation by the general meeting - the convention, of Tnuva, and by a special majority of 75% of the members

This convention is characterized by two groups

The dairy farmers who wish to keep Tnuva as a cooperative, mainly to serve their needs

On the other hand, the majority of the members, who have no interest in Tnuva any more and want their money when the buyer would buy the shares of those who wish to sell

**They want their money for**

- The repayment of their debts
- Creation of pension funds for members, especially in the Kibbutzim

The problem now: would those who are against the sale, the dairy farmers, would achieve more than 25% of members to be against the decision

The convention has approved the selling of Tnuva in a very high majority.



## The new structure of Tnuva

The group Apax has 51%

The group Shamir has 25%

The agricultural group has 24%

## The agricultural group

It is composed of the biggest regional enterprise Granot - a secondary cooperative and six other regional enterprises, all of them owned by Kibbutzim

Other members are members of Moshavim, who, individually, didn't want to sell their shares.

The Granot initiative gives hope to farmers that they will have a starting point for a possible takeover of Tnuva control, wholly or in part, when Apax will make an exit within a few years

## The story of Tnuva shows some lessons

Tnuva was a very large cooperative

## The story of Tnuva shows some lessons

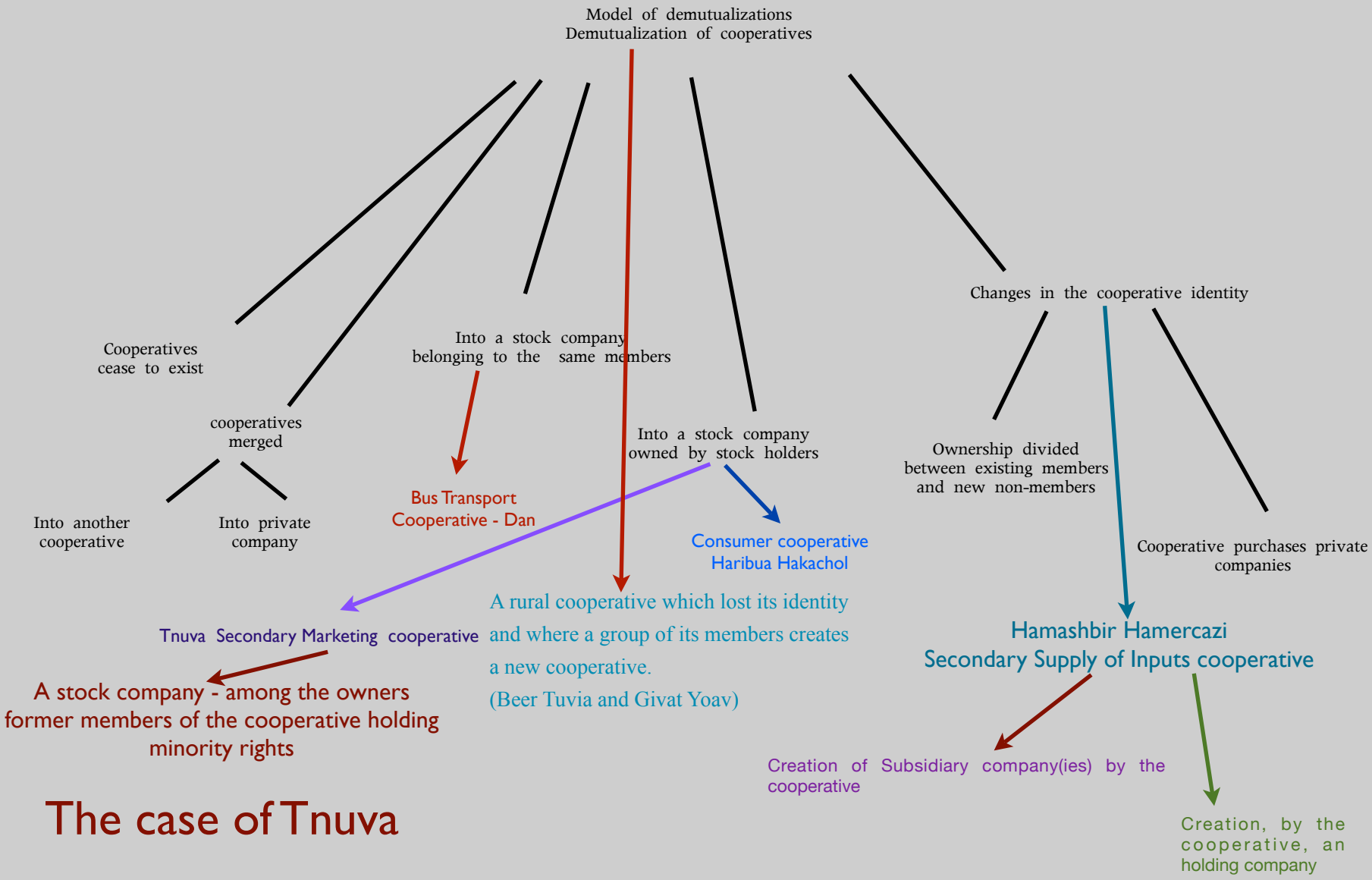
It shows us once again the importance of the fact that a cooperative can't exist if the members, at least the majority, **have no more interest** in the services it renders, for which they have created the cooperative.

## The story of Tnuva shows some lessons

Tnuva is a good example that members understand, finally, that the cooperative belongs to them entirely, practically. And this is in contrary to the prevailing approach of the ICA.

## The story of Tnuva shows some lessons

The Tnuva case shows that when there exists a group of members, who find financial interest in their cooperative, they will do anything in their capacities against the demutualization



## The case of Tnuva

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