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Cooperative Support Systems for Rural Industrialization*

E. REHBER¹, Z. GALOR², S. DUMAN³

Abstract

It is possible to give several connotations about the meaning of development. In short, achievement a considerable decrease in poverty, unemployment and inequality can be interpreted as development for the country considered. Of course a sound development cannot be specified purely economic terms. It must be included, adequate educational level, freedom of speech, and citizenship of nation that is truly independent both economically and politically.

Most of the developing and less-developed countries are characterized as rural nations where most of the people are living in rural areas and engaged mainly in agriculture. That is why rural development inevitably is a major challenge for these countries. Improvement of agriculture from a traditional- subsistence structure to a modern-commercialized ones have created some new problems such as unemployment and ultimately a migration from rural areas to urban centers. There were a lot of experiences, which show us, rural development project, which only aimed at only improvement of agricultural structure, have not been very successful to reach the general nations' development targets. In recent decades, a new approach appeared that is aiming at to achieve a rural development considering all sectors together in the economy and also social advancement. Among the others, development of industry not only agricultural based and also other small and medium scaled industries which are located in rural areas has been considered aiming at creating new employment (NAE=Non -Agricultural Employment) opportunities.

It is well known that, especially after the World War II cooperatives were used as an instrument of development policy and rural industrialization. One of the worldwide examples was the case of Israel. Cooperatives can make contribution not only to the rural industrialization but also to other economic, social and political development of a country.

Key Words: Rural industry, cooperative

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Most of the developing and less-developed countries are characterized as rural nations where most of the people are living in rural areas and engaged mainly in agriculture. That is why rural development inevitably is a major challenge for these countries. Improvement of agriculture from a traditional-subsistence structure to a modern-commercialized ones have created some new problems such as unemployment and ultimately a migration from rural areas to urban centers. There were a lot of experiences which show us, rural development project which only aimed at only improvement of agricultural structure have not been very successful to reach the general nations' development targets. In recent decades, a new approach appeared that is aiming at to achieve a rural development considering all sectors together in the economy and also social advancement. Among the others, development of industry not only agricultural based and also other small and medium scaled industries which are located in rural areas has been considered aiming at creating new employment (NAE=Non - Agricultural Employment) opportunities.

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Introduction

It is well known that the most important problem of less developed and developing countries is development. On the other hand, most of the developing and less-developed countries are characterized as rural nations where most of the people are living in rural areas and engaged mainly in agriculture. That is why, despite of the differences of the real meanings, the concept of development and rural development are almost used having the same meaning for those countries, because of that rural development inevitably is the major challenge for them. But, there were a lot of experiences which show us that, rural development project which only aimed at only improvement of agricultural structure have not been very successful to reach the general nations' development targets.

In this article rural development problem and the possible solutions have been discussed. Despite availability of some other ways, emphasis was given to a new approach, which is aiming at to achieve a rural development considering all sectors together in the economy and also social advancement. In

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this approach, developments of industry not only agricultural based and also other small and medium scaled industries, which are located in rural areas, have been considered.

Moreover, cooperative support systems have also been discussed as an instrument of development policy and rural industrialization, beside the other experiences, focusing on the case of Israel as the worldwide example.

Rural Development and Industrialization

Economic development has been defined as the process whereby a country's real per capita gross national product or income increase over a sustained period of time (Salvatore ve Dowling 1977). Of course a sound development can not be specified purely economic terms. It must be included, some other targets such as adequate educational level, freedom of speech, citizenship of nation that is truly independent both economically and politically etc.

Rural Development is defined as "...a strategy designed to improve the economic and social life of a specific group of people – the rural poor" by the World Bank. In the less developed and developing countries, the most of people have been living in rural areas and engaged in agriculture. That is why the major development challenge of these countries is the development of agricultural structure and improvement of the life standards of the people engaged in agriculture (Harriss 1992).

In these countries most of the farmers are still in the substances class. These subsistence farms produce barely enough for the basic requirements of the family. Subsistence agriculture is characterized by extremely limited capital resources, using of traditional production methods, low land and labor productivity. These characteristics tend to perpetuate the existing situation whereby agriculture produces barely enough for survival, and cannot therefore make a substantial contribution to economic growth. As a result, countries in which the majority of the population is engaged in subsistence agriculture, and which have no other important natural resources, are inevitably poor and their economies remain stagnant (Arnon 1998).

Hence, these features of subsistence agriculture and consequent problems of it such as population pressure and underemployment create a vicious circle (Figure 1). The problems of lower productivity, lower income and under-employment have also accelerated migration from rural areas to urban centers. Although they are changing from country to country, this migration is attributed to two main sociologic reasons. The first reason is unattractiveness of the rural areas because of the changing structure of agricultural production, population increase etc. The second one is, attractiveness of the urban centers due to existing rather high level of living condition and the hope of find a job. On the other hand, unbalanced development level inter- regions have also caused a movement of labor and capital from under-developed to developed regions.

Prevailing problems in the rural areas are not only affecting the rural inhabitants, i.e. rural life, but also the life of whole society. Especially, rapid migration from rural areas and uncontrolled urbanization have undesired results, creating cities just look like rather big villages (Lipton 1992).

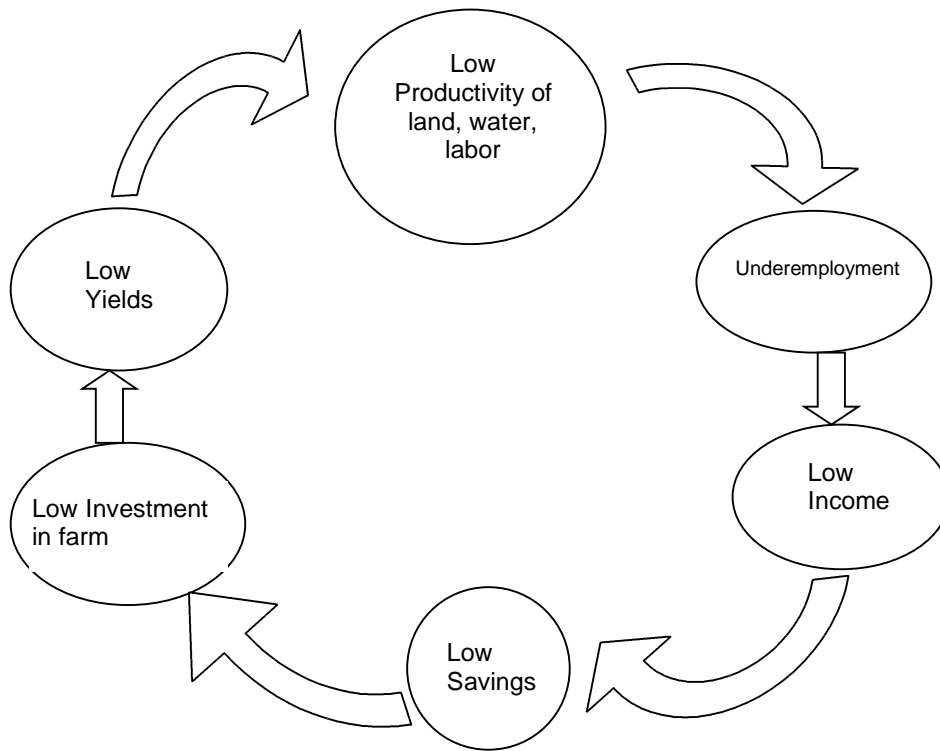


Figure 1. Vicious circle perpetuating the low productivity of subsistence agriculture

Less developed and developing countries have faced almost similar problems in their economic and rural development struggles. The important one of the rural development problems is to find an effective way to break the vicious circle mentioned above. Agricultural development could be achieved breaking off this vicious circle through moving from subsistence, traditional agricultural structure to a rather modern and commercialized agriculture. It does not mean rural development. The approach, which is aiming at only improving agricultural productivity and income will not have served to reach the general nation's development targets. The few privileged farmers who participate in the development activities have succeeded, but what about the others; the majority of the rural population. The under-employment part of the vicious circle has been ignored. Then, solving the development problems can be achieved only creating non-agricultural employment possibilities through the establishment of small-scale industries not only agricultural based but also non- agricultural industries and even service sectors. This movement can be named as rural industrialization which help to decrease the rate of population engaged in agriculture through creating new employment opportunities either in non-agricultural industries, and service sectors, etc. Among the other alternatives, development of food industry does not only provide new employment opportunities but also increase farmers' income via accruing value added (Rehber 1998).

In agriculture fewer farmers produce more. This greater production is consumed by the non-agricultural population, which is on the increase in urban as well as rural areas. On the other hand, the farmers earn a larger income, which enables them to consume more and invest their farms (Galor 1998).

Advantages of small-scale industries, which are convenient to rural industries, could be summarized as follows.

- i. They do not require a bulk of capital
- ii. They can create employment facilities with a rather small investment
- iii. They are rather flexible adjusting themselves to the changing conditions during the period of economic recession or crises.
- iv. They have also supplementary or/and complementary features to the relative big industries.

Establishment of small-scale industries in rural areas will dwindle inequality, poverty and unemployment. At the same time it will be an efficient way of avoiding migration from rural areas to urban centers via creating new employment opportunities to the rural inhabitants in their areas (Onbilgin 1993).

It is a fact that, especially at the beginning stage of the rural industrialization i.e., development of small and medium scale industries in rural areas, a convenient financial (credit) system which make available required investment and revolving funds is needed. A successful credit system is necessary in the long-term process of capital formation on small and medium size enterprises. One of the important problems of a credit system is the reimbursement. Solving this problem means that enabling the borrowers to make full repayment, including interest. This could be achieved only providing links among the supply credit and production input, production and marketing. This relationship which called as essential triangle of production was illustrated in Figure 2.

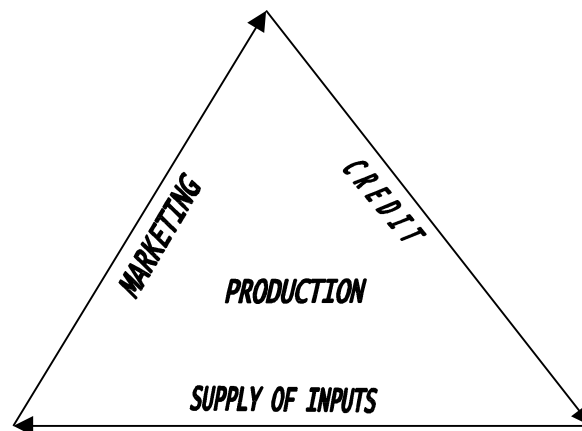


Figure 2: Essential Triangle of Production

It can be realized from Figure 2, in order to leading a successful financial system (crediting) for the investors as well as the welfare of their communities, the production stage must be followed by the

credit and saving stage, and then the supply of inputs stage, and completed by the marketing stage (Galor 1990).

On the other hand, for the rural development, improvement of labor productivity through development of the education facilities, health services have an important role as well as realization of industrial investments. Of course improvement of the labor quality is necessary and also helps creation of the industries in rural areas (Bar-El et al. 1987).

The Role of the Cooperatives in Rural Development

The approaches used in the development are mainly depending on the economic and political systems of the countries. After long experiences of the former USSR and her satellites, it seems not reasonable to support collective system as a way of sound development with the worldwide implementation varying from country to country. On the other hand each approach of free market economies has own inherent disadvantages and also challenges created by implementation especially for the backward class of the nations and naturally rural peoples. One of the ways to tackle these problems is the cooperative movement. That means cooperative movement is not the third alternative to collectivist and free market economy models but is an efficient instrument which has to exist and develop in the condition of a market economy and in competition with other enterprises in the same field (Galor 1995).

Cooperative movement is also considered as an efficient way of rural industrialization (Dilmen 1993). As an efficient way of strengthening individual economic powers, cooperative movement would be useful not only to increase income and create new employment opportunities through industrialization and also would make considerable contribution to social life.

But in practice, there are some obstacles in front of success of the cooperative movement related with finance, training and research, vertical and horizontal coordination, legal issues, auditing and relationships with the government. On the other hand, lack of education and infrastructure in the rural areas has also created considerable handicaps for cooperative movement. That is why, state support is vital especially at the beginning stages.

For maintaining development in the backward rural areas, setting up of a multi-purpose cooperative which is dealing with credit, input supply, marketing, even providing all municipal requirements of the inhabitants, can be advised as an alternative. In a cooperative system, the essential triangle of production which was indicated in Figure 2, could be realized by credit - saving cooperatives, input supply cooperatives and marketing cooperatives (Galor 1990).

Rural Industrialization: Case of Israel (Kibbutz and Moshav)

The worldwide well know examples of the cooperatives considered as a way of rural industrialization are the kibbutzim and the moshavim experiences of Israel. It was argued that these types of cooperative had been successful in rural development only the existing own conditions of Israel. Then

we are faced the important question that whether this experience can be applicable in the other countries of the world with the same success.

Kibbutz

The first kibbutz village was founded in 1910 and was called Dagan. The members of the kibbutz come together for the reasons of survival but they had certain expanded notions about their goals. All the tools of production were owned collectively by all the worker-members. If someone were to work outside, his income went directly to the kibbutz. There was no salary, but each member was provided with goods and services according to his need including food, clothing, shelter, pocket money, education, culture, transportation and the like.

The actual land belongs to the State and is leased to the kibbutz society for a nominal fee for a 49-year period. The sole condition is that the land must be used for agricultural production. Membership in the kibbutz is voluntary, though mutual acceptance is required. The administration of this working community is by pure democracy in weekly general meetings with elected executive and management committees (Hanadari 1998).

Kibbutzim have been involved in industry after 1950. At the beginning, industries, which do not require sophisticated technologies such as fruit and vegetable processing and agricultural-machinery industries and some other side-industries have been established. With the considerable success of the initial movement, rural industrialization has been extended including rather sophisticated industries such as electronic and chemical industries after 1970 (Mulayim 1995). The kibbutzim have, over the last 20 years or so, been involved in an ongoing transition process, which have changed from an agricultural community to, being more of an agro-industrial community. Nowadays there are 350 kibbutz's industrial enterprises situated throughout Israel. The importance of these enterprises cannot be underestimated both the kibbutzim themselves as an income generator and to the national economy. The problems, which may arise concerning this, are the concentration of large numbers of members within specific age groups e.g. a large percentage of members may be over the age of 60 and this phenomenon may give rise to considerable underemployment of available labor resources. The preliminary steps in the setting up of an industrial enterprise on a kibbutz are the getting together of ideas and thoughts on what would constitute a suitable sphere of activity and the consequent long term planning of the development of such an industry with reference to available personnel to run it. There exists a branch of Department of Industrial Movement of a kibbutz organization, which is dealing with establishment of new enterprises (Carmel 1998).

Indeed, the previous main aim of establishment a Kibbutz was involved in agricultural production and provide employment opportunities to the its members. For the time being, some factors forced that organization involvement of small-scale non-agricultural industrial activities. The first factor was lowering the high risk of agricultural activities, through creating some new income alternatives from out of agriculture. The second important one was that, creating employment opportunities for the un-employed, which appeared because of the population increase, and using high production technologies, which need rather low labor.

The firm named as "Rimon" could be investigated as a sample, which was established by the Kibbutz Givat Brenner located on the South of Tel Aviv, just 25 kilometers far away. More than one hundred workers are employed in this firm and most of them are even not member of the Kibbutz. The average annual turnover of that firm was over than 10 million US Dollars.

In recent years the Kibbutzim have been involved different industry branches such as metal industry which is mainly producing irrigation equipment and fittings, textile and ready made-clothing industry, furniture industry and most recently electronic industry which is dealing with software production for agricultural uses (Galor 1998).

Moshav

The first moshav village was founded in 1920 and was called Nahalal. Former kibbutz members who found the kibbutz society too restrictive and radical created it. The motive is a cooperative village based on the family units as the center of production which is carried on at very advanced level. Production was not collective but rather by means of small family farms. Some collective activities were established to provide income to pay for community services. The moshav is at the same time a multi-purpose cooperative (AGUDA) and a municipality (MOSHAV). Remuneration to the family member is according to skill and personal effort, though mutual support and responsibility formed the ideological backbone of the community. As in any cooperative, members paid for cooperative and municipal services

A moshav leases the land under the same conditions, as a kibbutz, but then sublet it to its members (Hanadari 1998). The area of a typical moshav is 550 ha, the population is 950 people, there are 150 agricultural units and each unit has about 3 ha of land which is varying according to the type of land and farming (Galor 1998a). The size of unit has been determined, not to need any more labor except family labor. This unit devoted to a family and can not be sold but it can be left to another member with the approval of all others. There is also some regulation to keep the unity of the size. The members are almost free in their production despite existing a general production plan. Consumption is also individual in the Moshav villages (Mulayim 1995). Membership was voluntary with the condition of mutual acceptance, but share capital had to be provided. Administration was democratic, thorough yearly meetings of all the cooperative members (Hanadari 1998).

A Moshov can be considered a big multi-purpose cooperative which consists of some single purpose cooperatives such as, production, transportation, credit, insurance, irrigation, technical services, accounting and housing etc (Galor 1998a).

Cooperation among cooperatives is not only advantageous to the members but also include indirect overall economic and social effects (Wülker 1993).

Moshav Shitufi

A moshav shitufi is a primary society, which is a mix of kibbutz and moshav principles and applications. A moshav shitufi which is a basically a group of families who maintain both a collective

and individual way of life (Hanadari 1998). In a moshav shitufi, the production is collective as in the Kibutz, but consumption is individual as in the Mosav. The first moshav shitufi was established in 1936 (Mülayim 1995). The individual aspect of the member revolves around his family. Although his house legally belongs to the collective property (i.e. the member can not sell it), it is devoted his permanent use (Hanadari 1998).

Non-agricultural industries are not developed in the moshavim while the emphasis was given establishment of agro-industries such as meat, milk, fruit and vegetable processing industries. But in recent years there is a tendency to involve in non-agricultural sectors such as tourism and transportation (Mülayim 1995).

Provide some board and lodging facilities to their members are among the main aims of these cooperative villages, such as kindergarten, common laundry and kitchen, and transportation. Availability of these common activities has also given intensive creation of some non-agricultural activities.

The role of the cooperatives in the development, of course, is not limited only with Israeli experiences. These are may be typical because of they are dealing with rural industrialization not only agricultural industrialization. If we take in consideration agricultural industrialization, we should emphasize the important role and share of the processing, marketing and supply cooperatives, which are well developed in the western developed counties. For instance, in the European 15, the share of the cooperatives in marketing of milk is changing 5-98 percent, while it is almost 100 % in Norway and some other Nordic countries (Anonymous 1996).

In the capitalist system, vertical coordination of subsistence farmers with the allied industries through several form of contractual relationship can be considered an another way of agricultural industrialization (Rehber 1998). Indeed, contract farming has been promoted in recent three decades as an institutional innovation to improve agricultural performance in less developed countries, sometimes as a key element of rural development and/or settlement projects (Ghee and Dorall 1992). This system was accepted and used as one of the promising institutional frameworks for the delivery of price incentives, technology and other agricultural inputs. Local governments, private local firms, multinational companies, some international aid and lending agencies, like US Agency For International Development, The World Bank, Asian Development Bank, Commonwealth Development Corporation have been involving in these contract farming schemes (Glover 1994). However, world-wide applications in practice have caused to appear different terms and connotations regarding contract farming in related literature. Hence contract farming is used only for a private sector scheme, while some other terms are used for different applications. Contract farming is offered as a vehicle for the transfer of technology, modernization of peasant smallholders, and the creation of a stable and politically conservative class of family farmers. Overall, contract farming has spread enough in the region that it can be considered a significant road of capitalist development in agriculture. Contract

farming represents an expanding and much suggested method of agro-industrial integration for developing economies.

In contract farming systems, the individual producer has perhaps had most reason to feel weakness in his market power. However, the history of agriculture producers demonstrates that growers have been seldom rewarded appropriately in the market place due to weakness in their states as farm entrepreneurs compared with other participants in the food industry. That is why it is too important for the producers to act as an organized manner. Recognition gained by organized groups is better as opposed to the lack of recognition accorded to unorganized farm producers. Organizing a bargaining cooperative among farmers make them rather powerful in a contracted relationship. Such an organization also could give opportunity to collaborate with the integrators' organization. Bargaining type of cooperative is well developed in the USA (Rehber 1996). For instance in 1993, 82 % of the milk production was handled by cooperatives. There were 179 cooperative organizations of which 135 were bargaining type of cooperatives (Lingne and Liebrand 1995).

Conclusions

Most of less-developed and developing countries are characterized as rural nations where most of the people are living in rural areas and engaged mainly in agriculture. That is why, despite of the differences of the real meanings, the concept of development and rural development are almost used having the same meaning for those countries, because of that rural development inevitably is the major challenge for them. But, there were a lot of experiences which show us that, rural development project which only aimed at only improvement of agricultural structure have not been very successful to reach the general nations' development targets.

Less-developed and developing countries have to use development strategies which will result a rather balanced inter regional and sectoral development. Development problems can be solved successfully only creating non-agricultural employment possibilities through the establishment of small-scale industries not only agricultural based but also non- agricultural industries and even service sectors. This movement can be named as rural industrialization which help to decrease the rate of population engaged in agriculture through creating new employment opportunities either in non-agricultural industries, and service sectors, etc.

Although public policies and state supports are so important in the rural development efforts, participation and involvement of the individuals (farmers) who are organized under non-governmental organization (NGO) are vital. Of course one of the efficient way of these kind organizations is cooperative movement. For maintaining development in the backward rural areas, setting of a multi-purpose cooperative which is dealing with credit, input supply, marketing, even providing all municipal requirements of the inhabitants, can be advised as an alternative. The worldwide well know examples of such cooperatives are the kibbutz, moshav and moshav shitufi experiences of Israel. Despite the critics directed to Israeli experience (Cooperative villages) from view points of the principles of

cooperative movement announced by the International Cooperative Alliance, their contribution to the rural industrialization are generally underlined.

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Indeed, each country has own conditions to be successful in cooperative movement. But in general, it could be advised taking in consideration the general principles of cooperative movement announced by the International Cooperative Alliance. Especially, while providing the governments supports, which have vital importance for the developing countries, it has to be saved the important peculiarity of the cooperatives that they are non-governmental organizations, which have economic aims.

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