

EVOLUTION OF COOPERATIVE SOCIETIES IN BRAZIL

Murillo Dias, DBA

Rennes School of Business – France

ABSTRACT: *This case investigated the evolution of cooperatives in Brazil, in comparison with the world's largest ones. Early cooperative activity took place at Rochdale-Manchester (UK) in 1844. Facing difficulties to buy goods on local markets, a group of 28 workers (27 men and one woman) devised an ingenious solution to this particular puzzle: to buy food in large quantities, to get better prices, storing goods in a common warehouse. The total amount gathered was then divided equally between them. Eight years later, 3,450 members were registered at the Rochdale Society of Equitable Pioneers, still active, with approximately 140,000 members. The idea of sharing cooperative efforts world spread. In Brazil, the first one came with the Republic proclamation: in 1889, at Minas Gerais state, southeastern Brazil, the Cooperativa Econômica dos Funcionários Públicos de Ouro Preto was founded to foster the consumption of agricultural products. Brazilian Federal Government regulated Cooperatives through the adoption of Law no 5,764, on December 16, 1971. In this article we compared the current facts and figures between the World Co-operative Monitor and the Brazilian cooperatives, highlighting the increased participation of cooperatives in Brazilian economy, discussed in this single case study. Finally, recommendations for future research complete the present work.*

KEYWORDS: Cooperativism, Co-Operative Societies, Coop, Brazilian Economy

INTRODUCTION

Background

This research investigated the evolution of the co-operative societies in Brazil, in comparison to international ones, aiming at the discussion of the increasing participation in the Brazilian economy.

Cooperative, co-operative, co-op, or simply coop¹, is defined as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise"(International Co-operative Alliance, 2018a, p.1). The statement of co-operative identity was issued for the first time in 1995 on the General Assembly of the International Co-operative Alliance (ICA)(International Co-operative Alliance, 2018a).

According to ICA's statement of identity, cooperatives are also based "on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of cooperative founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others." (International Co-operative Alliance, 2018a, p.1).

The principles acting as guidelines to co-operatives are the following: (a) voluntary and open membership; (b) democratic member control; (c) member economic participation; (d)

¹ Hereby simply cooperatives

autonomy, and independence; (e) education, training, and information; (f) cooperation among cooperatives, and (g) concern for community.

Through cooperatives, members share a sense of cooperation and co-participation in the whole stages of the cooperatives' decision making process, here investigated.

The International Labour Organization (ILO) also recognized the importance of co-operatives, through Recommendation 193, voted in plenary at the 90th session of the International Labour Conference, on June 3rd, 2002, concerning the Promotion of the Cooperatives Recommendation (ILO, 2018; ILO, 2002).

Co-operatives' worldwide are not restricted to: (a) special (social); (b) credit, banking and financial; (d) agricultural; (e) housing; (f) labor; (h) tourism; (i) production; (j) education; (k) infrastructure; (l) mineral; (m) transportation (OCB, 2018).

According to the World Co-operative Monitor (2017), the top 10 list of credit co-operatives pointed the French Bank *Credit Agricole*, which turnover in 2015 represented \$ 49.92 billion, according to Figure 1, as follows:

Figure 1 the 10 largest co-operatives in the banking and financial services sector by turnover 2015. Source: World Monitor Report, 2017. Note: The world Monitor Report from 2017 uses data from 2015.

Ranking	Organisation	Country	Billion \$
1	Groupe Crédit Agricole	France	49.92
2	BVR	Germany	44.81
3	Groupe Crédit Mutuel	France	31.21
4	Groupe BPCE	France	26.41 4
5	Desjardins Group	Canada	11.85
6	Rabobank Group	Netherlands	10.08
7	Federal Farm Credit Banks Funding Corporatior	USA	7.68
8	RZB	Austria	5.72
9	Navy Federal Credit Union	USA	4.06
10	Raiffeisen group S	Switzerland	2.92

In Brazil, Cooperatives are protected by Brazilian Federal Constitution 1988, which establishes in Article 5: "the creation of associations and, in the form of the law, that of cooperatives, are independent of authorization, and state interference in their operation is prohibited." (Brasil, 1988, Art. 5, XVIII).

This article is limited to investigate Brazilian cooperatives, the unit of analysis in this single case study (Yin, 1988), restricted to Law no 5,764, from December 16, 1971, along with their increasing performance and contribution to the Brazilian economy in general.

Cooperatives are different from other types of societies, in comparison with associations and companies, as depicted in Figure 2, as follows:

Figure 2 Differences between Cooperatives, Associations and Companies. Source: SESCOOP, 2017

Diferentiation parameters	Cooperatives	Associations	Companies
Economic purpose	For economic purposes, but not for profit	Non-profit, with impossibility to perform a commercial function	For-profit
Minimum quantity of members for	20	2	1
Objective	To provide service to the cooperative	To represent the interest of the	profit
Vote	1 member = 1 vote	1 member = 1 vote	the more capital, the greater the voting
Incorporation of the share capital	Quotes	NA	Shares
Transferability of quotes	Can not be transferred to third parties	NA	Can be transferred to third parties

Cooperatives throughout world generates approximately 250 million jobs, over 100 countries, involving near 1 billion people, bringing one to each seven people around the world, associated to roughly 2.6 million cooperatives (OCB, 2018, ICA, 2018a).

According to OCB - *Organização das Cooperativas no Brasil* (Brazilian Organization of Cooperatives, free translation), there are currently 13 types of cooperatives actives in Brazil: (a) consumption, (b) credit, (d) special (social), (e) housing, (f) infrastructure, (h) mineral, (i) production, (j) health, (k) labor, (l) transportation, (m) educational, and (n) tourism & leisure (OCB, 2018).

Out of the 6,055 Brazilian co-operatives, 1,555 are agricultural ones (25.68 percent). In total, cooperatives in Brazil gather 13,230,960 associates, and employs 376.795 workers (OCB, 2018), as depicted in Figure 3, as follows:

Figure 3 Cooperatives in Brazil: figures. Source: OCB System, 2018

Activity	Co-operatives	Associates	Employees
Consumption	147	2.990.020	14.056
Credit	976	7.476.308	50.268
Educational	279	50.847	3.966
Special	8	315	9
Housing	293	114.567	886
Infraestructure	125	955.387	6.154
Mineral	79	57.204	187
Production	257	12.494	3.458
Health	813	225.191	96.230
Labor	895	193.773	1.580
Transportation	1.205	136.425	11.209
Tourism and Leisure	23	1.823	15
T O T A L	6.655	13.230.960	376.795

The next section presents the supportive methodology of the present study and respective research limitations.

RESEARCH LIMITATIONS AND METHODOLOGY

The present interpretive, qualitative research, combines multiple methods, such as descriptive single case study (Yin, 1988), and archival research. The unit of analysis is the Brazilian cooperative societies, particularly the credit ones (Yin, 1988). Secondary data were collected and then investigated through archival research based on data available on the International Co-operative Alliance (ICA), the *Organização das Cooperativas no Brasil* (Brazilian Cooperatives Organization, free translation - OCB), and Brazilian Federal Constitution and Laws.

This article is limited to Brazilian Federal Constitution Articles 1 (definitions of free initiative and work associations), 3 (fundamentals of Republican activities), 5 (recognition of cooperative societies), 146 (cooperatives taxation), 170 (economic activities), 174 (cooperatives' state control, regulation and normalization activities), 187 (agricultural policy including cooperatives), and 192 (national financial system), and the Cooperativism Law no. 5,764, from December 16, 1971,

As well as Complementary Law 130/2009 (Brasil, 2009), which created the *Sistema Nacional*

de Crédito Cooperativo (Cooperative Credit National System, free translation); Law 12.690/2012 – Work cooperatives, ruling the organization and operation of Labor Cooperatives and establishes the National Program for the Promotion of Labor Cooperatives (PRONACOOP) (Brasil 2012).

Lei 9.867/1999, ruling the creation and operation of Social Cooperatives (Brasil, 1999). Also Decree 8.163/2013 – Pronacoop Social, which establishes the National Program of Support to Associativism and Social Cooperativism (Pronacoop Social)(Brasil, 2013). Brazilian Civil Code, created by Law 10,406 from January 10, 2002, chapter VII, articles 1093, 1094 and 1095, dedicated to Cooperativism activities, their characteristics and responsibilities.

Medida Provisória 2.168-40/2001 (Provisory Measure, free translation), which created SESCOOP, entity of private law with the objective of organizing, administering and executing the education of professional formation, development and social promotion of the worker in cooperative and of the cooperative. Decree 3.017/1999 – Serviço Nacional de Aprendizagem do Cooperativismo, which rules SESCOOP's regiment (Brasil, 1999b).

Finally, this article is also limited to the *Conselho Federal de Contabilidade*²(CFC), or Federal Accounting Council (free translation) following resolutions: Resolution CFC 920/2001 (CFC, 2001) – *Aspectos contábeis de entidades cooperativas*, which approves the Brazilian Accounting Standard for Cooperative Entities (NBC T 10.8). Also Resolution CFC 944/2002 – *Entidades Cooperativas de Assistência à Saúde*, which approves the Brazilian Accounting Standard of health cooperatives (NBC T 10.21) (CFC, 2002), and last, Resolution CFC 1.013/2005 – *Entidades Cooperativas*, which clarifies the technical interpretation of the Accounting Council on specific criteria and procedures for valuation, recording of changes in equity and structure of Financial Statements and minimum information to be included in explanatory notes on NBC T 10.8 - Cooperative Entities (CFC, 2005), presented and discussed in this work.

The next section presents an overview of cooperatives in Brazil. Then, the evolution of cooperatives and current Brazilian facts and figures are presented and analyzed. Discussion section completes the present work.

Cooperatives in Brazil: facts and analysis

The first Cooperative society in Brazil was founded in 1889, the year of the Republic Proclamation, in Minas Gerais, southeastern Brazil, at Minas Gerais, with the foundation of the *Cooperativa Econômica dos Funcionários Públicos de Ouro Preto* (Ouro Preto Economic Public Servants Cooperative, free translation), the first agricultural cooperative in the Brazilian republican history.

Initially, on December 28th, 1902, at Nova Petrópolis, Rio Grande do Sul state, southern Brazil, the Swiss priest Theodor Armstad founded the first Latin American credit cooperative: *Caixa de Economias e Empréstimos Armstad* (Armstad Savings and Loans Bank, free translation). In 1999 it was renamed *Sicredi Pioneira*. After 116 years of its foundation, on July 2018, Sicredi had 20,339 associates, and a credit portfolio of R\$ 990.146.042,00³ (Sicredi Pioneira, 2018).

Then, on December 2nd, 1969, the Brazilian cooperatives gained the first and single sector's

² Equivalent to the North American Securities and Exchange Commission (SEC)

³ Approximately \$ 250 million.

representative entity, the Brazilian Cooperatives Organization (*Organização das Cooperativas Brasileiras* – OCB in Portuguese), after consensus resultant from the *IV Congresso Brasileiro de Cooperativismo* (IV Cooperativism Brazilian Conference, free translation).

Two years later, on December 6th, 1971, in the middle of military government period (1964-1985), the Law 5.746/71 was adopted, in turn creating the OCB system (see Figure 5).

Then, OCB was raised to the category of national representative of the sector, including all cooperatives (Brasil, 1971, Art. 105).

Later, in 1988, the OCB joined ICA, aiming at following “international events, exchange experiences and participate in the definition of cooperative guidelines worldwide”. (OCB, 2018, p1.).

Finally, cooperatives evolved significantly in Brazil after 129 years of history: the number of cooperatives jumped to 6,655, including more than 13 million associates (See Figure 3). The evolution of the cooperatives in Brazil, from 1940 to 2013 is depicted in Figure 4, as follows:

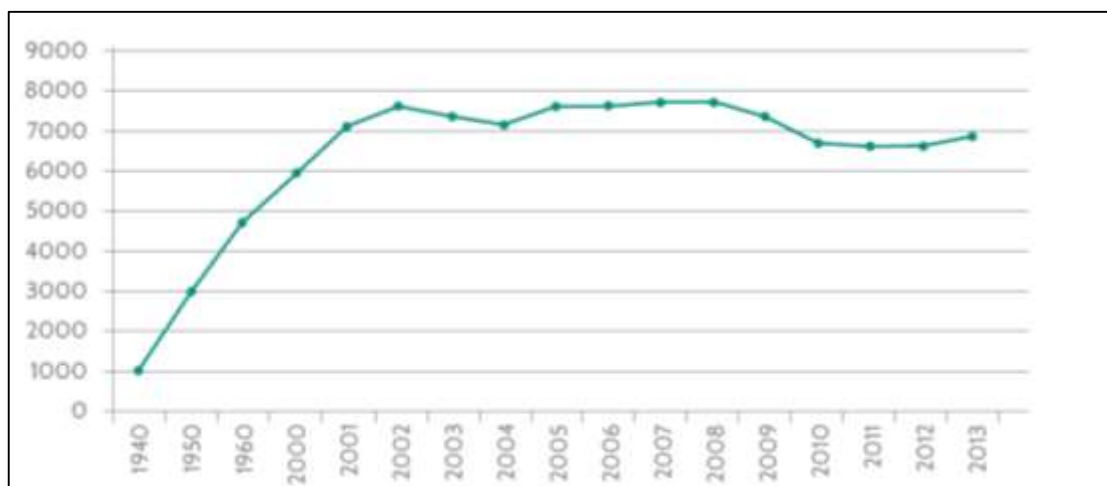


Figure 4 Evolution of the cooperatives in Brazil (1940-2013). Source: OCB, 2018.

Legal aspects and Discussion

Finally, cooperatives in Brazil have the following characteristics, as established by Law 5.764/71, Article 4, as follows:

- I - voluntary adhesion, with unlimited number of members, except technical impossibility of providing services;
- II - variability of share capital represented by shares;
- III - limitation of the number of shares of the capital for each associate, however, it is possible to establish proportionality criteria, if this is more appropriate for the fulfillment of social objectives;
- IV - non-availability of shares of capital to third parties, outside the company;

- V - uniqueness of vote, with the exception of those that exercise credit activity, the central cooperatives, federations and confederations of cooperatives may opt for the proportionality criterion;
- VI - quorum for the operation and deliberation of the General Assembly based on the number of members and not on the capital;
- VII - return of net surplus for the year, proportionally to the operations performed by the associate, unless otherwise decided by the General Meeting;
- VIII - indivisibility of Reserve funds and Educational and Social Technical Assistance;
- IX - political neutrality and religious, racial and social indiscrimination;
- X - provision of assistance to members, and, when provided for in the bylaws, to employees of the cooperative;
- XI - Membership admission area limited to meeting, control, operations and service possibilities. (Brasil, 1972, Article 4, items I-XI).

Law 5.764/71, article 5, single paragraph, prohibit credit cooperatives to self-intitules *banks*, give its special constitution, not subject to bankruptcy (article 4). Therefore, a credit cooperative is usually called *Cooperativa de Crédito*, thus differentiated from a bank. Regardless of the type of cooperative, it is required to use the term "cooperative" in their name (Brasil, 1971).

There are, according to the same Law 5.764/71, three different types of cooperatives:

- I - singular, those constituted by a minimum number of twenty (20) individuals, with the exception of the admission of legal entities whose purpose is the same or related economic activities of individuals or non-profit organizations;
- II - central cooperatives or federations of cooperatives, those formed by at least 3 (three) individuals, and may, exceptionally, admit individual members;
- III - confederations of cooperatives, those formed by at least three (3) federations of cooperatives or central cooperatives, in the same or different ways. (Brasil, 1971, Article 5, items I-III)

Following the earlier discussion, Law 5.764/71 established the national representative to the sector, Brazilian Cooperatives Organization (*Organização das Cooperativas do Brasil - OCB*), a “civil society, based in the Federal Capital, a technical advisory body of the Government, structured under the terms of this Law, with no lucrative purpose” (Brasil, 1971, Article 105). The OCB system (*Sistema OCB*), is shown in Figure 5, as follows:



Figure 5 - OCB System. Source: OCB, 2018.

The distribution of the cooperatives' activities in Brazil are depicted in Figure 6, as follows:

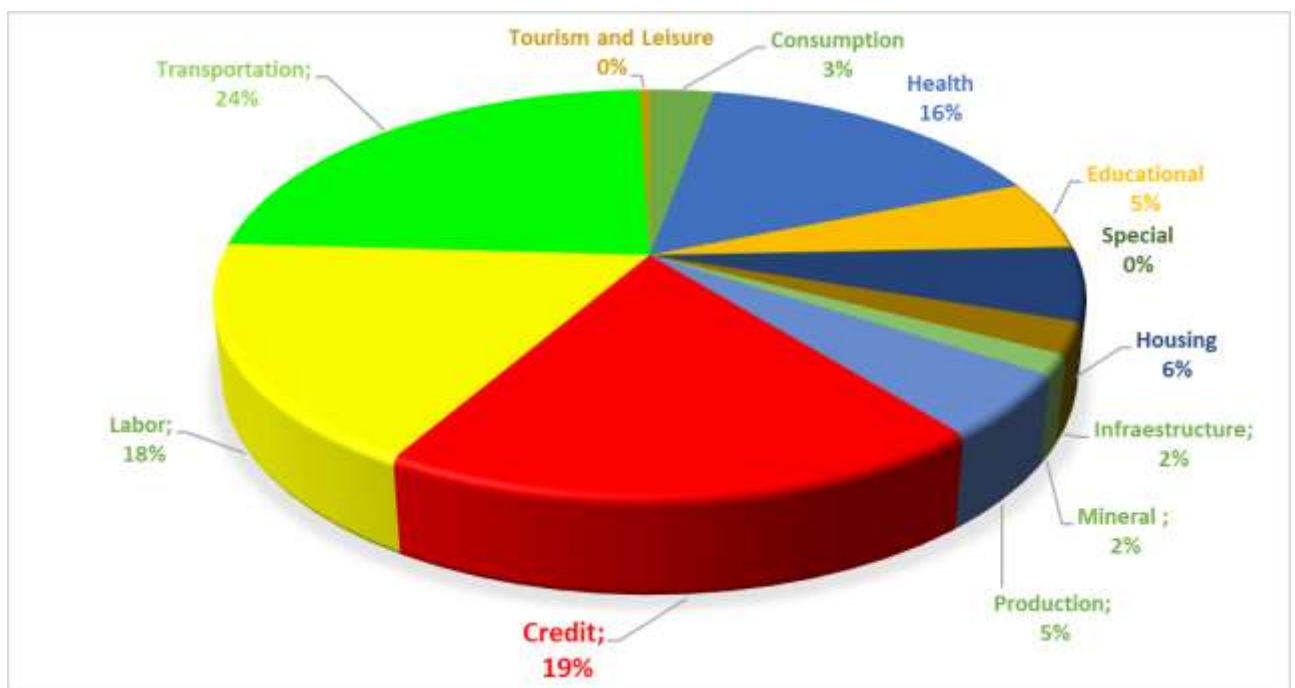


Figure 6 Distribution of the number of cooperatives in Brazil per activity. Source: OCB, 2018

Credit cooperatives represent 19 percent of the total amount of cooperatives in Brazil. Cooperativism in Brazil has been one of the few economy sectors that did not significantly suffer with the global financial crisis since 2008. The growth indicators point registered two-digit increase in the number of cooperatives along with the total 2017 turnover (OCB, 2018). After analysis, evidence suggests the following critical success factors, among others:

1. *Financial Federal Government political support.* Credit cooperatives, for instance, according to Law 7.764/71, article 4, is not subject of bankruptcy. Therefore, cooperatives tend to be less vulnerable to economic crisis.

2. *Internal system of Funding.* According to Law 5.746/71, article 28, Brazilian Cooperatives shall keep two different funds: (a) reservation fund, to avoid losses; (b) Social, Educational, and Technical Assistance fund. These two funds help preventing losses in period of economic downturns.

3. *Each member is the cooperative owner.* Cooperatives are autonomous, self-help organizations, controlled by their members. The sense of sharing responsibilities is one of the fundamental pillars and strength of all cooperatives.

4. *Free adhesion and voluntarism.* Cooperatives “are open to all people who want to participate, are aligned with their economic objective, and are willing to assume their responsibilities as a member. There is no discrimination by sex, race, class, belief or ideology.” (OCB, 2018, p.1). The openness fosters tolerance and cooperation among members, taking seriously the importance of mutual assistance, one of the pillars of the cooperative system in Brazil.

5. *Members participate actively on the economic results.* In a cooperative, members contribute equally to the capital of the organization, as well as its results, that can be converted in benefits to members, support for other activities approved by the cooperative or for the development of the cooperative itself. Trust among members is encouraged (Dias, M. & Davila Jr., E., 2018; Dias, Murillo & Navarro, R., 2017, Dias, 2016).

Finally, case visitation is encouraged for future research, as well as investigation of each one of the 13 different types of cooperatives in Brazil, as well as revisiting the National policy on the cooperatives in general. Further studies are also encouraged to track the cooperativism activity evolution in Brazil.

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